ACI-NA ECONOMIC AFFAIRS COMMITTEE

Managing Risk in an Environment of Reduced Hubbing

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DISCUSSION POINTS

- Lambert-St.Louis International Airport (STL) Before American Airlines (AA) service reductions.
- Overview of Key Airline Activity Statistics Before/After AA Service Reductions.
- Airport Management's Plan of Attack (Short and Long Term Strategies.
- Results from Short and Long Term Strategies
- Future Challenges Facing STL.

STL Before AA Service Reductions

- STL had a long history of dealing with troubled carriers.
  – During the early 1990's the current hub carrier was entering into its second bankruptcy
  – Management developed strategy to minimize bankruptcy risk
- Airport purchased assets of the carrier with proceeds of 1993A bonds
  – TWA gates, terminal facilities and certain other fixed assets.

STL Before AA Service Reductions (cont.)

- Airport purchased assets of the carrier with proceeds of 1993A bonds.
  - Successfully negotiated an amendment to TWA's Use Agreement in 1993 which converted lease rights from exclusive to preferential
  - Proceeds from the sale assisted carrier in coming out of its second bankruptcy
- April 2001 AA purchased the remaining assets of the troubled carrier including its STL lease.

Comparison of Key Airline Activity Statistics

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	FY 2003 [2]	FY 2004 [3]	FY 2005 [4]
Landed Weight [1]	19,285,035	12,175,529	9,996,474
Enplanements	11,828,229	8,017,619	7,048,359
Cost Per Enplanement	$6.03	$8.09	$8.58

[1] Landed weights in 1,000 lb units

[2] Year prior to AA's service reduction

[3] AA reduces service effective 11/1/2003

[4] Year after AA's service reduction.

Note: Airport fiscal year begins July 1st

STL's Management's Response

- Management initiated early action in June 2003 anticipating the AA service reductions.
- Developed short and long term strategies following the AA service reductions.

Short-Term Strategies:

1. Reviewed Operating and Maintenance expenditures (O&M) and 5-year Capital Improvement Plan (5 year CIP).
2. Initiated discussions with FAA concerning additional discretionary funding for new runway and other 5-year CIP projects.

STL Management's Response (cont.)

Long-Term Strategies:

1. Review funding plan for new runway for cost reduction opportunities or change in funding sources.
2. Seek new airline tenants
3. Develop incentive strategies for existing airlines to increase service.
4. Strengthen Airport's position during Airline Use and Lease Agreement negotiations.

Results of Management's Response

<u>Short-Term Results:</u>

1. Reduced O&M cost by $12 million
2. Reduced 5 year CIP and reprioritized projects totaling $90 million
3. Obtained increase in LOI funding - $50 million for new runway

Results of Management’s Response (cont.)

Long-Term Results:

1. Revised funding plan for new runway resulting in the use of more FAA funding and less equity resources (ADF)
2. New airline entrants with STL (i.e. Frontier, Air Tran, USA 3000)
3. Developed incentive programs for both existing and new airline entrants (i.e. rate mitigation and new service incentive program)
4. Strengthen the Airport’s position with New Airline Use and Lease Agreement (i.e. shorter lease term, all preferential gates, negative MII approval)

Future Challenges facing STL

- Identify new and expand existing non-airline revenue sources (i.e. development of collateral land, improve concession operations, increase access fees)
- Re-evaluate the current rate methodology for the terminal to determine optimum methodology for recovering all Airport costs.
- Continue to foster relationships with the FAA to ensure priority given to allocation of discretionary dollars.
- Continue to evaluate optimum use of existing Airport facilities under current enplanement level.
- Maintain and enhance relationship with carriers