

AVIATION DIVISION

A. 2008 BUDGET SUMMARY

TABLE V-1: 2008 BUDGET SUMMARY

(in thousands)	2004 Actual	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Budget
REVENUE:						
Services	105,432	112,859	126,249	126,888	128,866	142,415
Property Rentals	160,481	194,303	201,898	201,457	202,633	204,441
Fuel Hydrant Facility revenues	689	3,491	8,077	8,199	8,199	8,198
Security Grant and Contract revenues	1,196	1,162	1,276	1,140	1,140	787
Total revenue	267,798	311,815	337,500	337,684	340,838	355,842
OPERATING EXPENSES:						
Operations and maintenance	109,528	120,553	126,817	139,259	135,565	141,397
Earthquake repair expense - net	(195)	2,113	(182)	-	-	-
Law enforcement	14,398	14,218	14,343	15,942	15,618	16,340
Administration	18,102	17,876	19,775	25,742	26,066	30,244
Environmental - net	(17)	271	58	-	-	-
Total operating expenses before depreciation	141,816	155,031	160,811	180,943	177,249	187,982
OPERATING INCOME BEFORE DEPRECIATION	125,982	156,784	176,689	156,741	163,588	167,860
Depreciation	74,269	92,677	104,590	108,546	108,546	108,427
OPERATING INCOME AFTER DEPRECIATION	51,713	64,107	72,099	48,196	55,043	59,433
NON-OPERATING INCOME (EXPENSE) :						
Ad valorem tax levy revenue	-	6,766	1,174	7,570	7,570	12,275
Passenger facility charges revenue and related interest income	56,129	56,506	59,141	60,988	60,988	62,440
Customer facility charges revenue and related interest income	-	-	17,188	19,867	19,867	20,262
Grants and donations	115,312	104,980	116,783	115,223	115,223	75,709
Investment income - net	5,621	12,847	26,072	13,821	13,821	14,964
Revenue and capital appreciation bond interest expense	(51,979)	(78,470)	(93,922)	(105,516)	(105,516)	(99,806)
Passenger facility charges revenue bond interest expense	(5,923)	(12,604)	(12,258)	(11,880)	(11,880)	(11,449)
General obligation bond interest expense - net	-	-	-	-	-	-
Public Expense	-	(3,080)	(730)	-	-	(14,075)
Other expense - net	(8,771)	(19,284)	(22,663)	(102)	(102)	(496)
Total non-operating income - net	110,390	67,661	90,786	99,972	99,972	59,824
INCREASE (DECREASE) IN NET ASSETS	162,102	131,768	162,884	148,168	155,015	119,257
EMPLOYMENT (FTEs)	790.7	802.1	834.6	853.1	849.7	886.2

BD AVR VEX.XLS

B. BUSINESS PLAN FORECAST

TABLE V-2: BUSINESS PLAN FORECAST

		(in 000's)						Compound Growth 2007-2012
	Notes	Budget 2007	Budget 2008	Forecast				
				2009	2010	2011	2012	
OPERATING BUDGET								
Airline Revenue		\$192,932	\$197,567	\$216,648	\$235,337	\$259,540	\$275,885	7.4%
Non-airline Revenue		135,161	149,036	153,645	157,045	163,334	164,207	4.0%
Security Reimbursement		1,140	787	0	0	0	0	
Fuel Hydrant Facility		8,452	8,451	8,451	8,451	8,451	8,451	0.0%
Total Operating Revenues		337,684	355,842	378,744	400,833	431,325	448,543	5.8%
Operating & Maintenance Expense		139,259	141,397	148,268	154,055	162,751	167,403	3.8%
Corporate Administrative Expense	1	25,742	30,244	31,303	32,399	33,533	34,706	6.2%
Law Enforcement Costs		15,942	16,340	16,912	17,504	18,116	18,751	3.3%
Total Operating & Maintenance Expenses	2	180,943	187,982	196,483	203,957	214,400	220,860	4.1%
Net Operating Income Before Depreciation		\$156,741	\$167,860	\$182,261	\$196,876	\$216,925	\$227,683	7.8%
Total Depreciation Expense		108,546	108,427					
Net Operating Income After Depreciation		\$48,195	\$59,433					
								Total 2008-2012
Committed Capital Budget		\$446,013	\$354,238	\$287,642	\$171,650	\$80,164	\$1,932	\$895,626
Business Plan Prospective		69,042	54,336	202,320	179,287	173,201	150,304	759,448
TOTAL CAPITAL BUDGET	3	\$515,055	\$408,574	\$489,962	\$350,937	\$253,365	\$152,236	\$1,655,074

AVBPFOR.xls avsum

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) 2009-2012 Corporate Administrative and Law Enforcement Costs are included in Operating and Maintenance Expenses.
- 3) See Section IX for details of Capital Budget.

TABLE V-3: AVIATION KEY MEASURES

Key Measures	Budget	Forecast			
	2008	2009	2010	2011	2012
Operating Cost Per Enplanement	11.72	11.92	12.03	12.30	12.33
Non Airline Revenue Per Enplanement	9.29	9.32	9.26	9.37	9.17
Passenger Airline CPE	11.63	12.44	13.15	14.14	14.63
Traffic (in 000's)					
Total Landed Weight	21,320	21,763	22,216	22,679	23,151
Enplanements	16,040	16,489	16,951	17,425	17,913

AVMEASURES.XLS

C. DIVISION MISSION STATEMENT

The mission of Seattle-Tacoma International Airport is:

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.

D. BUSINESS PLAN AND STRATEGIES

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. The industry was profitable in 2006, but profits were dragged down by the ongoing bankruptcy of Delta and Northwest. According to the International Air Transport Association (IATA), the North American carriers are projected to earn a profit of \$2.7 billion this year, and 2008 will likely see increased profits. Fuel costs remain a concern, and some carriers have implemented fuel-related price increases. In spite of these increases, demand for passenger travel has remained strong.

Airlines are looking at a number of strategies to increase profitability. Some major carriers such as United Airlines have redirected resources to more profitable international service. Others are charging for services a la carte. 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. Industry consolidation remains possible if not likely, but no major deals are pending at this time.

Locally, Alaska Air Group (parent company of Alaska Airlines and Horizon Airlines) is showing improved financial performance. The Air Group reported 2007 year-to-date third quarter net profit of \$122 million compared to a loss of \$41 million through the third quarter of 2006. 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.

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 (as was the case from 2001-2005). Airports can and do implement measures to reduce both operating costs as well as capital budgets when necessary. While airport costs average about 5% - 6% of an airline's total costs, airlines continue to focus on managing airport costs.

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

Airports that have strong origin and destination (“O&D”) traffic are less vulnerable to the financial problems of any one carrier than a hub airport. The theory is that if one carrier disappears, the underlying demand for travel will induce existing carriers to expand service or another carrier to enter the market. 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 2006. Passenger traffic at Sea-Tac grew by 2.4% in 2006. For 2007, Sea-Tac experienced modest growth through the first half of the year, but enplanements surged in the third quarter to bring the year-to-date total 3.3% above 2006. This growth was due to airlines adding capacity while maintaining high load factors. In particular, Horizon operated larger aircraft and Delta added frequencies. Other carriers with strong growth in 2007 include Continental and Hawaiian. Sea-Tac also benefited from two new international flights. Air France initiated service to Paris in June, and AeroMexico launched service to Mexico City in July. Overall international passenger growth is up 6.9% through September. The forecast of total passengers for 2007 has been updated to 4.1% growth for the year.

The most recent long-term projection of passenger growth calls for a long-term growth rate of 3%. This is consistent with the FAA’s forecast for the region. Sea-Tac experienced higher growth in 2004, lower growth in 2005 and slightly lower growth in 2006. 2007 is tracking above 3%. Since the same long-term projection is maintained for 2021 (45 million annual passengers), the growth rates for 2008-2021 have been adjusted to below 3%. 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 2006. This percentage has been essentially flat since 2003. In addition, there is a relatively low concentration of service by the dominant carriers. The largest airline (Alaska) accounted for 36.2% of the enplaned passengers in 2006, and the top three airlines (Alaska, Horizon, and United) accounted for 57.7% of the passenger traffic. Looking at year-to-date figures for 2007, Alaska has dropped to 35.4% market share, while Horizon has grown to 12.6%. As of September, Southwest Airlines has passed United to become the number three carrier. Both show 8.7% of year-to-date market share. Relatively high O&D traffic and relatively low concentration of dominant carriers reduces Sea-Tac’s vulnerability to the effects of any given carrier reducing capacity or suffering financial difficulties. Only Alaska Airlines uses Sea-Tac as a hub.

Current and long-term cost management continues to be a strategic focus of Sea-Tac Airport. With a forecasted CPE of \$11.81 for 2007, 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 lower than San Francisco, slightly above Portland and Denver, and higher than Los Angeles, Phoenix, Salt Lake City, San Diego and Oakland.

By the end of 2007, Sea-Tac will have invested over \$3.1 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 \$409 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 \$3.5 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 \$12.44 based on current assumptions for passenger growth. 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 (\$12.44) reflects the Port’s ongoing commitment to manage costs and maintain a competitive CPE. The Port will continue to focus on reducing future CPE.

CHALLENGES AND OPPORTUNITIES

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

Aeronautical Challenges:

- Managing growth of airline costs – as measured by CPE
- Planning facility expansion needs in the most cost-effective manner
- Supporting regional cargo demand
- Mitigating project impacts (North Expressway, baggage systems)
- Baggage systems operations and expansion
- Responding as required to changing TSA mandates.

Non-Aeronautical Challenges:

- Rental Car Facility – reach agreement, complete project in cost-effective manner by March 2011
- Moving approximately 300 acres of Port property into productive use
- Garage reaching capacity on peak days.

Division-wide Challenges:

- Environmental leadership: collaborating with airlines/customers; achieving a balance between technology, carbon reduction and cost
- Improving emergency preparedness
- Supporting Office of Social Responsibility to achieve goals for small businesses, apprenticeships and hiring
- Attracting and retaining high quality employees
- Managing our assets:
 - \$3.1 billion capital spending since 1999
 - Assess asset condition, plan for renewal and replacement.

Opportunities:

- Modest additional terminal concessions opportunities
- Accelerating use of PFCs to offset debt service in 2008
- FAA reauthorization may increase PFC level, facilitating a reduction in CPE
- Attracting more international service, thereby lowering per unit costs
- Using available non-airline revenues.

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

1. Supportive Community

GOAL: Develop and maintain a supportive community.

OBJECTIVES:

- Partner with Airport Jobs and within the community to increase educational and career advancement opportunities for airport employees by obtaining new scholarship money for and expanding class offerings at Airport University.
- Engage employees in each Aviation Division department to identify and implement how -- either through their expertise or their relationships with tenants and customers – they can directly support the airport communities.
- Enhance youth understanding and interest in the aviation industry through the implementation of a local high school internship program that regularly brings students to work at the airport.
- Use the third runway opening milestone as a means of celebrating with the local communities the efforts to mitigate the impacts of the airport on the surrounding area and the creation of positive working relationships going forward.

2. Customer Service

GOAL: Make Sea-Tac one of the nation’s top ten airports in overall customer service experience within the next five years.

OBJECTIVES:

- Improve facility accessibility for the growing number of older travelers and travelers with disabilities; including meeting or exceeding ADA requirements.
- Upgrade terminal facilities to create a more welcoming and efficient arrivals experience for arriving international travelers; including a strong ‘Seattle’ sense of place.
- Institute system improvements that ensure domestic air carriers’ baggage delivery times are under 30 minutes for 90% of all inbound flights.
- Create a new consumer-oriented airport website.
- Improve computer/internet connectivity and entertainment systems (i.e., CNN) available to travelers in the terminal with neutral or positive revenue impact.
- Enable all airport employees to live up to a clear, common airport customer service standard; communicated via tenant and airline new employee orientations and other channels.
- Improve the quality and availability of one-on-one customer service assistance provided by Sea-Tac (paid and volunteer) customer service staff.
- Relocate permitted smoking areas away from those areas regularly used by non-smokers.

3. High Performance Workplace

GOAL: Create and maintain a workplace of motivated and engaged employees where all employees feel welcome, see the value of their work and take personal ownership of their and the Airport’s goals.

OBJECTIVES:

- Ensure that every full-time airport employee has an employee development plan in place and that supervisors make available appropriate employee development opportunities.
- Foster a workplace that supports challenges to the status quo, incorporates new ideas and knowledge, and continuously strives for improvement by establishing an effective communication program that allows Aviation Division staff to offer ideas and feedback on how to make the airport a “best place to work...”
- Establish an Aviation Division-wide mentoring program that matches employees with mentors.
- Achieve a workplace injury rate 10% below the national average and provide all employees with the tools and resources necessary to gain and maintain a healthy lifestyle.

4. Aeronautical Business

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

OBJECTIVES:

- By the end of 2008, complete a strategic master plan for terminal development, which includes technological, operational, and physical enhancements that optimize the utilization of the airport's current facilities, including common use self service kiosks, two-step ticket processing, and baggage system screening, make-up, and claim.
- Expand and enhance cargo facilities and capacity and attract additional cargo carriers in order to ensure that the Sea-Tac can meet the region's growing demand for air cargo service.
- Through the implementation of cost-saving initiatives such as AIMS (Airport Inventory Management System) and the development of new business ventures, keep the airline CPE at or below \$13.50 (including non-airline net income offsets) through 2012, the end of the current airline agreement.

5. Non-Aeronautical Business

GOAL: Pursue non-aeronautical business ventures that contribute to the airport's long-term financial strength, maximize non-airline net income and support other strategic goals.

OBJECTIVES:

- Initiate development of key Port properties in SeaTac, Burien and Des Moines as soon as practicable.
- Create new concession opportunities that provide for a more complete array of products and services for the traveling public.
- Increase advertising revenues through value added promotion programs that do not detract from the ambience of airport facilities.
- Accommodate the rental car industry in a long-term consolidated facility by 2011
- Continue to increase parking business net income through new pricing and innovative services.

6. Environmental Leadership

GOAL: Implement all reasonable projects and programs that minimize the airport's environmental footprint while meeting the region's air travel demands in a sustainable manner.

OBJECTIVES:

- Engage all airport stakeholders to assist in defining the strategic environmental focus areas for the airport.
- Build momentum and broad community support by identifying and implementing all near-term and readily achievable environmental beneficial actions by the end of 2008.
- Launch a campaign that engages, educates and instills a sense of personal responsibility for environmental performance within the Aviation Division.
- Establish an environmental "footprint" measurement mechanism that provides a means of regularly evaluating the performance and impact of the airport's actions.
- Implement an alternative fuel and emission reduction policy for the airport's ground sources of emissions.
- Develop and implement a policy that complies with EX-15 and requires LEED experience for design consultant selection processes at the airport

7. Small Business

GOAL: Significantly increase the number of small businesses providing services and products to the airport.

OBJECTIVES:

- Finalize by April 1 an accurate and comprehensive record keeping process that effectively tracks all Aviation Division small business participation.
- By July 1, 2008, identify the procedures and practices which dampen small business and Aviation Division participation in the Port's Small Business Initiative and initiate a strategy for their restructuring or removal.
- By end of 2008, achieve 10% target of all service and product contracts with the Aviation Division will be with qualified small businesses.
- Roll out in 2008 a community outreach program that publicizes the Port's small business opportunities and results in new small businesses enrolling on the Port's small business roster and providing goods and services to the airport.
- By end of 2008, complete the airport's Small Business Initiative and roll it into the larger effort led by the Port's Office of Social Responsibility.

8. Emergency Preparedness

GOAL – Establish and sustain an integrated emergency preparedness program that allows the airport to successfully prepare for, respond to and recover from all emergencies.

OBJECTIVES:

- By July 1, 2008, complete all components of the Comprehensive Emergency Management Plan.
- Conduct comprehensive emergency training and exercise programs that reach all appropriate airport employees by the end of 2008.
- Design and implement by the end of 2008 an outreach plan informing all outside stakeholders on the airport's emergency preparedness program and their potential roles.
- Identify by January 1, 2008 and implement by April 1, 2009 all technological tools required for the Aviation Division to prepare for, respond to and recover from all emergencies.
- By April 1, 2009, complete the airport Emergency Preparedness Initiative by ensuring that emergency preparedness has been incorporated into all appropriate departments and functions of Sea-Tac Airport.

E. 2008 BUDGET SUMMARY

Overview

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

On the Non-aeronautical side of the business, the primary goal is to increase cash flow as measured by net operating income (NOI). 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.

Budget Highlights

Aeronautical:

- 2008 budgeted CPE of \$11.63, down from budgeted 2007 CPE of \$11.84
- 2008 budgeted CPE down \$1.07 from last year's \$12.70 forecast for 2008.
- Total airline revenues (costs to the airlines) increasing 2.4%

Non-Aeronautical:

- Non-airline revenues up \$13.9 million over 2007 budget
- Non-airline revenues up \$4.2 million over last year's forecast for 2008
- NOI increasing \$5.0 million over 2007 budget

Revenues

Operating revenues are budgeted to increase by \$18.2 million (5.4%) over the 2007 budget. Airline revenues are budgeted to increase by \$4.6 million (2.4%), while non-airline revenues are budgeted to increase by \$13.9 million (10.3%).

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 revenue bond debt service is increasing by \$5.2 million, the Port is planning to use \$10.1 million of Passenger Facility Charge revenues (PFCs) to offset debt service in 2008. Thus, in spite of the fact that significant new resources are being added to the aeronautical budget, the cost increase, and thus the revenue increase, is quite modest.

Non-airline revenues are budgeted to increase by 13.9 million (10.3%) over the 2007 budget. Adjusting for volume of passengers, the overall non-airline revenues per enplaned passenger are budgeted to increase from \$8.73 to \$9.29, for a 6.5% increase. The revenue growth is driven by increased public parking, rental car and concessions revenues.

Demand for parking in the Port's garage has been very strong in 2007. The garage reached capacity on a number of days, creating inconvenience for travelers. Parking rates were increased once in 2007, but this did not make a noticeable impact on demand. The 2008 budget reflects another rate increase that is intended to manage parking demand. The rate increase is assumed to also generate increased revenues. Total parking revenues are budgeted to increase to \$3.79 per enplaned passenger, up from \$3.53 budgeted in 2007.

Rental car revenues are anticipated to grow in 2008 as rental car companies are again expected to exceed the minimum annual guaranteed concession fees.

Primary concessions (food and beverage, retail and duty free) revenue per enplaned passenger has grown from \$9.00 in 2006 to a forecast of \$9.66 in 2007 and a budget of \$10.15 in 2008. This strong sales performance is resulting in increased Port revenue per enplanement. In addition, a new advertising contract, signed in 2007, will generate increased revenues.

Operating Expenses

Total airport operating expenses (including Corporate costs) are budgeted to total \$188.0 million. This represents a 3.9% increase over the 2007 budget. Excluding the costs for Other Post Employment Benefits (OPEB), the budget is increasing by 9.9% over 2007, due to an estimated reserve of \$9.9 million incorporated into the 2007 budget.

The Aviation Division's budget for O&M costs is increasing by 8.4% over 2007. This includes \$1.5 million for OPEB. Excluding OPEB, the budget would be increasing by 7.2%. Most of this growth is due to payroll costs. Looking at the 2008 baseline budget (before adding in proposed new FTEs), payroll costs are up 8.8% above 2007. Salary, wages and benefits are all growing faster than in recent years. In addition, the 2007 budget included \$1.75 million for outside contractors for security functions in the terminal. During 2007, the Port hired 15 FTEs to perform this function, thus increasing wages and benefits.

The 2008 baseline budget incorporated standard increases to salary, wages and benefits in accordance with wage contracts and Port policies. It also included utility cost increases. During the budget review process, over \$12 million for new initiatives was proposed. The 2008 Preliminary Budget incorporates \$5.8 million for new initiatives. These include new facility costs, costs supporting new non-airline revenues, strategic initiatives, and other new initiatives. Each is considered necessary to implement Port-wide or Aviation strategies, or is deemed necessary cost increases to support critical ongoing functions.

New Facility Costs:

- Third Runway: activation, maintenance \$128,000
- Baggage systems: Maintenance, Operations \$947,000
- Other: 400H, Potable Water \$46,000

Costs Supporting New Revenues:

- Real estate development \$200,000
- Concessions standards update \$150,000
- Airport land appraisal \$100,000
- Other: Conference Center \$32,000

Strategic Initiatives:

1. Supportive Community \$60,000
2. Customer Service
 - Pathfinders (2.0), Volunteer coordinator (0.5) \$122,000
 - Concourse signage upgrades \$75,000
3. High Performance Workplace
 - Bridge program – internal intern (1.0) \$110,000
 - Core competency training \$52,000
4. Aeronautical Business
 - Terminal/baggage/FIS planning \$350,000
 - International air service development \$327,000
 - Other \$195,000

5. Non-aeronautical Business	
• Central terminal grease duct repairs	\$511,000
• Other	\$182,000
6. Environmental Leadership	
• Recycling management support	\$100,000
• Env. Leadership program management (1.0)	\$84,000
• Environmental education in terminal	\$75,000
• Revise airport design standards	\$50,000
• Environmental footprint tracking	\$50,000
• Other	\$95,000
7. Small Business	\$40,000
8. Emergency Preparedness	\$108,000

Other New Initiatives:

• Fire suppression – Maintenance (2.0)	\$200,000
• Comprehensive water system plan	\$100,000
• Performance audit support	\$90,000
• Maintenance asset manager (1.0)	\$90,000
• Conference Center and AOB maint. & repair	\$75,000
• Other	\$350,000

Total new initiatives \$5.8 million

Overall, salary, wages and benefits make up 61.2% of the Aviation Division Preliminary Budget. Utilities make up 9.6%. The remainder of the budget is made up of contracted services, supplies, equipment and other costs.

2008 Budget Target

Consistent with the ongoing cost management strategy, the 2008 baseline budget target was set to keep non-payroll and non-utility costs flat compared to the 2007 budget. Payroll costs were permitted to grow consistent with Port guidelines and/or wage contracts for salary, wages and benefits, and utility costs reflect expected costs for 2008. As in prior years, budget target exceptions were made for new facility costs (O&M costs for new assets) and costs that support new non-airline revenues. The Aviation Division met its adjusted budget target:

Target Reconciliation	<u>\$ 000's</u>
2007 Budget	123,691
Baseline payroll increase	7,895
Baseline utility increase	438
Baseline Budget	<u>132,024</u>
Target Exceptions	
New Facility costs	1,120
Costs supporting new revenues	438
	<u>1,558</u>
Adjusted 2008 Target	133,582
2008 Budget	<u>133,406</u>
Under (Over) Target	176

Traffic

Passenger traffic measured by enplaned passengers is projected to increase by 2.8% in 2008 over the 2007 forecast of 15.6 million enplanements. This is down slightly from the latest forecast for 2007 (4.1% growth) due to strong growth during the third quarter making up for lower than budgeted growth through the second quarter. Year-to-date (YTD) available seats are up 4.8% over YTD 2006 and load factors are slightly lower (79.7% in 2007 vs. 80.9% in 2006). YTD Landed weight is up 2.5% over 2007, while operations are up 1.7%. Carriers have added capacity in 2007, so there are available seats to accommodate growth in 2008.

Full-Time Equivalent Staff Positions (FTEs)

The 2008 budget proposes adding 22.7 FTEs while eliminating 5.8 FTEs. The overall FTE level will be up 16.9 over the 2007 level (1.9%) because 16.2 FTEs were approved during 2007. In accordance with a security mandate from the Transportation Security Administration (TSA), in 2007 the Port took over controlling access to terminal elevators (from the loading dock) and two exit lanes (lower level). The costs for these functions were included in the 2007 budget as contracted services rather than FTEs.

For 2008, the main drivers for the increase in FTEs are maintenance and operations of new facilities and resources to support the implementation of strategic initiatives.

New Facilities:

- Baggage handling coordinators 2.0
- Mechanical support for C-1 Baggage 3.0
- Electronic support for C-1 , C-88 1.0
- Baggage handling and Ops. Support 3.0
- Third Runway – electrical 1.0

Strategic Initiatives:

- Supportive Community (5 high school interns) 1.0
- Customer Service: (2.0 Pathfinders, volunteer coord.) 2.5
- High Performance Workplace (internal intern) 1.0
- Environmental Leadership (program management) 1.0
- Emergency Preparedness (Admin and intern) 1.2

Other New Initiatives:

- Landside supervisor 1.0
- Ground transportation agent 1.0
- Associate financial analyst 1.0
- Maintenance – fire suppression inspections 2.0
- Maintenance asset manager 1.0

Capital Budget

The Capital Budget for 2008 totals \$409 million. This will be another peak year of spending. Major projects for 2008 include: Third Runway (\$49 million), North Expressway Relocation (\$17 million), Noise Program (\$36 million), Rental Car Facility (\$80 million), and Security Program projects (\$82 million). These projects account for \$264 million of the 2007 budget.

By the end of 2008, the \$2.6 billion phase I capital program will be complete. There will be remaining costs to close out projects, but the construction should be done. In conjunction with the development of the 2008-12 capital budget, Aviation reviewed all of the Phase I CIPs and identified \$85 million in savings (\$52 million for Third Runway and related land acquisitions, \$30 million for programmatic contingencies, \$3 million for other savings).

With the 2008 budget process, Aviation continued to use the “allowance” CIPs to manage the overall level of capital spending. Under this approach, the budget for newly approved projects and budget increases are deducted from the allowance CIPs, while any budget savings are added to the CIPs. This approach applies to non-Phase I CIPs, so the \$85 million in Phase I CIP savings was not added to the allowance CIPs. Using these allowance CIPs like a checkbook (or zero-sum game) produces a very disciplined decision making process. This approach to capital budget management is also consistent with our airline cost reduction strategy in that capital costs have the largest impact on future CPE.

There are exceptions to the use of the allowance CIPs as the source or recipient of all budget changes. First, the 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 2008, Aviation was faced with compelling strategic justification for a number of new aeronautical projects, while the aeronautical allowance CIPs have relatively low balances due to cost overruns on the C-1 Baggage system project. The budget proposes to add 28 new projects and \$227 million as follows:

- Aeronautical New Projects: 8 projects for \$56 million
- Aeronautical Renewal & Replacement: 17 projects totaling \$164 million
- Non-Aeronautical New Projects: none
- Non-Aeronautical Renewal & Replacement: 3 projects totaling \$6.7 million.

The key new projects include:

Aeronautical New Projects:

- Preconditioned Air \$24.9 million
- Cargo 2 West Hardstand Expansion \$13.3 million
- Connect B-1 BHS to C88 \$7.8 million
- C61 BHS Modifications \$5.5 million

Aeronautical Renewal & Replacement:

- Runway 16L/34L Reconstruction \$78.0 million
- Terminal Escalators – replace 42 \$55.0 million
- Main Terminal HVAC Upgrades \$8.5 million
- Runway 16C/34C Panel Replacement \$6.0 million

All of these new projects are business plan prospective projects, meaning that additional work is required to finalize the scope, timing and budget for these projects. Nonetheless, the business cases were compelling. Rather than defer these projects, Aviation proposes to accommodate them in the budget by increasing the Aeronautical New Project CIP by \$63 million, Aeronautical Renewal & Replacement CIP by \$114 million, for a total increase of \$177 million.

The five-year capital program is increasing by \$199 million compared to the July 2007 forecast. This is primarily due to the increase in the two allowance CIPs, but also reflects a \$94 million increase in the Rental Car Facility and the net impacts of Phase I savings and other cash flow timing changes.

Financial Forecast/CPE

The Port strives to maintain a competitive CPE, in spite of rising costs due the capital program. 2009 has been a benchmark year for Sea-Tac Airport since this is the year the full costs of the Third Runway and all of the projects in the Phase I Capital Program hit the airline rate base. The 2009 forecasted CPE has dropped from \$14.15 (2006 budget forecast) to \$13.03 (2007 budget forecast) to the current forecast of \$12.44. For 2012 (final year of the current airline agreement) the forecasted CPE has decreased from \$16.49 (2006 budget forecast) to \$14.32 (2007 budget forecast) back up to \$14.63 (current forecast). This increase in 2012 is primarily due to increases in the aeronautical CIP.

OPERATING BUDGET SUMMARY

TABLE V-4: REVENUE BY ACCOUNT

(in 000's)				
Revenue by Account	2006 Actual	2007 Budget	2008 Budget	% Change 2008 Bud-2007 Bud
Operating Revenue				
Equipment Rental	\$754	\$644	\$706	9.6%
Landing Fees	46,730	51,453	58,878	14.4%
Airport Transportation Fees	4,163	4,697	4,368	-7.0%
Parking Revenue	53,628	56,595	62,989	11.3%
Revenue from Sale of Utilities	6,424	4,983	5,093	2.2%
Property Rental Revenue	205,812	204,959	208,271	1.6%
Other Revenues	18,801	13,212	14,750	11.6%
Revenues from Corporate	1,188	1,140	787	-30.9%
Total Operating Revenue	\$337,500	\$337,684	\$355,842	5.4%

avbud.xls bud

Notes:

- 1) Includes revenue from Police (Corporate).

FIGURE V-1: AVIATION DIVISION REVENUE BY ACCOUNT

(\$ 000'S)

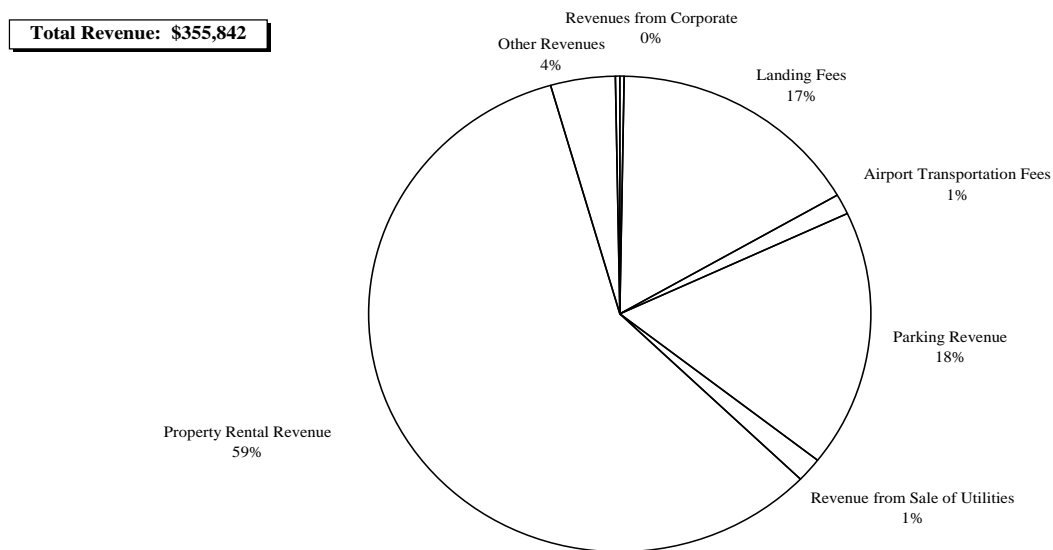


TABLE V-5: OPERATING & MAINTANENCE EXPENSES BY ACCOUNT

(in 000's)	2006 Actual	2007 Budget	2008 Budget	% Change 2008 Bud- 2007 Bud
Expense by Account				
Salaries, Wages, Benefits & Wrkmns Comp	\$73,734	\$89,597	\$91,067	1.6%
Equipment Expense	2,206	2,081	2,094	0.6%
Utilities	15,273	12,433	12,872	3.5%
Supplies & Stock	6,347	5,316	4,777	-10.1%
Outside Services	31,998	31,974	31,284	-2.2%
Travel & Other Employee Expenses	778	1,306	1,463	12.0%
Promotional Expenses	236	303	1,151	280.3%
Other Expenses	8,412	10,707	10,136	-5.3%
Divisional Allocation				
Subtotal	138,983	153,717	154,844	0.7%
Charges to Capital Projects	(12,290)	(14,458)	(13,447)	-7.0%
Total Budgeted Operating Expense	126,693	139,259	141,397	1.5%
<u>Corporate Allocation:</u>				
Law Enforcement	14,343	15,942	16,340	2.5%
Administration	19,775	25,742	30,244	17.5%
Total Corporate Allocation	34,118	41,684	46,584	11.8%
Total Operating Expense	160,811	180,943	187,982	3.9%

FIGURE V-2: AVIATION DIVISION EXPENSE BY ACCOUNT

(\$ in 000's)

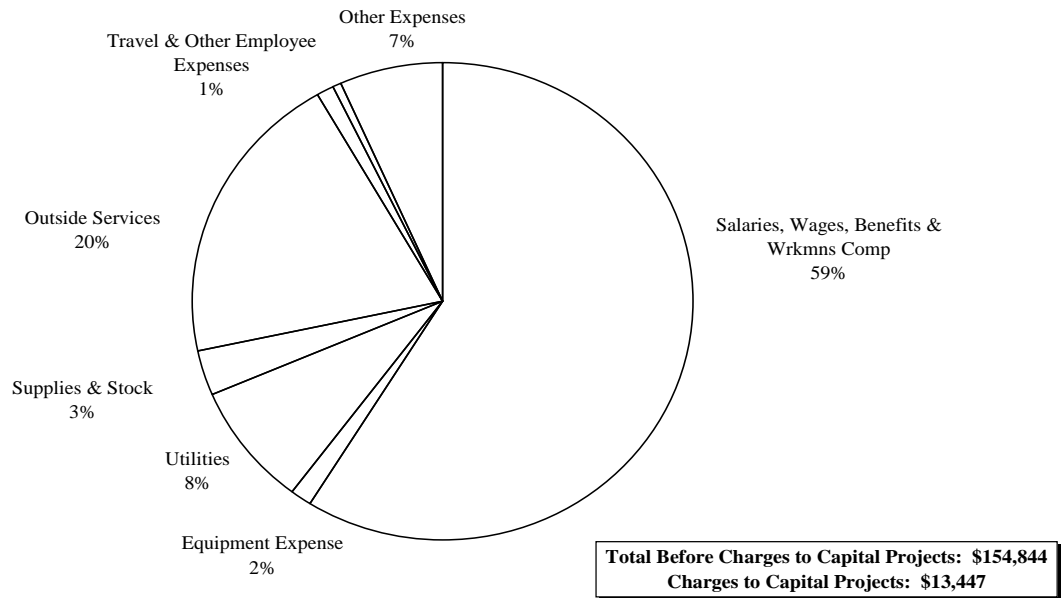


TABLE V-6: REVENUE AND EXPENSE BY BUSINESS GROUP/DEPARTMENT

AVIATION DIVISION	(in 000's)				
	Notes	2006 Actual	2007 Budget	2008 Budget	% Change 2008 Bud - 2007 Bud
OPERATING REVENUES					
<u>AIRLINE REVENUES</u>					
Landing Fees		46,730	51,453	58,878	14.4%
Terminal Rents		128,957	131,575	126,224	-4.1%
Other Airline Revenues		10,685	9,903	12,465	25.9%
Total Airline Revenues		186,372	192,932	197,567	2.4%
<u>NON-AIRLINE REVENUES</u>					
Public Parking		52,617	54,634	60,870	11.4%
Rental Cars		34,010	32,747	36,014	10.0%
Employee Parking		5,061	5,349	5,513	3.1%
Ground Transportation		4,222	4,759	4,430	-6.9%
Commercial Properties		10,489	5,235	5,055	-3.5%
Concessions		28,322	27,213	31,853	17.1%
Utilities		6,394	4,983	5,093	2.2%
Other		474	240	210	-12.5%
Total Non-Airline Revenues		141,589	135,161	149,036	10.3%
Check Point Security		-	-	-	n/a
Hydrant Facilities Revenue		8,351	8,452	8,451	0.0%
Revenues from Corporate	1	1,188	1,140	787	-31.0%
Total Operating Revenues		337,500	337,684	355,842	5.4%
<u>BUSINESS UNITS</u>					
Airport Operations		29,676	30,482	31,890	4.6%
Business Dev & Mgmt		4,385	3,818	4,696	23.0%
Utilities		15,815	13,045	13,293	1.9%
Business Units		49,876	47,345	49,879	5.4%
<u>AVIATION SERVICES</u>					
Aviation Director's Office		2,266	2,697	3,764	39.5%
Airport Employment Center		197	197	197	0.0%
Division Contingency		8	1,346	1,346	0.0%
Fire Department		9,303	9,715	10,368	6.7%
Aviation Planning		1,297	1,481	1,943	31.1%
Aviation Finance & Budget		673	734	727	-0.9%
Project Management Group		946	1,063	1,029	-3.1%
Community Development		839	920	1,200	30.4%
Airport Security		6,034	8,064	7,631	-5.4%
Aviation Services		21,564	26,217	28,205	7.6%
<u>AVIATION FACILITIES</u>					
AV Facilities & Infrastructure		1,355	1,830	1,946	6.4%
Aviation Signage		348	558	511	-8.3%
Airport Building Department		130	137	376	174.5%
Airport Office Building		443	550	732	33.3%
AV Environmental Programs Group		2,735	3,734	4,303	15.2%
Aviation Maintenance		40,479	43,320	48,108	11.1%
Aviation Facilities		45,490	50,129	55,976	11.7%
Aviation Capital to Expense		2,261	-	-	0.0%
Total Aviation Budgeted Operating Expense		119,191	123,691	134,061	8.4%

2008 Revenues Expenses2.xls

Notes:

1) Includes revenue from Police (Corporate).

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 886.2, which is 36.5 higher than 2007.

TABLE V-7: AVIATION DIVISION STAFFING

STAFFING (Full-Time Equivalent Positions)	2007 Budget	2007 Est. Act.	2008 Budget	% Change 2008 Bud - 2007 Bud
BUSINESS GROUP/DEPARTMENT				
<u>AIRPORT OPERATIONS</u>				
Aeronautical Business Group	93.5	95.5	100.0	7.0%
Landside Business Group	89.0	87.0	89.0	0.0%
Airport Operations	182.5	182.5	189.0	3.6%
<u>BUSINESS DEVELOPMENT</u>				
Aviation Properties	8.0	8.0	9.0	12.5%
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	0.0	-100.0%
Business Development	25.0	25.0	25.0	0.0%
<u>AVIATION SERVICES</u>				
Airport Director's Office	13.0	11.0	12.0	-7.7%
Fire Department	75.0	75.0	75.0	0.0%
Planning	11.0	10.0	11.0	0.0%
Aviation Finance & Budget	6.0	5.0	6.0	0.0%
Project Management Group	52.0	43.0	52.0	0.0%
Community Development	10.0	7.0	8.0	-20.0%
Airport Security	86.0	100.0	100.0	16.3%
Total Aviation Services	253.0	251.0	264.0	4.3%
<u>FACILITIES</u>				
Facilities & Infrastructure	16.0	16.0	16.0	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	5.0	4.0	5.0	0.0%
Environmental	14.8	14.0	16.5	11.5%
Maintenance	322.0	324.0	335.0	4.0%
Total Facilities	366.8	367.0	381.5	4.0%
TOTAL AVIATION DIVISION REGULARS	827.3	825.5	859.5	3.9%
Limited Duration	4.0	3.0	4.0	0.0%
Temporary	18.0	15.0	18.0	0.0%
Interns	2.6	5.0	3.5	35.3%
On Call	1.2	1.2	1.2	0.0%
TOTAL AVIATION DIVISION	853.1	849.7	886.2	3.9%

FTE98-EA.XLS

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.

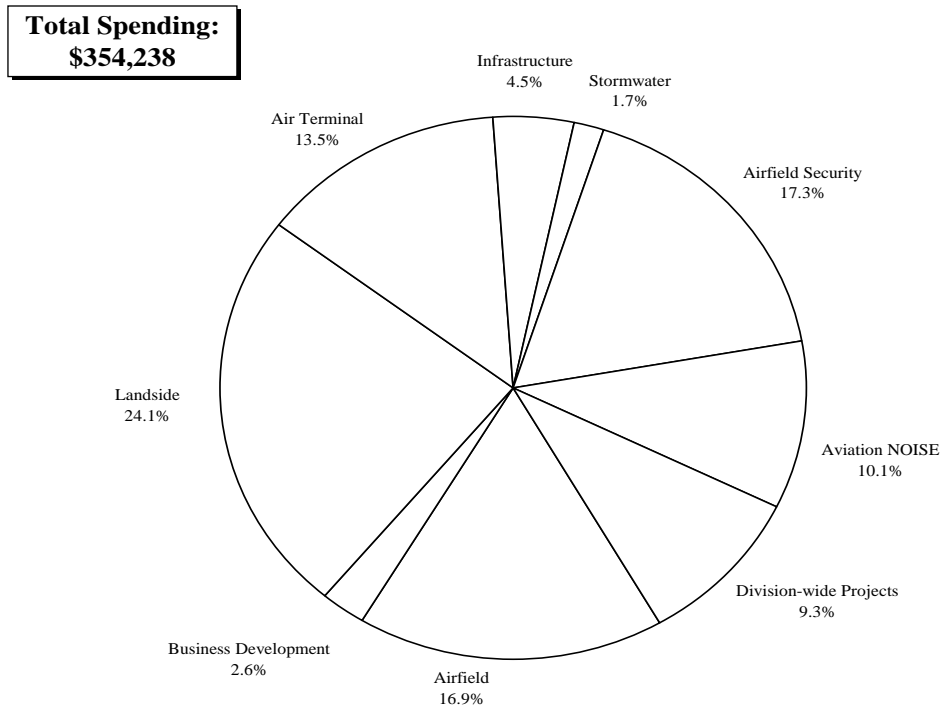
Table V-8 provides a Summary of the Aviation Approved Capital Budget for 2008.

TABLE V-8: AVIATION CAPITAL BUDGET SUMMARY

(\$ in 000's)	2008 Budget	2008-2012 CIP	% of Total
Committed Capital Projects			
Airfield	\$59,856	\$157,672	16.9%
Business Development	9,088	12,703	2.6%
Landside	85,486	378,096	24.1%
Air Terminal	47,787	68,362	13.5%
Infrastructure	15,884	28,119	4.5%
Stormwater	5,902	36,039	1.7%
Airfield Security	61,129	63,641	17.3%
Aviation NOISE	36,107	72,268	10.2%
Division-wide Projects	32,999	78,726	9.3%
Total	\$354,238	\$895,626	100.0%
capsum.xls			

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	14,982	2.4%	20,362	0.9%	341,981	1.0%
2007 Budget	15,490	3.4%	20,380	0.1%	349,000	2.1%
2007 Forecast	15,600	4.1%	20,900	2.6%	345,400	1.0%
2008 Budget	16,040	2.8%	21,320	2.0%	348,854	1.0%
Compound Growth						
1996 - 2006		2.1%		0.1%		-1.3%
2001 - 2006		2.1%		-1.7%		-3.2%

Notes:

- 1) Passengers in thousands
- 2) Weight in thousands
- 3) In Metric Tons

AVSTAT.XLS