BFAC/Airport Finance Group

Minutes of Meeting – June 2, 2014 at Town Hall

Arthur Malman, Chairman of Town of East Hampton's Budget and Financial Advisory Committee —BFAC, called the meeting to order at 9:00 AM.

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

Attending the meeting by invitation was Kathee Burke-Gonzalez, Councilwoman and Board liaison for the BFAC and for the airport. Because of scheduling problems, Jim Brundige, airport manager, joined only for the later part of the meeting.

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

The draft of final Fuel Farm recommendations was distributed. The general view was that the $25-30,000 cost of a thorough inspection would be better spent on an earlier rebuilding of the fuel farm to modern standards with more realistically sized tanks and more automation.

Proper sizing would alleviate emergency deliveries and make it more practical for only trained airport employees to accept and test fuel deliveries and maintain control of all required records. Arthur Malman reported that the two FBOs had been asked if they would take over all fuel delivery control, testing and record keeping on a fee for services basis and neither was interested because of concerns about possible liability. In any event, the Town would still be in the liability chain.

David Gruber discussed the desirability of building the fuel farm in a below ground concrete coffer with access for inspection and maintenance rather than above ground. Bonnie Krupinski strongly supported this solution as long as engineering confirmed the installation would be adequately above the groundwater level.

The meeting then turned to ways of assuring that the airport could enjoy a significant share of the gross profits (estimated to be in the neighborhood of $1.4 million) currently resulting from fuel sales, most of which now goes the FBOs.

A draft of the recommendations on fuel management was distributed with the suggestion that they would need more work. Arthur Malman pointed out that the distributed estimates by Munir Saltoun on gross profits for the FBOs on their face specifically exclude various other sources of FBO revenues such as tie downs, catering, hangar rental, car rentals, repairs and maintenance, flying lessons, etc. He also explained some of the nuances of national contract pricing, with the fuel supplier repurchasing fuel from a participating FBO at a fixed margin. This, as well as discounts to based aircraft, would reduce the actual sales price from the list price but estimates of these factors were already integrated into the distributed gross profit estimates, but they had not yet been commented on by the FBOs.

David Gruber pointed out that since HTO is a destination airport the fuel management model should be to maximize the gross profits from fuel for the airport and the FBOs on a consolidated basis and then divide the gross profits between the FBOs and the Town on a basis more favorable to the town than the historical division at HTO.

There was a discussion of an additional Town FBO for fuel management only. The sense of the meeting was that the airport should not try operate the aircraft fueling directly, but should instead contract the aircraft fueling operation through at least one FBO.

There was a discussion of the possibility of the change in the division in gross fuel profits could result in the airport winding up with no FBO. Arthur Malman pointed out that the airport already had two FBOs and, since Sheltaire is already in Westhampton, it is probable that it would also be interested in coming to East Hampton, so there is little chance of HTO ending up without an FBO.

There ensued a discussion on possibly having three FBOs at HTO and putting out an RFP for a possible third. It was pointed out that the real problem presently for any FBO, other than Sound Aircraft, was that Sound presently controlled all refueling areas around the terminal since the main apron in front of the terminal was a no parking area where refueling was prohibited. Since there was already a significant price differential between Sound's and Myers' fuel list pricing, reflecting, in large part, the preference for pilots to refuel close to the terminal rather than taxiing across the airfield to the Myers fueling area. Myers once had leased a refueling area adjacent to the terminal, but Mr. Myers had sold that lease to Sound several years ago.

It was pointed out that, under the current Sound leases for the areas around the terminal, a portion of those areas are on only a month-to-month lease and so could be reclaimed by the Town at any time. Also, even if that provision were not in the leases, it was suggested that the Town could, possibly under eminent domain, reclaim a portion of the tie down areas for competitive fueling areas.

There was a detailed discussion of how best to allocate gross fuel profits based on reported gross fuel sales in tax reports, etc., and the calculations needed to derive gross profits. There were questions whether the Town had access to these reports and the difficulty of administering the methods for deriving the gross profits. [Further investigation revealed that the FBOs provide no financial information to the Town and the only tax returns filed by the Town on behalf of the FBOs are for prepayment of (estimated) sales tax based on a fixed dollar amount ($0.1475) per gallon.] It was suggested that the FBOs could be asked to submit fueling financials to the Town.

Arthur Malman pointed out that, under their current leases, the FBOs were not required to give the Town audit rights on fueling. David Gruber suggested a two pronged formula for fuel profit sharing that would be (a) a fixed higher fuel flowage fee or (b) if lower, a percentage of the FBO's actual gross profits based on its sharing with the Town its financial information. Therefore, if the (a) branch of the formula were really too high, the FBO would volunteer proprietary financial data. If the financial data were not forthcoming then the town could assume its then fixed higher fuel flowage fee was at or below the right price point.

It was determined that, since there is significant work to complete final fuel management recommendations, while continuing this work the Town should immediately raise the fuel flowage fee to 30 cents a gallon since, already in 2002 a consulting report to the town had recommended increasing the fuel flowage charge. Since 2002 the retail fuel price has gone from about $2.50 a gallon to over $7.00 while the Town's flowage fee had remained fixed.

The next area for discussion was landing fees and exemptions for based aircraft. On the topic of touch and goes, Gene Oshrin explained that pilots had to record a minimum number of practice landings each quarter to continue to maintain their licenses. Jim Brundige indicated that touch and goes were no longer significant since, the HTO instructors have volunteered to not encourage weekend practices and HTO was now charging for each individual touch down so that instructors have been discouraged from using HTO at all for this practicing. Peter Wadsworth pointed out that touch and goes had declined by over 50% in the last few years, and David Gruber agreed that they were no longer much of a problem.

It was determined that the exemption discussion should be presented as part of the subcommittee's report on leasing since the arguments supporting exemptions are based, in part, on the interpretations of hanger lease term; the leasing portion would take a few more weeks. It was agreed that the Town should increase landing fees by 10% before the busy season has passed.

Arthur Malman noted that Pat Trunzo had seen an editorial in the Independent that included erroneous information (a copy was circulated) and suggested that the subcommittee consider a response. After discussion, it was determined not to respond.

A further discussion on additional hangars ensued. Bonnie Krupinski presented the preliminary hangar costs estimates from an experienced reputable contractor building hangars at other airports. There was a discussion of additional costs for paving, bringing in water and gas, etc. Brochures of two companies that manufacture and build hangars were distributed at the meeting.

Gene Oshrin reported that, while a hangar was sold by Dr. Haller several months ago for about $175-180,000. Three other hangars have been offered for sale for several months with no buyers as yet. The discussion then recognized that hangar resale prices could be somewhat depressed if additional hangars were built beyond real demand, especially since private recreational flying was declining. These changing demand factors were another reason that many felt that HTO should rent hangar land and not get into the business of building hangars. Gene Oshrin would try to find out the range of interest among present users of tie downs.

Therefore, it appears that we should back into the appropriate land rent for hangars based on recent resales of hangars at HTO and the recent building costs as well as the costs of compliance with various town permits. Most members of the committee felt strongly that the Town should only rent land for hangars and not build any of the hangars directly or by contract.

The meeting adjourned at 11:45 after having the next meeting set for 9 AM ***{subsequently changed to 4 PM}*** on Saturday, June 21, at Town Hall.

Respectively submitted   Arthur Malman

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