WICHITA AIRPORT AUTHORITY

Capital Program and Financial Plan

Wichita Mid-Continent Airport

Prepared for
City Council Workshop

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Presentation Outline

- Capital Program Background
- Capital Program’s Costs and Funding Plan
- Baseline Passenger Forecast
- Baseline Financial Forecast
- Risk Assessment Overview
- Response to Risk Assessment
- Conclusion
- Next Steps

Introduction to Capital Program

- The Wichita Airport Authority maintains a regularly updated list of necessary capital improvement projects (Capital Program).
- The centerpiece of the Capital Program is the proposed new terminal building and related projects known as the Air Capital Terminal 3 (ACT 3).
- The proposed parking project is separate from ACT 3 but included in the overall Capital Program.

ACT 3 Financial Planning Timeline

- Master Plan (2003)
- Terminal Area Plan (2004)
- Schematic Design (early 2006)
- Financial Capacity Analysis (late 2006)
- Parking Garage Financial Feasibility Study (2008)
- ACT 3 Financial Plan (2008 - 2010)

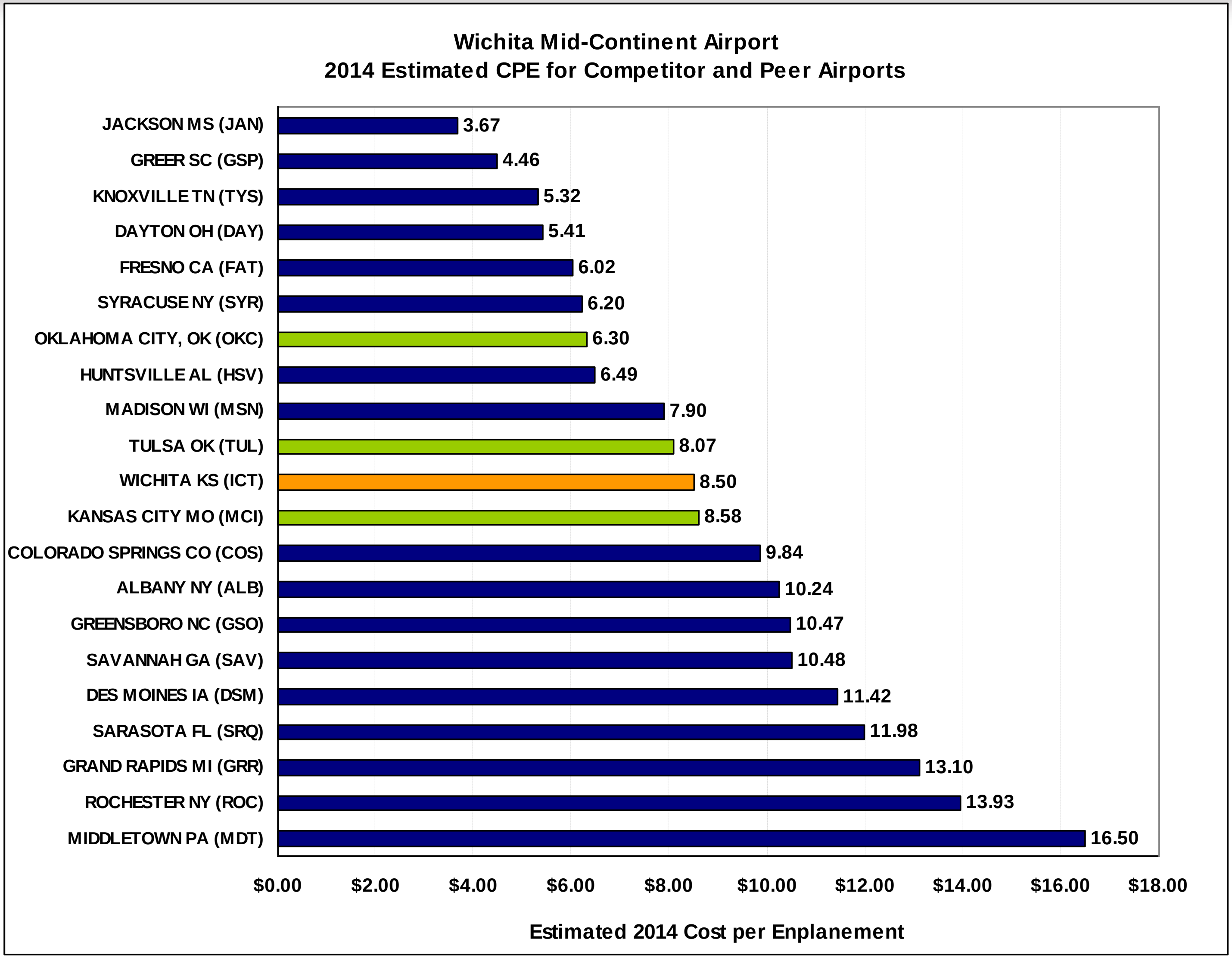
Authority's Financial Planning Objectives

- Develop feasible funding plan to support Capital Program
  - Use pay-as-you go funding to limit debt requirements
  - Do not exceed practical debt capacity
  - Allow funding capacity for future capital expenditures
  - Maintain competitive airline costs

- Established financial "targets"
  - Average annual net income of $2 million (after paying debt service)
  - Average debt service coverage of 1.10x
  - Debt service reserve equal to 50% of annual debt service payments
  - Operations & Maintenance expense reserve equal to 180 days

Airline Costs at Competitor and Peer Airports

- Cost per Enplaned Passenger (CPE) is not a perfect metric and does not account for many differences in airports
- Peer Airports and Competitor Airports are not always one and the same
- Mid-Continent's 2009 CPE was $5.83
- Mid-Continent's 2014 CPE of $8.50 CPE would remain well within the estimated range of peer and competitor airports



Capital Program

Capital Program	Project Cost Millions $
ACT 3	$160.0
Parking Project	40.0
Other Aviation	45.0
Airfield	27.5
Ramp	11.7
Landside	10.0
Jabara Airport	11.2
Other Terminal	3.3
Total	**$308.7**

Capital Program Funding Plan Strategy

- Apply Available Pay-as-You-Go Funding Sources
  - FAA Airport Improvement Program (AIP) grants
  - Passenger Facility Charge (PFC) revenues
  - Airport discretionary cash
  - Other grants (TSA, ARRA) and revenues
- Issue G.O. Bonds to Cover Funding Balance
  - Bond issues timed to meet funding requirements
  - Two bond issues based on construction funding requirements
  - Issues include maturities of (5-30 yrs) based on project lifespan

Capital Program Funding Plan

Capital Program Funding Plan	Millions $
Pay-as-you-go funds	
AIP grants (entitlements)	$50.5
AIP grants (discretionary)	31.6
PFC pay-as-you-go	22.2
Airport cash	32.0
TSA grants/other	10.2
Total pay-as-you-go *(47%)*	**$146.5**
Total bond proceeds *(53%)*	**$162.2**
Total funding sources	**$308.7**

ACT 3 Funding Plan

ACT 3	Millions $
ACT 3 Project Costs	**$160.0**
Pay-as-you-go funds	
AIP grants (entitlements)	29.0
AIP grants (discretionary)	24.8
PFC pay-as-you-go	16.8
Airport cash	27.2
TSA grants	6.9
Total pay-as-you-go *(65%)*	**$104.7**
Total bond proceeds *(35%)*	**$55.3**
Total Sources	**$160.0**

Proposed G.O. Bond Funding Plan

- Estimated debt service schedule
  - Debt service estimate based on 5.0% borrowing interest rate
  - Debt service payments from Airport funds would start 2014
  - Bonds paid-off in 2043
- Debt service payment sources
  - Airport revenues (Airline rates, concessions, Other Aviation)
  - Future PFC collection authority (FAA approved July 2010)
  - PFC revenues planned to pay ACT 3 debt service
  - Parking Garage/Rental Car revenues
  - Customer Facility Charge Revenues

Passenger Forecast Background

- The baseline enplaned (boarding) passenger forecast is a key variable in the development of the financial forecasts.
- The baseline forecast is considered the “most likely” outcome in comparison to alternative forecast scenarios.
- Passenger forecasts drive projections of airline and nonairline revenues, PFC revenues, and other factors.
- Passenger forecasts provide a key factor in figuring the airline’s average cost per enplaned passenger (CPE).

- Forecast methodology
  - Historical passenger trends
  - Recent passenger activity
  - Future airline schedule data
  - Airline industry analysis
  - General economic trends
  - Other available forecasts
- Key forecast assumptions
  - No change to current air service profile
  - Traffic will recover over a 3-year period
- Comparison to other forecasts
  - 2008 FAA ICT Forecast
  - 2009 FAA ICT Forecast
  - 2010 FAA National Forecast

Calendar Year	WAA Enplaned Passengers	Annual % change
1999	621,378	
2000	609,449	-1.9%
2001	563,883	-7.5%
2002	670,833	19.0%
2003	717,741	7.0%
2004	749,416	4.4%
2005	742,363	-0.9%
2006	726,619	-2.1%
2007	795,535	9.5%
2008	805,286	1.2%
2009	746,283	-7.3%
2009 YTD (a)	495,299	
2010 YTD (a)	509,127	2.8%

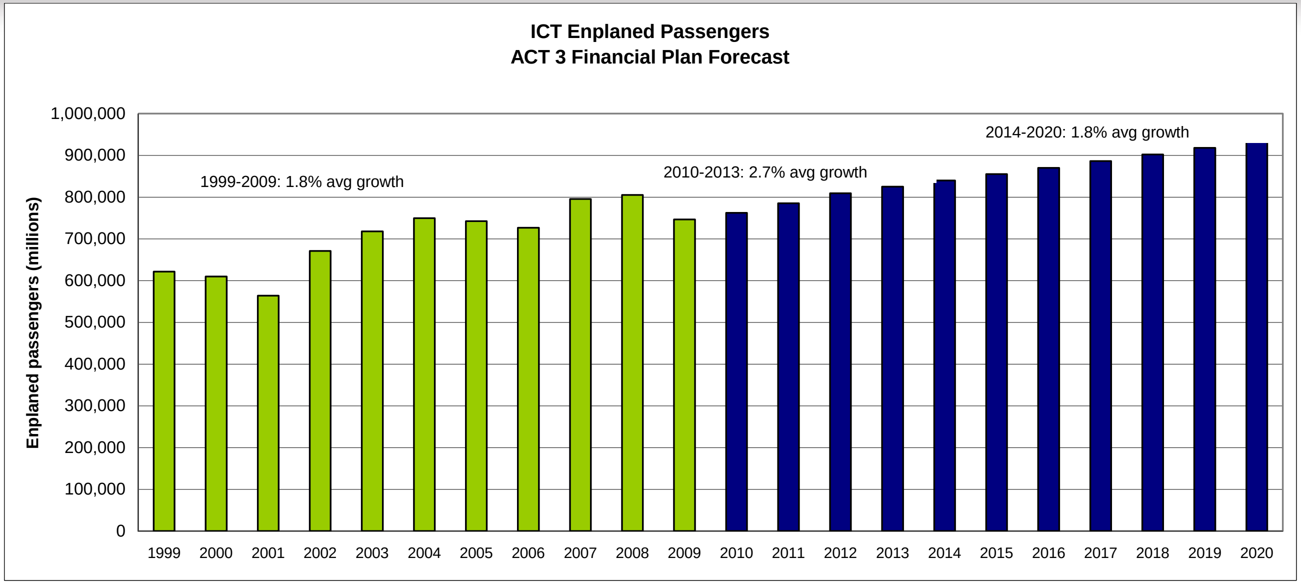
Compound annual growth rates	
1999-2009	1.8%
2000-2009	2.3%
2000-2008	3.5%
2004-2009	-0.1%
2004-2008	1.8%

Source: Wichita Airport Authority

(a) Year to date (YTD) period is January through August.

Baseline Forecast

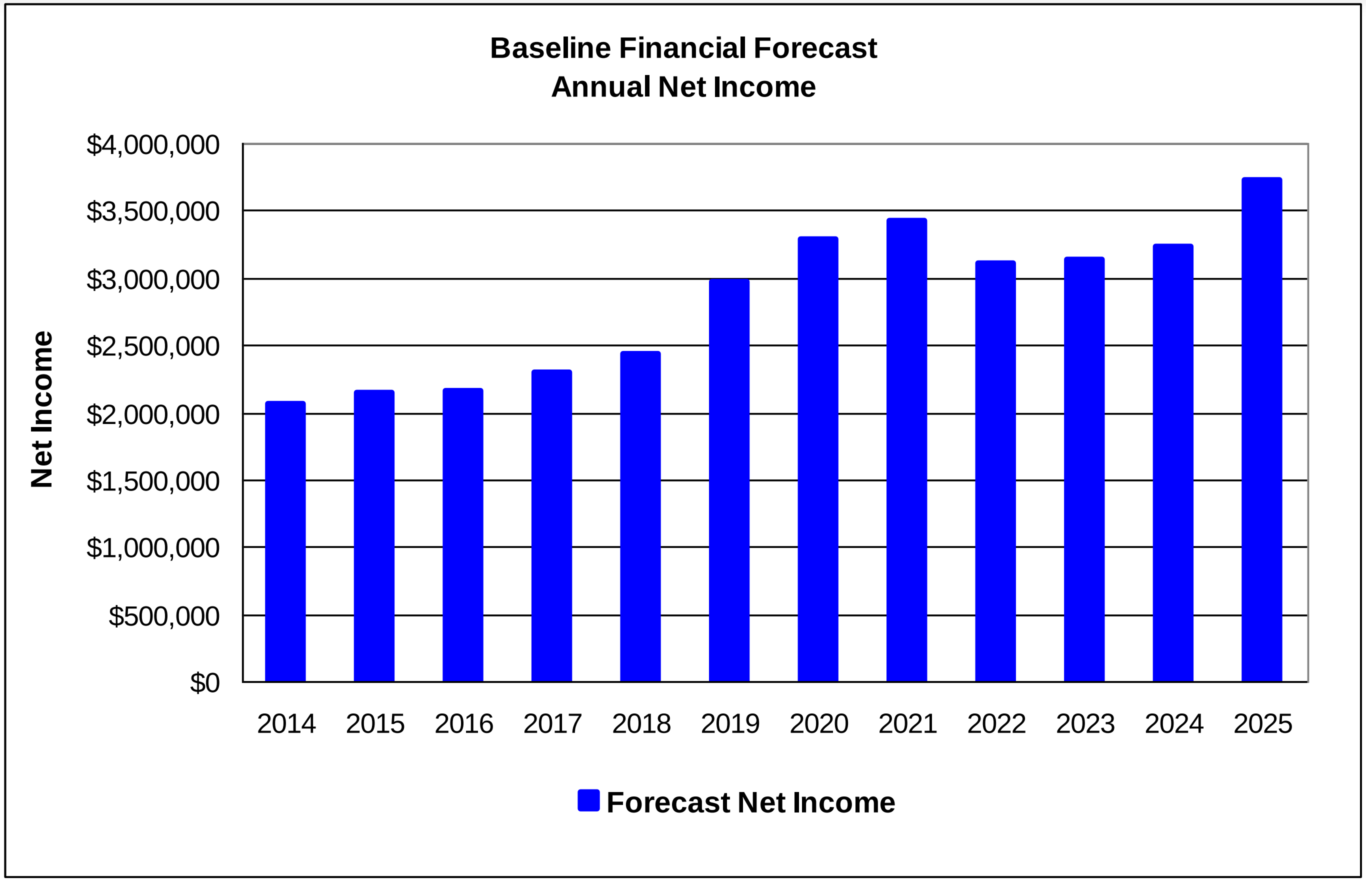
- Forecast assumes passenger traffic will rebound at an above average rate from 2010 to 2013 and then return to long-term growth trend.
- Improving airport load factors and increased scheduled seats suggest demand is increasing.



Forecast Period (CY)	Annual Percent Change	Annual Enplaned Passengers
2010	2.0%	762,000
2011	3.0%	785,000
2012	3.0%	809,000
2013	2.0%	825,000
2014 – 2025	1.8%	1,022,000
2026 – 2035	1.8%	1,221,000
2036 – 2045	1.8%	1,459,000

Baseline Financial Forecast

- Authority meets financial target of $2 million in net annual net income.
- Net income forecasts decline in 2022 as annual debt service increases.
- Long-term, annual net income is forecast to increase as passenger traffic grows.



Risk Assessment

- The "Risk Assessment" is a report prepared by the City's Department of Finance in April 2010 attempting to identify risks with the Authority's Capital Program and related financial plan.
- General conclusions of the Risk Assessment
  - Baseline passenger forecast was a "high-growth" scenario
  - Financial forecasts were overly optimistic
  - Uncertainty of Affordable Airfares
- Recommendation of Risk Assessment
  - Postpone ACT 3 construction schedule

Risk Assessment Response

- Authority provided a comprehensive response to Risk Assessment topics and full explanation of financial planning considerations
- Conducted financial sensitivity analyses
  - Tested financial results under Risk Assessment passenger forecasts
  - Compared net income forecasts
  - Identified long-term financial “Risk to City”
- Reviewed other Risk Assessment issues
  - Affordable Airfares program
  - Construction cost estimates
  - Reassess renovation option
  - Public Safety Fee

Risk Assessment Response (cont.)

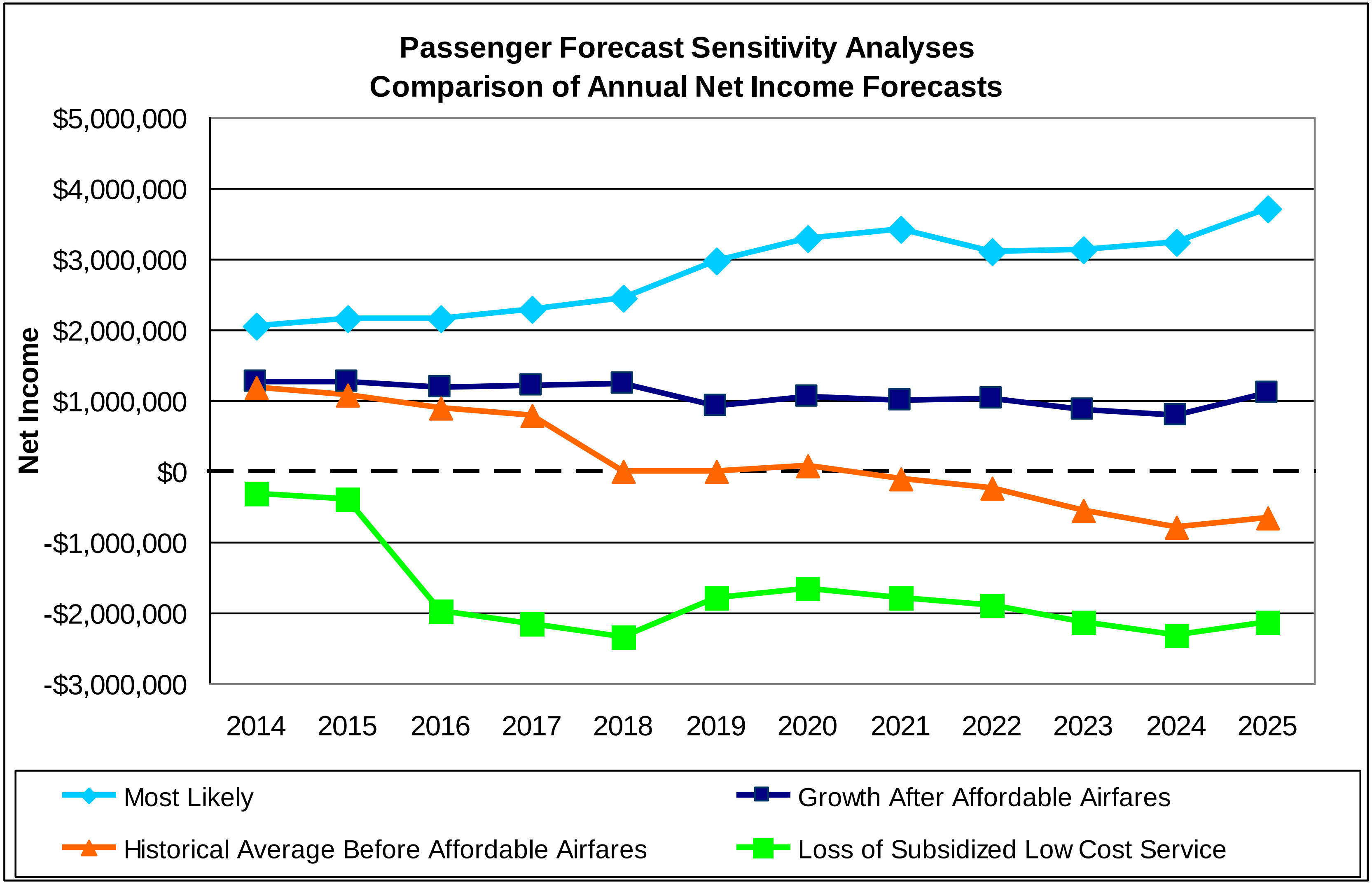
- Most Likely
  - Used in current financial forecasts
- Growth after Affordable Airfares
  - Average growth from 2003 to 2009
  - Attributes all growth to affordable airfares
- Historical Average before Affordable Airfares
  - Average growth from 1976 to 2001
  - Dramatic traffic decline recorded in 2001
- Discontinuation of Affordable Airfares (Loss of Subsidized Low Cost Service)
  - Assumes Airtran/Frontier discontinue service at ICT
  - Assumes no other carrier replaces lost service

Passenger Forecast Description	**2010**	**2011**	**2012**	**2013**	**2014-Beyond**
Most Likely	2.0%	3.0%	3.0%	2.0%	1.8%
Growth after Affordable Airfares	1.3%	1.3%	1.3%	1.3%	1.3%
Historical Average before Affordable Airfares	0.7%	0.7%	0.7%	0.7%	0.7%
Loss of Subsidized Low Cost Service	2.0%	-9.8%	-9.6%	1.3%	1.3%

Rationale for Affordable Airfares Assumption

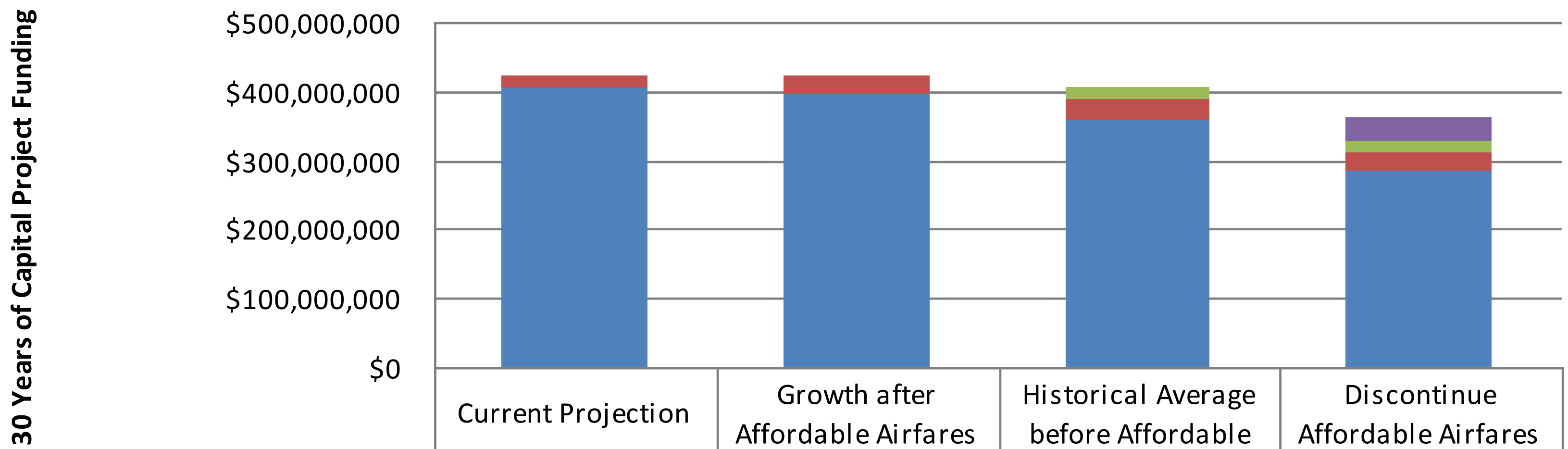
- Affordable Airfares is a success
- 264% return on investment from 2002 to 2007
  - Center for Economic Development and Business Research (WSU), 2009
- Over $300 million in airfare savings to travelers using ICT
  - Sedgwick County 2009 Budget Report
- Airport’s passenger retention increased from 56% to 66%
  - Since 2001 according to 2008 study by Sabre Airline Solutions
- Significant low cost carrier market share
  - AirTran/Frontier combined 14% 2010 YTD ICT market share

Results of Sensitivity Analyses



Comparison of Baseline to Sensitivity Analyses

Capital Project Funding Shortfall Risk over 30 Years



	Current Projection	Growth after Affordable Airfares	Historical Average before Affordable	Discontinue Affordable Airfares
Risk to City	$0	$0	$400,000	$34,800,000
Paid with Airport Reserves	$0	$0	$18,100,000	$14,600,000
Paid w/ Airport Unrestricted Cash	$15,500,000	$24,900,000	$28,600,000	$29,000,000
Paid with Airport Net Income	$406,000,000	$396,900,000	$359,700,000	$284,400,000

Risks of Delaying ACT 3

- Total potential cost impacts: $8 to $37 million
  - Construction cost increases
  - Bond financing costs
  - Professional fees related to shutdown/remobilization
  - Cost to maintain existing terminal on interim basis
- Significant FAA Consequences
  - FAA invested $22.7 million and expects timely completion
  - Programmed its multi-year regional plan to accommodate ICT
  - Delay likely to result in loss of future discretionary grants
- Delayed positive economic impacts
  - New construction jobs
  - Trickle down impacts
  - Tax revenues

Options to Improve Financial Forecast

- Consider downsizing ACT 3 to 10 gates from 12 gates
  - Not a recommended option
  - Construction cost savings: $4.3 million
  - Debt service savings : $9.2 million (30-years)
- Delay/reduce other non-ACT 3 CIP projects
  - Extreme project deletions: $12.0 million debt service savings (30 yrs)
  - Significant project deletions: $3.6 million debt service savings (30yrs)
- Consider Community Improvement District funding
  - Encompass food, gift, beverage and service areas of terminal
  - Produce $65,000 first year, $1.9 million over 22 years
- Sponsorship and naming opportunities
  - New and innovative idea for airport industry
  - Future value uncertain

Conclusion

- ACT 3 program and the remainder of the CIP can be financially supported by projected Airport revenues under the Baseline passenger forecast
- Baseline Financial Forecast Results
  - Net income exceeds $2 million annual target
  - Debt service coverage above 1.10 target
  - O&M reserve maintained at over 180 days operating expenses
  - Debt service reserve exceeds 50% of annual debt service
- Wichita Airport Advisory Board
  - WAAB meeting on September 20, 2010
  - Presented Authority's baseline and Risk Assessment results
  - WAAB voted 7 to 2 in favor of moving forward immediately

Next Steps

- Workshop: October 5, 2010
- Authorization to Proceed with Advertising: ____________
- Notice to Proceed: Approximately seven months after Authorization to Proceed with Advertising
- Completion of ACT 3: Approximately 36 months following Notice to Proceed