

CITY OF WICHITA
WICHITA AIRPORT ADVISORY BOARD

Monday, November 3, 2003 - 3:00 p.m.

Present: Tim Austin, Ron Estes, Charles Bouilly, Bill Calloway, Mitch Faroh, Charles Fletcher, Beth Garrison, Michael Ledy, Dorothy McKay, Dave Murfin, James Thompson

Absent: Dion Avello and Jay Swanson

Airport Staff: Bailis Bell, Shannon Feltes, Tom Nolan, John Oswald, Valerie Wise, Jean Zoglman

Chairperson Pro Tem Garrison called the meeting to order.

Approval of Minutes

Motion by Fletcher to approve the minutes of the October 6, 2003 Wichita Airport Advisory Board meeting. Motion carried unanimously.

Parking Revenue Study

Chuck Reedstrom from HNTB presented a parking revenue and fee structure analysis for Mid-Continent Airport. Reedstrom reviewed the discussion from the October WAAB meeting regarding the various rate structures and revenue scenarios for the short-term and long-term lots. Parking rates were compared among 34 other airports and Wichita's rates rank near the bottom in both the short-term and long-term parking lots. The last rate increase in the short-term lot was in 1999 and in the long-term lot was in 1989.

The current short-term rate structure is complicated from a cashiering standpoint. Currently, peak daily revenue in the short-term lot runs approximately \$4,000.00. This amounts to about 30% of the total parking revenue. Reedstrom presented three scenarios that simplify the rate structures and increase parking rates. Scenario 1 reduces the time segments and increases the maximum charge in the short-term lot by \$1.00, a 35.7% increase in revenue. Under scenario 2, the daily maximum charge remains at \$9.00 but reaches the maximum charge in three hours. This structure would result in a 24.5% increase in revenue. Scenario 3 increases the daily maximum charge to \$12.00 and the maximum charge is reached in four hours. This would result in a 45.2% increase in revenue. Wichita would still be ranked as one of the lowest among the 34 airports surveyed in all three of these scenarios.

For the long-term lot, the existing rate structure provides peak daily revenue of \$9,208.00, which is about 70% of the total parking revenue. The current daily maximum rate is \$5.00. Under Scenario 1, rate segments are shortened to two, and the maximum charge is reached over one hour. This would result in a 21.8% increase in revenue. Under scenario 2, there are three time segments, the maximum daily charge increases to \$7.00 and would be reached after two hours. This structure would result in a 41.8%

increase in revenue. Under scenario 3 there would be three time segments, the maximum daily charge is increased to \$9.00 and would be reached after two hours. This would result in a 64.5% increase in revenue. However, in this scenario, Wichita would be ranked 17 out of 34 in rate comparisons.

Factors to consider when adjusting parking rates: (1) reason for the increase, and (2) patron considerations. It is important for patrons to see the benefit from rate increases. Typically there is a correlation between a rate increase and physical changes, such as a new parking facility.

Discussion ensued regarding parking revenue. Any revenue generated on the airport must be spent for the operating or physical improvement of the airport.

Reedstrom recommended a remote parking lot be designed and built. Construction costs would be approximately \$1.1 million and operating costs, including shuttle operation, would be roughly \$400,000 per year. A rate increase should cover the cost of design and construction of the remote lot, and to cover the operating costs.

Discussion ensued regarding the time frame necessary to pay for the construction of the remote lot. Bouilly suggested that the remote lot be paid for before construction of a new parking garage begins so that the debts do not overlap. Bell recommended using five-year bonds to fund the construction costs.

Reedstrom presented different scenarios combining short-term and long-term rate structures. Reedstrom recommended scenario 6, which combined scenario 3 for the short-term lot and scenario 2 for the long-term lot. This would increase revenue by 42.8%, would cover operating costs of the remote parking lot every year, and would recover construction costs of the remote lot in one year eight months. The maximum daily rate in the short-term lot would increase \$3.00 to \$12.00 and the maximum daily rate in the long-term lot would increase \$2.00 to \$7.00. Wichita would still be ranked favorably in comparison to the 34 airports surveyed.

Discussion ensued. Reedstrom recommended the rate structure for the remote parking lot be consistent with the long-term lot. Bell stated that the next step is to present a package to the City Council specifying the lot to be built and the proposed rate structure. It is hoped that the City Council will approve the package. At that time, it will also be necessary to request permission to seek a consultant to design the parking lot. Bell estimated that construction would begin in June 2004 due to the lengthy process that is involved.

Austin recommended the board move forward and approve scenario 6 and direct staff to present the package to City Council. Austin also recommended the board members speak to their appointers and convey the message to move quickly on this project.

Fletcher moved to approve scenario 6 and direct staff to present a complete package to City Council which includes a proposal to construct a remote lot. Fletcher also moved to implement the new rate structure immediately. Motion carried unanimously.

Reedstrom recommended that signs be erected to inform the patrons about the new parking lot to be constructed.

Public Works Project Flow Chart

Oswald presented the steps involved in a capital project from beginning to completion. The City of Wichita Engineering Division has developed a flow chart and the airport follows these steps except for petition projects. There are three basic phases to a project: design phase, bid phase, and a construction phase. For airport projects there are additional steps for studies and planning, and land acquisitions. Airport staff is involved in the construction phase to instruct contractors to mobilize, demolish, build, etc. The FAA is heavily involved in federally funded projects at the airport.

2004 Rates and Charges

Bell presented the proposed 2004 schedule of fees and charges for use of Mid-Continent Airport. Half of the terminal building is leased. Business in the terminal building is done on a compensatory basis—the airlines are charged for what they lease and so pay for half operating costs of the building. The remainder of the cost is paid with revenues from the parking lot, rental cars and food concessions. There are three sources of revenue to pay for the airfield: landing fees from the airlines, landing fees from the cargo operators, and fuel flowage fees which are charged to general aviation.

The 2004 landing fees to the airlines will increase 34% and the terminal rentals will increase 17%. In 2003 the airlines requested assistance due to difficult financial conditions. It was agreed to reduce rates 10% which was approved by City Council. These rates are based upon costs. At the end of the year if the airlines were undercharged, adjustments are made and the airlines pay the difference. It appears that the 10% reduction will most likely stick and it will not be necessary to increase the charges to them when adjustments are made once this year is over. However, the 2004 proposed rates and charges reflect the public safety fee that was raised by the City of Wichita from \$300,000 to \$700,000, it reflects a portion of the increase in payroll and health costs for next year, and it reflects the projections of landed weight that are expected to be down by 14%. The City's increases in charges to the airport result in a 34% increase in landing fees and 17% increase in terminal rentals. These increases are passed onto the airlines due to increases in operating costs. The airline properties representatives will be in Wichita in November to negotiate these rates.

Bell will bring a recommendation to the WAAB at the December meeting that will be passed on to City Council by the end of this year.

Bell stated that the City of Wichita is looking for alternatives to avoid raising taxes and have formed an Alternative Revenue Task Force. This Task Force has made a policy recommendation to the City Council that states that the City of Wichita should make sure

that they are getting dollar for dollar on the services they are providing. It includes a statement that says, "Charges for services through enterprise funds should be calculated at levels that cover 100% of the cost of service. Enterprise funds should pay in lieu of tax payment 100% of the City property tax." Bell stated that airport properties are tax exempt but local governments are allowed to impose charges in lieu of property taxes.

Bouly mentioned the City Council agenda item that shows a Public Hearing and Issuance of Airport Special Facilities Revenue Bonds for FlightSafety International. The City of Wichita proposes to charge FlightSafety an annual IRB administrative fee of \$2500 for the term of the bonds. Bell stated that the airport has never assessed that fee because the airport owns the facility. The Finance Department has drafted that item.

Bell stated that if the airport is required to pay fees associated with the City alone, it would amount to about one-half million dollars. The general administrative charge and data center charges amount to about \$475,000. The airport currently pays the City about \$1.3 million.

Austin asked how the City documents its cost for the police and fire charges. The City does not provide a justification for the charges; it is just a flat charge. There was discussion as to the "in lieu of tax payment" and if that would replace the administrative charges.

There was discussion regarding the safety services provided by the City. The City of Wichita Fire Department responds to fire alarms on the airport, which are few. In addition, the Fire Department responds to airport emergencies on a standby basis about six to seven times a year. The airport employs its own police force that provides front-line police service.

The administrative fee and computer services provided by the City increased \$140,000 over the prior year to \$475,000. The administrative fee, which is legal services, purchasing services, check cutting services, and other administrative fees, are based on the City's expenses. There is justification for these fees. The Data Center charge is new. Since the airport was integrated into the City's Data Center, it now pays for Internet usage, e-mail usage, applications, etc. Prior to becoming part of the City, the airport provided its own service.

Bouly recommended that each board member discuss this issue with their City/County appointers. Ledy agreed, and stated that communities are looking for alternative revenues but sometimes things get included that are detrimental.

Bell stated there are major projects coming up such as a new terminal building, parking garage, and land purchases, and it is hoped that the City Council will recognize that it may not be in the best interest of the airport to assess these charges.

Fletcher stated that anything that increases airport charges to the City takes away from efforts to grow the airport and make it a shining star for the City, to attract more business that will eventually bring in the revenue that it is seeking.

Austin questioned where these costs are allocated, if they should be included in landing fees or in land leases. Zoglman stated that only a portion of the \$750,000 is passed on. A certain percentage of administrative fees end up in airline fees. The remainder is paid under general airport revenue.

Bell stated there is an imposition clause in our contracts that states:

Lessee shall pay all lawful taxes and assessments which during the term hereof, may become a lien upon or which may be levied by the state, county, city or any other tax levying body, upon the leased premises or upon any taxable interest of Lessee acquired in this lease agreement, or any taxable possessory right which Lessee may have in or to the premises or facilities hereby leased or the improvements thereon by reason of its use or occupancy thereof, or otherwise, as well as all taxes on taxable property, real or personal, owned by Lessee in and about said premises; provided, however, that nothing herein contained shall prevent Lessee from contesting the legality, validity or application of any such tax or assessment to the full extent Lessee may be lawfully entitled so to do.

Bell stated that one of the attractions to doing business on the airport is that it is property tax exempt.

Air Service Report

Flesher gave an update to phase 1 of the Fair Fares campaign, which came to a close October 31, 2003. Highlights of the campaign:

- 393 organizations originally pledged to the campaign.
- The total pledge target was \$7.1 million that needed to be adjusted due to changes to the service. The adjusted pledge target was just over \$5 million.
- Actual bookings to date: \$4.2 million which equates to an 83.5% pledge fulfillment overall.
- AirTran bookings to date: \$2.7 million – a 93% pledge fulfillment.
- 323 organizations originally pledged to AirTran; today, 306 of those organizations are logging purchases against their pledge, a 93.6% fulfillment.
- Regarding Frontier, the adjusted pledge target was \$2.1 million. Frontier bookings to date are just under \$1.5 million – a 70.3% pledge fulfillment.
- 315 organizations originally pledged to Frontier; of those, 223 are currently logging purchases against their pledge – 70.8%.
- Fair Fares brought over 300 business relationships to AirTran and over 200 business relationships to Frontier.

The Fair Fares Board plans to hold a press conference to release this information to the public. The date for the press conference has not been scheduled.

In comparison, the next largest travel bank in the United States was in Pensacola, Florida, where the program secured 311 total pledges for a total of \$2.1 million and that was to be delivered over a two-year time period. Flesher stated that what this community accomplished was phenomenal.

Total fare savings to passengers are estimated to exceed \$80 million annually. Two separate aviation consultants were retained to determine the savings. Historical fares, current fares, and passenger numbers were examined to determine this number. Discussion ensued. Austin felt there is skepticism in the community as to how this community has benefited from the subsidy, and that the public needs to be better educated. Flesher pointed out that in addition to fare savings, one must look at how this has stimulated the economy. Air service went from being the number one barrier to economic development to being one of the top assets.

There was discussion regarding the economic impact that the low fare carriers have had on the economy in South Central Kansas. Flesher pointed out the investment in Fair Fares amounts to just under \$10 million and consists of: \$4.2 million in Fair Fares pledges; \$4.5 million in City revenue guarantee agreements; \$750,000 for advertising and promotion. That investment compared to the fare savings of \$80 million results in an 8-1 return on investment on fare savings alone.

Flesher stated that the community investment and revenue guarantees are expected to decline as the service becomes more stable and grows. The latest D.O.T. statistics for Mid-Continent Airport show over 30% passenger volume growth, and rank Mid-Continent Airport as the second fastest growing airport in the United States, year ending March 2003 compared to March 2002. The Boyd Group, a premier aviation forecasting and consulting firm, has identified Mid-Continent Airport as the eighth fastest growing airport in the United States between the years 2000 – 2008.

Flesher stated the best way to sustain competitive air service is to grow it. Fair Fares staff has recommended very aggressive phase 2 strategies. The strategies focus on expanding AirTran and Frontier service at Mid-Continent Airport and attracting additional low fare airlines. If successful, non-stop service will be achieved through Mid-Continent Airport's top 20 markets and low fare competition to over 48 of the top 50 routes.

The Fair Fares Board has begun the restructuring process to accommodate the launch of phase 2 strategies. It is important to note that the Fair Fares Board was only chartered with administering the Fair Fares pledge program to completion. There is no funding for the Fair Fares Board; it is a volunteer organization. Additional board seats have been offered to Boeing, Cessna, Bombardier, Wichita Public School System, Fidelity Bank, Sunflower Travel, Harvey County Economic Development Council, Wichita City Council and Sedgwick County Commission. Board seats will also be offered to members

of the Kansas Senate and Kansas House. Mayor Mayans made City Council and Kansas Legislative appointments. The mission of Fair Fares Inc. is transitioning to allow the organization to become more active in air service development efforts.

There was discussion regarding the Wichita Airport Advisory Board's desire to become more active in air service development. Air service is also a high priority for the Chamber. Austin feels that Fair Fares is best positioned to do air service development. Fleisher stated that with the business backing behind Fair Fares and the evolving political impact it could have, there is potential for it to be a very dominant partner in future air service efforts. It is hoped that the State's economic development and transportation funds will be provided for Wichita's air service development.

The air service advertising selection committee chose Sullivan Higdon & Sink to handle air service promotion activities. The City Council will review that recommendation at their November 4 meeting.

Fleisher stated that it is necessary to have aviation industry experts to assist in developing air service strategies. The City Council approved the solicitation of a Request for Proposals to retain an aviation-consulting firm to assist with expanding AirTran and Frontier service and to help us attract additional low fare airline partners. Funding for this service will come from airport revenue. These costs are not factored into the airlines' rates and charges.

Discussion ensued regarding the WAAB's role in air service development. It was the consensus of the Board that the Fair Fares Board is heavily involved in this effort and it would not be necessary for the WAAB to also be involved. However, it is necessary to be kept up-to-date on air service activities. Austin stated that the WAAB is to be advising on policy issues, and needs to be aware of air service activities particularly to the extent that airport revenues are used.

September 2003 Statistical/Project Report

Total passengers were up 1.64% in September. For the year, total passengers are up 8.59%.

Other Business

Bouilly commented that the air service marketing proposals submitted by six ad agencies were very impressive.

The next Master Plan committee meeting is December 11, 2003.

Meeting adjourned at 5:30 p.m.



Valerie Wise, Clerk