

## AGENDA REPORT

Resolution: Approval to Submit Passenger Facility Charge (PFC) Application #17 to Federal Aviation Administration (FAA) in the amount of \$202,467,650 (**Aviation Division**)

**MEETING DATE:** 5/28/2015

**AMOUNT:** \$202,467,650  
Revenue

**PARTIES INVOLVED:** Federal Aviation Administration, Brisbane, CA

**SUBMITTED BY:** Deborah Ale-Flint, Director of Aviation

**APPROVED BY:** J. Christopher Lytle, Executive Director

**ACTION TYPE:** Resolution

### **EXECUTIVE SUMMARY**

The purpose of this Agenda Report is to request authorization for the Executive Director to submit Passenger Facility Charge (PFC) Application #17 to the Federal Aviation Administration (FAA) in the amount of \$202,467,650 for funding of International Arrivals Building (IAB) Upgrades at Oakland International Airport (OAK) and other PFC-eligible projects.

### **BACKGROUND**

Oakland International Airport (OAK) has participated in the federal Passenger Facility Charge (PFC) Program since 1992. The program allows airports to collect PFC fees to fund FAA approved projects that enhance safety, security or capacity; reduce noise; or increase air carrier competition. The current fee is \$4.50 per revenue passenger. The Airport has filed 16 separate applications during this period with a total approved collection and use authority to date of approximately **\$793 million**. Collection for PFC #14 at a \$4.50 level will continue through January 1, 2028, after which PFC collection is scheduled to decrease to a \$3.00 level if not changed by the request in this application.

As presented to the Board on January 29, 2015, staff intends to use PFC funds for the construction of the International Arrivals Building (IAB) Operability Improvements and needs approval from the FAA in PFC Application #17 (PFC #17). In addition to the IAB project, this application would request to use PFCs to fund the Port share of two AIP-funded projects. PFC

#17 also requests commingling PFC #15 (impose) and PFC #16 (use) approved at a \$3.00 collection level with PFC #17 to be approved at a \$4.50 collection level. The FAA's Final Agency Decision (FAD) for the new application would include administrative amendments that would close PFC #15 and PFC #16 upon approval of PFC #17.

The Port has initiated the PFC #17 Application process, including notification to the airlines and public of the intent to file a PFC application. As required, the Port also held an air carrier consultation meeting on April 8 2015 to brief the airlines on the projects included in PFC #17 application. Within 30 days (May 8, 2015) of the airline consultation meeting, each carrier was to provide the Port with a written certification of its agreement or disagreement with the proposed projects in the application. By May 8, the majority of the airlines agreed with all projects, either through written response (Southwest Airlines) or by not responding, which is interpreted as agreement. Two airlines, Alaska Airlines and American Airlines, disagreed with the IAB Upgrade projects, but agreed to the other projects included in this application. The Port intends to respond to their letters before submitting the application to the FAA in July. In summary, the significant majority of the carriers at OAK have agreed to the Port's projects requested in PFC #17. These carriers represent an overwhelming share of both the domestic and international passenger traffic at OAK.

## **ANALYSIS**

PFC #17 is the next application in the Port's ongoing PFC Program, and it incorporates funding to accommodate construction and debt financing costs for all of the projects listed in **Table 1**. In the application it is assumed that all of the construction costs will have to be debt financed because ongoing PFC-eligible expenses will outstrip PFC collections. In fact, the proportion of "pay-go" versus "debt" financing for a given project will depend on the timing of project expenditures, but the assumption provides the Port the maximum flexibility to determine what that proportion will be. **Table 1** shows a financial summary of PFC #17 projects.

**Table 1**  
**PFC 17 Financial Summary**

Project Description	Estimated Project Cost	Estimated Eligibility/ Share	Estimated PFC Funds	Financing Cost Allowance	Total PFC Funds
<b>#1 International Arrival Building Upgrades</b>					
1A - IAB Immediate Operability Improvements	30,000,000	80%	24,000,000	41,922,826	65,922,826
1B - IAB Future Contingency Improvements	15,000,000	100%	15,000,000	26,201,766	41,201,766
<b>#2 AIP Grant Local Share</b>					
2A - North Field Runway Safety Area	66,500,000	19.41%	12,907,650	22,546,882	35,454,532
2B - Runway 12/30 Rehabilitation	30, 000,000	19.41%	5,823,000	10,171,526	15,994,526
<b>#3 BART Airport Connector</b>	529,000,000*	8.30%	43,894,000*	<b>0</b>	43,894, 000
<b>TOTAL</b>	<b>\$670,500,000</b>		<b>101,624, 650</b>	<b>100,843, 000</b>	<b>\$202,467,650</b>

\*Total BART Project Construction cost is \$529,000,000, of which the Port share is \$43,894,000.

The PFC #17 application will request authorization to impose PFC funds for the following projects:

### **Project #1 - IAB Upgrades**

Total PFC funding for **Project #1A - Immediate Operability Improvements** of the IAB project is estimated at **\$65,922,826**, including financing cost of **\$41,922,826**. This project meets the PFC criteria by significantly enhancing capacity and competition, provides a reliable baggage system and baggage claim capacity to serve two aircraft at the same time, reduces queuing space congestion and improves level of service, and finally furnishes opportunity for enhanced competition between or among air carriers at OAK. The Port estimates that this project is eligible for 80% PFC funding as it will affect about 80% of the public use areas of the IAB. The remaining 20% would be funded with Port funds and rates and charges.

Total PFC funding for **Project #1B – IAB Future Improvements** is estimated at **\$41,201,766**, including financing cost of **\$26,201,766**. This project will provide greater operational flexibility to address future anticipated potential high growth traffic and furnish an opportunity for enhanced competition between or among air carriers at OAK. The project is also expected to improve connectivity to other existing gates and provide better customer amenities. The Port estimates that this project would be eligible for 100% of PFC funding as all improvements are for public use.

## **Project #2 - AIP Grant Local Share Projects**

Total PFC funding for **Project #2A - North Field RSA** is estimated at **\$35,454,532** including financing cost of **\$22,546,882**. This project is scheduled to be completed in December 2015 to meet the Congressional mandated deadline. Total PFC funding for **Project #2B** (Runway 12/30 Rehabilitation) is estimated at **\$15,994,526**, including financing cost of **\$10,171,526**. AIP grant funding for the planning and design of Runway 12/30 is included in the 2015 AIP Application. This PFC application will cover the local share of the design and construction cost pending future AIP grants. These projects would meet PFC criteria by significantly enhancing air safety, security, and capacity at OAK. The projects would also maximize the use of existing airfield assets and furnish an opportunity for enhanced competition between or among air carriers at OAK. The Port has or will apply for about 80.59% of the total project costs in AIP Grants funds and 19.41% to be matched by PFC #17 Application funds.

## **Project #3 - BART Airport Connector**

On December 14, 2009, the Port received FAA approval to impose a PFC fee to collect up to **\$70.3 million** including **\$26,365,000** in financing cost for the BART Airport Connector project under PFC #15. On January 11, 2012, the Port received FAA approval to use the same amount in PFC revenue for the BART Airport Connector project under PFC #16.

The Port was approved to impose and use PFC for the BART Airport Connector project at a \$3 PFC level with new projects eligible at \$4.50 to achieve an overall \$4.50 level for PFC #17. The FAA's Final Agency Decision (FAD) for the new application will include administrative amendments as part of the FAD that will zero out the prior two applications (PFC #15 and PFC #16). .

To reflect that the financing authority for the project has not and will not be used, the Port would reduce the approved collection authority for PFC #15 and PFC #16 (impose and use) to remove the financing cost. The amendment would reduce the original collection authority from **\$70,259,000** by the financing cost of **\$26,365,000** for a new total collection authority of **\$43,894,000** and a new estimated expiration date.

The entire project cost was estimated to be **\$529 million**, of which the Port share is approximately **\$43,894,000** (excluding financing costs). Eligible project costs totaling **\$1.5 million** were reimbursed as part of the Port's PFC #13 application. The Port's funding approach for its remaining share of the project costs is to use PFCs to reimburse **\$43,894,000** of eligible project costs.

The FAA allows Airport sponsors with multiple PFC approvals outstanding to commingle to avoid fluctuating PFC levels. The commingling prevents the administrative burden of managing and changing collection levels for airports and air carriers. Additionally, an increased level of PFC would expedite the remaining payments associated with the completed BART Airport Connector project because payments to BART are related to the approved PFC level for the project (per the BART-Port Development Agreement). As of

March 31, 2015, the Port has paid **\$33.3 million** of the total Port share, with **\$12.1 million** in project costs remaining to be paid.

## **BUDGET & STAFFING**

The proposed PFC #17 application will result in **\$202,467,650** of PFC collection and use authority and anticipated to extend the Port's PFC collection period to approximately August 2037. Using PFCs minimizes the need to include these capital costs in the Airline rates and charges, thereby helping OAK maintain a competitive rate structure.

The proposed PFC #17 application also allows the Port to use PFCs to pay for the financing costs, if any, associated with issuing debt to pay for all or a portion of these project costs. Note that the financing costs included in the application assume that the PFC-eligible share of the projects (excluding the BART Airport Connector) will be funded entirely through the issuance of debt and conservative interest rate assumptions. These assumptions have been incorporated into the application to afford the Airport maximum funding flexibility. However, a portion of these costs is anticipated to be paid with available "pay-go"; although, the amount for each project will depend on the actual construction timing. Furthermore, in the event that traffic increases faster than currently anticipated and/or Congress approves an increase in the PFC level, financing costs for PFC #17 will be lower than projected under this application.

Leveraging the PFC revenue stream to fund capital projects is commonly applied in the airport industry when capital costs exceed PFC pay-as-you-go capacity. This strategy is broadly accepted by the FAA, rating agencies, and municipal bond markets. Most airports similar in size to OAK have obtained FAA authorization to apply PFCs to financing costs in recent years.

It is anticipated that this project can be accomplished within the current Port staffing levels.

## **MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)**

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

## **STRATEGIC PLAN**

The Strategic Plan was adopted by the Board on October 5, 2010. The Strategic Plan is a cornerstone of the overall alignment of the Port. It provides the framework for focusing the work of staff and the Board of Port Commissioners, and serves to guide an organization-wide redesign to better match the skills and talents of Port employees with the overall strategic goals of the organization in the key areas of Sustainable Business and Economic Development, Stewardship and Accountability, Port Workforce and Operations, and Communications and Information.

This project would help the Port achieve the following goals and objectives:

STRATEGIC PRIORITY AREAS	GOAL	OBJECTIVE	HOW PROJECT IMPLEMENTS	WHEN PROJECT IMPLEMENTS
Sustainable Economic and Business Development	Goal A: Create Sustainable Economic Growth for the Port and Beyond	1. Maximize the use of existing assets.	The PFC #17 projects as a whole will maximize the useful life of the existing IAB, achieve the deadline for implementation of North Field RSA, and rehabilitation of Runway 12/30. The PFC will support the continued modernization of these facilities.	The application will support bond sales. All the projects are expected to be completed by 2020.
	Goal B: Maintain And Aggressively Grow Core Businesses	3. Price Port services to provide a highly competitive value.	The proposed plan of finance which uses PFC to repay borrowing is designed to minimize the impact on Airline rates and charges.	Immediately

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan (<http://www.portoakland.com/pdf/about/strategicPlan2011-2015.pdf>)

### **LIVING WAGE**

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

### **ENVIRONMENTAL**

Port staff have determined that this action, submitting PFC #17 to the FAA, is statutorily exempt pursuant to the California Environmental Quality Act (CEQA) Guidelines Section 15273 (a). CEQA does not apply to the establishment, modification, structuring, restructuring, or approval rates, tolls, fares, and other charges by public agencies which the public agency finds are the purpose of: (1) Meeting operating expenses, including employee wage rates and fringe benefits; (2) Purchasing or leasing supplies, equipment, or materials; (3) Meeting financial reserve needs and requirements; (4) Obtaining funds for capital projects necessary to maintain service areas; or (5) Obtaining funds necessary to maintain such intra-city transfers as are authorized by the city charter.

**Project #1:** The IAB Upgrades have been adequately evaluated under CEQA (i.e. 1997 Airport Development Program [ADP] Environmental Impact Report [EIR], 1999 ADP EIR, and 2003 Supplemental ADP EIR). A Notice of Determination (NOD) will be filed at the Alameda County Clerk Office after the Board authorizes Port staff to proceed with design.

**Project #2A:** The North Field Runway Safety Area (RSA) construction has been adequately evaluated under CEQA (i.e. August 2012 Initial Study/Mitigated Negative Declaration Proposed RSA Project). An NOD was filed on September 25, 2012. Construction is in progress.

**Project #2B:** The Runway 12/30 Rehabilitation project will be evaluated under CEQA once the planning and design services are complete.

**Project #3:** The BART Airport Connector is completed. No further environmental review is required.

## **GENERAL PLAN**

This action is limited to funding approval and does not directly authorize any alteration of property. Development projects that are funded by this action will be subject to separate Board approval and findings of conformity with the City of Oakland General Plan in accordance with Section 727 of the Charter.

## **OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)**

This action is not subject to the Port's Owner Controlled Insurance Program (OCIP) or Professional Liability Insurance Program (PLIP) as it is not a capital improvement construction project or design project supporting such construction. However the actual Capital Improvement construction and design projects will be subject to OCIP and PLIP.

## **OPTIONS**

1. Authorize the Executive Director to submit PFC Application #17. This is the recommended action.
2. Do not authorize the Executive Director to submit PFC #17 Application. This would require staff to reevaluate the timing of the construction of the IAB upgrades and , to prepare a new plan of finance that would likely delay the implementation of the IAB projects and have a greater impact on Airline rates and charges. It will also result in the lowering of the PFC collection authority to \$3.00 when the \$4.50 PFC collection authority expires in 2028, creating a fluctuating PFC collection level for the airport and air carriers.

## **RECOMMENDATION**

It is recommended that the Board authorize the Executive Director to submit PFC #17 Application.

**Figure 1: Proposed IAB Immediate Operability Improvements**

