FINANCIAL ASSESSMENT

February 13, 2009

JACOBS Consultancy

SAN644

CONTENTS

1. SUMMARY

Based on a comprehensive analysis of a range of potential options for the ultimate build out of San Diego International Airport (SDIA), a preferred development concept was identified. This concept can be summarized as follows, and is shown in Figure 1 below:

- Development of terminal facilities on the south side of the Airport that are able to accommodate the ultimate passenger forecast at SDIA, totaling approximately 60 aircraft gates, as well as associated improvements to the airfield, taxiway, cargo, and general aviation facilities

- Development of an Intermodal Transit Center (ITC), including an intermodal transit/rail station, consolidated rental car facility, and parking

- Development of other related facilities, such as a people mover, realignment of ramps to the Interstate 5 freeway, and ultimately the development of facilities to accommodate a high speed rail system

These improvements were identified to occur in three phases over approximately a 20-year period.

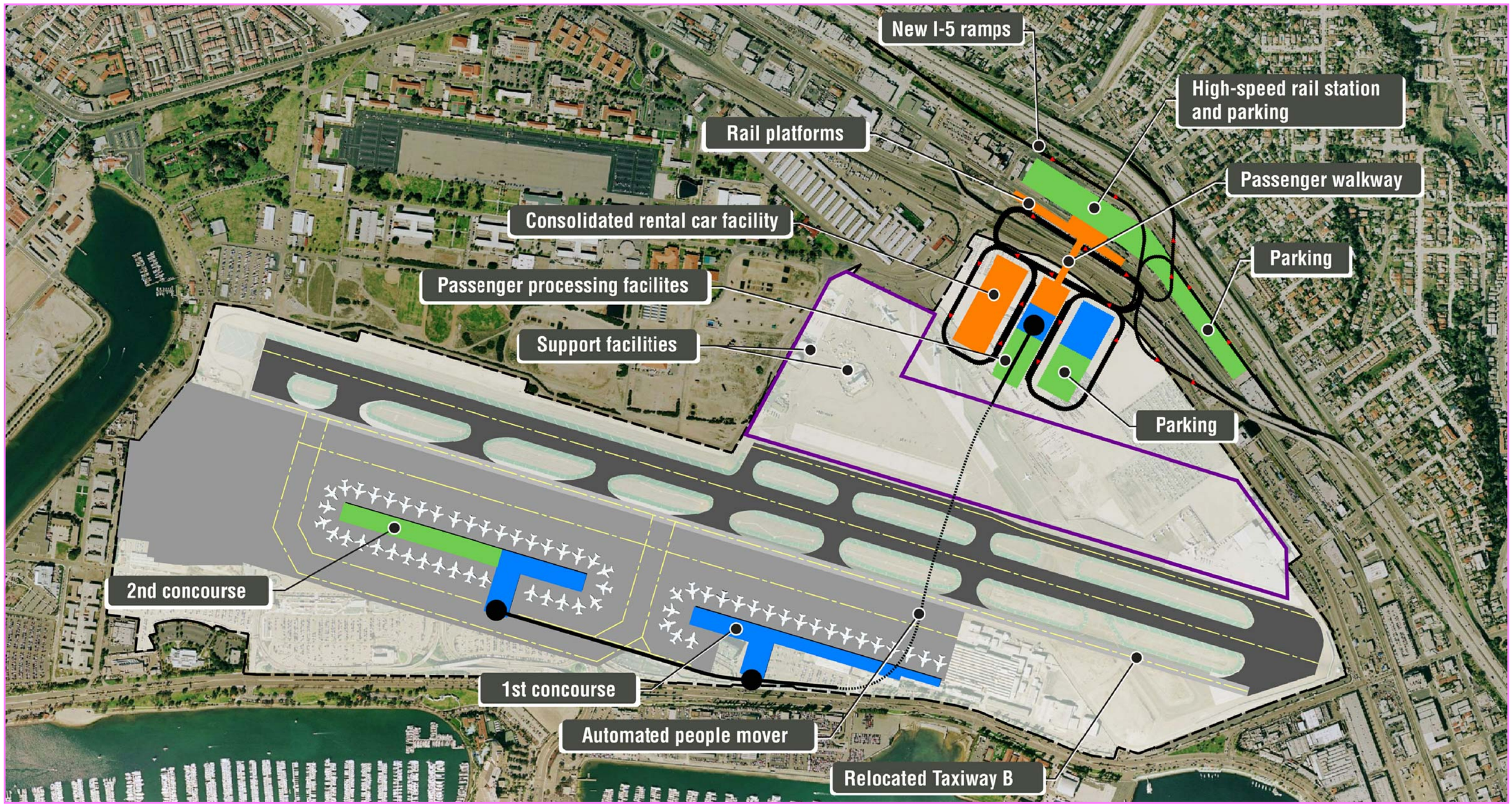
- The ***Opening Day*** phase (the period through 2015) involves the first phase of the ITC, including the development of a consolidated rental car facility (CONRAC), on the north side of the Airport

- ***PAL1*** (which is approximately the period between 2016 and 2020) involves the construction and completion of the first of two remote concourses on the south side of the airfield. PAL1 also involves the construction of a portion of the second of the concourses, as well as a people mover connecting the passenger processor on the north with the concourses on the south, I-5 ramp access, and additional ITC and passenger processing facilities on the north

- ***PAL2*** (which is approximately the period between 2021 and 2030) involves the completion of the second concourse on the south side of the airfield, and further expansion of the ITC on the north side. When PAL2 improvements have been achieved, all air passenger processing will take place on the north side of the Airport and all aircraft gates will be on the south

Total spending on Destination Lindbergh capital development (in constant 2009 dollars), is projected to be $457 million for the Opening Day phase, $1.9 billion for the PAL1 phase, and $1.5 billion for the PAL2 phase. The cumulative capital cost for the entire program would be $3.8 billion.

Capital funding for Destination Lindbergh could potentially be provided through a combination of funding sources, including those that are "traditional" airport funding sources, such as passenger facility charges (PFCs), federal Airport Improvement



LEGEND

- Opening day facilities
- PAL1 facilities
- PAL2 facilities
- Support facilities

DESTINATION LINDBERGH

NORTH

0 350 700 1400

Scale: 1" = 700'

Figure 1
RECOMMENDED DEVELOPMENT PLAN

Destination Lindbergh: The Ultimate Build-out
San Diego International Airport
February 2009

JACOBS CONSULTANCY
Airport Management Consulting

Program (AIP) grants, and airport revenue bonds, as well the implementation of a rental car customer facility charge (CFC) for the Consolidated Rental Car facility (CONRAC), and a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan to fund up to one-third of the ITC program cost. A variety of other funding sources from local, State, or federal sources could potentially be available to fund the roadway, rail, and intermodal aspects of Destination Lindbergh.

The analysis discussed herein focuses on the Opening Day phase of Destination Lindbergh (i.e., the initial phase of the ITC project), which is targeted to be completed by approximately 2015.

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 concept. The assessment should be considered a first step in the preparation of a detailed financial plan for implementing the program.

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 over the past 6 months, return to normal conditions
- The consolidated rental car facility is appropriately sized in the context of the funding capacity provided by the CFC revenue stream
- A revenue stream, or combination of revenue streams, is identified to provide funds for the repayment of the 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.

2. INTRODUCTION AND BACKGROUND

Summary of Destination Lindbergh

Destination Lindbergh was initiated to create, evaluate, and refine regional mobility solutions that can enhance transit connectivity to SDIA and within the region, and to determine the ultimate physical configuration for SDIA. Because the Airport is land constrained with a single runway, with no practical ability to build additional runways or extend the existing runway, the ultimate level of passenger traffic that can be accommodated at the Airport is approximately 28 million annual passengers (MAP). The traffic forecast underlying the Destination Lindbergh project predicts that the 28 MAP level will be reached in approximately 2030.

Destination Lindbergh was initiated by the San Diego County Regional Airport Authority (the Authority or SDCRAA) in partnership with the City of San Diego and the San Diego Association of Governments (SANDAG). In addition to the three lead agencies the project benefited from significant involvement by other key stakeholders including the Port of San Diego, the County of San Diego, Metropolitan Transit System, North County Transit District, the United States Department of Defense, and Caltrans.

Consequently, Destination Lindbergh represents the effort to plan the development of the Airport's facilities for the approximately 20-year period through 2030, in a manner that effectively meets the needs of the citizens of San Diego County, visitors to the area, and the Airport's tenants and users, in a manner that is environmentally sustainable, financially viable, and makes the best use of the Airport's limited footprint. Destination Lindbergh also represents a unique opportunity to create an intermodal facility at this location that will not only facilitate ground transportation to and from the Airport, but also serve as an intermodal hub for various ground transportation modes that serve the entire region.

Destination Lindbergh involved the identification of multiple development concepts and associated phasing strategies, and the subsequent analysis of each alternative on a range of objective criteria, leading to the identification of the recommended development concept described in Section 3.

Scope of Financial Assessment

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 concept. The assessment should be considered a first step in the preparation of a detailed financial plan for implementing the program.

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 Terminal Development Plan at Lindbergh Field, which includes a 10-gate expansion

of Terminal 2 and other airside and landside improvements, is already programmed, as are the transportation improvements identified in the Regional Transportation Plan. Therefore, they were not taken into consideration.

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

Summary of Analytical Methods Employed

In preparing this report, Jacobs Consultancy relied on widely accepted U.S. airport industry norms for financial planning and analysis, coupled with input from the City, SANDAG and Caltrans regarding transit, rail and highway infrastructure financing. For each of the Destination Lindbergh projects, we assessed in general terms potential capital development costs and sources of funding. We further assessed the potential operating revenue generating capability of each project (in terms of operating revenue sources, drivers of those revenues, and amounts), as well as the estimated costs of operating each facility (including the underlying drivers of the cost).

As mentioned earlier, 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.

Limitations of the Analysis

This report should not be relied upon for securing financing or making investment decisions. Jacobs Consultancy cannot endorse or confirm the accuracy, correctness, reasonableness or completeness of any statements or information provided by third parties that are discussed, analyzed or reproduced in this report.

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.

3. SUMMARY OF RECOMMENDED DEVELOPMENT CONCEPT

The recommended development concept encompasses projects that fit into two primary categories, as follows:

- ***The ITC***, including a transit/rail station, a CONRAC, auto parking, and associated roadways. Other improvements relating to the ITC involve the realignment of rail lines, construction of ramp access to I-5, as well as construction of an underground tunnel and overhead walkway, connecting the ITC facilities to each other, and also to 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 a people mover, 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 demolition of southside roads, parking, airport support buildings and off-airport structures, as well as the construction of southside 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 1.

Table 1
MAJOR ELEMENTS OF DESTINATION LINDBERGH

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

(a) Includes demolition of southside 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

The ITC project, as defined in this report, includes the CONRAC facility. This is in order to preserve 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 horizon for this analysis.

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

- The CONRAC
- Parking for Airport travelers 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. (Not included in this analysis is the capital cost of acquiring shuttle buses, nor the expenses of operating them. These buses could

potentially be acquired for the existing rental car shuttle bus fleets, and the rental car companies could be assumed to cover 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.

Financing of these projects will be discussed in greater depth later in the report.

4. PROJECT PHASING AND CAPITAL COST ESTIMATES

Project Phasing

Three time periods have been identified for the implementation of Destination Lindbergh:

- ***The Opening Day phase:*** 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 2, which as previously noted excludes improvements that are underway or already planned, either at the Airport or on behalf of the other regional transportation agencies.

HNTB's cost estimates included high and low scenarios of soft costs and contingencies. From these two scenarios, Jacobs Consultancy made three different assumptions about capital cost inflation. The low case assumes soft costs and contingencies from the low scenario of HNTB's analysis, coupled with a 2% annual capital cost inflation rate. Similarly, the high case assumes soft costs and contingencies from the high scenario in HNTB's 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 given by HNTB, with 4% annual construction cost inflation.

Table 2
PHASING OF DESTINATION LINDBERGH PROJECTS

Project	Opening Day	PAL1	PAL2
ITC			
Property & rail right of way acquisition	Initial ITC phase property	Expanded ITC property	If needed
Transit/rail station and alignment	2 trolley tracks	1 additional trolley track	n.a
	2 coaster tracks	1 additional coaster track (freight bypass)	n.a
ITC Tunnel	Constructed and completed	n.a	n.a
Parking (airport-related)	1,800 Spaces	3,830 Additional Spaces	4,905 Additional Spaces
Parking (commuter and other)	100 Spaces	300 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 southside 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: HNTB, Jacobs Consultancy

Project Cost Estimates

Capital development costs for each project element were determined by HNTB 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, and construction management, as well as a contingency.

HNTB's cost estimates included high and low scenarios of soft costs and contingencies. From these two scenarios, Jacobs Consultancy made three different assumptions about capital cost inflation. The low case assumes soft costs and contingencies from the low scenario of HNTB's analysis, coupled with a 2% annual capital cost inflation rate. Similarly, the high case assumes soft costs and contingencies from the high scenario in HNTB's 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 given by HNTB, with 4% annual construction cost inflation.

The escalation of construction costs is shown in Table 3. Escalation is computed through the mid point of construction for the Opening Day phase, assumed to be 2013. HNTB's cost estimates present compounded totals for soft costs, contingencies and escalation, in that order.

Table 3
ESCALATION OF CONSTRUCTION COSTS - OPENING DAY PHASE
Intermediate Scenario

	Low	Intermediate	High
Soft Costs	24.9%	26.2%	27.4%
Contingency	18.0%	21.5%	25.0%
Inflation (a)	8.0%	17.0%	36.0%
Cumulative Escalation	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

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

The capital costs (in constant 2009 dollars) for the major projects included in Destination Lindbergh are summarized, by phase, in Table 4.

Measured in 2009 dollars, Destination Lindbergh at ultimate build out is estimated to cost $3.8 billion. The costs of the high speed rail system have not been included in this analysis.

Of the total, $457 million (12%) would be spent during the Opening Day phase, $1.9 billion (50%) during PAL1, and $1.4 billion (38%) during PAL2.

Table 4
CAPITAL COST SUMMARY
Intermediate Scenario
(Constant 2009 dollars in millions)

	Opening Day	PAL1	PAL2	Total
ITC				
Property & rail right of way 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
Roadways	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 southside roads, parking, airport support buildings and off-airport structures. Also includes construction of south remote surface parking and central utility plant.
Note: Figures may not add due to rounding
Source: HNTB

As mentioned earlier, capital costs were also measured on an escalated basis, by inflating the costs to the mid-point of construction, and are summarized in Table 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% of the total) occurring in the Opening Day phase.

Table 5
CAPITAL COST SUMMARY
Intermediate Scenario
(Escalated dollars in millions)

	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 southside roads, parking, airport support buildings and off-airport structures. Also includes construction of south remote surface parking and central utility plant.
Note: Figures may not add due to rounding
Source: HNTB

5. CAPITAL FUNDING SOURCES

Summary of Potential Funding Sources

Given the unique nature of the recommended development concept, 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 (internally generated capital). These funding sources and financing tools provide the overwhelming majority of funding for airport development in the United States.

Innovative airport funding sources and financing mechanisms include special facility bonds, third party funding, Transportation Infrastructure Finance and Innovation Act (TIFIA) loans, and state or local funding sources. They may be available 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 in some of these sources have previously been allocated.

- ***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, such as by 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 FBO, as well as nonaeronautical purposes, such as hotels, offices, etc.

- ***Public-Private Partnerships:*** Consists 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 1/3 of total project costs for an intermodal facility. While there are currently TIFIA funds available, their scarcity is such that a substantial amount of competition exists for these loans.

- ***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 ½ percent local sales tax dedicated to regional transportation improvements, which can be leveraged.

- ***Transportation Development Act (TDA) sales tax funds:*** Proceeds of a ¼ 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% 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, which are available for transit capital and operating costs only.

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

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

- ***FTA Discretionary and Formula (Section 5309) funds:*** 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 (STP) funds:*** Share of funding through this federal program, which are flexible and may be used for a variety of transportation projects.

- ***Congestion Mitigation and Air Quality (CMAQ) funds:*** Share of funding through this federal program that 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 envisaged 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 will 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.

Also, in light of the national economic and financial crisis, together with rising unemployment, the policy environment for transportation and infrastructure is changing quickly. This is happening at a time when multi-year surface transportation and aviation authorizations are under consideration and the 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 in order to take advantage of opportunities when they are present.

- ***FAA Authorization (PFC):*** 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. The proposal is quite similar to ones already considered in the House and Senate.

- ***Economic Recovery****:* The current stimulus proposal of the President would provide approximately $800 billion in additional spending and tax incentives to jump-start the economy. Of this amount, $25 billion is being made available for infrastructure projects that are ready-to-go. This is expected to include an amount of between $1 billion and $3 billion set aside for additional, discretionary funds for the AIP program. Already, the U.S. Department of Transportation, including the FAA, has identified billions of dollars of projects that can meet economic recovery goals such as job creation. Expect the issue to gather momentum over the next few weeks and continue until the economy pulls itself out of the current recession.

- ***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, in order to be eligible for funding from certain federal and State sources.

Applicability of Funding Sources to Destination Lindbergh Project Costs

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 6 summarizes, in conceptual terms, the application of funding sources to the categories of projects in the proposed Destination Lindbergh capital program. 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 6

CAPITAL FUNDING SOURCES — CONCEPTUAL

	Internally Generated Airport Capital	Airport Revenue Bonds	Federal Airport Grants			PFCs		CFCs & Rental Car Companies	TIFIA Loans	Federal Highway/ Transit Grants	State & Local Funds	Tax Increment Financing
			AIP Entitlements	AIP Discretionary	TSA	Pay-as-you-go	PFC-backed Bonds					
ITC												
Property & rail right of way acquisition								■	■	■	■	■
Transit/rail station & alignment									■	■	■	■
ITC Tunnel								■	■			
Parking (airport-related)		■										
Parking (commuter and other)											■	■
Overhead Passenger Gateway	■	■	■					■				
Roadways	■	■						■	■		■	■
Rental Car/CONRAC								■	■			
I-5 access										■	■	■
Other projects												
Airfield	■	■	■	■		■	■					
Terminal	■	■	■		■	■	■					
Airport Landside	■	■				■						
People Mover	■	■					■					

SAN644 F-0001_table

Source: Jacobs Consultancy

■ Primary source ■ Secondary Source

Potential Funding Scenario for the Opening Day Phase

With regard to the Opening Day phase of Destination Lindbergh specifically, which is essentially the first phase of the ITC (including the CONRAC), the specific estimates for capital development costs for the various elements of Destination Lindbergh (estimated at $535 million in escalated dollars) were matched with the funding sources and financing mechanisms potentially available. The comparison is shown in Table 7.

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Table 7
FUNDING SCENARIO FOR DESTINATION LINDBERGH - OPENING DAY
Intermediate Scenario
(Escalated dollars in millions)

Project elements	Total cost (a)	Funding sources							
		TIFIA loan	CFCs		Bonds backed by RAC rents	Airport revenue bonds	Federal airport grants	Other (non-airport)	Total
			Bonds	Equity					
Property & rail right of way acquisition	$ 11	$ 11	$ -	$ -	$ -	$ -	$ -	$ -	$ 11
Transit/rail station and 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
Roadways	50	31	-	-	-	10	-	10	51
Rental car/CONRAC	300	60	153	87	-	-	-	-	300
TOTAL	**$ 535**	**$ 178**	**$ 153**	**$ 87**	**$ -**	**$ 94**	**$ 10**	**$ 14**	**$ 535**

TIFIA percent of total project cost: **33.2%** (Maximum allowable = 1/3 of total project cost)

(a) Intermediate Scenario.
(b) Federal grant for 75% of the project cost.
Note: Numbers may not add due to rounding.

The key assumptions in the analysis are:

- A TIFIA loan would be available for an amount equivalent to 1/3 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 giving 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% of the overhead passenger gateway, with the Authority funding the matching share.

- Other non-airport funding sources totaling $14 million, from the list of funding sources earlier, 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 bond issuance likely could not be undertaken under today's financial market conditions.

Considerations for Funding PAL1 and PAL2 Phases

As noted earlier, capital spending on PAL1 of Destination Lindbergh would total $2.7 billion, and PAL2 spending would total $3.0 billion, for a total of $6.3 billion, in escalated dollars, assuming the intermediate case. 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 which is scheduled to occur following the conceptual project phase.

6. OPENING DAY PHASE OPERATION AND MAINTENANCE EXPENSES

Summary of Operation and Maintenance Expenses

Another important element of the Financial Assessment is the estimated day-to-day operation and maintenance (O&M) costs of the new facilities that are part of the Destination Lindbergh program.

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

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% increase in passengers usually would not result in a 10% increase in janitorial cost, or a 10% 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 the facilities need more maintenance as they get older, equipment goes off-warranty, and the facility capabilities may be stretched to accommodate higher activity levels.

Estimated O&M Expenses for Destination Lindbergh Projects

As with the capital development costs and funding discussed in Section 4 and Section 5, this section focuses on the Opening Day phase.

In estimating the O&M expenses for Destination Lindbergh projects, the following key assumptions were made:

- The facilities in the Opening Day phase of Destination Lindbergh are assumed to 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 Destination Lindbergh projects included in the Opening Day phase, in both constant 2009 dollars and in escalated (inflated) dollars, as shown in Table 8.

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Table 8
ESTIMATED OPERATIONS & MAINTENANCE EXPENSES FOR DESTINATION LINDBERGH - OPENING DAY

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)

Because different entities will be responsible for operating different parts of the ITC, all of the O&M cost burden will not fall on one entity. Specifically, we assumed that:

- The airport parking, tunnel, overhead walkway, and roads are to be operated and maintained by the Airport 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

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 element of the project. The transit/rail station operator costs would be $600,000 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.

7. OPENING DAY PHASE OPERATING REVENUE SOURCES

Summary of Operating Revenue Sources

There are several operating revenue sources available to airports. These operating revenues 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 – the main categories of which are 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.

As shown in Table 9, the split between airline revenues and nonairline revenues at SDIA for FY 2007 was approximately 45% to 55%, 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%.

Table 9
REVENUE SPLIT FOR SDIA

	2007 Dollars (millions)		Percentage
Airline	$	56.7	45%
Non-Airline			
Concessions	$	34.2	
Parking		28.4	
Other		6.1	
Non-Airline	$	68.7	55%
Total	$	125.4	100%

Source: San Diego County Regional Airport Authority, Comprehensive Annual Financial Report FY 2007

Airline revenues at the Airport are governed by the Airline 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 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:

- ***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% 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:*** Typically land rentals for facilities that are 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.

At completion of the entire Destination Lindbergh program, there will 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 will come solely from the ITC. Also at Opening Day, revenues will be generated from the operation of parking facilities in the ITC, as well as from rental car operations.

As discussed earlier in Section 4, one significant untapped revenue source available to San Diego International Airport is the rental car customer facility charge (CFC). The CFC is assumed to be a very significant contributor to the funding of the rental car elements of the ITC, and the revenue stream could be used to back a special facility bond issue to fund the CONRAC facility.

There are federal revenue diversion provisions against applying airport revenues to non-airport purposes. Consequently, as the ITC project becomes better defined it will be important to carefully assess whether each element of the project is on Airport property, or off Airport property (or whether the Airport Authority will 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 by, for example, redeveloping property adjacent to the Airport that is made available as a result of Destination Lindbergh projects.

Estimate of Operating Revenues for Opening Day Projects

As with the rest of this analysis, the analysis focused on the Opening Day phase of the Destination Lindbergh 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 Airport 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 air travelers or transit/rail commuters. Revenues from airport parkers would accrue to the Authority.

- The transit station operator would gain revenues from commuters parking at the ITC, and could potentially generate revenues from news/gift and food/beverage concession outlets at the station. Revenues could also be generated from fees and charges levied on the commuter rail and transit operators using the station. Further work remains to be done to better understand 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 10.

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Table 10
ESTIMATED REVENUES FOR DESTINATION LINDBERGH - OPENING DAY

Project elements	Source of Revenue	Recipient of Revenue	Driver	Unit revenue ($)	No. of units	Revenues (2015) 2009 dollars	Revenues (2015) Escalated dollars
Property & rail right of way acquisition	n/a					-	-
ITC tunnel	n/a					-	-
Parking (airport-related)	Air travelers & meeters and 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	Station operator	Per rail passenger	0.20	1,218,780	244,000	283,000
	Per use fees	Station operator	Per rail operation			Requires Further Analysis	
Parking (commuter and other)	Rail commuters	Station operator	Per rail passenger	1.00	1,218,780	1,219,000	1,414,000
Subtotal - Revenue to Station Operator						**$ 1,463,000**	**$ 1,697,000**
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**

n/a = Not applicable (no associated revenue)

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)

Revenue accruing to the Airport 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.

A further revenue stream that would need to be identified relates to 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, as noted in Section 5, 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 (DBO) at the new facility, although interest would accrete 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 (e.g., areas currently occupied by the rental car companies).

8. CONCLUSIONS AND NEXT STEPS

Conclusions

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 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 anaylsis 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.

Next Steps

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, and
- 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