



Summary of Airline Rates and Charges

Kansas City Aviation Department
Kansas City International Airport

January 2006

This document is intended to be a summary of the Airline Use and Lease Agreement dated May 1, 2005. Should any differences exist between this document and the Agreement, the Agreement shall prevail.

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
MISSOURI

PURPOSE OF THIS DOCUMENT

The methodology for calculating airline rates and charges is provided in the Airline Use and Lease Agreement (the Agreement). Since the Agreement is effective over a number of years, it is probable that personnel changes—both for the City and Signatory Airlines—will occur. The purpose of this document is to provide all current and future personnel responsible for administering airline rates and charges and all other interested parties with an updated summary of all of the major terms, concepts, and procedures included in the Agreement.

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AIRLINE RATES AND CHARGES OVERVIEW

The Kansas City Aviation Department charges airlines certain fees to recover operating and capital costs for its airport system, which consists of Kansas City International (the Airport), Charles B. Wheeler Downtown, and Richards-Gebaur airports. As discussed later, the primary components of the Airport's airline rates and charges are landing fees, terminal rents, apron fees, and loading bridge fees. Each fee recovers the operating and capital costs associated with a specific cost center (e.g., the Airfield Area or the Terminal Buildings).

Capitalized terms throughout this document are as defined in the Bond Ordinances or Airline Use and Lease Agreement.

HISTORY OF AIRLINE USE AND LEASE AGREEMENTS AT THE AIRPORT

In August 1967, the City of Kansas City and eight airlines entered into the first use and lease agreement for the Airport. The original 1967 agreement had a 28-year term, was executed in September 1969, and became effective upon the Airport's opening on November 11, 1972. The main purpose of the 1967 agreement was to provide for the repayment of approximately \$53 million in bonds that were issued to fund the construction of the Airport, which is located 18 miles north of downtown.

The 1967 agreement was replaced by a use and lease agreement executed in 1982. This second agreement had a 16-year term through May 1998.

The third use and lease agreement was executed in May 1998 and had a five-year term. Two, 1-year extensions were subsequently added, and the 1998 agreement expired on May 2005.

During the extension period of the 1998 agreement, the City negotiated its fourth and current Use and Lease Agreement (the Agreement) with the airlines operating at the Airport, which are listed in the next section of this document. This Agreement has a 4-year term, becoming effective on May 1, 2005, and expiring on April 30, 2009.

Throughout the first three use and lease agreements, the terms and the methodology used to calculate airline rates and charges remained relatively unchanged. The current Agreement is a departure from the previous use and lease agreements in that certain costs—such as, but not limited to, City-maintenance of the baggage systems and airline utility expenses—will be directly recovered from the airlines.

CURRENT AIRLINE USE AND LEASE AGREEMENT SUMMARY

Signatory Airlines

Currently, the Signatory Passenger Airlines at the Airport include: Air Canada, Air Midwest, AirTran, America West, American, Continental, Delta, Frontier, Midwest, Northwest, Southwest, United, and US Airways. Current Signatory Cargo Airlines include Airborne Express, BAX Global, FedEx, and UPS.

Rate-Making Methodology

The City uses a hybrid methodology for calculating airline rates and charges: a residual approach is used to recover Costs (discussed later) associated with the Airfield Area and certain costs associated with the Loading Bridges, and a compensatory approach is used to recover Costs associated with the Terminal Buildings (including the Terminal Aprons and certain other costs associated with the Loading Bridges). Under the residual methodology, the airlines are responsible for paying the net Costs of the Airfield Area and certain costs associated with the Loading Bridges, and under the compensatory methodology, the airlines are responsible only for the Costs related to their specifically leased Terminal Buildings and Aprons space as well as certain costs associated with specifically leased Loading Bridges.

The methodology for calculating airline rates and charges is to determine first the Costs to be recovered in each cost center by adding together all allocable Operation and Maintenance Expenses; Depreciation Charges; Amortization Charges; Debt Service; Debt Service Coverage, Expensed Capital Maintenance Projects and Equipment and Capital Outlays; and Fund Deposit Requirements. Certain credits are applied to the Costs of the Airfield Area, as discussed later.

To determine the rate associated with each cost center, net Costs are divided by a unit specific to each cost center (e.g., airline landing weight or square footage of leased terminal space) to determine the rate.

Airline Rates and Charges Process

The Airport's Fiscal Year begins May 1 and ends April 30. Under the Agreement, there are three calculations of airline rates and charges that occur each Fiscal Year:

- **Budgeted Rates and Charges.** The calculation of budgeted airline rates and charges prior to the beginning of each Fiscal Year to reflect budget Costs for the same Fiscal Year.
- **In-Year Adjustment of Rates and Charges.**¹ An In-Year Adjustment of the Airfield Area Effective Use-Fee occurs during any Fiscal Year in which there is a variance in the Net Airfield Area Cost of 5% over or under the budgeted amount. The In-Year Adjustment of the Airfield Area Effective Use-Fee is provided for under the Agreement, but it is at the discretion of Airport management to implement the In-Year Adjustment.
- **Year-End Adjustment of Rates and Charges.**² At the end of each Fiscal Year, the City is required to perform a reconciliation of the prior year's airline rates and charges using actual revenues and expenses. Essentially, the City recalculates airline rates and charges to reflect actual—rather than budgeted—expenses during the same Fiscal Year.

¹ Section 407 of the Agreement.

² Section 406 of the Agreement.

Under the terms of the Agreement, the City must perform the Year-End Adjustment within six months following the close of the Fiscal Year. If an airline has overpaid its rentals, fees, or charges based upon this reconciliation, the City reimburses the airline within 30 days of the Year-End Adjustment or applies a credit towards future airline payments.

Airport Cost Centers

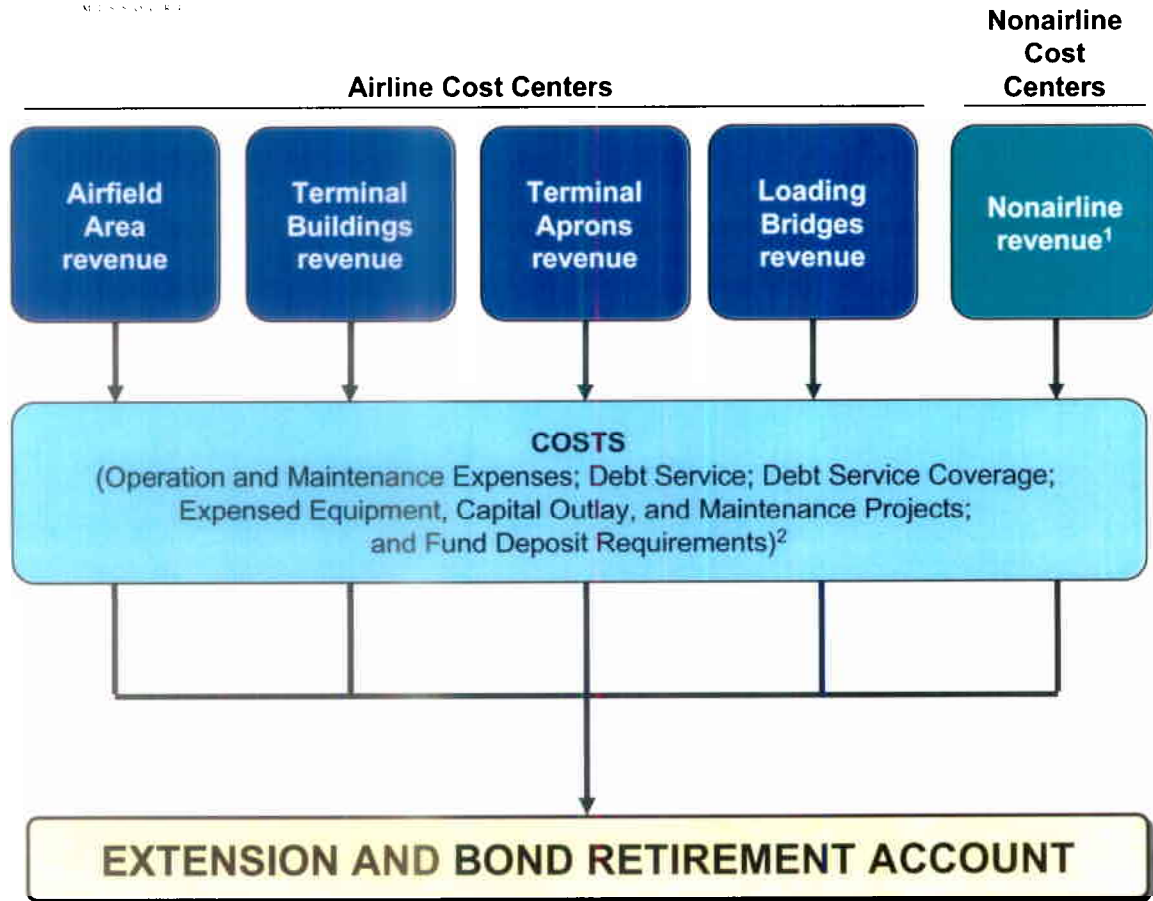
A cost center is an area of activity where there is a reason to accumulate costs and revenues. At the airport there are five of these cost centers—four airline and one nonairline—that are used to accumulate both Airport operating expenses and capital investments in Airport facilities:

Airline Cost Centers

- **Airfield Area**, which includes all runways, taxiways, associated navigational and operational aids, and other airside properties.
- **Terminal Aprons**, or that space extending from the outside wall of the Terminal Buildings to the edge of the pavement used for the parking, loading, and unloading of aircraft.
- **Terminal Buildings**, or the three passenger terminals A, B, and C.
- **Loading Bridges**, or the jetways able to extend from the Terminal Buildings to aircraft on the Terminal Aprons.



Kansas City Aviation Department Sources and Application of Revenues



¹ Includes Reliever Airports revenues. Reliever Airports are Downtown and Richards-Gebaur airports.

² Reflects "cash" Costs only.

Nonairline Cost Centers

- **Nonairline Cost Centers**, or all other cost centers not defined or identified above.

As shown above, all Revenues remaining after paying Costs are deposited into the Airport's Extension and Bond Retirement Account, as required by the Bond Ordinances.

RATE-BASE COSTS INCLUDED IN EACH AIRLINE COST CENTER

Within each airline cost center, the Agreement includes various costs to be recovered through airline rates and charges. These costs, both operating and capital, are defined in the Agreement as "Costs" and are used to establish airline rates and charges each Fiscal Year:

- Operation and Maintenance Expenses
- Depreciation Charges
- Amortization Charges
- Debt Service
- Debt Service Coverage
- Expensed Capital Maintenance Projects and Equipment and Capital Outlays
- Fund Deposit Requirements

Under certain conditions described in Article VIII of the Agreement, the City must obtain approval from Signatory Airlines to include any Amortization Charges or Debt Service costs in the calculation of the Airfield Area Effective Use-Fee. In situations that require approval, the City is required to supply the Signatory Airlines with a detailed cost estimate, a description of the project scope, and a summary of the projected impact on rates and charges. The City must also hold a consultation meeting with Signatory Airlines. Signatory Airlines have 30 days following this meeting to register their disapproval of the proposed Capital Project.

The Agreement provides that projects completed or begun prior to the Effective Date of the Agreement can be included in the rate base without subsequent airline approval.³ These projects are detailed in Exhibit 22, Airfield Area Projects.

Operation and Maintenance Expenses

The Kansas City Aviation Department consists of 20 divisions. The total costs of operating all divisions equal the Operation and Maintenance Expenses of the entire Airport. Each division is identified as either direct or indirect.

O&M Expenses in direct divisions are directly attributable to certain cost centers (e.g., O&M Expenses in the Custodial division are allocated directly to the Terminal Buildings cost center, as the Custodial division performs services from which the Terminal Buildings cost center directly benefits). Direct O&M Expense divisions include Airport Police, Parking and Transportation, Airport Operations, Field Maintenance, Custodial Maintenance, Structural Maintenance, Fleet Maintenance, Downtown Airport, and Richards Gebaur Airport.

O&M Expenses in indirect divisions are generally overhead expenses related to activities from which all cost centers benefit (e.g., the Accounting and Finance Division is an essential division to the Airport; however, its expenses are attributable Airport-wide and not to a specific cost center). O&M Expenses in indirect divisions are thus allocated to direct cost centers based on their relative share of Direct O&M Expenses. Indirect O&M Expense divisions include: Airport Administration, Human Resources, Accounting and Finance, Information Technology, Marketing,

³ Section 801 of the Agreement.

Commercial Development, Environmental Management, and Engineering. Exhibit G of the Agreement details certain methodologies used to allocate O&M Expenses.

Certain O&M Expenses are recovered fully from airlines. These Airline Specific Expenses are related to operations from which the airlines are the sole beneficiary. Airline Specific Expenses include baggage handling operations and maintenance expenses, utilities expenses for Airline Specific facilities, and cleaning service expenses for Airline Specific Areas.

Depreciation Charges

Pursuant to the Agreement, Depreciation Charges are applicable only for those assets being depreciated under the previous Airline Use and Lease Agreement. When these assets are fully depreciated, Depreciation Charges will no longer be included in the rate base.

Amortization Charges

Under the Agreement, the City recovers any Airport funds expended on Capital Projects, Capital Maintenance Projects, and Equipment and Capital Outlays in excess of \$500,000 through Amortization Charges. As defined in the Agreement, Amortization Charges evenly spread the cost bases of these projects and the associated cost of capital over the projects' estimated useful lives. When calculating Amortization Charges, the discount rate used is the current rate of interest on U.S. Treasury bonds with the same term as the estimated useful life of the project.

Amortization Charges include two components: an annual interest expense and an annual repayment of capital spent by the City on Capital Projects at the Airport. Project costs recovered through Amortization Charges are funded from the Extension and Bond Retirement Account.

Debt Service and Debt Service Coverage

Project costs funded from the net proceeds of Bonds are recovered through Debt Service. Like Amortization Charges, Debt Service costs include two components: an annual interest expense and an annual repayment of capital spent by the City on Capital Projects at the Airport.

Debt Service costs are generally allocated to cost centers on a project-benefit basis; that is, the Debt Service costs related to project costs that benefit certain cost centers are allocated to that cost center. Since a Bond issuance may include different projects that benefit different cost centers, Debt Service costs associated with a particular Bond issuance may not be fully allocated to one cost center.

Pursuant to the Agreement, the City is allowed to include Debt Service Coverage in the calculation of airline rates and charges. Debt Service Coverage is equal to 25% of Debt Service in the same Fiscal Year, less the Debt Service Coverage charged and recovered by the City in prior Fiscal Years. The incremental deposits (the current

year Debt Service Coverage amount less prior year's Debt Service Coverage) are allocated to cost centers based on their relative share of Debt Service.

Expensed Capital Maintenance Projects and Equipment and Capital Outlays

Capital Maintenance Projects and Equipment and Capital Outlays less than \$500,000 are expensed; that is, the entire cost of such projects is included in the rate base on the projects' Substantial Completion Dates. Pursuant to the Agreement, this maximum expense of \$500,000 is indexed to inflation using the Consumer Price Index.

Fund Deposit Requirements

The City maintains an Airlines Operation and Maintenance Account as a contingency in the case of any significant disruption to the Airport's normal operations. This account maintains two months' reserve of O&M Expenses. Incremental deposits to this Account are allocated to cost centers based on their relative share of Operation and Maintenance Expenses.

Other Allowable Rate-Base Costs

The Agreement also allows the City to include in the calculation of the Airfield Area Cost (discussed later) any uncollected Airfield Area Use-Fees that are more than 90 days past due, after any security deposits have been applied.⁴

⁴ Section 409(D) of the Agreement.

CALCULATION OF AIRLINE RATES AND CHARGES

Airfield Area Effective Use-Fee

The Airfield Area Effective Use-Fee, or landing fee, is expressed in dollars per thousand pounds of landed weight and recovers the Costs (as defined and discussed earlier) of the Airfield Area cost center. The Airfield Area Use-Fee is calculated using a residual methodology whereby the Signatory Airlines are responsible for paying the net Costs of operating the Airfield Area.

The Airfield Area Use-Fee is calculated by deriving the total annual Airfield Area Cost, which includes allocable Operation and Maintenance Expenses; Debt Service; Debt Service Coverage; Depreciation Charges; Amortization Charges; Expensed Capital Maintenance Projects and Equipment and Capital Outlays; and Fund Deposit Requirements.

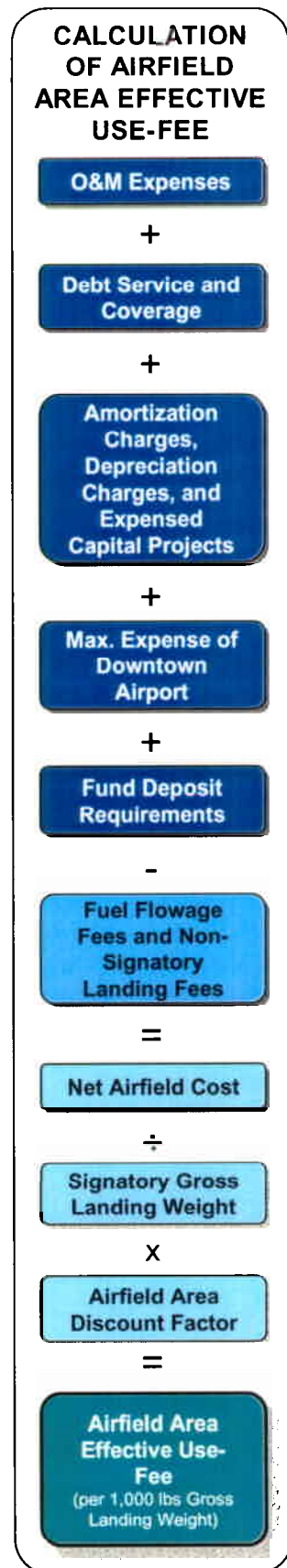
Also included in the calculation of the Airfield Area Cost is the Maximum Expense of Downtown Airport, which is used to recover expenses related to the operation of Charles B. Wheeler Downtown Airport. The Maximum Expense of Downtown Airport is established for the term of the Agreement.

Fuel Flowage Fees and Non-Signatory Airline landing fees are then credited against Airfield Area Costs to determine the Net Airfield Area Cost. The Net Airfield Area Cost is then divided by the estimated total landing weight of all Signatory Airlines to derive the Airfield Area Use-Fee.

The Airfield-Area Discount Factor is then applied to the Airfield Area Use-Fee to determine the Airfield Area Effective Use-Fee. This discount factor is 90% in the first year and increases 3.33% each subsequent year and equals 100% upon termination of the Agreement.

The Non-Signatory Airline Airfield Area Effective Use-Fee is 125% of the Signatory Airline Airfield Area Effective Use-Fee.

The calculation of the Airfield Area Effective Use-Fee is detailed in Exhibits 1 (current year) and 12 (projections).



Terminal Aprons Rate and Overnight Fee

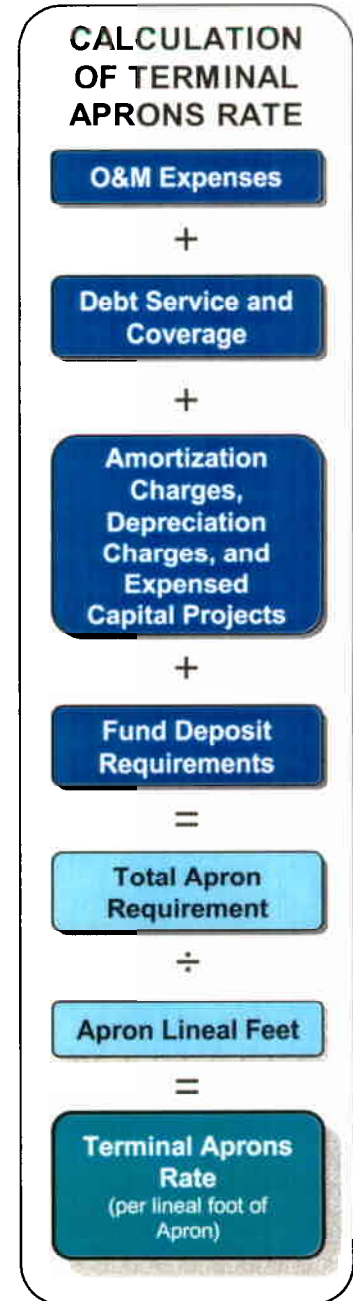
The Terminal Aprons Rate is expressed in dollars per lineal foot of leased space and recovers the Costs (as defined and discussed earlier) of an aircraft parking position at the Terminal Buildings. The Terminal Aprons Rate is calculated using a compensatory methodology, whereby airlines pay only for the space they lease.

The Terminal Aprons Rate is calculated by deriving the Terminal Aprons Cost, which includes allocable Operation and Maintenance Expenses; Debt Service; Debt Service Coverage; Depreciation Charges; Amortization Charges; Expensed Capital Maintenance Projects and Equipment and Capital Outlays; and Fund Deposit Requirements. The Terminal Aprons Cost is then divided by the total apron lineal feet for all three Terminal Buildings to determine the Terminal Aprons Rate.

Additionally, an airline must pay a \$125 Terminal Aprons Overnight Fee per night per aircraft for those aircraft that are greater in number than the Loading Bridges leased by that airline.

The Non-Signatory Terminal Aprons Rate and Overnight Fee are 125% of the rate for Signatory Airlines.

The calculation of the Terminal Aprons Rate is detailed in Exhibits 2 (current year) and 13 (projections).



Terminal Buildings Rental Rate

The Terminal Buildings Rental Rate is expressed in dollars per square feet of leased space and recovers the Costs (as defined and discussed earlier) of the Terminal Buildings cost center. Like the Terminal Aprons Rate, the Terminal Buildings Rental Rate is calculated using a compensatory methodology, whereby airlines pay only for space that they lease.

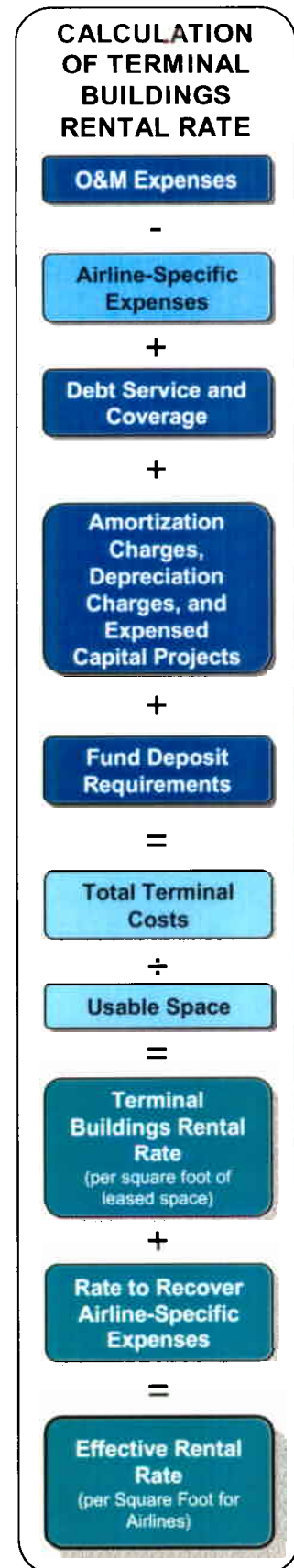
The Terminal Buildings Rental Rate is calculated by determining the total Terminal Buildings Cost, which includes allocable Operation and Maintenance Expenses less Airline Specific Expenses (i.e., baggage handling and maintenance fees and utilities and cleaning expenses for airline-leased space; discussed later); Debt Service; Debt Service Coverage; Depreciation Charges; Amortization Charges; Expensed Capital Maintenance Projects and Equipment and Capital Outlays; and Fund Deposit Requirements.

The Terminal Buildings Cost is then divided by total Usable Space to determine the average rental rate per square foot.

Added to the Terminal Buildings Rental Rate is a rate to recover Airline Specific Expenses. This supplemental rate is calculated by summing these expenses and dividing by total airline-rented space to determine the effective terminal rental rate per square foot for Signatory Airlines.

The Non-Signatory Airline rental rate is 125% of the Terminal Buildings Rental Rate for Signatory Airlines.

The calculation of the Terminal Buildings Rental Rate is detailed in Exhibits 3 (current year) and 14 (projections).

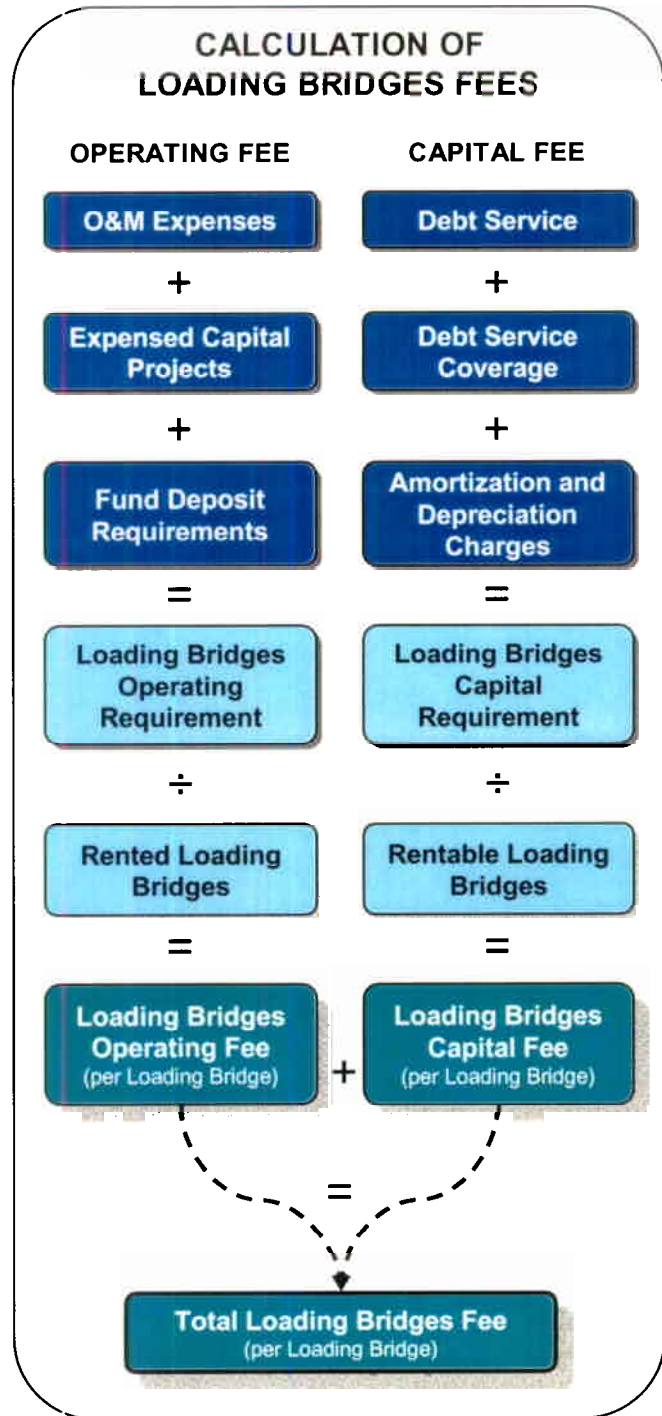


Loading Bridges Fee

The Loading Bridges Fee consists of a fixed fee per loading bridge to recover Costs (as defined and discussed earlier) associated with the Loading Bridges cost center. The fee consists of separate Operating and Capital components.

The Operating Fee is calculated by summing the allocable Operation and Maintenance Expenses; Expensed Capital Maintenance Projects and Equipment and Capital Outlays; and Fund Deposit Requirements and dividing by the number of *rented* loading bridges at the Airport. Since airlines pay only for rented Loading Bridges, the Operating Fee component is determined using a compensatory methodology.

The Capital Fee is calculated by summing Debt Service costs, Amortization Charges, Depreciation Charges, and any required incremental Debt Service Coverage and dividing by the number of *rentable* loading bridges at the Airport. Since airlines pay for the capital costs associated with the rental of all Loading Bridges at the Airport, the Capital Fee component is determined using a compensatory methodology.



The Loading Bridges Fee for Non-Signatory Airlines is 125% of the fee for Signatory Airlines.

The calculation of the Loading Bridges Fee is detailed in Exhibits 4 (current year) and 15 (projections).