APPROVED JANUARY 16, 2019

SCOTTSDALE AIRPORT ADVISORY COMMISSION
SPECIAL MEETING NOTICE AND AGENDA
Scottsdale Airport Aviation Business Center
15000 N. Airport Drive, Second Floor
Thunderbird Meeting Room, Scottsdale, AZ
Monday, November 26, 2018

MINUTES

PRESENT: John Celigoy, Chair
Cory Little, Vice Chair
John Berry
Larry Bernosky
Kevin Maxwell

ABSENT: Brad Berry
Liz Kaplan

STAFF: Gary Mascaro, Aviation Director
Sarah Ferrara, Aviation Planning and Outreach Coordinator
Carmen Williams, Senior Management Analyst

GUESTS: Herb Marchman
John Marchman
Troy Padilla
Ron Tarrson
Kindall Shannon

CALL TO ORDER

Chair Celigoy called the meeting to order at 4:03 p.m.

ROLL CALL

A formal roll call confirmed the presence of Commissioners as noted above.

PLEDGE OF ALLEGIANCE

Chair Celigoy led the meeting in the pledge of allegiance.

1. Discussion and Possible Action to Recommend Adoption of Resolution No. 11307, Contract No. 2018-193-COS, a Long-Term Lease Agreement with Scottsdale Jet Center Real Estate, LLC, an Arizona Limited Liability Company for two Airport Parcels, upon which will be constructed improvements and the operation of a Fixed Based Operator; and Consenting by Contract No. 2018-196-COS to the Assignment of Existing Leases Dated July 23, 1982 and May 27, 1977, and all Subsequent Amendments Thereto.

Carmen Williams, Senior Management Analyst, stated that the City entered into two separate leases for the Greenway Hangars and Shades on May 27, 1977 and the Air Commerce Center on July 23, 1982. Both leases have a term of 25 years plus options for two successive ten-year periods. Upon the final expiration date of both leases, the land would revert back to the City. The existing tenant is requesting assignment of the two leases to the proposed new tenant, Scottsdale Jet Center Real Estate, LLC to build a fixed based operator and make substantial improvements to both parcels. The two leases would be replaced with a combined single lease with the City that includes milestones for improving the existing facilities as well as new construction. The term of the lease is 40 years and includes construction milestones over three phases to improving existing facilities and new construction, as required for the operation of the new FBO.

Failure to meet the Phase I construction milestones stipulated in the lease would result in termination of the Air Commerce Center Parcel on July 2027, instead of the initial 40-year term. For Phases 2 and 3, failure to meet the construction deadlines will result in the land reverting back to the City for future development. In addition to the annual base rate revenues of $157,398.12, the City will receive a percentage of aeronautical service fees, as stipulated in the Airport Minimum Operating Standards for a fixed based operator, including, but not limited to, fuel flowage fees, 75 percent of gross overnight tie-down fees, 2.5 percent of hangar shade revenues and 9 percent of commercial landing fees. She introduced representatives of the Scottsdale Jet Center Real Estate, LLC team, including Herb Marchman, Ron Tarrson, John Marchman and Troy Padilla.

John Marchman provided a background of the company. Many of the company's customers in Santa Fe also frequent Scottsdale field. They have been hearing feedback for some time that the field has become progressively less friendly. As such, they were encouraged to look for an opportunity to bring the company's services to the Scottsdale airfield. Current market conditions are strong. The Airport has been growing at a steady rate for the last several years and over the last two years, jet fuel volumes have increased by 20 percent. Customer demand is high and they have had many requests for better service offerings than are currently provided. There is growing demand for hangars, even after the recent development. The company reached an agreement to acquire the Air Commerce Center lease and the Greenway Hangars and Shades. The company believes that in this space is not only preferred but also highly in demand. The owners previously owned Scottsdale Air Center, which was voted the number three FBO in the country by International Aviation News Pilot survey in its first year of operations and maintained a top five rating while they owned the operation. They are the current owners of Jet Center at Santa Fe, which was opened in 2015. Efforts include making the airport a friendlier place. The Company now receives over 60 percent of the traffic arriving at Santa Fe.

The project will consist of just over 14 acres under lease. They plan to build 80,000 square feet of hangar office and terminal over three phases at an investment of approximately $24 million. The two leases are located at the south end of the west ramp and the Greenway Hangars and Shades location.

- Phase I: Improvements to the Air Commerce Center building and the construction of a new FBO facility/hangar on the existing City-owned T-Hangars/Shades parcel. Existing tenants of the City T-Hangars/Shades will be relocated to Greenway Hangars/Shades at their same rental rate for a period of time outlined in the lease agreement. Phase I is currently in design. It is expected that completion of permitting will occur in July of 2019 and groundbreaking in September or October of 2019.
- Phase II: Includes the construction of a future hangar on the southern end of the Air Commerce Center parcel adjacent to Taxilane 2 and Taxiway Alpha.
- Phase III: Construction of a future hangar at the western edge of the existing Greenway Hangars/Shades.

The company has committed to a seamless movement, including freezing prices for the City Shade and Hangar customers for at least a 12-month period. It is expected that the transition will start in May of 2019 and continue through the summer and to groundbreaking. Troy Padilla, General Manager for Jet Center Santa Fe, discussed the company's management philosophy and operations. Kindall Shannon, Mead & Hunt provided an overview of the conceptual designs.

Chair Celigoy opened the meeting to public comment and read a public comment received via email from Mr. Aaron Kern. Mr. Kern expressed concern over the Agreement, stating that he did not see benefits to the citizens of Scottsdale, the Airport users or the public. He requested that the Commission continue the item for 60 days to allow time for an open house and additional public comment.

Michael McCartney stated that he has been a tenant at Greenway since the early 1990s and has been using the Airport since the 1980s. It is a public airport and not a jetport. Over the last several years, the Airport has become more unfriendly to small general aviation airplanes. The only public parking the City has for private pilots is at City Shades. There is a waiting list, however it is public land and public parking for small private airplanes. This project will result in no T-shades in Scottsdale when all phases are developed. While he has been assured that there will be parking at Greenway, the rates will likely triple. There are currently no hangars available at Greenway. The mandate for the Airport Board is to accommodate long-time customers as well as attempting to accommodate new customers. This plan forces old customers to leave the Airport.

Westin Brown said he has been flying out of the Airport since 1984 at the age of 12. Since 1984, either himself or his father have had an airplane at the Airport. He agreed with Mr. McCartney, in that over the last decade, there has been a significant decrease in the friendliness toward general aviation at the Airport. There are many complaints regarding the Airport. Their complaint is not with general aviation, but with the jet traffic. He questioned where he and others will go after 12 months. They have 12 months of reasonable rates at this time, if there is space. He cited a negative article in AOPA about the Airport and its treatment of general aviation.

Arthur Rosen said he was present representing himself and AOPA. His understanding is that no one in the City Hangars or Shades will be displaced and that there will be room at Greenway. He understands there is the potential to meet with Scottsdale Jet Center to develop a payment agreement over the 12-month period for people to move to Greenway. Based on that understanding, they feel competition on the field is much needed.

Chair Celigoy asked Mr. Padilla to address the strategy with respect to general aviation in terms of fees for parking and how they will compare to current fees. Mr. Padilla stated that currently there is a differential in pricing, as one is owned by Murphy Ventures, who sets their own pricing. The other price, City Shades and Hangars is set by the City. At Murphy, prices are $450/$550. City Shades is $80 and Hangars are $150. The plan is to extend the pricing longer than 12 months, with the first month beginning on May 1st. Twelve months from that time, the reduced rate of City Shades and Hangars will be in effect. At some point, the company will have to determine its pricing model for T-Hangars and T-Shades. They are general aviation friendly and do not wish to see the general aviation public leave Scottsdale.

Chair Celigoy asked how many City-owned spaces are being lost or shifting from City-owned to privately owned or leased. Gary Mascaro, Aviation Director, said there are 10 T-Hangars and 22 Cover tie-downs currently. They would be torn down.

Vice Chair Little inquired as to how many of the 32 T-Hangars or tie-downs they anticipate renting out (In the location of the City Shades and Hangars). Mr. Marchman said that these would go away. It is their understanding from the Murphy family that there are an adequate number of Shades and Hangars available to house the City customers. They have reserved three hangars for future movement. Typically one hangar turns over every month or so. They anticipate being able to gradually move customers in without anyone being forced to leave the field. Mr. Mascaro clarified that the 10 hangars and 22 shades will be going away. There are already existing hangars and shades at Greenway. There would be a total reduction on the field of 22 and 10, respectively. The agreement dictates that those folks will be accommodated and no one will be displaced, including no one being kicked out of Greenway Shades and Hangars. A plethora of Shades is available at the Greenway Hangars today.

A speaker from the audience stated that he just spoke with the Greenway people and they have only 12 shades available and no hangars. There is a wait list for hangars. There is not a plethora. He questioned how it is possible to take 30 planes and put them in 12 spots. Chair Celigoy stated that the forum does not allow open debate. Mr. Mascaro stated that the agreement requires that Scottsdale Jet Center provide the spaces described. If not, they will be in default of their lease.

Chair Celigoy asked for clarification on the pricing strategy that Scottsdale Jet Center is planning to buy enough fuel to bring the price of AvGas down. Mr. Marchman said the intent is to be more competitive on margins for avgas.

Commissioner Bernowsky addressed the impact on general aviation, noting that the company name is Scottsdale Jet Center, not Scottsdale General Aviation Center. Mr. Marchman stated that the naming was done by process of elimination. The name, Scottsdale Air Center, was already taken.

Commissioner Bernowsky stated that the City will have to make a decision on whether the Airport will be a jet airport only, as the squeeze is on. He hopes to have more discussion on how this plays out with regard to whether the Airport remains general aviation. Mr. Marchman stated that they are attempting to find a balance between jet traffic (which is required to pay the bills) and what they believe is the lifeblood of the organization, which comes from the general aviation area.

Chair Celigoy noted additional public comments.

Max Nevheim stated that he has been renting a hangar (T-Shade) since 2005. It is his understanding that number of T-Shade rows is being reduced from three to one. It does not appear there will be adequate space for all the planes. He recommended a 60-day notice to allow time for more public comment.

Rick Wielebski, General Manager for Ross Aviation, noted that they have a fantastic relationship with the Airport. Adding another FBO will hurt business in terms of taking revenue off the table and restricting them from investing in Airport properties. A third FBO will not bring new business to Scottsdale, but will take business from those already existing and who have been investing in the Airport.

Jeff Ross, Ross Aviation, addressed the capital issues. Over the past 20 years, Ross has owned, operated and in some cases built 37 FBOs. The cost for the proposed development is in the $30 million range, when including the purchase of the Murphy parcel. This is a huge investment to be the third FBO on the Airport. A third, fourth or fifth FBO does not add any customers, but only divides the pie into smaller pieces. Ross approached the Airport more than a year ago requesting permission to build a 50,000 square foot hangar on the City Shades and Hangars, city-controlled property. That request was declined. It was thought that there would be an RFP to build the new facility on both the Airport land and the Murphy land. The RFP did not occur. If it had, Ross would have participated aggressively. Ross is backed by an $8 billion private equity fund. The Marchman Group is providing its own funding. It appears as though the $24 million expenditure will be higher, if the Murphy parcel purchase price is included. This equates to an investment in excess of $32 million. An investment of this size requires charging premium prices for both jet fuel and the hangars. Existing hangars have vacancy and so the new proposed hangar will not automatically be filled. It is an aggressive plan. He advises that the Commission decline the proposal.

Chair Celigoy asked Marchman to discuss how it arrived at its decision about Hangars, parking spots and shades (Phase 3). Mr. Marchman stated that Phase 3 plans are very preliminary. In discussions with the Airport, there is a forecasted demand for large hangar growth over the next five to ten years. Phase 3 is five to six years out. It is the intent to work closely with Airport management before entering into a plan. The evaluation will include demand of the general aviation community versus the need for large cabin. They would like to minimize disruption.

Chair Celigoy asked why no RFP was issued. Mr. Mascaro stated that the City evaluated Mr. Ross's proposal to take over the City Shades and hangar development and build a hangar. The Ross request was for City controlled land and not their existing leasehold. The City evaluated the request and recognized that they (Ross) had a significant leasehold interest on the Airport already that the Airport staff and legal department felt was underutilized. There was an opportunity to take some of their existing land and build the very same facility. The request for building a facility or doing an RFP on the city-controlled site was declined, because the Airport must evaluate the highest, best use. Their existing leasehold is being very underutilized currently. A portion of Ross' area is parking for automobiles, which very easily could be aviation-related hangar development. If there was no space available for Ross to do such an investment, then the City would consider an RFP for the particular site, City Shades and Hangars. As far as the current transaction, there would not be an RFP process, because there is an existing leasehold in place. The existing tenant, Murphy Ventures, contacted the City and indicated that it wished to assign its existing agreements to the new entity, Scottsdale Jet Center. The lease agreement provisions require that the City cannot unreasonably withhold the request. The City vetted both the existing and the new tenant and conducted an environmental review. Staff determined that this could be a recommendation to the Commission and to City Council. Thirdly, FAA regulations dictate that when the Airport accepts a federal grant, they are required to follow a list of rules, one of the most significant being discrimination and free market. If the market demand exists, it would be difficult for the City to decline for no reason.

Commissioner Bernosky said there are conflicting comments about market demand, noting that one of the comments is there is no increased market demand and that the agreement will simply divide up the existing pie. He asked if an analysis has been performed regarding new traffic. Mr. Mascaro stated that the City did not do a full-blown analysis. They leave this up to the free market. New traffic is anticipated, because the Airport has an approved and adopted master plan. It includes a forecast demand that was approved by the FAA.

Chair Celigoy acknowledged that there is some negative perception of how general aviation is treated at the Airport and he is surprised it is not more mature in Phase 3. He requested comment. Mr. Marchman stated that Phase 3 being way out in the plan, the preference would be not to do anything to disturb the general aviation community there. However, the Airport demands are coming and there will be a requirement for the best use of the land. They are trying to find a balance. Mr. Mascaro stated that from a City perspective, when they negotiated the deal, they looked at all the options. One of the challenges is the demand at the Airport for large hangar space. This is why the City built a $27 million facility out of the Airport's coffers. A tenant is operating it and there have not been any concerns. They are sensitive to the general aviation community, which is why they are trying to build general aviation hangars on the north end. The Airport is required to build facilities which at least cover the costs. The return is three percent (cost plus 3 percent), just to provide demand. Airport staff discussed at length with Scottsdale Jet Center at least trying to keep the hangars. Covered tie-downs are fairly vacant and hard to fill so perhaps this is not where the demand is.

In response to a question from Commissioner Bernosky, Mr. Mascaro stated that if the Airport did nothing today and left Murphy Ventures in control, this deal would not happen and in four and a half years, the Greenway Hangars and Shades would revert to the Airport. This deal provides an extension. If they become the new tenant, the Airport is giving them more time to leave it as-is, based on the needs of the community. In turn, the new tenant would have a longer period of time to keep the hangars and shades the way they are currently.

Commissioner Maxwell stated that this is the most important issue to come before the Commission in his time serving. The Commission's job is to make recommendations to City Council. For this particular issue, the City Council will be leaning on the Commission more than ever before. The applicant seems to have very strong roots in the community. They have also pledged commitment to general aviation. On the other hand, Ross and other FBOs, who have been very good partners, are not interested in seeing disruption. Commissioner Maxwell was not convinced about the capacity increase, which makes it a difficult decision. He was not pleased that the Commission has its back against the wall in terms of the timeline. He asked for options as far as extending this conversation. Mr. Mascaro noted several options, including continuing the item, recommending approval, recommending approval with modifications or recommending denial. Chair Celigoy asked if they can recommend continuation with recommendations. Mr. Mascaro said that would depend on the specific recommendations.

Commissioner John Berry commented that Ross has been great at the Airport for quite some time. He has asked whether it is a level playing field in terms of staged access. Mr. Mascaro said yes and no. Yes, in that they pay the same fee structure. No, in that the new tenant will be paying a higher market rate for their ground rental rate. If the agreement is approved by City Council, the new tenant cannot operate their FBO until they complete development of Phase 1.

Commissioner Bernosky asked if a market appraisal has occurred. Mr. Mascaro said the appraisal is complete. Staff did an evaluation internally and the rate is spelled out in the lease in terms of ground rent plus fees.

Vice Chair Little asked what allows the Airport to negotiate a new 40-year lease. Mr. Mascaro stated this is allowed pursuant to City code.

Mr. Mascaro clarified that if the Commission votes to continue the item, he will have to defer the item to City Council, which then will impact the potential business transaction.

Commissioner Maxwell commented that Mr. Mascaro and staff have done a good job in the past to ensure that benchmarks are met. Requiring the benchmarks allows flexibility.

Chair Celigoy asked for confirmation that at the end of Phase 1, Scottsdale Jet must reapply for its Airport business permit. Mr. Mascaro said this is correct. The lease does not authorize them to be an FBO operator until they meet the minimum standards. Chair Celigoy stated this understanding that a condition of Phase 1 would be a report out of the transition of current parking tenants into the proposed parking spaces. Mr. Mascaro confirmed this understanding. When they come for their permit to do their FBO, they must meet the requirement and will not receive authorization for construction of their building until all existing tenants move over.

Commissioner Bernosky asked whether the Commission can approve Phase 1 and wait until it is completed before they look at Phase 2 and 3. Mr. Mascaro said that is what the agreement says.

Chair Celigoy asked what happens if the lease is executed, but the Scottsdale Jet does not meet the conditions of Phase 1; would this void the lease? Mr. Mascaro said it does not void the lease, but reverts the 40-year deal down to an eight and a half-year deal, like the existing lease. It also voids the extension and the ability to be an FBO operator.

Commissioner Bernosky commented that he would like to hear more details from the other FBOs as well as more market analysis. Mr. Marchman acknowledged that they have not done an extensive market study in terms of measurement of vacancies and potential client growth. They did examine the consecutive year-over-year growth of the field, the company's current customer base and have projected that they can have an impact on the marketplace sufficient to justify the investment. Mr. Mascaro stated that if they do not perform to any level of any phase, everything remains as is today, just with a new lessee (the Marchmans, instead of the Murphys). They would operate exactly the same way they have operated since 1983. The Airport would get back land more quickly to develop under its own control.

COMMISSIONER MAXWELL MADE A MOTION TO RECOMMEND ADOPTION OF RESOLUTION NO. 11307, CONTRACT NO. 2018-193-COS, A LONG-TERM LEASE AGREEMENT WITH SCOTTSDALE JET CENTER REAL ESTATE LLC, AN ARIZONA LIMITED

LIABILITY COMPANY FOR TWO AIRPORT PARCELS, UPON WHICH WILL BE CONSTRUCTED IMPROVEMENTS AND THE OPERATION OF A FIXED BASED OPERATOR; AND CONSENTING BY CONTRACT NO. 2018-196-COS TO THE ASSIGNMENT OF EXISTING LEASES DATED JULY 23, 1982 AND MAY 27, 1977, AND ALL SUBSEQUENT AMENDMENTS THERETO. VICE CHAIR LITTLE SECONDED THE MOTION, WHICH CARRIED 4-1, WITH CHAIR CELIGOY, VICE CHAIR LITTLE, AND COMMISSIONERS MAXWELL AND JOHN BERRY VOTING IN THE AFFIRMATIVE. COMMISSIONER BERNOSKY OPPOSED.

2. Discussion and Possible Action to Modify the Airport Advisory Commission Meeting schedule and Commission Item Calendar

VICE CHAIR LITTLE MOVED TO CANCEL THE DECEMBER 19TH COMMISSION MEETING. COMMISSIONER JOHN BERRY SECONDED THE MOTION, WHICH CARRIED 5-0 WITH CHAIR CELIGOY, VICE CHAIR LITTLE, COMMISSIONERS JOHN BERRY, BERNOSKY, AND MAXWELL VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES.

ADJOURNMENT

Chair Celigoy called for a motion to adjourn.

With no further business to discuss, being duly moved by Commissioner Maxwell and seconded by Commissioner Bernosky, the meeting adjourned at 5:36 p.m.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 5:35 p.m.

AYES: Chair Celigoy, Vice Chair Little, Commissioners John Berry, Bernosky and Maxwell
NAYS: None

SUBMITTED BY:

eScribers, LLC