Airport Use and Lease Agreement
and
Airport Operating Agreement

2016 – 2021

April 6, 2016

Status

- Current AUA expires on June 30, 2016
- In place since July 1, 2011
- Current AUA Signatories:
  - Air Choice One
  - Alaska Airlines
  - American Airlines
  - Delta Air Lines
  - Federal Express
  - Frontier Airlines
  - Hyannis Air Service (Cape Air)
  - Aviation General Partner (Jazz Aviation)
  - Southwest Airlines
  - United Airlines
  - United Parcel Service
- Airport staff negotiated new agreement with airlines May '15 – Jan '16

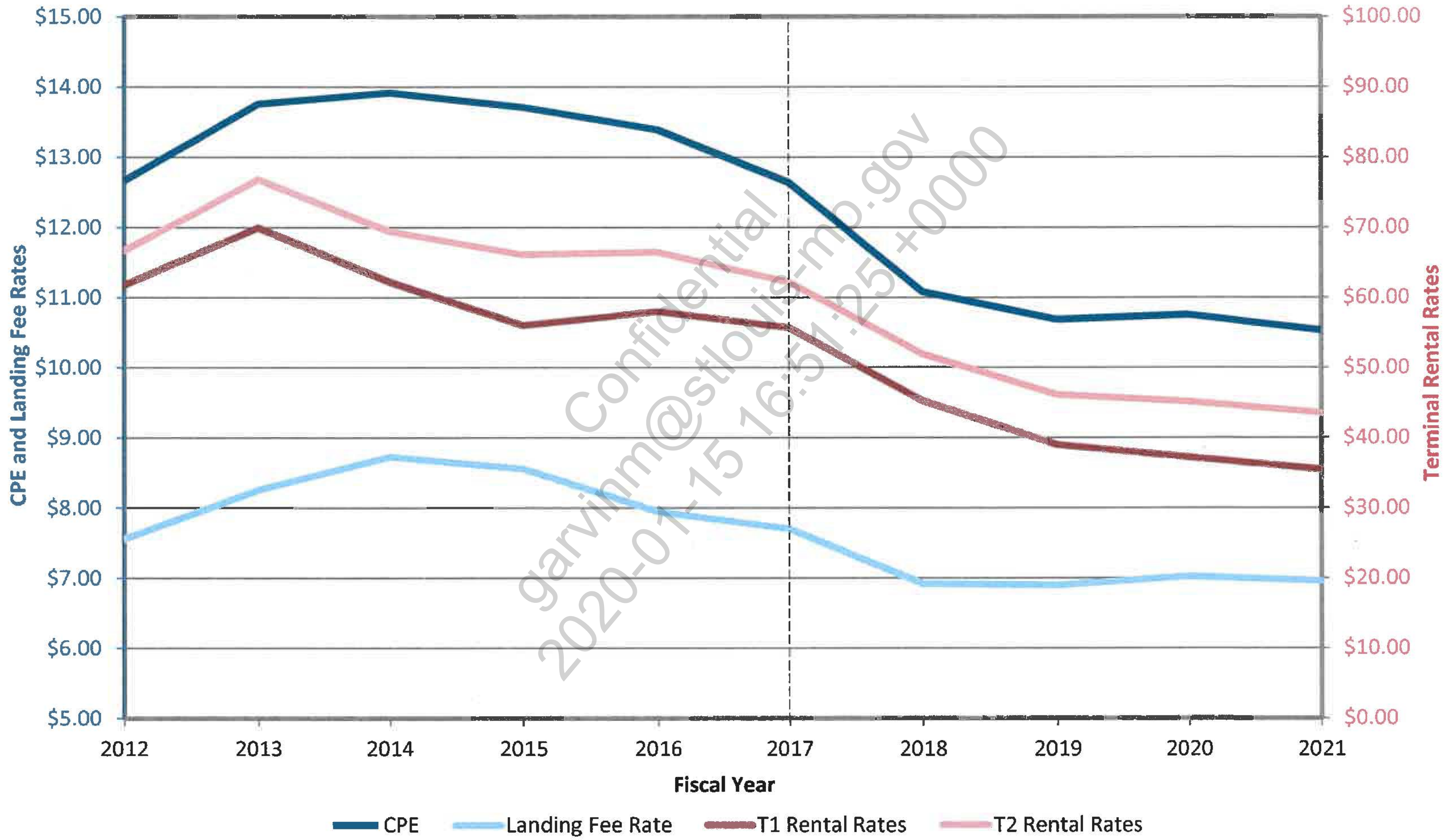
Basic Terms of New Agreement

- Up to five-year term (Jul 2016 – Jun 2021)
- Grants signatory airlines rights and privileges to operate at the Airport
- Continues Signatory Commitment of $1 million
- Establishes terms for using space in the terminal buildings
- Defines leased premises for airlines that lease space in terminals
- Pre-approves $170.3 million, 5-year CIP
- Outlines requirements for tenant improvements
- Provides insurance and indemnification requirements
- Allocates maintenance requirements
- Continues annual rate mitigation = $13.7 million from DSSF
- Requires compliance with federal/state laws and City ordinances
- Subordinates all the terms to Grant Assurances and Trust Indenture

Rates and Charges

- New AUA continues a modified version of the hybrid rate-setting formulas established under the current agreement
  - Airfield is cost-center residual – all airfield users pay for the cost of operating the airfield
  - Terminal rate formula is compensatory with airport-wide residual component (Additional Airline Requirement)
- Rate methodology allows for progressively larger deposits into ADF
- Allocation of Additional Airline Requirement back to terminals
- Future airline rates expected to be lower while continuing to ensure that City can meet Airport's financial obligations

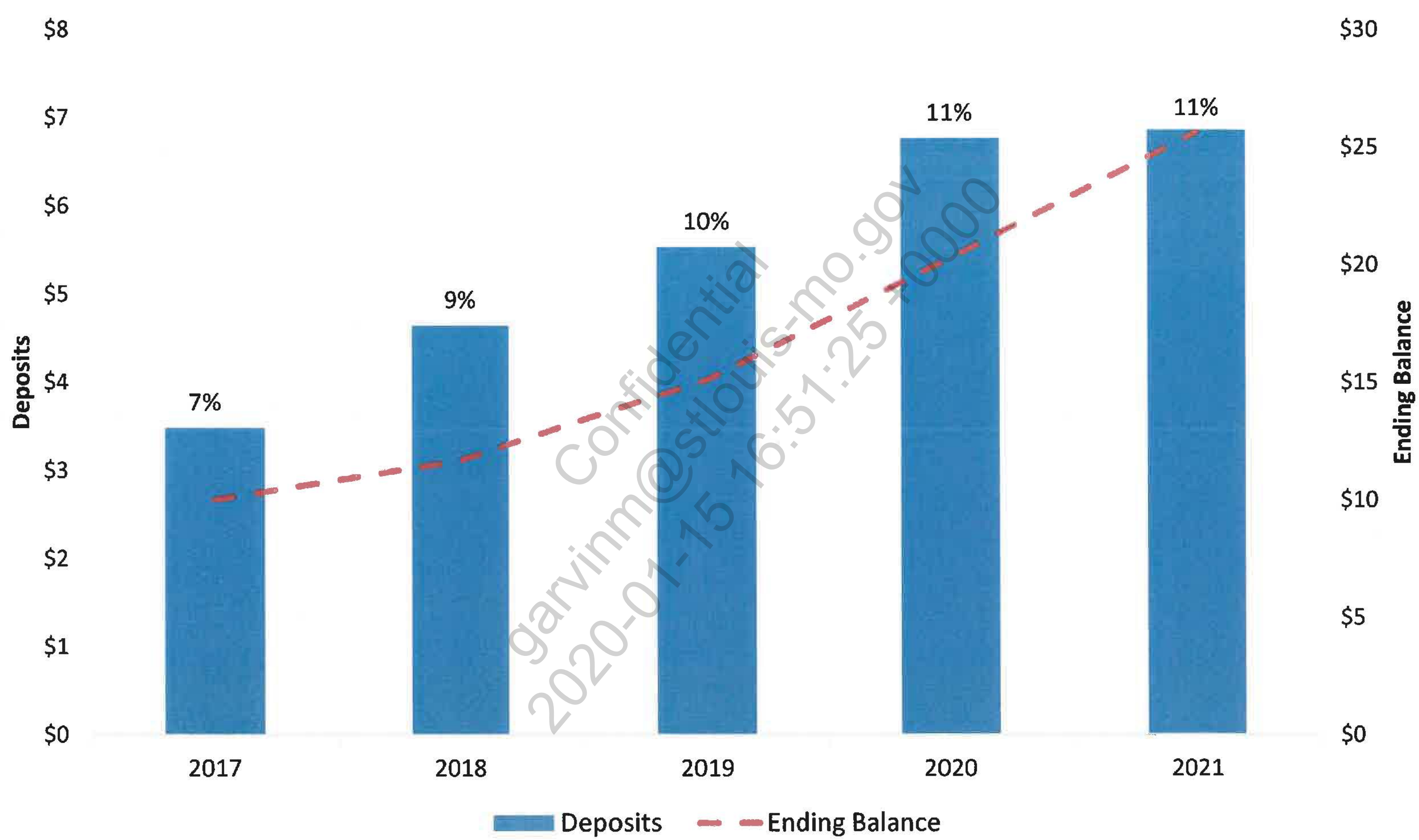
Projected Airline Rates and CPE



Flexibility in Administration of Projects

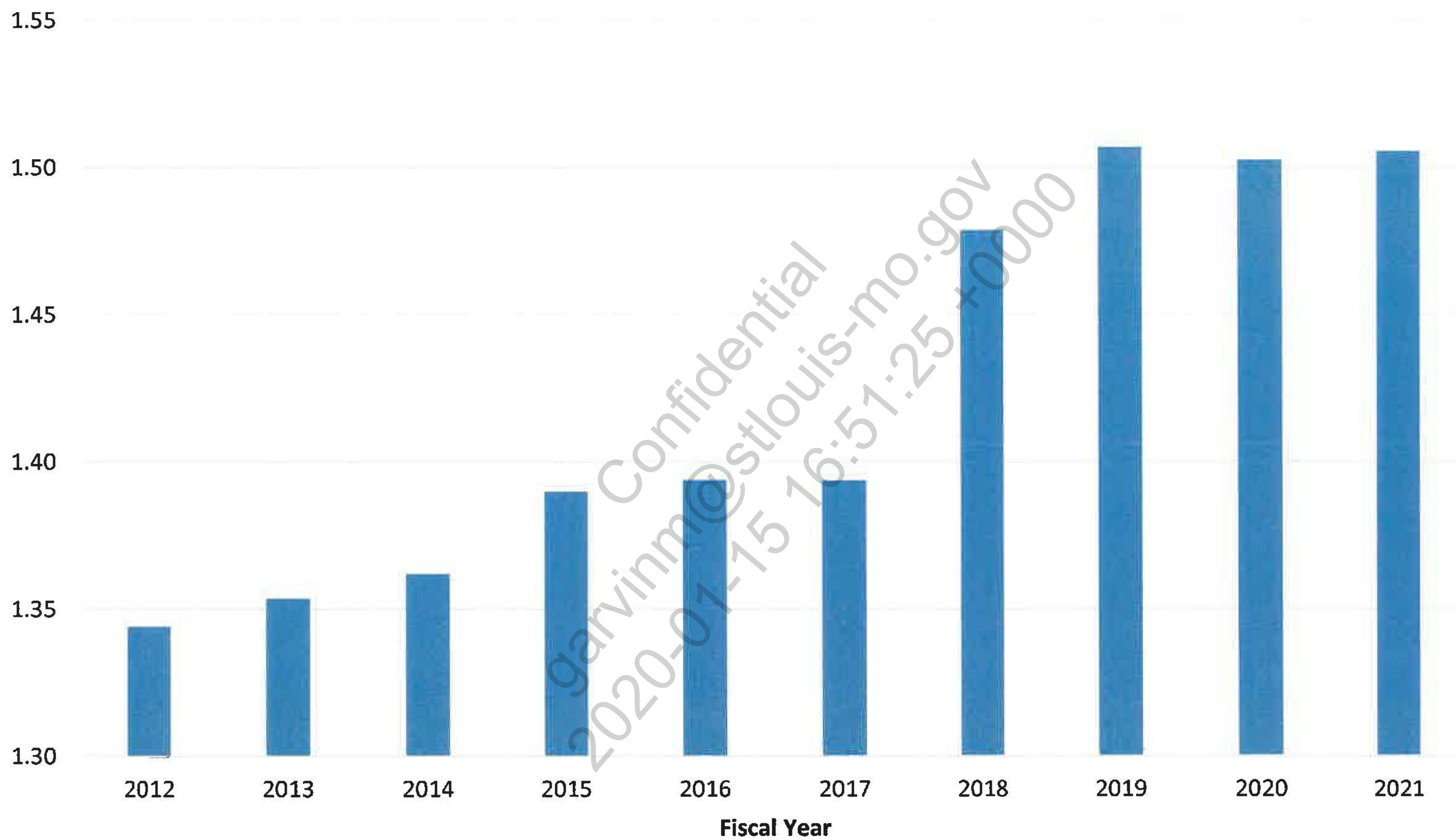
- Pre-approved $170.3 million, 5-year CIP (more than 100 projects)
- More discretion in the use of ADF
  - current MII approval required unless ADF balance is $20 million + wait 1 year
  - new ADF deposit of $10.4 million not subject to MII
- Higher thresholds for Capital Outlay expenditures
  - current cap $100,000 net
  - new cap $200,000 net
- Higher thresholds for approval of increased project costs
  - current threshold 10% of original
  - new threshold 25% of original
- Substitution without MII approval of projects with similar costs, same cost center and purpose or function

Projected ADF Deposits and Balances



All amounts in $millions

Past and Projected Debt Service Coverage Ratio



Signatory Airlines

- Obligations:
  - pay $1 M in landing fees regardless of activity (Signatory Commitment)
  - pay fees in an amount sufficient so that City can meet all Airport Trust Indenture obligations
- Rights and privileges:
  - lower rates (non-signatory pay a 25% premium)
  - approve certain projects over $200,000 net (MII approval)
  - review and comment on annual M&O budget
  - participate in annual rate setting process
  - handle other airlines
  - designate affiliates
  - qualify for security deposit waivers

New AUA Accomplishments

- Makes Lambert more cost competitive by reducing landing fee rates, terminal rental rates, and cost per emplaned passenger
- Ensures fair cost for the use of facilities by reallocating the Additional Airline Requirement
- Reduces hurdles to entry
- Increases flexibility in administration of capital projects
- Increases annual ADF deposits
- Approves $170.3 million, 5-year Capital Improvement Program
- Provides financial stability

Status and Approval Process

12/17/15	last meeting with airlines
1/15/16	sent AUA and AOA for final airline review and approval
3/15/16	requested due date for airline approval and signatures
4/6/16	Airport Commission approval
4/20/16	Board of Estimate and Apportionment approval
5/10/16	Transportation and Commerce Committee approval
5/20/16	Board of Aldermen Ordinance approval
5/24/16	Mayor's approval
6/6/16	execution of agreements
7/1/16	effective date of new AUA and AOA

Airport Operating Agreement

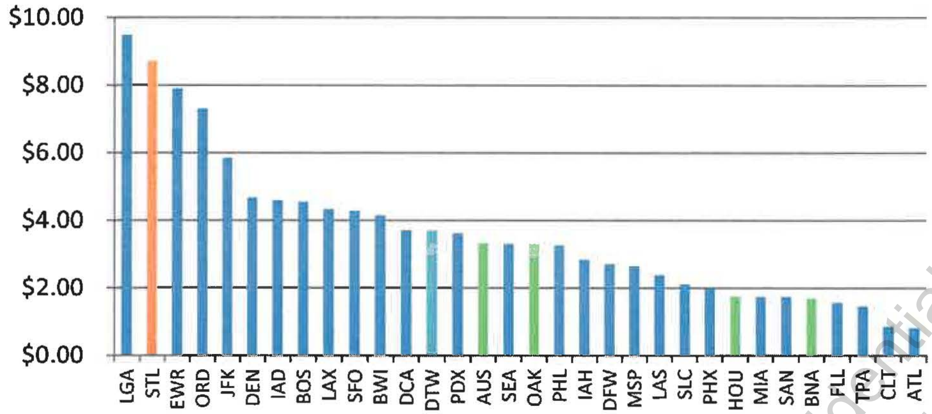
- companion agreement to AUA for airlines that don't want to make long-term commitment (term is month-to-month up to 3 years)
- contains substantially the same provisions as AUA except, no right to:
  - lease space in terminals (instead, space permit)
  - approve capital projects
  - review or comment on annual M&O budget
  - participate in the annual rate-setting process
  - handle other airlines
  - designate affiliates
  - qualify for security deposit waivers (unless affiliate of AUA airline)
- landing fee rate = 125% of AUA landing fee rates

Assumptions

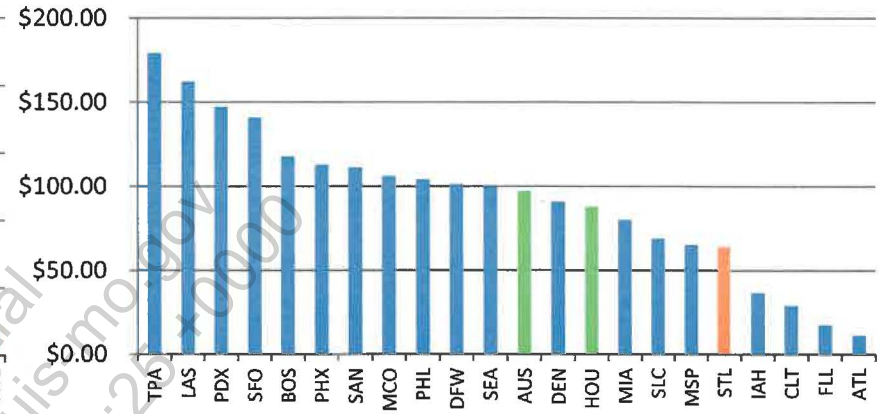
- ADF deposits based on progressively greater share of non-airline revenues (7% in FY17, 9% in FY18, 10% in FY19, and 11% in FY20 & FY21)
- Additional Airline Requirement allocated 100% to Terminals starting FY18
- $170.3 million pre-approved 5-year CIP
- Savings from potential bond refundings in 2017 and 2019
- New parking revenues
- Revenue from more leased gates
- Revenue from new business opportunities
- Concession revenues projected based on per passenger averages, inflation factor of 2%, and contractual minimum annual guarantees
- O&M escalated at approximately 2% per year

Benchmarks

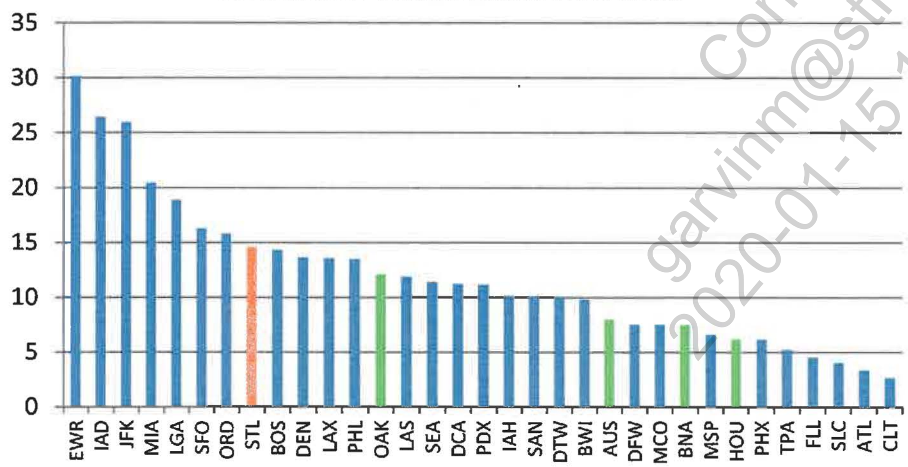
FY 2014 LANDING FEE RATE



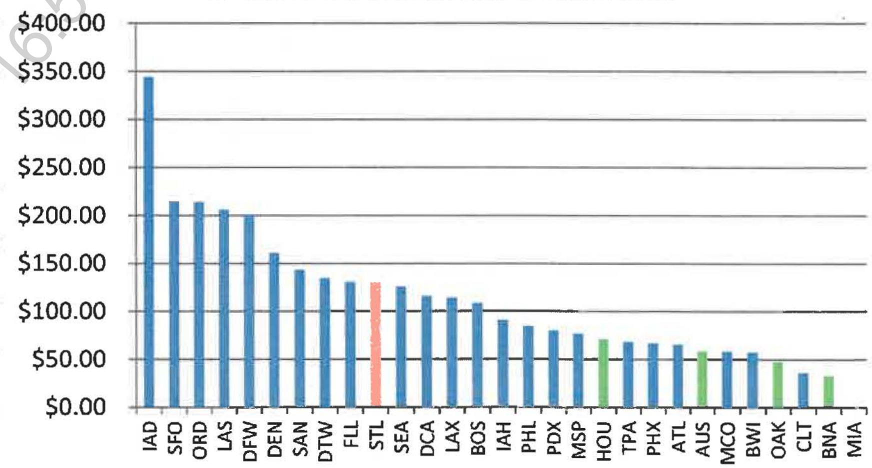
FY 2014 TERMINAL RENTAL RATE



FY 2014 COST PER ENPLANED PASSENGER



FY 2014 DEBT PER ENPLANED PASSENGER



Color Key

Lambert-St. Louis | Large Hub Airports | Medium Hub Airports

Source: 2014 ACI-NA Benchmarking Survey

Existing Agreement

- Five-year term expiring June 30, 2016
- Rate formula
  - Initial Airline Requirement = quasi-compensatory component
  - Additional Airline Requirement = residual component triggered by T1 vacancies and deposits to ADF, ensures that Lambert meets its financial obligations

	FY 12	FY 13	FY 14	Est FY 15	Proj FY 16	Total
Initial Reqm't	$63.6	$66.6	$70.2	$70.9	$69.5	$340.9
Additional Reqm't	$16.0	$20.8	$15.7	$14.8	$15.8	$83.1
Total	$79.6	$87.5	$85.9	$85.8	$85.3	$424.0

- Rate Mitigation Program ($13.7 million/year)
- Very strong MII provisions
- No new amortization/depreciation charges added to rate base

Moving Forward

- New business (revenue) opportunities
  - Northern Tract
  - Dual Customs (US/Mexico)
  - Cargo City
  - MoANG facility
  - St. Louis Cargo
  - Available land for development and redevelopment
- Reduce landing fee rates and CPE to more competitive levels
- Address capital plant and equipment needs
- Need to be more proactive

Director's Goals

Make as few changes as possible to existing agreement, while structuring a business deal that will:

- reduce airport costs to airlines (as measured per enplaned passenger) and maintain at reasonable levels over the long term;

- reduce landing fee rate so as to foster a competitive business environment that will help grow activity, including expanded cargo services; and

- increase amount of non-aeronautical revenues retained by Lambert so that the Airport Development Fund can:
  - together with other sources, fund capital needs for the next 5 years,
  - fund new strategic opportunities, and
  - ensure long-term financial viability for Lambert.

Lower Hurdles to Entry

- Reduce insurance limits for Essential Air Service airlines with small aircraft
- Provide more flexibility to meet Signatory Commitment
- Allow for handling Affiliates of other Signatory Airlines
- Lower common use space charges for airlines enplaning less than 3%

Fair Pay for Use of Facilities

- Re-allocate Additional Airline Requirement back to terminals
- Impose Remote Parking Fees
- Increase charges for Apron-Level Unenclosed Space
- Provide for apron access enclosed space for equipment storage
- Adjust common use charges