

Memorandum



CITY OF DALLAS

DATE August 17, 2012

TO Honorable Members of the Budget, Finance, & Audit Committee: Jerry R. Allen (Chair), Tennell Atkins (Vice Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT Dallas/Fort Worth International Airport Briefing on the Proposed FY 2013 Budget and FY 2012 Budget Amendment

The Budget, Finance, and Audit Committee will be briefed on the Proposed FY 2013 Budget and an amendment to the FY 2012 Budget on Monday, August 20, 2012. Mr. Jeff Fegan, Chief Executive Officer of the Dallas/Fort Worth International Airport will provide an introduction to the budget briefing. The briefing will be provided by Mr. Christopher Poinssatte, Executive Vice President – Chief Financial Officer of Dallas/Fort Worth International Airport. The briefing materials are attached for your review.

Please contact me if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

Attachment

C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig D. Kinton, City Auditor
C. Victor Lander, Administrative Judge
A.C. Gonzalez, First Assistant City Manager
Ryan S. Evans, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Stephanie Pegues-Cooper, Assistant to the City Manager



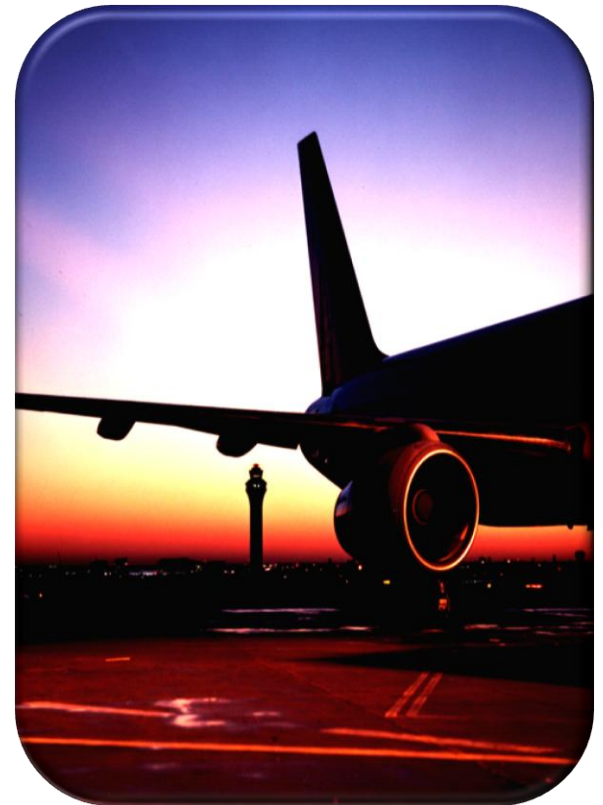
Dallas/Fort Worth International Airport



Proposed FY 2013 Budget and
FY 2012 Budget Amendment
Dallas City Council
Budget, Finance & Audit Committee
August 20, 2012

Two Resolutions for Council Approval as Part of DFW Airport's Annual Budget Approval Process

- Approval of FY 2013 Budget
- Approval of FY 2012 Budget amendment



FY 2013 Budget – Highlights

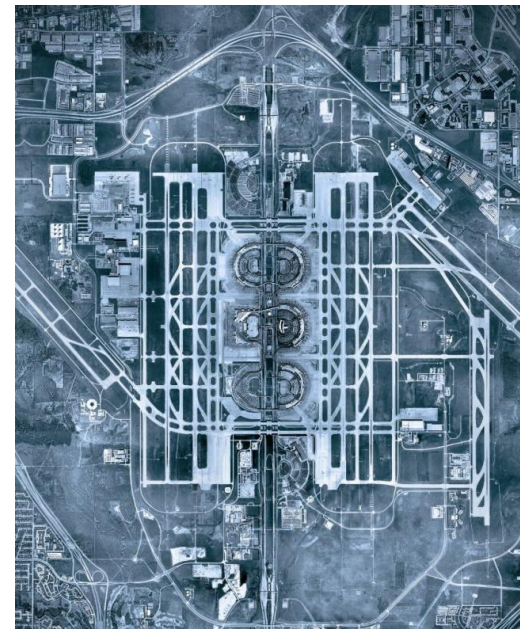
- FY 2013 Budget = \$654.6 million*
 - \$51 million (8.4%) increase from FY 2012 Outlook
 - \$5 million (1.5%) net increase in expenses
 - \$46 million scheduled increase in debt service
- FY 2013 will be a record year for net revenues from DFW Cost Center (i.e., from non-airlines sources)
- DFW remains the lowest-cost large-hub airport in competitive set
 - But airline costs will increase in FY 2013 due to debt service in terminal renovation programs

* Before \$5 million contingency that is outside of rate base

DFW's Business Model

DFW's ten-year Use Agreement with airlines defines its business model.

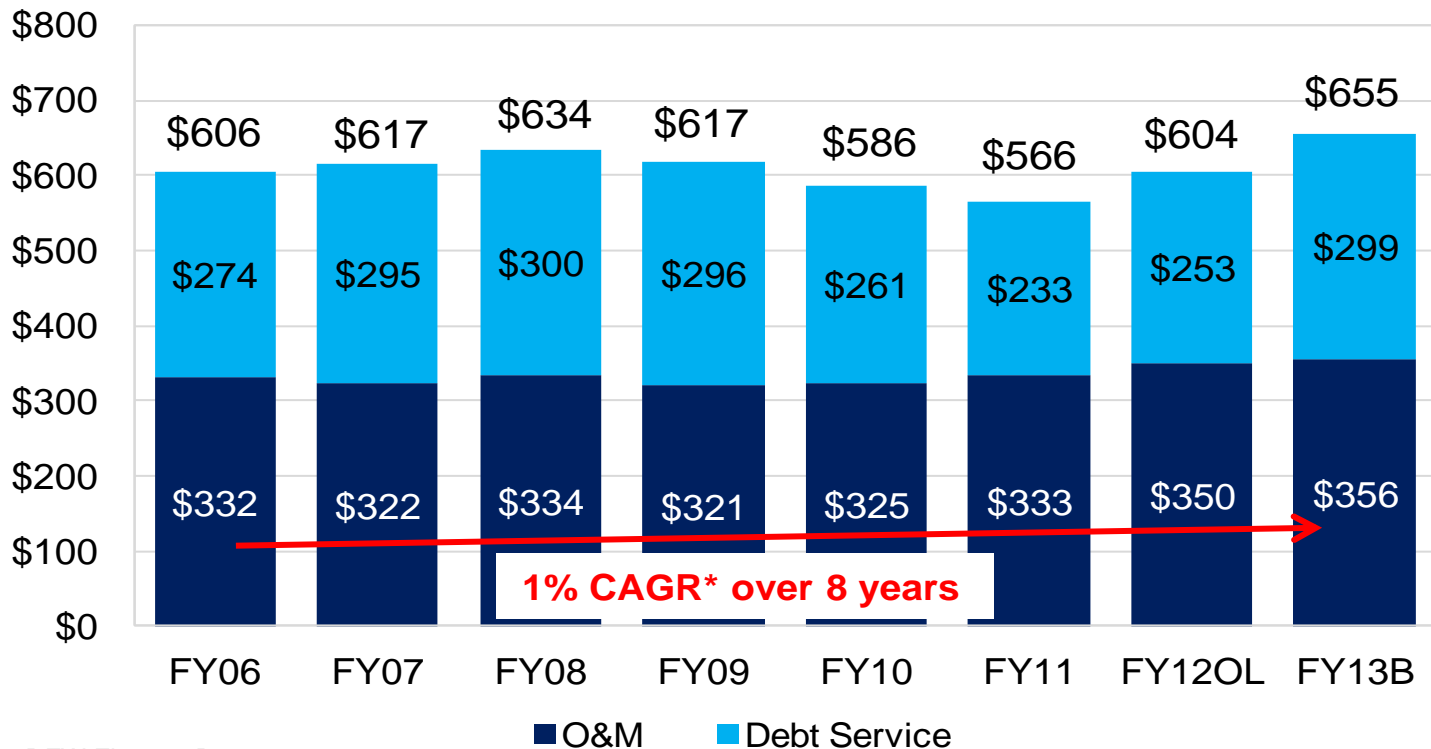
- Three cost centers
- Airfield
 - Revenues equal expenses (residual)
 - Primary revenues to DFW - Landing Fees
- Terminal
 - Revenues equal expenses (residual)
 - Primary revenues to DFW - Terminal Rents
- DFW Cost Center
 - DFW retains net revenues (i.e., net income)
 - Non-airline businesses: parking, concessions, commercial development, rental car
 - If net revenues exceed “Upper Threshold” (\$62.3 million in FY 2013), DFW shares 75% of excess with airlines to reduce landing fees.



Total Annual Budget - Historical Perspective

DFW has continuously managed its cost structure through innovation, sustainability, technology investments, and debt restructuring. Total FY 2012 expenditures are lower than they were in FY 2006.

Total Annual Budget Expenditures
Millions



Source: DFW Finance Department
*CAGR = Compound Annual Growth Rate

Expense Budget Walkforward

FY 2013 Budget is \$654.6 million, a \$51 million or 8.4% increase over the FY 2012 Outlook primarily due to debt service in terminal renovation programs.

Expenditures (in Millions)	FY12	FY13	Variance	
	Outlook	Budget	Increase (Decrease)	
Operating Expenses	\$350.4	\$355.8	\$5.4	1.5%
Debt Service	253.2	298.8	\$45.6	18.0%
Total Budget	\$603.6	\$654.6	\$51.0	8.4%

Expense Budget Walkforward

Operating expenses, excluding reserve adjustments, are projected to increase \$5.4 million or 1.5% from the FY 2012 Outlook.

Operating Expenses (in Millions)	Total
FY 2012 Outlook	\$350.4
Budget reductions	(10.3)
Regulatory/fixed increases	6.4
Strategic/new program increases	2.0
Merit, annualization & vacancy factor	3.3
TRIP related	0.8
Other, net	3.2
Net Increase in Budget	\$5.4
FY 2013 Expense Budget	<u>\$355.8</u>

Expense Budget Walkforward – Detail

Detail of decreases and increases from the FY 2012 Outlook.

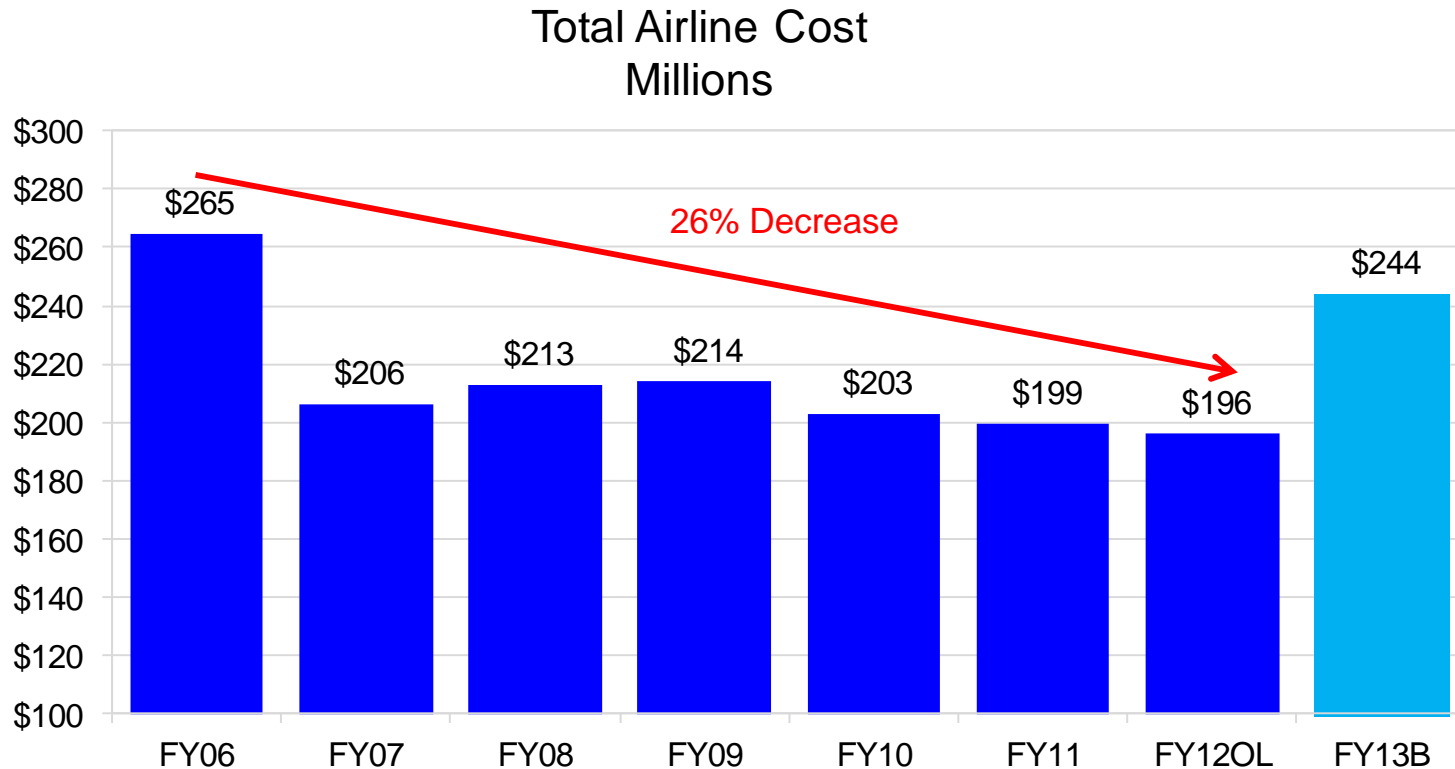
Operating Expenses (in Millions)	Explanation	
FY 2012 Outlook	\$350.4	
Budget reductions		
Retirement enhancement program	(5.5)	104 employees retire
Utility/energy costs	(1.7)	Lower rates and utilization
Outsource remote busing	(1.4)	Net benefit of outsourcing
Demolition of unusable buildings	(1.0)	Removed from FY 2013 Budget
Decrease in CEO contingency	(0.7)	Reduced in FY 2013 Budget
Total budget reductions	(10.3)	
Regulatory/fixed increases		
Airfield paint removal	1.0	FAA mandated program
Defined benefit pension plan	1.0	Actuarial required contribution
Terminal E maintenance	0.6	New contracts higher than prior
Bus contract inflation	1.1	Contract inflation adjustment
Skylink contract inflation	0.6	Contract inflation adjustment
Property & casualty insurance	0.9	Rate increases due to experience
Healthcare	0.6	Projected inflation of 7% (per Hay)
CCTV maintenance	0.6	Full year maintenance on CCTV
Total regulatory/fixed increases	6.4	

Expense Budget Walkforward - Detail, continued

Operating Expenses (in Millions)		Explanation
Strategic/new program increases		
Expanded international marketing	1.2	International Marketing
Global Entry marketing	0.4	Increase passenger facilitation
Wheelchair assistance - Terminal D	0.4	Increased needs for seniors
Total strategic/new program increases	2.0	
Merit, annualization & vacancy factor	3.3	3.0% merit pool, vacancy at 5%
TRIP related		
Terminal parking wayfinding	0.4	Labor for terminal garages
Terminal E ramp monitoring	0.4	Needed due to satellite activation
Total TRIP related	0.8	
Other		
Restore deicing budget	1.6	Low usage in FY12
Restore fire-training budget	0.4	Facility renovated in FY12
Lighting systems	0.5	Converting to LED for savings
Other, net (< \$250,000 each)	0.7	
Total other increases	3.2	
Net Increase in Budget	5.4	
FY 2013 Expense Budget	\$355.8	

Airline Cost - Historical Perspective

DFW lowered airline cost by 26% between FY 2006 and FY 2012. Airline cost increases in FY 2013 due to debt service on terminal renovations. The airlines pay about one-third of the cost to operate at DFW.



Note - Use Agreement Basis, FY11 "True-Up" applied to FY12, includes Air Service Incentive rebates reduce Airline Cost beginning in FY11

Airline Cost - Airfield and Terminals – Walkforward

Airline cost is projected to increase \$47.7 million to \$243.8 million due to debt service and one-time Use Agreement items. The Budget reflects a \$3.3 million reduction in airline cost from on-going operations.

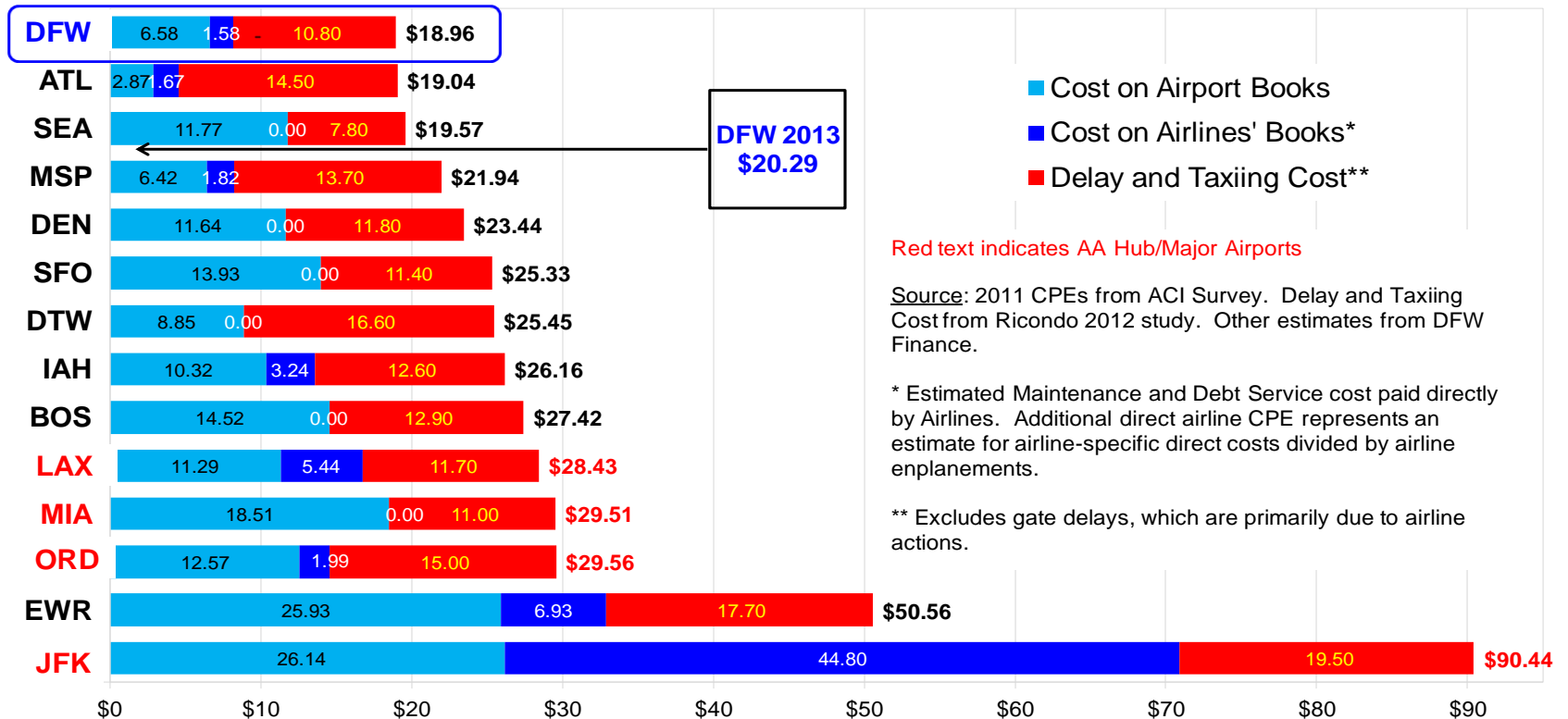
Airline Cost Walkforward	Millions	CPE
FY 2012 Outlook	<u>\$196.1</u>	\$6.41 CPE
Ongoing Operating Expenses, net		
Increased Operating Costs	4.4	
FY13B Threshold Adjustment	(8.4)	
Other, Net	<u>0.7</u>	
Total Ongoing Operations, net	<u>(3.3)</u>	
Debt & Use Agreement Items		
Debt Service	25.6	Debt
FY11 "True-up" paid in FY12	8.9	Use Agreement
FY12 "True-up" paid in FY12	7.0	Use Agreement
AA FIC Credit	5.5	Use Agreement
Joint Capital Contribution	<u>4.0</u>	Use Agreement
Total Debt and Use Agreement	<u>51.0</u>	
Net Increase	<u>47.7</u>	
FY 2013 Budget	<u>\$243.8</u>	\$7.91 CPE



Cost per Enplanement Comparison with Competitive Set

DFW was the lowest cost airport in FY 2011 (latest data available). The FY 2013 budget is shown for comparison purposes.

Fully Loaded Cost per Enplaned Passenger - 2011



DFW Cost Center – Net Revenues

Net revenues are projected to increase \$5.1 million from the FY 2012 Outlook due to a parking increase and new concessions opening in Terminal A.

Budget Category (in Millions)	FY12 Outlook	FY13 Budget	Variance Better (Worse)
Revenues			
Parking	\$111.3	\$115.9	\$4.7
Concessions	54.5	55.6	1.1
RAC	27.4	28.0	0.5
Commercial Development	34.4	33.5	(0.9)
Other	28.8	29.2	0.4
Total Revenues	256.5	262.2	5.8
Less Allocable Expenses and Debt	137.4	143.2	(5.8)
Gross Margin - DFW Cost Center	119.1	119.0	(0.1)
Less Terminal Transfers and Skylink	49.8	44.7	5.1
DFW Cost Center Net Revenues	69.3	74.3	5.1

FY 2013 Budget Resolution

- Request approval of the FY 2013 Budget of \$659.6 million

Expenditures (in Millions)	FY13 Budget
Operating Expenses	\$355.8
Debt Service	298.8
Total Budget	\$654.6
Contingency*	\$5.0
Total Budget With Contingency	\$659.6

* Requires DFW Board approval for use.

FY 2012 Budget Amendment Resolution

- Request approval to increase the FY 2012 Budget by \$1.1 million, from \$606.1 million to \$607.2 million
- The increase is due to increased debt service associated with the refunding of the Grand Hyatt Hotel bonds
 - Refunding approved by Owner City Councils in June 2012
 - Increased cost is offset by new revenues from the Grand Hyatt
 - There is no effect on DFW net revenues or airline costs

Dallas City Council Briefing and Voting Schedule

- Monday, August 20, 2012, 1:00 PM – Budget, Finance & Audit Committee briefing on the Proposed FY 2013 Budget and FY 2012 Amendment
- Wednesday, September 5, 2012, 9:00 AM – Dallas City Council briefing on the Proposed FY 2013 Budget and FY 2012 Amendment
- Wednesday, September 12, 2012, 9:00 AM – Dallas City Council votes on the Proposed FY 2013 Budget and FY 2012 Amendment



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