

BFAC/Airport Finance Group Draft 3/31/15

Minutes of Meeting –March 28, 2015 at Town Hall

Arthur Malman, Chairman of Town of East Hampton’s Budget and Financial Advisory Committee (BFAC), called the meeting to order at 11 AM.

The following members of the BFAC/Airport Finance Group were present: Peter Wadsworth, Mike Diesenhaus, David Gruber, Pat Trunzo III, Gene Oshrin, Munir Saltoun, John Shea, Toni Somerstein and Arthur Malman. Unable to attend were Bonnie Krupinski, Frank Dalene and Andrew Right

Attending the meeting by invitation were Kathee Burke-Gonzalez, Councilwoman and Board liaison for the BFAC. Also present were Charles Ehren and Kathy Cunningham, Members of the Airport Noise Subcommittee and officers of the Quiet Skies Coalition.

Arthur Malman invited all members of the public to join the discussion.

The attached agenda had been previously distributed.

Draft minutes of the February 6 meeting were distributed and with a small edit were approved. Draft minutes of the February 23 meeting were distributed and Arthur Malman pointed out that this was a composite redline of comments that Peter Wadsworth and David Gruber added to the first draft that had been emailed to members and asked the members to take a few moments to read them carefully. John Shea asked whether one section suggested by David Gruber had reflected what transpired at the meeting and was told that, although those were probably not the exact words, it reflected his points on the issue. Mike Diesenhaus felt that the minutes ended up being almost a substitute for the report which had not been approved by a majority of the committee and would prefer a greatly edited version. Arthur Malman pointed out that the exhibits would be hard to understand without the text and confirmed that the proposed minority report drafted for that meeting by John Shea, Gene Oshrin and Bonnie Krupinski would also be attached as an exhibit. All of the members except Mike Diesenhaus voted to approve the minutes as discussed.

Kathee Burke-Gonzalez reported that the engineers had met with Jemille Charlton, the Airport Director and driven over the runways during the last week and were expected to be submitting at least some recommendations shortly. Several members voiced continued concerns that it had been about six months since the engineers had been hired but no one had seen any work product, questioned whether any bills had been submitted and paid and wondered whether they were being encouraged to move forward on an expedited basis to come up with recommendations and estimates. Pat Trunzo III asked if their contract and invoices were available. Kathee Burke-Gonzalez explained that the Airport Director been directed to work with the engineers since they started and she did not want to interfere with his work, but she too was frustrated by the slow pace, believed at least one invoice had been paid, and would follow up with the contract and further information. John Shea and others asked to see the actual

contract, so that the specific tasks assigned to the engineers could be reviewed. Kathee Burke-Gonzalez agreed to provide the contract to the committee [this was subsequently emailed to the Committee] and also obtain an update on the engineer's outstanding reports.

She also reported that the VNOMS RFP's had been issued and bids are expected in April. There was a question whether the 3 additional cameras authorized several months ago had arrived.

Kathee Burke-Gonzalez also reported that the appraisals came back on four properties for which lease renewals had been sought and that they were much higher than expected, indicating that rents could be higher than originally projected.

Toni Somerstein asked if there had been a form lease prepared yet and Kathee Burke-Gonzalez explained that it was to be developed by the attorney's office and outside counsel were working on a review of the leases. The members questioned why special aviation counsel were working on a review of leases rather than just giving the overall FAA requirements. After further discussion it was clarified that the Town's Auditor Charlene Kagel and her group were reviewing the existing leases and coming up with an updated lease chart, and that since these were repetitive commercial lease rents there would be no need to send out monthly bills since the accounting staff had other responsibilities. Several committee members reacted strongly against this approach and stressed the need for timely billing and prompt follow up collection efforts on an organized basis with clear responsibility and reiterated the committee's recommendation for an outside lease administrator.

It was also clarified that outside counsel would be engaged to assist the town's attorney in developing a lease form. David Gruber pointed out that an experienced real estate leasing counsel could do the job expeditiously.

Kathee Burke-Gonzalez also explained the 30 day time frame for the submission to the state of the finalized of Town Code provisions on airport noise rules. The Board expects to determine the final code changes shortly.

The meeting then moved to a discussion of Landing Fees. Arthur Malman indicated that there was a robust capital improvement plan for HTO and, since the Town does not want to take FAA funding at this time, landing fees would need to be increased to cover the cost of the capex or at least debt service on the financing for the capex. He asked that in the discussion the members consider landing fee increases for 2015 apart from any consideration of the noise rules which had not yet been finalized. A group of items relating to landing fees was distributed and are attached.

David Gruber explained that although FAA policies on landing fees were not explicit on the point, they seemed to be premised on the assumption that capex would be financed and the financing costs rather than the immediate capex costs would be the relevant items to be covered by increases.

The NYC Helicopter Landing Fee Schedule was developed with the assistance of Jeff Smith and showed reported landing fees for 6N5 (east side 34th street), JRA (west side 30th street) and JRB (Wall street).

The last column showed HTO fees where for helicopter models listed on the HTO schedule and estimates based on HTO's schedule for those models for which HTO had no specific listing. It was felt that 6N5 and JRA were probably the preferred take off point for most flight to HTO [which was confirmed by Jeff Smith subsequently] John Shea noted that for most models, HTO fees were lower than those at the NYC departure points indicating that there would be room to raise HTO's helicopter landing fees from their 2015 levels.

HTO had been operating on the assumption that late hour landing fee surcharges were limited by FAA policies to 25% which had been the HTO surcharge for many years. However the NYC Helicopter landing fee schedule should that these facilities were charging double landing fees from as early as 7 PM. David Gruber speculated that because the NYC heliports had not gotten FAA grants they were not governed by any such assumed FAA limitations or that no one had complained to the FAA.

Arthur Malman called the committee's attention to the chart of Effect on Passenger Costs of Increasing Landing Fees which showed that even tripling landing fees would effect only about a 10% increase in passenger costs. Most committee members agreed that substantial increases in landing fees were likely to have almost no effect on the typical passengers arriving at HTO even if fully passed through to them. While Mike Diesenhauis agreed that by October 2015 we should know the effect of 2015 landing fee increases which he would not expect to be substantial, there could be unintended consequences. Assuming noise rules were also instituted for the summer they would more directly affect behavior.

Ocean Reef airport and Westhampton airport landing fees were also reviewed. Westhampton's chart related to the fees set in 2013 and the airport anticipates reviewing them on a 2 year cycle. Moreover Westhampton takes FAA funding so it is not so dependent on landing fees for its capex. Munir Saltoun felt that it seemed that, where competitive conditions did not impose a lid on landing fees, airports generally backed into landing fees based on their projected budget shortfalls. He did not think that Ocean Reef, as a private airport, took FAA funding but would check on it [Munir subsequently confirmed that this was the case].

A question arose on how much landing fee revenue could be added to reserves without running afoul of FAA regulations and it appeared that there were no fixed rules on this item as long as they were not used to build up reserves excessively.

Another question discussed was whether landing fees to cover litigation costs could be assessed based on accrual or cash expenditures and whether based on expected needs or only retrospectively? Also if any landing fee surcharge for litigation could be assessed on the basis of established weight classes and if based aircraft could be exempt from them as they are under present airport policies from the basic landing fees? Arthur Malman reported that, based on prior discussions with Peter Kirsch, a litigation landing fee surcharge might not be permitted solely on the basis of the existing weight classes, although it could be based on groupings of models which themselves had been based on size. Kathee Burke-Gonzalez would follow up on these questions with Peter Kirsch.

There were some discussions of discounts for “preferred” behavior or incentives or peak pricing and how they would be affected by FAA rules and policies. Peter Wadsworth reported that according to Vector discounts for preferred behavior were being used at other airports such as Truckee and that the FAA preferred that approach to penalties.

David Gruber indicated that, while weight had typically been used, there could be other factors considered to allocate landing fees and, while we do not have the time to consider revamping the basic factors for 2015 recommendations, that should be on the agenda for landing fee allocations for 2016. Peter Wadsworth cited San Jose International Airport, which converted from weight-based to noise-based fees as a result of a suit brought by Oracle CEO Larry Ellison.

Arthur Malman then called attention to the chart on Town of East Hampton current landing fees and there was a discussion of the fact that many of the helicopter models seem to be in the wrong classes based solely on weight. Also three small helicopter models were being charged \$27 at HTO but \$95-\$200 at the NYC heliports; reportedly someone at HTO had erroneously thought that these smaller helicopters were used only for training which has not turned out to be the case.

It was determined that, as a first step we would review the helicopter models and the fixed wing models to confirm that they were in the right classes and reorganize somewhat the 2014 landing fees—all with the goal of coming up with a schedule that, based on actual 2014 activity would result in approximately the same landing fee revenues from helicopters as a group and fixed wing as a group. We would subsequently use this “adjusted” 2014 landing fee schedule to come up with landing fee recommendations for 2015. Thereafter for 2016 we would reconsider the basis for landing fee categories.

The meeting then turned to a discussion of what landing fee increases could be recommended for 2015 to be earmarked for capex. After discussion both David Gruber and John Shea felt that any further discussion of 2015 landing fee levels should await finalization of the proposed noise rules.

Although paid parking and the commercial broker had been on the agenda there would be materials circulated before the next meeting on them.

The meeting adjourned at 1:30 PM after having the next meeting set for 11 AM on Friday, April 24, at Town Hall.

Respectively submitted, Arthur Malman