

BFAC Airport Financial Analysis Group

Agenda 3/8/14

1. Welcome and review procedures
2. Approve minutes
3. Team Reports



a. Fixed Base Operators

- i. Lease review
- ii. Fuel farm and operations

b. Maintenance of Airport Facilities

- i. Buildings and Paving
- ii. Equipment
- iii. Runways, Taxiways and Lighting
- iv. Insurance

c. Rental/Sale Properties

- i. Requirements on Town as Landlord
- ii. Tenant lease requirements versus actual performance
- iii. Pricing for rental and sale
- iv. Parking

d. Cost Controls/Systems Integration

- i. Costs perhaps not properly chargeable or allocated to the airport
- ii. Controlling costs
- iii. Systems
- iv. Landing and other fees

e. Financial Analysis

- i. Reformatting and analyzing historical financial and operational data
- ii. Preliminary graphs and charts
- iii. Development of user friendly financial analysis model for airport operations
- iv. Evaluation of financial impact of various operational and noise committee suggestions

4. New Business

5. Set next meeting March 29 or April 5?



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BFAC/Airport Finance Group

Second Meeting – March 8, 2014 at the Town Hall

Arthur Malman, Chairman of Town of East Hampton's Budget and Financial Advisory Committee—BFAC, called the meeting to order at 9 AM

The following members of the BFAC/Airport Finance Group were present: Tom Twomey, Gene Oshrin, Pat Trunzo, Jr, David Gruber, Peter Wadsworth, Toni Somerstein, Bonnie Krupinski, Munir Saltoun and Arthur Malman; Frank Dalene had indicated he could not attend.

Attending the meeting by invitation was Kathee Burke-Gonzalez, Councilwoman who is the Board liaison for the BFAC and for the airport. Len Bernard, the Town's Chief Budget Officer and Charlene Kagel, the Town's internal Auditor, who had been helpful in supplying and organizing historical financial data, had been invited, could not attend and would be invited to the next meeting. Jim Brundige, Airport Manager, was invited but is out on sick leave.

Minutes of the last meeting had been previously distributed and were approved. The attached agenda had been previously distributed.

The first area of discussion was **Fixed Base Operators**.

It was noted that there was no current lease for Sound Aircraft, only a 2001 Board Resolution. Cindy Tuma of Sound said her attorney has a copy and would send it to us.

With respect to leases in general it was pointed out that the forms are inconsistent and a standard form should be developed for each type of tenant and then there would be a one page schedule for rent, term, options and other specific terms of the particular lease.

With respect to the fuel farm, questions were raised about its condition, operations and the appropriateness of the current 15 cent a gallon fuel flowage fee that, according to specific language in the FBO leases, can be raised by the Board from time to time. Preliminary data indicates that other airports charge substantially more when they operate a fuel farm. While the Town does not set the retail price, a question was raised whether the fuel flowage charge by the Town should be increased several fold. There is also a question of whether the Town is buying fuel in the most cost effective manner and Munir Saltoun will continue his discussion with a major Shell dealer and report back to the next meeting.

The next area of discussion was **Maintenance of Airport Facilities**.

A physical inspection of airport facilities has disclosed dramatic underspending on annual and preventive maintenance. When items are to be replaced, proper annual expenditures should be made/reserved to

keep them in good condition and prevent larger, more costly repairs and more frequent replacement expenditures

It was reported that certain items at the airport were not contained in the Town's airport asset ledgers, some items in the airport ledgers were not related to the airport and some items were entered twice. These will be reconciled with the Finance Department

The "appraisal" that had been done in 2012 for the Finance Department by an outside party of the airport property, as part of a town wide property appraisal, was for bookkeeping purposes and did not reflect fair market values—except in the instance where no historical cost data for an item could be found.

From discussions to date, it appears that a prudent landlord would be spending or reserving about \$1.50 per square foot per year for the terminal building and \$0.50 for steel frame hangers and the like type of buildings owned by the town at the airport—once they are put into first class condition. In addition, the roof of the terminal, which is over 25 years old, will need to be replaced in the next couple of years at a cost of approximately \$40-50,000 [**estimate to be verified**] so that an extra annual reserve will be needed to cover it.

Equipment annual maintenance expenditures/reserves should be budgeted at about 10-15% of original cost.

Kathee Burke Gonzalez reported that she had contacted DY for estimates of annual costs to maintain runways, taxiways and airport lighting once they are put into first class condition. We believe aprons are part of the leased premises of tenants and so maintenance/repairs of them would be their responsibility.

An insurance review is close to completion but to date, seems to comport with insurance charges in the airport accounts. Kathee Burke Gonzalez was asked to report back who in the Town was monitoring tenants' insurance requirements per their leases and if insurance certificates are current

The next area discussed was **Rental/Sale Properties**

The Town attorney's office has supplied a lease schedule and it was noted that the backup documentation was in some instances inconsistent with it, for example no documentation for a lease extension, inconsistent rental amounts, etc. Toni Somerstein was asked to add a column to the lease schedule given to us showing specific lease data as to which there are inconsistencies with the documentation we have obtained to date.

It was noted that rentals for substantially similar properties varied widely and, for no apparent reason, different rent escalation clauses were used in different leases. We will need to develop a consistent grid for sales prices and rental rates for different types of properties and facilities at the airport as well as recommend what to do with non-recurring sales proceeds.

After a snow the Town is paying for significant areas to be plowed --some of which are leased to tenants and we will check if these tenants are reimbursing the Town for their share. It was thought this snow problem did not extend to most hanger tenants. We were told that utilities are paid directly by hanger owners and we will confirm this and check how the FBO's are paying for their utilities.

As had been previously pointed out by former councilwoman Quigley, a purported 60 year lease of 95 acres to the gun club for \$100 per year may have been a "gift" of Town property and therefore an ultra vires action by a former Town Board. Discussions will be held with the club to better understand the actual property being used, whether lead is being recovered to safeguard the water recharge area and other issues.

An initial meeting has been held with an airport parking operator and there appears to be a likelihood of the airport netting at least \$100,000 per year from paid parking, although the Town or the operator may need to invest about \$185,000 for equipment and site work. We are awaiting a written report. Supervisor Cantwell, asked about lot design and it was suggested that this and other parking professionals who we would be contacting could be helpful in this regard. Parking for commercial vehicles is apparently in short supply in the Town and perhaps parking in a different airport location should be included for them

After further discussion it was the sense of the group that a broader traffic and parking study should be done, which would include the properties on Industrial Road and non-airport related demand for overnight and long term parking. Bonnie Krupinski would contact a traffic specialist who is familiar with these types of issues

It was noted that the Hertz and Enterprise leases included a significant number of parking spaces. These lease rental terms would need to be renegotiated since, for example, under the Hertz lease the value of the spaces allocated to it alone would be several times the total rental historically being paid,.

Reportedly a settlement between the FAA and the Town several years ago requires the Town to lease airport properties at fair value or pay the difference into the airport fund. There is some confusion as to whether this settlement exempted existing leases and a copy is being sought.

The Town Attorney's lease chart shows that the Town is to make significant annual payments to the airport fund for Police and Fire facilities on airport facilities. We will confirm with the Finance Department if these payments have been made.

The next area of discussion was **Cost Controls/Systems Integration**

It was determined that David Gruber, Gene Oshrin and Mike Diesenhaus would report back to us on the need for Air-Scene and a new AWOS, in addition to other systems. They will report on whether there was duplication and/or other savings in these and other services and equipment and whether some functions could be taken on by the Town directly.

It was reported that per the data from Vector, approximately \$140,000 per year of landing charges were waived for "exempt aircraft". There is a belief that aircraft with their home base at the airport should

be exempt from these charges as it is included in their leases (the leases examined to date may not be as clear on this as some believe and this matter will need further review). We also need to verify exactly which aircraft have been given "exempt" status. A question may also arise from FAA and Town Airport Law both of which prohibit discriminatory pricing, except on a volume basis. However a question that needs to be explored is whether there can be two classes established: airport based aircraft and itinerant aircraft—and, if so, then non-discrimination may be applicable solely within a class for similar services

The final area of discussion was **Financial Analysis**.

Draft financial results in quasi-corporate format were presented for the last five years (2009-13) and estimated results for 2014, which were largely based on the 2014 budget. In both cases some items need to be verified and other items may still be missing. Underlying data for certain broad categories, e.g. Outside Professional and Subcontracts, which ballooned in 2012-13, were presented as backup and to differentiate between ongoing operating costs, including snowplowing and some maintenance, and non-recurring planning & development, capital and litigation costs.

There is a question as to whether our initial reports should simply present proformas on 2014 numbers, using several variables or include 5 year projections that show detailed cash flows. Some believe that the 5 year projections should await clarification from the Town Board as to key decisions and others that they are needed immediately to understand the alternatives.

The meeting adjourned at 12:15 after having the next meeting set for Saturday ^{April 29} April 9 at 9AM at Town Hall.

Respectively submitted Arthur Malman

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