

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**ACTION ITEM**

<b>Item No.</b>	6c
<b>Date of Meeting</b>	May 26, 2015

**DATE:** May 22, 2015

**TO:** Port Of Seattle Commission  
Ted Fick, Chief Executive Officer

**FROM:** Mark Reis, Managing Director, Aviation  
R. Borgan Anderson, Director, Aviation Finance & Budget

**SUBJECT:** International Arrivals Facility Preliminary Funding Plan Motion

**ACTION REQUESTED**

Request Commission approval of a motion providing guidance to the CEO for modeling funding of the Airport 5-year Capital Improvement Program

**SYNOPSIS**

The purpose of this motion is to provide guidance in order to model a preliminary funding plan for the International Arrivals Facility (IAF) for the purposes of issuing revenue bonds related to the Airport's comprehensive capital improvement program. This pricing will be negotiated approximately July 2015. The motion explains the Commission's intent to avoid establishing competitive advantages or disadvantages between and among Sea-Tac Airport airline tenants, but instead maintain a level playing field. It also reflects the Commission's direction to develop a balanced overall funding plan such that all airline rates and passenger airline cost per enplaned passenger (CPE) are fair and are within the market of peer and/or competitor airports. This motion will also guide quarterly and annual updates to the Airport's financial forecast that drives the annual plan of finance update.

The timing of this motion is important because the funding plan for the IAF becomes a key assumption in the development of the Airport's financial forecast. The Port is currently preparing to issue revenue bonds that will both provide new money and refund 2005 bonds that could produce net present value savings of approximately \$30 million. These revenue bonds will fund a number of projects including the NorthSTAR program (comprehensive improvements of the North Satellite) and center runway. Even though the bond issue will not provide funding for the IAF, guidance is necessary at this time because the IAF funding plan directly impacts airline rates and charges and thus the Airport's financial forecast.

**BACKGROUND**

As authorized by the Federal Aviation Administration, the Passenger Facility Charge (PFC) Program allows the collection of PFC fees up to \$4.50 for boarded passenger at commercial

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airports controlled by public agencies. Airports use these fees to fund FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition.

As explained in staff briefings on January 27, 2015, and on April 14, 2015, the Port has two mechanisms to manage airline rate base impacts:

1. PFCs can be used to pay capital direct construction costs and ongoing debt service for projects approved for PFC use by the Federal Aviation Administration, and
2. Under section 8.4.4 of the Signatory Lease and Operating Agreement (SLOA III) with the airlines, the Port may use non-aeronautical revenues to offset the Federal Inspection Services (FIS) requirement and reduce the FIS fee.

PFCs are the more flexible tool in that they can be used to reduce rates in all cost centers, whereas section 8.4.4 of SLOA III can only be used to impact FIS rates.

### PFCs Used Since 1992 to Reduce Airline Rates

The Port has used over \$1 billion of PFCs since 1992 to reduce the airline rate base impacts of major capital projects since costs paid with PFCs are excluded from airline cost center rate bases. As staff outlined at the April 14, 2015 briefing, through 2014, the Port of Seattle used approximately 57 percent of PFC funds to airfield projects and 43 percent to terminal work. Between 1992 and 2014, no PFC revenues went toward the FIS area. For example, the Port has used PFCs extensively to fund the Third Runway and the Concourse A expansion projects and their related ongoing debt service costs to reduce the rate base impacts on the landing fee (airfield cost center) and terminal rents (terminal cost center). Having commission direction will ensure the funding plan is developed and maintained consistent with the commission's intentions.

### Airline Agreement Permits Port to Reduce FIS Costs

Section 8.4.4 of SLOA permits the Port to use non-aeronautical revenues to offset the FIS requirement and reduce the FIS fee. This comes out of the fact that the agreement established multiple aeronautical cost centers and specified the FIS area as a separate cost center. Staff would implement this by excluding from the FIS rate base the amortization cost of cash invested as direct project funding for the IAF. Using this provision, however, reduces the airport's total revenues, thereby reducing debt service coverage and revenue sharing to the airlines. Thus, the use of this provision directly impacts the Airport's and thus the Port's financial results. Having commission concurrence on the use of this provision ensures that assumptions underlying the Port's financial forecast are consistent with the commission's guidance.

### Use of Cash for IAF Permits PFCs to Be Used for Airfield and Terminal Projects

A key element of the IAF funding plan is for the Port to commit up to \$200 million of cash towards construction of IAF that would not be amortized in the Federal Inspection Services (FIS) rate base. This significantly reduces the FIS rate and it allows the Port to allocate more revenue from Passenger Facility Charges (PFCs) to pay for airfield and terminal costs, thereby reducing the rate impacts on the landing fee and terminal rents. In particular, this funding approach will

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permit the Port to allocate significant PFCs to the construction costs of the North Satellite expansion project.

### **Funding Guidance Rather Than Specific Funding Amounts Preferable At this Time**

The motion acknowledges that the total project cost is not yet finalized nor will it be for some time. Many of the factors that will affect the FIS rate in 2019 (the year the IAF will open and the costs will be included in the FIS rate) are subject to change (and likely will). Therefore, the motion directs staff to update the commission quarterly on changes to the estimated cost to complete the IAF. The motion also directs staff to annually (following the budget and plan of finance) provide updates to projected FIS rates, landing fee rates and CPE for a five-year forecast period. Locking in on precise dollar amounts by funding source is not advised at this time.

The final funding plan will be prepared in advance of the 2019 budget, at which time the decision on the amount of PFCs to offset IAF revenue bond debt service will also be made. Prior to that point, there will be significant further public discussion in order to best incorporate varied stakeholder perspectives and ensure complete transparency of the process.

Known key dates when additional information about the ultimate project cost will be available include the following:

- January 2016 – design/build validation complete
- Q2 2017 – guaranteed maximum price (GMP) set

### **ATTACHMENTS TO THIS REQUEST**

- Draft Motion of The Port of Seattle Commission Providing Guidance to the CEO for modeling funding of the Airport 5-year Capital Improvement Program

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- April 14, 2015 – IAF Funding Plan Update
- January 27, 2015 – IAF Funding Plan Update
- April 22, 2014 – Airport capital program and funding update
- July 23, 2013 – Authorization for preliminary project funding for IAF
- July 9, 2013 – IAF briefing
- April 9, 2013 – IAF briefing
- June 26, 2012 – Airport Terminal Development Challenges at Seattle-Tacoma International Airport