

MINUTES

KALAMAZOO COUNTY AERONAUTICS BOARD OF TRUSTEES MEETING

NOVEMBER 15, 2006

ITEM 1. Call to Order: Mr. Thom Canny introduced himself at 8:13 a.m., and noted that a quorum was now present for the meeting being held in the Airport Administration Office, 5235 Portage Road, Kalamazoo, MI 49002

ITEM 2. Roll Call: Members Marie Frank, Daniel Hope, John Jones, Kevin McGrath, James Woodruff

Also Present: County Liaison, Deb Buchholtz-Hiemstra

Absent: Gil Collver, William Duggan, and County Liaison Dave Buskirk.

Staff Present: Clifton Moshoginis, Thom Canny, Corp. Counsel William Dundon, Co. Finance Director, Ron Shutler, Karen Wolff, Lynn St. Clair.

ITEM 3. Approval of Minutes of the October 11, 2006 meeting. There being no suggested changes, a motion to approve the minutes as written was made by Mr. McGrath and seconded by Mr. Jones. The minutes were approved unanimously.

ITEM 4. Citizen Comments: Mr. Canny explained this item and asked for any citizen comments. No comments were offered.

ITEM 5. Financial Report – Mr. Dundon noted the report that had been distributed. He provided his personal background. He is a CPA and has been County Finance Director since 1987. He began accounting for the Airport in 1989. Lisa Bradshaw now provides County accounting services for the Airport under his supervision. He mentioned his plans to retire in a little over 2 years. He thanked Cliff and Lynn for providing critical information for this report. Historically he has provided 3 reports per year – the 6-month activity report in August; the 9-month report such as is here today; and the annual report in February. If this Board is interested in periodic reports, we can provide that.

The County took over the Airport on Jan. 1, 1984 with a debt of \$2.8 million. Over the years that has been paid back. The County has cash basis records. Periodically cash basis is converted to full accrual accounting. He provided a definition of the accounting. Revenues are recognized when they are earned, not received, and expenses are counted when incurred, not when paid. Mr.

Dundon mentioned the Governmental Accounting Standards Board, GASB, and the Financial Accounting Standards Board, FASB, set accounting principles and govern the maintenance of records. The State of Michigan also has oversight. The Airport has guidelines from the FAA and TSA.

The Airport is an enterprise operation; the closest to a business the County operates. The Airport has two fund accounts for operations, and capital projects fund bond proceeds and expenditures. That will get closed out once the bonds are spent. It is a self-balancing set of accounts with assets, liabilities, equity, revenues and expenses closing out at the end of every year. This is not a true profit and loss statement. Working capital is current assets minus current liabilities. Assets are cash or items converted to cash in 12 months, liabilities use cash in 12 months. By law the County has to have a balanced budget. This statement includes Airport Improvement Program, federal and state money available for capital projects. There are restrictions and limitations. PFCs which are restricted are collected by the airlines and distributed back to the airport.

The report shows 9 months of collection. Revenue above 75 percent is good. Expenses should be close to 75%. In the revenue categories, the airlines pay for rent and landing fees based on the number of planes coming into the airport. Landing fees don't have anything to do with the occupancy of the plane. Passengers coming into and leaving the airport do affect other revenue such as the parking lot, restaurant, etc. Passenger volume possibly affects the number of flights, since a traditional low occupancy may cancel a flight. The biggest revenue generator is the parking lot, budgeted at \$1.3 million at nine months it is slightly over \$1 million, and should reach \$1.4 million by the end of the year.

When preparing the budget we traditionally tend to be very cautious about budgeting revenue, and we budget expenses on the high side so if there is a downturn in traffic, it will not impact the budget. He reviewed the revenue sources such as rental cars, hangars, fuel flowage fees, FAA, fixed base operators, etc.. Under grant revenue, the Small Community Air Service Development Grant is being closed out.

The airport goes through an application process with the FAA for the PFCs to get permission for the airlines to collect. This takes concurrence from the airlines. You can save it for the future or get permission to spend it. It is a complex process, but well worth it. For the terminal project the intent was to use PFC partially for debt service of the bond issue. It is restricted revenue and can only be spent for certain projects, and then only by permission. The airlines get to keep a small piece of the collections. Mr. Dundon explained how PFCs are charged. Mr. Jones asked what they are used for. Mr. Moshoginis said the funds can be used for FAA, AIP eligible projects such as the terminal, not for operational expenses. It has to be related to airline activity in order to qualify. The Airport Improvement Program (AIP) is funded with 90% federal money, 5% state and 5% local. PFCs can be used for the local share. Mr. Hope inquired

about the approval body. Mr. Moshoginis said we apply and consult with the airlines for their concurrence. They usually waive a meeting for approval. Then the FAA ultimately approves, but airline concurrence is necessary.

Mr. Dundon spoke about earned interest. Interest on bond proceeds not spent is restricted. If PFCs and carryover are removed, operations is about 92% of budget. Ms. Hiemstra-Buchholtz asked about parking, since the number of passengers has gone down. Mr. Moshoginis explained the budget was a conservative estimate. He also noted the revenue for airline landing fees is at 62%, and added that the airlines have experienced bankruptcies. Mr. Woodruff asked if bankruptcies have affected collections. Mr. Canny explained that it would affect the pre-petition. Since the bankruptcy filing the airlines must pay-as-they-go. The dollar amount for pre-bankruptcy claims is not a big hit since there isn't a long lag time between the last payment and filing.

Mr. Hope asked about Grant revenue being at \$363,340 or nearly 200%. Ms. Bradshaw explained the Grant for the Small Community Air Service Development was not included in the original budget. Mr. Moshoginis said we are in the process of reimbursement for that grant from the DOT. Mr. Woodruff asked if the Airport could reapply. Mr. Moshoginis said we could, but that program has changed and funds have diminished. Mr. Dundon added it was a subsidy to Delta Airlines. Mr. Hope said in many cases revenues have exceeded projections, why not in PFC. Mr. Dundon noted that the PFC collection period had expired for August and September, and the Airport was not authorized to collect for 2 months. Mr. Moshoginis said the authorization for collection has been reinstated. Mr. Woodruff understood that money is for capital expenses only. Mr. Hope asked what created the gap. Mr. Moshoginis said the expiration occurred soon after he moved into the position, and we had to reapply. Letters went to the airlines to waive the meeting, but one representative of the airlines was difficult to catch up with to sign the letter. The FAA, Airports District Office that reviews the process took longer than expected. Then there is a 30-day comment period. Mr. Hope asked about the frequency of review. Mr. Moshoginis said we are authorized for collection until April, 2008. Mr. Dundon explained that there is \$525,300 in PFC reserve. Mr. Woodruff asked if the PFC reserve can be applied to debt service. Mr. Dundon said that was the plan, for '06. It has been modified for '07 Ms. Buchholtz-Hiemstra stated the airport is authorized to collect the maximum.

Mr. Dundon reviewed the three categories of Expenses; salaries, fringes and operating and added these are ongoing costs of operating the airport. More expenses are incurred in winter months. Those expenses are well within the 75% target. Mr. Jones asked about deicing. Mr. Moshoginis said the Airport uses a deicing fluid for the runways and taxiways. The airlines have their own deicing fluid for aircraft. Mr. Dundon said \$185,000 was for routine equipment purchases, a pickup truck, computer, etc. adding these items are not AIP or PFC eligible. The \$788,216 number is for AIP approved projects, we pay with local

resources and get reimbursed from the State for a large portion of that. The State administers the AIP. Every AIP project had federal, state and local pieces to it. Fixed assets for '05 show \$57 million in assets purchased with local funds. A goal is generate revenue to cover expenses including depreciation to replace assets when needed.

Mr. Dundon said this is an accrual basis statement. On the back page converted to working capital, taking out restricted capital, and the bottom line is working capital started at \$3.8 million and through the first 9 months increased to \$4.775 million probably ending with \$315,000 increase to working capital with \$4.150 million in working capital because of paying ongoing bills. Mr. Dundon reviewed the billing process for the airlines. There is a delay since the billing is done in arrears. The AIP is authorized through the end of fiscal '07. The federal government has reauthorized multi-year (5 year) funding. Then it has to be funded through appropriations. At the time we were uncertain about federal funds. The airport may have to spend money up front then get reimbursed. Depending on the scope of the terminal project, you may need \$5 million additional working capital to front fund the project. Mr. Woodruff asked if we issued \$9.5 million and spent \$4.3 on the parking lot. Mr. Dundon said yes. Mr. Jones asked if we needed an additional \$5 million. Mr. Dundon said it depends on the scope of the terminal and other financing. You may need \$1.25 million for working capital and \$5 million from capital at \$6.25 million, and you will have a little over \$4 million at the end of the year. We need to keep monitoring expenses and revenues. \$4 million is probably not enough to do a terminal project. We have asked for 4 variations for different amounts. If a \$16 million project is selected, does it do what is needed, and how is it to be financed. \$5 million may be needed to front fund in addition to bonds. The County Board approved up to \$20 million, we have issued \$9.5 and never did a second series. Mr. Jones asked if we still have authority. Mr. Dundon said there is authority to issue 5.5. Mr. Canny said you have to go through the Building Authority and the Board of Commissioners. They are revenue bonds to be paid by revenue from the Airport. There has been a change in the way the airlines look at a terminal. They used to want their own spaces to show their branding. When you do that you can't use AIP. The airlines are looking at shared facilities and staff. The more they share, the more we can get funding for capital expenses, the less revenue we have to pay, bonds go down. Ms. Buchholtz-Hiemstra said bonding issued and not spent, can that be used like working capital. Mr. Dundon said that is available, but you have to be careful how it's used.

If it's decided to move forward, you need to know the cost cap, the revenue source and cash flow projections. There were isolated pieces that couldn't be paid with AIP or bonds. Costs need to be isolated and matched to revenue sources. Mr. Woodruff asked if \$9.5 million was authorized, and \$4.3 was spent it costs us how much to maintain the balance and is it part of working capital? Mr. Dundon said he didn't know the interest rates. It is not part of working capital. Those investments are at a low interest rate, and it avoids arbitrage issues. We

can invest some and still avoid arbitrage. Mr. Woodruff said it is costing us at least 1% just sitting there. Mr. Dundon said it is a tradeoff for doing a project with uncertain financing.

Mr. Dundon said the Board can decide when you would like financial reports. Mr. Dundon asked for questions. Mr. Woodruff thought the financial report had been covered. There was some discussion about adding a column to the report for a percent of estimate for '06 compared to budget. Mr. Dundon said that could be added. In response to a question, Mr. Dundon said the State used to pay for everything. When it was closed out, it would show what we owed for local share. We have set up a routine for submitting paper work for reimbursement. An annual statement from the FAA allows a projection for cost to date. If a project is approved, a contract may be signed, and local funds may be used. Then apply for reimbursement. This speeds up the project, but costs the airport. At least quarterly we get paperwork into the FAA, and get money back. This budget was probably done June, '05. At that time interest was at 2+%. The Treasurer is now investing at 5%. The numbers look good, but could be better. It will need to be monitored. Mr. Hope asked about any restriction in use of funds using bonds for working capital. Mr. Dundon said the overriding restriction is that money generated for the airport can't be used for any non-airport purpose. Mr. Canny said the bonds are for terminal and parking lot, not a new taxiway. Working capital is two funds within the same fund. One for daily expenses such as salaries, etc. Anything connected with the building of a terminal would come from bond proceeds for terminal expansion. Mr. Hope asked if funds within working capital could be used to bridge financing needs. Mr. Dundon said there are definitely restrictions unless we have permission to use money for a specific item. If you get permission, it becomes unrestricted. He said we need to thoroughly analyze the project as we move forward. I think you can do a terminal project, but I don't know how big. Mr. Canny related this to his private practices and a client account set up for certain expenditures. To use that money for another purpose and replace it later from an expected annuity is not legal. FAA rules are similar.

Mr. Canny noted the next item on the agenda is election of Chair and Vice-Chair. He asked for nominations for Chair, a one-year term. Mr. Jones nominated Mr. Gil Collver for Chair. There were no other nominations. Nominations were closed. All of the members were in favor of the nomination. Mr. Canny stated Mr. Collver is Chair. It was now appropriate to accept nominations for Vice-Chair, also a one-year term. Mr. Jones nominated Ms. Frank for Vice-Chair. There were no other nominations. Mr. Canny closed the nominations. A vote was taken, all were in favor, Ms. Frank is the Vice-Chair. In the absence of the Chair, Ms. Frank presided over the balance of the meeting. Mr. Canny said the consultant agreement with Ms. Frank can't be approved since a two thirds approval of the sitting members is required, and Ms. Frank may not vote on approval of her claim. In December there will be a claim for another amount. The claims can be paid in December. Ms. Frank read the disclosure (attached).

Mr. Canny said at the December meeting another disclosure will be read and approved. Under Michigan law an amount under \$5,000 a specific disclosure for financial benefit is read then voted on at the next meeting at least 2 weeks later.

ITEM 6. AIRPORT AGENDA ITEMS F – K: Ms. Frank noted agenda items through E had been covered and asked for any questions or comments concerning items F through K. Mr. Woodruff asked about item J. Mr. Moshoginis explained this provides authority for the Airport Director to execute standard hangar and advertising leases. Mr. Woodruff asked about increasing hangar rates. Mr. Moshoginis stated changes in rates would come to the Board on an annual resolution basis. Mr. McGrath asked about item K, the TSA Amendment. Mr. Moshoginis explained the Airport receives reimbursement in part for law enforcement officers from the Sheriff's Dept. The agreement was entered into in May, 2002. Every year there has been an increase in the amount of funding. This amendment is for no increase for 2007. The Dept. of Homeland Security does not have the funds for an increase, but we are still subject to their requirements.

Ms. Frank asked about the term "certain" services for Pro-Tec. Mr. Moshoginis stated the service is provided solely for the Airport, otherwise coverage could be jeopardized if they were off site. They do provide protection for the terminal. Ms. Frank asked about the number of screens for the Multi User Flight Information Display system. Mr. Shutler responded there would be a couple additional screens and replace the current ones. Ms. Frank asked if the new monitors will move to the new terminal. Mr. Moshoginis said they would.

Mr. McGrath offered clarification, under Item J, Pfizer's Corp hangar is not on Airport property, and his vote on this item is not conflicted. There was a brief discussion about the Duncan Aviation property.

Mr. Jones moved to approve Items F through K. Following a second by Mr. McGrath, the items were approved unanimously.

ITEM 7. UNFINISHED BUSINESS: Ms. Frank asked about the By-laws. Mr. Moshoginis said a clean copy of what had been approved was included in the packet. There had been some discussion about a By-laws committee. Ms. Buchholtz-Hiemstra suggested the members bring any concerns back to the Board rather than forming a committee. There may be no need for a committee, and the members are very busy.

Ms. Frank said under ITEM 6, Regular Meeting Date, the second Wednesday of each month has been suggested. The members felt that day would work well at 8:00 a.m. The dates can now be set through 2007. Ms. Buchholtz-Hiemstra suggested providing a master schedule to the members for their planning purposes. A vote can be taken after the Master Schedule is received. The next meeting will be December 13.

There was no further unfinished business.

ITEM 8. NEW BUSINESS: No new business was brought before the Board.

ITEM 9. DIRECTOR'S REPORT: Mr. Moshoginis noted the emailed version of the Market Share Summary contained errors. A new summary was distributed. Enplanements for September were down 19%, deplanements decreased 14% for a 9-month total decrease of 13%. For October enplanements were down 10% and deplanements were 15% lower for a 10-month total change of -13%. In response to a question from Mr. Hope, Mr. Moshoginis clarified enplanements and deplanements as a measure of airport monthly activity. He added there may be another decrease because the number of departures and available seats have been reduced by the airlines. It is directly related to airline bankruptcies and their adjustments, but the same number of airlines. Ms. Buchholtz-Hiemstra said several months ago she had looked at this information compared with several competing airports. She felt that type of comparison would be constructive for this Board to examine and look for trends even though there is a lag time. Ms. Statler manages parking lots at several airports in Michigan, and offered to provide that information. Ms. Buchholtz-Hiemstra noted she used the yield to show the airport is profitable for the airlines. This helps in preparation for talking with the airlines. Mr. Moshoginis noted another measure is what the airport contributes to the national system annually. Ms. Frank agreed, you can see where the airport ranks in the top 200. There was further consideration of the data and the airports that should be considered, as well as leakage to other airports.

Mr. Hope noted the load factor is fairly flat, and asked about historical load factors, or is the decrease in load factor consistent with decreases in flights. Mr. Moshoginis explained this breaks down per airline. One airline in bankruptcy is giving us flights we don't need and at times we don't need, so even though we are glad to have the flights, the load factor is lower. In answer to another question, Mr. Moshoginis said Northwest mainline has 30%+. We are getting DC9s which are not efficient for us. Some airlines are at 70% load factor. Mr. Moshoginis said he could provide the entire Market Share report .

Mr. Moshoginis handed out recent newspaper articles concerning the airport.

Terminal Improvement Project - Reynolds, Smith and Hill (RS&H) is the company selected. Their main office is in Jacksonville, with offices in Flint and Naperville, IL. A scope meeting is scheduled for December to define the first phase of the project. We may be able to provide a contract to the Board in December. In response to a question from Mr. Woodruff, Mr. Moshoginis reviewed the selection process.

The motor coaches will be leaving the airport for downtown transportation center. There isn't a specific date. The difficulty has been with the contract language with the City of Kalamazoo.

Mr. Moshoginis reported that the Board of the Michigan Association of Airport Executives will meet Feb. 21 & 22 along with Michigan Aeronautics Bureau. The meeting will be in Lansing at the Kellogg Conference Center. One topic of interest on Feb, 21 at 1:30 is the role of the Airport Board. The members of this Board are welcome to attend as well as the roundtable discussion.

ITEM 10. MEMBER'S TIME : There were no matters brought before the Board.

ITEM 11. EXECUTIVE SESSION: Ms. Frank read the following motion: I move that the Kalamazoo County Aeronautics Board of Trustees go into a closed session pursuant to Section 8, (C) of the Open Meetings Act for the purpose of discussion negotiations of the collective bargaining agreement and issues related to the Airport Director's employment agreement. The motion was supported. A roll call vote was taken: Collver, not present; Duggan, not present; Frank, yes; Hope, yes; Jones, yes; McGrath, yes; and Woodruff, yes.

The members went into Executive Session

ITEM 12. ADJOURNMENT : Following Executive Session, the meeting adjourned at 10:26 a.m.