

# AVIATION DIVISION

## A. BUSINESS PLAN FORECAST

**TABLE V-1: BUSINESS PLAN FORECAST**

(in 000's)							Compound																																												
Notes	Budget 2006	Budget 2007	Forecast				Growth 2006-2011																																												
			2008	2009	2010	2011																																													
<b>OPERATING BUDGET</b>																																																			
Airline Revenue	\$182,197	\$186,843	\$205,967	\$217,618	\$230,700	\$245,485	6.1%																																												
Non-airline Revenue	128,525	141,249	144,848	149,516	154,655	157,094	4.1%																																												
Security Reimbursement	1,140	1,140	0	0	0	0																																													
Fuel Hydrant Facility	8,441	8,452	8,452	8,452	8,452	8,452	0.0%																																												
<b>Total Operating Revenues</b>	<b>320,303</b>	<b>337,684</b>	<b>359,267</b>	<b>375,586</b>	<b>393,807</b>	<b>411,031</b>	<b>5.1%</b>																																												
Operating & Maintenance Expense	119,345	132,726	126,720	133,455	138,941	141,521	3.5%																																												
Corporate Administrative Expense	20,579	25,742	26,643	27,575	28,541	29,540	7.5%																																												
Security Costs	6,319	6,533	6,729	6,931	7,139	7,353	3.1%																																												
Law Enforcement Costs	14,613	15,942	16,500	17,077	17,675	18,294	4.6%																																												
<b>Total Operating &amp; Maintenance Expenses</b>	<b>160,857</b>	<b>180,943</b>	<b>176,592</b>	<b>185,039</b>	<b>192,296</b>	<b>196,707</b>	<b>4.1%</b>																																												
<b>Net Operating Income Before Depreciation</b>	<b>\$159,446</b>	<b>\$156,742</b>	<b>\$182,674</b>	<b>\$190,547</b>	<b>\$201,511</b>	<b>\$214,324</b>	<b>6.1%</b>																																												
Total Depreciation Expense	100,980	108,546																																																	
<b>Net Operating Income After Depreciation</b>	<b>\$58,466</b>	<b>\$48,196</b>																																																	
<b>Committed Capital Budget</b>	<b>\$418,647</b>	<b>\$446,013</b>	<b>\$209,556</b>	<b>\$101,198</b>	<b>\$35,101</b>	<b>\$13,246</b>	<b>-49.9%</b>																																												
<b>Business Plan Prospective</b>	<b>63,136</b>	<b>69,042</b>	<b>146,434</b>	<b>181,392</b>	<b>212,237</b>	<b>193,766</b>	<b>25.1%</b>																																												
<b>TOTAL CAPITAL BUDGET</b>	<b>\$481,783</b>	<b>\$515,055</b>	<b>\$355,990</b>	<b>\$282,590</b>	<b>\$247,338</b>	<b>\$207,012</b>	<b>-15.5%</b>																																												
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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) 2008-2011 Corporate Administrative, Security and Law Enforcement Costs are included in Operating and Maintenance Expenses.
- 3) See Section IX for details of Capital Budget.
- 4) Includes Other Post Employment Benefits (OPEB).

## **B. 2007 BUDGET SUMMARY**

**TABLE V-2: 2007 BUDGET SUMMARY**

(in 000's)					Change	
BUDGET SUMMARY	Notes	2006 Budget	2006 Forecast	2007 Budget	2007 Bud- 2006 Bud	% Change
<b>OPERATING RESULTS</b>						
Airline Revenue	1	\$182,197	\$181,489	\$186,843	\$4,646	2.5%
Non-airline Revenue		128,525	142,462	141,249	12,724	9.9%
Security Reimbursement		1,140	1,181	1,140	0	0.0%
Fuel Hydrant Facility		8,441	8,441	8,452	11	0.1%
<b>Total Operating Revenue</b>		<b>320,303</b>	<b>333,574</b>	<b>337,684</b>	<b>17,381</b>	<b>5.4%</b>
Operating & Maintenance Expense		119,345	119,059	132,726	13,381	11.2%
Corporate Administrative Expense	2	20,579	20,380	25,742	5,163	25.1%
Security Costs		6,319	6,319	6,533	214	3.4%
Law Enforcement Costs		14,613	14,613	15,942	1,329	9.1%
<b>Total Operating Expense</b>		<b>160,857</b>	<b>160,371</b>	<b>180,943</b>	<b>20,086</b>	<b>12.5%</b>
<b>Net Operating Income Before Depreciation</b>		<b>\$159,446</b>	<b>173,203</b>	<b>\$156,742</b>	<b>(\$2,705)</b>	<b>-1.7%</b>
<b>Committed Capital Budget</b>		<b>418,647</b>	<b>406,231</b>	<b>446,013</b>	<b>27,366</b>	<b>6.5%</b>
<b>Business Plan Prospective</b>		<b>63,136</b>	<b>1,860</b>	<b>69,042</b>	<b>5,906</b>	<b>9.4%</b>
<b>TOTAL CAPITAL BUDGET</b>	3	<b>481,783</b>	<b>408,091</b>	<b>515,055</b>	<b>\$33,272</b>	<b>6.9%</b>
<b>EMPLOYMENT (FTEs)</b>		<b>836.1</b>	<b>834.6</b>	<b>853.1</b>	<b>17.0</b>	<b>2.0%</b>

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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**

	Budget	Forecast			
	2007	2008	2009	2010	2011
<b>Key Measures</b>					
Operating Cost Per Enplanement	11.05	11.10	11.33	11.36	11.42
Non Airline Revenue Per Enplanement	9.12	9.11	9.15	9.22	9.12
Passenger Airline CPE	11.84	12.70	13.03	13.45	13.94
<b>Traffic (in 000's)</b>					
Total Landed Weight	20,380	20,788	21,205	21,630	22,063
Enplanements	15,490	15,908	16,338	16,779	17,232
Capital Budget (includes allocated Corp. CIPs)	\$522,881	\$363,377	\$289,025	\$253,936	\$213,675

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## **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 renown in the Pacific Rim for advancing global exchanges, trade and economic development.

### **AIRLINE INDUSTRY ASSESSMENT**

Looking at the industry as a whole, the U.S. passenger and cargo airlines lost money every year from 2001 to 2005. The cumulative loss over this five-year period totaled approximately \$35 billion. Among the major carriers, United, US Airways, Delta and Northwest filed for bankruptcy, others were on the brink of filing. US Airways and United emerged from bankruptcy while Delta and Northwest have not yet emerged. Alone among major carriers, Southwest Airlines has maintained profitability. All airlines have made significant efforts to trim costs in order to improve their bottom line. On the supply side, airlines have reduced capacity by retiring older and less fuel-efficient planes. On the demand side, the strong economy has stimulated growth in air travel. In spite of high jet fuel costs, most U.S. airlines are showing a profit through the third quarter of 2006. Interestingly, both Jet Blue and AirTran showed quarterly losses for the period ending September 30, indicating that the low cost carriers are seeing increasing competition from the legacy carriers. With the exception of Northwest and Delta (still in bankruptcy), the industry is expected to show a profit in 2006, and increase profits further in 2007. Overall, the industry remains highly competitive, and all airlines have a keen focus on managing costs, including the 5-6% of their total costs incurred at airports.

Locally, Alaska Air Group (parent company of Alaska Airlines and Horizon Airlines) is showing improved financial performance. While the Air Group reported year-to-date third quarter net loss of \$41 million compared to a gain of \$27 million in the third quarter of 2005, the 2006 results include write-offs for fleet transitions costs and a voluntary severance program as well as mark-to-market gains on fuel hedges. Excluding these items, 2006 year-to-date net income was \$77.9 million compared to \$71.5 million for 2005.

## **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 airline industry's desire to cut costs, airlines continue to focus 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 insulate 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 was the seventeenth largest US airport as measured by total passengers in 2005. Passenger traffic at Sea-Tac showed modest growth in 2005 (1.7%) as certain carriers cut capacity to reduce costs (e.g., United). For 2006, Sea-Tac experienced strong growth for the first half of the year, but growth slowed in the third quarter. It is anticipated that Sea-Tac will finish the year approximately 3% above 2005.

The current projection of passenger growth, developed in late 2002, calls for a long-term growth rate of 3%. Sea-Tac experienced higher growth in 2004, lower growth in 2005 and is tracking close to 3% for 2006. Since the same long-term projection is maintained for 2021 (45 million annual passengers), the growth rates for 2007-2021 have been adjusted to 2.7%. Growth rates faster or slower than the current projection could 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 73% in 2005. In addition, there is a relatively low concentration of service by the dominant carriers. The largest airline (Alaska) accounted for 35.7% of the enplaned passengers in 2005, and the top three airlines (Alaska, Horizon, and United) accounted for 57% of the passenger traffic. Looking at year-to-date figures for 2006, Alaska continues to grow market share in Seattle, accounting for 36.8% of enplaned passengers. Other carriers with strong growth in 2006 include Continental, Southwest, Horizon and Jet Blue. Delta and U.S. Airways are down significantly and Northwest has seen a slight decline. 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 Ala

Current and long-term cost management continues to be a strategic focus of Sea-Tac Airport. With a forecasted CPE of \$11.81 for 2006, Sea-Tac is 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). 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 2006, Sea-Tac will have invested over \$2.8 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 \$870 million (security enhancements to the baggage systems, completing the third runway and related stormwater program improvements, and the North Expressway Relocation). In total, the airport will have invested \$3.7 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 \$13.03 based on current assumptions for passenger growth. Stated in 2007 dollars, the CPE would be \$12.53. 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 2006 business plan forecasted 2009 CPE of \$14.15. The current forecast of 2009 CPE (\$13.03) 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 2007 are budgeted to be 38% higher than 2002.

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

- 2007 budget (excluding OPEB Reserve – see below) is 18.8% higher than 2002 (compound growth of 3.5%) 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, and assuming additional security costs.
- 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, every capital project is reviewed to validate scope, timing and need.
- 2007 budget review resulted in proposed reductions of \$212 million for the five years 2007 – 2011.
- 2007 budget assumes a reduced version of the Comprehensive Development Plan (CDP Light). Compared to the forecast included in the 2006 business plan, the 2007 business plan forecast assumes CDP spending through 2021 is reduced from \$2.2 billion to \$1.3 billion, for a savings of \$900 million.

**4. Increase federal financial support**

- No significant changes: still assuming full receipt of \$278 million from FAA under Letter of Intent for Third Runway and \$168 million from Transportation Security Administration (TSA) 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**

- Sea-Tac plans 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 reduces the cost-impact of third runway in 2009 and beyond. The current assumption is that 90% of PFCs will be used to offset revenue bond debt service beginning in 2009.
- Refinance existing debt whenever possible to secure savings.
- Increase the use of variable rate debt to lower overall borrowing costs. Current target is 25% of total debt as variable rate debt.

**6. Reduce airline rates and charges**

- Current airline agreement (effective 1/1/06) sets airline rates based on cost recovery. While the agreement permits the Port to charge debt service coverage in rates and charges up to 1.25x if needed to bring total airport debt service coverage up to 1.25x, the 2007 business plan assumes rates and charges coverage stays at 1.0x through the term of the agreement (2012).
- The 2007 budget assumes the Port uses \$3.8 million of non-aeronautical net income to offset Federal Inspection Service (FIS) costs.

## **CHALLENGES AND OPPORTUNITIES**

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

### **Aeronautical:**

- Managing growth of airline costs – as measured by CPE.
- Planning facility expansion needs in the most cost-effective manner.
- Developing new international service – both passenger and cargo.
- Enhancing ramp safety.
- Mitigating project impacts (North Expressway, baggage systems).
- Facilitating customer throughput: improving customer experience while adding as little physical capacity as possible.
- Responding as required to changing TSA mandates.

### **Non-Aeronautical:**

- Parking garage is reaching capacity on peak days.
- Rental Car Facility – completing project in cost effective manner by March 2011. in order to create parking capacity and ease roadway congestion.
- Ensuring success of all concessionaires and increasing sales per enplanement.
- Moving approximately 300 acres of Port property into productive use.
- Finding appropriate balance between increased advertising revenues and desirable “look and feel” of facilities.

### **Division-wide**

- Improving emergency preparedness.
- Supporting small businesses – Airport has not met Port goals.
- Improving environmental stewardship.
- Managing our assets:
  - \$2.8 billion capital spending since 1999
  - Assess asset condition, plan for renewal and replacement
  - Implications of technology.

## **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***

In 1999, the Aviation Division articulated an ongoing organizational development strategy called “Crossroads.” The term Crossroads connotes the constant change facing the airport. The original causes of the crossroads (launched \$2.6 billion Phase I capital program, pending end of a 32-year airline lease agreement, and pending end of a 34-year master concession agreement) have changed, but “Crossroads” continues to resonate due to the constant change facing the airport.

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

1. **Implement demand-driven high density development:** Strategically plan and build airport facilities to most effectively meet demand growth.
2. **Develop and maintain a supportive community:** Build support at the state, regional and local levels through personal involvement and partnerships, communication and environmental stewardship.
3. **Create an extraordinary Northwest customer experience:** Deliver an extraordinary Northwest experience through the doors of a world-class airport.
4. **Maintain financial strength:** Ensure the financial resources to fund capital improvements and meet the operational needs of Sea-Tac Airport, while seeking to minimize the impact on our airline partners.
5. **Foster an exciting, high performance workplace:** Our people, systems, practices and work environment promote individual commitment and exceptional performance.

For 2007, the strategic focus for the Airport is as follows:

#### **Aeronautical:**

- Continue refinement of Comprehensive Development Plan (CDP) in order to achieve function and capacity through lower cost alternatives (refine CDP Light).
- Implement LEAN-like program focused on operating cost reduction. One example is the Airport Maintenance and Inventory System (AIMS) initiative.
- Finance – further reduce overall borrowing costs by increasing leverage of PFCs and increasing the use of variable rate debt.
- Utilize “excess” non-aeronautical NOI to offset some airline costs (e.g., Federal Inspection Services (FIS)).
- Redouble marketing efforts for new Western Europe and Asia air service (passenger and cargo).
- Implement technology to reduce capital requirements (e.g., Common Use Self-Service (CUSS) kiosks).
- Implement ramp safety initiatives such as: ramp tower technology enhancements, apron lighting improvements, and consider SafeDock automated aircraft docking system.
- Seek to minimize assumption of security responsibilities from TSA.

#### **Non-Aeronautical**

- Manage garage capacity and increase revenues through: rate setting, limiting non-revenue parkers during peak days, targeted marketing, and new product development.
- Continue support of concessionaires through: build-out of non-Central Terminal locations, marketing programs, improved signage, and technical assistance.
- Increase advertising revenue – RFP for new contract, increase use of advertising in technology.
- Land development: move “fallow” properties into development in order to generate new revenues.
- Initiate construction of Rental Car Facility in 2007.

#### **Division-wide:**

- Emergency preparedness: refine plans, train and drill.
- Small Business: Increase participation of small businesses in Aviation contracts.
- Environmental Stewardship: Complete baseline environmental performance assessment, initiate greenhouse gas emission inventory, implement Clean Airport recommendations, and conduct ongoing noise mitigation.
- Manage assets:
  - Implement sustainable asset management policies: use of total cost of ownership, enhance environmental performance, and create asset management system.
  - Implement reporting process to ensure timely booking of assets and demolitions.
  - Implement regular cycle for physical inventory.

## **E. 2007 BUDGET SUMMARY**

### **2007 Budget Target**

Consistent with the ongoing cost management strategy, the 2007 budget target was set to keep non-payroll costs flat compared to the 2006 budget. Payroll costs were permitted to grow consistent with Port guidelines and/or wage contracts for salary wages and benefits. The Aviation Division met its budget target with two exceptions:

- New facility costs relating to maintenance of landscaping and environmental monitoring for elements of the Third Runway project that have been completed (\$1.7 million)
- New security mandates for staffing exits and elevators (\$2.8 million)

### **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). This income can be used to fund non-aeronautical capital investments and operating costs without affecting airline rates and charges. 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.

#### **Aeronautical:**

- 2007 budgeted CPE of \$11.84, down slightly from budgeted 2006 CPE of \$11.95
- 2007 budgeted CPE down \$0.80 from last year's \$12.64 forecast for 2007.
- Total airline revenues (costs to the airlines) increasing 2.6% in spite of major new cost initiative (see above).

#### **Non-Aeronautical:**

- Non-airline revenues up \$12.7 million over 2006 budget
- Non-airline revenues up \$8.7 million over last year's forecast for 2007
- NOI increasing \$1.1 million over 2006 budget

### **Revenues**

Operating revenues are budgeted to increase by \$17.6 million over the 2006 budget. Airline revenues are budgeted to increase by \$4.8 million (2.6%), while non-airline revenues are budgeted to increase by 12.7 million (9.9%).

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). While many of the new initiatives are incorporated into the airline rate base (see below), the airline rate base also receives most of the benefit of reduced utility costs. Thus, airline costs are growing at a modest 2.6% level in spite of the new security costs and the maintenance and environmental monitoring costs related to the third runway.

Non-airline revenues are budgeted to increase by 12.7 million (9.9%) over the 2006 budget. Adjusting for volume of passengers, the overall non-airline revenues per enplaned passenger are budgeted to increase from \$8.60 to \$9.12, for a 6% increase. The revenue growth is driven by increased public parking and concessions revenues being realized in 2006. For 2007 we are budgeting total non-airline revenues per enplaned passenger of \$9.12 compared to a 2006 forecast of \$9.07 (+0.6%).

During 2006, Public Parking has seen strong growth in the 1-4 day category and the weekly program has remained popular in spite of the rate increase in early 2006. We currently forecast generating revenues of \$3.49 per enplaned passenger for 2006, compared to a budget of \$3.16. For 2007, Sea-Tac is budgeting for an increase of 3.7%, slightly more than the projected increase in enplanements (2.7%)

Concessions revenue growth has been strong in 2006 with the first full year of the new concession program. Total sales per enplanement are projected to be \$8.98 in 2006, up from \$7.75 in 2005. This represents 16% growth and indicates that the concessions program at Sea-Tac is now comparing favorably to top airport concessions programs (very few airports realize sales per enplanement above \$9.00). For 2007, Sea-Tac is budgeting to maintain sales per enplanement of \$8.98 and therefore assuming sales will increase with enplanement growth.

Revenues in Commercial Properties are expected to grow due to budgeting to maintain the increased revenues being realized from in-flight meals in 2006, and from the amortization of the payment from Sound Transit for the closure of the Radisson Hotel (covering lost revenues for 2006-2008. This was not included in the 2006 budget). The other notable change is that Utility revenues are budgeted to decrease due to the drop in commodity costs (primarily electricity - due to a full year of reduced rates from Bonneville Power Administration) and a reduction in capital amortization.

### **Operating Expenses**

The Port intends to adopt Government Accounting Standard #45 (Accounting for Other Post-Employments Benefits) in 2007. Consequently, the 2007 Aviation budget includes \$9.85 million in costs labeled as "OPEB Reserve." At this point, these costs are not included in airline cost recovery revenue formulas. If these OPEB costs are included, airline costs and Port airline revenues will be considerably higher. A determination of the appropriate amounts to include in airline rates and charges will be made in 2007 as the implementation issues are clarified.

Excluding the OPEB reserve, total airport operating costs (including corporate costs) are budgeted to increase by 6.3%. Excluding the new facility costs and the security mandates (see above), total operating costs would be increasing by \$5.7 million, or 3.6%. In 2007, the airport will benefit from reduced utility costs of \$3.5 million. The majority of the savings are due to reduced electrical rates from Bonneville Power Administration. This reduction in utility costs has allowed Sea-Tac to absorb increases to salary, wages and benefits, as well as a number of new critical initiatives, while maintaining a modest growth in total operating costs.

Key new initiatives include the following. Each is considered necessary to implement Port-wide or Aviation strategies, or is deemed necessary cost increases to support critical ongoing functions.

#### **Aeronautical**

- Security mandates \$2.8 million
- New facility costs (third runway) \$1.7 million
- Airfield safety (training, transponders) \$260,000
- International air service development \$145,000
- Emergency preparedness (training, supplies) \$122,000

#### **Non-aeronautical:**

- Land development support \$270,000
- Terminal space development \$100,000
- Parking (cash control, credit card fees) \$140,000
- Concessions/signage \$301,000

#### **Division-wide:**

- Project business case analysis \$300,000
- Performance audit support \$200,000
- Cost management – LEAN \$150,000
- Conference Center support \$90,000
- NPDES permit renewal support \$80,000
- Sustainable asset management \$50,000
- Greenhouse gas inventory \$50,000
- Small business initiative (\$50K total) \$15,000

The largest increase in the 2007 budget is for salary, wages and benefits. Salary wages and benefits make up about 58% of the Aviation expense budget. Port guidelines indicate that salary costs are expected to increase by 4.9% in 2007 and the cost of benefits is expected to increase as well. The 2006 budget did not include an increase for police wages, so the 2007 budget has a two-year increase built in.

### **Traffic**

Passenger traffic measured by enplaned passengers is projected to increase by 2.7% in 2007 over the 2006 forecast of 15.08 million. This is consistent with the growth level experienced through August 2006. Year-to-date (YTD) available seats are up 1.8% over YTD 2005 and load factors are slightly higher (80.9% in 2006 vs. 80.2% in 2005). YTD Landed weight is up 1.3% over 2006, while operations are down 1.1%. With load factors above 80%, future growth will largely depend on airlines adding capacity.

### **Full-Time Equivalent Staff Positions (FTEs)**

The 2007 budget proposes adding 26.5 FTEs while eliminating 12 FTEs. The overall FTE level will be up 17.0 over the 2006 budget because 2.5 FTEs were approved during 2006. Accounting for the entire net increase of 17 FTEs is the addition of 17.0 Terminal Access Controllers to control access to terminal elevators (from loading dock) in accordance with a new security mandate from the Transportation Security Administration (TSA). Of the 12 positions eliminated, 4.0 were for unfunded Landside supervisor positions, 5.0 were in Noise Remedy (capitalized), 2.0 were in Facilities and Infrastructure (partially capitalized), and 1.0 was in Project Management Group (capitalized). The proposed additions include:

- 17.0 Terminal Access Controllers
- 1.0 Training position for Airfield safety
- 1.0 Emergency planning training technician
- 1.0 Landside cash control assistant
- 0.5 Fire Department administrative staff
- 1.0 Conference Center assistant
- 1.0 Environmental wetland management
- 4.0 Maintenance Field Crew (temporary)

### **Capital Budget**

The Capital Budget for 2007 totals \$515 million. This will be another peak year of spending. Major projects for 2007 include: Third Runway (\$185 million), North Expressway Relocation (\$45 million), Noise program (\$45 million), Rental Car Facility (\$39 million), Security Program projects (\$35 million), Storm Water program projects (\$22 million), and the Alaska Airlines Two-Step Ticketing project (\$12 million). These projects account for \$383 million of the 2007 budget.

With the 2006 budget process, Aviation began using “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 CIP, while any budget savings are added to the CIP. For the 2007 budget we have further refined this approach by dividing the existing “Unprogrammed projects” CIP and Renewal & Replacement CIP into aeronautical and non-aeronautical CIPs. Thus, Aviation now has four allowance CIPs: New Projects- Aeronautical, New Projects – Non-aeronautical, Renewal & Replacement – Aeronautical, and Renewal & Replacement non-aeronautical. 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 remaining projects of the Phase I capital program use a similar approach, but there is a separate CIP (Phase I Unprogrammed Projects). Second, the Rental Car Facility is assumed to be funded by Customer Facility Charges (CFCs) so it is separate. Third, 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. Fourth, the budget for the Comprehensive Development Plan has been viewed separately.

For 2007, Aviation proposes adding twelve aeronautical projects totaling \$40 million and ten non-aeronautical projects totaling \$29 million. In addition, the budget includes increases for existing aeronautical and non-aeronautical projects of \$7 million each. During the budget process, budget cuts or reductions totaled \$89 million. All of these additions and subtractions were made to the allowance CIPs. Separately, a \$41 million increase was recognized for the Rental Car Facility.

The five-year capital program was reduced by \$212 million as a result of the budget review. The most notable change in the long-term capital program is the adoption of CDP Light. Over the past year, Aviation's Planning Department has been studying ways to reduce the cost of delivering the facilities contemplated under the CDP. Included in the business plan forecast is a total of \$1.3 billion through 2020 for CDP. This is down from \$2.2 billion. Over the next five years, the most notable change is the elimination of the Upper Drive Widening project. This \$104 million project is no longer in the CIP. \$50 million was transferred into Aeronautical New Projects to allow for the fact that some new projects will be needed to avoid the need to widen the upper drive. With the exception of this \$50 million, the remaining reductions in CDP were eliminated from the CIP rather than being added to an allowance CIP.

### **Financial Forecast/CPE**

The Port strives to maintain a competitive CPE. Last year the Port recognized that future CPE at Sea-Tac was still high. Based on the work done in 2006, the forecast of future CPE has decreased considerably since the 2006 budget. For 2007, the CPE is forecast to be \$11.84 compared to \$12.64 last year. For 2009, the forecasted CPE has dropped from \$14.15 to \$13.03. For 2012 the forecasted CPE has decreased from \$16.49 to \$14.32.

The major contributors to the reduction in CPE have included:

- Increasing assumed percentage of PFCs to offset revenue bond debt service from 80% to 90%.
- Reducing forecasted debt service costs by refunding debt in 2006 and increasing the assumed percentage of variable rate debt (up to 25%).
- Increasing non-airline revenues so that aeronautical debt service coverage for rates and charges purposes never exceeds 1.0x (total Aviation debt service coverage remains above 1.25x).
- Adopting CDP Light to reduce future capital program.
- Managing growth of O&M costs.
- Using some non-aeronautical revenues to offset some Federal Inspection Services (FIS) costs to make rates more competitive.

## OPERATING BUDGET SUMMARY

**TABLE V-4: REVENUE BY ACCOUNT**

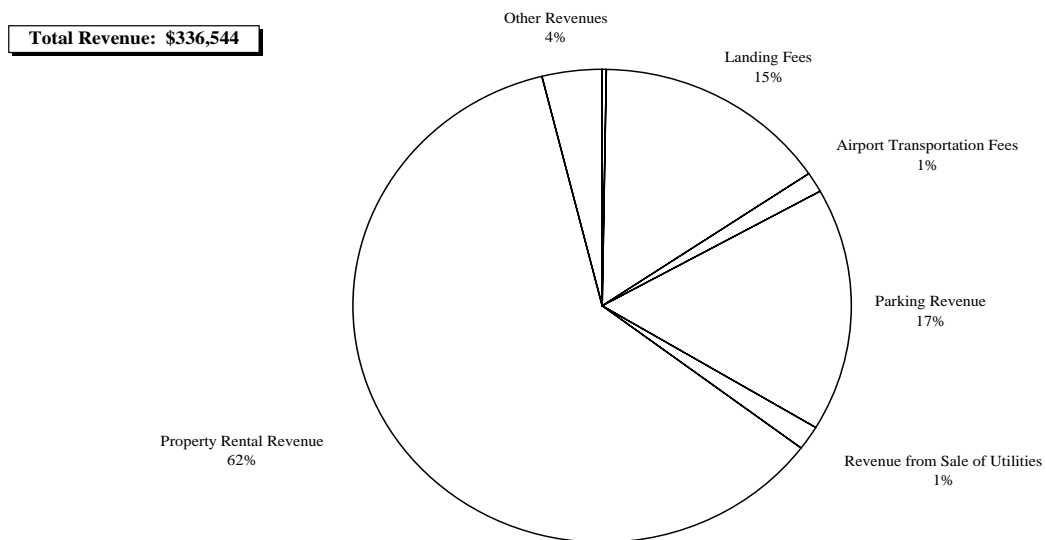
(in 000's)				
<b>Revenue by Account</b>	<b>2005 Actual</b>	<b>2006 Budget</b>	<b>2007 Budget</b>	<b>% Change 2007 Bud-2006 Bud</b>
<b><u>Operating Revenue</u></b>				
Equipment Rental	\$687	\$0	\$644	
Landing Fees	47,107	50,214	51,453	2.5%
Airport Transportation Fees	4,050	4,141	4,697	13.4%
Parking Revenue	47,358	48,749	56,595	16.1%
Revenue from Sale of Utilities	7,386	6,390	4,983	-22.0%
Property Rental Revenue	193,744	205,012	204,959	0.0%
Other Revenues	10,320	4,657	13,212	183.7%
<b>Total Operating Revenue</b>	<b>1</b>	<b>\$310,653</b>	<b>\$319,163</b>	<b>5.4%</b>
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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)



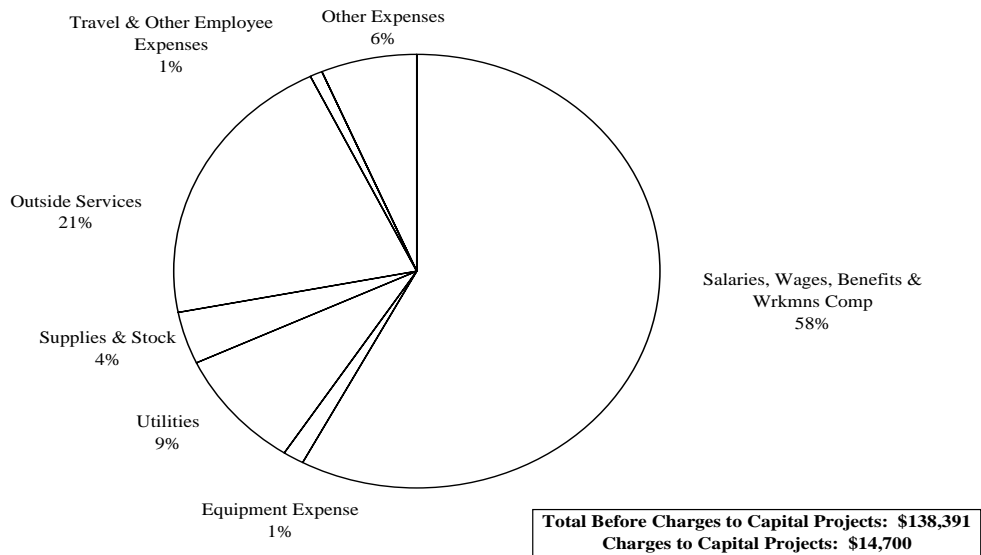
**TABLE V-5: OPERATING & MAINTANENCE EXPENSES BY ACCOUNT**

(in 000's)	2005 Actual	2006 Budget	2007 Budget	% Change 2007 Bud- 2006 Bud
<b>Expense by Account</b>				
Salaries, Wages, Benefits & Wrkmns Comp	\$67,582	\$74,044	\$79,915	7.9%
Equipment Expense	2,198	2,093	2,008	-4.1%
Utilities	13,572	15,919	12,433	-21.9%
Supplies & Stock	5,417	6,005	5,367	-10.6%
Outside Services	30,042	25,385	28,541	12.4%
Travel & Other Employee Expenses	659	881	1,184	34.5%
Promotional Expenses	341	344	287	-16.5%
Other Expenses	9,226	8,716	8,655	-0.7%
Divisional Allocation	101			
Subtotal	129,138	133,387	138,391	3.8%
Charges to Capital Projects	(14,114)	(15,833)	(14,700)	-7.2%
Total Budgeted Operating Expense	115,024	117,554	123,691	5.2%
Charges to Non-Aviation Departments		(481)	(441)	-8.4%
Total Operating Expense	\$115,024	\$117,072	\$123,250	5.3%

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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**

<b>AVIATION DIVISION</b>	(in 000's)				<b>% Change</b>
	Notes	<b>2005 Actual</b>	<b>2006 Budget</b>	<b>2007 Budget</b>	<b>2007 Bud - 2006 Bud</b>
<b>OPERATING REVENUES</b>					
<u>AIRLINE REVENUES</u>					
Landing Fees		47,107	50,214	51,453	2.5%
Terminal Rents		116,970	129,444	131,575	1.6%
Other Airline Revenues		2,514	2,540	3,815	50.2%
<b>Total Airline Revenues</b>		<b>166,592</b>	<b>182,197</b>	<b>186,843</b>	<b>2.6%</b>
<u>NON-AIRLINE REVENUES</u>					
Public Parking		45,782	47,300	54,634	15.5%
Rental Cars		32,353	31,866	32,747	2.8%
Employee Parking		5,327	5,195	5,349	3.0%
Ground Transportation		4,110	4,202	4,759	13.2%
Airfield Properties		6,717	6,168	6,088	-1.3%
Commercial Properties		12,210	3,554	5,235	47.3%
Concessions		26,232	23,475	27,213	15.9%
Utilities		7,386	6,390	4,983	-22.0%
Other		213	375	240	-36.0%
<b>Total Non-Airline Revenues</b>		<b>140,330</b>	<b>128,525</b>	<b>141,249</b>	<b>9.9%</b>
Check Point Security		-	-	-	n/a
Hydrant Facilities Revenue		3,732	8,441	8,452	0.1%
<b>Total Operating Revenues</b>		<b>310,653</b>	<b>319,163</b>	<b>336,544</b>	<b>5.4%</b>
<b>BUSINESS UNITS</b>					
Airport Operations		28,101	29,027	30,482	5.0%
Business Dev & Mgmt		9,879	3,721	3,818	2.6%
Utilities		14,198	16,555	13,045	-21.2%
<b>Business Units</b>		<b>52,178</b>	<b>49,304</b>	<b>47,345</b>	<b>-4.0%</b>
<u>AVIATION SERVICES</u>					
Aviation Director's Office		2,915	2,299	2,697	17.4%
Airport Employment Center		201	197	197	0.0%
Division Contingency		(46)	1,046	1,346	28.7%
Fire Department		8,670	9,308	9,715	4.4%
Aviation Planning		1,282	1,287	1,481	15.1%
Aviation Finance & Budget		625	674	734	8.9%
Project Management Group		946	800	1,063	32.9%
Community Development		982	884	920	4.1%
Airport Security		4,795	4,932	8,064	63.5%
<b>Aviation Executive</b>		<b>20,371</b>	<b>21,425</b>	<b>26,217</b>	<b>22.4%</b>
<u>AVIATION FACILITIES</u>					
AV Facilities & Infrastructure		1,353	1,712	1,830	6.9%
Aviation Signage		316	401	558	39.1%
Airport Building Department		105	152	137	-10.1%
Airport Office Building		(10)	453	550	21.2%
AV Environmental Programs Group		2,856	2,911	3,734	28.3%
Aviation Maintenance		36,396	41,195	43,320	5.2%
<b>Aviation Facilities</b>		<b>41,016</b>	<b>46,825</b>	<b>50,129</b>	<b>7.1%</b>
Aviation Capital to Expense		1,459	-	-	0.0%
<b>Total Division Expenses</b>		<b>115,024</b>	<b>117,554</b>	<b>123,691</b>	<b>5.2%</b>

2006 Revenues Expenses2.xls

## F. STAFFING

Table V-7 outlines the full-time equivalents (FTE) for the both Regular and Other categories in the Aviation division. Aviation is budgeting 853.1, which is 17 higher than 2006; these are for the Security for terminal elevators, converted from contractors to staff personnel.

**TABLE V-7: AVIATION DIVISION STAFFING**

<b>STAFFING</b> (Full-Time Equivalent Positions)				
<b>BUSINESS GROUP/DEPARTMENT</b>	2006 Budget	2006 Est. Act.	2007 Budget	% Change 2006 Bud - 2005 Bud
<b>AIRPORT OPERATIONS</b>				
Aeronautical Business Group	93.5	92.5	93.5	0.0%
Landside Business Group	91.0	88.0	89.0	-2.2%
<b>Airport Operations</b>	<b>184.5</b>	<b>180.5</b>	<b>182.5</b>	<b>-1.1%</b>
<b>BUSINESS DEVELOPMENT</b>				
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%
<b>Business Development</b>	<b>25.0</b>	<b>25.0</b>	<b>25.0</b>	<b>0.0%</b>
<b>AVIATION SERVICES</b>				
Airport Director's Office	11.0	12.0	13.0	18.2%
Fire Department	74.5	74.5	75.0	0.7%
Planning	11.0	11.0	11.0	0.0%
Aviation Finance & Budget	6.0	6.0	6.0	0.0%
Project Management Group	53.0	53.0	52.0	-1.9%
Community Development	15.0	15.0	10.0	-33.3%
Airport Security	69.0	69.0	86.0	24.6%
<b>Total Aviation Services</b>	<b>239.5</b>	<b>240.5</b>	<b>253.0</b>	<b>5.6%</b>
<b>FACILITIES</b>				
Facilities & Infrastructure	18.0	18.0	16.0	-11.1%
AV Signage	3.0	3.0	3.0	0.0%
Airport Building Department	6.0	6.0	6.0	0.0%
Airport Office Building	4.0	4.0	5.0	25.0%
Environmental	13.8	13.8	14.8	7.2%
Maintenance	321.0	320.0	322.0	0.3%
<b>Total Facilities</b>	<b>365.8</b>	<b>364.8</b>	<b>366.8</b>	<b>0.3%</b>
<b>TOTAL AVIATION DIVISION REGULARS</b>	<b>814.8</b>	<b>810.8</b>	<b>827.3</b>	<b>1.5%</b>
Limited Duration	4.0	6.0	4.0	0.0%
Temporary	14.0	14.0	18.0	28.6%
Interns	2.1	2.6	2.6	24.4%
On Call	1.2	1.2	1.2	0.0%
<b>TOTAL AVIATION DIVISION</b>	<b>836.1</b>	<b>834.6</b>	<b>853.1</b>	<b>2.0%</b>

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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.

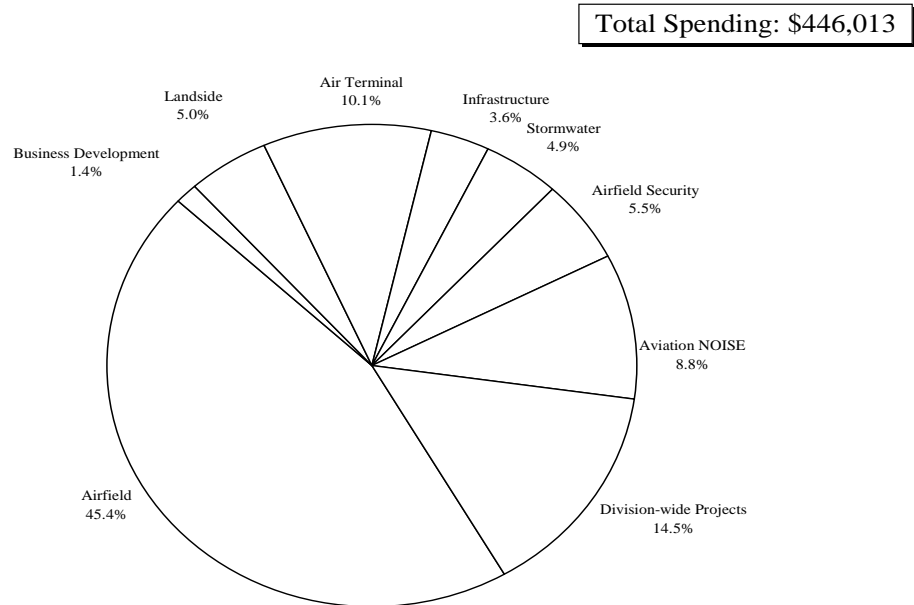
Table V-8 provides a Summary of the Aviation Approved Capital Budget for 2007.

**TABLE V-8: AVIATION CAPITAL BUDGET SUMMARY**

(\$ in 000's)	<b>2007 Budget</b>	<b>2007-2011 CIP</b>	<b>% of Total</b>
<b>Committed Capital Projects</b>			
Airfield	\$202,487	\$321,851	45.4%
Business Development	6,026	6,392	1.4%
Landside	22,475	31,509	5.0%
Air Terminal	45,118	81,208	10.1%
Infrastructure	16,046	24,722	3.6%
Stormwater	21,669	46,402	4.9%
Airfield Security	24,610	26,475	5.5%
Aviation NOISE	42,863	119,930	9.6%
Division-wide Projects	64,719	146,625	14.5%
<b>Total</b>	<b>\$446,013</b>	<b>\$805,114</b>	<b>100.0%</b>
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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
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%	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 Budget	14,950	2.2%	20,625	2.2%	344,681	1.8%
2006 Forecast	15,081	3.1%	20,198	0.1%	351,138	3.7%
2007 Budget	15,490	2.7%	20,380	0.9%	349,000	-0.6%
<b>Compound Growth</b>						
1995 - 2005		2.5%		-0.1%		-1.9%
2000 - 2005		0.6%		-2.6%		-5.8%

**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
<b>BUDGET</b>	Notes	Actual 2005	Budget 2006	Forecast 2006	Budget 2007	2007 Bud- 2006 Bud
Airline Revenue		\$ 165,927	\$ 182,197	\$ 181,489	\$ 186,843	2.5%
Non-airline Revenue		140,994	128,525	142,462	141,249	9.9%
Security Reimbursement		1,162	1,140	1,181	1,140	0.0%
Fuel Hydrant Revenues		3,732	8,441	8,441	8,452	0.1%
<b>Total Revenue</b>		<b>\$ 311,815</b>	<b>\$ 320,303</b>	<b>\$ 333,574</b>	<b>\$ 337,684</b>	<b>5.4%</b>
Operating & Maintenance Expense		117,233	119,345	119,059	132,726	11.2%
Corporate Administrative Expense	1	17,877	20,579	20,380	25,742	25.1%
Security Costs	2	5,704	6,319	6,319	6,533	3.4%
Law Enforcement Costs		14,218	14,613	14,613	15,942	9.1%
<b>Total Operating Expense</b>		<b>155,031</b>	<b>160,857</b>	<b>160,371</b>	<b>180,943</b>	<b>12.5%</b>
<b>Net Operating Income before Depreciation</b>		<b>\$156,784</b>	<b>\$159,446</b>	<b>\$173,203</b>	<b>\$ 156,742</b>	<b>-1.7%</b>
Depreciation		92,677	100,980	102,980	108,546	7.5%
<b>Net Operating Income after Depreciation</b>		<b>\$64,107</b>	<b>\$58,466</b>	<b>\$70,223</b>	<b>\$48,196</b>	<b>-17.6%</b>
<b>Committed Capital Budget</b>		n/a	418,647	406,231	446,013	6.5%
<b>Business Plan Prospective</b>		n/a	63,136	1,860	69,042	9.4%
<b>CAPITAL SPENDING</b>	3	<b>\$456,898</b>	<b>481,783</b>	<b>408,091</b>	<b>515,055</b>	<b>6.9%</b>
<b>TOTAL FTEs</b>		<b>802.1</b>	<b>836.1</b>	<b>834.6</b>	<b>853.1</b>	<b>2.0%</b>
<b>KEY MEASURES</b>						
Airline Cost Per Enplanement		\$ 11.10	\$ 11.95	\$ 11.82	\$ 11.84	-0.9%

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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 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.