2007 Annual Report

Fiscal Year 2007 (July 1, 2006 - June 30, 2007)



Metropolitan Nashville Airport Authority™

A Six Sigma Organization



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Executive Message

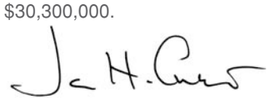
As the governing body of two growing airports - Nashville International Airport and John C. Tune Airport - and an economic catalyst for a flourishing region, the Metropolitan Nashville Airport Authority invests significant time and effort in its quest to deliver exemplary customer service to its business and leisure travelers. In fiscal 2007, the Authority continued to be rewarded for its pursuit of excellence. We are proud of our achievements, which again led to another year of record accomplishment.

Guided by our Board of Commissioners' visionary insight, our management team and the 280 professionals of the MNAA turned in an extraordinary performance. Highlights of our most recent fiscal year include operating revenue of $74,899,000, a 5.3% increase over fiscal 2006. The Authority's operating revenue analysis for the most recent fiscal year was marked by a contribution of $27,794,000 from parking; $19,359,000 from signatory and nonsignatory airline activity; $10,139,000 from car rentals; $2,502,000 from food and beverage; and $15,104,000 from all other sources. Signatory and nonsignatory airline revenue was 25.8% of operating revenue for fiscal 2007, as compared to 28.3% of operating revenue in fiscal 2006.

Operating expenses for fiscal 2007 reached $44,599,000, as compared to $40,749,000, in the prior fiscal year. Operating expenses were well within budgeted amounts and included necessary expenditures to sustain our mission of providing services and facilities that keep Music City flying high while maintaining reasonable costs to airlines.

The cost for airlines serving BNA in fiscal 2007 was $3.09 per enplaned passenger, down from $3.50 per enplaned passenger in the previous year. The cost per enplaned passenger is calculated by dividing total fees paid by schedule airlines by the number of passengers boarded. Again in fiscal 2007, BNA was positioned as one of the nation's low-cost airports for commercial users.

At fiscal year end 2007, the BNA's operating income before depreciation was $30,300,000.



James H. Cheek, III
Chairman



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

Annual Report FY07

The MNAA was created in 1970 to direct the growth, operation and business activities of BNA and 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 frompassenger-supported concessions. Airport tenants and users, not local taxes, provide the funding necessary to develop, operate, maintain and improveairport facilities.

The MNAA is responsible for maintaining its own aircraft rescue, firefighting and law enforcement; acquiring land, constructing airport facilities, issuing revenue bonds and other tax-exempt indebtedness; and setting rates, charges and rentals for activities on airport properties. The MNAA 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 400 average daily flights to more than 89 markets and 47 nonstop markets. Nashville International is utilized by 15 airlines, boasts 61 air carrier gates and up to 78 commuter aircraft parking positions, contributing $3.74 billion in sales, $1.18 billion in wages and more than 39,700 jobs annually to the regional economy.

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 places to be a partner, a passenger and an employee. The MNAA takes the mission of the NAE into the community, making a concerted effort to participate in regional chambers of commerce meetings, business expos, industry conferences and community events with the likes of the American Red Cross and Inglewood Elementary School, our PENCIL partner.

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 northern 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 of airport management and development.



Standard & Poor's Raises Credit Rating

As a result of our strong financial position, highlighted by our fourth consecutive record year, our consistent enplanement growth and management's commitment to reducing debt, Standard & Poor's (S&P) Ratings Services has assigned its 'A' rating to the MNAA. Having previously received its first ever credit rating of 'A-' from the agency in 2004, the MNAA's recent upgrade is attributable to collective strengths in a variety of areas. These include a moderate cost structure, a strong competitive position, diversity of revenues and limited additional debt plans. The Authority is firmly committed to having modest outstanding debt when its current airline use and lease agreements expire in September 2017.

Air Traffic Soars

Air passenger growth at BNA continues to reflect the economic vitality of the region we serve. During fiscal 2007, BNA processed 4,938,191 enplanements, a 4.3% increase from 4,735,910 in 2006. This achievement came as no surprise as the growth rate of BNA's passenger and general a viation market segments is outpacing other aviation facilities in the Mid-South.

The 15 legacy and low-cost airlines serving BNA offer daily nonstop and direct departures to 136 destinations in the U.S. and Canada. The number of markets served by some mainline carriers decreased in fiscal 2007, but overall carrier capacity, bolstered by the entry and expansion of low-cost airlines, has remained steady.



Top 25 Domestic Markets
Nashville International Airport

1. Chicago, IL
2. New York/Newark, NY
3. Orlando/Sanford, FL
4. Baltimore, MD
5. Dallas/Ft. Worth, TX
6. Detroit, MI
7. Houston, TX
8. Tampa/St. Petersburg, FL
9. Los Angeles, CA
10. Denver, CO
11. Las Vegas, NV
12. Philadelphia, PA
13. Fort Lauderdale, FL
14. Raleigh/Durham, NC
15. Phoenix/Mesa, AZ
16. Kansas City, MO
17. Washington, DC
18. Cleveland, OH
19. Jacksonville, FL
20. New Orleans, LA
21. Seattle/Tacoma, WA
22. Austin, TX
23. San Diego, CA
24. Minneapolis, MN
25. San Antonio, TX



Investing For Our Partners and Customers

During fiscal 2007, the MNAA invested $40,754,000 in capital activity. In support of its ongoing capital development program, the Authority received $13,238,000 in Passenger Facility Charges (PFC) and $13,168,000 in federal and state grants.

As the MNAA moves to strengthen BNA's position as a low-cost airport, the Authority has adopted a $578,308,000 capital investment program to be initiated over the next five years. We have kept our costs to the airlines low in terms of landing fees ($3.24 nonsignatory airlines and $0.29 signatory airlines in fiscal 2007) and terminal rents to ensure that we continue to retain existing service, as well as be attractive to other new airlines. We're investing in a program to replace or refurbish existing facilities in order to accommodate the needs of our strategic airline partners and airport customers.

As described in the 2006 annual report, the marquee of the Authority's capital investment program is the renovation of BNA's terminal facility, now nearly 21 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, we will witness a positive transformation of terminal facilities and amenities, all designed with a strategic focus on customer requirements. Phase 1 of the renovation is near completion. Further details of the terminal renovation program are included elsewhere in this report.

Technology Enhancements Add To Customer Conveniences

Bringing new technology to BNA and JWN is also an integral part of the NAE, which helps facilitate the flow of traffic both inside and outside the airport terminal. We are ensuring that our voice and data infrastructure is up-to-date, and we are also ensuring that we have the appropriate level of technology in our parking facilities for revenue control. Because BNA is an O&D airport with a strong presence of low-cost carriers, our driving market has expanded in recent years. This has favorably influenced the stream of revenue from our parking facilities, the largest single generator of revenue for the MNAA.



Strategic Planning Benefits

The implementation of the MNAA's Long-term Strategic Business Plan has enabled us to realize the benefits of certain industry dynamics by optimizing our current assets and making judicious additions where needed. These dynamics include:

Air cargo growth. 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 our 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.

BNA terminal renovation. The nearly completed Phase 1 of the terminal renovation program is resulting in a positive transformation of BNA into an air service facility sharply focused on customer service. Changes are positioning BNA to handle the capacity needs for airport terminal operations, the demands of the traveler for increased in-terminal options and amenities, and the stringent needs of air travel security.

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 MNAA is now able to extend its perspective beyond financial results, adding non-financial performance measurements to support its strategic objectives.

Because the MNAA is an organization that champions Six Sigma, the performance management structure has afforded the Authority the ability to evolve to a lower-cost airport for airlines serving BNA. The additional benefits of strategic planning have also contributed to many consecutive years of record financial results for the MNAA, and have led to extremely positive results from both customer and employee satisfaction surveys.

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

We appreciate the consistent input from our constituencies in Nashville and the Mid-South. We extend our gratitude to these individuals and groups and promise to continue working to retain the trust and respect of the public we serve.

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 with an expenditure of approximately $150 million. Construction of Phase 1 is near completion and includes the reconfiguration and consolidation of nine existing security checkpoints to a planned, consolidated security checkpoint with 12 lanes for increased security and smoother entry. The Authority's Master Concessions Plan successfully relocates a majority of pre-security checkpoint concession space inside the secure-terminal areas. Pre-security concessions space has been reconfigured to provide a new meet and greet area complete with newsstand units, cafes, full-service banks and music stages.

The Master Concessions Plan for the terminal renovation includes 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.



The Authority contracts with two national concessions companies, Delaware North and HMSHost, which will make $5,343,500 and $5,644,350, respectively, in initial capital investments. The two companies are licensed to provide 22 local and national food and beverage concepts to passengers and customers of BNA. Local firms include Swett's, Whitt's Barbecue, Neely's Bar-B-Que, Tennessee Tavern, La Hacienda Mexican Restaurant, Provence Breads and Cafe, Nashville Delicatessen, Gibson Showcase, and Baja Burrito. National brands include Starbucks Coffee, Wendy's, Burger King, Quiznos, Manchu Wok, Villa Fresh Italian Kitchen, and Famous Famiglia.

In FY 2007, the renovated food and beverage program generated more than $18 million, with a projected increase of $1 million for FY 2008.

The Authority is also contracting with Hudson Group and its partners to enhance BNA's retail shopping amenities with merchandise from 20 local, regional and national brand-name concepts. The companies represented were selected on their ability to meet BNA's requirements while capturing the distinctive sound, style and spirit of Nashville. The stores will celebrate Nashville's most famous export - music - in every form. All of the stores will be custom-designed with a decor that reflects the flavor, feel and culture of Nashville.

News, gift and specialty retail concessionaires Airport Management Services, LLC, (Hudson Group) and Paradies generated $12.78 million in FY 2007. In January 2007, Hudson Group became the primary Master Concessionaire of BNA's news, gift and specialty retail concessions. Hudson Group is expected to generate $14 million in FY 2008.

Other features of Phase 1 include flight information panels and the addition of concourse skylights.

Phases 2 and 3 of the terminal renovation will 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 escalators, HVAC units, wall coverings and public area carpet.

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 2007, cargo volume again exceeded 74 million tons.

MNAA Properties Corporation

On April 19, 2007, the Authority's Board of Commissioners approved an interlocal cooperation agreement with the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County. As a result of this action, the MNAA Properties Corporation (MPC), a Tennessee nonprofit corporation, was formed for the purpose of supporting and facilitating the operations of the Authority and to help the economic development of the surrounding areas. Governed by the Board of Commissioners, the MPC handles development, leasing and purchase of airport land.

Parking Revenues

Parking revenue continues to be the greatest source of operating revenue, having increased 10.5% in 2007 over 2006, exceeding the 4.3% increase in enplanements. Several factors contributed to the double-digit increase continuing in 2007. One significant factor is the increased availability in the short-term lot now that valet has been relocated to a remote lot. There were no parking price increases during fiscal 2007.

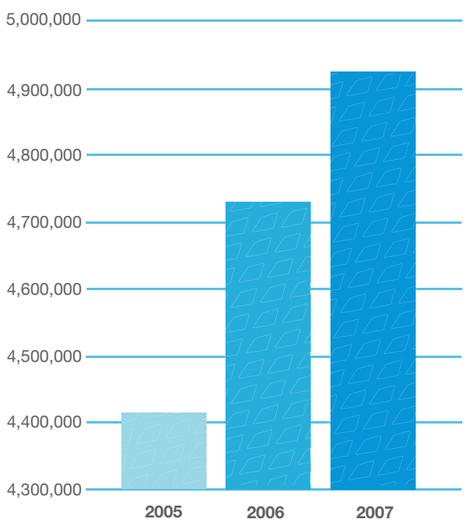
Arts at the Airport

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 (a 501(c)(3) organization) presents works by local, regional and national artists for the enjoyment and enrichment of passengers and visitors. In addition to visual art, Arts at the Airport sponsors live music in the terminal througout the year. Music performances are sponsored by the MNAA.

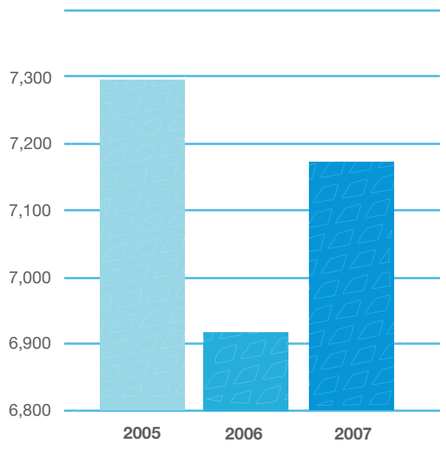
Financial Highlights

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

Enplanements

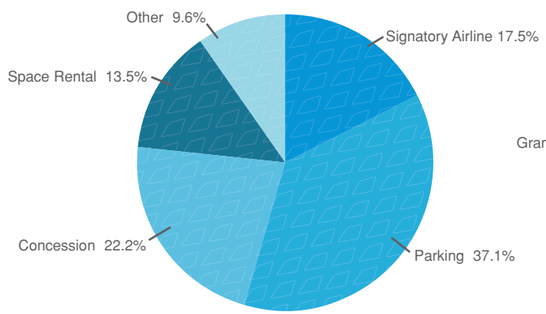


Aircraft Landed Weight

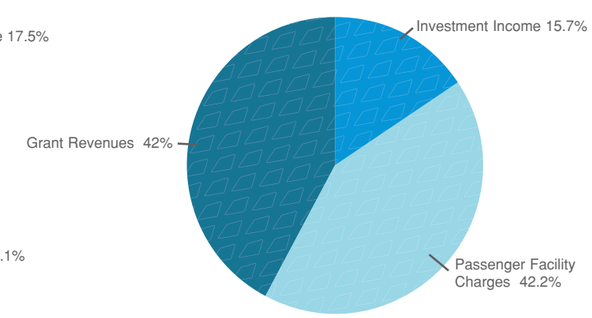


Operating and Non-operating Revenues Highlights

2007 Operating Revenues

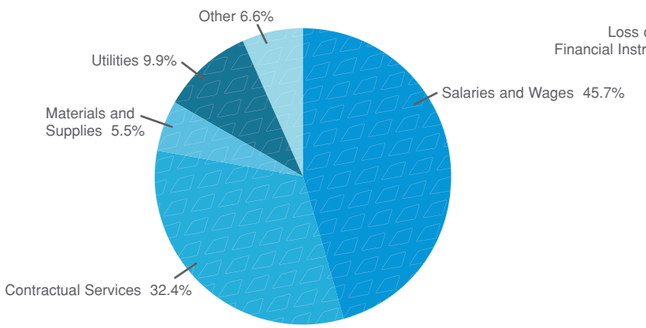


2007 Non-operating Revenues

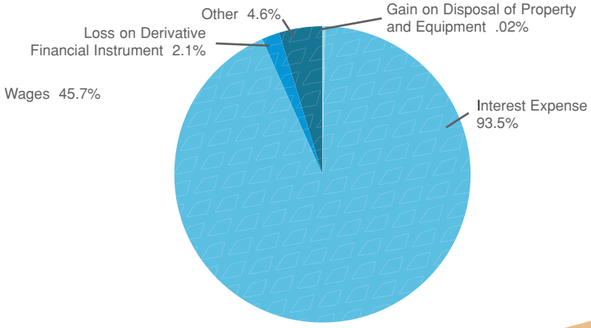


Operating and Non-operating Expenses Highlights

2007 Expenses Revenues



2007 Non-operating Expenses







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A Six Sigma Organization

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