

Financial Implementation Plan

Introduction

Financial Objectives

Objectives for conducting the Financial Implementation Analysis included presenting a feasibility evaluation of the capital program and providing practical guidelines for matching an appropriate amount and timing of financial sources with the planned use of funds. These objectives also included evaluating the impact of funding the development on the financial condition and overall financial management of the Airport. The analysis also addresses the Airport's capability to service a future debt issue which is assumed to fund a portion of the development program.

The capital program is planned for implementation in three phases of development including a short term period from 2000 through 2005 (Phase I), an intermediate term period from 2006 through 2010 (Phase II) and a long range period from 2011 through 2015 (Phase III). The analysis includes development of a detailed financial plan for Phase I and a summarized plan for Phases II and III.

The Financial Implementation Analysis is documented, summarized and evaluated in the sections that follow.

Overall Approach

The overall approach for conducting the Financial Implementation Analysis included the following steps:

- Reviewing Airport documents related to recent historical financial results, internal financial statements, operating budgets and other financial information relevant for the analysis
- Interviewing key Airport personnel to gain an understanding of the planned capital improvement program, recent operating and financial environment, relationships with Airport tenants and overall financial management philosophy

- Reviewing the recent history of aviation traffic in relation to the forecast previously developed in the Master Plan
- Reviewing the Master Plan capital improvement project cost estimates and development schedule anticipated for the planning period and projecting the overall financial requirements for the program
- Determining and analyzing the sources and timing of capital funds available to meet the financial requirements for operating the Airport and financing the capital program
- Determining the amount and timing of debt issue requirements for the program
- Analyzing recent historical operations and maintenance expenses, determining the projected impact of planned capital improvements on operating expenses, developing operations and maintenance expense assumptions, reviewing and revising assumptions with Airport management and projecting future operations and maintenance costs for the planning period
- Analyzing recent historical revenue sources, reviewing the Airport's rates and charges methodology, determining the projected impact of planned capital improvements on operating revenues, developing revenue growth assumptions, reviewing and revising assumptions with Airport management and projecting future revenues for the planning period
- Completing results of the analysis in a Financial Plan Summary that evaluates the financial feasibility of the Master Plan capital improvement program

Project Cost Estimates and Development Schedule

The Project Cost Estimates and Development Schedule is derived from previous results of the Master Plan. The program for capital expansion and improvement projects is projected for the Phase I planning period from fiscal year 2000 through 2005, for the Phase II planning period from fiscal year 2006 through 2010 and for the Phase III planning period from fiscal year 2011 through 2015. For each of these planning periods, Table G1 presents the capital improvement program for projects previously identified in the facilities requirements analysis. The estimated timing and costs of projects are presented in this Table along with the amounts and timing of

the projected funding sources. As shown in Table G1, the total estimated cost of projects is \$92,101,000 in year 2000 dollars. The estimated costs for projects scheduled in 2000 are based on the Master Plan estimates. The estimated costs for projects scheduled during the period 2001 through 2015 are adjusted by an assumed 3.0% rate of annual construction inflation. The resulting total escalated costs are \$108,347,853. Exhibit G1 below presents a summary of the Table and provides a comparison of 2000 base year costs with escalated costs adjusted for inflation for each of the planning periods.

Exhibit G1

SUMMARY OF 2000 BASE YEAR AND TOTAL ESCALATED COSTS FOR THE CAPITAL IMPROVEMENT PROGRAM

King County International Airport Master Plan

	2000 Base Year Costs	Total Escalated Costs
Phase I Projects (2000-2005)	\$ 63,358,000	\$ 68,793,386
Phase II Projects (2006-2010)	10,243,000	12,785,166
Phase III Projects (2011-2015)	18,500,000	26,769,301
Total Project Costs	<u>\$ 92,101,000</u>	<u>\$ 108,347,853</u>

Source: Leibowitz AMC Analysis

TABLE G1 page 1

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TABLE G1 page 3

TABLE G1 page 4

Sources and Uses of Capital Funding

Funding sources for the capital improvement program depend on many factors, including Airport Improvement Program (AIP) project eligibility, the ultimate type and use of facilities to be developed, debt capacity of the Airport, the availability of other financing sources and the priorities for scheduling project completion. For planning purposes, assumptions were made related to the funding source of each capital improvement.

Sources of Capital Funding

AIP Entitlement Grants. The Airport Improvement Program, re-authorized in 2000, provides passenger and cargo entitlement grants for eligible Airport projects. Entitlement funding that airports receive is based on a formula using the airport's passenger enplanements and cargo weight which is reported two years prior to the current grant year with a minimum amount for primary commercial service airports of \$650,000 in 2000 and \$1,000,000 per year beginning in fiscal 2001, if at least \$3.2 billion is appropriated to AIP by Congress. The FAA evaluates airport grant requests using a published priority ranking system that is weighted toward safety, airfield pavement and airfield capacity projects although other non-airfield projects, such as terminal buildings and main access/entrance roads, are also eligible. Within the entitlement amount granted, up to 90% of eligible project costs are funded with the remaining 10% provided from other non-federal, local airport sources.

The FAA has indicated that the Airport should assume a \$650,000 passenger entitlement grant in 2000, \$1 million in 2001 and \$650,000 per year thereafter. This is a conservative assumption since it currently appears that Congress intends to fund AIP at the \$3.2 billion level for the foreseeable future. The FAA also indicated that the Airport should assume a cargo entitlement of \$350,000 per year throughout the planning period. Entitlement funds were primarily used to fund high priority airfield projects in the Master Plan capital program.

AIP Discretionary Grants. The FAA also provides discretionary grants (on a 90%/10% basis), over and above entitlement funding, to airports for projects that have a high federal priority for enhancing safety, security and capacity of the airport and would be difficult to fund otherwise. The amounts of individual grants vary, can be significant in comparison to entitlements and are awarded at the FAA's total discretion. Discretionary grant applications are evaluated based on need, the FAA's project priority ranking system and the FAA's assessment of a project's significance within the national airport and airway system.

The FAA has indicated the runway shift project is likely to be supported with discretionary grants due to the high priority of these projects. In addition, the FAA indicated that the Airport could expect to receive approximately \$1 million per year in discretionary funding throughout the planning period. However, it should be noted that these funds are not guaranteed and if they are not provided, these projects will most likely be delayed due to a lack of available funding from other sources. The financial plan assumes that these discretionary funds will be provided and used for various airfield projects.

AIP Noise Grants. Within AIP, the FAA also provides grants for noise planning and mitigation projects on a 90% funding /10% local match basis. The Master Plan capital program includes several such projects. It was assumed that the Airport would receive AIP noise grants for full implementation of its noise remedy program.

FAA Facilities & Equipment Funds. Within the FAA's budget appropriation, funding is available in the Facilities and Equipment (F&E) Fund to purchase navigational aids and air safety-related technical equipment for use at commercial service airports in the national airport system. F&E funds are provided on a discretionary basis by the FAA. This source of funding was assumed for the transponder landing system, control tower and other landing aid improvements.

Private Third Party Financing. Many airports use private third party financing when the planned improvements will be primarily used by a private business or other organization. Such projects are not ordinarily eligible for federal funding. Projects of this kind typically include hangars, FBO facilities, fuel storage, air cargo facilities, exclusive aircraft parking aprons, industrial development areas, non-aviation commercial areas and various other projects. In recent years, the private sector has become more involved in airport development. There are varying degrees of private sector involvement potential. Some Wall Street experts argue that new private capital will come from a large, and previously untapped (at least for infrastructure), pool of equity investors who are interested in somewhat higher-risk projects than the buyers of municipal bonds. This source of funding was assumed for part of the west side development, flight museum expansion, air cargo facility improvements, the new fuel storage facility, general aviation hangars and the passenger terminal and parking improvements.

Debt Financing. Debt financing is required for the capital program during the short term planning period (2000-2005). General obligation bonds that are backed by airport revenue might be utilized, but the amounts will be limited. Since other types of revenue bonds issued by the Airport would be serviced through net revenues, the issue amount will also be limited. Based on projected net revenues, it was assumed

that approximately \$6.8 million in debt could be issued. With debt issue costs, capitalized interest and reserve requirements, an issue of this size would result in \$5.6 million available for the capital program. It was assumed that debt funding would be used for a portion of the phase 1 west side development and for part of the terminal building remodel.

Cash Reserves/Airport Net Revenues. At the beginning of fiscal 2000, the Airport accumulated approximately \$6 million in cash reserves that will be needed for capital expenditures. Additionally, with the existing rate structure, net revenues are projected to range between \$300,000 and \$900,000 during the planning period. These funds were assumed to be used for the 10% local match requirements as well as for the storm water permit, new steam plant road and building relocation, fuel/oil separators, west side development design, terminal building remodel design and construction and other projects.

Other Funding Sources. After consideration of the all the traditional funding sources available to the Airport, including its cash reserves, net revenues and debt capacity, significant funding shortfalls still remain. About \$12.3 million is needed in Phase I, \$1.6 million in Phase II and \$18.3 million in Phase III. This “funding source” provides an estimate of the funding shortfall and indicates that additional financial support will be necessary from non-traditional sources for those projects that were assumed to be financed with “other funding sources”. These projects included phase 2 of the terminal building remodel, a portion of the pavement rehab projects, phase 2 of the west side development, utility improvements, land acquisition and several other projects. If additional funding cannot be obtained for these projects, they may have to be delayed until funding can be obtained.

Uses of Capital Funding

Table G2 lists each of the Master Plan projects, their estimated costs (escalated annually for inflation) and the assumed funding sources and amounts. It was assumed that airfield projects would be funded with AIP entitlement and discretionary grants to the extent funding was available (up to 90%) with the 10% local match provided by Airport cash reserves/net revenues. Airfield projects that could not be funded with AIP grants were funded with Airport cash reserves or other funding sources. Noise mitigation projects were funded with AIP noise grants (up to 90%) and cash reserves for the 10% local match. Phase 1 of the West Side Development was funded 50% with private third party financing and 50% with debt. Navigation aides were assumed to be funded with FAA facilities and equipment funds. Phase 1 of the terminal building remodel was funded with debt and cash reserves. Due to a significant shortfall in funding availability for several projects from traditional sources, “other funding sources” was identified as the funding mechanism.

TABLE G2 page 1

TABLE G2 page 2

The funding projection assumes that revenue bonds totaling about \$6.8 million would need to be issued in 2001 to provide \$5.6 million in debt funding requirements for projects during the short term planning period. The amount and timing of the debt issue was established to partially match the funding requirements for the assumed project development schedule and was limited by the Airport's capability to service the resulting debt amount. The actual amount and timing of the projected debt issue will vary from the assumptions to reflect future financial market conditions, to minimize total debt issuance costs and interest expenses and to reflect other practical considerations for issuing debt. The bond sizing calculation and debt service schedule for the assumed debt issue is presented in Table G3. The following assumptions were applied for the new debt issue:

- Interest rate - 7.5%
- Level debt service payments
- Investment earnings rate on capitalized interest, construction fund and debt service reserve fund balances - 6.0%
- Term - 25 years
- Debt issuance costs - 2.0% of the funding requirement
- Project construction/capitalized interest period - 18 months
- Debt Service Reserve Fund requirements - maximum annual debt service for the outstanding bonds

TABLE G3

A summary of the sources of capital funding by type and uses of capital funding by Master Plan Phase is presented in Exhibit G2 below:

Exhibit G2

**SUMMARY OF SOURCES AND USES OF CAPITAL FUNDING FOR THE
CAPITAL IMPROVEMENT PROGRAM**

King County International Airport Master Plan

Sources of Capital Funding:

AIP Passenger Entitlement Grants	\$ 10,750,000
AIP Cargo Entitlement Grants	5,600,000
AIP Discretionary Grants	21,829,358
AIP Noise Grants	20,309,855
FAA Facilities & Equipment Funds	1,568,175
Private Third Party Financing	2,472,000
Debt Financing	5,600,000
Other Funding Sources	32,144,021
Cash Reserves/Airport Net Revenue	8,074,445
Total Sources of Capital Funding	<u>\$ 108,347,853</u>

Uses of Capital Funding:

Phase I Projects	\$ 68,793,386
Phase II Projects	12,785,166
Phase III Projects	26,769,301
Total Uses of Capital Funding	<u>\$ 108,347,853</u>

Source: Leibowitz AMC analysis

Projected Operations and Maintenance Expenses

Operations and Maintenance Expense projections for the Phase I (2000-2005), Phase II (2006-2010) and Phase III (2011-2015) planning periods are based on a review of historical trends, the anticipated impacts of inflation, aviation traffic increases, facility improvements, the recent experience of other similar airports and the specific assumptions listed below.

Table G4 provides a review of historical and projected Operations and Maintenance Expenses for the period 1998 through 2015. Expenses are summarized into

accounting sections that include Administration, Maintenance, International Trade, Aviation Education and Engineering. Each section is further divided into accounts for salaries & wages, personal benefits, supplies, services and other charges, intra-governmental services, current expense services, capital outlay, contingencies and contra-expenditures. Table G4 presents actual expenses for 1998 and 1999, estimated expenses for 2000, budgeted expenses for 2001 and projected expenses for the period 2002 through 2015. An annual operations growth rate of 2.0% was assumed for all expenses beginning in 2002.

As shown in the Table, Operations and Maintenance Expenses are expected to grow from \$9,131,076 estimated for 2000 to \$12,008,574 projected for 2005 with a total of \$66,420,995 for the Phase I planning period. During the five year Phase II planning period, expenses are projected to total \$63,742,962. During the five year Phase III planning period, expenses are projected to total \$70,377,381.

TABLE G4

Projected Revenues

Revenue projections for the Phase I (2000-2005), Phase II (2006-2010) and Phase III (2011-2015) planning periods are based on a review of historical trends, the anticipated impacts of inflation, aviation traffic increases, the recent experience of other similar airports and the specific assumptions listed below.

Table G5 provides a review of historical and projected revenues for the period 1998 through 2015. Revenues are summarized into operating and non-operating categories. Individual revenue sources are listed within each category. The Table presents actual revenues for 1998 and 1999, estimated revenues for 2000, budgeted revenues for 2001 and projected revenues for the period 2002 through 2015. An annual operations growth rate of 2.0% was assumed for all revenues beginning in 2002. In addition, those revenues which were directly affected by aviation traffic growth also included a traffic growth rate. Landing fees, fuel flowage fees and aircraft transient parking fees were assumed to grow at the same annual rate as the Master Plan aircraft operations forecast in addition to inflation. Aircraft parking fees were assumed to grow at the same annual rate as the Master Plan based aircraft forecast in addition to inflation.

As shown in Table G5, revenues are expected to grow from \$9,743,554 estimated for 2000 to \$12,617,633 projected for 2005 with a total of \$69,556,544 for the Phase I planning period. During the five year Phase II planning period, revenues are projected to total \$67,348,884. During the five year Phase III planning period, revenues are projected to total \$74,835,333.

TABLE G5

Financial Plan Summary

Table G6 provides the Financial Plan Summary for the Master Plan Financial Implementation Analysis. The Table includes revenues, operations & maintenance expenses, total capital program expenditures, total capital funding sources and the cash flow that results from all financial transactions. During Phase I, net revenues range from a low of \$334,426 projected for 2002 to a high of \$651,525 budgeted for 2001 with a total of \$3,135,549 during the period. Net revenues are projected to total \$3,605,921 during Phase II and \$4,457,952 during Phase III. Due to the significance of the capital program, ending cash balances are projected to drop below the Airport's desired minimum of \$2 million for each year of the planning period. Lower priority projects in the capital program will need to be delayed or canceled in order to achieve and maintain the desired minimum cash balance.

TABLE G6

Financial Implementation Conclusions

In previous sections of this chapter, Table G1 provided a practical approach for scheduling Master Plan capital project expenditures to match the availability of capital financing. Table G2 provided a practical approach for matching specific capital funding sources with each of the planned projects.

Based on the results of the Financial Implementation Analysis and the projection assumptions which support the analysis, implementation of the Master Plan capital improvement program capital projects is financially limited, but still possible. The method presented for matching capital project expenditures with the sources and availability of capital funds results in adequate, though not ideal, funding for Airport operations. Additionally, to fully implement the capital program, it was necessary to use a funding source designated as “other funding sources”. This “source” indicated a funding shortfall from traditional capital funding sources. If these other funding sources cannot be obtained, then lower priority projects in the capital program will need to be selected for delayed implementation or cancellation until traditional or other sources become available.

Achievement of the Master Plan forecast passenger enplanements, aircraft operations and based aircraft are key elements of the Financial Implementation Analysis. Actual aviation traffic may temporarily vary from the projected levels of activity without a significant adverse impact on the Master Plan capital improvement program. If decreased traffic levels occur, implementation of all of the proposed capital projects may not be financially feasible. It should also be noted, however, that if the forecast activity levels are not met, then a number of the planned capital improvements may not be necessary and the requirements for capital funding will be reduced.

Additionally, the financial projections provided in this analysis are based on assumptions provided by, or made in concurrence with, Airport management as described in this report. The projections reflect Airport management's judgement, based on present circumstances. Some of the assumptions used to develop the projections will not be realized, and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the projected and actual results, and those differences could be material.

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