

Airport Authority of Washoe County

2003 Competition Plan Update

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Executive Summary

The Airport Authority of Washoe County (AAWC) operates the Reno/Tahoe International Airport (Airport,) a medium hub airport enplaning 0.34 percent of the 2002 passengers of the 549 commercial service airports in the United States based on the latest Federal Aviation Administration (FAA) statistics. Southwest Airlines and American Airlines 2002 passenger enplanements were 62 percent of the Airport's 2.3 million scheduled airlines' enplanements. These two statistics exceed the percentages, 0.25 percent and 50 percent respectively, set by the FAA that require the submission of a Competition Plan. As a result, the AAWC must submit a Competition Plan before any Passenger Facility Charge (PFC) submitted will be approved, or discretionary Airport Improvement Program (AIP) grants will be issued, after September 30, 2002. This is the 2003 update of the AAWC's Competition Plan that was originally submitted in 2000.

The following competition plan demonstrates the Airport's ability to accommodate new airlines or additional service from existing airlines. Airport passenger enplanements have declined since 1998, a trend that was exacerbated with the events of September 11, 2001. Enplanements finally began to increase slightly over prior year amounts in 2003. As a result, the Airport terminal building is operating well below capacity, with vacant gates and ticket counter areas available for new entrant airlines or expansion by existing airlines. The AAWC aggressively solicits new entrant airlines and existing airlines for additional air service. The AAWC prepares studies and analyses that show air service demand exists for an airline to include Reno/Tahoe in their route system. These studies include expected load factors and yields per passenger mile. These studies are then presented to the airlines at their corporate offices.

The AAWC made 12 air service development trips to 12 different airline offices to date in 2003, and welcomed four airlines to specific meetings in Reno for air service discussions. One airline began service at the Airport in 2003, as a result of the AAWC's air service development efforts. Aloha Airlines began service July 2, 2003. They serve the Airport with one flight per day to Honolulu, Hawaii through Orange County, California.

The AAWC formed an Air Service Task Force to receive community input and support for air service development. A steering committee was formed with 26 members of the northern Nevada community who are interested in the development of air service. Members of the task force participate in airline presentations, route analysis, and co op marketing to interest the airlines in developing new markets for the Airport.

A Regional Marketing Counsel was also formed that includes members from various tourism related businesses, from convention and meeting planners, to ski, and golf resorts. This group has also developed a funding mechanism to support airlines starting new service or increasing flight frequency to existing markets. Several successful co op marketing promotions have been held with various airlines: Southwest Airlines, Frontier Airlines, Aloha Airlines, and Alaska Airlines.

The AAWC has used its PFC and AIP funding sources to increase the capacity of the Airport. An expanded baggage claim area, passenger loading bridges for the terminal building gates and a new runway system are the most obvious examples. The airline operating agreement at Reno/Tahoe International Airport provides for preferential airline leaseholds. This gives the AAWC flexibility in accommodating a new entrant airline or the increasing space requirements of an existing airline tenant increasing flights.

The AAWC has incorporated the best practices mentioned in the 1999 FAA/OST Task Force Study, "Airport Business Practices and Their Impact on Airline Competition." They are further detailed in the Competition Plan that follows.

- The AAWC actively promotes competition through the expansion of air service to existing or new destinations by existing or new airlines.
- Gate utilization is monitored by the AAWC Operations Department.
- The AAWC's airline agreement has a "use it or lose it" provision for the airline's preferential leaseholds.
- The process followed by the AAWC Property Administration staff with new entrant airlines is listed.
- The airline agreement limits the amount of sublease fees that a new entrant can be charged.
- Several third party ground handlers are available for use by a new entrant airline.
- The Airport currently has six unassigned gates for use by a new entrant. These are Gates C-1, C-2, C-4 and C-11 on the north concourse, and B-2 and B-10 on the south Lear Concourse.
- There have not been any new entrant projects blocked by an MII provision.
- If facilities were needed for a new entrant airline, the project could be financed, in spite of an MII disapproval, with special facility bonds and/or PFC funds for the eligible portions.

This Competition Plan was prepared for the Airport in a format recommended by the FAA in their Program Guidance Letter 03-01 dated November 19, 2002. The major issues in the Program Guidance Letter are the numbered, bold headings of each section. The bullet points that follow describe the operation and agreements of the AAWC that pertain to each major issue.

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The table below lists the FAA’s comments on the 2001 Competition Plan Update that were to be addressed in this 2003 Competition Plan Update.

Comment	Issue	Update Location
Align lease terms with FAA defined “Best Practices”	Increase competitiveness based on FAA study of best practices	Previous Executive Summary
Inform all airlines of 2001 agreement expiration	Consider needs of competing, non tenant airlines	Section 4, Bullet 3
Provide gate availability information to all airlines	Consider needs of competing, non tenant airlines	Section 4, Bullet 2, and 3
Provide fee discounts for any new service	Current plan provides fee discounts only for service to new destinations	Section 6, Bullet 2
Consider revising MII language according to “Best Practices”	Consider project needs of smaller, competing, new entrant airlines	Section 7, Bullet 3
Post Competition Plan and FAA comments on AAWC web site	Provide airline and public access to the competition plan	This update will be included in the AAWC Web Site http://www.renoairport.com/

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1. Availability of Gates

- Twenty-three passenger airline gates are currently available at the Airport. As of July 2, 2003, seventeen of these gates are leased on a preferential basis to incumbent signatory airlines, with six being unassigned and available for common use or lease to new entrant or existing signatory airlines. Layouts showing the terminal building concourse gates are included at the end of this report.
- Gate-use monitoring is a function of the Operations Department of the AAWC in cooperation with the airlines. The Operations Department receives and responds to requests for common-use gate and remote aircraft parking position assignments from non-signatory airlines when the signatory airlines are unable to accommodate them. Unassigned gates are assigned on a first come, first served basis. Gate assignment arrangements are usually completed before the aircraft arrives. Gates are also assigned to the occasional aircraft that “Pops-up” with no advance notice. A separate form is used to track this type of flight. The Operations Department maintains a gate-use log, recording times, applicable fees, etc., and monitors conflicting flight schedules and the need for reassignment as required. The following forms are included in Section 2 of this document and are used in the following manner:

RON Ramp Inventory – Records the nightly inventory of aircraft parked at the terminal building gates and remote aircraft parking positions.

Request For Aircraft Parking Assignment – Records the advance reservation of aircraft parking positions.

“Pop-up” Aircraft Parking Assignments - Records the assignment of an aircraft parking position after an aircraft has arrived that had not previously reserved a parking position.

Aircraft Parking Inventory/Hold Room Usage – This form transmits, to the Accounting Section, the information needed to bill the airlines for the use of the unassigned gate positions and aircraft parking positions.

- The AAWC works with the airlines on an ongoing basis to determine future requirements for gates and related facilities, closely monitoring flight schedules. The AAWC uses its best efforts to provide at least one preferential gate to each signatory airline with at least three flights per weekday pursuant to Section 16.02 of the Airline Agreement. With exception of six unassigned gates available for common use, all other gates are currently leased by airlines for preferential use. The AAWC coordinates with the signatory airlines as to any such potentially available gates and related facilities, and provides for concurrent relinquishment and re-lease. Building on the efforts of the AAWC Marketing and Air Service Development Department and the Air Service Task Force, the Property Administration (PA) Department coordinates the accommodation of services and

facilities requirements for new entrant airlines. The Air Service Task Force is a group formed to receive community input and support for air service development. The following steps are taken by PA to assist new entrant airlines:

- A. PA responds to inquiries from interested airlines, or follows up after an airline visit, to support the air service initiative with information and layouts detailing specific leasehold areas available.
- B. PA conducts prospective new entrant airline tours of available premises and facilities, answers questions, and provides introductions.
- C. PA furnishes airlines with complete documentation of (a) minimum requirements prior to initiation of air service, (b) contacts listings for ground handlers and other service providers, Airport tenants, incumbent signatory airlines, and key AAWC personnel, (c) current Airline Rates, (d) information and forms for aircraft parking requests, airline activity reporting, (e) terminal building layouts showing square footage of (unassigned) airline space with rents calculated, and (f) the Airline Agreement and any related agreements.
- D. PA works with the airline to determine the most desirable premises (in location, area, equipment, etc.) for its particular operation and station requirements to accommodate start-up and eventual expansion.
- E. At the request of a new entrant airline, PA helps to facilitate the airline's negotiations with incumbent signatory airlines and other tenants of the AAWC.
- F. PA provides information and assists the airline in arrangements for: skycap, security and ground handling services as needed; overhead and directional signage; curbside check-in; baggage claim; jet bridge operations and training; employee parking; airport security identification badges; and other accommodations as requested.
- G. PA monitors the airline's fulfillment of AAWC minimum requirements, providing clarification and assistance as may be needed in arranging for insurance coverage and security for performance.
- H. PA prepares the Airline Agreement with appropriate exhibits and processes the Airline Agreement for AAWC Board approval and execution by the airline and the AAWC.
- I. PA coordinates with Marketing regarding participation in financial incentives or promotional assistance for initiating service to a new destination.
- J. PA coordinates airline tenant projects, including station improvements, signage, communications systems, premises remodeling, etc.
- K. PA participates in AAWC interdepartmental communications with the airlines, such as Finance, Airport Operations and Public Safety, Facilities and Maintenance, and Engineering and Construction.

L. PA serves as the central point of contact, providing ongoing coordination and follow up for new entrant and incumbent signatory airlines.

- There are no differences in gate-use monitoring policies for PFC-financed facilities, facilities subject to PFC assurance #7, and other gates. All of the terminal building gates are subject to Section 16.03 of the Airline-Airport Use and Lease Agreement (Airline Agreement), which was attached as an Exhibit to the AAWC's 2000 Competition Plan.
- PFC competitive assurance #7 has had no impact. Since July 1, 1996, all Airport gates are preferentially leased and used under Section 4.01.A of the Airline Agreement. The Airline Agreement was extended for three years commencing July 1, 2001, under the same terms and conditions. All six unleased gates are available for common use, currently at a charge of \$100.00 per turn, or may be leased on a preferential use basis to a new entrant or expanding incumbent signatory airline.
- Daily gate utilization is summarized below. All of the Airport's scheduled departures are shown, including Aloha Airlines that does not preferentially lease a gate.

Airline	Daily Departures (December 2003)	Leased (Assigned) Gates	Daily Departures per Gate
Alaska	6	1	6.0
Aloha	1	0	
American	5	4	1.3
America West	7	1	7.0
Continental	2	1	2.0
Delta	0	1	
Frontier	2	1	2.0
Northwest	2	1	2.0
Skywest	10	1	10.0
Southwest	40	4	10.0
United	12	2	6.0
Total	87	17	
Average			5.1

In December 2003, there were 87 daily scheduled airline departures from 23 gates equating to less than 4 daily, 28 weekly, or 120 monthly scheduled airline departures per gate. The airline gates are under utilized and the terminal building has the capacity for new entrant airlines or expansion of service by existing airlines. Itinerant flights, seasonal, scheduled and ad hoc charter departures are not included in these averages.

- Pursuant to Section 16.02 of the Airline Agreement, the AAWC reserves the right to reassign a preferential gate to another signatory airline if the tenant airline's scheduled average utilization falls below three flights per weekday for that gate (including commuter or other flights handled by the tenant airline), or if the AAWC determines

there is a reasonable need for the preferential use of such gate(s) by another signatory airline.

- In 2002, the AAWC received one new entrant airline request for access and no expansion requests for preferential lease of gate hold room premises under new Airline Agreements. National Airlines leased 5,137 square feet of preferential use Airline Premises including 1,673 square feet in Gate C-4 hold room under a signatory Airline-Airport Use and Lease Agreement effective September 1, 2002. National commenced service with four daily Reno to Las Vegas flights on October 3, 2002, and then ceased all operations November 6, 2002. Aloha Airlines began exploring available accommodations with the AAWC in the last quarter of 2002, confirmed its intentions and executed an Airline Agreement with the AAWC effective July 1, 2003, leasing a total of 2,951 square feet of preferential use premises while using unassigned Gate C-4 on a per-turn basis. Aloha commenced service with one daily non-stop flight to Orange County with continuing service to Honolulu on July 2, 2003.
- The AAWC has not received any complaints of denial of reasonable access by a new entrant or an existing airline seeking expansion. A dispute resolution procedure to address any denial of access allegations follows in Section 2 of the Competition Plan.
- The reassignment provision under Section 16.02 of the Airline Agreement allows the AAWC to maximize gate use (“use/lose”) depending upon demand. Section 16.03 of the Airline Agreement also specifically provides for accommodation of the needs of requesting airlines by existing signatory airlines working cooperatively with the AAWC (“use/share”). The AAWC will not require a signatory airline to accommodate a requesting airline if there are unassigned gates that will reasonably accommodate the needs of the requesting airline. If the AAWC has no available gates or other terminal facilities to accommodate the needs of a requesting airline, the requesting airline coordinates directly with a signatory airline for joint use of preferential leased premises at times when the use of such facilities does not interfere with the operations of the tenant signatory airline. Accommodation is subject to written agreement and the signatory airline will compute charges payable by the requesting airline in accordance with a formula set forth in Section 15.01 of the Airline Agreement.
- PA responds to inquiries from interested airlines and supports the air service initiative with information and layouts detailing specific leasehold areas available.
- PA also serves as the central point of contact, providing ongoing coordination and follow up for new entrant and incumbent signatory airlines.
- The AAWC has not received any complaints of denial of reasonable access by a new entrant or an existing airline seeking expansion. A dispute resolution procedure to address any denial of access allegations follows in Section 2 of the Competition Plan.
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- Each of the 23 passenger terminal gates can be used, by the airlines' aircraft for remain overnight (RON) positions. The gates are assigned to the airline leasing the adjacent passenger hold room area. The RON positions, like the airlines' terminal building leaseholds, are preferentially assigned. The airlines do not pay an RON fee for use of these positions adjacent to their hold rooms. In addition, there are six other nearby RON positions, three to the north, and three to the south of the terminal building. Unscheduled aircraft needing RON positions are assigned to the six unassigned terminal building gates, or these 6 other positions near the terminal building when requested by the airline. An RON use fee of 15% of the current landing fee is charged for each day's use of these positions. The scheduled airline tenants also pay the RON fee for use of these nearby gates. As mentioned previously, gate-use monitoring is a function of the Operations Department of the AAWC in cooperation with the airlines. The Operations Department receives and responds to requests for RON parking positions. The Operations Department maintains a gate-use log, recording times, and applicable fees. The Operations Department also records the nightly inventory of aircraft parked at the terminal building gates and nearby aircraft parking positions on a RON Ramp Inventory report.

2. Leasing and Subleasing Arrangements

- A sublease arrangement with an incumbent signatory airline is not required for an airline to gain access to serve the Airport. Small airlines, or airlines with limited service, often do sublease space from an existing airline to avoid the higher fixed cost of a preferential leasehold at the Airport. Such an airline could instead work with the AAWC to use one of the unassigned gates and arrange ground handling with one of the vendors at the Airport.
- Airline gate positions are currently available. If in the future the AAWC did not have adequate space available for direct lease to a requesting airline, the AAWC would assist the requesting airline obtain a sublease with an incumbent signatory airline having available preferential-use leased premises. The reassignment provision under Section 16.02 of the Airline Agreement allows the AAWC to maximize gate use ("use/lose") that allows the AAWC to free preferential space if needed for a new entrant or expanding airline. Section 15.01 of the Airline Agreement requires the AAWC's prior written consent to sublease.
- Article 15 of the Airline Agreement defines AAWC policies for fees charged by signatory airlines for subleased premises, gate use, services and equipment charges, as applicable, to accommodate requesting airlines.

- The AAWC has no oversight policy for the impact on airline sub tenants of airline schedule changes. Any disputes not solved by the airline and sub tenant would be subject to the same dispute resolution process described later in this section.
- The PA Division of the AAWC responds to all inquiries as to the availability of facilities for direct lease and/or for sublease to ground handlers and other support service providers, furnishing minimum requirements, complete airfield access data, type of space available, square footage and current rates. There are 11,488 square feet of unassigned airline terminal building operations space available for AAWC direct lease to third party ground handlers and other airline support service providers, subject to a safety restriction limiting equipment/vehicle maintenance operations to other approved Airport locations. Currently four leaseholds containing approximately 8,736 square feet are available for sublease in a multi-tenant Ground Service Equipment Maintenance facility. The in-flight caterer contracted to the majority of the airlines currently maintains off-Airport facilities. A consortium of the airlines directly leases land and facilities from the AAWC accommodating the fueling requirements of the airlines. There have not been any independent contractors who were not able to establish a presence.
- To ensure that all users of Airport facilities are treated equally and that the accommodating signatory airline is properly reimbursed for the use of preferential-use premises and related facilities, the charges payable by a requesting airline are computed according to a formula established in Exhibit F of the Airline Agreement. Under Section 15.01 of the Airline Agreement, the signatory airline is required to pay to the AAWC any excess of rentals, fees and charges received from a sub lessee over rentals, fees and charges paid by the incumbent signatory airline for the same premises; however, the signatory airline may charge a reasonable fee for administrative costs, not to exceed twenty-five percent (25%) of the established rental, and such a fee shall not be considered part of the excess charges due the AAWC. Ground handling by one signatory airline of another airline is subject to advance written notice to the AAWC, and subject to the airlines holding operating agreements with the Authority and a handling agreement between the airlines.
- The AAWC has not received any complaints from subtenants about excessive sublease fees or unnecessary bundling of services. Since there are several signatory airlines competing to accommodate requesting airlines, seasonal and ad hoc charters, commuters and itinerant airlines, services offered and charges made are similarly competitive. The AAWC currently charges \$100.00 per turn for common use of unassigned gates.
- Independent ground handlers and other support service providers under contract to the airlines are required to enter into and abide by the terms of an operating agreement with the AAWC for the conduct of such commercial business at the Airport. There are currently eight such ground handlers and support service providers operating at Reno/Tahoe International Airport under agreements with the AAWC. The AAWC leases facilities to third party ground handlers when such space is available for direct lease. Also, existing tenants of the AAWC, including the signatory airlines in some cases, sublease Airport premises approved for the particular activities of the commercial operator.

- The following resolution procedure for airline disputes would be used in the event of a dispute:
 - A. All airlines, including incumbent airlines, seeking access or wishing to expand service at Reno/Tahoe International Airport (the Airport) are referred to the Property Administration (PA) Department of the Airport Authority.
 - B. PA takes the following actions: (1) PA records all requests; (2) PA provides gate utilization information to the requesting airlines; (3) PA is prepared to offer its support in contacting incumbent airlines to discuss use of their preferential use gates and other terminal facilities.
 - C. When an airline indicates a willingness to initiate or expand service if facilities are available, the airline may choose to discuss accommodation options with other airlines directly or with the PA for use of Airport Authority common gates.
 - D. As necessary to facilitate access, PA will meet with the airlines to assist them in exploring mutually satisfactory options for accommodation.
 - E. When no common use facilities are available and an airline is unable to reach agreement with an incumbent airline, PA will informally and formally apply such means of influence up to and including exercising the Airport Authority's rights under the Airline-Airport Use and Lease Agreement to reallocate underutilized space.
 - F. In the event an airline feels it has been denied reasonable access to the Airport, the airline will file a written complaint with the Airport Authority providing full details of the airline's experience and basis for its complaint.
 - G. Any allegation of denial of reasonable access will be mediated through PA and the Chairman of the Air Service Task Force of the Airport Authority Board of Trustees in an effort to resolve the complaint to the satisfaction of all parties within thirty (30) days from submittal. Final determination will be made by the Executive Director of the Airport Authority based upon the results of such mediation.
- The AAWC is not aware of any disputes among airlines regarding the use of Airport facilities. The provisions in Article 16 of the Airline Agreement regarding the availability of adequate facilities, preferential gate assignment, accommodation of requesting airlines, and indemnification between airlines, provide a climate of cooperation in the use of preferentially leased facilities. The gate recapture provision of Section 16.02 of the Airline Agreement allows the AAWC to exercise its right to reassign underutilized gates in the event of a shortage of available gate space for new entrant or expanding incumbent signatory airlines. This exercise of this provision by the AAWC has not been required in the past.
- A copy of the Airline-Airport Use and Lease Agreement is included in Section 6 of this document.

3. Patterns of Air Service

- In December 2003, 42 markets were served with scheduled flights by 10 airlines
Alaska Airlines
Aloha Airlines
America West Airlines
American Airlines
Continental Airlines
Delta Air Lines/Skywest & ComAir
Frontier Airlines
Northwest Airlines
Southwest Airlines
United Airlines
- In December 2003, 18 non-stop markets were served, with 87 daily departures (88 including Saturday only)¹
- In December 2003, two small communities were served on a non-stop basis including Boise and Elko.²
- In December 2003, 12 non-stop markets were served by low-fare airlines and 16 one-stop markets were served by low-fare airlines.³
- In December of 2003, 9 non-stop markets were served by one airline and 26 one-stop markets were served by one airline.⁴
- An analysis of nonstop and one-stop markets served from the Airport in December 2002 versus December 2003 provided the following comparisons:
 - Orange County was added in July 2003 and San Diego (Saturday only) was added in April 2003.⁵

Nonstop Market	Frequency (Departures)	
	December 2002	December 2003
Boise	3	3
Chicago	2	2
Dallas	2	3
Denver	4	5
Elko	4	3
Houston	1	2
Las Vegas	10	12
Los Angeles	5	7

¹ Source – AAWC December 2003 Consolidated Flight Schedule

² Source – AAWC December 2003 Consolidated Flight Schedule

³ Source – Official Airline Guide December 2003 Schedule

⁴ Source – Official Airline Guide December 2003 Schedule

⁵ Source – AAWC December 2002 & December 2003 Consolidated Flight Schedule

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Minneapolis	2	2
Oakland	7	6
Orange County	0	1
Phoenix	8	8
Portland	4	4
Salt Lake City	8	9
San Diego (Saturday only)	0	1
San Francisco	4	8
San Jose	6	6
Seattle	6	6

- The following one-stop markets were served from the Airport with differing frequencies from December 2002 to December 2003:⁶

One-Stop Market	Frequency (Departures)	
	December 2002	December 2003
Albuquerque	1	0
Anchorage	0	1
Atlanta	1	0
Baltimore	1	2
Boston	1	1
Burbank	4	3
Caracas	0	1
Cleveland	0	2
Colorado Springs	1	0
Columbus	0	1
Denver	0	1
Detroit	0	2
El Paso	0	1
Ft. Lauderdale	0	0
Ft. Myers	0	1
Guadalajara	0	1
Honolulu	0	1
Houston - Hobby	1	1
Houston - Intercontinental	1	0
Indianapolis	0	1
Kansas City	1	2
Los Angeles	2	3
Madison	0	1
Manchester	0	1
Milwaukee	1	0
Montreal	0	1
New York - LaGuardia	1	1
Omaha	1	1
Ontario	3	2

⁶ Source – Official Airline Guide December 2002 & December 2003 Schedules

Orange County	0	1
Orlando	1	0
Philadelphia	0	1
Phoenix	2	2
Raleigh/Durham	3	0
Salt Lake City	4	3
San Diego	2	3
Spokane	3	3
St. Louis	2	1
Toronto	0	1
Tucson	2	3
Vancouver	0	1
Washington - Dulles	0	1

4. Gate Assignment Policy

- Under the Section 16.02 of the Airline Agreement, the AAWC uses its best efforts to assign one preferential-use gate to each signatory airline having at least three flights per weekday, and may reassign an underutilized preferential gate to another signatory airline. Existing airlines are given written notice by the AAWC of any change in policy. Minimum requirements are issued to potential new entrant airlines. Operating requirements are the same for signatory (tenant) and nonsignatory airlines. All airlines are required to provide monthly schedules to the Operations Department for coordination of gate use and to accommodate requesting airlines.
- Written notices are given by the AAWC to all tenant airlines at the same time concerning gate availability, terms, and conditions for use.
- The Airport change from exclusive to preferential use leased airline premises on July 1, 1996. This created common-use gates to ensure reasonable Airport access for new entrant airlines and space for existing airline expansion.

Gates are available. The AAWC works closely with potential new entrant airlines to gain access to the Reno/Tahoe market through communication with the Reno/Tahoe Air Service Task Force. A 20-member steering committee (comprised of key airport and community leaders) identifies underserved markets and works to link possible new or existing airlines. Once the airline's interest is peaked, the AAWC dedicates time and money in preparing extensive Air Service Development presentations to the airline. Communication is continuous between the airport and airline with meetings in each market and possible site visits. Notifying the entire airline population that the Airport's Airline Agreement was expiring would not encourage an existing carrier to expand service or a new entrant to begin service at the Airport. Airlines make their market service decisions based on their analysis of the market's air service demand, and their ability to serve that demand. Neither an existing tenant nor new entrant has been denied gate space to expand or provide air service.

- Gates are available. New entrant airlines are informed of gate availability when they inquire. Notifying the entire airline population of the availability of Airport gates would not encourage a new entrant to begin service at the Airport. Airlines decide to enter a

market based on their analysis of the air service market demand, and their ability to serve that demand, not facility availability.

- RON positions are available. Airlines RON aircraft at their preferentially leased gates or at additional gate positions near the terminal building. Air carriers without a preferentially leased gate can also contact the Airfield Operations Section to reserve the additional gate positions if they cannot make such arrangement with a tenant airline or ground service provider.

5. Gate Use Requirements:

- The Airfield Operations Section of the AAWC monitors gate use during their periodic airfield and ramp inspection tours. Gate positions are assigned to the signatory carriers using the preferentially leased adjacent passenger boarding areas (holdrooms). Airfield Operations assigns nearby available gates when necessary to resolve occasional scheduling conflicts, such as when a late departing flight is parked in a position needed by an arriving flight. Itinerant, nonscheduled flights reserve gate positions with the Airfield Operations Section. These may be gate positions adjacent to passenger boarding areas or remote aircraft parking spaces.
- The aircraft parked overnight, Remain Over Night (RON), are inventoried by the Airfield Operations Section during their night shift. The monthly RON activity is forwarded to the AAWC's Finance and Administration Department for RON fee billings. RON fees start after three hours and are 15% of the landing fee rate. Signatory airlines do not pay RON fees for the gate parking positions adjacent to the terminal building, but do pay for their use of the remote aircraft parking positions and for use of unassigned gates.
- Signatory carriers are those that have signed an Airline-Airport Use and Lease Agreement with the AAWC. The signatory passenger airlines leasing space at the Reno/Tahoe International Airport are:

Alaska Airlines	Frontier Airlines
Aloha Airlines	Northwest Airlines
American Airlines	Skywest Airlines
America West	Southwest Airlines
Continental Airlines	United Airlines
Delta Air Lines	

- There are no minimum service requirements to be a signatory airline, just the willingness to execute and the ability to comply with the terms and conditions of the Airline-Airport Use and Lease Agreement. Delta Air Lines is a signatory airline renting space, but is not currently serving the Reno/Tahoe International Airport. Article 16 of the Airline Agreement, Availability of Adequate Facilities, provides that the AAWC will "use its best efforts to provide at least one preferential gate to each signatory airline with at least three flights per weekday." Gate positions are assigned to the airline leasing the adjacent preferentially leased passenger boarding area. Itinerant aircraft flights are assigned the un-leased gate hold rooms by the Airfield Operations Section. Article 16 also allows the

AAWC to reassign a signatory airline’s gates if there are less than three flights per weekday using the gate.

- With unassigned gates on each concourse, there has been no reason to establish “forced sharing” gate assignment priorities.
- There are no differences in gate use requirements among tenants.
- There are no “common use gates” at the Reno/Tahoe International Airport. There are unassigned gates that have not been preferentially assigned to a signatory carrier. The gates are occasionally used by signatory airlines when an aircraft mechanical problem delays access to a preferentially assigned gate. These gates are also used by charter flights if the accommodating airline does not have a gate available. With unassigned gates on each concourse, there has been no reason to establish gate assignment priorities.
- Unassigned gates are available for use by any carrier on a per use fee of \$100. This amount was originally based on daily rent for a passenger boarding area that would be paid by a signatory airline with one flight per day. This fee for use of an unassigned gate is currently below the actual average rental rate amount for a preferentially assigned gate because the average rental rate has increased over the years.

6. Financial Constraints

- The Exhibit G.08 of the Airline Agreement divides the Airport into five cost centers for rate setting purposes. One of these cost centers is the Terminal Building. Revenues from the Terminal Building cost center are used to pay for Terminal Building projects or the debt service for such projects. The sources of Terminal Building Revenues are listed below:

Description	2002-03 Actual Amounts
Gaming Concession	\$2,520,000
Food and Beverage Concession	890,773
Merchandise Concession	1,067,306
Advertising Concession	715,261
Other Miscellaneous Concessions	189,029
Terminal Building Rents - Airline	4,978,601
Terminal Building Rents - Other	293,973
Reimbursed Services – Utilities/ Security	759,777
Allocation of Investment Interest Earnings	<u>328,357</u>
Total	\$11,745,076

- The airline rate setting methodology for the Airport is defined in Exhibit G of the Airline Agreement. The methodology is a hybrid compensatory method that includes revenue sharing. The Terminal Building cost center operating expenses and debt service are divided by the useable square feet in the terminal building to determine an average rental rate for the airline leasehold areas. The Airfield Cost Center operating expenses and debt service are divided by the airline estimated landed weight to determine the non signatory landing fee rate. Half of the net revenues from all cost centers from the prior year is shared with the signatory airlines and used to reduce the Airfield Cost Center operating expenses. This reduced amount is divided by the signatory airlines’ landed weight to determine the signatory landing fee rate.

The AAWC has adopted an “Airline Incentive Policy” which establishes specific guidelines for Airline Incentives that may be offered by the AAWC to any new or existing Passenger Airline initiating new service from the Reno/Tahoe International Airport market place. (See attached Airline Incentive Policy for New Scheduled Passenger Air Service.) The policy authorizes the Executive Director to waive or discount specific Airport rates and charges for a limited period of time for new service to a market with no existing air service. The policy also addresses specific marketing programs that may be undertaken by the AAWC to support new air service for an initial “launch” period.

This policy is limited to new air service to destinations with no existing non stop service. To waive fees for new service to an existing market would create an untenable situation for the AAWC and discriminate against the airlines already serving the market. Waiving fees for the airline starting the new service to an existing location would give a competitive advantage over the existing airlines serving the market. This could result in the new service carrier pricing competitors out of that market, and reducing Airport airline fee revenue for what, in the end, would be no new capacity to an existing air service market.

- The AAWC of Washoe County has used PFC revenues for eligible Terminal Building projects in the past. The Terminal Building PFC projects are listed below:

Description	PFC Amount
PFC 93-01	
Baggage Claim Expansion	\$6,059,214
Terminal Building ADA Compliance	409,500
Concourse Gate Maximization	1,900,000
PFC 98-03	
Passenger Loading Bridges	7,898,413
Terminal Complex Schematic Design	1,500,000
Reconstruct Terminal Building Doors	900,000
Terminal Building Fire Sprinkler System	69,000
PFC 01-04	
Eight Jet Bridges	2,400,000
Terminal Building Security System	277,383
PFC 02-05	
Replacement of BIDS and FIDS	468,750
Concourse Escalator Replacement	873,457
Terminal Lobby Modernization	1,400,000
PFC 02-07	
Replace 4 Jet Bridges	1,773,000
Replace Terminal Building Chiller #2	580,000
Second Floor Terminal Building Concourse Build Out	3,000,000
Total	\$29,508,717

The baggage claim area PFC project added additional baggage belts and floor space to increase the capacity of the baggage claim area. The passenger loading bridges project

improved passenger safety by eliminating the ground loading of passengers. The loading bridges are moveable to allow flexibility in the type aircraft each aircraft gate can accommodate. The AAWC is now replacing old jet bridges with new ones that offer more flexibility in scheduling aircraft at terminal building gates. The Concourse Build Out project will create more space in the terminal building.

- The AAWC has two main discretionary sources of revenue for airport capital improvement projects. 35 percent of the terminal building gaming revenues are set aside for use by the AAWC for airport purposes and are not subject to an MII review process. This amounts to \$0.9 million annually. The Airline-Airport Lease and Use Agreement's rate setting mechanism also provides the AAWC with a share of net airport revenues that can be used for airport purposes and are also not subject to an MII review process. The revenue share varies from year to year, but is roughly \$1 million annually. Between these two sources, the AAWC has almost \$2 million in annual discretionary income. These funds are used currently for the sponsor's portion of federal grants.

7. Airport Controls Over Airside and Groundside Capacity

- The Airline Agreement has a Majority In Interest (MII) provision (Sections 9.02 and 9.03) and a "no further charges" provision (Section 7.10) covering Airfield and Terminal Building cost center projects.

The MII provision pertains only to the Airfield and Terminal Building Cost Centers. The first \$1.0 million of Airfield and Terminal Building Cost Center projects are exempt from the MII process. The MII provision requires denial of projects. MII project approval is **not** required.

Under the current Airline Agreement, MII constitutes: (a) for the Airfield cost center, that number of signatory airlines representing at least 60 percent of the signatory airlines which together have landed at least 50 percent of the total landed weight by all signatory airlines during the preceding fiscal year, or at least 50 percent of the signatory airlines which together have landed at least 60 percent of the total landed weight by all signatory airlines during the preceding fiscal year; and (b) for the Terminal Building cost center, that number of signatory airlines representing at least 60 percent of the signatory airlines which together have paid at least 50 percent of the total terminal rentals paid by all signatory airlines during the preceding fiscal year, or at least 50 percent of the signatory airlines which together have paid at least 60 percent of the total terminal rentals paid by all signatory airlines during the preceding fiscal year.

The "no further charges" clause of the Airline Agreement does not provide any material control over groundside and airside capacity projects. It merely limits rentals, fees and charges to those provided in the Airline Agreement or as may be permitted under any enabling legislation.

- No capacity enhancing projects such as new airline gates or ticket counters have ever been denied at the Reno/Tahoe International Airport. No MII denial has limited the ability of the AAWC to accommodate new entrant airlines. The AAWC has experienced very few MII denials of capital projects. Over the past 10 years, 12 projects totaling \$3.2 million have been denied through the MII process. This works out to an average of \$267,000 per project, far less than the \$1 million annual MII project exemption in the

Airline Agreement. Projects that the Airport Authority strongly supported were completed anyway using discretionary funding sources outside the airline rates and the MII process. The MII provision in the Airline Agreement has not been an obstacle for the AAWC in completing capital projects.

- While it may be plausible that airlines would use the MII ballot to limit the construction of facilities available to a new entrant competitor, that has not been the case at the Airport. Given the decline in passenger activity since 1998 at the Airport, and the amount of vacant or under utilized airline leasehold areas in the terminal building, MII ballots on projects to expand the facility have not been a recent topic for consideration. A sound, and favorable economic analysis of a proposed project has proven to be very persuasive project justification to the airlines, resulting in favorable MII ballot results. In addition, the airlines' economic interest is served by expanding the number of airlines serving the Airport. More airlines serving the market results in increased landed weight, which results in a lower landing fee rate under the current Airline Agreement. More airline terminal building rental revenue results in more net revenue to share with the airlines which also serves to reduce the signatory landing fee rate.

The airline agreement that expired on June 30, 2001, was extended without modification for three additional years. The airline agreement does have an MII provision. Not having an MII provision in an airline agreement is attractive to any airport. The AAWC had no negotiating leverage with passenger activity, and daily flights declining year to year since 1997. Negotiating the removal of the MII provision was not feasible. This weak negotiating position continues in 2003 with the post 9-11 decline in passenger activity. The AAWC's focus is maintaining the Airport's air service and limiting the amount of airline space vacated and added to the unassigned category. Having vacant space for new entrant airlines is desirable, but that same vacant space also results in higher airline rates that serve to discourage new entrant airlines.

8. Airport Intention to Build or Acquire Gates for Use as Common Facilities

- All of the airline gates are either preferentially leased or unassigned and therefore subject to common use. There are six unassigned or unleased gates, B-2 and B-10 on the south concourse and C-1, C-2, C-4 and C-11 on the north concourse, that are available for common-use or future lease on a preferential basis.
- Due to the number of unleased gates, and current passenger levels, the AAWC does not need to build or acquire additional common-use gates. Since the 17 airline occupied gates are leased preferentially, all of the airline gates are subject to common use.
- There are no airlines serving the Airport for more than three years relying exclusively on common-use gates. All airline leasehold areas are preferentially leased.
- Existing concourses are fully built and there is no space to accommodate construction of any additional terminal gates on these concourses. There is also no demand for the construction of new airline gates.

- Terminal gates are used for both domestic and international flights. Any international arrivals requiring post-clearance must deplane at the Federal Inspection Service facilities adjacent to the terminal building.
- Terminal gates are not at this time designated for domestic or international service. At this time the Airport has no scheduled international flights, only occasional international charters. All of the airlines pay the same fees and rents, whether they are domestic or international.

9. Airfare Levels Compared to Other Large Airports

- Summarized data for the Airport showing:⁷

Airline	Total Passengers	Avg. Fares	Passenger Market Share	Avg. Non-stop Distance
Interline	56,710	\$180.56	2%	1,798
Alaska	172,080	\$166.58	5%	676
America West	304,650	\$156.10	8%	1,395
American	445,080	\$163.32	12%	1,457
Continental	88,880	\$189.35	2%	1,890
Delta	110,260	\$150.65	3%	1,753
Frontier	82,680	\$109.01	2%	1,277
Northwest	117,180	\$177.81	3%	1,807
Southwest	2,027,350	\$135.92	54%	512
United	334,850	\$111.37	9%	1,230
TOTAL	3,739,720	\$154.07	100%	1,379.5

- **Short-Haul Markets (750 miles or less):⁸**

	Passengers	Avg. Non-stop Trip Length	Yield	City Pairs
Non-Low-Fare Competitor Present	67,370	418	\$0.31	8
Low-Fare Competitor Present	2,298,190	430	\$0.19	15

⁷ Source – DOT 2002 Airport Competition Plan Data Table 1

⁸ Source – DOT 2002 Airport Competition Plan Data Table 2

• **Long-Haul Markets (over 750 miles):⁹**

	Passengers	Avg. Non-stop Trip Length	Yield	City Pairs
Non-Low-Fare Competitor Present	731,790	2,042	\$0.09	37
Low-Fare Competitor Present	643,760	1,770	\$0.09	28

- Compare to other airports that have similar average passenger trip lengths, for short distance markets, long distance markets, or total:¹⁰

Short Haul Markets

Low-Fare Competitor Present			Non Low-Fare Competitor Present		
Airport	Avg. Non-stop Trip Length	Yield	Airport	Avg. Non-stop Trip Length	Yield
RNO	430	\$0.19	RNO	418	\$0.31
BDL	432	\$0.28	BUF	412	\$0.39
PHX	432	\$0.19	DCA	421	\$0.39

Long Haul Markets

Low-Fare Competitor Present			Non Low-Fare Competitor Present		
Airport	Avg. Non-stop Trip Length	Yield	Airport	Avg. Non-stop Trip Length	Yield
RNO	1,770	\$0.09	RNO	2,042	\$0.09
RDU	1,843	\$0.08	LAX	2,067	\$0.11
SLC	1,703	\$0.10	SAN	2,058	\$0.11

All Stage Lengths

Low-Fare Competitor Present			Non Low-Fare Competitor Present		
Airport	Avg. Non-stop Trip Length	Yield	Airport	Avg. Non-stop Trip Length	Yield
RNO	723	\$0.13	RNO	1,905	\$0.09
HOU	720	\$0.16	LAX	1,919	\$0.11
SJC	714	\$0.14	SAN	1,900	\$0.11

- Additional information that is pertinent to particular circumstances at individual airports, and may not be apparent in the summarized information:
 - 1) Aloha Airlines began service to Honolulu, Hawaii through Orange County, California in July 2003.

⁹ Source – DOT 2002 Airport Competition Plan Data Table 2

¹⁰ Source – DOT 2002 Airport Competition Plan Data Table 2