

MINUTES  
KALAMAZOO COUNTY AERONAUTICS  
BOARD OF TRUSTEES  
SPECIAL MEETING  
2:00 P.M.  
JULY 2, 2007

ITEM 1.       Call to order: The meeting was called to order at 2:05 p.m. by Chairman Gil Collver

ITEM 2.       Roll Call: Members in attendance - Gil Collver, Dave Tomko, Dan Hope, John Jones, Jim Woodruff

Also Present: County Liaisons Deb Buchholtz-Heimstra and Nasim Ansari  
Representatives from Reynolds, Smith & Hills (RS&H), Joseph Jackson, Michael Vernich and Mary Soderstrum

Staff Present: Clifton Moshoginis, Ron Shutler, Jay Waalkes, Lynn St. Clair, Lisa Bradshaw and Linda Bunting

ITEM 3: Citizen Comments: No comments were presented

ITEM 4: For Consideration: Reviewing terminal alternatives

A.     RS&H Agenda & Presentation – Mr. Jackson started the meeting with a presentation. Mr. Jackson went over possible federal funding for the terminal. He stated that he, Mr. Vernich and Ms. Soderstrum go to various airports helping them to find ways to gain funding for new terminal projects and that he teaches for the American Association of Airport Executives. Sources of Capital funding for airports include federal funding, state funding, passenger facility charges (PFC), customer facility charges (CFC), bonds, third party and other local funds/operating reserves. There are 137 large, medium and small airport hubs, airports that are bigger than Kalamazoo. The vast majority of their capital funding, \$13.1 billion, comes from bonds, 48%. He pointed out that most of the work that is going on now at Chicago O’Hare is bond funded. The rest of the funding comes from PFC’s, AIP grants, local and other funds. There are 384 non-hubs, airports more like Kalamazoo, in the United States. Of those, \$1.2 billion projects were funded in 2005 compared to \$13.1 billion for the bigger airports. AIP grants accounted for 55% of the capital funding. Mr. Jackson stated that the precedent is that the FAA must be relied upon for some portion of the funding.

The funding for federal grants for airport improvement programs depend on entitlements, how much you earn based on the number of enplanements and discretionary money. Mr. Jackson stated that most terminals have a significant amount of discretionary money for funding. AIP money is restricted only for certain capital expenditures and cannot be used for operating expenses. There is limited availability, however you can get it but it is

difficult to obtain. The current Airport Improvement Act is reviewed every two to four years, it is being reviewed now and it will be renewed with some changes.

There are other pivotal sources of funding available that are not as prominent or focused on the terminal but when it is time to put the outbound bag screening system in here, the Transportation Security Administration (TSA) should be relied upon to at least provide the machines that will inspect the bags, the finishes for all of their offices and the outbound banking for those machines.

Mr. Jackson stated that state funding is not very strong right now in Michigan. Passenger Facility Charges (PFC's) are used in Kalamazoo and they are up to \$4.50 per enplanement. The FAA likes airports to focus on more airfield side projects but there are limited areas where you can use this in the terminal. There is a restricted eligibility similar to the AIP and it can only be used for capital expenses, not operational costs and only for those eligible capital expenditures.

With regard to Customer Facility Charges (CFC's), Mr. Jackson gave an example of how rental car facilities on the same airport campus join together and a \$3 to \$4 million investment will be amortized over a 10-year period and charged back to customers on a per rental basis, usually at \$3.00 to \$4.00. That allows the airport to move that revenue off of its books onto another revenue source and the rental car companies are usually pretty comfortable passing that through as it effects most customers equally.

Other sources of capital funding are bonds and other debt, which are available in Kalamazoo. RS&H has seen that third party and other sources at smaller airports can be a very interesting source of funding. Occasionally organizations or corporations will make a donation to the terminal, for a wing of the terminal for example. In exchange they may have their products displayed somewhere in the building. Gifts and donations are something to look forward to as you get into the design of the building.

Mr. Jackson stated that the bottom line is if an airport cannot get the money from any other source, they must look to local funds and operating reserves.

The specifics for Kalamazoo are that it is a FAA non-hub airport. Right now it is getting about \$2.0 million in AIP entitlement funds. That is Kalamazoo's no matter what happens. Kalamazoo is eligible for AIP discretionary funds and there is an expectation that this will be used. In the last round of AIP reauthorization the FAA placed a \$20 million non-hub terminal funding limitation in the reauthorization bill. Mr. Jackson stated that Kalamazoo is eligible for \$2 million. He stated that in their opinion, there is a shift in the FAA mind set for more funding.

Mr. Jackson went over what is AIP eligible (discretionary & entitlement):

Mr. Collver asked if this implies that the final design incorporated space for the FAA or the administrative offices would have to be listed, broken out so that so many dollars of this project apply to that and these funds can be used for other purposes. Mr. Jackson

responded that is correct. We have found that 60% to 70% of the building typically is eligible on a straight square foot basis. About 80% of the cost is eligible because the public spaces may cost more to finish.

Mr. Hope asked to differentiate between what is eligible and not eligible as public spaces are eligible, furniture, fixtures and the walls cannot be built out. Mr. Jackson stated that part of the building can be built to hold it and then have unfinished space. He gave examples of what is eligible. Nearly all except the ticket counters and the airline offices in the check-in lobby, 60%, is eligible. Nearly all including the loading bridges, seating and furnishing in the departure lounges, about 90%, except ticket counters, are eligible. The baggage claim area including bag claim equipment is eligible, about 100%. The remainder of the airline functional area is mostly ineligible. Essentially, if the space can pay its own way, it should not be eligible for grant or funding.

Mr. Jackson went on to say that with regard to the first pass for the outbound bag system that takes the bags from the ticket counter and loaded to take to the back where they are loaded on the airplane, the FAA's first position will be that it is ineligible and they will argue that this is a common use area, no one uses it exclusively and we will probably be able to persuade the FAA that some portion of that is eligible. He stated that almost all of security is eligible except for TSA offices and their equipment.

Mr. Ansari inquired if the sheriff's office would be paid as part of the security. Mr. Jackson stated that it would probably not be, as it would most likely fall into the administrative office category. Ms. Soderstrum interjected that if the sheriff is the arresting entity that is sometimes eligible. Mr. Moshoginis added that this is AIP. There may be other funding sources. Mr. Jackson went on to say that prior to submitting the drawings, they would use their AIP expert to label all the offices in a way that sheds the most favorable light. Ms. Soderstrum pointed out that for instance, you would not call it the sheriff's office, you would call it the law enforcement office, and law enforcement officer because that is what the TSA calls that person that has the ability to arrest someone.

Mr. Jackson discussed concessions. The space for the public is about 60% eligible except for furnishings, office and storage areas. Nearly all public areas such as restrooms, waiting, seating and circulation about 80%, (not offices) are eligible. Remaining non-public areas are pro-rated between the eligible versus ineligible costs so the structure of the building, the roof, the walls around the building is pro-rated. The whole idea is to work to make sure that costs are in proportion. Mr. Jackson said they are predicting that about 80% of cost, 60% to 70% square feet is eligible. The rule of thumb is that not all that is eligible is funded. If no action is taken to cause the FAA to disburse grant money, the airport will not get any grant money due to competition with other airports. An example is the Traverse City airport's AIP was nearly fully funded by others, as they were extremely aggressive. The Midland airport received support for about \$20 million for their \$45 million program. Peoria, IL has a commitment for about \$8 million out of \$52 million, which will increase at bid. Duluth, MN has early support for about \$40 to \$50 million out of their \$72 million program. Mr. Jackson is guessing that they will

probably get about \$20 million just because the request is out of line with the amount of activity but they do have a secondary source of state bonds, which would make up the difference between the two for their \$72 million program. Mr. Jackson also pointed out that although AZO is similar to Duluth, AZO has done a good job keeping up its facility.

In terms of flexibility, Mr. Jackson said that it is unlikely that the FAA will send a letter saying, they are committing \$20 million to your building. They will write a letter of intent for certain things. Most likely they will say that they will make efforts in the next several years to provide this much funding. Kalamazoo must remain flexible. It is not common to get a commitment for \$2 million. Kalamazoo will probably get correspondence saying that it is supported and the FAA will work to commit \$2 million for the project. The time to complete the project may be extended. For example, Traverse City had to increase the term of their project due to lack of funding.

Mr. Jackson gave a thumbnail estimate for Kalamazoo. The possibility of FAA AIP Grants in one case may be about \$14 million; in another case it may be \$26 million. He explained that if 80% is eligible, the estimated yields total building costs in case one, \$17.5million, in case two, \$32.5million. The balance would be \$3.5 million or \$6.5 million.

Mr. Jackson then went over what Kalamazoo's actions may be. One is to maximize grant eligibility. He stated that in the design, Mr. Vernich and Ms. Soderstrum know how to do this for the airport. Mr. Moshoginis previously discussed his grant attainment action with RS&H and Mr. Jackson said Mr. Moshoginis is probably ahead of most other airport directors that they have dealt with in terms of motivating the key supporters as well as having a process of public support for the building.

The next action deals with the grant attainment and action plan in common use areas such as the concessions shell space, the new infrastructure versus infrastructure maintenance and atypical grants. Mr. Jackson advised going to the FAA in Detroit and in Washington, D.C. and inform them of what is going to be built and this is the amount of money needed. This is Kalamazoo's congressional coordination and this will have to be done again and again. He advised to stay close to the congressional coordination so that it is not the first time they hear about it.

In addition, Mr. Jackson mentioned the decision to remodel versus building a new building. The board and the airport must make a decision and have a message before the idea can be sold to pertinent supporters.

Mr. Ansari interjected that he understands why some things are being left out, some non-specifics, however when were looking at common use areas he asked are parking lots included. Mr. Jackson responded that there is certain eligibility for parking lots but traditionally they are ineligible for AIP funding.

Mr. Tomko asked how communities deal with the uncertainty. Mr. Jackson said that most of the time the FAA will come to a fairly good understanding going through the

process of getting ready to bid the first piece of what the funding is going to be. The timing of that funding is usually what is more in question. The community needs to be willing to deal with the delays or they have an additional source of revenue, such as a local tax levy for example. Mr. Tomko added that it sounds like a little bit of a catch 22. If you want to build your project in an orderly fashion and you go to this other funding to keep going, then the FAA is going to say funding is not needed. Mr. Moshoginis stated that this aspect is subject to appropriations. Mr. Jackson gave the example of the Chicago O'Hare project. Bonds are being issued until all is paid for. Kalamazoo may be more of challenge due to all of the county projects competing for money. The FAA has to hold up their end of the bargain once building starts. The county is the guarantor of the bonds. Within a certain amount of time, it will become reasonably apparent how much will be forthcoming from the FAA.

Mr. Tomko mentioned that construction could have a backlash to the customers. Mr. Moshoginis added that if there is remodeling or expansion, it would have a tremendous effect on the customers. When building something new, it has less of an impact on customers. A good example is Traverse City.

The subject of design and planning was brought up and Ms. Soderstrum said that design is generally reimbursable. Planning is generally not reimbursable, which is not uncommon for airports such as this one.

Mr. Collver asked if any entitlement funds exist and if there is an obligation to use those before getting grant money. Mr. Moshoginis responded that the FAA wants the entitlement money allocated prior to using discretionary money. Mr. Collver inquired as to what extent could future entitlement money be leveraged if it is \$2 million a year for example, and if it is needed for contingency. Mr. Jackson replied that a few dozen of airports have done that. Most borrowers will not lend that amount based on the airport's contention to use that AIP money in that way. Most borrowers will require a letter of intent from the FAA to leverage AIP grants to support that. The FAA would have to be convinced to do that. Ms. Soderstrum added that this is rare.

Mr. Ansari asked about matching grants and Mr. Jackson said normally 90% is grant money, 10% is local or 95% grant and 5% local.

Mr. Vernich then re-visited the Alternate E, the departure area expansion, what he considers to be the optimal terminal design in a bubble type diagram, very similar to the building that exists now. He pointed out that on one side there is a corridor with passenger queue side and security withholding. One side is the air ticketing offices and ticketing counters and the other side is the baggage claim. This allows enough infrastructure in the center of the building and allows for future expansions on either side very easily. He graphically showed the departure side terminal design, expanding to the Northeast. Mr. Vernich stated that they are for the most part programming the 2006 numbers into the study, minus some of the constrained areas where they are planning for future expansion. Looking at the existing bag claim area, they would have to provide future expansion for two additional bag claims depending on how quickly enplanements

increase. That starts to push the terminal further out Northeast, which would require additional restrooms, a bigger or separate mechanical area for the expansion, and the security area and airline-ticketing offices would be at the end of the building. This gives a longer distance to use the existing hold rooms. He stated they are still looking at a significant amount of square footage for expansion, about 41,000 square feet. He pointed out that one area of the terminal would become vacant and could not be used for leasing, as it would become ineligible because they would still have to upgrade the external. An expansion would mean that the existing terminal still has to be upgraded to meet existing codes.

Mr. Jones asked where the arrival area would be. Mr. Vernich pointed out that the arrival area would still be in the current area except the ATO's would no longer be in use there because they would be in the departure area. There would be arrival at the gates through the queuing area. In essence, the existing terminal is being upgraded while adding on to the northeast. Mr. Moshoginis inquired if Kalamazoo is subject to all zoning, ADA, things of that nature once they are into that area. Mr. Vernich responded yes as they are still altering an existing structure. He also stated that the awkward aspect of this is that if 2006 numbers are being used, they are not looking at building three bag claims. There would be space that would be sitting there for future expansion because it is a constrained area. Most of the core functions in the existing building are in an area where it would be almost impossible to expand to the southwest so they have to give enough internal square footage for that possible expansion not to have an impact in the future.

Mr. Collver stated that this would not be built now because it is not needed. However there would be space vacated so it would be available for that growth when it comes time.

Mr. Vernich also brought up the fact that the bag claim belts would be very difficult and costly to put in an existing office space area. Some hold rooms would have to be eliminated. He stated that there has to be back of the house access in order to off load the bags. The hold room would be destroyed in order to retrofit that. When looking at putting three bag belts in, something would have to be punched out of that building for an expansion.

Mr. Jones questioned the design in terms of efficiency. Mr. Vernich responded that the longer the building, the more inefficient it becomes.

Mr. Ansari asked if offices can be built in the future after funding and the answer is absolutely. Mr. Vernich stated that it is a matter of where the funding is eligible.

Mr. Jackson pointed out that the most unusual aspect of this alteration is that ticketing is almost always on right and the bag claim is almost always on the left. Ms. Soderstrum responded that there are terminals that are flopped, so to speak and they do work.

Mr. Hope inquired as to how long the existing terminal would be out of commission and if this would allow the existing terminal to operate during construction. Mr. Vernich said certain areas could operate and that when anything connected to the bag belt is effected, it

becomes very difficult for the phasing of the bag belt area. This would happen even if there were just an expansion.

Mr. Waalkes brought up security as an issue in the concessions area, which Mr. Moshoginis pointed out that there are a lot of complaints regarding not having any concessions once passengers go through the security checkpoint. Mr. Vernich stated there would have to be additional concessions added on in that area.

Mr. Moshoginis pointed out that the original intent was to use the new building strictly for airline use and use the existing terminal for support services. Mr. Collver asked if there is a history of other airports doing the same thing. Mr. Moshoginis stated many airports do the same thing and that many have business parks. His thought process is that Kalamazoo's space administratively would not be eligible to take on that other cost. He also mentioned that parking is going to become a problem here at peak times. In the future, there will not be enough parking.

Mr. Jones suggested investigating other uses for the existing building. Mr. Jackson advised to look at the operations of the building itself, do an analysis of rent versus the cost to run it and to consider the private sector, community and real estate. Ms. Soderstrum stated that the FAA requires lease restrictions on the building that will make sure the security of the airport is kept so that all future expansion is taken into account as part of leasing. It will be more difficult to lease to people under these circumstances. Mr. Jackson also gave examples of other uses such as the former terminal in Hawaii is being used for cargo and in Rapid City, IA, they are housing an agency that fights wild fires.

Mr. Moshoginis stated that airfreight could be a good area to expand here.

Ms. Buchholtz-Heimstra inquired about the airport's position in the debate regarding the cost of remodeling versus the cost of a new building. She stated that obviously there are more frustrations for passengers when remodeling but then again, the community may appreciate the fact that the airport is utilizing already existing space, as they think remodeling is less expensive, which is not always the case. Mr. Vernich explained that new buildings are easier to build rather than go through an entire existing facility, try to find every unforeseen condition that could exist in expansion and hope that everything will be brought up to the level of standards expected. With that in mind, remodeling would definitely be more expensive. Unforeseen conditions, repairs in old buildings can become a money pit, he said. Especially when there are separate mechanical systems. There can be upgrades made but they will not constitute the same value.

Mr. Woodruff asked if plans would have to change if Kalamazoo does not receive the amount of money necessary for this project. Mr. Vernich said RS&H would always design to what they consider to be the maximum terminal. They will make sure that plans can be phased down to the appropriate size so that funding can be allocated appropriately. Kalamazoo will always be able to phase that back up when the additional funding comes through. Mr. Jackson added that they would design for what is size-appropriate for now. In so many years, if growth exists, Kalamazoo will be able to

expand. Mr. Moshoginis pointed out that the airport can account for that space to the northeast and that based on the funds available, it can be phased back. This space needs to be accounted for and they should go after any monies they can get.

Mr. Collver stated that the board has to approach the decision phase and question if the existing facility can be modified. He added that the practical conservative side of people says it is hard to let go of something that is functioning, even though it may not be even at the level desired. Mr. Jackson interjected that the FAA rule of thumb is that there is a 10% traffic loss during rehabilitation of an old building due to inconvenience, people getting lost, etc. Those people may or may not come back.

Ms. Buchholtz-Hiemstra then mentioned a group forming called the Southwest Michigan Alliance that is looking to make regional lobbying efforts. They hope for it to eventually be all the way down Interstate 94 to St. Joe through Calhoun County. The group met once. The airport is on the list to see about joining. They have decided it best to focus on Calhoun County. At this point, both airports are at the top of their list and they want to put together a long-term vision plan for both airports. She has brought them up to date on the airport's status with the terminal project. She suggested that it might be a good idea to try to build Kalamazoo's case for those in Calhoun County as well. Mr. Moshoginis agreed and said that he has met with the chamber, universities, etc., and this is taking a broader approach.

In conclusion, Mr. Moshoginis stated that he wanted to make sure all questions were answered today and that the board makes a decision at the next board meeting on July 11.

The meeting adjourned at 3:43 p.m.