

Airport Financial Forecast & SAMP Impacts

Commission Briefing

May 8, 2018

Executive Summary

- Baseline forecast of airport costs to airlines (CPE) is \$20 in 2025, without Sustainable Airport Master Plan (SAMP) projects
- Upper limit to Sea-Tac's future CPE based on judgment, likely \$25 - \$30 for 2027 - 2030
- Adding SAMP to baseline produces projected \$36 CPE in 2027, likely not feasible
- To make SAMP financially feasible (CPE <\$30), must:
 - Increase non-aeronautical net operating income (NOI)
 - Manage growth of operating and maintenance costs
 - Reduce projected capital spending

SAMP is financially feasible, but requires vigilant cost management and increased non-aero revenues

Financial Framework Established by Airline Lease Agreement (SLOA IV)

- Aeronautical rates are set to recover costs
- Aeronautical capital costs recovered depends on funding source:
 - Cash funded – annual amortization based on life of asset
 - Revenue bond funded – annual debt service
 - Grants and PFC funded – no recovery, excluded from rate bases
- Capital costs are added to rate base when asset is placed in service
- Safety net: if airport debt service coverage is $< 1.25x$, airport may add “coverage” (non-cash cost) to airline rate bases as necessary to bring debt service coverage to $1.25x$.
 - Charging coverage in rate based magnifies the cost impact of a project
- Non-aero investments must generate positive rate of return

Capital costs are primary CPE driver

Airport Capital Capacity

- Capital costs are recovered through airline rates
- Capital capacity of the airport is constrained by:
 - Airport cost to airlines (CPE)
 - Airport debt level, and ability to borrow
 - Port's credit rating
 - Debt per enplaned passenger
- Upper range to CPE is based on judgment of where “competitive” range will be in future

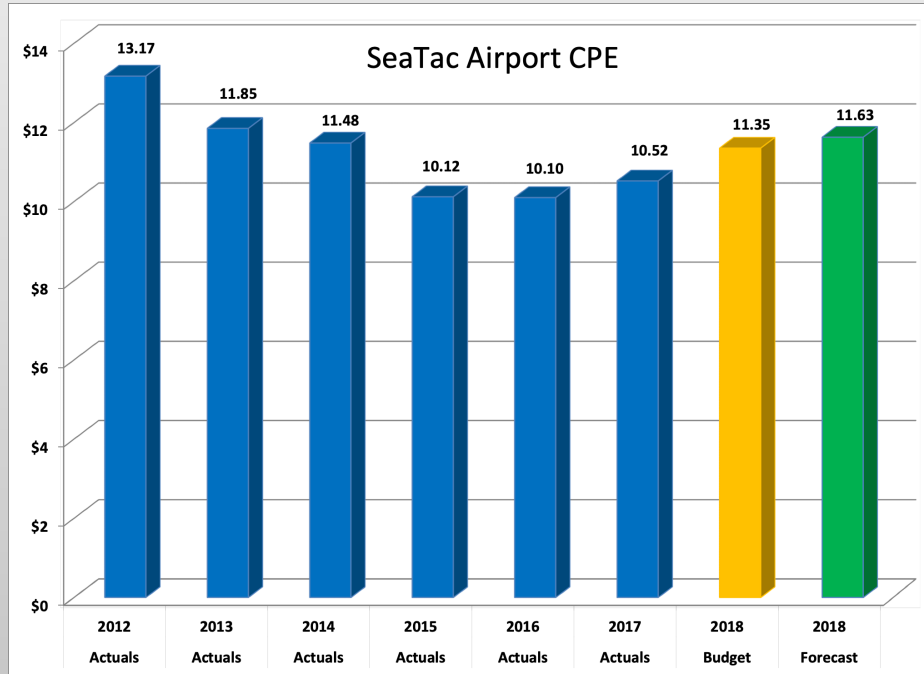
Airport capital capacity must consider multiple factors

Sea-Tac Financial Status

- Airport CPE largely driven by capital program cycles
- Period of moderate capital program has allowed Sea-Tac to maintain essentially flat CPE for many years (\$10 – 13 CPE range since 2004)
- Sea-Tac is financially well positioned today:
 - Competitive CPE: 13th lowest out of 30 large hub airports in 2016
 - Debt level as measured by debt per enplaned passenger compares favorably to peer airports (middle of range)
 - Current credit rating for Port's intermediate lien (primarily used by airport) is: A+ (S&P)/A1 (Moody's)/AA- (Fitch)
 - Strong liquidity: maintaining cash balance of at least 10 months of O&M costs (\$250 million+)
- Financing plan uses all available Passenger Facility Charge (PFC) revenues to pay for current capital plan, and ongoing PFC eligible revenue bond debt service

SEA is financially strong and well positioned to afford current capital plan

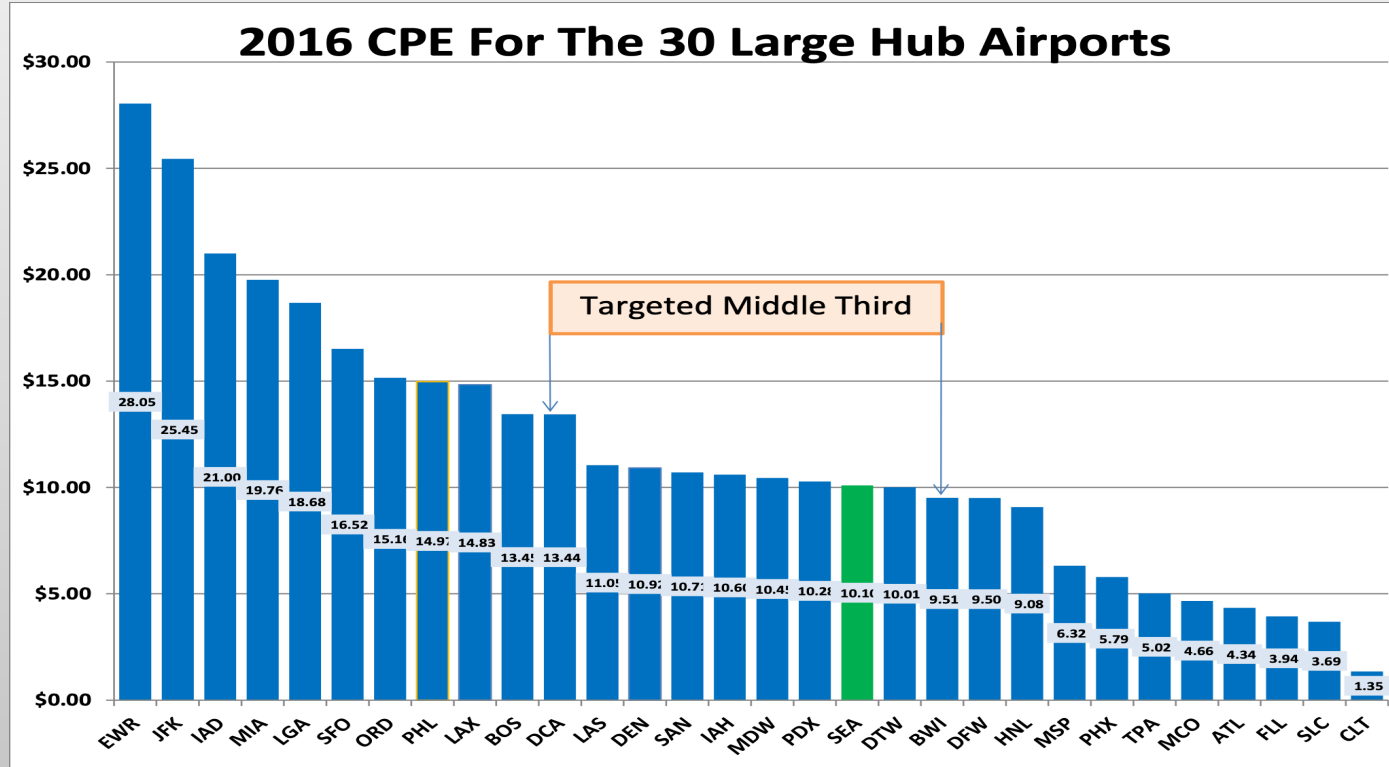
Cost Per Enplanement Trend



- CPE declined through 2016 due to increased passenger levels, increased non-aero revenues and more airline revenue sharing
- For 2017 – 2018, O&M costs growing faster than enplaned passengers
- 2018 increase vs. budget due to reduction in revenue sharing per SLOA IV

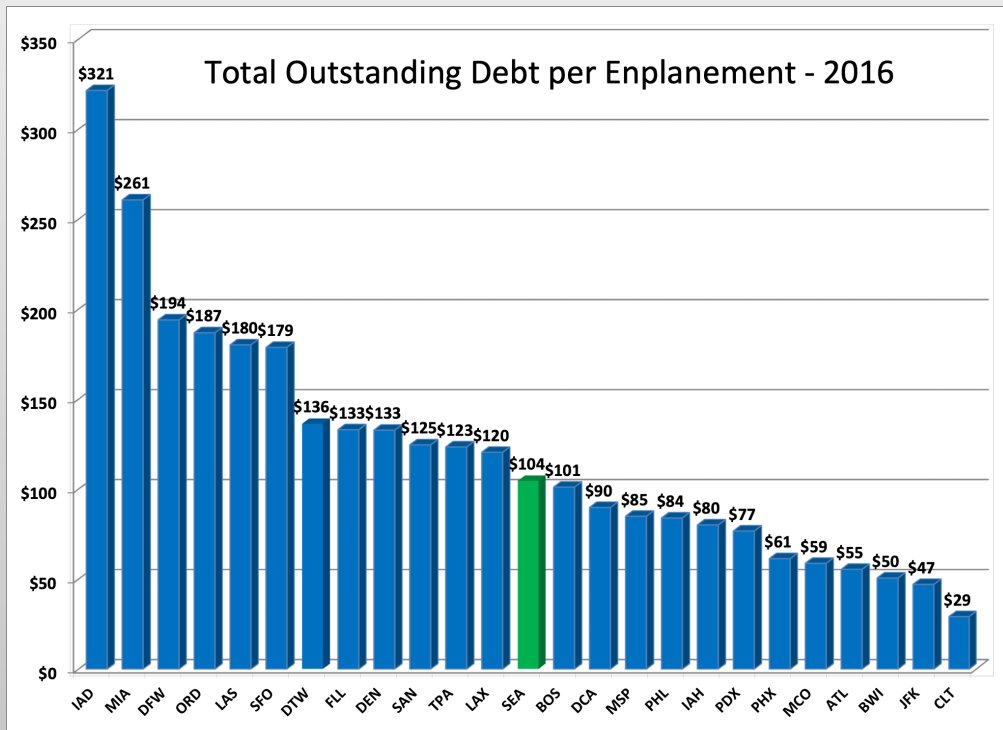
CPE trending up, but remains low compared to 2012 - 2013

Current CPE Comparison



CPE is competitive: SEA ranks 13 out of 30 Large Hub Airports

Comparative Debt Levels



- Debt per enplaned passenger is a relative measure used to compare airports
- Not all large hubs report debt levels
- Noticeably absent are the three NY airports
- Does not include SEA 2017 bond issue

Sea-Tac debt levels are at a reasonable level

Current Capital Program

- Major projects under construction:
 - North Satellite renovations and expansion (NSAT)
 - International Arrivals Facility (IAF)
 - Baggage Optimization
 - Concourse D Hardstand Terminal
 - Alternate Utility Facility
 - Service Tunnel Renewal & Replacement
 - Airfield Pavement Program and Taxiway Improvements
- Anticipated major projects:
 - Restroom Upgrades
 - South Satellite renovation
 - Main Terminal Low Voltage
 - C-1 Building expansion
 - Noise insulation: Highline School District & Condominiums
- Allowance for future projects (capacity for new projects and/or cost increases)
- Total of \$4.1 billion for 2018 – 2027; with \$3.0 billion for 2018 - 2022

Current capital program will drive up CPE

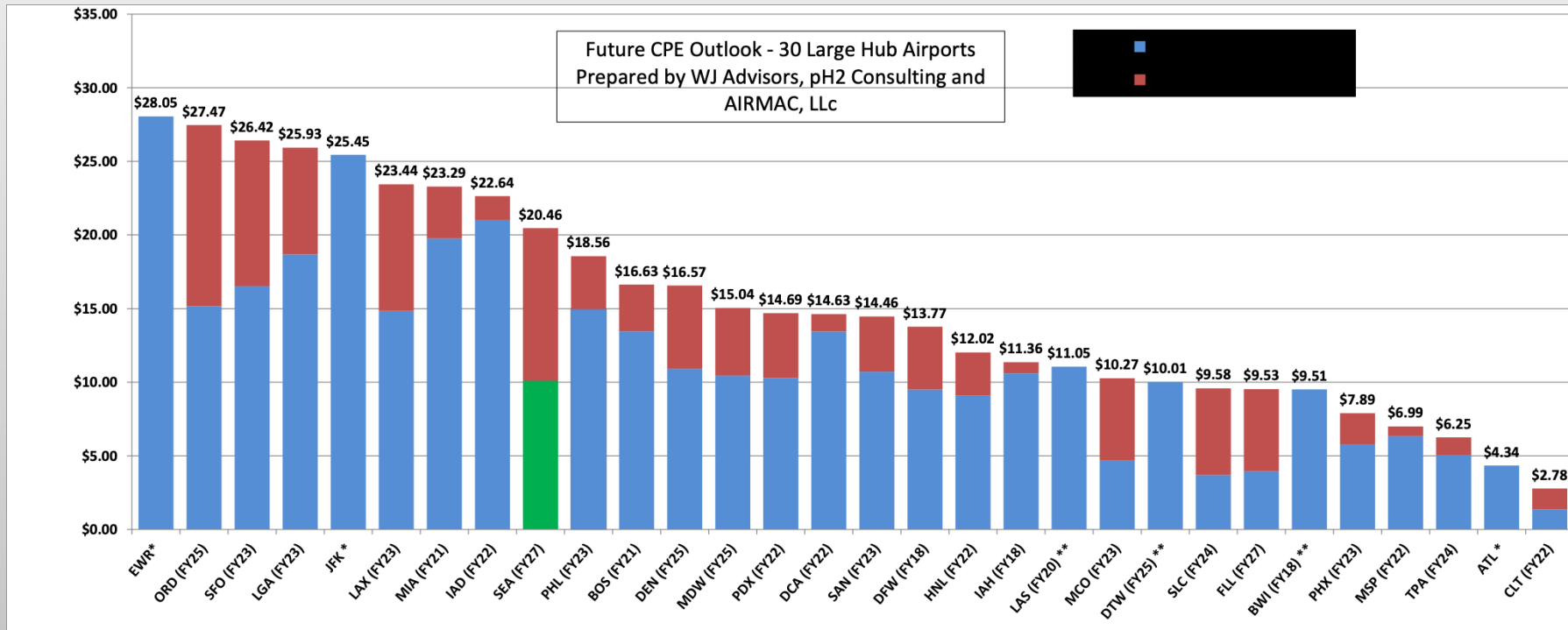
Baseline Forecast

	2018-27										
Capital program (\$M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Baseline	806	697	545	341	287	191	171	152	91	99	3,380
Allowance	2	59	69	85	85	107	110	110	75	12	714
SAMP	-	-	-	-	-	-	-	-	-	-	-
Total	808	756	614	426	372	298	281	262	166	111	4,094
Key Measures											
CPE (\$)	11.62	13.92	16.28	17.80	18.83	19.69	19.91	19.97	20.28	20.46	
D/S coverage	1.56	1.50	1.43	1.31	1.29	1.28	1.27	1.31	1.31	1.30	
Coverage charged (\$M)	-	-	-	-	-	-	-	-	-	-	
Total Debt (\$M)	2,703	3,227	3,662	3,909	4,058	4,108	4,145	4,170	4,064	3,938	
Debt/Enplanement (\$)	110	130	146	155	159	160	160	157	149	141	

- Completion of major projects (NSAT, IAF and Baggage Optimization) will drive up CPE
- Allowance provides capacity within forecast period for as yet undefined future projects
- Debt service coverage remains above 1.25x

Current capital plan is affordable; however, does not include SAMP projects

Future CPE – Peer Airports



For SEA, forecast based on current capital program (pre-SAMP)

Limit to SEA CPE?

- SEA is critical to the economic prosperity of the Puget Sound region
- Excepting Paine Field, no realistic airport alternatives within 10-15 years
- Many international gateway airports face high future investments to add capacity; much not yet incorporated into publicly available financial forecasts
 - While no airport today shows forecasted CPE >\$30, some likely will
 - O'Hare recently announced \$8.5 billion expansion to be added to program that already forecasts \$25 CPE.
- Port must strike balance between maintaining cost competitive airport for airlines and providing public with an airport that meets needs of region
- At this point, staff estimates that \$25 - \$30 CPE is the upper limit to what could be deemed affordable for 2027 - 2030
- With SAMP projects, SEA will target maintaining CPE among international gateway airports rather than middle third of 30 large hub airports

Sea-Tac well positioned to take on needed investments, but there are affordability limits

Projection: SAMP Scenario 1

	2018-27										
Capital program (\$M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Baseline	806	697	545	341	287	191	171	152	91	99	3,380
Allowance	2	59	69	85	85	107	110	110	75	12	714
SAMP	-	1	56	158	487	720	810	1,017	855	361	4,465
Total	808	757	670	584	859	1,018	1,091	1,279	1,021	472	8,559
Key Measures											
CPE (\$)	11.62	13.92	16.28	17.80	18.86	21.98	22.51	24.29	27.57	35.99	
D/S coverage	1.56	1.50	1.42	1.30	1.26	1.25	1.25	1.25	1.25	1.25	
Coverage charged (\$M)	-	-	-	-	-	9	7	16	68	161	
Total Debt (\$M)	2,703	3,229	3,747	4,188	4,926	5,719	6,679	7,878	8,712	8,775	
Debt/Enplanement (\$)	110	130	149	166	193	223	258	296	319	313	

- Major SAMP project elements completed and in airline rate bases by 2027
- Need to charge “coverage” in airline rate bases beginning in 2023 due to debt service coverage dropping below 1.25x exacerbates growth in CPE
- Debt level more than triples. Impact on Port credit ratings uncertain, likely would see downgrade.

CPE of \$36 likely too high – not financially feasible

SAMP Scenario 2

- To achieve CPE<\$30:
 - Extend bond amortization from 25 – 30 years
 - Targeted growth in Non-aero revenues and NOI:
 - Non-aero revenue per enplanement in 2018: \$9.93
 - Baseline forecast for 2027: \$10.50
 - Targeted projection for 2027: \$11.92
 - Assume revenues drop down as NOI: +\$40 million in 2027
 - Reduced capital spending by \$845 million:
 - Reduce budget for South Satellite renovation by \$400 million (effectively deferring reconstruction), but still allowing for significant improvements (\$200 million)
 - Reduce Allowance CIPs by \$445 million (reduces flexibility for ongoing needs)
 - IAF project may consume much of remaining Allowance, reducing flexibility further

With these modified assumptions, SAMP appears to be financially feasible

Projection: SAMP Scenario 2

	2018-27										
Capital program (\$M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Baseline	806	697	545	341	253	157	88	69	8	17	2,981
Allowance	2	59	69	32	15	20	20	20	20	11	268
SAMP	-	1	56	158	487	720	810	1,017	855	361	4,465
Total	808	757	670	531	755	897	918	1,106	883	389	7,714
Key Measures											
CPE (\$)	11.62	13.92	16.28	17.80	18.71	21.07	21.34	22.24	23.28	29.99	
D/S coverage	1.56	1.50	1.42	1.31	1.28	1.27	1.31	1.33	1.25	1.25	
Coverage charged (\$M)	-	-	-	-	-	-	-	-	-	64	
Total Debt (\$M)	2,703	3,229	3,747	4,121	4,731	5,381	6,125	7,108	7,811	7,827	
Debt/Enplanement (\$)	110	130	149	163	186	209	236	267	286	280	

- Debt service coverage drops below 1.25x in 2027, requiring charging \$64 million of coverage in rate base.

CPE and Debt Per Enplanement levels high, but financially feasible

SAMP Scenario 3

- Vehicular access to airport will likely evolve in next ten years
 - Transportation Network Companies (TNCs) may continue to erode demand for rental cars
 - Move towards autonomous vehicles will likely impact demand for airport parking
- SAMP Scenario 3 shows impact on CPE of 10% decline in rental car and public parking revenues by 2027
- Impact:
 - Increases amount of coverage added to airline rate based to achieve 1.25x debt service coverage, thus driving up CPE to \$32.32
 - Or, achieving CPE of \$29.99 would require reduced capital spending of \$637 million

Decline in Non-aero NOI results in increased CPE or reduced capital capacity

Projection: SAMP Scenario 3

Capital program (\$M)											2018-27
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Baseline	806	697	545	341	253	157	88	69	8	17	2,981
Allowance	2	59	69	32	15	20	20	20	20	11	268
SAMP	-	1	56	158	487	720	810	1,017	855	361	4,465
Total	808	757	670	531	755	897	918	1,106	883	389	7,714
Key Measures											
CPE (\$)	11.62	13.92	16.28	17.80	18.71	21.22	21.34	22.37	25.00	32.32	
D/S coverage	1.56	1.50	1.42	1.30	1.27	1.25	1.25	1.25	1.25	1.25	
Coverage charged (\$M)	-	-	-	-	-	4	-	4	50	135	
Total Debt (\$M)	2,703	3,229	3,747	4,124	4,737	5,394	6,162	7,179	7,882	7,894	
Debt/Enplanement (\$)	110	130	149	163	186	210	238	270	289	282	

- Reduced Non-aero NOI drives up 2027 CPE to \$32.32
- Achieving 2027 CPE of \$29.99 would require reduced capital spending of \$637 million.

Reduced Non-aero NOI will negatively impact SAMP financial feasibility

SAMP Scenario 2 vs. Baseline

	2018 - 2027		
	Baseline	SAMP 2	Change
Capital program (\$M)			
Baseline	3,380	2,981	(399)
Allowance	714	268	(446)
SAMP	-	4,465	4,465
Total	4,094	7,714	3,620
	2027		
	Baseline	SAMP 2	Change
Key Measures			
CPE (\$)	20.46	29.99	9.53
D/S coverage	1.30	1.25	(0.05)
Coverage charged (\$M)	-	64	64
Total Debt (\$M)	3,938	7,827	3,888
Debt/Enplanement (\$)	141	280	139

- Requires deferring reconstruction of SSAT
- Limited Allowance for new CIPs or additional spending is a risk
 - Need to find scope and/or cost savings in baseline and SAMP
- CPE at high end of feasible range, should be reduced
- Need to develop strategies to reduce coverage charged by:
 - Increasing Non-Aero NOI
 - Reducing O&M costs
- Debt level will double

SAMP 2 projection is financially feasible, but requires business strategies and decisions

SAMP: Risks and Opportunities

- Risks:
 - Plan assumes growth in non-aero NOI can be realized
 - Projects could cost more than current estimates
 - Unforeseen project needs (e.g., renewal and replacement) could consume some capital capacity
- Opportunities:
 - Time to align business strategies to grow non-aero NOI and reduce future spending
 - Scope, budget and project timing for SAMP projects still very preliminary
- To reduce future CPE and debt levels, staff will explore strategies to:
 - Manage growth of O&M costs (Airport and Central Services)
 - Increase Non-aero NOI
 - Partner with airlines, use airline consortium where appropriate
 - Prioritize future capital improvements, reduce or eliminate scope
 - Pursue additional FAA grants
 - Seek to reduce financing costs through additional structuring alternatives
 - Incorporate public, private partnerships where strategically prudent

Port will strive to meet the region's air transportation needs in a cost effective manner

Summary

- Constructing the SAMP projects will significantly increase CPE and debt for Sea-Tac.
- While a \$25 - 30 CPE would appear to be “too high” for Sea-Tac today, by 2027 other international gateway hubs will likely be in this range, or higher.
- Maintaining CPE <\$30 appears necessary for financial feasibility
- Port must vigilantly pursue strategies to manage growth of CPE
- Cost to region of not expanding Sea-Tac is also high: increased congestion, fewer direct flights, lost economic opportunities.

SAMP is financially feasible, but requires vigilant cost management and increased non-aero revenues

APPENDIX

Additional Background Materials

Financial Goals

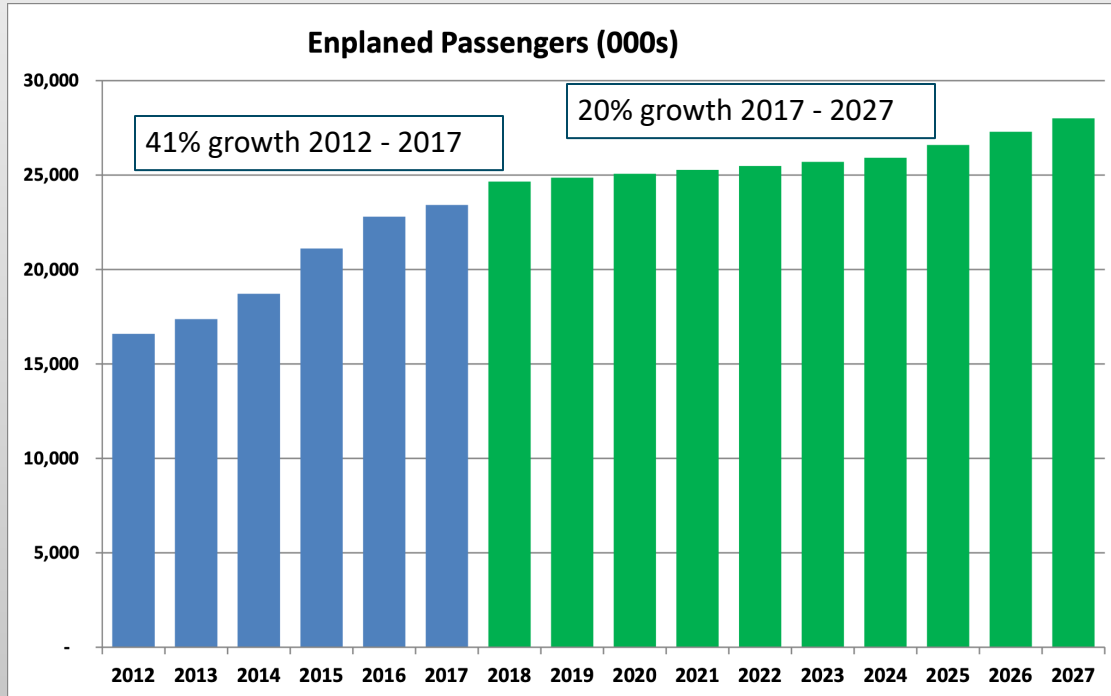
- Cash flow: Adequate annual debt service coverage ($>1.25x$)
- Liquidity: Cash reserves equal to 10 months of O&M costs
- Leverage: Reasonable debt levels (debt per enplaned passenger)
- Cost structure: competitive passenger airline cost per enplaned passenger (CPE), competitive airline rates
- Capital capacity to:
 - Maintain and upgrade existing assets
 - Add capacity to meet region's air transportation needs in cost effective manner

Achieving financial goals necessary to achieve Century Agenda goals

CPE Drivers

- CPE = passenger airline costs (capital and O&M) divided by enplaned passengers
- Changes in passenger level directly impact CPE calculation
- O&M costs – adds to baseline costs
- Capital costs – debt service or amortization of new capital projects
- Rate base charges for debt service coverage if needed to achieve 1.25x annual debt service coverage

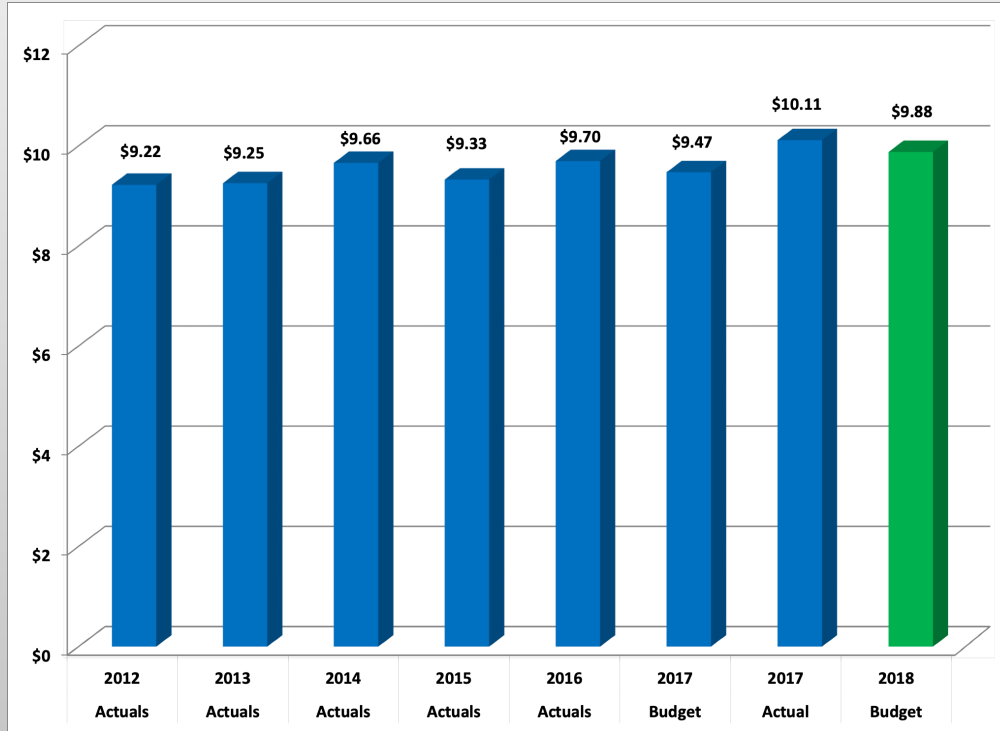
Enplaned Passengers 2012 - 2027



- Recent growth much faster than expected
- 2018 assumes 5% growth
- 2019 – 2024 growth tied to SAMP 2024 Forecast
- 2025 – 2027 based on SAMP

Enplaned passenger forecast is based on SAMP

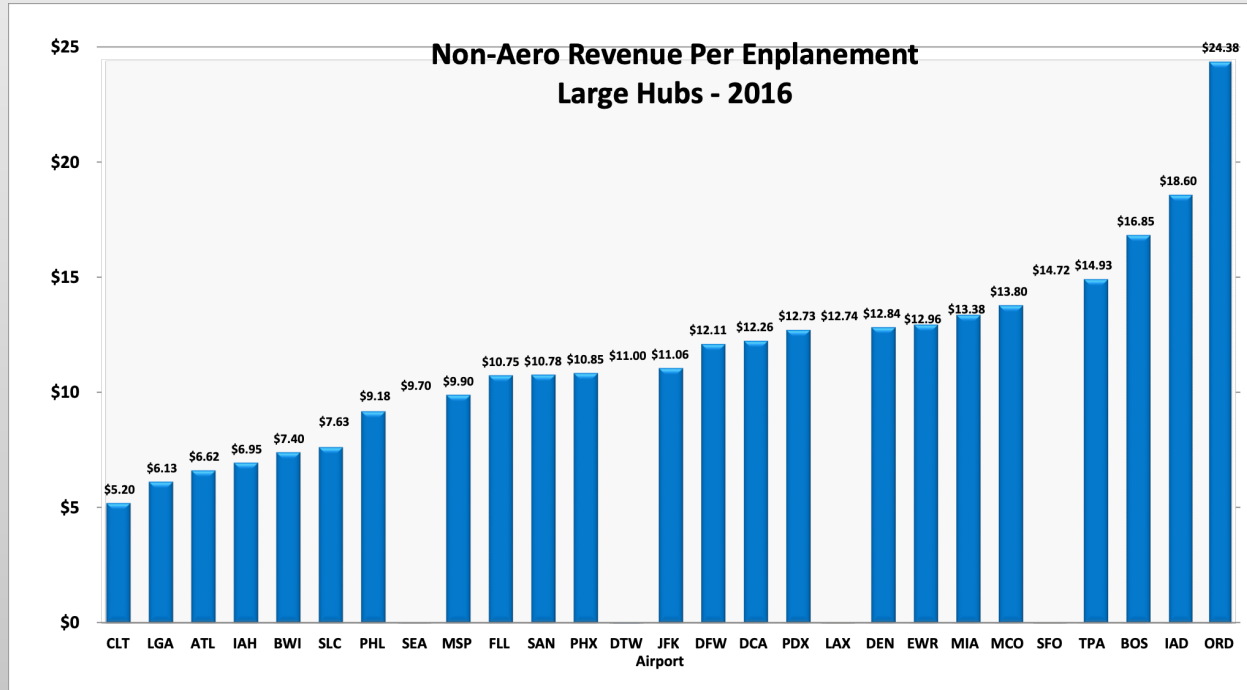
Non-Aero Revenue Per Enplanement Trend



- 2017 included one-time lump sum payment from DMCBP Phase II in-lieu fees.
- 2018 ADR revenues impacted by construction in Central Terminal
- Budgeting for decline in rental car revenues

Non-Aero Revenue per enplanement growth maintained

Non-Aero Revenue vs. Peer Airports



- All airports are different
- For example, more international passengers generate more duty free revenues
- Staff is analyzing data to identify opportunities

Benchmark data suggests Sea-Tac can improve

Targeted Non-Aero Revenue Growth

\$ millions											2018-27
Non-Aero Revenues	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Baseline	245	246	249	254	260	264	266	274	284	294	2,635
Target Increase				3	2	6	13	20	29	40	112
Total	245	246	249	256	262	270	279	294	313	334	2,747
Key Measures											
Baseline											
Percent growth		0.4%	1.5%	1.7%	2.6%	1.5%	0.6%	3.3%	3.4%	3.6%	20.1%
Non-Aero Rev/EP	9.93	9.89	9.95	10.03	10.21	10.27	10.25	10.32	10.39	10.50	5.7%
Target Growth											
Percent growth		0.4%	1.5%	2.7%	2.3%	2.9%	3.4%	5.7%	6.2%	6.8%	36.4%
Non-Aero Rev/EP	9.93	9.89	9.95	10.14	10.28	10.49	10.75	11.07	11.46	11.92	20.1%

- Baseline forecast shows modest revenue growth
- ADR lease transitions limit growth in early years
- Targeted growth begins in 2021, picks up in 2024. Used for SAMP 2 Scenario.

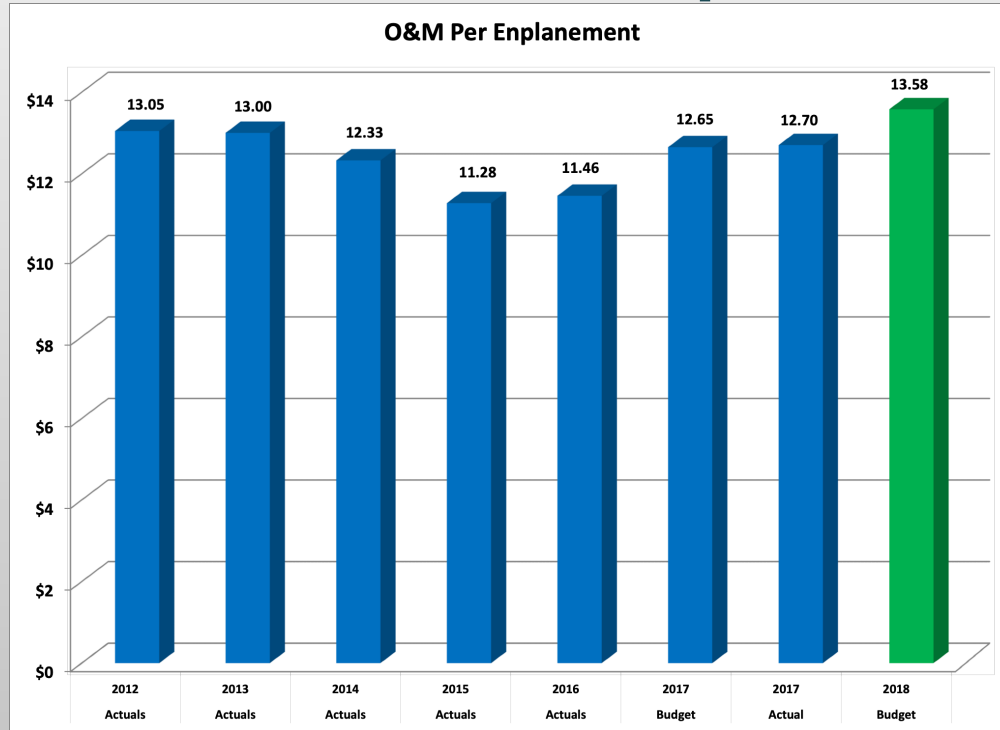
Targeting revenue per enplanement of \$11.92 by 2027

O&M Costs

- Compared to peer airports, as of 2016 SEA compared favorably
- Internally, since 2015, O&M costs have been growing faster than enplaned passengers with O&M per enplanement increasing from \$11.28 (2015) to \$13.45 (2018), or 19%
- New facilities such as IAF, Concourse D Hardstand Terminal, and IAF will add to O&M
- As projected enplanement growth levels off after 2018, O&M per enplanement will continue to grow.
- O&M effectively consumes capital capacity by growing baseline CPE and/or reducing non-aeronautical NOI.

Managing O&M cost growth needs to be a priority

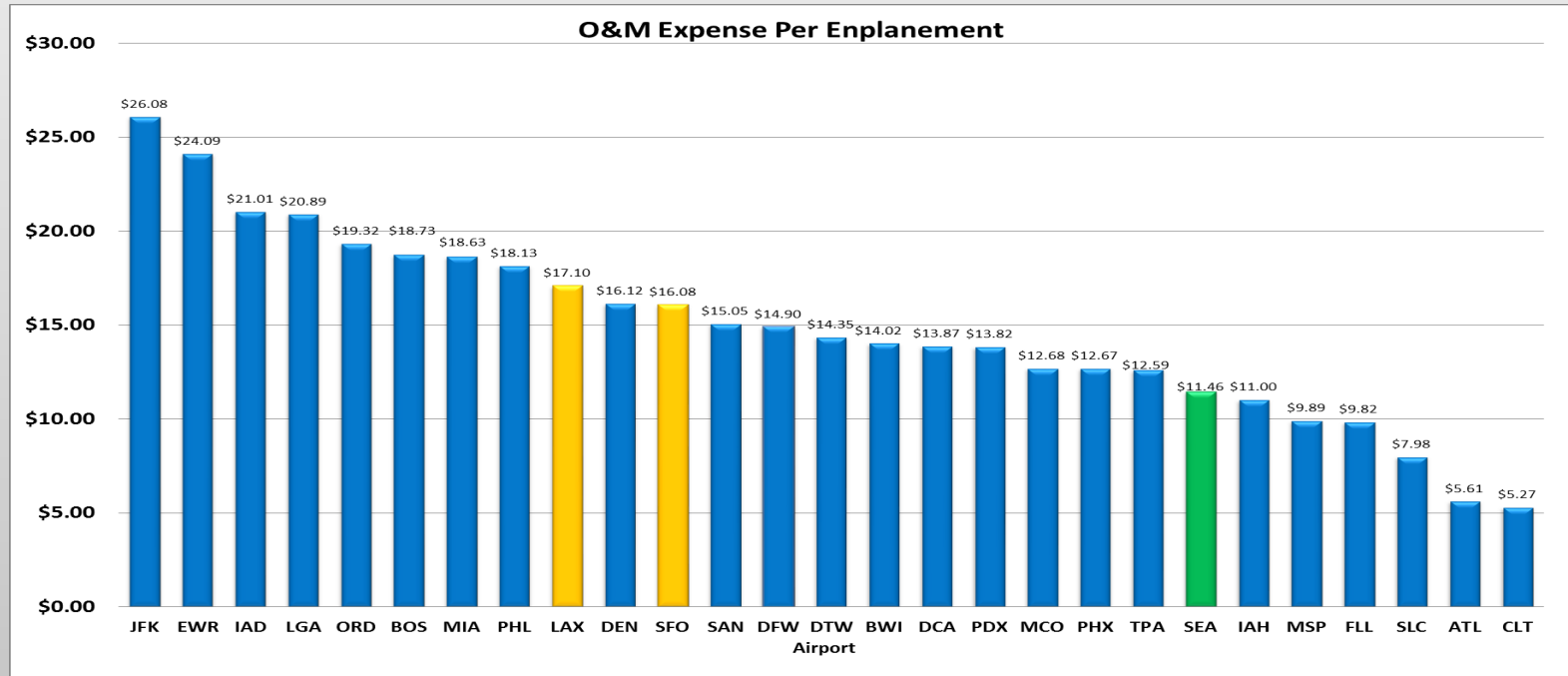
O&M Per Enplanement - Trend



- Increase driven by:
 - Employee screening function and 103 FTEs
 - Custodial contract
 - Maintenance
 - Operations
 - Planning
 - SAMP
 - Environmental
 - Police resources

O&M growing faster than passengers in 2018

O&M Per Enplanement vs. Peer Airports - 2016



Most recent O&M per enplanement compares favorably to peer airports

Forecast of O&M Per Enplanement

\$ millions											2018-27
O&M	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Baseline	335	352	369	385	400	413	429	443	459	475	4,060
New assets	-	1	2	5	6	7	7	8	9	10	55
New assets - SAMP										7	7
Total	335	353	371	390	406	420	436	451	468	492	4,122
Key Measures											
Growth rate											
Baseline		5.0%	4.9%	4.3%	3.9%	3.3%	3.9%	3.3%	3.6%	3.5%	41.8%
With new assets		5.3%	5.2%	5.1%	4.1%	3.4%	3.8%	3.4%	3.8%	5.1%	46.9%
O&M per enplanement											
Baseline	13.58	14.15	14.72	15.23	15.70	16.07	16.55	16.66	16.82	16.96	24.9%
With new assets	13.58	14.19	14.80	15.43	15.93	16.35	16.82	16.96	17.15	17.57	29.3%

- Timing and O&M costs of new assets related to SAMP needs additional analysis
- Costs associated with generating new non-aero revenues also needs further analysis

O&M costs forecasted to grow much faster than enplaned passengers

Public, Private Partnerships (P3)

- Many airports have turned to P3 as a strategy to do some combination of: design, build, operate, maintain, and finance projects.
- LAX recently agreed to \$4.9 billion 30-year contract for People Mover. Construction cost is \$2.0 billion of total contract.

Port will investigate how/if P3 can be helpful to implementation of SAMP