

AVIATION DIVISION

A. 2010 BUDGET SUMMARY

TABLE V-1: 2010 BUDGET SUMMARY

(in thousands)	2006	2007	2008	2009	2009	2010
	Actual	Actual	Actual	Budget	Forecast	Budget
REVENUE:						
Services	126,249	132,654	148,520	141,352	132,042	139,825
Property Rentals	201,898	205,313	205,652	209,105	199,721	204,451
Fuel Hydrant facility revenues	8,077	8,054	2,926	8,200	8,200	7,839
Security Grant and Contract Revenues	1,276	1,467	1,231	1,350	1,350	2,275
Total revenue	337,500	347,487	358,329	360,006	341,312	354,390
OPERATING EXPENSES:						
Operations and maintenance	126,817	132,984	147,453	139,792	139,792	133,861
Law enforcement	14,343	15,480	15,762	15,743	15,743	15,170
Administration	19,774	23,033	29,556	32,800	32,800	32,235
Environmental	58	126	2,412	1,187	1,187	2,971
Total operating expenses before depreciation	160,811	171,623	195,183	189,522	189,522	184,236
OPERATING INCOME BEFORE DEPRECIATION	176,689	175,864	163,146	170,484	151,790	170,154
Depreciation	104,590	101,118	107,349	115,605	115,605	116,933
OPERATING INCOME AFTER DEPRECIATION	72,099	74,746	55,797	54,879	36,185	53,221
NON-OPERATING (EXPENSE) INCOME :						
Ad valorem tax levy revenue	1,174	2,863	1,936	650	650	7,035
Passenger facility charges revenue and related interest income	59,141	63,114	62,770	60,207	60,207	58,535
Customer facility charges revenue and related interest income	17,188	22,570	23,534	24,573	22,173	22,475
Grants and donations	116,783	89,691	49,460	63,276	63,276	37,208
Investment income - net	26,072	38,310	23,467	20,324	20,324	20,598
Revenue and capital appreciation bond interest expense	(93,922)	(97,742)	(89,005)	(114,051)	(114,051)	(134,889)
Passenger facility charges revenue bond interest expense	(12,258)	(11,844)	(11,412)	(10,996)	(10,996)	(10,497)
General obligation bond interest expense - net	-	-	-	-	-	-
Public Expense	(730)	(1,866)	(24,686)	(8,850)	(8,850)	(9,575)
Other expense - net	(22,663)	(10,566)	(5,678)	(772)	(772)	(823)
Total non-operating income - net:	90,785	94,530	30,386	34,361	31,961	(9,933)
INCREASE (DECREASE) IN NET ASSETS	162,884	169,276	86,183	89,240	68,146	43,289
EMPLOYMENT (FTES)	834.6	849.7	834.8	833.1	820.1	746.1

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B. BUSINESS PLAN FORECAST

TABLE V-2: BUSINESS PLAN FORECAST

(in 000's)	Notes	Budget	Budget	Forecast				Compound Growth 2009-2014
		2009	2010	2011	2012	2013	2014	
OPERATING BUDGET								
Airline Revenue		\$201,864	\$209,416	\$217,846	\$234,331	\$253,865	\$262,432	5.4%
Non-airline Revenue		148,289	135,597	138,290	142,331	149,795	155,207	0.9%
Security Reimbursement		1,050	1,025	0	0	0	0	-100.0%
Fuel Hydrant Facility		8,704	8,352	8,352	8,352	8,352	8,352	-0.8%
Other Revenue	1	100		0	0	0	0	
Total Operating Revenues		360,006	354,390	364,488	385,014	412,012	425,991	3.4%
Operating & Maintenance Expense	2	131,478	125,113	139,801	146,221	149,627	153,858	3.2%
Corporate Administrative Expense	3	41,113	40,983	42,417	43,902	45,439	47,029	2.7%
Law Enforcement Costs		15,744	15,170	15,701	16,250	16,819	17,408	2.0%
Environmental Reserve		1,187	2,971	2,971	3,074	3,182	3,293	22.6%
Total Operating Expense		189,522	184,237	197,920	206,373	211,885	218,295	2.9%
Net Operating Income Before Depreciation		\$170,484	\$170,154	\$166,568	\$178,641	\$200,127	\$207,696	4.0%
Total Depreciation Expense		115,605	116,933					
Net Operating Income After Depreciation		\$54,879	\$53,221					
								Total 2010-2014
Committed Capital Budget		\$348,202	\$275,832	\$178,199	\$99,268	\$31,976	\$2,186	\$587,461
Business Plan Prospective		42,644	61,134	126,483	112,689	96,144	92,394	488,844
TOTAL CAPITAL BUDGET	4	\$390,846	\$336,966	\$304,682	\$211,957	\$128,120	\$94,580	\$1,076,305

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Notes:

- 1) Consists of reimbursement from City of Sea-Tac for access studies.
- 2) Excludes Environmental Reserve.
- 3) Consists of remaining Corporate costs to be allocated to Business Groups after direct charges have been coded to Groups and Divisions or other costs allocated to Divisions. Most costs are allocated using a formula based on Expenses and employees. For some departments specific allocation methodologies, such as employees for Human Resources & Development, are used.
- 4) See Section X for details of Capital Budget.

TABLE V-3: AVIATION KEY MEASURES

Key Measures	Budget		Forecast		
	2010	2011	2012	2013	2014
Operating Cost Per Enplanement *	11.80	11.99	12.04	12.08	12.12
Non Airline Revenue Per Enplanement	8.83	8.91	8.95	9.17	9.25
Passenger Airline CPE	12.61	12.99	13.62	14.47	14.57
Traffic (in 000's)					
Total Landed Weight	20,230	20,375	20,741	21,144	21,569
Enplanements	15,361	15,515	15,902	16,332	16,773
* excluding Environmental Reserve					

C. DIVISION MISSION STATEMENT

MISSION: Connecting our region to the world through flight. The journey begins here.

VISION: We envision that Sea-Tac will be a welcoming front door, embodying the spirit of the Northwest – an economic engine and a source of regional pride.

D. BUSINESS PLAN AND STRATEGIES

ECONOMIC OUTLOOK

As of October 2009, the U.S. economy remains in a deep recession. While there are some signs of economic improvement, unemployment levels are still rising and are expected to grow over first half of 2010. It is not yet clear when a sustained recovery will begin or how strong it will be. Since the strength of the economy is the primary driver behind the demand for air travel, near-term (2010) growth in passenger levels is not likely. We are planning for a slow economic recovery that will begin in the second half of 2010. While 2011 should see moderate economic growth, we are not planning for significant economic growth until 2012.

PASSENGER GROWTH ASSUMPTIONS

Given the depth of the recession, and the assumed slow recovery, we don't anticipate reaching 2008 enplanement levels until 2013. Unlike prior recessions, we are cautiously assuming we won't see a sharp bounce back. Rather, we see a slow recovery of enplanement growth prior to settling on a long-term growth rate of 2.7%, which is consistent with the FAA's long-term growth rate (April 2009).

<u>Year</u>	<u>Assumption</u>
2009	-4.5%
2010	0.0%
2011	1.0%
2012	2.5%
2013	2.7%
2014	2.7%

AIRLINE INDUSTRY ASSESSMENT

In 2008, the airline industry earnings suffered from a spike in the price of oil. By mid-2008, the U.S. domestic airline industry was well on its way to cutting costs, cutting capacity and exploring new revenue sources to offset historically high fuel prices. The financial and economic collapse of late 2008 made matters worse. According to data compiled by the Air Transport Association (ATA), the domestic airline industry lost \$9.5 billion in 2008. Since 2001, the industry was only profitable in 2006 and 2007. Cumulative losses for the period 2001 – 2008 total \$36.7 billion.

In 2009, to offset still relatively high and volatile fuel prices and lower demand, the airline industry has succeeded in generating new revenues from baggage fees and an assortment of other fees. While significant, it does not appear that these new fees have been sufficient to compensate for the lower demand for travel and the downward pressure on fares. Based on information from the ATA, year over year monthly yields (average price paid to fly one mile) have fallen every month in 2009 through August. After second quarter 2009 results were released, many domestic carriers announced additional capacity cuts and corresponding job cuts to improve earnings. To-date, capacity cuts have not been evenly distributed among airports. Many airports have seen double digit declines in traffic, while others have seen more modest reductions. Major hubs have

tended to see less reduction than secondary hubs. Small airports have seen greater than average reductions in service.

Continued economic weakness means no quick rebound in demand is expected. It appears that summer 2009 demand was propped up to some extent by low fares stimulating leisure travel. Demand for business travel, which airlines have historically relied upon to generate high yields, appears to be weak. In this economic climate, some businesses have resorted to using video-conferences and webinars in place of travel. Given improved technology, some experts anticipate a permanent reduction in demand for business travel. If this turns out to be true, the airline business model will need to change.

Given the staggering losses the industry has sustained since 2001, there is little room for the industry to absorb additional losses. Bankruptcy and liquidation remain a risk for the weaker airlines.

Locally, Alaska Air Group (parent company of Alaska Airlines and Horizon Airlines) appears to be in a relatively strong financial position due to its strong cash balances (cash balance as a percent of revenues is among the highest in the industry). The Air Group reported net income of \$9.9 million through the second quarter of 2009. While lower than Q2 earnings in 2008, The Air Group is one of the few profitable major airlines in 2009.

AIRPORT INDUSTRY ASSESSMENT

Airline capacity reductions in general, and specific airline decisions to adjust networks and hubbing activities, have hurt airports to varying degrees. Almost all airports have seen traffic reductions. Many have seen double digit declines. All three credit rating agencies (Fitch, Moody's, Standard & Poor's) maintain a negative outlook for the airport sector. Still, looking historically, airports have been largely insulated from the cyclical tendencies of the airline industry. While many airlines have gone bankrupt since deregulation in 1978, no airport has defaulted on its revenue bonds. This is due to the nature of the lease agreements with airlines (typically all airlines serving an airport are jointly liable for aeronautical costs), their diverse sources of revenue (parking, rental cars, and food and retail concessions), and the fact that airports have cut operating costs and deferred capital spending when required.

While airport costs tend to be a relatively small percentage of overall airline costs (4% – 6%), airlines operate with such thin margins that all costs are heavily scrutinized. Since the two largest components of airline costs (labor and fuel) tend to be largely uncontrollable in the short-run, airlines do focus considerable attention to managing airport costs.

When comparing airport costs, the most common measure is passenger airline cost per enplanement ("CPE"). CPE is an average unit cost measure that permits a reasonable comparison among airports. It is not a "rate" that is charged to any individual airline. CPE can be an imperfect measure because there are major differences among airports for the costs that are included in the numerator of the equation. For example, at some airports, airlines own and operate terminals. Thus, at those airports, the CPE would be artificially low. One of the major drivers of increases to an airport's CPE is the capital program. When assets are placed in service, the debt service and the additional operating costs are charged to the airlines through rates designed to recover costs. Consequently, airport CPEs tend to peak soon after a major capital program, then gradually decline as passenger volume increases.

Airports that have strong origin and destination ("O&D") traffic are less vulnerable to the financial problems of any one carrier than a hub airport. The theory is that if one carrier disappears, the underlying demand for travel will induce existing carriers to expand service or another carrier to enter the market.

SEA-TAC AIRPORT: BUSINESS ASSESSMENT

Sea-Tac was the seventeenth -largest US airport as measured by total passengers in 2008. Enplaned passenger traffic at Sea-Tac grew by 2.7% in 2008. For 2009, Sea-Tac experienced sharp drops in traffic in January and February, but since then, declines have moderated. For the year through August, enplaned passengers are 4.6% below 2008. The forecast of total passengers for 2009 is 4.5% below 2008.

Unlike previous economic recessions, when traffic at Sea-Tac bounced back with sharp increases when economic growth resumed, we are planning for a slow recovery in traffic that will likely lag the economic recovery (see five-year forecast above). We anticipate regaining 2008 passenger level in 2013. Typical recoveries have occurred in four years or less. Beyond 2013, we currently are planning for a long-term growth rate of 2.7%. This is consistent with the FAA's long-term growth rate for the U.S. published in April, 2009.

Sea-Tac has a relatively low concentration of service by the dominant carriers. The largest airline (Alaska) accounted for 34.3% of the enplaned passengers in 2009 through August, and the top three airlines (Alaska, Horizon, and Delta) accounted for 60.6% of the passenger traffic. Compared to other large airports, Sea-Tac has relatively high O&D traffic - approximately 72% in 2008. This percentage has declined very slightly since 2003. Relatively high O&D traffic and relatively low concentration of dominant carriers reduces Sea-Tac's vulnerability to the effects of any given carrier reducing capacity or suffering financial difficulties. Only Alaska Airlines uses Sea-Tac as a hub. Alaska's relative financial strength compared to other airlines is a positive indicator for Sea-Tac.

By the end of 2009 Sea-Tac will have invested over \$3.6 billion in capital improvements since 1999. Investments have included rebuilding Concourse A, the Satellite Transit System, the Central Terminal, constructing the Third Runway, reconstructing Runway 16C and rebuilding much of the airport's infrastructure. The costs of these investments are reflected in higher rates and charges to the airlines.

Current and long-term cost management continues to be a strategic focus of Sea-Tac Airport. With a forecasted CPE of \$11.78 for 2009, and a 2010 budgeted CPE of \$12.61 Sea-Tac is likely still near the high end of the middle range for large hub originating and destination airports (defined as airports with origin and destination traffic greater than 60% of total traffic). Given the significant and uneven reductions in passenger levels across airports, most survey data that is currently available (from fiscal and calendar year 2008) is out of date and not particularly meaningful. An informal survey of estimated 2010 CPE among western airports indicates that Sea-Tac's CPE would be slightly higher than that for Denver, Portland and Sacramento, but below that for San Francisco.

Sea-Tac Airport has made significant progress in reducing its forecasted CPE. At the time the airport signed a seven-year lease and operating agreement with the airlines (December 2005), the 2006 business plan forecasted 2010 CPE of \$14.87. The current budgeted 2010 CPE OF \$12.61 reflects the Port's ongoing commitment to manage costs and maintain a competitive CPE. A key element of the Ports CPE reduction strategy is to use up to 90% of PFCs to offset debt service that would otherwise be built into the airline rate base. A result of this strategy is that 100% of the revenue bond debt service associated with the new Third Runway is excluded from the airline rate base in 2010. The Port will continue to focus on managing the growth of future CPE.

CHALLENGES AND OPPORTUNITIES

When assessing challenges and opportunities, it is helpful to differentiate between the aeronautical and non-aeronautical sides of the business:

Challenges: Financial challenges are foremost in 2010

- Aeronautical cost control (CPE):
 - With lower enplanements, the cost per enplanement rises.
 - Few operating costs are driven by enplanements.
 - Capital costs for completed projects will hit airline rate base in 2010, existing debt service will rise through 2013.
 - Maintaining operational integrity of facility and equipment requires ongoing investment.
 - Airline industry consolidation and cost savings strategies are driving facility changes and costs.
- Restore lost non-airline revenues
 - Fewer passengers are spending fewer dollars: revenues per enplanement are down, particularly for Public Parking and Terminal Concessions.
 - Airline relocations have depressed business for concessionaires on Concourses A and D.

- Rental car revenues have been supported by high minimum annual guarantees (MAGs) from a contract that expires October 31, 2009. The MAGs will be reduced for 2010.
- Market conditions have delayed real estate development activities intended to generate new revenues.

Opportunities:

- Identified significant reductions to operating and maintenance costs in 2009 for 2010 budget. Need to focus on making the cuts sustainable.
- Can defer capital investments aimed at creating additional capacity
- Continue to use 90% of PFCs to offset debt service cost

PORT-WIDE STRATEGIES

Aviation Division strategies are guided by the seven Port-wide strategies:

- Ensure airport and seaport vitality.
- Develop new economic opportunities for the Region and the Port.
- Enhance public understanding and support of the Port's role in the region.
- Be a catalyst for regional transportation solutions.
- Be a leader in transportation security.
- Exhibit environmental stewardship through our actions.
- Be a high performance organization.

AVIATION DIVISION STRATEGIES

Given the state of the economy, the condition of the airline industry, and the anticipated slow recovery of traffic declines (five years to reach 2008 enplanement level), the strategic focus is to successfully manage through the downturn and prepare for the recovery. Consequently, the division has identified two overriding strategic goals:

Strategic Goals:

1. Manage airline costs (CPE)
2. Increase non-aeronautical net operating income (NOI)

Strategies:

1. Aeronautical Business

GOAL: Provide our aeronautical partners with the capacity, services and cost saving strategies that help them to run profitable operations at Sea-Tac airport. Maintain a competitive CPE.

OBJECTIVE:

- Meet or beat 2010 budget for aeronautical operating costs

2010 INITIATIVES:

- Add one new transpacific passenger route
- Accomplish 30% design for runway 16C full reconstruction
- Complete automated security exit door pilot projects in order to reduce security staffing requirements
- Translate terminal development strategy plan into sequenced, prioritized prospective capital projects
- Identify and prioritize renewal and replacement needs focusing on minimizing long-term total cost of ownership
- Utilize airport survey data to identify opportunities for improvement and cost savings

2. Non-Aeronautical Business

GOAL: Pursue non-aeronautical business ventures that contribute to the airport's long-term financial strength, maximize non-airline net income and support other strategic goals. Grow/restore revenues per enplanement for core businesses: Public Parking, Rental Cars and Terminal Concessions.

OBJECTIVES:

- Meet or beat 2010 budget for non-aeronautical net operating income (NOI)
- Maintain adequate cash flow to ensure debt service coverage exceeds 1.25x without charging the airlines coverage in their rates and charges

2010 INITIATIVES:

- Continue planning, custodial care and predevelopment activities for vacant properties
 - Complete redevelopment strategy for the Northeast Redevelopment Area (NERA) in Burien
 - Create a Lora Lake Apartment site development plan tied to the environmental clean-up schedule
 - Continue preparations for the redevelopment of Des Moines Creek Business Park site
 - Resolve future of 55 acre parcel in the City of SeaTac
 - Continue analysis of long-term development potential of Doug Fox lot
- Work to assure greatest sales potential possible for existing concessionaires, while developing new opportunities that add to the array of products and services available to the traveling public. Improve methods of marketing the Pacific Marketplace concession program to travelers.
 - Complete transition to free WiFi service within the airport terminals by February 28, 2010
 - Implement WiFi advertising by the end of the year
 - Implement leases for new competitively chosen duty free shops by the end of 2010
 - Implement leases for a bank branch combined with automatic teller machines
- Implement new taxi contract and complete transition to new system by September 1, 2010
- Grow revenues and enhance customer service in the parking garage by initiating a new revenue and access control system which will facilitate the creation of new parking programs such as reserved and event parking and/or interoperability with the State's tolling system. A vendor for this system will be selected following a Request for Proposal process by the end of 2010.
- Implement new business model for Port's lounge on South Satellite
- Identify and prioritize renewal and replacement needs focusing on minimizing long-term total cost of ownership

3. Environmental Leadership

GOAL: Implement all reasonable projects and programs that minimize the airport's environmental footprint while meeting the region's air travel demands in a sustainable manner. Become the cleanest, greenest, most energy efficient airport.

OBJECTIVE:

- Begin implementing the 2010 priority projects from the Airport's five-year Environmental Strategy Plan

2010 INITIATIVES:

- Complete FAA process to make continuous decent arrival (CDA) a public procedure by December, 2010
- Complete design and achieve 20% construction on the Pre-conditioned Air project
- Secure grants, complete design and begin construction on the Ground Service Equipment Electrification project

- Increase recycling/composting rate by 27%
- Identify a suite of possible

4. Division-Wide

GOAL: Achieve customer, community and employee understanding and support for the goals and objectives of Sea-Tac airport and the Port of Seattle

2010 INITIATIVES:

- Achieve substantial progress towards completing the FAR Part 150 Noise Study and community engagement process
- Improve customer service by increasing budget for janitorial services
- Accommodate Delta's need for expanded lounge
- Accommodate airlines' need for baggage system interline connection – initiative project planning and definition

E. 2010 BUDGET SUMMARY

Overview

From a financial perspective, the Aviation Division has two sides of its business: Aeronautical and Non-aeronautical. On the Aeronautical side, where airline rates are set to recover costs, the Port's goal is to manage costs. The primary measure of an airport's cost to the airlines is the airline cost per enplanement (CPE). The "costs" include the operating and maintenance costs attributable to the airfield and the airline share of the terminal operating and maintenance costs (based on the percentage of revenue producing space split between airlines and other Port tenants), as well as the corresponding capital costs (either debt service or equity amortization). The Port does not charge airlines for the capital costs of any asset funded by Passenger Facility Charges (PFCs) or grants.

On the Non-aeronautical side of the business, the primary goal is to increase cash flow as measured by net operating income (NOI). The net cash flow can be used to directly fund capital improvements and build up cash reserves to meet liquidity targets. Another benefit of increasing NOI is to avoid having to charge the airlines for debt service coverage above 1.0x for rates and charges purposes. Under the terms of the airline agreement, if total airport debt service coverage is projected to drop below 1.25x, the airport can charge the airlines debt service coverage in rates and charges (up to 1.25x) in order to achieve the overall 1.25x debt service coverage level for the division.

2010 Budget Target

In early 2009, when it became apparent that the drop in enplaned passengers would be much greater than assumed in the 2009 budget, the Port initiated a revision of the 2009 operating budget to reduce costs. The measures implemented included a hiring freeze, 2-week furloughs, reduced janitorial costs, deferral of planning studies, and reductions to travel and training budgets. The savings turned out to be significant, but for the most part, it was recognized that these quick cuts would not be sustainable.

In order to identify sustainable budget reductions, the airport engaged in a review of each business unit and followed that up with a zero-based budget review of all major functions. Both of these processes were helpful in identifying areas where costs could be reduced. The target for the 2010 budget was to achieve a 5% reduction compared to the 2009 approved target. This target was met with three exceptions. First, environmental reserves were eliminated from the baseline 2009 budget so the 5% target was calculated without regard to the anticipated environmental reserves for 2010. Second, new costs in 2010 that would be completely offset by new revenues or grants were also excepted from the target. Third, the savings relating to changes in Other Post Employment Benefits (OPEB) were not used as a means of achieving the target.

	<u>\$000s</u>
2009 Budget	132,665
Transfer Airport Jobs	(176)
Transfer Commute Trip Reduction	(97)
Transfer Safety Manager FTE	(117)
Exclude Environmental Reserves	(1,187)
Aviation Baseline Budget	<u>131,087</u>
Targeted 5% reduction	6,554
2010 Division Budget Target	<u><u>124,533</u></u>

Functions transferred to Corporate are listed above. These were deducted from the 2009 approved budget prior to calculating the targeted reduction.

2010 Budget Target	<u>124,532</u>
2009 Approved Budget	132,665
Exclude Environmental Reserve	(1,187)
Transfers to Corporate	(391)
Budget Cuts and Savings	(7,480)
One-time Items in 2009 Budget	(4,137)
Costs Absorbed:	
Salary, wages and benefits	2,344
Facility maintenance	920
Total	<u>3,264</u>
New initiatives	<u>1,798</u>
Total budget before exceptions	124,532
Proposed Budget Target Exceptions:	
Costs offset by new revenues (in 2010)	1,795
OPEB savings	(1,215)
Proposed 2010 Baseline Budget	<u><u>125,112</u></u>

Most of the budget savings resulted from the elimination of full-time equivalent positions (FTEs). During 2009, a total of 90.5 positions were eliminated. These cuts were spread throughout the division, but the most significant reductions were in Operations, Maintenance and Security.

Cost increases were predominately attributable to payroll related costs. In addition, \$750,000 was added to the budget for elevator and escalator repairs. This has been an area of increasing costs in 2009, and expenditures are expected to continue at this high level until refurbishment (see capital budget) projects are completed. The 2010 budget also includes adding \$100,000 for additional runway maintenance for rubber removal, and \$70,000 to replace broken furniture in the Central Terminal.

New initiatives include augmenting the division's contingency fund by \$1.1 million to provide resources for possible snow events, emergency response (such as response to a flood in the Kent Valley due to the damage to the Howard Hanson Dam), and to cover other unplanned expenditures since few uncommitted dollars remain in the budget. Resources will also be provided for real estate development support, an enplaned passenger survey and 2.5 new FTEs.

Budget target exceptions include new costs that will be offset by new revenues or grants. The largest item in this category is an \$800,000 grant for the Part 150 noise study.

The 2010 budget for environmental reserves is driven by capital projects where the costs associated with asbestos remediation or other regulated materials are charged to environmental reserve expense. For 2010,

projects for which we expect triggering events that will require environmental costs to be reserved total \$2.97 million, a \$1.8 million increase over the 2009 budget. These costs are included in total operating costs, but are excluded from the baseline budget.

Revenues

Operating revenues are budgeted to decline by 1.6% compared to the 2009 budget, but increase by \$13.1 million over the 2009 forecast. Compared to the 2009 budget, 2010 airline revenues are budgeted to increase by \$7.5 million (3.7%), while non-airline revenues are budgeted to decrease by \$12.8 million (-8.6%).

Airline revenues, in accordance with the terms of the Signatory Lease and Operating Agreement (SLOA), are based on cost recovery. Costs in the rate base include both operating costs and capital costs (debt service and asset amortization). Operating costs are budgeted to decline by \$2.4 million compared to the 2009 budget, but this decline is more than offset by increased capital costs, primarily due to the additional debt service relating to the completion of the reconstruction of Runway 16L and additional amortization relating to the C-1 Baggage System Project. All of the revenue bond debt service relating to the Third Runway project is being paid by PFCs, so these costs do not hit the airline rate base. While aeronautical capital costs per enplanement are up by \$0.94, aeronautical operating costs per enplanement are up only \$0.07.

In 2009, non-airline revenues have declined further than the drop in enplaned passengers would suggest. Public Parking is forecasted to be down 12.1% compared to 2008, while Terminal Concessions is forecasted to be down 9.6%. For 2010 Public Parking and Terminal Concessions are budgeted to be essentially flat vs. the 2009 forecast. We anticipate a slight increase in the Concessions sales per enplaned passenger. Rental Car Revenue, however, is budgeted to decline by 8.4% compared to the 2009 forecast due to a modification in minimum annual guarantees upon the expiration of the contract in late 2009.

Operating Expenses

Total airport operating expenses (including Corporate costs and environmental reserve costs) are budgeted to total \$184.2 million. This represents a 2.8% decrease compared to the 2009 budget. The Aviation Division budget, excluding environmental reserve costs will be down 4.8% compared to the 2009 budget. Reduced payroll costs relating to FTE reductions (primarily in Operations, Maintenance and Security) account for the majority of the savings. These savings have more than offset the payroll cost increases, additional facility maintenance costs, and new initiatives.

Aeronautical Summary

<i>Figures in \$000's</i>	2008	2009	2009	2010	'10-'09 Bud Change	
	Actual	Budget	Forecast	Budget	Var \$	Var %
Revenues requirement:						
Capital Costs	81,535	80,350	80,350	92,610	12,260	15.3%
Operating Costs net Non-Aero	131,024	127,921	120,754	125,488	(2,433)	-1.9%
Total Costs	212,559	208,271	201,104	218,098	9,827	4.7%
FIS Offset	(5,250)	(5,550)	(5,550)	(7,000)	(1,450)	26.1%
Other Offsets	(15,686)	(14,052)	(14,398)	(15,690)	(1,638)	11.7%
Net Revenue Requirement	191,623	188,670	181,156	195,409	6,739	3.6%
Other Aero Revenues	12,738	14,244	14,244	15,018	774	5.4%
Total Aero Revenues	204,361	202,913	195,400	210,427	7,513	3.7%
Non-passenger Airline Costs	13,113	14,830	14,660	16,768	1,938	13.1%
Net Passenger Airline Costs	191,249	188,084	180,740	193,659	5,575	3.0%

Aero Key Indicators						
	2008 Actual	2009 Budget	2009 Forecast	2010 Budget	Forecast/Budget Var \$ Var %	
CPE:						
Capital Costs / Enpl	5.07	5.09	5.23	6.03	0.94	18.6%
Operating Costs / Enpl	8.15	8.10	7.86	8.17	0.07	0.9%
Offsets	(1.30)	(1.24)	(1.30)	(1.48)	(0.24)	19.1%
Other Aero Revenues	0.79	0.90	0.93	0.98	0.08	8.4%
Non-passenger Airline Costs	(0.82)	(0.94)	(0.95)	(1.09)	(0.15)	16.3%
Passenger Airline CPE	11.89	11.90	11.77	12.61	0.70	5.9%

Highlights:

- Capital costs are driving increase in CPE. The debt service relating to Runway 16L reconstruction and amortization of C-1 Baggage System costs are the primary new costs. Port continues to use 90% of PFCs to pay debt service on PFC backed bonds and revenue bond debt service for PFC eligible projects
- Operating costs per enplanement are just slightly above 2008, in spite of 4.5% drop in enplaned passengers.
- 2010 budgeted CPE of \$12.61 is lower than 2008 forecast for 2010 of \$12.88

Non-Aeronautical Summary

	2008 Actual	2009 Budget	2009 Forecast	2010 Budget	'10-'09 Bud Change Var \$ Var %	
<i>Figures in \$000's</i>						
Revenues:						
Public Parking	59,111	57,377	51,963	51,812	(5,565)	-9.7%
Rental Cars	35,592	35,867	33,850	31,014	(4,853)	-13.5%
Concessions	33,181	32,821	29,998	29,953	(2,869)	-8.7%
Other	22,644	22,324	21,300	22,818	494	2.2%
Total Revenue	150,528	148,389	137,111	135,597	(12,792)	-8.6%
Operating Expense	61,279	60,329	57,284	56,055	(4,274)	-7.1%
Share of terminal O&M	16,396	18,105	17,183	17,035	(1,070)	-5.9%
Less utility internal billing	(13,515)	(16,848)	(16,848)	(13,654)	3,193	-19.0%
Net Operating & Maint	64,160	61,586	57,620	59,436	(2,150)	-3.5%
Net Operating Income	86,367	86,803	79,491	76,161	(10,642)	-12.3%

	2008 Actual	2009 Budget	2009 Forecast	2010 Budget	'10-'09 Bud Change Var \$ Var %	
Revenues / Enplanement						
Parking	3.67	3.63	3.38	3.37	(0.26)	-7.1%
Rental Car	2.21	2.27	2.20	2.02	(0.25)	-11.1%
Concessions	2.06	2.08	1.95	1.95	(0.13)	-6.1%
Other	1.41	1.41	1.39	1.49	0.07	5.1%
Total Revenue	9.36	9.39	8.93	8.83	(0.56)	-6.0%
Primary Concessions Sales / Enpl	10.29	10.19	9.62	9.78	(0.41)	-4.0%
Gross Profit Margin	57.4%	58.5%	58.0%	56.2%	(0.02)	-4.0%

Highlights:

- Revenues per enplanement are lower in 2010 for Parking, Rental Car and Concessions. We expect that 2010 will be the bottom of the recession from a passenger spending perspective.
- "Other" includes new revenues from the Port's lounge on the South Satellite.

Traffic

Passenger traffic measured by enplaned passengers is projected to be flat in 2010 compared to the forecast for 2009 (down 4.5%), for a total of 15.361 million enplanements. Landed weight has dropped more than passenger levels in 2009 (estimated to be down 5.0%), and we expect a decline of 1% in 2010.

Full-Time Equivalent Staff Positions (FTEs)

The 2010 budget proposes a net reduction of 87 FTEs (10.4%). This includes 90 eliminated positions, one position transferred to Corporate, and 4.5 new positions. Reductions occurred primarily in Operations (30), Maintenance (27) and Security (23). Approximately half of the eliminated positions were filled. The new positions include:

- +2.0 Access controllers (4 x 0.5) – added mid-2009
- +1.0 Baggage Manager
- +1.0 Senior Business Analyst
- +0.5 Emergency Management intern

Capital Budget

From 1999 – 2009, Aviation invested \$3.6 billion in capital improvements. While the pace of spending will decline, the 2010 – 2014 capital program is expected to invest an additional \$1.1 billion. The Capital Budget for 2010 totals \$337 million. Major projects for 2010 include: ongoing construction of the Consolidated Rental Car Facility (\$158 million), completion of the North Expressway Relocation project (\$13 million), initiating construction on the Central Plant Pre-Conditioned Air project (\$10.5 million), and initiating construction on the Escalator Replacement project (\$9.0 million).

The 2010-2014 capital program reflects the growing emphasis on renewal and replacement of existing assets rather than investing in new capacity. With the exception of the Rental Car Facility, most capacity-related projects have been deferred due to the decline in passenger levels.

With the 2010 budget process, Aviation continued to use the “allowance” CIPs to manage the overall level of capital spending. Under this approach, the budget for newly approved projects and budget increases are deducted from the allowance CIPs, while any budget savings are added to the CIPs. Using these allowance CIPs like a checkbook (or zero-sum game) produces a very disciplined decision making process. This approach to capital budget management is also consistent with our airline cost reduction strategy in that capital costs have the largest impact on future CPE. There are exceptions to the use of the allowance CIPs as the source or recipient of all budget changes. First, the Rental Car Facility is primarily funded by Customer Facility Charges (CFCs) so it is separate. Second, any time we receive grants to fund capital projects, we do not deduct the grant-funded portion of the budget from the allowance CIP. This is because we do not charge the airlines any capital costs for grant funded expenditures. Third, the budget for the Comprehensive Development Plan has been viewed separately.

For 2010, thirteen projects are proposed for approval as “business plan prospective” with budgets totaling \$67 million:

- Aeronautical New Projects: 3 projects for \$25 million
- Aeronautical Renewal & Replacement: 5 projects totaling \$27 million
- Non-Aeronautical New Projects: 2 projects totaling \$2.7 million
- Non-Aeronautical Renewal & Replacement: 3 projects totaling \$12 million.

The key new projects include:

Aeronautical New Projects:

- | | |
|---|----------------|
| • Ground Service Equipment Electrification | \$14.4 million |
| • Delta Club Expansion | \$4.0 million |
| • Interline Baggage System Connections (C1/C60) | \$7.0 million |

Aeronautical Renewal & Replacement:

- Elevator/Escalator Modernization Program \$19.7 million
- Roof Replacement Program Phase I \$2.2 million
- Baggage Claim Device 14 Replacement \$4.0 million
- Runway 16C Reconstruction (design only) \$1.0 million

Non-Aeronautical New Projects:

- Property Acquisition \$2.4 million

Non-Aeronautical Renewal & Replacement:

- Parking Garage Retrofit (floors 1 and 2) \$7.6 million

All of these new projects are business plan prospective projects, meaning that additional work is required to finalize the scope, timing and budget for these projects. While we are proposing to initiate design for the reconstruction of Runway 16C in 2010, construction is not planned until 2016.

OPERATING BUDGET SUMMARY

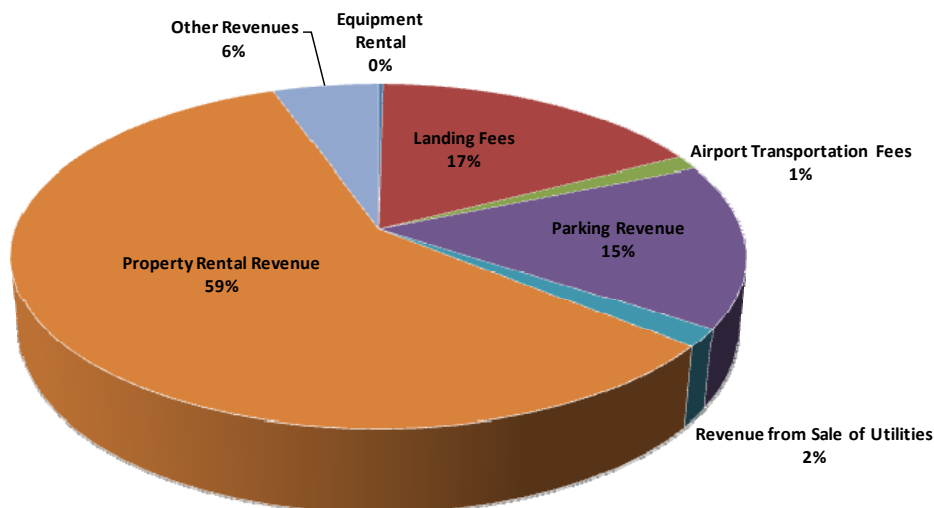
TABLE V-4: REVENUE BY ACCOUNT

(in 000's)	2008	2009	2010	% Change
Revenue by Account	Actual	Budget	Budget	2010 Bud- 2009 Bud
<u>Operating Revenue</u>				
Equipment Rental	\$788	\$727	\$791	8.8%
Landing Fees	65,770	59,836	60,889	1.8%
Airport Transportation Fees	4,691	6,039	4,672	-22.6%
Parking Revenue	61,313	59,611	54,331	-8.9%
Revenue from Sale of Utilities	5,974	5,748	6,012	4.6%
Property Rental Revenue	203,883	211,265	207,618	-1.7%
Other Revenues	14,828	15,730	19,053	21.1%
Total Operating Revenue	\$357,249	\$358,956	\$353,365	-1.6%

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FIGURE V-1: AVIATION DIVISION REVENUE BY ACCOUNT

(\$ 000'S)



Total Revenue: \$353,365

TABLE V-5: OPERATING & MAINTANENCE EXPENSES BY ACCOUNT

(in 000's)	2008 Actual	2009 Budget	2010 Budget	% Change 2010 Bud- 2009 Bud
Expense by Account				
Salaries, Wages, Benefits & Wrkmns Comp	\$85,777	\$85,270	\$78,623	-7.8%
Equipment Expense	2,426	1,582	1,670	5.6%
Utilities	12,606	13,571	12,763	-6.0%
Supplies & Stock	5,637	3,703	3,822	3.2%
Outside Services	27,468	23,572	23,781	0.9%
Travel & Other Employee Expenses	949	1,016	1,097	8.0%
Promotional Expenses	1,188	931	790	-15.1%
Other Expenses	7,454	6,657	6,023	-9.5%
Total O&M without Environmental	143,505	136,303	128,569	-5.7%
Environmental Reserve	2,542	1,187	2,971	150.3%
Total O&M with Environmental	146,047	137,490	131,539	-4.3%
Charges to Capital Projects	(4,420)	(5,002)	(3,456)	-30.9%
Total Budgeted Operating Expense	141,627	132,488	128,083	-3.3%

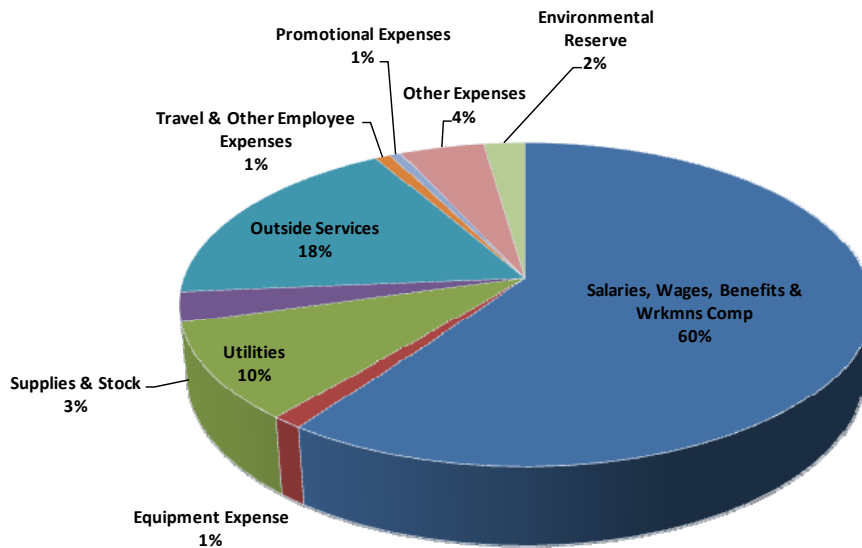
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Note:

2008 Actual and 2009 Budget have been restated to exclude transfer of the Airport Jobs, Commute Trip Reduction functions & Safety manager position to the Corporate division

FIGURE V-2: AVIATION DIVISION EXPENSE BY ACCOUNT

(\$ in 000's)



Total Before Charges to Capital Projects: \$131,539 Charges to Capital Projects: \$3,456 Total Expense: \$128,083
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TABLE V-6: REVENUE AND EXPENSE BY BUSINESS GROUP/DEPARTMENT

AVIATION DIVISION	(in 000's)	2008	2009	2010	% Change
	Notes	Actual	Budget	Budget	2010 Bud - 2009 Bud
OPERATING REVENUES					
<u>AIRLINE REVENUES</u>					
Landing Fees		65,770	59,836	60,889	1.8%
Terminal Rents		125,853	128,834	134,520	4.4%
Other Airline Revenues		11,651	12,894	13,993	8.5%
Total Airline Revenues		203,275	201,564	209,402	3.9%
<u>NON-AIRLINE REVENUES</u>					
Public Parking		59,111	57,377	51,812	-9.7%
Rental Cars		35,592	35,867	31,014	-13.5%
Employee Parking		5,441	5,474	5,341	-2.4%
Ground Transportation		4,759	6,089	4,722	-22.4%
Commercial Properties		6,013	4,660	4,537	-2.6%
Concessions		33,181	32,821	30,588	-6.8%
Utilities		5,973	5,748	6,012	4.6%
Other	1	464	653	1,585	142.9%
Total Non-Airline Revenues		150,534	148,689	135,611	-8.8%
Check Point Security		-	-	-	n/a
Hydrant Facilities Revenue		3,440	8,704	8,353	-4.0%
Revenues from Corporate / Other Revenue		-	-	-	n/a
Total Operating Revenues		357,249	358,956	353,365	-1.6%
<u>BUSINESS UNITS</u>					
Airport Operations		34,906	32,179	30,536	-5.1%
Business Dev & Mgmt		3,951	4,590	3,645	-20.6%
Utilities		12,884	13,952	13,147	-5.8%
Business Units		51,742	50,721	47,329	-6.7%
<u>AVIATION SERVICES</u>					
Aviation Director's Office	2	3,194	3,147	1,355	-56.9%
Airport Employment Center		-	-	-	n/a
Division Contingency		-	2,461	2,489	1.1%
Fire Department		14,962	10,654	11,342	6.5%
Aviation Planning		1,744	1,718	1,703	-0.9%
Aviation Finance & Budget		600	705	689	-2.3%
Community Development		1,031	1,144	2,095	83.1%
Airport Security		7,511	6,868	5,887	-14.3%
Aviation Services		29,042	26,698	25,561	-4.3%
<u>AVIATION FACILITIES</u>					
AV Facilities & Infrastructure		1,843	1,936	1,648	-14.9%
Aviation Signage		433	527	410	-22.1%
Airport Building Department		326	306	303	-1.0%
Airport Office Building	3	745	697	1,026	47.3%
AV Environmental Programs Group		3,207	3,909	3,840	-1.8%
Aviation Maintenance		48,923	46,508	44,997	-3.3%
Aviation Facilities		55,478	53,883	52,223	-3.1%
Aviation Environmental Reserve		2,542	1,187	2,971	0.0%
Aviation Capital to Expense		2,824	-	-	0.0%
Total Aviation Budgeted Operating Expense	4	141,627	132,488	128,083	-3.3%

2010 Revenues Expenses2.xls

Notes:

- 1) Include new lounge revenue offset by costs in 2010.
- 2) Air Development budget transferred to Airport Operations.
- 3) Airport building janitorial cost transferred from Operations.
- 4) Does not include costs from Project Management Group and Airport Employment Center which are departments of the Aviation Division until 2009.

F. STAFFING

Table V-7 outlines the full-time equivalents (FTEs) adjusted for temporary positions, interns and other limited duration employees for the Aviation division. Aviation is budgeting 746.1, which is 10.4 percent lower than 2009 budget and 9.0 percent lower than 2009 estimated year-end actual.

TABLE V-7: AVIATION DIVISION STAFFING

STAFFING (Full-Time Equivalent Positions)	2009	2009	2010	% Change
BUSINESS GROUP/DEPARTMENT	Budget	Est. Act.	Budget	2010 Bud - 20098 Bud
<u>AIRPORT OPERATIONS</u>				
Aeronautical Business Group	117.6	120.6	105.7	-10.1%
Landside Business Group	86.8	86.8	72.3	-16.7%
Airport Operations	204.4	207.4	178.0	-12.9%
<u>BUSINESS DEVELOPMENT</u>				
Aviation Properties	10.0	10.0	9.0	-10.0%
Concession	5.0	5.0	5.0	0.0%
Business Development	2.0	2.0	3.0	50.0%
Business Management	1.0	1.0	1.0	0.0%
Acquisition	4.0	4.0	4.0	0.0%
Utilities	0.0	0.0	0.0	
Business Development	22.0	22.0	22.0	0.0%
<u>AVIATION SERVICES</u>				
Airport Director's Office	13.7	10.5	8.5	-38.3%
Fire Department	75.0	75.0	73.0	-2.7%
Planning	11.0	11.0	8.0	-27.3%
Aviation Finance & Budget	6.0	6.0	5.0	-16.7%
Community Development	9.0	9.0	10.0	11.1%
Airport Security	93.0	81.3	72.8	-21.8%
Total Aviation Services	207.7	192.7	177.2	-14.7%
<u>FACILITIES</u>				
Facilities & Infrastructure	16.0	16.0	14.0	-12.5%
AV Signage	3.0	3.0	3.0	0.0%
Airport Building Department	5.0	5.0	5.0	0.0%
Airport Office Building	6.0	6.0	6.0	0.0%
Environmental	16.0	16.0	15.9	-0.9%
Maintenance	353.0	352.0	325.0	-7.9%
Total Facilities	399.0	398.0	368.9	-7.6%
TOTAL AVIATION DIVISION	833.1	820.1	746.1	-10.4%

FTE.XLS

Notes:

1) Transfer Safety Manager to Corporate division.

G. CAPITAL BUDGET

The business plan summaries at the beginning of this section provide the context for the following capital budget for the Aviation Division.

Table V-8 provides a Summary of the Aviation Approved Capital Budget for 2010.

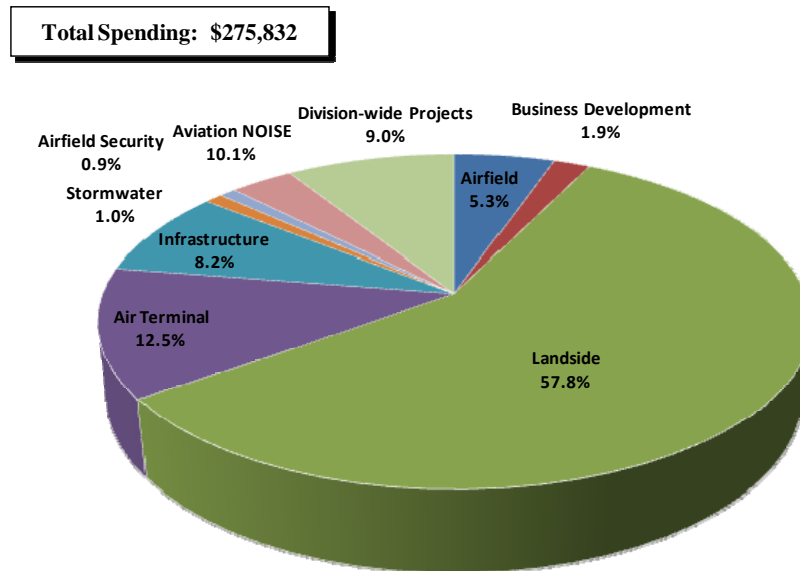
TABLE V-8: AVIATION CAPITAL BUDGET SUMMARY

(\$ in 000's)	2010 Budget	2010-2014 CIP	% of Total
Committed Capital Projects			
Airfield	\$14,686	\$72,813	5.3%
Business Development	5,376	8,534	1.9%
Landside	159,360	248,970	57.8%
Air Terminal	34,364	70,799	12.5%
Infrastructure	22,551	70,152	8.2%
Stormwater	2,664	18,234	1.0%
Airfield Security	2,453	11,517	0.9%
Aviation NOISE	9,435	50,908	3.4%
Division-wide Projects	24,943	35,534	9.0%
Total	\$275,832	\$587,461	100.0%

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FIGURE V-3: AVIATION DIVISION COMMITTED CAPITAL BUDGET

(\$ 000's)



H. AVIATION DIVISION OPERATING STATISTICS

TABLE V-9: AVIATION DIVISION OPERATING STATISTICS

Year	(1) Enplaned Passengers		(2) Total Landed Weight		(3) Air Cargo	
	Number	Growth	Pounds	Growth	Metric tons	Growth
1996	12,133	15.9%	20,228	9.3%	388,218	-5.3%
1997	12,341	1.7%	20,364	0.7%	393,786	1.4%
1998	12,868	4.3%	21,342	4.80%	428,327	8.8%
1999	13,802	7.3%	23,078	8.1%	444,224	3.7%
2000	14,174	2.7%	23,051	-0.1%	456,920	2.9%
2001	13,506	-4.7%	22,178	-3.79%	401,535	-12.1%
2002	13,362	-1.1%	21,658	-2.3%	374,753	-6.7%
2003	13,356	0.0%	20,790	-4.0%	351,418	-6.2%
2004	14,364	7.6%	20,944	0.7%	347,517	-1.1%
2005	14,632	1.9%	20,186	-3.6%	338,591	-2.6%
2006	14,982	2.4%	20,362	0.9%	341,981	1.0%
2007	15,661	4.5%	21,014	3.2%	319,013	-6.7%
2008	16,085	2.7%	21,519	2.4%	290,653	-8.9%
2009 Budget	15,800	-1.8%	21,281	-1.1%	322,690	11.0%
2009 Forecast	15,361	-4.5%	20,430	-5.1%	267,401	-8.0%
2010 Budget	15,361	0.0%	20,230	-1.0%	274,086	2.5%
Compound Growth						
1998 - 2008		2.3%		0.1%		-3.8%
2003 - 2008		3.8%		0.7%		-3.7%
Notes:						
1) Passengers in thousands						
2) Weight in thousands						
3) In Metric Tons						

AVSTAT.XLS