KING COUNTY INTERNATIONAL AIRPORT STRATEGIC PLAN 2014-2020

FINAL May, 2015

King County

Prepared for

KING COUNTY DEPARTMENT OF TRANSPORTATION
King County International Airport - Boeing Field

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KING COUNTY INTERNATIONAL AIRPORT STRATEGIC PLAN 2014-2020

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KING COUNTY INTERNATIONAL AIRPORT STRATEGIC PLAN 2014-2020

INTRODUCTION

In 2011, King County International Airport--Boeing Field (KCIA) initiated a strategic business planning process. This process was an opportunity to review the airport's role in the regional economy and this particular point in time as part of its lifespan as a regional asset.

Goal of the plan: To develop a clear strategic focus for what KCIA should be doing to achieve its Vision over the next six years and to identify appropriate goals and implementing actions that realize this vision.

Toward this end, the Plan should address several key questions:

1. What is or should be the strategic focus over the next several years?
   - In its role as an operating division of the King County government
   - In its capacity as a transportation facility in the region
2. How well does KCIA's current operation and policies align with its desired role(s) and strategic focus?
3. What are the strategic challenges and opportunities facing KCIA as it seeks to fulfill its role(s)?
4. How best can KCIA focus its policies, decisions, and resources to maximize the potential for long-term success?

PROCESS

As part of this planning exercise, the strategic planning team conducted interviews with airport tenants and other stakeholders, including the General Aviation community and the Boeing Company. They also completed market analyses for General Aviation (including the corporate segment), air cargo, and scheduled commercial passenger service. Finally, the airport's organizational structure and financial model were evaluated to meet current strategic countywide goals for economic growth and sustainability.

History

A brief history of the King County Airport and the roles it has played over the years lends perspective to its future potential. The airport was approved by King County voters in 1928, becoming the region's first municipal airport. It was a major wartime asset in the 40's for the production of B-17 and B-19 bombers. Post-war, the Boeing presence give KCIA national significance as major aviation manufacturing milestones were marked on its airstrips. As the decades progressed, the airport settled in a familiar pattern of operation focused on supporting the Boeing Company and its fundamental role in the regional economy.

In 2003, a proposal from Southwest Airlines to establish regular commercial passenger service underscored how much had changed in the quiet preceding decades. The local economy had grown enough to open up demand for general and corporate aviation and air cargo. Boeing Field's desirable location near downtown Seattle made it an attractive option to these growing markets. The new century seemed to herald new potential for this municipal asset.

Pre-War The region's first municipal airport

Wartime A national defense production facility

Post-War. Steady home for the Boeing Company and general aviation -- operate on a break-even basis wtih limited opportunities

21st Century. Shift to a business model that leverages KCIA's location and role in the region.

1928 King County voters approve a plan for the construction of the region's first municipal airport.

1941 Pearl Harbor is bombed and Boeing Field is taken over by the federal government for the production of B-17 and B-29 bombers.

1954

The first Boeing 707 jet aircraft (the "Dash 80") lands at Boeing Field.

1980 The original Boeing manufacturing building, the "Red Barn," is moved by barge to begin its new life as the Museum of Flight at Boeing Field.

2006

By 2006, the Airport had become the largest General Aviation and Corporate flight center in the Pacific Northwest with 490 based aircraft.

2014 Boeing unveils plans to double the size of its 737 delivery center at Boeing Field.

KCIA OVERVIEW

KCIA Role

KCIA'S ROLE IN THE COUNTY

The King County Airport has a role both as an independent financial operation and as a critical component of King County's overall Strategic Plan.

Recognizing the multilayered role the Airport plays. the Strategic Planning process not only evaluated the Airport's situation as a stand-alone operation, but took a broader view of the Airport in the context of the County and the Puget Sound region. The King County Executive and King County Council appointed an Interbranch Work Group to guide and provide input on development of the Airport's Strategic Plan. The Work Group included representatives from the Executive Office, County Council, community, and Airport Roundtable to include this broader perspective.

The resulting Strategic plan contributes to accomplishment of the eight County goals identified in the King County Strategic Plan.

KCIA provides and maintains safe and secure transportation services and facilities for the King County flying public and aviation community. It improves mobility for people and freight, supports quality workforce options and is a a direct employer of a highly skilled, diverse, and productive workforce.

The Airport delivers transportation services in a way that protects and enhances the environment, advances equity and social justice, and promotes healthy and accessible communities. This includes the conduct of business in a transparent and accessible manner that seeks and values public input and involvement.

As a division of the County's Department of Transportation, the Airport strives to manage costs and seek revenues to meet growing demand for services and facilities, all while providing excellent service. Excellent internal and external customer service remains front and center for the department.

This Strategic Plan further articulates how KCIA can excel in its dual role as a viable enterprise and a crucial public asset at the service of the County's populace.

King County Strategic Plan Goals

- Justice and Safety: Support safe communities and accessible justice systems for all.
- Health and Human Potential: Provide equitable opportunities for all individuals to realize their full potential.
- Environmental Sustainability: Safeguard and enhance King County's natural resources and environment.
- Economic Growth and Built Environment: encourage vibrant, economically thriving and sustainable communities.
- Service Excellence: Establish a culture of customer service and deliver services that are responsive to community needs.
- Financial Stewardship: Exercise sound financial management and build King County's long-term fiscal strength.
- Public Engagement: Promote robust public engagement that informs, involves, and empowers people and communities.
- Quality Workforce: Develop and empower King County government's most valuable asset, our employees.

KCIA OVERVIEW

Strategic Framework

AIRPORT MISSION

"Provide safe and continuous aviation services that support scheduled commercial, charter, and air cargo airlines as well as general aviation and corporate operators as part of the national air transportation system, while fulfilling the needs of county and state businesses and residents for quality airport transportation services and facilities."

AIRPORT VISION

"Invest in facilities and services that will actively support economic vitality for the region and generate a financial rate of return on the public's assets at Boeing Field by providing world-class facilities and outstanding customer service; productively engaging with the community and the aviation industry; ensuring that development and operations integrate environmentally-sensitive practices; and, fostering a supportive and collaborative culture that values, recognizes, and builds the capacity of its workforce."

KCIA IN 2014

In recent years, KCIA has seen a dramatic shift in its business opportunities as a result of the value of its airfield capacity and its strategic proximity to downtown Seattle. Most visible has been significant investment and growth in corporate aircraft facilities and operations, while maintaining a commitment to General Aviation.

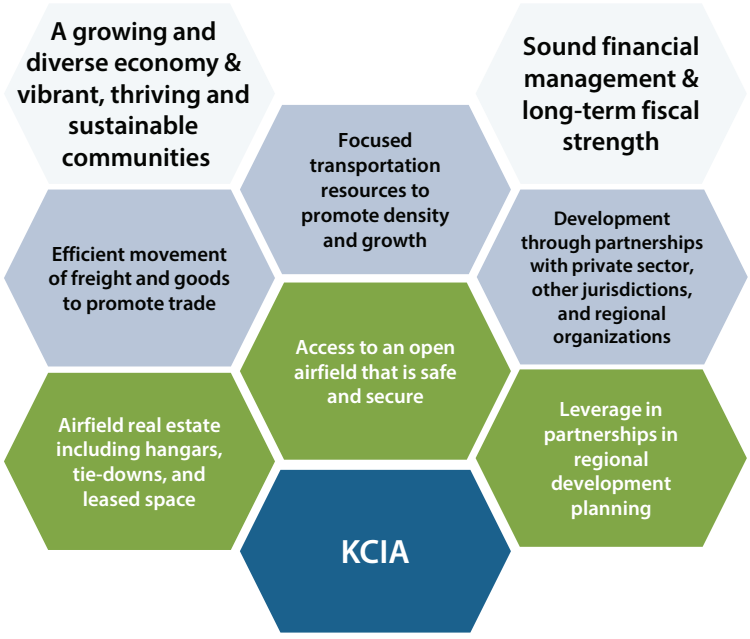
At the same time, the original purpose of the airport – to support the Boeing Company and its fundamental role in the regional economy – continues to be a major driving force, particularly as the company has followed a production strategy that puts the Puget Sound facilities into greater competition with other areas.

While the market conditions have shifted, so too has the policy and management perspective of the airport. For many years the airport was managed for the principal benefit of its tenants in exchange for the regional benefits of the jobs created.

Over the last decade, the focus has begun to shift in response to the changing marketplace. The goal today is much more focused on ensuring that the assets are put to good use and that tenants are paying a fair price for the value that they receive.

As a result, the primary focus of this strategic planning process has been to determine how best to build on recent successes and to establish a clear focus for the next six years to ensure that KCIA is maximizing its strategic value to the County and the community.

KCIA and King County Strategic Plan



SITUATION ASSESSMENT

AIRPORT MARKETS

Markets & Products

AIRPORT MARKETS

- Aircraft manufacturing (Boeing)
- General aviation and corporate aircraft
- Passenger services
- Air cargo
- Fixed base operators

Aircraft Manufacturing (Boeing)

The Boeing Company has always been a central and foundational part of both KCIA's operations and the regional economy. Their presence also attracts a significant number of auxiliary manufacturing businesses, such as airplane subassemblies and interiors. Over the years, local growth in other industries has diversified the Puget Sound region's economy, somewhat lessening its historical dependence on aircraft manufacturing. At the same time, Boeing has expanded the reach of its operations to other states and countries, placing our region in a global competition for its ever important presence. KCIA's relationship with Boeing continues to be healthy; the Boeing Company's recent move to double its 737 delivery center at the Airport signals their continued commitment and vitality.

General Aviation (GA)

Non-commercial GA. General Aviation is an FAA class of civil aviation that includes a significant range of activities. GA has long been an important part of the KCIA/Boeing Field mix of aircraft and tenants. Approximately 68 acres of airport leasable land area is devoted to General Aviation uses, including 35 acres for hangers and tie-downs. In addition, Fixed Based Operators provide space and services for GA aircraft. GA hangar occupancy is 99 percent. In accordance with the Airport adopted Master Plan and FAA policy, the Airport maintains an active role to encourage GA activities.

There are currently 419 aircraft based at KCIA which range from small single engine aircraft to Boeing's aircraft in manufacture. The 233 based single engine GA aircraft are generally operated in private ownership and used for pleasure, small business and for such specialized service as Angel Flights. Aircraft are housed at the airfield in tie-downs or in hangars, which range from small to large executive hangars.

Non-commercial GA activity has declined over the past several years, with part of the decline the result of the Great Recession and increased cost of flying due to higher fuel prices. Other contributing factors are the increasing age of the GA fleet making them more expensive to operate and insure, while NextGen navigation equipment requirements have the potential of further reducing the GA fleet. To support its commitment to non-commercial GA several pricing incentives are offered, including: landing fees were removed for all aircraft under 12,500 pound; short term transient aircraft parking space added at the Terminal Gate 5; and tie-down rental rates have remained low.

Corporate and other commercialGA. KCIA has experienced growth in corporate and larger GA aircraft. In 2014, the Airport was home to 75 multi-engine and 77 jet aircraft. The majority of these based aircraft are housed in private hangars. A large percentage of these aircraft are part of corporate aviation departments and represent an extension of the corporate office. In addition, several of the jet aircraft are owned by private individuals. The Boeing 737 Flight Center accounts for a portion of the GA traffic. Until an aircraft is certified it is classified as GA. The Boeing Company is moving its production schedule for 737 aircraft to 60 per month and these will be tested at and delivered from Boeing Field/BFI.

SITUATION ASSESSMENT

Markets & Products

KCIA, working within adopted policy and FAA guidance, maintains a balance of users and tenants. This includes balancing facility needs, while investing in airport maintenance, security, and safety for all tenants. The FAA has projected that airport operations will approach post-recession levels slowly and current facilities and runway capacity will not reach 300,000 operations until 2040. Airport facilities are operating at approximately 89 percent of capacity, while the airfield is operating at approximately 50 percent of service volume. Although the Airport is expected to have modest growth, it will continue to invest in infrastructure and facilities that benefits all tenants.

Passenger services

While Sea-Tac handles 99 percent of the region's scheduled passenger services, Kenmore Air Express and other small airlines operate regular flights to regional destinations from KCIA. These flights are typically with 9-seater aircraft serving commuters. The 2005 proposal from Southwest Airlines demonstrated that larger passenger airlines value KCIA's proximity to downtown Seattle.

The Washington State Aviation System Plan (WSASP) projected that passenger traffic in the region will remain highly concentrated at Sea-Tac and Spokane airports, with Sea-Tac accounting for 85 percent of state-wide enplanements. Passenger traffic processed through KCIA increased in each year following 2005 before declining in 2010 and 2011. KCIA's facilities could accommodate additional passenger growth, at the current peak terminal utilization is only 4 percent.

While modest growth in passenger demand and operations can be expected at KCIA, the passenger market is not expected to exceed the capacity of the existing terminal complex and will remain in the 9-seat commuter aircraft category. Scheduled passenger service is expected to continue to provide a strong component of the local market, and support KCIA's status as a primary commercial service airport in FAA's national airport system. Despite interest from larger passenger airlines, local transportation and noise issues, however, will continue to be a barrier to further cultivating this market.

Air cargo

Air Cargo is a large sector for KCIA. The Airport plays an aggregating role in the region whereby smaller regional shipments via small planes or trucks are consolidated at the airport onto larger flights. This creates unique physical requirements such as loading and transfer space and aprons for wide-bodied cargo aircraft. It also represents a relatively high value market because an air cargo carrier operating out of KCIA translates to captured leased space and airfield development as well as fuel and landing fees. Both Sea-Tac and KCIA are handling both domestic and international air cargo demand—with KCIA's cargo carriers routing most of their international cargo through west coast hubs or Anchorage.

The Puget Sound Regional Council (PSRC) has identified five industry clusters in the region: aerospace, information technology, life sciences, logistics and international trade, environment and alternative energy, with the combination of these contributing to strong economic growth. Total air cargo tonnage through KCIA was projected to increase twofold by 2025 in the PSRC study, with KCIA maintaining roughly the same statewide market share (25 percent). Total air cargo operations is projected to grow. Business decisions by individual carriers have led to a transfer of air cargo demand between Sea-Tac and KCIA. For instance, UPS initiated their operations at KCIA in 1996, FedEx relocated from KCIA to Sea-Tac in 1997, and DHL relocated from Sea-Tac to KCIA in 2004.

SITUATION ASSESSMENT

Markets & Products

KCIA's proximity to Seattle's Central Business District makes it a desirable location for air cargo, and efforts by the airport management to work with these tenants to meet their needs, despite tight physical constraints, have been beneficial to both the tenant and the airport. The local economy is expected to continue to provide a solid base for incremental air cargo growth.

Fixed base operators

Fixed-based operators (FBOs) are commercial entities that provide a menu of aeronautical services such as fuel, catering, parking, ground transportation, maintenance, flight planning, aircraft storage (inside & apron), aircraft chatter, air taxi, flight training and aircraft sales. FBOs are an important part of any airport's ecosystem, typically providing services and amenities that support other markets such as corporate flight departments, General Aviation and transient aircraft. They are a critical element in making KCIA a vibrant, safe and secure "world class" airport.

There are three large FBOs doing business at KCIA, Landmark Aviation, Clay Lacy and Aeroflight, and one minor FBO, Elite Aviation. Landmark Aviation, who recently purchased Galvin Flying, is an international business aviation service provider, whose presence connects KCIA to a network of FBOs servicing this high-value market. Fueling services are a major activity, for FBO's, which sell more than 19 million gallons of Jet A fuel annually and 40,000 gallons of Avgas annually. The outlook for this market can be expected to move in tandem with the other markets that they service.

AIRPORT PRODUCTS

While the airport serves multiple markets as described above, its economic model is based on two core products:

- Provide airlift capacity through the management and maintenance of the airfield
- Develop and manage its properties (lease land and buildings)

Airfield Operations

Airfield operations are everything involved in getting aircraft safely in and out of the airport, a core function of KCIA. These operations are regulated by the FAA and include the maintenance of signage and runways, communications with control tower and aircraft, coordinating vehicular access, operation of a secure passenger terminal and emergency response.

In the language of aviation, an airport's count of operations is the total number of takeoffs or landings on its runways. According to the FAA's Air Traffic Activity System, KCIA made 181,941 operations in 2013, averaging 495 takeoffs or landings a day, most of which come from General Aviation and cargo markets. For comparison, Sea-Tac, a major commercial airport, averages 869 operations a day and Paine Field, the next largest airport in the Puget Sound region, averages 305 a day. Both KCIA and Paine Field's operations are heavily skewed toward cargo aircraft and General Aviation, while Sea-Tac's operations are mostly commercial passenger service.

Airports typically charge landing fees associated with these operations to recoup costs of operation according to each aircraft's Maximum Certified Gross Landing Weight. KCIA charges $1.25 per 1,000 lbs, while Paine Field charges $1.00. Sea-Tac charges a $15 minimum landing fee or $3.52 (signatory) per 1,000 lbs. KCIA currently exempts based aircraft (aircraft

that are based at Boeing Field) and non-revenue generating aircraft under 12,500 lbs from the landing fee. Providing unlimited airfield access for these aircraft at no charge is a policy decision that significantly reduces revenue and limits KCIA's ability to effectively manage its most valuable resource.

The trend in operations over the past decade exhibits steady activity from 2003 to 2008. A significant drop in operations occurs in the recession years starting in 2008 and aviation demand has yet to reach pre-recession levels. In the context of other regional airports, the recession-related decline was steeper at KCIA. In 2013, the first signs of recovery appeared at other airports, but the recovery at KCIA has not yet occurred, as aviation levels continue to decline.

The largest drop in operations at KCIA comes from General Aviation, a small aircraft market that does not generate much revenue at the Airport. This drop continues a longer trend of declining activity from this segment at KCIA, which has been the biggest factor in overall operations declining from a peak of approximately 450,000 in the mid-1980's.

Aside from broader economic woes, General Aviation has faltered in particular because of the rising costs (fuel, training, insurance) of operating aircraft, leading to a 43% decline in GA operations at KCIA. Revenue-generating air carrier operations over the same span remained relatively steady, as did air taxi operations until the departure of Seaport Air Taxi service created a drop-off in 2012-2013.

Year	General Aviation	Air Taxi	Air Carrier	Military	Total
2003	243,032	51,145	9,308	2,767	306,252
2004	235,368	57,836	10,087	1,810	305,101
2005	223,122	63,136	10,251	1,748	298,257
2006	220,167	60,648	9,219	2,343	292,377
2007	225,034	65,613	10,976	2,512	304,135
2008	227,916	63,856	10,043	2,753	304,568
2009	188,235	65,705	10,120	2,998	267,058
2010	179,784	67,282	10,462	2,385	259,913
2011	163,812	63,023	11,843	2,024	240,702
2012	144,342	43,395	9,127	1,556	198,420
2013	137,883	33,531	9,107	829	181,350

Property Management

KCIA manages leasing and property development over its total land area of 596.6 acres. KCIA's current property is fully developed with facilities for aircraft flight test/delivery, fixed base operations, aircraft storage, aircraft maintenance, air cargo sortation, itinerant aircraft parking, passenger terminal and auto parking, airport maintenance support facilities, and several non-aviation parcels not having access to the airfield. The total land area is broken up as shown in the table on the following page.

Tenant Lease and Hangars & Tie-Downs land areas generate direct revenue for the airport. These areas comprise about

Markets & Products

43% of the Airport's total land area. Within this category, Boeing occupies 106.1 acres covering 42% of the revenue generating area. Following Boeing, Fixed Based Operators lease the second-largest land area. Many businesses sub-lease from the three main FBOs at KCIA.

Currently, KCIA's property lease framework is driven primarily by periodic property appraisals (every three years for most tenants and every five for Boeing) where a "fair market value" is determined and the rent calculated as a percent of that value. As a result of this structure, rental income from properties did not grow during the recent recession, creating a significant downward pressure on operating margins.

The development or redevelopment of airport properties is subject to FAA rules and regulations which may impact type of use, height of development, and compatibility with adjacent land uses. These decisions also need to be responsive to the demands of tenants and users, which potentially conflict with governmental procedures for use and leasing of the Airport. Finally, the Airport's property strategy needs to consider its long-term financial success. All of these issues will be critical factors that will influence the development of the airports Master Plan Update, expected to begin later this year.

The Master Planning process is particularly timely given that KCIA will be faced with significant property decisions as a number of current leases expire. This represents an opportunity to respond to emerging needs and opportunities for the Airport through development or redevelopment of certain parcels, and/or taking possession of the buildings when title reverts to KCIA when these ground leases terminate.

It also suggests that the time is right for the airport to take a portfolio approach to all of its property holdings and determine the most appropriate allocation of its land to maximize the strategic value of these assets in long-term. The portfolio review might also consider the opportunity for the airport to add to its landbase to further enhance its ability to financial returns and support regional growth and prosperity.

The Airport has identified three locations for future development of GA facilities when the market matures. These include Lot13, NW Development Area, and Southeast Development Area. The Airport has received inquiries about potential development. Only the Southeast Development Area has attracted an active interest to include the full range of GA activity.

Land Areas	Acres
Tenant Lease Areas	219.6
Grass	145.7
Runways & Taxiways	148.3
Hangar & Tie-Down Area	35.0
Service & Perimeter Roads Areas	18.1
Landside	12.6
Preferential Use Areas	8.4
All Other Areas	8.9
Total Land Area	596.6

Tenant Lease and Hangar & Tie-Down Land Areas	Acres
Tenant Leases	**219.5**
Boeing	106.1
Fixed Base Operations	35.4
General Aviation – Corporate Hangars	33.9
Air Cargo – Operations, Warehouse & Storage	17.1
Government Holdings	12.4
Vacant Land	12.1
Aviation Related Business	2.5
Airport Hangar & Tie-Downs	**35.0**

Note: Total land area currently devoted to GA is 68.9 acres, the sum of ltenant land leases that are in corporate GA use and KCIA's hangar and tie-down areas.

SITUATION ASSESSMENT

Markets & Products

LEASES

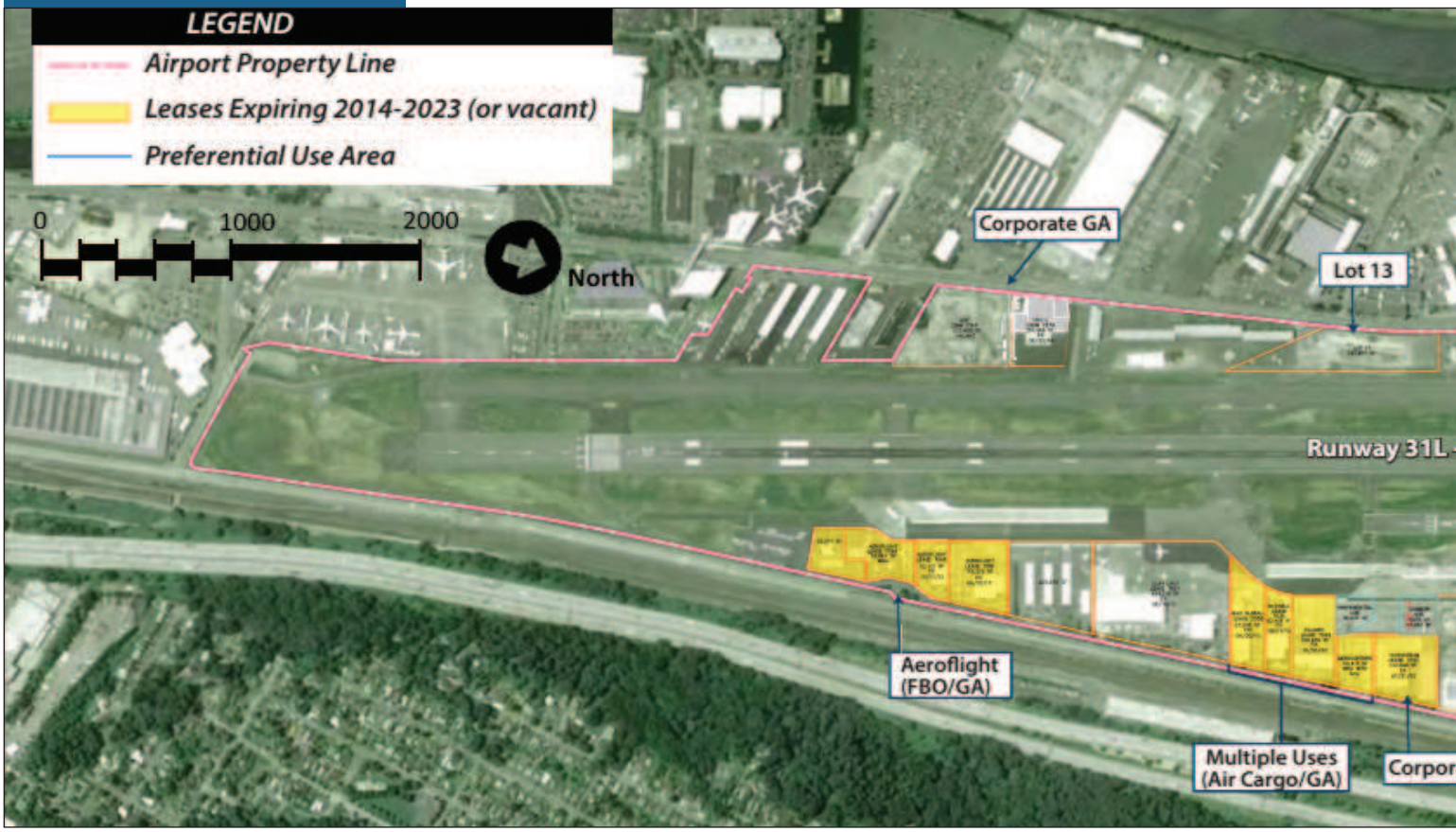
KCIA has several leases expiring in the years 2014-2023, some on contiguous parcels.

This situation signals a window of opportunity for the airport to make major strategic investment decisions that will set the course for the coming decades and help align its operations with its vision and mission.

The Aeroflight leases at the South end of the field have limited value as individual leases, but combined, could be a significant opportunity. This zone is designated for small general aviation use in the current Airport Master Plan. High-value uses of this property could come from corporate general aviation.

The multiple use parcels allow redevelopment for corporate general aviation and/or aircraft maintenance. The recent consolidations in the air cargo industry, and the fact that this area is physically inefficient for the transfer of air cargo to trucks make the cargo alternative less attractive for this site.

The existing UPS lease and adjacent upcoming expired lease parcels represent a 18-acre redevelopment parcel which can be used for long-term air cargo and/or combination air cargo/ general aviation uses. It is a desirable area; no other parcel on the east side of the airfield offers comparable parcel depth and distance from the main runway, allowing parking positions



by wide-body aircraft with high tail heights. The Portland Street entrance is an added advantage for air cargo to truck operations. Proposals from both air cargo and fixed base operators have already been received for this site.

The lease for the King County Jet Center (KCJC) expires in 2020. Currently used for corporate general aviation, and located adjacent to similar uses, it is anticipated to remain in this use.

At the north end of the field, the FAA Flight Services Station and the Washington Air National Guard (WANG) leases are expiring. It is anticipated that the WANG parcel will continue to be non-aeronautical.

The Rosso lease is subject to maximum height restrictions. In light of the need to relocate the airport service road outside of the runway protection zone and resulting displacement, the best use of the Rosso lease area might be relocation of airport maintenance facilities.

Though it is now a grandfathered use, it may be desirable to relocate the fuel farm per revised FAA land use guidelines, given its location within the runway protection zone.

OTHER OPTIONS

The Airport is land constrained with the majority of developable land held through long term leases. Land acquisition and/or through the fence opportunities remain important options for meeting KCIA's property needs

SITUATION ASSESSMENT

Business Model

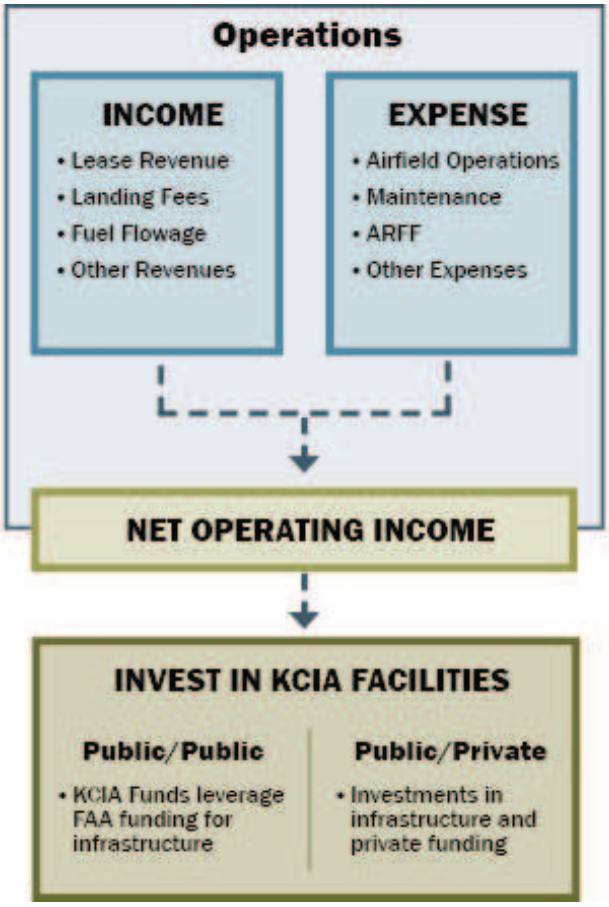
KCIA IS A BUSINESS ENTERPRISE

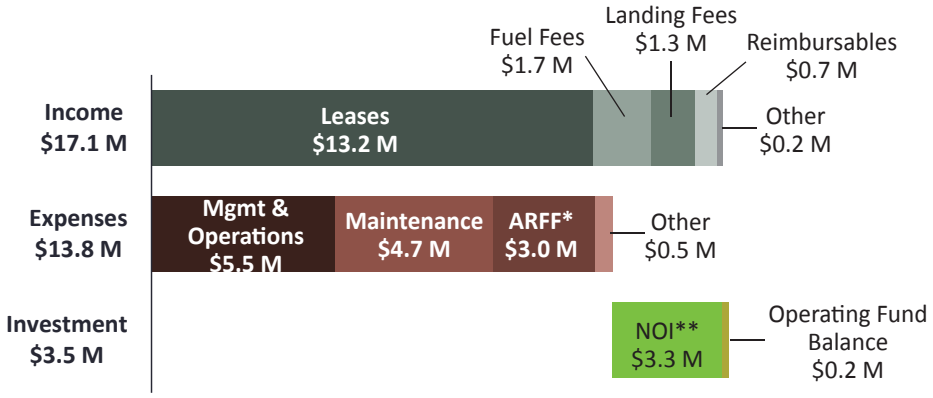
The graphic to the right describes, at a high level, how KCIA's business model functions. The difference between **operating income** and **operating expenses** results in annual **net operating income (NOI)**.

Net operating income and operating margin (NOI as a percent of operating income) are the most important financial indicators for KCIA. When NOI and operating margins are healthy, the operation is generating the financial resources necessary to invest in capital replacement and development of new business opportunities. Without adequate investment capacity, KCIA cannot attract other public and private investment and fully achieve its vision.

To illustrate this, KCIA's 2013 financial results show how operating performance allowed for investment in KCIA facilities through a substantial capital transfer. The chart below shows that in 2013, KCIA operating income of $17.1M generated a net operating income of $3.3M and that was combined with a portion of the operating fund balance (accumulated NOI from previous years) to transfer $3.5M to the capital program.

The other issue that this chart clearly illustrates is how important lease revenues are to the overall financial performance of the airport, accounting for more than 70% of operating income.





**Aircraft Rescue & Firefighting*
*** Net Operating Income*

Appropriate Uses of NOI

Operating margins must be reinvested into the airport or airport related activities.

FAA requires that airport revenue be restricted to airport capital or operating costs or the costs of other facilities owned or operated by the sponsor and directly and directly and substantially related to air transportation.

SITUATION ASSESSMENT

Investment Drives Performance

INVESTMENT IS CRITICAL TO KCIA'S SUCCESS

KCIA's business model depends on an adequate level of ongoing investment. Other than location, the primary success factors in attracting and retaining customers and tenants is the quality and capacity of the airports basic infrastructure and the airport's ability to partner with its current and prospective tenants to maximize the value of a site at Boeing Field.

Focus on Financial Performance

To ensure that KCIA can remain competitive and its investments can continue to support the region's economic vitality, the operational performance must generate adequate operating margins to create the financial capacity to invest.

In this regard, KCIA's recent history shows a significant improvement in the airport's ability to self-finance its investment needs. Between 2000 and 2010, KCIA improved its operating margin and generated almost $20 million in net operating income. The majority of this net operating income has been generated since 2006, indicating a significant refocusing on financial performance. The increased financial capacity funded a major focus on reinvestment in critical facilities.

KCIA Financial Performance in the 2000's

	2001-05	2006-10	Pct Chg
Operating revenues	50,756,257	81,503,159	61%
Operating expenses	51,117,482	62,500,537	22%
Net operating income	(361,225)	19,002,622	
Operating margin	-0.7%	23.3%	
Transfers to capital	4,262,911	14,770,000	246%

Note: Capital transfers in 2001-05 were possible by drawing on operating reserves.

Leveraging NOI

It is important to note, that these funds also create significant opportunities to attract other investment to the airport. Earned income is used to match federal grants, increasing the total funds available for infrastructure projects.

Also, the investment of public funds (earned income and grants) provides the foundation to attract significant private investment to the airport, as KCIA tenants invest in their buildings, equipment and facilities.

Investment Needs

The primary driver of both operational success and investment need is the requirement to maintain a world class airport that meets the needs of its current and future customers and tenants. Toward this end, KCIA requires investment capital for:

- Capital replacement projects, based on a life cycle investment model, that will maintain the quality and capacity of the facility
- New projects funding that will allow the airport to invest in new ventures, attract new tenants and support redevelopment of existing properties.

Keys to Improved Operating Performance Post 2005

- 2004 began eliminating discretionary discounts in lease rates
- 2006 successful arbitration ruling giving KCIA greater flexibility to charge market rates
- Raised landing fee and fuel flowage rates for first time in 12 and 15 years, respecttively.

SITUATION ASSESSMENT

Economic Vitality

KCIA ECONOMIC IMPACTS

KCIA is a major regional economic center and supports significant economic activity that benefits the Puget Sound region in the form of direct and indirect jobs, labor income, overall economic impacts, and state and local taxes. Maximizing economic contribution is a key strategic area for KCIA, and the increase in economic impacts in all areas from 2008 to 2013 shows that KCIA is currently doing well in this area.

- Total economic impacts increased by about $300 million from 2008 to 2013.
- Total jobs supported by activity at KCIA increase from 17,500 to about 21,545, an increase of 23%. About 5,200 jobs are directly supported by KCIA.
- KCIA generated about $76 million in state and local taxes in 2013, an increase of $8 million since 2008.
- Total supported labor income increased from about $804 million in 2008 to about $1.08 billion in 2013, an increase of $276 million.

The challenge over the next several years will be to build on this and continue to grow the economic footprint of the airport. This will require commitments to support the needs of existing tenants and aggressively targeting new growth opportunities.

2008-2013 Economic Impacts of KCIA

	2008 Economic Impact Study	2013 Economic Impact Study	Five Year Change
Economic Impact	$3.2 billion	$3.5 billion	$0.3 billion
Direct jobs	4,900	5,209	309
Indirect jobs	12,600	16,336	3,736
State and local taxes	$68 million	$76 million	$8 million
Labor income	$475 million	$495 million	$20 million
Total Labor income	$804 million	$1.08 billion	$276 million

Source: King County International Airport Economic Impact Study, 2013
William B. Beyers, Dept. of Geography, UW

WHAT IS KCIA'S OUTLOOK GOING FORWARD?

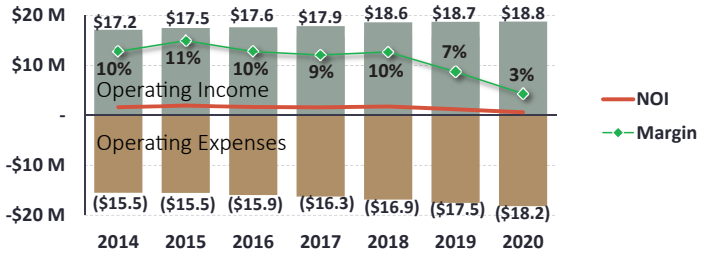
The baseline financial outlook suggests that cost growth will outpace revenue growth going forward, leading to a depletion of existing fund balances and resulting in unmet capital needs over the next seven years.

The airport is about to enter a period of significant investment on significant capital improvements. While KCIA has accumulated a capital fund balance of about $15.8 million and the availability of FAA grant funds, 7-year estimated capital needs total almost $62 million. Therefore, the ability to make these investment is highly dependent on net operating income replenishing this fund balance.

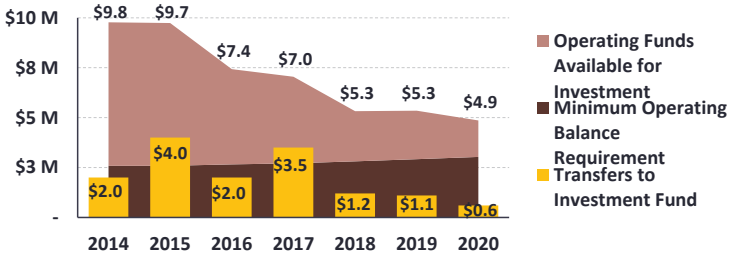
The charts to the right highlight the baseline operating and capital outlook through 2020.

- Although net operating income is positive, net operating income and operating margins are declining as cost growth is projected to outpace revenue growth.
- Since transfers from the operating fund to the capital program are greater than additions from net operating income, the operating fund balance is reduced to a small margin over the minimum required balance.
- Capital investment needs are higher than the combination of capital transfers from operations and estimated future capital grant funding. This is resulting in a declining investment fund balance as the accumulated net income from previous years is used to make up the funding gap.
- The final chart shows the 2014-2020 capital outlook. Capital needs are estimated to outpace available funding, resulting in accumulating unmet investment needs.

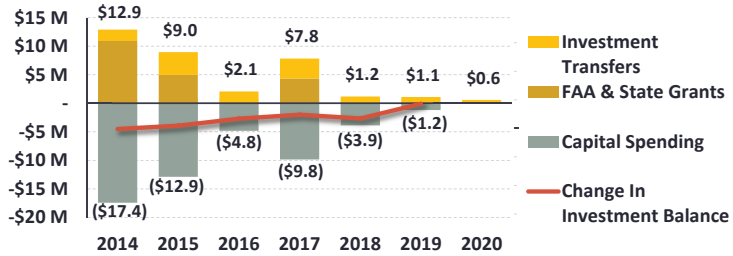
Net operating income and operating margin are declining



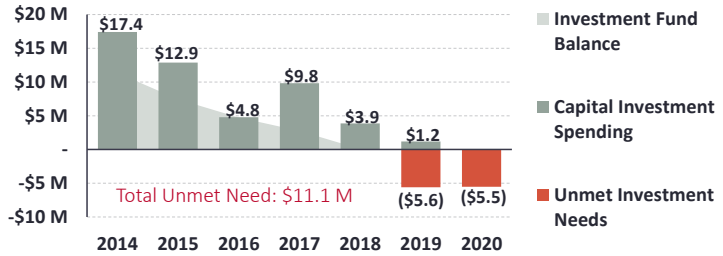
Capital transfers greater than net operating income are reducing the operating fund balance



Capital investment and need are outpacing capital revenues, reducing the investment fund balance



The investment fund balance will be depleted by 2020, resulting in unmet investment needs



SITUATION ASSESSMENT

Challenges & Opportunities

SWOT ANALYSIS

A Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis was conducted to identify what opportunities existed and to help define KCIA's niche. This analysis serves as the backbone for the ongoing strategic and business planning efforts that helps to tie the Airport into the Central Puget Sound Business/Industrial Clusters as well as the global marketplace.

The exercise was conducted in late 2011 to frame the issues for a Ten-Year Strategic Business Plan. The consultant team, airport staff, and King County property management/real estate staff participated. The following were identified during the exercise for each SWOT Category.

S

- **Location & Access**
  - *5 miles from Downtown Seattle*
  - *SR-99, I-5, railway and the Port*
- **Facilities**
- **Operational management**
- **Relatively low operating costs**
- **Tenants**
  - *Boeing, UPS, FBOs*
- **Weather**
- **Demand**
  - *Air cargo, corporate*

W

- **Geographic factors**
  - *Land constrained*
  - *Existing airport geometry*
- **NAVAIDs**
  - *High Instrument Approach Minimums*
- **Financial position**
  - *Organizational competencies in marketing and business development*
  - *Legacy environmental issues*

T

- **Property management**
  - *Environmental issues*
- **Competition**
  - *Air cargo relocation*
- **Financial outlook**
- **Policy environment**
  - *Cost of regulatory compliance*
  - *Urban encroachment*
  - *Noise complaints*
  - *Security needs*
- **General economic stagnation**

O

- **Governance**
  - *County Code revisions*
  - *Zoning Changes*
- **New partnerships**
  - *"Through the fence"*
  - *Public-private*
  - *Commercial service*
- **Expiring leases and on-airport site re-development**
- **Value pricing for property and services**
- **NEXTGEN technologies**

SITUATION ASSESSMENT

Strategic Focus for 2014-2020

KEY STRATEGIC ISSUES

Based on the Situation Assessment and the SWOT analysis, the following were identified as the key strategic issues facing KCIA in 2014.

- **Financial capacity.** The baseline financial outlook projects that operating income will stagnate, leading to significant reductions in operating margins. These lower margins significantly reduce the potential to invest in KCIA's facilities and attract new businesses.
- **Property redevelopment.** There are current vacant properties and a number of expiring leases which create significant opportunities for property redevelopment. How these parcels are developed will go a long way toward defining the type of economic and financial performance will be possible in the coming years.
- **Pricing of facilities and services.** The airport needs to have a pricing model in place that will generate an appropriate rate of return on its assets and reflects the value that tenants and customers receive. The current pricing model does not meet this objective, resulting in revenues that grow slower than costs and unequal treatment of different customers, particularly for the use of the airfield.
- **Boeing retention.** The national and international competition to lure Boeing manufacturing away from Washington will continue, increasing the strategic role of KCIA in broad regional retention efforts.
- **Cost management.** Facing projected declines in operating margins, KCIA must aggressively manage its costs and maximize the share of earned income that will be available for future investment.
- **Facility needs.** KCIA is about to embark on a major capital reinvestment period designed to maintain keep Boeing Field as a world class airport and meet the needs of its existing and future tenants.
- **Organizational capacity.** To meet the challenges ahead, KCIA will need the organizational capacity to effectively deliver. In particular, expiring leases and potential property availability suggest that the airport will need to augment its business development capabilities to maximize the return on these opportunities.

STRATEGIC FOCUS FOR NEXT SIX YEARS

Given these strategic issues, the Strategic Plan proposes that the King County International Airport adopt policies and pursue business opportunities that will focus the airport's operations on optimizing across two key performance metrics:

- Maximize the economic contribution of the airport in terms of supporting jobs, high wages and economic activity; and,
- Improve operating margins and maximize the financial return on its current assets and future investments.

A strong and healthy airport will support the County's organizational goals around fiscal sustainability and economic prosperity. The airport's business model depends on a strong financial foundation in order to generate the investment capital needed to support projects that will enhance the region's economic prosperity. Toward this end, the Plan needs to identify specific goals related to economic and financial performance and identify strategies to optimize across both measures.

STRATEGIC PLAN

2014-2020

As discussed, the next six years will see significant changes in the markets in which KCIA operates as well as major upcoming decisions to do with their leasing and property development. While the Strategic Plan covers these next few years, it is clear that the implications of these decision will reach far beyond the next six years. With this long term perspective, the 2014-2020 Strategic Plan includes Goals and supporting objectives to position the Airport to capture its full economic value and provide unparalleled services to the communities and businesses of King County. In some cases, the objectives affirm and strengthen existing areas of focus while others indicate new initiatives that will improve KCIA's ability achieve these goals.

GOAL 1: SUPPORT ECONOMIC VITALITY IN THE REGION

a. **Boeing Retention.** Continue to work with Boeing to ensure that their property and business needs are integrated into the airport's long-term property plans.

b. **Property Development and Redevelopment.** Conduct assessments of key strategic properties, both on and off the airport footprint to determine the uses that best align with KCIA's long-term vision.

c. **Decision Tools.** Develop decision tools that will provide the necessary information to support critical policy choices and clearly show how individual decisions relate to the dual mandates to maximize economic impact and financial capacity to invest.

d. **Economic Development.** Collaborate with other County departments to ensure that KCIA's efforts are appropriately aligned with broader County economic development goals and initiatives.

GOAL 2: FINANCIAL PERFORMANCE

a. **Value Pricing.** Develop a comprehensive pricing structure that will appropriately reflect the value that customers and tenants are receiving. The pricing structure should bring into alignment all of KCIA's fees and charges to ensure that customers and tenants are paying in proportion to their use of facilities and the value they derive from that use.

b. **Cost Containment.** Aggressively manage costs to support net operating income.

c. **Cost recovery.** Identify opportunities for KCIA to allocate costs to tenants and customers, where such pass-throughs are authorized by County code and can be justified using appropriate cost allocation methods.

d. **Financial Targets.** Develop specific financial performance targets that will support current investment plans and ensure that KCIA is generating an appropriate rate of return on its assets.

STRATEGIC PLAN

2014-2020

GOAL 3: MAINTAIN A WORLD CLASS FACILITY

a. **Facility Investment.** Invest in capital replacement based on needs identified using appropriate asset management standards and based on life cycle costs of airport facilities.

b. **Customer service.** Ensure that there is a customer-oriented focus throughout the organization and that customer and tenant needs are factored into operational and policy decisions.

c. **Security and safety.** Provide for the security and safety needs of the airport, including customers, tenants, employees and the broader community.

GOAL 4: ORGANIZATIONAL DEVELOPMENT AND CAPACITY

a. **Invest in Organizational Capacity.** Identify organizational capacity needs to support an enhanced focus on business development and strategic investment decisions

b. **Organizational Structure.** Align the organizational structure and core competencies to support implementation of the strategic plan and to maximize cost effectiveness of KCIA's operations.

c. **Continuous Improvement.** Build the efficiency and core competencies of the organization through application of continuous improvement and application of Lean principles.

GOAL 5: ENVIRONMENTAL STEWARDSHIP

a. **Noise Impacts and Mitigation.** Continue to implement and enhance the noise mitigation program.

b. **Climate Change.** Align KCIA programs and services with County climate change goals.

c. **Environmentally Sensitive Design.** To the maximum extent possible, incorporate environmentally sensitive design into KCIA capital projects.

GOAL 6: COMMUNICATIONS AND COMMUNITY PARTNERSHIPS

a. **Transparency.** Operate in an open and transparent way to build trust with customers, tenants, stakeholders, decision makers, and the broader community.

b. **Stakeholder engagement.** Ensure appropriate level of consultation with key stakeholders and work collaboratively to foster mutually beneficial solutions.

c. **Industry leadership.** Increase KCIA's influence within the aviation industry through effective participation in select membership and trade organizations.

d. **Neighborhood & community.** Act as a partner to neighboring residents, businesses, and organizations.

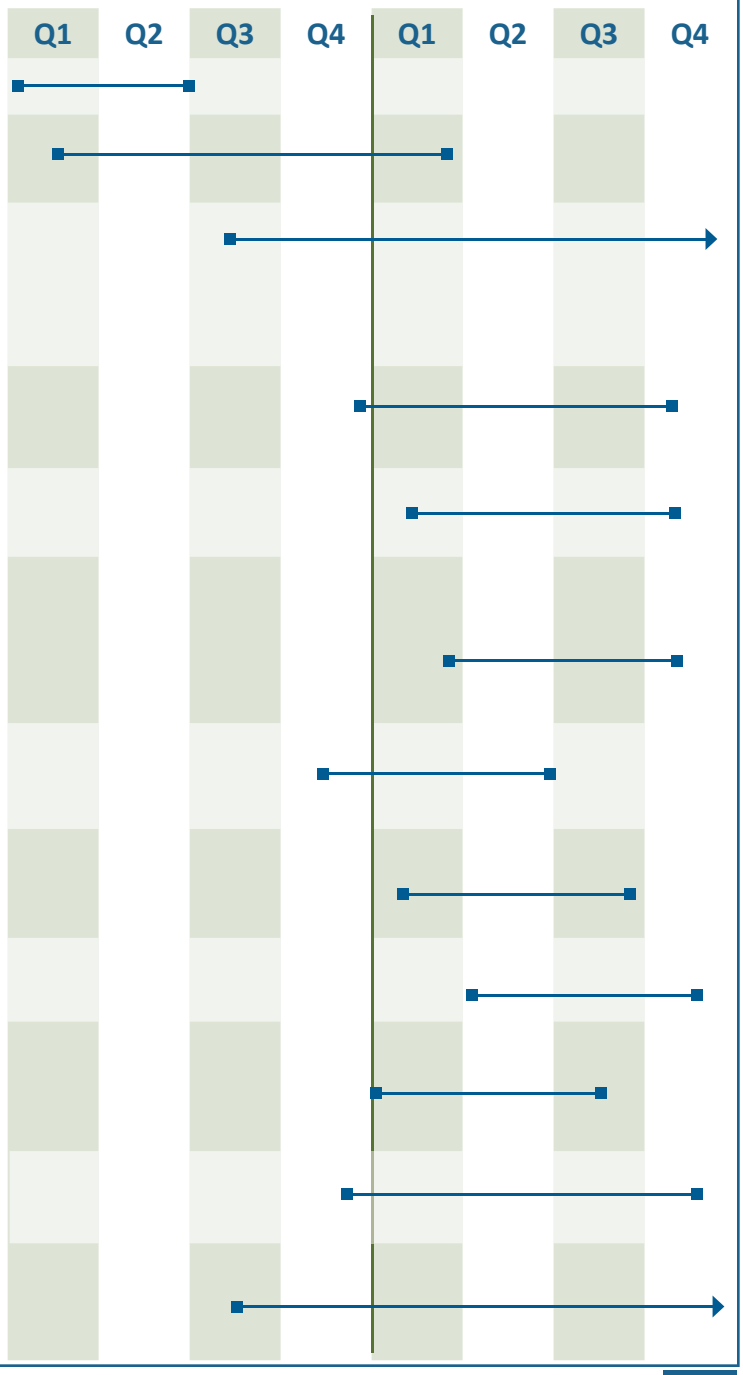
ACTION PLAN

Near Term Action Items

Implementation of the Strategic Plan. These action items will provide the analytic and policy basis to translate the goals and objectives into operational programs. In particular, the focus is to optimize across KCIA's economic, community and financial goals by: (1) aligning current plans and practices with the long-term vision; (2) evaluating the allocation and pricing of KCIA's facilities and assets among the various markets served; and, (3) developing the organizational capacity to successfully implement the Plan. The result will be a clear articulation of how KCIA intends to balance between financial performance and broader community and economic goals.

- **Line of Business (LOB) Plan to Address Financial Outlook.** KCIA to develop update its LOB Plan and develop budget proposals that will address the expected declines in operating margins.
- **Conduct Fair Market Appraisals.** Complete the periodic Fair Market Appraisal process for KCIA properties. Updated valuations will impact lease revenues in January 2015.
- **Update KCIA Master Plan.** This is an FAA requirement that will establish the regulatory framework for future development actions and identify infrastructure needs to support the land use concepts.
- **Value Pricing Structure.** Conduct an overall review of KCIA pricing policies and develop a comprehensive policy framework that aligns with the Strategic Plan goals, generates a reasonable rate of return on KCIA assets and ensures customers and tenants pay in proportion to the value they receive.
- **Develop an Updated Lease Framework.** To ensure that income from property leasing appropriately reflects the value of the airport's land holdings, KCIA will conduct a thorough review of its current leasing policies. This will include, but not be limited to, a review of lease terms, tenant investment requirements, valuation approaches, and lease transferability.
- **Safety and Security.** Update Airport plans for security and safety as a basis for coordination between the FAA, local jurisdictions, law enforcement, community, and flying public.
- **Strategic Assessment of Property Opportunities.** Conduct an assessment of current allocation and utilization of KCIA properties and identify the range of potential development and redevelopment opportunities that might exist. Identify potential strategic property acquisitions which might further KCIA's ability to fulfill its mission.
- **Develop Cost Containment Strategy.** KCIA will develop a long-term cost management and cost containment strategy that will identify key cost drivers and propose options to either reduce operating expenses or slow the rate of cost growth to improve operating margins.
- **Develop Policy-level Financial and Performance Targets.** Develop policy-level financial and performance targets to measure progress toward strategic plan goals and objectives.
- **Develop Enhanced Decision Tools.** Develop new decision tools that will explicitly address the airport's dual mandate – to enhance and support economic vitality and to generate operating margins that will support investment in the airport.
- **Review Organizational Structure and Capacity.** Conduct an organizational structure and capacity review to assess how well positioned KCIA is to implement the goals and objectives in the Strategic Plan. Identify any gaps in organizational capacity and develop a plan to address these organizational needs.
- **PSRC NextGen Airspace Optimization Study.** Participate in the PSRC's NextGen Study which is addressing how the region's airports will be impacted by the emerging NextGen aviation technology. NextGen represents an evolution from a ground-based system of air traffic control to a satellite-based system of air traffic management.

ACTION PLAN

Near Term Action Items

Actions	Goal/Objective
LOB Plan/Budget	Goal 2
Fair Market Appraisals	Goal 2
Master Plan Update	Objective 1b Objective 3a Objective 5
Value Pricing	Objective 2a
Updated Lease Framework	Objective 2a
Strategic Assessment of Property Opportunities	Objective 1b
Cost Containment Strategy	Objective 2b
Policy-level Financial and Performance Targets	Objective 2c
Enhanced Decision Tools	Objective 1c
Review Organizational Structure and Capacity	Objective 4a Objective 4b
Security & Safety Plan Update	
PSRC NextGen Airspace Optimization Study	Objective 6c