



**Broward County Aviation Department
Financial Planning Assistance – Phase I
(FY 2006 Cost Center Net Contributions, Rates and
Charges Strategic Issues)**

September 4, 2007

OBJECTIVES

- Summarize Fort Lauderdale-Hollywood International Airport's (FLL) current residual rate methodology and fundamentals.
- Provide primary benefits of utilizing activity based cost centers as a proactive planning tool.
- Present cost center definitions and the resulting net contribution (break-even, surplus or deficit) for Fiscal Year 2006.
- Identify selected drivers impacting cost center net contributions and airline rates and charges.
- Summarize selected aviation related industry issues.
- Present potential next steps.

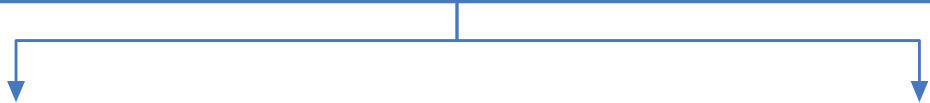
CURRENT RATES AND CHARGES HIGHLIGHTS

- The methodology used to calculate rates and charges is defined by the current Airline-Airport Lease and Use Agreement which is in effect through September 30, 2011.
- FLL is currently a residual airport; hence, airlines share financial responsibility for its operations:
 - Operating deficits are funded by the airlines; and
 - Operating surpluses are credited to the airlines for use in the following year.
- Under the current residual method of rate setting, any surpluses or deficits are reflected in the Airline Fees and Charges Sub Account which is used in the calculation of landing fees and terminal rents.
- The signatory airlines have approval rights over certain investments in capital through the use of a majority in interest (MII) clause. The MII clause requires that signatory airlines review and approve or veto capital projects funded in part through rates and charges which include, but are not limited to capital projects to be debt financed by Airport System Revenue (ASR) Bonds.

RESIDUAL METHODOLOGY FLOWCHART

REVENUES	Total revenue sources excluding airline terminal rentals and landing fees
PLUS (+) Transfer	Airline Fees and Charges Sub-Account
LESS (-) Expenses and Other Requirements	Operating and Maintenance Expenses (O&M) plus O&M Requirements; plus Required deposits to the Renewal and Replacement Account; plus Required deposits to the Improvements Account; plus Any deficit carried forward; plus Airport Debt Service Requirement

EQUALS REQUIRED AIRLINE TERMINAL RENTALS and LANDING FEES



TERMINAL RENTALS

TERMINAL REQUIREMENT (divided by) Total Airline Rentable Terminal Space (Square Footage) = Required Average Terminal Rent (per Square Foot)

AIRFIELD LANDING FEES

AIRFIELD REQUIREMENT (divided by) Airline Landed Weight (1,000 lbs.) = Required Landing Fee Rate (per 1,000 lbs.)

PROACTIVE PLANNING TOOL FOR ENHANCED FINANCIAL OVERSIGHT

Bridging the Use of Cost Centers

Current Cost Centers for Residual Rate Setting



Activity Based Cost Centers

- ✓ Provide a financial management process to evaluate profit and loss of airport activities
- ✓ Promote increased data transparency to enhance utilization and understanding of financial information

BENEFITS OF ACTIVITY BASED COST CENTERS



RATE SETTING METHODOLOGIES

	Full Costing	Residual	Compensatory	Hybrid
Current Cost Centers		✓		
Activity Based Cost Centers	✓	✓	✓	✓

Current cost centers are used for rate setting under the current residual method. Activity based cost centers may be used for future Airline-Airport Lease and Use Agreement negotiations to evaluate rate setting under the residual, compensatory or hybrid methods and provide the added benefit of full costing.

COST CENTERS DEFINED

Operating revenue, operating expenses, reserve requirements, debt service, and capital fund transfers were allocated to the following cost centers:

- Airfield *(Includes runways, taxiways, apron, aircraft rescue and firefighting facility, fuel farm, Fixed Based Operators (FBO) leased facilities, and noise monitoring)*
- Terminal *(Includes terminal buildings, passenger loading bridges, baggage handling, Federal Inspection Services (FIS) and security screening)*
 - Terminal 1
 - Terminal 2
 - Terminal 3
 - Terminal 4
- Parking and Roadways *(All public parking (including the parking portion of the consolidated rental car facility), employee parking, and other ground transportation (taxi and limousine))*
- Roadways *(All associated roadways for terminal access)*
- Rental Car Center *(Rental car center portion of the consolidated rental car facility, rental car concessions, customer facility charges, and contingent rent)*
- Non-Terminal Facilities *(All on-site property - All land (improved and unimproved) not included in another cost center. Includes, cargo buildings, maintenance hangers, and maintenance facilities)*
- Construction Management *(BCAD Planning & Development and Airport Expansion Program)*
- North Perry *(and all associated areas)*
- Indirect *(Includes expenses that can not be allocated to specific cost centers. Indirect revenues and expenses are allocated on a pro-rata basis of direct charges)*

COST CENTER NET CONTRIBUTIONS (LOSS) CALCULATIONS

- Net Contribution calculates the profit or loss of each cost center
- The cost centers include the following components used to calculate the Net Contributions (Loss) by Cost Center:
 - Operating revenues;
 - Operation and Maintenance Expenses (O&M);
 - Debt service (principal and interest on ASR bonds);
 - Deposits to O&M Reserve Fund; and
 - Transfers to Capital Funds.

FY 2006 CONTRIBUTIONS (LOSS) BY COST CENTER

BROWARD COUNTY AVIATION DEPARTMENT													
Category	Airfield	Terminal 1	Terminal 2	Terminal 3	Terminal 4	Total Terminal	Parking	Roadways	Rental Car Center	Non Terminal	Construction Management	North Perry	Total
TOTAL OPERATING REVENUE	\$ 20,670,287	\$ 18,289,034	\$ 7,840,724	\$ 12,794,489	\$ 10,176,177	\$ 49,100,423	\$ 42,301,511	\$ 313,847	\$ 47,010,780	\$ 2,200,211	\$ -	\$ 728,878	\$ 162,325,937
<i>% Allocation</i>	12.7%	11.3%	4.8%	7.9%	6.3%	30.2%	26.1%	0.2%	29.0%	1.4%	0.0%	0.4%	100.0%
OPERATING EXPENSES (O&M)													
TOTAL OPERATING EXPENSE	\$ 15,208,089	\$ 14,885,766	\$ 8,400,858	\$ 13,063,974	\$ 9,862,020	\$ 46,212,618	\$ 29,176,072	\$ 1,278,116	\$ 12,028,851	\$ 1,013,158	\$ 3,221,845	\$ 737,060	\$ 108,875,808
<i>% Allocation</i>	14.0%	13.7%	7.7%	12.0%	9.1%	42.4%	26.8%	1.2%	11.0%	0.9%	3.0%	0.7%	100.0%
NET OPERATING CONTRIBUTION	\$ 5,462,198	\$ 3,403,268	\$ (560,134)	\$ (269,486)	\$ 314,158	\$ 2,887,805	\$ 13,125,440	\$ (964,269)	\$ 34,981,929	\$ 1,187,053	\$ (3,221,845)	\$ (8,182)	\$ 53,450,129
<i>% Allocation</i>	10.2%	6.4%	-1.0%	-0.5%	0.6%	5.4%	24.6%	-1.8%	65.4%	2.2%	-6.0%	-0.02%	100.0%
DEBT SERVICE													
Debt Service	\$ 7,738,985	\$ 6,847,787	\$ 5,417,327	\$ 5,519,340	\$ 6,466,617	\$ 24,251,071	\$ 12,149,211	\$ 14,966,286	\$ 13,343,530	\$ 292,202	\$ -	\$ -	\$ 72,741,285
less: PFC and Convertible Lien Bond Debt Service	\$ 1,884,508	\$ 5,423,425	\$ 1,694,322	\$ 1,694,322	\$ 2,640,017	\$ 11,452,086	\$ -	\$ 10,336,591	\$ -	\$ -	\$ -	\$ -	\$ 23,673,185
TOTAL ADJUSTED DEBT SERVICE	\$ 5,854,477	\$ 1,424,362	\$ 3,723,006	\$ 3,825,018	\$ 3,826,600	\$ 12,798,986	\$ 12,149,211	\$ 4,629,695	\$ 13,343,530	\$ 292,202	\$ -	\$ -	\$ 49,068,100
<i>% Allocation</i>	11.9%	2.9%	7.6%	7.8%	7.8%	26.1%	24.8%	9.4%	27.2%	0.6%	0.0%	0.00%	100.0%
NET CONTRIBUTION W/O FUND TRANSFERS AND O&M RESERVE	\$ (392,279)	\$ 1,978,906	\$ (4,283,140)	\$ (4,094,504)	\$ (3,512,442)	\$ (9,911,180)	\$ 976,229	\$ (5,593,964)	\$ 21,638,399	\$ 894,851	\$ (3,221,845)	\$ (8,182)	\$ 4,382,029
O&M RESERVE REQUIREMENT	\$ 309,302	\$ 302,747	\$ 170,857	\$ 265,695	\$ 200,574	\$ 939,873	\$ 593,383	\$ 25,994	\$ 244,643	\$ 20,606	\$ 65,526	\$ 14,990	\$ 2,214,318
TRANSFERS TO CAPITAL FUND	\$ 2,978,684	\$ 623,472	\$ 1,064,239	\$ 1,373,342	\$ 1,443,815	\$ 4,504,867	\$ 96,573	\$ 1,004,049	\$ -	\$ 943,385	\$ 103,723	\$ 69,379	\$ 9,700,660
<i>% Allocation</i>	30.7%	6.4%	11.0%	14.2%	14.9%	46.4%	1.0%	10.4%	0.0%	9.7%	1.1%	0.72%	100.0%
TOTAL NET CONTRIBUTION	\$ (3,680,265)	\$ 1,052,687	\$ (5,518,235)	\$ (5,733,541)	\$ (5,156,831)	\$ (15,355,920)	\$ 286,272	\$ (6,624,008)	\$ 21,393,756	\$ (69,139)	\$ (3,391,094)	\$ (92,552)	\$ (7,532,949)

NET CONTRIBUTION AND SELECTED RATE DRIVERS

Although the cost center net contribution is a major component of the calculation of rates and charges there are other considerations that may impact future rates and charges such as the following:

- Rate Stabilization Fund – The Rate Stabilization Fund (Fund) was established in 1997 outside of the Airport-Airline Lease and Use Agreement. The Fund allows for the deposit and use of available accumulated surpluses to prevent future rate spikes. In FY 2006, none of these available funds were used. In FY 2007, approximately \$13 million will be expended. The remaining \$1 million balance is expected to be used in FY 2008.
- Convertible Lien Bonds and Passenger Facility Charge (PFC) Offset Bonds – Currently, there are four Series (H, I, L, and M2) of bond debt service that are not included in the current rate setting model. Based on the Bond resolution requirements, the associated debt service on any applicable PFC offset bonds could be included in the rates and charges prior to the expiration of the current Agreement. In addition, the Convertible Lien Bonds will flow to the rate base in FY 2012.
- Operating and Maintenance (O&M) Costs - O&M expenses could materially increase as a result of the implementation of new projects such as the Inline Baggage System and increases in insurance and security costs.
- Capital Projects - Planned future capital projects that are not fully funded by grants, debt paid by PFCs, or existing balances in the Capital Funds may increase rates and charges, subject to Majority in Interest approval.

AVIATION INDUSTRY ISSUES

- Comparative Operating Revenue Data – Florida Airports
- Rate Setting Precedents
- Passenger Facility Charge (PFC) opportunities
- Potential Changes to PFC and AIP programs
- Construction Escalation
- Other Issues

COMPARATIVE OPERATING REVENUE DATA – FLORIDA AIRPORTS

BROWARD COUNTY AVIATION DEPARTMENT
Comparison of Operating Revenues Survey
Florida Airports
(In Thousands)

Florida Airports 2006	Fort Lauderdale (FLL)	%	Orlando (MCO)	%	Palm Beach (PBI)	%	Tampa (TPA)	%	Jacksonville (JAX)	%	Southwest Int'l (RSI)	%	Miami (MIA)	%
Operating Revenues														
Airline Revenues	\$49,879	31%	\$91,800	32%	\$21,038	27%	\$30,567	23%	\$19,058	33%	\$38,135	47%	291,942	56%
Concessions and Customer Facility Charges	\$58,560	37%	\$98,455	35%	17,393	22%	16,991	13%	12,775	22%	25,917	32%	141,542	27%
Parking	\$40,565	25%	\$47,655	17%	16,702	22%	56,548	42%	14,714	25%	13,819	17%	38,920	7%
Bldg & Ground Rents	\$10,318	6%	\$12,461	4%	19,938	26%	19,938	15%	9,720	17%	3,734	5%	48,828	9%
Hotel	--	--	\$33,941	12%	--	--	1,612	1%	66	0.1%	--	--	3,968	1%
Miscellaneous (1)	\$804	1%	--	--	2,408	3%	9,403	7%	2,024	3%	228	0.3%	--	--
Total	\$160,126		\$284,312		\$77,479		\$135,059		\$58,357		\$81,833		\$525,200	

1. For FLL, excludes approximately \$2.2 million in security operating grants and insurance proceeds.

Source: BCAD Finance

POTENTIAL NEXT STEPS

The next steps and phases will incorporate the findings and feedback of the activity cost center analysis and provide the following:

- Identify primary variances between current rates and charges model cost center allocations and preliminary cost center allocations.
- Potentially refine cost centers to include additional sub cost centers (example – General Aviation, Cargo, Apron, and FIS).
- Perform sensitivity analysis on cost center allocation alternatives; and
- Incorporate the cost center analysis into the future rates and charges model and calculate impact to airline payments.