

2008

2008 Annual Report

Fiscal Year 2008 (July 1, 2007 – June 30, 2008)



Metropolitan Nashville Airport Authority™

A Six Sigma Organization

2008

2008 Annual Report

Executive Message

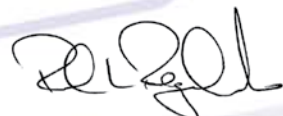
As the governing body of two growing airports and an economic catalyst for a flourishing region, the Metropolitan Nashville Airport Authority (MNA) invests significant time and effort in its quest to deliver the Nashville Airports Experience by serving as great airports for its passengers, partners and employees. In fiscal year 2008, the Authority continued to be awarded for its pursuit of excellence, receiving the Tennessee Center for Performance Excellence's Level II recognition.

Guided by its Board of Commissioners' visionary insight, the management team and the 280 professionals of the MNA turned in an extraordinary performance. The MNA's performance is a collective representation of Nashville International Airport, John C. Tune Airport (JWN) and the MNA Properties Corporation. Highlights of its most recent fiscal year include operating revenue of \$76,315,000, a 1.9% increase over fiscal 2007. The Authority's operating revenue analysis for the most recent fiscal year was marked by a contribution of \$30,405,000 from parking; \$10,528,000 from signatory airline activity; \$11,051,000 from space rentals; \$17,165,000 from concessions; and \$7,167,000 from all other sources. Concessions, space rentals and other revenue represented \$35,383,000, or 46.4%, of operating income in 2008.

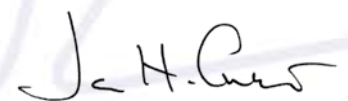
Operating expenses for fiscal 2008 reached \$50,444,000, as compared to \$44,599,000 in the prior fiscal year. Operating expenses were well within budgeted amounts and included necessary expenditures to sustain its mission of providing services and facilities that keep Music City flying high while maintaining reasonable costs to airlines.

The cost for signatory airlines serving BNA in fiscal 2008 was \$2.56 per enplaned passenger, down from \$3.09 per enplaned passenger in the previous year. The cost per enplaned passenger is calculated by dividing total fees paid by scheduled airlines by the number of passengers boarded. Again in fiscal year 2008, BNA was positioned as one of the nation's low-cost, value-added airports for commercial users.

At fiscal year end 2008, BNA's operating income before depreciation was \$25,871,000.



Raul L. Regalado, C.A.E.
President and CEO



James H. Cheek III
Chairman



MNAA was created in 1970 to direct the growth, operation and business activities of Nashville International Airport (BNA) and later John C. Tune Airport (JWN), a general aviation reliever airport. The MNAA is a quasi-governmental entity with funds for its operation and maintenance generated by airline carriers serving BNA and from passenger-supported concessions. Airport tenants and users, not local taxes, provide the funding necessary to develop, operate, maintain and improve airport facilities.

The MNAA is responsible for maintaining its own aircraft rescue, firefighting and law enforcement; acquiring land; constructing and maintaining airport facilities and infrastructure; issuing revenue bonds; and setting rates, charges and rentals for activities on airport properties. The Authority seeks to accomplish its objectives by operating within a balanced annual budget approved by its Board of Commissioners.

Nashville International Airport serves nearly 10 million passengers annually, operating 385 average daily flights to approximately 78 markets and 46 non-stop markets. Nashville International is utilized by 14 airlines and boasts 61 air carrier gates and up to 78 commuter aircraft parking positions. The MNAA's two airports contribute \$3.74 billion in total economic activity, \$1.18 billion in wages and more than 39,700 jobs annually to the regional economy.

Expansion of the North Terminal Apron and 29 additional tie-downs were constructed and opened at John C. Tune Airport (JWN) in fiscal year 2008. JWN also implemented a new security access-control and badge system. Fiscal year 2008 proved to bring the largest turnouts yet for our Fifth Saturday Fly-Ins, with regular attendance from families and pilots from throughout Middle Tennessee.

The many daily tasks the MNAA performs, combined with the efforts of our tenants and airline partners, provide the Nashville Airports Experience (NAE). The NAE captures the quality products, services and people that make our airports great airports to be a partner, a passenger and an employee. By creating and maintaining community stakeholder relationships, creating and developing new and renovated space, inspecting and maintaining space, securing space and managing partnerships, the MNAA delivers the NAE. The Authority takes the mission of the NAE into the community, making a concerted effort to participate in regional and local chambers of commerce, business expos, industry conferences and community events with the likes of the American Red Cross and Inglewood Elementary School, our PENCIL partner. The annual Aviation Golf Classic raised \$69,437 in fiscal year 2008, which was donated to Metro schools neighboring John C. Tune Airport.

The MNAA recognizes the vital role it plays as an economic driver of the region. It also understands its responsibility for moving forward with a master plan of expansion and improvements to meet the demands of a rapidly growing population in Middle Tennessee, Southern Kentucky and North Alabama.

The MNAA is governed by a 10-member Board of Commissioners, which serves without compensation. Nine members of the Board are appointed by the mayor of Nashville, with the 10th being the mayor. Commissioners are appointed for a term of four years. Appointments are staggered to provide for continuity.

Ratings

On November 16, 2006, Standard & Poor's Ratings Services published an "A" rating on the Authority's airport revenue bonds. This rating was based on the Authority's continued enplanement growth, the airport's strong service-area economy, low cost structure, limited additional debt needs, and management's commitment to reducing its debt significantly by 2017. On December 3, 2004, Moody's Investors Service assigned a rating of "A2" with a stable outlook to the airport revenue bonds. It considered some of the same strengths that Standard & Poor's did when issuing its rating. These ratings were affirmed earlier this year as the Authority pursued several revenue bond refundings. A negative outlook comment was attached due specifically to a portion of the Authority's fixed-rate debt insured by one carrier. To address this matter, in September 2008, the Authority entered into an agreement with a financial institution to provide a \$15 million letter of credit to support meeting debt service obligations. However, it is not anticipated that this letter of credit will ever be drawn upon.

Air Traffic

Air passenger growth at BNA continues to reflect the economic vitality of the region the MNAA serves. During fiscal year 2008, BNA processed 4,880,360 enplanements, a 1.2% decrease from 4,938,191 enplanements in 2007. This decrease came as no surprise as market trends began to manifest in air traffic numbers across the nation.

Signatory carriers represented 84.3% of total enplanements during the year, down slightly from 86.0% in the prior year. Daily departures declined to 188 at the end of fiscal year 2008, the lowest level in at least 10 years. Daily departures at the end of fiscal years 2007 and 2006 were 202 and 197, respectively.

The mix of non-signatory carriers changed slightly during the year. This group, along with any charter operations, represented 15.7% of all enplanement activity during the year.



Top 25 Domestic Markets for Nashville International Airport

All Destinations Are Serviced with Non-stop Flights from BNA.

Chicago, IL (Midway)

Orlando, FL

Baltimore, MD

Detroit, MI

Dallas/Ft. Worth, TX

Tampa, FL

Los Angeles, CA

Denver, CO

Philadelphia, PA

New York, NY (LaGuardia)

Las Vegas, NV

Fort Lauderdale, FL

Raleigh/Durham, NC

Phoenix, AZ

Chicago, IL (O'Hare)

Kansas City, MO

Cleveland, OH

Houston, TX (Hobby)

Jacksonville, FL

New Orleans, LA

Newark, NJ

Houston, TX

(Bush Intercontinental)

Seattle, WA

New York, NY (JFK)

Austin, TX





Investing for Our Partners and Customers

In support of its ongoing capital development program, the Authority generated \$12,836,000 in passenger facility charges (PFCs) and received \$22,300,000 in capital contributions in the form of grants.

As the MNAA moves to strengthen BNA's position as a lower-cost, value-added airport, the Authority adopted a \$578,308,000 capital investment program to be initiated over the next five years. The Authority kept its costs to the airlines low in terms of landing fees (\$3.26 non-signatory airlines and \$0.19 signatory airlines in fiscal year 2008) and terminal rents to ensure that it continues to retain existing service, as well as remaining attractive to other new airlines. The Authority is investing in a program to replace or refurbish existing facilities in order to accommodate the needs of its strategic airline partners and airport customers.

The marquee of the Authority's capital investment program is the renovation of BNA's terminal facility, now nearly 22 years old. Originally designed as a mini-hub facility, the airport terminal has evolved into an origin-and-destination (O&D) air transportation complex. During this renovation process, the Authority will witness a positive transformation of terminal facilities and amenities, all designed with a strategic focus on customer requirements. Phase I of the renovation is near completion. Further details of the terminal renovation program are included elsewhere in this report.

Strategic Planning Benefits

The implementation of the MNAA's Long-Term Strategic Business Plan has enabled the Authority to realize the benefits of certain industry dynamics by optimizing its current assets and making judicious additions where needed.

Prior to the development of its Long-Term Strategic Business Plan, the MNAA had concentrated primarily on financial performance. However, with the implementation of a Balanced Scorecard, performance measurements and benchmarks as part of its long-term planning process, the Authority is now able to extend its perspective beyond financial results, adding non-financial performance measurements to support its strategic objectives.

Six Sigma, the process improvement methodology, affords the MNAA the ability to evolve to a lower-cost airport for airlines serving BNA.

As always, the Authority's Long-Term Strategic Business Plan will be made resilient by the professionals of the MNAA. This dedicated team is committed to meeting the challenges of an ever-changing aviation industry so that its dynamic region benefits from the most efficient air transportation service possible.

The MNAA appreciates the consistent input from its constituencies in Nashville and the Mid-South. The MNAA extends its gratitude to these individuals and groups and promises to continue working to retain the trust and respect of the public it serves.

BNA Terminal Renovation

In the evolution and growth of BNA as a robust O&D airport, now serving more than 9.5 million passengers annually, the MNAA must focus more intently than ever on providing premier airport services and facilities. In meeting the needs of its ever-expanding passenger base, which is expected to double by approximately 2025, the MNAA has embarked on a multi-phase terminal renovation project. This project is expected to cost approximately \$150 million.

The construction of the terminal renovation Phase I project is near completion, and includes the installation of 17 skylights, adding natural light to the terminal and cutting back on energy costs. Air quality and temperature have been improved by replacing 20 HVAC units. In addition, an effective recycling program has been employed throughout the terminal. An Airport Sustainability Study is in development to continue BNA on this environmentally friendly and cost-effective course.

The Master Concessions Plan for the terminal renovation features four distinct retail centers, each reflecting strong local flavor throughout the terminal and concourses, in the way of food courts, restaurant brands, specialty retail stores and custom souvenir shops. During Phase I, more

than 30 new food, beverage and retail locations have opened, all of which have been received enthusiastically by partners, passengers, employees and media alike—a true testament to the Nashville Airports Experience.

In fiscal year 2008, the renovated concessions program generated more than \$17,165,000, up from \$16,631,000 in fiscal year 2007.

Phases II and III of the terminal renovation are scheduled to begin in 2009 and 2010, respectively. The subsequent phases include a complete renovation of all restrooms and the baggage claim area, as well as replacing HVAC units, wall coverings and public-area carpet.

Other Projects

In addition to terminal renovation, BNA continued work to rehabilitate Taxiway Alpha South and reconstruct the intersection of Runways 13-31 and 2L-20R, as well as Taxiways Lima and Juliet between T4 and T6. Hangar Lane entrance improvements have been made, as well as the construction of runway safety areas on 20R and 20L.



Nashville Air Cargo

Strategically located near the population center of the United States, the Nashville Cargo Facility at BNA provides a significant service to freight forwarders, manufacturers, distributors and cargo carriers shipping goods into and out of the region. During fiscal year 2008, cargo volume exceeded 79,000 tons, up from nearly 75,000 tons in fiscal 2007.

Air traffic demand from North America/Asia and Inter-Asia will increase as our region matures in its role as a global manufacturing and consumer powerhouse. Current air cargo facilities at BNA, including Nashville Air Cargo (Westside), are well-positioned to accommodate increased cargo demands and meet the needs of the global market.

Passenger and Corporate Aviation

Nashville International Airport continues to experience growth in its operations. In addition to the Authority's investment in the terminal renovation at BNA, the MNAA is committed to meeting hangar and traffic needs at both BNA and JWN. This commitment also positions BNA to make up for potential losses of business class service to the general aviation market.

Non-aviation Revenue and the MNAA Properties Corporation

Additional sources of operating revenue continued to contribute to the net assets of the Authority. Concessions, space rentals and other revenue represented \$35,383,000, or 46.4%, of operating income in 2008. The news, gift, and food and beverage concession programs, continued their transition during the terminal renovation in the current year and have received rave reviews from the traveling public. Concession renovations should be substantially complete in January 2009. Restaurant activity managed a slight 4.1% increase to \$2,556,000 over 2007 and increased 9.9% from \$2,325,000 in 2006. Car rental revenue was up 4.2% to \$10,566,000, a 14.7% increase since 2006.

The increase in space rentals in 2008 was due entirely to the addition of MNAA Properties Corporation's (MPC) two properties. In 2008, the MPC began its operations with two acquisitions, both multi-tenant facilities. Fiscal year 2009 will be the first full year of operations at these facilities. The building known as International Plaza was purchased for \$7.5 million, and the second building was purchased from a major tenant (that still occupies a portion of the building) for \$1.36 million. The partial year of operations resulted in \$1,531,000 in space rent.



Parking Revenues

Parking lot revenue continued to be the primary source of revenue of any kind and increased \$2,611,000, or 9.4%, during the year, up \$5,246,000, or 20.8%, since 2006. The 2008 increase in parking revenue is attributable to a rate increase that went into effect in January 2008. Revenue increased even though transaction activity actually declined approximately 9%. The new valet lot opened in November 2007, and this increased the availability of premier short-term spaces for public use. A new employee lot opened in November 2008, making available approximately 1,200 additional spaces of public parking in the former employee lot just in time for the holiday season.

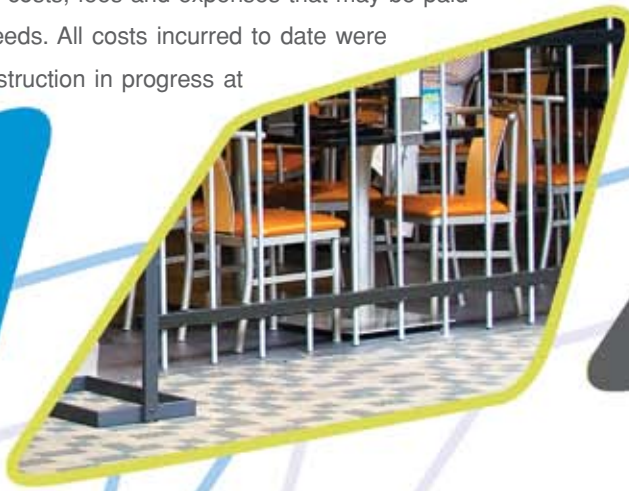
Customer Facility Charges

A new source of non-operating revenue began in 2008. In January, rental car agencies started collecting and remitting to the Authority a \$4 per contract-day customer facility charge (CFC). It contributed more than \$4 million to revenue with six months of collections. This source of revenue will be used to pay for the planning, design, construction, financing, maintenance and operation of a consolidated rental car facility as well as other costs, fees and expenses that may be paid from CFC proceeds. All costs incurred to date were reflected in construction in progress at

June 30, 2008. Without CFCs, non-operating revenue would have declined by \$727,000 over the prior year. Passenger facility charges (PFCs) closely mirrored the 1.2% enplanement decline, recording a 3.0% decrease from 2007 and just 2.1% above collections in 2006, \$258,000 more than that year.

Performance Excellence Recognition

In fiscal year 2008, the MNAA received the Level II recognition from the Tennessee Center for Performance Excellence. The combined efforts of MNAA's 19 departments and their accomplishments garnered Level II recognition, which is a great tribute to the Exercising component of the MNAA's E³I values. The MNAA's E³I values of Enterprising, Entertaining, Exercising and Intersecting drive the engine of the organization. The MNAA team is the engine that provides unmatched customer service, ethical standards, financial efficiency and innovative solutions to the airport environment and its customers.



Business Diversity Development

The MNAA Office of Business Diversity Development spearheaded the completion of the MNAA Disparity Study, which was approved by the Board in September 2007. The disparity study has been the catalyst for Business Diversity's outreach to organizations such as the Middle Tennessee Diversity Forum and CABLE. Implementation of Small, Minority- and Women-owned Business Enterprise (SMWBE) participation levels for procurement projects were implemented, and have garnered more than \$6.5 million in contracted services in fiscal year 2008, nearly double the amount of money the MNAA spent with SMWBEs in fiscal year 2007.

Arts at the Airport

The MNAA showcases the region's visual and performing arts through its Arts at the Airport program, which receives funding from the MNAA and

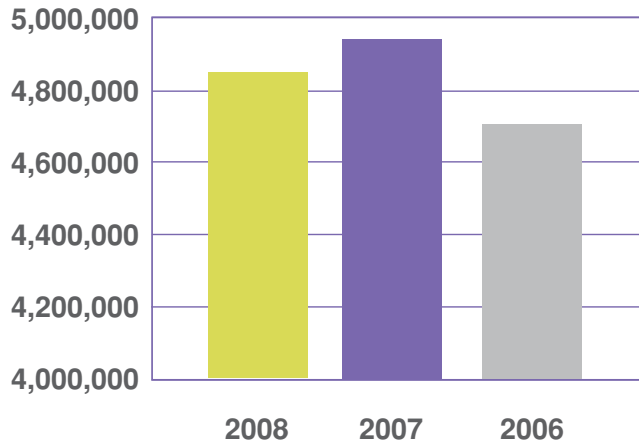
the Tennessee Arts Commission. The award-winning Arts at the Airport program presents works by local, regional and national artists for the enjoyment and enrichment of BNA and JWN's passengers and visitors. In addition to visual art, Arts at the Airport sponsors live music in BNA's terminal.

The Arts at the Airport program is housed within the Community Affairs and Customer Service department of the MNAA. It is coordinated by a curator, administered by an Arts at the Airport specialist, and governed by a 15-member board of directors. Arts at the Airport, a 501(c)(3) organization, receives funding for the visual arts from the MNAA and the Tennessee Arts Commission. Music performances are sponsored by the MNAA.



The following shows major indicators of airport activity during the past three years:

Enplanements

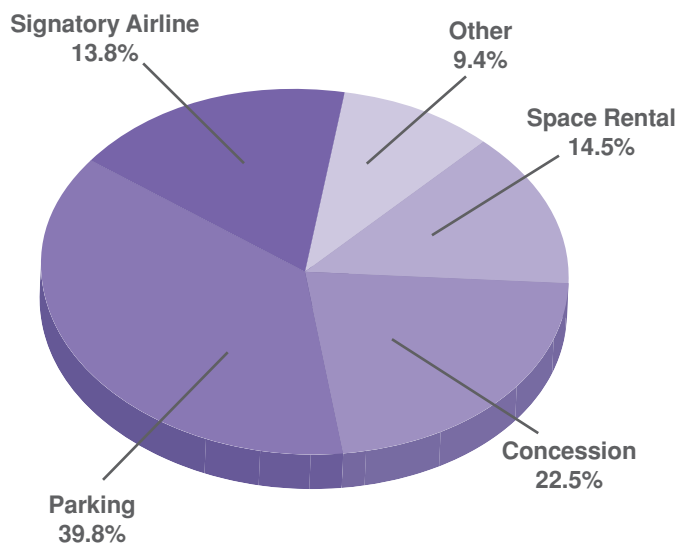


Aircraft Landed Weight

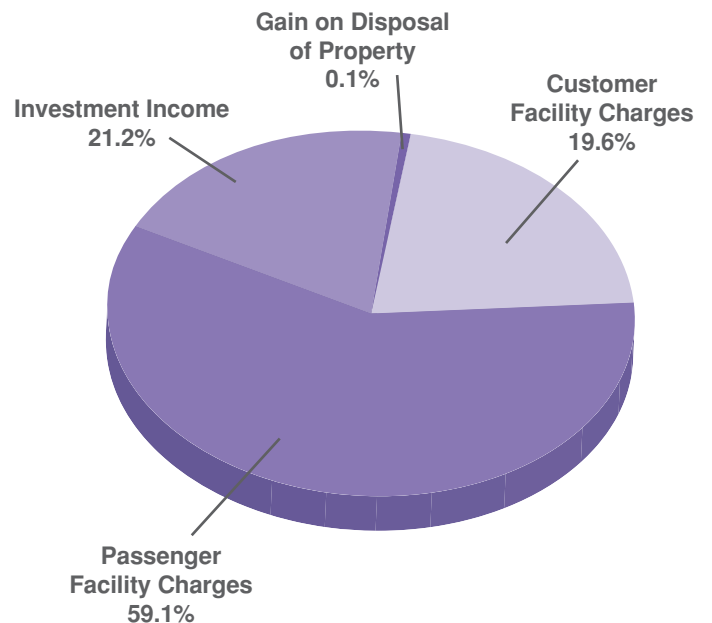


Operating and Non-operating Revenues Highlights

2008 Operating Revenues

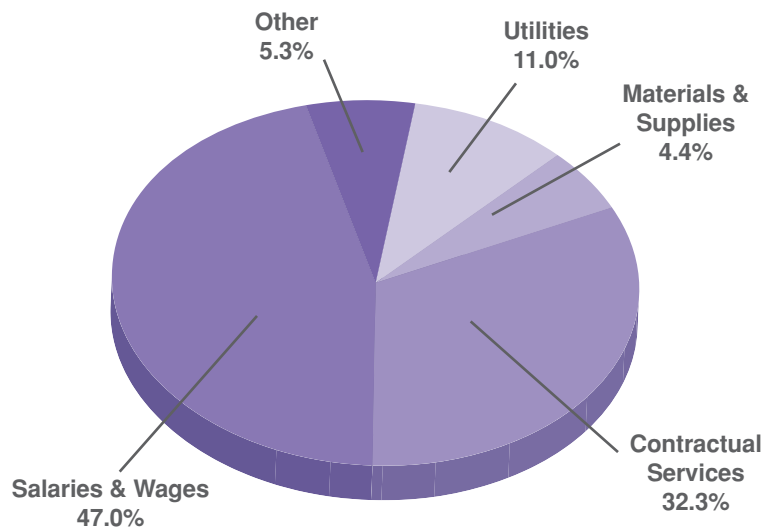


2008 Non-operating Revenues

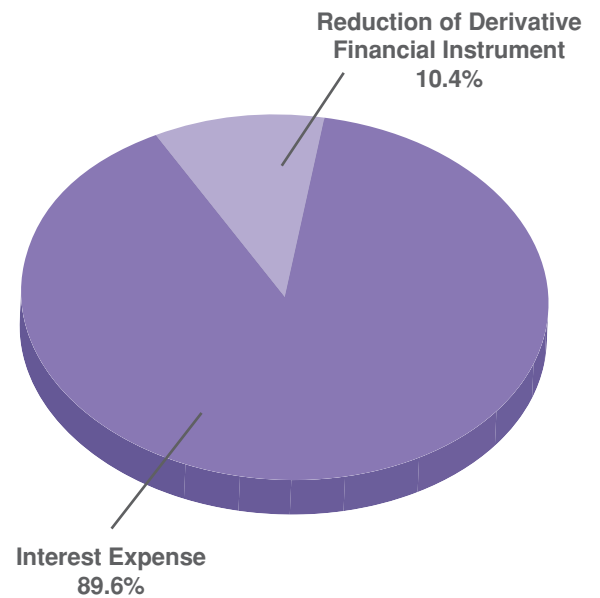


Operating and Non-operating Expenses Highlights

2008 Operating Expenses



2008 Non-operating Expenses



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Bass, Berry & Sims, P.L.C.

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Metropolitan Nashville Airport Authority™
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One Terminal Drive • Suite 501
Nashville, Tennessee 37214-4114
(615) 275-1600
www.flynashville.com

