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January 26, 2016

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Federal Aviation Administration
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Federal Aviation Administration
ATTN: Regional Administrator, ASO-600
Southern Region
1701 Columbia Ave.
College Park, GA 30337
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RE: Sixth Update to Competition Plan submitted by the Kenton County Airport Board (“Board”) operator of the Cincinnati/Northern Kentucky International Airport (“Airport”).

Dear Correspondents:

The Board is pleased to submit its Sixth Update to its Airline Competition Plan. The original Airline Competition Plan was approved by the Federal Aviation Administration (“FAA”) on September 1, 2000 (the “Competition Plan”).

Pursuant to Program Guidance Letter 04-08 (the “Program Guidance Letter”), the Board, as a covered airport with an approved Competition Plan, and two approved plan updates, is required to submit an update to its Competition Plan if it significantly amends its master airport use agreement.

The Board has successfully negotiated a new Airport Use Agreement with signatory airlines at the Airport (the “New Airport Use Agreement”). The Program Guidance Letter states that an appropriate plan update in such an instance is to submit to the FAA a copy of the new Airport Use Agreement with a summary of the material changes. Please find enclosed two copies of the New Airport Use Agreement. What follows is a summary of the material changes.

Term

The original Airport Use Agreement was entered into in 1972 with signatory airlines and expires December 31, 2015 (the "Prior Airport Use Agreement"). The New Airport Use Agreement commences January 1, 2016 and continues for a five (5) year period ending December 31, 2020. *See Article 2 of the New Airport Use Agreement.*

Signatories to New Airport Use Agreement

Under the Prior Airport Use Agreement, there were no low cost carriers or cargo carriers that were signatories thereto. Signatories to the New Airport Use Agreement include a low cost carrier and cargo carriers. Currently, the following are signatories to the New Airport Use Agreement: Allegiant Air, LLC; American Airlines, Inc.; Delta Air Lines, Inc.; DHL Network Operations (USA), Inc.; Federal Express Corporation; and United Airlines, Inc.

Lease of Space

The lease of terminal space to signatories is accomplished under separate lease agreements with each signatory. For example, Delta leases terminal space through a Lease Agreement for Certain Facilities in Terminal 3 and Concourse B which lease expires December 31, 2020 ("Delta Lease"). The other signatories lease space in Concourse A under separate terminal lease agreements that expire December 31, 2015. For new signatories to the New Airport Use Agreement, each will enter into a Concourse A Agreement (the "Concourse A Agreement"). A sample of the Concourse A Agreement is attached hereto. For existing signatories, each Concourse A Agreement was amended to extend the term to December 31, 2020 and to incorporate the rates and charges under the New Airport Use Agreement. A sample copy of the amendment to the Concourse A Agreement is attached hereto.

With respect to the Delta Lease and the Concourse A Agreements, please note that each of these separate terminal lease agreements have previously been reviewed and approved by the FAA in prior updates to the Board's Competition Plan. The FAA has observed in prior updates to the Board's Competition Plan, that these separate terminal lease agreements provide that gates are leased on either a common or preferential use basis; include procedures for the assignment of gates; require monthly gate utilization reporting; provide the Board with oversight over subleasing arrangements; and require gate fees to new or expanding entrants to be fair and reasonable.

The Board anticipates that at the expiration of the New Airport Use Agreement that it will include lease provisions in the next airport use agreement as all terminal airline lease agreements will expire December 31, 2020. The New Airport Use Agreement sets the applicable financial terms of the rates and charges for the lease of space and for landing fees at the Airport as more fully explained below.

Rates and Charges Methodology and Related Airport Cash Flow

Under the Prior Airport Use Agreement, the Board had limited control over capital projects and limited reserves and discretionary cash balances. The Prior Airport Use Agreement utilized a traditional airport residual rate setting methodology that essentially resulted in an "Operating Net Profit" (i.e. operating revenue less operating expenses less debt service) being equal to 25% of debt service. Under the Prior Airport Use Agreement, the "Operating Net Profit" was first used to

fund any bond reserve account funding requirements. After any such bond reserve funding requirements, the "Operating Net Profit" was used to fund the renewal replacement account at \$180,000.00 per year up to a maximum funding level of \$1,000,000.00. The remaining Operating Net Profit was then deposited into the Surplus Fund which under the airport residual landing fee formula represented 25% of the Board's annual debt service requirement. Except for the maximum of \$325,000.00 per year available to the Board, the balance of the Surplus Fund could not be used without airline majority in interest approval. Additionally, the \$325,000 airport share of the Surplus Fund was restricted for use on capital projects.

In connection with the New Airport Use Agreement, the Board made significant changes with the goal to retain greater control over capital projects and to establish larger reserves and discretionary cash balances while at the same time maintaining operating costs for air carriers at reasonable levels.

Under the New Airport Use Agreement a hybrid rate setting methodology is utilized with an airfield residual and a terminal commercial compensatory rate setting methodology. Under the New Airport Use Agreement operating expenses as well as debt service, other capital costs and funding of certain reserve accounts are allocated to airline and Board cost centers. The airline landing fee rate, ramp rental rate, terminal rental rate and other airline use charges are calculated based on the costs allocated to the applicable airline cost centers less certain revenue offsets. Additionally, a portion of the net remaining revenues ("NRR") as defined in the New Airport Use Agreement will be credited to reduce the monthly terminal rentals of the airlines who have signed the New Airport Use Agreement and to reduce the landing fee rate for all airlines operating at the Airport. *See Article 5 of the New Airport Use Agreement for details regarding the rate setting methodology.*

Utilizing this rate setting methodology the Airport was able to maintain the costs of all the various airline constituencies at relatively stable levels while generating an Operating Net Profit that is projected to be in the range of \$11 to \$14 million during the term of the New Airport Use Agreement. These Operating Net Profits, after the funding of the new operating reserve accounts discussed below, will be deposited in a newly created General Fund which will be available to be used for any lawful airport purpose, subject to the more limited majority in interest approval rights discussed below.

Under the New Airport Use Agreement, the Board was also able to create two new accounts/funds that for the first time provided the Board operating reserves, thereby providing for the ability to implement the new hybrid rate making methodology discussed above. This includes the creation of an Operations and Maintenance Reserve Account that will be maintained at three months of operating expenses and a Repair and Replacement ("R&R") Reserve Fund that will be maintained at a level of \$10 million.

Upon expiration of the Prior Airport Use Agreement, the balance in the Surplus Account of approximately \$47.9 million will be transferred to first fully fund the Operating Reserve and the R&R Reserve Fund with the estimated remaining balance of approximately of \$19.1 million being deposited in the General Fund.

Majority in Interest (“MII”)

The Prior Airport Use Agreement contained an MII provision that required affirmative approval for all capital expenditures over \$50,000 (other than the \$325,000 surplus fund). The MII process required approval of signatory airlines which then constituted at least 51% of all signatory airlines and which in the immediately preceding year had at least 51% of the aggregate of all landing fees payable in such preceding year.

Under the New Airport Use Agreement, the Board has much greater control over capital projects. The New Airport Use Agreement contains a negative MII process whereby the signatories are required to issue written disapproval for capital expenditures requiring MII consideration within 60 days or the capital expenditure requiring MII consideration is deemed approved. There is a separate MII process for airfield and for terminal projects. The MII process does not apply to those capital projects: (i) having an individual net capital cost (total cost less any other source of funding to the Board) of less than \$750,000.00; (ii) where neither debt service nor amortization charges will be included in calculating a signatory’s rentals, fees and charges; (iii) that are required to address legal or regulatory compliance, including safety and security purposes; (iv) any capital expenditure necessary to repair a casualty; or (v) the other exceptions identified under Section 7.3 of the New Airport Use Agreement.

Airline Incentive Program

Section 11 of the Prior Airport Use Agreement provides that if another air carrier that was not a signatory serves the Airport that air carrier would not be accorded contract terms and conditions more favorable than a signatory. It further requires that each air carrier serving the Airport contribute its just share to meet Airport expenses. The FAA suggested in its response to the Board’s original Competition Plan that when the opportunity presented itself that the Board modify or eliminate this clause so that the Board would not have any potential impediments to waive or discount airline fees during promotional periods under the FAA *Policy and Procedures Concerning the Use of Airport revenue*, 64 Federal Register 7696 (February 16, 1999). Under the New Airport Use Agreement, no clause exists that could be viewed as restricting the Board's ability to offer discount fees during promotional periods. Additionally, the creation of funds that can be used for any lawful airport purpose provides the Board with greater latitude in the development of an airline incentive program.

Closing Comments

We are very pleased to report that over the last fifteen (15) years of the implementation of the Board’s Competition Plan, the Board has now successfully implemented each recommendation of the FAA noted in its original approval letter dated December 8, 2000 ("Approval Letter"), as more particularly explained below.

First, the FAA Approval Letter highlighted the 119 gates at the Airport that were exclusively leased to airline tenants. Now, all gates at the Airport are leased either on a common or preferential use basis. There are no exclusively leased gates at the Airport.

Second, the FAA Approval Letter noted a preference for oversight over the subleasing of gates. Now, the Board has specific oversight over the subleasing of each gate at the Airport.

Third, the FAA Approval Letter encouraged monitoring the utilization of gates at the Airport. The Board has transitioned to software that tracks each airline carrier's gate utilization for every leased gate at the Airport.

Fourth, the FAA Approval Letter requested that the Board take advantage of an opportunity to monitor fees for gate access and support services by tenant airlines to ensure new entrants were not unfairly disadvantaged. Now, the Board has specific oversight over any gate fees or related support fees for each leased gate at the Airport to ensure such fees are fair and reasonable to a new or expanding carrier.

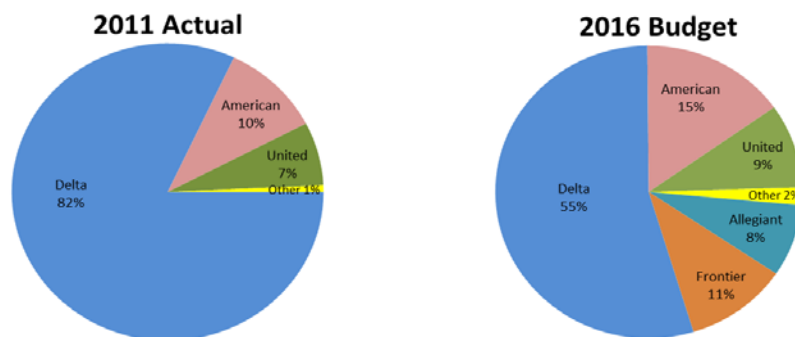
Fifth, the FAA noted the Board's lack of a gate assignment policy for gates at the Airport. Now, there are specific procedures for the assignment of each gate at the Airport on either a preferential or common use basis.

Sixth, the FAA encouraged modification of the MII clause in the Prior Airport Use Agreement when the opportunity arose. With the New Airport Use Agreement, the Board has significantly greater control over capital expenditures.

Finally, the FAA commented on the potential impediment in the Prior Airport Use Agreement to provide promotional discounts to airlines. Now, any such impediment has been removed under the New Airport Use Agreement.

As part of the Board's efforts to gain greater control over its gates, as discussed in the Board's Fourth Update to its Competition Plan, in 2012 the Board assumed full control of Concourse A which had been fully leased by Delta Air Lines. At that time it also undertook a project to refurbish the gates at Concourse A as well as other areas in the Terminal 3 complex that supported the Concourse A Gates. This project was undertaken to provide a facility that would allow for the expansion of existing as well as new entrant carriers. Additionally, the Board worked to ensure that cost effective ground handling services were available for new entrant carriers by encouraging a ground handling company to begin providing services at the Airport

With the availability of facilities for growth by existing and new entrant carriers, the competitive position of the airlines at the Airport has changed dramatically. Below is a pie chart depicting the mix of enplanements by carrier for 2011, the last full year before the newly refurbished Concourse A was opened, and projected 2016 enplanements.



We are extremely pleased with the success of the Board's initiatives. We hope you likewise recognize the Board's dedication and emphasis at promoting airline competition. If you should have any questions or comments regarding this update, please do not hesitate to contact me.

Sincerely,

Brian P. Cobb
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Competition Plan Coordinator

Cc: Candace McGraw, CEO
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