CHIPPEWA VALLEY REGIONAL AIRPORT

PEER AIRPORT BENCHMARKING SURVEY

FEBRUARY 2013

Mead & Hunt

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INTRODUCTION AND METHODOLOGY

This analysis assesses and evaluates the financial and operational performance of the Chippewa Valley Regional Airport (EAU) against an identified group of peer facilities. Results developed through this analysis will enable EAU to identify strengths as well as opportunities for improvement in creating and maintaining fair and reasonable rate-making methodologies for patrons, airlines, concessionaires and businesses seeking to conduct business at the airport. It will also aid in determining if adjustments to rates and charges and/or operating expenditure levels are warranted thereby enabling EAU to remain competitive and consistent with current trends and practices. Finally, it provides a baseline summary of rates and charges for EAU.

The completion and use of this benchmarking analysis is just one example of how the Chippewa Valley Regional Airport Commission is deploying best management practices in its governance and operation of EAU. The Commission has established a Vision Statement to guide its direction as a key enterprise in the Chippewa Valley region and actively engages in both strategic and business planning to improve performance, guide results and ensure that the services it provides meets and exceeds customer expectations. The foundational direction for use of such proactive managerial tools and techniques is rooted in the Chippewa Valley Regional Airport Ownership and Operation Agreement which obligates the Commission to prepare an annual business plan for a five-year time period. This plan not only guides the direction of the Commission's operation but also establishes marketing and promotional plans aimed at increasing revenue and enhancing the economic vitality of the region.

Given this directional guidance provided by the Commission's two member jurisdictions, Chippewa and Eau Claire Counties, EAU is in the process of implementing a strategic plan built around the principles of public awareness, public service and economic development and has strategies and action plans built around each core principle. Moreover, the Commission has established 11 broad goals and 15 outcomes centered on EAU's core business focus areas of commercial air service, General Aviation (GA) services and its airport partners. Each outcome has a distinct performance goal and measure established, and data is tracked on an annual basis to gage progress toward achievement of the established metric.

The identification of comparable peer airports as well as the development of an appropriate survey instrument to gage EAU's performance against these target facilities furthers the Commission's commitment to ensuring that it provides quality services and amenities for its customers. Mead & Hunt working in concert with EAU, identified peer benchmark airports based on comparable demographic measures such as airline activity and enplanements, GA services, concession operations, airport staffing and governance structures. Several key databases were also utilized in concert with the survey instrument to compile the requisite data for this analysis including:

- Fiscal Year 2011 US Department of Transportation (DOT), FAA, Form 5100-127 Operating & Financial Summaries
- US DOT, FAA, Airport Master Record Forms (5010-1 & 5010-2)
- Calendar Year 2011, US DOT, FAA, Passenger Boarding (Enplanement) and All-Cargo Data for US Airports

EAU is classified by the FAA as a non-hub (primary) airport; therefore, in order to ensure that the identified peer group was mirrored as closely as possible to EAU, only non-hub airports enplaning less than 50,000 passengers were used for this study. For comparative purposes, the survey instrument and database review sought to obtain a myriad of background data from each peer facility including:

- Form of Governance
- Type of Airport Use Agreement
- Reporting Period (Fiscal Year vs. Calendar Year)
- Enplaned Passengers (Air Carrier & Charter)
- Aircraft Operations by Type
- Airport Full-Time Equivalent (FTE) Employees
- GA Fees and Charges
- Airline Fees and Charges
- Scope of Concessionaire Operations and Fees
- Airport Operating Expenses and Debt Service
- Funding Contributions from Local Government

Information collected from the survey and utilized in this study reflects actual activity levels, revenues and expenses for calendar year 2011 or fiscal year 2011 depending on the particular airport. To maintain confidentiality, survey airports are randomly identified with letter identifiers (e.g. "B", "C", and "D"). Where possible, the effect of the spread between enplanements and aircraft operations among airports has been mitigated by expressing benchmark indicators as per enplanement or operation values. The balance of this report presents a summary of the findings of this study followed by more detailed analysis and review of EAU's competitive position relative to its peers.

EXECUTIVE SUMMARY

RELEVANCE OF PEER MARKETS

Twelve peer airports were identified for purposes of this survey. Survey instruments were submitted to each in late August of 2012 and nine of the 12 airports responded. Total annual enplanements for peer airports ranged from a low of 17,978 to a high of 26,764. Total aircraft operations ranged from 2,403 to 135,591 averaging 38,540 per airport. Fifty-six percent of the responding airports are operated by an independent authority, commission or special district as opposed to a county or city.

AIRPORT STATISTICS

For the study period, EAU enplaned 19,062 passengers representing the fourth lowest volume of passengers; slightly below the average level of enplanements (21,309) for all survey respondents. EAU posted the fifth highest level of total aircraft operations (30,217); however, this volume is below the average for its peers (38,540).

STAFF EFFICIENCY

A standard measure for gauging the productivity and efficiency of an airport workforce is to evaluate the number of enplaned passengers per full-time equivalent (FTE) airport employee. For fiscal year 2011, EAU reported 3,466 enplanements per FTE compared to an average of 4,093 among its peers. On the surface, these data would suggest that EAU is not as efficient as these nine facilities; however, one facility, "Airport G", reported that it only has two employees and contracts with its governing body to provide maintenance and janitorial services at an annual cost of approximately $195,000 per year. Because of this, "Airport G" has 11,932 enplanements per FTE. Discounting this airport from the mix yields an average of 3,113 enplanements per FTE for the remaining airports. Based on this adjustment, EAU enjoys a higher level of staff efficiency than these remaining eight airports. EAU's overall staffing level is slightly below its peers, with 5.5 FTEs compared to the benchmark average of 7.0 FTEs.

AIRLINE FEES AND CHARGES

Airlines at EAU are assessed fees in two primary areas to compensate for use of airport facilities: landing fees and terminal building space rental. The current EAU landing fee of $1.17 per 1,000 pounds of landed weight is consistent with the benchmark average of $1.18 per 1,000 pounds of landed weight. Given these data, EAU's existing landing fee structure is on par with its peers.

Regarding terminal rates, EAU assesses $21.45 per square foot for terminal rent versus a benchmark average of $23.58 per square foot. Given this $2.13 variance, coupled with the terminal cost center currently experiencing an ongoing deficit, it is appropriate for EAU to consider adjusting its terminal building fee structure above the current rate of $21.45 per square foot. The impact to airline rates and charges and revenue for EAU is presented in the Sensitivity Analysis section of this report.

AIRLINE COST PER ENPLANED PASSENGER

A fundamental business strategy for airport operators, especially non-hub facilities such as EAU, is to strive to maximize non-airline sources of revenue to keep the cost of doing business for airlines as low as possible. One of the most important measures included in a benchmark survey is the airline cost per enplaned passenger metric which assesses attainment of this strategy. This indicator reflects how much airlines operating at an airport are being charged by the airport operator for each enplaned passenger.

Based upon the data obtained through this analysis, the average airline cost per enplaned

passenger for the benchmark airports is $9.42 while the airline operating at EAU incurs $7.52 per enplaned passenger. Accordingly, EAU's cost structure for airline operations is quite low compared to peer facilities. While EAU's airline landing fee rate mirrors its market peers, some opportunity exists to modify its terminal building rental structure to move closer in line with its adopted market of peers and ensure its terminal cost center is more financially self-sufficient.

Because EAU's cost per enplaned passenger is low relative to its peers, one would expect that the extent to which it relies on airline revenues to meet operating expenses would also be low. To this end, airline revenue at EAU is 19 percent of total revenue, compared to an average of 31 percent for surveyed facilities.

AIRLINE PASSENGER RELATED REVENUE

The most critical sources of passenger related operating revenue for an air carrier airport are funds derived from public parking, rental cars and restaurant/catering activities. Public parking revenue at EAU of $5.61 per passenger is well above the benchmark average of $3.86 per enplaned passenger. Moreover, EAU's rental car revenue volume of $4.20 per passenger corresponds with the average level generated at benchmarked facilities. EAU's restaurant/catering revenue per passenger of $0.66 is well above the benchmark average of $0.06. In total, EAU's passenger related revenue exceeds the average for the non-hub benchmark airports at $10.47 versus $6.64 indicating that it is maximizing revenue within a reasonable rate structure for these concession activities.

FBO/GA REVENUE

EAU produced $11.75 in revenue (i.e. fixed based operator (FBO) rents, hangar/tie-down rent, and fuel flowage fees) per GA operation compared to the benchmark average of $11.76. Discounting one survey respondent that operates its own FBO, the average among EAU's peers was $5.51 indicating that EAU performs well compared to similar facilities. It should be noted that EAU is currently retiring debt on several hangar facilities; therefore, a significant portion of its GA revenue is utilized to retire this debt.

EAU's current fuel flowage fee of $0.07 per gallon for 100LL and $0.08 per gallon for Jet-A mirrors the peer average of $0.07 per gallon. The ratio of FBO/GA revenue to total revenue for EAU is 47 percent which is more than two times greater than the non-hub average of 19 percent.

OPERATING EXPENSE

EAU's cost structure is very favorable compared to its peers as represented by the fact that its operating expenses per enplanement is $40.85 compared to the average benchmark airport at $45.55. In addition, EAU posted the third lowest level of operating expense ($778,682) compared to its peers; 17 percent below the average ($950,743) for all airports in the survey. This relatively low operating expense level bodes well for EAU in its capacity to maintain sustainable and reasonable rates and fees for its airlines, concessionaires and patrons.

ANNUAL DEBT SERVICE

Four of the nine responding airports indicated that they currently have outstanding debt ranging from $18,000 to $1.1 million per year. EAU's current annual debt burden is $109,909 and is associated with construction of GA facilities. The survey did not extract the nature/scope for peer facilities; however, EAU has established a rate structure which fully recoups this payment through its leases. This strategy ensures that its debt obligation does not over-burden other users.

MEMBER JURISDICTION CONTRIBUTIONS

Five of the responding airports indicated they receive some form of general taxpayer financial support from their member jurisdictions. The annual funding amount ranged from $270,000 to $1.0 million; an average of approximately $525,750 for these airports. In fiscal year 2011, Chippewa and Eau Claire Counties transferred $493,785 to EAU for operating and capital expenditures in accordance with the Airport Ownership and Operation Agreement.

SURVEY ANALYSIS

The comparative categories for this Airport Benchmarking Survey were established in order to be most relevant and applicable for EAU.

First, it is important to note that each of the benchmark airports have their own distinct accounting systems and methodologies for classifying revenues and expenses. Because of these distinctions, Mead & Hunt utilized Fiscal Year 2011 US DOT, FAA, Form 5100-127 Operating and Financial Summary data for each airport to more easily allow for comparisons of financial data. Generally, because each airport has unique factors built into its accounting system and rates and charges methodology, it is more instructive to look at categories (e.g. airline revenue and passenger related revenue) rather than individual revenue and expense line items.

AIRPORT STATISTICS

The airport statistics category includes a mix of basic information about the survey airports including: the type of organizational structure, form of airline use agreement, volume of passenger traffic and aircraft operations, airport employee FTEs, air carrier terminal building size and airport rates and charges on a unit basis (e.g., $ per 1,000 pounds of landed weight). US DOT, FAA, Airport Master Record Forms (5010-1 and 5010-2) and Calendar Year 2011, US DOT, FAA, Passenger Boarding (Enplanement) and All-Cargo Data for US Airports databases, in conjunction with Mead & Hunt's survey instrument, were utilized to compile this information for each comparative facility.

Type of Airport Operator

Typically, airports are organized either as part of local municipal government or as an independent airport authority or commission created in accordance with state statutes. EAU is a joint venture of Eau Claire and Chippewa Counties and is operated by the Chippewa Valley Regional Airport Commission in accordance with the Chippewa Valley Regional Airport Ownership and Operation Agreement. Five of the surveyed airports are also jointly owned and independently operated as either airport authorities or an airport district while the remaining four are City owned and function as operating departments/divisions within these respective municipal government structures.

Type of Airline Use Agreement

When an airport operator opts to establish a formal agreement with commercial air carriers for use of their premises, it typically sets charges based upon three types of airport use and operating agreements: compensatory, residual or hybrid. Alternatively, airport owners and operators may choose to simply set rates and charges for aeronautical users such as airlines by ordinance each year and enter into less structured use agreements with carriers.

Compensatory agreements charge the airline for the use of airfield and terminal facilities on a straight unit cost basis. More specifically, the airline pays the airport based on a unit rate (e.g., $25 per square foot of terminal space) that is set annually. The airline's obligation to the airport is exclusively this unit rate applied to the space it occupies and nothing more. Any shortfall in revenue is paid for by the airport.

Residual agreements are different from compensatory agreements in that airport expenses and revenue are combined, and the airline agrees to pay for any shortfall in revenue or increase in expenses. For example, if an airport has an unanticipated heavy snow season and airfield cost center expenses exceed budget projections, the airline would be charged for these increased airfield costs if they resulted in the airport exceeding its budget. Residual agreements allow the airline to benefit from increased airport revenue. To this end, if the airport generates greater than expected net income and/or increased non-airline revenues, the airline can realize lower rates in an ensuing fiscal year or a credit against future rents and charges.

Last, the hybrid agreement, like the name implies, is a combination of the compensatory and residual rate setting methodologies. Most hybrid agreements split the airfield and terminal cost centers into residual and compensatory, respectively. In this arrangement, airfield use is handled on a residual basis and terminal use on a compensatory basis. The airport takes all of the risk and gets all of the upside benefits associated with the terminal cost center. On the airfield side, the airline assumes the downside risk and gets the benefit of lower than anticipated costs and/or higher revenue.

The cursory description provided above regarding airline use agreements does not reflect the complex nature of the documents or the related negotiations that take place between airport and airline managers. These negotiations are often protracted, and the parties attempt to structure the agreement to reflect their respective needs, concerns and trends in the airline industry. Seven of the surveyed peer airports have some form of airline use agreement in effect for their facilities. Of these seven facilities, six deploy the compensatory methodology while one utilizes a hybrid approach. EAU currently employs a compensatory approach by maintaining lease and occupancy agreements with its airline tenants.

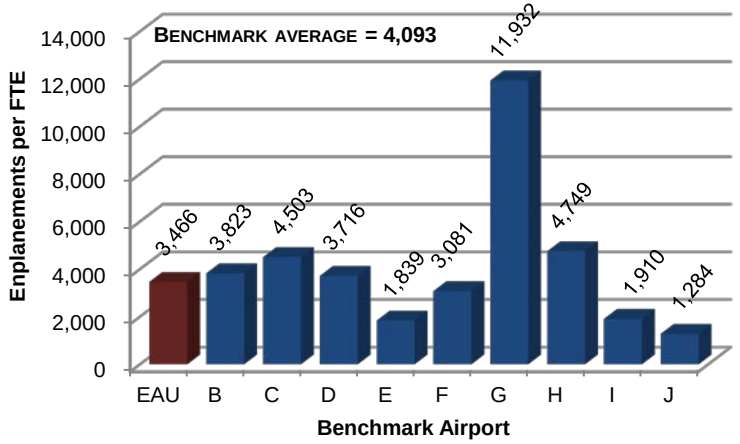
Enplaned Passengers

During calendar year 2011, a total of 19,062 passengers boarded flights at EAU offered by United Express (SkyWest Airlines). Of the nine peer airports, EAU had the fourth lowest level of enplanements (19,062). Airport B posted the highest level of enplanements (26,764) while the average level of enplanements for all in the survey was 21,309 passengers. From a financial perspective, airline passengers generate revenue for an airport through purchases such as rental cars, parking and concessions, and more passengers mean a larger base for an airport to spread its fixed costs. In general, airports that enplane less than 150,000 passengers per year experience difficulty generating sufficient revenue to cover expenses. In these situations, the airport is usually subsidized by the local government. This is borne out in the data compiled herein as five of the surveyed airports receive some form of operating funding from their member jurisdictions averaging $525,750. This is compared to EAU with funding support totaling $493,785 (fiscal year 2011) from Chippewa and Eau Claire Counties.

Airport FTEs

EAU employs a total of 5.5 FTEs including two supervisor/management staff, one clerical and 2.5 line staff representing one of the lower FTE counts compared to the nine participating airports. The average number of FTE positions for the nine non-hub benchmark airports totaled seven. In terms of staff utilization and efficiency, the standard measure in the industry is the number of enplaned passengers per FTE. Of the nine benchmark airports, the average enplanements per FTE were 4,093, while EAU had 3,466 enplanements per FTE (**Exhibit 3.1**). On the surface, these data would suggest that EAU is not as efficient as these nine facilities; however, one facility,

EXHIBIT 3.1 ENPLANEMENTS PER FTE



Airline Rates
EAU's landing fee of $1.17 is comparable to benchmark airports; its terminal rent of $21.45 is lower than the benchmark airports average.

"Airport G", reported that it only has two employees and contracts with its governing body to provide maintenance and janitorial services at an annual cost of approximately $195,000 per year. Because of this arrangement, "Airport G" has 11,932 enplanements per FTE. Discounting this airport from the mix of respondents yields an average of 3,113 enplanements per FTE for the remaining surveyed airports. Based on this adjustment, EAU enjoys a higher level of staff efficiency than these remaining eight airports. EAU's overall staffing level is slightly below its peers, with 5.5 FTEs compared to the benchmark average of 7.0 FTEs.

EXHIBIT 3.2 LANDING FEE

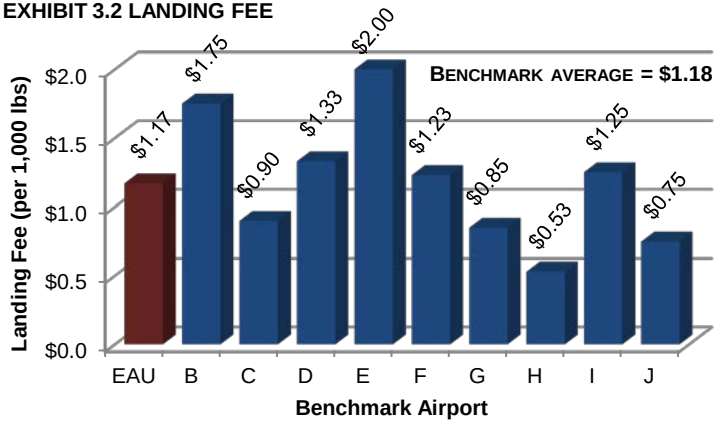
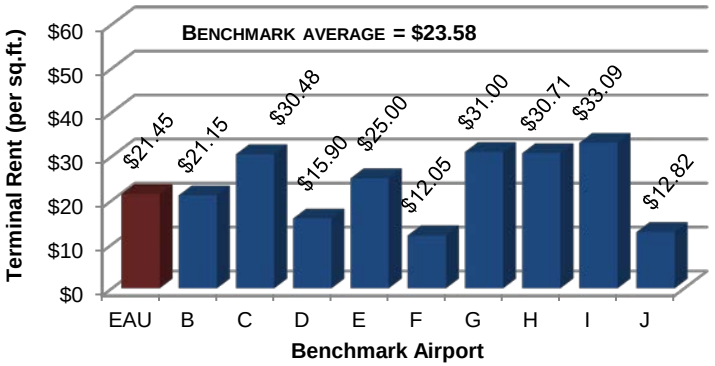


EXHIBIT 3.3 TERMINAL RENT



Airline Fees and Charge

It is typical for airports to charge airlines for their use of airport facilities. Usually, these charges take the form of landing fees, terminal square footage fees, fuel flowage fees, ramp/jetway use fees, baggage claim device fees and a variety of lesser used methods of cost recovery. EAU charges two primary fees to airline operators: landing fees and terminal space rental. The current landing fee is set at $1.17 per 1,000 pounds of gross landed weight. One of the other charges incurred by airlines at EAU is for the use of space in the airline passenger terminal building. This rate is currently $21.45 per square foot of leased space.

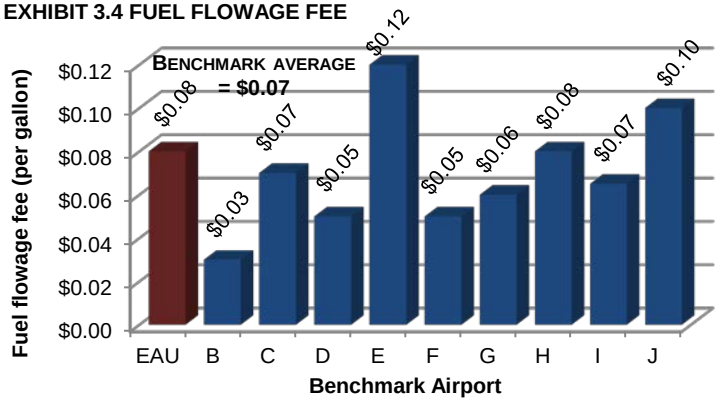
The benchmark survey average for landing fees is $1.18 per 1,000 pounds of landed weight (**Exhibit 3.2**). Four of the benchmark airports have landing fees under $1.00 per 1,000 pounds, while one airport maintains a rate of $2.00 per 1,000 pounds. These data confirm that EAU's landing fees are on par with its peers.

The terminal square footage rate at EAU is $21.45 per square foot while the comparable average for the nine benchmark airports is $23.58 per square foot (**Exhibit 3.3**).

Airline Revenue
As a percent of total revenue, EAU's airline revenue is low at 14 percent compared to the benchmark average of 31 percent.

Fuel flowage fees are also assessed at all benchmarked facilities. EAU charges a fuel flowage fee of $0.08 per gallon for Jet-A product while the average fuel flowage fee is $0.07 per gallon (**Exhibit 3.4**) among surveyed facilities. EAU's fuel flowage fee is higher than all but two of the benchmark airports; however, it is equivalent to the average for the surveyed airports.

EXHIBIT 3.4 FUEL FLOWAGE FEE

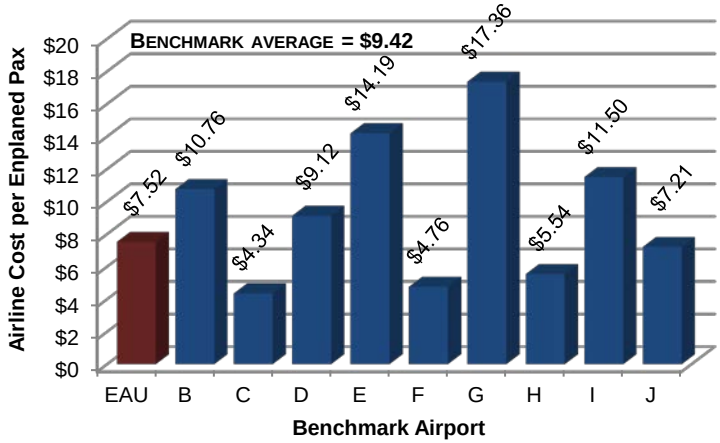


AIRPORT REVENUE

Airport revenue is divided into five general categories: airline, charter, passenger related, FBO/GA and miscellaneous.

Airline Revenue

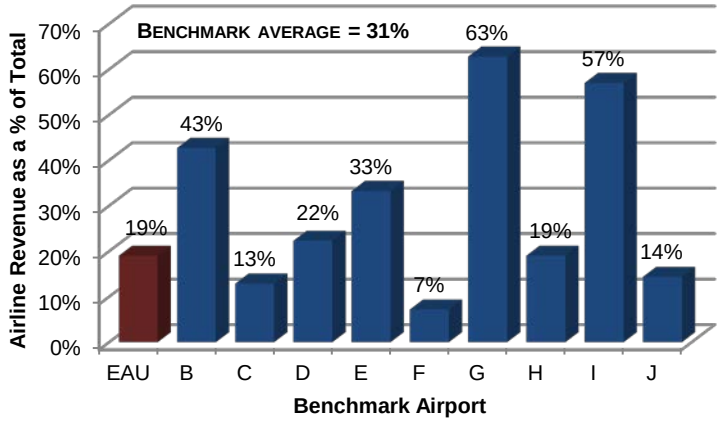
EXHIBIT 3.5 AIRLINE COST PER ENPLANEMENT



At each airport, the actual unit charge (e.g. cost per 1,000 pounds of landed weight, per square foot) discussed above are the subject of extensive negotiations between the airport and the airline with each party influencing the rate setting discussions according to their respective interests. As a result, there are sometimes large differences among airports with respect to airline unit costs. Accordingly, it is beneficial to first analyze airport charges to airlines based on the airline's total cost for each passenger that it enplanes at the airport. This is the most important measure of airline costs (i.e. an airport's airline revenue) at an airport. The average airline cost per enplaned passenger for the nine benchmark airports is $9.42 (see **Exhibit 3.5**). EAU's comparable number is $7.52 per enplaned passenger. Using this measure, ***EAU's airline cost per enplaned passenger was the fifth lowest compared to the participating airports.*** The aggregate revenue paid by United Express at EAU also appears low. It is recognized that in order to maintain or improve air service during difficult financial periods such as those experienced by the airlines in the last few years, EAU must remain competitive and work in partnership with United to mitigate increasing costs.

Overall, the revenue that EAU garners from its carrier is the fourth lowest of the nine benchmark airports. The cause appears to be largely related to lower than average terminal square footage rental rates. With regard to airline rates, this analysis does not consider factors like the financial condition of the airport's airlines and air service issues that are part of airline rate setting negotiations. EAU's rates are more than fair and reasonable as indicated by the fact that they are below market averages. In terms of total airline revenue contributed to the operation of the airport, EAU had a lower than average share, 19 percent (**Exhibit 3.6**). This is below the benchmark average of 31 percent.

EXHIBIT 3.6 AIRLINE REVENUE AS A % OF TOTAL REVENUE



As revealed in the benchmark survey, EAU maintains the fifth lowest terminal square foot rental rate among its peers at $21.45 per square foot. Total terminal airline fees collected by EAU in 2011 were $103,198 compared to $152,221 for similar facilities. In effect, EAU's provider is paying 68 percent of what is usual and customary at like airports. Although this margin is expansive and likely due to the fact that EAU has a low operating cost structure and little debt service, the carrier serving the EAU region is not likely in a position to financially absorb significant rate/rent increases despite recent indications that the industry is regaining some positive momentum toward profitability. If EAU were to adjust its air carrier terminal fees to a level that would bring its cost per enplaned passenger to parity with its peers an additional $49,023 per year in airline fees would need to be generated. At issue though is whether United Express is willing/able to pay such a marked increase or whether it would be more prudent to explore more modest incremental airline rate increases while continuing seeking to maximize non-airline rents.

Airline Passenger Related Revenue

Passenger related activities can produce significant amounts of revenue that are important for the airport. Within this category, the most important revenue sources include public parking, rental car concessions, gift shops and restaurant/catering. Unlike airline revenue that is at best a cost recovery proposition, passenger related revenue generally exceeds the cost of providing the service. Passenger related revenue provides a source of revenue that is used to offset unrecoverable airport expenses. Unlike the rate setting aspect for airline leases and contracts, developing passenger related revenue is an entrepreneurial exercise at times requiring substantial innovation. It is also important to note that for non-hub airports the ability to generate large sums of passenger related revenue is extremely limited.

Passenger Related Revenue
EAU's total passenger related revenue of $13.58 per passenger is above average compared to non-hub benchmark airports.

PARKING

The performance measure in this category is parking revenue generated per enplaned passenger (**Exhibit 3.7**). The revenue produced by the public parking lot at EAU ($5.61) was the second highest of the nine benchmark airports. It is notable that only five airports reported collecting parking revenue.

The average for all benchmark airports collecting parking revenue was $3.86 per passenger. EAU's revenue per passenger is most closely aligned with Airports B and J while the remaining three had revenue of $4.00 or lower per passenger. Based on these indicators it appears that EAU's current rate structure is justified and reasonable. Public automobile parking revenue comprises 14 percent of all revenue for EAU. It is imperative that established rates remain as competitive as possible and key performance indicators be established and tracked to monitor performance and ensure this revenue source remains healthy and productive.

RENTAL CARS

The nine-airport benchmark average for this category is $4.46 per enplaned passenger while EAU reported $4.20 (**Exhibit 3.8**). EAU currently collects $80,111 per year from rental car companies compared to the $93,239 benchmark average. EAU should ensure that its concession fees, ticket counter/office rental rates and ready/return space rents are current and reflective of market trends.

EXHIBIT 3.7 PARKING REVENUE

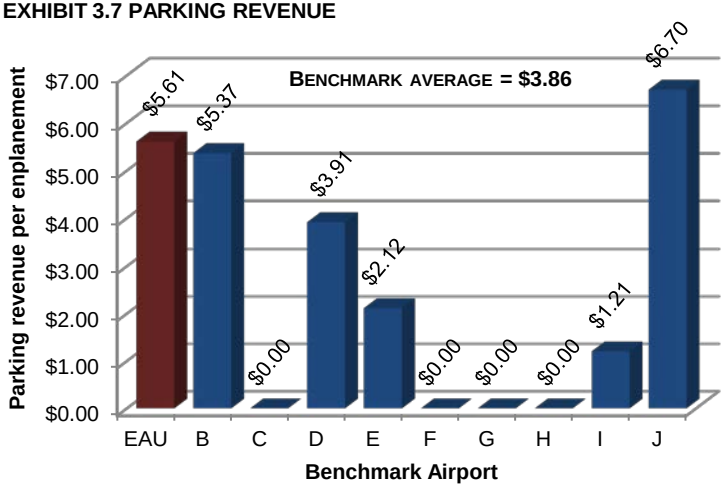
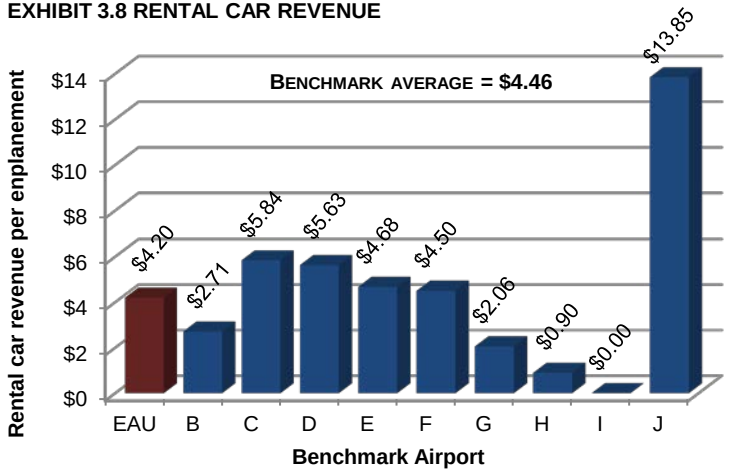


EXHIBIT 3.8 RENTAL CAR REVENUE



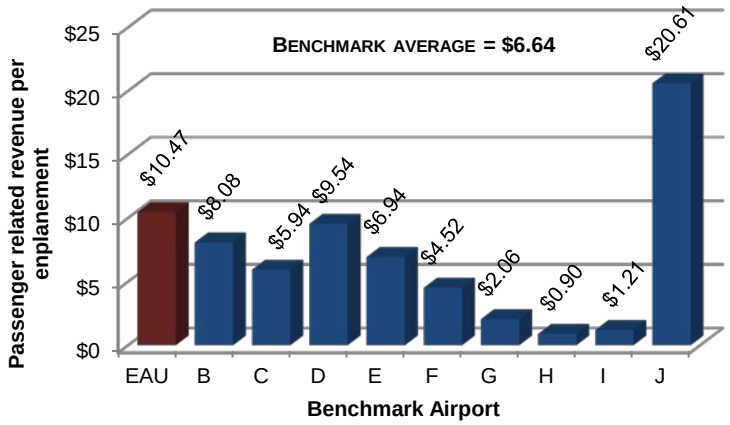
RESTAURANT/CATERING

EAU receives an average of $0.66 per passenger for restaurant/catering. This is far above the benchmark survey average of $0.06 per passenger. EAU has the highest average restaurant/catering revenue per enplaned passenger than any of the four benchmark airports that collect fees from restaurant/catering operations.

TOTAL PASSENGER REVENUE

In total, EAU received $233,520 in passenger related revenue equating to $10.47 per passenger due to solid revenue generation from its parking, food service and rental car concessions. The nine benchmark airports averaged only $6.64 per passenger (**Exhibit 3.9**). EAU performed well compared to its peer non-hub airports.

EXHIBIT 3.9 TOTAL PASSENGER RELATED REVENUE

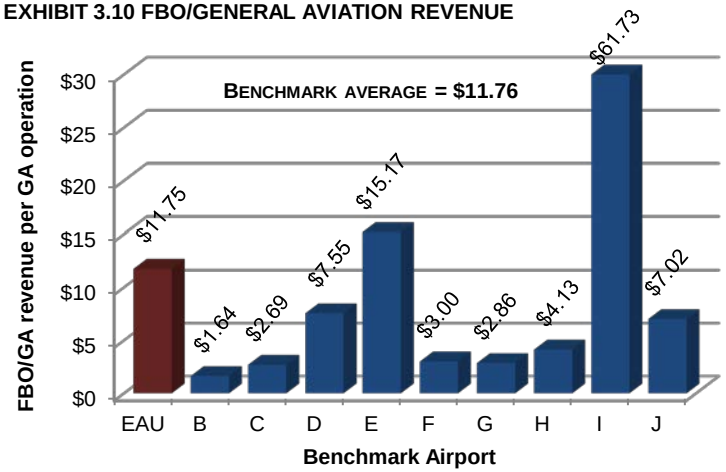


FBO/GA Revenue

This category includes revenue generated by:

- Privately owned FBO providing aeronautical services to the public and operating on the airport through a lease agreement or the airport sponsor providing these same services with its own workforce.
- Aircraft hangar and tie-down rents and fees
- Fuel flowage fees

EXHIBIT 3.10 FBO/GENERAL AVIATION REVENUE



Because of the volume and type of GA traffic that frequents the different airports in this survey, there is a large revenue difference between the high and low benchmark airports. For EAU, this revenue category produces 47 percent of the airport's total revenue, above the 19 percent benchmark average. One performance measure often applied to GA revenue is the revenue produced by this source per GA aircraft operation. Applying this measure, EAU produced $11.75 per GA operation compared to the benchmark average of $11.76 as shown on **Exhibit 3.10**. EAU reported the third highest level of FBO/GA

revenue per GA operation; however, it should be noted that Airport I serves as the FBO for its facility and generates greater revenue versus this identified peer group. It also has to carry the cost of fuel and supplies which is not captured in these data. Because of this factor, EAU's comparable airports for this measure are Airports B-H and J. Among these facilities, EAU has the second highest level of FBO/GA revenue per GA operation. On the surface it would appear that GA operations at EAU are performing well compared to its peer benchmark airports; however, it is important to recognize that a sizable portion of GA revenue generated at EAU is utilized to retire debt.

Summary of Operating Revenue

Operating revenue by airport is summarized in **Table 3.1** with each revenue component shown as a percent of total revenue. In terms of overall revenue generation, EAU is performing slightly below average, $0.74 million compared to an average of $0.79 million and well below average with respect to airline revenue on a percent of total revenue basis. EAU realizes 19 percent of its total revenue from airlines while airline revenue typically comprises 31 percent of total revenue for peer facilities. Contrary to airline revenue, EAU's passenger related revenue is performing above average producing 32 percent of total revenue versus an average of 20 percent. FBO/GA revenue is also above average compared to the benchmark airports accounting for 47 percent of total airport revenues. In sum, while EAU is underperforming in airline terminal rates/charges, it is well ahead of its peers in collections of passenger related and FBO/GA revenue which generates its significantly lower cost per enplaned passenger environment relative to its peers ensuring an affordable market exists for air service.

TABLE 3.1 SUMMARY OF OPERATING REVENUE

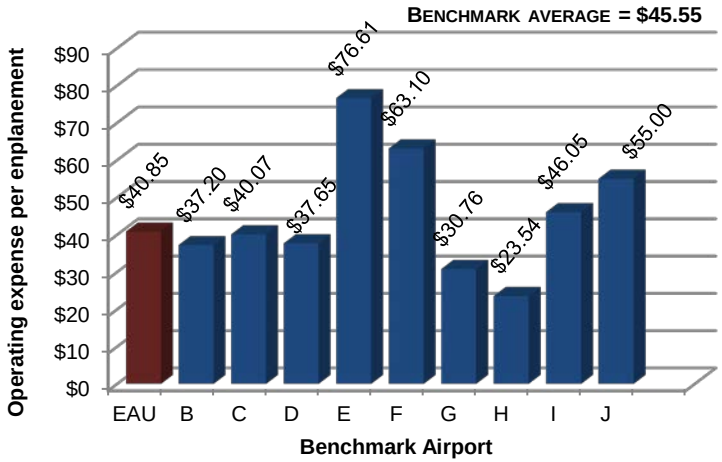
		BENCHMARK AIRPORT									
AIRPORT:	EAU	B	C	D	E	F	G	H	I	J	AVG
Total operating revenue (millions)	$0.74	$0.67	$0.76	$0.91	$0.94	$1.43	$0.58	$0.55	$0.32	$0.90	$0.79
Airline revenue as a % of total	19%	43%	13%	22%	33%	7%	63%	19%	67%	14%	31%
Passenger related revenue as a % of total	32%	43%	18%	28%	17%	7%	7%	3%	7%	41%	20%
FBO/GA revenue as a % of total	47%	6%	48%	22%	21%	8%	22%	6%	17%	22%	19%

AIRPORT OPERATING EXPENSES

Airport operating expenses are comprised of many different elements with each airport having a unique array of expenditures. Given the diverse methods used for accounting for expenses, a detailed analysis is not used in the benchmarking survey. However, total airport operating expenses are compared for each of the survey airports.

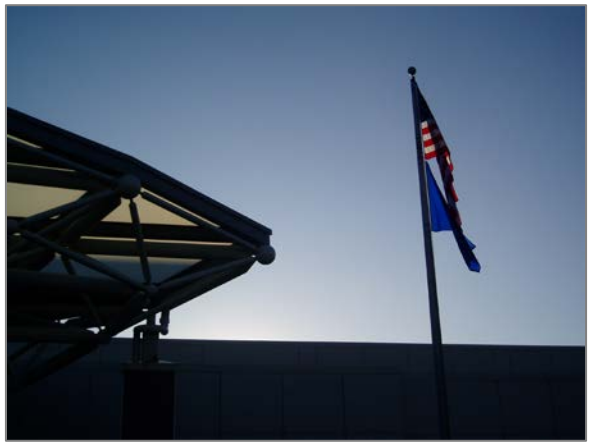
For the survey period, EAU reported total annual operating expenses of $778,682; the third lowest level among the peer group. On a per enplanement basis, operating expenses at EAU were the sixth lowest of the nine participating airports. EAU experienced operating expenses of $40.85 per enplanement (**Exhibit 3.11**). The average operating expense per enplanement for the benchmark airports was $45.55. These data confirm that EAU is operated in a very efficient and cost-effective manner compared to similar airports.

EXHIBIT 3.11 OPERATING EXPENSE



SENSITIVITY ANALYSIS

The previous section identified two airline rates that are assessed by EAU to airlines: landing fees and terminal rents. In negotiating rates with the airlines, it is helpful to understand what other airports in its peer base and geographic area are charging. This exercise has assisted in providing perspective on each of EAU's rates. Potential changes in rates and the impact on revenue is discussed in more detail below.



LANDING FEE

The benchmark survey demonstrated that EAU's landing fees are on average consistent with its peers. Should EAU choose to increase the landing fee, the impact of incremental increases in the fee is demonstrated in **Table 4.1**.

TABLE 4.1 LANDING FEE INCREMENTAL REVENUE

		INCREMENTAL INCREASE IN LANDING FEE			
	CY 2011	5%	10%	15%	20%
Landing fee (per 1,000 lbs)	$1.17	$1.23	$1.29	$1.35	$1.40
Estimated Landed Weight (in 000s)	34,373	34,373	34,373	34,373	34,373
Landing fee revenue	$40,216	$42,227	$44,238	$46,248	$48,259
Incremental revenue		$2,011	$4,022	$6,032	$8,043

Note: Landed weight approximated from 2011 results

A five percent increase in the landing fee up to $1.23 per 1,000 pounds will increase revenue by only $2,011. At the higher end, a 20 percent increase in the landing fee would increase revenue by as much as $8,043.

TERMINAL RENT

The square footage rate charged by EAU is low compared to benchmark airports. The current rate of $21.45 is approximately $2 lower per square foot than the average for the benchmark airports. **Table 4.2** shows the impact of increases in the terminal rent square footage rate.

TABLE 4.2 TERMINAL RENT INCREMENTAL REVENUE

		INCREMENTAL INCREASE IN TERMINAL RENT			
	CY 2011	10%	20%	30%	40%
Terminal rent square footage rate	$21.45	$23.60	$25.74	$27.89	$30.03
Rented square footage	2,887	2,887	2,887	2,887	2,887
Terminal rent revenue	$61,926	$68,119	$74,311	$80,504	$86,697
Incremental revenue		$6,193	$12,385	$18,578	$24,771

Note: Rentable square footage approximated from 2011 results

An increase in the terminal rent square footage rate of 20 percent would provide additional revenue of over $12,000 and the rate of $25.74 would be slightly above the benchmark average. It is recommended that EAU consider an upward adjustment in their square footage rate. While this survey indicates that the terminal rent square footage rate is below average, EAU will need to build a strong case to United Express to support the increase.

CONCLUSIONS

Because EAU is consistent with its peer airports in terms of its airline landing fee structure and any significant adjustments would not yield appreciable income (a 20 percent increase to $1.40 would net EAU approximately $8,043 in additional revenue), it is not recommended that such a wholesale modification be pursued at this time. An increase in the terminal rent square footage rate of 40 percent would yield approximately $24,771 while a 20 percent adjustment to $25.74 could yield $12,385. Since EAU lags its market peers, some gradual increase to $25.74 per square foot is recommended for consideration in the coming budget cycles. While EAU's fuel flowage fee is consistent with industry practice, any upward adjustment of this fee would likely thrust EAU into a non-competitive situation with neighboring and peer airports which could correspondingly decrease fuel sales activity and thereby negate the effects of such a fee increase.

RECOMMENDATIONS

Overall, this benchmarking exercise confirms that EAU operates as a very lean and efficient organization. Staffing, operating costs and terminal rents per enplaned passenger are low despite having one of the lowest volumes of passengers. It is also quite noteworthy that EAU can be in a breakeven position financially given its limited revenue streams. While EAU has the fourth lowest total operating revenue compared to its peers, it doesn't burden airlines with costs and instead relies on passenger related and GA revenue as well as ongoing funding from Chippewa and Eau Claire Counties to meet both operating and capital expenses.

As EAU moves forward with implementation of its Master Plan, it should seek to:

1. Monitor and adjust its airline terminal rates and charges to bring these fees into alignment with its peer facilities and local real estate market conditions.
2. Adjust passenger parking rates on an ongoing basis to ensure that this critical source of passenger related revenue is appropriately contributing to EAU's operating revenue base.
3. Examine the feasibility of refinancing or pre-paying the two outstanding loans for airport hangar facilities to reduce overall operating costs.
4. Continue to implement its progressive and proactive lease management system to ensure that rates and charges are adjusted to reflect local conditions, consistent with industry practices and aimed at full cost recovery for providing aviation services and amenities to the public.
5. Demonstrate to its member jurisdictions their return on investment (ROI) for the funding they provide for airport operations and capital development.

APPENDIX A. AIRPORT DATA

TABLE A.1 AIRPORT BASE DATA

AIRPORT:	EAU	B	C	D	E	F	G	H	I	J	AVG
Hub Size	Non-hub	Non-hub	Non-hub	Non-hub	Non-hub	Non-hub	Non-hub	Non-hub	Non-hub	Non-hub	
Airport Operator	Airport Commission	City/Co.	City	City	Airport District	City	City	Authority	Economic Develop. Corp.	Airport Authority	
Airline Use Agreement	Compensatory	Compensatory	None	Hybrid	Compensatory	Compensatory	Compensatory	Compensatory	Compensatory	None	
Fiscal Year Ending	Dec-11	Dec-11	Jun-11	Jun-11	Jun-11	Sep-11	Jun-11	Dec-11	Dec-11	Jun-11	
Enplaned Passengers (Air Carrier)	19,062	26,764	22,514	22,297	22,066	21,566	20,881	18,995	18,717	17,978	21,309
Aircraft operations											
Air Carrier	52	5,840	34	402	0	156	6	2,248	1,460	1,430	1,286
General Aviation	29,350	23,400	135,067	26,710	12,837	36,261	43,477	8,208	900	28,849	35,079
Military	815	0	490	1,844	5,440	347	10,126	24	43	1,263	2,175
Total	30,217	29,240	135,591	28,956	18,277	36,764	53,609	10,480	2,403	31,542	38,540
Airport FTEs											
Supervisor/Management	2	2	1	1	3	1	1	2	4	4	2
Clerical	1	0	1	1	1	1	0.25	0	2	1	1
Maintenance/ARFF/Operations	2.5	5	3	4	8	5	0.5	2	4	9	4
Total FTEs	5.5	7	5	6	12	7	2	4	10	14	7
Airport Rates and Charges											
Fuel flowage fees (per gallon)	$0.08	$0.03	$0.07	$0.05	$0.12	$0.05	$0.06	$0.08	$0.07	$0.10	$0.07
Landing fee - non-signatory (per 1,000 lbs)	$1.24	$2.00	$0.90	$2.00	$2.00	$1.48	$1.05		$1.25	$0.75	$1.43
Landing fee - signatory (per 1,000 lbs)	$1.17	$1.75	$0.90	$1.33	$2.00	$1.23	$0.85	$0.53	$1.25	$0.75	$1.18
Terminal - rent (per sq.ft.)	$21.45	$21.15	$30.48	$15.90	$25.00	$12.05	$31.00	$30.71	$33.09	$12.82	$23.58
AIRPORT REVENUE											
Airline revenue (not including charter)											
Passenger airline landing fees	$40,216	$118,394	$36,090	$39,346	$91,548	$46,237	$45,958	$16,836	$27,423	$25,779	$49,735
Terminal arrival fees - rents - utilities	$103,198	$169,598	$54,094	$163,971	$196,767	$56,391	$9,600	$33,271	$187,227	$0	$96,769
Terminal area apron charges/tiedowns	$0	$0	$6,073	$0	$24,860	$0	$0	$0	$612	$103,765	$15,034
Other passenger aeronautical fees	$0	$0	$1,560	$0	$0	$0	$307,040	$55,162	$0	$0	$40,418
Total Passenger Airline Aeronautical Revenue	**$143,414**	**$287,992**	**$97,817**	**$203,317**	**$313,175**	**$102,628**	**$362,598**	**$105,269**	**$215,262**	**$129,544**	**$201,956**
Landing fees from cargo	$0	$13,112	$2,398	$0	$24,831	$21,462	$0	$6,545	$0	$0	$7,594
Landing fees from GA and military	$8,400	$0	$0	$0	$0	$21,519	$0	$0	$7,289	$0	$3,201
FBO revenue - contract or sponsor-operated	$125,139	$10,211	$0	$32,303	$79,059	$30,212	$27,672	$4,200	$22,897	$113,059	$35,513
Cargo and hangar rentals	$100,463	$23,381	$320,749	$110,702	$64,513	$35,126	$66,925	$17,801	$25,373	$22,074	$76,294
Aviation fuel tax retained for airport use	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Fuel sales net profit/loss or fuel flowage fees	$110,967	$4,842	$43,021	$58,739	$51,186	$21,878	$29,730	$11,910	$0	$67,250	$32,062
TSA Security reimbursement	$0	$20,501	$0	$0	$38,211	$165,525	$0	$0	$26,069	$52,228	$33,615

TABLE A.1 AIRPORT BASE DATA

AIRPORT:	EAU	B	C	D	E	F	G	H	I	J	AVG
Other non-passenger aeronautical revenue	$0	$3,728	$0	$0	$0	$7,042	$0	$900	$0	$0	$1,297
Total Non-Passenger Aeronautical Revenue	**$344,969**	**$75,775**	**$366,168**	**$201,744**	**$257,800**	**$302,764**	**$124,327**	**$41,356**	**$81,628**	**$254,611**	**$189,575**
Total Aeronautical Revenue	**$488,383**	**$363,767**	**$463,985**	**$405,061**	**$570,975**	**$405,392**	**$486,925**	**$146,625**	**$296,890**	**$384,155**	**$391,531**
Land and non-terminal facility leases and revenues	$14,299	$2,988	$120,608	$212,000	$208,813	$291,416	$47,434	$5,775	$0	$30,498	$102,170
Terminal-food and beverage	$26,839	$0	$3,806	$0	$3,063	$300	$0	$0	$0	$2,282	$1,050
Terminal-retail stores and duty free	$0	$0	$0	$0	$1,637	$300	$0	$0	$0	$0	$215
Terminal-services and other	$19,597	$71,236	$0	$40,659	$7,424	$3,187	$0	$0	$0	$0	$13,612
Rental cars-excludes customer facility charges	$80,111	$72,617	$131,589	$125,556	$103,245	$97,099	$42,995	$17,071	$0	$248,983	$93,239
Parking and ground transportation	$106,973	$143,612	$0	$87,229	$46,701	$0	$0	$0	$22,560	$120,461	$46,729
Other Non-Aeronautical Revenue		$20,334	$40,123	$40,934	$0	$630,783	$20	$383,733	$0	$114,990	$136,769
Total Non-Aeronautical Revenue	**$247,819**	**$310,787**	**$296,126**	**$506,378**	**$370,883**	**$1,023,085**	**$90,449**	**$406,579**	**$22,560**	**$517,214**	**$393,785**
Total Operating Revenue	**$736,202**	**$674,554**	**$760,111**	**$911,439**	**$941,858**	**$1,428,477**	**$577,374**	**$553,204**	**$319,450**	**$901,369**	**$785,315**
AIRPORT OPERATING EXPENSES											
Personnel compensation and benefits	$404,631	$541,169	$417,162	$479,155	$707,726	$394,813	$264,346	$162,981	$364,963	$557,515	$432,203
Communications and utilities	$162,973	$115,464	$114,327	$115,142	$156,165	$168,569	$82,724	$33,941	$98,014	$102,594	$109,660
Supplies and materials	$147,899	$93,380	$15,735	$10,686	$135,780	$84,437	$8,572	$148,016	$190,643	$54,061	$82,368
Contractual services	$10,865	$131,288	$305,184	$11,610	$506,513	$690,511	$240,295	$68,868	$16,237	$70,905	$226,823
Insurance claims and settlements	$29,765	$54,461	$41,624	$18,645	$138,986	$19,136	$4,996	$10,264	$9,788	$39,360	$37,473
Other Operating Expenses	$22,549	$59,751	$8,177	$204,226	$45,386	$3,396	$41,435	$23,057	$182,283	$164,290	$81,333
Subtotal - Operating Expenses	**$778,682**	**$995,513**	**$902,209**	**$839,464**	**$1,690,556**	**$1,360,862**	**$642,368**	**$447,127**	**$861,928**	**$988,725**	**$950,743**
Net Income Before Depreciation	**($42,480)**	**($320,959)**	**($142,098)**	**$71,975**	**($748,698)**	**$67,615**	**($64,994)**	**$106,077**	**($542,478)**	**($87,356)**	**($184,546)**
Depreciation	$0	$0	$765,296	$1,687,892	$2,367,765	$0	$981,237	$0	$1,180,591	$1,371,847	$928,292
OPERATING SURPLUS/DEFICIT, DEBT SERVICE											
Operating Income	($42,480)	($320,959)	($907,394)	($1,615,917)	($3,116,463)	$67,615	($1,046,231)	$106,077	($1,723,069)	($1,459,203)	($1,112,838)
Annual debt service	$109,909	$0	$0	$18,000	$1,100,000	$0	$0	$831,000	$60,000	$0	$502,250
Contributions from Localities	$493,785	$320,000	$0	$0	$1,000,000	$818,748	$0	$220,000	$0	$270,000	$525,750
Payments to Localities for Services	$0	$0	$128,240	$0	$225,000	$435,061	$194,900	$0	$0	$0	$245,800

APPENDIX B. FINANCIAL MEASURES

TABLE B.1 FINANCIAL MEASURES

AIRPORT:	EAU	B	C	D	E	F	G	H	I	J	AVG
Airline revenue:											
Airline revenue per enplanement	$7.52	$10.76	$4.34	$9.12	$14.19	$4.76	$17.36	$5.54	$11.50	$7.21	$9.42
Airline revenue as a % of total	19%	43%	13%	22%	33%	7%	63%	19%	67%	14%	31%
General Aviation operations as a % of total	97%	80%	100%	92%	70%	99%	81%	78%	37%	91%	81%
Signatory landing fee (per 1,000 lbs)	$1.17	$1.75	$0.90	$1.33	$2.00	$1.23	$0.85	$0.53	$1.25	$0.75	$1.18
Signatory terminal rent (per sq.ft.)	$21.45	$21.15	$30.48	$15.90	$25.00	$12.05	$31.00	$30.71	$33.09	$12.82	$23.58
Passenger related revenue per enplanement:											
Gift shop	$0.00	$0.00	$0.00	$0.00	$0.07	$0.01	$0.00	$0.00	$0.00	$0.00	$0.01
Parking	$5.61	$5.37	$0.00	$3.91	$2.12	$0.00	$0.00	$0.00	$1.21	$6.70	$3.86
Rental car	$4.20	$2.71	$5.84	$5.63	$4.68	$4.50	$2.06	$0.90	$0.00	$13.85	$4.46
Restaurant/catering	$0.66	$0.00	$0.09	$0.00	$0.08	$0.01	$0.00	$0.00	$0.00	$0.06	$0.06
Terminal services	$10.47	$8.08	$5.94	$9.54	$6.94	$4.52	$2.06	$0.90	$1.21	$20.61	$6.64
FBO/GA revenue:											
FBO/GA revenue per GA operation	$11.75	$1.64	$2.69	$7.55	$15.17	$3.00	$2.86	$4.13	$61.73	$7.02	$11.76
FBO/GA revenue as a % of total	47%	6%	48%	22%	21%	8%	22%	6%	17%	22%	19%
FBO/GA operations as a % of total	97%	80%	100%	92%	70%	99%	81%	78%	37%	91%	81%
Enplanements per FTE	3,466	3,823	4,503	3,716	1,839	3,081	11,932	4,749	1,910	1,284	4,093
Operating expense per enplanement	$40.85	$37.20	$40.07	$37.65	$76.61	$63.10	$30.76	$23.54	$46.05	$55.00	$45.55
Operating margin (before depreciation)	(6%)	(48%)	(19%)	8%	(79%)	5%	(11%)	19%	(170%)	(10%)	(34%)
Total operating revenue	$736,202	$674,554	$760,111	$911,439	$941,858	$1,428,477	$577,374	$553,204	$319,450	$901,369	785,315
Airline revenue as a % of total	19%	43%	13%	22%	33%	7%	63%	19%	67%	14%	31%
Non-Aeronautical related revenue as a % of total	34%	46%	39%	56%	39%	72%	16%	73%	7%	57%	45%

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