Midwest Transportation Consortium Seminar – February 2003

Waterloo Regional Airport


NORTHWEST
Jet Airlink

Agenda

- **Waterloo Airport Overview**
- **Issues Regarding Regional Airports**
- **Airport Finance**
- **State of Airline Industry**
- **ALO - Economic Business Proposal**
- **Economic Development, IT**

Airport Overview
ALO - General

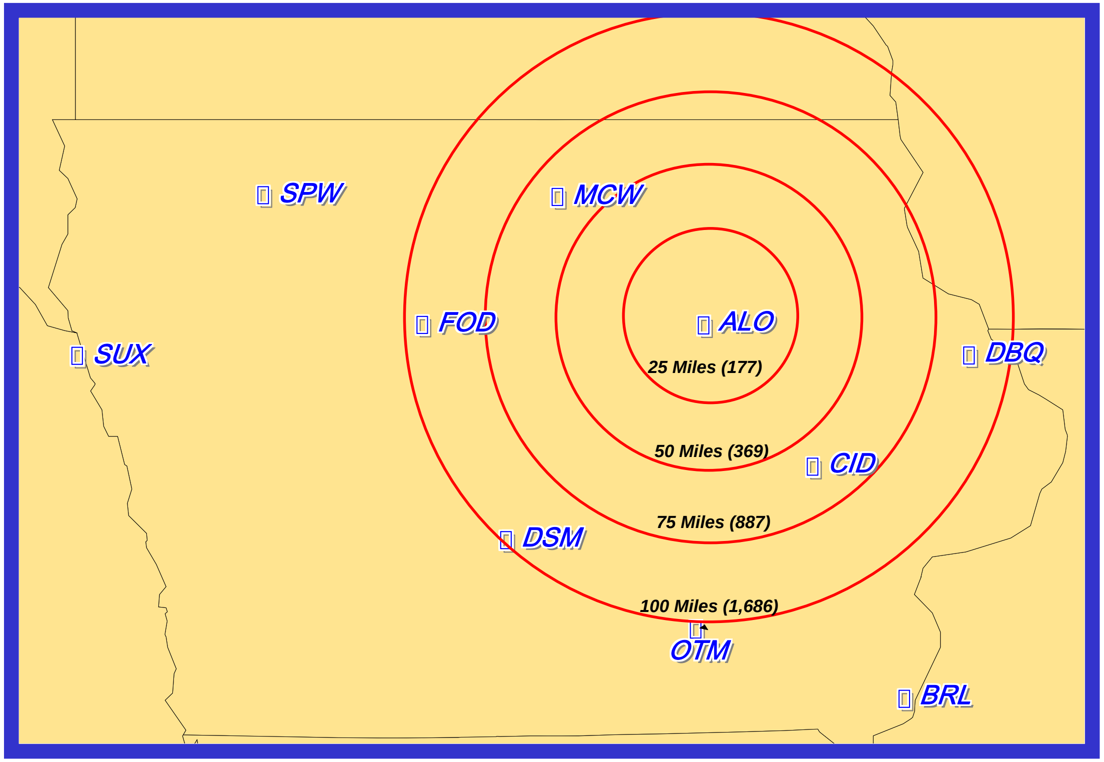
Waterloo Regional Airport (ALO)

- **Located in NW Iowa**
- **Consists of 2,600 acres (map)**
- **Located 6 miles North of downtown Waterloo**
- **3 Runways**
- **1 airline – NWA**
- **2 FBO's**

ALO (Con't)

- **3 Car Rental Agencies**
- **ANG Unit**
- **Industrial Park – Midport**
- **Owned & Operated by City of Waterloo**
- **Overseen by Airport Board**

Roughly 177,000 people live within 25 miles of Waterloo



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"True North" – Core Competencies

- **Safety**
- **Security**
- **Build & Maintain Infrastructure**
- **Promote and Market Business Development**

ALO Goals

1. ***Meet and Exceed "True North" core functions***

    1. Safety – Exceed FAR Part 139 requirements and inspections
    2. Security – Exceed Part 1540 requirements and inspections
    3. Build and Maintain Infrastructure – Implement 5 Year CIP and obtain discretionary funding
    4. Promote and Market Business Development- Implement Marketing Plan Efforts

Benchmark: Evaluations of FAA Security and Certification Inspections, completion of CIP projects, evaluation of business activity.

Goal #2

Attract regional jet (RJ) service and lower air fares

2.

1. Work with Air Service Task Force (ASTF) to coordinate community financial support to entice new RJ service through marketing money, increased business commitment to travel ALO and the City of Waterloo to identify financial support.

2. Meet with NWA quarterly to review revenue hurdles, discuss service issues, and discuss future service.

3. Apply and lobby for air service grant to acquire funding for air service development efforts, including revenue hurdle guarantees, consultant work, marketing, etc.

4. 4. Host NWA fare analyst to tour Cedar Valley travel agencies to enable agencies to establish rapport with analyst for assistance in identifying markets that are uncompetitive and price fares more equitably with CID.

5. 5. Present economic business proposals to NWA in 4Q 03 for increased flight - RJ service to DTW and review status of fares to ALO.

6. 6. Present economic business proposals to Air Wisconsin (AW) in 4Q 03 for RJ service and improved fares depending upon reaction of Mesaba.

7. 7. Meet with Congressional staff to inform them of local efforts to improve air service and identify additional areas of assistance Congress can provide.

8. 8. Conduct subsequent meetings and proposals to NWA and AW quarterly to update the airlines on ALO and to provide for future improvements in air service.

Benchmark: Comparison to service at ME Feb 03 levels using 10% DOT Sample

Goals # 3

Become Financially Self-Sufficient

1. 1. For FY 03, propose financial split of “capital” cost with Cedar Falls to reduce tax support from 02 level of $ 120,000 to $ 60,000.

2. 2. Generate cost centers for airport budget to establish “fully allocated” costs for running airport.

3. 3. Execute airline contracts using compensatory and residual agreements to ensure long-term market based “break even”.

4. 4. Increase revenues from current $ 870,000 to $ 913,500 (5%).

5. 5. Limit expenditures to C.O.L. ($ 20,000 – 2%).

Benchmark: Comparison to FY 02 budget

Goal # 4

Develop and Implement Marketing Program

1. Generate comprehensive marketing program

2. Establish funding streams to implement marketing program.

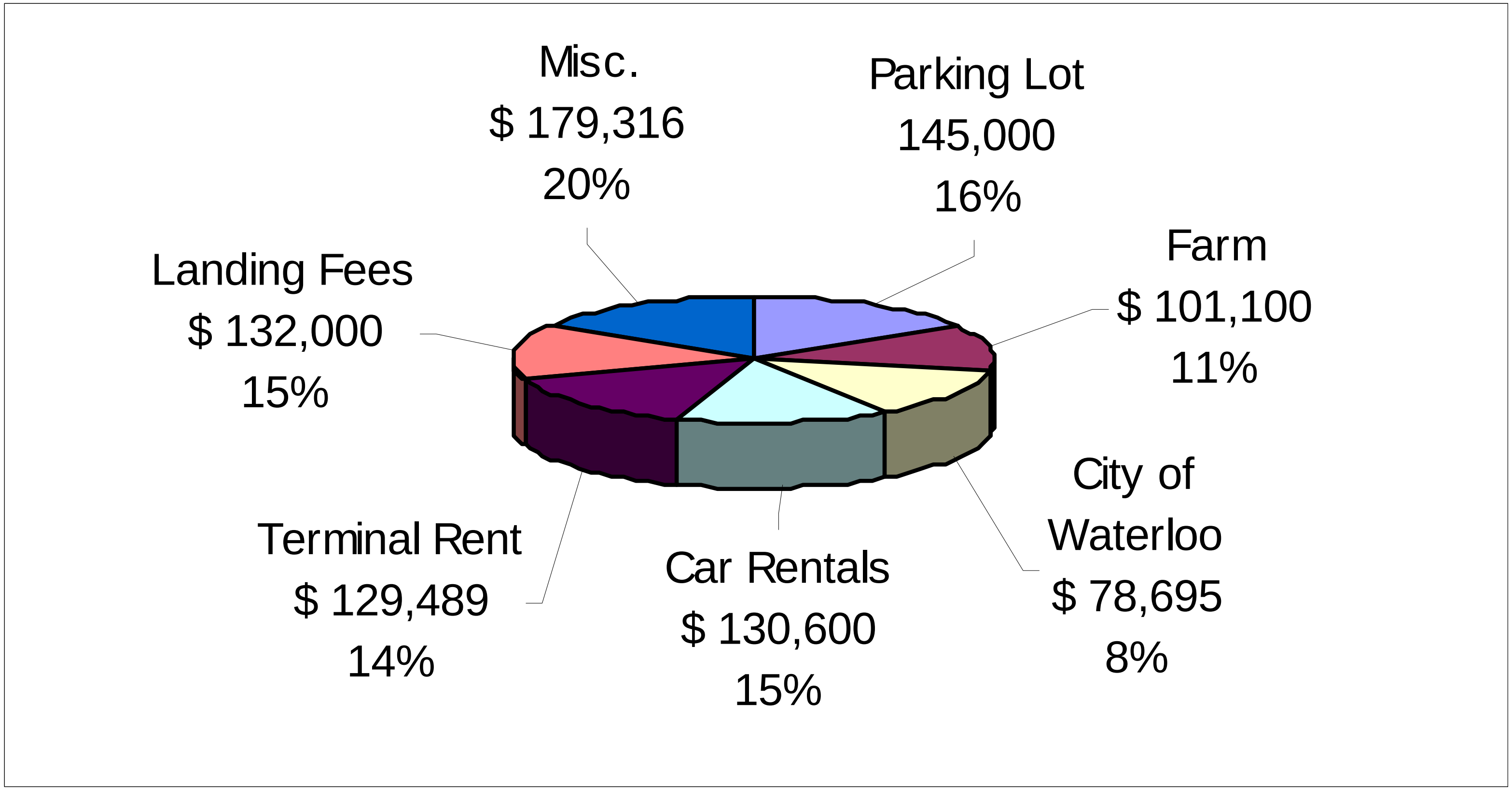
3. Evaluate effectiveness of improved information and goodwill.

   Benchmark: Evaluate progress on marketing plan – no current plan in place, evaluate feedback from business and tourism community to gauge improvement.

ALO - Budget

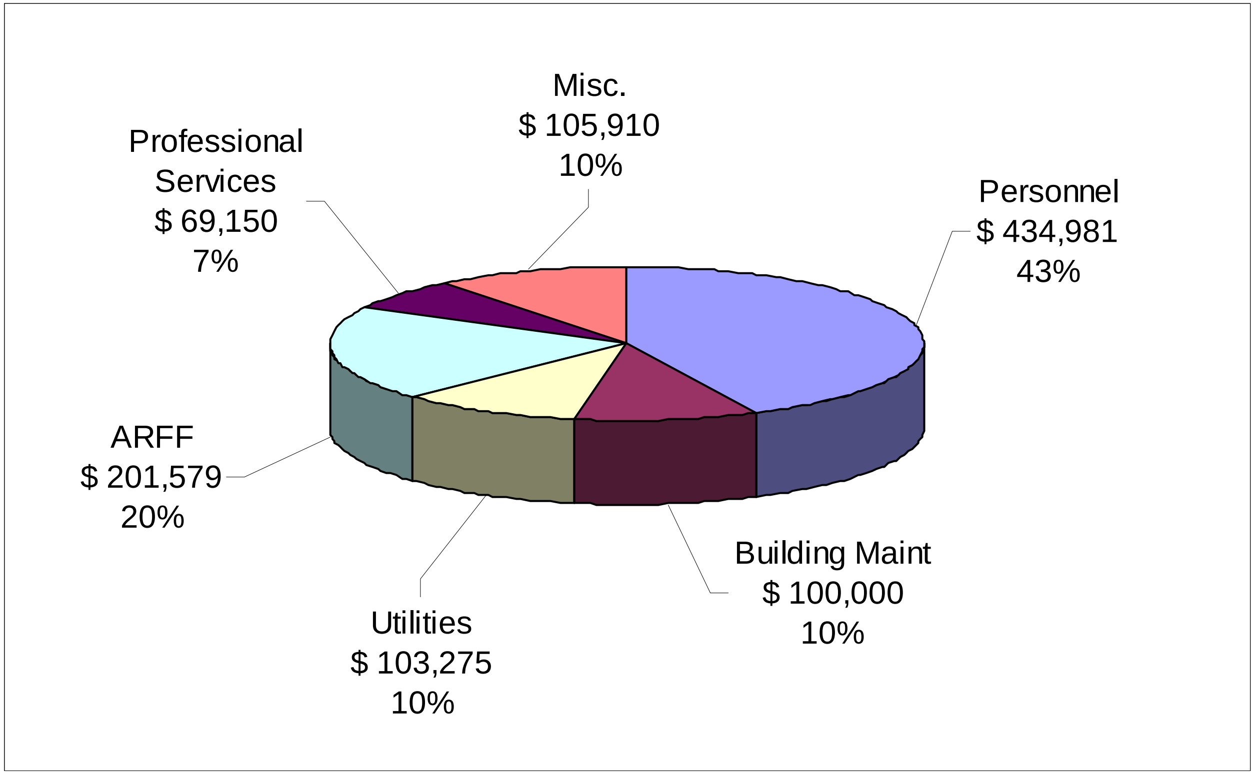
Airport Funding – Revenues

Day to Day fund ($ 1,014,895)



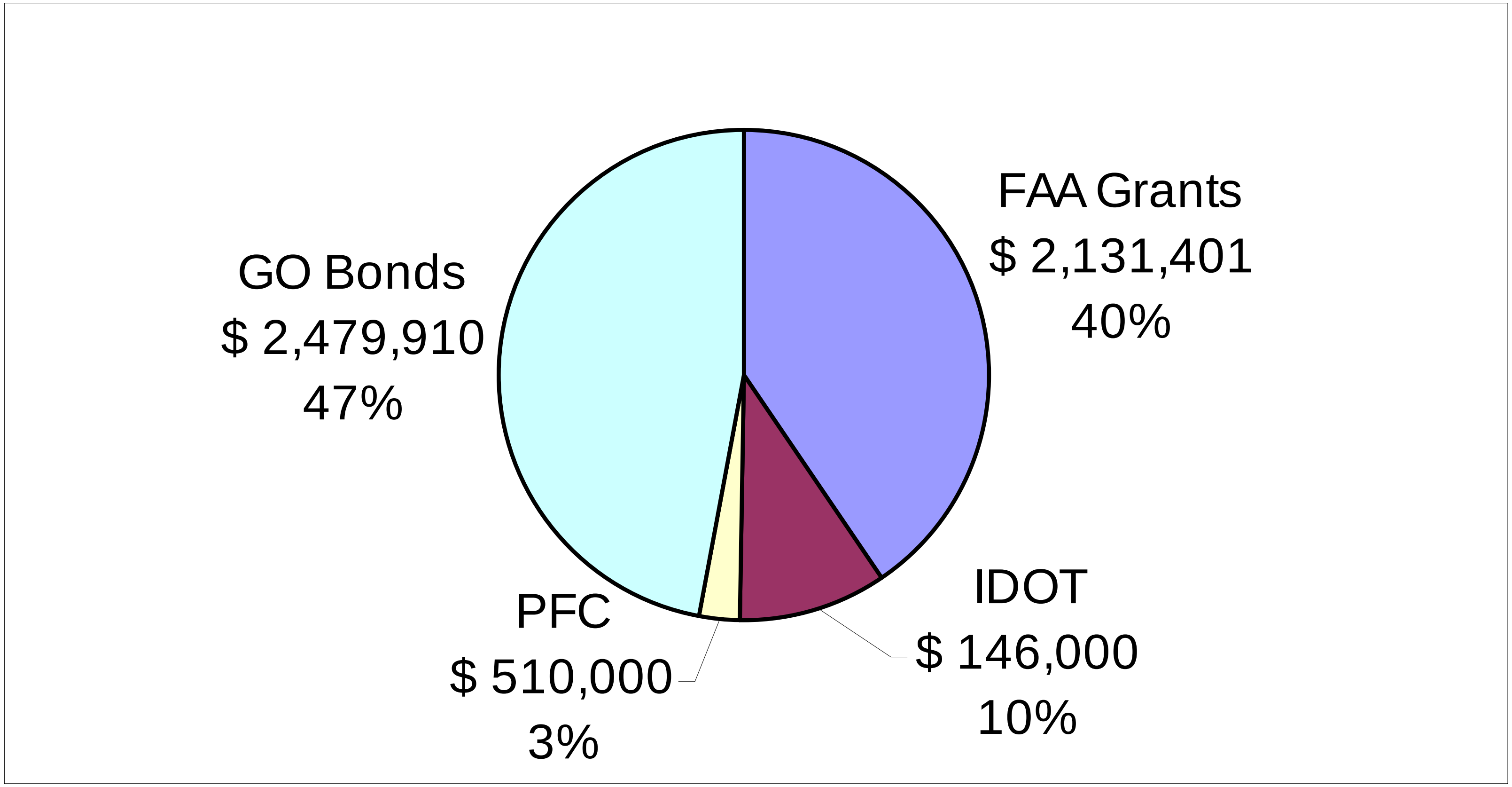
Airport Funding – Expenses

(Day to Day Fund $ 1,014,895)



Capital Improvement Budget

Waterloo Regional Airport
Capital Budget Revenue – FY 2003
($ 5,267,311)



Airport Capital Improvements

- **Airports Extremely Capital Intensive**
- **Entitlement Grants - $ 1,000,000**
- **Discretionary Grants - ??**
- **Passenger Facility Charge (PFC)**
- **State DOT Programs**

Airport Master Planning

- Critical to long term development
- Updated every 5 years
- Airport Layout Plan (ALP)

1. Inventory
2. Demand Analysis
3. Airport Facility Requirements
4. Airport Development Alternatives
5. Environmental Review
6. Capital Improvement Plan (CIP)

Issues for Regional Airports

- **Air Service**
- **Financing – Revenue**
- **Capital Improvements**
- **Marketing**

Air Service

- Maintain & Improve Existing Service

  More Competitive Fares

  More Capacity

  More Destinations
- Business Retention & development, Tourism, Quality of life
- Financially Critical – 80% Revenues Form Pax

Potential Economic Impact to Cedar Valley from: One (1) RJ Upgrade

1) Benefit upon Airport

Expected net new pax to ALO: 3,661 Assumptions: 1. Proposed service - 1 CRJ Replacement of 1 SF-340 at 65%

(Net 16 seat gain / day @ 65% LF)

$4.50	PFC/Passenger
$2.00	per passengers in parking fees
$0.50	per passener in gift shop / food & beverage sales
$3.00	per passenger in car rental revenues
$10.00	per passenger economic benefit to airport
3,661	NWA net new enplaned passengers
$36,608	Passenger-related benefit to airport
$5,280	Landing Fees ($35/Dept--1 dept/day====>352 ann'l dept - current $ 20
$0	Station Rent:
$41,888	Direct benefit to airport

2) Air Fare Savings to Cedar Valley Area

Current enplaned passengers base at ALO:	55,000	
Outbound passengers:	30,250	55%
Average round-trip air fare:	$358	
$ paid for air travel by Cedar Valley (000)	$10,830	

Fare reduction sensitivity due to added servic	0.5%	1%	2%	3%	4%	5%	6%	7%
New Air Fare due new RJ service=	$356	$354	$351	$347	$344	$340	$337	$333
$ paid for air travel by Cedar Valley	$10,775	$10,721	$10,613	$10,505	$10,396	$10,288	$10,180	$10,071
Cedar Valley Air Fare Savings (00	$54	$108	$217	$325	$433	$541	$650	$758

Potential Economic Impact to Cedar Valley from new RJ Air Service (cont.)

3) Economic Impact upon Cedar Valley area Tourism Industry

Net New Enplaned Passengers:	3,661		
Average stay:	2.5	nights	(includes non-discretionary travel)
% of new passengers on inbound trips:	45%		
New enplaned passengers travel to ALO:	1,647		
Average Hotel rate/day:	$60		
Food & Beverage per person per day:	$30		
Tourism spending per person per day:	$50		
Other spending per person per day:	$25		
Spending per person per day	$165		
New spending per person per 2.5-day trip:	$413		
Economic impact upon Cedar Valley (000):	$680		

4) Total Estimated Direct Economic Impact upon Cedar Valley due to NWA service

Direct benefit to airport (000):	$42
Air Fare Savings (000):	$108
Economic impact upon Cedar Valley (000):	$680
City sales tax (000):	$14
Total (000)	*$843*

Airport Financing

- **Airports run in a "business-like" manner**
- **Enterprise Fund**
- **Compensatory vs. Residual Agreements**
- **Capital Funding– Never Enough (Flexibility)**
  - AIP
- **Issues for Small Airports:**

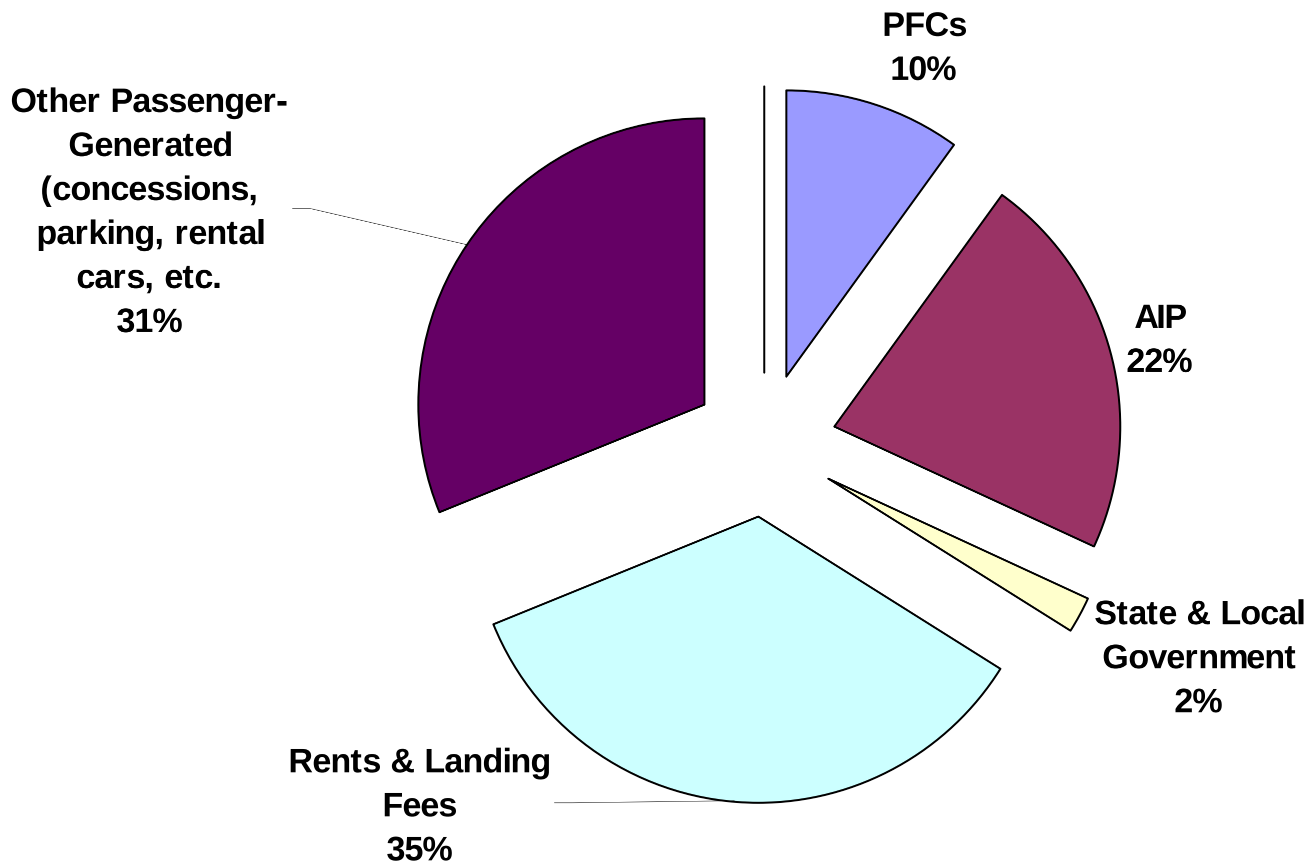
  1. Self-Sufficiency

  2. Funding Capital Improvements

  3. Revenues Related to Pax by 80%

  4. Expenses Relatively Fixed

98% of Airport Revenue comes From Airport Users



Capital Improvements

Capital Intensiveness

Company	Ratio	’02) Assets : Operating Revenue
Airlines (NWA)	1 : 1	$ 12,955,000 : $ 9,905,000
Utilities (Alliant Energy)	3 : 1	$ 6,247,682 : $ 2,777,340
Airports (ALO)	10:1	$10,000,000 : $ 1, 014,895

FAA Trust Fund

- **Beginning – 1946 (local)**
- **1946-1969 FAAP (Grants 50%-90%)**
- **1970 ADAP (Dedicated Funding Source)**
- **1982 AIP (Continuation)**
- **Last Reauthorization April 2000**

FAA Trust Fund – (Con't)

- **Trust Fund – Great**
- **Small Airport – More Flexibility needed**

Airport Marketing

- **Important to any Airport**
- **ALO – Marketing Plan**

1. Testimonials

2. Informative

3. Economic Impact

4. Business Retention & Development, Tourism, Quality of Life

State of Airline Industry

Record Losses

- **Record Losses**
- **Bankruptcy's**
- **Liquidation ??**

<u>Individually,</u> Business Models Drive a Cost Dichotomy

2002 Costs for United and Southwest

	Cost per ASM(c)*				**% of Revenue**		
	UA	**WN**	**%Diff**		**UA**	**WN**	**% Diff**
Operating Expense							
Labor	4.77	2.89	65%		49.7	36.1	13.6%
Fuel	1.29	1.11	16%		13.4	13.8	-.4%
Commissions	0.28	0.08	250%		2.9	1.0	1.9%
Maintenance Material	0.38	0.57	-33%		3.9	7.1	-3.2%
Rents & Landing Fees**	1.26	0.77	64%		13.1	9.6	3.5%
Depreciation	0.65	0.52	25%		6.7	6.5	20.0%
Other***	2.79	1.48	89%		29.1	18.4	10.7%
Total****	11.4	7.41	54.0%		118.8	92.5	26.4%

Cost per available seat mile: not adjusted for stage length

Includes aircraft rents

Purchased services, booking fee, crew hotels, legal services, utilities, communication services, other

Excludes non-recurring or special charges

Note: Based on revenues of UAL=$14,286M(RASM=9.60c)and LUV-$5,522M (RASM=8.02c):; expenses of UA-$16,973M and LUV-$5,104M

Labor and Fuel Constitute Half of Industry Expenses

Airline Cost Index --2Q02

Operating Expenses	Index (1982=100)		Share of Operation Expenses (%)
Labor	209.7		38.4
Fuel	69.3		11.6
Fleet	256.9		10.2
Maintenance Material	168.6		2.5
Passenger Food	34.56		2.3
Commissions	34.29		2.2
Landing Fees	214.8		2.1
Communication	133.4		1.5
Insurance	187.2		1.5
Advertising & Promotion	45.4		1.0
Other*	166.8		26.7
Total Operating Expenses	162.4		100.0
Interest	57.2		3.0

* Purchased services; non-aircraft, depreciation, and amortization; utilities and office supplies; other

Networks Must Consider Productive Use of Human Cap

Earnings by Occupation for Paid Hours--U.S. Department of Labor*

Rank	Occupation	Hourly Earnings	Weekly Hours
1	**Pilots**	**107.22**	**21.9**
2	Doctors	59.78	41.4
21	Lawyers	38.87	39.5
28	Math Teachers	37.51	38.9
33	Nuclear Engineers	35.23	40.0
37	Electrical Engineers	34.56	41.0
38	Financial Managers	34.29	40.4
45	**Transportation Attendants*** **	**32.73**	**20.7**
56	Computer Scientists	30.52	40.1
58	High School Teachers	30.23	37.1
61	Economists	29.63	39.7
100	Architects	24.08	39.7
120	**Aircraft Mechanics, Engine** **	**22.04**	**40.0**
130	Police and Detectives	21.5	40.0
141	**Aircraft Mechanics, Non-Engine** **	**20.64**	**40.0**
270	Firefighters	17.22	48.1
---	**NATIONAL AVERAGE**	**17.13**	**39.6**
300	Truck Drivers	13.13	41.4
437	Waiter and Waitresses	3.95	36.7

* Calendar Year 2001 U.S. survey of 437 professior

** Includes regional, commuter, and general aviation

*** Includes flight attendants

What are other Airports doing?

Incentive Examples

- Amarillo TX – This community committed up to $1 million per year to attract American service to DFW (despite already having Southwest). Business leaders needed greater domestic and international access.
- Detroit - The Detroit Investment Fund put $3 million into Pro Air in an attempt to create and support some alternative services to NW. Carrier ultimately failed - probably due to a very small system and few destinations. However, the business did decide to roll the dice with big money.
- Vail - Even though it's a resort, Vail Associates has been very aggressive over the years toward a number of airlines. It's probably safe to say that they have invested over $1 million.
- Traverse City - They aggressively pursued NW years ago with a financial package.
- Ontario, CA – Ontario put about $400,000 on the table for a nonstop service to Canada. The sad part is that Air Canada actually launched the service, but it didn't survive.

Incentive Examples (cont.)

- Newport News, VA – Newport News originally invested (thru economic development, not the airport) about $2 million in ValuJet, which brought them low fare service. Admittedly, we had to fight hard to bring ValuJet back to PHF after they were grounded, but today (and after another similar financial investment package) AirTran serves Atlanta, Orlando, and New York LGA nonstop from PHF.
- Savannah, GA – It is believed they still have a standing offer of $50,000 for ANY new flight added at the airport, regardless of aircraft size, airline, or destination.
- State of Alabama – It is understood that Alabama subsidizes Delta on a state-wide basis by waving fuel taxes and airport property taxes in exchange for a minimum number of departures across the state.
- Bloomington, IL – An incentive package was put together for AirTran some years ago.
- Rochester, MN – It is understood that Mayo Clinic and IBM are said to have been part of an incentive program.

Incentive Examples (cont.)

- Denver and Phoenix – Both of these communities admitted to offering $1+ million to Lufthansa for nonstop service to Germany a couple of years ago. Even the big cities get into the act.
- Columbia and State of South Carolina - They collectively put about $17 million into Air South Airlines several years ago. Unfortunately, as is often the case, the airline had very poor operations, a bad strategy, and enough problems that it eventually died. No one guarantees that the investment will yield positive results.
- Pensacola, FL—This airport lured AirTran in 2001 after 319 businesses raised $2.1 million for two years' worth of prepaid travel. AirTran initially flew three flights daily to its Atlanta hub, but has since added a fourth. Airport officials credit the 50% drop in airfares along AirTrans routes for the 26% increase in traffic for May 2002.
- Wichita, KS—Nearly 400 businesses this year pledged $7.2 million to lure AirTran and a second carrier. Since AirTran started three flights daily to Atlanta and two flights to Chicago, more people are flying out of Wichita and fares have fallen as much as 70% to cities served by AirTran.

Incentive Examples (cont.)

- Stockton, CA—America West launched service to Phoenix after $800,000 was raised in the form of prepaid airline tickets from companies and individuals who wanted local air service.
- Augusta, GA—A $600,000 Ticket Trust was used to persuade Continental to provided non-stop service to Newark, NJ. Continental recently announced service to its Newark hub. In addition, service to Houston was also added.
- Eugene, OR—The airport in Eugene put together a prepaid ticket program in order to garner service from America West. The mission was successful and service to Phoenix on America West was launched.
- Newport News, VA - One last note that bears repeating. Jim Smith (from Newport News/PHF) has publicly stated that PHF boarded its 1 millionth AirTran passenger last year, and that they have gotten $30 million in air fare savings plus nearly $70 million in overall visitor and economic impact. That total of $100 million compares pretty well to the initial investment of about $2 million, for a 50:1 return.

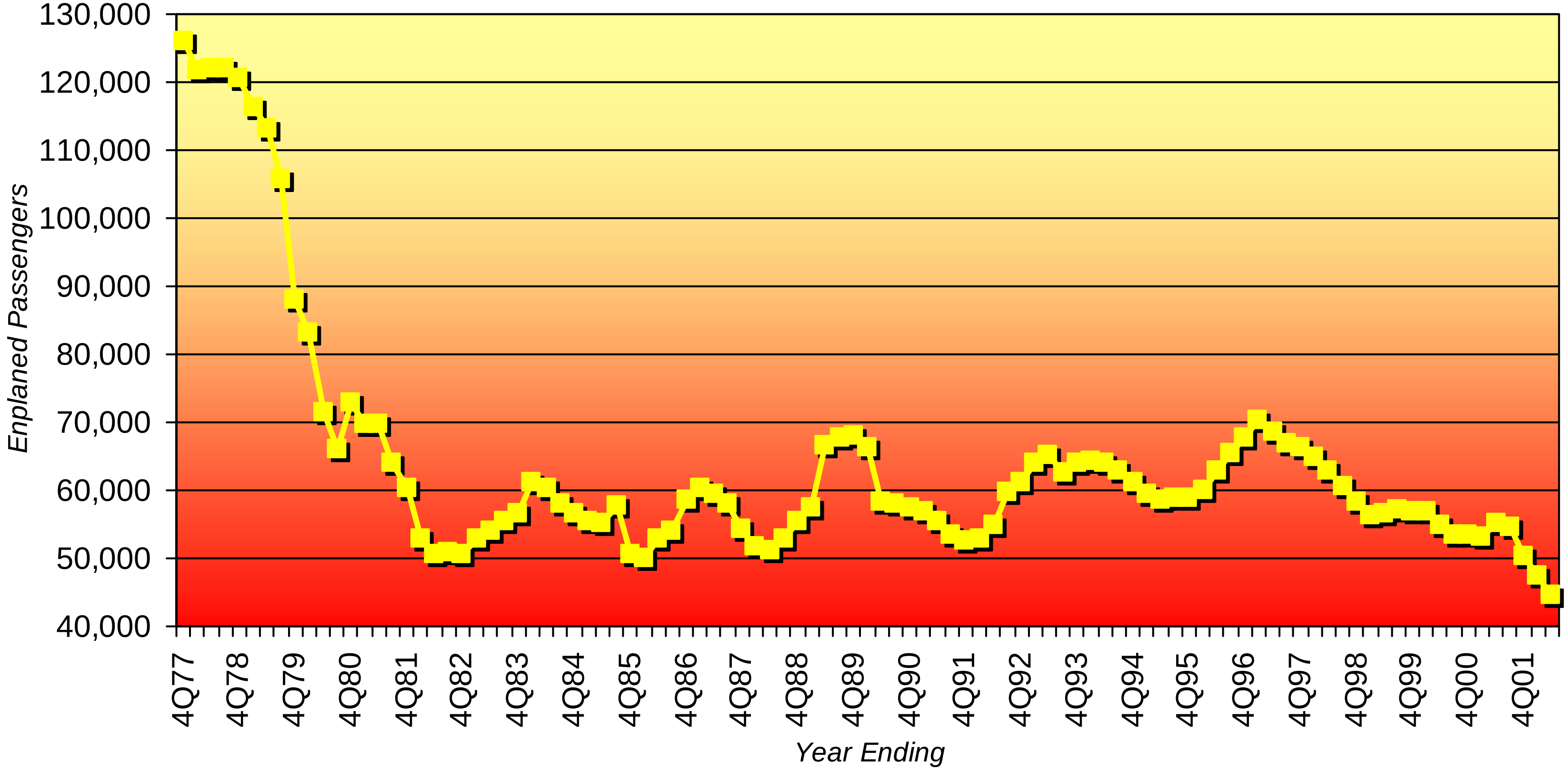
ALO Economic Business Proposal
NWA – Upgraded Service

“Model” for improvements

- Establish Air Service Task Force
- Hire Consultant – “Assessment - Leakage Analysis – Economic Business Proposal
- Travel Banks – Commitments
- Airline Presentations / Negotiations
- Other Communities – Reduced Fees, Subsidies

Annual Enplaned Passengers: ALO

Passenger boardings are down by over 50% since peaking in the 1970's, this is due in part to the decrease in capacity. August yr/yr capacity is down 58%.



Source: U.S.D.O.T. Report T-100 and Waterloo Municipal Airport

ALO YTD Traffic through September

Yr/yr declines are significant and much worse than U.S. rates (which are running down year/year about 15%).   Note NW's increasing share.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	YTD
NW Airlink	1,512	1,347	1,726	1,699	1,973	1,976	1,960	1,803	1,647	12,193
% Yr/Yr	-1%	-11%	-23%	-2%	-5%	-6%	-10%	-15%	28%	-27%
Share	44%	41%	44%	48%	52%	51%	49%	67%	70%	47%
UA Express	900	896	1,213	1,111	1,041	1,072	1,074	891	722	7,307
% Yr/Yr	-30%	-13%	-22%	-24%	-38%	-21%	-28%	-25%	2%	-38%
Share	26%	27%	31%	31%	28%	27%	27%	33%	30%	28%
American Connection	1,051	1,038	944	718	762	853	979	0	0	6,345
% Yr/Yr	-21%	-25%	-46%	-41%	-46%	-37%	-28%	n/a	n/a	-46%
Share	30%	32%	24%	20%	20%	22%	24%	0%	0%	25%
Total	3,463	3,281	3,883	3,528	3,776	3,901	4,013	2,694	2,369	25,845
% Yr/Yr	-16%	-17%	-30%	-20%	-27%	-19%	-20%	-41%	-12%	-36%

Recent Schedule Changes

Current ALO capacity (seats) is now about 15% below September levels.

September -NW

Orig	Arr	Dept	Arr	Seats	Days	Dep/Wk	Seats/Wk
ALO	MSP	505	613	34	MTWTFS-	6	204
ALO	MSP	912	1020	34	_-----S	1	34
ALO	MSP	1140	1249	34	MTWTFSS	7	238
ALO	MSP	1440	1552	34	MTWTFSS	7	238
ALO	MSP	1645	1759	34	MTWTF-S	6	204
						Total	918
MSP	ALO	1010	1120	34	MTWTFSS	7	238
MSP	ALO	1310	1420	34	MTWTFSS	7	238
MSP	ALO	1505	1620	34	MTWTF-S	6	204
MSP	ALO	1900	2015	34	_----S-	1	34
MSP	ALO	2130	2230	34	MTWTF-S	6	204
						Total	918
Total NW							918

November -NW

Orig	Arr	Dept	Arr	Seats	Days
ALO	MSP	505	611	34	MTWTFS-
ALO	MSP	900	1006	34	_-----S
ALO	MSP	1140	1245	34	MTWTFSS
ALO	MSP	1440	1546	34	MTWTFSS
ALO	MSP	1645	1751	34	MTWTF-S
MSP	ALO	1010	1112	34	MTWTFSS
MSP	ALO	1310	1412	34	MTWTFSS
MSP	ALO	1515	1615	34	MTWTF-S
MSP	ALO	1900	1959	34	_----S-
MSP	ALO	2130	2229	34	MTWTF-S
Total NW					

September -UA

Orig	Arr	Dept	Arr	Seats	Days	Dep/Wk	Seats/Wk
ALO	ORD	605	710	19	MTWTFS-	6	114
ALO	ORD	930	1035	19	MTWTFSS	7	133
ALO	ORD	1345	1450	19	MTWTFSS	7	133
ALO	ORD	1700	1805	19	MTWTF-S	6	114
						Total	494
ORD	ALO	807	917	19	MTWTFS-	6	114
ORD	ALO	1215	1325	19	MTWTFSS	7	133
ORD	ALO	1530	1640	19	MTWTFSS	7	133
ORD	ALO	1948	2058	19	MTWTF-S	6	114
						Total	494
Total UA							494

November -UA

Orig	Arr	Dept	Arr	Seats	Days
ALO	ORD	600	705	19	MTWTF--
ALO	ORD	745	850	19	MTWTFSS
ALO	ORD	950	1055	19	MTWTFS-
ALO	ORD	1130	1235	19	_-----S
ALO	ORD	1347	1452	19	MTWTF-S
ALO	ORD	1600	1705	19	_----S-
ALO	ORD	1700	1805	19	MTWTF-S
ORD	ALO	826	936	19	MTWTF--
ORD	ALO	1010	1120	19	_-----S
ORD	ALO	1215	1325	19	MTWTFS-
ORD	ALO	1335	1445	19	_----S-
ORD	ALO	1532	1642	19	MTWTF-S
ORD	ALO	1755	1905	19	MTWTFSS
ORD	ALO	1948	2058	19	MTWTF-S
Total UA					

September -AA

Orig	Arr	Dept	Arr	Seats	Days	Dep/Wk	Seats/Wk
ALO	STL	930	1100	19	MTWTFSS	7	133
ALO	STL	1415	1545	19	MTWTFSS	7	133
ALO	STL	1737	1907	19	MTWTF-S	6	114
						Total	380
STL	ALO	1220	1350	19	MTWTFSS	7	133
STL	ALO	1503	1633	19	MTWTFSS	7	133
STL	ALO	2010	2140	19	MTWTF-S	6	114
						Total	380
Total UA							380

Total Seats

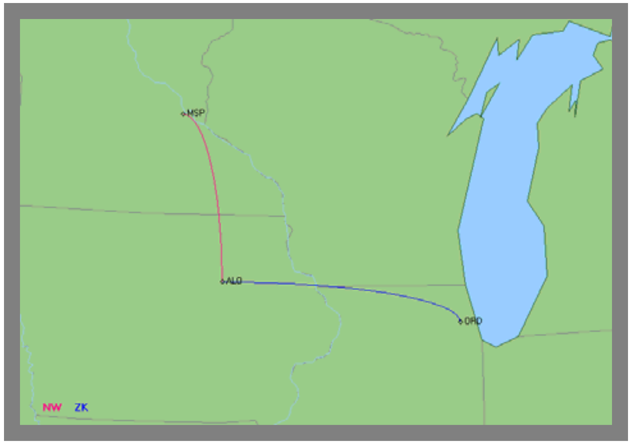
	Sept	Nov	Chg
NW	918	918	0
UA	494	608	114
AA	380	0	(380)
Total	1,792	1,526	(266) (15%)

ALO Service Summary

Current carriers at ALO are struggling and have been losing money.

Carrier	Equipment	Seats	Daily Departures	Enplaned Passengers	Fare	Revenue (000)	Load Factor	Est. Operating Margin
NW	SF3	34	3.8	20,497	$172	$3,525.	43%	-16%
UA/ZK	BE1	19	4.5	13,710	$229	$3,139.	46%	-31%
TW/AA	J31	19	2.8	13,164	$167	$2,198.	48%	-2%

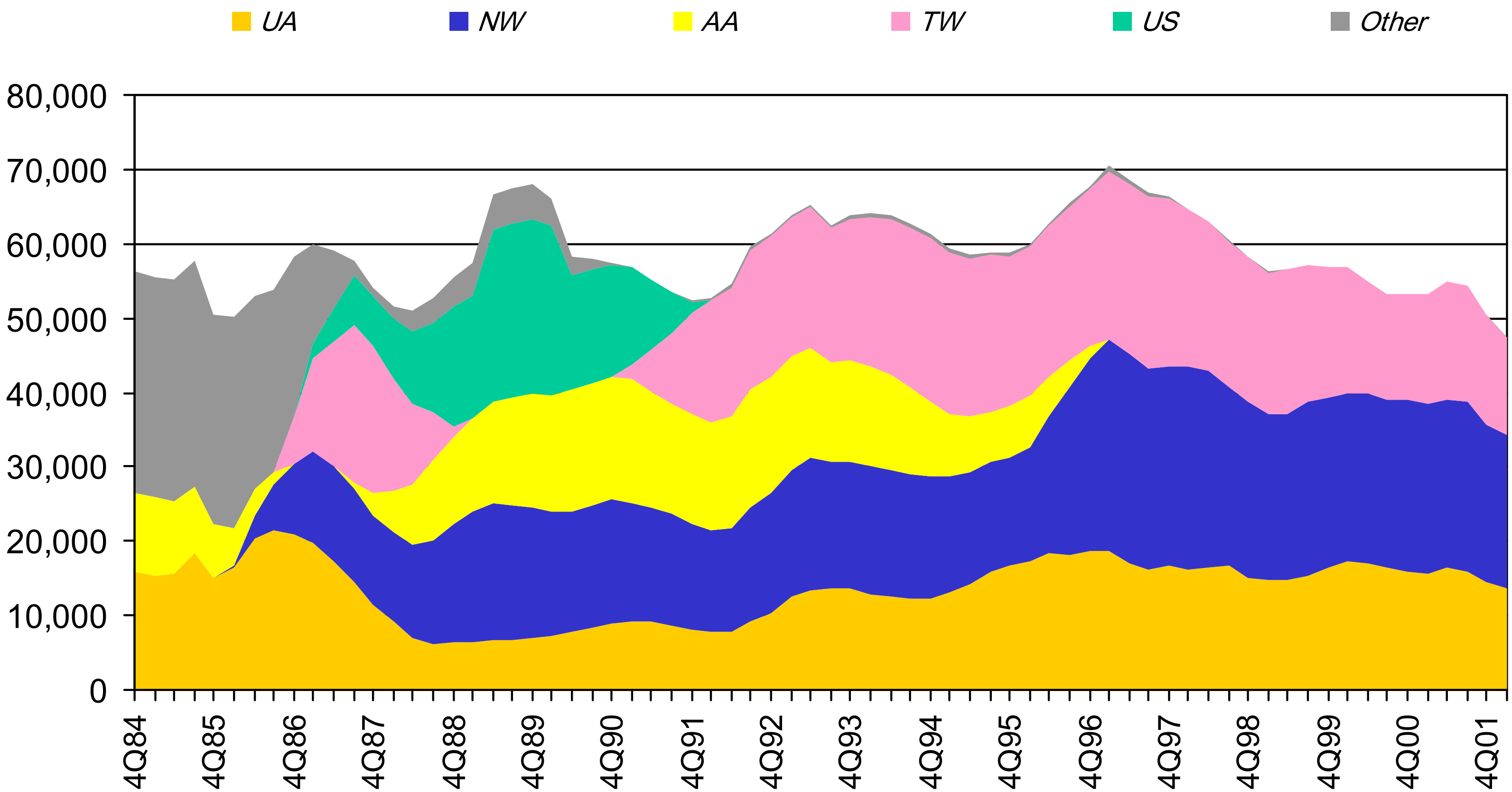
Service was discontinued 10.01.02



Source: November 2002 Industry Schedule, U.S.D.O.T. 10% Coupon Sample (YE1Q02) and U.S.D.O.T. Report T-100 (YE1Q02)

Annual Passengers by Carrier: ALO

Much of the recent decline in traffic is due to reduced capacity/traffic on TWA/American Connection. A this has occurred, NW Airlink has become ALO's "dominant" airline.



Source: U.S.D.O.T. Report T-100

How ALO Compares: NW Airlink

ALO is one of NW's smallest MSP-served SF3 markets and worst performing (load factor) markets.
Note: Data below is before American Connection exited the market.

Rank	Mkt	Enplaned Passengers	Daily Departures	Load Factor	Rank	Mkt	Enplaned Passengers	Daily Departures	Load Factor
1	OMA	8,702	0.9	77%	20	BIS	5,688	0.8	59%
2	MQT	11,775	1.3	76%	21	GPZ	2,829	0.4	59%
3	CMX	13,821	1.5	74%	22	LNK	22,460	3.1	59%
4	RDR	2,076	0.2	74%	23	BRD	23,989	3.3	58%
5	DLH	12,508	1.4	72%	24	DSM	14,989	2.2	56%
6	INL	12,218	1.4	69%	25	PIA	20,467	2.9	56%
7	ABR	34,223	4.1	68%	26	SUX	33,159	5.0	54%
8	BJI	34,264	4.1	68%	27	CID	31,669	4.8	53%
9	MSN	9,535	1.1	68%	28	MLI	23,804	3.6	53%
10	GFK	14,682	1.8	65%	29	STC	27,792	4.2	53%
11	GRB	14,037	1.7	65%	30	PIR	9,038	3.0	51%
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17	EAU	31,749	4.1	63%	36	FOD	9,037	2.9	19%
18	MCW	22,833	2.9	63%	37	ATY	4,817	2.9	13%
19	RHI	13,976	1.8	61%					

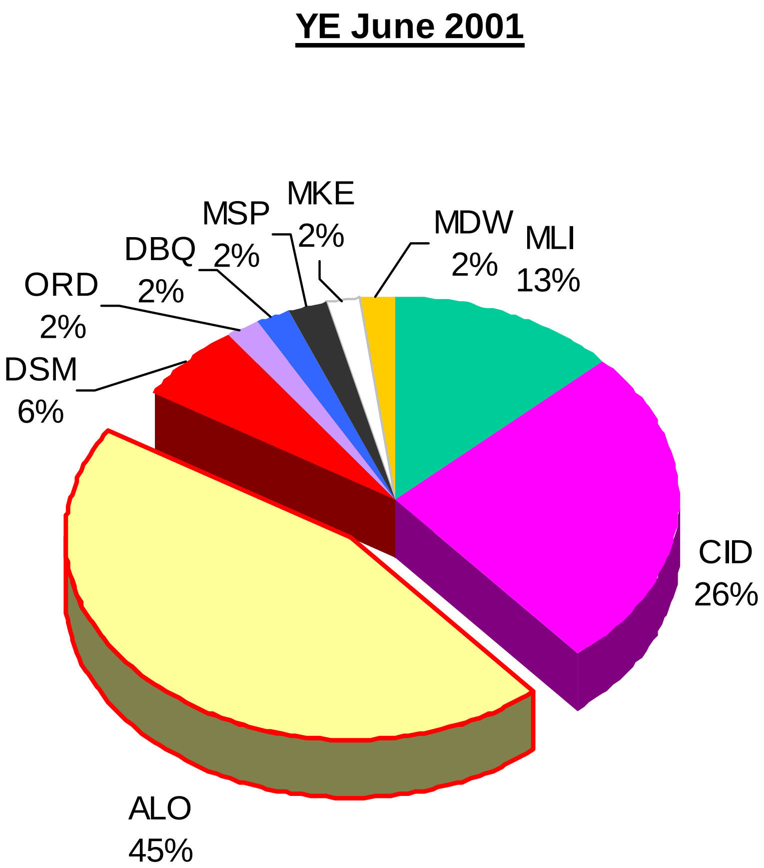
Note: This is Saab 340 (SF3) flying only

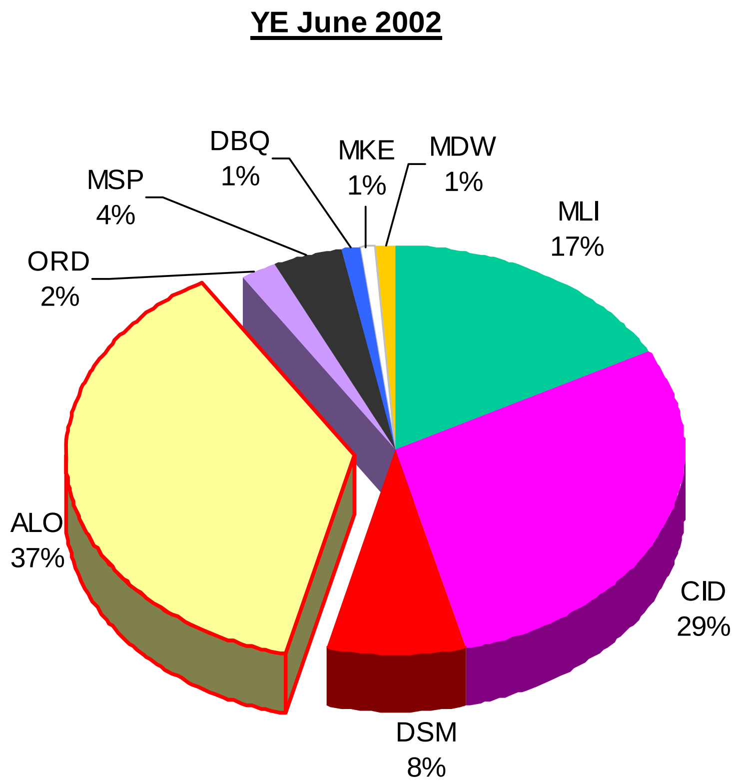
Source: D.O.T. Report T-100 for YE1Q02

Point of Sale/Fare Mix Analysis

Booking Distribution by Airport of Origin

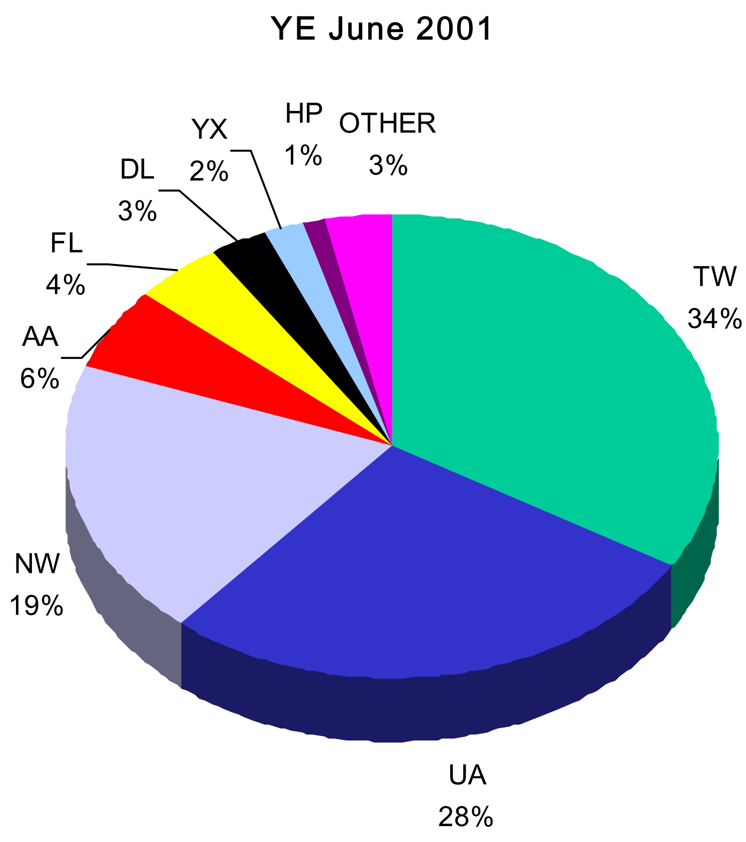
ALO only retained 37% of locally-issued tickets for the YE June 2002—Down from YE June 2002. #1 "leakage" point is to MLI. CID, although MLI, continues to grow.

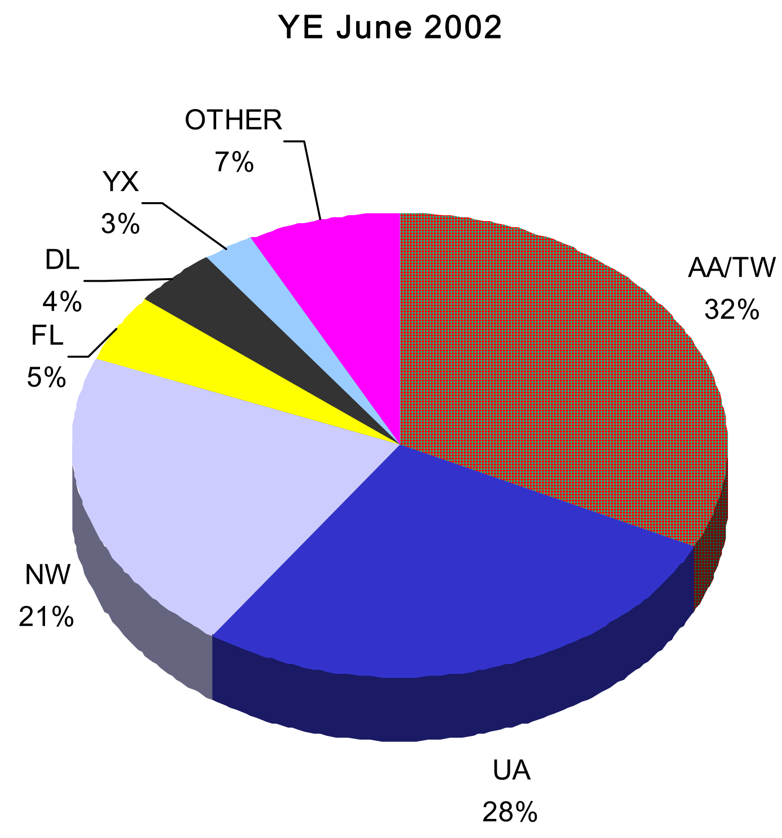




Carrier Share: Waterloo Bookings

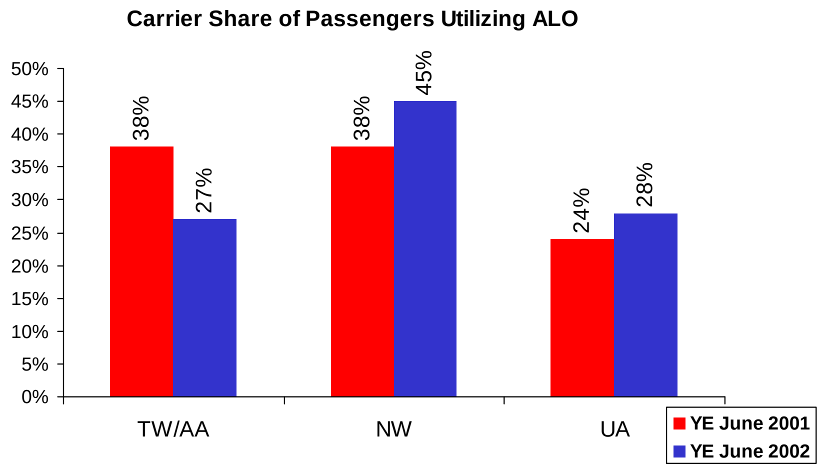
AA/TW and UA are top booked airlines from the Waterloo-Cedar Falls region. NW is a distant #3.

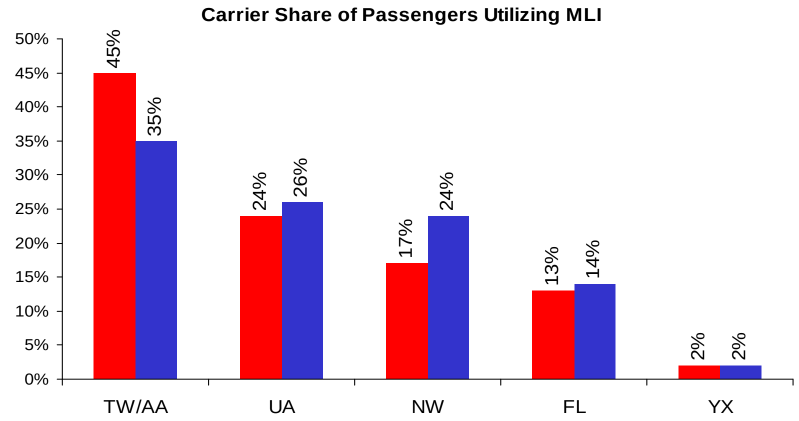


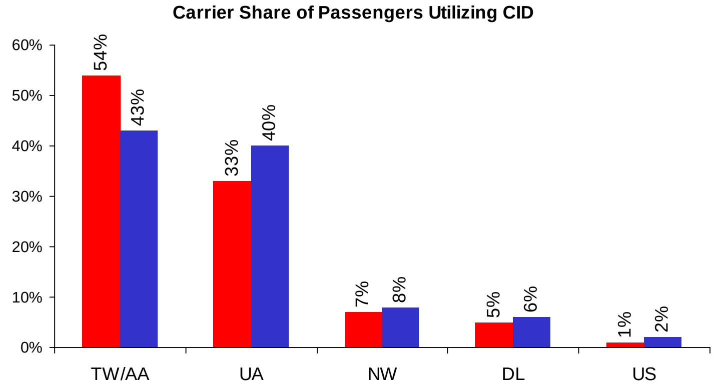


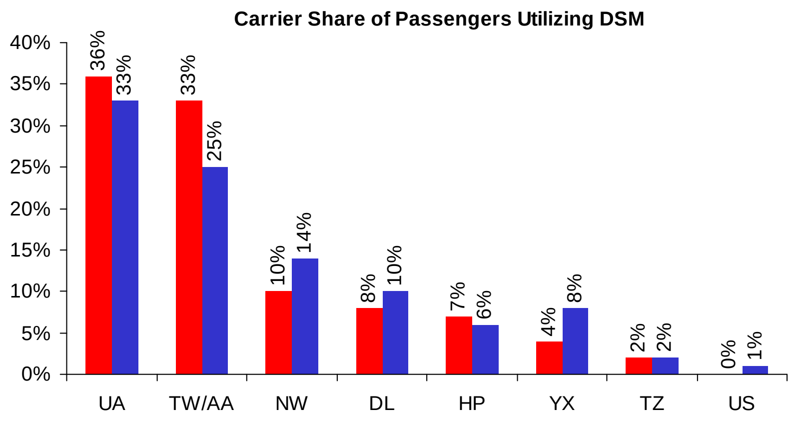
Carrier Share of Area Bookings
by Origin Airport

While NW is #3 in terms of bookings from the region, NW is a strong #1 when passengers originate at ALO. If passengers "leak", they primarily fly on AA or UA.





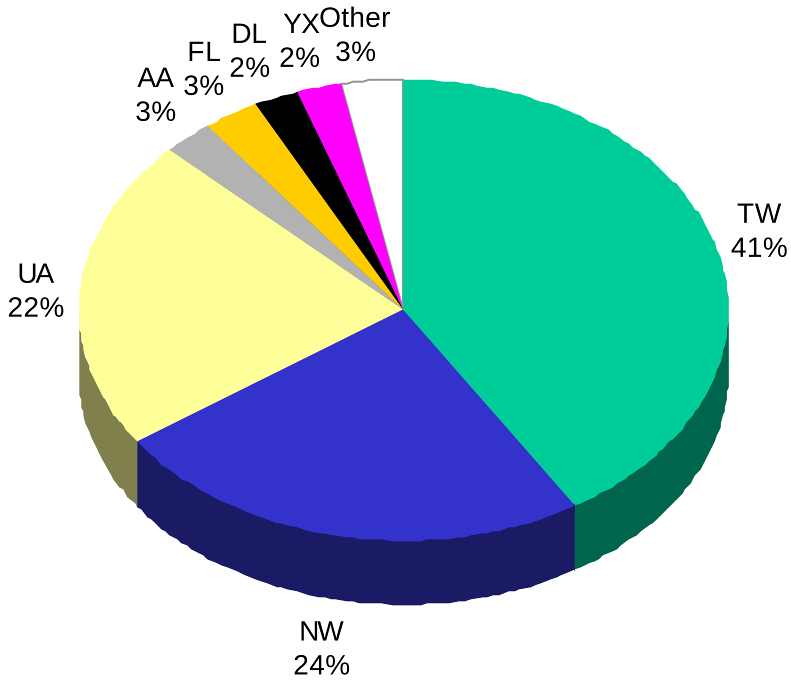




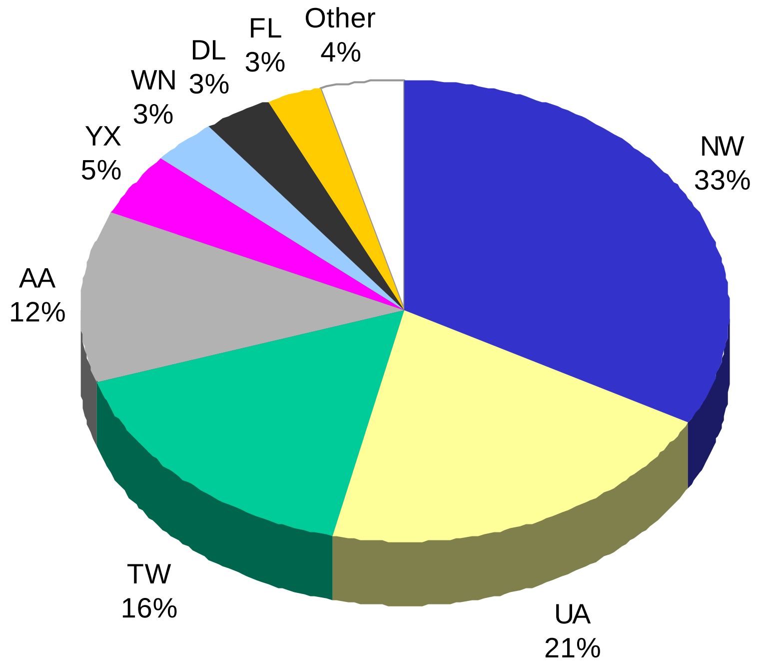
Carrier Share: Business/ Premium Bookings

The area's "high end" traffic shows no loyalty to any one carrier.

YE June 2001



YE June 2002



ALO vs. Regional Airports:
Discount vs. Premium Traffic

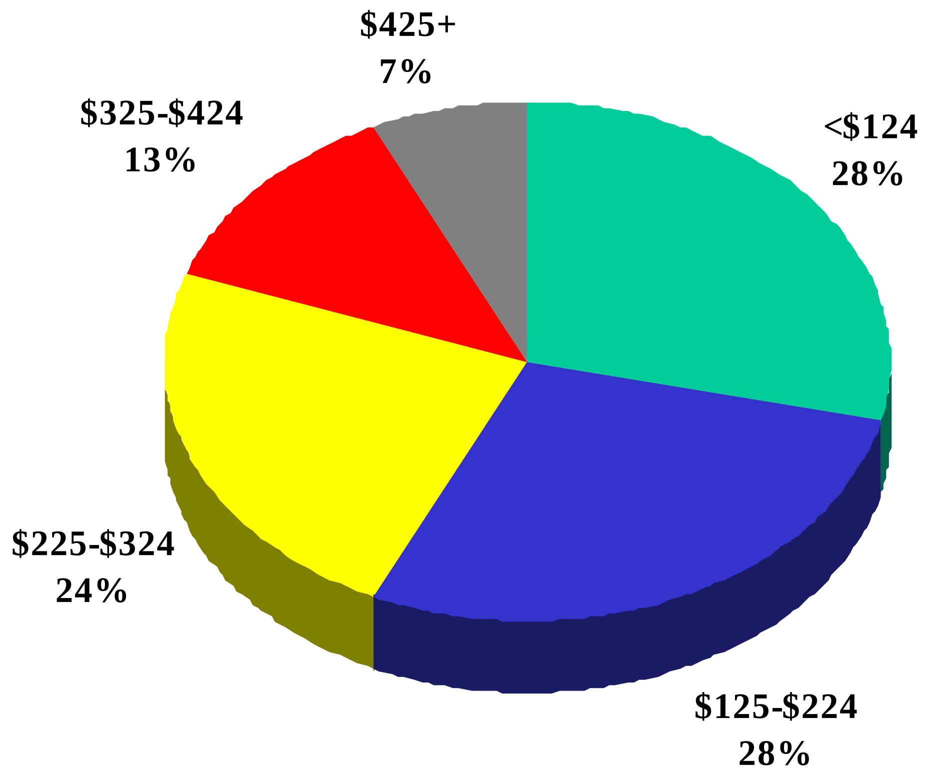
ALO carries a higher-yielding (i.e. business) mix of traffic, than other "nearby" airports and hence generates a higher average fare. High % of ALO business traffic shows ALO's reliance on businesses like John Deere.

	Mix of Traffic			Avg One-Way Fares		
	Discount	**Premium**		**Discount**	**Premium**	**Total**
ALO	**68%**	**26%**		**$197**	**$334**	**$221**
MLI	**81%**	**14%**		**$149**	**$350**	**$168**
CID	**75%**	**16%**		**$173**	**$471**	**$205**
DSM	**73%**	**21%**		**$166**	**$387**	**$201**

Note: Mix of traffic does not = 100% due to "free" travel

ALO Average Fare Distribution

ALO: nearly half (44%) of travelers pay in excess of $225 one-way



Source: U.S.D.O.T. 10% Coupon Sample

Industry Review & Where ALO Fits In

Overview

- *Industry is losing record amounts of money.*
- *Culprits: Overcapacity results in low yields and costs are too high.*
- *Result: Carriers are cutting capacity and trying to cut costs.*
- *Implication: Will be difficult to gain additional air service.*

Primary Issue: Size of Waterloo (ALO) Air Travel Market vs. Operating Costs

From a cost perspective, ALO's revenues need to increase significantly in order to support RJ service.

ALO Annual Revenue: $15.6 Million

Estimated Fully Allocated Costs, by Market		
	Regional Jet (CRJ)	
	Per Trip	*Annual (000)*
Atlanta (ATL)	*$4,495*	*$9,353*
Denver (DEN)	*$4,950*	*$10,298*
Chicago Midway (MDW)	*$2,653*	*$5,520*
Phoenix (PHX)	*$4,467*	*$9,918*
Minneapolis-St. Paul (MSP)	*$2,287*	*$4,758*

Annual #'s assume 3x daily round-trip service and assumes carrier flies 95% of schedule

Regional Jet (CRJ): 50-seat aircraft

Other Factors Influencing Air Service:

In addition to the financial hurdles of introducing new service, many other factors create challenges as well:

- *The predominant operating model still focuses on airline hub flying, with few point-to-point services*
- *Airlines have continued to reduce or eliminate smaller aircraft from their fleets*
- *Airlines accept leakage*
- *Smaller communities generally hold less profit potential in terms of absolute dollars*

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Potential Air Service Options for Waterloo

- *Upgrades in aircraft size (larger turbos, regional jets)*
- *Additional upgrades via increased frequency*
- *Additional nonstop destinations—with regional jets*
- *Charter operations*

Options: Also Linked to REALISTIC Air Carrier Options

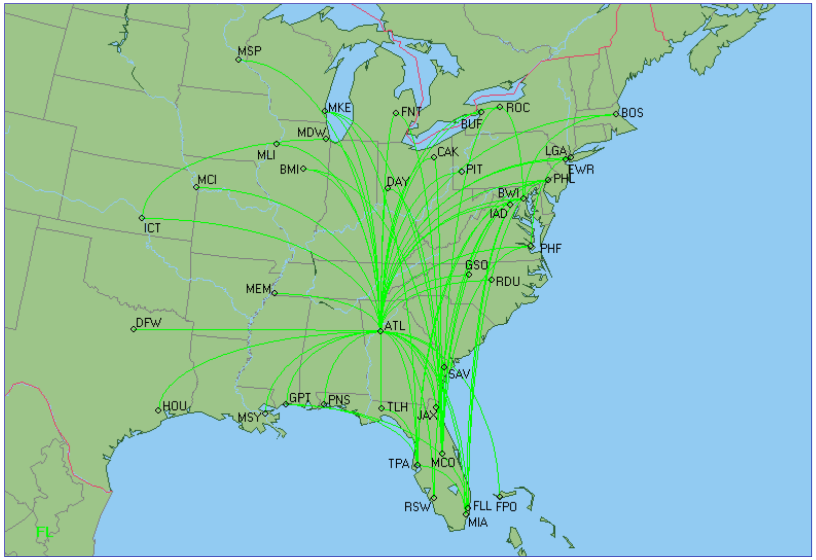
Air Carriers which:

- *Currently operate or are willing to operate in this region of the country*
- *Have the right aircraft type to profitably serve Waterloo*
- *Are willing to work with business and community leaders to form cooperative air service alliances*

Specific Carriers Worth a "Closer Look"

1. *<u>NW Airlink</u>: Upgrade to regional jets on current service. Could be across-the-board or on selected flights. Make NW ALO's hometown airline, but would require financial assistance from the business community.*
2. *<u>United Express</u>: Ditto NW Airlink comments. It would be either NW or UA - not both.*
3. *<u>Funjet/Charter</u>: Ad-hoc charter service to LAS (or possibly other seasonal markets like CUN) may be worth pursuing.*
4. *<u>AirTran</u>: Atlanta. This is a long-shot and will require significant corporate backing. On the other hand, booked demand from the region is compelling.*
5. *<u>ATA Connection</u>: Low-fare service to Chicago Midway. Today, this service operates in both Cedar Rapids (CID) and Moline (MLI). These services are currently cannibalizing each other-MLI was performing very well until CID was initiated. Now both struggle. Idea: convince ATA to switch CID service to ALO?*
6. *<u>Mesa Air</u>: As America West Express or Frontier Regional-Phoenix or Denver. Real long-shot.*

AirTran Overview



- *AirTran has historically utilized "mainline" type jets (DC-9 and Boeing 717).*
- *Recently it was announced that Air Wisconsin will provide feeder service to ATL for AirTran with 50-seat CRJs.*

America West (Mesa) Overview

- *America West brand operated by Mesa*
- *Regional Jet Fleet/Orders and Options:*

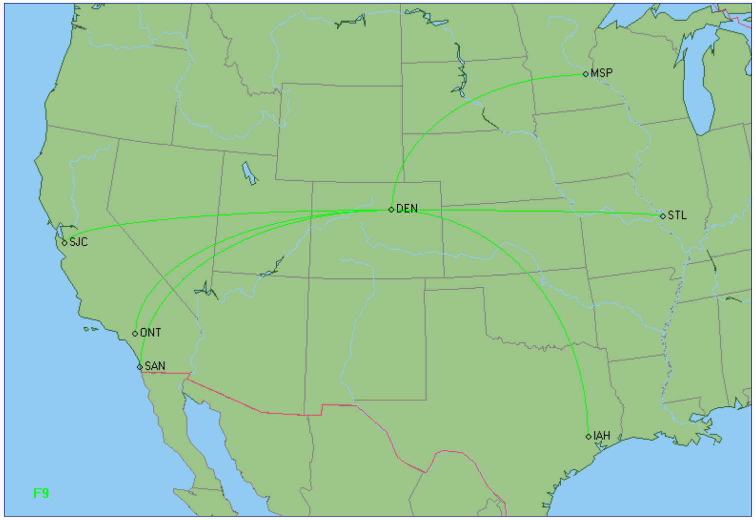
	50-Seat	*70/90-Seat*
Orders/Options	*118*	*53*
Mesa Fleet Today	*61*	*0*

- *Currently, of Mesa's 70/90 seat RJ order/options, 40 are committed to America West. The remainder will be determined.*
- *Double-digit annual growth planned over the next 2-3 years.*
- *Growth will be primarily focused upon service to Phoenix (PHX) hub.*
- *With recent Federal Loan Guarantee, America West's financial condition is the best it's been in years.*

Frontier Jet Express (Mesa) Overview

- *Frontier brand operated by Mesa Airlines*
- *Regional Jet Fleet/Orders and Options:*

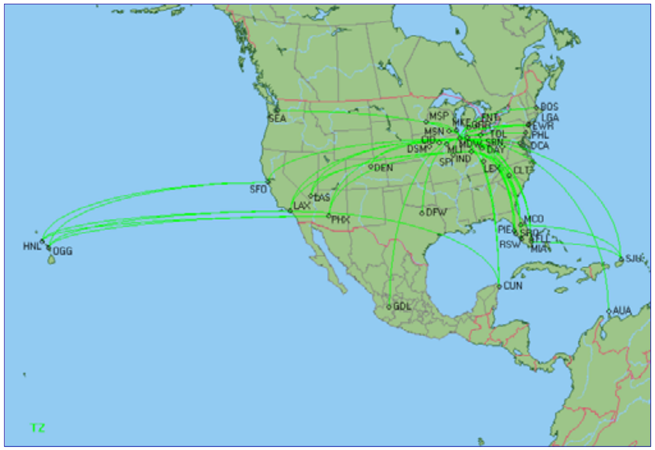
	50-Seat	70/90-Seat
Orders/Options	118	53
F9 Fleet Today	7	0



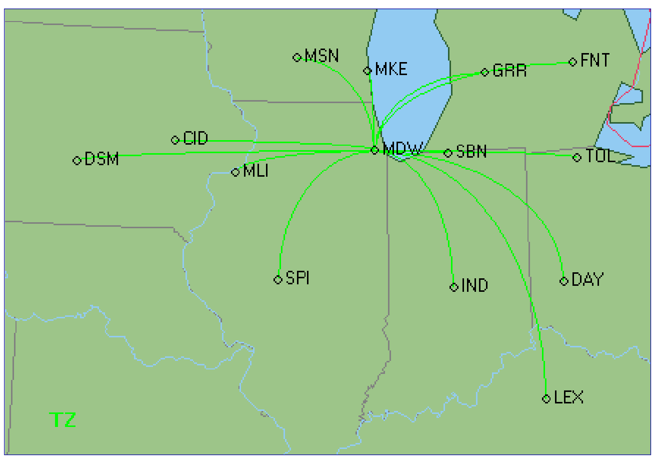
- *While little has been communicated publicly about planned Frontier Jet Express growth, we think it could be significant (20-30 aircraft).*
- *Roughly 3-4 new markets planned for next 2-3 years.*
- *Based upon Frontier model, growth would be targeted at Denver (DEN) O & D markets.*

ATA Connection Overview

ATA Route Map



ATA Connection Route Map



- *ATA Connection currently serves 13 cities to its Chicago Midway hub. ATA provides scheduled service to over 40 destinations.*
- *ATA utilizes Boeing 737 and 75 aircraft, while ATA Connection (Chicago Express) operates Saab 340s.*

Funjet Overview

- *Funjet Vacations (owned by The Mark Travel Corporation) flies over 3 million passengers per year to more than 160 worldwide destinations.*
- *Funjet is not an operator, but rather a provider of airline service through charter airlines. These airlines include America Trans Air, Allegro Airlines, Champion Air, Ryan Air and Southwest Airlines.*
- *Rather than offer a regular schedule of flights, this type of service would provide service on a less frequent basis, geared for leisure travel (an example would be service provided on Thursdays and Sundays during "peak" vacation periods).*

How ALO Compares: NW Airlink

ALO is one of NW's smallest MSP-served SF3 markets and worst performing (load factor) markets. Note: Data below is before American Connection exited the market.

Rank	Mkt	Enplaned Passengers	Daily Departures	Load Factor	Rank	Mkt	Enplaned Passengers	Daily Departures	Load Factor
1	OMA	8,702	0.9	77%	20	BIS	5,688	0.8	59%
2	MQT	11,775	1.3	76%	21	GPZ	2,829	0.4	59%
3	CMX	13,821	1.5	74%	22	LNK	22,460	3.1	59%
4	RDR	2,076	0.2	74%	23	BRD	23,989	3.3	58%
5	DLH	12,508	1.4	72%	24	DSM	14,989	2.2	56%
6	INL	12,218	1.4	69%	25	PIA	20,467	2.9	56%
7	ABR	34,223	4.1	68%	26	SUX	33,159	5.0	54%
8	BJI	34,264	4.1	68%	27	CID	31,669	4.8	53%
9	MSN	9,535	1.1	68%	28	MLI	23,804	3.6	53%
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Note: This is Saab 340 (SF3) flying only

Source: D.O.T. Report T-100 for YE1Q02

Our Proposal

NW Connecting Opportunities from ALO

Regions Connecting To	From ALO **630-734** West Coast Upper Midwest	**1240-1351** Upper Midwest SFO, LAX, SEA EWR, LGA	**1654-1809** Easter half of US, Major West Coast Cities	**1850-1955** Upper Midwest Most major West Coast Cities
Connecting Markets	27	54	78	53

Regions Connecting To	To ALO **1105-1215** Upper Midwest East Coast, South Central and East	**1505-1624** Upper Midwest Most major East/West Coast Cities	**1715-1825** Mostly Upper Midwest, LAX/ WAS and select large cities	**2225-2336** Mostly major East/West Coast Cities
Connecting Markets	63	42	43	24

Relative Air Fare Comparison:
ALO vs. CID

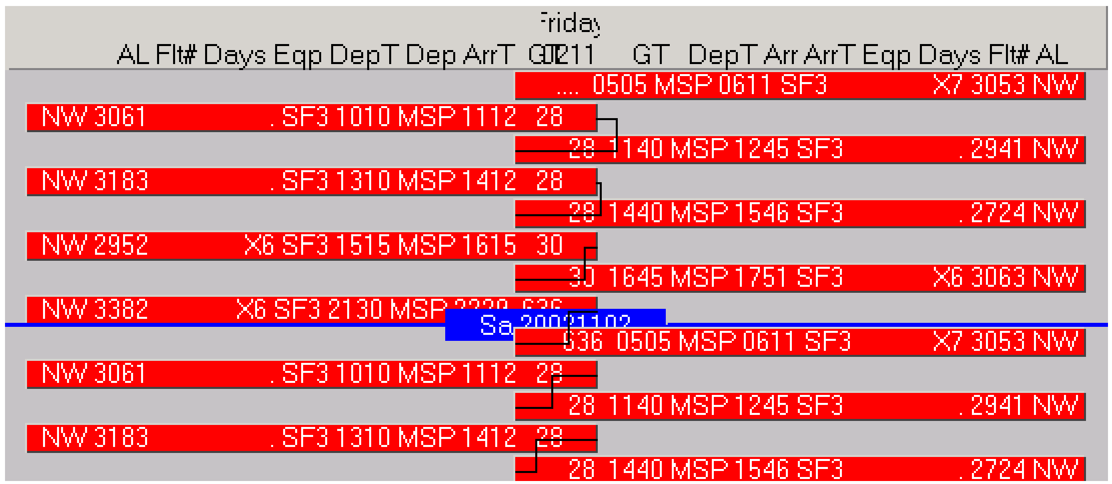
	21 Day AP Fare		
Market	**ALO**	**CID**	**Diff**
ORD	$232	$174	$58
LAX	$981	$276	$705
PHX	$661	$259	$402
DTW	$337	$261	$76
DFW	$427	$155	$272
ATL	$550	$551	-$1
PHL	$661	$215	$446
MCO	$779	$174	$606
STL	$351	$281	$70
LAS	$264	$254	$10
SEA	$988	$278	$710
DEN	$536	$252	$284
SAN	$972	$769	$203
LGA	$503	$214	$290
TPA	$795	$715	$80
DCA	$652	$215	$437
MSP	$329	$255	$74

	3-Day Biz Flex Fare		
	ALO	**CID**	**Diff**
ORD	$401	$153	$248
LAX	$1,678	$449	$1,230
PHX	$1,317	$365	$952
DTW	$569	$407	$162
DFW	$1,037	$395	$642
ATL	$953	$812	$141
PHL	$1,157	$238	$919
MCO	$1,560	$317	$1,244
STL	$465	$343	$122
LAS	$661	$354	$308
SEA	$801	$475	$326
DEN	$860	$355	$505
SAN	$1,655	$1,858	-$203
LGA	$669	$236	$433
TPA	$1,559	$1,131	$428
DCA	$1,166	$238	$928
MSP	$585	$641	-$56

Source: Sidestep web site. 21-day advance fare was for the period of Nov 18-Nov 21. 3-Day advance fare was for the period of 10/31-11/1

What we propose

- **NWA would eliminate one SF3 pattern:**



- **In its place, NWA would add 1 CRJ round-trip**

- **NWA would work with ALO to lower air fares at ALO relative to those offered at CID.**

What we propose continued

- **In return:**
  - **$x of ALO-generated marketing support for NWA.**
  - **For CY2001, John Deere booked $x worth of travel on NWA. John Deere would commit to $x worth of travel on NWA for the 12 months subsequent to the initiation of NWA CRJ service at ALO.**
  - **ALO would reimburse NWA for operating losses at ALO up to $ (for the 12 months subsequent to the initiation of NWA CRJ service at ALO)***

Benefits

- **NW: Potential to become “Hometown Airline” and able to more effectively compete in Eastern Iowa.**

- **NW: Less risk at ALO due to “guarantee” and shifting of high yield John Deere traffic.**

- **ALO: Better (jet), more reliable air service and more competitive, economic air fares.**

“Other”

- Link with Economic Development
- Information Technology

“The End”

- Questions
- Comments