

HPB

322

HB 322 TITLE & SPONSOR SUMMARY

AMENDED TITLE:

AN ACT INCREASING THE BOND AUTHORIZATION FOR INTERNATIONAL AIRPORT REVENUE BONDS TO \$62,825,000; AND PROVIDING FOR AN EFFECTIVE DATE

PRIME SPONSOR: HOUSE RULES COMMITTEE.

CO-SPONSORS:

CURRENT STATUS: 6/22/83 CHAPTER 0025 SLA 83

HB 322 HOUSE ACTION  
DATE SEQ PAGE

LEGISLATIVE ACTION

04/04/83	01	0725	FIRST READING -- COMMITTEE REPORTS
04/04/83	02	0725	GOV TRANSMITTAL LETTER
04/04/83	03	0725	F/NOTE HSE SUPPL #33
04/26/83	04	1035	TRAN -- DP06, NR01
05/20/83	05	1465	FIN -- DP09, NR01
05/21/83	06	1478	SECOND READING
05/21/83	07	1478	ADVANCED TO 3RD READING BY UNAN CONSENT
05/21/83	08	1478	THIRD READING
05/21/83	09	1478	PASSED BY DIV 36-00-04
05/21/83	10	1478	EFFECTIVE DATE VOTE SAME AS PASSAGE
06/20/83	20	1837	TRANSMITTED TO GOVERNOR
06/22/83	21	1920	SIGNED BY GOVERNOR-CH0025, EFF 06/23/83

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HB 322 SENATE ACTION  
DATE SEQ PAGE

LEGISLATIVE ACTION

05/23/83	11	1078	FIRST READING -- COMMITTEE REPORTS
06/15/83	12	1316	TRAN -- DP05
06/16/83	13	1342	MOVED FROM FIN TO RLS BY UNAN CONSENT
06/17/83	14	1358	RLS -- OTHER05 TAKEN UP IMMEDIATELY
06/17/83	15	1368	SECOND READING
06/17/83	16	1368	ADVANCED TO 3RD READING BY UNAN CONSENT
06/17/83	17	1368	THIRD READING
06/17/83	18	1368	PASSED BY DIV 19-00-01
06/17/83	19	1368	EFFECTIVE DATE VOTE SAME AS PASSAGE

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SEE HB 321

## House Bills 321 and 322: Background

House Bills 321 and 322 (companion bills to Senate Bills 266 and 264, respectively) were introduced by the Governor and would raise the bonding limit for the International Airport system by \$28 million to \$62,825,000 from \$34,825,000, and would appropriate \$28 million from the International Airport Revenue Fund (IARF) to the Department of Transportation and Public Facilities for code upgrades, remodeling, expansion and equipping the domestic terminal in Anchorage. The Senate bills have already been passed out of this committee and are in the Senate Rules Committee.

Before considering these bills, it may be helpful to look at some of the components of the the International Airport System. The system has one of the few dedicated funds in the state in the International Airport Revenue Fund (IARF). Income for the IARF comes from a number of sources including the net revenues for the international airport system, appropriations from the legislature and federal airport aid monies. Payments from the fund go toward the capital improvement program for the system.

The system receives heavy traffic for an international airport system of its size. Note that most of the international traffic moves through the Anchorage facility. The nature of travel in Alaska, (i.e. the great distances between population centers) and the state's location on global routes have contributed to this the large volume of use. This has proven to be an attractive situation for carriers and concessionaires choosing to locate and operate in the Alaska and international travel trade.

Non-airline activities associated with air travel (duty-free shops, restaurants, bars, banking services) generate substantial revenues that have enabled the Department of Transportation and Public Facilities (DOT/PF) to operate the international airports with infrequent increases in user fees for air carriers and other users of the system. Net revenues of up to \$12.1 million annually, after debt service on bonds were paid into the IARF. It has been possible for the airport system to undertake a capital improvement program supported by the IARF. The International Airport Terminal in Anchorage, completed last year, was paid for in cash from the fund at a cost of \$25 million.

With such positive cash flows and revenues paid into the fund it was not necessary to raise user fees or rates in the system. Rates were held artificially low, presumably, to create an attractive atmosphere for carriers and concessionaires to operate. Land and building rates have not been increased since the late 1960's and early 1970's. It should be noted that inflation has more than doubled over this period and rates and charges for services have not likewise been increased by the system.

The purpose for these bills is to enable the International Airport system to undertake necessary capital improvements over the next six fiscal years. Improvements at the Anchorage facility will include renovation and expansion of the domestic terminal, parking garage, roadway and utility construction and new emergency equipment building for a total of \$137,800,000. Capital improvements at Fairbanks will include: runway extension and terminal building expansion through fiscal year 1988 for a total of \$38,892,000.

If present cash flow patterns are maintained, the IARF will not be able to fund these improvements totalling over \$176 million, even with the issuance of \$28 million of revenue bonds. During 1981 and 1982, net revenues for the International Airport system after debt service were \$11.8 and \$12.1 million, respectively. However, net revenue is projected to decline to approximately \$4 million per year due to increased operating costs and operation of new facilities.

Today the IARF contains approximately \$25 million. If the six year CIP program is to be undertaken and completed by Fiscal year 1988, there will have to be significant increases in rates and fees charged for facility usage. As demonstrated by the attached chart the IARF will only be able to support the bond issue proposed in HB 322 leaving a significant portion of the six year program uncompleted unless revenues are raised significantly.

Over the past several years the operators of the International Airport system were unable to deliver bad news to lessees in the form of rate increases. With State revenues declining and the demonstrated ability of the IARF to provide for capital improvements, it is imperative that user charges, which have remained nearly constant over the last twelve years, be increased to provide the necessary funds for expansion so they do not need to come from the State General Fund.

BASE CASE ASSUMPTIONS

	<u>1980</u>	<u>1981</u>	<u>Historical</u> <u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Projection</u> <u>1986</u>	<u>1987</u>	<u>1988</u>
<b>Revenues</b>									
Anchorage International Airport									
Airfield Area				9877000	10102000	10450000	10828000	11146000	11454000
Main Terminal Area				4990000	5365000	5805000	7321000	7877000	8646000
International Terminal Area				8659000	9786000	11079000	12518000	14323000	16062000
Building and Grounds Area				691000	707000	725000	745000	765000	786000
	<u>19345032</u>	<u>21560232</u>	<u>23242000</u>	<u>24217000</u>	<u>25960000</u>	<u>28059000</u>	<u>31322000</u>	<u>34111000</u>	<u>36948000</u>
Fairbanks International Airport									
Airfield Area				2870000	2919000	3187000	3250000	3549000	3630000
Terminal Area				905000	1002000	1059000	1240000	1447000	1501000
Building and Grounds				373000	381000	390000	399000	410000	420000
	<u>2039849</u>	<u>3568579</u>	<u>3681000</u>	<u>4140000</u>	<u>4302000</u>	<u>4636000</u>	<u>4889000</u>	<u>5406000</u>	<u>5551000</u>
Total Revenue	<u>22384881</u>	<u>25128811</u>	<u>26923000</u>	<u>28365000</u>	<u>30262000</u>	<u>32695000</u>	<u>36211000</u>	<u>39517000</u>	<u>42499000</u>
<b>Expenses</b>									
Anchorage International Airport									
Airfield Area				7328000	7915000	8549000	9238000	9979000	10781000
Main Terminal Area				4568000	4951000	5359000	6405000	6933000	7505000
International Terminal Area				2954000	3198000	3462000	4144000	4833000	4850000
Building and Grounds Area				606000	658000	713000	821000	889000	963000
	<u>8553048</u>	<u>9127968</u>	<u>10090200</u>	<u>15456000</u>	<u>16722000</u>	<u>18083000</u>	<u>20608000</u>	<u>22284000</u>	<u>24099000</u>
Fairbanks International Terminal									
Airfield Area				3778000	4081000	4409000	4763000	5146000	5559000
Terminal Area				2002000	2172000	3342000	3685000	4004000	4351000
Building and Grounds Area				315000	342000	449000	488000	529000	575000
	<u>3928692</u>	<u>4348961</u>	<u>5138600</u>	<u>6095000</u>	<u>6595000</u>	<u>8200000</u>	<u>8936000</u>	<u>9679000</u>	<u>10445000</u>
Less: reimbursed expenses	67200	62400	43800						
Total Expenses	<u>12415340</u>	<u>13414529</u>	<u>15095000</u>	<u>21551000</u>	<u>23317000</u>	<u>26283000</u>	<u>29544000</u>	<u>31963000</u>	<u>34584000</u>
Nonoperating revenue (expenses)	2527129	2610375	2957126						
Debt Service - existing bonds	1927000	1928000	1930000	1945000	1946000	2014000	1940000	1944000	2147000
Debt Service - proposed bonds (i.e. HB 322)							3188000	3866000	3866000
Net Revenue	<u>10569670</u>	<u>12396657</u>	<u>12755126</u>	<u>4869000</u>	<u>4999000</u>	<u>4398000</u>	<u>1539000</u>	<u>1744000</u>	<u>1902000</u>
Net revenues after debt service and 1.3 coverage	9991000	11818000	12176000	4285000	4415000	3793000	0	1000	98000

## Chapter 7

### ANALYSES OF FINANCIAL ALTERNATIVES

This chapter presents a review of airline rate-making approaches that are then used to analyze the IARF. Eight separate analyses are presented involving different assumptions with regard to revenue development alternatives and airline rate-setting approaches. A series of financial exhibits are included in each analysis, beginning with the "base case" (the "do-nothing" alternative).

#### RATE-MAKING APPROACHES

There are two basic approaches to calculating airline rates and charges followed at most U.S. airports today:

- Compensatory
- Residual cost

#### Compensatory Approach

Under a compensatory rate-making approach, the airlines pay rates and charges predicated on recovering the fully allocated operating and capital costs of the facilities they use. The calculation of rates and charges is based only on costs associated with airline areas. Rates charged to the airlines do not recover costs of concession space or public areas such as terminal lobbies, road systems, and parking improvements. Also, the airlines do not receive any credit for concession revenues generated at the airport nor do they in any way "guarantee" to keep the airport financially self-sufficient.

The airport sponsor uses concession revenues and other non-airline revenue sources to pay for public areas of the terminal facilities and all other airport costs not covered by the airline rates and charges.

Under the compensatory approach, the relationship between the sponsor and the tenants is an arm's-length "tenant/landlord" relationship. The basic role of the airline sponsor is that of an entrepreneur, with profit and retention of management control as the motives for providing facilities and services.

The sponsor undertakes a proprietor's risk in the operation of the airport--the risk that concessions and other nonairline revenue sources may not generate sufficient revenues to cover all operating and debt service costs not covered by airline fees and rates. The final responsibility for maintaining financial solvency and debt coverage falls on the airport sponsor, and on its ability to manage its lease and use agreements with nonairline tenants and concessionaires in a way to provide adequate cash flow to meet its financial obligations.

In the past, nonairline revenues at most airports using the compensatory approach have exceeded the sponsor's share of airport costs, and the sponsor has been able to generate surpluses. In recent years, however, costs of operation have grown faster than nonairline revenues. A significant number of sponsors using the compensatory policy are seeing the margin between airport revenues and airports costs narrowing. This trend is expected to continue.

#### Residual Cost Approach

Under this approach (sometimes referred to as a "breakeven" or "single cash register" approach), rates and charges are established to generate sufficient revenues from the airlines to meet all the airport's needs--to keep the airport whole--after first identifying airport costs and allowing credit for airport revenues from sources other than airline rates and charges.

The residual cost approach is an outgrowth of a "public utility" concept of airport operation, where considerations of service are primary and certainty of cost recovery is preferred to the risk of loss, even though it precludes the possibility of unlimited "profit."

With a residual cost approach, all tenants and concessionaires (including airlines) pay for all facilities dedicated to them, and in addition, the airlines guarantee to underwrite any airport expenses not otherwise covered. This approach results in a cooperative relationship between the airport and the airlines based on their mutual interest in service and cost control.

The airlines' position as a "last resort" for revenue provides assurance to the sponsor and the community that the airport can be operated without tax support.

In addition to providing security to the community and the sponsor that all costs will be recovered, a properly developed residual cost airline agreement should provide the sponsor with an additional cash flow (surplus) for its discretionary use.

The amount of the discretionary cash flow negotiated should be adequate to cover foreseeable needs. In effect, the discretionary funds provide a guaranteed surplus to the sponsor for the further development of the airport. The entrepreneurial risk in a compensatory agreement must be evaluated against this "guaranteed surplus," not against the level of income at which revenues just barely cover expenses.

The residual cost approach is based on the philosophy that the airport sponsor's primary role is to provide adequate, convenient public facilities and services paid for solely by airport users with no exposure to taxpayers. Although "profit" is not a goal, the residual cost approach can and usually does provide a means to assure adequate discretionary income (over and above direct cash costs) to meet foreseeable needs, providing management with a degree of financial flexibility. The extent of discretionary cash flow to be built in the rate base is an important element of the negotiation. The residual cost approach also provides added assurance to bond holders, in the form of airline "guarantees," that debt will be serviced every year.

In negotiating a residual cost agreement, the airlines usually insist on provisions in the agreement to permit direct participation in major airport economic decisions; the airline/sponsor relationship is similar to a financial partnership.

Under a compensatory approach, the rate-making process consists of identifying all the costs that can reasonably be attributable to the specific areas and facilities which the airlines use, and developing rates and charges to assure recovery of those costs. The negotiation with the airlines involves defining those costs and determining the fair share to be allocated to the carriers.

### Cost Centers

Before establishing new airline fees and charges, it will be important to develop proper cost data upon which to base the calculations.

The current budget components used by the State in the budgetary process (which is designed primarily to match revenues and expenditures against appropriations) do not provide appropriate data for setting fees and charges.

In lieu of historical data with which to develop these data, cost centers have been created for this report, with historical, budget, and projected revenue, expenses, and debt services allocated to them. This approach is helpful in performing

preliminary financial analyses; it is not an adequate substitute for developing an appropriate cost accounting system. The allocation procedures used in this report are simplified approaches. A more detailed approach will be required before rates and charges can be implemented.

The cost centers assumed in this report are intended to cover major areas of airport activity. For Anchorage International Airport, the cost centers are:

- Airfield Area
- Main Terminal Area
- International Terminal Area
- Building and Grounds Areas

For Fairbanks International Airport, the cost centers are:

- Airfield Area
- Terminal Area
- Building and Grounds Areas

The Airfield Area at each airport includes the runways, taxiways, aircraft aprons, airfield, navigation aids, and associated revenues and expenses.

The terminal cost centers (Main Terminal Area and International Terminal Area at Anchorage and the Terminal Area at Fairbanks International Airport) include the terminal buildings, roadways, automobile parking lots, and associated revenues and expenses.

The Building and Grounds Areas includes the portion of the Airport that includes general aviation, airline support, cargo, and other areas leased to tenants.

### FINANCIAL ANALYSES

The different financial analyses presented in this chapter are as follows:

1. Base Case (do-nothing alternative)
2. Group I revenue development alternatives
3. Group II revenue development alternatives and compensatory terminal building rentals

4. Group II revenue development alternatives and residual cost terminal building rentals
5. Group III revenue development alternatives and compensatory terminal building rentals and landing fees
6. Group III revenue development alternatives, compensatory terminal building rentals, and residual cost landing fees
7. Group III revenue development alternatives and residual cost terminal building rentals and landing fees
8. Group III revenue development alternatives, residual cost terminal building rentals, and compensatory landing fees

The related financial exhibits in the analyses are presented in the following order:

<u>Exhibit Series</u>	<u>Description</u>
A	Air Traffic Forecasts
B	Capital Improvement Program
C	Project Financing
D	Debt Service and Amortization
E	Revenues and Expenses
F	Airline Terminal Rentals
G	Airline Landing Fees

Several exhibits are presented that are used in more than one of the analyses. These exhibits are not repeated within each analysis; however, the reader will be referred to a previous exhibit where appropriate.

## BASE CASE

The objective of the Base Case analysis is to determine to what extent the DOT/PF may finance and construct the Capital Improvement Program if current policies are continued without change.

The analysis was prepared assuming no change in current policies with regard to airport rates, fees, and charges.

## Air Traffic Forecast

Exhibit A presents a summary of the air traffic forecasts presented in Chapter 2. The air traffic forecasts remain unchanged in each subsequent analysis presented in this chapter.

## Capital Improvement Program

Exhibits B-1 and B-2 present a summary of project costs for the Planned Capital Improvement Program (the "CIP") for Anchorage and Fairbanks International Airports, respectively. Project costs are allocated to airport cost centers based on the expected benefit from the individual project. Certain projects cannot be allocated to specific cost centers and are allocated on an equal basis. The allocation of project costs to cost centers will be used later in this chapter in the setting of airline fees and charges.

The summary of project costs presented in Exhibits B-1 and B-2 remains unchanged in each of the analyses presented in this chapter.

## Project Financing

Exhibit C presents a summary of project financing during the projection period.

Principal sources of funds available to finance the projects include bond proceeds of \$33.6 million, grants-in-aid of \$16.4 million, net revenues from operations during the projection period totaling \$17.5 million, net revenues from prior year (FY 1982 or earlier) operations totaling \$15.1 million, and interest income on construction funds, reserve accounts, and interest earned on funds required for the payment of interest on the bonds (capitalized interest) totaling \$8.9 million. A one-time General Fund contribution of \$9 million is included in FY 1983. No interest income is anticipated from this source.

Uses of funds available for CIP financing include payment of project costs of \$87.9 million, deposits to the Revenue Bond Fund for capitalized interest totaling \$7.4 million, a deposit to the reserve account of \$3.9 million, and issuance expenses totaling \$1 million.

The Base Case analysis shows that sufficient revenues would not be available to support the sale of revenue bonds in amounts sufficient to construct the full CIP. A shortfall in funds for constructing the CIP would occur in FY 1985.

### Debt Service and Amortization

Debt service on existing and proposed bonds is presented in Exhibit E.

### Revenues and Expenses

Exhibit E presents a summary of historical and projected revenues, expenses, debt service on outstanding and proposed bonds, net revenues, and net revenues remaining after debt service.

Debt service on the proposed bonds is based on the sale of the maximum amount of bonds that could be supported after the payment of all other IARF expenses and obligations, including debt service and coverage on outstanding bonds. Under the enabling legislation authorizing the issuance of IARF revenue bonds (Title 37, Chapter 15, Article 3 of Alaska Statutes), IARF net revenues must be at least equal to 130% of annual revenue bond debt service.

Net revenues after payment of debt service are assumed to be a source of funds for CIP financing. Net revenues would include the required coverage on the bonds.

Exhibits E-1 and E-2 present a summary of projected airport revenues allocated to airport cost centers for Anchorage and Fairbanks International Airports, respectively. The revenue projections on these exhibits will change under the varying assumptions contained in subsequent analyses.

Exhibits E-3 and E-4 present projected operating and maintenance expenses as allocated to airport cost centers. The expense projections were prepared under the assumption that the CIP would be constructed according to schedule and that the full amount of operating and maintenance expenses for the new facilities would be required. Since the objective of each of the analyses is to determine to what extent the CIP may be financed and constructed, these exhibits do not change in subsequent analyses.

### Airline Terminal Rentals

Airline terminal rental rates would remain unchanged for this analysis.

### Airline Landing Fees

Airline landing fees would remain unchanged for this analysis.

### Summary

The Base Case analysis, assuming that airline rates, fees, and charges would remain unchanged during the projection period, indicates that:

- The IARF could finance no more than about \$33.6 million in revenue bonds to support the projects included in the CIP.
- Net revenues (after payment of expenses of debt service) of about \$17.5 million would also be available to pay for project costs during the projection period.
- Although all maintenance and operating expenses and debt service obligations on outstanding revenue bonds would be met throughout the projection period, the CIP could not be constructed as planned. A shortfall in capital funds would probably occur during FY 1985.
- About \$87.9 million of the \$165.3 million identified in the CIP would be available for capital projects during the projection period. However, the receipt of these funds during the projection period would not allow for the completion of the project as planned.

Exhibit F

SUMMARY OF HISTORICAL AND PROJECTED REVENUE AND EXPENSE  
 Base Case Assumptions  
 Anchorage and Fairbanks International Airports  
 International Airports Financial Plan  
 For Fiscal Years Ending June 30

This exhibit has been prepared on the basis of the information and assumptions set forth in the text. The achievement of any financial forecast may be affected by fluctuating economic conditions and is dependent upon the occurrence of other future events which cannot be predicted. Therefore, the actual results achieved may vary from the forecast, and such variations could be material.

	Historical			Projection					
	1980	1981	1982	1983	1984	1985	1986	1987	1988
<b>Revenue</b>									
Anchorage International Airport									
Terminal Area	--	--	--	9327000	10102000	10450000	10123000	11145000	11450000
International Terminal Area	--	--	--	4950000	5565000	5805000	7251000	7175000	7625000
International Terminal Area	--	--	--	1059000	978000	11079000	12511000	14375000	1605000
Building and Grounds Area	--	--	--	694000	707000	725000	745000	765000	780000
	19348032	21860252	23242000	24217000	25960000	26089000	31322000	34111000	37740000
Fairbanks International Airport									
Terminal Area	--	--	--	3120000	2919000	3117000	3250000	3500000	3750000
International Terminal Area	--	--	--	905000	1002000	1057000	1290000	1445000	1540000
Building and Grounds Area	--	--	--	275000	310000	390000	399000	410000	450000
	3079049	3568879	3681000	4140000	4502000	4656000	4889000	5065000	5274000
<b>Total Revenue</b>	<b>22427081</b>	<b>25429131</b>	<b>26922000</b>	<b>28357000</b>	<b>30462000</b>	<b>32745000</b>	<b>36211000</b>	<b>39176000</b>	<b>42994000</b>
<b>Expense</b>									
Anchorage International Airport									
Terminal Area	--	--	--	7220000	7915000	8549000	9230000	972000	10734000
International Terminal Area	--	--	--	4563000	4951000	5259000	6805000	6775000	7500000
International Terminal Area	--	--	--	295000	3193000	3482000	414000	4435000	4850000
Building and Grounds Area	--	--	--	606000	650000	715000	821000	880000	975000
	8553048	9127969	10000200	15456000	15722000	18081000	20600000	2230000	24029000
Fairbanks International Airport									
Terminal Area	--	--	--	2730000	4011000	4409000	4765000	5140000	5725000
International Terminal Area	--	--	--	2002000	2172000	2513000	2645000	2800000	3150000
Building and Grounds Area	--	--	--	315000	342000	449000	480000	520000	570000
	2730592	4548961	5138000	6085000	6835000	7360000	7820000	8560000	9445000
<b>Total reimbursed expenses</b>	<b>67500</b>	<b>67400</b>	<b>47100</b>						
<b>Total Expenses</b>	<b>13015540</b>	<b>13414579</b>	<b>13095000</b>	<b>21541000</b>	<b>22517000</b>	<b>25441000</b>	<b>28420000</b>	<b>30856000</b>	<b>34474000</b>
<b>Nonoperating revenue (expense)</b>	<b>2527129</b>	<b>2610575</b>	<b>307126</b>						
<b>Total revenue (expense) and bonds</b>	<b>1727000</b>	<b>1929000</b>	<b>1950000</b>	<b>1905000</b>	<b>1940000</b>	<b>2010000</b>	<b>1990000</b>	<b>1740000</b>	<b>2100000</b>
<b>Total revenue (expense) and bonds</b>	<b>19596670</b>	<b>22596657</b>	<b>23992000</b>	<b>26452000</b>	<b>28522000</b>	<b>30735000</b>	<b>34391000</b>	<b>37416000</b>	<b>41094000</b>
<b>Net revenue (expense) of the deal services and 1-800 centerline</b>	<b>972000</b>	<b>1411000</b>	<b>1340000</b>	<b>4,100000</b>	<b>4415000</b>	<b>5250000</b>	<b>0</b>	<b>10000</b>	<b>10000</b>

a. The forecast amounts for the revenue of the airports, consist of the primary revenue and other revenue. The nonoperating revenue (expense) is composed primarily of 800-EE centerline and other charges. Nonoperating revenue and expense for the project from period to be included for airport and centerline.

## GROUP I

As with the Base Case analysis, the objective of this analysis is to determine to what extent the State may finance and construct the Capital Improvement Program.

This analysis was prepared under the same general assumptions as the Base Case analysis. However, the following revenue development alternatives (as discussed in Chapter 3) are also assumed to be implemented:

- Duty free, gift shop, and news/books concession payments to the State would be increased to 15% of gross revenues when the existing agreements expire.
- Rental car agreements would be modified to include a portion of insurance sales and collision damage waiver charges within the definition of gross revenues subject to percentage payments.
- Leases with banks in the Anchorage and Fairbanks terminals would be bid or negotiated and subject to increased rental rates.
- Public parking rates would be adjusted by 15% every two years commencing in FY 1984.

## Air Traffic Forecasts

Exhibit A of the Base Case presents the air traffic forecasts incorporated in each analysis.

## Capital Improvement Program

Exhibits B-1 and B-2 in the Base Case present the summary of the CIP.

## Project Financing

Exhibit C presents a summary of the sources and uses of funds for the capital projects.

The principal sources of funds available for the projects would be (1) the proceeds of two issues of revenue bonds totaling \$52.1 million, (2) interest income of about \$12 million, (3) net revenues after debt service of about \$20.7 million, and (4) the General Fund contribution for Fairbanks projects totaling \$9 million.

Uses of the funds would include about \$105.9 million for project costs and about \$19.1 million for costs and reserve account requirements related to the bonds.

#### Debt Service and Amortization

Debt service on existing and proposed bonds are shown in Exhibit E.

#### Revenue and Expense

Exhibit E summarizes historical and projected revenues, expenses, debt service, net revenues, and net revenues after debt service and coverage. The debt service on proposed bonds is based on the sale of the maximum amount of bonds that could be supported from IARF net revenues.

Revenue detail for each airport is shown in Exhibits E-1 and E-2.

The expense projections are unchanged from the previous analysis and are shown in Exhibits E-3 and E-4 in the Base Case.

#### Airline Terminal Rentals

Airline terminal rental rates would remain unchanged for this analysis.

#### Airline Landing Fees

Airline landing fees would remain unchanged for this analysis.

#### Summary

The Group I analysis, which includes the implementation of certain revenue development alternatives, indicates that:

- The IARF could finance no more than about \$52.1 million in revenue bonds to support the CIP.
- Net revenues after the payment of debt service of about \$20.7 million would also be available to support the CIP.

- The CIP could not be constructed as planned. A shortfall in funding would probably occur during FY 1985.
- About \$105.9 million would be available during the projection period for capital projects.

## GROUP II WITH COMPENSATORY TERMINAL BUILDING RENTALS

The Base Case and Group I analyses indicated the amount of funds that could be financed to support the CIP under a given set of revenue assumptions. The Group II analyses indicate (1) whether the full amount of revenue bonds necessary to complete the CIP could be financed, and (2) the level of airline terminal building rental rates that would result under these assumptions.

This analysis was prepared under the same revenue assumptions as the Group I analysis. However, in addition to the revenue development assumptions in Group I, the following revenue development actions are assumed to be implemented:

- Land rental rates for aviation tenants would be increased from \$0.06 to \$0.08 per square foot per year. Land rental rates for nonaviation tenants would be increased from \$.08 to \$0.10 per square foot per year. Because of staggered rental rate adjustment provisions in various leases, the effect of the rental rate increases is projected to occur over a four-year period commencing in FY 1984.
- Terminal building rental rates would be adjusted using a compensatory approach.

### Air Traffic Forecasts

Exhibit A of the Base Case analysis presents the air traffic forecasts incorporated in each analysis.

### Capital Improvement Program

Exhibits B-1 and B-2 in the Base Case analysis present the summary of the CIP and the allocation of project costs to airport cost centers used in this analysis.

### Project Financing

Exhibit C presents a summary of the sources and uses of funds.

The principal sources of funds available to finance the CIP would be (1) the proceeds of two issues of revenue bonds totaling approximately \$103.7 million, (2) interest income of about \$22.6 million, (3) net revenues after debt service of about \$31.9 million, and (4) the General Fund contribution for Fairbanks projects totaling \$9 million.

Uses of the funds would include about \$159.6 million for project costs and about \$38.1 million for capitalized interest and other costs and reserve account requirements related to the bonds.

### Debt Service and Amortization

Exhibit D-1 presents a summary of historical and forecast debt service expense for outstanding issues of revenue bonds and proposed bonds.

Debt service on the proposed bonds are allocated to airport cost centers based on the proportionate percentage of project costs allocated to each cost center, as shown in Table 12. The percentage basis for debt service allocation remains unchanged in each subsequent analysis.

Exhibit D-2 presents the detailed allocation of historical and projected debt service to airport cost centers.

Exhibits D-3 and D-4 present a summary of capital projects at Anchorage and Fairbanks International Airports that have been constructed since FY 1977 and funded from IARF net revenues. Project costs for certain projects have been identified by the DOT/PF and allocated to airport cost centers. An amortization payment has been calculated that would allow for recovery of this investment from users of the airports under various rate-setting approaches. These costs are currently not included in the calculation of rates and charges for the airports, but would be included under either of the rate-making approaches presented in this report.

### Revenue and Expense

Exhibit E summarizes historical and projected revenues (including airline terminal building rentals) expenses, debt service net revenues, and net revenues after debt service and coverage. Nonairline revenue detail is shown in Exhibit E-1 and E-2.

Expense projections are unchanged and can be found in Exhibits E-3 and E-4 of the Base Case analysis.

### Airline Terminal Rentals

Exhibits F-1, F-2, and F-3 present projections of airline rental rates for the Anchorage main terminal, the Anchorage international terminal, and the Fairbanks terminal building, respectively.

Table 12

DERIVATION OF PERCENTAGE BASIS FOR  
ALLOCATION OF DEBT SERVICE ON PROPOSED BONDS  
International Airports Financial Plan

<u>Cost center</u>	<u>Project costs (thousands of dollars)</u>	<u>Percentage</u>
Anchorage International		
Airfield Area	\$ 28,550	16.1%
Main Terminal Area	97,150	55.0
International Terminal Area	650	0.4
Building and Grounds Area	11,450	6.5
Fairbanks International		
Airfield Area	23,703	13.4
Terminal Area	14,551	8.2
Building and Grounds Area	<u>638</u>	<u>0.4</u>
Total	\$176,692	100.0%

The total terminal building requirement includes operating and maintenance expenses, allocated debt service on existing and proposed bonds, and amortization payments for existing facilities constructed by the State.

This amount is divided by the total area of the terminal building to derive the average airline rental rate per square foot that would be required under a compensatory approach.

#### Airline Landing Fees

Airline landing fee would remain unchanged for this analysis.

#### Summary

The Group II analysis, based on the revenue development assumptions and airline rental rates calculated using a compensatory approach outlined previously, indicates that:

- The IARF could not finance the full amount of revenue bonds required to construct the CIP.
- Net revenues (after expenses and debt service) of approximately \$31.9 million would be available to support the CIP.
- A shortfall in funding the CIP would probably occur in FY 1988. However, most of the program could be constructed.
- Terminal building rental rates would increase in FY 1984. The amount of revenue produced by the compensatory approach in this analysis would not be sufficient to support the CIP.

## GROUP II WITH RESIDUAL COST TERMINAL BUILDING RENTALS

The Base Case and Group I analyses indicated the amount of funds that could be financed to support the CIP under a given set of assumptions. The Group II analyses and Group III analyses that follow indicate (1) whether the full amount of revenue bonds necessary to complete the CIP could be financed, and (2) the level of airline terminal building rental rates that would result under these assumptions.

This analysis was prepared under the same revenue development assumptions as the previous Group II analysis regarding land rental rates. However, terminal building rental rates were calculated using a residual cost approach.

### Air Traffic Forecasts

Exhibit A of the Base Case analysis presents the air traffic forecasts in each analysis.

### Capital Improvement Program

A summary of the CIP and allocation of project costs to cost centers is shown in Exhibits B-1 and B-2 in the Base Case analysis.

### Project Financing

Exhibit C presents a summary of the sources and uses of funds.

The principal sources of funds would be (1) the proceeds of two issues of revenue bonds totaling approximately \$86.9 million, (2) interest income of about \$21.0 million, (3) net revenues after debt service of about \$48.8 million, and (4) the General Fund contribution of \$9 million.

Use of the funds would include approximately \$165.3 million for project costs (the full amount projected to be spent during the projection period) and about \$32.0 million for costs and reserve account requirements related to the bonds.

### Debt Service and Amortization

Exhibit D-1 summarizes the allocation of debt service on existing and proposed bonds using the allocation basis developed in the previous (Group II - compensatory) analysis. The amount of debt service allocated to each of the terminal building cost

centers will be used in the subsequent calculation of terminal building rental rates. The amount of proposed debt service is based on an assumed sale of two issues of revenue bonds totaling \$36.9 million.

Exhibits D-3 and D-4 in the previous analysis (Group II - compensatory terminal building rental rates) shows the amount of funds expended by the State for airport capital projects. These costs have been allocated to cost centers and amortization payments determined. The amortization payments are included in rental rate calculations for each terminal building.

### Revenue and Expense

Exhibit E summarizes historical and projected revenue and expense, debt service on existing and proposed bonds, net revenues, and net revenues after debt service and coverage.

Exhibits E-1 and E-2 detail nonairline revenues for each airport by cost center.

Exhibit E-3 and E-4 in the Base Case analysis present expense projections which are unchanged in each of the analyses presented in this report.

### Airline Terminal Rentals

Exhibits F-1, F-2, and F-3 present projections of airline terminal building rentals for the Anchorage main terminal, the Anchorage international terminal, and the Fairbanks terminal building, respectively.

Unlike the compensatory rate calculation, which include expenses, debt service and amortization only, the residual approach considers terminal building revenues, with the difference between revenues and expenses becoming the total airline requirement. The requirement is then calculated on a square foot basis. Credits are based on either the total revenue produced by each concession, or the rental equivalent based on payment of the same rate per square foot to be paid by airline tenants, whichever is less.

### Airline Landing Fees

Airline landing fees would remain unchanged for this analysis.

Summary

The Group II analysis, based on the revenue development assumptions outlined previously and a residual cost approach to calculating terminal building rental rates, indicates that:

- The IARF could finance the full amount of revenue bonds required to construct the CIP. Net revenues would be sufficient to meet the debt service and coverage requirements on the full amount of bonds required to construct the CIP.
- Net revenues (after expenses and debt service) of approximately \$48.8 would be available for capital projects.
- Although a funding shortfall of about \$0.1 million would occur in FY 1988, the amount is considered to be minor when compared to the net revenues produced under this approach. The net revenue available at the end of FY 1988 of approximately \$11.3 million would offset this shortfall.
- Terminal building rental rates would increase.

### GROUP III WITH COMPENSATORY TERMINAL BUILDING RENTALS AND LANDING FEES

As with the previous (Group II) analyses, the purpose of this analysis is to determine (1) whether the full amount of revenue bonds necessary to complete the CIP could be financed; and (2) the level of airline terminal building rental rates and landing fees that would result under these assumptions.

This analysis was prepared under the same assumptions regarding nonairline revenue development as the Group II analysis; in addition, the following revenue development alternatives are assumed to be implemented:

- Land rental rates charged to aviation tenants would be increased to market levels, comparable to the rental rates charged for land in the vicinity of the International Airports. For purposes of this analysis, land rental rates for aviation tenants at Anchorage International Airport are assumed to increase from 6¢ to 16¢ per square foot per year, and land rental rates for nonaviation tenants are assumed to increase from 8¢ to 20¢ per square foot per year. At Fairbanks International Airport, land rental rates are assumed to increase from 6¢ to 16¢ per square foot per year for aviation tenants, and from 8¢ to 20¢ per square foot per year for nonaviation tenants. The effect of the rental rate increases is projected to occur over a four-year period commencing in FY 1984.
- Terminal building rental rates would be adjusted using a compensatory approach.
- Airline landing fees would be adjusted using a compensatory approach.

### Air Traffic Forecasts

Exhibit A of the Base Case analysis presents the air traffic forecasts incorporated in each analysis in this chapter.

### Capital Improvement Program

Exhibits B-1 and B-2 in the Base Case analysis present the summary of the CIP and the allocation of project costs to cost centers.

### Project Financing

Exhibit C presents a summary of the sources and uses of funds. The principal sources of funds available to finance the CIP would be (1) the proceeds of two issues of revenue bonds totaling approximately \$86.9 million, (2) interest income of about \$20.7 million, (3) net revenues after debt service of about \$49.7 million, and (4) the General Fund contribution for Fairbanks projects, totaling \$9 million.

Uses of the funds would include approximately \$165.3 million for project costs, and about \$32 million for cost and reserve account requirements related to the three issues of revenue bonds.

### Debt Service

Exhibit D-1 summarizes the allocation of debt service on existing and proposed bonds based on the percentages developed in the Group II - compensatory analysis.

Exhibit D-2 in the Group II - compensatory analysis summarizes the allocation of historical debt service, and Exhibits D-3 and D-4 present the derivation of amortization payments for assets constructed from IARF net revenues. These three exhibits remain unchanged from the earlier analysis and are not repeated here.

### Revenue and Expense

Exhibit E summarizes historical and projected revenues from all sources, expenses, debt service, net revenues, and net revenues after debt service and coverage. Debt service on the proposed bonds is calculated as the full amount of bonds required to construct the CIP.

Exhibits E-1 and E-2 show the projection of nonairline revenue for Anchorage and Fairbanks International Airports, respectively.

The expense projections may be found on Exhibits E-3 and E-4 of the Base Case analysis.

### Airline Terminal Rentals

Exhibits F-1, F-2, and F-3 present projections of airline terminal building rental rates using the compensatory approach.

## Airline Landing Fees

Exhibits G-1 and G-2 present the calculation of airline landing fees using the compensatory approach for Anchorage and Fairbanks International Airports, respectively. Exhibit G-3 presents the results of calculating a common landing fee for both airports.

Each exhibit calculates the airline landing fee requirement, after deducting credits for airline fuel flowage fees and nonairline revenue from the total Airfield Area expenses. Airfield Area expenses include allocated maintenance and operating expenses, amortization payments on existing facilities, and debt service on existing and future revenue bonds.

## Summary

The Group III analysis, based on the revenue development assumptions outlined above and the airline terminal building rental rates and landing fees calculated on a compensatory approach, indicates that:

- The IARF could finance the full amount of revenue bonds to be issued to construct the projects in the CIP
- Net revenues (after expenses and debt service) of approximately \$49.7 million would also be available to support the CIP
- Airline terminal building rental rates and landing fees would need to be adjusted each year beginning in FY 1984 and annually thereafter
- About \$0.4 million would be available for future capital projects at the end of the projection period

### GROUP III WITH COMPENSATORY TERMINAL BUILDING RENTALS AND RESIDUAL COST LANDING FEES

As with the previous analysis, the purpose of this analysis is to determine (1) whether the full amount of revenue bonds necessary to complete the CIP could be financed, and (2) the level of airline terminal building rental rates and landing fees that would result under these assumptions.

This analysis was prepared under the same assumptions regarding nonairline revenue development as the previous Group II analysis. In addition, the following approaches are assumed:

- Terminal building rental rates would be adjusted using a compensatory approach.
- Airline landing fees would be adjusted using a residual approach.

#### Air Traffic Forecasts

Exhibit A of the Base Case analysis presents the air traffic forecasts for each analysis in this chapter.

#### Capital Improvement Program

Exhibits B-1 and B-2 in the Base Case analysis present the summary of the CIP and the allocation of project costs to cost centers.

#### Project Financing

Exhibit C presents a summary of the sources and uses of funds. The principal sources of funds available to finance the CIP would be (1) the proceeds of two issues of revenue bonds totaling approximately \$86.9 million, (2) interest income of about \$21.5 million, (3) net revenues after debt service of about \$64.7 million, and (4) the General Fund contribution for Fairbanks projects, totaling \$9 million.

Uses of the funds would include approximately \$165.3 million for project costs and about \$32.0 million for cost and reserve account requirements related to the two issues of revenue bonds.

### Debt Service

Exhibit D-1 in the Group III - compensatory analysis summarizes the allocation of debt service on existing and proposed bonds based on the percentages developed in the Base Case analysis.

Exhibit D-2 in the Group II - compensatory analysis summarizes the allocation of historical debt service; Exhibits D-3 and D-4 present the derivation of amortization payments for assets constructed from IARF net revenues. These three exhibits remain unchanged and are not repeated here.

### Revenue and Expense

Exhibit E summarizes historical and projected revenues from all sources, expenses, debt service, net revenues, and net revenues after debt service and coverage.

Exhibits E-1 and E-2 in the Group III - compensatory analysis show the projection of nonairline revenue for Anchorage and Fairbanks International Airports, respectively.

The expense projections are shown in Exhibits E-3 and E-4 of the Base Case analysis.

### Airline Terminal Rentals

Exhibits F-1, F-2, and F-3 in the Group III - compensatory analysis present projections of airline terminal building rental rates using the compensatory approach. The procedures used and the results of the calculations are the same. These three exhibits are not repeated here.

### Airline Landing Fees

Exhibits G-1 and G-2 present the calculation of airline landing fees using the residual cost approach for Anchorage and Fairbanks International Airports, respectively. Exhibit G-3 presents the results of calculating a common landing fee for both airports.

The residual cost landing fee calculations determine the amount required to meet total obligations after considering all available revenues.

### Summary

The Group III analysis, based on the revenue development assumptions outlined above, and with airline terminal building rental rates and landing fees calculated on a residual approach, indicates that:

- The IARF could finance the full amount of revenue bonds to be issued to construct the projects in the CIP
- Net revenues (after expenses and debt service) of approximately \$64.7 million would also be available to support the CIP
- Airline terminal building rental rates and landing fees would need to be adjusted each year beginning in FY 1984 and annually thereafter
- About \$16.3 million would be available for future capital projects at the end of the projection period

### GROUP III WITH RESIDUAL COST TERMINAL BUILDING RENTALS AND LANDING FEES

This analysis was prepared under the same assumptions regarding nonairline revenue development as the Group III analysis, except that terminal building rental rates and airline landing fees would be adjusted using a residual cost approach.

As with each of the Group II and Group III analyses, the purpose of this analysis is to determine (1) whether the full amount of revenue bonds necessary to complete the CIP could be financed, and (2) the level of airline terminal building rental rates and landing fees that would result under these assumptions.

#### Air Traffic Forecasts

Exhibit A of the Base Case analysis presents the air traffic forecasts incorporated in each analysis in this chapter.

#### Capital Improvement Program

Exhibits B-1 and B-2 in the Base Case analysis present the summary of the CIP and the allocation of project costs to cost centers.

#### Project Financing

Exhibit C presents a summary of the sources and uses of funds. The principal sources of funds available to finance the CIP would be (1) the proceeds of two issues of revenue bonds totaling approximately \$86.9 million, (2) interest income of about \$21.4 million, (3) net revenues after debt service of about \$62.7 million, and (4) the General Fund contribution for Fairbanks projects, totaling \$9 million.

Uses of the funds would include approximately \$165.3 million for project costs and about \$32 million for cost and reserve account requirements related to the three issues of revenue bonds.

#### Debt Service

Exhibit D-1 in the Group III - compensatory analysis summarizes the allocation of debt service on existing and proposed bonds based on the percentages developed in the Group II - compensatory analysis.

Exhibit D-2 in the Group II - compensatory analysis summarizes the allocation of historical debt service; Exhibits D-3 and D-4 in the Group II - compensatory analysis present the derivation of amortization payments for assets constructed from IARF net revenues. These three exhibits are not repeated here.

#### Revenue and Expense

Exhibit E summarizes historical and projected revenues from all sources, expenses, debt service, net revenues, and net revenues after debt service and coverage.

Exhibits E-1 and E-2 in the Group III - compensatory analysis show the projection of nonairline revenue for Anchorage and Fairbanks International Airports, respectively.

The expense projections are shown in Exhibits E-3 and E-4 of the Base Case analysis.

#### Airline Terminal Rentals

Exhibits F-1, F-2, and F-3 in the Group II - residual analysis present projections of airline terminal building rental rates using the residual approach. The procedures used and the results of the calculations are identical in this analysis. These three exhibits remain unchanged and are not repeated here.

#### Airline Landing Fees

Exhibits G-1 and G-2 present the calculation of airline landing fees using the residual cost approach for Anchorage and Fairbanks International Airports, respectively. Exhibit G-3 presents the results of calculating a common landing fee for both airports.

Each exhibit calculates the total airline landing fee requirement, after deducting credits for airline fuel flowage fees and nonairline revenue from the total Airfield Area expenses. Airfield Area expenses include allocated maintenance and operating expenses, amortization payments on existing facilities, and debt service on existing and future revenue bonds.

Summary

The Group III analysis, based on the revenue development assumptions outlined above, and with airline terminal building rental rates calculated using a residual cost approach and landing fees calculated using a compensatory approach, indicates that:

- The IARF could finance the full amount of revenue bonds to be issued to construct the projects in the CIP
- Net revenues (after expenses and debt service) of approximately \$62.7 million would also be available to support the CIP
- Airline terminal building rental rates and landing fees would need to be adjusted each year beginning in FY 1984 and annually thereafter
- About \$14.2 million would be available for future capital projects at the end of FY 1988.

### GROUP III WITH RESIDUAL COST TERMINAL BUILDING RENTALS AND COMPENSATORY LANDING FEES

This analysis was prepared under the same assumptions regarding nonairline revenue development as the previous Group III analysis, except that:

- Terminal building rental rates would be adjusted using a residual cost approach.
- Airline landing fees would be adjusted using a compensatory approach.

As with each of the Group II and Group III analyses, the purpose of this analysis is to determine (1) whether the full amount of revenue bonds necessary to complete the CIP could be financed, and (2) the level of airline terminal building rental rates and landing fees that would result under these assumptions.

#### Air Traffic Forecasts

Exhibit A of the Base Case analysis presents the air traffic forecasts incorporated in each analysis in this chapter.

#### Project Costs

Exhibits B-1 and B-2 in the Base Case analysis present the summary of the CIP and the allocation of project costs to cost centers.

#### Project Financing

Exhibit C presents a summary of the sources and uses of funds. The principal sources of funds available to finance the CIP would be (1) the proceeds of two issues of revenue bonds totaling approximately \$86.9 million, (2) interest income of about \$21.8 million, (3) net revenues after debt service of about \$67 million, and (4) the General Fund contribution for Fairbanks projects, totaling \$9 million.

Uses of the funds would include approximately \$165.3 million for project costs, and about \$32 million for cost and reserve account requirements related to the three issues of revenue bonds.

### Debt Service

Exhibit D-1 in the Group III - compensatory analysis summarizes the allocation of debt service on existing and proposed bonds based on the percentages developed in the Base Case analysis.

Exhibit D-2 in the Group II - compensatory analysis summarizes the allocation of historical debt service; Exhibits D-3 and D-4 present the derivation of amortization payments for assets constructed from IARF net revenues. These three exhibits are not repeated here.

### Revenue and Expense

Exhibit E summarizes historical and projected revenues from all sources, expenses, debt service, net revenues, and net revenues after debt service and coverage.

Exhibits E-1 and E-2 in the Group III - compensatory analysis show the projection of nonairline revenue for Anchorage and Fairbanks International Airports, respectively.

The expense projections are shown in Exhibits E-3 and E-4 of the Base Case analysis.

### Airline Terminal Rentals

Exhibits F-1, F-2, and F-3 in the Group II - residual cost analysis present projections of airline terminal building rental rates using the residual cost approach. The procedures used and the results of the calculations are identical in this analysis. These three exhibits are not repeated here.

### Airline Landing Fees

Exhibits G-1 and G-2 present the calculation of airline landing fees using the compensatory approach for Anchorage and Fairbanks International Airports, respectively. Exhibit G-3 presents the results of calculating a common landing fee for both airports.

Summary

The Group III analysis, based on the revenue development assumptions outlined above, and with airline terminal building rental rates and landing fees calculated on a compensatory approach, indicates that:

- The IARF could finance the full amount of revenue bonds to be issued to construct the projects in the CIP
- Net revenues (after expenses and debt service) of approximately \$67 million would also be available to support the CIP
- Airline terminal building rental rates and landing fees would need to be adjusted each year beginning in FY 1984 and annually thereafter
- Approximately \$18.9 million would be available for future capital projects at the end of FY 1988

COMMITTEE REPORT  
SENATE

FURTHER: FINANCE

5/23/83

Date: June 14, 1953

Mr. President:

The Committee on TRANSPORTATION has had HB 322

Increasing the bond authorization for international airport revenue bonds to \$62,825,000; eff. date.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for \_\_\_\_\_  same title  
 new title
- and recommends \_\_\_\_\_
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

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MEMBERS HAVING  
OTHER RECOMMENDATIONS:

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[Signature]  
CHAIRMAN