CHAPTER 9 – FINANCIAL CONSIDERATIONS

The financial assessment focused on the financial viability of the Opening Day phase of the recommended development plan.

The financial assessment described in this report reflects a high-level "order-of-magnitude" review of the potential financial viability for the Opening Day phase of the recommended development plan. The assessment should be considered a first step in the preparation of a detailed financial plan for implementing the program.

9.1 Methodology and Finding

The financial assessment encompassed only the improvements specifically identified in the Destination Lindbergh program and did not include other facilities of the Airport, SANDAG, the City, or other local agencies (either existing facilities rehabilitation, or facilities already programmed for development). For example, the T2 West Expansion, which includes a 10-gate expansion of T2 and other airside and landside improvements, is already programmed, as are the transportation improvements identified in the *2030 Regional Transportation Plan* (*2030 RTP*). Therefore, they were not taken into consideration.

The ITC was included in the analysis, as were other necessary developments associated with the ITC such as rail and freeway ramp relocation.

9.1.1 Summary of Analytical Methods Employed

This analysis was conducted based on widely accepted U.S. airport industry norms for financial planning and analysis, coupled with input from the City of San Diego, SANDAG and Caltrans regarding transit, rail and highway infrastructure financing. For each of the recommended development plan projects, the potential capital development costs and sources of funding were assessed in general terms. The potential operating revenue-generating capability of each project was also assessed. Operating revenues were evaluated in terms of their sources, drivers, and amounts. Operating costs, and the underlying drivers of those costs, were also considered.

As mentioned, the emphasis of this report is on the Opening Day components of Destination Lindbergh. These were the portions of Destination Lindbergh necessary to establish the required level of intermodal facilities, including the first phase of the ITC and the CONRAC.

9.1.2 Limitations of the Analysis

This report should not be relied upon for securing financing or making investment decisions. Any statements or information provided by third parties relied on for this analysis cannot be endorsed or confirmed for accuracy, correctness, reasonableness or completeness.

The financial projections presented in this report were prepared using information from the sources indicated and assumptions provided by, or reviewed with and agreed to by, the Finance Subcommittee for the Destination Lindbergh project, which included Airport, City, and SANDAG representatives. Inevitably, some of the assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the projected and actual results, and those differences may be material.

9.1.3 Finding

The financial assessment concluded that the Opening Day phase has significant potential to be financed in a viable manner.

Based on the preliminary financial analysis described in this report, it can be concluded that there is a significant potential for the Opening Day phase of the Destination Lindbergh program to be financed in a viable manner. This is based on several key assumptions, including:

- Conditions in the municipal financial markets, severely disrupted by events in the national economy, return to normal conditions
- The CONRAC is appropriately sized in the context of the funding capacity provided by the customer facility charge (CFC) revenue stream
- A revenue stream, or combination of revenue streams, is identified to provide funds for the repayment of the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan
- Construction cost inflation remains at reasonable levels

It should be noted that this project holds considerable merit as a unique intermodal facility and therefore it could become eligible for a wide array of "special" funding and financing mechanisms in the form of grants or low-interest loans. However, this analysis has not made the assumption that the project will

receive such funding or financing (except with regard to the availability of a TIFIA loan), because it cannot be assured given the availability and competitive nature of these funding sources or financing tools.

9.2 Project Elements, Phasing and Cost

To conduct the financial assessment, the recommended development plan's elements were grouped into two categories: ITC and all other projects.

In the context of the financial assessment, the recommended development concept encompasses projects that fit into two primary categories, as follows:

- **ITC**, including a transit / rail station, a CONRAC, auto parking, and associated roadways. Other improvements relating to the ITC include: the realignment of rail lines; construction of ramp access to I-5; and construction of an underground tunnel and overhead walkway which would connect the ITC's individual elements and the passenger processing facility. Portions of the ITC may be located on airport property, while other portions may be located off-airport property.
- **Other projects** reflect airport-related projects including taxiway and apron work, airport terminal projects including passenger processing, security and baggage handling facilities, and the construction of concourses. Also included during PAL1 is the construction of the APM, to transport travelers from the processing facility on the north side of the runway to the concourses on the south side. Other projects also include the removal of south side roads, parking, airport support buildings and off-airport structures, as well as the construction of south side remote surface parking and a new central utility plant. Nonaeronautical development on airport property is also included in this category.

Some elements of the Destination Lindbergh program (such as auto parking) have elements that fall into more than one category. The specific projects included in Destination Lindbergh are shown in **Table 9-1.**

Table 9-1
MAJOR ELEMENTS OF DESTINATION LINDBERGH
San Diego International Airport

Intermodal Transit Center (ITC)	Other Projects
Property & rail right of way acquisition	Airfield
Transit / rail station and alignment	Airport terminal
ITC Tunnel	Passenger processor
Parking (airport-related)	Concourses
Parking (transit users and other)	Baggage Conveyance System
Overhead passenger gateway	Automated people mover (APM)
Roadways	Other miscellaneous (a)
Rental car / CONRAC	
Customer service area	
Ready / return area	
Vehicle storage	
Rental car support / QTA	
I-5 access	

(a) Includes demolition of south side roads, parking, airport support buildings and off-airport structures. Also includes construction of south remote surface parking and central utility plant.

Note: California High Speed Rail (CAHSR) not included in this analysis.

Source: Jacobs Consultancy Team, 2008.

The ITC project, as defined in this report, includes the CONRAC facility. Inclusion of the CONRAC within the ITC category preserves the opportunity to maximize funding from the TIFIA loan. Destination Lindbergh does not include the improvements needed to accommodate a high speed rail system, which is likely to be realized beyond the planning horizon of this analysis.

Opening Day projects consist exclusively of projects associated with the ITC, and include:

- The CONRAC
- Parking for airline passengers and meeters / greeters, as well as parking associated with the rail station (i.e., for commuters and others)
- The rail station, which includes alignment of the tracks
- Roadways, which includes the construction of the circulation "loop" roadway, for use by shuttle buses to transport passengers between the ITC and the terminals, which will still be located on the south side of the airfield

on Opening Day. (Note: this analysis does not include the capital and operating costs associated with the shuttle buses. These buses could potentially be acquired for the existing rental car shuttle bus fleets, and the rental car companies would likely be responsible for a significant share of the operating costs.)

- Miscellaneous ITC projects, which include portions of the overhead passenger walkway, the ITC tunnel, and also the costs of land rail right of way acquisition.

A potential funding scenario for the Opening Day phase is discussed in greater detail in Section 9.4 of this chapter.

9.2.1 Project Phasing

As discussed in Chapter 7, three phases were identified for the recommended development program:

- Opening Day
- PAL1
- PAL2

Three phases have been identified for the implementation of Destination Lindbergh:

- **Opening Day**: Through approximately 2015
- **PAL1**: Approximately 2016 to 2020
- **PAL2**: Approximately 2021 to 2030

For financial analysis purposes, the projects and associated capital costs were grouped into one of these three phases.

The allocation of projects by phase is shown in **Table 9-2**, which excludes improvements that are underway or already planned, either at the Airport or on behalf of the other regional transportation agencies.

9.2.2 Project Cost Estimates

Capital development costs for each project element were estimated and expressed in both 2009 dollars, which exclude cost escalation due to future inflation, and in escalated dollars. The capital costs include "hard costs" of actual construction and "soft costs" such as planning, environmental, design, construction management, and contingency. Details supporting the cost estimates including assumptions and methodology can be found in **Appendix C** of this document.

The cost estimates included high and low scenarios of soft costs and contingencies. From these two scenarios, three different assumptions were made about capital cost inflation. The low case assumes soft costs and contingencies from the low scenario

Table 9-2

PHASING OF DESTINATION LINDBERGH PROJECTS

San Diego International Airport

Project	Opening Day	PAL1	PAL2
ITC PROJECTS			
Property & rail right of way acquisition	Initial ITC phase property	Expanded ITC property	If needed
Transit / rail station and alignment	2 trolley tracks 2 coaster tracks	1 additional trolley track 1 additional coaster track (freight bypass)	n.a n.a
ITC Tunnel	Constructed and completed	n.a	n.a
Parking (airport-related) Parking (commuter and other)	1,800 Spaces 100 Spaces	3,830 Additional Spaces 300 Additional Spaces	4,905 Additional Spaces 200 Additional Spaces
Overhead passenger gateway	Constructed and completed	n.a	n.a.
Roadways	Access roads for ITC constructed	Access roads for passenger processor constructed; additional access roads for ITC constructed	Access roads for passenger processor and ITC completed
Circulation roadway "loop"	Constructed and completed	Completed	n.a.
Rental car / CONRAC			
Customer service area	125,000 Sq. Ft.	n.a.	n.a.
Ready / return area	2,550 Spaces	250 Additional Spaces	700 Additional Spaces
Vehicle storage	1,000 Spaces	100 Additional Spaces	300 Additional Spaces
Rental car support / QTA	357,000 Sq. Ft.	39,000 Additional Sq. Ft	105,000 Additional Sq. Ft.
I-5 access	n.a.	North and South ramps constructed and completed	n.a.
OTHER PROJECTS			
Airfield	n.a.	Apron Areas and Taxiway Bravo Constructed	Apron Areas and Taxiway Bravo Completed
Airport Terminal			
Passenger Processor	n.a.	250,000 Additional Sq. Ft.	450,000 Additional Sq. Ft.
Concourses	n.a.	972,000 Additional Sq. Ft.	421,000 Additional Sq. Ft.
Baggage Conveyance System	n.a.	Constructed and completed	n.a
People mover	n.a	Constructed and completed	n.a.
Other miscellaneous *(a)*	Timeframe not given		

n.a. = Not Applicable

(a) Includes demolition of south side roads, parking, airport support buildings and off-airport structures. Also includes construction of south remote surface parking and central utility plant.

Note: High speed rail not included in this analysis.

Source: Jacobs Consultancy Team, 2008.

of the cost analysis, coupled with a 2% annual capital cost inflation rate. Similarly, the high case assumes soft costs and contingencies from the high scenario in the cost analysis, coupled with an 8% annual inflation rate. For the purposes of this analysis, an intermediate case was used. Soft costs and contingencies for the intermediate case are assumed to be at an intermediate level between the low and high scenarios, with 4% annual construction cost inflation.

The escalation of construction costs is shown in **Table 9-3.** Escalation is computed through the midpoint of construction for the Opening Day phase, assumed to be 2013. The cost estimates present compounded totals for soft costs, contingencies and escalation, in that order.

Table 9-3
MARKUP ON CONSTRUCTION COSTS – OPENING DAY PHASE
San Diego International Airport

Markup	Low	Intermediate	High
Soft Costs	24.9%	26.2%	27.4%
Contingency	18.0	21.5	25.0
Capital Cost Inflation (a)	8.0	17.0	36.0
Cumulative Markup	59.2%	79.3%	116.6%

(a) Escalated to the mid-point of construction (2013).

Note: A few project elements (such as property acquisitions) do not have soft cost components.

Source: HNTB, Jacobs Consultancy, 2008.

Common construction industry norms were used to determine the costs, which should be considered preliminary and subject to significant revision as each project element is defined in more detail during the engineering and design phase.

The Opening Day phase is estimated to cost $457 million *in 2009 dollars* representing 12 percent of the total capital cost of Destination Lindbergh.

The capital costs (in constant 2009 dollars) for the major projects included in Destination Lindbergh are summarized, by phase, in **Table 9-4.** Measured in 2009 dollars, Destination Lindbergh at ultimate build-out is estimated to cost $3.8 billion. Of the total, $457 million (12 percent) would be spent during the Opening Day phase, $1.9 billion (50 percent) during PAL1, and $1.4 billion (38 percent) during PAL2. The costs of the high speed rail system have not been included in this analysis.

Table 9-4
CAPITAL COST SUMMARY
(Constant 2009 dollars in millions)
San Diego International Airport

Project Elements	Opening day	PAL1	PAL2	Total
ITC				
Property and right of way rail acquisition	$ 10	$ 9	$ 16	$ 35
Transit / rail station and alignment	56	9	-	65
ITC Tunnel	9	-	-	9
Parking (airport-related)	69	147	188	404
Parking (commuter and other)	4	11	238	253
Overhead passenger gateway	12	-	-	12
Roadway	43	219	69	330
Rental car / CONRAC	257	17	48	322
I-5 Access	-	30	-	30
Subtotal	$ 457	$ 443	$ 558	$ 1,459
Other Projects				
Airfield	$ -	$ 336	$ 253	$ 589
Airport Terminal	-	662	528	1,189
People mover	-	430	-	430
Other miscellaneous (a)	-	39	111	150
Subtotal	$ -	$ 1,467	$ 891	$ 2,359
Total	**$ 457**	**$ 1,911**	**$ 1,449**	**$ 3,817**

(a) Includes demolition of south side roads, parking, airport support buildings and off-airport structures. Also includes construction of south remote surface parking and central utility plant.
Note: Totals may not add due to rounding. Excludes off-airport mitigation costs.
Source: HNTB, 2008.

The Opening Day phase is estimated to cost $535 million *in escalated dollars* representing 8 percent of the total capital cost of Destination Lindbergh.

As mentioned earlier, capital costs were also measured on an escalated basis, by inflating the costs to the midpoint of construction, and are summarized in **Table 9-5.** It should be noted that current inflationary pressures are below the assumed level for the intermediate case, therefore the rate of inflation assumption used in this analysis can be considered to be conservative.

Measured in escalated dollars, total Destination Lindbergh capital costs would be $6.3 billion, with $535 million of that amount (8 percent of the total) occurring in the Opening Day phase.

Table 9-5
CAPITAL COST SUMMARY – INTERMEDIATE SCENARIO
(Escalated dollars in millions)
San Diego International Airport

Project Elements	Opening Day	PAL1	PAL2	Total
ITC				
Property & rail right of way acquisition	$11	$13	$33	$58
Transit / rail station and alignment	65	13	-	78
ITC Tunnel	10	-	-	10
Parking (airport-related)	81	208	395	684
Parking (commuter and other)	4	16	499	520
Overhead passenger gateway	13	-	-	13
Roadways	50	311	145	505
Rental car / CONRAC	300	24	101	425
I-5 access	-	43	-	43
Subtotal	$535	$630	$1,172	$2,337
Other Projects				
Airfield	$-	$477	$531	$1,008
Airport Terminal	-	940	1,108	2,048
Other miscellaneous *(a)*	-	56	233	289
People mover	-	611	-	611
Subtotal	$-	$2,084	$1,872	$3,955
Total	**$535**	**$2,713**	**$3,044**	**$6,292**
Escalation factor	1.17	1.42	2.10	

(a) Includes demolition of south side roads, parking, airport support buildings and off-airport structures. Also includes construction of south remote surface parking and central utility plant.

Notes: Figures may not add due to rounding. Excludes off-airport mitigation costs.

Source: HNTB, 2008.

9.3 Potential Capital Funding Sources

Given the unique nature of the recommended development plan, there is a wide range of potential funding sources that can be used for implementation. These include traditional funding sources, as well as what may be considered innovative funding sources. Additionally, funding sources would be available for the other related projects.

Traditional airport funding sources and financing mechanisms include federal airport improvement program (AIP) grants, passenger facility charges (PFCs), customer facility charges (CFCs), airport revenue bonds, and cash generated from the operations of the Airport itself. These funding sources and financing tools provide the overwhelming majority of funding for airport development in the United States.

The final funding plan should leverage both traditional airport and innovative funding sources – especially given the unique and intermodal aspects of the recommended development program.

Innovative airport funding sources and financing mechanisms include special facility bonds, third party funding, TIFIA loans, and state or local funding sources. Projects may be eligible for innovative sources depending on the type of project and its location. Innovative funding sources and financing tools can be an important contributor to the overall financial viability of a capital program.

Funding for ancillary development (such as freeway ramp improvements) – which falls outside the scope of what would normally be considered an airport project – includes tax increment financing, and miscellaneous federal, state, and local funding sources that are available for ground transportation improvements. Public-private partnerships should also be considered a possible funding source for certain components of Destination Lindbergh.

A more complete list of potential funding sources and financing mechanisms is summarized below. It should be noted that the funds from some of these sources have already been obligated to other projects.

- ***Federal Airport Improvement Program (AIP) grants:*** AIP grants include entitlement grants, which are awarded to airports on the basis of enplanement levels, and discretionary grants, which are awarded by the FAA for

capacity enhancing airport projects, primarily on the airfield.

- ***Passenger Facility Charges (PFCs):*** PFCs are a levied by an airport on air passengers enplaning at the airport. An airport's PFC program must be approved by the FAA, and PFC revenues can only be spent on certain classes of projects. An airport may leverage its PFC revenue stream.

- ***Customer Facility Charge (CFCs):*** A per transaction fee charged to rental car customers, which can be used to finance rental car and CONRAC-related projects. Similar to PFCs, CFCs can be leveraged or used on a pay-as-you-go basis.

- ***Airport revenue bonds:*** Bonds backed by the revenue generating capability of an airport. Revenue may be generated from airline fees and charges, as well as the nonairline revenue streams.

- ***Internally generated airport capital:*** Net cash flow from the ongoing operations of the airport, after it meets all its financial obligations, including making its airport revenue bond debt service payments.

- ***Special facility bonds:*** Bonds that are backed by revenues generated from a specific facility or by a specific tenant; frequently used to fund consolidated rental car facilities.

- ***Third-party funding:*** Land is leased from the airport by a private investor, who then develops facilities; widely used for aeronautical-related purposes such as cargo and fixed-based operator development, as well as nonaeronautical purposes, including hotels, offices, etc.

As the project moves forward into detailed planning, a public-private partnership could be explored to determine its viability for Destination Lindbergh.

- ***Public-Private Partnerships:*** Consist of a joint venture between one or more private entities and one or more public entities, concerning the development, construction, and operation of a facility or group of facilities.

- ***TIFIA loans:*** A federal loan program under which an airport can borrow at favorable rates and terms for the development of intermodal facilities. Funds from TIFIA

loans can comprise up to one-third of total project costs for an intermodal facility. While there are currently TIFIA funds available, projects compete for these loans based on the individual project's merits.

- ***Tax increment financing:*** The proceeds of a tax levied on sales or property within an area such as a designated redevelopment zone, are used to back bond issues to fund infrastructure improvements within the area.

- ***TransNet sales tax funds:*** Proceeds of a 0.5 percent local sales tax dedicated to regional transportation improvements can be leveraged.

- ***Transportation Development Act (TDA) sales tax funds:*** Proceeds of a 0.25 percent sales tax fund dedicated to transit capital and operations purposes.

- ***Local street and road funds:*** Including gas tax subventions, and general fund contributions from the municipalities in the region.

- ***State Transportation Improvement Program (STIP) funds:*** San Diego's share of statewide funds, including funding anticipated from the infrastructure bond program (Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006 or Proposition 1B); STIP funds are flexible, and are available for capacity enhancing projects of all modes, as well as transportation demand management projects. A total of 94 percent of STIP funds (excluding Proposition 1B funds) are set aside for TransNet Early Action Program (EAP) projects.

- ***State Transit Assistance funds:*** San Diego's share of Statewide Transit Assistance funds is available for transit capital and operating costs only.

- ***Proposition 1B infrastructure bonds:*** San Diego's share of funding from this Statewide bonding program is expected to provide an approximately 7.1 percent share of such funding for the San Diego region.

- ***Traffic Congestion Relief Program (TCRP) funds:*** are available for allocation to specific projects as provided in State law.

- ***FTA Discretionary and Formula (Section 5309) funds:*** include San Diego's share of federal funding via the Federal Transit Administration (FTA); reflects a population based sharing of funds, with a component available for rail modernization.

- ***Surface Transportation Program (STP) funds:*** Funding through this federal program is flexible and may be used for a variety of transportation projects.

- ***Congestion Mitigation and Air Quality (CMAQ) funds:*** Funding through this federal program provides funds for a wide range of transportation capital improvements and transportation demand management activities, except roadway improvements that increase capacity for single occupant vehicles; available for regionally significant projects.

- ***Carbon Emissions Reduction funds:*** Potential funding associated with the enactment of State law AB32, which sets carbon emissions reduction targets for the State; potential revenue generating aspects could include the sale of carbon credits, or obtaining funding generated by other aspects of the legislation, such as a public goods charge on water, which could be made available for general infrastructure improvements. The Destination Lindbergh program as currently envisioned is expected to lead to lower greenhouse gas emissions and reduced air quality impacts, compared to more conventional approaches that could have been undertaken.

- ***High Speed Rail Revenues:*** This analysis assumes that construction and operation of high speed rail facilities would not occur during the timeline set fourth for Destination Lindbergh. However, once construction of high speed rail facilities has been completed, there would likely be revenue streams associated with its development and operation.

Some of these funding sources have constraints regarding the use of funds – for example both AIP grants and PFCs can be spent only on certain categories of projects, all of which must be airport related projects, located on airport property. Additionally, obtaining funding from both sources requires FAA

approval of the proposed use of those funds. Additionally, projects eligible for many of these funding sources, including AIP discretionary grants and TIFIA loans, will compete against other projects across the region, the state, or the nation for actual funding. Further, in accordance with federal airport revenue diversion regulations, for federally-supported airports, revenues generated by the airport operator cannot be expended on non-airport activities.

Given the current economic conditions, new streams of funding revenue may be made available to transportation infrastructure projects such as Destination Lindbergh.

Also, in light of the national economic and financial crisis, together with rising unemployment, the policy environment for transportation and infrastructure is changing quickly. Concurrent with the crisis, multi-year surface transportation and aviation authorizations are under consideration and the U.S. Congress will be considering funding for the recently passed high speed rail authorization. Together this means it is more important than ever that project proponents monitor the policy development process to take advantage of opportunities as they arise.

- ***FAA Authorization (PFC):*** The current FAA authorization expires in March. Congress is expected to continue its work from last session on a long-term FAA authorization. The House-passed version, H.R. 2881, contained an increase in the ceiling for the PFC from $4.50 to $7.00.

- ***Infrastructure Banks (Large projects)***: A centerpiece of President Obama's campaign was the creation of a National Infrastructure Reinvestment Bank that would provide financing to infrastructure projects across the nation. Under his proposal, the Bank would receive $60 billion over 10 years. Similar proposals have been considered in the House and Senate in the recent past.

- ***Economic Recovery***: The American Recovery and Reinvestment Act of 2009 (ARRA) provides approximately $787 billion in additional spending and tax incentives to stimulate the nation's economy. The ARRA includes an amount of $1.1 billion set aside for additional, discretionary funds for the AIP program.

- ***Greenhouse Gas (GHG) Emissions/Energy Use***: Pressures to reduce per capita GHG emissions and energy use are likely to be significant criteria for the funding of

transportation projects going forward over the next year and beyond. Presently it is unclear as to whether or not such policies will be enforced at the federal level or at the state level; or at the federal level with certain states being "grandfathered"—those that have already developed their own targets and criteria for reduction in greenhouse gas emissions. Projects involving public transportation and reduction of congestion will likely have to show ***net reductions*** in these criteria, to be eligible for funding from certain federal and State sources.

While there are many potential funding sources, the demand for public funding will likely outpace the resources available.

It should be clearly understood that in many cases, there is likely to be more demand for funding than is available. Further, in some cases while a project category may be eligible for a specific funding source, it is unlikely that such funding would be made available for that project category. For example, airport circulation roads are eligible for AIP discretionary funding, but would be unlikely to receive such funding because the FAA preserves scarce AIP discretionary dollars for airfield capacity projects that have a higher priority call on this funding source.

Consequently, judgment, experience and precedent need to be employed when crafting a funding plan for an airport capital program.

Table 9-6 summarizes, in conceptual terms, the application of funding sources to the categories of projects in the recommended development plan. Funding sources are identified by eligibility, and also by the reasonable expectation of funding being available as well as the advisability of using that funding source or financing mechanism.

Table 9-6
CAPITAL FUNDING SOURCES – CONCEPTUAL
San Diego International Airport

Source: Jacobs Consultancy Team, 2008.

9.4 Potential Funding Scenario for the Opening Day Phase

The potential funding scenario is based on allocation of the cost of the opening day phase to the eligible funding sources.

With regard to the Opening Day phase of Destination Lindbergh, the specific estimates of the various elements (estimated at $535 million in escalated dollars in total) were matched with the funding sources and financing mechanisms potentially available. This potential funding scenario is shown in **Table 9-7.**

Table 9-7
FUNDING SCENARIO – OPENING DAY PHASE
(Escalated dollars in millions)
San Diego International Airport

		Funding Sources						
			CFCs					
Project Elements	Total cost *(a)*	TIFIA loan	Bonds	Equity	Airport revenue bonds	Federal airport grants	Other	Total
Property and right-of-way rail acquisition	$11	$11	$ -	$ -	$ -	$ -	$ -	$11
Transit / rail station & alignment	65	65	-	-	-	-	-	65
ITC Tunnel	10	10	-	-	-	-	-	10
Parking (airport-related)	81	-	-	-	81	-	-	81
Parking (commuter and other)	4	-	-	-	-	-	4	4
Overhead passenger gateway *(b)*	13	-	-	-	3	10	-	13
Roadway	50	31	-	-	10	-	10	50
Rental car / CONRAC	300	60	153	87	-	-	-	300
Total	**$535**	**$178**	**$153**	**$87**	**$94**	**$10**	**$14**	**$535**

(a) Cost estimates developed by HNTB.
(b) Federal grant assumed to cover 75% of project element.
Note: Totals may not add due to rounding.
Source: Jacobs Consultancy Team, 2008.

The key assumptions in the analysis are:

- A TIFIA loan would be available for an amount equivalent to one-third of the total project cost, which is approximately $178 million. As mentioned earlier in this report, specific revenue streams needed to repay the TIFIA loan have yet to be identified. The CONRAC elements of the ITC project would be classified as a "special facility", and taxable special facility bonds would be issued against the future stream of CFC revenues generating approximately $153 million of bond proceeds available to fund the project. CFC revenues collected during the development period, totaling approximately

$87 million for 2010 through 2015, would be applied on a "pay-as-you-go" basis to the project.

- The Authority would issue airport revenue bonds to pay for the costs of the Airport parking elements of the project, as well as for other allocated expenses such as a portion of the roads and the overhead passenger gateway, as well as utility improvements, landscaping, mitigation, etc.

- A federal AIP entitlement grant would be available to fund 75 percent of the overhead passenger gateway, with the Authority funding the matching share.

- Other non-airport funding sources totaling $14 million would be identified to fund the remainder of the project – primarily roadways associated with the ITC and parking for the transit station.

An underlying assumption of this analysis is that the municipal bond markets will recover to "normal" conditions, which is pre-Summer 2008, by the time the bond issues noted herein are undertaken. Such a bond issuance likely would not be undertaken under today's financial market conditions.

Given the capital costs of PAL1 and PAL2 improvements, additional financial analysis will be necessary as these phases become better defined in future planning efforts.

As noted earlier, capital spending for PAL1 would total $2.7 billion, and PAL2 spending would total $3.0 billion, for a grand total of $6.3 billion in escalated dollars for all three phases. Because of the magnitude of these investments, significant additional analysis should be undertaken to ascertain the financial viability of these investments. Additional financial analysis should be based on more detailed facility planning findings.

9.5 Opening Day Phase Expenses and Revenues

Another important element of the financial analysis is the estimated day-to-day operation and maintenance (O&M) costs of the proposed facilities.

9.5.1 Summary of Operation and Maintenance Expenses

Any new capital facility will have routine ongoing costs associated with its operation and maintenance. These costs may include staffing and related benefit costs, janitorial, security, utilities, contracted services such as for equipment repair, and

minor maintenance. These costs may change over time, depending on the underlying driver of the cost and would increase with inflation.

Estimates of operation and maintenance expenses were made to inform the financial analysis of the Opening Day phase.

Typically, activity levels are the underlying driver of O&M cost increases. As passengers or aircraft operations increase over time, most categories of O&M cost also increase, generally at a lower growth rate than activity levels. For example, a 10 percent increase in passengers usually would not result in a 10 percent increase in janitorial cost, or a 10 percent increase in security cost. Further, when airport facilities are new, O&M costs will tend to be lower because the equipment is in good condition and under warranty, and the facility has been developed to accommodate the latest operational requirements.

Over time, O&M costs tend to increase, even in constant dollars, because facilities require more maintenance as they age, equipment repair is not covered by warranties, and the facility capabilities may be stretched to accommodate higher activity levels.

In estimating the O&M expenses for the Opening Day phase, the following key assumptions were made:

- The facilities would be completed in 2015
- Where possible, metrics were calibrated against existing operations at SDIA, in terms of measures such as roadway operating cost per lane-foot
- These metrics were then applied to the applicable parameters of the Destination Lindbergh projects

Applying this methodology, annual projections of O&M expenses were developed for the Opening Day phase, in both constant 2009 dollars and in escalated (inflated) dollars, as shown in **Table 9-8.**

Table 9-8

ESTIMATED OPERATIONS AND MAINTENANCE EXPENSES – OPENING DAY

San Diego International Airport

Project elements	O&M responsibility	Driver	Unit cost ($)	No. of units	O&M cost (2015) 2009 dollars	O&M cost (2015) Escalated dollars
Property & rail right of way acquisition	n.a.					
ITC tunnel	Authority	Allowance	$250,000		$ 250,000	$ 290,000
Parking (airport-related)	Authority	Per space	1,000	1,800	1,800,000	2,087,000
Overhead passenger gateway (b)	Authority	Allowance	250,000		250,000	290,000
Roadways	Authority	Per lane-foot	25	46,200	1,155,000	1,339,000
Subtotal - O&M incurred by Authority					$3,455,000	$4,006,000
Transit / rail station and alignment	Station operator	Per sq. ft.	10	50,000	500,000	580,000
Parking (commuter and other)	Station operator	Per space	1,000	100	100,000	116,000
Subtotal – O&M incurred by Station Operator					$ 600,000	$ 696,000
Rental car / CONRAC	Rental car companies					
Customer service area		Per sq. ft.	15	125,000	1,875,000	2,174,000
Ready / return area		Per space	750	2,550	1,913,000	2,218,000
Vehicle storage		Per sq. ft.	400	1,000	400,000	464,000
Rental car support / QTA		Per sq. ft.	0.85	357,192	304,000	353,000
Subtotal - O&M incurred by Rental Car Companies					$4,492,000	$5,209,000
					Escalation factor:	1.16

Note: Operating cost inflation was assumed to be 2.5% per year. Inflation represents conservative interpretation of projected growth in Consumer Price Index (CPI)

Source: HNTB, Jacobs Consultancy, 2008.

Because different entities would be responsible for operating different parts of the ITC, the O&M cost burden would be shared among the various entities. Specifically, it was assumed that:

- The airport parking, tunnel, overhead walkway, and roads are to be operated and maintained by the Authority
- The transit / rail station and associated parking are to be operated by a station operator
- The CONRAC and associated rental car facilities are to be located on airport property and operated and maintained by the rental car companies through a consortium, to standards set by the Authority

The estimate of O&M expenses indicates that the Authority would incur approximately $3.5 million per year related to the parking elements of the recommended development program.

When measured in constant 2009 dollars, under these assumptions, the O&M impact on the Authority would be $3.5 million per year, primarily related to the airport parking elements of the project. The transit / rail station operator costs would be $0.6 million per year, and the rental car companies would incur annual operating costs of $4.5 million per year.

These expenses are incremental to the existing O&M cost base of the Airport, albeit, there may be potential reductions to the existing cost base, as some of these project elements may replace existing Airport facilities.

9.5.2 Summary of Operating Revenues

Several operating revenue sources are available to airports which can generally be categorized into airline revenues and nonairline revenues. Airline revenues are the fees, charges, and rentals paid by airlines for the use of airport facilities, primarily landing fees and terminal space rentals. Nonairline revenues are the fees, charges, and rentals paid by nonairline tenants and other users of airport facilities – primarily including terminal concessions, automobile parking, and rental car. Beyond these three, nonaeronautical commercial development on airport property can be a significant operating revenue contributor, as can revenues from aeronautical-related activities such as cargo, fueling, hangar rentals, and general aviation. Given the limited available property at SDIA, commercial development is unlikely to be a significant future revenue source.

For FY 2007, airline revenues comprised 45 percent of the total revenue accrued to the Authority.

As shown in **Table 9-9**, the split between airline revenues and nonairline revenues at SDIA for FY 2007 was approximately 45 percent to 55 percent, which is similar to the split for large hub airports in general. Of total nonairline revenues, terminal concessions, parking, and rental car accounted for about 91 percent.

Table 9-9
REVENUE SPLIT FOR SDIA
San Diego International Airport

	2007 Dollars (millions)	Percentage
Airline	$56.70	45%
Non-Airline		
Concessions	$34.20	
Parking	28.4	
Other	6.1	
Non-Airline subtotal	68.7	55%
Total	**$125.40**	**100%**

Source: SDCRAA, Comprehensive Annual Financial Report, FY 2007.

The current airline agreement represents a hybrid of the residual and compensatory rate-setting methodologies.

Airline revenues at the Airport are governed by the Airline Operating Agreement, which stipulates that airline fees and charges are calculated according to a "hybrid" methodology:

- A ***residual*** cost recovery methodology for the ***airfield***, meaning landing fees are calculated such that revenues generated from all airfield activities are equal to total costs allocated to the airfield;

- A ***compensatory*** methodology for the ***Airport terminal (i.e., passenger processing facility and concourses),*** meaning the costs allocated to the terminal are spread evenly across the facility on a per square foot basis; the Airport bears the cost risk for any unoccupied space.

This airline ratemaking methodology is relatively common in the industry. The current Airline Operating Agreement is on a month-to-month basis. Consequently, the Authority has leeway to amend the airline ratemaking methodology in the future if needed, subject to airline negotiation.

Major sources of nonairline revenue for the Airport are as follows:

The primary sources of non-airline revenue accrue from retail concessions, rental car, and parking facilities. In FY 2007, these facilities comprised 91 percent of all non-airline revenues.

- ***Retail concessions:*** The concessionaires providing these services, primarily retail and food / beverage outlets, pay a percentage of gross revenues, subject to a minimum annual guarantee.
- ***Parking:*** In setting parking rates, the airport balances market conditions with customer service expectations, in the context of type of facility, such as short-term, long-term, economy, etc.
- ***Rental car:*** A privilege fee, which is typically 10 percent of rental car revenues at the airport, as well as space rentals for counter space and ready / return spaces if on airport property
- ***Aeronautical-related activities:*** Revenues from cargo, fuelling, FBO, general aviation activity, etc.
- ***Commercial development:*** consist typically of land rentals for facilities developed by third-parties, although the airport itself can sometimes be the developer or can assume a facility at the end of a long-term ground lease.

Federal provisions prevent airport revenues from being diverted for non-airport revenue purposes. These provisions may require the Authority to acquire land such that these provisions are not breached.

At completion of the entire Destination Lindbergh program, there would be concession facilities located in 1) the passenger processing facility, 2) the concourses and 3) the ITC, primarily in the transit / rail station. At Opening Day, concession revenues generated from facilities encompassing the Destination Lindbergh program would come solely from the ITC. Also at Opening Day, revenues would be generated from the operation of parking facilities in the ITC, as well as from rental car operations.

One significant untapped revenue source available to San Diego International Airport is the rental car CFC. The CFC is assumed to be a significant contributor to the funding of the CONRAC elements of the ITC, and the revenue stream could be used to back a special facility bond issue to fund the CONRAC facility.

Federal revenue diversion provisions prevent application of airport revenues for non-airport purposes. Consequently, as the ITC is better defined, it will be important to carefully assess

whether each element of the project is on airport property, or off-airport property. The Authority may need to purchase land parcels to ensure that revenue diversion regulations are not breached.

There is also the potential to generate revenue streams from commercial development off-Airport. For example, redevelopment of property adjacent to the Airport that is made available as a result of Destination Lindbergh projects could generate leasing revenue for the Airport.

The estimate of operating revenues for the Opening Day phase indicates that Authority would receive approximately $1.6 million from the parking facilities associated with the recommended development program.

As an intermodal facility, the ITC has several components, and revenues generated from the various elements of the project would accrue to different entities. Specifically, it was assumed that:

- Operating revenues associated with the CONRAC portion would include the CFC and space rentals paid by the rental car companies. These revenues would be pledged to pay debt service on the special facility bonds issued to fund the CONRAC facility. However, the Authority would retain rental car privilege fees and possibly ground rentals from the rental car companies for Airport operating purposes.

- There would be operating revenues associated with the public parking elements of the project. The revenue generating ability of parking at the ITC would differ depending on whether the spaces are used by airline passengers or transit / rail commuters. Revenues from airport parkers would accrue to the Authority.

- The transit station operator would gain revenues from transit riders parking at the ITC, and could potentially generate revenues from the station's concession outlets. Revenues could also be generated from fees and charges levied on the commuter rail and transit operators using the station. Further analysis should be done to estimate the fees and charges that could be levied at the transit / rail station.

These assumptions, along with the resulting operating revenue estimates, are shown in **Table 9-10.** As shown, revenue accruing to the Authority from parking is projected to total $1.6 million in

2015 (measured in 2009 dollars). Revenue of the transit / rail station operator is projected to be $1.5 million in 2015 (measured in 2009 dollars). CFC revenues are projected to generate $15.2 million, while rental car company rentals are projected to total $4.5 million, the amount needed to cover the operating costs of the CONRAC facility.

As mentioned, a revenue stream would need to be identified for the repayment of the TIFIA loan. While TIFIA is a program that provides funding on favorable and flexible terms, the loan must be repaid with interest. A $178 million TIFIA loan implies annual debt service payments of approximately $11 million per year – which could be delayed until up to 5 years after the day of beneficial occupancy at the new facility, although interest would accrue to the loan balance. Revenues to repay the loan could come from a number of sources, including the coverage amount on the CFC special facility bonds, tax increment revenues, rental payments from the rental car companies, airport revenues on a subordinated basis, or some combination of these or related sources.

In general, operating revenues are far more closely correlated with passenger traffic; therefore growth over time will be a function of traffic growth, as well as rate and fee increases.

Not currently included in assumed operating revenues are potential revenue streams arising from the redevelopment of lands and facilities both on- and off-airport property that would be made available from the development of the new Destination Lindbergh facilities.

Table 9-10
ESTIMATED REVENUES – OPENING DAY
San Diego International Airport

Project elements	Source of revenue	Recipient of revenue	Driver	Unit revenue ($)	No. of units	Revenues 2009 dollars	Revenues Escalated dollars
Property & rail right of way acquisition	n/a		-	-	-	-	-
ITC tunnel	n/a		-	-	-	-	-
Parking (airport-related)	Air travelers & meters/greeters	Authority	Per enplanement	$3	508,185	$1,626,000	$1,886,000
Overhead passenger gateway *(b)*	n/a		-	-	-	-	-
Roadways	n/a		-	-	-	-	-
Subtotal - Revenue to Authority						**1,626,000**	**1,886,000**
Transit/rail station and alignment	Ground rental	Station operator	Per sq. ft.	-	-	Requires further analysis	
	Concessions revenue		Per rail passenger	0.20	1,218,780	244,000	283,000
	Per use fees		Per rail operation	-	-	Requires further analysis	
Parking (commuter and other)	Rail commuters		Per rail passenger	1.00	1,218,780	1,219,000	1,413,000
Subtotal - Revenue to Station Operator						**$1,463,000**	**$1,696,000**
Rental car/CONRAC Customer Facility Charge	Customers (CFC)	Authority (Special Facility Project)	Per transaction	$10	1,524,555	$15,246,000	$15,246,000
Rental car company space rental	Space rental		Per sq. ft. or per space	-	-	4,492,000	5,209,000
Subtotal - Revenue to Special Facility Entity						**19,738,000**	**20,455,000**
					Escalation factor:		1.16

Notes:
Operating cost inflation was assumed to be 2.5% per year. Inflation represents conservative interpretation of projected growth in Consumer Price Index
n/a = Not applicable (no associated revenue)
Source: Jacobs Consultancy Team, 2008.

9.6 Financial Analysis Summary

The financial assessment concluded that the Opening Day phase has significant potential to be financed in a viable manner.

As discussed in Section 9.1.3, based on the preliminary financial analysis described in this report, it can be concluded that there is a significant potential for the Opening Day phase of the Destination Lindbergh program to be financed in a viable manner, assuming that conditions in the municipal financial markets return to normal conditions. This conclusion is based on the assumed availability of funding and financing from the funding sources and financing mechanisms shown in **Table 9-7**, in approximately the amounts shown.

It should be noted that this project holds considerable merit as a facility and therefore it could become eligible for a wide array of special funding in the form of grants or low-interest loans. However, this analysis has not made the assumption that the project will receive such funding, because it cannot be assured given the availability and competitive nature of these funding sources.

It should also be noted that the Opening Day funding scenario is based on air traffic activity growth assumptions that reflect 10.2 million enplaned passengers at SDIA by 2015.

Beyond the Opening Day phase, no conclusions can currently be made regarding of PAL1 and PAL2 funding viability. A detailed facility plan should be prepared to allow preparation of a more accurate cost estimate with lower contingency assumptions. Following this, a more detailed financial feasibility analysis can be prepared that takes into account additional information on the more unique funding sources that should be available.

The next steps in evaluating the financial viability of the Destination Lindbergh program, and in developing a financial plan, involve:

- Further refining and validation of the Opening Day phase assumptions and project costs
- The development of a more detailed projection of revenues for the Opening Day phase, including possible revenues from tax increment financing

- The development of a more detailed facility plan for projects in Phases 2 and 3
- The preparation of a detailed cash flow analysis for the Opening Day phase, and subsequently a cash flow analysis for all three phases of Destination Lindbergh