



JOHN WAYNE AIRPORT



FISCAL YEAR 2007-08 BUSINESS PLAN



ALAN L. MURPHY
AIRPORT DIRECTOR

JOHN WAYNE AIRPORT

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EXECUTIVE SUMMARY

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Safety and customer service continue to be the priorities for, and the hallmark of, John Wayne Airport (JWA). In a successful partnership with both federal security and local law enforcement officials, the Airport remains committed to providing safe and secure facilities for commercial and general aviation operations. The Thomas F. Riley Terminal continues to provide travelers with an attractive and efficient airport experience. Valet parking, quality restaurants, expanded news and gift concessions, improved passenger screening checkpoints, and superior general aviation facilities offer travelers the amenities they look for most in an airport.

In order to meet these high standards of security and efficiency, the Airport must and does plan prudently and proactively. JWA's reputation as a sound financial manager and a safe investment is hard won and greatly valued by Airport management. The Airport's success in managing its resources wisely provides a firm foundation upon which facilities are constructed and improved.

Sound planning and fiscal management are not the only contributors to John Wayne Airport's success. JWA benefits greatly from the fact that Orange County provides a strong base of commercial passenger, cargo, and general aviation demand. JWA is fortunate that those who provide service here, the airlines, terminal tenants, and general aviation service providers, are dedicated to working in partnership with the Airport to provide quality aviation services. Last, but certainly not least, the landmark agreement that balances the needs of the traveling public for air service with the needs of the local community for environmental sensitivity would not be possible without the support of the Airport's neighbors.

While the Airport is optimistic that the Strategic Goals and Key Outcome Measures presented in this Fiscal Year 2007-08 Business Plan are achievable, a number of significant challenges are anticipated:

- JWA continues to work closely with the Transportation Security Administration (TSA), Federal Aviation Administration (FAA), and Airport Police Services (Orange County Sheriff's Department) to ensure the smooth implementation of federally mandated security regulations, and to identify additional steps that can be taken to provide for the safety of travelers in and around JWA. The sheer number of these regulations and the complexity of integrating them into the Airport Security Plan will continue to present challenges, from both an operational and a financial perspective.

- The financial position of the airline industry, the number and complexity of security mandates, and the Airport Improvement Program will all present financial challenges to John Wayne Airport. In the coming fiscal year, JWA must carefully monitor the health and diversity of its revenue stream and carefully implement its prudent financial plan to support the Airport Improvement Program.
- Industry observers report that construction costs have been escalating at higher than anticipated rates. Causes for the trend are many and include, but are not limited to: fuel prices, rapid growth in demand for construction services, volatility of raw and manufactured material costs (steel, concrete, etc.), shortage of skilled and qualified workers, increasing labor costs, and reconstruction from natural disasters both in the US and abroad. JWA staff and its consultants are carefully following these trends and are committed to both understanding and anticipating how they could affect the Airport Improvement Program.
- The Airport continues to manage a growing and changing workload. Implementation of federally mandated security regulations, growth in operational and passenger capacity, maintenance of aging facilities, and implementation of the Airport Improvement Program present tremendous demands on Airport staff. Ensuring that the Airport has sufficient and appropriate human resources to fulfill its responsibilities will be a priority in the coming year.

In preparing its Fiscal Year 2007-08 Business Plan, JWA considered its broad client base, its varied responsibilities, and anticipated service issues and challenges. Discussion of these issues led to the definition of Strategic Goals, Key Outcome Measures, and specific Strategies, which will guide preparation of the Airport's Fiscal Year 2007-08 budget and staff's continuing efforts to achieve JWA's Mission.

The following goals will guide JWA in the coming year:

- Maintain a safe and secure environment for aviation and the traveling public.
- Provide a positive aviation experience to travelers and tenants.
- Operate in an environmentally responsible manner.
- Operate as a financially efficient and self-supporting aviation facility.
- Continue to implement the Airport Improvement Program.

In addition to identifying plans and projects for the coming year, this 2007-08 Business Plan includes a review of JWA's accomplishments over the past year. This review demonstrates the Airport's ability to identify and accomplish realistic and worthwhile goals that support its overall Mission, and that are

consistent with the County's Budget and Strategic Financial Plan. Some of the Airport's most notable accomplishments during the last year include:

- JWA served approximately 9.6 million passengers in Calendar Year 2006.
- The Airport successfully passed its annual Part 139 Certification Inspection.
- TSA security regulations were integrated into its Aviation Security Plan and achieved full compliance with required security measures.
- The Airport began collecting Passenger Facility Charges to support the Airport Improvement Program.
- The Board awarded a number of major contracts in support of the Airport Improvement Program in Fiscal Year 2006-07, including but not limited to: program management, South RON construction, South RON construction management, and Terminal design (selection complete, contract award pending).
- A new Web site dedicated to providing information about the Airport Improvement Program was developed and launched. (www.ocair.com/improvements)
- Working with its concessionaires, the Airport completed construction of the "Oasis Grill and Sky Lounge," a new Hudson news and gift concession and, in early 2007, a new "Sunglass Hut"/"Life is good" specialty concession.
- The Airport continued its efforts to strengthen its level of emergency preparedness through establishment of an Emergency Response Team and acquisition of emergency response supplies.

The Airport is proud to have achieved the Strategic Goals defined for Fiscal Year 2006-07. JWA is equally committed to accomplishing its Mission and Goals in the coming fiscal year and is looking forward to providing Orange County with safe, secure, and efficient aviation services and facilities.



MISSION AND GOALS

I. INTRODUCTION

During the next fiscal year, in response to the growing demand for aviation services in Orange County and the need for additional facilities to accommodate that demand, the Airport plans to take a number of critical steps toward implementation of the Airport Improvement Program. Built upon the Board of Supervisor's approval of the Settlement Agreement amendments, certification of EIR 582, and approval of a financing program, John Wayne Airport will begin construction on new facilities that will solidify and extend its reputation as one of the country's most efficient and passenger-friendly airports.

While the Airport Improvement Program will be a primary focus for JWA in the coming fiscal year, the Airport will continue its strong commitment to safety, security, environmental responsibility, and sound financial management. John Wayne Airport's Fiscal Year 2007-08 Business Plan defines the Mission, Strategic Goals, Key Outcome Measures, and specific Strategies that will guide the Airport as it endeavors to serve Orange County's aviation users today and in the future.

II. MISSION

John Wayne Airport plays a unique and crucial role in the Orange County community. It is the only airport in Orange County that provides commercial passenger and air-cargo service and is the primary provider of general aviation services and facilities in the county. It is home to local law enforcement air operations and to medical/mercy flights. JWA is the gateway through which millions of passengers travel each year to their homes, their families, their vacations, and their businesses.

**THE MISSION OF JOHN WAYNE AIRPORT IS TO PLAN, DIRECT,
AND PROVIDE HIGH QUALITY AVIATION SERVICES AND FACILITIES FOR
ORANGE COUNTY IN A SAFE, SECURE, AND EFFICIENT MANNER.**

JWA's Mission Statement clearly reflects that the Airport's value to the community lies in its role as a provider of air transportation services for Orange County. Consistent with that mission, safety and security will continue to be a priority for the Airport in the coming year. In light of the increasing demand for aviation services and facilities, and consistent with its commitment to efficiency, the Airport will also continue its efforts to plan for and provide additional facilities in and around the passenger terminal area.

III. STRATEGIC GOALS AND KEY OUTCOME MEASURES

JWA's Strategic Goals for Fiscal Year 2007-08 are consistent with those of the previous year. Increasing focus and resources, however, will be dedicated to the Airport Improvement Program (Strategic Goal #5).

STRATEGIC GOAL #1: Maintain a safe and secure environment for aviation and the traveling public.

KEY OUTCOME MEASURE #1A: Successfully pass the annual Part 139 Airport Certification Inspection.

The Federal Aviation Administration (FAA) provides specifications, guidance, and direction to air carrier airports in order to promote safety and to ensure that there is consistency in commercial aviation activities. Annually, the FAA conducts a comprehensive inspection, a "Part 139 Inspection," to ensure that the Airport is being operated in a safe manner. Failure to pass the Part 139 Inspection could result in decertification as an air carrier airport.

KEY OUTCOME MEASURE #1B: Comply with Transportation Security Administration (TSA) security regulations and the Airport Security Plan.

TSA regulations mandate that each air carrier airport accomplish the necessary elements of passenger and facility security and comply with federal requirements. The JWA "Airport Security Plan," TSA security directives and other relevant measures provide a cohesive plan for the security of the Airport.

STRATEGIC GOAL #2: Provide a positive aviation experience to travelers and tenants.

KEY OUTCOME MEASURE #2: 90 percent of respondents in the Airport's Passenger Survey rate JWA "Excellent" or "Good" overall.

JWA regularly surveys both airport tenants and passengers to learn their views of Airport facilities and services. In 2007, a Passenger Survey will be conducted. Direct input from those served by the Airport helps identify and prioritize facility and service improvements that passengers and tenants desire.

STRATEGIC GOAL #3:

Operate in an environmentally responsible manner.

KEY OUTCOME MEASURE #3A:

Enforce all provisions of the Commercial Airline Access Plan and Regulation and the General Aviation Noise Ordinance.

The Commercial Airline Access Plan and Regulation (Access Plan) is intended to balance the need for adequate commercial air transportation facilities and services with the desire of the local community for environmentally responsible Airport operations. The General Aviation Noise Ordinance (GANO) regulates the hours of operation and the maximum permitted noise levels associated with general aviation operations.

Successful enforcement of the Access Plan and the GANO requires regular monitoring of specific activities by commercial and general aviation operators. Enforcement of the Access Plan is necessary to ensure compliance with California Environmental Quality Act (CEQA) commitments and related Board actions, as well as to demonstrate the County's willingness and ability to operate JWA in a manner consistent with commitments to the surrounding communities, the air carriers, and the traveling public. Enforcement of the GANO demonstrates the County's commitment to environmentally responsible general aviation operations.

KEY OUTCOME MEASURE #3B:

Ensure all required environmental permits are in place and in good standing.

JWA is subject to a multitude of environmental permitting regulations, including those relating to air quality, water quality, and hazardous material handling. Compliance with these permits is required by law and, as with the Access Plan and the GANO referenced above, demonstrates the County's commitment to operate JWA in an environmentally responsible manner.

STRATEGIC GOAL #4:

Operate as a financially efficient and self-supporting aviation facility.

KEY OUTCOME MEASURE #4A:

Continue a debt service covenant of at least 175 percent¹.

Starting in 1987, the County has issued Airport Revenue Bonds to finance construction of various Airport facility improvements. JWA revenues are pledged for repayment of this bonded debt. The Bond Indenture imposes a rate covenant on the County to produce Airport net revenues in each fiscal

¹ While the required covenant is 125 percent, JWA has defined 175 percent as a desirable target covenant.

year, which are equal to at least 125 percent of the long-term debt service requirement for the fiscal year. Maintaining the debt service covenant at this level or higher demonstrates both prudent fiscal management and the ability to repay bonded debt, both of which are critical to JWA's ability to fund future projects.

KEY OUTCOME MEASURE #4B: Maintain an investment grade bond rating.

Credit ratings represent a rating agency's current opinion of an issuer's overall financial capacity to meet its financial obligations. In the case of JWA as an issuer, such an opinion focuses on Airport management's strategy for and its ability to meet financial commitments as they come due. A favorable credit rating helps to reduce the Airport's cost of borrowing and increases the Airport's ability to sell bonds. An investment grade bond rating would be an important building block in any future Airport financing program. The proposed funding sources and uses approved by the Board of Supervisors in December 2005 for the Capital Improvement Program are critical factors for the Airport to demonstrate to the rating agencies the Airport's ability to maintain an investment grade bond rating.

KEY OUTCOME MEASURE #4C: Maintain a diverse base of revenue, drawing from both aeronautical and nonaeronautical sources.

The financial strength of JWA is enhanced by the diversity of aeronautical and nonaeronautical revenue sources. Aeronautical revenues are derived from such sources as airline rents and operating fees, hangar fees, and tiedown payments. Nonaeronautical revenue sources include payments from food and beverage providers, news and gift concessions, commercial ground transportation, valet parking, self-parking, and rental car companies. By retaining a variety of revenue sources, JWA can bring financial diversity, and thus stability, to JWA's financial base.

STRATEGIC GOAL #5: Continue to implement the Airport Improvement Program.

KEY OUTCOME MEASURE #5A: Achieve significant progress on Airport Improvement Program design and construction projects, including construction of the South Remain-Over-Night (RON) aircraft parking area, Terminal C and related parking facilities.

KEY OUTCOME MEASURE #5B:

Continue to implement the comprehensive plan of finance and develop the internal structure necessary to manage all financial aspects of the Capital Improvement Program.

The Board of Supervisors has approved the policy, environmental, and financial framework for implementation of the Airport's Improvement Program. The purpose of the Program is to provide additional airport facilities to support the increased passenger capacity authorized by the Settlement Agreement amendments. The Program calls for substantial construction in four stages over a five-year period. The Key Outcome Measure for Fiscal Year 2007-08 will gauge progress with respect to implementation of the first phase of design and construction.



OPERATIONAL PLAN

I. INTRODUCTION

JWA's Fiscal Year 2007-08 Business Plan represents a collaborative effort. All Airport employees were provided with copies of JWA's Fiscal Year 2006-07 Business Plan. Line and management staff from each of JWA's five Divisions participated in reviewing and updating the Mission, Strategic Goals, Key Outcome Measures, and specific Strategies. In addition, the Labor Management Committee reviewed the draft Business Plan and met with Airport management to provide its input.

JWA closely monitors its Business Plan progress through a variety of mechanisms, including: (i) quarterly staff meeting review and discussion; (ii) regular division-level project and progress meetings; (iii) preparation of JWA's annual report, including financial statements; and (iv) supervisor/employee discussions of Performance Incentive Program (PIP) and Management Appraisal Program (MAP) goals and accomplishments which support JWA's Mission and Strategic Goals.

Five Strategic Goals have been defined and a series of focused Key Outcome Measures identified that support the accomplishment of these goals. Associated specific Strategies allow JWA to determine whether its goals have been achieved.

II. CLIENT PROFILE

JWA serves a wide variety of clients including: (i) the traveling and shipping public; (ii) commercial passenger carriers, commuter passenger carriers, and cargo carriers; (iii) general aviation aircraft operators; (iv) Airport concessionaires and tenants; (v) surrounding communities; (vi) the business community; and (vii) bondholders.

The Traveling and Shipping Public The results of JWA's 2005 "Passenger Survey," indicate that JWA maintains a high overall approval rating from its passengers. A total of 95 percent of telephone participants and 89 percent of intercept respondents (people responding at the Airport) found Airport services to be "Excellent" or "Very Good."

In the 2005 survey, the typical user of JWA was reported to be a male business professional, between the ages of 35 and 44, with an annual household income between \$50,000 and \$99,999. The survey also indicated that, overall, 45 percent of respondents travel on business and 40 percent travel for pleasure.

While a concern for secure aviation services and facilities remains, travelers continue to express their desire for a reasonable balance between security measures, including screening, and an efficient, enjoyable traveling experience. The 2005 survey indicates that travelers feel safe and secure in the Thomas F. Riley Terminal and have an overall satisfaction with the security screening process.

Commercial Passenger, Commuter Passenger, and Cargo Carriers
In Fiscal Year 2005-06, 9.6 million passengers were served at JWA by 11 commercial passenger carriers. This represents an increase of 0.7 percent over Fiscal Year 2004-05's total of 9.53 million passengers served. According to data published for calendar year 2005 by the FAA, among the nation's 427 passenger airports, JWA was the 41st busiest airport in terms of passengers served.

Commercial carriers currently serving JWA are: Alaska, Aloha, American, America West/US Airways, Continental, Delta, Frontier, Mesa, Northwest, Southwest, and United. Commuter carriers now serving the Airport are: American Eagle and Skywest (Delta Connection and United Express). JWA currently maintains a waiting list of nine (9) commercial carriers and three (3) commuter carriers who have indicated a desire to initiate service at the Airport.

Air carriers provide service to various short, medium, and long-haul destinations to meet the needs of both business and leisure travelers. A total of 23 markets are served from JWA. The most popular destinations are: Phoenix, Oakland, Chicago, Dallas/Fort Worth, and Las Vegas.

Over 24,000 tons of air cargo were processed through JWA in Fiscal Year 2005-06. This represents an increase of 20 percent over the previous year. Two all-cargo carriers, FedEx and UPS, operate between JWA and their respective sorting facilities. FedEx and UPS primarily process "next day" and "second day" cargo through JWA.

General Aviation Aircraft Operators JWA is home to a variety of general aviation aircraft and services. Of the roughly 350,000 total air operations at JWA in Fiscal Year 2005-06, about 71 percent were general aviation. According to data published by the FAA, JWA was the 28th busiest airport in the country in 2005 in terms of total aircraft operations.

JWA supports a variety of general aviation activities, including charter, instructional, recreational, business, law enforcement, fire fighting, media, and medical/mercy flights (air ambulance). Approximately 600 general aviation aircraft are currently based at JWA, ranging from vintage biplanes and helicopters to corporate jets.

Airport Concessionaires and Tenants JWA has over 200 contracts with service providers located on the Airport. The contracts relate to services provided in the Thomas F. Riley Terminal and those related to general aviation operations.

Tenants focusing on serving the needs of passengers in the Riley Terminal include food and beverage providers, news and gift concessions, commercial ground transportation providers, valet parking, and rental car companies.

In Fiscal Year 2005-06, revenues received by retail concessionaires in the terminal increased by 12.4 percent over the prior fiscal year.

In keeping with the desire to offer the highest level of service, the Airport is working closely with tenants to increase product offerings and quality of service until a Request for Proposal is issued for current concessions. This partnership has revitalized the Airport's only full-service restaurant into the Oasis Grill and Sky Lounge with a refurbished décor and a celebrity chef restaurant offering unique, fresh new food concepts.

Hudson News and Gift has opened two completely remodeled news and gift stores, and a news wall – all in Terminal A. In early 2007, Hudson opened a new specialty concession featuring brand names “Sunglass Hut” and “Life is good” designer clothing.

Tenants focusing on general aviation include full service Fixed Base Operators (FBOs), hangar operators, aircraft maintenance, and flight instruction. General aviation-related tenants have noted increased revenues and general business activity over the last fiscal year. Strong demand for tiedowns also continues, as evidenced by the substantial waiting list for tiedown and hangar space at the Airport. JWA currently monitors over 350 licenses with tiedown tenants.

Surrounding Communities Communities surrounding the Airport are frequently interested in the operation of JWA, particularly with respect to aircraft noise and automobile traffic. JWA uses a variety of tools to communicate with interested residents about ongoing operations and projects at the Airport. Those communication tools include brochures, a Web site, and participation of Airport staff in community meetings and forums. Regular public meetings of the Orange County Airport Commission also provide opportunities for interested parties to learn about and comment on Airport proposals and projects.

The Business Community Orange County, once known as a bedroom community with beautiful beaches, has grown into a powerful economic engine with a population that ranks it as the third largest county in California and 6th largest in the nation. In 2005, Forbes evaluated 150

metropolitan areas and rated Orange County as the 27th best place to do business in the US. The 2006 Orange County Community Indicators Report attributes Orange County's strong business base to diversification of the economy, resiliency and growth in some higher value industries.

While 45 percent of JWA passengers cite business as the reason for their trip through the Airport, an almost equal number (40 percent) of Airport visitors cite pleasure or leisure as the purpose for their travel. Tourism has traditionally been a cornerstone of Orange County's economy and John Wayne Airport plays an important role as the conduit through which travelers reach this area's many amusement parks, shopping, theatres, resorts, and beaches.

JWA has over 300 contracts for goods and services to help maintain the Airport; many of these are with local businesses and service providers which add to the Orange County economy.

Bondholders Under the bond indenture requirements, JWA has an obligation to ensure repayment of its bonds and to maintain a net revenue rate covenant of at least 125 percent. Financial institutions and private mutual funds hold a majority of the Airport bonds as part of their fixed income portfolios. Since 1987, all Airport bonds have been rated at investment grade and have enjoyed a low turnover of bondholders. Moody's, Standard and Poor's, and Fitch currently rate JWA's bonds Aa3, A+, and AA- respectively. The Fitch rating reflects an upgrade announced by Fitch in April 2006. In announcing the upgrade, Fitch cited the strength of John Wayne Airport's financial condition, the strong demand for air service, and the Airport's good management practices. When JWA is compared to other airports, its bond ratings reflect the investment community's high level of confidence in the Airport's financial health.

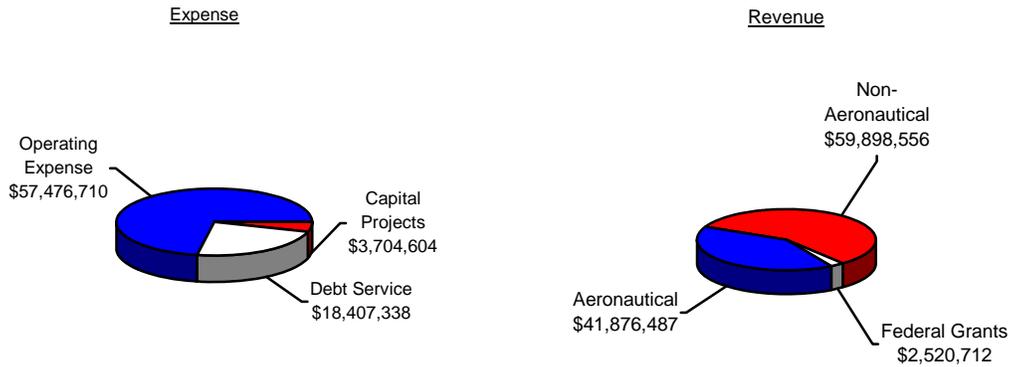
In Fiscal Year 2005-06, \$18.4 million was paid to bondholders. JWA's bondholders have a right to expect sound management of the Airport's revenues and assets; the Airport continues to make such prudent management a high priority for the benefit of the bondholders, tenants, and the traveling public.

III. RESOURCES

Financial Resources The Airport is operated as a department of the County of Orange and is accounted for as a self-supporting enterprise fund in the general purpose financial statements of the County. The Airport derives revenues primarily from nonaeronautical users and aeronautical users, represented by landing fees, terminal space rental, parking, concessions, and

general aviation tiedown fees. Federal grants provide an additional source of annual revenue.

The Airport's major expenses include operating costs, capital projects, and debt service. The pie charts below identify major revenue and expense segments for Fiscal Year 2005-06.



As of July 1, 2006 the total outstanding Airport debt was \$106,455,000. Airport bonds are secured by a pledge of net revenues of the Airport Enterprise Fund. The Bond Indenture also imposes a rate covenant on the County to produce net revenues in each fiscal year equal to at least 125 percent of the long-term debt service requirement.

Human Resources JWA operates under the direction of the Airport Director and Assistant Airport Director, and is comprised of five Divisions, each managed by a Deputy Airport Director: Business Development, Facilities, Finance and Administration, Operations, and Public Affairs. In addition to 167 JWA budgeted positions, the Airport is supported by outstationed, contract employees from the Auditor-Controller (9), County Counsel (1), Resources & Development Management Department (4), Orange County Fire Authority (21 Aircraft Rescue and Fire Fighting personnel), and the Sheriff's Department (121). JWA staff also provides support to the Orange County Airport Commission, the John Wayne Airport Arts Commission, and the Orange County Airport Land Use Commission.

Airport staff work in close cooperation with thousands of employees from a variety of private and public airport-related entities to provide safe, secure, and efficient aviation services and facilities around the clock, 365 days a year.

A current departmental organization chart is presented in Appendix A of this Business Plan.

IV. CHALLENGES

JWA faces significant challenges, including some unique to the Airport, and others common to the aviation industry.

Security Issues – Operational The Airport works closely with the Transportation Security Administration (TSA), Airport Police Services, Air Carriers, and other Airport tenants to ensure full compliance with the Airport's Security Plan and all federally mandated security regulations.

A significant challenge for JWA involves the continuously evolving allocation of federal screeners assigned to the Airport. JWA staff will closely monitor TSA staffing that is deemed critical to maximizing the potential of existing capital improvements related to passenger and baggage screening. TSA staffing has direct impact on Airport efficiency and the air traveler experience.

The environment within which security regulations are promulgated and implemented by the federal government, primarily via TSA, is extremely dynamic. New regulations, such as those regarding the transport of liquids, can be imposed on airports with extremely little notice and with substantial impact to travelers. The Airport anticipates that this type of environment will continue in the next fiscal year and has already received some indication about new regulations, such as the screening of all airport employees, that may be on the horizon.

Security Issues – Financial JWA continues to monitor the long-term financial ramifications of federal security regulations. The Airport has realized increased utility and maintenance costs associated with the operation of the in-line baggage screening and passenger screening systems and has had to pass these costs on to the airlines through increased airline rates and charges. While airport costs remain a relatively small percentage of overall airline costs, airport charges are important to airlines, especially during times of financial difficulty in the industry.

Security assessments have resulted in a multitude of facility enhancements to ensure the security and safety of air travelers. To date, JWA has been successful in securing federal funding to offset the majority of these costs. However, funding for security projects has been, and continues to be, challenging for the industry. While AIP entitlement funding, AIP discretionary funds, and TSA grant funds have been offered, there are more funding needs throughout the industry than there are funds available.

Airport Improvement Program – Operational As is the case with any substantial capital improvement program, the Airport expects to encounter many challenges in balancing our current level of operation and our high

standards for customer service with the substantial construction activity contemplated in the Airport Improvement Program.

As the Airport learned through its experience in building the Thomas F. Riley Terminal and its related facilities nearly two decades ago, it is imperative that the project team identify, track, and plan for changes and trends in the construction industry, particularly the availability and cost of labor and raw materials. JWA has been closely monitoring local, regional, national and international construction trends and costs. Some of these trends, including the cost and availability of raw materials like steel and concrete, are not encouraging for project sponsors who are contemplating substantial public works construction. JWA staff and its consultants are carefully following these trends and are committed to both understanding and anticipating how they could affect the Airport Improvement Program.

Airport Improvement Program – *Financial* JWA has begun to implement the financing plan for JWA’s Capital Improvement Program, which is estimated to cost over \$500 million during the next five years. Pursuant to the comprehensive capital program funding plan approved by the Board of Supervisors in December 2005, the capital costs are anticipated to be funded from various sources, including: (i) Airport funds; (ii) FAA Airport Improvement Program (AIP) grants; (iii) Transportation Security Administration (TSA) grants; (iv) Passenger Facility Charge (PFC) revenues; and (v) general airport revenue bonds and short-term lines of credit. In November 2006, pursuant to Board authorization, the Airport issued a Request for Proposals (RFPs) for financial advisory services and bond counsel/disclosure counsel services. As a result of the RFP process, the Board will select financial and legal advisors to assist JWA in implementing the capital funding plan. JWA has implemented a project cost accounting system to track capital expenditures by category and funding source. A close monitoring of the resulting financial reports will be key to JWA’s goal of implementing the capital program funding plan in a financially prudent manner.

Airport Area Development Recent trends in land use planning have favored in-fill development in the form of high-rise commercial and residential uses. High-rise uses in the vicinity of an airport present a number of challenges and may require changes to building design heights as well as appropriate lighting and clearances to ensure the safety of air operations. The inclusion of residential uses in such developments poses additional challenges with respect to safety, noise exposure levels, and appropriate notification to tenants and owners regarding the proximity of the Airport.

JWA has been monitoring this development trend and has participated in the project review process of a number of high-rise residential projects already

constructed or proposed for construction in the vicinity of the airport. JWA will continue to work with local jurisdictions and project proponents to ensure that the Airport's concerns are clearly expressed and appropriate measures are incorporated into project review and approval processes.

Airline Industry Uncertainties The airline industry is cyclical, subject to intense competition, and exposed to variable demand. Airline traffic volumes are responsive to economic circumstances and seasonal patterns. While many airlines are returning to profitability, high fuel costs, industry overcapacity and talk of industry consolidation continue to be of concern to carriers. Recently, however, some of the airlines have reduced capacity, which has improved the average load factors and helped the airlines' financial performance. Despite these efforts, the Air Transport Association reported that all U.S. airlines collectively posted net losses of over \$5.6 billion in 2005.

Because airline revenue constitutes 38 percent of the Airport's total operating revenues, JWA will need to continue to closely monitor the airline industry's financial condition and its corresponding impact to the Airport. John Wayne Airport, like other airports which may be contemplating facility improvements, expects pressure from airlines concerned that any increase in airport debt used to finance those improvements will necessitate an increase in airline payments, thus straining the airlines' already limited resources. JWA will closely monitor the funding plan to limit the impact on airline cost per enplanement (CPE) at JWA.

Terminal Concessions Among the challenges facing the Airport in working with existing concessionaires is to ensure that they are prepared to respond to changing security directives and TSA guidelines which affect both their passengers and employees. The recent guidelines on liquids and how they are processed through security has posed challenges and opportunities for the concessionaires in providing merchandise that meets the new size standards.

Legislation The November 2006 elections have brought substantial changes in the composition of both the US House of Representatives and the Senate. Along with the shift to Democratic from Republican control of both Houses, changes in committee leadership and direction will occur. The Airport will be carefully monitoring these changes in both composition and focus of aviation-related committees.

The new Congress will address the issue of FAA reauthorization in the coming session. While this matter is always of interest to US airports, it will be particularly important this year because it will likely include discussion of a new Administration proposal regarding changes to the funding formula for the Aviation Trust Fund. In addition, many of the new Congressional

leaders have indicated a desire and willingness to fully implement the recommendations of the 9/11 Commission, including those related to in-line baggage screening systems. JWA will be monitoring these discussions carefully.

Workload Issues The Airport has realized a substantial increase in workload. Workload demands are being driven by implementation of federally mandated security regulations, growth in operational capacity and passengers, additional maintenance of existing facilities, Airport Improvement Program facility and financial planning, and increased legislative and regulatory reviews. In response, managers are: (i) re-prioritizing workloads; (ii) monitoring maintenance service contracts for performance and efficiency; and (iii) leading staff to ensure that time sensitive and critical projects are receiving timely and efficient attention. JWA is evaluating the impact of increasing workload demands and may request additional resources as part of the 2007-08 budget.

V. STRATEGIC GOALS, KEY OUTCOME MEASURES, AND STRATEGIES

STRATEGIC GOAL #1: Maintain a safe and secure environment for aviation and the traveling public.

KEY OUTCOME MEASURE #1A: Successfully pass the annual Part 139 Airport Certification Inspection.

KEY OUTCOME MEASURE #1B: Comply with TSA security regulations and the Airport Security Plan.

STRATEGIES:

- 1.1 Implement TSA security regulations and the Airport Security Plan.
- 1.2 Ensure that all Security Identification Display Area (SIDA) and Sterile Area employees have completed and passed a Criminal History Records Check (CHRC) as well as TSA Security Threat Assessment (STA).
- 1.3 Update the Airport Security Plan to reflect significant regulatory changes required by TSA.
- 1.4 Meet regularly with Airport employees, tenants, users, FAA, and TSA to address and resolve issues pertaining to safety and security.
- 1.5 Conduct a “table-top” emergency exercise in compliance with Part 139 inspection requirements.
- 1.6 Conduct a “table-top” review of the Airport’s Aviation Security Plan (AVSEC) in compliance with TSA requirements.
- 1.7 Continue frequent and routine “safety check” walks conducted by the Airport Safety Officer to ensure a hazard-free and clean terminal complex facility.

- 1.8 Continue development of JWA's Emergency Response Team (ERT). Ensure that all members are provided relevant training. Plan quarterly meetings to discuss emergency topics and ensure team member familiarization with emergency relief supplies kept at the Airport.

STRATEGIC GOAL #2: Provide a positive aviation experience to travelers and tenants.

KEY OUTCOME MEASURE #2: 90 percent of respondents in the "Passenger Survey" rate JWA "Excellent" or "Good" overall.

STRATEGIES:

- 2.1 Closely monitor concession operations to ensure passengers are being adequately served as new concession operators construct their space to minimize any passenger disruption.
- 2.2 Hold regular tenant-specific meetings for general aviation and terminal tenants that focus on their unique needs and issues.
- 2.3 Work collaboratively with the concession operators and airport staff to identify unused or underutilized areas of the terminal for additional storage or concessions sales opportunities to ensure passenger demand for services is met.
- 2.4 Work with the existing concessionaires, where possible, to increase offerings based on the results from the Passenger Survey.
- 2.5 Closely manage the major support contracts that provide custodial services, baggage system maintenance, and passenger loading bridge maintenance.
- 2.6 Continue ongoing assessment of Airport collateral materials to ensure circulation of current and accurate information to assist the traveling public.
- 2.7 Continue implementation of a Customer Service Program by incorporating ongoing customer service training and standards into JWA's day-to-day operation.
- 2.8 Review, and where appropriate, revise JWA's Web site to provide timely, accurate, and user-friendly information.
- 2.9 Manage the JWA Volunteer Ambassador and Tour Programs through ongoing recruitment and training, program awareness, and volunteer appreciation.
- 2.10 Manage the JWA Arts Program to continue providing an intellectually enriching travel experience that represents Orange County as a regional, cultural center and cultural tourism destination.

STRATEGIC GOAL #3: Operate in an environmentally responsible manner.

KEY OUTCOME MEASURE #3A: Enforce all provisions of the Phase 2 Commercial Airline Access Plan and Regulation, and the General Aviation Noise Ordinance.

KEY OUTCOME MEASURE #3B: Ensure all required environmental permits are in place and in good standing.

STRATEGIES:

- 3.1 Allocate commercial, commuter, and cargo operating capacity in accordance with the requirements of the Phase 2 Commercial Airline Access Plan and Regulation.
- 3.2 Monitor all General Aviation, Commercial, Cargo, and Commuter aircraft operations for compliance with the maximum permitted noise levels, and all other capacity utilization provisions.
- 3.3 Publicly report Commercial, Commuter and Cargo Carrier aircraft operations, single event noise exposure levels, and passenger counts on a regular basis.
- 3.4 Where possible, and as appropriate, incorporate environmental, health, and safety regulations into contracts, leases and licenses.
- 3.5 Require Airport tenants to submit an annual report on operating permits that confirms compliance with, and the status of, all required permits including those required by: Orange County Fire Authority, Air Quality Management District, Health Care Agency and Weights and Measures.
- 3.6 Participate in the Orange County Stormwater Quality Task Force.
- 3.7 Prepare an Airport-wide Business Emergency Response Plan to be submitted to the Orange County Fire Authority.
- 3.8 Receive site closure from the State Regional Water Quality Control Board for the old Fuel Farm site.

STRATEGIC GOAL #4: Operate as a financially efficient and self-supporting aviation facility.

KEY OUTCOME MEASURE #4A: Continue a debt service covenant of at least 175 percent.

KEY OUTCOME MEASURE #4B: Maintain an investment grade bond rating.

KEY OUTCOME MEASURE #4C: Maintain a diverse base of revenue, drawing from both aeronautical and nonaeronautical sources.

STRATEGIES:

- 4.1 Closely monitor the aviation industry's financial performance and its corresponding impact to JWA.
- 4.2 Maintain an investor relations program directed toward rating agencies in accordance with CEO practice.
- 4.3 Continue fiscal prudence when developing JWA's future budget and closely monitor actual expenditures against the budget and identify contracting opportunities that can produce either service efficiencies and/or cost savings.
- 4.4 On a periodic basis, meet with Airport Police Services representatives to review appropriate staffing levels and adjust accordingly.
- 4.5 Continue to seek reimbursement from TSA for funding of Law Enforcement Officers.
- 4.6 Continue to seek reimbursement from TSA for funding of the Explosive Detection Canine Team Program.
- 4.7 As the financing plan for JWA's Capital Improvement Program is implemented, monitor the projected effect on debt service coverage.

STRATEGIC GOAL #5: Continue implementation of the Airport Improvement Program.

KEY OUTCOME MEASURE #5A: Achieve significant progress on Airport Improvement Program design and construction projects, including construction of the South Remain-Over-Night aircraft parking area, Terminal C and related parking facilities.

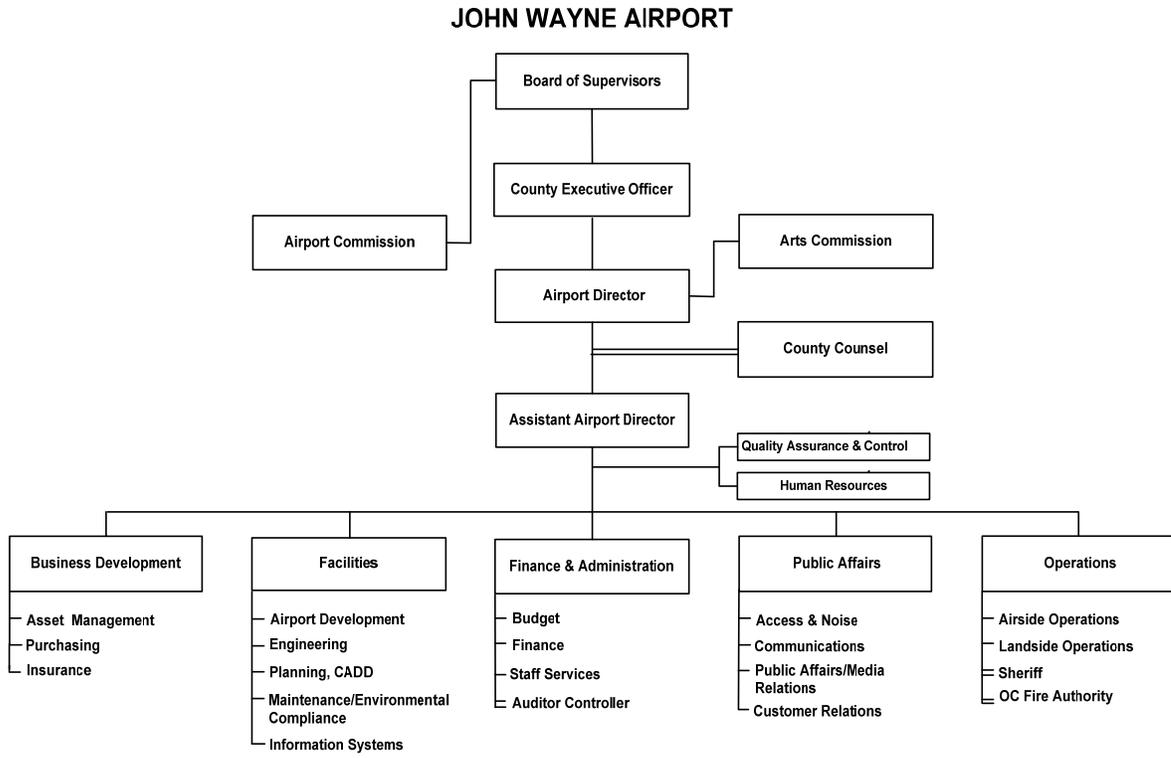
KEY OUTCOME MEASURE #5B: Proceed with implementation of the comprehensive plan of finance and develop the internal structure necessary to manage all financial aspects of the Capital Improvement Program.

STRATEGIES:

- 5.1 Complete the south and east extensions of the South RON.
- 5.2 Complete construction of new hangar (element of South RON project).
- 5.3 Initiate demolition of the B1 parking structure.
- 5.4 Complete at least 50 percent of the terminal design.

- 5.5 Complete selection of and contract award to the Improvement Program finance team, including: financial advisor(s), bond counsel, disclosure counsel and underwriters.
- 5.6 Monitor airline industry activity with respect to mergers and/or acquisitions to ensure that changes in industry composition are considered in facility design and construction.
- 5.7 Monitor the job cost structure to ensure that all Improvement Program financial activity is properly captured.
- 5.8 Continue to account for the collection of PFCs to ensure all funds are properly recorded and applied to PFC-eligible project costs.
- 5.9 Develop concession tenant improvement standards for the existing and planned facilities in conjunction with the project management terminal design team.
- 5.10 Continue regular communication with local and corporate representatives of the air carriers, concessionaires, ground transportation operators, and other tenants serving John Wayne Airport regarding the nature, scheduled construction, and financing of proposed facility improvements.
- 5.11 Continue to implement a public information program to educate Orange County residents and John Wayne Airport users regarding the Airport Improvement Program.

APPENDIX A: JWA ORGANIZATION CHART



jw/JWA/Budgeted

Double line = represents outstationed/contract staff

APPENDIX B: MANAGEMENT TEAM

Airport Director Alan L. Murphy

Assistant Airport Director Loan Leblow

Deputy Airport Director, Business Development Roy Freeman

Deputy Airport Director, Facilities Larry Serafini

Deputy Airport Director, Finance and Administration Don Arthur

Deputy Airport Director, Operations Scott Hagen

Deputy Airport Director, Public Affairs Courtney Wiercioch

APPENDIX C: LABOR MANAGEMENT COMMITTEE

OCEA

Sondra Smith
Scott Hagen
Linda Lee
Paul Lovette
Robert Strickland
Nick Summers
Jason Motsick (OCEA Sponsor)

AFL-CIO

Steve Fitzgerald
Britt Griffith
Linda Lee
Lance Bedolla (Craft & Plant Sponsor)
Linda Renta (SEIU Sponsor)

JWA Sponsor

Alan Murphy

LABOR MANAGEMENT COMMITTEE ACCOMPLISHMENTS:

Business Plan

- Provided input into the development of the JWA 2007-08 Business Plan.

Communication

- Initiated Sponsor/Leadership Briefings at all LMC meetings to enhance communications.
- Bulletin boards were updated frequently with current events and meeting minutes.
- OCEA promotional events and discounts, including the popular Hotdogger Days, were available to all.

Team Membership and Roles

- Filled LMC vacancies as they occurred with new members.
- Improved sponsorship participation.

Workplace Solution Issues

- Through the success of employees and managers working together, no workplace issues were forwarded to the LMC for their resolution.

LMC Meetings

- Met on a quarterly basis as needed.

APPENDIX D: BUSINESS PLAN TEAM

Alan L. Murphy
Loan Leblow

Don Arthur
Chris Caliendo
David DeLeon
Eric Freed
Roy Freeman
Rachel Gibson
Scott Hagen
Laura Jijon
Ann McCarley
Yvonne Neff
Adriana Pineda
Kari Rigoni
Jeff Rountree
Ralph Sanchez
Larry Serafini
Diana Tapia
Bill Tormey
Courtney Wiercioch

Labor Management Committee

APPENDIX E: 2006 ACCOMPLISHMENTS

STRATEGIC GOAL #1: Maintain a safe and secure environment for aviation and the traveling public.

KEY OUTCOME MEASURE #1A: Successfully pass the annual Part 139 Airport Certification Inspection.

KEY OUTCOME MEASURE #1B: Comply with TSA security regulations and the Airport Security Plan.

STRATEGIES:

- 1.1 Implement TSA security regulations and the Airport Security Plan.
JWA has successfully complied with numerous security directives including those directives issued as a result of the London terrorist plot in August 2006.
- 1.2 Update the Airport Security Plan to reflect significant regulatory changes required by TSA.
The security plan has been modified to reflect procedural changes and physical descriptions of various airport areas.
- 1.3 Meet regularly with Airport employees, tenants, users, FAA, and TSA to address and resolve issues pertaining to safety and security.
A monthly tenant meeting is held the first Wednesday of each month to address safety issues at the Airport. On the third Wednesday of each month, a formal security consortium meeting is held to discuss and address security matters.
- 1.4 Conduct a “table-top” emergency exercise in compliance with Part 139 inspection requirements.
An Emergency Plan Review and “table-top” exercise was conducted on March 15, 2006. Representatives from the Airport, air carriers, and the Federal Government all participated.
- 1.5 Conduct a “table-top” review of the Airport’s Aviation Security Plan (AVSEC) in compliance with TSA requirements.
A review of the Airport Security Plan, as well as a “table-top” exercise, were conducted on May 17, 2006. Representatives from the Airport, air carriers, and the federal government all participated.
- 1.6 Provide training and re-training regarding security, safety, and emergency procedures to all Airport-issued security badge holders.
JWA badge holders are subject to recurrent training/testing when they renew a badge after a two year period.
- 1.7 Ensure that all contract service and sterile area workers are properly badged and/or escorted, and that they are aware of and comply with all Airport security policies and procedures.
TSA security directives required employers to identify those employees who will retain escort privileges. The Airport, in turn, was required to

provide each of these employees a visual indication on their badge signifying the escort privilege was granted by the employer. The Airport is in full compliance with this directive.

- 1.8 Continue frequent “safety check” walks to be conducted by the Airport Safety Officer to ensure a hazard-free and clean terminal complex facility.

Routine safety checks were conducted by the Airport Safety Officer.

- 1.9 Provide natural disaster planning/educational materials and training to all Airport staff. Emphasis will be placed on disaster preparedness in the home, the workplace, and personal vehicles.

On March 16, 2006, JWA employees watched the Disaster Service Worker video produced by the Orange County Sheriff’s Department as part of a regularly scheduled quarterly staff meeting. Employees were also provided numerous informational flyers on how to prepare for disasters in the home, workplace, and personal vehicles.

- 1.10 Conduct a review of emergency supply content, quantity, and storage locations. Conduct orientations and/or training with respect to locations, control and use of emergency supplies for all Airport staff.

An Emergency Response Team (ERT), composed of employees, has been established. Initial training was held at Fire Station 33 and covered the following topics: (i) “Introduction to Emergency Response Teams;” (ii) earthquake preparedness; (iii) building fire safety, and (iv) fire extinguisher training. Most of the ERT members have also completed CPR and emergency medical training. In addition to staff training, JWA invested over \$17,000 in emergency supplies such as food, water, medical aid kits, cots, blankets, and portable sanitation equipment.

UNANTICIPATED ACCOMPLISHMENTS

- *On August 30, 2006, JWA hosted an Air/Sea Disaster Plan “table-top” exercise. The purpose of the exercise was to test this plan designed to address an aviation accident occurring in the Newport Back Bay or adjacent coastline. Participants in the 12-month development of the plan and this exercise included members of the Airport Operations Division, Orange County Sheriff’s Department, Orange County Fire Authority, and the Newport Beach Fire Department.*
- *JWA designed and initiated a process to conduct the new, federally-required Security Threat Assessment for all employees who have been and will be issued SIDA identification badges.*

STRATEGIC GOAL #2:

Provide a positive aviation experience to travelers and tenants.

KEY OUTCOME MEASURE #2: 90 percent of respondents in the “Tenant Survey” rate JWA “Excellent” or “Good” overall.

STRATEGIES:

2.1 Conduct a survey of Airport Tenants and obtain recommendations for improving Airport facilities and services.

Based on changes in organizational structure and workload, the Tenant Survey was not conducted in 2006. Additional responsibilities associated with the Airport Improvement Program and unanticipated staff changes in the Customer Relations division necessitated the shift of resources from the Tenant Survey to other Customer Relations activities. A Tenant Survey will be conducted in Calendar Year 2008.

2.2 Hold regular, tenant-specific meetings for general aviation and terminal concessionaires that focus on their unique needs and issues.

Bi-monthly meetings with general aviation and terminal tenants were held to facilitate communication and to address issues of concern. The Airport also allows the Orange County Pilot’s Association to hold its regular meetings in the Airport Commission room.

2.3 Closely monitor concession operations to ensure passengers are being adequately served.

Bi-monthly inspections of all concessions were conducted during operational hours (5:00 am to 11:00 pm) to ensure that they were adhering to their posted hours and providing acceptable levels of service.

2.4 Work with the concessionaires, where possible, to increase offerings based on the latest results from the Passenger Survey.

The Airport’s only full-service restaurant has been revitalized with a new décor and celebrity chef featuring a unique, fresh food concept to meet passenger demand for a wider range of food offerings. The Board awarded a news and gift concession lease to Hudson News and Gift who brought an exciting, colorful storefront and a large variety of news and gift items to our passengers in the terminal. A contract was awarded to Hudson for a specialty retail shop combining “Life is good” designer clothing and “Sunglass Hut.” The Airport allowed Hudson to set up a temporary shop in an underutilized area located between two existing specialty shops to offer a variety of items to passengers during construction of their new news and gift shop. As a result, passengers had additional concession opportunities during the construction period and the Airport received additional, unanticipated revenue.

2.5 Closely manage the major support contracts that provide custodial services, baggage system maintenance, and passenger loading bridge maintenance.

These contracts are considered essential to Terminal operations and are monitored on a daily basis. A new baggage system maintenance contract was awarded in September 2006. A new loading bridge

- maintenance contract is expected to go before the Board of Supervisors in Spring 2007.*
- 2.6 Conduct an assessment of JWA roadway signage and implement an improvement project to replace and/or enhance roadway signs.
The roadway signage program assessment is complete. Design and implementation will be complete in Spring 2007.
- 2.7 Continue ongoing assessment of Airport collateral materials to ensure circulation of current and accurate information to assist the traveling public.
Public Affairs completed a draft five-year communications strategy for the Airport which includes a mechanism to replace and/or update collateral materials as necessary. This strategy will be executed in coordination with the communications program for the Airport Improvement Program. In Fiscal Year 2006-07, a new Airport Guide, an updated Pilot Guide and four editions of the Airport's redesigned newsletter, JWA Direct, will be created and distributed.
- 2.8 Continue implementation of a Customer Service Program by incorporating ongoing customer service training and standards into JWA's day-to-day operation.
JWA "front-line" customer service employees, including the Airport Communications Operators and Administrative Office Services staff began a cross-training program to enhance customer service skills and organizational awareness.
- 2.9 Review, and where appropriate, revise JWA's Web site to provide timely, accurate, and user-friendly information.
The Web site is continually reviewed and updated to communicate current information to the many users of JWA facilities and services. This year, our Customer Relations staff initiated and completed a "soup to nuts" review of the Web site to ensure that our site is as complete and informative as possible for passengers.
- 2.10 Complete an Economic Impact Report for John Wayne Airport which will examine the direct, indirect, induced and total impacts associated with the Airport.
The Economic Impact Report will be completed in Spring 2007. The Report will examine the direct, indirect, induced and total economic impacts associated with the Airport.
- 2.11 Manage the JWA Volunteer Ambassador and Tour Programs through ongoing recruitment and training, program awareness and volunteer appreciation.
The JWA Volunteer Ambassadors provided 74 tours for 1,145 total participants. Sixteen new tour guides were trained to provide continued customer service support to our passengers throughout the Terminal. One Tour Guide and two Ambassadors were honored for their service by the Board of Supervisors. JWA hosted a holiday luncheon for its volunteers in appreciation of their contributions to the Airport and traveling community.

2.12 Manage the JWA Arts Program to continue providing an intellectually enriching travel experience that represents Orange County as a regional, cultural center and cultural tourism destination.

JWA presented three exhibitions in the Vi Smith Concourse Gallery during Fiscal Year 2006-07: (i) Specialized Art in Progress – Art of the Settlement Amendment Implementation Plan; (ii) Orange County on Display; and (iii) Regionalist Paintings. The Airport also presented the works of four local artists through its “Community Focus” program. The 17th Annual Student Art Contest drew more than 1,400 entries from students throughout Orange County.

UNANTICIPATED ACCOMPLISHMENTS

- *The Board of Supervisors awarded Martin Aviation a limited use general aviation facility and air museum lease. As part of this agreement, Martin will dedicate approximately 15,000 square feet of new hangar space as a museum to honor the military history of Santa Ana Field (now JWA). It will house a variety of WWII era war planes as well as ground equipment, military memorabilia and historical materials. It will be open to the public and is expected to provide unique learning opportunities to Orange County students as well as many others.*
- *The County executed a five-year lease with TSA for space the federal agency occupies in the Riley Terminal.*
- *In cooperation with the air carriers and TSA, John Wayne Airport prepared and executed a communications plan to educate passengers regarding new TSA regulations regarding the transport of liquids (3 – 1 – 1) prior to the Thanksgiving holiday.*

STRATEGIC GOAL #3:

Operate in an environmentally responsible manner.

KEY OUTCOME MEASURE #3A:

Enforce all provisions of the Phase 2 Commercial Airline Access Plan and Regulation, and the General Aviation Noise Ordinance.

KEY OUTCOME MEASURE #3B:

Ensure all required environmental permits are in place and in good standing.

STRATEGIES:

3.1 Allocate Commercial, Commuter and Cargo operating capacity in accordance with the requirements of the Commercial Airline Access Plan and Regulation.

On December 19, 2006, the Board approved capacity allocations for the 2007-08 Plan Year.

- 3.2 Monitor all General Aviation, Commercial, Cargo, and Commuter aircraft operations for compliance with the maximum permitted noise levels, and all other capacity utilization provisions.

General Aviation, Commercial, Cargo and Commuter operations are monitored 24 hours a day through the JWA aircraft noise monitoring system. General Aviation average noise levels for the period remained substantially below the maximum permitted levels. Commercial Air Carrier average noise levels for the period remained below the maximum permitted levels. Appropriate and timely sanctions are imposed on capacity utilization and noise violations, consistent with the Airport Ordinance and other regulations.

- 3.3 Publicly report Commercial, Commuter and Cargo Carrier aircraft operations, single event noise exposure levels, and passenger counts on a regular basis.

Commercial, Commuter and Cargo Carrier operations and passenger counts are reported publicly in the Monthly Statistics Report. Single event noise levels are reported publicly in the Noise Abatement Program Quarterly Report. Both documents are available to the public on the JWA Web site.

- 3.4 Where, and as appropriate, incorporate environmental, health, and safety regulations into contracts, leases, easements, and licenses.

All new agreements now include revised sections regarding environmental compliance, and health and safety, which incorporate the most current environmental, health and safety regulations.

- 3.5 Require Airport tenants to submit an annual report on operating permits that confirms compliance with and the status of all required permits including those required by: Orange County Fire Authority, Air Quality Management District, Health Care Agency and Weights and Measures.

Complete.

- 3.6 Participate in the Orange County Stormwater Quality Task Force. Update the Stormwater Pollution Prevention Plan for JWA, airport tenants, and construction projects as necessary.

Complete.

- 3.7 Update the Spill Prevention and Emergency Response Plan for John Wayne Airport and Airport tenants.

Complete.

UNANTICIPATED ACCOMPLISHMENTS

- *Completed AQMD-required modifications to JWA- and tenant-operated fuel dispensing facilities.*
- *Prepared a CalOSHA-required hazardous communication plan and conducted employee training.*

STRATEGIC GOAL #4: Operate as a financially efficient and self-supporting aviation facility.

KEY OUTCOME MEASURE #4A: Continue a debt service covenant of at least 175 percent.

KEY OUTCOME MEASURE #4B: Maintain an investment grade bond rating.

KEY OUTCOME MEASURE #4C: Maintain a diverse base of revenue, drawing from both aeronautical and nonaeronautical sources.

STRATEGIES:

4.1 Closely monitor the aviation industry's financial performance and its corresponding impact to JWA.

An increase in passenger activity at JWA contributed to Fiscal Year 2005-06 operating revenues of approximately \$102 million, which represents a 6.5 percent increase over the previous year. Fifty-nine percent of operating revenue was generated from nonaeronautical sources. Strong operating results were instrumental in providing debt service coverage of 288 percent for the fiscal year.

4.2 Maintain an investor relations program directed toward rating agencies in accordance with CEO practice.

The ratings assigned to JWA by Moody's, Standard and Poor's, and Fitch are Aa3, A+, and AA-, respectively. The Fitch rating reflects and upgrade announced by Fitch in April 2006. During Fiscal Year 2005-06, JWA management met periodically with the rating agencies to review the Airport's strategic direction, fiscal performance, and industry trends. The rating agencies held a high level of confidence in JWA's financial position due to the Airport's strong management, good liquidity position, low debt burden, strong debt service coverage, strong local economy, and favorable demand for aviation services. JWA's ratings continue to be among the highest when compared to airports of similar size.

4.3 JWA took a conservative approach in developing its Fiscal Year 2005-06 and Fiscal Year 2006-07 budgets. The budget is prepared by each Division based on a zero base methodology and reviewed with line item approval at the Department Head level. Fiscal Year 2005-06 JWA operating expenses of \$57.5 million represented 96.3 percent of the \$59.7 million budgeted for the same period.

4.4 Obtain FAA grants to help fund eligible capital improvement projects. JWA was awarded an additional grant totaling approximately \$7.7 million for expenditures related to the South Aircraft Remain-Over-Night Apron and other eligible project expenditures.

- 4.5 On a periodic basis, meet with Airport Police Services representatives to review appropriate staffing levels and adjust accordingly.
JWA management met periodically with Sheriff's Department representatives to review staffing and overtime levels, which were adjusted accordingly to meet operating and budget requirements.
- 4.6 Continue to seek reimbursement from TSA for funding of the Law Enforcement Officers.
JWA has continued to submit to TSA monthly reimbursement claims for the cost of Law Enforcement Officers.
- 4.7 Continue to seek reimbursement from TSA for funding of the Explosive Detection Canine Team Program.
JWA has continued to submit to TSA monthly reimbursement claims for the cost of the Explosive Detection Canine Team Program.
- 4.8 Formulate a policy with the Treasurer for investment of JWA's \$35 million contingency fund in medium- and long-term investments.
JWA's \$35 million contingency fund is currently invested with the Treasurer. JWA is continuing to work with the Treasurer to carry out the appropriate investment strategy in compliance with County policy.

UNANTICIPATED ACCOMPLISHMENTS

- *JWA staff updated the Airport Improvement Program Financial Plan to reflect Fiscal Year 2005-06 financial and operation data, in order to monitor JWA's financial condition and capability to fund the Improvement Program.*

STRATEGIC GOAL #5:

Continue implementation of the Settlement Amendment Implementation Plan (SAIP).

KEY OUTCOME MEASURE #5A:

Achieve significant progress on SAIP enabling projects, including construction of the South Remain-Over-Night aircraft parking area, retention of necessary Architect-Engineering firms and design of the parking structures.

KEY OUTCOME MEASURE #5B:

Proceed with implementation of the comprehensive plan of finance and develop the internal structure necessary to manage all financial aspects of the Capital Improvement Program.

STRATEGIES:

- 5.1 Select and award contract for SAIP construction management firm, parking structure design, and terminal expansion design.
Parsons Transportation Group is currently under contract to provide program management services. R&L Brosamer is under contract to construct the South RON. DMJM is under contract to provide construction management services for the South RON project. Gensler has been selected by the Board to provide terminal design; this contract is currently being negotiated and is expected to be presented to the Board of Supervisors in Spring 2007. Jacobs has been selected by the Board to provide construction management services for the Terminal C project. Retention of parking structure design services has been deferred to later in 2007.
- 5.2 Initiate SAIP “enabling” projects: (i) relocate valet parking; (ii) relocate South Remain-Over-Night (RON) parking; (iii) establish construction staging area; and (iv) construct new South RON area.
The relocation of valet parking is underway and should be completed by June 2007. The contract for construction of the South RON has been awarded and construction began in early 2007.
- 5.3 Continue implementing the Environmental Compliance Program for SAIP-related mitigation initiatives.
Complete and ongoing.
- 5.4 Implement a Passenger Facility Charge (PFC) program at JWA.
JWA implemented the PFC program, with a \$4.50 per-enplanement PFC collected beginning July 1, 2006. During Fiscal Year 2005-06, JWA staff developed the internal accounting and financial reporting systems to monitor PFC collections. JWA staff also developed the report templates to prepare the financial reports required by the FAA. During the first quarter of Fiscal Year 2006-07, JWA staff prepared the first quarterly PFC report and submitted it to the FAA and the airlines that collected PFCs at JWA during the period July 1, 2006 through September 30, 2006.
- 5.5 Solicit proposals for participation on the Airport SAIP finance team, including: financial advisor(s), bond counsel, disclosure counsel and underwriters.
Requests for Proposals for a financial advisor and bond/disclosure counsel were issued. Selection and contract negotiations for these services are anticipated to be complete by June 2007. The selection process and contract negotiation for underwriters will be accomplished after the financial advisor(s) and bond/disclosure counsel firms are under contract.
- 5.6 Evaluate all concession leases for the existing and planned facilities to meet the needs of the traveling public.
The Airport continues to work with financial and concession consultants to identify future needs and to ensure passengers and others receive appropriate services during any transition period. A

terminal design team for both the existing and new terminal will be brought on board in 2007 to facilitate terminal design standards and concession opportunities.

- 5.7 Establish a concession overview/design criteria standard for Terminals A, B, and C.

See response to 5.6 above.

- 5.8 Continue regular communication with local and corporate representatives of the air carriers, concessionaires, ground transportation operators, and other tenants serving John Wayne Airport regarding the nature, scheduled construction, and financing of proposed facility improvements.

JWA met with air carriers on a regular basis (Tenant and Station Manager meetings) as well as through an “ad hoc” committee created specifically to address Airport Improvement Program issues. In addition, JWA staff meets at least quarterly with ground transportation providers to discuss a variety of airport issues including, but not limited to the Airport Improvement Program.

- 5.9 Continue to implement a public information program to educate Orange County residents and John Wayne Airport users regarding the Settlement Amendment Implementation Plan.

A new logo and tag line for the Improvement Program were created and are in use. The Airport created and has published two issues of its “New Directions” newsletter regarding the Improvement Program. A Web site dedicated to the Improvement Program has been designed and posted. A Speakers Bureau has been established and has made dozens of presentations to community organizations. An e-mail address dedicated to public questions/comments regarding the Improvement Program was established.

- 5.10 Develop a job cost structure designed to properly capture and record all SAIP financial activity in the County’s financial system. The job structure will include separate components to specifically identify the financial transactions of the PFC program and segregate funds as required by the FAA and SAIP bond indenture(s).

During Fiscal Year 2005-06, JWA staff developed and implemented a job cost structure designed to capture and record all Improvement Program financial activity in the County financial system. The account coding used in the job cost structure tracks the project expenditures by project and by funding source, in order to monitor PFCs, FAA grants, bond proceeds, JWA cash, and other funding sources. The system enables JWA to ensure that the various funding sources are used in accordance with applicable Federal requirements and bond indenture covenants.

- 5.11 Develop a method to account for the collection of PFCs to ensure all funds are properly recorded and reconciled.

JWA staff developed the internal accounting and financial reporting systems to monitor PFC collections. The systems enable JWA to ensure that all PFCs are properly recorded in the County accounting system.

- 5.12 Develop concession tenant improvement standards for the existing and planned facilities in conjunction with the project management terminal design team.

See response to 5.6 above.

- 5.13 Construct a CoGeneration Facility to provide both improved reliability and reduce future energy costs.

An Invitation to Bid for the CoGeneration Facility was issued. Proposals have been received and are currently being reviewed.

- 5.14 Develop a strategy to procure a natural gas contract.

Completion of this item is subject to resolution of item 5.13 above.