Airports Financial Structure
City of Fresno – Airports Department

June 9, 2016

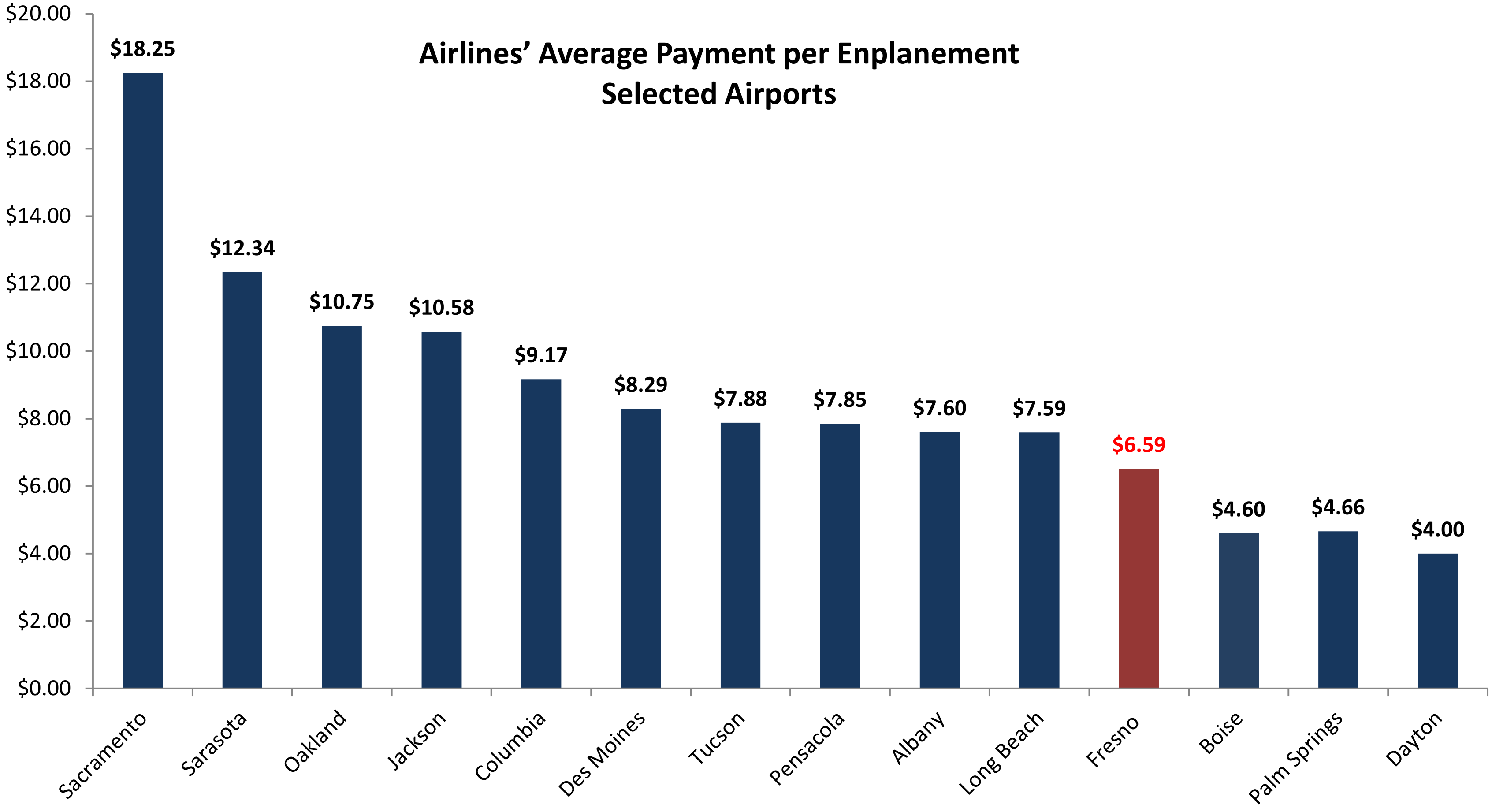
Airports Fact Sheet

- **Airports is a self-sustaining Enterprise Fund that is**
  - supported by tenants' rates, charges, and rentals;
  - unlike General Fund Departments, receives no tax monies;
  - Operating expenses are paid for with operating revenue;
  - Capital projects are paid for with federal grants, Measure C monies, Passenger Facility Charges, bond proceeds, and Airport cash;
  - Debt is secured by Airports' ability to generate Net Revenue (Revenue minus Operating Expenses), not by the City's taxing authority.

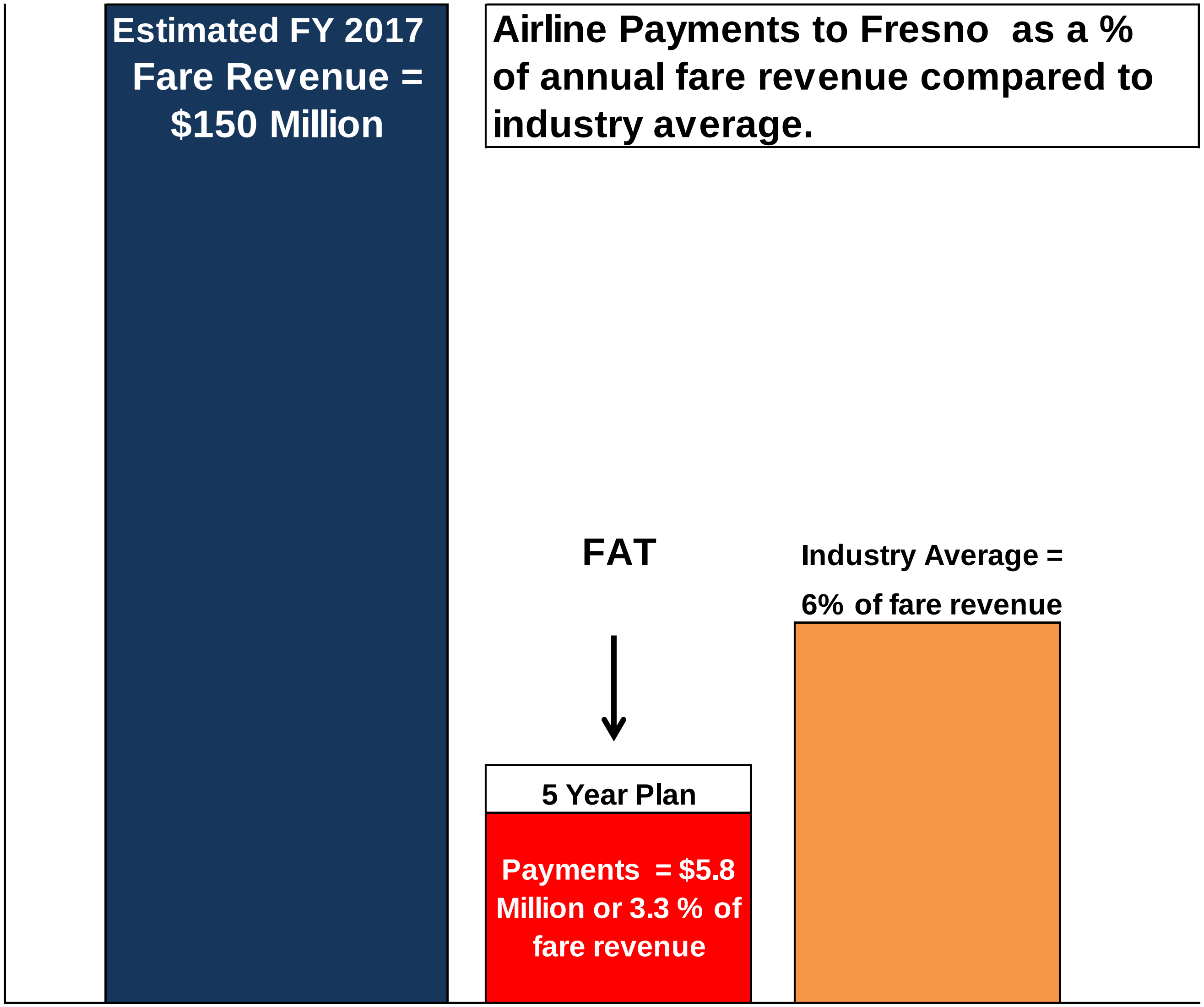
Airports Fact Sheet (cont. 2)

- **Fresno Yosemite International (FAT) is a low cost facility**
  - Rates and rentals paid by carriers are discounted below cost-recovery levels and are well below industry averages;
  - FAT's revenue structure is highly diversified - airline payments account for only 26% of total revenue;
  - FAT operating costs have remained constant from FY 2010 to FY 2015 while passengers grew 17%;
  - FAT's annual debt burden is reasonable relative to annual revenue

Airline Payments per Enplaning Passenger are low



Airline Payments as a % of Fare Revenue are low



Note: Not Drawn to Scale

Airports Fact Sheet (cont. 3)

- **FAT has experienced significant growth in recent years**
  - Passengers grew 19.3% from FY 2010 to FY 2014;
  - Departures increased 17% from March, 2016 to May, 2016;
  - FY 2016 Enplanements is on pace to exceed FY 2014 record of 714,000.
- **FAT's financial performance has been impressive**
  - Liquidity has improved due to growth and cost-containment and meets rating agency guidelines of 365 days of cash on hand;
  - Debt service coverage ratio is high relative to industry standards (Revenue - Operating Expenses / by Debt Service is > 2.0);
  - High coverage/high liquidity/discounted airline prices is a positive combination not commonly found in small-hub airports.

Airports is Highly Regulated by the Federal Aviation Administration – Selected Legislation & Policies

- **Airport and Airway Improvement Act (AAIA) of 1982**
  - Airport revenue must be used exclusively for airport purposes
- **Policy Regarding Rates and Charges**
  - Airlines pay rates based on historical, not market-based costs
- **Revenue Use Policy (1999)**
  - Regulates air service incentive programs; prohibits direct airline subsidies; allows incentives for a limited promotional period.
- **Airport Improvement Program (AIP) Grant Assurances**
  - Obligations incurred when accepting a federal grant include:
    - Maintaining a pricing structure that makes the airport as self-sustaining as possible
    - Permitting use of the airport on reasonable terms without unjust discrimination.

Outcome of recent airline negotiations – 5-year Pricing Plan

- Airlines agreed to a 4% annual increase of the Terminal Rental and Landing Fee Rates, over the next 5 Years, as shown below:

Budget FY 2016	Projection Period				
	2017	2018	2019	2020	2021
	Terminal Rental Rate (annual per Square Foot)				
$43.00	$44.72	$46.51	$48.37	$50.30	$52.32
	Landing Fee Rate (per 1,000 pound units)				
$2.35	$2.44	$2.54	$2.64	$2.75	$2.86

Why is the proposed 5-Year Pricing Plan a good idea?

- The Airlines acknowledge that our rates are low and have approved the five-year pricing plan;
- The Airlines like the predictability inherent in multi-year pricing;
- The City does not incur any additional obligation under the 5-year Pricing Plan other than to not exceed the agreed upon rates;
- Airline fares are based on market demand and competition;
- Airline fares are not driven by airport rates and charges, which account for only 5% of airlines' operating expenses.

Why is the proposed 5-Year Pricing Plan a good idea? (cont.)

- The Landing Fee Rate has not been increased since FY 2009;
- The Terminal Rental Rate was consolidated and increased in FY 2014 – prior to that it had not been increased since FY 2009;
- The Landing Fee Rate and the Terminal Rental Rate will continue to be discounted throughout the 5-year projection period;
- Increasing the rates will enhance the likelihood of investment grade rating when Airports next issues bonds.

Projected Allocation of Cash

	Budget FY 2016	Projection Period 2017	2018	2019	2020	2021	Projection Period 2022	2023	2024	2025	2026
Revenues	$22,932,400	$24,152,300	$24,848,568	$25,595,017	$26,363,899	$27,155,889	$27,806,526	$28,587,992	$29,388,853	$32,989,731	$34,099,905
CFC Adjustment to Revenues	(663,100)	(750,900)	(773,400)	(796,600)	(820,500)	(845,100)	(870,500)	(896,600)	(923,500)	(951,200)	(979,700)
Operating Expenses [1]	($15,751,500)	($16,952,300)	($17,479,990)	($18,026,635)	($18,593,029)	($19,180,001)	($19,788,424)	($20,419,210)	($21,073,317)	($23,151,746)	($23,925,551)
Total Adjusted Debt Service	(2,644,871)	(2,475,155)	(2,510,814)	(2,546,357)	(2,581,583)	(2,626,001)	(2,668,079)	(2,706,414)	(2,746,414)	(6,280,693)	(6,319,964)
Other Deposits											
Annual Surplus from Operations	$3,872,928	$3,973,945	$4,084,363	$4,225,425	$4,368,787	$4,504,787	$4,479,523	$4,565,768	$4,645,622	$2,606,092	$2,874,690
Carry Forward Balance from prior FY	$15,123,422	$15,751,500	$16,952,300	$17,479,990	$18,026,635	$18,593,029	$19,180,001	$19,788,424	$20,419,210	$23,585,123	$23,897,805
Deposit from Current Year Operations	3,872,928	3,973,945	4,084,363	4,225,425	4,368,787	4,504,787	4,479,523	4,565,768	4,645,622	2,606,092	2,874,690
GAP Payment	839,000	809,000	-	-	-	-	-	-	-	-	-
PFC Reimbursement	-	3,000,000	-	-	-	-	-	-	-	-	-
Less: Environmental Remediation	(55,400)	(55,400)	(55,400)	(55,400)	(55,400)	(55,400)	(55,400)	(55,400)	(55,400)	(55,400)	(55,400)
Balance for Facility Capital Plan, Reserve, Long-term Capital	**$19,779,950**	**$23,479,045**	**$20,981,263**	**$21,650,015**	**$22,340,022**	**$23,042,417**	**$23,604,124**	**$24,298,792**	**$25,009,433**	**$26,135,815**	**$26,717,095**
1. Facility Capital Plan [1]	(2,225,400)	($2,917,900)	($1,852,647)	($1,459,139)	($962,245)	($1,003,623)	($918,553)	($577,656)	($1,424,309)	($2,238,011)	($2,791,544)
2. 365 Days Operating Reserve (Carry-forward)	(15,751,500)	(16,952,300)	(17,479,990)	(18,026,635)	(18,593,029)	(19,180,001)	(19,788,424)	(20,419,210)	(21,073,317)	(23,151,746)	(23,925,551)
3. Equity Contribution to Capacity Projects	(1,803,049)	(3,608,845)	(1,648,627)	(2,164,241)	(2,784,747)	(2,858,793)	(2,897,147)	(3,301,925)	-	-	-
Carry-forward Year End Balance	-	-	-	-	-	-	-	-	2,511,807	746,059	-

Airline Industry Metrics

	Budget FY 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Airline Cost per Enplanement	$6.72	$6.82	$6.96	$7.11	$7.20	$7.36	$7.28	$7.35	$7.42	$9.63	$9.80
Airline Costs as % of Fare Revenue	4.04%	3.95%	3.98%	4.01%	4.01%	4.05%	3.98%	3.97%	3.97%	4.92%	4.95%

Annual Projected Debt Service Coverage Ratios

	Budget FY 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Debt Service Coverage (with Rate Increases) [2]	**2.46**	**2.75**	**2.78**	**2.81**	**2.85**	**2.87**	**2.83**	**2.84**	**2.85**	**1.48**	**1.53**
Debt Service Coverage (with no Rate Increases) [3]	**-**	**2.75**	**2.61**	**2.57**	**2.54**	**2.49**	**2.46**	**2.43**	**2.40**	**1.15**	**1.14**

1) Projected operating and capital costs reflect an inflation adjustment.

2) Small-hub airports typically need to demonstrate debt service coverage ratios near 1.5 to obtain investment grade rating.

3) The Bond Ordinance requires a debt service coverage ratio of 1.25.

Airports' Projects

Boilers

Airports’ Projects

Chiller

Airports' Projects

Employee Parking

Airports' Projects

Loading Bridge

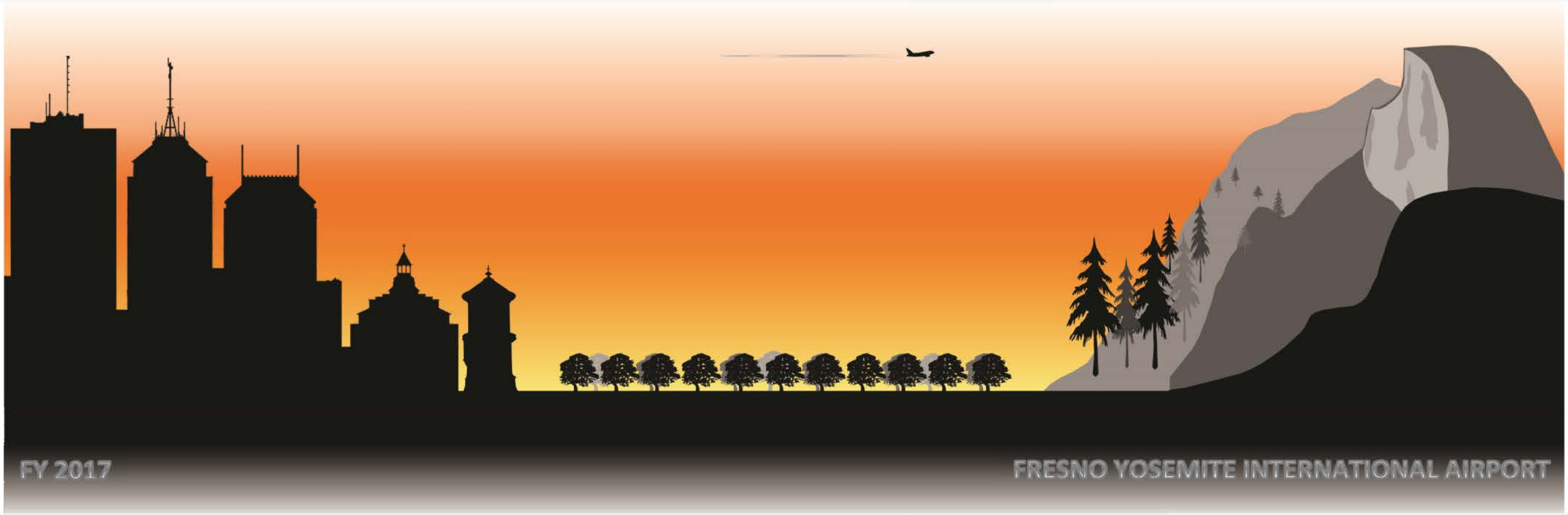
Airports’ Projects

EVA Stations

Where the money comes from:

$35.3 Million

Rentals	Parking	Concessions	FIS & Security fees, Other	Landing fees	Customer facility charges	Grants/PFCs/Other
$6.5 million 18%	$5.4 15%	$3.5 10%	$3.3 9%	$2.6 7%	$2.2 6%	$11.8 33%



Administration/personnel	Long term capital Contribution	Operations & Maintenance	Debt service	Chandler	Capital
$13 million 37%	$4.1 12%	$3.4 10%	$2.5 7%	$0.5 1%	$11.8 33%

Where the money goes:

$35.3 Million