

AVIATION DIVISION

A. BUSINESS PLAN FORECAST

TABLE V-1: BUSINESS PLAN FORECAST

(in 000's)								Compound
OPERATING BUDGET	Notes	Budget 2005	Budget 2006	Forecast				Growth 2005-2010
				2007	2008	2009	2010	
Airline Revenue		\$173,059	\$182,197	\$198,104	\$216,255	\$234,987	\$254,106	8.0%
Non-airline Revenue		127,680	128,525	132,524	136,807	141,981	147,193	2.9%
Security Reimbursement		1,279	1,140	1,140	0	0	0	
Fuel Hydrant Facility		3,965	8,441	8,441	8,441	8,441	8,441	16.3%
Total Operating Revenues		305,983	320,303	340,209	361,503	385,409	409,740	6.0%
Operating & Maintenance Expense		109,909	119,345					
Corporate Administrative Expense	1	17,437	20,579					
Security Costs		5,883	6,319					
Law Enforcement Costs		14,085	14,613					
Total Operating & Maintenance Expenses	2	147,314	160,857	167,438	172,232	181,496	186,761	4.9%
Net Operating Income Before Depreciation		\$158,670	\$159,446	\$172,771	\$189,271	\$203,913	\$222,980	7.0%
Total Depreciation Expense		68,030	100,980					
Net Operating Income After Depreciation		\$90,640	\$58,466					
Committed Capital Budget		\$594,210	\$418,647	\$367,512	\$218,884	\$57,960	\$7,830	-57.9%
Business Plan Prospective		58,076	63,136	118,473	176,197	265,383	275,608	36.5%
TOTAL CAPITAL BUDGET	3	\$652,286	\$481,783	\$485,985	\$395,081	\$323,343	\$283,438	-15.4%
		Budget 2005	Budget 2006	change	%			
SUMMARY OF DIVISION EXPENSES								
Business Group Charges		\$44,943	\$47,997	\$3,054	6.8%			
Direct Charges to Business Groups		22,551	26,418	3,867	17.1%			
Allocations to Business Groups		40,471	42,657	2,187	5.4%			
TOTAL		\$107,965	\$117,072	\$9,107	8.4%			
SUMMARY OF CORPORATE/OTHER EXPENSES								
Direct Charges to Business Groups		\$5,463	\$5,813	\$350	6.4%			
Direct Charges to Division		2,363	2,778	415	17.6%			
Allocated Charges to Business Groups		31,522	35,193	3,671	11.6%			
TOTAL		\$39,349	\$43,784	\$4,436	11.3%			

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Notes:

- 1) 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.
- 2) 2007-2010 Corporate Administrative, Security and Law Enforcement Costs are included in Operating and Maintenance Expenses.
- 3) See Section IX for details of Capital Budget.

B. 2006 BUDGET SUMMARY

TABLE V-2: 2006 BUDGET SUMMARY

(in 000's)					Change	
BUDGET SUMMARY	Notes	2005 Budget	2005 Forecast	2006 Budget	2006 Bud- 2005 Bud	% Change
OPERATING RESULTS						
Airline Revenue	1	\$173,059	\$166,040	\$182,197	\$9,138	5.3%
Non-airline Revenue		127,680	131,371	128,525	845	0.7%
Security Reimbursement		1,279	1,279	1,140	(139)	-10.9%
Fuel Hydrant Facility		3,965	3,965	8,441	4,476	112.9%
Total Operating Revenue		305,983	302,656	320,303	14,319	4.7%
Operating & Maintenance Expense		109,909	108,862	119,345	9,436	8.6%
Corporate Administrative Expense	2	17,437	18,936	20,579	3,143	18.0%
Security Costs		5,883	5,883	6,319	435	7.4%
Law Enforcement Costs		14,085	14,085	14,613	529	3.8%
Total Operating Expense		147,314	147,766	160,857	13,543	9.2%
Net Operating Income Before Depreciation		\$158,670	154,890	\$159,446	777	0.5%
Committed Capital Budget		594,210	447,494	418,647	(175,563)	-29.5%
Business Plan Prospective		58,076	\$4,632	63,136	5,060	8.7%
TOTAL CAPITAL BUDGET	3	652,286	452,126	481,783	(170,503)	-26.1%
EMPLOYMENT (FTEs)		825.7	802.1	836.1	10.4	1.3%

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NOTES:

- 1) Excludes PFCs and grants.
- 2) 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.
- 3) See Section IX for details of Capital Budget.

TABLE V-3: AVIATION KEY MEASURES

	\$ in 000s	Forecast				
		Budget 2006	2007	2008	2009	2010
Key Measures						
Operating Cost Per Enplanement		10.76	10.90	10.91	11.19	11.20
Non Airline Revenue Per Enplanement		8.60	8.63	8.67	8.75	8.83
Passenger Airline CPE		11.95	12.64	13.41	14.15	14.87
Landing Fee Rate		2.43	2.73	3.04	3.61	4.19
Traffic						
Total Landed Weight (000s)		20,625	21,047	21,478	21,918	22,367
Enplanements (000s)		14,950	15,363	15,787	16,222	16,670

AVMEASURES.XLS

C. DIVISION MISSION STATEMENT

THE MISSION OF THE PORT OF SEATTLE

Creating economic vitality HERE.

THE MISSION OF SEATTLE-TACOMA INTERNATIONAL AIRPORT

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

OUR 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.

This vision statement can elicit many different interpretations. Several that are meaningful to us are:

- Sea-Tac will have an atmosphere that is natural, friendly, refreshing, relaxing. Passengers from all over the world will feel immediately welcome and at ease.
- Sea-Tac will incorporate cutting-edge technology and customer service for a pampered, no-hassle airport experience. We will break the mold and set a new standard.
- Sea-Tac's architecture will be new, exciting, spacious and efficient. It will capture the unforgettable Northwest natural beauty and culture and it will be environmentally respectful.
- Sea-Tac's innovative financial and operational management – and our collaborative relationships with our tenants – will reflect our entrepreneurial spirit.
- Sea-Tac will be renowned in the Pacific Rim for advancing global exchanges, trade and economic development.

AIRLINE INDUSTRY ASSESSMENT

The domestic airline industry continues to struggle. In 2005, while traffic has rebounded, and airlines have made progress in managing most operating costs, the spike in fuel costs has kept the industry from regaining profitability. The Wall Street Journal reported that the domestic airline industry lost \$32 billion from 2001-2004, more than offsetting the \$18 billion cumulative profit from 1938-2000. In the first half of 2005, the top ten airlines collectively lost \$4.9 billion. With the exception of the low-cost carriers such as Southwest, airlines have yet to develop a business model to achieve sustained profitability in current market conditions. Southwest has increased its costs advantage over its competitors by hedging a significant portion of its fuel costs to insulate it from much of the recent spike.

Significant restructuring is still needed. Among the major airlines, Delta and Northwest filed for bankruptcy in September. Also in September, US Airways emerged from bankruptcy and announced a merger with America West. United Airlines remains under bankruptcy protection. It recently announced a plan that would allow it to emerge from bankruptcy in February 2006. At this point it is not clear what these airlines will look like when or if they emerge from bankruptcy. What is clear is that ongoing price competition gives a significant market advantage to the low-cost carriers, and that bankruptcy is seen as a strategy to transform a high-cost legacy carrier into a competitive airline.

Locally, Alaska Air Group (parent company of Alaska Airlines and Horizon Airlines) reported second quarter 2005 net income of \$17 million compared to a loss of \$1.7 million in the second quarter of 2004. For the six months ending June 30, 2005, it reported a loss of \$63 million. A consensus of stock analysts anticipates Air Group will be profitable for the year.

AIRPORT INDUSTRY ASSESSMENT

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 does not mean that airports don't react when the industry is losing money. Most airports across the country have implemented measures to reduce costs. These measures have included cutting operating costs as well as capital budgets. While airport costs average about 5% - 6% of an airline's total costs, given the financial health of the industry, airlines are increasingly focusing on 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 low O&D 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. Low O&D hub airports typically insulated themselves from apparent reliance on any one carrier by long-term residual lease agreements through which, in theory, the signatory airlines guarantee the lease payments on a joint and several basis.

SEA-TAC AIRPORT: BUSINESS ASSESSMENT

Sea-Tac is the sixteenth largest US airport as measured by total passengers in 2004. Passenger traffic at Sea-Tac rebounded strongly in 2004, but growth has slowed in 2005 as some airlines have cut capacity. In particular, United Airlines cut its schedule at the beginning of the year to reduce costs, while Alaska Airlines trimmed back its schedule over the summer to improve its on-time record. For 2005, enplaned passengers through August are up 1.5% compared to the first eight months of 2004. While passenger levels are up compared to 2004, operations are down 5.2% and landed weight is down 4.8% through August. Passenger levels have continued to grow in spite of reduced capacity because load factors have increased significantly.

The current projection of passenger growth, developed in late 2002, calls for a long-term growth rate of 3%. On top of the rebound in 2004, and the slowing in 2005, we are projecting 2% growth for 2006. We anticipate some additional airline capacity in 2006, but we are uncertain about schedule changes that Northwest and Delta may make as they plan their exit from bankruptcy. Since we are maintaining the same long-term projection for 2021, we have adjusted the growth rates for 2007-2021 to 2.8%. Growth rates faster or slower than the current projection would cause adjustments to the timing of certain capital projects, and would affect revenues that are tied to passenger levels (e.g., parking, rental car, concessions).

Compared to other large airports, Sea-Tac has relatively high O&D traffic, approximately 74% in 2004. In addition, there is a relatively low concentration of service by the dominant carriers. The largest airline (Alaska) accounted for 34.6% of the enplaned passengers in 2004, and the top three airlines (Alaska, Horizon, United) accounted for 58.7% of the passenger traffic. Looking at year-to-date figure for 2005, Alaska continues to grow market share in Seattle, accounting for 35.7% of enplaned passengers. Relatively high O&D traffic and relatively low concentration of dominant carriers reduces Sea-Tac's vulnerability to the effects of any given carrier suffering financial difficulties. Only Alaska Airlines uses Sea-Tac as a hub.

Current and long-term cost management continues to be a strategic focus of Sea-Tac Airport. With a forecasted CPE of \$11.10 for 2005, Sea-Tac is at 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). Compared to airports in the Western U.S., Sea-Tac is at about the same level as Portland, lower than San Francisco and Denver, but higher than Los Angeles, Phoenix, Salt Lake City, San Diego and Oakland.

By the end of 2005, Sea-Tac will have invested over \$2.5 billion since 1999. Investments have included rebuilding concourse A, the Satellite Transit System, the Central Terminal and much of the airport's infrastructure. By the end of 2008, Sea-Tac will have invested another \$1.4 billion on security enhancements to the baggage systems, completing the third runway and related stormwater program improvements. In total, the airport will have invested \$3.9 billion for the ten-year period 1999-2008. The cost of these investments will be reflected in higher rates and charges to the airlines. By 2009 the CPE is currently forecasted to be \$14.15 based on current assumptions for passenger growth. Stated in 2005 dollars, the CPE would be \$13.07. A CPE of this level would likely still be at the high end of the middle range for large hub O&D airports.

Sea-Tac Airport has made significant progress in reducing its forecasted CPE. In July of 2003, the forecasted CPE for 2009 was \$25.09. With the 2004 business plan, the Airport's stated goal was to keep CPE below \$18. The 2005 business plan forecasted 2009 CPE at \$17.29. The current forecast of 2009 CPE reflects the Port's ongoing commitment to manage costs and maintain a competitive CPE. The Port will continue to focus on reducing future CPE further.

The forecasted reduction has been accomplished by implementing the following cost reduction strategies:

1. Increase non-airline revenues

- Implemented new concessions program and greatly expanded concessions areas in Central Terminal.
- Developed new parking products (such as weekly parking program) and implanted targeted price adjustments to increase revenues.
- Total non-airline revenues for 2006 are 26% higher than 2002.
- Targeted growth based on historical performance as well as stretch goals for the future.

2. Manage growth in operating and maintenance (O&M) costs

- Organizational review in late 2003 resulted in budget cuts of \$5.5 million including a net reduction of 67 full time equivalent employees (FTEs).
- 2006 budget is 11.6% higher than 2002 in spite of adding approximately 43% more square footage of terminal space with the expansion of Concourse A and the rebuilding of the Central Terminal.
- Targeted 3% growth rate in baseline costs, allowing for incremental increases on top of this baseline for costs relating to new facilities and costs offset by new non-airline revenues.

3. Cut or defer capital spending

- Each year at budget time, in addition to considering new projects for approval, we review every capital project to validate scope, timing and need.
- 2006 budget review resulted in proposed reductions of \$96 million in 2006 and \$79 million over the period 2006 – 2010.
- The ten-year capital spending for the years 1999-2008 (1999 being the inception of the Phase I Capital Program) has been reduced from \$4.2 billion in 2003 to \$3.9 billion at this time.

4. Increase federal financial support

- Received increase in letter of intent (LOI) for Third Runway project of \$61.9 million, bringing the total to \$278 million.
- Anticipate receiving as much as \$168 million from the Transportation Security Administration for security costs related to baggage systems.
- Regularly pursue Airport Improvement Program grants for airfield improvements and Noise projects.

5. Utilize financing tools to reduce borrowing costs

- Developed plan to use Passenger Facility Charges (PFCs) to offset revenue bond debt service for PFC-eligible projects such as the third runway. Since costs paid by PFCs do not affect the airline rate base, this leveraging of PFCs significantly reduced the cost-impact of third runway in 2009 and beyond.
- Refinanced existing debt whenever possible to secure savings
- Evaluating increasing use of variable rate debt.
- Developing proposal to obtain interest rate payment contract authority from Commission as a tool to reduce overall borrowing costs.

6. Reduce airline rates and charges/change financing policies

- Developed new intermediate lien with features that permit more flexibility with setting airline rates and charges.
- Proposed new airline agreement (effective January 1, 2006) significantly reduces airline costs by eliminating debt service coverage for rates and charges unless required to for the airport to achieve overall cash flow debt service coverage of 1.25 times annual debt service.

CHALLENGES AND OPPORTUNITIES

The greatest long-term challenge facing Sea-Tac is that airport costs (as measured by CPE) will continue to rise as the \$3.9 billion 1999-2008 capital program moves to completion. The cost reduction strategies outlined above will be an ongoing focus for the Aviation Division.

Managing the Airport's capital program over the next several years represents another major challenge. The Aviation Division anticipates spending almost \$1.0 billion on its capital budget over the next two years. These two years will continue the peak-spending years of the capital program that was initiated in 1999. While annual spending will remain relatively high due to the construction of the Third Runway, the number of projects under construction will begin to drop off. Efficiently delivering the completed capital projects on time and within budget will be a constant focus of management attention.

Future capacity expansion, as described in the Comprehensive Development Plan will need to be planned and executed with careful attention to the impact on airport costs. Striking the right balance between airport costs and customer service (i.e., building in time to avoid serious congestion) will be an ongoing challenge.

Another operational and financial challenge relates to potential staffing changes by the Transportation Security Administration (TSA). Nation-wide, TSA has a limit of 45,000 employees. There is a risk that the overall number of employees could be reduced for federal budgetary reasons, causing staffing reductions across all airports. Another concern comes from a potential change in TSA responsibilities. TSA currently staffs the screening checkpoints as well as exits. TSA may look to reduce or drop its responsibility for exits. Our preliminary estimate of the resulting potential costs to the Port for staffing the exits totals \$3.5 – 5.0 million annually.

Sea-Tac has set reasonable but challenging targets for increasing non-airline revenues. In 2005 we have seen a recovery of public parking revenues, in part due to new parking products. Sea-Tac Airport has the only covered parking adjoining the terminal. On the other hand, the proliferation of cell phones and the availability of "parking spaces" along the side of the highway mean that we have to aggressively promote and price short-term parking as well as develop more pre-security restaurants to entice people dropping off or picking up passengers to park and come into the terminal. This effort will become particularly important as new road construction to support Sound Transit's route to the airport eliminates the ability for drivers to re-circulate around the garage as a way of waiting for arriving passengers. Developing and marketing new parking products represents a challenge as well as a great opportunity to increase revenues.

In 2006, we will have the first full year of operations for the new concessions program and the Central Terminal. Continuing to grow sales per enplaned passenger will continue to be a major challenge as well as an opportunity.

In 2004, the local communities that organized to oppose the third runway dropped their legal challenges to the Port over the construction of the third runway. During 2005 the Port has worked with local communities to identify mutually beneficial development opportunities for Port owned property adjacent to the airport.

Finally, the Five Crossroads Strategies described below have an inherent tension among them in that they pull in different directions. Achieving the right balance among these strategies in light of the imperative to focus on costs will be an overarching challenge for Aviation Management for many years to come.

D. BUSINESS PLANS AND STRATEGIES

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

SEATTLE-TACOMA INTERNATIONAL AIRPORT – AT A CROSSROADS

Sea-Tac Airport has articulated an ongoing organizational development strategy called “Crossroads.” The term Crossroads connotes the constant change facing the airport – new contracts and relationships with our major business partners, major physical improvements and the concomitant challenge to assist our customers as they navigate the changing facilities, and the need to nurture our organization to attract and retain high caliber employees.

Crossroads is comprised of the following five complementary and interdependent strategies for achieving the Airport’s vision:

1. **Implement demand-driven high density development** to ensure our ability to meet the region’s air travel needs on our small physical footprint
2. **Develop and maintain a supportive community** to allow us to build needed airport facilities and to help support economic vitality in communities throughout the region
3. **Create an extraordinary Northwest customer experience** that provides travelers and shippers with a convenient, friendly, and cost-effective airport
4. **Maximize financial strength** necessary to provide the critical facilities and services required to serve our customers
5. **Foster an exciting, high performance workplace** in order to allow us to meet the other strategies

The 2006 Budget Summary below lists specific initiatives and milestones for 2006.

E. 2006 OPERATING BUDGET SUMMARY

2006 BUDGET TARGET

Consistent with the ongoing cost management strategy, the Aviation Division set a target of limiting the growth of O&M costs to 3%, excluding increases associated with the costs of new facilities and costs to support new non-airline revenues. This budget target was achieved. The proposed 2006 budget includes \$5.2 million for new facility costs. In addition, the 2005 proposed budget includes \$1.1 million for costs supported by new non-airline revenues.

REVENUES

Operating revenues are budgeted to increase by 14.3 million over the 2005 budget. Airline revenues, which are determined by cost-recovery formulas, are budgeted to grow by 5.3%. The primary reason for the revenue increase is due to the operating and capital cost increases for new facilities such as a full year of Central Terminal costs, the new baggage systems, and the industrial waste systems flowage fees and O&M costs. Offsetting these increases are changes to rates and charges in the proposed new airline agreement such as: 1) elimination of debt service coverage for rates and charges (unless needed to maintain overall airport debt service coverage at 1.25 time annual debt service), 2) elimination of historical equity amortization, and 3) elimination of revenue sharing.

Non-airline revenues are budgeted to increase slightly (0.7%) over the 2005 budget. With projected enplanement growth of 2.0%, this represents a decline in revenue per enplanement. We anticipate strong growth in parking revenue and good growth in rental car revenues. However these increases will be offsets by reductions in Commercial Properties due to the closure of the Radisson Hotel and declines in concession fees from in-flight meals and the elimination of the Host profit sharing for 2004 that was received in 2005 which had the one-time effect of artificially inflating the 2005 revenues. For 2006 we will see the first full year of the concessions program. Sales per enplanement are budgeted to grow from a projected \$7.45 in 2005 to \$7.75 in 2006. The Port’s revenue is not budgeted to keep pace as the average percentage rent is coming in less than originally estimated. 2006 marks the first year of budgeting for revenues from operating the airport conference center. The budgeted revenues for 2006 are modest (\$50,000) but this could be an area of growth in the future.

OPERATING EXPENSES

Total operating costs for the Airport are budgeted to increase by 9.2% over the 2005 budget. As indicated above under budget target, the Airport is budgeting increased operating and maintenance costs associated with new baggage handling systems. This will result in 13 new Maintenance FTEs as well as parts and equipment. The required "all known and reasonable technologies" (AKART) solution to industrial waste treatment will be implemented in 2006. As a part of this solution, the Port will pay hook-up fees and flowage fees to Val Vue and King County Metro totaling over \$1.2 million. To support the industrial waste treatment plant, we will add two Maintenance FTEs and costs for testing services. In addition, the airport will open the ramp control tower facility in January 2006. The annual operating costs are expected to be \$1.2 million.

The primary costs offset by increased non-airline revenues are related to janitorial costs relating to concessions. With the new concessions program, the Airport took on janitorial support for some concessions areas that were previously covered by Host. Of the total janitorial costs relating to concessions of \$990,000, \$307,000 is directly offset by new janitorial services fees. The remainder is effectively embedded in the revenues we generated from concessions. 2006 marks the first year that the janitorial costs for concession are segregated from the terminal.

The growth in the baseline budget was limited to the targeted 3% growth. Over 89% of the baseline growth was consumed by payroll costs as salary, wages and benefits are expected to grow by well over 3%. Thus most other costs increases and new initiatives were accommodated by eliminating one-time items in the 2005 budget or other cuts. Other major increases to the baseline budget included utility costs, fuel costs, janitorial costs and shift differentials in Maintenance (comparatively more work needs to be done during swing and graveyard shift with accompanying wage premiums). \$400,000 has been earmarked for conceptual master plans to launch development of two airport properties.

The Aviation Division also saw a significant increase in Corporate costs, most notably due to increased support from the Information and Communication Technology Department.

TRAFFIC

Passenger traffic measured by enplaned passengers is projected to increase by 2% in 2006 over the 2005 forecast of 14.65 million. During 2005, the Airport has experienced modest growth in passengers (up 1.5% through August), but has seen declines in operations (down 5.2%) and landed weight (down 4.8%). Passenger levels have grown in spite of reduced capacity due to extremely high load factors. Future growth is dependent on airlines adding capacity. Alaska Airlines is expected to add as much as 4% new capacity, but it is unclear what adjustments Delta and Northwest may make as they attempt to emerge from bankruptcy.

FULL-TIME EQUIVALENT STAFF POSITIONS (FTEs)

The proposed 2006 budget includes a net increase of 10.4 FTEs. Much of the new facility costs described above require additional staff in Maintenance (+15). In addition, the proposed budget includes 1 new fire fighter and 1 new property manager. Two loading dock coordinators were added during 2005. Offsetting these increases were a reduction of 6.2 FTEs in Project Management and 1.5 in Planning. Other minor FTE adjustments resulted in a net decrease of 0.9 FTE.

CAPITAL BUDGET

The Capital Budget for 2006 totals \$482 million. This will be another peak year of spending. Major projects for 2006 include: Third Runway (\$140 million), Security Program projects (\$85 million), Stormwater program projects (\$45 million), Noise program (\$37 million), and the start of construction on the North Expressway relocation project (\$23 million). These projects account for \$330 million of the 2006 budget.

The focus of the 2006 budget review was to identify projects that could be deferred to reduce airline costs. A total of \$96 million (17%) was eliminated or deferred from the 2006 budget compared to the previous forecast. The five-year CIP has been reduced by \$79 million.

During the budget review process the Aviation Division approved two projects to move to business plan prospective status for a total of \$9.2 million. One project is to install 125 electrical charging stations for ground support equipment at Concourse C and D for a total of \$4.2 million. The second project, Cruise Baggage Inputs, will allow for the direct loading of cruise ship baggage into the baggage system in areas other than the congested ticket lobby. The total cost is estimated to be \$5 million.

2006 CROSSROADS STRATEGY INITIATIVES AND MILESTONES

Following is a list of the key initiatives and milestones for 2006 organized under each of the five Crossroads Strategies:

DEMAND-DRIVEN HIGH DENSITY DEVELOPMENT

1. Complete the environmental assessment and receive FAA Record of Decision (including the adoption of the electronic Airport Layout Plan) for the Comprehensive Development Plan by September 2006.
2. Work with WSDOT to develop a schedule for construction of SR 518 3rd lane by June 2006.
3. Identify effective operational or capital solutions to facility capacity challenges via the Strategic Facility Assessment (SFA) process, including update of strategy for ticketing Alaska, United and remote check-in customers via web or Common Use Self-Service (CUSS) by April 2006.
4. Complete definition of major work program elements for Strategic Asset Management, facility renewal based total cost of ownership approach, by February 2006.
5. Achieve 90% of the 2006 cash flow forecast (measured against 2005 fourth Quarter Update).
6. Reduce PMG Core costs by another 10% (2006 actuals measured against 2005 budget).
7. Complete construction:
 - 3rd Runway Embankment (on time and within budget)
 - Police Department Office Consolidation (on time and within budget)
 - Five stormwater detention facilities (on time and within budget)
 - C-60 Baggage Systems (maximize TSA funding and minimize claims)
8. Construction status by year end:
 - 100% Baggage Screening (C-1 Baggage) – 75%
 - Roadway Relocation and Sound Transit LRT Elements – 30%

DEVELOP AND MAINTAIN A SUPPORTIVE COMMUNITY

1. Regional

- Senior managers give at least 40 presentations and/or Airport hosts tables at events outside local Airport communities.
- Complete Airport Noise and Operations Monitoring System (ANOMS) upgrade and publicize with at least three community demonstrations / presentations by June 2006.
- Publicize the Port's commitment and ongoing support of the Aviation High School.
- Sponsor and take a visible role in the countywide export promotion program to be held in March 2006.

2. Local Communities

- Staff gives at least 15 speeches and/or hosts tables or local community events during year.
- Complete Conceptual Master Plan for the 55-acre site by December 2006.
- Complete Conceptual Master Plan for the Des Moines Creek Business Park by February 2006.
- Raise \$50,000 at Highline Schools Fund for Excellence Golf Tournament.
- Complete Northeast Burien Phase 1 acquisition and relocation by December 2006.
- Complete Burien Garden Mobile Home acquisition and relocation by December 2006.
- Complete condominium insulation program by December 2006.
- Complete planning of the south ATZ in Sea-Tac and Des Moines by September 2006.
- Provide corporate sponsorship for the Tukwila Backyard Habitat Fair in May 2006
- Award the Environmental Trust Funds for Des Moines and Miller Creek by April 2006.
- Complete construction of Des Moines Creek regional detention facility by December 2006.
- Make at least five presentations on Port's CNG vehicle program and possible partnership in other jurisdictions by December 2006.

CREATE EXTRAORDINARY NW CUSTOMER SERVICE

- | | |
|---|------------|
| 1. Flight Information Website Available | January 31 |
| 2. Federal Inspection Service (FIS)
Aesthetic Improvements | March 31 |
| 3. Children's Play Area | April 1 |
| 4. Expanded On-Ship Cruise Passenger Check-In | May 1 |
| 5. STS Wayfinding Directories | June 30 |
| 6. Customer Service Training Pilot
Delivered to Target Employees | July 1 |
| 7. Guest Services Representative
Program Implemented | July 1 |
| 8. Know Your Airport Campaign | October 15 |
| 9. Registered Traveler Program | Evolving |

MAXIMIZE FINANCIAL STRENGTH

1. Achieve budgeted Airport vitality measures by end of year

- Meet budgeted operating cost per enplanement.
- Meet budgeted non-airline revenue per enplanement.
- Meet budgeted passenger airline cost per enplanement.
- Achieve liquidity (balance of Airport Development Fund) of \$136 million by year-end.

2. Increase non-airline revenues

- Increase general parking revenue per enplanement to 105% of 2001 levels.
- Increase Concessions Sales per Enplanement to \$7.75.
- Lease out 5 additional acres of Port land.
- Develop Voice Over Internet Telephony Marketing/Business Plan for tenants by 6/1/2006.

3. Develop property around the Airport

- Adopt EIS and Conceptual Master Plan for Borrow Site I.
- Negotiate and adopt development agreement II with City of Des Moines, including street vacations.
- Complete a Development Agreement and a Conceptual Master Plan for Lora Lake in Burien.
- Adopt amendments to 55-acre Development Agreement with SeaTac.

4. Manage property and facilities

- Implement new Signatory Airline Lease Agreement by 3/31/2006.
- Close Radisson Hotel by 2/1/2006.
- Develop a set of procedures to implement the Strategic Asset Management policies adopted by the Commission.

HIGH PERFORMANCE WORKPLACE

1. Continue to implement, refine and enhance an Employee Development Program focused on achieving job proficiency and providing for succession preparation to build a flexible, highly capable workforce using a blend of existing (i.e. Port's core curriculum Learning Calendar) and new pilot elements:

- Utilize Performance Review & Planning process to document development plans (SAM/direct reports 100%).
- Continue REALeadership cohort membership and mentor participation (4-5 SAM members and/or direct reports as mentors).
- Continue Leveraging Leadership participation (Aviation mid-managers occupy 50% of slots).
- Implement and complete Critical and Strategic Thinking Training (for up to 80 by 2nd Quarter).
- Continue employee development planning and education for managers and employees
- Continue a structured and funded effort to provide opportunities for cross training, internal internships, job shadows or special project assignments, etc. (minimum of two opportunities implemented)

2. Promote diversity awareness through:

- Conducting quarterly brown bags
- Key Diversity Competencies for Managers established and communicated.
- Supporting participation of Aviation employees on the Port-wide Diversity and Development Council.
- Enhanced Emergency Preparedness
 - IS700 NIMS Training completed by 1st Quarter
 - Conduct comprehensive EOC exercise by 1st Quarter
 - Develop mutual assistance pact among major west coast airports by end of 2006.

3. Continuous Improvement in Labor Relations and Safety Performance:

- Complete all required safety and driver training
- Reduce recordable claims and lost workdays by 5% from 2005 levels, measured on a quarterly basis.
- Injury and vehicle accidents reporting compliance of 100%.

4. Support the Port's Spirit & Wellness Initiative by:

- Publish Aviation Division Employee Events Calendar (coordinate bi-month Spirit & Fun events in 2006)
- Provide bi-monthly educational outreach on topics relevant to the HRA survey findings.

OPERATING BUDGET SUMMARY

TABLE V-4: REVENUE BY ACCOUNT

(in 000's)					
Revenue by Account	2004 Actual	2005 Budget	2006 Budget	% Change 2006 Bud-2005 Bud	
<u>Operating Revenue</u>					
Equipment Rental	\$330	\$0			
Landing Fees	45,569	53,862	50,214	-6.8%	
Airport Transportation Fees	3,576	3,555	4,141	16.5%	
Parking Revenue	42,584	45,537	48,749	7.1%	
Revenue from Sale of Utilities	7,117	7,537	6,390	-15.2%	
Property Rental Revenue	157,594	189,782	205,012	8.0%	
Other revenues	9,736	4,430	4,657	5.1%	
Total Operating Revenue	1	\$266,507	\$304,704	\$319,163	4.7%

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Notes:

- 1) Revenues do not include revenues from Non-Aviation Departments.

FIGURE V-1: AVIATION DIVISION REVENUE BY ACCOUNT
(\$ 000'S)

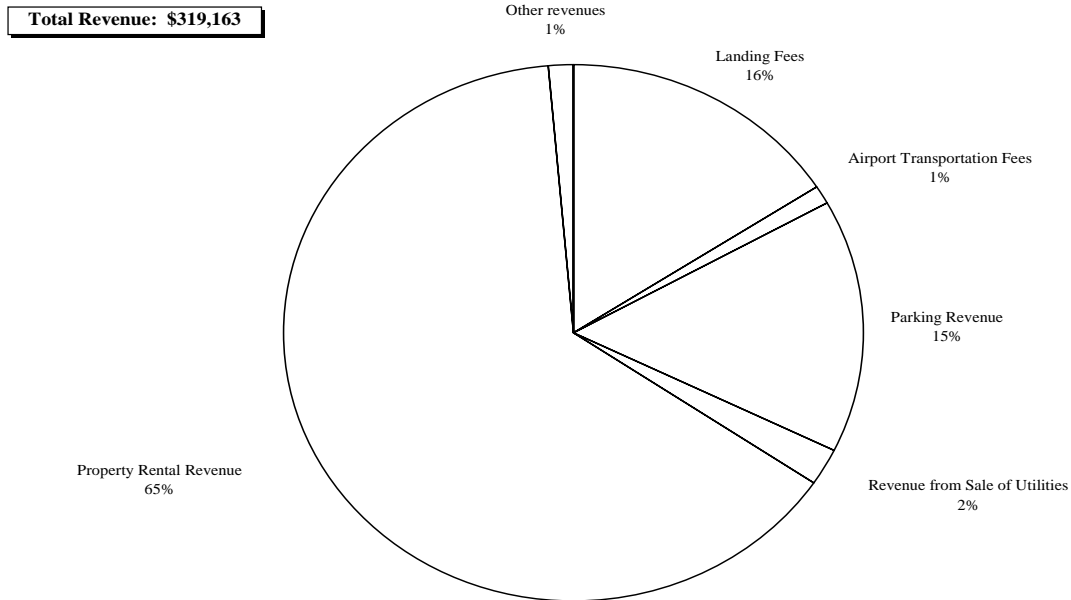


TABLE V-5: OPERATING & MAINTANENCE EXPENSES BY ACCOUNT

(in 000's)	2004 Actual	2005 Budget	2006 Budget	% Change 2006 Bud- 2005 Bud
Expense by Account				
Salaries, Wages, Benefits & Wrkmns Comp	\$66,339	\$70,401	\$74,044	5.2%
Equipment Expense	2,028	1,815	2,093	15.3%
Utilities	13,538	14,263	15,919	11.6%
Supplies & Stock	4,864	5,806	6,005	3.4%
Outside Services	24,181	23,302	25,385	8.9%
Travel & Other Employee Expenses	534	738	881	19.3%
Promotional Expenses	312	256	344	34.4%
Other Expenses	6,476	9,054	8,716	-3.7%
Subtotal	118,270	125,636	133,387	6.2%
Charges to Capital Projects	(16,231)	(17,250)	(15,833)	-8.2%
Total Budgeted Operating Expense	102,040	108,385	117,554	8.5%
Charges to Non-Aviation Departments	(362)	(420)	(481)	14.6%
Total Operating Expense	\$101,677	\$107,965	\$117,072	8.4%

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FIGURE V-2: AVIATION DIVISION EXPENSE BY ACCOUNT

(\$ in 000's)

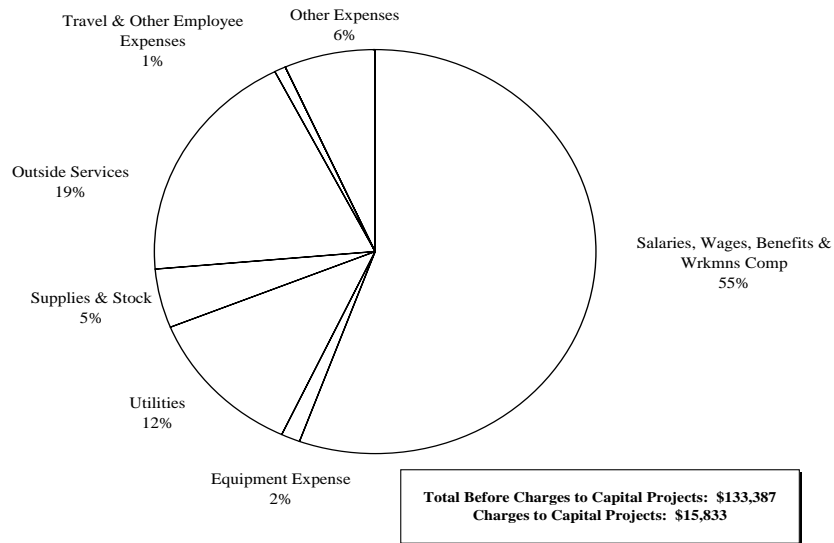


TABLE V-6: REVENUE AND EXPENSE BY BUSINESS GROUP/DEPARTMENT

AVIATION DIVISION	(in 000's)				
	Notes	2004 Actual	2005 Budget	2006 Budget	% Change 2006 Bud - 2005 Bud
OPERATING REVENUES					
<u>AIRLINE REVENUES</u>					
Landing Fees		45,452	53,781	50,214	-6.6%
Terminal Rents		102,825	116,906	129,444	10.7%
Other Airline Revenues		2,362	2,372	2,540	7.1%
Total Airline Revenues		150,640	173,059	182,197	5.3%
<u>NON-AIRLINE REVENUES</u>					
Public Parking		42,037	43,446	47,300	8.9%
Rental Cars		25,818	30,859	31,866	3.3%
Employee Parking		3,887	5,582	5,195	-6.9%
Ground Transportation		3,630	3,599	4,202	16.7%
Airfield Properties		5,322	5,480	6,168	12.6%
Commercial Properties		4,786	4,625	3,554	-23.2%
Concessions		21,022	26,399	23,475	-11.1%
Utilities		7,120	7,537	6,390	-15.2%
Other		1,411	153	375	145.1%
Total Non-Airline Revenues		115,033	127,680	128,525	0.7%
Check Point Security		(95)	-	-	n/a
Hydrant Facilities Revenue		930	3,965	8,441	112.9%
Total Operating Revenues	1	266,507	304,704	319,163	4.7%
OPERATING EXPENSES					
<u>AIRPORT OPERATIONS</u>					
Aeronautical		16,782	17,042	19,829	16.4%
Landside		9,481	9,166	9,198	0.3%
Airport Operations		26,263	26,208	29,027	10.8%
<u>BUSINESS DEVELOPMENT</u>					
Business Dev & Mgmt		3,709	3,909	3,721	-4.8%
Utilities		14,159	14,826	16,555	11.7%
Business Development		17,868	18,735	20,276	8.2%
<u>AVIATION SERVICES</u>					
Aviation Director's Office		2,374	2,775	2,298	-17.2%
Airport Employment Center		198	191	197	3.1%
Division Contingency		-	1,000	1,046	4.6%
Fire Department		8,352	8,837	9,308	5.3%
Aviation Planning		1,456	1,393	1,287	-7.6%
Aviation Finance & Budget		577	634	674	6.3%
Project Management Group		1,099	807	800	-0.9%
Community Development		885	1,086	884	-18.6%
Airport Security		4,844	4,567	4,932	8.0%
Aviation Executive		19,785	21,290	21,426	0.6%
<u>AVIATION FACILITIES</u>					
AV Facilities & Infrastructure		1,315	1,662	1,712	3.0%
Aviation Signage		313	389	401	3.0%
Airport Building Department		112	148	152	2.9%
Airport Office Building		-	-	453	n/a
AV Environmental Programs Group		2,427	2,708	2,911	7.5%
Aviation Maintenance		33,958	37,244	41,195	10.6%
Aviation Facilities		38,125	42,152	46,824	11.1%
Total Division Expenses		102,040	108,385	117,554	8.5%

2006 Revenues Expenses2.xls

Notes:

- 1) Total Department revenue does not include revenue from Non-Aviation departments.

F. STAFFING

Table V-7 outlines the full-time equivalents (FTE) for the both Regular and Other categories in the Aviation division.

TABLE V-7: AVIATION DIVISION STAFFING

STAFFING (Full-Time Equivalent Positions)	2005 Budget	2005 Est. Act.	2006 Budget	% Change 2006 Bud - 2005 Bud
BUSINESS GROUP/DEPARTMENT				
<u>AIRPORT OPERATIONS</u>				
Aeronautical Business Group	92.1	93.5	93.5	1.6%
Landside Business Group	96.5	91.0	91.0	-5.7%
Airport Operations	188.6	184.5	184.5	-2.1%
<u>BUSINESS DEVELOPMENT</u>				
Aviation Properties	8.0	8.0	8.0	0.0%
Concession	5.0	5.0	5.0	0.0%
Business Development	4.0	4.0	4.0	0.0%
Business Management	2.0	2.0	2.0	0.0%
Acquisition	5.0	5.0	5.0	0.0%
Utilities	1.0	1.0	1.0	0.0%
Business Development	25.0	25.0	25.0	0.0%
<u>AVIATION SERVICES</u>				
Airport Director's Office	12.0	15.0	11.0	-8.3%
Fire Department	73.5	73.0	74.5	1.4%
Planning	12.0	11.0	11.0	-8.3%
Aviation Finance & Budget	6.0	6.0	6.0	0.0%
Project Management Group	60.0	53.0	53.0	-11.7%
Community Development	15.0	15.0	15.0	0.0%
Airport Security	69.0	69.0	69.0	0.0%
Total Aviation Services	247.5	242.0	239.5	-3.2%
<u>FACILITIES</u>				
Facilities & Infrastructure	18.0	17.0	18.0	0.0%
AV Signage	3.0	3.0	3.0	0.0%
Airport Building Department	6.0	6.0	6.0	0.0%
Airport Office Building	0.0	0.0	4.0	n/a
Environmental	13.4	13.4	13.8	3.0%
Maintenance	308.0	292.0	321.0	4.2%
Total Facilities	348.4	331.4	365.8	5.0%
TOTAL AVIATION DIVISION REGULARS	809.5	782.9	814.8	0.7%
Limited Duration	2.0	2.0	4.0	100.0%
Ineligible Extended	0.0	0.0	0.0	n/a
Temporary	10.0	14.0	14.0	40.0%
Interns	1.5	2.0	2.1	36.7%
On Call	2.7	1.2	1.2	-54.7%
TOTAL AVIATION DIVISION	825.7	802.1	836.1	1.3%

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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 2006.

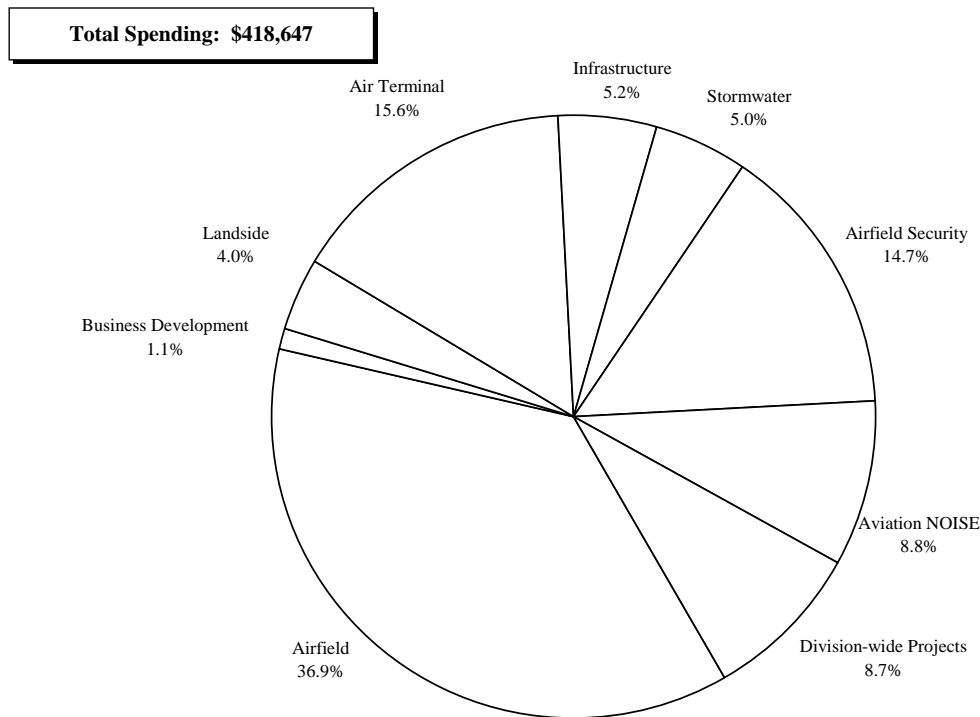
TABLE V-8: AVIATION CAPITAL BUDGET SUMMARY

(\$ in 000's)	2006 Budget	2006-2010 CIP	% of Total
Committed Capital Projects			
Airfield	\$154,557	\$486,304	36.9%
Business Development	4,474	5,355	1.1%
Landside	16,835	39,275	4.0%
Air Terminal	65,254	114,755	15.6%
Infrastructure	21,711	53,067	5.2%
Stormwater	20,888	22,688	5.0%
Airfield Security	61,335	99,072	14.7%
Aviation NOISE ¹	37,015	109,396	8.8%
Division-wide Projects	36,578	140,921	8.7%
Total	\$418,647	\$1,070,833	100.0%

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^[1] Includes 1 project that was under Airfield in prior year.

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
1994	10,471	11.6%	18,499	2.1%	410,136	7.5%
1995	11,391	8.8%	20,334	9.9%	408,198	-0.5%
1996	12,133	6.5%	20,228	-0.5%	388,218	-4.9%
1997	12,341	1.7%	20,364	0.67%	393,786	1.4%
1998	12,868	4.3%	21,342	4.8%	428,327	8.8%
1999	13,802	7.3%	23,078	8.1%	444,224	3.7%
2000	14,174	2.7%	23,051	-0.12%	456,920	2.9%
2001	13,506	-4.7%	22,178	-3.8%	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%	347,517	-7.3%
2004	14,364	7.6%	20,944	0.7%	351,418	1.1%
2005 Budget	14,781	2.9%	21,537	2.8%	355,000	1.0%
2005 Forecast	14,650	2.0%	20,331	-2.9%	340,745	-3.0%
2006 Budget	14,950	2.0%	20,625	1.4%	344,681	1.2%
Compound Growth						
1994 - 2004		3.2%		1.2%		-1.5%
1999 - 2004		0.8%		-1.9%		-4.6%

Notes:
 1) Passengers in thousands
 2) Weight in thousands
 3) In Metric Tons

AVSTAT.XLS

I. AVIATION DIVISION SUMMARY

TABLE V-10: AVIATION DIVISION SUMMARY

		(in 000's)				Growth
BUDGET	Notes	Actual 2004	Budget 2005	Forecast 2005	Budget 2006	2005 Bud- 2006 Bud
Airline Revenue		\$ 150,640	\$ 173,059	\$ 166,040	\$ 182,197	5.3%
Non-airline Revenue		115,052	127,680	131,371	128,525	0.7%
Security Reimbursement		1,196	1,279	1,279	1,140	-10.9%
Fuel Hydrant Revenues		930	3,965	3,965	8,441	112.9%
Total Revenue		\$267,798	\$ 305,983	\$ 302,655	\$ 320,303	4.7%
Operating & Maintenance Expense		103,613	109,909	108,862	119,345	8.6%
Corporate Administrative Expense	1	18,102	17,437	18,936	20,579	18.0%
Security Costs	2	5,704	5,883	5,883	6,319	7.4%
Law Enforcement Costs		14,398	14,085	14,085	14,613	3.8%
Total Operating Expense		141,817	147,314	147,766	160,857	9.2%
Net Operating Income before Depreciation		\$125,982	\$158,670	\$154,889	\$ 159,446	0.5%
Depreciation		74,269	68,030	91,990	100,980	48.4%
Net Operating Income after Depreciation		\$51,713	\$90,640	\$62,899	\$58,466	-35.5%
Committed Capital Budget		n/a	594,210	447,494	418,647	-29.5%
Business Plan Prospective		n/a	58,076	4,632	63,136	8.7%
CAPITAL SPENDING	3	\$461,001	652,286	452,126	481,783	-26.1%
TOTAL FTEs		790.7	825.7	802.1	836.1	1.3%
KEY MEASURES						
Airline Cost Per Enplanement		\$ 10.26	\$ 11.42	\$ 11.10	\$ 11.95	4.6%
Landing Fee Rate		\$ 2.17	\$ 2.50	\$ 2.45	\$ 2.43	-2.8%

AVHIST.XLS

Notes:

- 1) 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 cost are allocated using a formula based on Expenses and employees. For some departments specific allocation methodologies, specific allocation methodologies, such as employees for Human Resources & Development, are used.
- 2) More than 90% of the security costs are staffing costs related to perimeter staffing, badging function, and administration.
- 3) See Section IX for details of Capital Budget.