

## Chapter 7: Financial Considerations

“Customers demand low fares. Low cost, efficient airports are vital in meeting that demand.”

— Gary C. Kelly, Vice Chairman of the Board and Chief Executive Officer, Southwest Airlines Company

### 7.1 Introduction

This chapter provides an overview of airport finances and then presents a financial plan for the potential near-term master plan projects (see Chapter 8). The financial plan is a screening-level analysis to determine if the potential master plan projects should even continue to be explored from a financial perspective. That is, if the potential master plan projects (either collectively or individually) appear to be well beyond the range of potential affordability, then they need not be considered for inclusion in the master plan.

It is important to note that this chapter is intended to provide a general overview of airport finances as they relate to the Port of Oakland and Oakland International Airport. It is not intended to give a comprehensive assessment of the Port or Airport for purposes of making investment or other decisions. The information contained in this chapter (like information contained in the other chapters) will change over time, and no obligation to update or revise it is created. Any potential investor in the Port’s long-term or short-term debt should review appropriate disclosure documents provided by the Port in connection with such debt, and should not rely on the master plan or this chapter in making investment decisions.

FAA AC No. 150/5070-6A, Chapter 10 (Plan Implementation), Section 3 (Financial Plan), discusses various funding mechanisms for airport development

projects and the need for a financial feasibility and economic analysis. This chapter of the master plan is based on the planning principles and guidance contained in FAA AC No. 150/5070-6A.

### 7.2 Overview of Airport Finances

The purpose of this section is to provide a brief overview of finances at Oakland International Airport (OAK). It summarizes Airport Ownership, Airline Agreement, Operating Budget, and the Capital Improvement Program as of June 2005.

#### 7.2.1 Airport Ownership

The Port of Oakland is an “independent department” of the City of Oakland established under the City’s Charter. The Port of Oakland is the City of Oakland, a municipal corporation, acting by and through its Board of Port Commissioners. The exclusive control and management of the Port is vested in the Board of Port Commissioners. Per the Charter, Commissioners are nominated by the Mayor and appointed by the City Council. The Port of Oakland owns and operates Oakland International Airport (OAK). Port staff responsible for managing and operating the Airport are part of the Port’s Aviation Division, which is one of three Port revenue divisions (the other two are Maritime and Commercial Real Estate). The Port’s Aviation Division is supported by several other divisions including Engineering, Social Responsibility, Finance, Communications, and the Port Attorney’s Office.

#### 7.2.2 Airline Agreement

Each airline serving OAK operates under a 10-year Airline Operating Agreement that is cancelable by either party (the airline or Port) on 30 days written notice. This cancellation policy is somewhat unusual in the aviation industry, but becoming more common. Many airports have long-term lease agreements with the airlines (sometimes as long as 20 or 30 years) for use of specific airport facilities, such as a terminal building or specific gates and holdrooms in a terminal building. Often, these long-term lease agreements give the airlines considerable control over the airport’s operating budget and capital improvement program (called Majority-In-Interest clauses). This is not the case at OAK, and the Port retains considerable control over the Airport’s facilities. Under the Agreement, the airlines must pay various rates and charges established by the Board of Port Commissioners by Ordinance (Port Ordinance No. 3634, as amended) for their use of Airport facilities, including the airfield and passenger terminals.

Airlines with a minimum number of daily flights are assigned one or more preferential (but not exclusive use) gates. The Port reserves the right to assign another airline to any gate as long as the preferential airline is not using it. The Port can also keep some gates unassigned for use directed by the Port. Terminal 1 ticket counters and gates are equipped with Common Use Terminal Equipment (CUTE), which allows any airline to log into their host computer system at any ticket counter or gate.

#### 7.2.3 Operating Budget

Like most local government agencies, the Port of Oakland and its Aviation Division have an operating budget and capital improvement program. Operating revenues and expenses are collected in seven cost centers.

##### Cost Centers

The Port of Oakland allocates operating costs and revenues for OAK in seven cost centers:

- Terminals
- International Arrivals Building (IAB)
- Contract Fueling
- Airfield and Ramp
- Ground Access and Parking
- Leased Area / Cargo / Oakland Maintenance Center (OMC)
- North Field (including a number of its own cost centers: Aircraft Operations and Parking Area, Leased Aircraft Hangars, T-Hangars, and Leased Area without Ramp)

These cost centers are either residual or compensatory.

##### Residual Cost Centers

In a residual cost center, the airlines are charged for the Port’s net operating (and capital) costs after allowing for any non-airline revenue attributable to the cost center. The following cost centers at OAK are residual:

Terminals, Contract Fueling, and Airfield and Ramp.

For example, the Port incurs costs associated with operating and maintaining the terminal buildings. The Port must pay janitors to clean the concourses, building engineers to change light bulbs and repair jet bridges, and police to provide security. These labor and materials costs are collected in the Terminals cost center. The Port also generates revenue from concessions located in the terminals (typically as a percentage of individual concessionaire's gross revenues). The airlines reimburse the Port for the operating costs collected in the Terminals cost center less concessions or other non-airline terminal revenues. Essentially, the airlines assume the financial risk of operating and maintaining the terminal buildings. For the Terminals cost center, costs are divided by the leasable terminal building area (to get a cost per sq. ft.) and then allocated to the individual airlines depending on how much area each airline leases from the Port. Operating and capital costs recoverable through airline rates and charges also include costs of capital improvements, including financing costs, except on capital projects funded using Airport Improvement Program (AIP) grants or Passenger Facility Charges (PFCs), or unless otherwise prohibited by federal law.

The Airfield and Ramp cost center operates in a similar fashion. For example, in the Airfield and Ramp cost center, costs are allocated to individual airlines based on landed weight (i.e., weight of the specific aircraft times the number of operations of that aircraft type in each accounting period).

Rates and charges for these cost centers are based on the recovery of actual, audited net costs for the most recently completed fiscal year. For example, calendar year 2005 airline rates and charges are based on fiscal year 2004 (July 1, 2003, through June 30, 2004) audited data.

**Compensatory Cost Centers**

The following cost centers are compensatory: IAB, Ground Access and Parking, Leased Area / Cargo / OMC Hangar, and North Field. The Port negotiates lease amounts and other charges to cover its fully allocated costs of providing facilities subject to market conditions, and assumes the financial risk associated with operating and maintaining the facilities. For example, the Port leases to the air cargo airlines, such as FedEx and UPS, certain facilities (e.g., buildings) at South Field. The Port charges airline passengers for parking in on-Airport parking lots and commercial vehicle operators for accessing the Airport to pick-up airline passengers. The Port attempts to set lease amounts, fees, charges, etc. to cover its fully allocated costs for these facilities, including depreciation and for major maintenance or improvement projects. The airlines and other tenants pay only for facilities that they use and the Port keeps revenues to offset its direct costs, pay other Airport operating costs, and invest in its facilities (referred to as internal cash flow).

The largest compensatory cost center is Ground Access and Parking, which generated almost \$44.5 million in revenue in fiscal year 2004, or about 41% of all Airport revenues.

Summary of South Field Operating Revenues and Expenses – Fiscal Year 2004						Table 7.1
	Gross Terminals <sup>(1)</sup>	Contract Fueling	Airfield and Ramp	Ground Access and Parking	Leased Area, Cargo, OMC Hangar	Total
Revenues	\$36,831,000	\$2,137,000	\$17,787,000	\$44,480,000	\$7,698,000	\$108,933,000
Percent of Total Revenues	33.8%	2.0%	16.3%	40.8%	7.1%	100.0%
Expenses <sup>(2)</sup>	38,788,042	2,256,038	18,709,782	32,555,394	5,439,941	97,749,197
<b>Net Revenues (Loss)</b>	<b>(\$1,957,042)<sup>(3)</sup></b>	<b>(\$119,038)<sup>(3)</sup></b>	<b>(\$922,782)<sup>(3)</sup></b>	<b>\$11,924,606</b>	<b>\$2,258,059</b>	<b>\$11,183,803</b>

<sup>(1)</sup> Includes IAB; <sup>(2)</sup> Includes actual and allocated expenses; <sup>(3)</sup> In the residual cost centers, net revenues do not equal \$0 because the airlines are charged on a calendar year basis and the revenues / expenses are for a fiscal year (in the table above, for fiscal year 2004). Also, airline rates and charges (in terms of \$ per sq. ft. for Terminals cost center and \$ per 1,000 pounds of landed weight for Airfield and Ramp cost center) are based on estimates of area leased to the airlines, landed weights, non-airline revenues, etc. Actual leased area, landed weights, non-airline revenues, etc. will vary from these estimates, resulting in net revenues that are greater or less than \$0.

**Summary of South Field Operating Revenues and Expenses**

Table 7.1 summarizes operating revenue and expenses by South Field cost center for fiscal year 2004 (July 1, 2003, through June 30, 2004).

**Airline Cost Per Enplaned Passenger**

A common way to examine total airline rates and charges is on a "per enplaned passenger" basis. As described above, airlines operating at OAK reimburse the Port for costs (expenses) associated with providing and maintaining terminal buildings (Terminals cost center) and taxiways and runways (Airfield and Ramp cost center), less any non-airline revenues generated by the Port in these cost centers. Individual airlines pay in proportion to the airline's use of Airport facilities. The cost to the passenger airlines for operating at the Airport (i.e., expenses collected in the Terminals and Airfield and Ramp cost centers, less any non-airline revenues) can be divided by the number of enplaned

passengers to compute the average airline cost per enplaned passenger. That is, the airline cost per enplaned passenger is the total amount the passenger airlines pay the Port on average for each enplaning airline passenger. It is important to note that the passenger airlines do not pay the Port based on cost per enplaned passenger; the airlines reimburse the Port for expenses collected in the Terminals and Airfield and Ramp cost centers, less any non-airline revenues. Airline cost per enplaned passenger is simply a calculated number that is useful for various analyses, comparisons, etc., as described below.

The airline cost per enplaned passenger can be compared to industry averages, other airports, other airline costs, air fares, and can be used to evaluate the financial impact on airlines of increasing (or decreasing) airport operating expenses in the Terminals or Airfield and Ramp cost centers (e.g., a major taxiway maintenance project or debt service on a new or remodeled terminal building). When comparing an airport's airline

Airline Cost per Enplaned Passenger – Calendar Year 2005			Table 7.2
	Terminals	Airfield and Ramp	Total
Expenses (from table above) [A]	\$38,788,042 <sup>(1)</sup>	\$18,709,782	
Less Net IAB Expenses [B]	(813,047)	0	
Miscellaneous Adjustments <sup>(2)</sup> [C]	2,679,033	828,129	
Total Expenses [A-B+C=E]	40,654,028	19,537,911	
Less Non-Passenger Airline Revenues <sup>(3)</sup> [F]	(18,952,000)	(6,500,000)	
Net Expenses (Airline Cost) [E-F=X]	\$21,702,028	\$13,037,911	\$34,739,939
Approximate Number of Enplaned Passengers [Y]			7,250,000
<b>Average Airline Cost per Enplaned Passenger [X÷Y]</b>			<b>\$4.79</b>

(1) Includes IAB; (2) Includes adjustments for prepaid maintenance and security, and inflation; (3) Includes revenue generated from in-terminal concessions (news/gift and food/beverage), rental car companies, non-airline terminal space rental, ground handling, in-flight catering, and cargo airline landing fees (i.e., the cargo airline contribution to the Airfield and Ramp cost center)

cost per enplaned passenger to industry averages or to other airports, it is often difficult to get an “apples to apples” comparison because each airport collects costs in different cost centers and those cost centers may or may not be in the airline rate base. For example, at OAK, the Ground Access and Parking cost center is not part of the airline rate base (but it could be at another airport).

Table 7.2 shows the calculation of airline cost per enplaned passenger at OAK.

As shown in the table above, the passenger airlines pay the Port approximately \$4.79 on average per enplaning passenger through terminal rent (Terminals cost center) and landing fees (based on landed weight, through the

Airfield and Ramp cost center). At airports nationwide, airline costs per enplaned passenger range from under \$3 to over \$15.

Increasingly, airlines are struggling to reduce operating costs, including the costs that they pay to airports. Many passenger airlines are struggling financially and some are in bankruptcy. Airports must constantly evaluate and justify increases in operating costs that impact the airline cost per enplaned passenger. In some instances, if the cost to the airlines for operating at a particular airport becomes too great, an airline might choose to discontinue or reduce air service at the airport, or move flights to another less expensive airport (if there is another airport in the region). As do other airport operators, the Port attempts to balance the need to operate and maintain its existing facilities and develop

new ones, with the need to maintain airline costs at a reasonable level in order to serve community demand for air service and mix of airlines.

**Other Important Regulations and Requirements Accounting, Financial Reporting, and FAA Regulation of Rates and Charges** — Like other local government agencies, the Port follows Generally Accepted Accounting Principals (GAAP) and Government Accounting Standards Board (GASB) regulations for audits of its financial statements. The Port and Airport are also subject to Federal Aviation Administration (FAA) accounting and financial reporting requirements. The FAA regulates how airports set airline rates and charges and determine aeronautical revenues.

**Revenue Diversion** — The Airport and Airway Improvement Act (AAIA) prohibits revenue diversion. Essentially, all revenues generated by an airport must be expended by the airport owner / operator for capital or operating costs of the airport. Also, when an airport owner / operator receives a grant from the federal government, the FAA requires that the airport owner / operator (e.g., the Port) agree to various grant assurances, including Assurance 25 on airport revenues. Assurance 25 requires that all revenue generated by an airport, including local taxes on aviation fuel, be expended by it for capital or operating costs of the airport, the local airport system, other local facilities owned or operated by the airport that are directly and

substantially related to the actual air transportation of passengers or property, or noise mitigation purposes on or off the airport. Revenue diversion may include payments for services and/or facilities not provided or not reflective of airport use, use of revenues for general economic development / marketing / promotional activities, payments to compensate for lost tax revenues, and loss of revenue when airports charge non-airport-related entities less than full market value for leased space or property. The FAA ensures compliance by (1) airport self-certification (i.e., in grant applications), (2) audits, and (3) third party complaints. Penalties for revenue diversion include withholding of grants and civil penalties.

#### 7.2.4 Capital Improvement Program

In addition to an operating budget, the Port maintains a Capital Improvement Program (CIP) and funds capital projects, including major maintenance and construction of new airport facilities. The Port’s overall CIP includes approximately \$1.23 billion in projects from fiscal year 2002 through 2007. Approximately \$671 million of the total CIP are aviation-related projects. As of June 30, 2005, the Port estimates that approximately \$347 million in aviation-related projects are still to be completed.

Generally, the Port can pay for capital improvements using grants, Passenger Facility Charges (PFCs), Customer Facility Charges (CFCs), debt financing

(e.g., bond) proceeds, Port cash (from internal cash flow), and/or tenant or third party financing, subject to various requirements and restrictions that vary from project to project.

#### Airport Improvement Program (AIP)

The Airport Improvement Program (AIP) is an FAA-administered grant program established by the Airport and Airway Improvement Act of 1982 (originally dating back to 1970 in various laws and forms). The FAA provides AIP grants to airport owners / operators for airport construction and safety projects. AIP grants are funded from the Airport and Airway Trust Fund, which gets its revenue from user taxes on airline passenger tickets, aviation fuel, and air cargo. In addition to AIP grants, the Trust Fund pays for FAA operating costs (e.g., costs associated with operating the air traffic control system) and air traffic control system upgrades.

In federal fiscal years 1992 through 1997, the FAA awarded almost \$9.8 billion in AIP grants to airport owners / operators. Almost 75% of these grants were for airside projects, such as construction or reconstruction of runways, taxiways, aprons, and safety improvements. In federal fiscal year 2004, the Port received \$13.3 million in AIP grant funding for a variety of projects, including \$2 million for sound insulation. From federal fiscal year 2001 through 2004, the Port received \$13 million in AIP grant funding for sound insulation. AIP grants pay for up to 80.59% of the eligible costs of eligible capital projects at OAK.

AIP grants can be used for airport planning, airport development, or noise compatibility projects. Grants for airport development generally focus on projects associated with construction, improvement, and preservation of airport infrastructure, or the acquisition of land or equipment. Typical work items included under AIP development are (1) site preparation, (2) construction, alteration, or repair of runways, taxiways, aprons, and ground access roadways on airport property, (3) construction and installation of lighting, utilities, navigational aids, and aviation weather-related reporting equipment, (4) safety equipment required for certification of an airport facility, (5) security equipment required by rule or regulation, (6) snow removal equipment, (7) limited public-use terminal development at commercial service airports, (8) equipment to measure runway surface friction, (9) land acquisition, and (10) aircraft noise mitigation. AIP grants have not been made available for routine maintenance, construction of hangars, and revenue-producing public parking areas.

AIP grants are either entitlement or discretionary. Entitlement funds are awarded to airport owners / operators through a formula, based on the number of enplaning passengers and cargo tonnage. Discretionary funds are intended to provide flexibility for the FAA to meet important national airport system needs. They are used to fund capacity enhancement, noise abatement and compatibility projects, and safety and security improvements.

AIP funds are distributed as a grant (reimbursed as funds are expended by the airport owner / operator) or under a Letter of Intent (LOI). An LOI is a document that conveys the FAA's intention to obligate AIP funds to an airport for a specific project over a multi-year period (because the federal budget is only appropriated on a 1-year cycle). With an LOI, an airport can begin a project using bonds or short-term loans with the expectation of receiving reimbursement as the project progresses. The Port does not currently have any LOIs.

In order to obtain AIP funds, the FAA requires an airport to have a 5-year Airport Capital Improvement Program (ACIP), which details and prioritizes the airport's capital improvement needs for AIP funding. The ACIP is updated annually. The Port's ACIP for OAK includes projects such as reconstructing taxiways and aprons around Terminals 1 and 2 and at North Field, Runway Safety Area (RSA) improvements, storm water management / drainage improvements, and in the outer years, potential construction of taxiway improvements identified in the master plan.

#### State / Local Government Grants

Like other local government agencies in the San Francisco Bay Area and Alameda County, the Port can apply for and receive grants for the design and construction of transportation projects (usually roadways or transit projects) from the Alameda County Congestion Management Agency, the Metropolitan Transportation Commission, and the Alameda County Transportation

Improvement Authority (which administers the Measure B sales tax revenues for Alameda County transportation projects). These grants can have both federal funds (e.g., from the Transportation Equity Act for the Twenty-First Century (TEA-21)) and state funds (e.g., from the State Transportation Improvement Program (STIP)). For example, in fiscal year 2002, the Port received a grant for \$1.5 million (a combination of federal and state highway funds) for the construction of Langley Street at North Field and related improvements (including a traffic signal) on Doolittle Drive (State Route 61). Also, the Port received a Measure B sales tax grant for over \$70 million to design and construct the Airport Roadway Project, which includes improvements to 98th Avenue and Airport Drive and construction of the cross-Airport roadway, now Ron Cowan Parkway.

#### Passenger Facility Charges (PFCs)

Passenger Facility Charges (PFCs) are imposed on enplaning passengers when approved for a project, usually \$3 or \$4.50 per enplaning passenger, in accordance with FAA regulations. PFCs are collected by the airlines when passengers purchase tickets, and forwarded to the airport owner / operator, less a handling charge. To be eligible for PFC funding, a project must (1) preserve or enhance capacity, safety, or security, (2) reduce noise or mitigate noise impacts, or (3) enhance airline competition. PFCs are considered local (not federal) funds, but the FAA still approves the imposition and use of PFCs, and PFC-funded projects require consultation with the airlines. Like AIP grants,

PFCs may be used to construct non-exclusive use terminals and related facilities, but excludes certain revenue-producing portions, such as concessions, parking facilities, rental car facilities, etc.

In federal fiscal years 1992 through 1997, the FAA approved collection of over \$16.1 billion in PFC collections by airport owners / operators. Almost 29% of these PFC collections have been used to fund land-side construction (mostly terminal buildings), 17.1% for construction of airside projects, 10.6% for construction of on-airport roads, and 6.1% for construction of noise mitigation projects. The Port collects PFCs at \$4.50 per enplaned passenger.

PFCs may not be collected on airline tickets purchased with frequent flyer miles, and airports collecting PFCs must be in compliance with the Airport Noise and Capacity Act of 1990 (ANCA). If PFCs are collected at \$4.50 per enplaned passenger, the airport owner / operator must forgo 75% of its AIP entitlement funds.

#### Customer Facility Charges (CFCs)

Under Section 1936 of the California Civil Code, the Port, along with certain other airports in California, may collect a single, fixed Customer Facility Charge (CFC) of \$10 on each rental contract from rental car companies that operate concessions at the Airport. CFC revenues are to be used only to finance the design and construction of consolidated airport rental car facilities and the design, construction, and provision

of common use transportation system that moves passengers between the airport terminals and consolidated rental car facilities, including debt service and other financing costs on bonds issued to finance such projects. Effective April 2002, the rental car companies operating at the Airport are required to collect a \$10 per transaction CFC from their rental car customers. CFCs currently generate approximately \$7.5 million in revenue each year.

#### Debt Financing

The Port has the ability to finance capital projects by borrowing money and incurring either short-term or long-term debt. The Port has covenanted that it will not pay any general obligation bonds of the City of Oakland out of the Port's gross revenues as long as its revenue bonds are outstanding. Financing options currently available to the Port include revenue bonds and short-term debt, such as commercial paper.

**General Obligation Bonds** — As stated above, the Port is currently restricted from supporting any general obligation bonds of the City of Oakland with its revenues. General obligation bonds, which usually require voter approval, pledge the full faith and credit of a municipal entity, such as the City of Oakland, as security to the investor. This commitment is based on the entity's ability to levy property, sales, or income taxes. The entity gives the bondholders (investors) a first claim on its general fund, and the community pledges the ability to pass any legislation needed to increase general fund revenues to

pay the debt service. The citizens of Oakland approved general obligation bonds backed by the City's general credit for harbor development in 1925 and for Airport development in 1955 (for construction of South Field). The Port has repaid all principal and interest on these bonds, and has not had any outstanding general obligation bond debt for its benefit since 1968.

**Revenue Bonds** — Revenue bonds are issued by an airport owner / operator for projects that are anticipated to generate sufficient revenue to pay the debt service. Unlike general obligation bonds of a municipal entity, they are backed by a specific source or sources of revenue. They do not usually require voter approval. However, because the payment of debt service is limited to the revenue generated by the project, a feasibility study analyzing the projected revenues and operations of the facility being financed or improved is typically required to market and sell the bonds.

Revenue bonds may be issued tax-exempt for qualifying projects, including terminals, runways, hangars, repair shops, and land-based navigational aids. Construction of facilities such as airport hotels, retail facilities, industrial parks, and commercial office buildings on-airport, generally do not qualify for tax-exempt status.

Generally, most types of airport projects can be financed using revenue bonds. At OAK, for example, airline rates and charges (i.e., terminal lease rates and landing fees) are set to include debt service on terminal projects

(Terminals cost center) and airfield projects (Airfield and Ramp cost center) to repay any revenue bonds issued for terminal or airfield projects.

From time to time, the Port has issued revenue bonds to finance or refinance its maritime and aviation capital projects, as well as certain commercial real estate projects. The Port's revenue bonds are not secured on a project by project basis or from specific project revenues; they are secured by the Port's gross revenues, excluding proceeds from certain restricted sources (collectively, the "Pledged Revenues"). As of May 31, 2005, the Port's revenue bonds were outstanding in the aggregate principal amount of \$1.4 billion. The Port has covenanted not to issue any additional bonds or other obligations payable from or secured by a lien on the Pledged Revenues if such bonds or obligations would have claims or security interest superior to that of the currently outstanding revenue bonds. The Port may, however, issue additional revenue bonds with parity claim or security in the Pledged Revenues if certain requirements are met.

Revenue bonds may also be issued and backed by PFCs, either alone (stand-alone) or in combination with other sources of airport revenue (called double-barreled bonds). To date, the Port has not issued any PFC-backed revenue bonds.

**Short-Term Debt** — The Port established a Commercial Paper Program in 1998 for the purpose of providing interim financing of the Port’s CIP during the construction period. Commercial Paper is a short-term (usually less than 270 days), variable interest loan, which is typically “rolled” for an ensuing term at its maturity. The Port’s Commercial Paper Program is authorized to be issued in a principal amount not to exceed \$300 million. The Port is required to maintain a letter of credit meeting certain requirements to secure the payment of the Commercial Paper as long as any Commercial Paper is outstanding. As of May 31, 2005, the total principal amount of the Port’s Commercial Paper outstanding is \$150 million.

**Tenant or Third Party Financing**

The Port may elect to use tenant or third party financing for capital projects. For example, the Port might lease a parcel at the Airport to a tenant to construct a hangar or cargo facility. The Port collects ground rent for the duration of a long-term lease (usually 20 or more years). At the end of the lease, the capital improvements constructed by the tenant usually become the property of the Port. In the case of third party financing, the third party leases the parcel from the Port, constructs the improvements, and then rents them to one or more tenants.

**7.2.5 Reference Materials**

The following reference materials were used in preparation of Section 7.2:

- Port Ordinance No. 3634 (adopted April 3, 2001), as amended
- Final Draft Report, Documentation and Evaluation of Airline Rate-Making Procedures, Oakland International Airport, AVK Consulting, December 2002
- Airport Finance (Powerpoint slides), Leigh Fisher Associates
- FAA Order 5100.38B, Airport Improvement Program Handbook, January 8, 2004 (<http://www.faa.gov/arp/financial/aip/aiphandbook1.cfm>)
- United States Government Accountability Office, Airport and Airway Trust Fund: Preliminary Observations on Past, Present, and Future, May 4, 2005
- FAA Order 5500.1, Passenger Facility Charge, August 9, 2001 (<http://www.faa.gov/arp/financial/pfc/index.cfm>)
- Official Statement, Port of Oakland, 2002 Series L and 2002 Series M Revenue Bonds, July 23, 2002
- 2002 Hub Factbook (Figure 2, Airport Hub Key Statistics Summary), Salomon Smith Barney, April 15, 2002
- American Association of Airport Executives (AAAE) Accreditation and Certification Programs, Body of Knowledge Module 9 (Airport Fees, Rate, and Charges) and Module 10 (Capital Development and Funding for Airports), 2004/2005

Potential Projects and Costs		Table 7.3
Potential Projects	Figure	Estimated Cost (escalated)
Terminal (in terminal development Area 2) <sup>(1)</sup>	Figure 4.6 (example only)	\$1,070,000,000
Runway 29 Access Improvements	Figure 5.2	\$21,000,000
New Runway 29 High-Speed Taxiway Exit	Figure 5.3	\$78,000,000
Other Capital Improvement Program Projects <sup>(2)</sup>	None	\$359,000,000
<b>Total</b>		<b>\$1,528,000,000</b>

<sup>(1)</sup> Includes relocation of the cargo building (and other functions in that building) to the Oakland Maintenance Center site, a new taxiway parallel and east of Taxiway B, and a new parking garage; <sup>(2)</sup> Includes other Capital Improvement Program projects not specifically discussed in the master plan, such as seismic upgrade of Terminal 1, improving Runway Safety Areas (RSAs), renovation of existing airfield pavements and on-Airport utility systems, and ADP projects not yet constructed

**7.3 Financial Plan**

A financial plan was prepared to determine if the potential master plan projects are fundable. Like individuals and other local government agencies, the Port has to live within its financial means. Therefore, if any of the potential master plan projects are well beyond the ability of the Port to pay for them, then they do not need any further study and would not be recommended in the master plan. As described above, the Port can pay for capital projects using a number of potential funding sources, such as AIP grants, PFCs, Port cash, and debt financing (i.e., borrowing money and paying it back over time using anticipated future revenues). The financial plan presented here represents one possible funding scenario, which might change in the future as facts and assumptions change and present themselves if and at the time the Port actually pursues any of the projects.

The basic steps used to prepare the financial plan are as follows:

- (1) Estimate how much the potential master plan and other capital improvement projects might cost (including escalation),
- (2) Estimate potential revenues that might be available to pay for these projects, and
- (3) Evaluate if there are enough potential revenues (now and bonded over time) to pay for the projects.

**Table 7.3** summarizes potential master plan and non-master plan projects, including those projects not yet constructed from the Airport Development Program (ADP), and what they might cost, escalated to account for inflation and anticipated increases in the cost of construction materials (wood, steel, asphalt, concrete, etc.) and labor. The rough, order-of-magnitude costs presented in Table 7.3 are assumed to be all-inclusive, including soft costs (design, construction and program management, etc.) and environmental mitigation costs, if any.

While each project would have its own timeline for implementation, it is assumed that these projects would start within a few years (after appropriate environmental reviews, detailed financing plans, and designs are complete) and be more or less complete by 2013.

The next step is to estimate potential revenues that might be available to fund these projects. Through 2013, it is estimated that the Port might be able to generate approximately \$440,000,000 in PFCs, AIP grants, airline rates and charges (increment dedicated to capital projects, as opposed to operations and maintenance costs), and cash. Therefore, the Port cannot afford these projects without borrowing against anticipated future revenues (i.e., selling revenue bonds backed by PFCs, airline rates and charges, and Port cash).

Through 2040, it is estimated that the Port might be able to generate almost \$5,000,000,000 in PFCs (41%), airline rates and charges (38%), and Port cash (21%), which could be available for bonding (borrowing against). The following presents some basic assumptions about this estimated revenue stream:

- An overriding goal is to keep airline rates and charges at a reasonable level (see discussion on airline cost per enplaned passenger in Section 7.2.3). Therefore, it is assumed that the total airline cost per enplaned passenger would increase to only \$8.50 (in 2008

dollars), with increases for inflation, and only between 35% and 40% of this total would be available for bonding to pay for these new projects.

- For the purposes of calculating revenues generated from airline rates and charges and PFCs, it is assumed that the maximum number of airline passengers that will use OAK on an annual basis is just over 22 MAP due to capacity limitations of OAK's main air carrier runway (Runway 11-29). Because there is no absolute runway capacity (i.e., delays just continue increase as flights are added), it may be possible that the actual number of airline passengers could continue to grow slightly each year (e.g., 1%) beyond 22 MAP. Also, the passenger airlines could decide the "upgauge" their fleet (use new aircraft that seat more passengers), in which case they could carry more airline passengers without generating additional operations and runway delay. However, for the purposes of the financial plan, the number of airline passengers is assumed to be limited to just over 22 MAP. It should be noted that airline passenger facilities, such as a new terminal, are not being planned for 22 MAP (as discussed in Chapter 4, new terminal facilities were studied to accommodate 18 to 20 MAP in the 2010 to 2012 timeframe). However, for debt financing (bonding) purposes, it is necessary to look at potential revenues well beyond the planning horizon (in this case, out to 2040).

- The amount of future Port cash (e.g., net parking revenues) that could be pledged to pay the projects in the above table is limited to between \$20,000,000 and \$35,000,000 each year, which is conservative (i.e., there might be additional Port cash available each year). However, cash over and above this could be used to pay for other, unanticipated projects not included in the master plan projects or in the other Capital Improvement Program projects.
- It is assumed that about \$70,000,000 in AIP grants would be available between 2007 and 2013 to directly offset the costs of the projects summarized in Table 7.3. These grant funds may or may not actually be available.

With these project costs and revenue assumptions, it appears that these master plan projects could be affordable, based on a rough, high-level debt capacity analysis. The analysis assumed that bonds would be sold in two issuances at a 5.5% interest rate. Further, the analysis assumed a coverage ratio of 1.4 (i.e., the Port has to demonstrate that it can generate 40% more revenue than it will take to pay back the bonds).

As described above, this financial plan is only intended to provide an indication that these projects might be affordable. Additional work would be required to refine the project cost estimates and schedules, as well as

refine and further develop the Port's future revenue projections. Moreover, more detailed analyses must consider the overall Port finances, not just those of the Airport.

As a reminder from the beginning of this chapter, the financial plan is not intended to give a comprehensive assessment of the Port or Airport for purposes of making investment or other decisions. The information contained in this chapter (like information contained in the other chapters) will change over time, and no obligation to update or revise it is created. Any potential investor in the Port's long-term or short-term debt should review appropriate disclosure documents provided by the Port in connection with such debt, and should not rely on the master plan or this chapter in making investment decisions.