

# Rate Impact Of TBIT Capital Improvements

## **Background - LAXIII**

### CHRONOLOGY

- December 2006 - LAWA unilaterally implements tariff rate structure retroactively to January 2006
- February 2007 - TBIT airlines file DOT challenge
- Late 2008 - LAWA and TBIT airlines agree to Partial Settlement Agreement (PSA)

## Background – LAXIII

### PSA Elements

- TBIT airlines support TBIT renovation project and Bradley West expansion
- Rebate of some incremental terminal charges for CY06 through CY09
- Resolution of “rentable” and “usable” space dispute
- LAWA to provide \$61.2 million in TBIT rental offsets FY11 through FY14 (TBIT airlines repay in future years)
- All parties agree to negotiate a full settlement agreement through end of calendar 2009
- *Term ended December 31, 2009*

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## LAWA Business Planning – Cost Recovery of TBIT Improvements

### PURPOSE

- Define future TBIT rates in the context of implementing TBIT- Bradley West under an extended PSA

### LAWA DESIRED OUTCOME

- Develop rate approach not contingent on:
  - Non-airline revenue cross-subsidies
  - Use of Airport liquidity to offset airline costs
  - Capping M&O expenses
  - Project cost of TBIT-Bradley West Program

## Original Milestones to Analyze and Develop Plan

- **Kick-Off Meeting** – Review issues and baseline LAWA analysis (Occurred 12/10/09)
- **Analyze TBIT Capital Costs** – Existing facility, renovation project and Bradley West by functional area of the terminal
- **Review Funding Plan** – Analyze funding sources and planned application to determine amount of capital cost allocated to TBIT airlines
- **Analyze Square Footages** – Examine square footages by functional area in TBIT as well as all LAWA-owned FIS facilities
- **Analyze Rate Methodologies** – Develop plan to transition to cost recovery rates and review impact on airline costs
- **Airline Review** – Review findings with LAXTEC Executive Committee to allow negotiation of PSA extension

## Updated Milestones to Analyze and Develop Plan

- **Focus on TBIT Rates for FY10** – Determine rate effective upon completion of renovation project at the end of March 2010
- **Develop Transition Plan** – Prepare plan to ramp up rates from current level to cost recovery of renovation costs (FY10 to FY14)
- **Extend PSA** – Provide additional time to finalize business plan to recover costs associated with renovations and Bradley West
- **Return to Original Milestones** – Steps above provide “breathing room” to work through the details of the TBIT improvements business planning

**PROSPECTIVE CALCULATIONS OF TBIT BASIC RATE**  
Using Existing TCC Methodology  
(in thousands of dollars)

	1/1/2010	7/1/2010	2011	2012	2013	2014
<b>CALCULATION OF AIRLINE AREAS BASE RENT</b>						
Existing TBIT TCC or FMV (a)		\$6,846	\$7,051	\$7,263	\$7,481	\$7,705
TBIT Renovations		14,036	34,197	34,186	34,164	34,142
Recovery of Construction Credit		241	241	241	241	241
Recovery of PSA Credit		0	0	0	0	4,562
<i>Bradley West Improvements</i>		0	0	0	0	0
Future Projects		0	0	0	270	270
<b>Airline Areas Base Rent</b>	<b>\$13,101</b>	<b>\$21,123</b>	<b>\$41,489</b>	<b>\$41,690</b>	<b>\$42,156</b>	<b>\$46,920</b>
Divided by Airline Areas (square feet)		565,931	565,931	565,931	565,931	565,931
<b>Base Rate (before PSA Credits)</b>	<b>23.15</b>	<b>\$37.32</b>	<b>\$73.31</b>	<b>\$73.67</b>	<b>\$74.49</b>	<b>\$82.91</b>
<b>APPLICATION OF PSA CREDITS</b>						
Airline Areas Base Rent		\$21,123	\$41,489	\$41,690	\$42,156	\$46,920
Less: PSA Credit per even-step (b)		<u>(1,253)</u>	<u>(14,856)</u>	<u>(8,295)</u>	<u>(1,998)</u>	<u>0</u>
<b>Net Airline Areas Base Rent</b>	<b>\$13,101</b>	<b>\$19,870</b>	<b>\$26,633</b>	<b>\$33,395</b>	<b>\$40,158</b>	<b>\$46,920</b>
Divided by Airline Areas (square feet)		565,931	565,931	565,931	565,931	565,931
<b>Base Rate (After PSA Credits)</b>	<b>\$23.15</b>	<b>\$35.11</b>	<b>\$47.06</b>	<b>\$59.01</b>	<b>\$70.96</b>	<b>\$82.91</b>
Percent change (c)		52%	34%	25%	20%	17%

Note: Rates adjusted on July 1, 2010 and January 1 every subsequent year.

(a) Existing TBIT TCC escalated at 3%.

(b) \$61.2 million of PSA Credits are required by PSA. PSA credits are applied so as to achieve an even step-up in the increase in the Basic Rate. The credits shown result in \$34.8m of unused credits that could be used to abate the requirement in later years.

(c) Based on the 2009 Basic Rate of \$23.16, without construction credits.

Comparison of Forecast TBIT Rates  
(in thousands of dollars)

	7/1/2010	2011	2012	2013	2014
<b>LAXTEC Forecast (June 2008 based on 2008 forecast)</b>					
Airline Base Rent	\$51,573	\$52,094	\$52,641	\$52,641	\$53,215
Less PSA credit	(30,600)	(20,400)	(10,200)	(10,200)	4,653
Net Airline Areas Base Rent	\$20,973	\$31,694	\$42,441	\$42,441	\$57,869
Airline Areas M&O Rent	28,165	29,573	31,052	31,052	32,605
Airline Areas Rental Requirement	\$49,138	\$61,267	\$73,493	\$73,493	\$90,474
Enplaned Passengers (1% CAGR)	4,512	4,558	4,603	4,603	4,649
CPE	\$10.89	\$13.44	\$15.97	\$15.97	\$19.46
Rate/sq ft.	\$86.83	\$108.26	\$129.86	\$129.86	\$159.87
Total PSA Credits					(61,200)
Blended 4-Year CPE					\$14.94

	7/1/2010	2011	2012	2013	2014
<b>LAWA Forecast (March 2010 based on 2009 actuals)</b>					
Airline Base Rent	\$21,123	\$41,489	\$41,690	\$42,156	\$46,920
Less PSA credit	(1,253)	(14,856)	(8,295)	(1,998)	0
Net Airline Areas Base Rent	\$19,870	\$26,633	\$33,395	\$40,158	\$46,920
Airline Areas M&O Rent	\$34,392	\$36,455	\$38,642	\$40,961	\$43,419
Airline Areas Rental Requirement	\$54,262	\$63,088	\$72,037	\$81,119	\$90,339
Int'l Arriving Pax (1% CAGR)	4,859	4,908	4,957	5,006	5,056
CPIA	\$11.17	\$12.86	\$14.53	\$16.20	\$17.87
Rate/sq ft.	95.88	\$111.48	\$127.29	\$143.34	\$159.63
Total PSA Credits					(26,402)
Blended 4-Year CPE					\$15.36

## Conclusions

- Steady ramp-up of Terminal Rentals is achievable
- TBIT Airlines and LAWA need to agree on slope of rental increase trend line
- LAWA proposal retains \$34.8 million in unapplied PSA credits to be applied FY14 to FY20 which increases rates in FY10 and FY11 above PSA levels
- These analyses do not include costs of Bradley West development or infrastructure improvements such as the Central Utility Plant