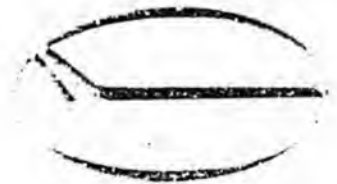


SB

352



Air Transport Association

SB 352
SN. FINANCE
SAT. 11:00AM

March 17, 1998

Honorable Jerry Ward
Chairman, Senate Transportation Committee

Honorable Bill Williams
Chairman, House Transportation Committee

Honorable John Cowdery
Chairman, Special Committee on International
Trade and Tourism

Alaska State Legislature
Juneau, AK 99801-1182

Re: House Bill 432, Terminal Expansion 2005

Dear Senator Ward and Representatives Williams and Cowdery:

The Air Transport Association member airlines¹ and the undersigned carriers serving Alaska strongly support the proposed expansion of Anchorage International Airport's (AIA) Domestic Terminal and urge your favorable consideration of House Bill 432.

The AIA and future economic development of Anchorage are critically dependent upon the airport's ability to provide the new facilities needed to meet anticipated growth in passenger and air cargo traffic. Concourse C, built in the 1950s, does not meet today's customer demands and building standards. The airport's main terminal has only 75% of the space necessary to serve today's passengers. By 2000, the existing terminal will

¹ ATA Member Airlines

Alaska Airlines

Aloha Airlines

America West Airlines

American Airlines

America Trans Air

Atlas Air

Continental Airlines

Delta Air Lines

DHL Airways

Emery Worldwide

Evergreen International Airlines

Federal Express

Hawaiian Airlines

Midwest Express Airlines

Northwest Airlines

Polar Air Cargo

Reeve Aleutian Airways

Southwest Airlines

Trans World Airlines

United Airlines

United Parcel Service

US Airways

Associate Members

Aeromexico

Air Canada

Canadian Airlines Int'l.

KLM Royal Dutch Airlines

Mexicana Airlines

Air Transport Association of America

1101 Pennsylvania Ave., NW - Suite 1100 Washington, DC 20004-1707

(202) 626-4000

provide only 60% of the space needed. Public areas of the terminal such as the ticket area and baggage claim currently contain less than half of the space needed to operate efficiently.

Surface transportation within the airport area is also inadequate. Terminal curbside roads need to be 50% longer to relieve congestion. A continuous return loop road is needed for improved safety and convenience.

The proposed project is designed to accommodate the six million passengers who are anticipated by 2005. The project will add: five new jet gates (for a total of 24); seven new positions for aircraft serving regional markets (for a total of 20); associated gate lounges, ticketing areas, baggage claim facilities and an extended curbside road.

The project will also significantly upgrade the existing terminal, roads and parking, including extending the upper level departure curbside bridge and roads; replacing Concourse C; expanding terminal space, adding tour group processing space; and improving air-side facilities. Construction is scheduled to begin by 1999 in order to be completed in time to meet the expected customer demand of 2005.

While it has been suggested that a number of air carriers do not support the project as proposed, the undersigned ATA member carriers -- which are responsible for 85% of the traffic at AIA -- support the project and urge enactment of House Bill 432.

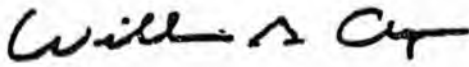
Moreover, we believe the partnership and decision-making process underlying the airport expansion plan has been a model of cooperation between government and airlines. The Department of Transportation has shared information and has sought and utilized airline industry expertise. We wish this same partnership could be replicated at every airport nationwide.

We also understand that concerns have been raised about the cost and scope of the project. As you know, the project will be financed with airport revenue bonds and federal highway funds. Except for the limited state portion necessary to obtain federal highway funds for access road improvements, *no general fund appropriation is needed* from the State of Alaska for the terminal expansion. The airport revenue bonds will be entirely repaid through fees paid by the airport users that will be reasonable and consistent with similar, comparable airports around the country. Given the exceptionally low interest rates, now is the time for the State of Alaska to seize the opportunity and proceed with this project in one package. It is not cost-effective to consider any type of phasing of this work.

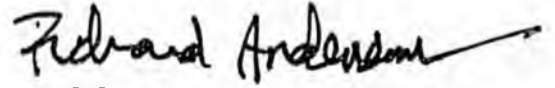
In conclusion, we believe this project is needed to cure the existing deficiencies of the airport and to meet future market demands. The project will provide Anchorage -- indeed, the whole State of Alaska with modern airport facilities that will serve as a demonstration, throughout the country, of fiscally prudent expansion and modernization.

We urge your support for HB 432.

Sincerely,



William S. Ayer
President
Alaska Airlines, Inc.



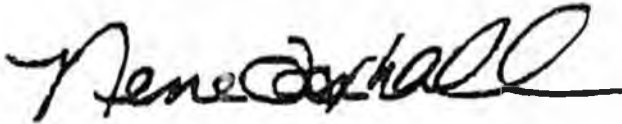
Richard H. Anderson
Senior Vice President
Northwest Airlines, Inc.



C.A. Howlett
Vice President, Public Affairs
America West Airlines



Richard D. Reeve
President
Reeve Aleutian Airways, Inc.



Irene E. (Nene) Foxhall
Vice President,
State and Civic Affairs
Continental Airlines, Inc.



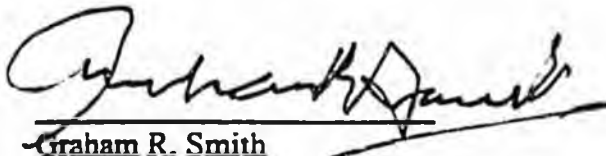
Larry D. Clark
Vice President,
Properties & Facilities
United Airlines, Inc.



Harold L. Bevis
Vice President, Public Affairs
Delta Air Lines, Inc.



Joseph E. Richardson
Airport Properties Manager
United Parcel Service



Graham R. Smith
Vice President, Properties & Facilities
FEDEX Corporation

**House Special Committee on International Trade & Tourism
Response to Additional Questions 3/19/98**

Q.1 Has the airport considered the alternatives of building a new terminal in a new location, rather than adding to and expanding the existing terminal? Explain the planning process.

Yes, new terminal alternatives were considered as part of the planning process. The planning team for this project worked with the Airlines to develop an aviation forecast, statement of need, terminal master plan, and the concept design for the project. In a series of eight workshops over a six-month period, fourteen different master plan alternatives for the year 2015 were developed. Ideas from both the planning team and the Airlines were included in the alternatives. Two of the fourteen alternatives considered were new terminal concepts that did not preserve the existing terminals. Each of the 14 concepts was evaluated in a formal decision matrix and three concepts were selected for further consideration. The preferred master plan, as selected by the Airlines, combined various aspects of the shortlisted concepts. Using the Airlines selected master plan for 2015, three 2005 terminal concept designs were developed and evaluated in the same manner. Again, the Airlines assisted the planning team in developing a preferred concept, which combined components of the three original concepts.

All concepts, which construct a new terminal at a new location, would substantially increase the cost of the project. Replacement of existing terminal buildings, support facilities, parking garage, utilities, curbside and access roads could easily approach \$1 billion.

Q.2 What is the consequence of delaying the project?

A delay of this program will increase risks, increase capital costs to Airlines, increase current operating costs to the airport and delay addressing serious deficiencies which currently exist. The Airport, Airlines and DOT, recognizing the existing terminal deficiencies, have recommended proceeding immediately with implementation of program to minimize risks, capital costs and operating costs while meeting documented public needs. Further, market place conditions for interest rates on revenue bonds are at record lows and make this an ideal time to put financing in place. Postponement will risk losing an opportunity to significantly reduce the long-term cost of this project.

Specific issues are as follows:

Concourse C is substantially out of compliance with seismic, fire, and life safety codes. Continued operation of Concourse C places the State of Alaska at risk for liability. Maintenance costs are high to keep the building operational. Major building systems, such as, heating and roofing face eminent failure. Emergency funds could be used for temporary solutions, but such costs are "throw away". To delay demolition of Concourse C places the airport and the state at greater risk and increased maintenance cost.

The main ticket lobby in the Domestic Terminal does not meet minimum guidelines for structural resistance to earthquakes and must be upgraded to

provide for greater public safety. This upgrade is included as a part of the proposed project.

- The current level of service provided to the traveling public particularly during the summer months is at a failure rating for ticketing and baggage claim. The terminal has less than 40% of the area needed for the ticket lobby to serve today's passenger traffic.
- As demand for facilities continues to grow, the need to accelerate design and construction to meet this unserved demand will increase. Accelerated schedules cost more and will disrupt the traveling public.
- Nobody can predict future interest rates with certainty, however we do know that interest rates are currently at a record low. Legislative approval this year will allow AIA to take advantage of any further reduction in the interest rate over the next year and pass those savings on to public and Airlines.
- If the proposed bond legislation is not approved this year, there will be insufficient funding available to advance the design beyond the schematic level. All work will have to be suspended in Fall 1998.

Q.3 Explain again what happens if an airline leaves Anchorage and other carriers have to accommodate this traffic. Doesn't this result in higher load factors, fewer landings, and reduced revenue?

Revenues will not decrease if an airline chooses to leave Anchorage. When an airline leaves the Anchorage market existing carriers and new carriers absorb this traffic by increasing their load factors and adding new flights. This has recently been observed with the departure of MarkAir when other carriers pick-up the unmet demand.

Q.4 How does the proposed terminal rent compare to other airports nationwide?

The 1995/1996 survey of the American Association of Airport Executives (AAAE) is the most current national data available. From the 1995/1996 survey the following information is available:

Annual Rate per Square Foot	1996 Large Hub (for reference)	1996 Medium Hub (AIA is medium hub)	1997 AIA Rent	1998 AIA Rent	2002 Proposed AIA Rent
Terminal Counter Space	\$57.90	\$45.52	\$32.64	\$32.46	\$39.71
Airline Office Space	\$47.86	\$38.30	\$32.64	\$32.46	\$39.71

Q5 What are the proposed future cargo projects? How much will they cost?

Proposed air cargo projects have been identified in the 6-year CIP and the 10-year Letter Of Intent. The air cargo master plan is being updated which will contain additional information addressing project needs for the next 20 years.

Project	Cost
Parallel Taxiway East of Romeo	\$9,200,000
North Airpark Taxiway into Wetlands	3,000,000
Deicing Collection Facility	1,500,000
Engine Runup Pad/D&D Holding Area	2,100,000
North Airpark Tug Roads	5,400,000
West Airpark Parallel Taxiways	23,000,000
South Airport Tug Roads	2,000,000
Land Acquisition	1,000,000
Roads/Utilities Reconstruction Upgrade	5,500,000
North Airpark Access Road Construction	9,000,000
Runway Extension	6,200,000
Cargo Apron Reconstruction	6,000,000
Cargo Fueling Apron Expansion	4,500,000
Total	\$78,400,000

Note:

Based on 1996 Master Plan, Six Year CIP and the LOI request.
Re-evaluation of projects and costs occurring with master plan update currently in progress.
Some of these projects and others to be a part of FAA Letter of Intent funding.
Projects do not include private cargo development projects underway or planned by airlines, private developers and others.

Q6 How do the proposed landing fees compare to Asian airports?

An International Landing Fees Report was requested from the Airport Council International in Geneva, Switzerland. This information will be forwarded as soon as it is received.

Q.7 Do the budget percentages given in the last set of answers apply to the total project cost of \$205.3 million?

Yes, the budget percentages previously provided and shown below apply to the \$205.3 million budget costs. The \$190.8 million 1997 project budget including escalation equals \$205.3 million exclusive of financing costs.

Program Contingency	10%
Planning, Environmental & Permitting	2%
Design/Engineering & Construction Admin.	10%
Project Administration	2%
Construction	<u>76%</u>
Total	100%

Q.8 What is the total by each funding source for the six-year CIP?

	AIA *	FIA	Total
Federal	\$ 62,930.0	\$ 14,915.7	\$ 77,845.7
IARF	<u>79,320.0</u>	<u>18,218.3</u>	<u>97,538.3</u>
Total	\$.0	\$.0	\$.0

* Does not include Terminal Project.

Q.9 How will the airport be able to afford future projects? Aren't we using up our bonding capacity?

Other than very large projects, such as this terminal project, AIAS traditionally uses internally generated cash and Federal AIP monies to finance its capital program. Although the Terminal Project will use up a significant share of our present bonding capacity, AIA's bonding capacity will increase with increased airport activity.

The financial model developed for the Terminal Project anticipates and provides for approximately \$13 million a year of IARF funds for future ANC capital projects. To provide a point of reference, ANC capital projects from FY91 to FY98 have averaged \$ 9,100.0 of IARF funds. FY98's capital budget requested \$ 7,451.0 in IARF funds. Any need to construct large projects in the future requiring bond financing would be in response to increased demand, which also means additional revenues and increased bond capacity.

Q.10 Why do we want to incur debt for 25 years, when another expansion may be needed in the year 2010 and 2015?

The Terminal Project has a useful life of more than 25 years. Structuring the debt costs over 25 years and using level debt service, the costs in each individual year are lower than they would be if the debt had a shorter term. Paying for it over 25 years will spread the payment of debt costs over the full group of beneficiaries of the project to the greatest extent possible. The current project is responding to currently deficiencies and projected needs through 2005 without "over-estimating" growth by building for 2015 at this time.

Q.11 Explain again how a 100-point basis change will affect the cost of the project.

A 100-point basis change will not affect the cost of the project, but will affect the total amount paid in debt service and interest over the life of the bonds.

We reviewed the effect of a 100 basis point change in interest rates in connection with the fiscal note calculations prepared by the Department of Revenue. The following information relates to both \$204 million and \$179 million bonding scenarios:

	\$179 million issue	\$204 million bond issue
February 1998 Insured Rates	Total Interest \$144 million	Total Interest \$164 million
Plus 100 basis points	Total Interest \$178 million	Total Interest \$203 million
Plus 200 basis points	Total Interest \$213 million	Total Interest \$242 million

Q.12 Will the FAA Control Tower need to move for the project or the future master plan?

The current location of the FAA Control Tower is acceptable for the term of the Master Plan for 2015. All the Master Plan alternatives and design concepts show the tower in its present location.

Q.13 Please provide a 25-year CIP plan.

There is no 25-year CIP plan. We have a 6-year CIP and the Letter of Intent, which provides recommendations for a 10-year program. AIA has a Terminal Master Plan that projects needs to 20 years and a similar Air Cargo Master Plan is being prepared.

Q.14 What is the schedule for the development of the new operating agreement?

AIA is in the process of hiring a consultant to help with the development of a new operating agreement. It is anticipated that the new operating agreement will become effective with the expiration of the current agreement.

Q.15. What is the cost of the AIA office space for the project and specifically the finish work cost associated with that office space?

AIA office construction and associated finish work is included in the estimated \$142 per square foot construction cost. This cost is exclusive of the cost of design and administration.

SPECIAL REVIEW

HB 432

ANCHORAGE INTERNATIONAL AIRPORT

REVENUE BOND AUTHORIZATION

for

ALAKSA HOUSE OF REPRESENTATIVES

**SPECIAL COMMITTEE ON INTERNATIONAL TRADE AND
TOURISM**

Report prepared by:

March 19, 1998

**Dr. Heinz Noonan,
Economist, Airport Planner
Stephen F. Wells,
Certified Internal Auditor**

Airport Bond Questions:

Introduction:

In all fairness to the AIA we must say that there has been considerable effort made toward presenting as complete a package of information as may be possible. Numerous staff and consulting hours have been incurred in preparing more reports than we could possibly review in detail. Therefore, it is entirely conceivable that the AIA has answers to any questions we may raise and that those answers have already been covered in a report somewhere. We have briefed both Dave Eberle and Mort Plumb of the general nature of this report and some of its specific findings in order that they may be prepared for your questions or so that they could supply us with any additional comments they might have. They have not received a copy of this report.

Because we have been asked to review certain information related to the Anchorage International Airport proposed bond package, we have agreed to try to answer certain questions and provide additional information. Also because we want to provide a cost effective product we will avoid duplicating efforts that have already been expended, but may in some cases evaluate already provided information. Our review was limited to information available at AIA. Discussions with airlines or consultants were not done due to time constraints. Therefore, there may be additional information which might need to be considered.

Question:

1. What is the total debt capacity of the International Airport System?

The simple answer is that there is no singular dollar debt capacity that remains constant.

The short version answer is that the level of activity and associated revenue at the Anchorage and Fairbanks airports (IARF) are tied together to calculate bond capacity given a point in time and certain assumptions. More directly the current bonded debt of approximately \$33 million and the proposed bonded debt of approximately \$200 million is within bonding capacity of the IARF but only if certain conditions are met. If the IARF is willing to accept a lower credit rating then the amount of the bonded debt could conceivably be as much as \$400 million.

The long version can not be covered in the limited time allocated for this report but requires a due diligence review by qualified bond counsel. Additionally, should further review be requested we would be available to assist where possible.

2. Is the borrowing capacity for Anchorage International Airport(AIA) legally separate from Fairbanks International Airport(FIA), i.e. does debt incurred for AIA project affect the borrowing capacity for FIA?

The simple answer is NO the borrowing capacity of AIA and FIA are not separate but are linked together in the form of the International Airport Revenue Fund (IARF).

~~And to continue, YES debt incurred at AIA does affect FIA borrowing capacity and vice versa.~~

AIA has historically subsidized operations at FIA because Anchorage generates excess revenues and Fairbanks has lost money consistently. While this is not a popular statement, it is true, and can easily be seen in any of the financial statements for the airports. What it means for your purposes in this question is that anything which either reduces revenue or increases cost at AIA will have a significant impact on FIA's ability to justify any bond financed improvements. Regardless of where the projects are located (AIA or FIA) the impact is to both airports as they affect the IARF in total.

3. After the proposed project is complete, what will be the plane/passenger capacity at AIA and how long will this capacity satisfy anticipated demand?

AIA has answered that "The project is designed to accommodate 3,000,000 enplanements or 6 million passengers, which are projected for the year 2005." Additionally, they answered that "...an additional four jet gates may be needed in about 2010 with another four jet gates in about 2015."

The Hirsh report, ("Final Report, AIA, Terminal Expansion Study, date 12/22/97, Hirsh Associates") table II-1 indicates that by 2005 the total enplanements are estimated to be 3,070,000 and by 2015 the enplanements will total 4,440,000 or almost 9 million passengers.

4. What are the long-range capital improvement plan and accompanying cost estimates for AIA and FIA? Match funding sources to the project in the long range capital improvement plan and compare to debt capacity.

This is a complicated question. Numerous reports have been generated which cover parts of this question. We'll try to summarize but what you may want to ask for is what we normally call a "Source and Application of Funds" statement(s).

AIA CIP	Estimated Funding/Costs
FY99	\$25.150 million
FY00	\$23.150
FY01	\$22.100
FY02	\$16.400
FY03	\$35.050
FY04	\$20.400
total	\$142.250 million

FIA CIP	
FY 99	\$6.359 million
FY00	\$8.050
FY01	\$7.368

FY02	\$5.937
FY03	\$3.220
FY04	\$2.200
total	\$33.134 million

IARF total CIP \$175.384 million

Part of the answer for the source of funds is that IARF revenue normally provides some of the funding and FAA AIP provides some funding. When you look back to previous CIP projects that have been approved and not yet built it is hard to understand how future projects will really be paid for. The "reserve account" is for previously approved projects that may or may not have received planned-for AIP funding. If the federal funding portion were revised, cancelled or funded by IARF revenue this would impact future projects, debt capacity, etc.

5. How does the fund for the proposal presented in HB 382 differ from funding methods used for past terminal projects at AIA and FIA?

In past terminal projects a combination of bond funds and revenues or cash has been used to pay for the projects.

6. What are the historic balances of the IARF? Show which major capital projects were funded in which years?

The published financial reports for the IARF for each year has a schedule in the very last pages which I find most useful and comparative for AIA and FIA, but they do not show relationship to projects.

Historic Balance -Net Income (Loss)

	AIA	FIA	Total IARF
FY97	\$8,615,979	(\$7,723,270)	\$ 892,709
FY96	\$6,584,122	(\$7,053,665)	(\$ 469,543)
FY95	\$4,341,090	(\$6,689,017)	(\$2,347,927)
FY 94	\$1,261,104	(\$7,292,081)	(\$6,030,977)
FY93	\$3,416,468	(\$7,242,494)	(\$3,826,026)
FY92	\$8,004,223	(\$7,892,669)	\$ 111,554
FY91	\$16,604,397	(\$8,258,443)	\$8,345,954
FY90	\$21,562,965	(\$7,837,424)	\$13,725,541
FY89	\$26,282,113	(\$6,802,607)	\$19,479,506
FY88	\$24,943,829	(\$7,121,223)	\$17,822,606

What this information should clearly demonstrate is that from a strictly financial point of view, FIA should carefully consider any project which might increase it's operating costs and further impact its net income and ability to repay debts. Certainly without the support of income from AIA, the rates and fees at FIA would be considerably higher.

What the impacts are when the total fund is at a loss should be explained by the IARF Controller.

The AIA provided a list of major projects and year of funding in their 3/4/98 response, attachment #6.

7. How long is the proposed project's life and how long is the amortization period?

The AIA has responded, "Industry standard building design life - 30 years and Bond amortization period - 25 years"

8. Under the current proposal, how long will it be before AIA will need to be expanded again?

There is a strong possibility, that if estimates and projection within the AIA reports are experienced, that within 5 years and again in 10 years after this project is complete there will be another expansion project needed for passenger growth and gate needs. Those alternatives can be seen in the new "finger" alternatives that would extend out from the new Concourse C.

The proposed project's design life and useful life for demand purposes may be different. As has already been shown the demand may require more building by 2010 or within 5 years after this project. In all fairness, however, the planners have alternatives (at more costs) which can be expanded to meet growth demands. That information may not have been presented or clearly explained. Certainly the AIA can explain in detail why this project is being design for 2005 instead of 2010 or 2015.

9. In light of AIA traffic growth projections, has the building of a new terminal been seriously evaluated?

YES.

In the "Sketch Planning Process" Technical Report dated 1/2/98 by McCool Carlson Green Team, you can find numerous alternatives, their evaluation process, and a recommended 2005 conceptual design. In discussion with Mr. Donn Ketner, he indicated that as many as 15 different alternatives have been considered. When you review the document mentioned above you see an evolutionary process unfolding. Sophisticated models of evaluating which alternative would be presented were utilized, as well as decisions about what items would be of more importance. The AIA team should answer any specific questions about design alternatives.

10. Is a 25 - year debt being incurred for a remedy that will only be adequate one or two years after completion?

Very possible, and certainly within 5 years as their own information and forecasts state.

11. How will the AIA landing fees compare nationally after the proposed \$165 million in debt is incurred?

One critical point that you may have heard in testimony before the committee is that at AIA and FIA, you need to combine landing fees and fuel flowage fees in order to make a comparison to many airports who only have landing fees. You need to have an apples to apples comparison. What you have been given is an apples to oranges comparison. How the landing fee number is generated by the industry can reflect entirely different cost information.

What is needed and what could be supplied if we had more time is a simpler way to making a comparison at different airports. For instance, it should be possible to use a standard aircraft size and configuration to determine what it would cost for that particular aircraft to land at different airports. In that manner you would get an apple to apple comparison. How the fee was developed and what different cost information was used to determine the fee wouldn't matter as much because the end result would show what it would cost that particular aircraft.

12. How will higher tariffs affect AIA and FIA ability to finance future expansion and attract new carriers?

Certainly the ability to finance future expansion projects through revenue bonds will be affected. As the AIA has explained if there is a demand then presumably there will be a resultant way to pay for that demand by those who needs the services or facilities. Attracting new cargo carriers could be a problem IF this project precludes further air cargo projects due to limited funding or revenue. However, if rates and fees are still competitive then improvements should be possible.

13. How much money is in the IARF at this point?

The AIA has responded that there is approximately \$78 million in the IARF as of 6/30/97.

The financial statements show that it is probably an asset consisting of investments at \$77,327,177.

14. How much money in the IARF is being held as collateral for debts?

The AIA responded that "Approx. \$36 million was in reserves required by the AIAS bond resolutions and operating agreement;"

15. How does the passenger facility charge system work?

I believe that the FAA testified in answer to this question.

16. How will reduction in the requested bond authorization from \$304 million to \$280 million affect the project?

The AIA indicated that they may need to request additional bonding authority if they fail to secure federal funding.

In trying to analyze how further reductions in funding might affect the project was difficult. The only pieces we identified that might be worth further review were the main terminal ticketing and baggage claim construction and remodeling. There seems to be another way to accomplish this in the new Concourse C. The part that we couldn't ignore was the need for certain code remodeling needs. How that all gets broken down into its respective costs would have required more review on our part. Perhaps the AIA could supply this information.

Additional Information:

During the process of obtaining information for the specific questions asked by the Legislature, there were certain categories of information which either appeared to answer questions the Legislature was interested in or pointed to questions that might still need to be answered.

This additional information may be useful in your deliberation process. We believe that the DOT/PF and AIA may want to comment on certain of these items.

In line with Commissioner Perkins request to keep Dave Eberle informed of our needs and information, we have met with Mr. Eberle on three occasions and have generally informed him of our progress and results. This report, however, has not been distributed to anyone other than to Mr. Marco Pignalberi in draft. This information was fully discussed with Mr. Pignalberi on two occasions.

Throughout our review process we have found AIA to be very cooperative.

Design Comments:

When we first started out with the information that was initially supplied to us, we believed that there might be certain design questions that had not been adequately considered. Because we questioned Mr. Donn Ketner in this area at some length, we now can state that we believe the AIA has adequately reviewed most possible alternatives that can be imagined within reasonable limits. There has been considerable work devoted to examining alternatives from various sources including the airlines. Almost any idea for reasonable development has received detailed examination. Mr. Ketner was able to discuss any question in a very knowledgeable manner and supply supporting detail.

We were very impressed with the work that has gone into the design effort and the resultant alternatives that have been documented.

Because of that extensive effort, we believe the Legislature could ask for and receive detailed information about any alternative that you might be interested in examining.

What we also determined is that it is very possible to reconstruct Concourse C without the remodeling portions. There are alternatives which allow for predicted future growth. The AIA can provide the estimates for the additional costs. Such a design has not been totally presented to the Legislature in this bond package. We question why the project has not been designed for 2015? We believe the AIA may have answers which should be provided which might explain more fully why the 2015 design was not chosen.

Most of the costs of this bond package are not for reconstruction of Concourse C and the predictable growth but to remodeling of the existing main terminal areas. As such there is a considerable risk associated with the remodel of the main terminal because of its age. Therefore, there is also a considerable likelihood that additional and unexpected costs may occur. The main point here is that this portion of the project is high risk and potentially more costly.

In examining the design process a few questions do come up that may need to be explained.

1. How can this or any design and associated major construction project be considered without reasonably asking what the needs of and impact will be to the air cargo operations, the major revenue producer?

We know that at least some effort has gone into the needs and resultant projects that air cargo will have because of the recently prepared LOI that has issued to FAA. Therefore, AIA should be able to report what air cargo development is needed .

2. What assurance does the Legislature have that the concept design presented will be the design that is built and, therefore, shouldn't a final design be presented before funding of this amount is requested?

Although a concept design has been presented to the Legislature, it is our understanding that such a design is not binding in any way other than as a total price tag. We have heard explained that this process is the way it is done at other airports around the country. Our understanding is that this design could and may be changed several times in significant detail before the project is built.

We understand that the normal DOT/PF design and construction process is to have a complete design before full funding is generally requested. Design work is a separate funding item usually accomplished before the legislature appropriates money for the construction project. There may be exceptions such as design/ build projects.

So the issue seems to be whether to allow the AIA to issue bonds before a design and costs are finalized and to maintain some oversight on the process or to wait for various reasons.

3. Should Concourse A be a regional only terminal providing a separation from jet only operations and giving the ability to meet the future needs of the regional carriers in a cost effective manner? Has this option been given due consideration and what are the specific issues?

When we reviewed the design alternatives, it became apparent that some consideration had been given to moving all **regional operations to Concourse A**. One of the reasons given for not pursuing this design was that the FAA saw some problems. When we reviewed the FAA letter, we remained unclear as to any serious objections. Furthermore,

there was no letter from the FAA that we were given which discussed the possible safety considerations to having both jet and non-jet aircraft operating in the new Concourse C areas together. **Perhaps there should be a letter requested from FAA that discusses any potential safety problems associated with the current design where jet and non-jet operations are both located at Concourse C.**

The only argument that we heard which seemed to raise a good question was that if the regional carriers were all in Concourse A, then their passenger would have a long walk to get to Concourse C if they had a connecting flight in that area. However, the reverse argument will also be true. So someone is going to have to walk.

The Hirsh report (AIA Terminal Expansion Study, Domestic Terminal Facilities Requirements, dated 12/22/97), page 10 states that "it is estimated that **less than 5% of the peak hour passengers are connecting directly from one flight to another.**"

Further explanation of this option may need to be provided by AIA and the airlines.

4. Peak Hour Passenger Design:

To illustrate how numbers and statistics may be viewed differently, the following statement is true and uses numbers from AIA reports, but is presented here in a different view.

The design presented in the bond package is based on peak hour passenger volumes as a **standard industry method of designing terminals**, resulting in a facility designed to meet the needs of at most **0.07% of the annual enplaning passengers at AIA**, or at most 8.7% of the daily passenger activity during the peak month of August, occurring only between the late night hours of midnight and 2 AM. (Annual enplanements 1997 total 2,076,936, peak hour passengers enplaned 1,460 : .0007 see Hirsh Table II-1 after page 10)

A person might question whether such a design and design criteria meets the needs of Alaskans. Perhaps the design is merely for certain tourists traveling late at night only in the peak month of August. A person might also ask whether the airport's future was in passengers or with air cargo where 70% of the revenue is generated.

5. Baggage Check-in/Claim Needs:

A considerable portion of the bond package design deals with the need for additional baggage claim area. Whether that need should be accommodated through a remodel of the main terminal or in the new Concourse C might be questioned further. We did note that in the Hirsh report there were recommendations as follows, page B-6,B-9:

"Direct transfer of baggage from aircraft to cruise ships and hotels for land packages could initially be implemented at AIA without significant terminal construction or investment by either airlines or the tour companies."

Additionally, "Remote check-in could potentially provide the highest level of service to the passenger with the least amount of confusion, but be more difficult to implement."

The reports that we read do not address how the airlines could modify their operations to accommodate some of the peak time problems. For instance, we specifically looked for but did not find discussion of the airline's staffing at check-in counters and at baggage areas. Were the airline staffing levels at maximum during these peak hours? If that type of information is available, it might be interesting to examine further. If not, then further discussion with the airlines might be warranted to determine the extent to which operations issues might mitigate some of the problems.

What these statements seem to suggest is that there may be alternatives to construction which might address the peak hour passenger volumes needs. What might be interesting to hear is how these recommendations affected the main terminal remodel design. The AIA may be prepared to address these comments.

Cost Comments:

1. What assurance does the Legislature have that this bond package amount will not increase or be insufficient to meet whatever design is eventually constructed and how accurate are these numbers?
2. Who has committed to repay these bonds and where is that written commitment? What risk does that imply and what is the AIA plan to cover such a risk?
3. **Will the AIA Controller be required to provide written assurances for the bond package that the accounting information and cost information is accurate, complete and in accordance with generally accepted accounting principles?**

There are already indications that the costs associated with the bond package may differ considerably before construction begins and may require the Legislature to authorize additional bonding limit. Specifically, there has been **no written assurance from either FHWA or FAA** that monies in specific amounts will be made available or are even eligible on the part of the FHWA. Without federal funding the future bonding capacity and ability to construct either air cargo improvements at AIA or other bonded improvements at FIA may be severely impacted.

The high risk associated with remodeling the main terminal area may encounter changed conditions and more costs.

The fact that the Operating Agreements will expire in July 2000 may have a material effect on the bond sale unless there are written commitments from the users of the facility that will repay the bonds. There may be a strong resistance to signing a new operating agreement if there is a material impact to rates and fees. This issue should be addressed by AIA and the bond counsel.

The following are certain cost or accounting-issues that may need to be further examined or clarified:

1. In a recent submittal dated March 4, 1998 to the Legislature there were several attachments to answer questions that had been asked. In Attachment 8 "Status Report" there are several pieces of information that may need clarification.
 - a. At the top of the page titled Concourse C Funding, there are three appropriations, AR65837, AR59898, AR 63836 totaling \$14,700,000. When AR 63836 for \$4.5 million was submitted to the Legislature there was a commitment to seek AIP funding in the amount of \$1,690,000 (see Attachment 9, page 1, 1994 AIA Term Expand Design, near the bottom of the list). **Has the AIP funding been requested or received, and if not, please explain?**
 - b. Within the text of the Concourse C Funding report, noted above, there is a line item for Terminal Schematic Design, Schematic Design and Admin in the amount of \$605,878. Directly above that is the line item Terminal Assessment totaling \$2,400,000. This information was prepared by the AIA consultants. **Was this information substantiated or verified with the AIA accounting section? What was their input or response as of 2/11/98? Did it differ from the information being presented to the Legislature? Please explain.**

2. Leif Selkregg Associates:

The contract for Leif Selkregg Associates and the resultant increases in contract value might be viewed as a measure of what could be expected throughout this project if a person were somewhat suspicious.

The original contract for Task 1, dated 9/20/96 estimated that overall services would "be in the range of \$1,000,000". The next contract, Task 2, dated 11/1/96 estimates that overall services would "be in the range of \$1,200,000". All subsequent contracts for additional tasks do not contain an estimate of overall services costs.

Therefore, we reviewed the project cost reports dated 3/11/98 to determine what the budgeted to actual costs are running for this project and found that the Leif Selkregg authorized contract amount is now at **\$1,611,082.16**.

Furthermore, we examined the period of performance for the tasks to determine if there were any controls on the amount of time that was being permitted to accomplish the required work. What we found was that up until Task 3 , Amendment 2 there were cut off times when work products were suppose to be completed. With that amendment all cut off times were extended out to 12/31/2001.

From a cost and control point of view there seems to be few if any dollar limits or time limits and therefore, there is a strong possibility that in addition to the already significant increase of 60+% there could be other increases in the amount of the contract.

There may be a need to review this contract, the State Procurement Code, and the reasons for these increases in cost and changes in control. We have not discussed this issue with the consultant but have provided the AIA with this comment. Perhaps the AIA has additional information at this time.

3. In answer to your questions about "What percentage of the budget will be for Contingency, Planning, Design Engineering " the AIA responded to you on 3/4/98 with the following schedule:

Contingency	10%	
Planning	02%	
Design & Engin. Const Admin	10%	10%
Project Admin	02%	
Construction	76%	
Total		100%

To summarize they answered that 76% went to construction and 24% went to Planning Design Admin or Contingency (PDAC).

We reviewed that information to see if we could determine if there might be additional information available. In the AIA Terminal Concept Package Report #8, (dated October 1, 1997 in the Cost Estimate section on pages 3) there is a summary report which breaks down the cost for a project total of \$190,755,354. If you were to prepare a schedule of all the PDAC costs as shown in the supporting schedules what you would find is that there are \$68,525,867 in PDAC costs or a 36% factor instead of a 24% factor. If you choose to explain the PDAC as a percentage of only the construction cost (\$122,229,487) then the resultant PDAC % would be even higher at 56%.

4. We wanted to know if there was a simple formula for determining what the impact might be for each additional \$1 million in CIP and what that would do to the landing fee.

The short answer is that using FY 2002 as a base year, not counting the bonded project, and after using the available IARF funds which would be approximately \$13 million, there would be a \$0.0333 increase in landing fees for each \$1 million in CIP.

5. We have seen different interpretations on the airline vote for this project presented in different reports. What is implied is that there is a majority of support for this bond package and design. Perhaps with all the changes in design and different cost presentations, there should be **another vote by the airlines to confirm their continued support**. Such a confirmation might be most useful in the bond package if there is no progress toward new operating agreements until year 2000.
6. Interest Rates:

The AIA has used the approach that if we wait until next year the interest rates could be higher. In recent discussions there has also been the statement that if we move ahead this year we will be in a position to take advantage of any lower interest rates next year. The later statement seems to have merit.

We examined this question and have determined the following:

The short answer is that **interest rates are likely to drop even further.**

The long answer is:

Mr. Paul McCulley, Chief Economist for UBS Securities recently stated that the Federal Reserve and its Chairman, Alan Greenspan have won the war against inflation and high interest rates. In his semi-annual Humphrey-Hawkins testimony, Dr. Greenspan indicated the economy was in great shape. The economy is "delicately balance between inflation and recession".

During the next twelve to eighteen months the Federal Reserve will react favorably toward the US financial markets by shaving 100 to 125 basis points from the benchmark rate of 5.50 percent. In our opinion the interest rate cut will formally start this summer (1998).

Dr. Greenspan will chop away at interest rates in a very cautious manner. The last interest rate cuts came in three steps starting in July 1995 and ending in January 1996. This monetary move caused short-term interest rates to decline from 6.00 percent to 5.25 percent. The lower interest rates will provide a monetary hedge for the US economy against the Asian economic problems that will hurt the US economy and corporate earnings in the second half of 1998. The Federal Reserve and its short-term forecasts on the health of US economy have not been very accurate, as noted by Dr. John Shaughnessy, Chief Investment Strategist for Advest, Inc. The Federal Reserve economic growth forecasts has been by far too conservative. For example the Central Bank had forecasted a 1997 growth rate of 2.25 percent in Gross Domestic Product compared to the actual growth of 3.9 percent.

In a recent speech at Carnegie Mellon University, Lawrence H. Meyer, Federal Reserve Board Governor, noted that we have a good news economy that has a "remarkable combination of healthy growth, low unemployment, low inflation, a soaring stock market and a declining federal deficit". He said he could summarize the recent economic performance into a single sentence. "We have been recently blessed with relatively strong cyclical growth, the lowest unemployment rate in 24 years, the lowest inflation in 31 years, an impressive investment boom, soaring equity prices and a 5-year decline in the federal deficit".

RECOMMENDATIONS:

1. Should the Legislature decide to move forward with a bond package authorization in any manner which allows the AIA to continue with this project, we strongly recommend that there be some mechanism which allows you **to maintain a continuous oversight of the project** by having a assigned person to be a part of the project team (with no decision making responsibility) to merely provide oversight and reporting to the Legislature. That person may not need to be full time but should plan on being involved in status meetings every week. That person could easily be funded out of the project. That person should be experienced with and knowledgeable about the AIA and its processes. This effort could be considered part of the Quality Control process.

2. The Legislature may want to consider a bond authorization by approving a **private placement or partial private placement of the bonds with the Alaska Permanent Fund**. This potential option could offer some significant interest cost, financing cost and opportunity cost savings. At the same time, it should be noted that the current bond resolutions prohibit private placements or privately negotiated sales. Those resolutions would have to be amended.

3. Several of the comments we made in the Cost Comments portion of this report are intended to point out the need to have accurate and complete information. We are concerned about the process. **We recommend that all financial information be reviewed by the IARF Controller before it is released.** That is not being done at this time at either Anchorage or Fairbanks. The problem is that without this review, there is a strong possibility for error which has been demonstrated in some of these comments. If we had more time to do an in-depth review we could provide more examples. The need is to insure that the process is providing accurate and complete information. Certainly when the bond package is reviewed in the due diligence process this financial information and the process used to present the information will come into question and be of critical significance.



**Anchorage
International
Airport**

***Gateway
Alaska***

***Terminal
Redevelopment
Project***



Gateway Alaska

Table of Contents

		<i>Page</i>
Executive Summary	<i>Gateway Alaska—Improving Alaska's Gateway to the World</i>	1-5
Terminal Project Overview	<i>Anchorage International Airport's Economic Importance Today's Situation Future Needs Plan of Action</i>	6
Terminal Project Information	<i>Elements Size Cost Funding</i>	7
Major Elements of Terminal Project	<i>Enabling Works C Terminal Replacement Airside Improvements Roadway and Parking Terminal Renovations</i>	8-9
Terminal Project Review of Process and Findings	<i>Process Forecasts Program Requirements Financial Impact of Delay Effect on Rates and Fees Comparison of ANC Landing Fee with Other Airports</i>	10-11
Airlines Contributing 89% of Domestic Passenger Airline Revenue Voted YES	<i>Listing by domestic carrier</i>	12
Airlines Representing 84% of Departing Passenger Voted YES	<i>Listing by domestic carrier</i>	12
Illustrations	<i>Road Projects Terminal Project</i>	
Plan of Finance	<i>November 5, 1997 Plan of Finance Distributed to the Anchorage International Airport Airline Affairs Committee</i>	
Resolution and Letters of Support		



Gateway Alaska

Improving Alaska's Gateway to the World

Anchorage International Airport (AIA) has become a vital business center and Alaska's link to the world. Future economic development in Anchorage and throughout the state will depend upon the airport's ability to meet this growth in traffic and to provide an acceptable level of service for airport users.

More than 4.4 million passengers arrived, departed, or transited the domestic terminal in 1997; another 600,000 passengers used the international terminal. For out of state visitors, the airport is often their first impression of Alaska and should represent the state in an appropriate manner. AIA is now serving nearly twice the number of passengers that passed through 10 years ago. In addition, over a 4.5 percent annual increase in domestic travelers is forecast through 2005.

According to David Hinson, former FAA Administrator, "Growth in airline passenger traffic is projected to outpace both population growth and the economy by expanding as much as 5.6 percent annually over the next 20 years."

Alaska's economy is driven, in a large part, by the engines of our aviation industry. A 1995 University of Alaska Institute of Social & Economic Research study identified 7,000 jobs directly related to the airport and another 4,000 airport-associated jobs in the Anchorage area. These figures are expected to increase another five percent during the coming years.

Cargo traffic at Anchorage has grown by double digits over the past three years and is expected to continue growing by at least 6 percent annually. The Gateway Alaska program, which is designed to meet these needs, is comprised of two major development components: domestic terminal redevelopment project and a series of highway improvement projects that will address the airport needs. Cargo operations at the AIA is being addressed in a separate Cargo Master Plan under development and is not currently a part of the Gateway Alaska program.

Addressing the Needs

Domestic Terminal Redevelopment: Anchorage International Airport domestic terminal currently offers an unacceptable level of service to the traveling public, especially during peak summer months.

The airport's main terminal has only 75 percent of the space necessary to serve today's passengers. By the year 2000, the existing terminal will provide only 60 percent of the space needed. Certain public areas of the terminal, such as the ticket lobby and bag claim lobby, currently have less than half of the space needed to operate efficiently.



- baggage claim, curbside and baggage pick up areas.
- It provides a flexible terminal that can accommodate changes in fleet mix and other factors that could change in the future.
- It is a cost effective approach, maximizing the use of existing facilities.
- It provides for construction while continuing the operations of the Airport.
- It provides flexibility for future terminal expansion to meet continued increased demand.

Program History

Announced by Governor Knowles in November 1997, the 10-year, "Gateway Alaska" plan calls for improvements and expansion of airport facilities to support airport operations and access into the airport area.

Governor Knowles told the Anchorage Chamber of Commerce that the airport is "entering a new era of prosperity". At the same time, this prosperity is being threatened by an out-dated facility that cannot even meet today's demand.

In September of 1996, AIA initiated a planning process to develop the AIA Passenger Terminal Master Plan concept for the planning horizon year 2015, supported by a carefully developed needs assessment and phased implementation program.

Based on a series of workshops, meetings and direct airline input, a preferred Terminal Master Plan concept has been identified for the year 2005 which maintains maximum flexibility for terminal development beyond 2005 to the year 2015.

Airport consultants conducted a six-month Terminal Needs Assessment to forecast passenger loads and identify existing terminal deficiencies. Based upon these findings, the airport worked extensively with the airlines over the past twelve months to identify the general requirements of terminal redevelopment at Anchorage. The terminal project was approved by the airlines serving both Anchorage and Fairbanks airports in accord with terms of the airline/airport operating agreement, including support from the airlines who carry over 84% of the passenger traffic and produce almost 90% of the passenger revenue.

As a parallel effort to the terminal study, the Department of Transportation and Public Facilities took a look at International Airport Road to see what improvements may be needed to accommodate the current and projected traffic demands.

Program Financing

The entire Gateway Alaska program will cost approximately \$350 million over 10 years.

- Terminal and airside improvements: \$165 million (1997 dollars)



- baggage claim, curbside and baggage pick up areas.
- It provides a flexible terminal that can accommodate changes in fleet mix and other factors that could change in the future.
- It is a cost effective approach, maximizing the use of existing facilities.
- It provides for construction while continuing the operations of the Airport.
- It provides flexibility for future terminal expansion to meet continued increased demand.

Program History

Announced by Governor Knowles in November 1997, the 10-year, "Gateway Alaska" plan calls for improvements and expansion of airport facilities to support airport operations and access into the airport area.

Governor Knowles told the Anchorage Chamber of Commerce that the airport is "entering a new era of prosperity". At the same time, this prosperity is being threatened by an out-dated facility that cannot even meet today's demand.

In September of 1996, AIA initiated a planning process to develop the AIA Passenger Terminal Master Plan concept for the planning horizon year 2015, supported by a carefully developed needs assessment and phased implementation program.

Based on a series of workshops, meetings and direct airline input, a preferred Terminal Master Plan concept has been identified for the year 2005 which maintains maximum flexibility for terminal development beyond 2005 to the year 2015.

Airport consultants conducted a six-month Terminal Needs Assessment to forecast passenger loads and identify existing terminal deficiencies. Based upon these findings, the airport worked extensively with the airlines over the past twelve months to identify the general requirements of terminal redevelopment at Anchorage. The terminal project was approved by the airlines serving both Anchorage and Fairbanks airports in accord with terms of the airline/airport operating agreement, including support from the airlines who carry over 84% of the passenger traffic and produce almost 90% of the passenger revenue.

As a parallel effort to the terminal study, the Department of Transportation and Public Facilities took a look at International Airport Road to see what improvements may be needed to accommodate the current and projected traffic demands.

Program Financing

The entire Gateway Alaska program will cost approximately \$350 million over 10 years.

• Terminal and airside improvements: \$165 million (1997 dollars)



Concourse C, built in the 1950's, is both functionally obsolete and code deficient. The roof has been repaired numerous times and still leaks. The heating system is literally held together with duct tape. The only sensible and cost-effective solution to updating this area is to demolish and replace this part of the terminal.

The AIA redevelopment project is critical if the airport is to provide capacity for the needs of today and growth in the near term. It is unreasonable to continue such poor levels of service, especially when considering the potential for adverse affects on tourism and business development in Alaska.

Terminal curbside roads need to be 50% longer to relieve congestion. A continuous return loop road is needed for improved safety and convenience. The intersection of Postmark Drive and International Airport Road must be reconfigured to accommodate current traffic and to improve overall safety.

Highway Improvements: Improvements to the primary access route to the airport are needed to meet current and projected traffic demands. An interchange at International Airport Road and Minnesota Drive along with widening of 'C' Street to six lanes will reduce accidents and improve traffic flow and circulation associated with projected increases. Additional intersection improvements along International Airport Road may also be needed as traffic increases continue.

Program Description

The Gateway Alaska program will renovate and expand the AIA Domestic Terminal, including airside and landside improvements. It will also improve highway access to the airport through a series of programmed and planned improvements along International Airport Road.

The terminal project includes improvements to terminal roads and parking, extension of upper level departure curbside bridge and roads, replacement of Concourse C, renovation and expansion of existing terminal space, tour group processing, and improvements to airside facilities. The plan provides facilities which meet anticipated demands for the target year 2005. The proposal calls for construction to begin by 1999 and end by 2004.

It will provide five new jet aircraft gates, seven regional aircraft parking positions, demolish Concourse C and construct a new concourse that will provide more curbside access, baggage claim, ticket lobby, and retail space.

This plan meets specific goals and objectives of AIA and the airlines:

- It provides the roadway and terminal facilities necessary to meet the forecast demand.
- It creates a facility with balanced capacities for airside, terminal and curbside areas.
- It resolves major deficiencies that exist in current ticket lobbies,



provided through airport revenue bonds.

- Terminal curbside and access roads: \$26 million using federal highway funds.
- Additional road improvements along International Airport Road from Postmark Drive to the Seward Highway: \$159 million using federal highway funds.

Gateway Alaska Program Summary

Terminal Redevelopment Project

Baggage Claim

Problem: Currently, the AIA domestic terminal has only 43 percent of the space needed to handle baggage. Passengers typically wait an unreasonable amount of time for their luggage. The baggage claim area, once a test of patience only during the summer months, is now in this condition on a daily basis.

Proposed Solution: Renovate and expand the existing baggage claim area. Replace the existing Concourse C with 300 linear feet of new baggage claim area with enough space and adequate equipment to handle luggage efficiently.

Ticket Lobby

Problem: The existing lobby has only 40 percent of the space needed to adequately handle passenger ticketing. The result is long lines, a crowded lobby and frustrated passengers.

Proposed Solution: Renovate and expand the existing ticket lobby. Replace the existing Concourse C with 300 linear feet of new ticket lobby space, large enough to accommodate projected passenger traffic through 2005.

Vehicle Curbside

Problem: Passenger drop off and pick up at the curbside is extremely difficult. Curbside space is insufficient for the number of people trying to get to and from the airport.

Proposed Solution:

- Improve the road system to serve the new C Concourse and provide safe and easy access to all airport facilities.
- Extend the existing elevated curbside road to the north, and make corresponding shifts in the roadway accesses to the upper and lower ramps, rental cars, and short-term and long-term parking.
- Develop a new return-to-terminal and parking circulation loop to simplify traffic flow and provide safe circulation in and around the airport terminals and parking areas.



C Concourse

Problem: C Concourse is code deficient and functionally obsolete. The 45 year old facility is costly to repair and maintain.

Proposed Solution: The only efficient, cost-effective remedy is to completely replace the C Concourse and expand the flightline to the north, which will increase airside capacity by 5 jet gates and 7 regional gates, several of which can be used by either jets or smaller aircraft.

Retail Area

Problem: Retail concession space is limited and located in areas of the terminal that are not ideal for maximizing customer shopping. Long lines at food stands add to the terminal's congestion and passenger frustrations, resulting in lost airport revenues from these retail operations.

Solution: Expand the amount of space available for concessions by creating retail areas in the new concourse and expand space in the renovated core area.

Highway Improvement Projects

Problem: Increased airport traffic requires improved access to AIA.

Solution: Improve the primary road network leading to the airport to make access safer and more efficient, and accommodate increased traffic and minimize impacts to surrounding neighborhoods. Programmed projects, include:

- Build interchange where International Airport Road crosses Minnesota Drive. (*construction start 1998*)
- Widen C Street from Tudor Road to International Airport Road. (*construction start 1998*)
- Improve International Airport Road, including bike and pedestrian trails. (*est. construction start 1999*)
- Intersection improvements and partial realignment of Postmark Road where it intersects International Airport Road. (*est. construction 1999*)

Additional contemplated improvements which will be reviewed and programmed as needed, include:

- A new grade separation at International Airport Road and the New Seward Highway.
- Interchange on International Airport Road at Jewel Lake Road and at-grade railroad crossings to improve safety.
- Improve Old International Airport Road, where many cargo operations are located.
- Build bike and pedestrian trails along Lakeshore Drive, which winds around Lake Hood.
- Repair an eroding section of the Tony Knowles Coastal Trail near the north end of the airport.



Terminal Redevelopment Project Overview: ***Today's Situation, Future Needs and Plan of Action***

Anchorage International Airport's Economic Importance

State's # 1 transportation hub
Serves over 5 million passengers per year

- 60% Alaskans
- 25% Visitors
- 15% International Transit

Jobs in the community: about 1 in 10 jobs in Anchorage

- 7,000 airport jobs
- 4,000 community jobs

Today's Situation

Domestic Terminal inadequate for today's traffic

- Concourse C, built in 1952, is functionally obsolete and code deficient- needs to be replaced
- Ticket lobby is only 40% of the space needed today
- Baggage claim lobby is only 43% of the space needed today
- Curbside road needs to be 50% longer
- Main terminal provides only 75% of space needed today

Future Needs

Forecast over 6 million passengers by 2005

- Expanded ticketing and baggage claim
- Tour group processing facility
- Additional aircraft gates (5 jets, 7 regional parking positions)
- Improved road access, curbside road, and parking

Plan of Action

Replace Concourse C
Renovate and expand existing terminal and retail core
Extend curbside road
Construct new access road and terminal return road
Expand aircraft gates and aircraft parking



Terminal Redevelopment Project Information

Elements, Size, Cost, Funding

Major Elements	5 new jet aircraft gates for total of 24 7 new regional aircraft parking positions for total of 20 Expanded and new ticket lobby and baggage claim Expanded curbside and road system New tour group processing facilities Expanded and new retail space													
Size	1997 Domestic Terminal Demolition of C Concourse Replace C Concourse plus New terminal area	435,000 s.f. (85,000) s.f. <u>367,000</u> s.f. 717,000 s.f.												
Cost	Project costs in 1997 dollars: <table border="0" style="margin-left: 40px;"> <tr> <td>Early construction</td> <td style="text-align: right;">\$ 5 million</td> </tr> <tr> <td>Concourse C replacement</td> <td style="text-align: right;">78</td> </tr> <tr> <td>Terminal renovation and expansion</td> <td style="text-align: right;">40</td> </tr> <tr> <td>Roads and parking</td> <td style="text-align: right;">32</td> </tr> <tr> <td>Airside improvements</td> <td style="text-align: right;"><u>36</u></td> </tr> <tr> <td></td> <td style="text-align: right;">\$191.0 million</td> </tr> </table>		Early construction	\$ 5 million	Concourse C replacement	78	Terminal renovation and expansion	40	Roads and parking	32	Airside improvements	<u>36</u>		\$191.0 million
Early construction	\$ 5 million													
Concourse C replacement	78													
Terminal renovation and expansion	40													
Roads and parking	32													
Airside improvements	<u>36</u>													
	\$191.0 million													
Funding	<table border="0" style="margin-left: 40px;"> <tr> <td>Federal Highway funds</td> <td style="text-align: right;">\$ 26.3 million</td> </tr> <tr> <td>Airport revenue bonds</td> <td style="text-align: right;">164.7</td> </tr> <tr> <td>FAA funding</td> <td style="text-align: right;"><u> *</u></td> </tr> <tr> <td></td> <td style="text-align: right;">\$191.0 million</td> </tr> </table>		Federal Highway funds	\$ 26.3 million	Airport revenue bonds	164.7	FAA funding	<u> *</u>		\$191.0 million				
Federal Highway funds	\$ 26.3 million													
Airport revenue bonds	164.7													
FAA funding	<u> *</u>													
	\$191.0 million													

*FAA funding being sought to further reduce bond requirement or payment



Major Elements of Terminal Redevelopment Project

Early Construction

- *Utility Relocation* Relocate communications, water, sewer gas

- *Cargo aircraft parking positions replacement* Replace two aircraft parking positions displaced by construction

- *Modifications for temporary relocation of airlines and tenants* Relocation of tenants to allow for construction phasing

- *Relocate loading bridge* Relocate Gate B2 loading bridge for construction phasing

- *Demolition of C Concourse* Demolish C Concourse

C Concourse Replacement

- *C Concourse Replacement* New ticket lobby, baggage claim, gates, operations, north terminal connector

- *Group tour bag facility* Processing facility for tour passengers with baggage

Airside Improvements

- *Apron* New apron on new C Concourse and adjustments to Concourse B apron

- *Aircraft hardstands* Seven remote aircraft parking positions for overnight parking of passenger aircraft and daytime refueling of cargo aircraft

Roadway and Parking

- *Roadway and parking near terminal* Reconstruction of International Airport Road, new return loop road, connection to Postmark Drive, expanded surface parking, expanded upper curbside by 500'

- *Right of way acquisition* Acquire leases and property required for road improvements



Terminal Renovations

- *New construction*

30 foot expansion of terminal toward apron Gates A1-A3

30 foot expansion of terminal toward apron Gates A4-5

- *Renovation*

Renovation of ticket lobby and baggage claim



Terminal Redevelopment Project ***Review of Process and Findings***

Process

The planning team has worked with the airlines to review enplanement (passenger traffic) forecasts and to make input into the master plan in a series of meetings and workshops over the past year. Both the Airline Technical Committee and the Airline Affairs Committee have been an integral part of the terminal concept development.

Forecasts

The enplanement forecasts, which are the foundation upon which the facilities requirements are based, considered historical air traffic growth, tourism, and governmental policies affecting international trade. Interviews with signatory airlines provided important information to the forecasting process. The projected growth for domestic passenger enplanements compares favorably with FAA's average percentage growth for the nation over the same time period.

Forecast for ANC
1996 to 2005 = 4.3%

US Aviation Forecast
1996 to 2005 = 4.15%

The forecast and associated program requirements were calculated in a conservative range to ensure a favorable bond rating and to avoid overbuilding. In light of the new tour ships being constructed, the number of new hotels and rooms, and an on-going effort to market Alaska as a tourist destination, the above forecast meets this goal.

Program Requirements

The terminal expansion concept developed for the year 2005 is based on aviation forecasts and program requirements which provide reasonable levels of service to the traveling public during an average summer peak hour. This means that even with the new expanded terminal facility, the public will still experience some delays and inconvenience.

It is important to remember that of the 661,800 s.f. required for the year 2005, 454,761 s.f. is needed to meet today's passenger traffic. This means that 207,200 s.f. is required to meet future demand in the year 2005. Construction is currently scheduled to be completed in 2004 only one year prior to the forecast demand.

Impact of Delay or Phasing

To delay or phase construction of the project will result in the lost opportunity to sell bonds at current historic low rates. The cost to build this same space in the future would be increased by escalation and potentially higher lending rates on



bonds. An extended construction period would also unreasonably inconvenience the traveling public.

Financial Impact on Airlines

The airline costs resulting from the requested bond package are on the low side of the average cost to do business at other medium and large hub airports in the US. This fact does not justify the project, but does show building much needed facilities at Anchorage International Airport results in landing fees and terminal rental rates which are still below the national average.

Comparison of AIA Landing Fee with Other Airports

In a comparison of AIA projected landing fee with the average landing fees at other United States airports, AIA compares well. The comparison is based on the 1996 AIA landing fee (which has since become even lower) with the 1995-96 American Association of Airport Executives landing fee statistics.

Average Landing Fees

Medium Hub Airports			
<u>Passenger Signatory</u>	<u>Passenger Non-Signatory</u>	<u>Cargo Signatory</u>	<u>Cargo Non-Signatory</u>
\$1.19	\$1.42	\$1.25	\$1.46
Large Hub Airports			
<u>Passenger Signatory</u>	<u>Passenger Non-Signatory</u>	<u>Cargo Signatory</u>	<u>Cargo Non-Signatory</u>
\$1.79	\$2.00	\$1.85	\$1.96

AIA Projected Equivalent Landing Fee for Year 2002

(*factored from takeoff weight fee of \$.92)

\$1.16

*Some airports in the US, like Anchorage International, charge a landing fee that is based on aircraft takeoff weights. Other US airports charge landing fees based on aircraft landed weights. In order to fairly compare landing fees, a conservative calculation is made above to fairly compare Anchorage's landing fee with other airports' landing fees. In any event, Anchorage's landing fee compares extremely well with other airports.



Airlines Contributing 89% of Domestic Passenger Airline Revenue Voted YES

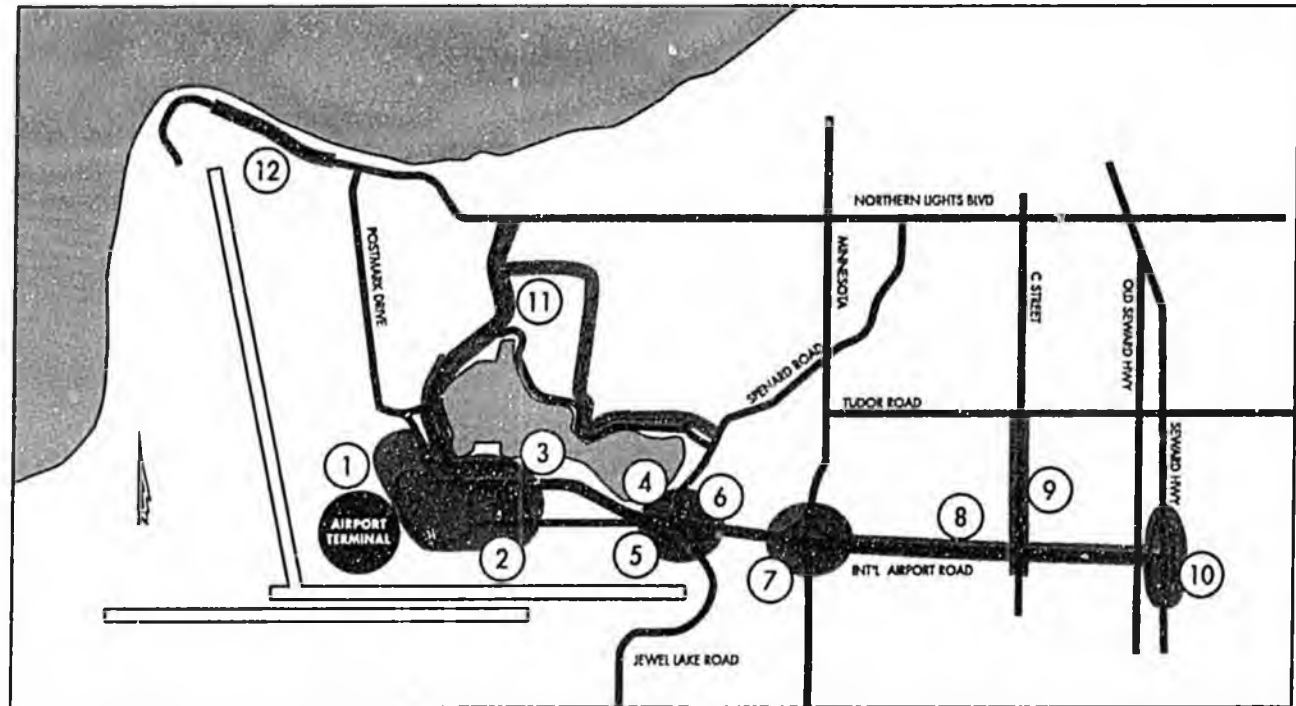
Airlines Representing 84% of Departing Domestic Passengers Voted YES

<u>Domestic Passenger Airlines</u>	<u>Vote</u>	<u>Domestic Airline Revenue</u>	<u>% of Total</u>	<u>Departing Passengers</u>	<u>% of Total</u>	<u>Samples of Increase per Departing Passenger*</u>
Alaska Airlines	Yes	\$3,687,952	45%	947,421	53%	\$0.96
Northwest Airlines	Yes	\$1,657,866	20%	129,380	7%	\$1.02
Delta Airlines	Yes	\$965,639	12%	215,627	12%	
United Airlines	Yes	\$851,133	10%	151,479	8%	
Reno Air	Yes	\$162,049	2%	61,616	3%	
America West	Yes	\$8,519	0%	3,479	0%	
Era Aviation	No	\$418,539	5%	201,012	11%	\$0.58
Reeve Aleutian	No	\$358,033	4%	39,593	2%	
Peninsula Airways	No	<u>\$139,477</u>	<u>2%</u>	<u>42,697</u>	<u>2%</u>	
		\$8,249,207	100%	1,792,304	100%	

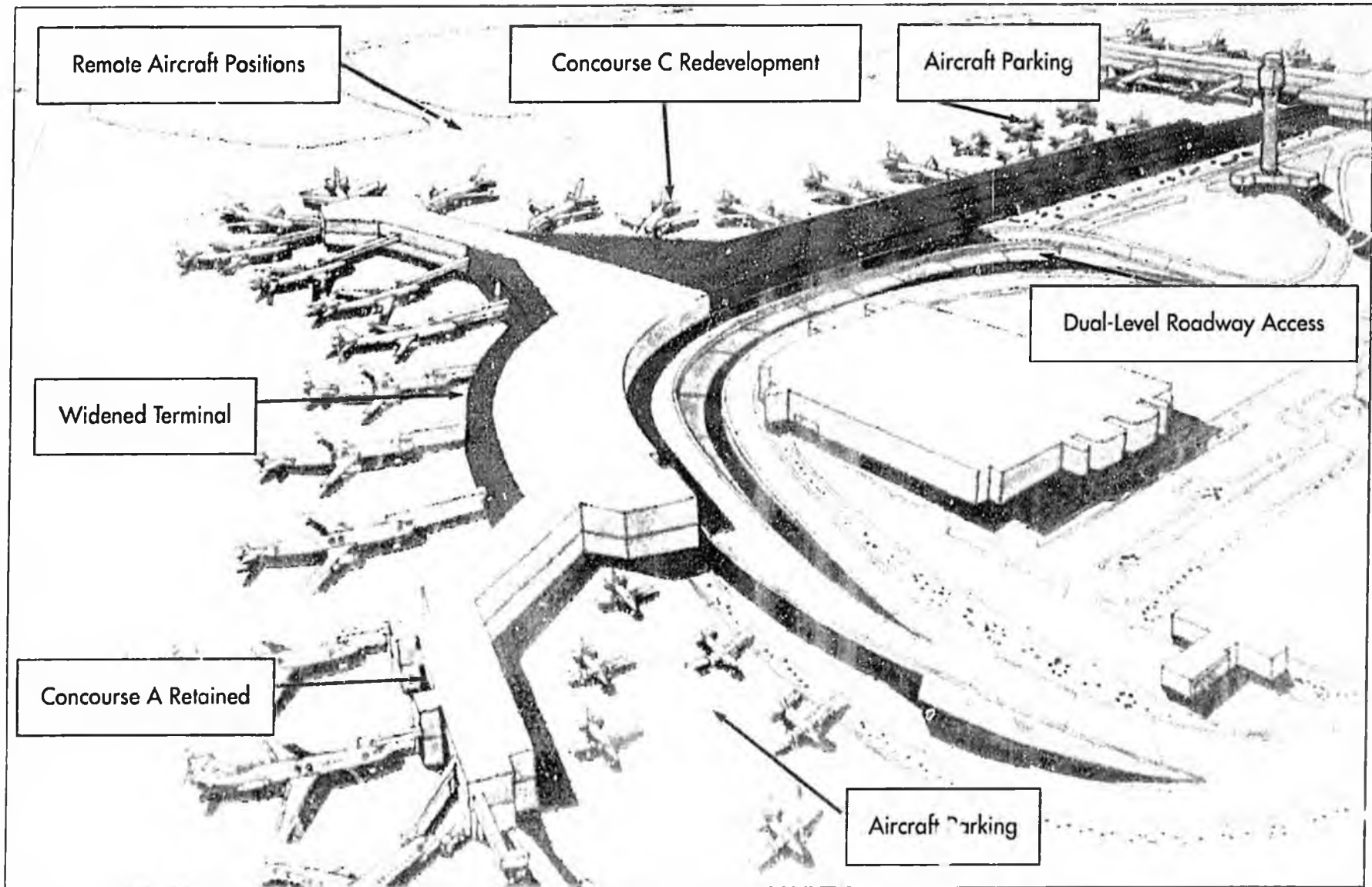
**Based on flatline projection of FY 97 activity and rates*



Gateway Alaska



- | | |
|---|--|
| 1 AIA Terminal Redevelopment-Terminal and Airside | 7 Minnesota Drive Interchange |
| 2 AIA Terminal Redevelopment-Landside | 8 Int'l Airport Road - Minnesota Drive to Old Seward Hwy |
| 3 Postmark Drive Interchange | 9 "C" Street Widening |
| 4 Int'l Airport Road - Airport to Minnesota Drive | 10 New Seward Highway Grade Separation |
| 5 Old International Airport Road | 11 Lakeshore Drive Trail |
| 6 Jewel Lake Road Interchange | 12 Coastal Trail Bluff Stabilization |



Remote Aircraft Positions

Concourse C Redevelopment

Aircraft Parking

Dual-Level Roadway Access

Widened Terminal

Concourse A Retained

Aircraft Parking

Terminal and Airside AIA Terminal Redevelopment



**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

PLAN OF FINANCE

DISTRIBUTION TO THE AIRLINE AFFAIRS COMMITTEE

NOVEMBER 5, 1997

ADDENDUM TO OCTOBER 15, 1997 PRESENTATION

November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC *Aviation, Infrastructure & Project Finance***

Purpose of Addendum

- Incorporate State of Alaska Capital Contribution of \$26.3 million into Financial Model of terminal rents and landing fees
- Incorporate an assumption of less than 100% occupancy of the Airline Rentable area of the Terminal when the project comes on line in Fiscal Year 2002
- Incorporate updated concession revenues work based on the October 15th Design Presentation to the Airline Affairs Committee
- Incorporate higher operating assumptions in the areas of Custodial, Maintenance and Utility
- Update fuel flowage fee assumptions
- See pages 7 - 11 for details of assumption updates

November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

Project Components

Note: This chart is included for illustration purposes and uses the Example of the revised Financial Model A (2001 Completion of Concourse C and 2003 Project Completion).

	Additions in \$	Subtractions in \$	Net in \$
Total Cost of Project in 1997 Dollars	190,800,000		
State Capital Contribution		26,300,000	
AIRPORT COST OF PROJECT IN 1997 DOLLARS			164,500,000
Fiscal Year 1998 Allocated Funds		6,100,000	
3% Escalation per Cash Flows	14,500,000		
24 Months Capitalized Interest	20,000,000		
Credit Construction Fund Earnings		21,000,000	
Financing Costs Including Bond Insurance	4,700,000		
CORE FINANCING	Total Additions	Sub-Total Subtractions	
	230,000,000	53,400,000	176,600,000
Optional Adjustment: Take Out Capitalized Interest		20,000,000	
ADJUSTED WITHOUT CAPITALIZED INTEREST		Total Subtractions	
		73,400,000	156,600,000

November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

Total Debt Service Level Each Year

\$173,000,000 Project Fund from Bond Proceeds Amortized Over 25 Years

Par Amount of Bonds	\$177,205,000
Maximum Full Year Debt Service	\$14,583,284
Average Life of Bonds	16.51 years

Recommendation for Level Debt Service

- Level Debt Service facilitates long-term planning because it creates a consistent base
- Average Life of debt is substantially less than face term of bonds
- Effect of inflation is to reduce the fixed debt as percentage of total operating costs over time
- Level debt service makes project a gradually decreasing impact on various airport and airline financial rates, charges and ratios

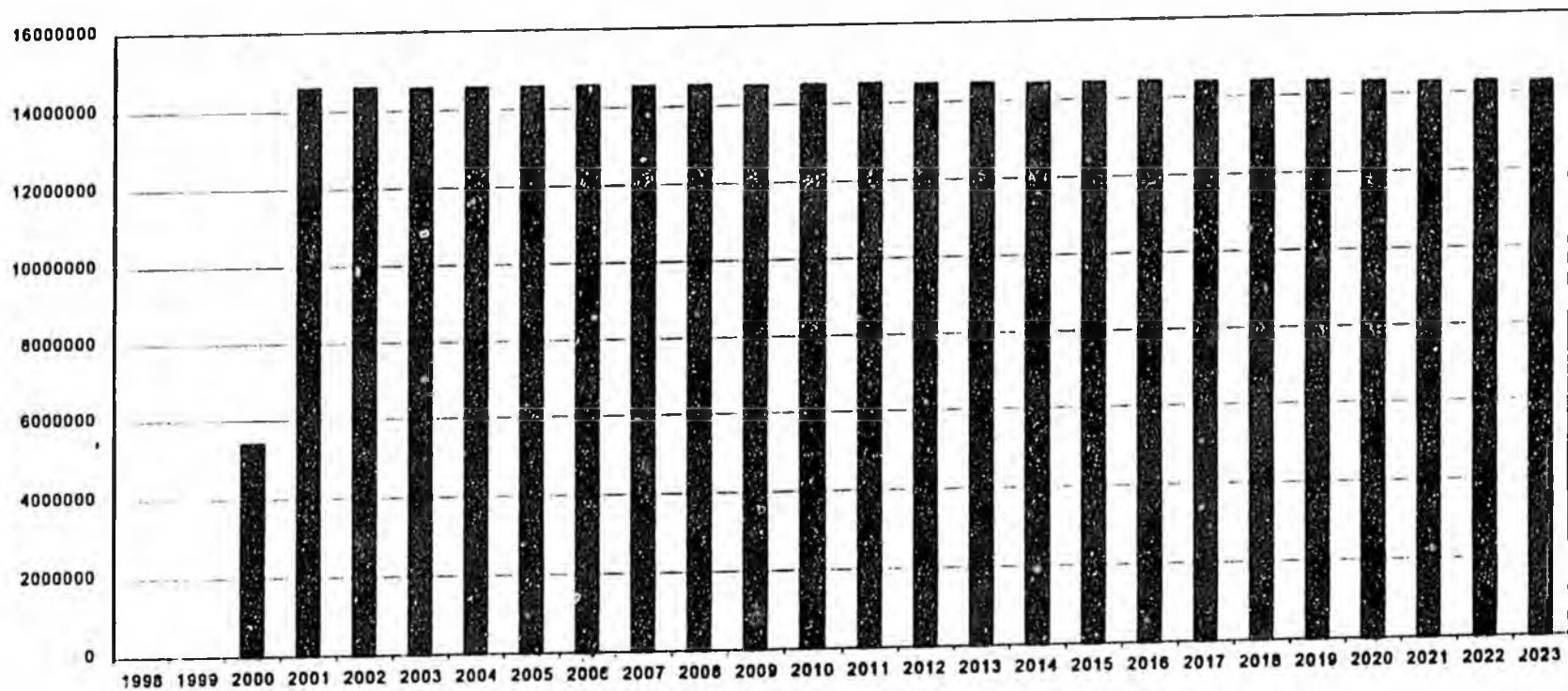
November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

FY 1998 and FY 1999 are zero because of capitalized interest
FY 2000 includes one semi-annual interest payment
FY 2002 is In-Service Date for Concourse C, which is scheduled for completion during FY 2001

**Level Debt Service
for \$173,000,000 Project Fund
Annual Fiscal Year Net Debt Service**



November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

Summary of Rates and Charges

- FY 2001 Completion for Concourse C Replacement
- FY 2002 In-Service Date for Concourse C Replacement
- 24 Months Capitalized Interest
- Chart begins with FY 1999 because Rates and Charges for FY 1998 were set prior to July 1, 1997 using assumptions which are different from the November 5 Scenario of Model A.

Terminal Rents November 5 Scenario A	Terminal Rents October 15 Scenario A	Year	Landing Fees November 5 Scenario A	Landing Fees October 15 Scenario A
32.97	32.97	1999	0.70	0.69
33.24	33.24	2000	0.68	0.68
37.81	38.65	2001	0.76	0.77
39.71	39.08	2002	0.93	0.95
40.19	39.36	2003	0.89	0.93
40.70	39.63	2004	0.86	0.91
40.72	39.92	2005	0.83	0.89
40.44	40.21	2006	0.82	0.87
40.75	40.51	2007	0.80	0.85
41.07	40.81	2008	0.79	0.84
41.41	41.12	2009	0.77	0.82
41.75	41.43	2010	0.75	0.80

November 5, 1997

Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC *Aviation, Infrastructure & Project Finance*

**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

Summary of Rates and Charges (cont.)

Terminal Rents November 5 Scenario A	Terminal Rents October 15 Scenario A	Year	Landing Fees November 5 Scenario A	Landing Fees October 15 Scenario A
42.16	41.82	2011	0.75	0.80
42.59	42.22	2012	0.75	0.79
43.03	42.63	2013	0.75	0.79
43.48	43.05	2014	0.75	0.79
43.93	43.47	2015	0.75	0.79
44.42	43.92	2016	0.75	0.78
42.36	41.86	2017	0.71	0.74
42.79	42.33	2018	0.71	0.74
43.31	42.80	2019	0.71	0.74
43.84	43.29	2020	0.71	0.74
44.38	43.80	2021	0.71	0.74
44.93	44.32	2022	0.71	0.73
45.52	44.85	2023	0.71	0.73
46.10	45.40	2024	0.71	0.73
33.14	30.91	2025	0.54	0.55

November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

State Contribution

- October 24, 1997 Letter from Commissioner of Department of Transportation and Public Facilities to the Chairman of the Airline Airport Affairs Committee
- \$26.3 million commitment of federal highway funds to be received by the State which will be used to fund terminal access roads
- Clear demonstration of the State's good faith in committing non-airline funding sources
- October 24th letter refers to additional \$15 million in non-airline funds:

"The State has also identified a minimum of \$15 million in airside development which is eligible for FAA Discretionary Funds. We commit to aggressively pursue these funds to further reduce the airline share of the project costs."

- October 24th letter joins the State with the airlines in pursuing lower rates and charges to make Anchorage International Airport more competitive in the aviation market
- The most explicit value of the State contribution is the lowering of annual debt service on the bond issue (see following chart)

November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

	<u>October 15 Bond Issue</u>	<u>November 5 Bond Issue</u>
Par Amount of Bonds	\$199,130,000	\$177,205,000
Project Fund from Bond Proceeds	177,207,788	152,000,031
Project Fund from Airport Capital Allocation	6,400,000	6,100,000
Project Fund from State Capital Allocation	0	26,300,000
Capitalized Interest Fund Deposit	22,477,655	20,002,796
Maximum Annual Debt Service (Level Debt Structure)	16,388,159	14,583,284

November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

Update of Other Assumptions

- New Project Fund bonding requirement based on 1997 Dollars and 3% Escalation is as follows:

Cash Flow Line	1998	1999	2000	2001	2002	2003	
6.1	6.1						
18.4	18.4	19.0					
41.9	41.9	43.2	44.5				
42.3	42.3	43.6	44.9	46.2			
42.1	42.1	43.4	44.7	46.0	47.4		
13.7	13.7	14.1	14.5	15.0	15.4	15.9	
164.5	6.1	19.0	44.5	46.2	47.4	15.9	179.0 TOTAL

Note 1: \$6.1 million in FY 1998 is not included in the 172.9 million Project Fund bonding requirement.

Note 2: prior 1997 dollars were \$190.9 million, escalating to a total of \$207.5 million.

November 5, 1997

**Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

- Incorporate an assumption of less than 100% occupancy of the Airline Rentable area of the Terminal when the project comes on line in Fiscal Year 2002

Fiscal Year	Total Usable Square Feet	Total Available Airline Rentable Square Feet	Actual Rented as % of Available Rentable (rounded)	Total RENTED Airline Rentable Square Feet	Total VACANT Airline Rentable Square Feet
2002	591,565	232,256	80.51%	187,000	45,256
2003	631,863	257,357	80.43%	207,000	50,357
2004	631,863	257,357	83.54%	215,000	42,357
2005	631,863	257,357	89.37%	230,000	27,357
Thereafter	631,863	257,357	89.37%	230,000	27,357

- Update fuel flowage fee assumption to tie to takeoff weight assumption rather than 3% straight line growth

November 5, 1997

**Leif Selkragg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance**

**Airline Affairs Committee Presentation
Anchorage International Airport
Passenger Terminal Expansion Program**

- Incorporate updated concession revenues work based on the October 15th Design Presentation to the Airline Affairs Committee; concession consultant has identified several additional design factors which strengthen the outlook for concession revenues, including, for example, location, size, configuration, and store content

Fiscal Year	Food & Beverage Per Enplaned Passenger	News, Gifts & Specialty Per Enplaned Passenger
1997	0.39	0.27
1998 to 2001	increase at 1.5% per annum	increase at 1.5% per annum
2002 (New Program)	0.64	0.58
2003 and thereafter	increase at 1.5% per annum	increase at 1.5% per annum

- Incorporate higher operating assumptions in the areas of Custodial and Building Maintenance for the AIA Main Terminal only

Custodial	One time step up of 10% in FY 2002; then resume 3% escalation
Building Maintenance	Includes two components: Maintenance one time step up of 5% in FY 2002; then resume 3% escalation Utilities one time step up of 15% in FY 2002; then resume 3% escalation

November 5, 1997

Leif Selkregg Associates Program Management Team
by Hudson AIPF, LLC Aviation, Infrastructure & Project Finance



**Anchorage Chamber
of Commerce**

**Resolution in Support of Revitalizing the Anchorage International Airport
Anchorage Chamber of Commerce
Resolution 97/98-6**

WHEREAS, legislation to consider revitalizing the Anchorage International Airport (AIA) will be introduced during this legislative session; and

WHEREAS, AIA is the state's largest transportation hub, with more than five million passengers traveling through the domestic terminal last year and a forecasted increase in passengers in excess of three percent annually through the year 2005; and

WHEREAS, future expansion of Alaska's economy is tied closely to the airport, with more than 11,000 jobs already directly related to AIA activities and further increases in airport activities expected to create new employment opportunities; and

WHEREAS, a recent study by nationally recognized consultants identified many structural and design deficiencies at the AIA terminal and documented the need to expand and improve it to meet the requirements of the year 2005; and

WHEREAS, project financing has been approved by the airlines in accordance with the terms of the Airport Operating Agreement, to be financed through revenue bonds, which bonds are expected to be repaid through user fees; and


WHEREAS, the remaining costs will be paid by the federal government; and

WHEREAS, the airlines that carry the preponderance of the passenger traffic and produce most of the passenger revenue have approved the proposed AIA terminal revitalization;


THEREFORE, be it resolved that the Anchorage Chamber of Commerce endorses revitalization of Anchorage International Airport, as approved by the airlines, and urges approval of the necessary authorizing legislation; and

BE IT FURTHER RESOLVED that copies of this resolution be forwarded to all members of the Alaska State Legislature, Governor Knowles, and members of Alaska's Congressional delegation.

Approved this 16th day of January 1998.



Joe Griffith, 1997-98 Chairman



April Jensen, President

ALASKA STATE CHAMBER OF COMMERCE

Position 98-1

Revitalizing the Anchorage International Airport

WHEREAS, the Alaska State Legislature will be considering revitalizing the Anchorage International Airport (AIA) during this legislative session; and

WHEREAS, this airport is the state's largest transportation hub; and

WHEREAS, more than five million passengers traveled through the AIA domestic terminal last year, and an annual increase in excess of three percent in passengers is forecast through the year 2005; and

WHEREAS, air transportation is extremely important to Alaskans, who travel by air at more than three times the national average; and

WHEREAS, the future expansion of Alaska's economy is tied to AIA's ability to serve an increase in passenger and cargo service; and

WHEREAS, a recent six month study pinpointed the many deficiencies at AIA's terminal; and

WHEREAS, the study documented the need to expand and improve the AIA terminal to meet the needs of the traveling public for the year 2005; and

WHEREAS, the airlines that carry 84 percent of the passenger traffic and produce nearly 90 percent of passenger revenue support an AIA terminal revitalization; and

WHEREAS, significant costs will be paid by the federal government;

THEREFORE BE IT RESOLVED that the Alaska State Chamber of Commerce endorses revitalization of the Anchorage International Airport.

ADOPTED

BY

Pamela La Bolle
President

BY

David Marquez
Chairman, Board of Directors

Signatures due 2/11/98



Anchorage Economic Development Corporation
The Center of Opportunity

February 9, 1998

Governor Tony Knowles
Office of the Governor
State Capitol
Juneau, Alaska

Dear Governor Knowles:

At the full meeting of the Board of Directors on February 4, 1998, The Anchorage Economic Development Corporation adopted the enclosed position of support for the improvement of the Anchorage International Airport.

The AEDC recognizes the need to improve the passenger terminal and to provide appropriate amenities supporting travelers. The AEDC also recognizes the importance of cargo traffic to the economic viability of the Anchorage International Airport. The transportation and access corridors play an important part in the future growth of the cargo business in Anchorage. It is important for these elements to be included in the planned improvements to AIA. The AEDC supports a financing approach that maintains the cost competitiveness of carrier operations at AIA.

Please keep us advised of the progress of this project. We will provide appropriate comment and documentation during the process of moving this complex undertaking forward.

Sincerely,

Ernest E. Hall
Chairman of the Board

cc: Joseph Perkins, Commissioner, Dept. of Transportation & Public Facilities
Mort Plumb, Director, Anchorage International Airport
Randy Simmons, Director, AIDEA

**Anchorage Economic Development Corporation
Statement of Position on
Anchorage International Terminal Expansion
February 4, 1998**

I. Introduction

The Anchorage Economic Development Corporation (AEDC) has identified the Anchorage International Airport (AIA) as one of the most important economic engines of the metropolitan area of Anchorage. With over 11,000 employees and \$319 million in payroll, the AIA accounts for almost one job in 10 in Anchorage. In 1997, 34 air carriers have landing rights at AIA. The airport currently serves over five million passengers annually, over half are Alaskans, with 25% domestic visitors, and 15% international travelers. Based on current trends, six million passengers are expected by the year 2005. The Anchorage International Airport is the top U.S. cargo airport based on landed weight of all-cargo aircraft. Over 95% of the cargo between the U.S. and Asia stops in Anchorage. The expanded cargo transfer capability ruling approved by the U.S. Department of Transportation has enhanced the ability of cargo carriers to transfer cargo in Anchorage. This makes AIA even more attractive for cargo hub operations and inter-airline cargo transfers.

II. Three Reasons to Support the Terminal Expansion

Anchorage International Airport has proposed a terminal expansion project based on forecasts of need to the year 2005. A number of scenarios were reviewed and evaluated, and the program is designed for implementation over a period of years. AIA proposed financing of the project results in fees for doing business at the airport which are competitive with those of medium and large hub airports in the United States.

A. Anchorage is the passenger gateway to Alaska. Based on national industry standards, current terminal facilities are inadequate for today's needs and insufficient to accommodate growth.

- Main terminal provides only 75% of space needed today.
- Ticket lobby is only 40% of the space needed today.
- Baggage claim lobby is only 43% of the space needed today.
- Concourse "C" is functionally obsolete. Built in 1952.

B. Cargo activity provides a business-based reason for aircraft to land in Anchorage.

- Of the \$191 million in the terminal expansion project, \$18 million is earmarked for hard stand development for cargo carrier refueling
- Facility and transportation infrastructure is required to support growth of cargo operations at AIA. Efficient road access for cargo and freight movement between industrial parts of the city and the airport need to be addressed.
- The AIA improvement plan includes the road access and taxiway development requirements to support cargo movement into and within the airport.

C. Through its airport, Anchorage can make a good first impression. Vacationers and business travelers first exposure to Alaska is the Anchorage International Airport. The current terminal would benefit from amenities found at most major airports. The terminal expansion includes the following major elements:

- Five new jet aircraft gates.
- Seven new regional aircraft parking positions.
- Expanded and new ticket lobby and baggage claim.
- Expanded curbside and road system.
- New tour group processing facilities.
- Expanded and new retail space.

III. AEDC Supports Revitalization of the Anchorage International Airport

The AEDC supports essential improvements to the passenger terminal at AIA as well as the improvements to cargo carrier service. The AEDC also supports the upgrading of roads to expedite movement of passengers and cargo between the AIA and destinations within Anchorage. The financing of these improvements should be phased to provide a continuation of competitive costs for use of the airport for both passenger and cargo carriers. The revitalization of AIA will enhance its role as a major economic engine of Anchorage and will provide a facility commensurate with its world class status in global travel and trade.

COMMONWEALTH NORTH

Resolution in support of revitalizing Anchorage International Airport

This resolution is consistent with the Commonwealth North study focusing on economic development, quality of life, education, and the role of state government entitled Agenda 2000, Alaska's Future in a New World.

Commonwealth North:

Endorses the Anchorage International Airport revitalization project as approved by the airlines; and

Requests all state legislators to approve the authorizing legislation to revitalize the Anchorage International Airport; and

Forwards this resolution to all members of the Alaska State Legislature, Governor Tony Knowles, and Alaska's congressional delegation.

Resolved for the following reasons:

1. This airport is the state's largest transportation hub with more than five million passengers per year and an annual increase exceeding three percent forecast through the year 2005; and
2. Air transportation is extremely important to Alaskans, who travel by air at more than three times the national average; and
3. The future expansion of Alaska's economy is tied to AIA's ability to serve an increase in passenger and cargo service; and
4. More than 11,000 jobs are already directly related to AIA's activities and further increases in airport activities will create new employment opportunities; and
5. A recent six month study pinpointed the many deficiencies at AIA's terminal and documented the need for expansion and improvement to meet the needs of the traveling public for the year 2005; and
6. The majority of the \$191 million related to the terminal revitalization will be financed through revenue bonds which will be repaid through rates and fees collected from air carriers; and
7. The remaining costs will be paid by the federal government; and
8. Project financing has been approved by airlines in accordance with the terms of the Airport Operating Agreement. Airlines that carry 84 percent of the passenger traffic and produce nearly 90 percent of passenger revenue have approved the proposed AIA terminal revitalization.

Unanimously resolved by the Board on February 10, 1998