

**NEW HANOVER COUNTY AIRPORT AUTHORITY
AND
NEW HANOVER COUNTY BOARD OF COMMISSIONERS
JOINT MEETING MINUTES
May 31, 2017**

CALL TO ORDER

The New Hanover County Airport Authority met in joint session with the New Hanover County Board of Commissioners on Wednesday, May 31, 2017, in the Executive Conference Room at Wilmington International Airport, 1740 Airport Boulevard, Wilmington, North Carolina.

Authority members present were Thomas Wolfe, Chairman; Carter Lambeth, Vice-Chairman; Dan Hickman, Secretary; Thomas C. Barber II, Donna Girardot, and John Perritt. ILM staff present included Julie Wilsey, Airport Director; Gary Broughton, Deputy Airport Director; Robert Campbell, Finance Director; Whitney Prease, Facilities Director; Carol LeTellier, Business Development Director; Chief Gary Taylor, Operations Manager; Erin McNally, Marketing Specialist; and Rose Davis, Executive Assistant.

County Commissioners present were Woody White, Chairman; Skip Watkins, Vice Chairman; Jonathan Barfield, Jr., Patricia Kusek, and Rob Zapple. County staff present included Chris Coudriet, County Manager; Avril Pinder, Deputy County Manager; Tim Burgess, Assistant County Manager; Ruth Smith, Chief Communications Officer; Wanda Copley, County Attorney; and Kymberleigh G. Crowell, Clerk to the Board.

Authority Chairman Wolfe and Commissioner Vice-Chairman Watkins called their respective boards to order at 8:01 a.m. stating this joint meeting is for the purpose of hearing the Annual Report of Wilmington International Airport.

INVOCATION AND PLEDGE OF ALLEGIANCE

Commissioner Barfield gave the invocation. Authority Chairman Wolfe led the audience in the Pledge of Allegiance to the Flag.

WELCOME

Chairman Wolfe welcomed the Commissioners and thanked them for coming and introduced the Authority members who were present. Commissioner Vice-Chairman Watkins introduced the County Commissioners and County staff members who were present. Authority Chairman Wolfe turned the meeting over to Airport Director Julie Wilsey who introduced the ILM staff present.

ANNUAL REPORT

Mrs. Wilsey thanked the Commissioners for coming to ILM for the annual report and stated that an abbreviated version of today's report would be presented at the Commissioners' June 19th meeting. Mrs. Wilsey reminded the Commissioners that the vision of ILM and the strategic leadership of this airport is a credit to the Airport Authority members who do an outstanding job for this community and this region, not only safe-guarding County assets at the airport but also serving this region. Mrs. Wilsey thanked the Authority members for their time and dedication, as

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well as the 40+ ILM employees that stand behind this presentation and without whom we wouldn't be able to run this operation 24/7/365.

Mrs. Wilsey reported that ILM judges its success based on the number of revenue passengers and calendar year 2016 was a record setting year for ILM with 817,896 revenue passengers, which was an increase of 6.5% over last year; and, there were 411,399 revenue enplanements, which was a record as well. These numbers were due in part to the airlines adding larger aircraft with additional seats and the community responding by filling those extra seats. ILM will continue to grow and hopefully get bigger aircraft and more flights. ILM's total operations in CY2016 were 50,527, which were up 5.4%, and include landings and takeoffs by general aviation, commercial aviation, military and corporate. ILM currently has 106 based aircraft.

Mrs. Wilsey shared that with ILM's two carriers, American and Delta, and their networks, ILM is a spoke in their hub system with over 390 destinations having just one stop. ILM connects this community to the world, to global commerce, and to tourism. ILM has good connectivity, therefore the businesses like PPD, GE, and Alcami, can reach their customers through ILM.

Mrs. Wilsey, using a slide for illustration, showed ILM's top 20 origins and destinations. ILM serves 4 of the 5 top destinations traveled to/from ILM by non-stop flights. New York metro area (LGA/EWR/JFK) being the largest market to/from ILM with 87.6 passengers per day each way.

Commissioner Chairman White arrived at this time.

Mrs. Wilsey stated that ILM's air service development focuses on the top 10 destinations with Chicago being our number one priority for new service, with Dallas/Ft. Worth (DFW) also being on the list. Both qualify for the Small Community Air Service Grant which was extended for one more year. Staff will continue to look for additional markets, particularly Chicago and Dallas/Ft. Worth, which would be good local markets as well as provide outstanding connectivity to the west for those needing to make international connections to Europe and Asia.

Mrs. Wilsey reported on ILM's average fares as compared to RDU, CLT and MYR showing that ILM's fares are comparable when taking into consideration the time for travel, gas, parking and potential overnight stay. Mrs. Wilsey pointed out that each of the competing airports have a low fare carrier which causes more competition and thus lower fares for those airports. The maximum fare difference through all of our markets is \$114.

Mr. Broughton, reporting on the economic impact of aviation, stated that NC airports contributed \$31.1B with ILM contributing about \$1.6B of that and almost 5,000 jobs which is a big increase from the 2012 Economic Impact Survey.

Mr. Broughton shared that while ILM is a commercial service airport, it supports general aviation as well, showing a picture of the new Live Oak Bank hangar that was constructed at a cost of over \$6M; with the annual rent for the first year being over \$32,000; and, the property tax to New Hanover County being approximately \$35,000 annually.

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Mr. Broughton reported on the transition of general aviation from the south side of the field to the north side, which is in keeping with the Master Plan. As of July 1st, the north ramp transition will be complete. ILM has 42 tie downs for based aircraft; a new access gate for pilots and a facility to use for a meeting place for ILM's tie-down tenants.

Mr. Barfield asked what the status was for a second FBO and Mr. Broughton responded that ILM put out an RFP for a second FBO in September 2016 and did not receive any bidders. Mr. Barfield asked if there was a demand and Mr. Broughton stated that staff has been told by consultants over the years that there is not but staff completed the RFP to test the marketplace.

Mr. Broughton reported that future projects in the GA transition include constructing an aircraft wash area that will be available for pilot use and a paved parking lot.

Mr. Broughton shared statistics from the recent PGA event noting that everything went smoothly for ILM and the community. Staff received great feedback from the golfers and public that attended the event. Mr. Broughton pointed out that a majority of the players came in on commercial aircraft; Avis Rental Cars had 200 cars ready for the players and caddies; the biggest day for travel was Monday, May 8th, with a 94% load factor and over half of that day's flights being at or near capacity. Also, Delta added 198 seats that day. For the week of April 28-May 8 ILM had an increase of 1,359 passengers (+10.9%) vs. 2016.

Reporting on PGA event statistics from the FBO, Air Wilmington, Mr. Broughton shared that Air Wilmington had 87 aircraft arrive during the event; with 2 Wells Fargo corporate jets and 4 players' private jets staying all week; and, Air Wilmington sold over 30,000 gallons of fuel for that week.

Mr. Broughton, using photographs on the slides, pointed out the new North Ramp Project that was completed in time for the PGA event. This project also included storm water infrastructure and security fencing.

Mrs. Wilsey reported that ILM had a good year in FY16 with operating revenue of nearly \$10M; a 12.3% increase over FY15. ILM had a very thorough audit in FY16 receiving an unqualified audit report in full compliance with all State and Federal grant programs. Mrs. Wilsey pointed out that parking is still the number one revenue source for ILM at 40%, or \$3.8M. Staff is working hard on the business park to help diversify that revenue but parking still remains the number one revenue stream.

In terms of cash inflows and outflows, Mrs. Wilsey reported that the inflow was over \$20M with nearly half of that in the operating account, and the other majority being in Federal Grants. Mrs. Wilsey reported that during the 3 years notice that the PGA tournament was coming to Wilmington, Mr. Prease worked hard to expedite Federal Grants and that 37.5% represents about \$7.3M worth of projects that had to be finished no later than May 1, 2017. ILM also received about \$300,000 in State Grants in FY16 and allocated \$1.5M for the current FY that will be reported in next year's Capital projects.

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Reporting on the outflows, Mrs. Wilsey stated that most outflows are allocated for capital assets to grow this airport and maintain the existing infrastructure. Mrs. Wilsey said it was important to note that ILM's debt summary as of June 30, 2016 was under \$5M.

Mrs. Wilsey reported that a lot of environmental work is required for any facility development using grant funds and the Terminal Expansion Environmental Assessment is currently under review with the FAA. Part of that process required public outreach and stakeholder collaboration. ILM collaborates on a regular basis with stakeholders in the community like the MPO, TAC, and the County.

Mrs. Wilsey stated that a lot of ILM's contribution to the economic impact revolves around the terminal but staff is also trying to grow the business park. Staff partnered with Wilmington Business Development, NC Southeast, and with local realtors in accordance with the Garner Report. In the meantime, Ms. LeTellier is following every lead and prospect to grow the business park and fill the Flex Building. Currently Ms. LeTellier has 3 new tenants in the Flex Building: Scratch on 23rd opened in March 2017; Toshiba opened December 1, 2016; and, KBT Realty and Shaw Real Estate will start construction on June 1, 2017.

Mr. Barfield asked if these tenants were covering the expenses now and if so, what the plans are for the additional resources above costs. Mrs. Wilsey responded that ILM built the Flex Building with its own money, which cost approximately \$2M, and that the revenues generated from rent are used to replenish that loan from the ILM general fund. We have not reached break even on the investment. Any profits from the Flex Building will be put back into new infrastructure, as needed.

Mr. Barfield asked how long it would take to recoup this investment and Mrs. Wilsey responded it was anticipated to be 6 years but it all depends on the particular tenant, the type of up-fit they require, and the terms of the lease. Mrs. Wilsey reminded the Commissioners that each lease has a starting rate and as time goes on staff negotiates a deal that is both fair for the airport and the tenant. Mrs. Wilsey said staff isn't taking just any tenant. The restaurant was a number one objective because the VA needed a place for their 250 employees to eat breakfast and lunch.

Commissioner Chairman White questioned the decision process that led the Authority to finance and manage the Flex Building vs. their partnering with a private entity for developing the building and overseeing rent, stating that it was an unusual business model for a governmental entity to commit capital.

Mrs. Wilsey responded that most of ILM's previous opportunities were land leases where entities lease the ground from the Authority and use their own funds to build the building. Then the Authority tried build-to-suit at one point. Eventually the Authority decided to build the building ourselves so that we could recoup a higher rental rate and stimulate activity. Chairman White pointed out there is more risk in doing that and Mrs. Wilsey agreed. Mrs. Wilsey stated that many airports across the country are trying to diversify their revenue streams and there are other airports who have built buildings and been successful. This was ILM's first attempt. Mrs. Wilsey further stated that she wasn't saying it was a right or wrong decision. The challenge that the

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airport has today is to fill the building. Ms. LeTellier is working extremely hard to do so and that is why ILM hired a real estate expert with airport experience as a staff member.

Chairman White asked how future decisions regarding the business park might be made as it relates to self-development or partnering with a private entity. Mrs. Wilsey responded that certainly it was less risk to lease the ground and let the company build it themselves but that the Authority didn't think there was anything wrong with building a building on its own. Mrs. Wilsey said, right now, the current market and bidding climate is much less favorable because bids are coming in extremely high for new construction. Given the same decision today, the Authority may not have made the same decision.

Mr. Barfield asked why not partner with a commercial real estate company that works with a full range of commercial people that are looking for leases that may get these buildings leased quicker. Mrs. Wilsey responded that ILM had a broker that was trying to prelease the building prior to construction. The contract didn't lead to any tenants. The Authority decided the best way to proceed was with our own in-house staff because we are our best advocates. If you go with a commercial realty company, sometimes you are one of many clients.

Mr. Barber pointed out that ILM has land, which many airports would be very envious to have and the infrastructure is in place for the business park. Mr. Barber stated that we now have a catalyst and we're starting to see some movement in the business park. Mr. Barber shared his opinion that if you go forward five or ten years from now, you will see a much more mature Business Park at ILM than you see today.

Chairman White asked the Authority to consider very carefully in the future before committing capital, assuming risk, competing with the private sector, and building its own buildings.

Chairman Wolfe stated that when this decision was made, the Authority was under the impression that there was a tenant that would occupy most of this facility. Chairman Wolfe reported the Authority has a sufficient CAP rate that meets the goals of the Authority and it will be a profit center eventually.

Chairman Wolfe stated that at the time and with the facts that the Authority had, he feels that this board made the right decision by building the Flex Building. In retrospect, he agrees, there are no ad valorem taxes being paid on the Flex Building and that the Authority should pursue land leases so we have ad valorem taxes to support the county.

Chairman Wolfe pointed out that Mrs. Wilsey didn't mention in her comparison of ILM with other NC airports that the ad valorem taxes coming in on aircraft and buildings at ILM leads the pack. ILM had over \$616,000 in ad valorem taxes coming in on aircraft last year and that is going to exponentially grow as we get new aircraft with Live Oak Bank and other corporate tenants. Chairman Wolfe also added that the staff did meet with the major commercial real estate firms and decided to offer a commission rate better than average if these firms brought a tenant. Chairman Wolfe pointed out that Ms. LeTellier has worked both sides of the aisles on this and she is following up on all leads with the best leads coming from LoopNet.

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Commissioner Zapple asked what the square footage was on the vacant units in the Flex Building and if the units could be combined. Mrs. Wilsey responded they are 1400 sq. ft. each and can two unfinished units can be combined.

Mr. Broughton shared praises for ILM partners stating that Air Wilmington completed a \$350,000 renovation in time to welcome the PGA event; ILM welcomed new partner, SeaHawk Aviation, who performs maintenance on aircraft as well as recently starting a flight school; Battlehouse recently won the Coastal Entrepreneur Award; and, 84 Lumber has expanded their warehouse.

Mr. Broughton reported on ILM in the news from the art gallery opening in the terminal; to the opening of Scratch on 23rd; the *Up, Up and Away* article in the Greater Wilmington Business Journal; and the new Wells Fargo mural in the terminal highlighting the history of Wilmington.

Mrs. Wilsey shared ways that ILM gets involved in the community as well as promotes aviation in the community. ILM sponsored the flyover at the Azalea Festival Parade again this year which was special because ILM employee, Jean Lawler, was President of the Azalea Festival and also because Mrs. Lawler dedicated the flyover to the military and to our veterans. ILM also partnered with UNCW Master of Public Administration students on a Vision Project for the ILM Business Park. ILM also had an Intern from UNCW last fall that filled a vacant marketing position for a short time.

Mrs. Wilsey shared that ILM employees are also busy in the community by supporting United Way. Staff spent a few mornings in April at Creekwood South providing labor to install the Born Learning Trail to encourage children to read and be active. ILM supports the Autism Takes Flight Program that allows families with autistic children to go through the preflight processes from ticketing to boarding the aircraft. This helps alleviate the stress of flying for those families and encourages them to fly. ILM employees are involved throughout the community in their churches and PTAs. Mr. Broughton was the President of the North Carolina Airports Association, and Mrs. Lawler was the President of the Azalea Festival. ILM's 50 employees care about this community and they represent this airport both on and off the job.

Mrs. Girardot added that the Authority has been very successful in garnering support from the NC General Assembly, reminding the Commissioners that three years ago legislation was passed allowing Uber to participate and serve the airport and that the NC legislation has now become a template for others. Last year, ILM received over \$1.5M special appropriation to complete the North Ramp in time for the PGA event.

Mrs. Girardot reported that this year, airports are asking for a recurring funding source from the state so that they can make long term plans like ILM's terminal expansion. It is unusual to get a funding request in the very first year you ask for it in the General Assembly but airports have managed to do that. The Senate budget has already passed \$50M for the airports, of which \$12M during the two year cycle would come to ILM. The House budget has \$77M for all airports in NC and of that \$15-16M would be coming to ILM. Mrs. Girardot stated that the Authority is hopeful that this will establish an annual, consistent source of funding so that ILM can move forward on the terminal expansion. ILM and NC airports have had wonderful support

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from our General Assembly delegation in New Hanover, as well as Pender and Brunswick Counties.

Commissioner Vice Chairman Watkins, stating he had to give opening remarks at another meeting soon, excused himself.

Commissioner Barfield stated that he was glad to hear ILM has a flight school. Mrs. Wilsey responded that ILM has always had a flight school. Air Wilmington has a flight school. SeaHawk Aviation has recently added a flight school to their maintenance operation. Mr. Lambeth stated that SeaHawk is also talking about adding avionics next year.

Mr. Hickman, in response to a previous question about a second FBO, stated that the Authority has tried diligently to attract a second FBO. One of the applicants, in their analysis, said ILM's market is not quite large enough to warrant a second FBO but SeaHawk, in effect, is providing competition in a few areas like maintenance and flight school.

Mrs. Wilsey invited everyone to the AirPower History Tour scheduled for June 16-18 being hosted by Air Wilmington.

ADJOURNMENT

There being no further business to come before the joint session, Chairman Wolfe and Chairman White adjourned the joint meeting at 8:47 am.

Prepared by:

Rose M. Davis

Respectfully Submitted

Dan Hickman, Secretary

Approved: July 12, 2017