

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5154 HTRA HB 173 (FILE 2)

726

\*\*\*FAIRBANKS INTERNATIONAL AIRPORT\*\*\*  
 \*\*\*INTERNATIONAL AIRPORT REVENUE FUNDS\*\*\*

FISCAL			FHW FUNDS	AIP FUND	IARF FUND	GEN FUND	OTHER FUND	CLASS	FUND	ELECT	PROJECT
YEAR	REGION	EXP/ALT						TYPE	TYPE	DIST	
93	NO	EXP	\$0.0	\$0.0	\$200.0	\$0.0	\$0.0	IA-PR	FA	20	FIA Annual Improvements '93
93	NO	EXP	\$0.0	\$0.0	\$500.0	\$0.0	\$0.0	IA-PR	FA	20	FIA Terminal Remodel, Interior, Exterior, Roof
93	NO	EXP	\$0.0	\$0.0	\$1,200.0	\$0.0	\$0.0	IA-PR	FA	20	FIA West Industrial Rd Drainage Improv & Paving
93	NO	EXP	\$0.0	\$0.0	\$700.0	\$0.0	\$0.0	IA-PR	FA	20	FIA Maintenance Site Grading, Foundation Prep,
TOTAL BY FISCAL YEAR			\$0.0	\$0.0	\$2,600.0	\$0.0	\$0.0				

\*EXP/ALT\*

EXP=EXPECTED  
 ALT=ALTERNATE  
 DEF=DEFERRED

\*CLASS TYPES (HWAYS/OTHER)\*

IS=INTERSTATE  
 PS=PRIMARY/SECONDARY  
 UR=URBAN  
 TR=TRANSIT  
 HB=HARBORS  
 PF=PUBLIC FACILITY  
 BR=BRIDGE (FHW)

\*CLASS TYPES (AVIATION)\*

PR=PRIMARY  
 CN=COMMERCIAL/NON-PRIMARY  
 NC=NON-COMMERCIAL  
 AP=AREA POPULATION  
 DI=DISCRETIONARY

\*FUND TYPES\*

FH=FEDERAL HIGHWAYS  
 FA=FEDERAL AVIATION  
 GF=GENERAL FUND  
 IA=INT'L AIRPORT REVENUE  
 OT=OTHER FUND

Notes from meeting 1/29/87 among Drue, Jo and Ron Lind (DOTPF)

The International Airport Revenue Fund (IARF) was established as a financing mechanism so the airport could issue bonds.

The fuel tax goes to the General Fund; the fuel flowage fee goes to the IARF.

Approx. \$750,000 to \$1,000,000 goes to DOTPF from the IARF to pay for certain services.

The IARF can receive federal funds. That money can be spent on ANC/FAI airports which are considered to be of the "prime" class or those monies can be spent on airports of "lower" classes.

The Operating Agreement (OA) for the airports gives those who signed the agreement some say in the way their fees are spent in order to keep increases in their fees under control. The OA basically says "you'll collect enough to operate the airport, pay debt service and maintain a small reserve". When the state proposes a new project on the airport that will affect the amount of fees charged to the carriers, they have the right to approve the project or they can disapprove the project thereby delaying a project for one year. If the state chooses to go ahead with the project before the one year's time, those increased fees cannot be included in the operating agreement. Those carriers who have not signed the OA are on a month-to-month agreement and have no say in the way their fees are spent. The OA gives both the state and the carriers some stability.

If the IARF capital dollars are used, the fund expects to receive a return on its investment. This kind of revenue is the first source of funds for new construction projects.

Prepaid Airline Revenue Account: This account contains a small reserve of prepaid fees in the event that the costs of operating the airport do not exceed the income. The signers of the OA have the option as to how this money is applied.

Ron will get back to us with the reserve balance numbers. See also the IARF Financial Report.

Synopsis of Anchorage International  
Airport Operating Agreement and Lease  
for Domestic Terminal

Sec.

- Preamble DOTPF is owner/operator of Anchorage International Airport
- 2.02 Airlines rights to operate are common rights with others to use the airport for air transportation business
- 2.03 Airline leases Exclusive Use Space  
Airline has preferential but non-exclusive use of Apron area  
Airport Director can authorize other airlines to use holdrooms, loading bridges and airline-designated aircraft parking positions when not needed for regular uses.  
Airport Director can close, relocate, etc. after reasonable notice so long as other simultaneous access is provided.
- 3.01 Other Airlines can come in but must first try to deal with Signatory Airlines for space and use of facilities.
- 3.02 Signatory Airlines can be required to provide space or facilities to other airlines but the type of agreement is at the discretion of the Signatory Airlines.  
  
Signatory Airline does not have to comply if it would unreasonably interfere with their use of space and facilities.  
  
Signatory Airline may charge costs plus a 15% administrative fee.
- 4.01 DOTPF will provide a Captial Improvement report to Signatory Airlines by NLT the beginning of

the Fiscal Year before the Fiscal Year in which DOTPF intends to undertake new Capital Improvements (any physical asset that costs more than \$100,000 including design and planning costs and has a useful life greater than 3 years).

Report includes description, cost estimate, preliminary drawings, project description and location and maps; supporting data; estimated effective date and amount of adjustment to rents or fees resulting from the Capital Improvements cost; evaluation of need; preferred source of funding.

4.02

System-wide (Anchorage and Fairbanks) Capital Improvement whose costs are to be included in rents and fees charged to Signatory Airline are subject to Signatory Airline review except those capital improvements done for the benefit of an airline or other Airport System tenant "under the terms of a separate agreement that provides for payment of rents or fees to cover" financing, maintenance and operation.

NLT 7/15 of each Fiscal Year, DOTPF will meet with Signatory Airlines to discuss Capital Improvements. Unless 67% of the Signatory Airlines withhold approval of Capital Improvements in writing within 30 days after the meeting, Capital Improvements can go ahead.

If approval is withheld, DOTPF can ask for reconsideration at a meeting within 15 days. If approved by 67%, it passes.

If approval is withheld, DOTPF will either postpone for 1 full Fiscal Year or will exclude the capital costs from the rents and fees.

If after 1 full Fiscal Year postponement, DOTPF proposes to go ahead with the same project, it must be resubmitted to the Signatory Airline and rents and fees may be raised to cover it.

4.03

Capital Improvements may proceed if --  
-- cost under \$500,000  
-- necessary to comply with govt. agency  
-- necessary for health and safety

5.01

Rent is \$28.99/sq.ft./yr. for exclusive use space. Common use space is \$28.99/sq.ft./yr. prorated by use.  
Fuel flowage fee is .02/gallon for aviation

fuel.

- 6.01 DOTPF to maintain cost accounting system for Airports that shows:
- revenues
  - maintenance and operation expenses
  - expenses of DOTPF allocable to the Airport System
  - annual debt service
  - amortization of assets acquired with IARF funds

Records must be kept for these cost centers:

- Airfield Area
- Domestic Terminal Building
- Fairbanks Terminal
- International Terminal
- Other buildings and Grounds

- 6.02 By 9/30 DOTPF will give following to Signatory Airlines:
- Proposed annual capital and operating budgets
  - Schedule of annual debt service
  - Preliminary calculation of rents and landing fees for next Fiscal Year.

- 6.03 IARF financial statements to be audited

- 7.01 Rents and fees must be adjusted annually without formal amendment to agreement.

- 7.02 Each year the Airport System terminal building rental rate per square foot per year is recalculated. Calculation takes into account:
- Total estimated maintenance and operation expenses including administrative overhead allocable to the terminal building cost centers.
  - An amount for amortization of capital expenditures for assets placed in service on or before 7/1/77 and before the new rental rate is to take effect. Assets funded by bonds, loans, grants are excluded
  - Annual Debt Service (including any amount required to satisfy the rate covenant in the bond resolution) allocable to the terminal building cost.
  - Any required deposit to reserve accounts allocable to the terminal building costs.
  - Estimated assessments, judgments, settlements or charges payable by DOTPF directly related to the Airport System and allocable to terminal building cost centers.

Airport System parking revenues offset terminal building rents as of 1/1/86.

7.03

Landing Fee Rate is recalculated each year.  
-- reductions are allowed by subtracting the following amounts:  
-- revenue derived by DOTPF from all sources other than Signatory Airlines  
-- Signatory Airlines terminal rent  
-- all fuel flowage fees paid by Signatory Airlines  
-- the amount transferred from the Prepaid Airline Revenue Account to the Revenue Account net of any overpayment or underpayment from operation of the Airport System.

7.04

Landing fees can be raised after 30 days written notice to the Signatory Airlines in the event there is not enough revenue to cover the landing fee requirement in 7.03.

If landing fee revenue from all Signatory Airlines for any quarter varies by more than 10% from the estimated landing fee requirement, DOTPF may adjust landing fee rate for balance of Fiscal Year.

8.01

This agreement subordinate to all present IARF Bond resolutions.

Signatory Airlines have the opportunity to review and comment on proposed amendments to Bond resolutions and DOTPF will give consideration to comments before adopting amendments or issuing new bonds.

8.02

DOTPF deposits all revenues from Anchorage and Fairbanks Internationals into IARF. Receipts are applied in the following order:

- Interest Fund and Retirement Fund of the Revenue Bond Redemption Fund to satisfy payments due during Fiscal Year on all outstanding Bonds.
- Bond Reserve Fund (to maintain a balance equal to the maximum annual debt service on all Bonds outstanding at the time
- Repair and Replacement Reserve Account of at least \$2 Million dollars
- Operating Account (reasonable and necessary expenses for operation, maintenance, repair, ordinary replacement, and reconstruction.
- Operation and Maintenance Reserve Account

(one-quarter of amount of annual budget for operation and maintenance expenses)

- Capital Improvement Account
- Prepaid Airline Revenue Account  
(min. \$1 Mil. and any amount remaining in the Revenue Account at the end of the Fiscal Year after all amounts have been deposited into other funds in the section

9.01

Airline Responsibilities

- to give required information
- perform reasonable, ordinary maintenance within their Exclusive Use Space
- remove disabled aircraft

9.02

DOTPF's Responsibilities

- retain FAA certification
- operate and maintain Airports in reasonable condition and repair
- keep terminal buildings clean, heated, etc.

10.01

Indemnification

10.02

Insurance - DOTPF maintains comprehensive general liability and fire for Airport and terminal building.

Airline carries public liability, aviation liability, premises, property damage, etc.

Limits: \$1 Million/seat for airline/aircraft/  
public liability insurance or equivalent  
insurance

- for propeller aircraft      \$10 Million
- for jet aircraft              \$20 Million

10.03

Waiver of Subrogation

10.04

Additional Insured

10.05

Notice of Claim

10.06

Insurance Rates - Airline may not use the airport in any manner that will increase the DOTPF's insurance rates.

11.01

Assignment and sublease allowed with advance written approval

.....balance of agreement is standard airport leasing provisions.

2/10/87 - JLF

STATE OF ALASKA

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

ANCHORAGE INTERNATIONAL AIRPORT  
AIRLINE OPERATING AGREEMENT AND  
TERMINAL BUILDING LEASE  
(DOMESTIC TERMINAL)

February, 1986

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
AND TERMINAL BUILDING LEASE (DOMESTIC TERMINAL)

EXHIBITS

Exhibit

- A Airport Layout Plan, Anchorage International Airport
- B Property Plan, Anchorage International Airport
- C Airport Layout Plan, Fairbanks International Airport
- D Property Plan, Fairbanks International Airport
- E Exclusive Use Space, Common Use Space
- F Airport System Cost Centers, Anchorage International Airport
- G Airport System Cost Centers, Fairbanks International Airport
- H Aircraft Parking Positions
- I Flow of Funds
- J AIRLINE's Space Designations
- K Approved Capital Improvements

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
AND TERMINAL BUILDING LEASE (DOMESTIC TERMINAL)

ANCHORAGE INTERNATIONAL AIRPORT  
AIRLINE OPERATING AGREEMENT AND  
TERMINAL BUILDING LEASE  
(DOMESTIC TERMINAL)

This Airline Operating Agreement and Terminal Building Lease (the Agreement) is offered this \_\_\_\_\_ day of \_\_\_\_\_, by and between the State of Alaska, Department of Transportation and Public Facilities (DOT&PF), and Airline, (AIRLINE), a corporation organized and existing under the laws of \_\_\_\_\_.

DOT&PF and AIRLINE agree as follows:

DOT&PF is the owner and operator of the Anchorage International Airport in Anchorage, Alaska and has the right to enter into leases and grant operating privileges at the Airport.

AIRLINE is a corporation engaged primarily in the business of providing Air Transportation.

Both DOT&PF and AIRLINE have mutually agreed to establish procedures for the periodic setting of rents and fees for the use of the Airport System. Both DOT&PF and AIRLINE have mutually negotiated and desire to enter into this Agreement in order to set forth the rights, privileges, and obligations of both parties and to facilitate the development, promotion, and improvement of Air Transportation.

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
AND TERMINAL BUILDING LEASE (DOMESTIC TERMINAL)

ARTICLE 1  
DEFINITIONS

Section 1.01. Definitions

The words and phrases defined below have the following meanings when used in this Agreement:

1. "Airline" means a business entity that provides Air Transportation services.
2. "Air Transportation" means the carriage of persons, property, cargo, or mail by aircraft and the activities, functions, and operations incidental to an air transportation business.
3. "Aircraft Arrival" means any aircraft arrival at the Airport including scheduled, charter, sightseeing, test, ferry, courtesy, inspection, training, or any other flight. Aircraft Arrival does not include any flight that immediately returns to the Airport because of mechanical, meteorological, or other precautionary reason.
4. "Airport" means the real property and facilities of Anchorage International Airport as it exists on the date of execution of this Agreement or in the future. The existing facilities and boundaries of the Airport are shown in Exhibit A and described in the property plan, Exhibit B.
5. "Airport Directives" means the Airport notices and instructions issued by the Airport Director facilitating day to day operation of the Airport and implementing rules and regulations promulgated by state and federal agencies requiring coordination by the Airport.
6. "Airport Director" means the person DOT&PF delegates to act on its behalf at the Airport.
7. "Airport System" means the Anchorage and Fairbanks International Airports as they exist now or in the future. The existing facilities and boundaries of both airports are shown in Exhibits A and C and described in the property plans, Exhibits B and D.
8. "Annual Budget" means the capital and operating budgets for the Anchorage and Fairbanks International Airports as signed by the Governor of the State of Alaska.
9. "Annual Debt Service" means the total amount required as deposits in a Fiscal Year to any interest, principal, or sinking fund account established by the Bond Resolution for any Bonds issued for any Airport System purpose and

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to replenish the Bond Reserve Fund and the Repair and Replacement Reserve Account under the Bond Resolution.

10. "Apron Area" means the aircraft parking and maneuvering areas abutting a terminal building up to its dripline.
11. "Bond" or "Bonds" means revenue bond or bonds supported by the IARF and issued by the State of Alaska pursuant to Alaska Statutes 37.15.410-37.15.550 or as amended.
12. "Bond Resolution" means Resolution No. 68-4 adopted by the State Bond Committee of the State of Alaska and any additional resolutions providing for the issuance of Bonds.
13. "Capital Improvement" means any physical asset that costs more than \$100,000 including design and planning costs, has an expected useful life greater than three years, and is purchased or constructed to improve, protect, maintain, or develop the Airport System.
14. "Certificated Maximum Gross Takeoff Weight" means the maximum takeoff weight at which each aircraft is authorized by the FAA to operate from the Airport.
15. "Common Use Space" means the space that is available for lease and use in common with other Airlines.
16. "Exclusive Use Space" means the space leased exclusively by AIRLINE.
17. "FAA" means the Federal Aviation Administration.
18. "Fiscal Year" means any fiscal year adopted by DOT&PF. The Fiscal Year of the DOT&PF currently begins on July 1 and ends on June 30.
19. "International Airports Revenue Fund" (IARF) means the fund or funds established now or in the future pursuant to Alaska Statute 37.15.430 or as amended.
20. "Premises" means all of the Common Use Space and Exclusive Use Space leased to AIRLINE under this Agreement.
21. "Rate Covenant" means Section 6.12 of the Bond Resolution and any similar provision of any supplemental or additional resolution providing for the issuance of Bonds.
22. "Signatory Airline" means an Airline that has executed an airline operating agreement with DOT&PF for the use and occupancy of Airport facilities that is substantially similar to this Agreement.

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ARTICLE 2  
USE OF AIRPORT FACILITIES

Section 2.01. Term

This Agreement is effective from 12:01 a.m. on July 1, 1985 until 12:01 a.m. on July 1, 1990.

Section 2.02. Uses of the Airport

AIRLINE is granted the right to use the Airport, in common with others, for the sole purpose of conducting AIRLINE's Air Transportation business. In addition to all rights granted elsewhere in this Agreement, AIRLINE's use of the Airport for conducting its Air Transportation business includes the right to:

1. Land, takeoff, fly, taxi, push, tow, load, or unload aircraft.
2. Repair, maintain, condition, service, test, park, or store aircraft.
3. Perform or cause to be performed by contract, customary aircraft fueling, servicing, and line maintenance at aircraft parking positions adjacent to the terminal building or on exclusively leased aprons before loading and takeoff or as soon as practical following landing and unloading. AIRLINE may perform other maintenance of aircraft, vehicles, or equipment only at exclusively leased aprons or at locations designated by DOT&PF.
4. Sell tickets, document shipments, handle reservations, and sell transportation of cargo, mail, and personal property by air, and perform, or cause to be performed by contract, the customary handling of passengers, baggage, cargo and mail.
5. Install, maintain, or operate, by AIRLINE alone or in conjunction with any other Airline, air-to-ground and other communication, meteorological, and aerial navigation systems between locations on the Airport, subject to prior written approval of DOT&PF and Section 15.11.
6. Ground train personnel on the Airport necessary to the conduct of AIRLINE's Air Transportation business.
7. Transport by air, load, and unload persons, property, cargo, and mail at the Airport.
8. Use motor vehicles or other ground transportation equipment required for the conduct of AIRLINE's Air Transportation business. This Agreement does not give

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
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AIRLINE the right to operate a ground transportation business to or from the Airport.

9. Install, maintain, and operate passenger clubs, lounges, or VIP rooms in AIRLINE's Exclusive Use Space. AIRLINE may not sell food or beverage items in clubs, lounges, or VIP rooms if the sales violate the contractual rights of the Airport's food and beverage concessionaire.
  - a. If AIRLINE sells food or beverage items in its passenger clubs, lounges, or VIP rooms, AIRLINE will submit to DOT&PF a monthly report of the gross sales of food and beverage items and pay DOT&PF a monthly percentage of gross fee for those sales. The percentage amounts used to calculate this fee will be the same as the percentage amounts that DOT&PF requires the food and beverage concessionaire to pay.
  - b. If AIRLINE sells food or beverage items in its passenger clubs, lounges, or VIP rooms, AIRLINE will use the Airport's food and beverage concessionaire as AIRLINE's supplier of food and beverage services if required by the terms of the food and beverage concessionaire's contract with DOT&PF. In this event, the monthly report to DOT&PF and the monthly percentage of gross sales fee described in Section 2.02.9.a do not apply to AIRLINE but to the concessionaire only. Nothing in this Agreement prevents AIRLINE from selling memberships in its VIP rooms. The sale of memberships for use of a VIP room is not considered a sale of food and beverage.
10. Install and maintain AIRLINE's identification signs, advertising, or similar matter on AIRLINE's Premises. The size, type and location of signs must be approved in writing by the Airport Director before installation.
11. Purchase AIRLINE's requirements of personal property or services, including fuel, lubricants, inflight food or beverages, and other supplies. AIRLINE may purchase goods and services from any person or company of AIRLINE's choice.
12. Sell, lease, transfer, dispose, or exchange AIRLINE's aircraft, engines, accessories, equipment, or supplies necessary to conduct its Air Transportation business.
13. Use non-exclusive employee vehicle parking facilities for employees at the Airport at locations designated by the Airport Director. The Airport may charge a separate fee for employee vehicle parking which fee must be the

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
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same for AIRLINE's employees as the employees of other Airport tenants.

14. Sell or provide any of the services listed in this Section to any other Airline.

Section 2.03. Exclusive and Common Use Space

- A. AIRLINE leases Exclusive Use Space as listed on Exhibit E and depicted on Exhibit J. AIRLINE leases in common with others the Common Use Space listed on Exhibit E and depicted on Exhibit J. AIRLINE may only use each space for the purpose designated on Exhibit E unless the Airport Director approves a change.
- B. AIRLINE is granted the preferential but nonexclusive use of the Apron Area at the aircraft parking positions designated for AIRLINE's use on Exhibit H. This is AIRLINE's preferential apron area. AIRLINE may use the parking positions to park a reasonable amount of service equipment required for AIRLINE's operations, subject to the Airport Director's approval.
- C. The Airport Director may authorize other Airlines to use AIRLINE's holdrooms, loading bridges, and AIRLINE's designated aircraft parking positions whenever they are not required for AIRLINE's scheduled, extra section, delayed, and charter passenger flight activities or the passenger flight activities of any Airline for which AIRLINE is providing contract services pursuant to a written agreement. As a condition of the use of AIRLINE's facilities, AIRLINE has the right to require the Airline to enter into an agreement covering the use of AIRLINE's facilities and may charge the other Airline a reasonable fee not to exceed the rates designated in the Mutual Assistance Ground Handling Service Agreement (MAGSA) for the use of holdrooms, loading bridges, and associated equipment.
- D. DOT&PF grants the right of adequate ingress to and egress from the Airport and the Premises to AIRLINE and its officers, employees, agents, passengers, contractors, invitees, suppliers, and furnishe-s of services, subject to the Airport Directives.
- E. DOT&PF has the right to close, relocate, reconstruct, or modify any access to space provided for AIRLINE's use after reasonable notice so long as adequate substitute access is simultaneously provided. DOT&PF is not obligated to compensate AIRLINE for any change in access. AIRLINE's obligation to perform under this Agreement may not be altered or affected by any change in access described in this subsection.

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
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ARTICLE 3  
ACCOMMODATION OF OTHER AIRLINES

Section 3.01. Accommodation Procedures

- A. If an Airline initiates or expands regularly scheduled Air Transportation at the Airport and needs terminal space and facilities, DOT&PF will require the Airline to use its best efforts to make suitable arrangements for the Airline's operations at the Airport by:
  - 1. Attempting to secure existing available space or facilities from the DOT&PF, or
  - 2. Attempting to obtain the use of facilities from Signatory Airlines using the terminal.
- B. The DOT&PF will use its best efforts to accommodate the Airline by:
  - 1. Attempting to accommodate the Airline in existing available space or facilities for direct lease or use; or, if none is available, by
  - 2. Reviewing the feasibility of immediate construction of new space or facilities for the Airline's lease or use.
- C. Upon written request from the Airline, AIRLINE will use its best efforts to make suitable arrangements to either handle the operations of or share its Exclusive Use Space with the Airline.
- D. If the efforts of the Airline, DOT&PF, AIRLINE, and other Signatory Airlines do not satisfy the Airline's reasonable space requirements, DOT&PF will, in writing, notify all of the Signatory Airlines at the terminal that all of the requirements of Section 3.01.A, B, and C have been undertaken and have failed to satisfy the requesting Airline's reasonable space requirements.

Section 3.02. DOT&PF's Right to Require Accommodation

- A. If the events specified in Section 3.01 have occurred, if 30 days have elapsed since the DOT&PF's notice has been given, and if the Airline is still unable to meet its reasonable requirements for space and facilities, then DOT&PF may require that AIRLINE provide space or facilities to the Airline pursuant to a sublease, assignment, license, use agreement, ground handling agreement, or any combination of them. The type of agreement is at the discretion of AIRLINE.

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- B. If the proposed accommodation unreasonably interferes or is incompatible with AIRLINE's use of its space and facilities for handling its scheduled passenger and cargo operations, (including the passenger flight activities of any operation for which AIRLINE is providing contract services pursuant to a written agreement) then AIRLINE is under no obligation to provide accommodation.
- C. If the proposed accommodation does not unreasonably interfere or is not otherwise incompatible with AIRLINE's use of the space and facilities for handling its scheduled passenger and cargo operations (including the passenger flight activities of any operation for which AIRLINE is providing contract services pursuant to a written agreement), AIRLINE will accommodate the Airline. AIRLINE may charge the Airline for AIRLINE's operating and capital costs related to the space and facilities and an administrative fee that does not exceed 15 percent of AIRLINE's operating and capital costs for the accommodation space.

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ARTICLE 4  
CAPITAL IMPROVEMENTS

Section 4.01. Capital Improvement Report

- A. During the term of this Agreement, DOT&PF will provide a Capital Improvement report to AIRLINE and each Signatory Airline no later than the beginning of the Fiscal Year before the Fiscal Year in which DOT&PF intends to undertake new Capital Improvements. The Capital Improvement report must identify Capital Improvements that will impact AIRLINE's rents and fees.
- B. The Capital Improvement report will include the following information:
  - 1. A description of the proposed Capital Improvement, including cost estimates, available preliminary drawings, project descriptions, and location maps;
  - 2. The supporting data used to allocate the proposed Capital Improvement cost to the appropriate Airport System cost centers;
  - 3. The estimated effective date and amount of any adjustment to rents or fees resulting from the proposed Capital Improvement's cost;
  - 4. DOT&PF's evaluation of the need for an anticipated benefit from the proposed Capital Improvement, including any appropriate economic justification; and
  - 5. DOT&PF's preferred source of funding.

Section 4.02. Approval of Capital Improvements

- A. All Airport System proposed Capital Improvements whose costs are to be included in the rents and fees charged to AIRLINE and the Signatory Airlines will be subject to Signatory Airline review except those Capital Improvements undertaken by DOT&PF for the benefit of an Airline or other Airport System tenant under the terms of a separate agreement that provides for payment of rents or fees to cover the financing of the improvement and the cost of its maintenance and operation.
- B. Two weeks after the beginning of the Fiscal Year, DOT&PF will meet with AIRLINE and the other Signatory Airlines to discuss the proposed Capital Improvements. Unless 67 percent of the number of Signatory Airlines, either directly or through a designated Signatory Airline

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
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representative, withhold approval of specific proposed projects in writing within 30 days after the meeting, the Capital Improvement will be deemed approved by the Signatory Airlines.

- C. If DOT&PF receives notice that approval of the Capital Improvement is withheld under Section 4.02.B, the Commissioner of DOT&PF may request reconsideration of the Capital Improvement at a meeting to be held with the Signatory Airlines within 15 days after the notice that approval is withheld has been received. Unless approval is again specifically withheld in writing within 30 days after the reconsideration meeting by 67 percent of the number of Signatory Airlines, either directly or through a designated representative, the proposed Capital Improvement will be deemed approved.
- D. If approval is withheld as provided in Section 4.02.B and C, DOT&PF will either postpone the proposed Capital Improvement for one Fiscal Year after the Fiscal Year in which DOT&PF originally intended to undertake the Capital Improvement or will exclude the capital cost of the Capital Improvement from the calculation of AIRLINE's rents and fees.
- E. If after the one Fiscal Year postponement DOT&PF proposes to construct the postponed Capital Improvement, the Capital Improvement must be submitted to the Signatory Airlines for review in accordance with Section 4.01.
- F. If a Capital Improvement is begun after a one year postponement, approval by the Signatory Airlines is not required and DOT&PF may include the amortization of capital cost, debt service, or lease payments of the Capital Improvement in the rents and fees charged to AIRLINE and the Signatory Airlines after the Capital Improvement has been completed and placed in service.
- G. After the postponement described in Section 4.02.D, any Capital Improvement project listed in the Capital Improvement report may be constructed so long as the Capital Improvement project can be completed within the Capital Improvement project scope originally provided to the Signatory Airlines. Any Capital Improvement project that is materially increased beyond the original scope must be resubmitted to the Signatory Airlines for review as a new project.

Section 4.03. Capital Improvement Exceptions

Even if approval of a Capital Improvement is withheld under Section 4.02, DOT&PF may proceed with the Capital Improvement and

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
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upon completion include the cost, net of gifts and grants-in-aid, in the rents and fees charged to AIRLINE and the Signatory Airlines if:

1. DOT&PF determines that the Capital Improvement will cost less than \$500,000 including all planning, design, and construction costs, or,
2. The Capital Improvement is necessary and prudent to:
  - a. Comply with any regulation or order of any governmental agency (including DOT&PF acting in its nonproprietary capacity) that has jurisdiction over the operation of the Airport System;
  - b. Maintain or create Airport System functional capability at the level required by the Bond Resolution or the Bond trustee (whose responsibilities are defined in the Bond Resolution) pursuant to the Bond Resolution for the security of Bonds;
  - c. Maintain the public health, safety, or welfare;
  - d. Defend and settle litigation, or satisfy judgments against the Airport System rendered by a court of competent jurisdiction;
  - e. Repair or prevent casualty damage to Airport System property; or
  - f. Acquire land reasonably necessary to preserve the Airport System.

Section 4.04. Approved Capital Improvements

The Capital Improvements listed in Exhibit K are exempt from review under Section 4.02 except as provided in Section 4.02.G.

ANCHORAGE INTERNATIONAL AIRPORT AIRLINE OPERATING AGREEMENT  
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ARTICLE 5  
RENTS AND FEES

Section 5.01. Consideration

The consideration that AIRLINE agrees to provide DOT&PF for this Agreement, including use of the Exclusive Use Space, Common Use Space, and the use of preferential aircraft parking positions, is the following:

- A. Provide regularly scheduled Air Transportation to and from the Airport, and
- B. Pay the rents and fees and perform all the obligations described in this Agreement. The rents and fees include the following:
  1. The initial rent for the Exclusive Use Space set forth in Exhibit E and depicted on Exhibit J that AIRLINE will pay to DOT&PF is the terminal building rent of \$28.99 per square foot per year, payable monthly. All rent for the Exclusive Use Space is due on the first day of each month.
  2. a. AIRLINE will pay rent for the Common Use Space that is available for use by all Airlines as set forth in Exhibit E and depicted on Exhibit J. The Common Use Space rent that AIRLINE will pay to DOT&PF is AIRLINE's prorated share of the terminal building rent calculated initially at \$28.99 per square foot per year, payable monthly. Ten percent of the rent will be prorated equally among the Airlines (including AIRLINE) using the Common Use Space and the remaining ninety percent of the rent will be prorated among the Airlines using the space based on enplanements. AIRLINE's share of the remaining 90 percent will be based on the ratio of the number of AIRLINE's enplaning passengers at this terminal to the total number of enplaning passengers at this terminal based upon the previous month's certified activity reports. During the first two months after initiating service, enplanements of an Airline initiating service at the Airport will be included in the total number of enplaning passengers at the Airport using the number as reasonably estimated by the Airline initiating service. DOT&PF will invoice AIRLINE its prorated share of the rent for the Common Use Space by the 15th of the month for the following month's rent. DOT&PF will base the prorated rent on enplanements

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from the preceding month as reported in AIRLINE's certified activity reports described in Section 5.02.

- b. If AIRLINE fails to furnish DOT&PF with a certified activity report by the 10th day of the month as required in Section 5.02, the prorated rent may be calculated by assuming AIRLINE's enplanements were 110 percent of the enplanements used for the previous month's calculation. After delivery of a late certified activity report by AIRLINE, DOT&PF will invoice AIRLINE for any actual enplanements that exceeded the assumed 110 percent used for the first invoice calculation. No adjustment will be made to the rent of any Airline that submits a timely and accurate certified activity report. Any overpayment will not be repaid to AIRLINE.
  - c. A different prorated rent formula may be applied to the Common Use Space if all of the Signatory Airlines and DOT&PF agree. If all of the Signatory Airlines cannot agree on a different prorated rent formula, DOT&PF may use its management prerogative to determine an equitable formula.
  - d. All rent for the Exclusive Use Space and Common Use Space is calculated using the terminal building rental rate and is subject to adjustment as provided in Section 7.02. The terminal building rental rate for the Exclusive Use Space and Common Use Space may not be less than \$15.00 per square foot per year.
3. AIRLINE, directly or through its supplier or agent, will pay for the term of this Agreement a fuel flowage fee of \$0.02 per gallon for aircraft fuel measured as specified in either the Master Agreement Aviation Fueling Operations entered into between Anchorage Fueling Service Company and the State of Alaska, or DOT&PF agreements with suppliers. The fee must be paid monthly and is due on the 20th day of the month after receipt of the fuel.
  4. Upon the effective date of this Agreement, rents and fees for the use of all other facilities, rights, and privileges granted to AIRLINE, except as provided elsewhere in this Agreement, will be combined in and represented by a landing fee that is subject to adjustment pursuant to Article 7. No

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other fee may be charged AIRLINE for the facilities, rights, and privileges granted under this Agreement.

- a. Upon the effective date of this Agreement, the landing fee rate for the Fiscal Year is \$.37 per 1,000 pounds of Certificated Maximum Gross Takeoff Weight. The landing fee rate must be recalculated for each Fiscal Year thereafter as set forth in Article 7, but in no event may the landing fee rate be less than \$0.30 per 1,000 pounds of Certificated Maximum Gross Takeoff Weight.
- b. The landing fees for Aircraft Arrivals must be invoiced monthly by DOT&PF and are due from AIRLINE 30 days after the date on the invoice. The landing fee must be calculated by multiplying the number of 1,000 pound units of the Certificated Maximum Gross Takeoff Weight of AIRLINE during the month by the current landing fee rate established by DOT&PF in accordance with Section 7.03 of this Agreement. Acceptance by DOT&PF of any payment does not preclude DOT&PF from verifying the accuracy of AIRLINE's calculations and from refunding or recovering any difference established by DOT&PF.

Section 5.02. Certified Activity Reports Required

- A. By the 10th day of each month, AIRLINE will provide DOT&PF with a certified activity report of AIRLINE's operations at the Airport during the preceding month. The certified activity report must be on Form Anchorage 05-002 provided by DOT&PF and include all data necessary to calculate the landing fee due as well as any other data that DOT&PF reasonably requests.
- B. If AIRLINE fails to furnish DOT&PF with the certified activity report required by Section 5.02.A by the 10th day of each month, DOT&PF may determine AIRLINE's landing fee by assuming that the total takeoff weight for AIRLINE during the preceding month was 110 percent of the total takeoff weight of AIRLINE used for the previous month. After delivery of a late certified activity report by AIRLINE, DOT&PF will recalculate the landing fee and will invoice AIRLINE for any underpayment, but any overpayment will not be repaid to AIRLINE. AIRLINE remains responsible for submitting a certified activity report for each month regardless of any estimate made by DOT&PF.

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Section 5.03. Interest on Overdue Payments

Any payment due and not received accrues interest from the due date until paid in full at the highest lawful contract rate in Alaska as defined by Alaska Statute 45.45.010 or as amended. Interest on disputed amounts may not be charged to AIRLINE if the dispute is resolved in AIRLINE's favor.

Section 5.04. Additional Rent

After 10 days' written notice to AIRLINE, DOT&PF may, but is not obligated to, cure any default by AIRLINE of its obligation to perform under Article 9 of this Agreement. Any amount paid or cost incurred by DOT&PF to cure any default by AIRLINE, plus a 15 percent administrative fee, is agreed to be additional rent. Unless otherwise provided, all additional rent is due from AIRLINE with the next installment of monthly rent due under this Agreement.

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ARTICLE 6  
RECORDS AND REPORTS

Section 6.01. DOT&PF Records of Airport System Cost Centers

- A. As soon as practicable following the execution of this Agreement, DOT&PF will establish and thereafter maintain a cost accounting system that identifies and segregates by account and cost center the following items for each Fiscal Year: (1) revenues; (2) operation and maintenance expenses, including administrative expenses of the Airport System; (3) expenses of DOT&PF allocable to the Airport System; (4) Annual Debt Service, plus any amount required to satisfy the Rate Covenant of the Bond Resolution; and (5) amortization of assets acquired with International Airport Revenue Funds allocable to the Airport System.
- B. Records must be kept for the following cost centers:
1. "Airfield Area Cost Center" includes the aprons, runways, taxiways, approach and clear zones, infield areas, navigational aids, and other facilities of the Airport System that surround the terminal buildings up to the building driplines, are on the airside, and are necessary for aircraft operations.
  2. "Domestic Terminal Building Cost Center" includes the domestic terminal complex at Anchorage International Airport including the terminal building with all its fixtures and equipment within the dripline of the building, public parking, employee parking, curbside areas, related landscaping, and access or circulation roads with rights-of-way.
  3. "Fairbanks Terminal Cost Center" includes the terminal complex at Fairbanks International Airport including the terminal building with all its fixtures and equipment within the dripline of the building, public parking, employee parking, curbside areas, related landscaping, and access or circulation roads and rights-of-way.
  4. "International Terminal Building Cost Center" includes the international terminal complex at Anchorage International Airport including the terminal building with all its fixtures and equipment, public parking employee parking, curbside areas, related landscaping, and access or circulation roads and rights-of-way.

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5. "Other Buildings and Grounds Area Cost Center" includes all other areas of the Airport System not included in the above cost centers including facilities, installations, and improvements.
- C. The Airport System cost centers as they presently exist are shown on Exhibits F and G.
- D. DOT&PF will maintain records that allocate capital funds from the IARF, contributions, Bonds, securities, or other sources to each Airport System cost center. Bond issuance expenses, capitalized interest, and funding of special funds from Bond proceeds as described in Article 8 must be prorated to each Airport System cost center in proportion to the amount of Bond proceeds expended in each Airport System cost center. If it becomes necessary to provide any amount required to satisfy the Rate Covenant of the Bond Resolution, the amount must be prorated among the Airport System cost centers in proportion to the amount of Bond proceeds expended in each Airport System cost center.

Section 6.02. DOT&PF Financial Reports

- A. At least nine months before the end of its Fiscal Year, DOT&PF will submit the following items to each of the Signatory Airlines:
  1. The proposed annual capital and operating budgets prepared prior to submission to the commissioner that include all estimated Airport System expenses such as maintenance, operation, and administrative expenses. The proposed Annual Budget must include a statement of estimated Airport Systems revenues.
  2. A schedule of annual debt service payments required to be made during the next Fiscal Year.
  3. A preliminary calculation of the Signatory Airline rents and landing fees for the next Fiscal Year.
- B. Within 30 days after receipt of the reports described in Section 6.02.A, AIRLINE may present written comments concerning the reports. Upon request by the Signatory Airlines, a meeting for additional comments must be held between the Signatory Airlines and DOT&PF. DOT&PF will give due consideration to any comments submitted by AIRLINE and the other Signatory Airlines.
- C. The proposed budget may be revised as a result of DOT&PF's discussions with AIRLINE, others, or as a result of DOT&PF's budget process. DOT&PF will promptly furnish AIRLINE with a copy of the budget submitted to

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the Governor's Office including the schedule of rents and fees.

- D. If an Annual Budget is not adopted by the State of Alaska before the Fiscal Year begins, the rents and fees in effect during the preceding Fiscal Year remain in effect until the State of Alaska has adopted a new Annual Budget. The final computation of the new rents and fees will then be made by DOT&PF. The new rents and fees will be retroactively effective as of the beginning of that Fiscal Year.

Section 6.03. IARF Annual Audit

To keep AIRLINE informed of the financial performance of the Airport System, DOT&PF will make available to AIRLINE the annual audit of the IARF financial statements. Upon request by AIRLINE, DOT&PF will answer questions about the audits or statements.

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ARTICLE 7  
RECALCULATION OF RENTS AND FEES

Section 7.01. Annual Adjustments

Airport System rents and fees must be adjusted annually effective the first day of each Fiscal year without a formal amendment to this Agreement.

Section 7.02. Recalculation of Terminal Building Rental Rate

- A. Each year DOT&PF will calculate the Airport System terminal building rental rate per square foot per year for the next Fiscal Year. Whenever the adjustment calculation involves an estimate, the estimate of DOT&PF must be used.
- B. DOT&PF will calculate the terminal building rent requirement for each Fiscal year by totaling the following amounts:
  1. The total estimated direct and indirect operation and maintenance expenses including DOT&PF's administrative overhead allocable to the terminal building cost centers (combined Domestic, International and Fairbanks Terminal Building Cost Centers).
  2. An amount for the amortization of capital expenditures for any asset that has been or will be placed in service on or after July 1, 1977 and before the date the new rental rate is to take effect. Only capital expenditures made by DOT&PF from funds other than Bonds, loans, or grants-in-aid qualify for amortization. Except for planning studies, maintenance equipment, or fleet vehicles that are acquired in the future, amortization of Capital Improvements must be computed at an interest rate of 5 percent per year for an assumed 25-year economic life. Amortization of a Capital Improvement that is a planning study must be computed at an interest rate of 5 percent per year for an assumed 5-year economic life. Amortization of a Capital Improvement that is either maintenance equipment or a fleet vehicle must be computed at an interest rate of 5 percent per year for an assumed 10-year economic life.
  3. The Annual Debt Service (including any amount required to satisfy the Rate Covenant of the Bond Resolution) allocable to the terminal building cost

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centers or any other amount required by the Bond Resolution.

4. Any required deposit to reserve accounts established pursuant to either the Bond Resolution of this Agreement that is allocable to the terminal building cost centers.
  5. The estimated amount of any assessment, judgment (net of insurance proceeds), settlement, or charge to become payable by DOT&PF relating directly to the Airport System that is allocable to the terminal building cost centers.
  6. Any adjustment resulting from any difference between the actual versus budgeted costs of the Airport System terminal building cost centers.
- C. Effective January 1, 1986 the estimated terminal building rent requirement will be reduced by the estimated amount of Airport System automobile parking revenue.
- D. The net terminal building rent requirement for the Fiscal Year must be divided by the total square footage in all of the Airport System terminal buildings minus the square footage used for mechanical and electrical equipment, in order to determine an average rental rate per square foot per year for terminal building space.

Section 7.03. Recalculation of Landing Fee Rate

- A. Each year DOT&PF will calculate the Airport System Landing fee for the next Fiscal Year. Whenever the adjustment involves estimated data, the estimate of DOT&PF must be used.
- B. The landing fee requirement must be calculated for each Fiscal Year by totaling the following amounts for the Airport System:
  1. The total estimated direct and indirect operation and maintenance expenses, including administrative overhead, for the Airport System.
  2. An amount for the amortization of Capital Improvement expenditures for any asset that has been or will be placed in service on or after July 1, 1977 and before the date the new landing fee is to take effect. Only Capital Improvement expenditures made by DOT&PF from funds other than Bonds, loans, or grants-in-aid qualify for amortization. Except for planning studies, maintenance equipment, or fleet

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vehicles that are acquired in the future, amortization of Capital Improvements must be computed at an interest rate of 5 percent per year for an assumed 25-year economic life. Amortization of a Capital Improvement that is a planning study must be computed at an interest rate of 5 percent per year for an assumed 5-year economic life. Amortization of a Capital Improvement that is either maintenance equipment or a fleet vehicle must be computed at an interest rate of 5 percent per year for an assumed 10-year economic life.

3. The Annual Debt Service (plus any amount required to satisfy the Rate Covenant of the Bond Resolution) of the Airport System or any other amount required by the Bond Resolution.
  4. Any required deposits to Airport System reserve accounts established pursuant to the Bond Resolution or this Agreement.
  5. The estimated amount of any assessment, judgment (net of insurance proceeds), settlement, or charge to become payable by DOT&PF relating directly to the Airport System operation.
  6. Any overpayment or underpayment from operation of the Airport System during the then-current Fiscal Year or any adjustment carried over from any preceding Fiscal Year covered by this Agreement resulting from the difference between the actual versus budgeted revenues and expenses of the Airport System.
  7.
    - a. An amount equal to 50 percent of the annual revenue from the duty free concession contract in the International Terminal Building Cost Center or \$7.1 million, whichever is greater; or
    - b. The amount of the revenue if the total annual revenue from the duty free concession contract is less than \$7.1 million.
  8. An amount equal to 10 percent of all projected revenue excluding Airline landing fees, Airline terminal rents, and Airline fuel flowage fees.
- C. The DOT&PF will reduce the Airport System landing fee requirement for Signatory Airlines for each Fiscal Year by subtracting the following amounts, as presented in the Annual Budget:

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1. The operating revenue derived by DOT&PF from all sources other than Signatory Airlines.
  2. Signatory Airline terminal rent.
  3. All fuel flowage fees paid by Signatory Airlines.
  4. The amount transferred from the Prepaid Airline Revenue Account to the Revenue Account net of any overpayment or underpayment from operation of the Airport System as described in Section 7.03.B.6.
- D. The Signatory Airline landing fee rate must be calculated for each Fiscal Year by dividing the Airport System landing fee requirement for Signatory Airlines as calculated in Section 7.03.A, B and C by the estimated Certificated Maximum Gross Takeoff Weight for all Signatory Airlines.

Section 7.04. Extraordinary Adjustments of Landing Fee Rate

- A. If at any time the revenue of the Airport System is not sufficient to cover the Airport System landing fee requirement described in Section 7.03.B, DOT&PF, after consultation with the Signatory Airlines, and consideration of reducing operation and maintenance costs or using reserve funds to meet the requirement, may immediately increase the landing fee rate to the amount necessary to cover the landing fee requirement after 30 days' written notice to AIRLINE.
- B. If the total landing fee revenue from all Signatory Airlines for any quarter of the Fiscal Year varies by more than 10 percent from the estimated total Airport System landing fee requirement for that quarter, DOT&PF may adjust the landing fee rate for the balance of the Fiscal Year.

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ARTICLE 8  
BOND RESOLUTION AND FLOW OF FUNDS

Section 8.01. Subordination to Bond Resolution

- A. This Agreement is subordinate in all respects to all present IARF Bond Resolutions.
- B. AIRLINE will be given an opportunity to review and comment on drafts of proposed amendments to all existing IARF Bond Resolutions and drafts of official statements for the issuance of additional IARF Bonds. DOT&PF will give due consideration to the comments before adopting the amendments or issuing new Bonds.

Section 8.02. Flow of Funds

DOT&PF will deposit all revenue received from the Airport System into the IARF. The receipts must be applied in accordance with the Bond Resolution in the following order:

1. a. To the Interest Fund and Retirement Fund of the Revenue Bond Redemption Fund, the amount that will be necessary to satisfy the principal, interest, and minimum sinking fund payments due during the Fiscal Year on all outstanding Bonds.  
b. The Interest Fund and Retirement Fund must be used to pay the principal, premium if any, and interest on Bonds as they become due or for the purchase or redemption of Bonds before their fixed maturity date.
2. a. To the Bond Reserve Fund of the Revenue Bond Redemption Fund, the amount required to maintain a balance equal to the maximum annual debt service on all Bonds outstanding at the time.  
b. The Bond Reserve Fund must be used to pay principal and interest on outstanding Bonds, make minimum sinking fund payments if no other funds are available, or to retire any outstanding Bonds.
3. a. To the Repair and Replacement Reserve Account within the revenue fund, the amount required to maintain a balance of \$2,000,000 or any greater amount required by the Bond Resolution.  
b. The Repair and Replacement Reserve Account is to be used to either eliminate any deficiency in the Bond Reserve Fund or to pay the cost of unanticipated or

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nonrecurring repairs and replacements to the Airport System as permitted by the Bond Resolution.

4. To the Operating Account, the amount required to pay the reasonable and necessary expenses for the operation, maintenance, repair, ordinary replacement, and reconstruction of the Airport System each Fiscal Year.
5. a. To an Operation and Maintenance Reserve Account, the amount required to maintain a balance equal to one-quarter of the amount in the Annual Budget for operation and maintenance expenses for the Airport System.  
b. The Operation and Maintenance Reserve Account is to be used for the reasonable and necessary expenses for the operation, maintenance, repair, or ordinary replacement and reconstruction of the Airport System to the extent other funds are not available.
6. a. To the Capital Improvement Account, the amount remaining in the Revenue Account at the end of the Fiscal Year after all deposits to the above accounts or uses have been made. No additional deposits may be made into this account after the balance is \$12.5 million in excess of the amounts required to fund Capital Improvement projects designated for funding from the IARF as contained in the Annual Budgets. As Capital Improvement projects in the Annual Budgets are completed, the Annual Budget component of the Capital Improvement Account will be reduced by the cost of these Capital Improvement projects.  
b. Beginning July 1, 1986 and each July 1 thereafter, \$1 million will be transferred to the Prepaid Airline Revenue Account as the minimum annual deposit. The Capital Improvement Account may be used for any purpose permitted by the Bond Resolution for use of surplus revenue.
7. a. To a Prepaid Airline Revenue Account, an annual minimum deposit of \$1 million and any amount remaining in the Revenue Account at the end of the Fiscal Year after all amounts have been deposited into all of the funds and accounts described in this Section.  
b. The Prepaid Airline Revenue Account is the account into which annual Airport System revenue is recorded after all other required fund or account balances are satisfied. Unless 67 percent of the Signatory Airlines agree to an alternate use for the account, the amount in the Prepaid Airline Revenue

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Account at the beginning of each Fiscal Year must be transferred to the Revenue Account and used to calculate the Airport System landing fee requirement in the succeeding Fiscal Year as described in Section 7.03.C.4.

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ARTICLE 9  
ADDITIONAL RESPONSIBILITIES OF PARTIES

Section 9.01. AIRLINE Responsibilities

- A. Upon a form provided by DOT&PF, AIRLINE will file with DOT&PF information describing its operations at the Airport within 30 days after the execution of this Agreement. AIRLINE will update this information within 30 days after the beginning of each Fiscal Year. The report must include:
1. Names and telephone numbers of AIRLINE officials responsible for various major AIRLINE functions including station operations, flight operations, scheduling, properties, facilities, and similar information;
  2. A general description of AIRLINE's operation including number of employees and employee parking requirements;
  3. The current schedule of AIRLINE's flights and as periodically adjusted;
  4. A description of AIRLINE's fleet and identification of AIRLINE's aircraft that will serve the Airport and the Certificated Maximum Gross Takeoff Weight for each aircraft; and
  5. The identification of AIRLINE's current facility requirements at the Airport.
- B. At least ten months before the end of the Fiscal Year, AIRLINE will submit to DOT&PF, in writing, its Certificated Maximum Gross Takeoff Weight forecast for the next Fiscal Year.
- C. AIRLINE has the following maintenance, repair, and alteration responsibilities. AIRLINE will at its sole expense and in a manner acceptable to DOT&PF:
1. Maintain and keep in good repair the preferential Apron Area adjacent to its exclusive use holdrooms in a neat, clean, and orderly condition free from litter, debris, refuse, petroleum products, or grease that may result from the activities of its passengers, employees, licensees, invitees, agents, or suppliers. All oil and grease spills must be removed promptly.

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2. Perform reasonable, ordinary, and preventive maintenance within its Exclusive Use Space including:
  - a. Repair of all personal property and equipment including fixtures, doors, interior windows, baggage conveyors and belts, floor coverings, and ticket counters that are not provided by DOT&PF.
  - b. Maintenance and repair of all electrical, plumbing, heating, ventilating, and air conditioning appliances and fixtures that are not provided by DOT&PF.
3. Immediately repair any uninsured damage in any other space at the Airport caused by the fault or negligence of AIRLINE, its servants, contractors, agents, licensees, or employees.
4. Pay as additional rent to DOT&PF any extraordinary cost to provide AIRLINE with water, sewer service, electricity, or extraordinary use of any other utilities as are required.
5. AIRLINE will assure that DOT&PF has emergency access to AIRLINE's Exclusive Use Space either by delivering keys to the Airport Director or by providing emergency telephone numbers by which AIRLINE or its agent can be reached on a 24-hour basis.

D. Disabled or Abandoned Aircraft

1. If any aircraft owned or operated by AIRLINE, through accident or any other reason, is disabled or abandoned in any area on the Airport which could interfere with the continuous, normal operations or any landing and field facilities, AIRLINE will:
  - a. Immediately remove the aircraft to a location designated by the DOT&PF unless the aircraft is required to remain in place pending investigation by the appropriate regulatory agencies of the federal government; and
  - b. In the event of any accident where federal investigation in place is required, immediately, upon receiving clearance so to do from the appropriate federal agency investigating such accident, remove the aircraft and any resulting wreckage or debris to the area designated by the federal agency authorizing the removal; otherwise the aircraft wreckage and debris

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will be immediately removed from the Airport and stored at a location approved by DOT&PF.

If AIRLINE fails to proceed immediately to remove the disabled aircraft as provided above, or if any aircraft owned or operated by AIRLINE is abandoned on Airport, DOT&PF has the right, after reasonable advance written notice to the AIRLINE station manager listed in the report described in Section 9.01.A.1, to remove the aircraft by any reasonable means DOT&PF deems necessary under the circumstances, and AIRLINE will reimburse DOT&PF for all costs and expenses (including storage costs) incurred in the removal and will indemnify, save harmless, and defend the State from any liability, cost, or expense resulting from the removal to the extent set forth in Section 10.01.

Section 9.02. DOT&PF's Responsibilities

A. During this Agreement, DOT&PF will:

1. Retain FAA Airport certification;
2. Operate and maintain the Airport in reasonable condition and repair including the runways, taxiways, aprons, roadways, vehicle parking areas, public areas of the terminal buildings, and all appurtenances, facilities, and services;
3. Keep the public areas of the terminal buildings adequately and attractively equipped, furnished, and decorated as well as clean and presentable. In the public view areas of the terminal buildings, DOT&PF will provide and supply directional and informational signs, heat, electricity, light, power, air conditioning, waste-water disposal, water, and janitorial services including rubbish removal. DOT&PF will also keep in good repair and condition the exterior and structural portions of the walls, roof, and floor of the Exclusive Use Space and Common Use Space, as well as all central electrical and mechanical distribution systems; and
4. Maintain existing and future utility systems on the Premises in reasonable condition and repair, including heat, electricity, fire alarm, fire protection, sprinkler, air conditioning, telephone, telegraph, teleregister and intercommunication services, and any lines, pipes, mains, wires, conduits and equipment connected with or

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appurtenant to all those systems. DOT&PF may enter the Premises at all reasonable times to make any necessary repairs, alterations, and replacements.

- B. DOT&PF will use its best efforts to restore service as soon as practical after any interruption in the services described in this Section.

Section 9.03. DOT&PF's Right to Inspect and Make Repairs

- A. DOT&PF or its representative has the right, at reasonable times and with as little interruption of AIRLINE's operations as practical, to enter AIRLINE's Exclusive Use Space and Common Use Space for the following purposes:
  - 1. Inspections to verify AIRLINE's compliance with this Agreement.
  - 2. To do anything that DOT&PF has the right or obligation to do.
- B. Except in the case of an emergency reasonable notice must be given and DOT&PF will coordinate with AIRLINE in order to minimize interference with AIRLINE's activities.

Section 9.04. Alterations and Improvements

- A. Before beginning construction of any improvement or alteration, AIRLINE will first submit to the Airport Director:
  - 1. Detailed drawings of the proposed construction, and
  - 2. Written proof of approval of the proposed construction from all appropriate agencies.
- B. DOT&PF will review and approve or disapprove the proposed construction in writing within 45 days after receipt of the construction drawings.
- C. Any construction by AIRLINE must be performed in a safe, neat manner and meet the following criteria:
  - 1. Not interfere with the activities of other tenants;
  - 2. Be compatible with the architecture of the building as determined by the Airport Director;
  - 3. Be performed at no cost to DOT&PF; and

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4. Comply with all federal, state and local building codes.
- D. Within 30 days after completion of the construction of any alteration or improvement, AIRLINE will deliver to DOT&PF detailed copies of as-built drawings showing the location and dimensions of the alteration or improvement constructed, including structural, mechanical, and electrical systems.

Section 9.05. DOT&PF Modification and Relocation

- A. The Airport Director may relocate AIRLINE or modify any portion of AIRLINE's Premises if necessary to renovate or modify the terminal building or apron if that renovation or modification is not inconsistent with the Airport masterplan. If it is necessary to relocate AIRLINE to implement a Capital Improvement, AIRLINE will be notified during the review of Capital Improvements described in Section 4.01.
- B. Upon 90 days advance written notice, AIRLINE will vacate and surrender the affected Premises to DOT&PF.
- C. If AIRLINE's Premises are modified or relocated, DOT&PF will:
  1. Reimburse AIRLINE for the undepreciated capital cost of AIRLINE's improvements that are acquired, demolished, or not replaced in kind by DOT&PF at the new location. Reimbursement must be made on the basis of capital cost figures furnished by AIRLINE and subject to verification by the Airport Director.
  2. Provide AIRLINE with substantially similar space so that AIRLINE's operations are not unreasonably disrupted. In the event of relocation, this Agreement will be modified to include AIRLINE's new assigned space.
  3. Construct the demising walls and interior improvements to AIRLINE's new area. Interior improvements include wall coverings, floors, ceilings, lighting, electrical, heating units, air ventilation, and fixtures. All material replacement will be similar in type and quality to those on the Premises being relocated.
  4. Refinish the remainder of the Premises, if any, for the functions authorized by this Agreement.

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5. If requested by AIRLINE, DOT&PF will relocate AIRLINE's fixtures, furnishings, and equipment at DOT&PF expense.

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ARTICLE 10  
INDEMNIFICATION, INSURANCE, AND SUBROGATION

Section 10.01. Indemnification

- A. AIRLINE will indemnify, save harmless, and defend the DOT&PF, its officers, agents and employees from liability of any nature or kind including costs and expenses for or on account of any and all legal actions or claims of any character whatsoever resulting from death or injury to any person(s) or damage to property to the extent caused by any wrongful error, omission, or negligent act of AIRLINE arising out of this Agreement.
- B. All liability or costs for legal actions or claims including defense costs resulting from death or injury to any person(s) or damage to property which are caused by the joint negligence of the DOT&PF and AIRLINE arising out of this Agreement will be apportioned on a comparative fault basis.

Section 10.2. Insurance

- A. DOT&PF will, during the term of this Agreement, procure and maintain comprehensive general liability and fire and extended coverage insurance for the Airport, terminal building, and other DOT&PF facilities at the Airport in such amounts and for such insured coverages as may be reasonably required for the prudent operation of the Airport.
- B. AIRLINE will, during the term of this Agreement, procure and maintain liability insurance for public liability, aviation liability, the leased Premises, property damage, bodily injury and death, with contractual liability endorsements insuring all of AIRLINE's operations under this Agreement, including its obligations under the indemnity clause in Section 10.01 of this Agreement. These policies will be with limits not less than those set forth below. These policies and minimum limits will be consistently applied to all air carriers with similar operations and will be consistent with prudent airport industry practices and this Agreement. Within 30 days after signing this Agreement, AIRLINE will report to DOT&PF the maximum seating capacity installed in each aircraft or type of aircraft operated by AIRLINE at the Airport. If the maximum seating capacity for any aircraft or type of aircraft operated by AIRLINE is changed, AIRLINE will report the change to DOT&PF and obtain any required additional insurance coverage before operating the aircraft at the Airport.

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<u>Insurance Coverages</u>	<u>Minimum Limits</u>
Airline/Aircraft/Airport Public Liability Insurance or Equivalent Insurance	\$1 million per seat*

With the following minimum limits regardless of seat capacity or cargo configuration:

-- for propeller aircraft	\$10 million
-- for jet aircraft	\$20 million

\* Based on the maximum seating capacity reported by AIRLINE as described in Section 10.02.B in an aircraft operated by AIRLINE at the Airport.

- C. All policies of insurance must be in a form and from a company satisfactory to DOT&PF. Each policy must provide that it may not be cancelled or materially changed during its term without at least 30 days' advance written notice to DOT&PF.
- D. A certificate certifying coverage of required insurance must be delivered to DOT&PF within 30 days of the effective date of this Agreement.
- E. Where any such policy has a normal expiration during the term of this Agreement, AIRLINE will provide a certificate or satisfactory written evidence of continued coverage prior to such expiration. Within 10 days prior to the effective date of any cancellation or reduction in the amount or extent of insurance coverage, AIRLINE will deliver to DOT&PF a certificate or satisfactory written evidence certifying coverage that reinstates or otherwise provides at least the required insurance coverage.
- F. The failure by either party at any time to enforce the provisions in this section will not be construed as a waiver of these provisions and will not reduce their obligations under this Agreement.

Section 10.03. Waiver of Subrogation

AIRLINE and DOT&PF agree to waive their respective rights of recovery or claim against the other for any loss or damage to the Premises, the terminal building or their contents (excluding aircraft) resulting from fire or other "all-risk" insurable property hazards caused by the other. Notwithstanding Section 10.01, any fire or "all-risk" property insurance policies carried by either party will include a waiver of subrogation clause waiving any rights of subrogation against the other party to this Agreement.

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Section 10.04. Additional Insured

AIRLINE agrees that every insurance policy required under Section 10.02.B will include an endorsement naming DOT&PF as an additional insured to the extent of DOT&PF's indemnified interest under Section 10.01.

Section 10.05. Notice of Claim

Each party will give the other party prompt and reasonable notice of any claim or action involving this Agreement.

Section 10.06. Insurance Rates

AIRLINE may not use the Airport in any manner that will increase DOT&PF's insurance rates. If AIRLINE's activities on the Airport result in increased insurance costs for DOT&PF, then DOT&PF may charge the increased cost to AIRLINE as additional rent.

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ARTICLE 11  
ASSIGNMENT OR SUBLEASE

Section 11.01. Assignment or Sublease

- A. No assignment or sublease is valid without the advance written approval of the Airport Director.
1. The Airport Director may approve a sublease of AIRLINE's Premises, if:
    - a. In the Airport Director's opinion, the proposed sublease is in the best interest of the Airport's operation;
    - b. AIRLINE subleases the space for an amount not exceeding the rent DOT&PF charges for that space plus AIRLINE's maintenance and operation costs, an additional allowance for amortization of AIRLINE's improvements, and a 15 percent administrative charge.
    - c. The term of any sublease does not extend beyond the expiration of the term of this Agreement; and
    - d. DOT&PF has no comparable vacant space available for lease. The requirement in this sub-paragraph 11.01.A.1.d may be waived in the discretion of the Airport Director.
  2. DOT&PF's consent to any sublease does not relieve AIRLINE from obtaining DOT&PF's consent to any future sublease.
  3. The Airport Director may approve an assignment of this Agreement if all of the following conditions are met:
    - a. In the Airport Director's reasonable opinion, the proposed assignment is in the best interest of the Airport's operation;
    - b. AIRLINE assigns the Agreement to an Airline qualified under the State's regulations to execute the Agreement and capable of complying with all the requirements in this Agreement;
    - c. AIRLINE assigns this Agreement for an amount not exceeding the cost of AIRLINE's tenant improvements and personal property transferred as part of the assignment; and

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- B. If this Agreement is assigned pursuant to the bankruptcy code, 11 U.S.C. 101 et seq., any consideration for the assignment greater than the amount permitted under Section 11.01.A.3.c is the exclusive property of DOT&PF and is not the property of AIRLINE or AIRLINE's estate under the bankruptcy code.

Section 11.02. Merger

This article does not prevent the assignment of this Agreement to any corporation or business entity that merges, consolidates, or succeeds to the business of AIRLINE, so long as written documentation of the assignment is given to DOT&PF within 30 days after the merger, consolidation, or succession.

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ARTICLE 12  
DEFAULT AND TERMINATION

Section 12.01. Reentry and Reletting After Default

- A. Without terminating this Agreement and time being of the essence, DOT&PF may immediately reenter, renovate, and relet all or part of the Premises to others and reassign preferential aircraft parking positions to others for the account of AIRLINE if AIRLINE either:
1. Fails to pay any rent or fee, including interest, within 10 days after receipt of written notice of default.
  2. Fails to immediately cure a default in performance of any obligation under this Agreement within 30 days after receipt of written notice of default. If the nature of the default is such that it cannot be cured within 30 days after the written notice of default by DOT&PF to AIRLINE, AIRLINE will be deemed to have cured the default if AIRLINE commences to cure the default within the 30 day period and thereafter diligently continues the cure to completion.
  3. Fails to continue to perform any obligation of this Agreement after performance is commenced, or
  4. Any petition, proceeding, or action by, for, or against AIRLINE is filed under any insolvency, bankruptcy, reorganization, relief of debtors, or receiver law.
- B. DOT&PF will charge AIRLINE renovation costs necessary to restore the Premises to their original condition plus a 15 percent administrative fee for all relet sublease rent received by DOT&PF for AIRLINE's relet space. AIRLINE will reimburse DOT&PF for any deficiency in rents or fees received for the reentered or relet space. A deficiency is the difference between AIRLINE's rent and the relet rent before considering the 15 percent administrative fee.
- C. At any time before or after a reentry and reletting as provided in this Section, DOT&PF may terminate AIRLINE's rights under this Agreement, reenter and take possession of the Premises, and cancel all rights and privileges granted to AIRLINE without any restriction on recovery by DOT&PF for past due rents and fees owed by AIRLINE.
- D. DOT&PF has any and all additional rights and remedies as provided by law.

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Section 12.02. Partial Termination Due to Damage or Destruction

- A. If the Exclusive Use Space, Common Use Space, terminal buildings, structures, or any portions of them are damaged by fire or other casualty, DOT&PF will notify AIRLINE within 90 days of the damage whether the damaged space is to be repaired. If the damaged space is to be repaired, DOT&PF will repair the damage with due diligence and will abate the rent allocated to the particular building, room, or other portion of the space rendered untenable for the period from the occurrence of the damage to the completion of the repairs. DOT&PF will do its best to provide AIRLINE with any available temporary substitute space at the rent deemed reasonable by DOT&PF until the repairs are completed.
- B. If DOT&PF fails to notify AIRLINE within 90 days after destruction that DOT&PF will repair the damaged space, AIRLINE may elect within 120 days after destruction to terminate this Agreement as to the space damaged or destroyed, effective on the date of the damage.

Section 12.03. Events Permitting Termination by AIRLINE

AIRLINE may terminate this Agreement if:

- A. AIRLINE is prohibited by lawful authority from using the Airport because of any deficiency or unsafe operating condition at the Airport for a period exceeding 60 days. AIRLINE may terminate this Agreement after the 60 days by giving DOT&PF 30 days' advance written notice.
- B. DOT&PF does not perform any material covenant in this Agreement for a period of 60 days after written notice of default to DOT&PF by AIRLINE. DOT&PF will be deemed to have cured the default if DOT&PF commences to cure the default within the 60-day period and diligently continues the cure to completion.
- C. The IARF statute (AS 37.15.410-37.15.550) is amended to substantially change the structure or operation of the Airport System.

Section 12.04. Events Permitting Termination by DOT&PF

Time being of the essence, DOT&PF may terminate this Agreement immediately and exercise all rights of entry and reentry upon the Premises, with or without process of law, after the occurrence of any of the following events:

- A. AIRLINE fails to provide regularly scheduled air transportation to and from the Airport. DOT&PF will not

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seek any other damages from AIRLINE for breach of this provision.

- B. AIRLINE fails to pay any rent or fee due, including interest, within 10 days after AIRLINE's receipt of written notice of default from DOT&PF.
- C. AIRLINE does not perform any other material provision in this Agreement for a period of 60 days after receipt of written notice of default from DOT&PF. If the nature of the default is such that it cannot be cured within 60 days after written notice of default by DOT&PF to AIRLINE, AIRLINE will be deemed to have cured the default if AIRLINE commences to cure the default within the 60-day period and diligently continues the cure to completion.
- D. AIRLINE or its creditors file a request for AIRLINE's relief under any state or federal insolvency, bankruptcy, reorganization, relief of debtors, or receivership statute.
- F. A custodian, trustee, receiver, or agent, or any similar person is appointed or authorized to take charge of a substantial part of AIRLINE's property on the Airport.

Section 12.05. Surrender of the Premises

DOT&PF is not required to give AIRLINE notice to quit possession of the Premises at the expiration of this Agreement. Upon the expiration or termination of this Agreement, DOT&PF has the right to take possession of the Premises. AIRLINE agrees to surrender the Premises peaceably and in good condition, except for reasonable wear and tear.

Section 12.06. Ownership of Improvements

- A. The ownership of improvements, furnishings, equipment, and fixtures that are constructed or installed on the Premises by AIRLINE is as follows:
  - 1. Title to all removable furniture, furnishings, fixtures, or equipment remains vested in AIRLINE at all times during the term of this Agreement.
  - 2. Title to any structure or other improvement that cannot, in the Airport Director's reasonable determination, be removed without damage to the Premises, vests in DOT&PF upon the expiration or final termination of this Agreement or its extension. These improvements include interior walls, ceilings, carpeting, finished flooring, electrical

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wiring, air conditioning ducts and equipment,  
furnishings, interior decoration, or finishing.

- B. AIRLINE may not abandon any property on the Premises without the advance written consent of the Airport Director. Title to any property not removed by AIRLINE at the expiration or termination of this Agreement immediately vests in DOT&PF at its option. At its sole expense, AIRLINE will restore all damaged DOT&PF property to its previous condition or reimburse DOT&PF for the expense to repair any property damage.

Section 12.07. Holdover

If AIRLINE holds over without a written renewal after the expiration of this Agreement, the holding over does not operate as a renewal or extension of the term of this Agreement but only creates a month to month extension of this Agreement regardless of any rent or fee payment accepted by DOT&PF. The obligations of DOT&PF and AIRLINE to perform under this Agreement continue until the month-to-month holdover is terminated. Either party may terminate the holdover at any time by giving the other party at least 30 days' advance written notice.

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ARTICLE 13  
COMPLIANCE WITH LAW, TAXES, POLICIES AND NONDISCRIMINATION

Section 13.01. Compliance With Law

- A. AIRLINE will comply with all present and future statutes, regulations or ordinances of all federal, state, or local governments that apply to or affect AIRLINE or its operations under this Agreement. DOT&PF will comply with all applicable laws governing its operations under this Agreement.

Section 13.02. Taxes

- A. AIRLINE will pay, but payment may not be considered part of Airport System revenue, all applicable taxes (including any possessory interest tax, assessment, or similar charge) that at any time during this Agreement may be levied or liened against AIRLINE, the Airport facilities made available for AIRLINE's exclusive use, or AIRLINE's personal property. AIRLINE will pay all taxes, assessments, and charges directly to the taxing or assessing authority.
- B. AIRLINE will indemnify and defend DOT&PF from all costs that result directly or indirectly from tax or assessment that AIRLINE is liable for including taxes, penalties, expenses, and reasonable attorney's fees incurred by DOT&PF.
- C. At its own expense, AIRLINE may contest the amount or validity of any tax or assessment or the inclusion of the space leased under this agreement as taxable or assessable property directly against the taxing or assessing authority. AIRLINE will indemnify DOT&PF for all taxes, penalties, costs, expenses, and reasonable attorney's fees incurred by DOT&PF resulting directly or indirectly from any tax contest.
- D. Upon termination of this Agreement, AIRLINE will promptly pay in full all applicable taxes and liens.

Section 13.03. Policies

- A. AIRLINE will comply with all State of Alaska regulations and DOT&PF Policies and Procedures governing the use of Airport facilities.
- B. AIRLINE will comply with all local Airport Directives as set forth by the Airport Director.

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- C. DOT&PF agrees not to promulgate any State of Alaska regulations governing use of the Airport Facilities, DOT&PF Policies and Procedures, or local Airport Directives as set forth by the Airport Director contradictory to:
1. This Agreement,
  2. Any regulation of the FAA, or
  3. Any government agency regulation that is binding upon AIRLINE. .
- D. AIRLINE will be given an opportunity to review and comment on periodic changes to all State of Alaska regulations and Airport Directives before implementation.

Section 13.04. Nondiscrimination

- A. AIRLINE will not permit discrimination in violation of federal or state law on the grounds of race, color, religion, national origin, ancestry, marital status, age, or sex against any patron, employee, applicant for employment, other person or groups of persons. DOT&PF may take any action necessary to enforce this provision, including actions required by any federal or state law or FAA grant agreement.
- B. AIRLINE will undertake an affirmative action program as required by 14 CFR Part 152, Subpart E, to ensure that no person is excluded from participating in any employment, contracting, or leasing activity on the ground of race, creed, color, national origin, or sex. AIRLINE agrees that no person may be excluded on those grounds from participating in or receiving the services or benefits of any program or activity covered by the regulation. AIRLINE will require its covered suborganizations to provide assurance that they will also undertake affirmative action programs and require assurances from their suborganizations, as required by 14 CFR Part 152.

ARTICLE 14  
AGREEMENT NOT TO GRANT MORE FAVORABLE TERMS

Section 14.01. Agreement Not to Grant More Favorable Terms

DOT&PF agrees not to enter into any lease, contract, or other agreement with any other Airline containing substantially more favorable rights and privileges than granted in this Agreement. DOT&PF will not grant any right or privilege that is not accorded AIRLINE to any other Airline unless the same right or privilege is made available to AIRLINE. This covenant does not apply to any Airline that only operates aircraft weighing less than 30,000 pounds Certificated Maximum Gross Takeoff Weight.

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ARTICLE 15  
GENERAL PROVISIONS

Section 15.01. Delivery of Notices

- A. Required notices must be hand delivered or sent by registered or certified mail to the addresses below:
1. DOT&PF:
  
  2. AIRLINE:
- B. If notice is given in any other manner or at any other place, notice must also be given in writing at the place and in the manner specified in this section in order to be effective under this Agreement. All notice periods begin on the date of receipt of written notice at the address listed in Section 15.01.A except as provided elsewhere in this Agreement.
- C. Either party may change the address in this section by written notice to the other party.

Section 15.02. Severability

If any part of this Agreement is declared to be invalid by a court of competent jurisdiction, the other parts of the Agreement remain in full force.

Section 15.03. Quiet Enjoyment

Upon Payment of the required rents and fees, and subject to its performance of this Agreement, AIRLINE may peaceably use the Airport.

Section 15.04 Officers, Agents, and Employees

No commissioner, councilman, director, officer, agent, employee, or other representative of either party may be charged personally nor held contractually liable by the other party for the enforcement, attempted enforcement, or breach of this Agreement if acting within the scope of their duties. DOT&PF and AIRLINE remain

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liable for the acts of these persons that are within the scope of their duties.

Section 15.05. Subordination to Agreements with the U.S. Government

This Agreement is subject to any present or future agreement between DOT&PF and the United States of America concerning the operation or maintenance of the Airport System. AIRLINE may not hold DOT&PF liable for any failure to perform any part of this Agreement as a result of any national emergency declared by the federal government.

Section 15.06. Incorporation of Required Provisions

The parties agree to incorporate into this agreement any provision required by any governmental agency, including DOT&PF acting in its non-proprietary capacity, now or in the future.

Section 15.07. Nonwaiver of Rights

No waiver of default of any part of this Agreement by either party may operate as a waiver of any subsequent default of any part of this Agreement that is to be performed by the other party. Consent or notice by either party may not be construed as consent or notice in the future.

Section 15.08 Force Majeure

Notwithstanding Section 12.02, neither DOT&PF nor AIRLINE will be in violation of this Agreement if it is prevented from performance, by reason of strike, boycott, labor dispute, embargo, shortage of energy or materials, act of God, act of public enemy, act of superior governmental authority, weather condition, riot, rebellion, sabotage, or any other circumstance for which it is not responsible and which is beyond its control.

Section 15.09. Contract Interpretation

The headings of articles and sections are used only for convenience and reference, and may not be used to define or interpret the scope or intent of this Agreement. The language in all parts of this Agreement must be construed according to its fair meaning and not strictly for or against either DOT&PF or AIRLINE.

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Section 15.10. Federal Aviation Act, Section 308

This Agreement may not be construed to grant AIRLINE any exclusive right or privilege within the meaning of Section 308 of the Federal Aviation Act of 1958, as amended, except that AIRLINE has the right to exclusive possession of its Exclusive Use Space.

Section 15.11. Radio Interference

At DOT&PF's request, AIRLINE will stop using any machine or device that interferes with any government-operated transmitter, receiver, or navigation aid until the cause of the interference is eliminated.

Section 15.12. Obtaining Federal and State Funds

DOT&PF will use its best efforts to obtain maximum entitlement grants from federal, state, or other sources when consistent with prudent management of the Airport System.

Section 15.13. Management Audits

DOT&PF will conduct periodic management and operation audits of the Airport System and the IARF. DOT&PF will use its best efforts to implement the reasonable recommendations of the audits.

Section 15.14. Project Management

DOT&PF will use its best efforts to implement Capital Improvements with efficient and responsive project management.

Section 15.15. Passenger Facility Charges

If the current prohibition against passenger facility charges (sometimes referred to as "head taxes") is removed, DOT&PF reserves the right to institute the charge if it desires. If a passenger facility charge is instituted, the revenue from this charge will be Airport System revenue and will be dedicated to funding the Airport System Capital Improvements.

Section 15.16. Governing Law

This Agreement is governed by the laws of the State of Alaska. Any legal action involving this Agreement must be filed by AIRLINE in the State of Alaska.

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Section 15.17. Inspection of Books and Records

At its own expense and upon reasonable notice, each party has the right from time to time to inspect the books, records, or other data of the other party relating to this Agreement. Inspections must be conducted during regular business hours.

Section 15.18. Generally Accepted Accounting Principles

Any report or disclosure referred to in this Agreement that contains financial information must be prepared in accordance with applicable generally accepted accounting principles unless otherwise noted in this Agreement.

Section 15.19. Modification Necessary for Grant of FAA Funds

- A. If the FAA requires that this Agreement be amended as a condition precedent to the granting of funds for the improvement of the Airport, AIRLINE agrees to consent to any amendment that is reasonably required in order to enable DOT&PF to obtain the grant of funds.
- B. If any FAA required amendment impairs AIRLINE's rights under this Agreement or causes AIRLINE any unreasonable expense, AIRLINE may terminate this Agreement within 60 days by notice to DOT&PF.

Section 15.20. Consent Not to be Unreasonably Withheld

Neither DOT&PF nor AIRLINE will unreasonably withhold any consent or approval required by this Agreement.

Section 15.21. Prudent Operations

DOT&PF will manage the Airport System in a prudent and reasonable manner.

Section 15.22. Independent Contractor

AIRLINE is neither an agent nor an employee of DOT&PF but is an independent contractor with respect to all AIRLINE's activities on the Airport, including any installation, construction, or service provided.

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Section 15.23. Entire Agreement

Except as described in Section 15.26, this Agreement with all attached exhibits constitutes the entire agreement between DOT&PF and AIRLINE at the Airport. Statements previously made, verbal or written, are merged in this Agreement. Until signed by the Commissioner of DOT&PF or his designated representative, this Agreement is of no effect. This Agreement may only be amended in a writing that is signed by the authorized representatives of both parties.

Section 15.24. Condemnation

If any of AIRLINE's rights and privileges under this Agreement are condemned by any proper authority, including the State of Alaska, this Agreement terminates automatically on the date AIRLINE is required to surrender possession of the property. DOT&PF is entitled to all the condemnation proceeds except AIRLINE will be paid only the portion of the proceeds attributable to the fair market value of any improvements placed on the property by AIRLINE according to the provisions of 17 AAC 40.330(g), and not any compensation for consequential or severance damages including business damage, lost profits, or leasehold advantage. Rent will be adjusted according to the provisions of 17 AAC 40.330(g).

Section 15.25. Incorporation of Exhibits

Exhibits A through K are a part of this Agreement.

Section 15.26. Preexisting Agreements

- A. On the effective date of this Agreement, the following agreements between AIRLINE and DOT&PF at the airport are terminated:

DOT&PF FILE NO.

SPACE OR PROPERTY LEASED

- B. The following agreements between AIRLINE and DOT&PF at the Airport are not terminated by the execution of this Agreement:

DOT&PF FILE NO.

SPACE OR PROPERTY LEASED

- C. AIRLINE and DOT&PF agree that the only agreements in existence at the Airport between AIRLINE and DOT&PF on the effective date of this Agreement are this Agreement and those listed in Section 15.26.B.





## [METROPOLITAN WASHINGTON AIRPORTS ACT OF 1986]

[§ 3965]

Act of October 18, 1986 (P. L. 99-500)

## TITLE VI—METROPOLITAN WASHINGTON AIRPORTS

[§ 3965a]

## SHORT TITLE

Sec. 6001. This title may be cited as the "Metropolitan Washington Airports Act of 1986".

[§ 3965b]

## FINDINGS

Sec. 6002. The Congress finds that—

(1) the two federally owned airports in the metropolitan area of Washington, District of Columbia, constitute an important and growing part of the commerce, transportation, and economic patterns of the Commonwealth of Virginia, the District of Columbia, and the surrounding region;

(2) Baltimore/Washington International Airport, owned and operated by the State of Maryland, is an air transportation facility that provides service to the greater Metropolitan Washington region together with the two federally owned airports, and timely Federal-aid grants to Baltimore/Washington International Airport will provide additional capacity to meet the growing air traffic needs and to compete with other airports on a fair basis;

(3) the Federal Government has a continuing but limited interest in the operation of the two federally owned airports, which serve the travel and cargo needs of the entire Metropolitan Washington region as well as the District of Columbia as the national seat of government;

(4) operation of the Metropolitan Washington Airports by an independent local agency will facilitate timely improvements at both airports to meet the growing demand of interstate air transportation occasioned by the Airline Deregulation Act of 1978 (Public Law 95-504; 92 Stat. 1705);

(5) all other major air carrier airports in the United States are operated by public entities at the State, regional, or local level;

(6) any change in status of the two airports must take into account the interest of nearby communities, the traveling public, air carriers, general aviation, airport employees, and other interested groups, as well as the interests of the Federal Government and State governments involved;

(7) in recognition of a perceived limited need for a Federal role in the management of these airports and the growing local interest, the Secretary has recommended a transfer of authority from the Federal to the local/State level that is consistent with the management of major airports elsewhere in the Nation;

(8) an operating authority with representation from local jurisdictions, similar to authorities at all major airports in the United States, will improve communications with local officials and concerned residents regarding noise at the Metropolitan Washington Airports;

(9) a commission of congressional, State, and local officials and aviation representatives has recommended to the Secretary that transfer of the federally owned airports be as a unit to an independent authority to be created by the Commonwealth of Virginia and the District of Columbia; and

(10) the Federal interest in these airports can be provided through a lease mechanism which provides for local control and operation.

[§ 3965c]

## PURPOSE

Sec. 6003. (a) IN GENERAL.—It is therefore declared to be the purpose of the Congress in this title to authorize the transfer of operating responsibility under

long-term lease of the two Metropolitan Washington Airport properties as a unit, including access highways and other related facilities, to a properly constituted independent airport authority created by the Commonwealth of Virginia and the District of Columbia, in order to achieve local control, management, operation, and development of these important transportation assets.

(b) **INCLUSION OF BWI NOT PRECLUDED.**—Nothing in this title shall be construed to prohibit the Airports Authority and the State of Maryland from entering into an agreement whereby Baltimore/Washington International Airport may be made part of a regional airports authority, subject to terms and conditions agreed to by the Airports Authority, the Secretary, the Commonwealth of Virginia, the District of Columbia, and the State of Maryland.

[§ 3955d]

#### DEFINITIONS

Sec. 6004. In this title—

(1) **ADMINISTRATOR.**—The term "Administrator" means the Administrator of the Federal Aviation Administration.

(2) **AIRPORTS AUTHORITY.**—The term "Airports Authority" means the Metropolitan Washington Airports Authority, a public body to be created by the Commonwealth of Virginia and the District of Columbia consistent with the requirements of section 6007.

(3) **EMPLOYEES.**—The term "employees" means all permanent Federal Aviation Administration personnel employed on the date the lease under section 6005 takes effect by the Metropolitan Washington Airports, an organization within the Federal Aviation Administration.

(4) **METROPOLITAN WASHINGTON AIRPORTS.**—The term "Metropolitan Washington Airports" means Washington National Airport and Washington Dulles International Airport.

(5) **SECRETARY.**—The term "Secretary" means the Secretary of Transportation.

(6) **WASHINGTON DULLES INTERNATIONAL AIRPORT.**—The term "Washington Dulles International Airport" means the airport constructed under the Act entitled "An Act to authorize the construction, protection, operation, and maintenance of a public airport in or in the vicinity of the District of Columbia", approved September 7, 1950 (64 Stat. 770), and includes the Dulles Airport Access Highway and Right-of-way, including the extension between the Interstate Routes I-495 and I-66.

(7) **WASHINGTON NATIONAL AIRPORT.**—The term "Washington National Airport" means the airport described in the Act entitled "An Act to provide for the administration of the Washington National Airport, and for other purposes", approved June 29, 1940 (54 Stat. 686).

[§ 3965e]

#### LEASE OF METROPOLITAN WASHINGTON AIRPORTS

Sec. 6005. (a) **AUTHORITY TO ENTER INTO LEASE.**—The Secretary is authorized to enter into a lease of the Metropolitan Washington Airports with the Airports Authority for a 50-year term and to enter into any related agreement necessary for the transfer of authority and property to the Airports Authority. Authority to enter into a lease and agreement under this section shall lapse two years after the date of the enactment of this title.

(b) **PAYMENTS.**—

(1) **LEASE PAYMENTS.**—The lease shall provide for the Airports Authority to pay to the general fund of the Treasury annually an amount, computed using the GNP Price Deflator, to equal \$3,000,000 in 1987 dollars. The Secretary and the Airports Authority may renegotiate the level of lease payments attributable to inflation costs every ten years.

(2) **RETIREMENT OBLIGATIONS.**—

§ 3965d

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(A) **DISCONTINUED SERVICE.**—Not later than one year after the lease takes effect, the Airports Authority shall pay to the Treasury of the United States, to be deposited to the credit of the Civil Service Retirement and Disability Fund, an amount determined by the Office of Personnel Management to represent the actual added costs incurred by the Fund due to discontinued service retirement under section 8336(d)(1) of title 5, United States Code, of employees who elect not to transfer to the Airports Authority.

(B) **UNFUNDED LIABILITY.**—Not later than one year after the lease takes effect, the Airports Authority shall pay to the Treasury of the United States, to be deposited to the credit of the Civil Service Retirement and Disability Fund, an amount determined by the Office of Personnel Management to represent the present value of the difference between (i) the future cost of benefits payable from the Fund and due the employees covered under section 6008(e) of this title that are attributable to the period of employment following the date the lease takes effect, and (ii) the contributions made by the employees and the Airports Authority under section 6008(e). In determining the amount due, the Office of Personnel Management shall take into consideration the actual interest such amount can be expected to earn when invested in the Treasury of the United States.

(c) **MINIMUM TERMS AND CONDITIONS.**—The Airports Authority shall agree, at a minimum, to the following conditions and requirements in the lease:

(1) **OPERATION OF AIRPORTS AS A UNIT.**—The Airports Authority shall operate, maintain, protect, promote, and develop the Metropolitan Washington Airports as a unit and as primary airports serving the Metropolitan Washington area.

(2) **AIRPORT PURPOSES.**—The real property constituting the Metropolitan Washington Airports shall, during the period of the lease, be used only for airport purposes. For the purposes of this paragraph, the term "airport purposes" means a use of property interests (other than a sale) for aviation business or activities, or for activities necessary or appropriate to serve passengers or cargo in air commerce, or for nonprofit, public use facilities. If the Secretary determines that any portion of the real property leased to the Airports Authority pursuant to this Act is used for other than airport purposes, the Secretary shall (A) direct that appropriate measures be taken by the Airports Authority to bring the use of such portion of real property in conformity with airport purposes, and (B) retake possession of such portion of real property if the Airports Authority fails to bring the use of such portion into a conforming use within a reasonable period of time, as determined by the Secretary.

(3) **AIP REQUIREMENTS.**—The Airports Authority shall be subject to the requirements of section 511(a) of the Airport and Airway Improvement Act of 1982 and the assurances and conditions required of grant recipients under such Act as of the date the lease takes effect. Notwithstanding section 511(a)(12) of such Act, all revenues generated by the Metropolitan Washington Airports shall be expended for the capital and operating costs of such airports.

(4) **CONTRACTS.**—In acquiring by contract supplies or services for an amount estimated to be in excess of \$200,000, or awarding concession contracts, the Airports Authority shall obtain, to the maximum extent practicable, full and open competition through the use of published competitive procedures. By a vote of seven members, the Airports Authority may grant exceptions to the requirements of this paragraph.

(5) **CONTINUATION OF REGULATIONS.**—

(A) **IN GENERAL.**—Except as provided in subparagraph (B), all regulations of the Metropolitan Washington Airports (14 C. F. R. part 159) shall become regulations of the Airports Authority on the date the lease takes effect and shall remain in effect until modified or

revoked by the Airports Authority in accordance with procedures of the Airports Authority.

(B) EXCEPTIONS.—The following regulations shall cease to be in effect on the date the lease takes effect:

(i) section 159.59(a) of title 14, Code of Federal Regulations (relating to new-technology aircraft); and

(ii) section 159.191 of title 14, Code of Federal Regulations (relating to violations of Federal Aviation Administration regulations as Federal misdemeanors).

(C) OPERATIONS.—The Airports Authority may not increase or decrease the number of instrument flight rule takeoffs and landings authorized by the High Density Rule (14 C. F. R. 93.121 et seq.) at Washington National Airport on the date of the enactment of this Act and may not impose a limitation after the date the lease takes effect on the number of passengers taking off or landing at Washington National Airport.

(6) TRANSFER OF RIGHTS, LIABILITIES, AND OBLIGATIONS.—

(A) IN GENERAL.—Except as specified in subparagraph (B) of this paragraph, the Airports Authority shall assume all rights, liabilities, and obligations (tangible and incorporeal, present and executory) of the Metropolitan Washington Airports on the date the lease takes effect, including leases, permits, licenses, contracts, agreements, claims, tariffs, accounts receivable, accounts payable, and litigation relating to such rights and obligations, regardless whether judgment has been entered, damages awarded, or appeal taken. Before the date the lease takes effect, the Secretary shall also assure that the Airports Authority has agreed to cooperate in allowing representatives of the Attorney General and the Secretary adequate access to employees and records when needed for the performance of functions related to the period before the effectiveness of the lease. The Airports Authority shall assume responsibility for the Federal Aviation Administration's Master Plans for the Metropolitan Washington Airports.

(B) EXCEPTIONS.—The procedure for disputes resolution contained in any contract entered into on behalf of the United States before the date the lease takes effect shall continue to govern the performance of the contract unless otherwise agreed to by the parties to the contract. Claims for monetary damages founded in tort, by or against the United States as the owner and operator of the Metropolitan Washington Airports, arising before the date the lease takes effect shall be adjudicated as if the lease had not been entered into.

(C) PAYMENTS INTO EMPLOYEES' COMPENSATION FUND.—The Federal Aviation Administration shall remain responsible for reimbursing the Employees' Compensation Fund, pursuant to section 8147 of title 5, United States Code, for compensation paid or payable after the date the lease takes effect in accordance with chapter 81 of title 5, United States Code, with regard to any injury, disability, or death due to events arising before such date, whether or not a claim has been filed or is final on such date.

(D) COLLECTIVE BARGAINING RIGHTS.—The Airports Authority shall continue all collective bargaining rights enjoyed before the date the lease takes effect by employees of the Metropolitan Washington Airports.

(7) AUDITS.—The Comptroller General of the United States may conduct periodic audits of the activities and transactions of the Airports Authority in accordance with generally accepted management principles, and under such rules and regulations as may be prescribed by the Comptroller General. Any such audit shall be conducted at such place or places as the Comptroller General may deem appropriate. All books, accounts, records,

reports, files, papers, and property of the Airports Authority shall remain in possession and custody of the Airports Authority.

(8) **CODE OF ETHICS.**—The Airports Authority shall develop a code of ethics and financial disclosure in order to assure the integrity of all decisions made by its board of directors and employees.

(9) **RESTRICTION ON USE OF CERTAIN REVENUES.**—Notwithstanding any other provision of law, no landing fee imposed for operating an aircraft or revenues derived from parking automobiles—

(A) at Washington Dulles International Airport may be used for maintenance or operating expenses (excluding debt service, depreciation, and amortization) at Washington National Airport; or

(B) at Washington National Airport may be used for maintenance or operating expenses (excluding debt service, depreciation, and amortization) at Washington Dulles International Airport.

(10) **GENERAL AVIATION FEES.**—The Airports Authority shall compute the fees and charges for landing general aviation aircraft at the Metropolitan Washington Airports on the same basis as the landing fees for air carrier aircraft, except that the Airports Authority may require a minimum landing fee not in excess of the landing fee for aircraft weighing 12,500 pounds.

(11) **OTHER TERMS.**—The Secretary shall include such other terms and conditions applicable to the parties to the lease as are consistent with and carry out the provisions of this title.

(d) **SUBMISSION TO CONGRESS.**—The Secretary shall submit the lease entered into under this section to Congress. The lease may not take effect before the passage of (1) 30 days, or (2) 10 days in which either House of Congress is in session, whichever occurs later.

(e) **ENFORCEMENT OF LEASE PROVISIONS.**—The district courts of the United States shall have jurisdiction to compel the Airports Authority and its officers and employees to comply with the terms of the lease. An action may be brought on behalf of the United States by the Attorney General, or by any aggrieved party.

[[ 3965f] **CAPITAL IMPROVEMENTS, CONSTRUCTION,  
AND REHABILITATION**

Sec. 6006. (a) **IMPROVEMENTS.**—It is the sense of the Congress that the Airports Authority should—

(1) pursue the improvement, construction, and rehabilitation of the facilities at Washington Dulles International Airport and Washington National Airport simultaneously; and

(2) to the extent practicable, cause the improvement, construction, and rehabilitation proposed by the Secretary to be completed at both of such Airports within 5 years after the earliest date on which the Airports Authority issues bonds under the authority required by section 6007 of this title for any such improvement, construction, or rehabilitation.

(b) **SECRETARY'S ASSISTANCE.**—The Secretary shall assist the three airports serving the Washington, D. C. metropolitan area in planning for operational and capital improvements at those airports and shall accelerate consideration of applications for Federal financial assistance by whichever of the three airports is most in need of increasing airside capacity.

[[ 3965g] **AIRPORTS AUTHORITY**

Sec. 6007. (a) **POWERS CONFERRED BY VIRGINIA AND THE DISTRICT OF COLUMBIA.**—The Airports Authority shall be a public body corporate and politic, having the powers and jurisdiction as are conferred upon it jointly by the legislative authority of the Commonwealth of Virginia and the District of Columbia or by either of the jurisdictions and concurred in by the legislative authority of the other jurisdiction, but at a minimum meeting the requirements of this section.

(b) PURPOSE.—The Airports Authority shall be—

(1) independent of the Commonwealth of Virginia and its local governments, the District of Columbia, and the Federal Government; and

(2) a political subdivision constituted solely to operate and improve both Metropolitan Washington Airports as primary airports serving the Metropolitan Washington area.

(c) GENERAL AUTHORITIES.—The Airports Authority shall be authorized—

(1) to acquire, maintain, improve, operate, protect, and promote the Metropolitan Washington Airports for public purposes;

(2) to issue bonds from time to time in its discretion for public purposes, including the purposes of paying all or any part of the cost of airport improvements, construction, and rehabilitation, and the acquisition of real and personal property, including operating equipment for the airports, which bonds—

(A) shall not constitute a debt of either jurisdiction or a political subdivision thereof; and

(B) may be secured by the Airports Authority's revenues generally, or exclusively from the income and revenues of certain designated projects whether or not they are financed in whole or part from the proceeds of such bonds;

(3) to acquire real and personal property by purchase, lease, transfer, or exchange, and to exercise such powers of eminent domain within the Commonwealth of Virginia as are conferred upon it by the Commonwealth of Virginia;

(4) to levy fees or other charges; and

(5) to make and maintain agreements with employee organizations to the extent that the Federal Aviation Administration is so authorized on the date of enactment of this title.

(d) CONFLICT-OF-INTEREST PROVISIONS.—The Airports Authority shall be subject to a conflict-of-interest provision providing that members of the board and their immediate families may not be employed by or otherwise hold a substantial financial interest in any enterprise that has or is seeking a contract or agreement with the Airports Authority or is an aeronautical, aviation services, or airport services enterprise that otherwise has interests that can be directly affected by the Airports Authority. Exceptions to requirements of the preceding sentence may be made by the official appointing a member at the time the member is appointed, if the financial interest is fully disclosed and so long as the member does not participate in board decisions that directly affect such interest. The Airports Authority shall include in its code developed under section 6005(c)(8) of this title the standards by which members will determine what constitutes a substantial financial interest and the circumstances under which an exception may be granted.

(e) BOARD OF DIRECTORS.—

(1) APPOINTMENT.—The Airports Authority shall be governed by a board of directors of 11 members, as follows:

(A) five members shall be appointed by the Governor of Virginia;

(B) three members shall be appointed by the Mayor of the District of Columbia;

(C) two members shall be appointed by the Governor of Maryland; and

(D) one member shall be appointed by the President with the advice and consent of the Senate.

The Chairman shall be appointed from among the members by majority vote of the members and shall serve until replaced by majority vote of the members.

(2) **RESTRICTIONS.**—Members shall (A) not hold elective or appointive political office, (B) serve without compensation other than for reasonable expenses incident to board functions, and (C) reside within the Washington Standard Metropolitan Statistical Area, except that the member appointed by the President shall not be required to reside in that area.

(3) **TERMS.**—Members shall be appointed to the board for a term of 6 years, except that of members first appointed—

(A) by the Governor of Virginia, 2 shall be appointed for 4 years and 2 shall be appointed for 2 years;

(B) by the Mayor of the District of Columbia, 1 shall be appointed for 4 years and 1 shall be appointed for 2 years; and

(C) by the Governor of Maryland, 1 shall be appointed for 4 years.

(4) **REMOVAL OF PRESIDENTIAL APPOINTEES.**—A member of the board appointed by the President shall be subject to removal by the President for cause.

(5) **REQUIRED NUMBER OF VOTES.**—Seven votes shall be required to approve bond issues and the annual budget.

(f) **BOARD OF REVIEW.**—

(1) **COMPOSITION.**—The board of directors shall be subject to review of its actions and to requests, in accordance with this subsection, by a Board of Review of the Airports Authority. Such Board of Review shall be established by the board of directors and shall consist of the following, in their individual capacities, as representatives of users of the Metropolitan Washington Airports:

(A) two members of the Public Works and Transportation Committee and two members of the Appropriations Committee of the House of Representatives from a list provided by the Speaker of the House;

(B) two members of the Commerce, Science, and Transportation Committee and two members of the Appropriations Committee of the Senate from a list provided by the President pro tempore of the Senate; and

(C) one member chosen alternately from members of the House of Representatives and members of the Senate, from a list provided by the Speaker of the House or the President pro tempore of the Senate, respectively.

The members of the Board of Review shall elect a chairman. A member of the House of Representatives or the Senate from Maryland or Virginia and the Delegate from the District of Columbia may not serve on the Board of Review.

(2) **TERMS.**—Members of the Board of Review appointed under subparagraphs (A) and (B) of paragraph (1) shall be appointed for terms of six years, except that of the members first appointed, one member under each of subparagraphs (A) and (B) shall be appointed for a term of two years and one member under each of subparagraphs (A) and (B) shall be appointed for a term of four years. Members of the Board of Review appointed under subparagraph (C) shall be appointed for terms of two years. A vacancy in the Board shall be filled in the same manner in which the original appointment was made. Any member appointed to fill a vacancy before the expiration of the term for which his or her predecessor was appointed shall be appointed only for the remainder of such term.

(3) **PROCEDURES.**—The Board of Review shall establish procedures for conducting its business. The procedures may include requirements for a quorum at meetings and for proxy voting. The Board shall meet at least once each year and shall meet at the call of the chairman or 3 members of the

Board. Any decision of the Board of Review under paragraph (4) or (5) shall be by a vote of 5 members of the Board.

(4) DISAPPROVAL PROCEDURE.—

(A) SUBMISSION REQUIRED.—An action of the Airports Authority described in subparagraph (B) shall be submitted to the Board of Review at least 30 days (or at least 60 days in the case of the annual budget) before it is to become effective.

(B) ACTIONS AFFECTED.—The following are the actions referred to in subparagraph (A):

- (i) the adoption of an annual budget;
- (ii) the authorization for the issuance of bonds;
- (iii) the adoption, amendment, or repeal of a regulation;
- (iv) the adoption or revision of a master plan, including any proposal for land acquisition; and
- (v) the appointment of the chief executive officer.

(C) 30-DAY DISAPPROVAL PERIOD.—If the Board of Review does not disapprove an action within 30 days of its submission under this paragraph, the action may take effect. If the Board of Review disapproves any such action, it shall notify the Airports Authority and shall give reasons for the disapproval.

(D) EFFECT OF DISAPPROVAL.—An action disapproved under this paragraph shall not take effect. Unless an annual budget for a fiscal year has taken effect in accordance with this paragraph, the Airports Authority may not obligate or expend any money in such fiscal year, except for (i) debt service on previously authorized obligations, and (ii) obligations and expenditures for previously authorized capital expenditures and routine operating expenses.

(5) REQUEST FOR CONSIDERATION OF OTHER MATTERS.—The Board of Review may request the Airports Authority to consider and vote, or to report, on any matter related to the Metropolitan Washington Airports. Upon receipt of such a request the Airports Authority shall consider and vote, or report, on the matter as promptly as feasible.

(6) PARTICIPATION IN MEETINGS OF AIRPORTS AUTHORITY.—Members of the Board of Review may participate as nonvoting members in meetings of the board of the Airports Authority.

(7) STAFF.—The Board of Review may hire two staff persons to be paid by the Airports Authority. The Airports Authority shall provide such clerical and support staff as the Board may require.

(8) LIABILITY.—A member of the Board of Review shall not be liable in connection with any claim, action, suit, or proceeding arising from service on the Board.

(g) CERTAIN ACTIONS TO BE TAKEN BY REGULATION.—Any action of the Airports Authority changing, or having the effect of changing, the hours of operation of or the type of aircraft serving either of the Metropolitan Washington Airports may be taken only by regulation of the Airports Authority.

(h) LIMITATION ON AUTHORITY.—If the Board of Review established under subsection (f) is unable to carry out its functions under this title by reason of a judicial order, the Airports Authority shall have no authority to perform any of the actions that are required by paragraph (f)(4) to be submitted to the Board of Review.

[[ 3965h] FEDERAL EMPLOYEES AT THE METROPOLITAN WASHINGTON AIRPORTS

Sec. 6008. (a) EMPLOYEE PROTECTION.—Not later than the date the lease under section 6005 takes effect, the Secretary shall ensure that the Airports Authority

has established arrangements to protect the employment interests of employees during the 5-year period beginning on such date. These arrangements shall include provisions—

(1) which ensure that the Airports Authority will adopt labor agreements in accordance with the provisions of subsection (b) of this section;

(2) for the transfer and retention of all employees who agree to transfer to the Airports Authority in their same positions for the 5-year period commencing on the date the lease under section 6005 takes effect except in cases of reassignment, separation for cause, resignation, or retirement;

(3) for the payment by the Airports Authority of basic and premium pay to transferred employees, except in cases of separation for cause, resignation, or retirement, for 5 years commencing on the date the lease takes effect at or above the rates of pay in effect for such employees on such date;

(4) for credit during the 5-year period commencing on the date the lease takes effect for accrued annual and sick leave and seniority rights which have been accrued during the period of Federal employment by transferred employees retained by the Airports Authority; and

(5) for an offering of not less than one life insurance and three health insurance programs for transferred employees retained by the Airports Authority during the 5-year period beginning on the date the lease takes effect which are reasonably comparable with respect to employee premium cost and coverage to the Federal health and life insurance programs available to employees on the day before such date.

**(b) LABOR AGREEMENTS.—**

(1) **ADOPTION.**—The Airports Authority shall adopt all labor agreements which are in effect on the date the lease under section 6005 takes effect. Such agreements shall continue in effect for the 5-year period commencing on such date, unless the agreement provides for a shorter duration or the parties agree to the contrary before the expiration of that 5-year period. Such agreements shall be renegotiated during the 5-year period, unless the parties agree otherwise. Any labor-management negotiation impasse declared before the date the lease takes effect shall be settled in accordance with chapter 71 of title 5, United States Code.

(2) **CONTINUATION.**—The arrangements made pursuant to this section shall assure, during the 50-year lease term, the continuation of all collective bargaining rights enjoyed by transferred employees retained by the Airports Authority.

(c) **RIGHTS OF TERMINATED EMPLOYEES.**—Any transferred employee whose employment with the Airports Authority is terminated during the 5-year period beginning on the date the lease under section 6005 takes effect shall be entitled, as a condition of any lease entered into in accordance with section 6005 of this title, to rights and benefits to be provided by the Airports Authority that are similar to those such employee would have had under Federal law if termination had occurred immediately before such date.

(d) **ANNUAL AND SICK LEAVE.**—Any employee who transfers to the Airports Authority under this section shall not be entitled to lump-sum payment for unused annual leave under section 5551 of title 5, United States Code, but shall be credited by the Airports Authority with the unused annual leave balance on the date the lease under section 6005 takes effect, along with any unused sick leave balance on such date. During the 5-year period beginning on such date,

[The next page is 2691-11.]

annual and sick leave shall be earned at the same rates permitted on the day before such date, and observed official holidays shall be the same as those specified in section 6103 of title 5, United States Code.

(e) **CIVIL SERVICE RETIREMENT.**—Any Federal employee who transfers to the Airports Authority and who on the day before the date the lease under section 6005 takes effect is subject to subchapter III of chapter 83 of title 5, United States Code, or chapter 84 of such title shall, so long as continually employed by the Airports Authority without a break in service, continue to be subject to such subchapter or chapter, as the case may be. Employment by the Airports Authority without a break in continuity of service shall be considered to be employment by the United States Government for purposes of such subchapter and chapter. The Airports Authority shall be the employing agency for purposes of such subchapter and chapter and shall contribute to the Civil Service Retirement and Disability Fund such sums as are required by such subchapter and chapter.

(f) **SEPARATED EMPLOYEES.**—An employee who does not transfer to the Airports Authority and who does not otherwise remain a Federal employee shall be entitled to all of the rights and benefits available under Federal law for separated employees, except that severance pay shall not be payable to an employee who does not accept an offer of employment from the Airports Authority of work substantially similar to that performed for the Federal Government.

(g) **ACCESS TO RECORDS.**—The Airports Authority shall allow representatives of the Secretary adequate access to employees and employee records of the Airports Authority when needed for the performance of functions related to the period before the date the lease under section 6005 takes effect. The Secretary shall provide the Airports Authority access to employee records of transferring employees for appropriate purposes.

[[ 3965i]

#### RELATIONSHIP TO AND EFFECT OF OTHER LAWS

Sec. 6009. (a) **OTHER LAWS.**—In order to assure that the Airports Authority has the same proprietary powers and is subject to the same restrictions with respect to Federal law as any other airport except as otherwise provided in this title, during the period that the lease authorized by section 6005 of this title is in effect—

(1) the Metropolitan Washington Airports shall be considered public airports for purposes of the Airport and Airway Improvement Act of 1982 (49 App. U. S. C. 2201 et seq.); and

(2) the Acts entitled "An Act to provide for the administration of the Washington National Airport, and for other purposes", approved June 29, 1940 (54 Stat. 686), "An Act to authorize the construction, protection, operation, and maintenance of a public airport in or in the vicinity of the District of Columbia", approved September 7, 1950 (64 Stat. 770), and "An Act making supplemental appropriations for the support of the Government for the fiscal year ending June 30, 1941, and for other purposes", approved October 9, 1940 (54 Stat. 1030), shall not apply to the operation of the Metropolitan Washington Airports, and the Secretary shall be relieved of all responsibility under those Acts.

(b) **INAPPLICABILITY OF CERTAIN LAWS.**—The Metropolitan Washington Airports and the Airports Authority shall not be subject to the requirements of any law solely by reason of the retention by the United States of the fee simple title to such airports or by reason of the authority of the Board of Review under subsection 6007(f).

(c) **POLICE POWER.**—The Commonwealth of Virginia shall have concurrent police power authority over the Metropolitan Washington Airports, and the courts of the Commonwealth of Virginia may exercise jurisdiction over Washington National Airport.

(d) **PLANNING.**—

(1) **IN GENERAL.**—The authority of the National Capital Planning Commission under section 5 of the Act of June 6, 1924 (40 U. S. C. 71d) shall not apply to the Airports Authority.

(2) **CONSULTATION.**—The Airports Authority shall consult—

(A) with the National Capital Planning Commission and the Advisory Council on Historic Preservation before undertaking any major alterations to the exterior of the main terminal at Washington Dulles International Airport, and

(B) with the National Capital Planning Commission before undertaking development that would alter the skyline of Washington National Airport when viewed from the opposing shoreline of the Potomac River or from the George Washington Parkway.

(c) **OPERATIONS LIMITATIONS.**—

(1) **HIGH DENSITY RULE.**—The Administrator may not increase the number of instrument flight rule takeoffs and landings authorized for air carriers by the High Density Rule (14 C. F. R. 93.121 et seq.) at Washington National Airport on the date of the enactment of this title and may not decrease the number of such takeoffs and landings except for reasons of safety.

(2) **ANNUAL PASSENGER LIMITATIONS.**—The Federal Aviation Administration air traffic regulation entitled "Modification of Allocation: Washington National Airport" (14 C. F. R. 93.124) shall cease to be in effect on the date of the enactment of this title.

**[§ 3965j] AUTHORITY TO NEGOTIATE EXTENSION OF LEASE**

Sec. 6010. The Secretary and the Airports Authority may at any time negotiate an extension of the lease entered into under section 6005(a).

**[§ 3965k] SEPARABILITY**

Sec. 6011. Except as provided in section 6007(h), if any provision of this title or the application thereof to any person or circumstance, is held invalid, the remainder of this title and the application of such provision to other persons or circumstances shall not be affected thereby.

**[§ 3965l] NONSTOP FLIGHTS**

Sec. 6012. **PERIMETER RULE.**—An air carrier may not operate an aircraft nonstop in air transportation between Washington National Airport and another airport that is more than 1,250 statute miles away from Washington National Airport.

A SPECIAL REPORT ON THE  
DEPARTMENT OF TRANSPORTATION  
AND PUBLIC FACILITIES  
ANCHORAGE INTERNATIONAL AIRPORT

July 16, 1985

Commissioner, Department of  
Transportation and Public Facilities

Richard J. Knapp

Deputy Commissioners, Department of  
Transportation and Public Facilities

Warren Sparks  
Jon Scribner  
George Janssen  
H. Glenzer, Jr.  
Joe Camp

# STATE OF ALASKA

THE LEGISLATURE  
BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION  
POUCH W  
JUNEAU, ALASKA 99811

July 16, 1985

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska  
Statutes, the attached report is submitted for your review.

A SPECIAL REPORT ON THE  
DEPARTMENT OF TRANSPORTATION  
AND PUBLIC FACILITIES  
ANCHORAGE INTERNATIONAL AIRPORT

July 16, 1985

Audit Control Number

25-4231-85-S



Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

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## PURPOSE OF THE REPORT

In accordance with a special request of the Legislative Budget and Audit Committee and Title 24 of the Alaska Statutes, this special report has been prepared to:

1. Document the history and current status of the renovation and expansion at the Anchorage International Airport.
2. Document the decision-making process for assigning and leasing airport space to terminal tenants.
3. Provide information on the International Airport Revenue Fund regarding the types of revenues generated and expenses incurred.

## ORGANIZATION AND FUNCTION

The two international airports in Alaska, located at Anchorage and Fairbanks, were first authorized by the 80th Congress on May 28, 1948 for \$13 million under the Alaska Public Airport Act. The Civil Aeronautics Authority, predecessor to the present Federal Aviation Administration, operated the airports until their transfer to the State on June 25, 1959.

Alaska Statute 44.42.020 provides that the Department of Transportation and Public Facilities (DOTPF) has the power to manage, operate, and maintain State transportation facilities including airports. As such both international airports have an Airport Director who is responsible for the day-to-day operations at the airport. Together, the international airports are self-supporting and operate from the International Airport Revenue Fund (IARF). The IARF is comprised of receipts from aviation and support industries which are used by the airports to provide terminal space plus field maintenance, crash-fire-rescue, law enforcement, and cleaning services to the tenants and other users of the airport (refer to the IARF section for a detail explanation).

In total, the Anchorage International Airport was authorized 270 positions with an operating budget for FY 86 of \$18,060,600 while Fairbanks International Airport was authorized 88 positions and an operating budget of \$7,350,800.

## AUDITOR'S CONCLUSION

In our opinion, the airport renovation and expansion project was not effectively and efficiently managed to minimize total project costs and any inconvenience to the traveling public. During the course of our review we observed or were given several explanations that led us to our conclusion. The following summarizes those findings:

1. The project scope was not finalized prior to a construction commitment. The scope was revised both prior to and subsequent to the construction contract award date. (refer to the Project Scope Revisions Section).
2. Airport tenant requests for scope revisions to the project necessitated redesign by the design consultant at the State's expense (refer to Increased Interest-Airport Tenant Involvement and the sections following).
3. A substantial number of design deficiencies resulted in the general contractor submitting over 750 design clarification or variation requests as of June 11, 1985.
4. The general construction contract was awarded for \$17,844,000 with an original contingency of \$1,602,748. Through June 19, 1985, ninety-nine change orders totaled \$3,126,300.

Currently, the Department of Transportation and Public Facilities (DOTPF) is planning for the expansion of the main terminal over the arrival and departure drives and for the construction of a covered parking facility. Undoubtedly, these projects will cause significant inconvenience to the traveling public, but are recognized as essential needs of the airport. To minimize this necessary inconvenience, DOTPF should ensure that the project scope is finalized and the design completed prior to any commitment for construction. In addition, while it may be prudent to request input from the airport tenants, those requests should be required early in the planning phase and finalized prior to construction. The cost of any changes to accommodate the airport tenants after the construction is started should be borne by the requesting party. Following is our detail of the renovation and expansion project's history and current status.

## RENOVATION AND EXPANSION PROJECT HISTORY

### Early Project History

The Anchorage International Airport (AIA) first began operations in December 1951 under the Civil Aeronautics Authority (CAA) predecessor to the present Federal Aviation Administration. On May 28, 1948, the 80th Congress passed the Alaska Public Airport Act authorizing \$13 million for construction by the CAA of two international type facilities for Alaska's two largest cities; Fairbanks and Anchorage. The original Anchorage terminal building consisted of a rectangular two-story complex in a north-south direction. Additional, sporadic expansion by the State and Northwest Airlines, the major airport user, occurred between the transfer of airport ownership on June 25, 1959 and 1964.

Much of the terminal facilities were lost as a result of the devastating 1964 earthquake. Consequently, a major renovation project was undertaken to replace the damaged terminal. In 1965, the present West Concourse satellite (hexagon) was constructed to accommodate the expanding international market. In addition, from 1968 to 1970 the main terminal building was expanded westward and connected to the hexagon. The project added approximately 188,000 square feet of space. These additions increased the total terminal building area to 307,000 square feet and consisted of the following:

1. The original two-story passenger terminal (North Concourse C) used primarily for domestic and commuter passenger holdrooms, airline operations, as well as airline, concessionaire, and tenant offices.
2. A two-story main passenger terminal with passenger ticketing, check-in, and baggage claim facilities and passenger convenience and service facilities such as food, beverage, and gift concessions. There also was space for airline operations, offices, and passenger holdrooms.
3. A two-story West Concourse B and hexagon which had international intransit facilities, Federal Inspection Services, domestic airline holdrooms, various offices, tenant storage, and airline operations facilities.

### Airport Feasibility Studies - Expansion

Airport growth as measured by enplaning and deplaning passengers continued to grow during the 1970's, in part, as a result of the introduction of transoceanic routes, significant oil discoveries culminating in the Prudhoe Bay exploration and subsequent construction of the Alaska Pipeline,

With the commitment to construct the international terminal, DOTPF determined that a new program statement and scope of work became necessary for work efforts regarding the south terminal as strictly a domestic facility. TRA/Farr was retained through a letter of agreement for \$200,000 to develop alternative concepts for the south terminal. In addition, TRA/Farr was directed to develop a public seating layout and to formulate documents for bidding and purchasing the new seating in addition to developing an interior paint scheme and wall graphics. The effort was completed in January 1981 and a report issued. TRA/Farr recommended the following as part of the scope of work.

1. Expand the main terminal approximately 100 feet to the southeast to increase the length of the ticket counter frontage, offices, gate lobbies, and claim areas.
2. Construct a new commuter facility connected to the 100 foot addition to serve eight to ten aircraft.
3. Remodel West Concourse B to serve ten aircraft positions.
4. Reduce the security checkpoints to two positions.
5. Develop the mechanical plant to accommodate the loads from the expansion.
6. Demolish North Concourse C and expand the main terminal to the north.
7. Increase the depth of the main terminal by expanding over the existing departure and arrival drives.
8. Construct a parking structure east of the terminal building.

DOTPF approved of the plan provided by the architect and subsequently executed a sole source professional services agreement to design the project on April 7, 1981 for \$288,995. The scope was limited to the 100 foot expansion and a single level commuter concourse. The estimated construction cost was \$4.5 million. Funding for the design was provided by chapter 120, SLA 1980.

#### Project Scope Revisions

In October of 1981, the Commissioner executed the first of twelve contract amendments issued for the design work. Amendment one changed the commuter concourse from a single level non-secure function to a two level structure with full airport security located on the upper level. In addition, the consultant was required to design the Concourse B renovation. Total estimated construction costs increased to \$12.5 million. According to the DOTPF design manager, the

one of the major changes to the project. The amendment, issued on March 21, 1984 for \$743,100, requested the consultant, in part, to design a new baggage delivery and distribution system to accommodate the baggage make-up areas in the lower level of Concourse B. The make-up area increased from the previously approved 8,000 square foot addition to 45,000 square feet. The ATC had requested this area during their June 2, 1983 meeting. As a result of this request, DOTPF awarded a contract for \$1,249,191 to install the new baggage conveyor system into Concourse B. Furthermore, amendments five and nine added work at the request of the ATC. Amendment five was issued on April 27, 1984 and expanded the Alaska Airline ticket office and amendment nine issued on December 14, 1984 revised the Alaska Airline Board Room and also added various changes to concessionaire space.

#### Issuance of Contract Change Orders

As of June 19, 1985, there have been ninety-nine change orders issued on the general construction contract. The original contract award was for \$17,844,000. As of the last change order the contract has escalated to \$20,970,300 an increase of 17.5 percent. DOTPF stated that there will be additional change orders issued to complete the project.

The scope of the project involved, in part, the renovation of Concourse B. According to the DOTPF project manager, certain change orders were necessary due to the lack of adequate documentation of changes to the original airport structure through periodic construction upgrades. However, many of the change orders were originated by the airport tenants and DOTPF for project additions. As an example, Alaska Airlines requested that the podiums located in the hexagon be relocated. The costs associated with change order twelve amounted to \$253,845. Also, DOTPF requested an upgrade in the carpet to be installed which resulted in change order forty-four costing \$104,820.

The majority of the change orders were for design verifications. According to DOTPF personnel, these changes were the result of inadequate design of the project. The general contractor submitted over 750 design clarification or variation requests as of June 11, 1985. DOTPF has tentatively identified the responsible party for forty-six of the change orders and can be categorized as follows:

	<u>DOTPF</u>	<u>Design Consult- ant</u>	<u>Airport Tenant</u>	<u>Total</u>
Dollar Amount	\$198,924	\$558,116	\$336,728	\$1,157,532
Percentage	18.2%	51.0%	30.8%	100%
Total Number	14	33	7	54
Percentage	25.9%	61.1%	13.0%	100%

Note: Seven change orders involved two parties. Thus, for percentage calculations these were added to each party.

DOTPF expects to finalize their assignment of all change orders by October 1985.

In addition, DOTPF issued a separate contract on January 4, 1985 for the removal of asbestos in the main terminal for \$1,771,300. Asbestos-containing material was discovered during the renovation which necessitated its removal. This contract also covered the carpeting of Concourse C.

#### Current Status

Phase one of the project including the expansion of the main terminal 100 feet to the southeast, construction of the new commuter facility (Concourse A), remodeling the Concourse B, and the remodeling and expansion of the baggage conveyor system is substantially complete. DOTPF is also planning for future airport expansion. As identified by the Terminal Renovation and Expansion Study by TRA/Farr, future plans involve the following:

1. Increase the depth of the main terminal by expanding over the existing departure and arrival drives. This would increase the existing gate lobbies, airport ticket offices, check-in lobby, and the area of baggage claim.
2. Construct new, two-level arrival and departure drives adjacent to the existing drives capable of expansion towards the north.
3. Demolish the North Concourse C and expand the main terminal to the north, maintaining its depth and profile.
4. Construct a parking structure east of the terminal complex for short-term and daily public parking and the car rental ready-return facility. Estimated construction cost is \$16 million.
5. Demolish the old post office structure to open up the terminal expansion corridor.

(Intentionally left blank)

### Concession Leases

Concession leases include, in part, gift shops, book stores, restaurants, lounges, and car rental agencies. All concession leases are public bid with the bidder guaranteeing the highest return receiving the lease with the exception of the car rental leases. The car rental leases are non-exclusive which allows free entry into the terminal.

Car rental agencies pay a percentage of their gross income and, in addition, pay the \$21.12 per square foot for any space that is occupied. All other concession lessees pay a guaranteed percentage of their gross income.

### Other Leases

The AIA does have other lessees that include State agencies, Anchorage Municipality, Federal agencies, a bank, and a non-profit native assistance organization. Except for the native assistance organization who is not charged for rent, the lessees pay the basic rental fee of \$21.12 per square foot.

5. Vehicle Parking Fees: Gross receipts from public parking lots.
6. Land Rental: Rental of leased airport land. Rentals are contractually set at varying rates according to the class of usage set forth in 17 AAC 40.

The above types of fees accounted for 98 percent of the gross revenues collected during FY 84 at the international airports. In addition, two customers of AIA, Alaska Fuel and Aviation and Duty Free (gift shop), provided revenues of approximately \$7,866,000 and \$7,151,000 representing 27 and 24 percent, respectively, of the airports' FY 84 operating revenues.

Although the IARF is a self-supporting account, the Legislature appropriates monies from the fund to the Department of Transportation and Public Facilities for anticipated expenditures during the fiscal year.

APPENDIX

APPENDIX A

ANCHORAGE INTERNATIONAL AIRPORT  
INTERNATIONAL AIRPORT REVENUE FUND  
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES  
For the Fiscal Year Ended June 30, 1984 and 1983  
(Note 1)

	1984			1983		
	Anchorage	Fairbanks	Total	Anchorage	Fairbanks	Total
<u>Revenue</u>						
<u>Operating Revenues</u>						
Landing Fees	\$ 4,092,690	\$ 499,765	\$ 4,592,455	\$ 3,501,479	\$ 658,613	\$ 4,160,092
Parking Fees	151,062	94,185	245,247	393,813	105,704	499,517
Gas and Oil Fees	8,330,292	912,001	9,242,293	7,277,565	1,129,972	8,407,537
Vehicle Parking Fees	1,538,669	35,852	1,574,561	1,259,696	44,307	1,304,003
Terminal Building Rental	2,212,130	413,188	2,625,318	2,144,889	425,683	2,570,572
Coin Locker Fees	3,432	-0-	3,432	3,727	-0-	3,727
Concession Fees	9,397,518	281,461	9,678,979	9,276,791	276,713	9,553,504
Land Rental	727,174	398,321	1,125,495	939,842	382,022	1,321,864
Electric Energy Fees	62,601	22,727	85,328	28,357	11,114	39,471
Flight Service Station Rental	-0-	31,140	31,140	-0-	31,140	31,140
Other Airport Charges	30,701	80,491	111,192	25,672	78,131	103,803
Receipts for Services Rendered	9,135	-0-	9,135	2,245	1,900	4,145
Lease of State Property	-0-	20,871	20,871	-0-	37,007	37,007
Interest	12,460	3,930	16,390	3,714	2,520	6,294
Other	5,894	2,888	8,782	2,550	-0-	2,550
<u>Total Operating Revenues</u>	<u>26,573,758</u>	<u>2,796,860</u>	<u>29,370,618</u>	<u>24,860,340</u>	<u>3,184,886</u>	<u>28,045,226</u>
<u>Non-Operating Revenues</u>						
Interest Income	2,273,614	239,295	2,512,909	2,602,093	321,607	2,923,700
<u>Total Revenues</u>	<u>28,847,372</u>	<u>3,036,155</u>	<u>31,883,527</u>	<u>27,462,433</u>	<u>3,506,493</u>	<u>30,968,926</u>
<u>Expenses</u>						
<u>Operating Expenses</u>						
Security	3,251,964	2,311,821	5,563,785	3,325,409	2,463,304	5,788,713
Field Maintenance	2,345,707	1,207,617	3,553,324	2,712,178	1,193,173	3,905,351
Administrative	2,972,192	670,207	3,642,399	2,693,085	658,938	3,352,023
Building and Equipment Maintenance	4,166,090	1,012,742	5,178,832	3,651,979	997,555	4,649,534
Custodial	1,931,522	441,515	2,373,037	1,857,806	397,003	2,254,809
Provision for Doubtful Accounts	-0-	-0-	-0-	520,961	-0-	520,961
Depreciation Expense	5,234,830	2,104,354	7,339,184	4,290,661	1,507,152	5,797,813
<u>Total Operating Expenses</u>	<u>19,902,305</u>	<u>7,748,256</u>	<u>27,650,561</u>	<u>19,052,079</u>	<u>7,217,125</u>	<u>26,269,204</u>
<u>Non-Operating Expenses</u>						
Interest Expense	36,394	3,830	40,224	894,478	110,553	1,005,031
<u>Total Expenses</u>	<u>19,938,699</u>	<u>7,752,086</u>	<u>27,690,785</u>	<u>19,946,557</u>	<u>7,327,678</u>	<u>27,274,235</u>
<u>Net Income (Loss)</u>	<u>\$ 8,908,673</u>	<u>\$ (4,715,931)</u>	<u>\$ 4,192,742</u>	<u>\$ 7,515,876</u>	<u>\$ (1,821,185)</u>	<u>\$ 3,694,691</u>

Note 1: The information included in this Appendix was obtained from supplementary schedules to the audited financial statements of the Alaska International Airports as contained in the State's Annual Financial Reports for FY 84 and FY 83.

# STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

POUCH Z  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3900

OFFICE OF THE COMMISSIONER

November 12, 1985

**RECEIVED**

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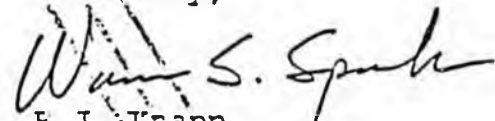
**LEGISLATIVE  
AUDIT**

Mr. Gerald L. Wilkerson, CRA  
Legislative Auditor  
Division of Legislative Audit  
Pouch W  
Juneau, Alaska 99811

Dear Mr. Wilkerson,

The Department has reviewed your preliminary audit report on the Department of Transportation and Public Facilities for the Anchorage International Airport and has no comments.

Sincerely,



R. J. Knapp  
Commissioner

## Long-distance jets may cut JAL refueling stops

The Associated Press

A new generation of jumbo jets with increased flying range may reduce the number of stops that at least one airline makes at Anchorage International Airport, an airline executive said.

Japan Air Lines may stop refueling some jets at Anchorage on flights between Japan and Europe in three to four years, JAL Vice President Mitsuo Kitamota told a Resource Development Council of Alaska meeting Thursday.

The airline plans to start using the Boeing 747-400 series, which the airplane manufacturer says can fly 8,000 nautical miles non-stop, about 2,000 miles more than current jumbo jets.

Boeing spokeswoman Elizabeth Reese in Seattle said the 400 series is to be delivered to its first customer in December 1988, but so far JAL is not a committed customer.

JAL has already dropped Anchorage as a refueling stop on flights between Atlanta and the Orient and has added a non-stop route to Europe across Siberia.

The airline plans to promote Anchorage as a destination, Kitamota said. But he added that it will take at least a tripling of the current 5,000 stopover passengers a year to keep the carrier here.

The airline hopes to carry 10,000 stopover travelers to Anchorage this year, he said.

Kitamota said easier access to sightseeing destinations such as Columbia Glacier will be needed to draw more Japanese visitors.

Something else that might attract more travelers to Anchorage would be creating a foreign trade zone at the airport, said Al Parrish, president of Sheffield Enterprises Inc. in Anchorage.

Parrish told the resource development council that expanding the airport's duty-free zone could lead to the creation of regional shopping centers for stopover visitors to use.

"The airport is a business that generated \$21 million in profit last year without any marketing, without any advertising," said Parrish, also chairman of the Anchorage Business Council's airport subcommittee.

# Anchorage International Faces Uncertain Times Ahead

Concerns range from the present domestic traffic drop-off from the oil industry's slump, to the future effects of longer-range aircraft that won't need to refuel at Anchorage. An occasional moose on the runway is just part of the job.

By Bruce Johnson

Anchorage—International flight stopovers, Alaska's dependence on air transportation and the deregulation of the domestic airline industry all are making Anchorage International Airport a much busier place than the area's population of about 250,000 persons would suggest.

Among the nation's 36 medium-sized air traffic hubs, Anchorage ranks second in number of revenue passengers. Indeed, last year more than 4.6 million passengers were handled at the airport.

But unlike in many communities as large as or even much larger than that of the Anchorage vicinity, there is real meaning behind the "international" portion of the Anchorage airport's name. Of its 4.6 million passenger total last year, more than 1.6 million were classified as through passengers—largely visitors to the airport during refueling/reprovisioning of aircraft flying between the Orient and Europe. No less than ten international carriers have stopover operations at Anchorage International. The latest to join the list is Swissair, operating between Tokyo and Zurich.

Because of Anchorage's central position between Europe and Asia on the polar route, Anchorage International ranks seventh in the United States in terms of international operations. Flights take about nine hours between Anchorage and Europe and about seven hours between Anchorage and Tokyo. The longest nonstop flight between Anchorage and Asia is flown by China Airlines to Taiwan—almost 10 hours.

"We average 40 to 55 widebody aircraft per day here," said Guy Russo, airport director. "Most of those widebody visits involve international stopovers, including freighters."

In order to more effectively accommodate this heavy international side of the business, the airport authority recently added five remote fueling pits. The airport now has eight such parking positions—all dedicated to international



*With prices so low, at least half of the oil industry's Alaska exploration activity has been halted, resulting in a reduction of personnel and freight moving through the Anchorage airport.*

stopovers. In addition, three years ago the airport completed construction of an international terminal that serves passengers while their planes are being refueled and reprovisioned. The terminal contains a duty-free shop that Russo unabashedly claims is "one of the nicest in the world."

The airport's main terminal—dedicated to domestic traffic—accommodates intrastate commuter operations as well as the half-dozen airlines that link Anchorage with the "Lower 48," primarily through Seattle-Tacoma International Airport.

"We run around 6000 seats a day going south from here," Russo said. That capacity includes a daily United Airlines flight direct to Chicago and a Northwest Airlines flight to Minneapolis.

## Extremely air-dependent

Deregulation, as well as this giant northern state's extreme dependence on air transportation, is responsible for a marked increase in the number of seats (and decrease in rates—see separate story) being experienced in the Seattle-Anchorage corridor, in particular.

In March, AirCal extended its regional operations to Anchorage and quickly expanded the schedule there to four flights daily. Another newcomer is TWA, with one domestic flight per day out of Seattle.

Anchorage International—state-owned and the largest airport in the state—serves as the main hub for persons flying to or from most places in Alaska, which has a total population of little more than twice that of the Anchorage area. In-state destinations include Fairbanks (which has the second largest airport, also state-owned) in the interior, the Prudhoe Bay oil field area on the North Slope, and remote fishing and other communities in the Kenai Peninsula, Gulf of Alaska mainland, Kodiak Island, western Alaska and the Aleutian Islands areas.

The popular tourist region of Southeast Alaska, also containing the state capital of Juneau, is served directly out of Anchorage as well as from Seattle.

## Traffic tied to oil

Although Lower 48 domestic and in-state commuter business remains strong this summer at Anchorage International, the airport is likely to see a

*An airport economic impact study last year revealed that airlines paid for nearly 69,000 hotel rooms in Anchorage due to crew and unscheduled passenger layovers.*



greater-than-normal drop in business this fall and winter following the summer peak season of tourists, fish processors and fishermen. This is due to the dramatic downturn earlier this year in world crude oil prices. With prices so low, at least half of the oil industry's Alaska exploration activity has been halted, resulting in a reduction of personnel and freight moving through the Anchorage airport.

Also beginning to adversely affect air travel, particularly of business people, is a downturn in North Slope oil revenues flowing into the state government coffers, and the adverse spinoff impact that this is starting to have on Alaska business and individuals in general.

The dominant carriers in the highest-volume portions of the intrastate markets are MarkAir, a relatively new carrier that is solely an in-state operator, and Alaska Airlines, which also is the highest-volume scheduled carrier between the Lower 48 and Anchorage. In addition, United, Northwest, AirCal and TWA compete, as does Western Airlines, a veteran, high-volume operator of the Lower 48-Anchorage trade.

Russo is a longtime Western hand. The airport's director, who has been working in Alaska since 1955, retired as Western's Alaska regional director in January 1983. A year later, he was appointed director of Anchorage International.

#### Weakening stopovers

During his many years at Anchorage, Russo has seen a dramatic increase in international stopover business. In 1973,

he recalled, the airport logged little more than 700,000 international passengers. "That segment of the airport's business surpassed the one-million-person mark for the first time in 1978," he noted.

International stopovers are good business for the Anchorage community. Besides refueling (32.5 million gallons last April, for example) and provisioning, fresh flight crews are accommodated for two to four days at a time at Anchorage, depending on flight and personnel schedules. Indeed, an airport economic impact study conducted last year by Applied Economics Associates (AEA), revealed that airlines paid for nearly 69,000 hotel rooms in Anchorage due to crew and unscheduled passenger layovers.

Unfortunately, this lucrative international stopover business is showing signs of weakening somewhat.

Because Asians appear to be traveling to Europe as well as other destinations

in increasing numbers, the slight slowdown in Anchorage's international business does not appear to be linked to the terrorism-caused falloff in American travel to Europe. Rather, the slight weakening of Anchorage's international activity could be related to a rise in increased competition from the Asia-Europe route via northern Siberia.

The AEA report noted that at least two international carriers—JAL and SAS—have exercised transit rights through Soviet airspace and that some other carriers are contemplating route changes via Russia.

Of longer-term concern at Anchorage is the possible adverse effect on international stopovers that Boeing Co.'s development of the longer-range 747-400 will have.

"We're now in a unique position, I guess, similar to what Gander was during the prop aircraft days across the Atlantic; but I suppose we're going to be faced with some loss of business when the Boeing 747-400 comes on line," Russo reflected.

He observed that the 747-400 will be capable of flying 8000 statute miles—enough to fly the plane nonstop between Asia and Europe via the American and Canadian airspace polar route.

"Not all of the airlines of Europe are going to afford the luxury of having a 747-400," Russo reasoned, but he admits that "some" 747-400-caused deterioration of international stopover business is anticipated during the next decade after the new model enters service.

Reacting to the recent downturn in Alaska's economy caused by the collapse of crude oil prices, the state is intensifying its efforts to attract tourists—international as well as domestic visitors. As part of these efforts, it is focusing increased attention on marketing Alaska as a destination—not just a stopover—for Asian and European tourists. Presently, only about 25,000 international passengers disembark each year at Anchorage to spend some time in Alaska.

"We get quite a few (big-game) hunt-

*In 1983 Anchorage International handled half of total tonnage flowing through all of the nation's medium-sized airports—an air freight volume only slightly less than that passing through LAX or JFK.*



Alaska Airlines carries highest Alaska-Lower 48 volume.

ers from Austria, Germany and other European countries, and the Japanese like to fish," Russo observed. But he said there is considerable untapped potential for attracting international visitors on the basis of Alaska's spectacular scenery of mountains, glaciers and fjords as well as its cultural and other attractions.

"The long-haul seats are what the airlines are going to fill first," Russo acknowledged concerning the superior revenues generated by Asia-Europe traffic as opposed to Asia-Alaska or Europe-Alaska traffic. But because of the state's international promotion efforts, he is optimistic that more international passengers will disembark at Anchorage.

#### Heavy traffic, plus floats

Anchorage International, which had 36,738 jet aircraft landings last year, has three 11,400-foot runways—two of which are parallel east-west runways that are instrumented. The third, a north-south runway, is not instrumented. Simultaneous landings and takeoffs occur routinely at the airport. Because of prevailing winds, landings usually are from west to east and takeoffs are from south to north.

Air traffic is heavy in the Anchorage area. Not only do the northerly takeoffs encroach on military plane approaches at Elmendorf Air Force Base, but Anchorage International itself has a large general aviation facility for both wheeled and float planes.

The FAA-operated tower at the airport coordinates commercial and general aviation traffic, each of which has separate traffic patterns.

One of the more interesting aspects of the Anchorage International operation is its base for float planes. Two natural lakes—connected through dredging—are located adjacent to the airport and are ideal for float plane operations. In addition, next to one of the lakes is a general aviation dirt strip.

"We have at least a thousand, maybe 1200, general aviation airplanes around the airport here," Russo related. "People jump into their airplanes here on weekends like people in the Lower 48 jump into their cars."

As far as airliner operations are concerned, the only congestion occurs when, as the airport director puts it, the planes are scheduled to "fly out of here in formation."

Anchorage International has the usual morning (7:30 to 9) and late afternoon (4 to 6:30) peaks in traffic. But in a departure from the norm, the airport also has a peak period between midnight and 2 a.m. This is due to the desire of many passengers wanting red eye flights to Seattle for catching early morning Lower 48 flights there.

Because the airport is getting close to

*"We're now in a unique position, I guess, similar to what Gander was during the prop aircraft days, but I suppose we're going to be faced with some loss of business when the Boeing 747-400 comes on line."*

gate capacity during those three periods, continued development and expansion of terminal facilities is being planned.

#### Extensive changes coming

The airport, which went on line in 1953 in part to accommodate international refueling stopovers between Europe and Asia, has been undergoing extensive facility changes in recent years.

Last September, a commuter carrier wing was added at Concourse C, and domestic carrier gates were added and renovations were accomplished at Concourse B—at a total cost of about \$25 million. Anchorage International now has eight widebody gates at the international terminal and 20 domestic and five commuter gates at the main terminal. Concourse A has eight gates, but only three are equipped with jetways because of extensive use of combi planes (with freight forward) into Anchorage. Newly renovated Concourse B has 12 gates, all with jetways. Seven of the airport's domestic gates handle widebody aircraft.

In order to keep up with market demand, construction is underway on a \$25 million, 1200-vehicle parking garage with an underground connection to the terminal building lobby. In addition, plans are being made for demolishing the original, 1953-vintage section of the terminal and building another concourse that will be designed for eventual development of a wing stretching between the domestic and international terminals.

When this new building—Concourse

*"We have at least a thousand, maybe 1200, general aviation airplanes around the airport. People jump into their airplanes here on weekends like people in the Lower 48 jump into their cars."*

C—comes on stream several years from now, there will be a major reassignment of gates at the airport. Said Russo, "Operating efficiency will be enhanced significantly. All commuter flights will be consolidated in one area, narrow-body planes are moved into their own area, and widebody domestic flights will be accommodated out of the new and enlarged Concourse C."

Although state owned and operated, Anchorage International has not shared in the spending spree for capital improvements and other projects undertaken by the state government, whose coffers became swelled with oil revenues. All of Anchorage International's expenditures have been supported by operational revenues, Russo reported.

"We didn't benefit from the (state government financial) upturn, and we're not getting hurt by the downturn," he observed.

#### Freight—the airport's ace

Besides being an important hub for passengers, Anchorage International is a major factor in the movement of air freight.

In fact, the facility ranks first (among the nation's 36 medium-sized air traffic hubs) in the amount of revenue freight handled. Last year alone the airport logged nearly 16.8 million pounds of freight. In 1983, the AEA economic impact study noted, Anchorage International handled a half of total tonnage flowing through all of the nation's medium-sized airports and that the air freight volume at Anchorage was only slightly less than that passing through LAX or JFK that year.

Lots of time-sensitive general freight flows into or through Anchorage airport as belly and freighter traffic from the Lower 48. Most of the freight flow is one way, although fresh fish is a strong backhaul during summers.

Interestingly, the Anchorage airport traditionally has more departing air freight than arriving air freight. This is mainly due to certain freight arriving on express steamship services operating between Washington state and the Port of Anchorage, from where the freight is trucked to the airport for fast distribution by air to in-state destinations.

#### Milder than Minneapolis

To someone on the "outside"—a term commonly used is Alaska to denote the Lower 48—Alaska is seen as a state plagued with heavy snow and intense cold. But Anchorage, adjacent to saltwater at the head of Cook Inlet, usually has milder winter weather than is often experienced by cities in the northern tier of the Midwest and the Northeast, Russo observed.

Two feet of snowfall is about average during the winter at Anchorage. Usually, the snow comes only a few inches