SILICON VALLEY'S AIRPORT

SJC

State of the Airport

- May 2017 -

Agenda

- Background
- Key Financial Goals
- Passenger Growth Trends
- Strong Management of Costs
- FY17 Refunding
- Airline Cost per Enplaned Passenger (CPE) Trends
- Fee Change Opportunities
- Closing the $20M Financial Gap

Background

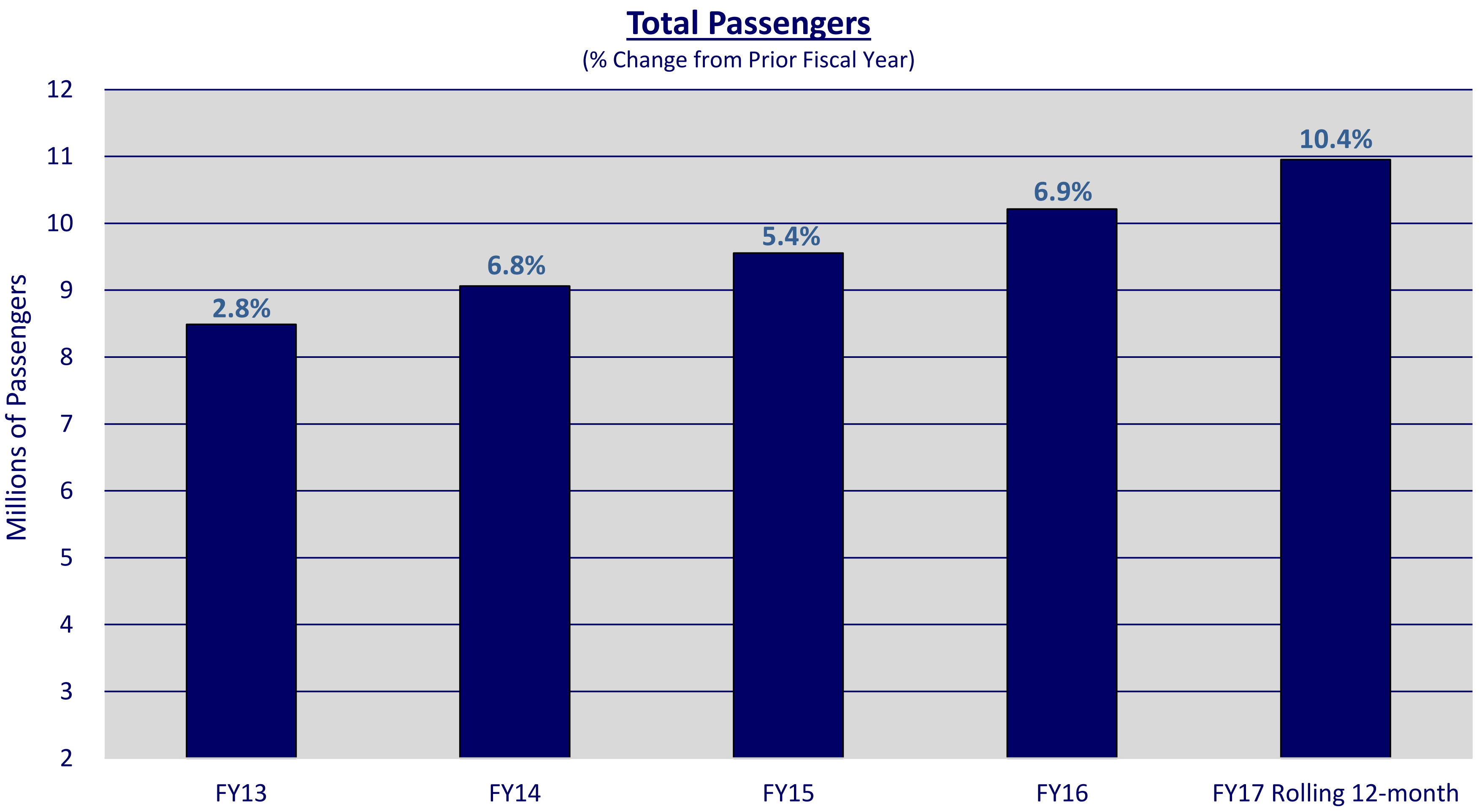
Presented to CED in January 2016:

- $20M Financial Gap / <u>"Fiscal Cliff"</u> expected in FY18/FY19
  - Unspent Bond Proceeds used to pay Debt Service = $11M
  - Unspent Bond Proceeds used for local share of Grants = $4M
  - PFC Reserves used to pay Debt Service = $5M
- Possible <u>Solutions</u> Identified in 2016:
  - Passenger volumes
  - Continue cost controls
  - If market conditions are good, refund the 2007 bonds in 2017
  - Continue to look for ways to increase non-airline revenues
  - Raise the PFC level

Key Financial Goals

- Competitive and stable cost per enplanement (CPE) for the Airlines
- Airport staffing levels to support the passenger base
- Fund the Future
  - Phase II of the terminal
  - Parking garage
  - Unfunded needs
- Maintain and Improve key metrics from the rating agencies

Passenger Growth Trends



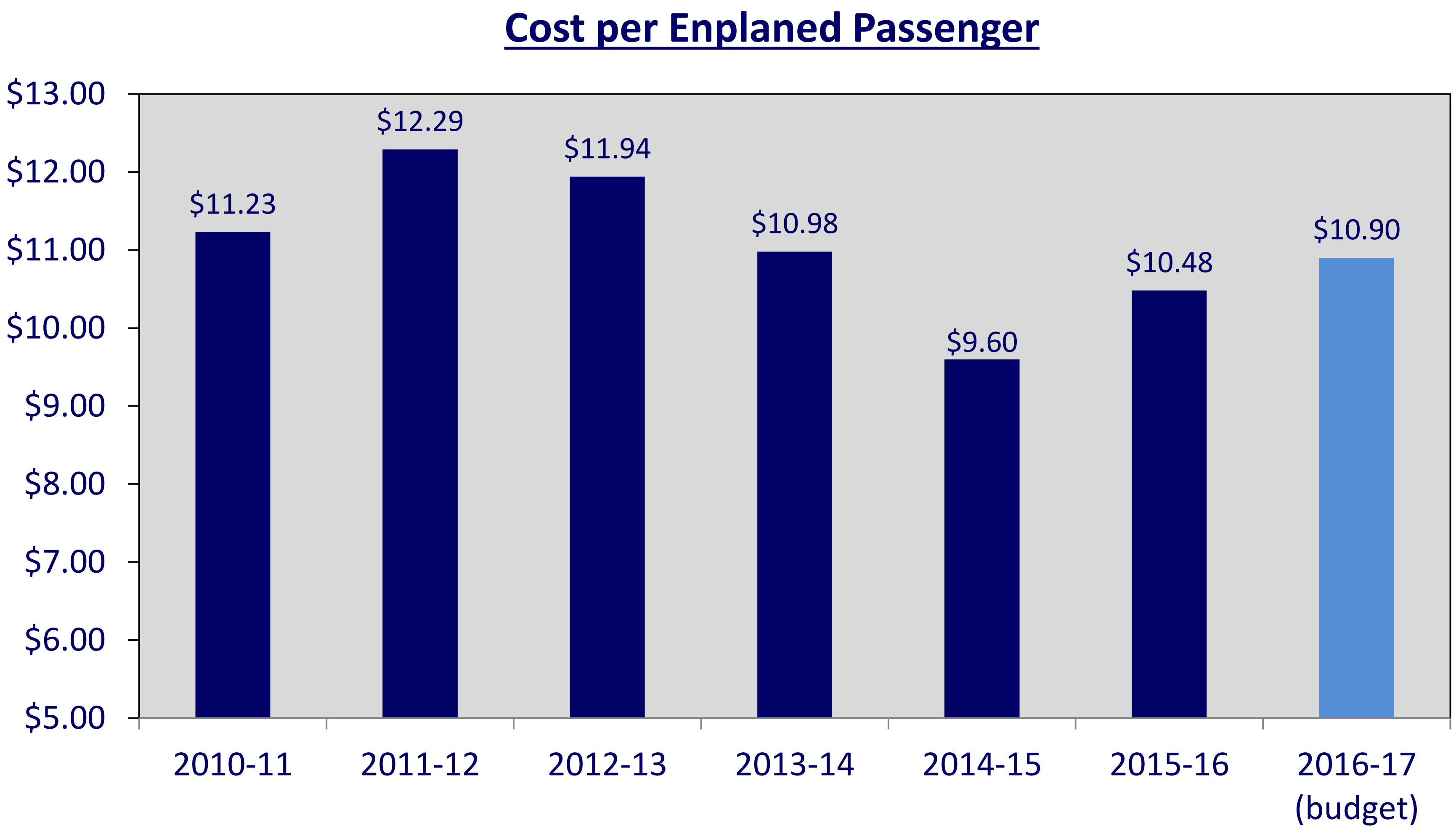
Strong Management of Costs

- Reduction in staff from 391 in FY08 to 206 in FY11, down to 187 from FY13 through FY16.
- Reduced contractual services spending.
- Outsourcing of custodial, curbside management, and move to an overtime model for police services.
- Police and Fire costs as a percentage of operating costs have gone from a low of 11.3% in FY13 to 16.3% in FY16.
- Airport controlled expenses from FY13 to FY16 have remained relatively constant, with slight increases primarily driven by salaries and benefits.

FY17 Refunding

- Refunding of $691M of bonds completed on April 11, 2017
- Goals were as follows:
  - Realize debt service savings, providing for more savings in the future to allow for additional large capital projects
  - Level out the debt service spike
  - Allow for stable CPE for the airlines
- Net present value savings are $83 million, or 12%, over the life of the bonds.

Airline CPE Trends



Fee Change Opportunities

- Increase parking rates to be consistent with the other bay area airports (SFO & OAK)
- Looking to increase Ground Transportation fees to align with SFO & OAK airports

Financial Gap

- The Airport was able to close $5 million of the $20 million gap through cost controls. The remaining $15 million was covered primarily through increases in airline revenues and PFC revenues.
- However, there are still pressures due to the following:
  - Parking revenues declining
  - Clear Channel MAG down
  - Unspent Bond Proceeds depleted
  - Rental Car Transactions declining
  - No PFC Increase
  - Renewal & Replacement costs trending up
  - PD & FD costs up

Go Forward Solutions

- Fiscal Cliff pushed off and is now a “speed bump”, with heavy pressure remaining in FY18 and FY19. However, these pressures can only be controlled by the following:
  - Conservative budgeting and cost controls
  - Passenger growth
  - Non-airline revenue opportunities
  - PFC fee increase