City of Philadelphia  
Philadelphia International Airport  
Responses to Questions to the REI for Direct Purchase Taxable Loan

1. Is there any recent financial reporting information later than 6/30/2015 for the Airport System and the City that can be made available readily to the proposers such as draft annual reports or interim financial statements?

Please see the following link to the City’s Annual Financial Report (unaudited) FY 2016 and the attached Trustee statements.
- City’s Annual Financial Report (unaudited) FY 2016 (Ctrl + Click)
- Trustee statements (Ctrl + Click)

2. Please provide some insight/color around recent enplanement declines noted in the Monthly Aviation Activity Reports through November 2016. What is driving the declines, especially in Commuter Traffic and International Traffic? Is that the result of American Airlines shifting hubbing operations, or other causes?

Over the course of calendar year 2016, American Airlines (AA) discontinued service to Brussels (AA discontinued all service to Brussels from the U.S.), Halifax, Tel Aviv and Zurich from PHL. Additionally, AA reduced the Frankfurt route from year-round to seasonal service from November 2016 through March 2017 (service will resume in April 2017), which, along with Brussels, was related to a change in alliance affiliation of pre-merger US Airways from Star Alliance to oneworld after the merger with American. AA also discontinued a second daily flight to London-Heathrow because of less than expected demand for a daytime London flight reflecting the change in economic conditions, events such as Brexit and the corresponding loss in value of the Euro which have contributed to reductions in passenger traffic from Europe to the U.S. The decline in Commuter traffic can also be attributed to the decrease in international traffic noted above as 59% of PHL’s overall international traffic is connecting service. In addition, commuter traffic is impacted by the nationwide shortage of pilots which is affecting all airports and route systems.

American’s post-merger business model is also impacting service at PHL and other hubs across the AA network as passengers shift to nonstop routings as well as connections over an expanded network of hubs. However, PHL maintains the critical role as American’s primary transatlantic connecting hub in the AA network. While JFK is an important transatlantic gateway, capacity constraints limit AA’s ability to develop a large connecting operation there. PHL is also benefiting from a strong local market driving an increase in origin and destination (O&D) activity. O&D activity has grown from 57.0% of
total passengers in FY 2015 to an estimated 61.8% in FY 2016, reflecting the expansion of service and increased competition from Frontier, JetBlue, and Spirit. Through March 2016, originating passenger numbers have increased 11.8% year over year, a new high since the prior 2008 peak. In addition, PHL has announced new international air service with Icelandair beginning seasonal service between PHL and Reykjavik four times per week starting in May 2017.

3. Is “Commuter Traffic” the same as “Connection Traffic” (in the Monthly Aviation Activity Reports)?

The two terms are not the same, but they are related. Commuter traffic reflects activity on the regional partners of the mainline (“Air Carrier”) airlines. For example, this includes Republic Airlines, which provides regional service as American Eagle for American Airlines. Connecting traffic are those passengers that are not originating or concluding their trips at PHL, but rather connecting between flights at PHL. A significant portion of Commuter Traffic, particularly on AA, also is Connecting Traffic.

4. In light of the aforementioned declines, what are the expected volumes going forward and impacts on operations, CPE, and the Capacity Enhancement Plan?

As noted in the response to Question #2, the declines in service are limited and PHL is benefitting from an increase in the O&D activity. Although the changes in capacity will result in fluctuations in activity in the near term, passengers are forecast to grow following the schedule adjustments. The Airport benefits from a prime geographic location as an East Coast transatlantic gateway, the size of its local origin and destination market, and limited local airport competition. Combined, these factors support the long-term growth of activity at PHL.

We do not anticipate material changes to our operations or financial metrics such as CPE in the near or long term. The Airport also continues to work with the airlines to define additional projects in our capital program that support long-term operational growth and continue to develop a balanced approach to addressing the needs of the airport.

5. Can you provide a copy of the most recent airline and use agreement?

Please contact Tasia Carlton at Tasia.Carlton@phl.org or 215-863-3574 to be given directions on how to download from our FTP site.

6. Can you provide projected bond feasibility study and pro forma bond covenant test supporting the additional indebtedness?

The bond covenants and other requirements will be satisfied prior to the closing of the loan. Each of the land acquisition projects to be funded with the loan have received airline majority-in-interest (MII) approval from PHL’s signatory airlines, permitting costs, including related debt service, to be included on PHL’s residual ratemaking.
7. Please provide projected sources and uses of $125MM taxable term loan. What portion will be used for capital improvements, refinance of existing commercial paper etc.?

   At this time, it is anticipated that the use of the loan will be for land acquisition costs.

8. Can you provide a draft or internally prepared Fiscal Year 2016 financial statements and enplanement statistics? What has led to the negative trend in YTD November 2016 Enplanement Stats (i.e. Domestic Commuter -16.8% and Scheduled International -7.8%)? What is the anticipated enplanements growth for the future?

   Please see the response to Question #1 for Unaudited Annual Reports and Trustee statements. Please see the response to Questions# 2 and 4 for traffic information.

9. Can you provide an update on the airports Capital Enhancement Program and capacity enhancement (i.e., Recent completed projects and approved future spend)? Can you provide the most recent Master facilities plan (with Map if applicable) supporting the CEP?

   PHL is currently working with the signatory airlines on the CIP and will provide an update when the plans are completed.

10. What is the status of potential increase in PFC and approval to raise the cap on rates?

    PHL’s plans do not assume any increase in the PFC rate, which would require federal legislation.

11. What is the Airport's strategy to address the $23.9 million surety bond (support by a DPLOC) coming due on 7/29/17?

    Depending on market conditions, PHL plans to refund the Series 2007 bonds in their entirety in 2017. With the defeasance of the Series 2007 bonds, the City anticipates that the surety and DPLOC associated with the refunded bonds will be terminated.

12. Could you please provide any explanation related to PHL’s 2016 CYTD and 2017 FYTD period-over-period drops in enplanements?

    Please see the response to Questions #2 for traffic information.

13. Is there any management/draft level FY16 financial reporting available for review ahead of the audited financials being released?

    Please see the response to Question #1 for Unaudited Annual Reports and Trustee statements.
14. Can you please confirm that the $1.6 billion CIP is for 2016-2020 or over a longer time frame?

The CIP totals increase as airlines or the airport request that additional projects be approved via the MII process. Additional projects have been approved bringing the total current agreed upon CIP to $1.71 B. PHL continues to work with the airlines to define additional projects in our capital program that support long-term operational growth and continue to develop a balanced approach to addressing the needs of the airport.

15. Can you please disclose which of the three projects the airlines asked the airport to pursue at the end of 2016 as part of its capital plan? Do any of these projects change the funding sources for the airport’s capital plan?

PHL is currently in ongoing discussions with the signatory airlines to determine which projects to pursue.