

**MINUTES OF THE CITY OF WICHITA
WICHITA AIRPORT ADVISORY BOARD**

Monday, June 7, 2004 - 3:00 p.m.

Present: Tim Austin, Dion Avello, Charles Boully, Beth Garrison, Ron Estes, Mitch Faroh, Charles Fletcher, Willis Heck, Dave Murfin, Jay Swanson

Absent: Bill Calloway, Dorothy McKay, James Thompson

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

Chairperson pro tem Garrison called the meeting to order.

Willis Heck, Mayor of Newton, was introduced as the REAP representative and newest member of the Wichita Airport Advisory Board, taking Mike Ledy's place.

Chairman Austin assumed Chair.

Public Agenda

Mike Haggar suggested that the Wichita Airport Advisory Board participate in the Visioneering Wichita process. The community is involved in updating the long-range transportation plan which is necessary to obtain federal funding. Haggar feels it is important that the WAAB provides input in this plan. Austin suggested and the Board agreed that Bell send a letter to the President of the Chamber of Commerce requesting the WAAB be included.

Approval of Minutes

Motion by Avello to approve the minutes of the May 3, 2004 Wichita Airport Advisory Board meeting. Motion carried unanimously.

Discussion of Terminal Concession Planning

Currently HMS Host holds an exclusive 16-year agreement to generally provide food, beverages, gift and catering services in the terminal at Wichita Mid-Continent Airport. The agreement to provide those services ends in April 2006.

The terms of the current agreement call for the lessor to furnish a building shell and for Host to provide the tenant finish and fixtures. In consideration for the opportunity for Host to serve the public, Host remits to the lessor an average of 10% of the sales generated. The 2003 revenues collected by the lessor from Host operations were \$316,633.

Currently a planning study is being completed which will recommend that a new terminal building be constructed. If that construction takes place, the earliest that the facility could be occupied would be in 2008.

In 2001 the Federal Government mandated that only passengers would be permitted in the concourses of any airport after an extensive screening process. As a result of this change, passengers have favored completing the process of arriving at their departure gate as early as possible. In most cases the passenger now arrives at the departure gate with plenty of time and expects that concessions will be available in the area.

Currently each concourse presents a small snack bar located mid-point in the concourse. The snack bars provide snacks, take-away beverages and magazines. Based upon the level of services provided at other airports, there may be a need (opportunity) to provide additional food, beverage and gift items to the waiting passengers.

Staff is desirous of working to develop those opportunities. Host is interested in entering into discussions.

Discussion ensued. The Board commented that there is a need for a larger facility to accommodate families and groups. Hours of operations and food prices are also concerns.

With Host's agreement expiring in 2006, Host is hesitant to make an investment in more facilities. The airport needs to explore whether it should invest in these improvements and if so, what level of investment should be made on a short-term basis. It also needs to decide if Host's agreement should be extended if Host is willing to make a sizable investment in these improvements. Austin suggested that representatives from Host be invited to the next meeting to hear input from the Board.

It was the consensus of the Board to solicit a proposal from Host to broaden the level of service in the concourses. It was further requested that staff discuss with Host a reduction in food prices to street pricing.

Motion by Estes to direct airport staff to discuss contract terms with HMS Host to expand services in the concourse. Motion carried unanimously.

Discussion of Airline Rates and Charges Formatting

For many years the airlines have partnered with airports to deliver airport facilities which have been operated safely with sufficient capacity for all airline activities. The driver of the partnership has been the banking industry which insisted that the long-term financing of airport facilities be backed with lease and use agreements with airlines in order to insure payment of the bonds. This was a general practice with the fledgling airline and airport industry until the domestic airline industry was deregulated in 1978.

Airline deregulation generated considerable flexibility for the airlines which caused the banking industry to rethink their requirements that contracted rentals and landing fees be secured.

For the past 20 years the approach to determining the feasibility of debt financing for airport improvements at airports like Wichita's has been the strength of the passenger

market. As a result of this change in thinking and the flexibility of the airlines to come and go as they please, there has been less of a need for airports and airlines to enter into long-term lease and use agreements.

Wichita Mid-Continent Airport has traditionally entered into negotiated lease and use agreements with the airlines. The trend has been to develop shorter-term agreements as time progressed to the current two-year agreement which ends on December 31, 2004.

The Federal Government in defining airport "proprietor's rights" has protected the ability of states and their subdivisions to establish reasonable fees and charges for doing business on airports. The State of Kansas has granted the Wichita Airport Authority the power to establish its rental rates, fees and charges.

As a result of the State of Kansas authorizing the City of Wichita to issue General Obligation Bonds for airport improvements and the willingness of City Council to do so, there has been no need or requirement to request that the airlines serving Mid-Continent share in the risk of operating the airport. The entire risk of Wichita Mid-Continent Airport is borne by the City of Wichita and the Wichita Airport Authority. Further, as a result of this posture it is not necessary to share control of development at the facility with the airlines nor is it necessary to grant them control of rates and charges.

It is a national trend for airports to establish their rentals, fees and charges by ordinance or short-term permits as opposed to the contractual agreement process. Some of the benefits of the short-term permit process are:

- Flexibility for the airport to move airlines within the terminal building to suit the current operational needs.
- Airlines would not be obligated to pay rentals on facilities not in use if they exit the market.
- Rentals, fees and charges could be adjusted more frequently to reflect current expenses of operation.
- No need for extended negotiations. However, it may be advisable to inform the airlines of the basis for the rentals, fees and charges.
- Permits would require less administration. Actually, several airlines ignore the execution of the current standard agreement.

It is recommended that staff develop an ordinance/permit process to replace the agreements which expire on December 31, 2004. This would alleviate the lengthy negotiation process and eliminate the need to hire a consultant. It would also give the airport more control of the facility if it were necessary to relocate an airline.

Discussion ensued. Current rental rates in the terminal building are based on historical costs. On a new terminal building, rates can be based on street pricing. It was questioned whether or not the airlines would favor a permit rather than a long-term lease, and risk paying higher facility rentals.

Motion by Swanson to direct staff to develop a permit process to replace the airline agreements. Motion carried 9-1.

Rental Car Lease Plan

There are currently eight car rental concessions operating out of seven separate leased spaces in the baggage claim area of Mid-Continent Airport. All terminal space agreements with these companies expire the end of November 2004. A few of these companies also maintain a separate lease for vehicle service centers located on airport property. All land lease arrangements are up for renewal at the end of November 2004.

Under the terms of the existing terminal agreements, each car rental concession pays a square foot rental rate for area in the terminal. For the three agencies that also occupy a service center on airport land, there is a land lease, which converts to the fair market value facility lease upon renewal this year.

Each company also pays a rental charge for exclusive vehicle parking spaces in the front and side of the terminal building. The proportion of spaces allotted to each is formulated based on the market share of each and the total number of companies serving the airport. In addition, the car rental companies also pay a concession fee of ten percent of gross receipts or a minimum, whichever is greater.

Compared to the rest of the airport industry, Mid-Continent Airport handles its arrangement with the car rental concession in a similar fashion. The great majority of airports nationwide generate the revenues from rentals and a percentage of gross receipts. The gross receipt and rental rates will be the only variation.

Given the fact that the airport is conducting a terminal building plan designed to determine whether to do a major remodeling of the existing building or construct a new one, it appears that the most prudent approach for both the airport and the car rental concessionaires is to extend the existing agreements on a year-to-year basis. Although the terminal study should be completed soon, the decision to proceed with a recommendation may take several months to evolve. It is recommended that once the project is actually under construction (between one and one-half to two years after design, bid, and notice to proceed) a new car rental request for proposals be offered. This timing would allow the airport to assess industry trends at that time and current market conditions. It will also be known as to what amount of space is allotted for car rental conditions in the new building. An RFP would be issued between nine months to a year ahead of the expiration, consistent with past practice.

A similar approach would be applied to the three service center agreements, to extend the contract on a year-to-year basis. However, due to the fact that the leases now convert to a facility lease, it is now necessary to engage an independent appraiser to determine fair market value of the property so a conversion to new rental rates can be made.

There was discussion concerning lease terms and allocation of parking spaces.

Motion by Fletcher to approve the staff's recommendation. Motion carried unanimously.

Master Plan/Terminal Plan Update

Bell reported the master plan should be finished within 60 days.

Discussion ensued regarding a parking garage. With the new terminal plans, there will be ample parking on both sides of the building and across the street, therefore it will not be necessary to build a parking garage at this time. The cost of a parking garage was estimated at \$15 million. The board recalled a previous discussion regarding increasing parking fees to pay for a parking garage. Bell stated that the plans would allow a parking garage to be built on either side of the terminal building in the future.

April 2004 Statistical/Project Report

Total passengers in April increased 17.73% over April 2003.

Other Business

Bell will present the Airport budget to the City's budget personnel on June 9. The budget office is not recommending the WAAB's decision to add a position to market airport property. There are proposals for an engineering intern for the summer and a custodial worker to take care of the second floor of the terminal building. The Board's position regarding the public safety fees is not included in the preliminary budget. Bell stated the Airport budget will also be presented to the City Council.

Meeting adjourned at 4:35 p.m.

Valerie Wise, Clerk