

MINUTES

KALAMAZOO COUNTY AERONAUTICS BOARD OF TRUSTEES MEETING

June 13,2007

ITEM 1. Call to Order: The meeting was called to order at 9:05 by Vice Chair, Jim Woodruff.

ITEM 2. Roll Call: Members in attendance – Bill Duggan, Dan Hope, John Jones, Kevin McGrath, Dave Tomko and Jim Woodruff.

Also Present: County Liaison Deb Buchholtz-Hiemstra, Michael Vernich and Mary Soderstrum of Reynolds, Smith, and Hills, Inc., Lisa Bradshaw and Kelli McKinnon from Kalamazoo County Finance Department.

Staff Present: Clifton Moshoginis, Ron Shutler, Jay Waalkes, Karen Wolff, and Lynn St. Clair

ITEM 3. Approval of Minutes – On a motion from Kevin McGrath, seconded by Bill Duggan, the minutes of May 16, 2007, and May 29, 2007 were approved.

ITEM 4. Citizen Comments - No citizen comments were presented.

ITEM 5. Financial Report - Bill Dundon, Kalamazoo County Director of Finance, presented the 2006 Annual Financial Report. Lisa Bradshaw will present future reports. He explained governmental accounting is different from the private sector. The Airport fund is considered a business enterprise. During the year books are maintained on a cash basis. Assets and depreciated assets are capitalized. At the end of the year the books are converted to full accrual because the Airport is an enterprise fund. The statement is prepared to measure working capital. He invited the members to email Lisa or Kelli with any questions. The County took over the Airport on Jan. 1, 1984, and items in this report go back to that date.

He reviewed the cover memo from the report. The second paragraph talks about working capital. At the end of the year there was \$5.2 million in working capital, and had an increase of \$1.371 million. It can fluctuate from year to year by \$1 million or so depending on capital expenditures and reimbursements from AIP, the State and PFCs. He noted how the State previously handled all the accounting for projects. Now the Airport can front-fund some projects in order to proceed. He cautioned that the working capital is not a significant amount

because it can drop \$1.5 million in a year, and the Airport's operating budget is about \$4 million.

The third paragraph talks about revenue. There are variances both over and under. The budget for '06 was prepared over a year ago and approved by the County in the fall of '05, and things can change during that time. He suggested the members not be concerned about the variances. It is the '08 budget that will be due rather quickly. He continued the review of the memo. The next paragraph talks about expenses. Excluding interest income from PFCs, actual expenses exceeded budget by \$206,000, which is not a major amount and is explainable.

There was discussion concerning the goal for working capital. \$1.2 million to \$2.4 million would be minimal and the Airport is ahead of that. The fluctuation depends on the timing of expenses and reimbursement. The goal is to fund depreciation. Revenues should cover expenses and money should be set aside in order to replace a truck or a chiller in the terminal. We have started working on covering depreciation, but we aren't quite there yet.

Page 3 provides 6 years of accounting numbers. Most of the revenues exceeded 100% of budget. He noted the three best revenue sources. The parking lot is the biggest revenue source followed by the airlines, rental cars and PFCs. PFCs are at \$652,000 rather than \$1,000,000 due to a lapse in authority to collect. He explained how PFCs are charged, collected and distributed. The airlines collect and retain a small administrative fee. Enplanements of 220,000 should be able to generate \$1 million for a 12-month period.

Other revenues include grants of \$393,996 resulting from federal reimbursement for security costs and a Small Community Air Service Development Grant of \$236,000. Operating expenses are slightly over budget primarily due to the Air Service Development Grant.

Mr. Dundon reviewed operating expenses. There should be \$4.974 million in order to cover depreciation. In further discussion, Mr. Dundon agreed with Mr. Hope that we did cover depreciation, but not consistently from year to year. On page 5 working capital is defined; the sources and uses. He reviewed receivables and liabilities and how those are recognized. Mr. Dundon said there is a balance sheet, but it is not included, and he will provide one. Mr. Hope felt that would be helpful, and noted a '08 budget meeting is scheduled for tomorrow. Page 9 covers fixed assets from contributed capital. Fixed assets and debt were considered. Pages 11-21 lists items that make up yearly acquisitions from working capital. Pages 22-26 represents capital assets from contributed capital. Page 27 shows capital assets from debt service primarily from bonds. In answer to a question from Mr. Tomko, Mr. Dundon said County guidelines determine items over \$1,000 purchased with working capital are capital assets, but it is

figured differently for contributed capital. That is why there are such small amounts listed.

Mr. Tomko asked about the \$77,000. Mr. Dundon explained that the original terminal project the County Authorized the Building Authority to issue bonds. They generate revenue by signing a lease with the County and they actually take title to the property, like a mortgage. In December of '03 the Building Authority issued \$9.5 million in bonds. Each year a County can issue up to \$10 million QTE bonds, which offer a lower interest rate. There is still \$4.8 million sitting in the bank from the terminal project, which included the parking lot and site work. At that time the terminal project was put on hold. The Building Authority can still issue \$10.5 million in bonds. He cautioned about that issuance since there appeared to be a shortfall. The debt service will jump to \$831,000 in 2011 on the \$9.5 million. It is critical that a revenue stream can keep up with that. He noted increased costs for general operations and the fees that have to cover those costs. Ms. Bradshaw added that the \$77,000 of borrowed funds is not debt, but an expenditure that was recorded to continue the project in 2006. Mr. Hope noted the funding source of assets has to be listed to perpetuity. Depreciation shown is from local funds. It is removed when the item is retired. There was some discussion of fund accounting, which is closer to business accounting.

In response to a question from Mr. Tomko, Mr. Dundon explained the lapse in PFC collections. He explained how it is imposed and used. The airlines have to concur with the application, and FAA permission is required. Mr. Jones asked about a timeframe. Mr. Moshoginis mentioned that we are now authorized to collect until April 2008. We intend to reapply to continue collections. There had been a two month lapse. The FAA instituted a new streamline process, but there have been some delays, especially in obtaining airline's written documentation. Mr. Dundon added that PFCs are very highly regulated, but a very valuable source of revenue for funding improvements. Mr. Moshoginis said the larger airports fund improvements entirely with PFCs, and not AIP. Mr. Moshoginis explained the reauthorization of PFCs through legislation.

ITEM 6 Airport Agenda Items

A. Contract with Concourse Communications for Wi-Fi Service Mr. Moshoginis said contract approval is being requested. The previous provider contract has been terminated. This contract will pick up that service for our customers. It is still a 20% revenue share. Several options were evaluated; free service, a hybrid with 15 minutes free and a turnkey. The turnkey was selected. Concourse Communications is in several airports. Mr. Hope asked about termination for inadequate service. Mr. Moshoginis explained we could terminate for lack of service, or default of payment. The three-year agreement is preferable considering a new terminal may be built. He mentioned the roving agreements. There was

further discussion concerning providers and having to pay a different provider at each airport. Mr. Moshoginis said Concourse has a variety of roving agreements. Mr. McGrath spoke of the importance of continuity of service. Mr. Jones made the motion to approve the contract with Concourse Communications. Mr. Duggan seconded the motion. The motion was unanimously approved.

Aeronautics Board Items

A. Discussion of Terminal Project Alternatives – Mr. Moshoginis introduced Mike Vernich and Mary Soderstrum of Reynolds, Smith & Hills. Mr. Vernich said the Board had asked RS&H to look at some alternatives; one being to keep this building as an arrival terminal and build a separate departure terminal, the other was meeting the PAL 1 forecasts. The first alternative has inherent problems with operations and redundancies, which cost more. Maintaining same gates and operational characteristics would be redundant. Transferring ATO's to a new terminal, we would have to build those areas and new holdrooms, bag processing areas, screening and a redundant set of gates to compensate for departures. Operationally the airlines would have to taxi from arrival gates to departure gates. Mr. Jones said this would be an increased cost to the airlines. Mr. Vernich agreed and said RS&H didn't believe this was an optimal option, but it was interesting to look at.

PAL 1 is an expansion of Alternative E, building a 122,000 square foot building. This is a larger version of Alternative E. The cost is significant and self-explanatory when paying for additional square footage. There was discussion of the enplanement forecast. Mr. Vernich said any terminal would be set up for expansion of PAL 1 or 2. Mr. Jones felt if the Airport was built as a 70,000 square foot building, and we look to the future and increasing costs, is it wiser, if the money is available, to build PAL 1 and grow into it. Mr. Vernich said we always look to the future and normally we would plan for PAL 1 and scale back. The FAA also wants airports to build for the future. We have that flexibility.

Then we look for eligibility and cost analysis to the FAA and your congressman for funding. There was further discussion about an expansion for arrivals and the departure terminal. With expansion there would be a need for additional bag belts, which would call for a complete renovation of this building, and more expense. He also didn't feel the FAA would agree with a separate building. Mr. Hope noted the condition of this building. Mr. Vernich noted this building has been through several expansions, and has seen its useful life. It is not designed to handle screening and changes would be cost prohibitive.

We would provide 3 screening lanes for convenience. Checked baggage would not be inline, that is cost prohibitive for this airport. Operationally, it wouldn't be much different than it is now. We would work with TSA in order to keep equipment behind the scenes. There would be enough for bag belt expansion. Mr. McGrath noted the importance of streamlining the bag handling and screening. Mr. Hope said we need the separate screening lane, which has been demonstrated. There was discussion of new screening technology. Ms. Soderstrum said there needs to be flexibility for screening, since there will be other threats and changes. Mr. Jones asked about the process for the Board. We need a new facility, and so are we looking at PAL 1 and go after the money for that forecast. Mr. Vernich noted the cost analysis is contained in the report they prepared. There is still planning involved. If we target PAL 1, we have to start strategizing.

Ms. Buchholtz-Hiemstra noted the demand is one part, and funding is the other. As we proceed, we may have to come down from a PAL 1 and there are costs involved. Ms. Buchholtz-Hiemstra asked how do we make sure of the costs. Mr. Vernich said during the planning process, RS&H develops the phases and demonstrates that you can get to a PAL 2, and RS& H has staff working on those processes as well as going through eligibility and working with the FAA. Ms. Buchholtz- Hiemstra said RS&H isn't doing design work, just program work. Mr. Vernich said there is time to go through program design, airline operations, airport operations, stakeholder meetings, etc. Mr. Moshoginis noted the timelines and stated a recommendation is needed at the July meeting to get started with programming additional funds. We can't afford a very large facility. There is a financial plan. The Board needs a decision on alternatives, looking at PAL 1 and look at cash flow from there.

At this point we need cost/benefit analysis and cash flow analysis. The Board may want another meeting for further review. RS&H is willing to come back for another meeting. Ms. Buchholtz-Hiemstra noted that it is important the headlines don't reflect the Board is looking for a building larger than the one that was previously put on hold. Mr. Moshoginis said that was stated to the reporter, however the article was shortened. Ms. Buchholtz-Hiemstra suggested meeting with the editorial board of the Gazette.

Mr. McGrath asked about the level of community support. Mr. Moshoginis said there is a facility requirement and travelers and the community are telling us about the facility needs and the shortcomings of this building. There was further consideration of community endorsement. Mr. Jones felt the community would be disappointed if we didn't build a nice building to spur economic development. Mr. Moshoginis noted that a new terminal has to be functional, and we currently lack that. We are not looking to build

an extravagant building. There was also some consideration about helping the public understand the responsibility of the Airport concerning service. Mr. McGrath noted the importance of Battle Creek's support. Mr. Moshoginis explained that Battle Creek representatives have been involved as well as Southwest Michigan First.

Mr. Moshoginis said the financials and cash flows and analysis for a couple of different levels are important. The Board requested an email poll for the best date for another meeting.

B. Discussion of Additional Strategic Planning Dates Mr. Moshoginis said he would speak with Mr. Collver about dates.

ITEM 7. Unfinished Business - No unfinished business was presented.

ITEM 8. New Business - No new business was brought up for consideration.

ITEM 9. Airport Director's Report – Mr. Moshoginis said the Market Share Report had been included for the members to review. There were 16 cancellations for May, which was high due to some capacity problems. He reviewed the percentages. He noted that departures were also decreased. There was further discussion of O'Hare's completion. Ms. Soderstrum said that would be in 3-5 years, then we believe the airlines will be purchasing more aircraft for increased services, which includes this airport.

Mr. Moshoginis added that the City of Portage watermain project would not be run across the airport. The runway shift and Taxiway B relocation projects will be ongoing this month.

Some Board members have terms expiring in August. If you would like reappointment, please let Mr. Moshoginis know. He will inform the County Board office.

ITEM 10. Members' Time - No comments were offered.

ITEM 11. Adjourn – The meeting was adjourned at 10:40 a.m. on a motion from John Jones seconded by Bill Duggan.