

FAA Northwest Mountain Region Airports Conference

AIRPORT CAPITAL FUNDING SOURCES

Presented by

Nora Richardson
Associate Director
Jacobs Consultancy

March 17, 2009



Agenda

1. Economic Metrics

2. Airline Industry Metrics

3. Airport Capital Funding Needs

4. Airport Capital Funding Sources

- AIP
- PFC
- TSA
- Bonds
- Overview of funding source
- Airport reactions under credit crisis
- Outlook for funding source

JACOBS CONSULTANCY has offices in Chicago, Cincinnati, Dallas, London, Ottawa, the San Francisco area, and the Washington, D.C. area. For over 60 years, we have assisted our clients in achieving their vision and goals. We have extensive practical experience in all disciplines necessary for the planning and management of airports, including airfield and airspace analyses, airport management and operation, commercial and concession planning, forecasting and economics, facilities planning and design, federal funding and policy development, financial analysis and planning, financial feasibility and reporting, ground transportation planning, air quality analysis, noise and other environmental analyses, privatization, parking planning and analysis, rental car facility development and business planning, security planning and implementation, and simulation and operational analyses.

San Francisco Area Office:

555 Airport Boulevard, Suite 300
Burlingame, California 94010
Telephone: (650) 579-7722
Fax: (650) 343-5220
E-mail: inquiry@jacobs-consultancy.com

Washington D.C. Area Office:

14900 Conference Center Drive, Suite 300
Chantilly, Virginia 20151
Telephone: (703) 961-9000
Fax: (703) 961-9318
www.jacobs-consultancy.com

Nora Richardson

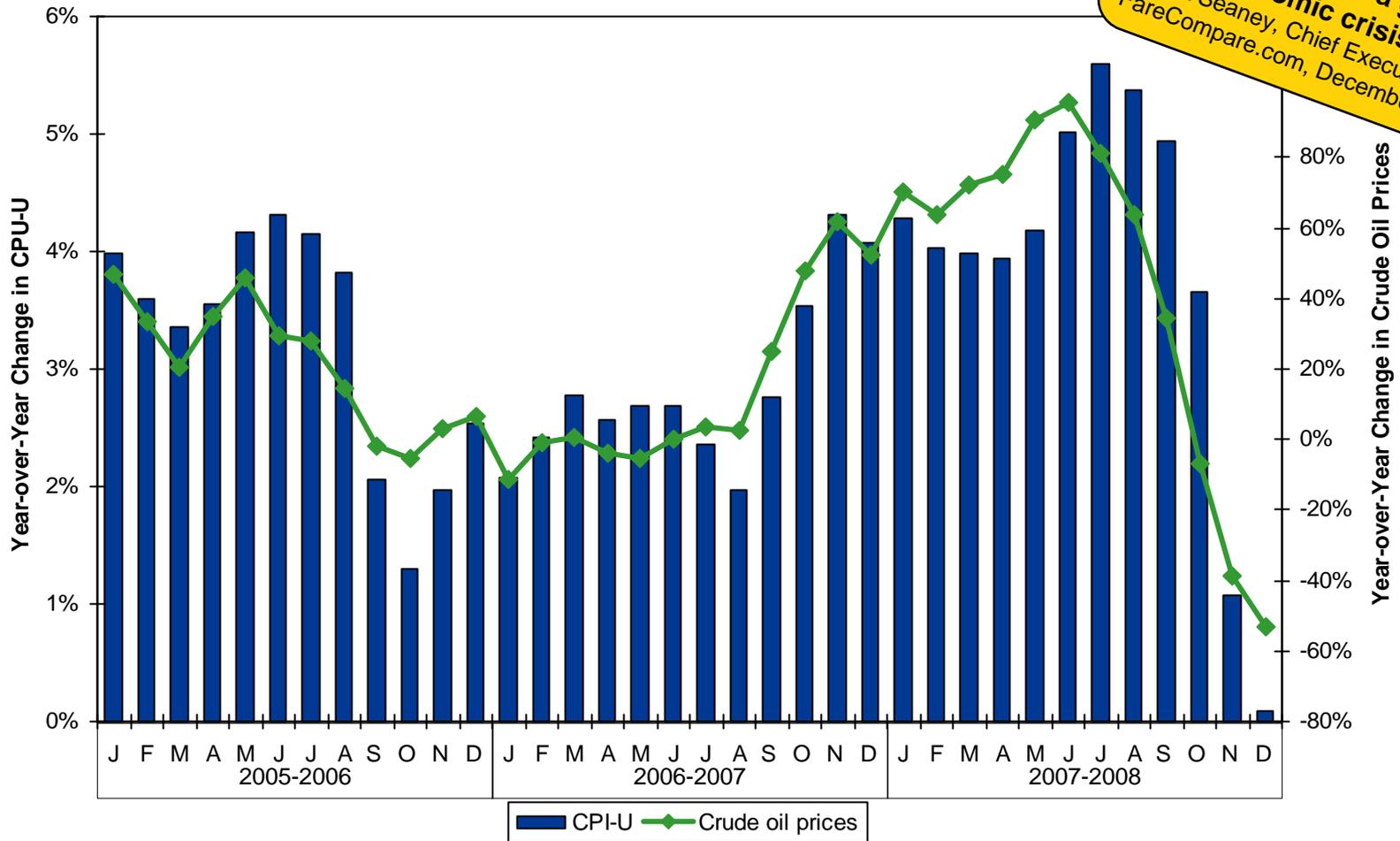
555 Airport Boulevard, Suite 300
Burlingame, California 94010
Telephone: (650) 375-5343

nora.richardson@jacobs-consultancy.com

Focus Shifted from Fuel Costs to Global Recession

Consumer Price Index and Crude Oil Prices

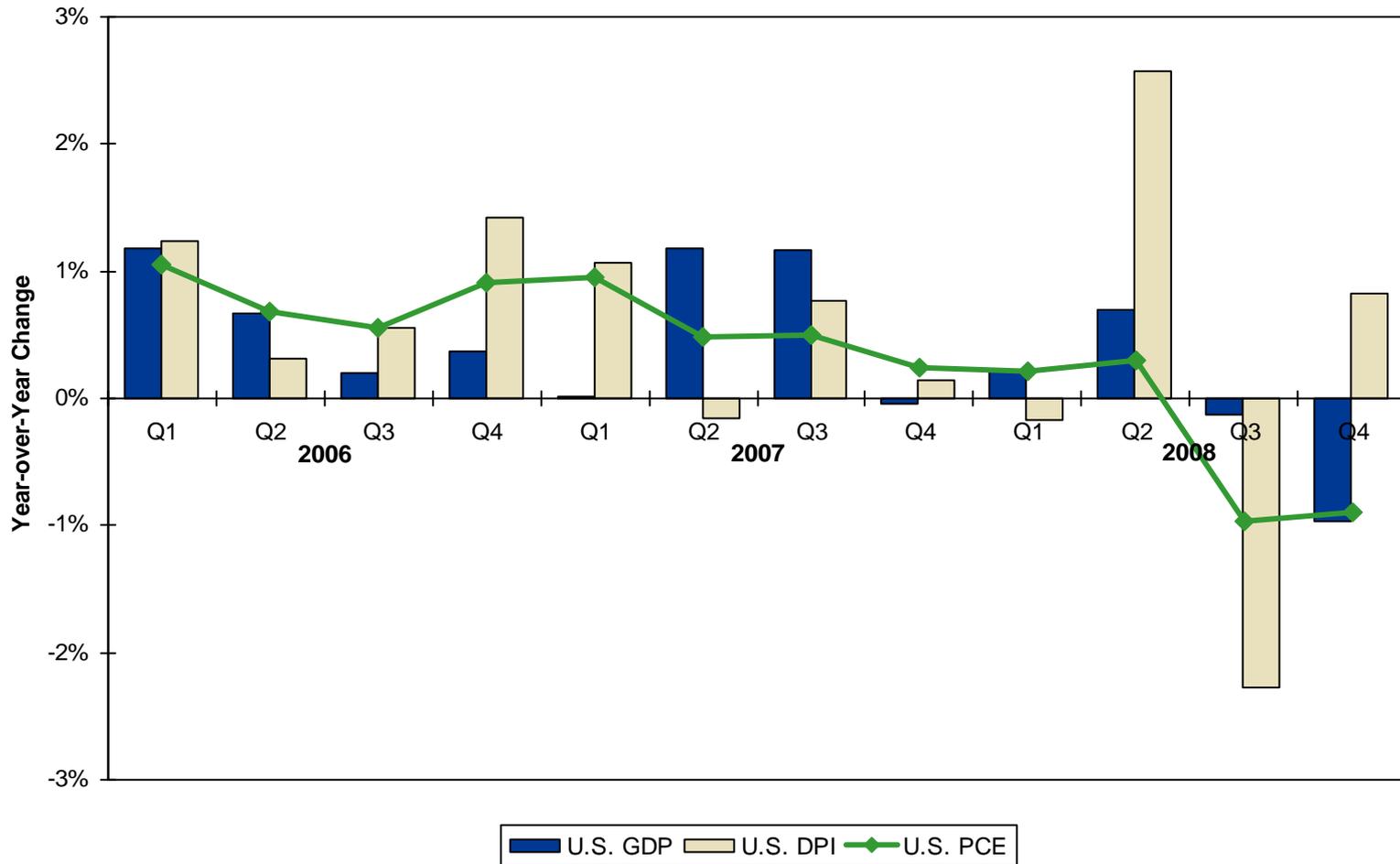
"The airlines basically traded a fuel crisis for a global economic crisis"
 Rick Seaney, Chief Executive of FareCompare.com, December 2008



Sources: Bureau of Labor Statistics and Energy Information Administration.

Economic Indicators are in a Descent

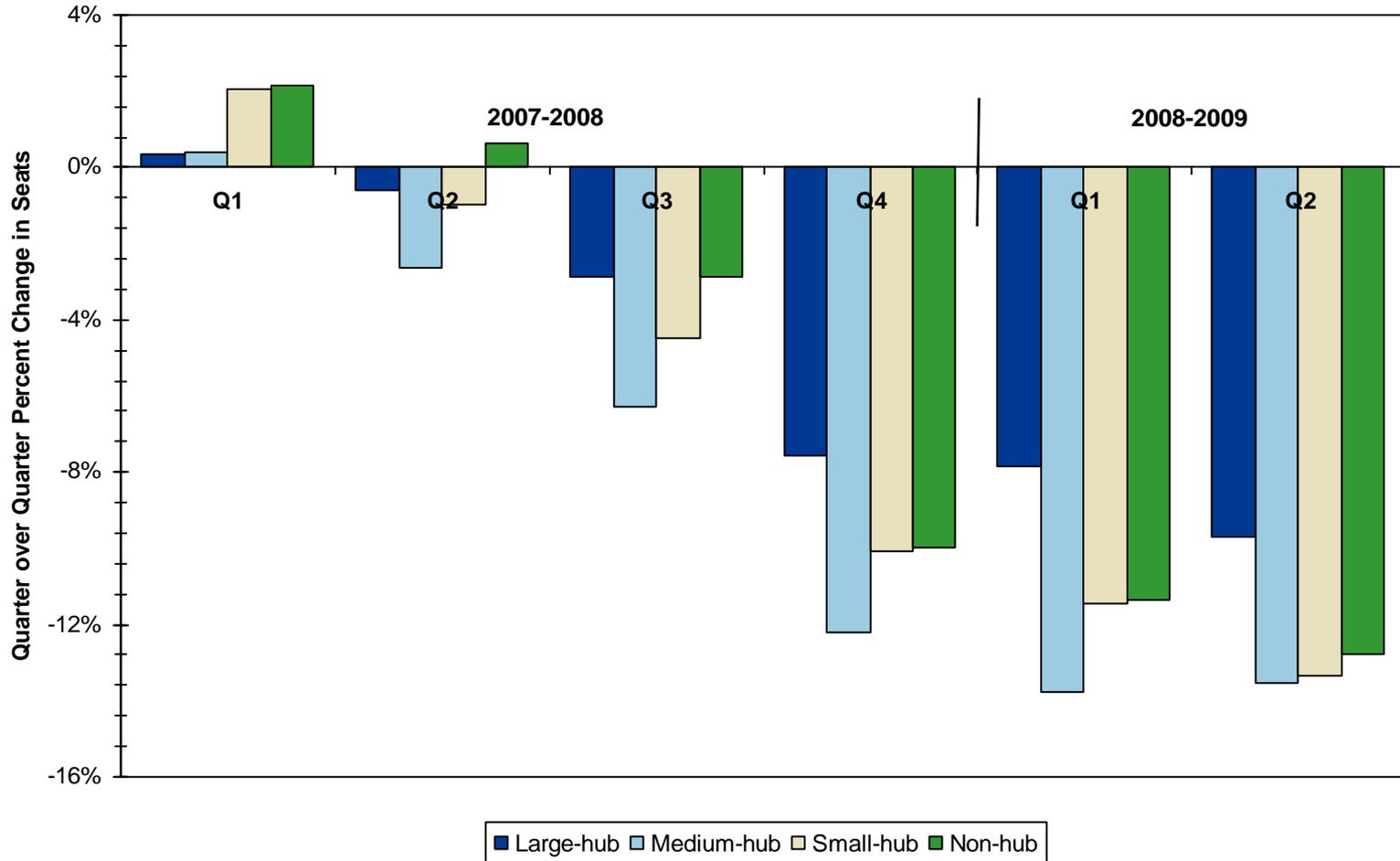
U.S. GDP, Disposable Personal Income, and Personal Consumption (2000 \$)



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Capacity Reductions, previously driven by Fuel Prices, Continue as Demand Weakens

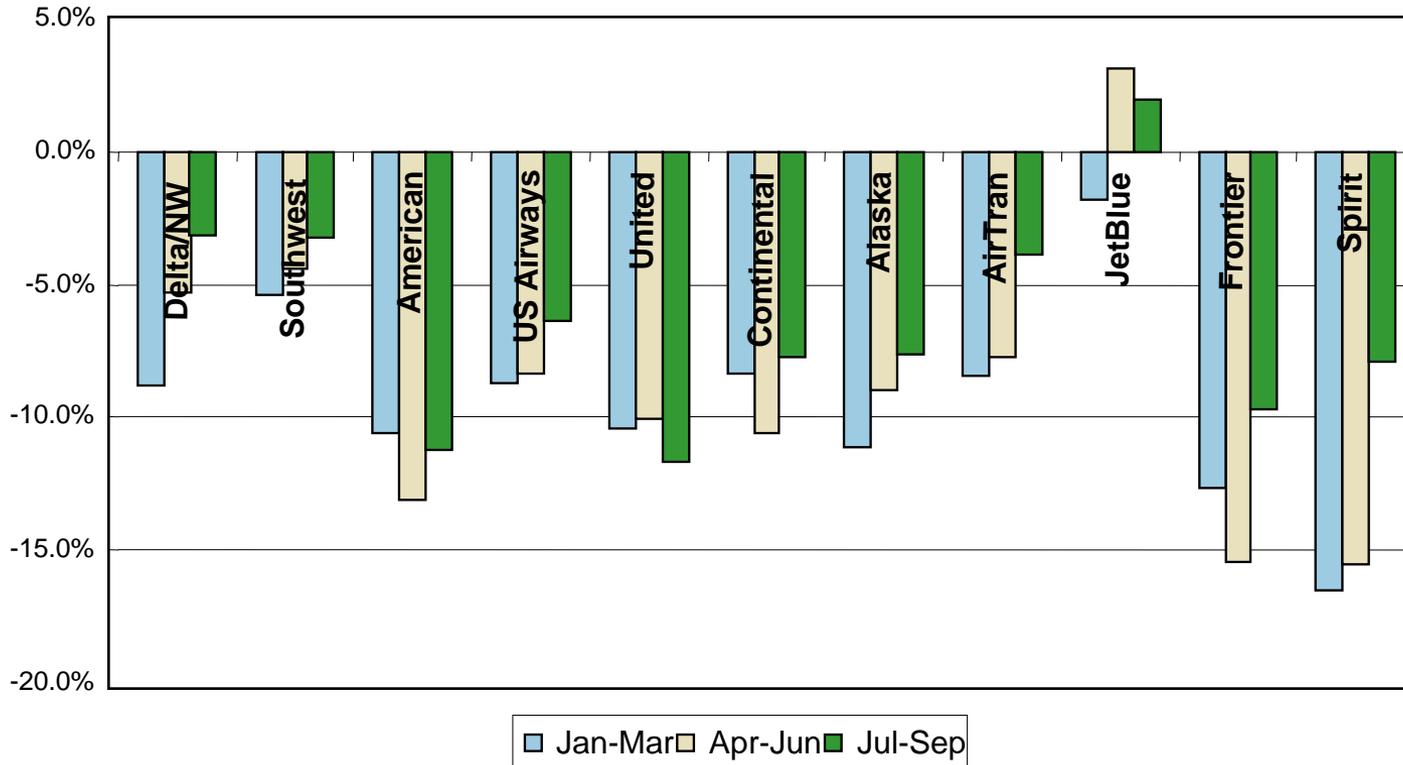
Change in Scheduled Seats at U.S. Airports by Hub Size



Source: Official Airline Guides, Inc, online database. Accessed December 15, 2008.

Scheduled Seat Capacity Reduced through at Least 2009

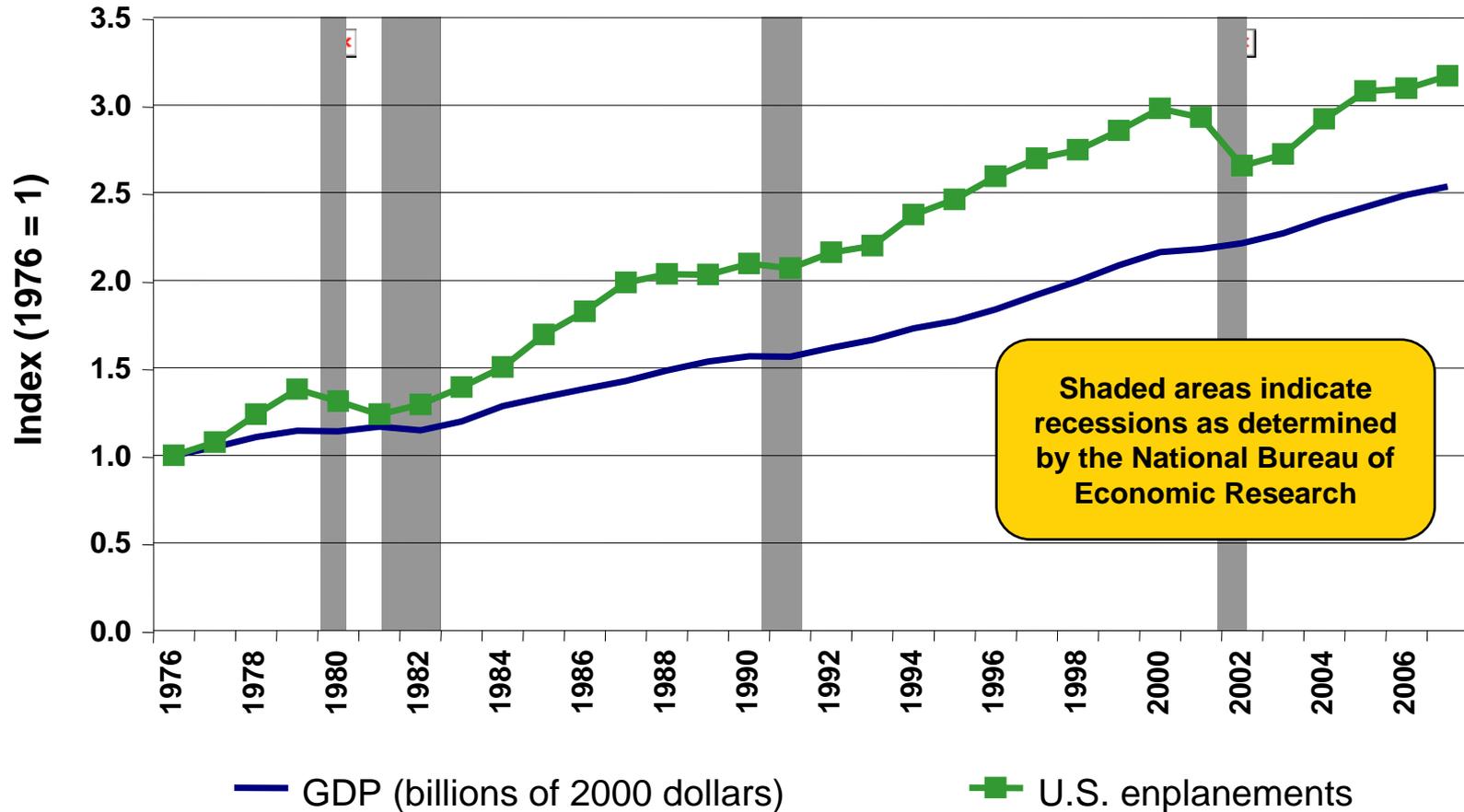
Changes in Scheduled Seats by Airline (First 3 Quarters 2009)



Source: Official Airline Guide, accessed January 23, 2009. Estimates made for carriers that have not filed schedules completely through September 2009.

Passenger Traffic Recovery Lags Economy

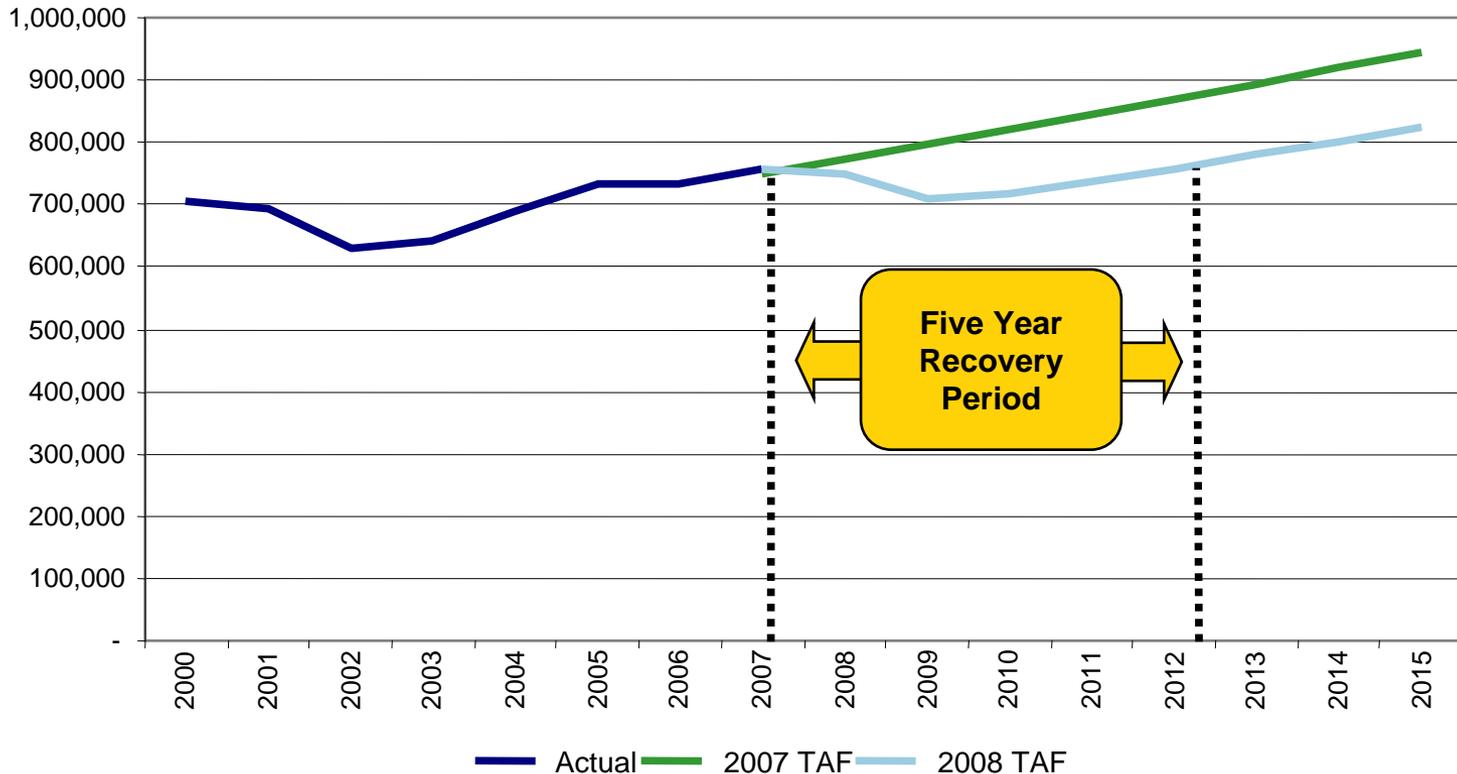
U.S. GDP and Enplanements (indexed to 1976 level)



Sources: GDP--U.S. Department of Commerce, Bureau of Economic Analysis.
Enplanements--Federal Aviation Administration

FAA TAF Shifts Passenger Demand Curve by 5 Years

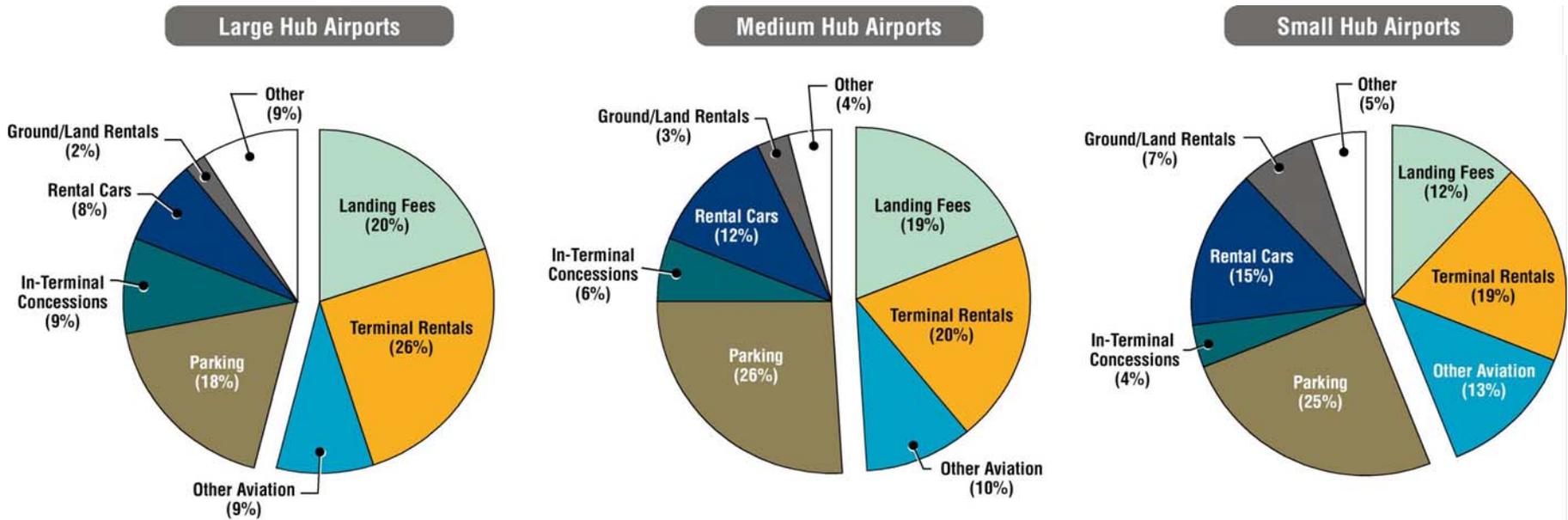
Historical and Forecast Enplanements (in millions)



Source: Federal Aviation Administration, Terminal Area Forecasts, December 31, 2008.

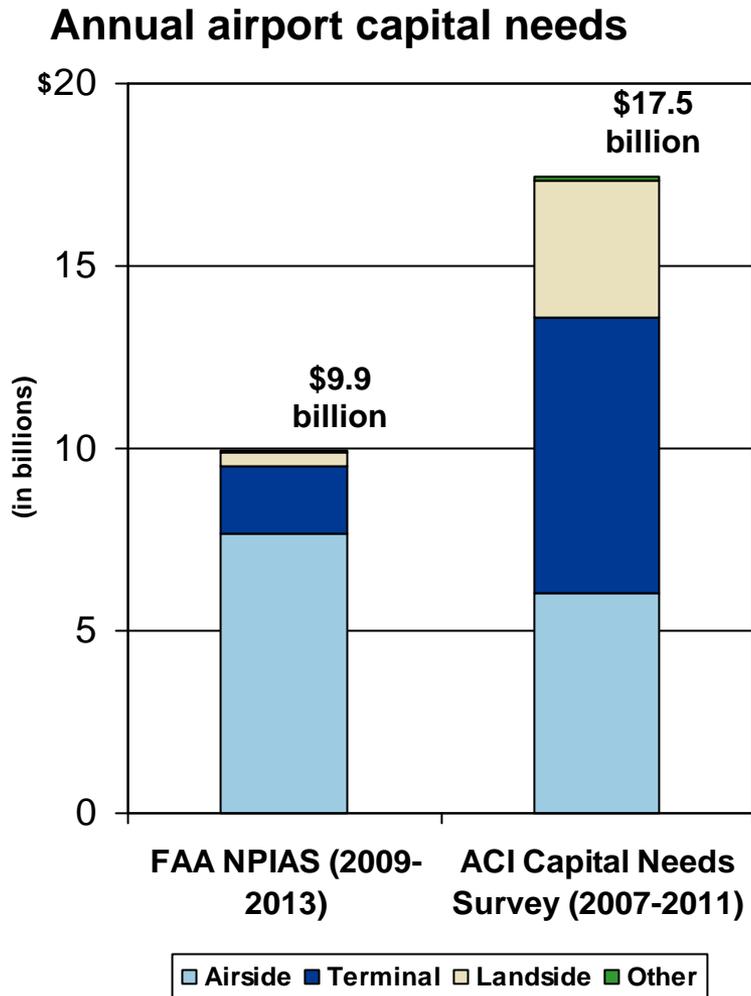
Airport Revenues Highly Correlated with Passengers

Passenger-derived revenues account for half of airport revenues



Source: FAA, AAS-400, CATS, Report Form 5100-127, October 2008.

Airport Capital Needs



- FAA and ACI-NA estimate that airports nationwide need between \$9.9 billion and \$17.5 billion annually to meet capital needs
- Estimates differ due to:
 - FAA only includes projects that:
 - Are AIP eligible
 - Have identified funding sources
 - FAA excludes:
 - TSA projects
 - Inflation
 - Different time periods

Airport Capital Needs: Airport Reaction to Credit Markets

Review CIP Projects and Schedule

- **Prioritize CIP in light of limited availability of funds and uncertain access to debt market**
- **Defer/delay/scale back**
 - Many airports have indefinitely postponed capital projects
 - Baltimore, Cleveland, Las Vegas, Oakland, Orlando, Philadelphia, Tucson, etc.
- **Others have closed or mothballed facilities**
 - Pittsburgh, St. Louis, Raleigh-Durham considering temporary closing of T-1
- **To the extent can afford to proceed, likely to get more competitive bids**

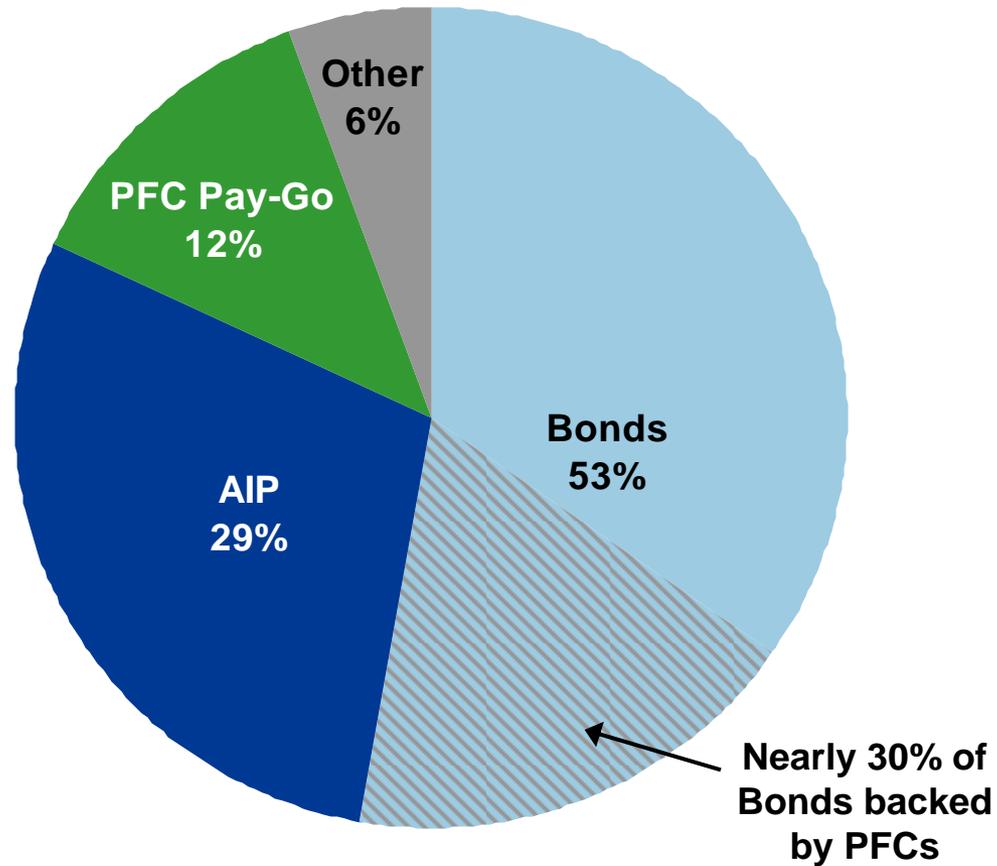


Airport Capital Funding Sources

- **Airport Improvement Program (AIP) grants**
- **Passenger facility charges (PFCs)**
- **Transportation Security Administration (TSA) grants**
- **Airport revenue bonds**
 - Tax exempt
 - Non-tax exempt “private activity” subject to AMT
- **Other**
 - Airport “equity” (cash)
 - State/local government grants
 - Special facility bonds and tenant financed improvements
 - Private investment

Airport Capital Funding Sources

Average Annual Airport Capital Funding Source Distribution: 2001-2005



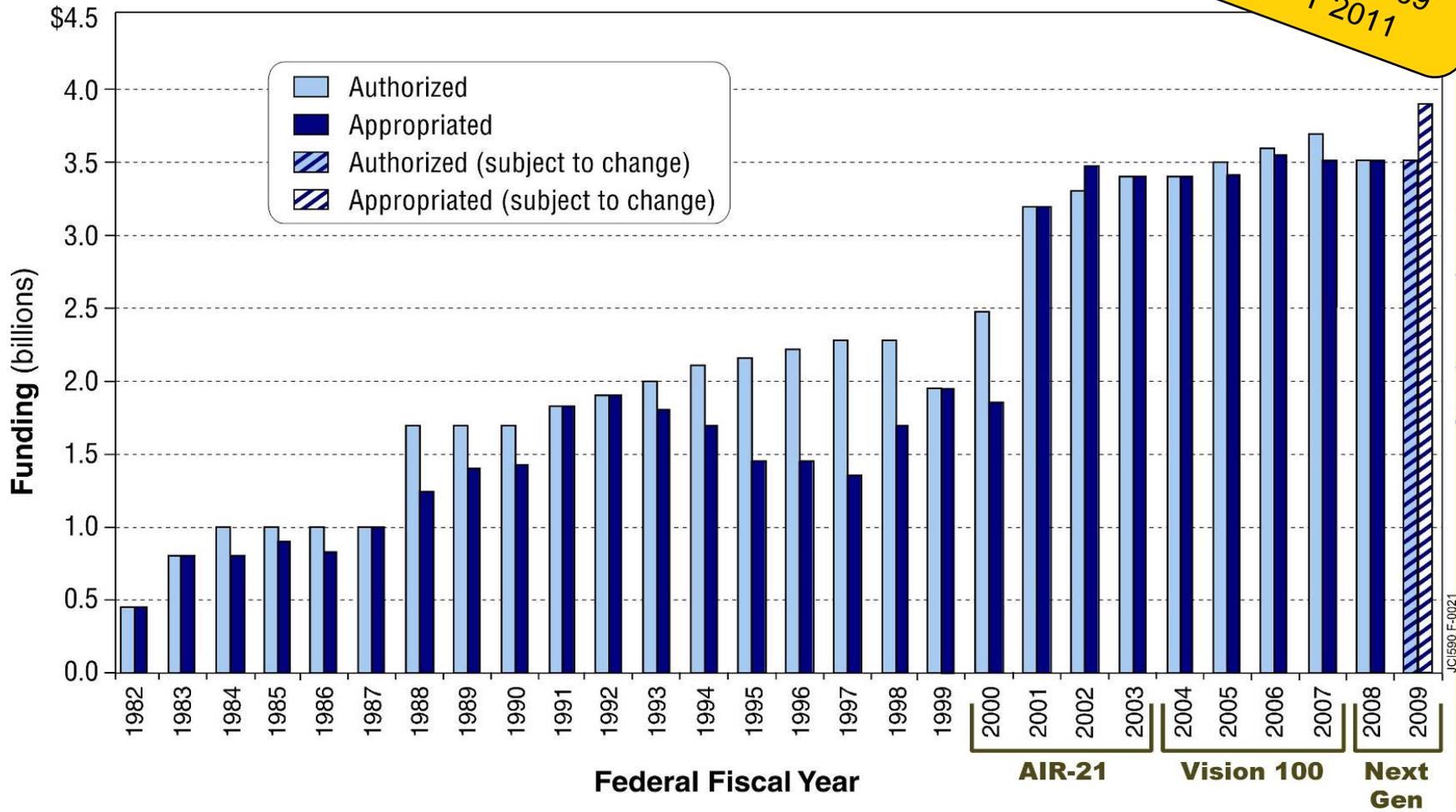
Source: *Airport Finance, GAO-07-617T*

Airport Improvement Program (AIP) Grants

- **Federal funding through the Airport and Airway Trust Fund**
 - User fees related to passenger tickets, passenger flight segments, cargo waybills, aviation fuels, etc
- **Entitlement funds allocated based on:**
 - Number of passengers or amount of cargo
 - State/Insular areas
 - Alaska supplemental funds
 - Small airport fund
- **Discretionary funds for noise, Military Airports Program, Reliever Airports, and Capacity/Safety/Security/Noise**
- **Eligible capital improvements enhance airport safety, capacity, security, and address environmental concerns**
 - Cannot be used to pay bond financing or interest expenses

AIP Outlook: AIP Funding Levels

Economic recovery stimulus package: \$1.1 billion FFY 2009 through FFY 2011



Note: FY09 Authorization and Appropriation is subject to change, as the amounts are not finalized. These amounts are based on authorization and appropriation levels through March 2009.

TSA Airport Capital Funding

Economic recovery stimulus package:
\$700 million EDS installation,
\$300 million checkpoints

- **In 2007, Congress created a \$5 billion, 20-year program to help procure explosive detection machines and install EDS in airports**
 - \$250 million a year beginning in FFY 2008 with \$50 million prioritized for smaller airports
 - Funding backed by “offsetting collections” from the \$2.50 security fee, does not require and annual appropriation
 - \$450 million authorized to be appropriated between FY 2008 and 2011 for in-line systems and requires annual appropriation
- **TSA released funding guidance for airports seeking to receive assistance for EDS installation beginning in FFY 2009**
- **Airports receiving funding through Other Transactional Agreements**

AIP and TSA Funding: Airport Reaction to Credit Markets

Leverage Federal Resources

- **Pursue federal economic stimulus funding: AIP, F&E, TSA**
 - Estimate economic impact and job generation
 - Get in AIP queue with FAA ADO
 - Apply for TSA checked baggage screening funding
- **Access TIFIA loans and FHA grants for intermodal projects**
- **Take advantage of Voluntary Airport Low Emissions Program (VALE) AIP grants**
 - Eligible projects include PCA and ground power at gates (and upstream electrical infrastructure), electrical ground support equipment, chargers, alternative fuel facilities
 - Airport must be in non-attainment district to qualify
 - VALE is “new money” it does not detract from entitlement or other discretionary opportunities
 - Local share can be funded with PFC revenue

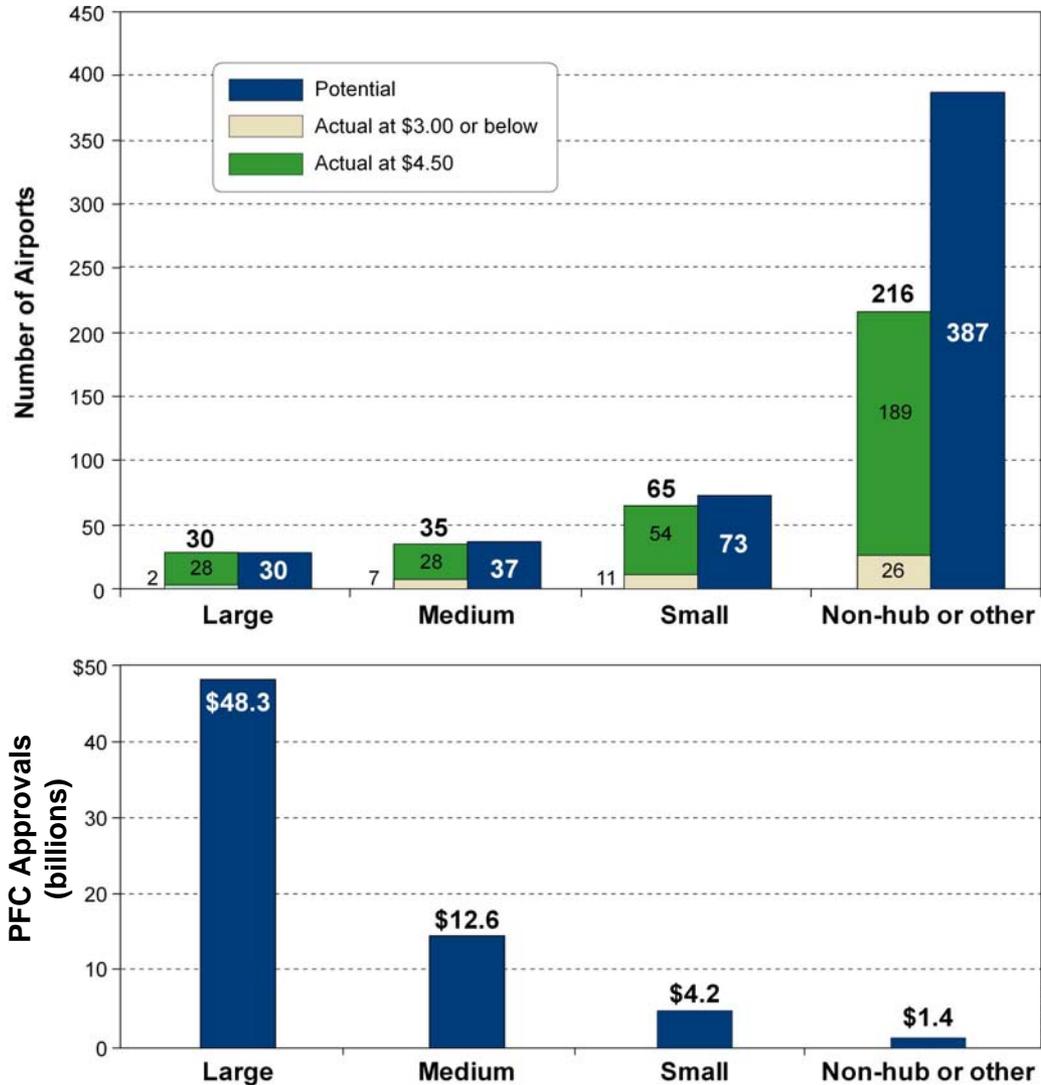


Passenger Facility Charges

- **\$1, \$2, \$3, \$4, or \$4.50 per eligible passenger per segment**
- **Eligibility**
 - Preserve or enhance capacity, safety, or security
 - Reduce noise or mitigate noise impacts
 - Enhance competition
 - For \$4 or \$4.50 PFC at a large/medium-hub airport must demonstrate a “significant contribution”
- **Eligibility generally same as AIP**
 - Terminals primarily for movement of passengers and baggage in non-revenue producing areas (gates, bag claim/makeup, and loading bridges)
 - Excludes revenue-producing areas (concessions, airline ticketing, parking, rental car facilities, administration, and maintenance)
- **Can be used on a pay-as-you-go basis or leveraged**

PFCs Now Imposed by Most Hub Airports

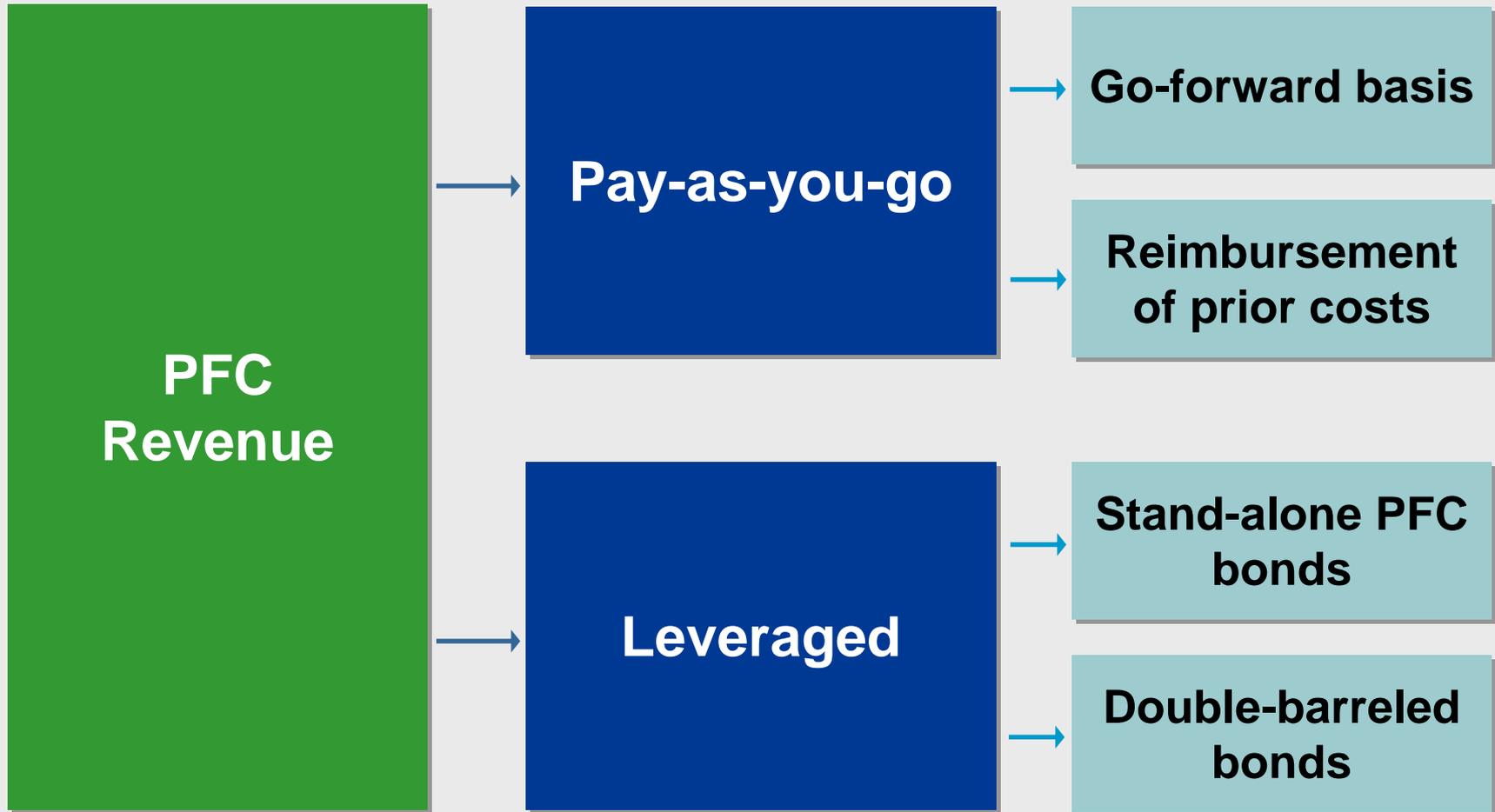
PFC Approvals by Hub Size



Source: FAA, PFC Branch, as of February 29, 2009.

PFCs Provide Flexibility in Funding

PFC Funding Approaches

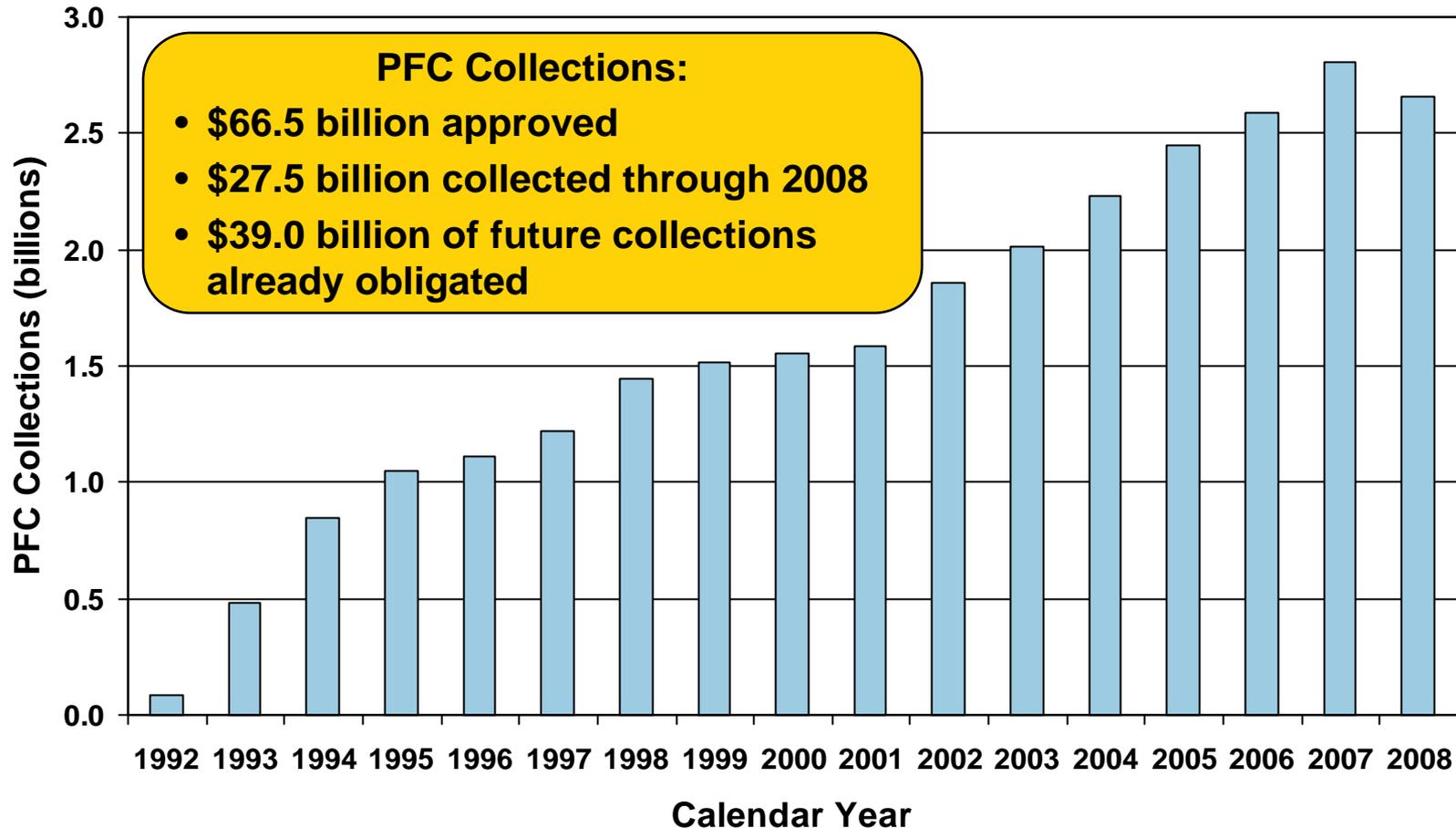


PFC Funding: Airport Reactions to Credit Markets

- **Start charging a PFC**
 - IAH was the last large-hub to start a PFC on 12/1/08
- **Increase PFC to \$4.50**
 - In 2007 and 2008, 4 large-hubs and 8 medium-hubs increased PFC level from \$3.00 to \$4.50
- **Review already approved projects to ensure PFC-eligibility maximized**
- **Replenish debt service reserve accounts with downgraded surety bonds with PFCs, as eligible**

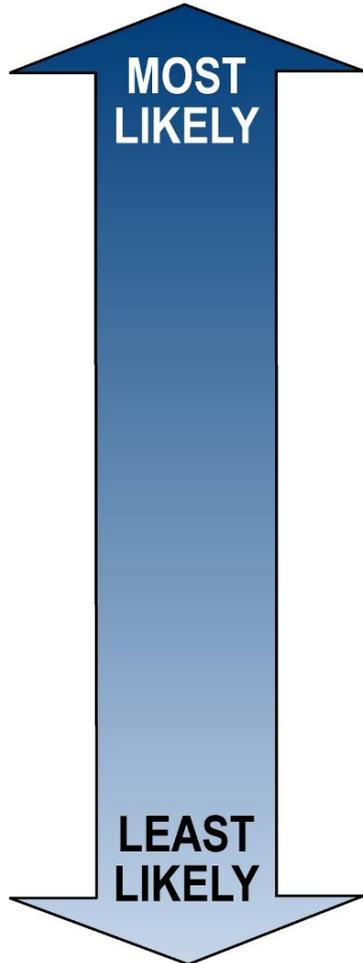
PFC Outlook: Future Collections Obligated to Past Projects

PFC Collections by Year



Source: FAA, PFC Branch, as of February 29, 2009.

Airport Debt



1. Revenue bonds

- General airport revenue bonds (GARBs)
- Double-barrel bonds (backed by both PFCs and airport revenues)
- Stand-alone PFC-backed bonds

2. Short-term debt (commercial paper, bond anticipation notes, etc.)

3. Special facility bonds

4. Bank loans (short-term)

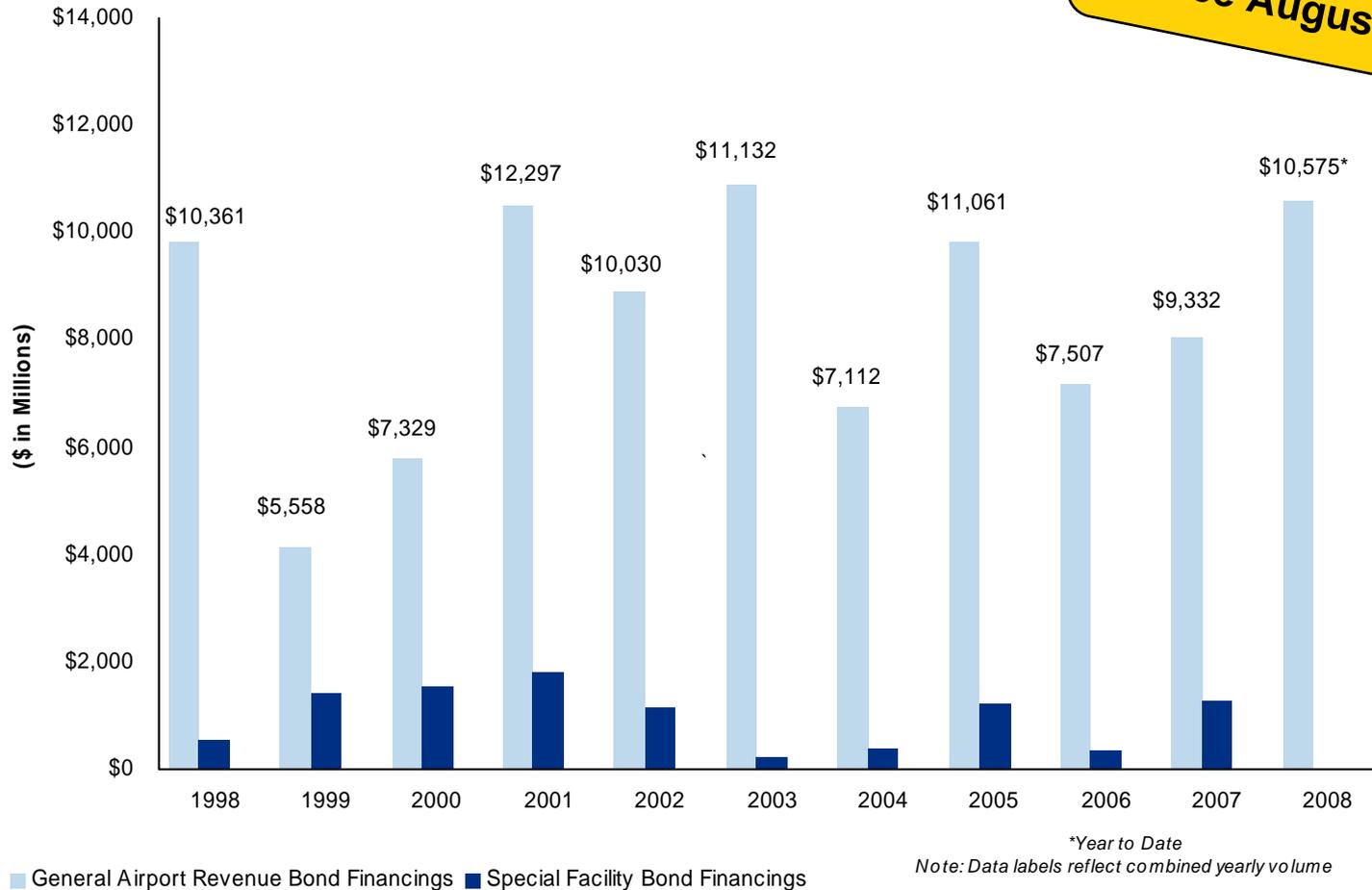
5. Private debt

6. General obligation bonds

General Airport Revenue Bonds

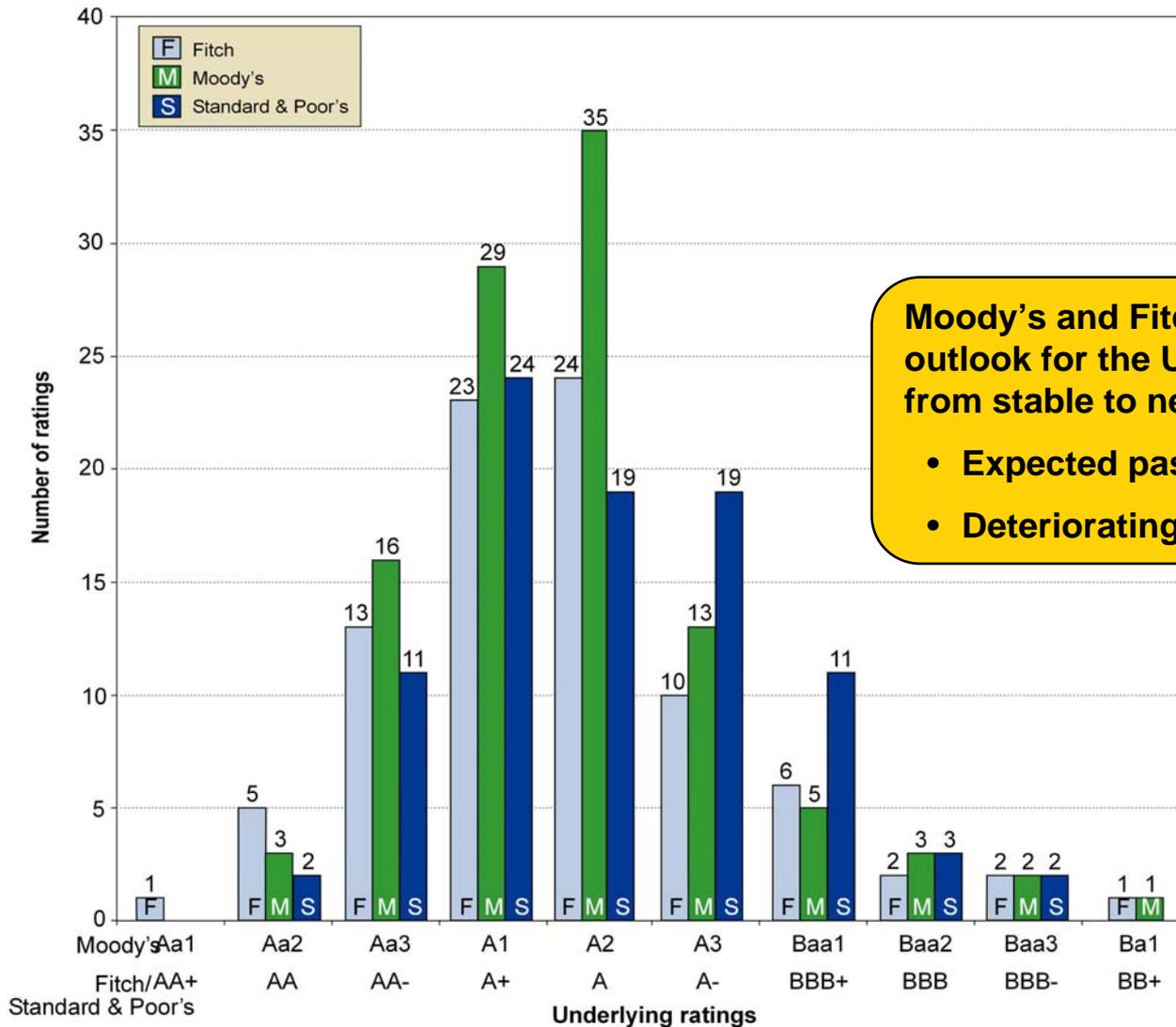
Airport/Airline New Issue Volume - 1998 to Present

Limited activity since August 2008



Source: Citigroup Global Markets Inc.

GARB Credit Ratings as of December 31, 2008

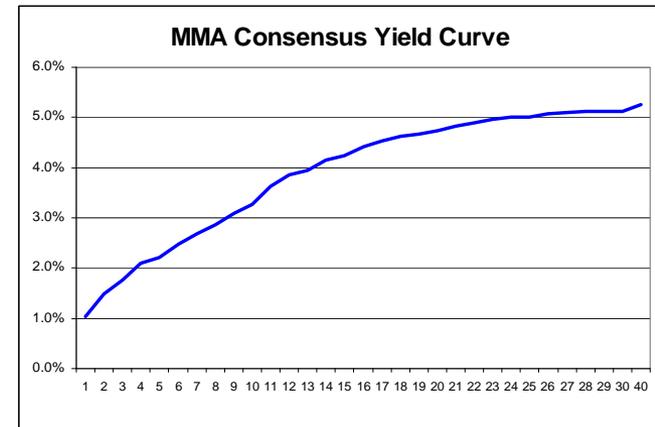


Moody's and Fitch revised their outlook for the U.S. airport sector from stable to negative in mid-2008:

- Expected passenger declines
- Deteriorating economic conditions

Airport Debt: Airport Reactions to Credit Markets

- **Take advantage of non-AMT window under economic stimulus**
 - AMT penalty increased from 10-30 basis points historically to 65-75 basis points at the end of 2008
 - New money issues in 2009 and 2010
 - Current refundings of bonds issued in calendar years 2004 through 2008
- **Issue short-term debt to take advantage of steep yield curve**
 - Commercial paper
- **Solicit bank loans**
 - Orlando \$75 million with Bank of America
 - Memphis \$50 million with local bank
 - Pittsburgh for PFCs (\$40 million with Citizens Bank) and gaming revenues (\$20 million with PNC)



Questions?

