Appendix A

Annotated Bibliography

(1) *ACRP Legal Research Digest 6: The Impact of Airline Bankruptcies on Airports.* TRB, The National Academies, Washington, D.C., 2009.

Description: This digest provides a useful summary of the business and legal implications of airline bankruptcies for airport operators, with a detailed discussion of current legal issues.

(2) *Air Canada* v. *DOT*, 148 F.3d 1142 (D.C. Cir. 1998).

Description: In this case, the Court affirmed U.S. DOT's decision allowing an airport sponsor to impose equalized terminal rents without an airline agreement. *See Miami Int'l Airport Rates and Charges Proceeding*, DOT Docket OST-96-1965.

(3) *Air Transport Ass'n of America* v. *DOT*, 119 F.3d 38, 129 F.3d 625 (D.C. Cir. 1997).

Description: This judicial decision invalidated certain provisions in the U.S. DOT Final Rates and Charges Policy.

(4) *Air Transport Ass'n of America* v. *DOT*, Case No. 08-1293 (D.C. Cir.).

Description: In this pending appeal, the airlines claim that the U.S. DOT's 2008 amendments to its Final Rates and Charges Policy are invalid due to various reasons, with one being that they violate the Airline Deregulation Act.

(5) Air Transportation Association of America, Inc., *Airport Properties Handbook*, March 2005.

Description: This document serves as a resource for ATA member properties representative on a range of subjects, including airport properties work and detailed positions and matters affecting airports and airlines. Agreement and rates and charges issues are presented in this document.

(6) *Alaska Airlines, Inc*. v. *DOT*, Case No. 07-1209 (D.C. Cir.).

Description: In this pending appeal, the airlines claim that airport sponsors cannot base terminal rental rates on the fair market value of terminal space without airline agreement, and the airport sponsor claims a right to charge non-signatory airlines higher terminal rental rates than are prescribed by long-term airline agreements. *See Alaska Airlines, Inc*. v. *Los Angeles World Airports*, DOT Docket OST-2007-27331.

(7) American Association of Airport Executives, *Principals of Airport Law Seminar—Airline Lease Negotiations Workshop*, Reno, Nevada, October 27-28, 1988.

Description: This document describes various forms of Agreements and business arrangements.

(8) Board of Governors of the Federal Reserve System, *Federal Reserve Statistical Release: Flow of Funds Accounts of the United States, Flows and Outstandings, Third Quarter 2008,* December 11, 2008.

Description: This report contains various debt related information regarding various sectors of the United States economy including household, nonfinancial business, and state and local government.

(9) *City of Los Angeles* v. *DOT*, 165 F.3d 972 (D.C. Cir. 1999).

Description: In this case, the Court affirmed U.S. DOT decisions barring airport sponsors from basing landing fees on the fair market value of airfield land without airline agreement. *See Los Angeles Int'l Airports Rates Proceeding*, DOT Docket OST-97-2329, and *Second Los Angeles Int'l Airports Rates Proceeding*, DOT Docket OST-95-474.

(10) Federal Aviation Administration, "Airport Business Practices and Their Impact on Airline Competition," (Oct. 1999), http://ostpxweb.dot.gov/aviation/domav/airports.pdf.

Description: In this report, the FAA outlines federal regulatory concerns about the potential anti-competitive effects of Agreements that limit airport access or constrain terminal capacity.

(11) Federal Aviation Administration, Program Guidance Letter 04-08, "Requirements for Airport Competition Plans" (Sept. 4, 2004), http://www.faa.gov/airports_airtraffic/airports/aip/guidance_letters/.

Description: In this guidance document and the associated summary of actions that reduce barriers to entry and enhance competitive access, the FAA outlines "best practices" that federal regulators look for in Agreements.

(12) Fitch Ratings, *Airports Rating Criteria Handbook for General Revenue, Passenger Facility Charge, and Letter of Intent Bonds*, New York, NY, March 12, 2007.

Description: Fitch Ratings published methodology of how this rating agency reviews the economic, market, financial, and other factors in determining a rating for various types of airport related debt.

(13) Fitch Ratings, *Municipal Default Risk Revisited*, New York, NY, June 23, 2003.

Description: Fitch Ratings study of the rate of municipal defaults from January 1, 1980, through October 2002 for bonds issued in 1979 onward. The report breaks defaults down by sectors and states, and discusses recovery rates.

(14) Fitch Ratings, *Rating Definitions*, downloaded from the Fitch Ratings website January 19, 2009.

Description: The definitions behind Fitch's rating scale.

(15) Fitch Ratings, *Default Risk and Recovery Rates on U.S. Municipal Bonds*, January 9, 2007.

Description: This is a follow-on report to previous Fitch municipal default studies that reviews defaults and recovery rates for various sectors of the municipal bond market.

(16) Moody's Investor Service, *Moody's US Municipal Bond Rating Scale*, November 2002.

Description: This report provides definitions for the various ratings published by Moody's for US Public Finance entities, default history of municipal bonds, and a comparison to corporate entities.

(17) Moody's Investor Service, *U.S. Airport Medians for FY 2007: Mature Enplanement Growth Maintains Sector Financial Strength*, November 2008.

Description: Moody's annual compendium of significant financial ratios, with commentary on significant trends over the past several years.

(18) Moody's Investor Service, *2008 U.S. Airport Sector Outlook: Six Month Update; Outlook Revised to Negative as Jet Fuel Price Escalations Hamper Domestic Airline Industry,* August 2008.

Description: Moody's updated analysis of major economic and financial factors affecting the U.S. airport industry and how they may affect airport ratings in general.

(19) *Port Auth. of New York and New Jersey* v. *DOT*, 479 F.3d 21 (D.C. Cir. 2007).

Description: In this case, the Court affirmed U.S. DOT's decision allowing an airport sponsor to charge non-signatory airlines higher terminal rental rates than signatory airlines. *See Brendan Airways, LLC* v. *The Port Auth. of New York and New Jersey*, DOT Docket OST-05-20407.

(20) Standard and Poor's Rating Service, *U.S. Public Finance Rating Characteristics,* March 7, 2008.

Description: This report discusses the credit characteristics of municipal entities, differences with corporate credits, and why municipals are generally rated higher than their corporate counterparts.

(21) Standard and Poor's Rating Service, *Criteria: Governments: U.S. Public Finance: Airport Revenue Bonds,* June 13, 2007.

Description: This report outlines the aspects of the economic, financial, market, and other factors of S&P analyses when determining a rating for revenue bonds issued by a major commercial airport in the United States.

(22) Title 49 United States Code, §§ 40116(e)(2), 47107(a)(1) & 47129(a)(1).

Description: These statutes mandate that airport rates and charges be "reasonable," but do not define what that means.

(23) Title 49 United States Code, § 41713(b) (Airline Deregulation Act).

Description: This statute bars airports from enacting or enforcing local laws that relate to airline prices, routes, or services; but it preserves the proprietary rights of airport sponsors.

(24) Title 49 United States Code, § 47107(a)(1).

Description: This statute requires airport sponsors to make their airports "available for public use on reasonable conditions and without unjust discrimination."

(25) Title 49 United States Code, § 47107(a)(2).

Description: This statute mandates that airlines making "similar use" of an airport must be subject "to substantially comparable charges," except for differences "based on reasonable classifications" such as tenants/non-tenants or signatory/non-signatory airlines.

(26) Title 49 United States Code, § 47107(b).

Description: This statute mandates that airport revenue can only be used for the capital and operating expenses of an airport and may not be "diverted" to non-airport uses.

(27) U.S. Department of Transportation, "Final Policy Regarding Airport Rates and Charges," 61 Fed. 31994 (Jun. 21, 1996).

Description: U.S. DOT's 1996 "Final Rates and Charges Policy" sets forth various rate-setting principles that govern how airports can set their aeronautical rates and changes in the absence of an Agreement.

(28) U.S. Department of Transportation, Amendments to "Final Policy Regarding Airport Rates and Charges," 73 Fed. Reg. 40430 (Jul. 14, 2008).

Description: The 2008 amendments to the U.S. DOT's 1996 "Final Rates and Charges Policy" clarify and expand the ability of sponsors of congested airports, in the absence of an Agreement, to structure airport rates and charges to provide economic incentives to bring operations into alignment with capacity.

(29) U.S. Department of Transportation, "Policy and Procedures Concerning the Use of Airport Revenue," 64 Fed. Reg. 7696 (Feb. 16, 1999).

Description: U.S. DOT's 1999 Revenue Use Policy sets out detailed rules prescribing permitted and prohibited uses of airport revenue. Agreements may not provide for prohibited uses of airport revenue.

(30) U.S. Department of Transportation, Grant Assurances, http://www.faa.gov/airports_airtraffic/airports/aip/grant_assurances/media/airport_sponsor_assurances.pdf.

Description: Standard forms of grant assurances given to the U.S. DOT by all federally obligated airport sponsors. These grant assurances impose various requirements on airport sponsors that must be taken into account when negotiating Agreements.

(31) U.S. Department of Transportation, Federal Aviation Administration, *Passenger Facility Charge, Order 5500.1*.

Description: This order provides guidance and procedures for Federal Aviation Administration in its administering of the Passenger Facility Charge Program. This Order also provides guidance on assurances for the purposes of Agreements and rates, fees, and charges.

Appendix C

CIP Primer

Airport Capital Improvement Program Management Primer

INTRODUCTION

Capital Improvement Programs (CIPs) are the instrument used by airport operators, air carriers, and other related parties to implement infrastructure needed to meet the strategic objectives of an airport. Implementation of a CIP entails the coordination of various organizations, vendors and oversight agencies under a wide range of conditions made unique by airport characteristics, financial conditions (both macro and micro), skill set and past performance in managing CIPs and physical attributes of specific airport location. Success of a CIP requires meeting cost constraints set forth by financial feasibility study and rates and charges modeling, project completion goals, compliance with state and federal oversight agencies and funding used. Inability to meet these requirements can render an airport cost structure uncompetitive or restrictive. The discussion that follows emphasizes the theme that an airport's ability to positively impact downstream CIP implementation activities decreases exponentially as a CIP moves through the implementation lifecycle as shown in Figure 1, below. Using the construction phase as a point of reference, the ability to influence project outcomes is limited as construction contracts have been awarded and the oversight functions through cost control are defensive in nature. Furthermore the ability to make changes at this point is much more expensive as design documents have been completed and construction contractors mobilized. This appendix is intended to be an introduction to key processes and activities needed to ensure that the proper cost, schedule, quality and compliance controls are in place to successfully implement a CIP.

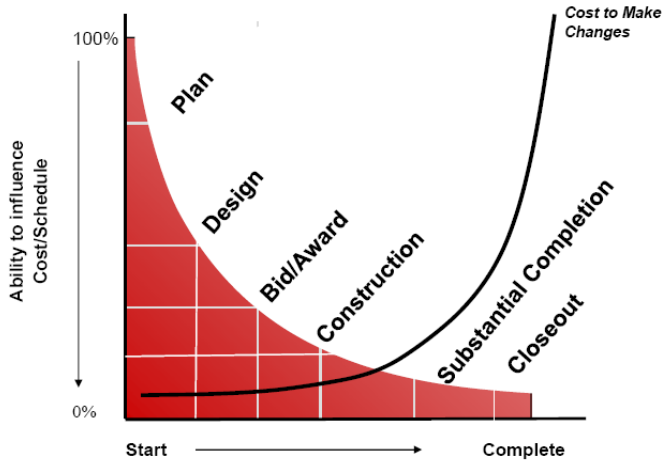


Figure 1 - CIP Influence Curve

OVERVIEW OF CAPITAL PLANNING AND DEVELOPMENT

In general terms, the capital programming process spans from the identification of overall goals and objectives, long-range master planning, development of specific facility requirements and near-term CIP projects and prioritization, through project planning, funding, and implementation, and ultimately culminates in construction, monitoring, and final project accounting and close-out. Throughout these numerous steps, a variety of roles and responsibilities are borne by project stakeholders including, but not necessarily limited to, the following:

- Airport Board / Authority / City Council / County Board
- Airport operators and various staff or divisions
- Federal, state, and local agencies
- Airlines and other airport tenants
- Planners, consultants, engineers and general contractors
- Local community
- Investment community

We also understand that the legal organizational structure of an airport (authority, city, county or state run) may dictate many of the processes used to develop and implement a capital program: an airport authority may not have the annual budgeting constraints of a city-run airport for example.

Exhibit 1 presents a general overview of the typical capital program process, the tasks, and participants and stakeholders involved at each step. As shown, in the early phases of the process, the proposed capital projects often go through a "vetting" process whereby the projects are reviewed and prioritized based on their overall need, certain demand triggers, financing capacity, and other operational considerations. During these early stages, projects are often subjected to an iterative process where timing, cost, and affordability are balanced with the airport's short- and long-term needs, goals and objectives. For this discussion, we divided the creation, development and implementation of a capital program into four major activities as follows:

1. Concept Development
2. Project Refinement and Optimization
3. Project Implementation and Monitoring
4. Project Closeout

CONCEPT DEVELOPMENT

During this early stage, the overall goals and objectives of the capital program are defined and developed in a manner that meets the airport's overall long-term plans. Specific projects are identified and prioritized according to their overall need, capacity constraints, demand triggers, and economic viability. During concept development, many questions must be addressed: What is the need and justification for the project? Are there other alternatives? What metrics should be analyzed? What material, manpower, or financial resources are required? What will it cost, what types of funding could be used, and what can the airport afford? What are the risks? When is the project needed? Each of these critical questions will need to be addressed to gain approval and agreement from the various stakeholders involved before the program moves forward.

The needs and objectives developed in the concept development stage are typically refined under the preparation of a long range planning effort, typically a Master Plan (MP) where 20-30 year capital needs

are identified. The MP effort typically yields general scopes of work with order of magnitude estimates. Concurrent with this effort is a financial feasibility effort to ensure the airport can afford the proposed CIP. Initial financial feasibility is accomplished through modeling of CIP planned costs through an airport's rate setting structure.

KEY ACTIVITIES, TYPICAL ISSUES AND POTENTIAL DOWNSTREAM IMPACTS

From a process perspective, the airport operator needs to successfully perform the following activities during this phase of planning:

1. Development and Management of a Strategic Plan – ability to develop and maintain a strategic plan with executable objectives.

   TYPICAL ISSUES FOUND

   - Airport does not have a strategic plan or has a partially developed strategic plan with unclear strategic objectives
   - Airport has not updated strategy and current needs/objectives not reflected
   - Strategic plan does not have executive level metrics to measure performance against stated objectives

   POTENTIAL DOWNSTREAM IMPACTS

   - Needs assessment and Master Plan will not be aligned with strategic objectives
   - Misalignment may result in several updates to master plan, design and even construction activities. For example an airport with no stated strategic objective to maintain flexibility to changing market conditions may not be able to adapt project scope quickly or have the contractual capability to make modifications to contracts in a cost efficient manner.
   - Cost overruns and time impacts by having to make modifications to design or construction which are exponentially more expensive than during project definition

2. Development of Master Plan – develop facility needs, long-range financial planning and other requirements aligned with airport strategy

   TYPICAL ISSUES FOUND

   - Master Plan does not have sufficient detail to properly develop project scope
   - Master Plan assumptions not clearly stated
   - Assumptions in pricing, units used to develop order of magnitude pricing not provided, escalation is underestimated (we have found that the norm of 3% per year over the planning horizon is understating actual conditions by 1-2%)
   - Sensitivity analysis to changing market conditions and associated impacts not explored in detail: this includes passenger traffic, funding availability, construction pricing, economic trends
   - Modularity in project delivery not incorporated into master planning effort
   - Implementation sequence and project interdependence are often overlooked

   POTENTIAL DOWNSTREAM IMPACTS

   - User interpretation of unclear facility needs provides for scope interpretation and incorporation of desired project scope by interested parties not necessarily aligned with airport strategy

- Unclear or undefined project cost and assumptions may yield project budgets that are not sufficient to properly scope a project. Project scope as envisioned to meet airport strategic objectives may be rendered unaffordable once all required costs are properly identified. Interpretation of unclear pricing assumptions may overstate project costs.
- Lack of master plan modularity as what-if scenarios not fully developed and management does not have the opportunity to create decision points that can limit unnecessary expenditures resulting from market or other impact.
- Lack of understanding of how projects are interrelated may result in rework or funding inefficiencies

3. Quantify User Requirement – ability to quantify user requirements and translate into facility impacts

   TYPICAL ISSUES FOUND

   - Inability to properly translate user requirement into a project deliverable
   - Users feedback or interaction not incorporated into long-range planning

   POTENTIAL DOWNSTREAM IMPACTS

   - Development of suboptimal facilities/project that ultimately do not provide desired benefit
   - Organizational stress in that users may feel resentment towards planning team or implementation team
   - Expensive changes to newly constructed facilities that need to be modified to meet user requirements
   - Inability to use AIP or PFC funding from having to expend funds to re-work project scope that has already been constructed but does not meet project requirements

4. Analytics of market conditions – ability to extract macro and micro level economic, operational, financial data to identify trends impacting airport operations, ability to attract air carriers, identify growth opportunities.

   TYPICAL ISSUES FOUND

   - Trends cannot be properly identified
   - Focus on passenger traffic may not provide leading indicator data such as other financial data or economic data that may provide earlier trends that translate into operational impacts

   POTENTIAL DOWNSTREAM IMPACTS

   - Program not constructed with ability to scale down or up depending on market condition changes result in higher than expected costs
   - Budgetary pressures as result of unanticipated market trends resulting in scope reduction or even project elimination to meet available funding

5. Develop meaningful order of magnitude facility requirements that can be translated into executive project scope downstream in the development process

TYPICAL ISSUES FOUND

- Scope definition is not developed through ROM (rough order of magnitude) quantities and a written description of intended project scope

POTENTIAL DOWNSTREAM IMPACTS

- Lack of project scope definition results in omissions of costs during budget preparation and financing process which can result in significant budgetary exposures
- Overestimating to ensure that there are enough funds to construct a project may render a valuable project financially unfeasible
- Lack of estimate detail results in lack of performance measures that can be used against initial assumptions
- Cannot determine true scope of project and project implementation may not reflect intended scope
- There is no clear baseline against which future project performance can be measured

6. Identify asset preservation requirements and incorporate Renewal and Replacement (R&R) needs into CIP

TYPICAL ISSUES FOUND

- No airport strategy to deal with existing assets and their preservation and replacement
- Renewal and replacement needs are treated as undefined "allowance" costs in CIP with no detail to support costs

POTENTIAL DOWNSTREAM IMPACTS

- Funding required to deal with deferred maintenance and asset preservation needs detracts from ability to implement new projects
- Airport facility conditions and level of customer service deteriorate given lack of needed funding for asset preservation

7. Identify demand triggers needed to implement CIP incorporating expected internal project refinement and implementation time frames

TYPICAL ISSUES FOUND

- Lack of understanding in development cycles results in unrealistic implementation schedules
- Limited understanding of internal activities needed to refine and implement CIP projects

POTENTIAL DOWNSTREAM IMPACTS

- Projects delays and associated potential for cost overruns
- Loss of credibility with users, air carriers and external community
- CIP contains projects with limited implementation probability

Detailed downstream impacts are provided in the section above to highlight the exponential impact of these activities on success or failure during implementation and closeout phases of the CIP.

PROJECT REFINEMENT AND OPTIMIZATION

The second phase is more of an extension of the concept development phase. At this stage, the longer-term plan is typically broken into a shorter 5-year plan and evaluated in greater detail on a year-by-year basis in order to provide greater focus and clarity on the need, cost, and ability to implement the planned program. Once short-term projects are more clearly defined and planned, a detailed financial analysis is prepared to demonstrate the feasibility of the airport to undertake the planned improvements. The output of this phase must result in a program that has a clear definition in terms of scope, costs/budget, financing plan, and schedule.

Once it is determined that a CIP or project within a CIP is financially feasible, an airport operator moves to create a short-term CIP, typically covering a period of 5 years where more detailed project definition is developed. At this point in the CIP development process, projects are generally grouped by different factors, such as scope, or function, or cost center, in order to facilitate project delivery and contracting during implementation. Also during the shorter term CIP planning process more detailed project budgets are prepared. Table 1 provides a comparison of a project budget development at the long-range planning level versus a more defined shorter 5-year plan.

Table 1 – Budget development comparing Master Plan and Short-Term CIP Planning Stage

CIP ELEMENT	**CIP STAGE OF DEVELOPMENT**
	MASTER PLAN
NEW TERMINAL	
(200,000 SF @ $450/SF)	**$ 90,000,000**
	5 Year CIP
NEW TERMINAL	
Direct Construction Costs	$ 65,000,000
Architect/Engineering	7,500,000
Program Management/Construction Management	4,500,000
Testing	1,500,000
Internal Airport Costs allocated to project	1,500,000
Contingency	10,000,000
TOTAL TERMINAL:	**$ 90,000,000**

In addition to the 5-year CIP, capital projects may also be requested on an annual basis by various departments within an airport or by air carriers (e.g., needing additional gates). Projects that are not part of the "typical" 5-year CIP process typically go through the annual budget process and as such they must be vetted financially and their strategic need evaluated, projects have to compete for a limited pool of available funding and may not be implemented right away. In general, airports review capital projects on at least an annual basis as the project needs are very dynamic in nature. Figure 2 highlights how projects, in general, feed into the short-term 5-year CIP.

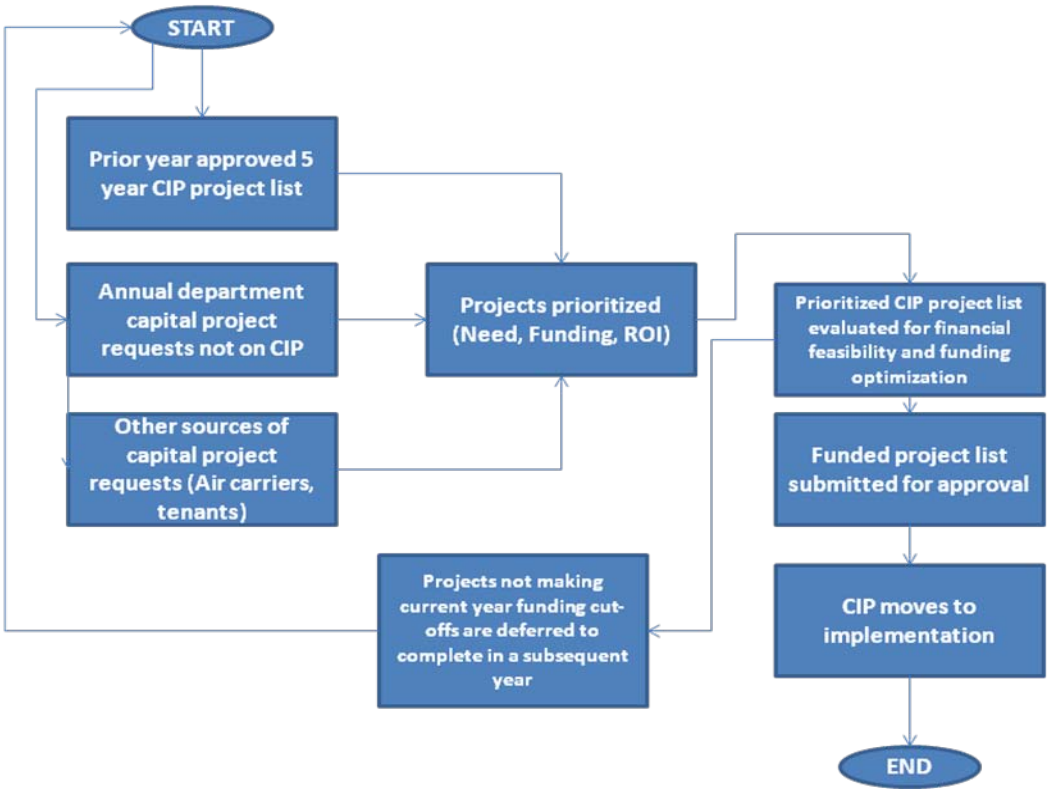


Figure 2 - Short Term CIP Planning and Project Prioritization

One of the critical success factors to ensuring that the best projects are included in the short-term CIP or part of the annual CIP update process is ensuring that the proper prioritization criteria are used. At a minimum, selection criteria should include basic objectives such as security, safety, asset preservation, level of service, capacity, revenue generation and community relations. More developed selection criteria include the ability to calculate Return-on-Investment (ROI) or Net Present Value (NPV) calculations for revenue generation, rate impact of proposed projects, as well as more defined pass fail criteria to generate priorities. Implied is the fact that the more sophisticated the priority evaluation, the more information with regard to scope, cost, and schedule must be gathered.

Part of the vetting process is the preparation of a project and program's financial feasibility. This requires the evaluation of a project scope to determine eligibility of Airport Improvement Program (AIP) and Passenger Facility Charges (PFCs). AIP and PFC funding represent the least expensive source of capital available to airports, yet typically contain the most restrictions on procurement, eligibility and assurances. Other funding typically used to fund a capital program includes state grants, revenue bonds and internally generated funds. When analyzing the financial feasibility of a capital program, the primary difference between using a compensatory versus residual rate setting model is the ability to generate and retain airport funds.

What follows are critical issues found during this phase of CIP development and associated potential downstream impact.

TYPICAL ISSUES FOUND

- Process used to create 5-year CIP does not provide opportunity for key stakeholders such as users, air carriers to provide input
- Projects within 5-year CIP are not driven by priority and have not passed a rigorous review to test their merit
- Aggressive assumptions to financing including: overestimating AIP and PFC eligibility of projects; expected approvals of higher level PFCs above $4.50, unrealistic cashflow drawdowns
- Escalation not reflected in estimate or added to project estimates
- Impact of existing PFC cashflow requirements not properly reflected in PFC capacity analysis for new 5-year CIP projects

POTENTIAL DOWNSTREAM IMPACTS

- Projects within 5-year CIP contain many "wish-list" projects not aligned with airport strategy
- Projects may not incorporate key user requirements in scope definition
- Lack of buy-in from air carriers or other external parties given inability to show clear scope, schedule and cost
- Rate impact for projects that may not have as high PFC eligibility as initially assumed; conversely having an artificial rate impact because PFC eligibility not fully evaluated
- Budget exposure from escalation costs
- Commercial paper issues and bond issues are unnecessarily large or small because cashflow requirements over/under stated

PROJECT IMPLEMENTATION AND MONITORING

At this phase of the capital programming process, the recommended and approved projects are implemented and executed, starting with the selection of the optimized project delivery and contracting methods followed by designer selection, project design, bidding, and executing of any necessary financing plans. Once the program is under construction, it is also critical to implement a monitoring, accounting, and reporting process to track budget history, estimates, costs at completion, schedule, and Key Performance Indicator (KPI) data such as the amount of change orders approved compared with the original based construction contract awarded as well as budgeted estimates against actual figures. A large number of information technology solutions available today can be a valuable tool in assisting in this process or parts of the process. Any major or significant deviations in terms of project scope, cost, and/or schedule must immediately receive management attention, either through reallocation of resources (labor, financial, or other resources) or modifications to the implementation plan. A successful collaborative project management process is one that actively monitors and responds in a coordinated manner to unforeseen circumstances or changes in market conditions creating a proactive control environment that identifies issues prior to occurrence while also ensuring that processes used are effective.

There are a wide range of project delivery approaches available to airport operators. Use of each type varies on management preferences, skill set, project type, past success/failure and views on risk. Table 2 provides a high level overview of three project delivery methods widely used by airports.

Table 2 – Overview of Most Widely Used Project Delivery Methods

Project delivery method	Features
Design-bid-build (DBB)	• Most widely used method for delivering projects at airports • Under this method a designer (A/E) prepares construction documents to be built by a general contractor (GC) • Separate contracts for A/E and GC • Potential for adversary relationship between A/E and GC • GC acts in effect as a quality control entity for design • A/E can identify construction phase issues independently to owner • GC input not provided during design – especially for constructability and phasing which could result in downstream cost and time savings • Typically associated with competitive bidding lump sum contracts for construction. Can also be used for unit price and GMP contracts as well
Design/Build (D/B)	• Design and construction accomplished by the same entity or group of entities • Adversarial relationship between A/E and GC removed as they are the same contracting entity • Can result in shorter project implementation schedules as construction activities can start prior to fully developed design documents • Owner must have a well defined design/build criteria package prior to procurement of D/B team. Lack of design/build criteria package can severely expose airport to cost and time overruns • Owner must have discipline not to modify project scope as changes to a D/B project can be subject to additional design fees on top of associated construction costs • Owner must be prepared to lose partial control over the design development phase • Can be used with a strict pricing selection criteria or a two step selection process using qualification and price as selection factors

Project delivery method	Features
CM@Risk	• Owner typically holds a contract with an A/E and the CM • The CM holds contracts with trade contractors and assumes contracting and financial responsibilities • Can be a hybrid of D/B and DBB where a construction management company is contracted to work with a designer to provide preconstruction and construction phase services • Can also be a D/B where the CM agrees to prepare design • Typically packages for work are prepared and subcontracted to trade contractors and CM@Risk applies a fixed fee to manage these subcontracts • CM@Risk provides constructability, phasing and cost estimating services • If not structured correctly, Owner may not have as much access to information • Suggested use for owners with adequate oversight resources • Most typically used with GMP contracts

Concurrently, airports must also decide which contracting methodology to use. Table 3 provides a summary overview associated with the most widely used contracting methodologies:

Table 3 – Overview of most widely used construction contract types

Contract Type	Features
Lump Sum/Fixed Price	• Agreement whereby a general contractor delivers a project for a stated sum • Risk is transferred from owner to GC. If GC performs activities efficiently they can realize higher margins. Conversely, the GC is at risk for cost overruns not sourced to Owner changes. • Most widely used contract type by airports • Changes for unforeseen conditions or owner requested changes increase the contract price • Progress payments made based on estimated percent complete reported and verified • Competitively procured and awarded to lowest responsible price
Unit Price	• GC agrees to perform work based upon a unit rate(s) comprising the scope of the work. Actual unit counts are applied to this rate to arrive at final contract sum. • GC has unit price risk while Owner has unit count risk. Significant deviations from planned quantities may result in a readjustment to contract unit price (typically when greater than 25%) • Competitively bid unit prices based on given unit counts by engineer of record • Typically used for horizontal construction such as roadway, runways and earthmoving projects • Accurate unit measurement is critical to successfully managing this type of contract • Progress payment made upon measurement of quantities on a monthly basis
Guaranteed Maximum Price (GMP)	• A contract where a stated amount is set as a threshold value. Typically used in conjunction with a CM or CM@risk project. • The GMP typically comprises lump sum subcontracts, contingency, and fee applied to direct construction costs. In essence, this is a not to exceed contract with several lump sum subcontracts • Contingency management is critical to managing the financial aspects of the work • A GMP can be negotiated prior to having all design completed and can be used when work is to be done under a short timeframe • Definition of allowable and unallowable costs are also critical to managing this type of contract • Can be used under a low price selection procurement or part of a qualification/price selection process • Progress payment made based on percent complete for lump sum subcontracts; actual costs for general conditions (although lump sum general conditions can also be used) and a fee applied to these costs • Change management is critical as only GMP

Contract Type	Features
	modifications can result in cost above the GMP amount • At the end of the project, a GMP reconciliation is performed to arrive at the final contract value • Often GMP contracts include a cost savings clause where amount under the GMP value is divided between the CM and the owner
Time and Materials (Force Account)	• Typically used when a defined scope of work cannot be readily measured • GC performs work and submits detailed cost accounting (labor, material and equipment) costs plus an overhead and profit markup • GC has the least risk in that costs are reimbursed if properly supported. In exchange, GC has the most stringent requirement to support cost for allowable reimbursement • This method requires detailed cost accounting and burden of documentation relies on the GC • A not to exceed threshold can be set forth so that cost exposure can be managed. Threshold value can be adjusted if needed.

Key processes to be managed during the implementation phase include bid/award, change management, reporting/KPI use, dispute avoidance, progress payment, alignment of scope and funding, and schedule. Process definition is critical to ensure that a common platform is used to manage processes and have the capability of using the least number of systems to manage project information.

The process for selecting a designer or GC needs to be well defined. When AIP funds are used, specific procurement criteria must be followed to comply with federal guidelines. Similarly, there may be state or local procurement requirements that must be adhered to as well: competitive pricing, prevailing wage requirements, buy American, closeout requirements, and DBE/MBE participation are items that need to be incorporated into this process. The award process should also include a detailed review of bids received to ensure that all scope items are included in the stated bid price and that there are no anomalies within pricing received that would be leading indicators of potential price issues during implementation. Also included in this process is the validation of the bid price by assessing bid spread and comparing bids with latest engineer cost estimate. Expanded description of selected processes is provided in the sections that follow.

No project can have a perfect design. Regardless of project delivery or contracting type used, more likely than not, there will be changes to the original scope of work. Changes can typically be grouped into the following categories: unforeseen site conditions (e.g., unsuitable soil was found where none was shown during geotechnical inspection, underground piping was found where a new footing was to be constructed), owner requested changes and architect error/omission. Depending on the contract type, different criteria are used to support requests for additional costs. However, the process used should include a scope definition session where units and actual work to be performed are agreed between owner and/or its authorized representative and GC. Scope session to be followed by a pricing session where each party prepares the pricing independently and reconciles a final cost for stated changed scope. Note that scope should also include a time impact analysis as scope and time should be negotiated concurrently for stated change. Typical issues found during this activity include too high a labor burden submitted by GC, incorrect equipment rates used for GC owned equipment, incomplete time impact analysis, incorrect application of overhead and profit markups.

Management reporting is a key tool used during the implementation phase to assess project performance. Key reports should include a cost and funding report, a key performance indicators (KPI) report, which should be issued not less than monthly. Information included in cost/funding reports include budget history, estimated cost at completion, committed amounts (amounts for which contracts have been executed), expenditures to date, and available funds by funding sources. Such reports should have the ability to report on individual project as well as on a group of projects (subprogram) or on the entire program. Funding portion should be an extension of the cost report where funding sources are applied to contracts and pending changes to evaluate funding exposure. Key performance indicators reports include budget performance (within or over budget), amount of changes as percent of base construction contract (variability), ratio of percent dollars expended divided by percent time expended (deviations from 1.0 could signal front loading of costs or inability to place work at acceptable rates) for example. Ideally, data for these reports could reside in a single system, although accommodations can be made under multiple systems.

The alignment of scope and funding is a critical activity which if managed properly can avoid significant rate impacts. Typically, order of magnitude scopes of work are reviewed during the funding optimization process: using the most inexpensive capital for the widest range of eligible projects results in the lowest total cost of capital. For airport, the most inexpensive funding are AIP, TSA, PFC and state department of transportation grants. In general, AIP and PFC funding are limited to non-revenue generating areas of an airport. In addition, PFCs can be used for additional costs excluded under the AIP guidelines such as air carrier ticketing and concessions adjacent to a gate for example. TSA grants are typically limited to security or in-line baggage systems and have federal grant assurance requirements as well. State grants have wider scope eligibility criteria yet they may have limitations on funding scopes of work that are revenue generating in nature. The alignment of scope and funding is critical during implementation as the scope of work is much more refined than during initial funding optimization: elements within a larger project may have larger ineligible components while the overall budget has not changed. For example, a $500 million terminal was initially estimated to be 85% PFC eligible. This analysis was based using programming documents available. During design, the concessions program was doubled while the budget was maintained at $500 million. Doubling the concession program decreased the eligibility to 80% from 85%: a $25 million potential impact to rates and charges as either internal airport funding or general airport revenue bonds must be issued to pay for these costs. Using this same example, there were 250 construction change orders totaling $10 million in aggregate. Of this total 50% of the change orders were for rework as a result of architect errors and omissions. The 80/20% split used to award the base contract is acceptable for base work, however each construction change order needs to be evaluated on its own for compliance to stated funding. Not performing this activity can significantly expose airports to rate impacts regardless of rate setting methodology used. The requirements for aligning scope and funding extend to other funding sources including bonds and special grants. Table 4 contains a summary of key areas where funding/scope should be aligned, while Figure 3 shows the key points in project implementation where funding and scope need to be aligned.

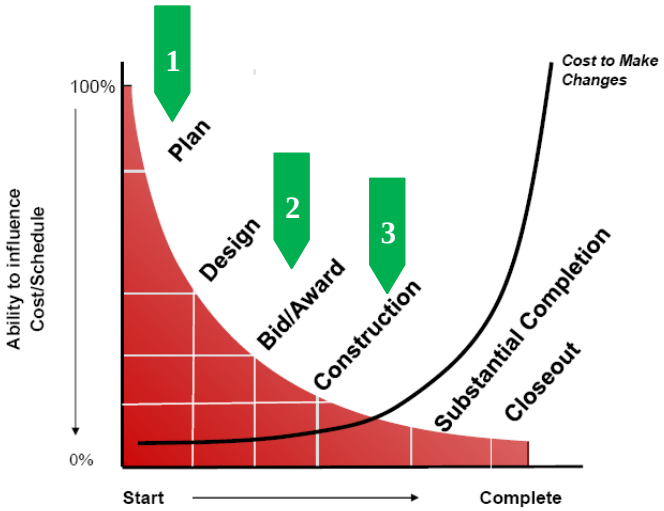


Figure 3 - Funding / scope alignment points of review

Table 4 – Funding exposures at various stages of development

Phase of Development	Funding Exposure
Definition of 5 year CIP (Figure 3 – Point 1)	• Incorrect determination of AIP/PFC eligibility results in a higher rate impact downstream • Overly aggressive assumptions of AIP and PFC eligibility may result in insufficient funding to cover cost associated with ineligible cost • Funding analysis based on rate impact without evaluation of scope being envisioned to be implemented
Bid/Award (Figure 3 – Point 2)	• Initial funding eligibility assumptions not verified to actual scope being bid • Project scope changed and additional ineligible items incorporated into the base scope of work
Construction (Figure 3 – Point 3)	• Eligibility of construction change orders is different than that for base scope of work • Cost exposure for time extensions not evaluated for eligibility

PROJECT CLOSEOUT

During the project close-out phase, all open contracts are reviewed and closed out; all costs are audited, finalized, and final payments are made; funding sources received are reviewed, reconciled by project, and reported to the appropriate governing agency; and any remaining disputes or open issues are addressed. The practice of project close-out finalizes all project activities completed across all phases of the project to formally close the project and transfer the completed project as appropriate. During the project close-out phase, project performance is assessed and any lessons learned and best practices to be applied to future projects are compiled. Key exposures during this last phase of development include not closing out disputed items, not checking that project scope (base bid and all approved change orders) was reviewed for funding eligibility, especially for AIP and PFC funding, not performing necessary project closeout activities for AIP and PFC funding, and not filing and archiving project documentation including as built drawings, maintenance manuals and project correspondence for future reference.

EXHIBIT 1 - AIRPORT CAPITAL PLANING AND DEVELOPMENT PROCESS

	CONCEPT DEVELOPMENT		PROJECT REFINEMENT AND OPTIMIZATION		PROJECT IMPLEMENTATION		PROJECT CLOSEOUT
PROCESS	LONG RANGE PLANNING	PROJECT IDENTIFICATION AND PRIORITIZATION	SHORT-TERM CIP PLANNING AND COLLABORATION	FINANCIAL PLANNING AND COLLABORATION	PROJECT DELIVERY, BID/AWARD, FINANCING	DESIGN/CONST./ FINANCIAL OVERSIGHT	PROJECT CLOSEOUT
ACTIVITY	1. Strategic Plan 2. Master Plan 3. User Requirement 4. Market conditions	1. Facility Requirements 2. R&R Requirements 3. Demand Triggers 4. Financing Capacity	1. 5-Year CIP 2. Annual CIP Process 3. Federal/State/Local Agency Coordination 4. Stakeholder Meetings	1. Funding Sources & Eligibility 2. Rates and Charges Impacts 3. Cash Flow 4. Financing Alternatives	1. Project delivery/contracting optimization 2. Project Bidding 3. Cost and Budget 4. Secure Project Financing 5. Bid/Award	1. Designer selection 2. Design 3. Construction documents 4. Construction 5. Change Management 6. Progress Payments 7. Dispute Resolution 8. Owner Controlled Insurance Program	1. Project Audit 2. Agency Coordination 3. Financial Reporting 4. Cost Accounting 5. As-Build Drawings 6. Owner Manuals 7. Dispute Resolution 8. Substantial and Final Completion 9. Grant closeouts
	BUDGET OVERSIGHT						
	MANAGEMENT REPORTING						
	KEY PERFORMANCE INDICATOR REPORTING						
	FINANCIAL REPORTING						
	DISPUTE RESOLUTION/AVOIDANCE						
	IT (Financial, Document Control, Program Mgmt.)						
PARTICIPANT	Board / Authority Airlines/Tenants Fed/State Agencies Local Government Agencies Citizens/Community	Board / Authority Airport Operator Departments Consultant Engineer Airlines/Tenants	Board / Authority Departments Engineer Airlines/Tenants Fed/State/Local Agencies	Board / Authority Airport Consultant Financing Team Airlines/Tenants	Airport Operator Departments Consultant Financing Team Airlines/Tenants Program Manager	Airport Operator Departments Engineer Airlines/Tenants General Contractor Program Manager	Airport Operator Departments Engineer Fed/State Agencies Airlines/Tenants Local Government Agencies

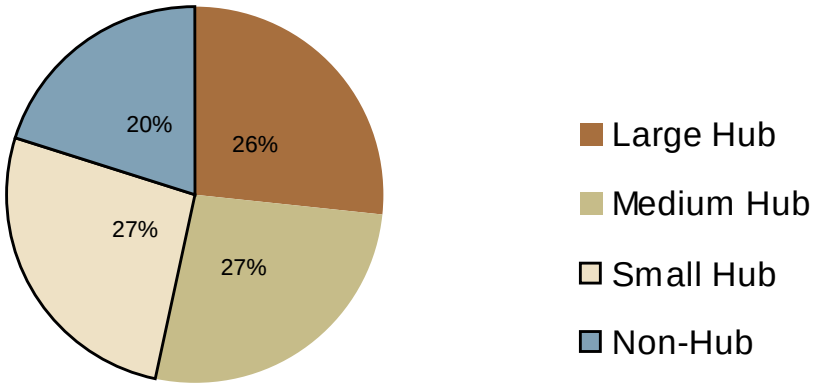
Appendix F

Airport Online Survey

About the Respondents and Use of the Survey Data

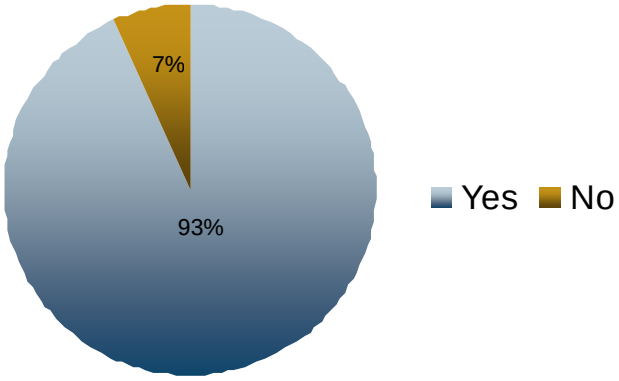
Participants representing 45 airports completed the online survey during the fourth quarter of 2008 and first quarter of 2009. Those airports are identified below. Of the participants surveyed, 26% were from large hub airports, 27% percent were from medium hub airports, 27% were from small hub airports, and 20% were from non-hub airports. The inclusion of the full results of the airport online survey as an appendix to this Manual does not imply that a practice followed by the largest percentage of airports necessarily reflects a "best practice" that other airports should follow.

Airport Type	Participating Airport	
Large Hub	Baltimore/Washington International Thurgood Marshall Airport Denver International Airport Detroit Metropolitan Wayne County Airport Fort Lauderdale-Hollywood International Airport George Bush Intercontinental Airport JFK International Airport	Ronald Reagan Washington National Airport Salt Lake City International Airport San Diego International Airport San Francisco International Airport Seattle-Tacoma International Airport Tampa International Airport
Medium Hub	Bob Hope Airport General Mitchell International Airport Indianapolis International Airport Louisville International Airport Manchester-Boston Regional Airport Oakland International Airport	Port Columbus International Airport Portland International Airport Raleigh-Durham International Reno-Tahoe International Airport San Antonio International Airport William P. Hobby Airport
Small Hub	Dane County Regional Airport Fresno Yosemite International Airport Gerald R. Ford International Airport Huntsville International Airport McAllen International Airport Myrtle Beach International Airport	Norfolk International Airport Quad City International Airport Sarasota Bradenton International Airport South Bend Regional Airport Spokane International Airport Tulsa International Airport
Non-Hub	Albert J. Ellis Airport Asheville Regional Airport Bangor International Airport Capital Region International Airport Hector International Airport	Kalamazoo/Battle Creek International Airport Nantucket Memorial Airport Shreveport Regional Airport Toledo Express Airport

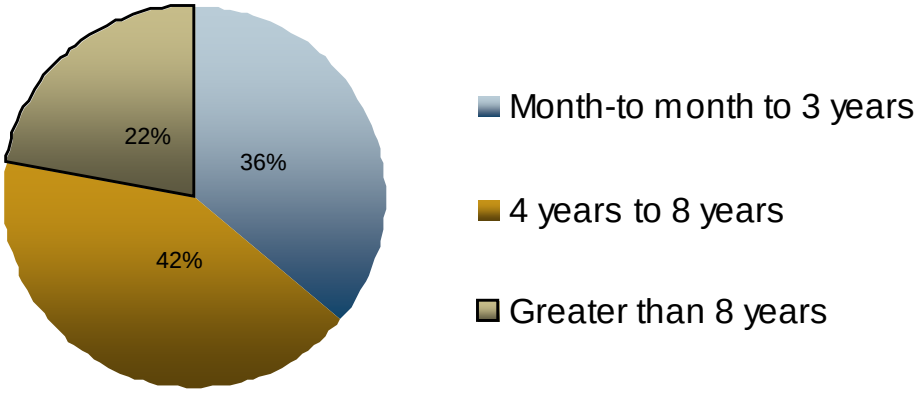


Section 1 Your Airport's Existing Airport/Airline Agreement

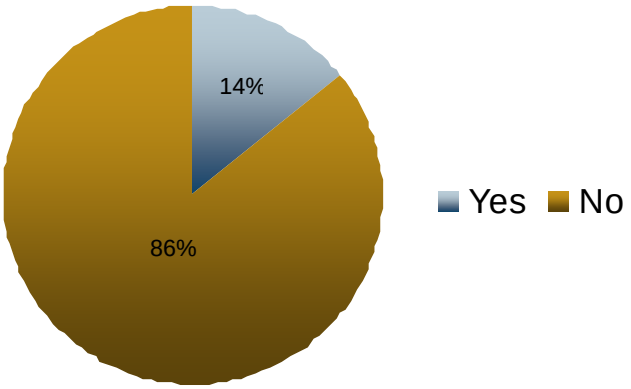
Question #1: Does your airport have an airport/airline agreement ("agreement")?



Question #2(a): What is the term of your airport's agreement?

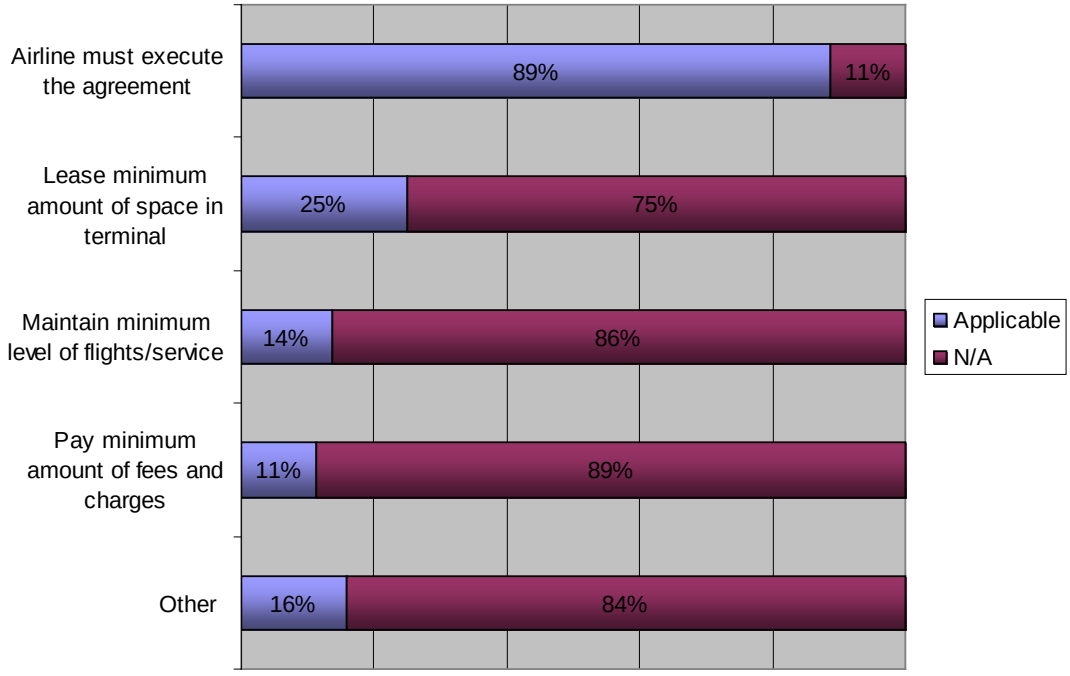


Question 2(b): Are there any renewal periods?



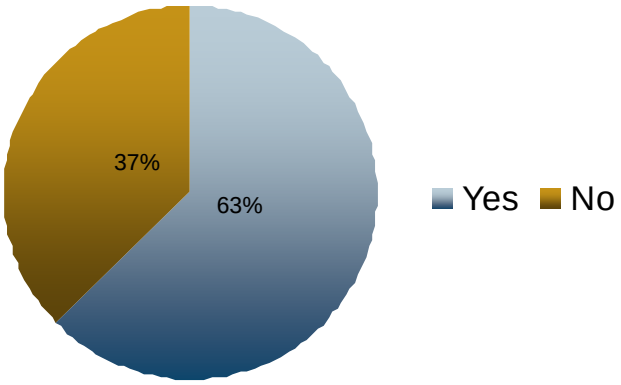
Renewal periods range from one to three years, with the most common option being two one-year extensions upon mutual agreement between the airport and signatory airlines.

Question #3: How is passenger airline signatory status determined at your airport? Please check all that apply.



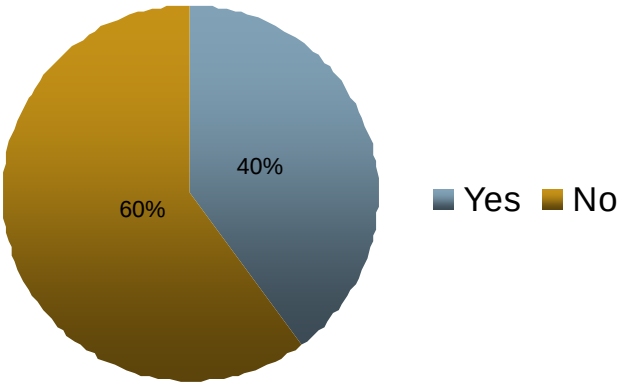
Other requirements for passenger airline signatory status include maintaining a minimum market share percentage and participating in joint use baggage charge arrangements.

Question #4(a): Can a cargo airline attain signatory status under the primary agreement?



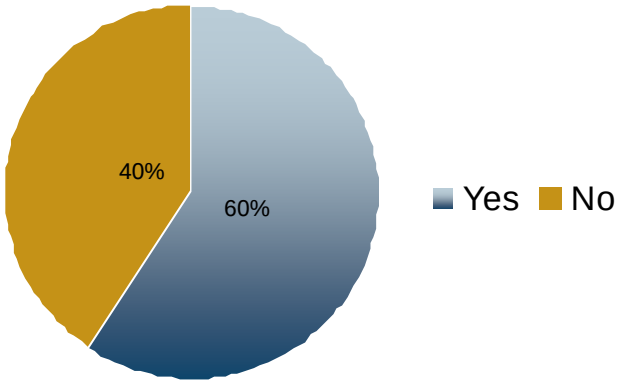
In addition to executing the agreement, other requirements for a cargo airline to attain signatory status under the primary agreement include maintaining a minimum level of operations and leasing space in the cargo building at the airport.

Question #4(b): Does your airport have a separate agreement for cargo airlines?

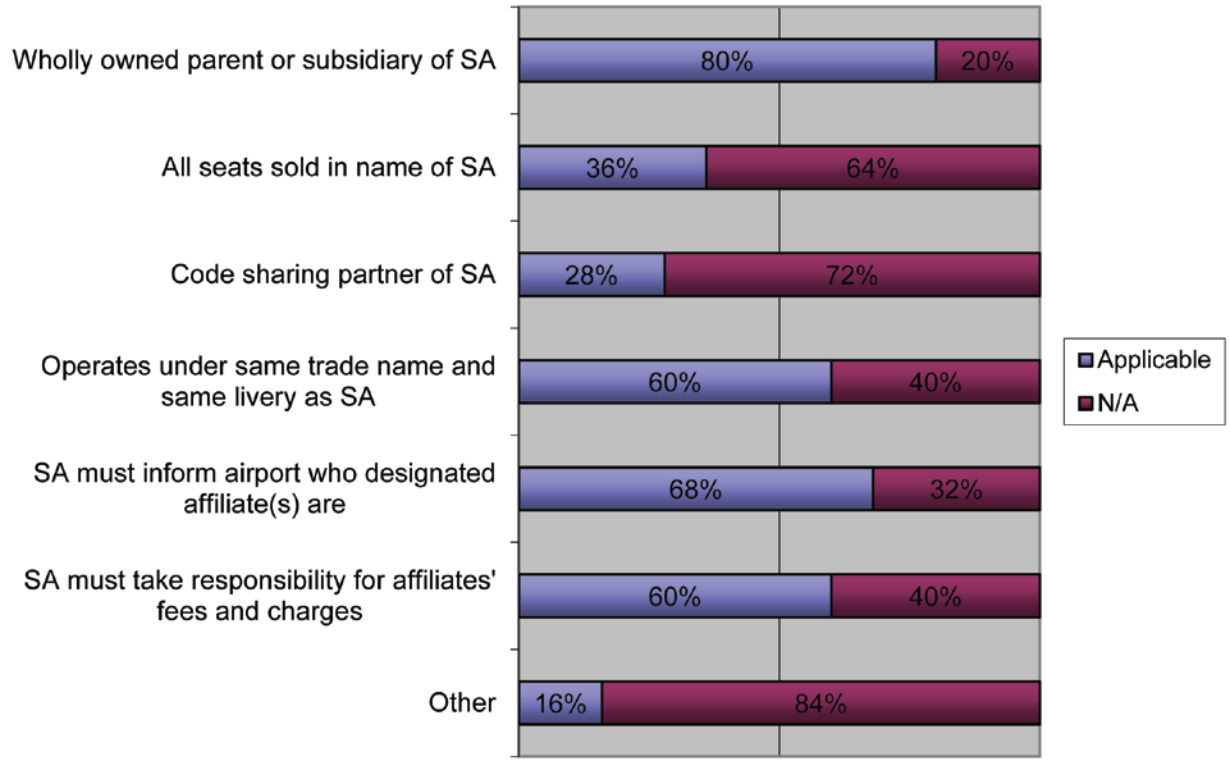


Terms of these separate agreements for cargo airlines range from month-to-month to five years.

Question #5(a): Does your agreement contain provisions allowing for "affiliate" signatory airline status?

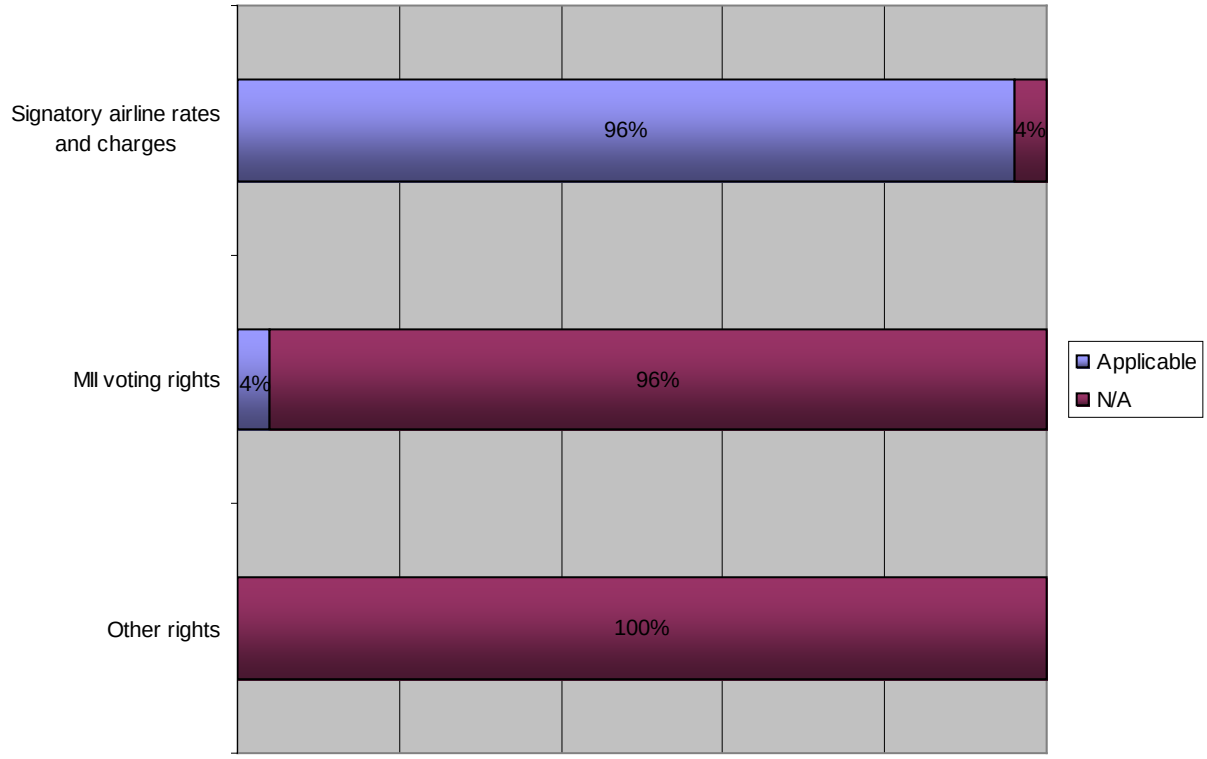


Question #5(b): How is "affiliate" signatory airline status defined and determined? Please check all that apply.

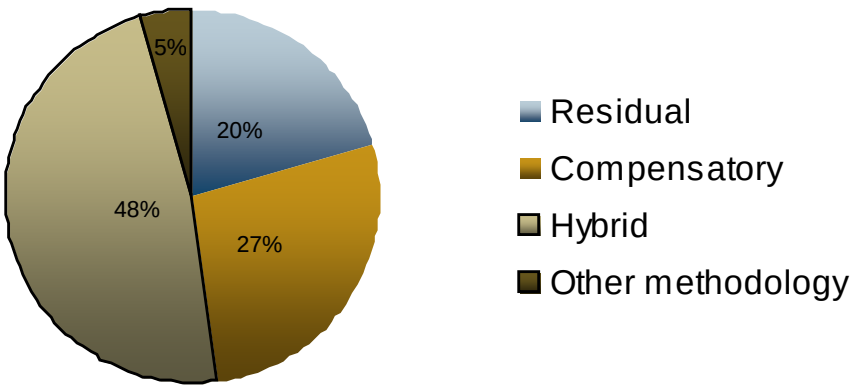


Other requirements include the signatory airline assuming responsibility for reporting the monthly operational activity of the affiliate.

Question #5(c): What rights are affiliate airlines afforded by virtue of their status? Please check all that apply.

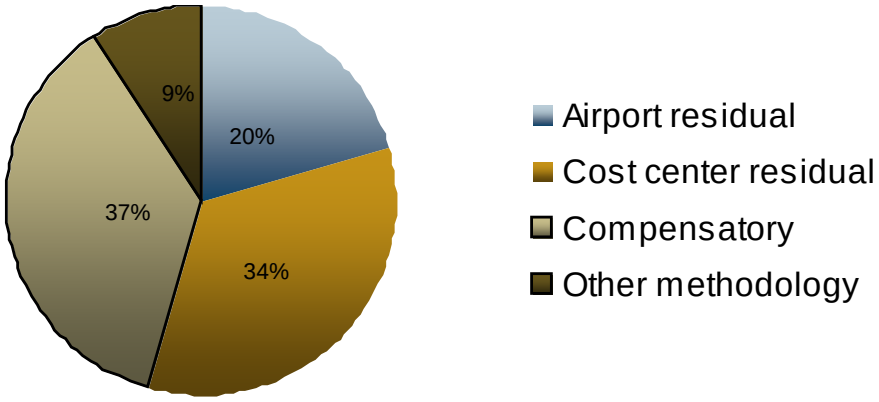


Question #6(a): How would you classify your airport's general, or overall, rate-making methodology?



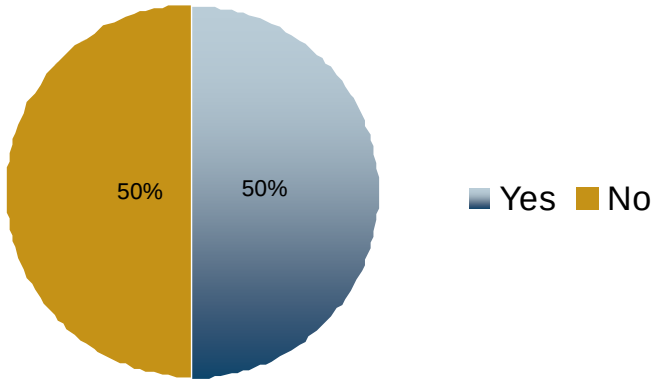
Other general rate-making methodologies include airport system residual.

Question #6(b): Which description below best explains your airport's landing fee (or airfield cost recovery) methodology?

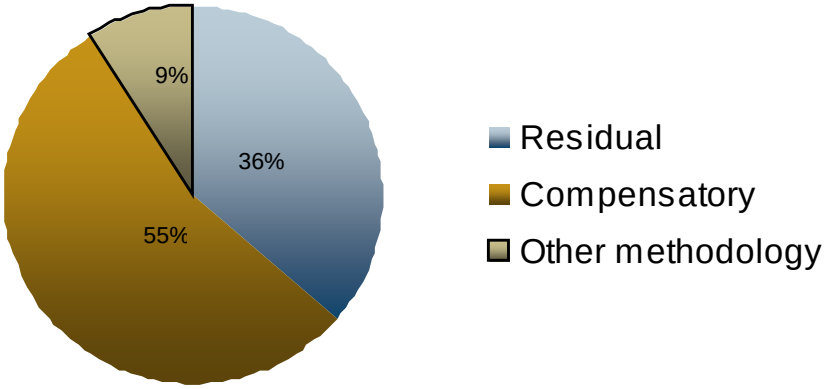


Other landing fee methodologies include compensatory with revenue sharing, using a market rate based on similar sized airports, and setting landing fees as a negotiated amount that is increased annually.

Question #6(c): Does your airport assess a separate apron/ramp fee for use of aprons/ramps adjacent to the terminal gates?

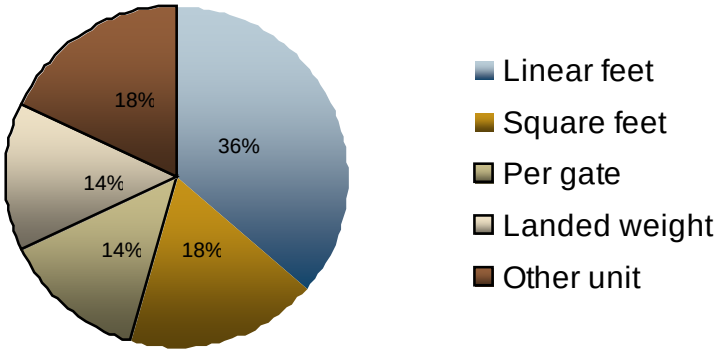


Question #6(c)(1): How would you classify your airport's apron and/or ramp fee methodology?



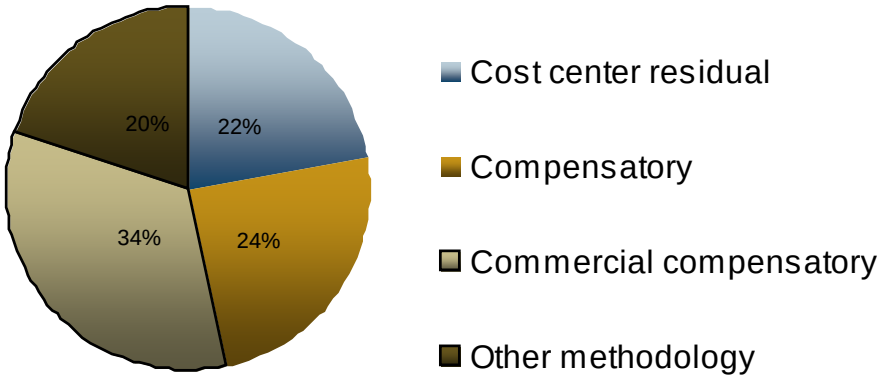
Other apron and/or ramp fee methodologies include setting the fees based on airfield land appraisal and as a negotiated amount.

Question #6(c)(2): What is the apron fee charge based on?



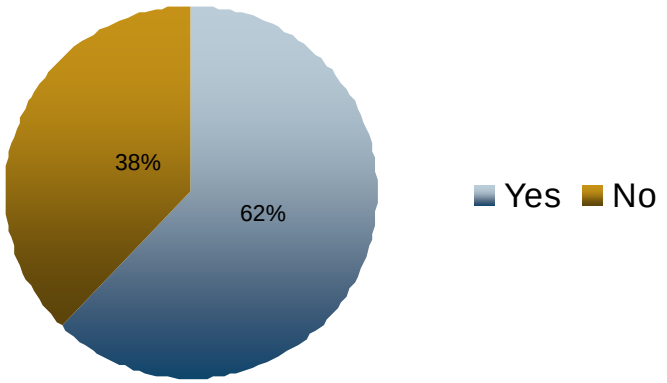
Other units that apron fee charges are based on include number of arrivals, narrow vs. wide-body aircraft, 50% square feet and 50% landed weight, and a fixed rate.

Question #6(d): Which description below best explains your airport's airline terminal rental rate methodology?

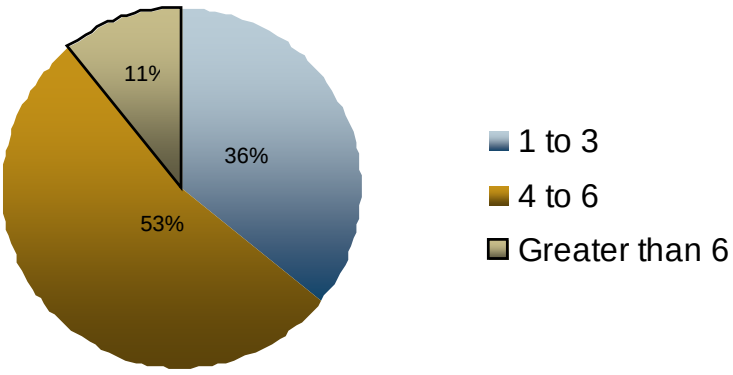


Other terminal rental rate methodologies include (1) compensatory with a terminal space divisor that has been agreed to via negotiation (neither usable space nor rentable space); (2) setting the rate as a negotiated amount; (3) commercial compensatory with revenue sharing; (4) commercial compensatory residual (terminal costs are divided between airline and non-airline based on rentable square feet, then the airline rates are set by dividing the airline revenue requirement by the rented square feet); and (5) compensatory with offset from other revenues to the extent total terminal revenues do not cover costs.

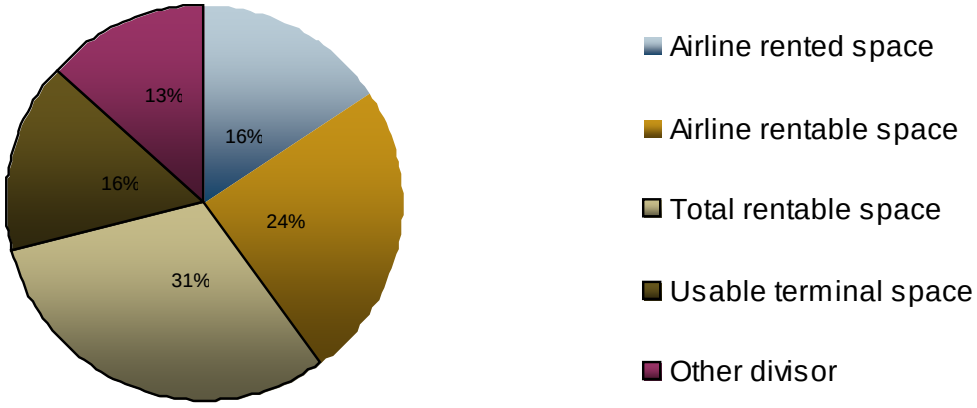
Question #6(e): Do you differentiate airline space in your terminal building by charging different terminal rental rates for particular types of space?



Question #6(e)(1): If yes, how many different terminal rental rates do you have?

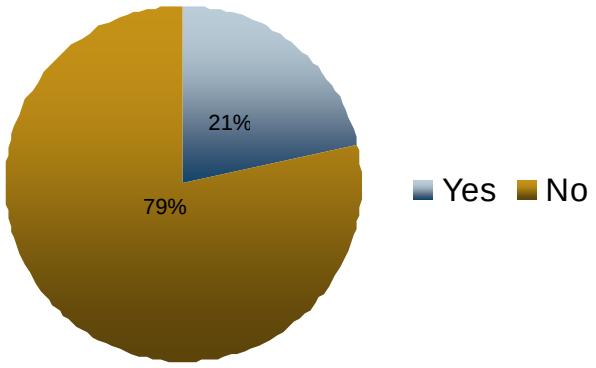


Question #6(f): What is the divisor your airport uses for the terminal rental rate?

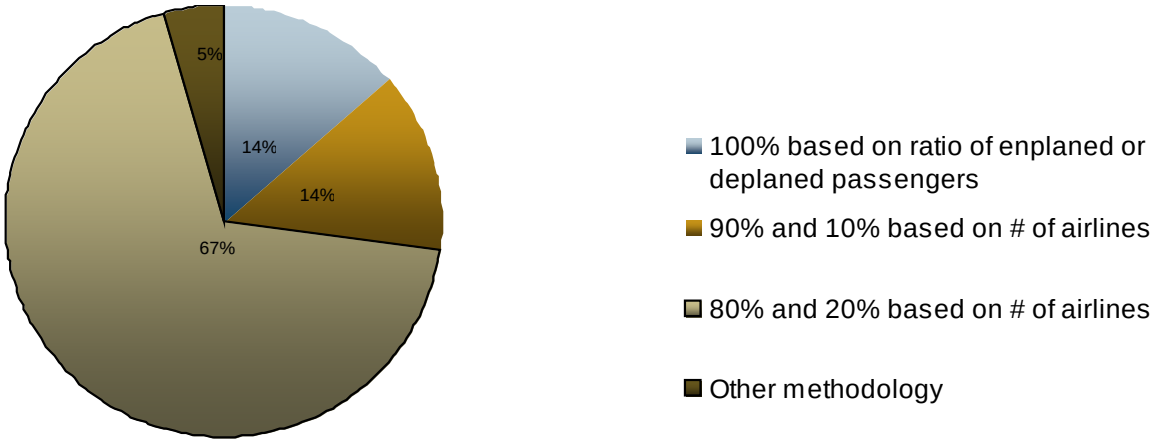


Other divisors used for the terminal rental rate include exclusive and joint use terminal space, common use space, negotiated terminal square footages, total usable space less concession areas, and no divisor at all.

Question #6(g): Is airport administrative space in the terminal classified as rentable at your airport?

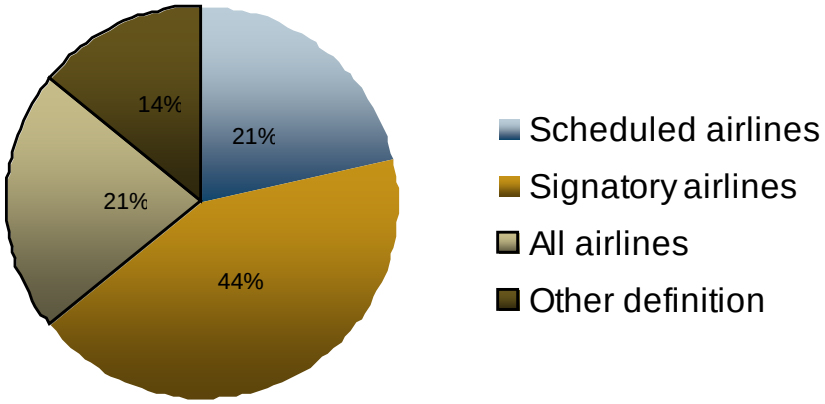


Question #6(h): Which description below best describes your airport's methodology for charging airlines for terminal joint use space?



Other methodologies for charging airlines for terminal joint use space include various methodologies not based on the units used above.

Question #6(i): If the number of airlines is included in your joint use formula, is this defined as:

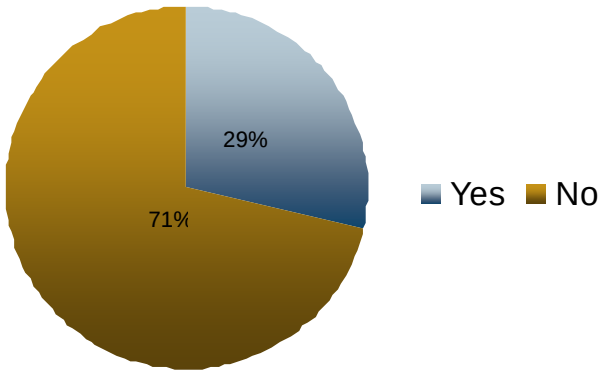


Number of airlines is also defined as all airlines having greater than 15 flights per month, all airlines having a signed lease agreement, all airlines using the terminal, or all airlines leasing gate space.

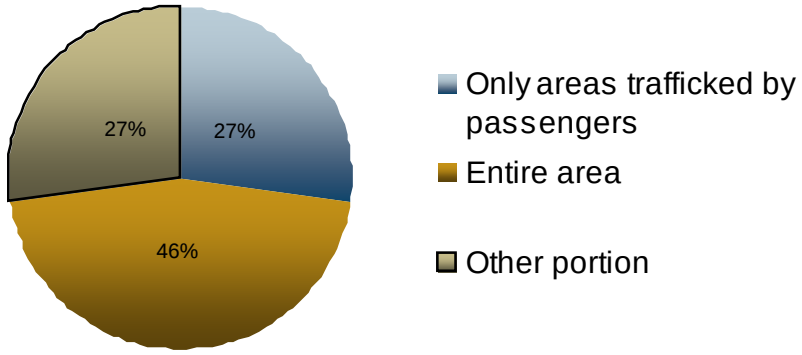
Question #6(i)(1): How are affiliates treated in the definition?

The most common treatment of affiliates is to include their enplaned passengers as part of the signatory (parent) carrier's traffic for the enplaned passenger portion of the joint use formula, but not to include the affiliate as a separate airline for the number of airlines portion of the formula.

Question #6(j): Are FIS facilities included in the calculation of terminal rental rates?

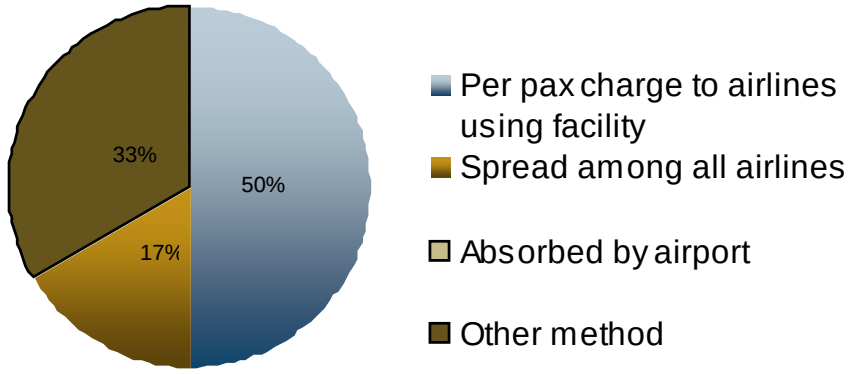


Question #(6)(j)(1): What portion of the FIS facilities are considered rentable space?



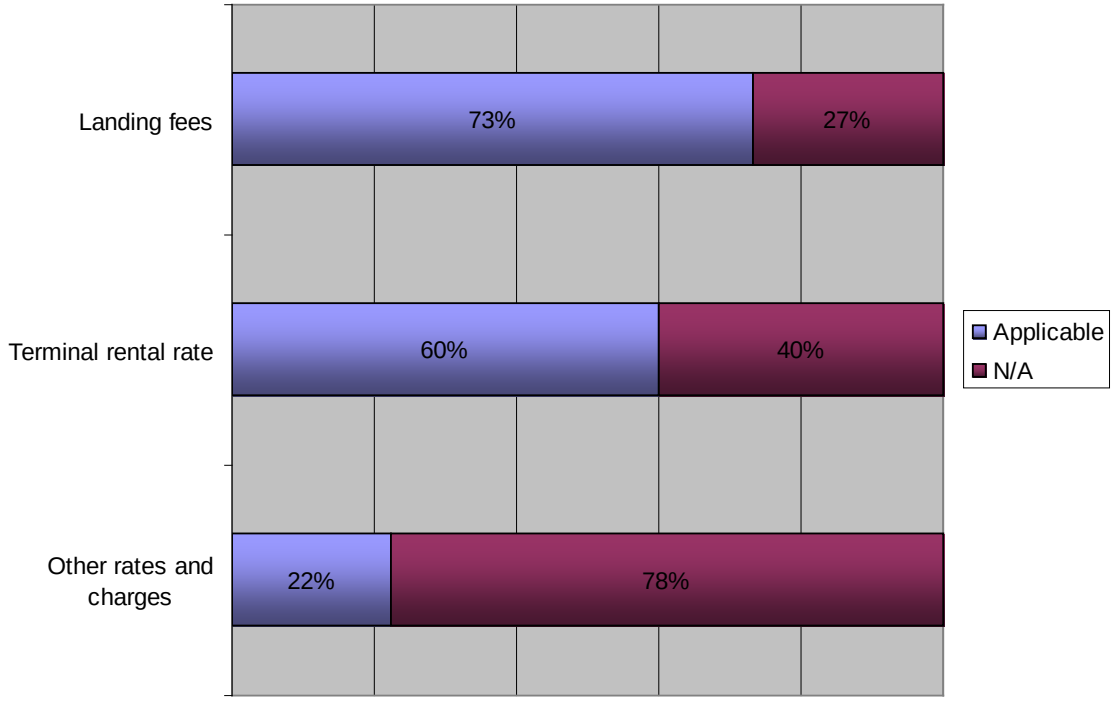
At one particular airport, no portion of the FIS facilities is considered rentable space. Another airport noted that areas trafficked by the passenger are included in rentable space, except for corridors.

Question #(6)(j)(2): How are FIS costs recovered?



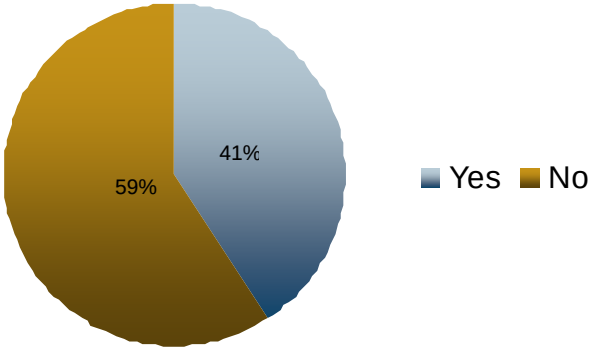
Other methods for recovering FIS costs include (1) a combination of a per passenger charge and absorption by airport, (2) a charge per arriving international seat, and (3) a joint use charge—90/10 for those airlines that use the facility.

Question #6(k): Does your airport charge a premium to non-signatories for the following rates and charges? Please include the amount of the premium.



For each of the categories of rates and charges listed above, the typical premiums for non-signatories range from no premium at all to 50% higher than signatory. Many airports also noted that non-signatories do not participate in any revenue sharing arrangements.

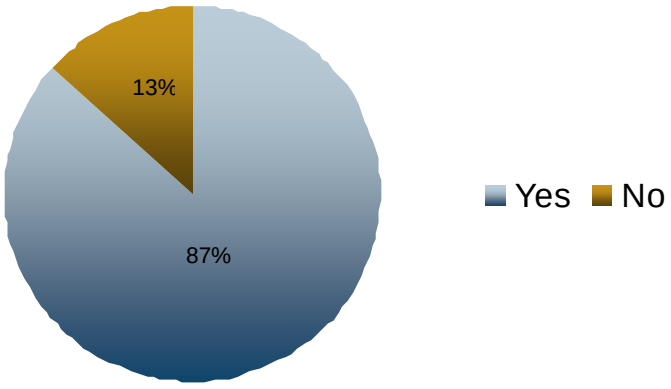
Question #6(k)(1): Are the non-signatory premiums described in the primary agreement?



Question #6(l): Are there any other airline rates and charges that are defined in your agreement? Please describe.

Other rates and charges commonly mentioned include (1) passenger loading bridge, (2) cargo ramp, (3) remote parking of aircraft, (4) baggage handling system, (5) security, (6) CUTE systems, (7) telecommunications, (8) fueling system, (9) apron access, (10) employee parking, and (11) customer care (e.g., skycaps, wheelchair service).

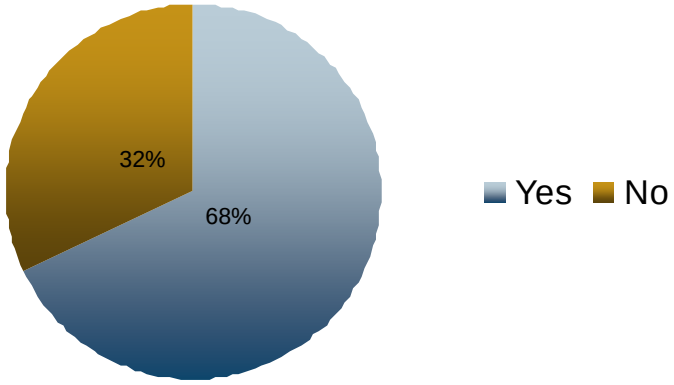
Question #6(m): Does your agreement have a provision that allows for the adjustment of rates outside of an annual rate adjustment process (e.g., mid-year, 10% variance from projected)?



The majority of airports have provisions allowing for some sort of rate adjustment at mid-year. These provisions are sometimes accompanied by a requirement that there must be evidence of a 10%

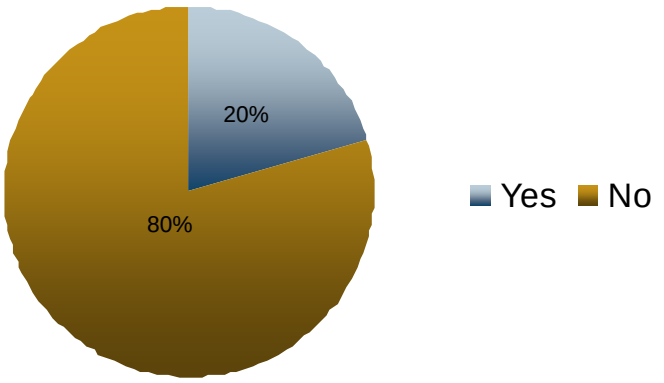
variance (e.g., costs or basis of charge [landed weight, passengers]) from what was budgeted. A handful of airports also have provisions allowing for the airport to make a rate adjustment at any time whenever there is evidence of a 10% variance or at any time upon a 30-day notice with no preconditions.

Question #6(n): Does your airport have a year-end settlement (true-up) provision in its agreement?



Year end settlement provisions typically require settlement to be completed between 3 and 6 months after the close of the fiscal year.

Question #7(a): Does your agreement contain an airport-wide revenue sharing provision (other than an airport residual)?



The percentage of surplus revenues to be allocated to signatory airlines varies from 20 to 50%, with 50% being the most common amount mentioned.

Question #7(b): Please describe the method used for allocating and distributing the signatory airline share of surplus revenues to each airline.

Different methods for allocating the signatory airline share of surplus revenues to each airline are based on (1) total dollar value of airline rates and charges collected, (2) number of enplaned passengers, and (3) share of long-term space leased. Methods for distributing the share are via (1) a reduction in landing fees and/or terminal rents and (2) a refund by direct payment to airlines.

Question #(7)(c): If revenue sharing is distributed through a credit in the rate base, is it distributed on a same year basis or via a rate reduction in a subsequent period?

Airports responding to the survey used both of the methods listed above.

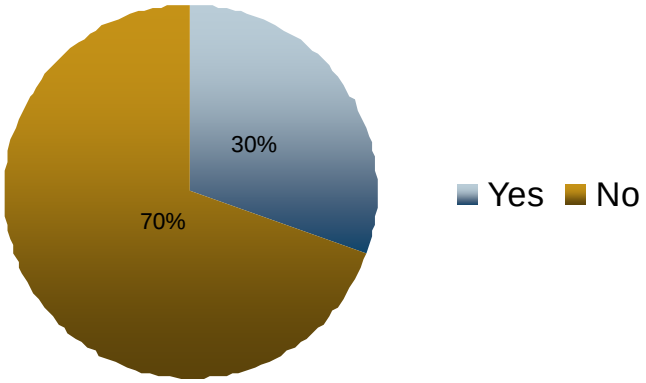
Question #8(a): If your airport has a residual agreement, do your rates and charges include required deposits for any of the following types of funds? Please provide annual amounts for all that apply.

- General - $10,000 is only amount given
- Renewal and replacement - Between $250,000 and $500,000
- Capital improvement - Between $100,000 and $1,000,000
- Major maintenance - $9,500,000 is only amount given
- Discretionary - $5,350,000 is only amount given
- Rate stabilization - N/A
- Other - Between $25,000 and $130,000 (fuel facility deposit, O&M reserve mandated by bond ordinance)

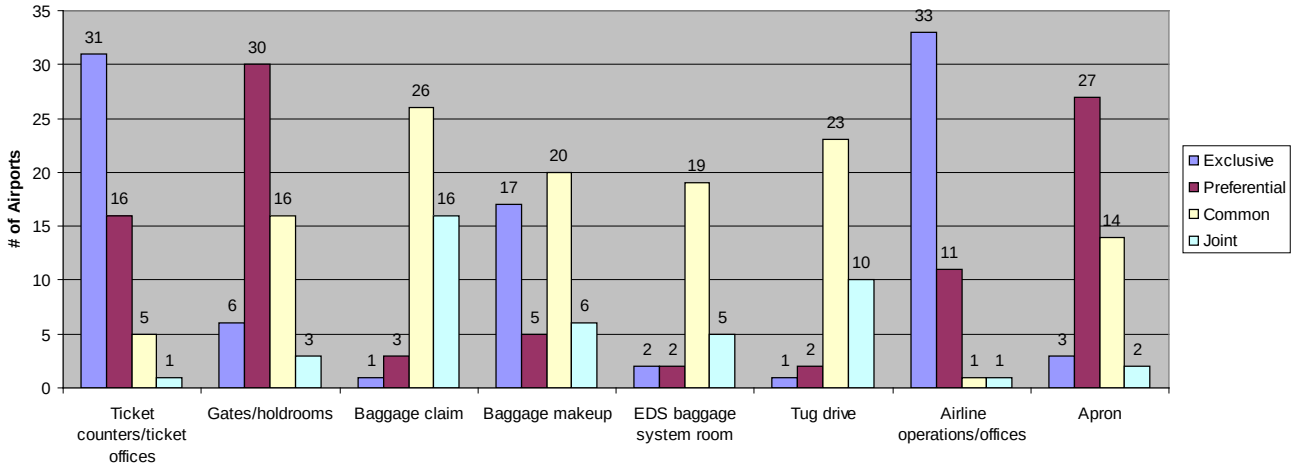
Question #8(b): If your airport has a residual agreement with a discretionary fund, please describe the type of projects the money in this fund can be used for:

One particular airport has a small amount dedicated for any airport purpose ($350,000) and a larger amount ($5,000,000) that can be used for airport capital expenditures.

Question #8(c): If your airport does not have a residual agreement, does the agreement include an extraordinary coverage protection clause to assist with meeting debt service coverage?

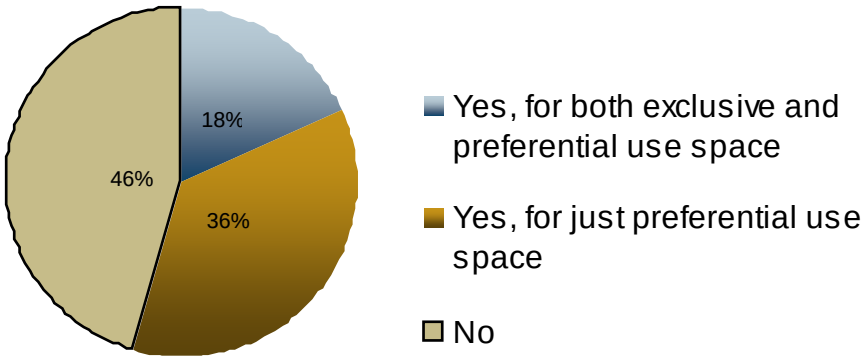


Question #9(a): How are the following terminal areas classified? Please check all that apply:



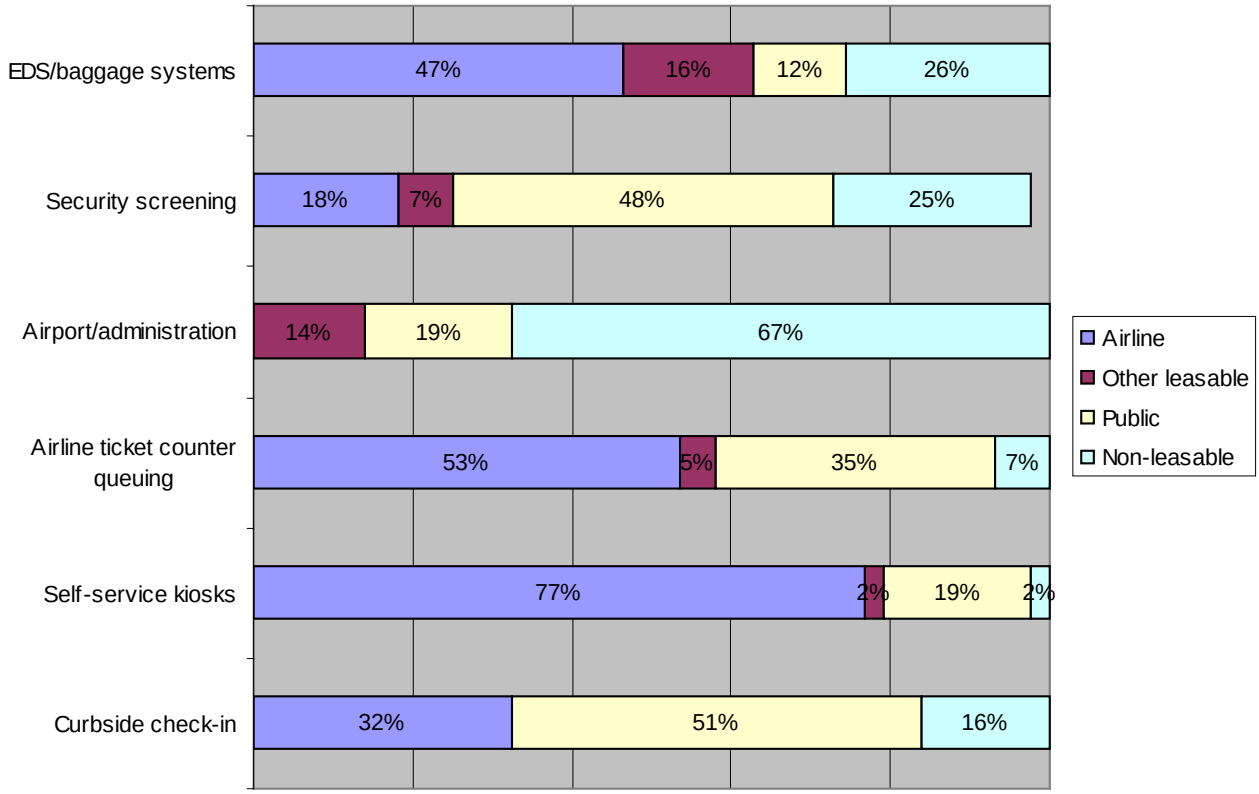
Note that airports could select more than one space classification for each terminal area.

Question #9(b): Does your airport provide janitorial services within airline terminal space?



The janitorial services typically provided by airports are trash removal and standard daily cleaning (vacuum, mop, dust).

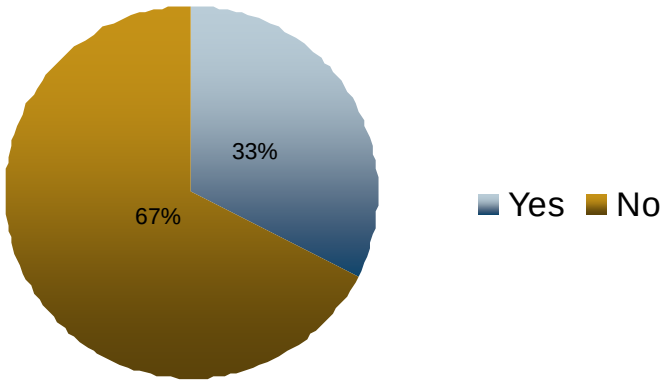
Question #9(c): Please choose a box that best describes how your airport classifies the following terminal space.



Question #10(a): Please describe the accommodation/sharing requirements and procedures (relating to other airlines' requests for additional facilities) for the following types of space:

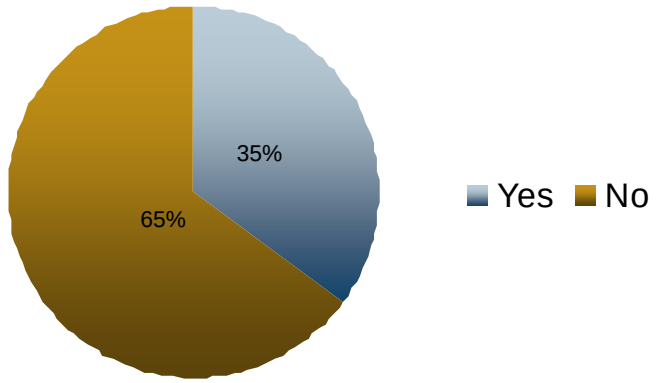
- Gates/holdrooms: Most airports responding to the survey indicated that they have preferential use gates/holdrooms. Upon written request to the airport from the potential new user, existing signatory airlines must work with the airport to accommodate the new user. The majority of airports only require the new user to be accommodated around the existing user's schedule. A few airports have provisions that can be used to force sharing.
- Ticket counters: For preferential use, space accommodation requirements are similar to those for gates/holdrooms. Ticket counter space is also more frequently either exclusive or common than are gates/holdrooms.
- Baggage makeup: For the majority of airports this space is either common (most frequently) or exclusive, making accommodation requirements less relevant.
- Other space: Accommodation requirements are similar to those detailed above.

Question #10(b): Does your airport have "use or lose" provisions associated with preferential use space?

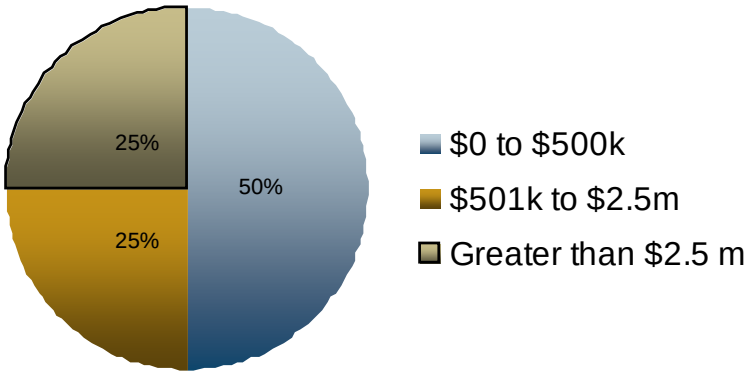


Most airports require between 3 to 5 turns per gate per day or else the airport may reassign preferential use gate/holdroom space. A few airports also have a size requirement (e.g., the turns must be operated by "narrow-body equivalent aircraft").

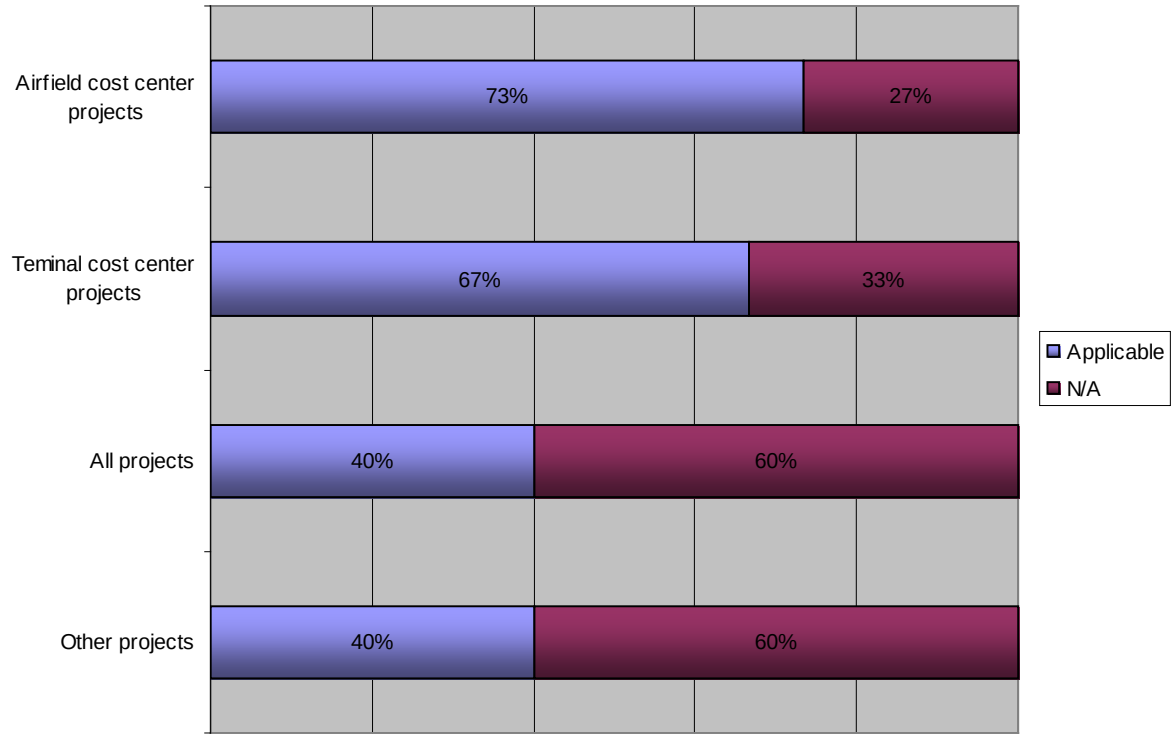
Question #11(a): Does your airport's agreement have a "majority-in-interest" (MII) clause?



Question #11(b): Per your agreement, what is the dollar threshold for a proposed capital project to be considered a "capital expenditure" needing MII approval?

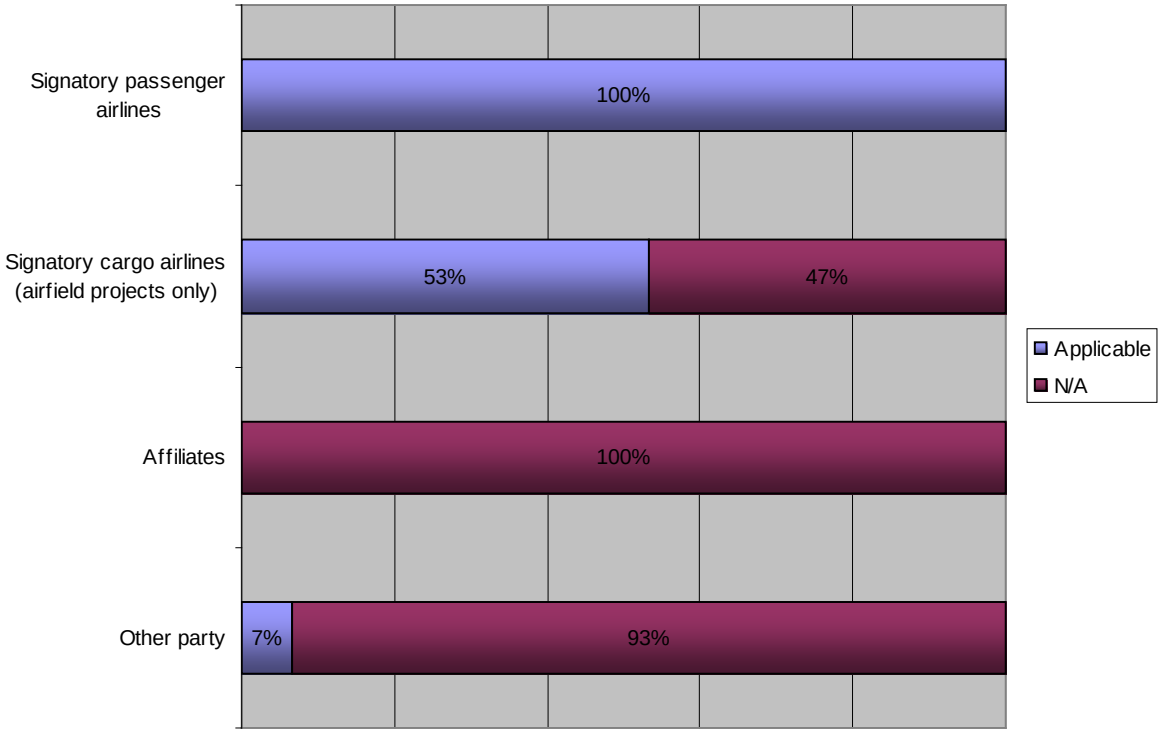


Question #11(c): What type of projects are subject to MII approval? Please check all that apply.



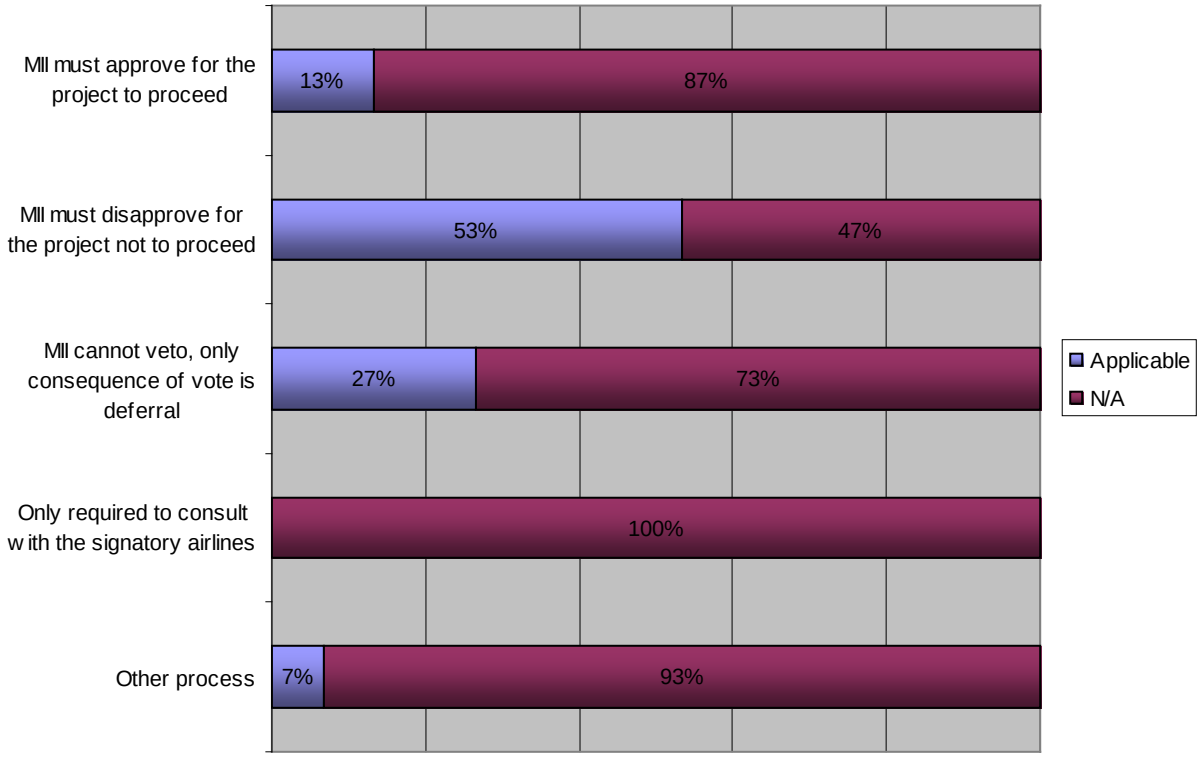
Other projects that are subject to MII approval include (1) any project that increases debt service, (2) landside (including roadway), and (3) apron.

Question #11(d): Which parties can vote pursuant to the MII clause? Please check all that apply.



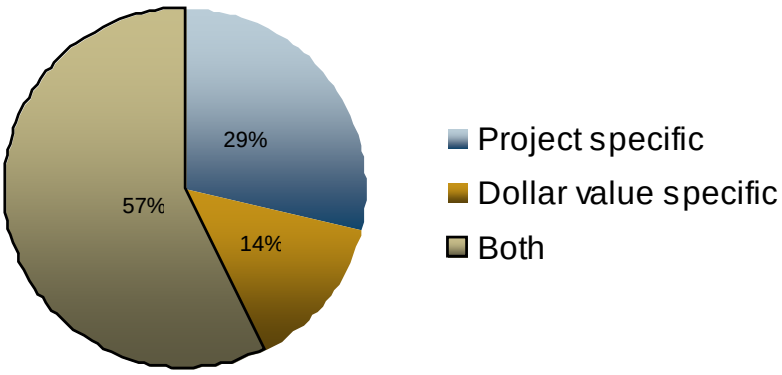
Other parties that can vote pursuant to the MII clause include signatory cargo airlines (for all projects).

Question #11(e): How would you characterize the MII process at your airport? Please check all that apply?



MII provisions where the only consequence of the MII vote is deferral lead to deferrals of between 6 months to 1 year. Other MII processes only require an MII to approve a capital project if the project will be financed with GARBs and the debt service will be included in airline fees and charges.

Question #11(f) Is your MII clause:



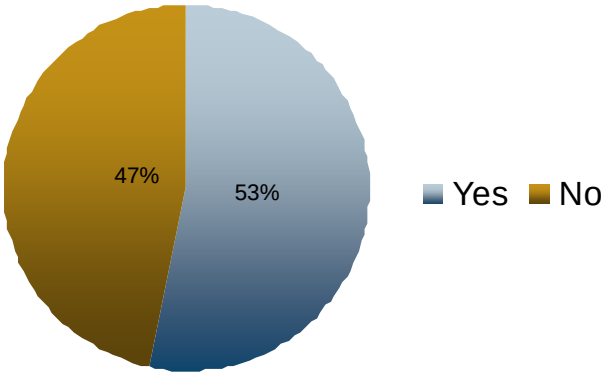
Question #11(f)(1): Please describe how variances and overages are handled:

The most common provisions typically require a new MII vote if project costs exceed the original budget by 10% or more, but some allow for an exception if the project is already in the construction phase. Other situations requiring a new MII vote are if the scope of the project changes, or if a project is approved with a specific "not-to-exceed" cost that is exceeded. All variances are usually rolled over into the next year's rate base.

Question #11(g): Please describe your airport's MII test:

Examples of MII tests include (1) 50% of signatory carriers accounting for 51% of market share, (2) 51% of signatory carriers accounting for 51% of all fees, (3) signatory carriers with 85% of landed weight of all signatory carriers for prior 12-month period or all but one of the signatory carriers regardless of landed weight, and (4) 51% of airlines leasing space in the terminal accounting for 51% of landing fees.

Question #11(h): Does your airport have a pre-approved CIP list of projects as part of your agreement that are exempt from the MII clause?

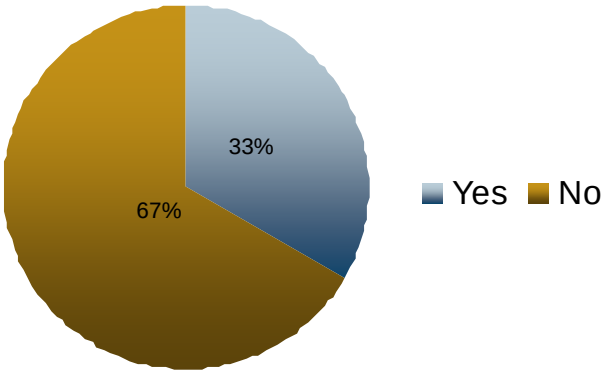


Dollar amount limits tend to be project specific, but examples of overall CIP dollar amount limits exempt from MII are between $300 million and $800 million dollars (sometimes indexed to a particular year).

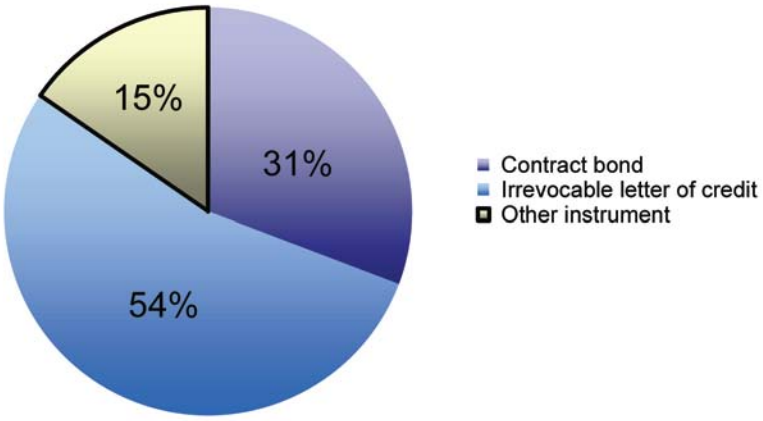
Question #11(i): What other exemptions are there from the MII process?

Other exemptions include (1) projects necessary for public safety when directed by FAA, (2) emergency repairs that if not made would close airport within 48 hours, (3) non-airline cost center projects, (4) any project that is not financed by debt, (5) taxiway projects, and (6) projects that are necessary to fulfill environmental or regulatory requirements.

Question #12(a): In your airport's agreement is there a security for performance requirement?



Question #12(b): What is your airport's preferred contract security instrument?



Other instruments include any instrument that is agreed upon between the airport and airline as representing the necessary contract security.

Question #12(c): What amount is required to be posted? Please describe:

The most common amount required to be posted is between 2 to 3 months of rentals, fees, and charges. Certain airports add a dollar amount test as well (e.g., $3 million or 3 months of rentals, fees, and charges, whichever is less). One airport also requires 3 months of estimated PFC collections.

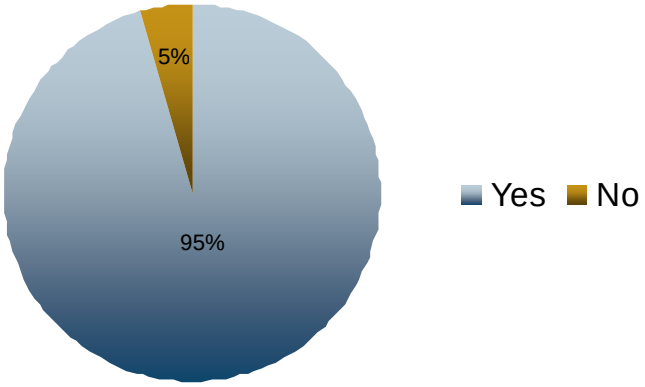
Question #12(d): Does your airport have the ability to waive the security for performance requirement in specific circumstances? Please describe these circumstances:

Airports typically waive the security for performance requirement if the airline has a 12 month satisfactory history of payment or has a history of timely payment at a number of other similarly situated airports for a 12-month period. In addition to these exceptions, one airport also requires a carrier to maintain an investment grade senior credit rating to qualify for a waiver.

Question #13(a): If you believe that there is a particularly important element of your airport's agreement that we did not address in the questions above, please elaborate upon this element in the space below:

Notable unique agreement elements include a clause to bill affiliates if signatory (parent) carrier is in bankruptcy and the inclusion of target limits for landing fees and cost per enplanement (following the opening of a new terminal building).

Question #13(b): Does your airport agree to allow the research team to share the factual information contained in Section 1 with other survey respondents in a summary document?



Section 2 Perspective on Your Airport's Relationship with the Airlines and Airport/Airline Agreement Negotiations

The questions in this section of the survey were presented as open-ended short answer questions.

Question #1: Why does your airport prefer/prefer not to have a formal agreement?

The majority of airports responding to the survey prefer to have a formal agreement in place. Reasons given include the following:

- Defines and protects the rights and interests of all parties (airports and airlines)
- Provides a method for allocating gates and other space and resolving related disputes regarding accommodation
- Ensures and documents a commitment by air carriers to serve the community
- Formalizes insurance and liability requirements
- Helps provide credit and capital program support
- Avoids rate disputes
- Demonstrates to local elected officials that the airport and its key customers can reach a contractual agreement

Airports that do not prefer a formal agreement cite the following reasons:

- The level of business risk sharing inherent in an agreement
- Financial turmoil in the airline industry (carriers exiting markets rapidly) negates many of the benefits of having an agreement
- At smaller airports, airlines "hold all the cards" making the negotiation of a long-term agreement difficult to achieve
- Agreements no longer provide any protection to an airport in case of airline bankruptcies
- Limits an airport's ability to control its facilities in the way that it sees fit

Question #2: How important is the "relationship" your airport has with its tenant airlines?

Respondent airports almost unanimously agree that maintaining the relationship that they have with their tenant airlines is a top priority (especially at airports where one airline represents a significant share of seat capacity or may have large influence on MII vote). Reasons given for maintaining the relationship include the following:

- Helps to ensure smooth operational performance
- Promotes stability and diversity of airline service options at the airport leading to regional economic benefits

- Makes it easier to accomplish the mutual goal of serving the traveling public in the best way possible
- Assists with smooth implementation of capital improvement projects
- Facilitates timely reconciliation of agreement requirements
- Allows for airport to deploy its resources as efficiently as possible and lower airline cost per enplaned passenger

Survey respondents use the following techniques to help maintain their relationship with the airlines at their airport:

- Regularly sharing the results of financial performance benchmarking efforts that compare their airport with fourteen similarly-sized peers
- Rate reductions below calculated rates to help airlines deal with difficult economic circumstances

Question #3: What information would assist your airport with better understanding airline business and operational issues?

Respondent airports would find the following information useful:

- Individual airlines' actual cost of providing service at the airport
- The true impact of airport costs on airline route profitability
- Criteria that individual airlines consider when deciding whether or not to begin service at a particular airport
- Factors that individual airlines consider when making pricing decisions in different types of markets
- Examples of provisions contained in agreements with other airports of similar size along with airline comments about why a particular provision does/does not work for the airline
- Information about the most recent trends that airlines are seeing in agreements with other airports
- More rapid communication of anticipated regional partner service provider changes
- Information about the best way to set rates and charges at small, rural, non-hub airports
- Airline's internal cost per enplanement and yield benchmarks that they compare our airport to

Question #4: What factors help determine the type of business deal (e.g., compensatory, residual) your airport would negotiate with your airline tenants?

The following factors are cited by respondents to the survey:

- General economic environment at the time the deal is negotiated
- Level of financing flexibility that is needed
- Amount of outstanding capital project and debt service obligations
- Strength of air service market (level of service) and the number and type (e.g., passenger, cargo, charter) of airlines serving the airport
- Amount of O&D versus connecting traffic at the airport
- Presence and influence of hub carrier(s)
- Facilities that are needed at the airport in the future and how these facilities will be paid for
- Need for control of facilities and capital improvement decisions
- Personnel costs at the airport
- Amount and stability of non-airline revenues
- Whether or not the agreement will lead to airline cost per enplaned passenger that will be competitive with other similarly-situated airports
- If the business deal will lead to optimal operational and financial results (appropriate cash balances and coverage levels) for the airport
- The management philosophy of the airport director and airport board
- The local political environment

Question #5 & 6: What critical issues or roadblocks have surfaced during your airport's current or past airport/airline agreement negotiations? To resolve the critical issues, what tradeoffs or compromises did your airport make? Were there any issues left unresolved?

Critical Issue	Tradeoff/Compromise
Economic downturn may make airlines reluctant to sign a long-term lease at the airport	Airport will consider a term of less than 5 years if necessary to get all airlines to sign the agreement
Seasonality of airport passenger flows (particularly leisure market)	Airport agreed to waive landing fees during the winter season
Past airline litigation regarding rates and charges at airport	Allocation of CFR (ARFF) to general aviation
Little desire on both sides (airport and airline) to negotiate a new agreement	Parties roll-over/extend the current agreement each time it is due to expire
Ensuring continuity of service at the airport (small-hub)	Started negotiations with intent of achieving a residual agreement, ended negotiations with a compensatory agreement having fixed rate increases over the 3-year term
Flexibility in control of gate utilization over the 25-year term of the agreement	Let airlines lease as many gates as they want in new terminal in exchange for strong "use or lose" provisions. Airlines also wanted minimum gate utilization to be 4 turns per day, a sliding scale was negotiated for minimum gate utilization depending on how many gates an airline leases
How to structure security deposit	Settled for a late fee of prime + 4% as an alternative to a security deposit
Balancing airport's desire to control its capital program with airlines' desire to limit capital spending	Included terms requiring a positive MII vote for the airport to exceed a total new project capital budget of $1.85 billion and a negative MII vote for individual project approval