A financial feasibility analysis was outside the scope of work of the Master Plan Update. A financial feasibility analysis was prepared by the DOA financial consultant under a separate contract and is presented in this appendix.

Appendix D
Financial Feasibility

INTRODUCTION

As part of the Master Plan Update, Austin-Bergstrom International Airport (ABIA or the Airport) requested its financial consultant, PB Aviation, to prepare a financial analysis that determined the effect that the project costs (as defined in the Master Plan Update Planning Level 1) would have on the Airport's cash flow and airline rates and charges. The costs related to Planning Levels 2 and 3 are briefly addressed at the end of this appendix.

To perform this analysis a number of assumptions have been made and are outlined in each of the relevant sections. The forecast period for this analysis is FY 2003 through FY 2020. In addition, the enplanement forecast used for the financial analysis differs slightly from the enplanement forecast described in Chapter 3 of the Master Plan Update. The primary difference is that the actual enplanement amount from Fiscal Year[1] (FY) 2002 is used as the baseline rather than the amount from FY 2000.

Besides the passenger enplanement discussion, this appendix contains the following major components:

- ABIA's financial structure (bond Ordinance, airline agreements, etc.)
- Planning Level 1 project costs allocated by cost center
- Funding sources for project costs
- Financial results
    - Airline costs
    - Debt service coverage ratio

As in any financial analysis that requires an extraordinary number of assumptions, the results noted from this analysis are definitely subject to change and should only be used as a guide to determine initial/preliminary feasibility. As more information is known and fewer assumptions are required, the decision to build the Master Plan Update projects should be revisited from a financial feasibility perspective.

ENPLANEMENT FORECAST FOR FINANCIAL ANALYSIS

For financial analysis purposes the enplanement forecast has been adjusted to reflect the lower baseline passengers that ABIA has experienced in FY 2002. As shown in Table D-1, the high growth rates from Table 3-3 in Chapter 3 are applied to the actual FY 2002 enplaned passenger amount to determine the passenger forecast to be used as an underlying assumption throughout the financial analysis.

The enplaned passenger forecast is used to project future passenger facility charge (PFC) revenue, AIP entitlement grants, and certain non-airline revenue sources such as parking, rental car and terminal concession revenue. Enplaned passengers are projected to increase from the actual 3.4 million in FY 2002 to 7.2 million in FY 2020, which represents an average annual growth rate of 4.2 percent.

[1] Fiscal year ends September 30th.

Table D-1
REVISED FORECAST USED FOR FINANCIAL ANALYSIS
ASSUMING HIGH AAG RATE

	High	
Year	**Enplaned Pax**	**% Growth**
2000 (actual)	3,737,168	
2001 (actual)	3,867,625	3.5%
2002 (actual)	3,402,479	-12.0%
2003	3,675,000	8.0%
2004	3,970,000	8.0%
2005	4,289,000	8.0%
2006	4,452,000	3.8%
2007	4,621,000	3.8%
2008	4,796,000	3.8%
2009	4,978,000	3.8%
2010	5,167,000	3.8%
2011	5,340,000	3.3%
2012	5,519,000	3.4%
2013	5,704,000	3.4%
2014	5,895,000	3.3%
2015	6,093,000	3.4%
2016	6,298,000	3.4%
2017	6,509,000	3.4%
2018	6,727,000	3.3%
2019	6,953,000	3.4%
2020	7,186,000	3.4%

AAG Rates	
2002-2005	8.0%
2005-2010	3.8%
2010-2020	3.4%
2000-2020	3.3%
2002-2020	4.2%

Note: AAG = Average annual growth

FINANCIAL STRUCTURE

Bond Ordinance

To date most capital improvements, including the construction of ABIA (the New Airport), have been primarily financed with internal capital funds, PFC revenue, federal grants, and Prior Lien Bonds. The bonds are issued under the Prior Lien Bond Ordinance (Ordinance) and are payable as a first lien on the Net Revenues (Gross Revenues less Operation and Maintenance Expenses) of the Airport. As part of this analysis, it is assumed that any revenue bond funding would be done as a Prior Lien Bond issue and therefore would be on parity with the currently outstanding Prior Lien Bonds.

Rate Covenant Provision

One of the major provisions in the Ordinance is the rate covenant in which the City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport such that in each Fiscal Year, the Net Revenues will be at least sufficient to equal the larger of all the debt service funding requirements for Prior Lien Bonds and subordinate obligations or an amount (together with Other Available Funds) not less than 125 percent of the Debt Service Requirements for the Prior Lien Bonds for such Fiscal Year.

Depicted in the financial results at the end of this appendix is the rate covenant calculation that identifies the ratio of Net Revenues to total Debt Service Requirements including any future debt service for the Master Plan Update Planning Level 1 project costs.

Airline Agreements

Most commercial air carriers operate as signatory carriers at ABIA, which means they operate under a five-year airport use and lease agreement with the City that terminates on September 30, 2003 unless, as allowed in the agreement, it is automatically extended for one additional five-year term. This agreement requires the carriers to pay (i) terminal rental rates established under a compensatory rate-setting methodology for use of the terminal facilities and equipment and (ii) a landing fee computed under a cost center residual rate-setting methodology for use of the airfield. These rates are calculated on an annual basis and after year-end, a reconciliation is prepared that adjusts budget to actual for rate-setting purposes and then any overpayments are reimbursed to the carriers and any underpayments are paid to the City by the carriers. For purposes of this analysis, it is assumed that the airline agreement would be renewed in its current form and the same rate methodology would be used throughout the forecast period.

As further discussed later in this section, the Master Plan Update project costs are allocated to the Airport's various cost centers so that the effect on airline rates and charges can be determined. The financial results at the end of this appendix identify the total airline cost per enplaned passenger, which is frequently used in the industry as a basis for comparing costs amongst various airports from the airline perspective.

Non-Airline Revenue

Besides airline revenue, ABIA obtains significant revenue from other sources such as public parking, rental car, terminal concessions, and building and ground rental from its cargo tenants. Until FY 2002, parking revenue had been increasing considerably on an annual basis. However, due to the downturn in passengers plus the recent development of competition from off-airport parking lots, the revenue decreased year-over-year in FY 2002. To project parking revenue, FY 2002 is used as the baseline amount and then increased in proportion to the enplaned passenger growth rate. Most other concession type revenue sources are also increased in relation to passenger growth whereas the building and ground rentals are fixed with slight increases where allowable per the agreement with the tenant.

Operation and Maintenance Expenses

The major Operation and Maintenance (O&M) Expenses at ABIA include building maintenance, utilities, police and security, airport rescue and fire-fighting, parking management, and custodial services. In the first few years after opening, ABIA was adjusting to a new terminal resulting in a few areas (e.g., passenger terminal) experiencing significant increases in O&M Expenses. However, in FY 2002 most of these expenses either stabilized or decreased with the downturn in passenger traffic.

PROJECT COSTS

Only Planning Level 1 projects costs are considered in this financial analysis, and are listed on Table D-2 in 2001 dollars and in inflated dollars. The costs are inflated at 3.0 percent per year until the project's start date of construction to ensure that an adequate amount is being funded. To determine the construction start dates, the trigger points described in Chapter 7 were compared to the financial passenger forecast and the resulting dates are shown on Table D-2.

Cost Center Allocation

Also identified on Table D-2 is the assignment of ABIA cost centers to each project, which serves as the basis for allocating costs to the various airline rates and charges, including landing fees, apron fees and terminal building rentals. Although RON positions are noted as a separate cost center, these costs are ultimately included in the apron fee requirements consistent with the approach taken with RON costs for the New Airport project. Most of the Master Plan Update Planning Level 1 costs are for the East Concourse 6-gate (terminal building) expansion including the associated utilities and are allocated accordingly. The other major project costs are for the public and employee parking lots. The remaining costs are for the airfield, apron and various other non-cost recovery type cost centers such as roadways. A more detailed description of these projects is contained in Chapter 7 of the Master Plan Update.

Table D-2
PLANNING LEVEL 1 PROJECT COSTS

Project Description	Cost Center (1)	Total Costs in 2001 $$	Total Inflated Costs	FY Funding (Construction) Date
Passenger Terminal Building	TB	$53,691,749	$60,431,000	2005
Passenger Terminal Apron	TAP	14,903,861	18,330,000	2008
Short/ Mid Term Parking	PK	50,100,050	61,617,000	2008
Long Term Parking	PK	6,558,552	8,066,000	2008
Employee Parking	EPK	4,498,780	5,215,000	2006
ARFF	AF	1,505,790	1,907,000	2009
RON Positions	RON	7,386,136	9,084,000	2008
Utilities	UT	54,864,898	61,751,000	2005
Roadway Improvements	RW	5,352,433	6,024,000	2005
Parking Garage Roadway Improvements	PK	1,859,000	2,092,000	2005
Runway/ Taxiway Improvements				
ERS - completion of T/W A	AF	6,948,198	8,545,000	2008
WRS - dual parallel taxiway D and exits	AF	16,498,997	18,570,000	2005
West Runway System Perimeter Road	AF	2,992,990	3,369,000	2005
WRS centerline lighting (CAT III)	AF	4,099,095	5,041,000	2008
WRS edge lighting (CAT III)	AF	569,319	700,000	2008
T/W C centerline lighting (CAT III)	AF	5,169,879	6,358,000	2008
T/W C edge lighting (CAT III)	AF	718,039	883,000	2008
System CAT III ILS 17R	AF	483,340	594,000	2008
SMGCS Improvements for 17R	AF	762,190	937,000	2008
SMGCS Improvements for 17L	AF	762,190	937,000	2008
Site Remediation	TB	18,590,000	23,549,000	2009
Concept Subtotals prior to allowances		**$258,315,486**	**$304,000,000**	
Land Acquisition	LA	15,000,000	16,883,000	2005
Concept Totals		**$273,315,486**	**$320,883,000**	

(1) Cost centers are as follows:
TB = Terminal Building
TAP = Terminal Apron
PK = Public Parking
EPK = Employee Parking
RON = Remain Overnight Parking Positions
AF = Airfield
UT = Utilities
RW = Roadways
LA = Land Acquisition

Funding Sources

To fund these projects costs, a number of funding sources have been identified including Airport Improvement Program (AIP) federal grants, passenger facility charge (PFC) revenue, ABIA Capital Fund monies, and Prior Lien Bonds. The Master Plan Update has also identified some other projects that are to be funded with third party funds in Planning Level 1, which should not have any negative financial implications for the Airport and instead could result in incremental revenue from sources such as ground rentals. As implied, it is assumed that no ABIA funding will be used towards these third-party funded project costs.

Table D-3 outlines the proposed funding plan for the Master Plan Update Planning Level 1 project costs. Each funding source and the underlying assumptions that accompany it is described in the following narrative.

Table D-3
PROPOSED FUNDING SOURCES

		Proposed Funding Sources			
	Total	**AIP Grants**	**PFC Revenue**	**ABIA Capital Fund**	**Prior Lien Bonds**
Terminal Building	$83,980,000	--	$43,786,000	$23,549,000	$16,645,000
Terminal Apron	18,330,000	--	18,330,000	--	--
Airfield	47,841,000	25,555,000	14,000,000	--	8,286,000
RON	9,084,000	3,500,000	--	--	5,584,000
Parking	71,775,000	--	--	10,000,000	61,775,000
Employee Parking	5,215,000	--	--	5,215,000	--
Roadway	6,024,000	--	6,024,000	--	--
Utilities	61,751,000	--	30,875,500	--	30,875,500
Land Acquisition	16,883,000	--	--	16,883,000	--
	$320,883,000	**$29,055,000**	**$113,015,500**	**$55,647,000**	**$123,165,500**

AIP Grants

AIP grants include amounts received from passenger entitlements, cargo entitlements and discretionary funds. In the past, ABIA has been successful in obtaining discretionary grants primarily for airfield and noise mitigation projects. For purposes of this analysis, it is assumed that the $10.6 million of passenger entitlements to be received in the 2004-2010 time frame are to be used towards airfield projects and that an additional $15 million of discretionary grants are also to be received for airfield projects. The AIP passenger entitlement amount, which is based on a pre-established formula set by the FAA, reflects the mandatory 75.0 percent reduction in AIP apportionment by the FAA that applies to medium and large hub airports collecting a $4.50 PFC and pre-2001 federal funding levels for the AIP grant program.

Cargo entitlements are also received by ABIA on an annual basis and are used for various airfield and apron type projects. A conservative amount is assumed as a funding source in this analysis that equates to $500,000 per year, and totals $3.5 million over the seven-year period (2004 through 2010). It is assumed that this funding source would be used for the RON parking positions.

PFC Revenue

Currently, ABIA through its air carriers levies a $3.00 PFC per enplaned passenger that is used to pay debt service related to the New Airport project. As part of the federal act referred to as AIR 21, the federal government allowed airports to increase the PFC to $4.50 per enplaned passenger for certain eligible projects. This analysis assumes a $4.50 PFC is implemented beginning in 2004 and is levied throughout the forecast period. By assuming a mixture of pay-you-as-go (PAYG) and leveraged PFC revenue, the increase in the PFC results in approximately $113 million in PFC revenue being available to fund projects in the FY 2004-2010 time period. Most of the bond proceeds from the leveraged PFC are to be used to pay terminal building costs and utilities, whereas the PAYG will be used for roadway and airfield projects. By using PFC revenue to fund most of the terminal costs, the amount to be included in the airline rate base and thus paid by the airlines, is significantly reduced.

ABIA Capital Fund

Monies from this fund represent cash that ABIA has accumulated over the years from excess revenues that result from remaining Net Revenues after payment of debt service and other miscellaneous requirements. It is assumed that $55.6 million from the Capital Fund is to be used towards Master Plan Update projects. This contribution represents a portion of the excess monies accumulated in the Capital Fund through FY 2010.

Approximately, $23.5 million of Capital Fund money was allocated to fund terminal building costs that relate to site remediation costs for the new South Terminal project, which will be constructed in Planning Level 2. These costs will ultimately be recoverable from the South Terminal tenants upon completion, but for this analysis cost recovery was not assumed during the forecast period. Other projects that are to be funded with ABIA Capital Fund will be recoverable through direct charges (e.g., land acquisition costs would be charged to the ultimate tenant) or non-airline revenue (e.g., parking and employee parking revenue).

Airport Revenue Bonds

As shown on Table D-3, all remaining project costs are to be funded with Prior Lien Bonds. A portion of the debt service costs related to these bond proceeds is allocable to airline cost centers, thus recoverable through annual airline rates and charges. Debt service costs allocable to the parking projects are recoverable from parking and other non-airline revenue sources. Utilities costs are assumed to be primarily for the terminal building and therefore allocated accordingly. For the New Airport project some of the terminal building costs were considered aeronautical, which means allocable to the airline terminal building cost center, and the rest was non-aeronautical (e.g., terminal concession areas). This same approach is used for the terminal building costs associated with Master Plan Update Planning Level 1.

The bonding requirement of $123.2 million, as noted on Table D-3, equates to approximately $145 million of total bond proceeds resulting in approximately $12 million of annual debt service. To calculate the annual debt service, certain assumptions were made including the capitalized interest period (equal to the construction period—2-5 years), bond interest rate (6.5 percent), and the term of the bonds (30 years). The new debt service is added to the ABIA cash flow requirements and the airline rate base in the year of project completion.

In addition to the Prior Lien Bonds described above, $76 million in Prior Lien Bonds are assumed to be issued for PFC eligible projects. This amount is part of the $113 million in PFC funding previously discussed in the PFC revenue funding section. These bonds are to be repaid with annual PFC revenue collections and therefore will not require direct funding from ABIA or its tenants. These bonds also do not require any coverage funding for the related annual debt service amounts because the payments from annual PFC revenue collections are escrowed at the beginning of each fiscal year for that year's PFC debt service requirement.

To finance the New Airport project, ABIA also issued $28 million in Variable Rate Revenue Notes (Notes). No such financing instrument was assumed for the Master Plan Update project costs. For purposes of this analysis, the Notes' principal is assumed to be amortized during the forecast period such that it is paid off by FY 2018 (the due date). ABIA also has an extremely small amount of General Obligation (GO) debt service allocated to it by the City of Austin, which is assumed to stay flat throughout the forecast period. Both the Notes and the GO debt do not require any coverage amount per the bond Ordinance and therefore are not included in the debt service coverage calculation.

FINANCIAL RESULTS

A summary of the financial results from this analysis is presented on Table D-4 with specific years selected to highlight the results based on five-year increments. Most of the projects are assumed to be completed by the end of FY 2009 and the associated costs are reflected in the FY 2010 and beyond financial results. Discussed below are the financial results for each of the major areas.

Revenue

Airline revenues are expected to increase from $28.5 million in FY 2002 budget to $48.0 million in FY 2020, which represents a 2.9 percent annual average growth rate. There are a few spike increases in certain years based upon completion of the Master Plan Update projects. Defining these costs in terms of cost per enplaned passengers is discussed in a subsequent section.

Non-airline revenues are projected to increase from $44.4 million in FY 2001 (more appropriate FY to use for comparison purposes than FY 2002) to $98.8 million in FY 2020, an average annual increase of 4.3 percent, which primarily corresponds to the 4.2 percent average annual increase in enplaned passengers plus inflation. With the additional parking lots constructed under the Master Plan Update Planning Level 1, it is assumed that parking revenue would not be facility constrained.

Operations and Maintenance Expenses

O&M expenses are projected based on the revised budget for FY 2002 as the baseline and then increased using a 3.5 percent annual growth rate throughout the forecast period. In addition, adjustments are made to some of the terminal related expenses for the 6-gate expansion in 2010. Custodial services and utilities are increased in FY 2010 (completion year for the terminal expansion) by 30 percent. O&M expenses are expected to increase from $40.2 million in FY 2002 (budget) to $78.4 million in FY 2020, or 3.8 percent on an average annual increase basis.

Table D-4
SUMMARY OF FINANCIAL ANALYSIS

	Actual	Actual	Revised Budget	Forecast			
	2000	**2001**	**2002**	**2005**	**2010**	**2015**	**2020**
Enplaned pax forecast	**3,737,168**	**3,867,625**	**3,402,479**	**4,289,000**	**5,167,000**	**6,093,000**	**7,186,000**
Airline Costs							
Terminal building rentals	$8,223,071	$9,996,552	$10,108,000	$11,070,000	$13,757,000	$16,998,000	$18,707,000
Terminal apron fees	1,532,667	2,076,951	2,134,000	2,288,000	3,058,000	3,476,000	3,982,000
Terminal equipment fees	154,990	160,950	616,000	660,000	770,000	924,000	1,100,000
Landing fees	11,581,602	13,958,409	14,773,000	15,797,000	18,684,000	20,694,000	22,542,000
RON fees	835,485	614,780	886,000	860,000	1,081,000	1,357,000	1,702,000
Total Airline Payments	**$22,327,815**	**$26,807,642**	**$28,517,000**	**$30,675,000**	**$37,350,000**	**$43,449,000**	**$48,033,000**
Cost per Enplaned Pax	**$5.97**	**$6.93**	**$8.38**	**$7.15**	**$7.23**	**$7.13**	**$6.68**
Airline Revenues	$22,327,815	$26,807,642	$28,517,000	$30,675,000	$37,350,000	$43,449,000	$48,033,000
Non-airline Revenues (1)	40,718,028	44,413,826	45,952,384	47,877,000	61,365,000	77,671,000	98,765,000
Gross Revenues	**$63,045,843**	**$71,221,468**	**$74,469,384**	**$78,552,000**	**$98,715,000**	**$121,120,000**	**$146,798,000**
Less: O&M Expenses	32,306,086	41,816,503	40,167,000	44,852,000	55,722,000	66,113,000	78,449,000
Net Revenues	**$30,739,757**	**$29,404,965**	**$34,302,384**	**$33,700,000**	**$42,993,000**	**$55,007,000**	**$68,349,000**
Debt Requirements (2)							
Add:							
Outstdg for New Airpt	$24,559,511	$32,263,039	$33,303,500	$33,150,500	$34,807,500	$34,840,500	$31,681,500
MP Update Projects	--	--	--	--	18,548,000	18,576,000	18,576,000
Deduct:							
PFC Revenue	9,035,662	8,781,406	9,634,000	10,225,000	17,094,000	17,214,000	17,648,000
Defeasance	--	5,100,167	3,518,000	1,717,000	1,398,000	1,093,000	--
Debt Requirements	**$15,523,849**	**$18,381,466**	**$20,151,500**	**$21,208,500**	**$34,863,500**	**$35,109,500**	**$32,609,500**
Debt Service Coverage							
Amount	$3,725,927	$3,982,000	$4,317,000	$4,618,000	$7,616,000	$7,667,000	$7,884,000
Ratio	**2.15**	**1.84**	**1.87**	**1.72**	**1.36**	**1.73**	**2.10**
Contribution to Capital Fund	**$16,508,083**	**$12,006,384**	**$13,343,884**	**$12,240,500**	**$7,412,500**	**$19,526,500**	**$35,299,500**

(1) Includes Other Available Funds.

(2) Represents annual debt service from Prior Lien Bonds, Variable Rate Notes, and General Obligation Bonds.

Airline Cost per Enplaned Passenger

By utilizing the increase in PFC capacity to fund most of the East Concourse (6-gate) expansion, the airline cost per enplaned passenger amounts shown on Table D-4 did not significantly increase in terms of airport charges. Even with the cost per enplaned passenger increasing from $6.90 in FY 2009 to $7.23 in FY 2010 due to the terminal expansion completion, the amount is still less than the budgeted amount for FY 2002 of $8.38. A significant portion of the airline cost increases are mitigated by the annual increase in enplaned passengers (4.2 percent on average), which is the primary reason why the amount actually decreases by 2020 to $6.68 per enplaned passenger. By maintaining a comparatively low cost per enplaned passenger, ABIA will continue to be attractive to low cost air carriers such as Southwest Airlines and maintain a competitive edge in the airport industry.

Debt Service Coverage

In all fiscal years during the forecast period, the debt service coverage ratio (Prior Lien Bond debt service as a percentage of Net Revenues) never falls below 1.35, which is more than sufficient to meet the rate covenant requirement of 1.25 per the bond Ordinance. As expected, FY 2010 has the lowest ratio during the forecast period of 1.36 because of adding the new debt service used to fund the East Concourse expansion.

PLANNING LEVELS 2 AND 3

The costs associated with these planning levels are not included in this financial analysis. Most of these costs are primarily related to accommodating and developing a new stand-alone South Terminal. To the extent these costs are ever incurred, funding sources will have to be determined. AIP grant monies should be available after FY 2010 because this analysis only assumed usage of the grant monies through FY 2010. Limited PFC revenue would be available as a funding source because most of the additional capacity gained from increasing the PFC to $4.50 (from $3.00) is used to finance the East Concourse expansion.

Most of the funding would come from some type of ABIA debt instrument that would have to be recovered from the ultimate users of the South Terminal facility. Depending on whether this new terminal is blended with the current terminal's costs or kept as a separate cost center will determine its ultimate cost to ABIA's air carriers. Although, it may be feasible from a rate covenant perspective, an affordability analysis will be required to determine if the costs are excessive thus impeding ABIA's ability to remain competitive in the airport industry and affordable for low cost carriers.