

**NEW HANOVER COUNTY AIRPORT AUTHORITY
AND
NEW HANOVER COUNTY BOARD OF COMMISSIONERS
JOINT MEETING MINUTES
June 14, 2018**

CALL TO ORDER

The New Hanover County Airport Authority met in joint session with the New Hanover County Board of Commissioners on Thursday, June 14, 2018, in the Executive Conference Room at Wilmington International Airport, 1740 Airport Boulevard, Wilmington, North Carolina.

Authority members present were Carter Lambeth, Chairman; Dan Hickman, Vice-Chairman; Donna Girardot, Secretary; Thomas C. Barber II; Harry Stovall; and Thomas Wolfe. ILM staff present included Julie Wilsey, Airport Director; Gary Broughton, Deputy Airport Director; Robert Campbell, Finance Director; Carol LeTellier, Business Development Director; Granseur Dick, Planning and Development Director; Chief Gary Taylor, Operations Manager; Whitney Prease, Facilities Manager; 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.

Guests present included Tom Goodwin, Anthony Wright, Bill Cherry, Abby Lorenzo and Densay Sengsou.

Authority Chairman Lambeth and Commissioner Chairman White called their respective boards to order at 8:00 a.m. noting that this joint meeting is for the purpose of hearing the Annual Report of the New Hanover County Airport Authority.

INVOCATION AND PLEDGE OF ALLEGIANCE

Commissioner Barfield gave the invocation and led the Pledge of Allegiance to the Flag.

SPECIAL PRESENTATION

Chairman Lambeth and Mr. Barber recognized Bill Cherry for his 43 years of dedicated service to ILM and the Cape Fear Region as owner and operator of Air Wilmington from 1975-2018 and presented him with an award for his service. Mr. Cherry addressed the Authority and Commissioners and thanked them for allowing him to do business these 43 years in New Hanover County at ILM.

ANNUAL REPORT

Chairman Lambeth turned the meeting over to Mrs. Wilsey, Airport Director. Mrs. Wilsey noted the time with the Commissioners is precious and thanked them for being at ILM and giving Mr. Cherry a few minutes of that time to share his thoughts. Mrs. Wilsey introduced the ILM staff.

Mrs. Wilsey noted that the airport and staff couldn't be successful without the 7 Airport Authority members appointed by the Commissioners pointing out that the great leaders in the past started the vision of ILM, and the current Authority members provide the vision of ILM today and for the next 10-20 years.

Mrs. Wilsey noted the most visible change in 2017 was the new logo and new tag line: Coast on in. Coast on out. The new tag line speaks to the ease of use of ILM, as well as our location on the coast and it can be seen in all of our advertising and branding efforts.

Mrs. Wilsey reported that ILM has 49 employees that run ILM 365 days a year, handling all types of issues from medical to TSA equipment failures. Mrs. Wilsey noted that ILM hired 18 new employees in 2017. Mrs. Wilsey noted ILM has 2 employees that have worked for ILM for 28 years; 6 employees have more than 16 years of service; and 14 employees have 10 or more years of service.

Mrs. Wilsey noted that ILM was on the front page of the Star-News today reporting on the growth of air service at ILM. United Airlines joined ILM in April and provided ILM with all 3 of the network carriers; 8 non-stop destinations; 7 hubs and 6 international gateways. Starting with the April schedule, ILM has seen an addition of 400 seats from United alone and another 280 with American Airlines.

Mrs. Wilsey reported that it is the staff's objective to grow air service and shrink the 26% of the flying public that currently drive to RDU from our local market, allowing all our carriers to grow passengers and fill the additional capacity. Staff will continue to look at our top 10 destinations that we do not serve non-stop, particularly Newark, Boston, Denver, and Orlando.

Mrs. Wilsey reviewed the 2015 Economic Impact Study data noting the impact of aviation across the state and ILM's impact of \$1.6B per year. This information is in the process of being updated by the end of CY2018.

Mr. Broughton reviewed ILM's metrics noting that ILM had a record year in 2017 with over 836,000 passengers handled and record setting enplanements of 420,571. In 2017, ILM's operations were flat at 57,814 but military operations grew by 22% and aircraft with over 60 seats were up 3.8%. Mr. Broughton noted that ILM has 103 based aircraft on the field and over half of those are single engine aircraft and about 20 are twin engines. Mr. Broughton also noted that ILM is seeing a recovery in Customs activity in 2017 clearing 1,158 aircraft, which is ILM's best year since 2013.

Mr. Broughton highlighted ILM's new aviation partners: United Airlines and Air Wilmington. In April 2018, United added 18 new jobs and 4 flights a day – 2 to Chicago O'Hare and 2 to Washington Dulles. Those aircraft are running at over 70% load factor. In February 2018, Air Wilmington had a change of ownership with the new owners, Modern Aviation, Inc., replacing longtime aviator and owner, Bill Cherry. Also of note, Air Wilmington has entered into an agreement with All American Aviation Services, which is a Part 141 Flight School out of Fayetteville, and they will be bringing 4 aircraft to Wilmington for pilot training.

Mr. Broughton noted that while ILM is a primary commercial service airport by FAA designation, ILM is pleased to support general aviation as well and that includes corporate tenants, like Live Oak Bank (LOB). LOB moved into their \$6.2M hangar in May of 2017 and has an annual ground rent of over \$32,000 and property tax of about \$35,000. LOB's flight activity is evident as their fuel consumption has increased from 27,000 to 40,000 gallons per month and LOB is planning to add a second fuel tank to their leasehold.

Regarding last year's PGA event, Mr. Broughton reminded the Commissioners how important these special community events are to aviation, both commercial and general aviation, noting that the Wells Fargo tournament attracted over 87 aircraft – including 2 corporate jets and 4 privately owned jets and that Air Wilmington saw fuel flowage of 30,000 gallons. Mr. Broughton noted that ILM supports international surf competitions; several national triathlons, like PPD's Ironman; as well as the Cucalorus Film Festival.

Mrs. Wilsey reported that in addition to the FAA requirements and TSA regulations, ILM also has financial regulations and for the year ended June 30, 2017, ILM received an unqualified audit opinion on all reports, including grants and financial statements. ILM's internal controls were within compliance. Mrs. Wilsey noted that ILM's operating revenue for the year was over \$10M, which was a 5.6% increase over FY16.

Commission Chairman White asked Mrs. Wilsey to break down what falls under the categories of rent, commissions, security and aviation and Mrs. Wilsey explained that rent would be the business park tenants; commissions are from either rental cars or the concessionaire in the building who pay commission rather than a square foot rent; security represents fees paid by the airlines for the security checkpoint and the associated security services that ILM provides; and, aviation represents all of aviation in terms of fuel flowage, FBO and hangar rents.

Commission Chairman White asked if all of these budget categories were operating at a profit and Mrs. Wilsey noted that ILM's number one objective is to be a user fee based system where all users pay their fair share so one area doesn't subsidize the other. Mrs. Wilsey noted that ILM's labor and wages is a gray area involved in that calculation as employees are paid out of one account and ILM make estimates on where the employees are spending their time. The estimate is used to calculate rates and fees accordingly. Mrs. Wilsey pointed out that parking is the greatest revenue producer for ILM at 39% noting that we are watching that trend as some airports are seeing a decline in parking revenue.

Mrs. Wilsey explained how ILM is funding its growth noting that in FY 2017, ILM paid 57.6% of the operating revenue, while State grants paid 8.4%, Federal grants paid 18%; Contract Facility Charges (CFC) paid 6.1%, and Passenger Facility Charges (PFC) paid 9.9%. ILM had great success with the NC Airports Association and with the General Assembly last year and they allocated extra money to the commercial service airports. ILM will receive \$5.9M per year for 2 years so in the FY19 Projected Cash Inflow, the State grant increased to 30.4%. ILM has been saving its reserves for a long time with the uncertainty of eligibility of certain parts of the project but the \$11.8M from the state makes a big difference. ILM will continue to work over the next few years to make that a more sustainable allocation through the General Assembly.

Commissioner Barfield noted that there is one funding source that he didn't see on the slide, and that's New Hanover County government. Mrs. Wilsey pointed out that ILM is a user fee based system and ILM's operating budget is self-sustaining. The objective is not to come back to the County to ask for funding to operate. Mrs. Wilsey noted that ILM's debt is currently \$4.4M to New Hanover County which ILM pays back, with interest, and ILM continues to pay down that debt each year.

Mr. Broughton reported on how ILM's two major funding sources for capital projects, FAA and State, are being utilized to fund ILM's recently completed, current or planned projects. Mr. Broughton noted that the FAA funding is typically \$2.8M per year in entitlement funding but the discretionary funds vary from year to year based on how the project is graded against the FAA funding criteria. State funding is typically administered through the state transportation improvement program (STI) but recently ILM was legislatively appropriated \$11.8M through SB257. These appropriated funds will go a long way toward supporting ILM's capital improvements and ILM will encourage our legislators to continue this funding beyond the 2018/2019 cycle that was covered by the bill.

Mr. Broughton explained that the state appropriated funding has allowed ILM and their design team to pursue an aggressive project schedule for the terminal expansion with a two phase approach. Phase 1A will include expansion of the airline ticket offices, ticket lobby and baggage system, with an anticipated bid opening in July 2018 and a projected completion in February 2020. Phase 1B will include the new concourse and gate areas, with anticipated bid opening in July 2019 and a projected completion in May 2022. Mr. Broughton noted that Phase 1A is primarily funded by the State appropriated funds with \$10.9M allocated for this phase and the remaining Phase 1A funds coming from airline PFC funding and Authority funds. Phase 1B will rely more heavily on the FAA funding with \$30.4M being funded through FAA entitlement and discretionary funds. Mr. Broughton noted that the \$20M in discretionary funding will be awarded as \$10M sums over a 2 year period and roughly 4 years of entitlement will make up the remaining \$10.4M, with PFC funds contributing \$5M and the Authority funding approximately \$4.6M. If the state continues its allocations to the commercial service airports beyond FY19, it would require less use of local Authority funding and could provide funding for other projects, including new jet bridges or commercial service apron expansion or additional parking.

Mr. Broughton noted that ILM's business park continued to grow and staff is excited to have some new projects in the park, starting with Avis Rental Car's building in the Consolidated Rental Car Facility with a scheduled completion date of August 2018. This project was funded by CFCs that are paid by the rental car customers.

Another new project in the ILM business park, Mr. Broughton reported, is Social Bark, a pet lodge that is due to break ground this summer on 2.4 acres for a 17,000 SF pet lodge.

Commission Chairman White asked if the Airport Authority is assuming the liability of building the Social Bark building and Mr. Broughton responded that the building is being built by Social Bark. Ms. LeTellier added that it is a land lease for 2.4 acres and the owner develops the facility at their own expense and clarified that the 20 year lease is simply for the land.

Mr. Broughton noted the success of two of ILM's current business park partners – KBT & Shaw Realty and Tailwind. KBT & Shaw Realty moved into the Flex Building in late 2017 and they currently have 30 associates and over \$43M in sales volume in 2017. Tailwind is ILM's restaurant concession in the building where their business started in 2004. Tailwind now has 21 airport locations around the country but their world headquarters are in Wilmington and they have 71 local employees and 496 employees spread across the nation. In May 2017, they embarked on their first non-airport venue when they opened Scratch on 23rd Street in the ILM business park and in September 2017, they opened the Shark Bar at Wrightsville Beach.

Mrs. Wilsey added that Air Wilmington is also another ILM success story that started all those years ago as they grew their small business into a great general aviation operator. Mrs. Wilsey noted that a lot of ILM's partnerships are public private partnerships where the tenant leases the land from ILM for a certain period depending on their private investment, they then operate the facility and pay ILM a ground rent. At the end of the initial term, the tenant has an option to lease the building and the land back from ILM, so we are not using our funds, they are using their own capital to generate the business on the airport. Mrs. Wilsey pointed out that ILM works hard to find an equitable partnership so that it is good for the tenant and for the airport.

Mrs. Wilsey shared a few of the events over the past year that made the news, noting that most of them focused on United Airlines, including the front page article on June 14th, and that ILM was featured in 3 front page announcements in the past year. Mrs. Wilsey noted that ILM sponsored special events for United Airlines as part of our partnership in the Small Community Air Service Grant. ILM wasn't able to give United any type of subsidy but ILM did pledge \$100,000 in marketing efforts in the local community, which included special events like the reception for Grant Whitney, the Chamber's Annual Event and the ribbon cuttings for United. ILM continues to highlight United in marketing for Chicago as part of the grant.

Commissioner Watkins asked how the change in Customs regulations allowing flyovers is impacting ILM and what strategies ILM is using to pull traffic from RDU. Mrs. Wilsey responded that in terms of Customs, ILM continues to be a landing rights airport but there is an overflight exemption program for which corporate flyers can apply. If they receive overflight exemption status, they don't have to land at the first US airport, they can go on to their final destination. The overflight exemption has reduced traffic. Air Wilmington provides quick refueling and turnaround time and helped put ILM on the map as another place that was easy to get in, get fuel and get out. In terms of RDU, they are having fantastic growth in air service in Raleigh. The strengths that RDU has that ILM does not, are that they are a larger population in the MSA and they have low fare carriers. RDU recently secured Paris non-stop on Delta and Heathrow non-stop on American Airlines. Because of the size of our community and our market and the low demand, that is probably not going to happen in Wilmington so we may lose some of our customers to those that choose to fly non-stop.

Commissioner Zapple asked about the new security requirements and the impact they will have on local passengers. Mrs. Wilsey responded that the program that people are aware of now is EAPS – Enhanced Accessible Property Screening, noting it requires electronic devices larger than a cell phone to be taken out of bags, and items larger than 8 oz. will get additional screening with a trace machine across the country. Mrs. Wilsey noted the best way to deal with that in

Wilmington is to get TSA precheck clearance which allows travelers to keep their shoes, jackets and belts on and the line moves much quicker. Staff is encouraging frequent flyers to get precheck and other, nontraditional passengers that fly 1-2 times a year, are being reminded to arrive at least 2 hours in advance. Mrs. Wilsey noted that as staff looks to the Phase 1B project, we will plan for 3 total security lanes: 2 standard and a separate precheck lane, with space for the future.

Commissioner Watkins asked what percentage of our travelers are precheck versus non precheck and Mrs. Wilsey responded that most weekdays, ILM has upwards of 40%, closer to 50% going through the precheck lane which shows ILM has a lot of precheck travelers. Weekend and holiday/vacation travelers are less likely to have precheck.

Commissioner Chairman White added, as a matter of taste on a personal level, as ILM starts to develop the new terminal and expansion, he would like ILM to retain the personality of the place – the southern columns and the rocking chairs and everything that people aesthetically look to. Chairman White noted, this is a minor thing but over the years we have seen architecture and government around Wilmington ascribe to the latest trend and it hasn't blended very well. Just remember that we are a small southern airport and that is a good thing and people recognize that.

Mr. Barber noted that it just happened at the Power Breakfast yesterday, people were saying how they love this place. My prior life I was in airports all over the world. This is the coolest airport ever. You could just come out here and sit and read a book and have a nice time and we don't want to lose that.

Commissioner Watkins noted that the rocking chairs and the putting green are nice touches. Mrs. Girardot noted the art exhibit is here as well. Mrs. Wilsey noted that June 22nd ILM will honor the 100th Anniversary of Arthur Bluethenthal's death. He served in WWI as a French aviator and the airfield was named after him. His death was June 5, 1918.

Chairman Lambeth noted that he's served on the Airport Authority for a long time and when he first came on, Parks Griffin was the Authority Chairman and a lot of the amenities at ILM are due to his suggestions and vision. Mr. Griffin has passed away now but he did a great job at this airport.

ADJOURNMENT

There being no further business to come before the joint session, Chairman Lambeth and Chairman White adjourned the joint meeting at 8:45 am.

Prepared by:

Rose M. Davis

Respectfully Submitted

Donna Girardot, Secretary

Approved: July 11, 2018