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TRANS WORLD AIRLINES, INC.

TWA

Administrative Center - 11500 Ambassador Drive - Kansas City, Missouri 64153
P.O. Box 20007 - Kansas City, Missouri 64195

02 DEC -2 7:14:46

January 17, 2001

Passenger Facility Charge Branch
Attention: Joseph Hebert
Airports Financial Assistance Division, ROOM 619
Federal Aviation Administration
800 Independence Avenue, S.W.
Washington, DC 20591

RE: Cost for Collecting, Handling, and Remitting Passenger Facility Charges

Dear Mr. Hebert,

Attached is a summary of costs incurred in the collecting, handling and remitting of Passenger Facility Charges (PFC), by Trans World Airlines, Inc., explanations of how the costs were identified and calculated and the independent accountants' Agreed Upon Procedures Report prepared by the firm KPMG LLP.

The information contained in the attachments should be considered private and proprietary to Trans World Airlines, Inc. TWA appreciates the Federal Aviation Administration's efforts and cooperation on this project.

Should you require additional information from TWA, please contact the project coordinator, Steve Forsythe, Senior Analyst, Passenger Sales Accounting at (816) 464-6231 or via e-mail at sforsyt@twa.com.

Sincerely,

Jane E. Closterman

Jane E. Closterman
Vice President and Controller

Attachments

Trans World Airlines, Inc.
Passenger Facility Charge Cost Study

THIS DATA IS PRIVATE AND PROPRIETARY TO TRANS WORLD AIRLINES, Inc.

General

Costs were calculated based on actual data from the calendar year 1999, to the extent possible. Where 1999 data was not available; calendar year 2000 data was utilized. The following Passenger Facility Charge (PFC) cost category explanations will advise you when calendar year 2000 costs were utilized in our calculations. Only calendar year 1999 actual and pro-forma costs are being presented in the interest of brevity.

Credit Card Discount Fees

The costs shown are based on actual TWA ticket sale activity by month for the calendar year 1999.

The percentage of credit sales by credit card type were applied to PFC's collected and refunded by month to obtain the credit card value of each month's net PFC remittance. The actual credit card discount rates by month for each type of credit card were then applied to each month's credit card PFC net remittance.

Audit Fees

The audit fees are actual costs incurred by TWA to comply with the requirements of an annual audit of PFC activity as required by CFR158.69 (b) (1) and fees for the Agreed Upon Procedures audit recommended by the FAA. Also included are actual costs associated with TWA's Internal Audit Department gathering data and preparing schedules for the annual audit. The actual costs reflect the hourly wage rate plus fringes for the Internal Auditor performing the work.

Disclosure Costs

The Disclosure Costs are based on the estimated ad space required for PFC disclosure as required by law. TWA's Manager-Advertising reviewed all advertising from 1999. Only advertising which quoted a fare was used to calculate the Disclosure Costs. In 1999, TWA's fare advertising was restricted to newspapers. The disclosure message was estimated to be five percent of the total newspaper ad space. Five percent of the cost for each newspaper fare ad and design represents TWA's Disclosure Costs.

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Passenger Facility Charge Cost Study

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CRS On-Going Costs

CRS On-Going Costs were estimated based on an actual cost factor calculated by TWA's CRS Provider, Worldspan (WSP). WSP analysts reviewed all 1999 TWA submitted pricing message activity. Two message types were identified as being in support of PFC pricing.

A weighted average of these message types was then calculated by WSP to ascertain what percentage of all pricing messages were in support of PFC pricing. This result was then applied to the total cost of TWA pricing activity to determine the per booking cost of pricing PFC's.

TWA's Automation Marketing Department supplied the total number of bookings on TWA from all CRS Providers for the calendar year 1999. The WSP per booking PFC cost factor was applied to all TWA WSP generated bookings.

To arrive at the per booking PFC cost factor for CRS Providers other than WSP, TWA calculated the percentage difference between WSP booking fees and the booking fees of other CRS Providers. The WSP per booking PFC cost factor was then increased or decreased by this factor. The result of that calculation was then applied to the number of bookings generated by that CRS Provider to arrive at the cost of pricing PFC's .

Revenue Accounting

PFC processing costs for Revenue Accounting represent the actual hourly wage rate plus fringes for employees who directly support PFC accounting activity. Supervisors of the various cost centers provided the number of hours and the hourly wage rates for each employee.

The actual time from the following activities was considered:

- Update the PFC Database for PFC approved airports
- Reviews of PFC Database reports used to calculate and support PFC disbursements
- PFC correspondence
- Attendance at industry meetings related to PFC matters
- Assistance to external auditors for preparation of the annual PFC audit report
- Monthly PFC liability account analysis
- Correction of errors noted in PFC's reported from ticket sales and refunds
- Calculation of PFC's for charter and block seat flight activity
- Distribution of PFC remittances and annual audit reports

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Passenger Facility Charge Cost Study

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Accounts Payable

Accounts Payable costs are the actual costs associated with producing each month's PFC disbursement checks. A study was conducted by the Manager-Accounts Payable to determine the actual costs to issue one disbursement check. That actual cost was applied to the volume of PFC disbursement checks issued each month.

Treasury

The Director-Cash Management supplied the actual hours and hourly wage rates plus fringes for employees directly involved in the planning and cash investment activities associated with PFC collections and disbursements.

Properties and Facilities

These cost are the actual out of pocket expenses incurred by TWA, including salaries and fringes for employees attending PFC related meetings at PFC approved airports or those airports holding hearings to obtain PFC approval.

Reservations

PFC costs associated with Reservations were estimated based on studies conducted to calculate the amount of Reservation Service Employees' (RSE) talk time for handling PFC related questions. The study was conducted in October 2000 by randomly monitoring RSE answered calls. The number of callers who inquired about PFC's was compared to the total number of calls answered during the monitor. The time spent asking and answering the question was compared to the total call time. The results of the monitor indicated two percent of answered calls had PFC related questions and that, on average, fifteen seconds of the call was required for the question.

The total call volume of 1999 for all TWA Reservations Centers was used to calculate the number of calls and talk time spent for PFC related questions. Two percent of the calls at fifteen seconds times the average RSE hourly wage plus fringes was used to arrive at the cost for PFC related talk time.

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Passenger Facility Charge Cost Study

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Reservations Training

PFC training costs were calculated using the number of RSE new hire employees who successfully completed training in 1999. The new hire training syllabus was reviewed to determine the amount of time required for training new hire RSE's on PFC pricing. The actual new hire hourly wage plus fringes was used for this calculation.

TWA requires all active RSE's to undergo annual refresher training. PFC pricing is included in the syllabus. The average hourly salary plus fringes for RSE's undergoing refresher training is included for the amount of time spent on PFC pricing.

The average hourly wage plus fringes for RSE Instructors' time spent teaching PFC pricing to new hire RSE's and refresher training for active RSE's is also included.

Passenger Services

Passenger Service Employee (PSE) Agent Occupied Time (AOT) for PFC related activity was restricted to the amount of AOT required for pricing PFC's. This time was estimated based on the number of manually priced transactions issued at TWA Airport Ticket Offices (ATO), TWA City Ticket Offices (CTO) and TWA Telemail (ticket by mail).

Calendar year 1999 actual ticket counts for ATO, CTO and Telemail were used as the base for calculating the number of manually priced ticket transactions. Only U.S. issued tickets were included in this count to eliminate tickets that did not have PFC's included in the pricing calculations. Actual CRS pricing records for calendar year 2000 were utilized to develop percentages of electronically priced versus manually priced transactions. Calendar year 1999 CRS data was not available.

AOT was calculated by the Manager-Passenger and Ticketing Services Support. Randomly selected unticketed reservation records were utilized to determine the average amount of AOT required to manually price PFC's. Every method of manual pricing was utilized for each of the sample reservation records. An average of one minute of AOT was required to manually price PFC's for the test items.

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Passenger Facility Charge Cost Study

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TWA requires all active PSE's to undergo annual refresher training. PFC pricing is included in the syllabus. The average hourly salary plus fringes for PSE's undergoing refresher training is included for the amount of time spent on PFC pricing.

The average hourly wage plus fringes for PSE Instructors' time spent teaching PFC pricing to new hire PSE's and refresher training for active PSE's is also included.

Collection Compensation Absorbed

Collection Compensation Absorbed is an actual loss resulting from refunded Passenger Facility Charges. As permitted by law, TWA retains eight cents for each PFC remitted. When PFC's are refunded, TWA refunds three dollars to the passenger and recalls the refunded PFC from the airport at the rate of \$2.92; the actual net amount originally remitted to the airport.

The resulting eight cents difference per refunded PFC is a reduction in TWA's miscellaneous revenue recorded for Collection Compensation.

Airline Information Services (AIS) On-going Support

AIS On-going Support costs represent 1999 average salaries plus fringes for programmers and computer technicians supporting TWA's on-line PFC database. Only the amount of time, which was identified as having been related to PFC activity, was utilized.

The costs for actual CPU time and DASD space required to process 1999 PFC related activity were included, as well as the cost of printing PFC reports.

Airlines Reporting Corporation (ARC) On-going Costs

The Airlines Reporting Corporation, Director-Financial Services supplied a cost factor per billable item, which was identified as their costs for PFC processing. The actual number of 1999 billable items per weekly ARC reports was used to calculate the annual cost.

Trans World Airlines, Inc.
Passenger Facility Charge Cost Study

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Interest Revenue on Float

Interest Revenue on Float for PFC's collected was derived from the actual Overnight Sweep Interest Rates during 1999. The rates were supplied by TWA's Director-Cash Operations.

Net PFC remittances for each month of 1999 were used to calculate the interest earned. The actual number of days between each sale period and PFC remittance date were used to determine the number of days PFC collections were held and interest was earned.

TRANS WORLD AIRLINES, Inc.
 Passenger Sales Accounting
 Passenger Facility Charge Cost
 1999 PFC COSTS/INCOME SUMMARY

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Cost Factor	1999 Actual Costs	% of Cost	1999 Pro Forma (@\$4.50)	% of Cost
Credit Card Discount Fees	\$ 1,198,073	50.00%	\$ 1,799,731	60.00%
External Audit Fees	\$ 50,916	2.00%	\$ 50,916	2.00%
Disclosure Costs	\$ 46,397	2.00%	\$ 46,397	2.00%
CRS On-going Fees	\$ 86,179	4.00%	\$ 86,179	3.00%
Revenue Accounting	\$ 101,172	4.00%	\$ 101,172	3.00%
Accounts Payable	\$ 47,661	2.00%	\$ 47,661	2.00%
Treasury	\$ 2,362	0.00%	\$ 2,362	0.00%
Properties & Facilities	\$ 5,970	0.00%	\$ 5,970	0.00%
Reservations	\$ 4,610	0.00%	\$ 4,610	0.00%
Training	\$ 30,566	1.00%	\$ 30,570	1.00%
Passenger Services	\$ 530,846	22.00%	\$ 530,846	18.00%
Training	\$ 20,233	1.00%	\$ 20,233	1.00%
Collection Compensation Absorbed	\$ 123,040	5.00%	\$ 123,040	4.00%
AIS On-going Support Costs	\$ 104,495	4.00%	\$ 104,495	4.00%
ARC On-going Costs	\$ 21,412	1.00%	\$ 21,412	1.00%
Interest Revenue on Float	\$ (317,942)		\$ (481,996)	
Total Costs	\$ 2,373,932		\$ 2,975,594	
Total Costs Less Interest	\$ 2,055,990		\$ 2,493,598	
Number of PFC's Remitted	23,079,558		23,079,558	
Number of PFC's Collected	24,617,552		24,617,552	
Cost Less Interest/PFC's Remitted	\$0.0891		\$0.1080	
Cost Less Interest/PFC's Collected	\$0.0835		\$0.1013	



1000 Walnut, Suite 1600
P.O. Box 13127
Kansas City, MO 64199

Independent Public Accountants' Report on Applying Agreed Upon Procedures

To Trans World Airlines, Inc. and
the Federal Aviation Administration:

We have performed the procedures enumerated in Attachment I, which were agreed to by Trans World Airlines, Inc. (the "Company" or "TWA") and the Federal Aviation Administration (the "FAA"), solely to assist you in evaluating the accompanying schedule of incremental costs directly associated with Passenger Facility Charge ("PFC") collection, handling, remittance, reporting, record keeping, and auditing for the year ended December 31, 1999. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the FAA and the Company. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose.

See Attachment I for the procedures performed on this engagement and the related results.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying schedule. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Further, with respect to the calculations described in Attachment I, we express no assurance as to the propriety of the methodologies employed in determining the amounts expressed in the accompanying schedule of incremental costs, or on the assumptions and estimates used in the specific calculations.

This report is intended solely for the information and use of the Board of Directors and management of the Company and the FAA, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG LLP

January 12, 2001



TRANS WORLD AIRLINES, INC.

As determined by TWA and the FAA, KPMG LLP performed the following procedures:

1. We obtained a summary schedule from TWA of all costs attributed to the collection and administration of PFCs, by cost caption, for the year ended December 31, 1999 which is included herein.
2. We obtained a schedule from TWA of the total dollar amount of PFCs collected, refunded, and remitted for the year ended December 31, 1999 and agreed the total to a TWA system generated report. We computed an estimate of the number of PFCs collected for the year by dividing the total dollar amount of PFCs collected by \$3, the PFC charge per segment, which resulted in an estimate of 24,618,721 PFCs collected, as compared to 24,617,552 PFCs per the accompanying schedule.
3. We tested the summation of the total 1999 costs, as reported on the schedule obtained in step 1., for mathematical accuracy.
4. We performed the following procedures related to each cost caption, as listed on the schedule obtained in step 1, for the year ended December 31, 1999:

<u>Cost caption</u>	<u>Procedures</u>
a. Credit card fees	<ol style="list-style-type: none"> i. We obtained from TWA schedules containing the breakout of total sales by month for the year ended December 31, 1999, separated between cash sales and credit card sales. ii. We recalculated, based on the schedule obtained in step 4.a.i., the percentage of credit card sales as a portion of total sales for the year. iii. We recalculated "PFC dollars collected via credit card sales" for the year ended December 31, 1999 by multiplying total PFC dollars collected less PFC dollars refunded, from the schedule obtained in step 2., by the percentage calculated in step 4.a.ii. iv. We recalculated the "credit card discount cost" related to PFCs for 1999 by multiplying the PFC dollars collected via credit card sales, as calculated in step 4.a.iii., by the estimated weighted average credit card discount percentage provided by TWA, and agreed the total to the respective amount reported on the schedule obtained in step 1.

TRANS WORLD AIRLINES, INC.

Cost caption	Procedures
b. Audit fees	i. We agreed the audit fees, reported on the schedule obtained in step 1., to a schedule of fees for the audit, agreed-upon procedures, and/or any additional charges related to PFCs for 1999.
c. Disclosure costs	<p>i. We obtained from TWA a summary of all disclosure cost components related to PFCs for 1999.</p> <p>ii. We agreed the total costs from the schedule obtained in step 4.c.i. to the respective amount reported on the schedule obtained in step 1.</p> <p>iii. We recalculated disclosure costs for 1999 using TWA's methodology and assumptions provided to us, which consider the number of media units containing PFC information, cost per media unit, and portion of ad space attributed to PFC language.</p>
d. Reservations	<p>i. We obtained from TWA a summary of all reservations cost components related to PFCs for 1999.</p> <p>ii. We agreed the total costs from the schedule obtained in step 4.d.i. to the respective amount reported on the schedule obtained in step 1.</p> <p>iii. We recalculated reservations costs for 1999 using TWA's methodology and assumptions provided to us, which consider TWA's estimate of the percentage of calls impacted by customer inquiries regarding PFCs, and TWA's estimate of the labor cost involved in addressing each customer inquiry regarding PFCs.</p>
e. Passenger service	<p>i. We obtained from TWA a summary of all passenger service cost components related to PFCs for 1999.</p> <p>ii. We agreed the total costs from the schedule obtained in step 4.e.i. to the respective amount reported on the schedule obtained in step 1.</p> <p>iii. We recalculated passenger service costs for 1999 by multiplying the total number of passengers ticketed by passenger service agents, by TWA's estimate of the percentage of passengers requiring PFC explanations, and by TWA's estimate of the labor cost to explain to customers the applicability of PFCs to their journey.</p>

TRANS WORLD AIRLINES, INC.

<u>Cost caption</u>	<u>Procedures</u>
f. Revenue accounting and accounts payable	<ul style="list-style-type: none"> i. We obtained from TWA summaries of all revenue accounting and accounts payable costs components related to PFCs for 1999. ii. We agreed the total costs from the schedules obtained in step 4.f.i. to the respective amounts reported on the schedules obtained in step 1. iii. We recalculated the revenue accounting costs and accounts payable costs for 1999 using TWA's methodology and assumptions provided to us, which consider estimates of managerial, staff, and clerical employee time spent related to PFCs.
g. Training—reservations and passenger service	<ul style="list-style-type: none"> i. We obtained from TWA summaries of all reservations and passenger service training costs allocated to PFCs for 1999. ii. We agreed the total costs from the schedules obtained in step 4.g.i. to the respective amounts reported on the schedule obtained in step 1. iii. We recalculated the costs for 1999 using TWA's methodology and assumptions provided to us, which consider the number of reservations and passenger service agents trained, average hours of training related to PFCs, and labor rates.
h. Internal on-going information systems	<ul style="list-style-type: none"> i. We obtained from TWA a summary of all internal on-going information systems costs allocated to PFCs for 1999. ii. We agreed the total costs from the schedule obtained in step 4.h.i. to the respective amount reported on the schedule obtained in step 1. iii. We recalculated the costs for 1999 using TWA's methodology and assumptions provided to us, which consider ongoing costs related to the maintenance of systems, data storage, resource materials, and the additional run time to price and process tickets.

TRANS WORLD AIRLINES, INC.

Attachment I (Cont'd)

Cost caption	Procedures
i. CRS on-going costs	<ul style="list-style-type: none"> i. We obtained from TWA a summary of all CRS on-going costs related to PFCs for 1999. ii. We agreed the total costs from the schedule obtained in step 4.i.i. to the respective amount reported on the schedule obtained in step 1. iii. We recalculated the CRS ongoing costs for 1999 based on TWA's methodology and assumptions, which consider total CRS fees paid during 1999 and the proportion of CRS fees attributable to PFC incremental costs in 1999.
j. Airline Reporting Corporation (ARC)	<ul style="list-style-type: none"> i. We obtained from TWA a schedule of all ARC costs related to PFCs in 1999. ii. We agreed the total costs from the schedule obtained in step 4.j.i. to the respective amount reported on the schedule obtained in step 1. iii. We recalculated the ARC costs for 1999 based on TWA's methodology and assumptions, which consider total ARC costs paid during 1999 and the proportion of ARC fees attributable to PFC incremental costs in 1999.
k. PFC absorption	<ul style="list-style-type: none"> i. We obtained from TWA a schedule of collection compensation absorbed related to PFCs refunded in 1999. ii. We agreed the total costs from the schedule obtained in step 4.k.i. to the respective amount reported on the schedule obtained in step 1. iii. We recalculated costs related to collection compensation absorbed for 1999 by multiplying the total number of PFC refunds during 1999, by TWA's absorbed collection compensation for each refunded PFC of \$.08.

<u>Cost caption</u>	<u>Procedures</u>
<p>i. Interest income</p>	<p>i. We obtained from TWA a schedule containing the total dollar amount of interest earned on PFC funds held by the Company by month, for the year ended December 31, 1999.</p> <p>ii. We obtained from TWA a schedule showing the average number of days that a PFC collected in each month was held between time of receipt by the airline and time of remittance to and receipt by the airports, or (in the case of refunded tickets) time of refund to the passenger.</p> <p>iii. We obtained from TWA a schedule of the average interest rates earned for each month in 1999 on its short-term investment portfolio.</p> <p>iv. We recalculated two months of interest earned on PFC dollars collected from sales for the year ended December 31, 1999, by multiplying monthly PFC dollars collected from the schedule obtained in step 2. by days held (both for remitted PFCs and PFCs refunded to passengers) as a proportion of a 365 day year obtained in step 4.1.ii, and then by the appropriate monthly interest rate percentages obtained in step 4.1.iii.</p> <p>v. We agreed the total income from the schedule obtained in step 4.1.i to the respective amount reported on the schedule obtained in step 1.</p>
<p>5. We calculated the average cost per PFC for the year ended December 31, 1999 by dividing the total costs for the year, as reported on the schedule obtained in step 1., less the interest earned on collected PFCs, as reported in step 4.1., by the number of PFCs collected and the number of PFCs remitted, as determined in step 2.</p>	

TRANS WORLD AIRLINES, INC.

Schedule of Incremental Costs
Directly Associated With Passenger Facility Charges (PFC)

Year ended December 31, 1999

Credit card fees	\$ 1,198,073
Audit fees (external)	50,916
Disclosure costs	46,397
Reservations	4,610
Passenger service	530,846
Data entry:	
Revenue accounting	101,172
Accounts payable	50,023
Corporate Property Department	5,970
Training:	
Reservations	30,566
Passenger service	20,233
Internal on-going information systems	104,495
CRS ongoing costs	86,179
PFC absorption	123,040
ARC	<u>21,412</u>
Total costs	2,373,932
Interest income	<u>(317,942)</u>
Total costs less interest income	\$ <u>2,055,990</u>
Number of PFCs remitted	<u>23,079,558</u>
Number of PFCs collected	<u>24,617,552</u>
Cost less interest/PFC remitted	\$ <u>0.0891</u>
Cost less interest/PFC collected	\$ <u>0.0835</u>