

**NON-FLOOD PROTECTION ASSET MANAGEMENT AUTHORITY
MINUTES OF THE AIRPORT COMMITTEE MEETING
THURSDAY DECEMBER 5, 2013 – 3:00 P.M.**

A special meeting of the Airport Committee of the Non-Flood Protection Asset Management Authority was held on Thursday, December 5, 2013 at 3:00 P.M., in the Lake Vista Community Center, 2nd Floor, 6500 Spanish Fort Blvd., New Orleans, Louisiana after due legal notice of the meeting was sent to each Board member, the news media, and a copy of the call was posted.

Chairman Heaton called the meeting to order at 3:22 a.m. and led in the Pledge of Allegiance.

The roll was called which did not constitute a quorum and the meeting became informational only.

PRESENT:

Chairman Wilma Heaton
Commissioner Pearl Cantrelle

ABSENT:

Commissioner Darrel Saizan
Vice Chair Romona Baudy

STAFF:

Louis Capo - Executive Director
Sharon Martiny – Non-Flood
Dave Smith – Airport Operations Manager
Tony Collins – Airport

ALSO PRESENT:

Gerard Metzger – Legal Counsel
Al Pappalardo – Real Estate Consultant
Alton Davis – Richard C. Lambert Consultants
Paul Dimitrious - Richard C. Lambert Consultants
Brayton Matthews – Flightline First
Addie Fanguy – Landmark Aviation
Chad Farischon – Landmark Aviation
Ted Hamilton – Landmark Aviation
Steve Nelson – Stuart Consulting Group
Chris Fenner – Stuart Consulting Group
Don Lapeyrolerie – Stuart Consulting Group
Walter Baudier – DEI
Beau Baudier – DEI
John Holtgreve – DEI
Bill Koch – Hawthorne
Jonathan Buff – Hawthorne

APPROVAL OF AGENDA

Due to a lack of quorum the Agenda could not be adopted and the meeting was informational only.

APPROVAL OF PRIOR MINUTES

Due to a lack of quorum the minutes could not be approved.

OPENING COMMENTS

Chairman Heaton announced that this Airport Committee meeting is informational only. The Board will discuss all Airport matters at the full Board meeting this evening. All presentations will move forward for the record.

NEW BUSINESS

1) Update on Stuart Consulting Group Airport Projects

Steve Nelson, Stuart Consulting, advised that the James Wedell Hangar is having site paving laid. All major elements of the project are completed and the contractor is estimating completion in January of 2014. It is likely that the project may not be complete until the first quarter of 2014. Currently, there are 160 plus days of liquidated damages which has been documented and the contractor has been put on notice.

Substantial Completion has been provided for the Terminal Building and the Authority has Conditional Occupancy from the Fire Marshal. Messina's will cater a big event this weekend. Several items remain on the punch list. The critical item is the connection of a fire sprinkler supply tank to the pumps which the contractor is currently addressing. This will be complete within the next week and the Authority will receive Final Occupancy from the Fire Marshal.

Mr. Nelson advised of discussions regarding leaks coming into the bar at the Terminal Building. A quote is being prepared by one contractor to do the investigation and give a final price. The leaks are believed to be the result of work related to Lathan, the exterior contractor. Lathan has been contacted to remedy the issue. If Lathan does not respond in a timely fashion, the necessary quotes will be collected and discussions with Lathan will move forward regarding reimbursement to the Authority for this repair work. Lathan is responsible for putting the roof in place and ensuring the envelope of the building is water tight. The envelope is clearly not water tight and the contractor has been put on notice. There are issues with the portico roof over the bar. Lathan has been contacted, but there has been no response to date. Chairman Scott requested Mr. Nelson send the highest quote collected to Lathan and advise that the Authority will use that quote to address the necessary repairs if Lathan chooses not to perform the repair work. Mr. Metzger advised that as no response was received from Lathan the Authority should have the leaks repaired and sue Lathan.

The Bastian-Mitchell project is complete with the exception of the site paving. The contractor is contending there is cracked site paving on the west and northern sides of the Hangar. The contractor requested to leave that cracked site paving and replace older paving adjacent to a taxiway. The engineer of record recommends the cracked paving be replaced. The contractor hired a licensed engineer and a report is currently being prepared to certify if this is a structural item. Once the report is received a determination can be made whether the cracked pavement can remain and a recommendation will be provided to the Board on how to proceed.

The Walter Wedell Hangar may be used as an alternate or improved project to provide funding for the Authority. The Authority currently has approximately \$3.5 million maximum dollars that can be used depending how much money the Authority wants to pursue. If the Authority takes the \$1.25 million those funds can be received fairly quickly as it is a matter of writing the necessary letters. The maximum funding of \$3.5 million is recommended which will require preparing paperwork with FEMA.

2) Motion to authorize the Executive Director, Real Estate Consultant and Legal Counsel of the Management Authority to engage in negotiations with prospective tenant for lease of the Bastian-Mitchell Hangar at the New Orleans Lakefront Airport Terminal, which lease agreement will be subject to the approval of the Management Authority

Chairman Heaton advised that the Airport Committee has done the due diligence on this project, advertised the bid and received two responses. Each entity was allowed to appear before the Board and offer additional information. Mr. Beau Baudier is well-versed in financial analysis and was requested to review all

documentation provided and all public documents. There were meetings with staff and questions were prepared for each firm to respond to in the same amount of time.

Beau Baudier, Design Engineering, Inc., advised that DEI has prepared a financial analysis for the Orleans Levee District on many bond issues since the 1980's. DEI is well versed in financial analysis.

Mr. Baudier advised that the Authority solicited RFPs for the Bastian-Mitchell Hangar and received two responses; one from Hawthorne, New Orleans (Hawthorne), and a second response was received from Encore FBO, LLC which does business as Landmark Aviation (Landmark). DEI developed a methodology for determining financial strengths and weaknesses of the two proposals. After reviewing the RFP, Chairman Scott discussed criteria and objectives of the Airport to be included in the review process. Each proposal and presentation was reviewed and the Bastian-Mitchell Hangar was viewed to refine the understanding of the objectives. Telephone interviews were conducted with each proposer with each proposer being asked the exact questions and allowed the same time to answer. A Net Present Value (NPV) calculation was used to determine financial strengths and weaknesses of each proposal. After the calculations were complete, DEI met with Commissioner Heaton and Chairman Scott to discuss preliminary findings and feedback was incorporated into the final report.

The idea of NPV is that one dollar earned today is worth less than one dollar earned tomorrow due to specific factors such as inflation. NPV looks at future cash flows in different amounts and times and determines what those cash flows are worth in today's dollar. The two proposals have different timings of cash flows and are therefore worth different values. Four components were used to drive the NPV calculation: base rent, insurance payments, fuel flowage payments and parking space rental. The Consumer Price Index (CPI) would be a proxy for future inflation and the average number of 2.39% was used, which is the average over the last 10 years. A 26 year lease term was used as it was the least common denominator as Hawthorne's proposal was 50 years and Landmark's proposal was 26 years. A sensitivity analysis was performed where variables and assumptions were used to determine what would happen if all assumptions were changed.

Hawthorne proposed \$100,000 per year in base rent and adjusts every five years based on the CPI. Landmark proposed a base rent of \$247,369 which included the insurance payment of \$163,369. Base rent was actually \$84,000 without the insurance payment. Landmark's annual base rent of \$247,369 escalates by the CPI each year.

Both proposers agreed to pay the current Airport insurance of \$163,369. Landmark escalates the insurance payment annually according to the CPI and has agreed to pay the CPI. There is value that Landmark creates by paying the greater of the insurance cost or insurance escalation due to the CPI. If the CPI increase is greater than the insurance increase, there is additional revenue for the Authority. Hawthorne escalates by the 2.39% each year and the present value is the same for every year of the analysis. Landmark escalates by 2.39% plus .26% and the present value increases over time which results in a difference of \$138,000 NPV.

The third factor was flowage fees. Hawthorne projects to lease the facility to full capacity within six months and indicated that there are multiple parties interested. Hawthorne is currently capacity constrained, but not at full capacity and the proposal assumed 190,000 new gallons of fuel sales in year one. In year two the number increases to 241,419 gallons. Landmark's proposal confirms to lease full capacity within 30-60 days and is in receipt of a Letter of Intent from a Fortune 500 Company that projects 300,000 new gallons of fuel sales. The .25 per gallon

the Airport charges for fuel sales will remain over the term of the lease. The Bastian-Mitchell Hangar will cap out in how much capacity and fuel sales it can bring in. Landmark's fuel sales start higher at 300,000 gallons and grow at the same rate after year three which results in a difference of \$299,069 additional NPV.

Hawthorne did not indicate the need for parking spaces in the proposal, but during the phone interview Hawthorne indicated an interest in 20 parking spaces at Building 103, which is scheduled to be demolished. The 20 spaces is based on the size of Building 103. The parking spaces are not necessary for operations, but are requested out of convenience and which would be adjusted by the CPI every five years. Landmark's proposal requires 40 parking spaces at \$200 per space per year which would be adjusted by the CPI each year according to Landmark's proposal. Landmark's proposal results in an additional NPV of \$108,000. The difference is due to the needs for parking space. Hawthorne starts at \$4,000 per year for 20 spaces and Landmark starts at \$8,000 per year for 40 spaces.

Other considerations were reviewed and determined that would not impact the decision regarding net new revenue, but these factors are important to the Airport. The financial sponsor for both companies is strong. Both proposers expressed a willingness for a parent corporate entity to serve as a guarantor for the lease. Landmark's financial sponsor is Carlisle, with approximately \$180 billion under management. Hawthorne's financial sponsor is Advance Capital and Mollusk Capital with approximately \$800 million in assets under management.

Location synergy was another consideration, which is how the Hangar operates in conjunction with the two companies given its location. Hawthorne's location allows a more seamless operation as it is adjacent to the Bastian-Mitchell Hangar. Landmark is a slight distance away. Landmark advised that the Hangar would function as a separate entity from the current hangar. Landmark would not tow aircraft back and forth which would not impact the NPV calculation because the synergy is realized at the tenant level particularly if Landmark is operating the two hangars as separate entities.

Both tenants bring more activity to the Airport Terminal in terms of restaurant use, events and potential office space rental. A Fortune 500 corporate entity in the Bastian-Mitchell Hangar would provide greater opportunities for events and activities in the Terminal Building. There is an incremental benefit for Landmark, but that is a qualitative factor and was not quantified in the analysis. The four revenue categories added together show the conclusion of the financial analysis. Incremental revenue from Landmark on an NPV basis is \$243,654 higher than the Hawthorne proposal based on a 26 year NPV calculation.

The sensitivity analysis includes every value for various CPI increases and various average fuel growth rates. In sum, altering the average CPI and average fuel growth rate did not change the overall conclusion. The overall conclusion is that both proposers displayed strong backgrounds and sound plans. Hawthorne's advantage was the annual base. Landmark's advantage was insurance premiums, flowage fees and parking spaces. Landmark's proposal was financially superior and resulted in an additional \$243,654 NPV of the cash flows. The list of questions asked of each proposer is added as an appendix to the financial analysis.

Chairman Heaton noted for the record that a recommendation was not requested, but rather an analysis. Some components of the analysis are subjective and some are not. This information will be distributed to the full Board who will also hear the presentation. Without a quorum, no recommendation can be made regarding this issue. Mr. Baudier noted for the record that he has no

predisposition prior to preparing the financial analysis and the number given is an objective number.

3) Discussion regarding the submittals to the RFQ for the murals

Chairman Heaton advised that seven of the eight original murals from the 1933-1934 era have been located. Several murals need restoration and this Authority is in dire need of funding for the restoration. This Authority made a promise to the State Museum Board, which donated back one mural appraised at \$160,000, that the Authority would find funding for the restoration. The first step was to find a qualified party to give a proposal for the restoration work. An RFP was advertised and one proposal was received from a highly qualified person. It is my recommendation that the Authority accept this proposal and move forward to quantify what it will cost for the restoration.

Alton Davis, RCL, advised that the RFP was prepared and advertised in three newspapers and the public bid and public solicitation laws of Louisiana were employed. A list of qualifications necessary to restore the murals was prepared and ten years of experience was requested from the proposer. The RFP was advertised in the Times Picayune and the Advocate for three weeks and a public walk through to view the murals was held. The one proposal was received from Elyse Granier who knows the murals very well and who instructed how to protect the murals during renovation of the Terminal Building. Ms. Granier visited Lakefront Airport when the building was still encased and assisted in locating and advising on how to enclose and dehumidify the murals through the renovation process.

Chairman Heaton noted that the Authority's dilemma is that we are the owners of the art and have the responsibility to secure funding to restore those very historic murals. The RFP was to find a qualified expert the Authority can work with to restore the murals and to assure the public that the RFP process was used to find the most qualified person.

Mr. Capo noted for the record that the proposal received was from Granier Conservation out of Baton Rouge, Louisiana. The proposal was received within the deadline of Monday, December 2, 2013. As more events come to the Terminal Building there is indication that people are pulling on the rice paper covering the murals. Some type of precaution such as a felt rope barrier should be put in place to prevent the public from touching the murals.

4) Discussion regarding amending the lease with Flightline Ground, Inc. to allow Flightline to acquire property, flood and general liability insurance policies

Mr. Capo advised of preliminary discussions with Brayton Matthews and Bonny Schumaker of Flightline. There are unanswered questions both parties have to agree upon so there is no recommendation at this time. A meeting will be scheduled with Flightline and Stuart Consulting (FEMA experts) regarding this issue to explain the impact on FEMA funding in future disasters when tenants are allowed to carry their own insurance. Chairman Heaton requested a special Board meeting regarding this matter as the FEMA issue is important. The findings from that meeting will go before the Insurance Committee. A commitment was made when I took the Airport Chairman position that each FBO will be treated fairly. If this Authority can enhance the FBO without jeopardizing the Authority with liability, the Board will do everything to assist them succeed financially. If the insurance issue is an impediment to the FBO and the FBO has a clear case and there is no legal reason that the FBO cannot obtain its own insurance, it will be done.

Brayton Matthews, Flightline Ground, noted that Landmark currently provides its own insurance. One of Flightline's major concerns is that Flightline does not own the policies and cannot talk directly to the insurance adjusters. On the current

policies for wind, hail and fire there is a 5% or \$250,000 deductible (whichever is greatest) on a policy covering a \$9.5 million dollar building. A loss in excess of \$500,000 would leave Flightline obligated to pay the \$500,000 deductible. Flightline cannot purchase an excess policy to cover the deductible as Flightline is not the owner of the policy. All FBOs are in a precarious position as to the deductible for getting these buildings restored.

Chairman Scott addressed the issue of Landmark carrying its own insurance and questioned why Flightline would have an issue with FEMA and Landmark did not have an issue with FEMA and secures its own insurance. Mr. Metzger advised that Landmark's lease was signed in 2000, and at that time insurance was procured by the tenant and the Board was named as an additional insured. There has since been a policy change with policies being purchased by the lessor and reimbursed by the lessee. If the FEMA issue poses an impediment of any kind, FEMA should enlighten this Authority.

Addie Fanguy, Landmark Aviation, advised that the difference is Landmark built the building. Chad Farischon, Landmark Aviation, stated that it is in a class V flood zone. The insurance cost is the same whether you go private or public. Landmark does not have a cheaper premium. Mr. Matthews advised that the issue is not about a cheaper premium, it is about being protected from the deductible by being allowed to purchase insurance to cover the deductible. Mr. Farischon noted that no FEMA dollars were used to build Landmark's building so the building could be carried under local insurance as opposed to a state agency.

Chairman Scott requested a meeting be set quickly as she will be meeting with local FEMA representatives. If this issue must be discussed with the FEMA representative, I would like to do that. Chairman Heaton advised that the Committee will explore how to protect this Authority with liability. All FBOs will be treated fairly and this Committee will find a way to do that. Mr. Nelson suggested a meeting so all parties could meet outside of this Committee and come back to the Board with a recommendation. There will be a representative of the State Insurance Office who will advise the Authority on how this issue will affect public assistance. Chairman Heaton noted that insurance at any level is challenging. This Authority will not be an impediment to whatever challenges the FBOs have.

5) Discussion regarding the Design and Construction Manual for Tenant Improvements at the New Orleans Lakefront Airport Terminal

Alton Davis, RCL, informed that RCL is the architect of record for the Terminal Building and was tasked to create a Design and Construction Manual for tenant improvement guidelines. The Construction Manual is a list of how to build out space in the Terminal Building. If a tenant uses their own architect or contractor there are guidelines and a review process that the architect or contractor has to follow. The Construction Manual lists specific types of materials, doors and hardware that are required that relate to what is currently in the Terminal Building. If RCL is hired as the architect for a tenant, the tenant would pay RCL to do the drawings. If the tenant does not use RCL, RCL has a contract to review another architect's work for compliance with all guidelines. The Construction Manual is detailed and approximately eight pages that covers everything relative to a build out. The Design and Construction Manual should be given to any prospective tenant. The Manual is subject to approval and can be tweaked if there are items that must be included. Mr. Metzger advised that staff authorization was needed under the lease for any improvements.

ADJOURNMENT

Due to a lack of quorum the meeting ended without a call for adjournment.

ANNOUNCEMENT OF NEXT MEETING

The next Airport Committee meeting is scheduled for Tuesday, January 7, 2014 at 9:30 a.m. The meeting adjourned at 4:26 p.m.