AIRPORT AUTHORITY BOARD OF TRUSTEES

FINANCE AND BUSINESS DEVELOPMENT COMMITTEE
Minutes from the Meeting April 5, 2010

In Attendance: Mary Simmons, Madame Chair, Finance & Business Development Committee*
William Eck, Trustee*
Rick Murdock, Trustee*
Brooks Mancini, Trustee*
Joe Mayer, Chair, Board of Trustees
Jerry Hall, Trustee
Randi Thompson, Trustee (telephone conference call)
Krys T. Bart, President/CEO
Rick Gorman, CFO
Mark Witsoe, Manager of Properties Administration
Joyce Humphrey, Purchasing & Materials Management Manager
Leah Williams, Manager of Accounting
Tony Osendorf, Manager of Finance & Budgeting
Carrie Byron, Properties Administrator II
Alex Kovacs, Financial Analyst
Patrick North, Sr. Internal Auditor
Thomas Hegge, Sierra Waste Advisors
Robert Meurer, Sierra Waste Advisors
Burnham Moffat, Trustee Advisory Services

*Denotes Finance Committee member

Note: The official minutes of the Finance Committee meetings are maintained on magnetic tape used to record the proceedings. The following is provided as a reference to the subject matter and conclusions reached from the discussion.

Topics Discussed:

I. Review of meeting minutes from February 2010 and March 8, 2010

The minutes from the meeting of the Finance and Business Development Committee February 8, 2010 and from the meeting of the Finance and Business Development Committee March 8, 2010, were approved by the committee.

II. Items to be presented to the Finance and Business Development Committee for review and recommendation to the Board:

#10(03)-14 A. AUTHORIZATION FOR THE PRESIDENT/CEO TO EXECUTE AN AIRLINE-AIRPORT USE AND LEASE AGREEMENT FOR A TERM OF FIVE YEARS WITH ALASKA AIRLINES/HORIZON AIR, AMERICAN AIRLINES, DELTA AIRLINES, FEDERAL EXPRESS CORPORATION, SOUTHWEST AIRLINES, UNITED AIRLINES, UPS WORLDWIDE, AND US AIRWAYS.

Staff provided background information relevant to the 14 year old agreement, negotiated in 1996 and renewed several times post 9/11. The agreement expires on June 30, 2010. A review by staff and its consultant determined that the business arrangement is no longer appropriate and have worked with the airlines over the last 18 months to update, rewrite, and bring this proposed agreement before the committee and Board of Trustees.

The debt restructuring done post 9/11 could not take into account the current economic situation that negatively impacts struggling RTIA airlines. Using projected passenger levels, continuing with the current agreement would lower the debt service ratio very close to the 125% figure mandated by the revenue bond resolution. It would also significantly increase the signatory airline cost per enplaned passenger and produce a negative $1,768,611 net revenue for sharing (a $0 share to the signatory airlines).

Through the use of debt defeasance the proposed agreement would use $4.4 million of its unrestricted cash and investments to pay off a portion of the $11.3 million in bonds maturing June 30, 2012. This proposed effort will involve working with legal counsel, bond counsel and a Certified Public Accountant to establish an irrevocable trust account. This account, held by the Authority's bond trustee, will effectively removal the debt obligation from the Authority's balance sheet by making certain the funds are pledged and used only to pay off the debt obligation. Additionally, staff will begin taking steps to remove the "negative outlook" at the various credit rating agencies through lower debt and better debt service coverage ratio.

The new agreement also provides for the airlines to begin pay for a prorated share of the common areas in their terminal rental rates. This provision will provide the Authority greater upfront cash flow and provide a financial cushion against unanticipated events that may impact passenger traffic.

As an offset to this higher airline cost recovery, there will be no further amortization of capital projects in the Airfield or Terminal rate base during the proposed term, no amortization recovery for assets placed in service prior to FY 2010-11 from net revenues before revenue sharing, and the Authority will contribute its share of the FY 2009-10 Revenue share to the Signatory airlines revenue share in FY 2010-11. These steps partially mitigate the higher cost recovery of the airline paying for a pro-rata share of the public space and reduce the increase of Signatory Airline Terminal Rental Rates.

Other provisions of the proposed agreement provide an increase in the level of capital expenditure not subject to a denial vote by airlines from $1 million in the airfield and terminal to the first $1 million in Airfield Cost Center Projects, $2 million in the Terminal Building Cost Center or $500,000 in the Baggage Handling System Cost Center. The preliminary budget of $6 million in the Terminal Refurbishment Program is specifically excluded.

The Joint Use Charge, which represents rents charged for use of shared areas such as Bag Claim, will be modifies as follows: (1) the 20% of rent allocated equally to all carriers will be reduced from 20% of the total costs to 15% and (2) the remaining 80% allocated based on passenger traffic for each carrier will be increased to 85%. These proposed changes would make it less expensive for small and legacy carriers who serve the market under affiliate and code share agreements to operate at RTIA.

The proposed agreement establishes a commitment of service by the signatory airlines.

The Committee unanimously recommended this item for Board approval on the Consent Agenda at the upcoming Board meeting.

#10(03)-14 A. <u>AUTHORIZATION FOR THE PRESIDENT/CEO TO SIGN NON-EXCLUSIVE VEHICLE CONCESSION LEASES WITH: SIMPLY WHEELZ (DBAADVANTAGE-RENT-A-CAR); AND NON-EXCLUSIVE VEHICLE CONCESSION LEASES AND NON-EXCLUSIVE READY/RETURN, QUICK TURNAROUND FACILITY LEASES WITH: AVIS BUDGET RENTAL, LLC (DBA AVIS AND BUDGET), DTG OPERATIONS INC., (DBA DOLLAR RENT-A-CAR AND THRIFTY CAR RENTAL), ENTERPRISE LEASE COMPANY-WEST, LLC (DBA ENTERPRISE RENT-A-CAR), THE HERTZ CORPORATION, AND VANGUARD CAR RENTAL USA, LLC (DBA ALAMO AND NATIONAL).</u>

Staff provided background information relevant to the agreement, current contract which expires on June 30, 2010. The proposed new contract would become effective on July 1, 2010 and expire on June 30, 2015. The concession revenue would be the greater of 10% of the gross receipts for the Minimum Annual Guarantee (MAG). The MAG bid is for the first year with subsequent years adjusting to 85% of the preceding year's concession revenue. Dual branding would be allowed. There are 8 potential lease awards with the top 5 bidders being awarded a Ready/Return/Quick Turn Around (QTA) facility lease.

The Quick Turnaround Area (QTA) reverts to RTAA control on July 1, 2010. Appraisals have been done to establish fair lease rates and a Phase 1 Environmental Site Assessment report is being completed to certify the QTA is in appropriate condition.

MAG abatement has been eliminated and the annual adjustment has been changed to 85% of the previous year's concession fee. The security deposit has been reduced from 100% to 50% of the first year's MAG. The definition of gross revenue has been updated. Self insurance is now allowed with the proper documentation, and the administrative charges for repairs have been reduced to 15% to reflect charges paid by airlines for similar service.

The FY 2010-11 Budget anticipates $2.88 million in lower concession revenue as compared to FY 2009-10. This result was anticipated in the financial planning over the past two years.

In addition, the Authority receives rental revenue from the lease of ticket counters, ready return parking space, QTA land and building, and service facilities. While the overall MAG has been significantly reduced, the addition of the QTA facilities and ground leases make the facility rental revenue impact neutral as compared to the current year.

III. Items presented to the Finance and Business Development Committee for Approval:

A. No Items

IV. Items presented to the Finance and Business Development Committee for Discussion:

A. No Items

V. Items presented to the Finance and Business Development Committee for Information:

A. <u>Review of Operating Results through March 2010</u>

Staff reported that the airport is 2.2% under budget in operating revenues and 7.0% under budget in operating expenses through February. Total landed weights for the eight-month period ending February 28, 2010 are 1.2% under budget. Landing fees were budgeted for signatory airlines at $3.52 per 1,000 lbs and reduced to $3.15 effective November 1, 2009. Based on actual activity through February, the landing fee rate should be $3.08 per 1,000 lbs. resulting in an over collection of $448,539 if adjusted to actual. The budgeted cost per enplaned passenger is $7.76, and based on actual activity through February 2010, the cost per enplaned passenger is $6.61. Airline rents are under budget by 4.5% based on activity through February 2010. The budgeted average rental rate is $49.83 psfpa, and based on the actual requirement, the average rental rate should be $47.58 psfpa, which is an over collection of $15,484, if adjusted to actual. Non-airline revenues are 1.4% under budget.

B. Review of Budget Transfers (if any)

Building Maintenance transferred $14,831 from Permanent Employees to Fixed Asset(s) for the purchase of a floor scrubber for the bag makeup area over safety concerns.

C. Review of Contracts and Professional Service Agreements through March 2010

Staff reviewed the Administrative Award of Contracts pursuant to Resolution #462. Staff confirmed that there was one change order and three amendments to existing contracts.

D. Review of Legal Expenses through March 2010

Staff reported payments made toward legal costs that were expended through the month of February 2010. The Authority has expended 44% of the legal budget with 75% of the budget year expired.

E. Review of Board Budget to date March 2010

Staff reported that the Board of Trustee's have expended 57% of their budget with 75% of the budget year expired.

VI. Public Comment

There were no comments.

VII. Adjournment

The meeting began at 1:30PM and was adjourned at 3:15PM.

MS:RG/pn