ST. AUGUSTINE - ST. JOHNS COUNTY AIRPORT AUTHORITY

Budget Workshop

held at 4796 U.S. 1 North

St. Augustine, Florida

on Tuesday, July 13, 2010

from 3:16 p.m. to 4:00 p.m.

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BOARD MEMBERS PRESENT:

WAYNE GEORGE
JOHN "JACK" GORMAN
KELLY BARRERA, Chairman
CARL YOUMAN
JAMES WERTER, Secretary-Treasurer

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ALSO PRESENT:

DOUGLAS N. BURNETT, Esquire, St. Johns Law Group, 509 Anastasia Boulevard, St. Augustine, FL, 32080, Attorney for Airport Authority.

EDWARD WUELLNER, A.A.E., Executive Director.

BRYAN COOPER, Assistant Airport Director.

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P R O C E E D I N G S

CHAIRMAN BARRERA: Financial workshop's in session. If we could have all of the board members back. Ed?

MR. WUELLNER: Actually -- actually, this is kind of a two-fold effort. One is, I think Buzz wanted to -- I don't know whether -- whether you wanted to try and do what you wanted to do up front or hope we have time for it or --

MR. GEORGE: No, I think down -- down at the end --

MR. WUELLNER: Down later?

MR. GEORGE: Yeah.

MR. WUELLNER: Okay. You've got this -- I e-mailed you this information, too, so you do have it in an electronic version, for those of you that -- we just felt like we better have a backup plan in case we couldn't get everybody on the same page with this.

I've only printed out the forecast version of the budget, and by version, I just mean it's inclusive of the one-year budget. So rather than print twice as many papers as you need, it's already in that information, and I'll -- for those of you that are first-timers or more or less

first-timers through the budget process, we'll just kind of -- kind of walk through it slowly.

The first page is the summary. It pretty well from a -- not only from a spreadsheet standpoint, from a -- from a practical standpoint, is built to just show the back -- the sheets that are behind it. So, it kind of summarizes the detail that you'll find behind the first sheet and presents it in a more consolidated fashion, a little easier to get a handle on and understand.

The left-most column of data is current year, meaning the presently operating budget that we're in at this point. The proposed, which is highlighted with the yellow at the top, is the first iteration if you will of a budget for next fiscal year.

The columns further do the right, Years 2 through 5, are really there in an attempt to project out known -- I'll call it known variables, but project known information into outlying years to get a handle on whether the -- the planning remains solid, how it relates to capital improvement, revenue projections, those kinds of things.

It's a way of gauging or making a

determination as to whether, from -- pegging on the previous meeting, it's sustainable from an economic standpoint only. And there's plenty of room to discuss the details.

Personally, I -- I kind of don't recommend getting too overly bogged down in Years 2 through 5 in the -- the kind of gnat detail because it makes some assumptions. The assumptions are just built into the model. The assumptions -- when the assumptions change, so do -- so do the results, so...

Now, critical components that we need to be long-term beginning to manage as a board are going to be really centered in the capital development side. And the reason I continue to say that is, by and large, historically the capital component of your budget represents about 80 percent of the total budget. Some years, it's a little more. Some years, it's a little less. But it's the big number that's almost always plugged in.

When you see that in years and years and years at the bottom, that budget number going all over the place, if you look right to the capital line item, you'll see why it does. The balance of it's pretty -- you know, pretty easy to forecast in

terms of methodology.

MR. MARTINELLI: Can we get one of those? That spreadsheet is not in this packet.

MR. WUELLNER: I'm not sure. Janet's got one. All right.

MR. MARTINELLI: Thank you.

MR. WUELLNER: With that said, let's -- let's initially talk in the context of the first-year proposed budget for next year. So that's the 2010-2011. Year 1 is the highlighted or the column that's highlighted at the top. I'll work from the individual sheets, if you'd wish, and then you can use the summary to kind of solidify it at the end.

But going to the lease revenues page, you can see that the first classification under revenues is house rentals. We -- we do propose an increase in the amount of net revenue to the airport primarily because of the adjustment of leases that we currently have in that area. So we -- we've classified the leases into a couple of three neighborhoods there, and that's the -- the revenue side of it. So it -- it drops a little bit, but it, you know, remains steady.

The homes that are involved in the -- in the home rental equation are for the most part, I can't

think of an exception right now, but they're outside of areas we're even contemplating developing right now. So they're -- they're likely to be long-term ownership interest to the Authority and a long-term revenue item as long as, you know, we manage the expense side. Yes, sir?

MR. GORMAN: Just a quick comment. Because these are outside of any area you would develop, but has there been any thought to actually the sale of them to raise a bit of capital and then let them go? In other words, rather than deal with them as an ongoing, you know, revenue stream?

MR. WUELLNER: Let me address it in two place -- two ways. When I -- when I say outside of the development area, what I mean is we're not -- you know, our short-term capital program, our five-year list capital program does not anticipate going into those particular homes.

The long-term development plan for the airport, at least its -- the property that's in there is within the area defined by those long -- the longer-term Airport Master Plan kind of parameters. So in one respect, you've purchased it, in most cases, many many years ago. It's developed a revenue stream over the years. The

disposal of that asset is more complicated than just disposing of it.

Almost -- I'm almost positive everything that's shown here as occupied was acquired using FDOT funds in addition, which makes that process more complicated. And what it also does is when -- when and if you did sell that asset, that revenue's going to end up returned to the state of Florida. Not the revenue, the proceeds from the sale. The half of that, you know, whatever the percentage the state was involved would go back to the state. So it's not entirely going into our coffers either way.

That also would set the permanent marker, if you will, in place that in the event you had to purchase it again later on, it would create a prohibition from FDOT participating in buying it again.

So, you've got to be thinking long range or long term on whether you want to dispose of property assets that were acquired with grant money because you got your one shot and --

MR. GORMAN: I understand. In other words, you wouldn't actually get it back as a capital asset in a big lump sum --

MR. WUELLNER: Correct.

MR. GORMAN: -- you're saying.

MR. WUELLNER: At most, you'd get 50 percent. And in some of these -- some of these older properties -- I haven't done the research, the equation, but some of these, we only actually paid 25 percent on the dollar.

MR. GORMAN: Let's -- then my second question is, though, are they in a continuous plot of property or are there adjacent properties that are not owned by the airport that are involved? Because if you had to -- and that's -- that's my only question. Then I'll right move on because this is a budget discussion.

MR. WUELLNER: The Jackson Park property is actually -- I think in both cases, they're at the extreme eastern end of North, so they're adjacent to the immediate airfield. And I would think long term it's not a property we're going to develop commercially.

(Mr. Werter leaves the room.)

MR. WUELLNER: It's a -- it's a property that we would own long term for mitigation reasons, more noise related. It's -- it's very close in. It's, you know, a couple of hundred yards off the end of

the -- of the long runway kind of property.

It could be developed. I'm just saying if we did go in to develop it, it's probably not going to be an aviation development because connecting -- physically connecting that finger of property, for lack of better terms, to the airfield is -- is probably never going to happen from a permitting standpoint. It's surrounded by wetland with the airfield kind of isolated at the other side.

MR. GORMAN: There are other properties adjacent to it --

MR. WUELLNER: Yes.

MR. GORMAN: -- that are not owned by the airport.

MR. WUELLNER: There are nonrevenue properties. The -- the thought process in that particular area was long term that if you acquired the balance of it, then the only adjoining neighbor between the airport is Madeira, which is protected by the big avigation easement that sits there. So you've effectively created a --

CHAIRMAN BARRERA: Buffer.

MR. WUELLNER: -- multi-hundred yard kind of buffer from the physical end of the south runway to another wetland area, and then the neighborhood

begins.

MR. GORMAN: We can discuss this at budget discussions following this.

MR. WUELLNER: Yes. But those -- those are the kinds of things that are homes. T-hangars -- oh, go ahead.

MR. GEORGE: One other question, and you might have said this and I missed it. Are these numbers net of real estate taxes that we have to pay because we're --

MR. WUELLNER: No. I'm sorry. I did say net in my discussion. They are not net. They are gross revenue numbers.

MR. GORMAN: Ah.

MR. WUELLNER: Net -- you get to net through the couple of expenditure items back in operating.

MR. GEORGE: Okay. But there comes some point in time where the amount of the risk that we the airport have for, you know, windows breaking or refrigerator or taking care of termites, you know, is not worth the rent that we're getting minus the taxes we're paying on it.

MR. WUELLNER: Agreed.

MR. GEORGE: So maybe we should consider to look at what each one of these is, you know, and

come up with a bottom line on each one and maybe the option is to sell the house, you know, the -- somebody can move it.

MR. GORMAN: That's my point.

MR. GEORGE: Or if we could use it for some storage that we might need here.

MR. WUELLNER: No, you're --

MR. GEORGE: Like the white building over -- I'm sorry.

MR. WUELLNER: No, but you're right. You're dead on it. And what we do -- what we've done historically is we -- these are I believe all -- somebody can correct me if I'm wrong, but I think these are all conventionally built homes, the particular ones that are left now rental. Historically, we had a high percentage of mobiles.

MR. GEORGE: Right. Exactly.

MR. WUELLNER: You know, at a certain point, the mobiles become just -- it makes no sense to put any more money into them --

MR. GEORGE: Yeah.

MR. WUELLNER: -- an old mobile unit at a point, at which point by razing it -- in most cases, they couldn't haul it off because it couldn't be re-permitted somewhere else.

MR. GEORGE: Right.

MR. WUELLNER: But in any case, by removing it from the property, we can file the paperwork with the Property Appraiser's Office and remove it from the tax rolls, eliminating the tax component.

MR. GEORGE: Right.

MR. WUELLNER: Because as long as we're not generating a revenue off of it, this -- the property appraiser considers it to be public use for our -- for our purposes. Meaning we own it, but it's not being used commercially.

(Mr. Burnett leaves the room.)

MR. GEORGE: Okay.

MR. WUELLNER: So --

MR. GEORGE: The house -- the house that you have, do we pay taxes on that?

MR. WUELLNER: No, you do not.

MR. GEORGE: Okay. Because it falls under that we use it.

MR. WUELLNER: It's under the use, yes. The house next door so to speak at the end of the driveway, we do pay taxes on and we do rent.

MR. GEORGE: Okay. Right. Okay. Maybe then you could take as an action item after the budget process, because I don't think is a biggy, you

know, I'd like to see some analysis on this, and I -- sounds like Jack would, too.

MR. GORMAN: Yes, I would be interested.

MR. WUELLNER: Okay. For --

MR. GEORGE: Just a rental property versus taxes, what is our --

MR. WUELLNER: Sure.

MR. GEORGE: -- net exposure and what is the exposure risk-wise for what we've got going on.

MR. WUELLNER: Will do.

T-hangars, basically the -- you know, we're at -- at pretty much normal rent scenario there. So it's adjusted basically for an expected CPI. That is -- has seemed to be hanging around the 2 percent number. So it's -- they're adjusted based on that.

(Mr. Burnett enters the room.)

CHAIRMAN BARRERA: So going into next October, we would invoke the CPA-related kind of adjustment that's in there. That's in the 2 percent range. It will -- it will solidify when we get the month data --

MR. GORMAN: Are these T-hangar figures based on the occupancy percentage that you have now? I know I've got a few empty and most of them are

full.

MR. WUELLNER: Yeah. We just considered them full for this purpose.

MR. GORMAN: In other words, these --

MR. WUELLNER: They --

MR. GORMAN: -- these figures are based on a hundred percent occupancy.

MR. WUELLNER: Yes. Which has historically been what we've had other than --

MR. GORMAN: I mean, we're close.

MR. WUELLNER: Yes.

MR. YOUMAN: Can I -- just one real quick. The bifolds, for some reason, they double in Year 5, up to Year 5, the rental doubles.

MR. WUELLNER: It anticipated building more of them --

MR. YOUMAN: Oh, okay.

MR. WUELLNER: -- when you get out beyond those years. Now, whether that materializes is another matter. Port-a-ports -- actually, let's move on to conventionals now.

Conventionals gives you the same kind of scenario. We've got additional units coming on that are shown there as the H-2. Part of that H-2 line item is actually a reclassification of a

previous commercial lease to -- it doesn't make any difference in the revenue; it's just getting it into the right classification. That's CPI-related adjustments also, plus the inclusion of one that's just been reclassified from commercial.

MR. YOUMAN: Can I ask another question in that area?

MR. WUELLNER: Sure.

MR. YOUMAN: The new boxes 50 x 60 drops from 108 to 85 in Year 5. Is there a reason for that?

MR. WUELLNER: New boxes.

MR. YOUMAN: Under conventional hangars. That's where we are now, right?

MR. WUELLNER: I think what you've seen is, again, reclassification from commercial -- from conventional to commercial in some cases. Many -- many of our box hangar units, if we lease them just to an individual for storage of an airplane in that simple form, then it's going to stay -- it would be a conventional hangar use.

If it's a unit that can also be or is currently leased in a commercial capacity, somebody's running a business out of that unit, then we would classify it under commercial lease revenues, even though it's the same unit.

MR. YOUMAN: You're just being conservative for this --

MR. WUELLNER: Exactly.

MR. GEORGE: What is an H-2 AVOX.

MR. WUELLNER: AVOX is the tenant name. They're the ones with the L-39 or L-29, or whatever it is over there.

MR. GEORGE: Okay. All right. That's fine.

MR. WUELLNER: And the --

MR. GEORGE: That's where it looks like the -- the amount of money that dropped from the new box, you know, down to the -- to them, that's looks like that's where it came out.

MR. WUELLNER: H-2 refers to hangar row H, unit 2.

MR. GEORGE: Okay.

MR. WUELLNER: It's pretty straightforward.

CHAIRMAN BARRERA: There's about a $10,000 difference in that. 15, actually.

MR. GEORGE: Okay.

MR. WUELLNER: Commercial leases, again, same kind of mentality. There are some additional -- there are some units that aren't -- that we anticipate adding in future years. So hopefully that will solidify some revenue in there, too,

additional revenue in years out.

Other subleases, a couple of -- not subleases, other lease revenues. A couple of things that we've done is this year as compared to last year, what we -- what we have done is pull out any revenue references for commercial service and pull out any expenditure items specific to commercial service, feeling that when it's identified, we can come back and we'll -- we'll look at it from both sides of the equation. But rather than arbi -- you know, budget revenues that we really don't anticipate at this point and budget expenditures we don't anticipate is probably not being entirely clear.

Fees, one thing I do want to point out is that, you know, you'll notice here that you've got a significant reduction in FBO fuel flowage fees and that's really a direct reflection on where the economy is in corporate aviation.

(Mr. Werter enters the room.)

MR. WUELLNER: And I -- and I think you'll see it in your regular meeting, too, that the number that continues to be a problem is jet fuel sales. Our avgas-related sales have been good, if not better than they've been.

The operations numbers have come up. But what has not recovered very fast -- Michael just walked in, I'm sure he'd say the same thing -- is the corporate aviation side of GA is -- especially as it relates to corporate jet travel is -- is really still under the thumb. And it's -- if it's coming back, it's coming back at a very slow pace at this point. GAs, the light GA side has been pretty consistent amazingly to many respects.

MR. GEORGE: But we're dropping that down by 15 -- 10,000 --

MR. WUELLNER: Well, you know, the numbers we're seeing, it's about off 30, call it 30 percent. It's -- it's probably a good fair number on jet fuel sales. So we reduced it down --

MR. GEORGE: I was talking about the self-fuel.

MR. WUELLNER: -- based on the -- you're trying not to sell fuel? What --

CHAIRMAN BARRERA: No, he's pointing out to you what I pointed out to you --

MR. WUELLNER: Self-fuel.

CHAIRMAN BARRERA: -- with the self-fuel.

MR. WUELLNER: Yeah. And I don't think I've got the right number there. I need to look at that

number. Where you're seeing self-fuel under current -- or proposed budget, I don't think that's the right number. I think the number's already in excess of that this year.

MR. GEORGE: I thought it was, too.

MR. WUELLNER: I don't remember off the top of my head.

MR. GEORGE: Okay.

MR. WUELLNER: I think we just plugged it in so that would enhance it across the model at that point.

MR. BURNETT: I like the cell tower lease. Can finally speak to that.

CHAIRMAN BARRERA: That --

MR. WUELLNER: I'd like to get the rest of them on there. But we currently have -- to bring you up to speed on that because you brought it up, we really have two leases active at this point.

The facility as you remember, it can hold up to five. Several of the carriers had not current year budgeted to add on to or to come onto any tower for that matter. So I expect that that will pick up over the next 12 or so months as you enter their new years, new fiscal years for the cell tower properties.

MR. GORMAN: Question on the Grumman land lease. We have a large jump.

MR. WUELLNER: Oh, I do need to point out. Yeah, that's probably the -- these are big revenue items that are finally coming to fruition. I'll take a few of you back three or four years ago when we last dealt in a big picture with Grumman.

There are two primary leases in play with Northrop Grumman. One covers Hangar 27, which is the north end of the U.S. 1 side of the facility. The other is the North 40, as it's referred to, which is the east side component of -- of Grumman.

A few years back, the Airport Authority extended the basic terms of the North 40 only lease to add five years, which puts that revenue projection out to 2013. At 2013, that lease converts to normal pay, you know, normal revenue, fair market value for that -- for that rental. That is in the vicinity of $1 million per year in revenue.

In addition to that, on that particular lease, there is -- is and has been, since we took that action a few years back, has been a ground lease component for that North 40 lease. The concession we got from them for extending it was to be able to

at least get paid market value for the -- the ground value from that point till forever.

So you now get about, I forget the number, it's in round numbers about $150-, $160,000 a year for the ground underneath the North 40. You will also now get in '13 for the building on top of that ground because it will become our building for purposes of lease.

The other lease component, which is the Hangar 27 component, that lease expires this year in September. And the renewal, as directed back in that original discussion, is executed. The only piece of it that is not completely complete at this point is the valuation of the lease; in other words, how much is the rent?

The terms of the lease are straight -- are set forward, but what's the -- what's the rent value? The rent value -- we've done our appraisal. I'm waiting the final report. I have the preliminary numbers. They pretty much square with Grumman's appraisal of the same thing.

We anticipate that number to be right around $500,000 a year in rental value. So that is new revenue to the Airport Authority beginning this fall at a half a million dollars. I think it's

shown here at $490-.

MR. YOUMAN: Where is that?

MR. BURNETT: Yes.

MR. WUELLNER: That number has still got a little bit of wiggle room because we have not --

CHAIRMAN BARRERA: North 40.

MR. YOUMAN: Oh, okay.

MR. WUELLNER: -- met together, meaning the airport has not met with Grumman with both appraisals in hand and -- and skinned the minutia of it so to speak. But we know the range. We know where it is. That's a -- that's a good safe budget number right now. It will be completely gelled by the time you do the public hearings in September.

MR. YOUMAN: Is -- is North -- is Hangar 27 Northrop 1 and 2?

MR. BURNETT: Exactly.

MR. YOUMAN: Okay.

MR. BURNETT: And that's referring to Parcels 1 and 2.

MR. WUELLNER: I'm sorry.

MR. BURNETT: And part of that extension amendment was to clear up some of the property boundary issues that just had lingered for --

MR. WUELLNER: Forever.

MR. BURNETT: -- forever.

MR. WUELLNER: A long time.

MR. YOUMAN: So we're looking to anticipate in two, two and a half, three years, a hundred -- one -- substantial increases for about $550 -- almost $600,000.

MR. WUELLNER: For the next several years. Then it will jump another million dollars.

MR. YOUMAN: Wow.

CHAIRMAN BARRERA: It basically puts it by Year 3 at $1.6 million in additional revenue.

MR. YOUMAN: That's -- that's -- when I was working with you on the budget, this is what we were talking about that's happening now.

MR. WUELLNER: Yes.

MR. YOUMAN: Okay.

MR. WUELLNER: And these aren't -- they aren't what ifs in the context of if we can reach an agreement kind of thing. That part's all done and settled.

The only issue right now is we just rectify the two appraisals for the value. The feeling was, and I'm sure you would agree, we wouldn't create the valuation of it, you know, five years before you need it because somebody's going to get hurt in

that. And it could have gone either way. Right now, we probably take more on the nose than they do in terms of valuation. But that has a way of equalizing over time.

MR. BURNETT: And I think part of that, it's no surprise to Grumman -- if I can just jump in for a minute, Ed, that -- and correct me if I'm wrong, but the initial leases were there with lower numbers to help them recruit the investment or the capital --

MR. YOUMAN: Uh-huh.

MR. BURNETT: -- investment they made.

MR. WUELLNER: Well --

MR. BURNETT: So now, at this time it's, well, a combination of airport money and --

MR. WUELLNER: Yeah. The history of the Grumman leaseholds with the Authority is the Airport Authority -- and don't hold me to the exact years here.

But about 1988, the Airport Authority went out and borrowed I believe the number was $3.5 million -- it may have been 3; I think it was 3 now that I say -- $3 million to build a facility for U.S. Coast Guard to occupy on the north end of the airport, which is now this Parcels 1 and 2. The

Airport Authority was on the hook for all of that money.

About a year and a half, two years into that lease arrangement, Coast Guard bailed on the Airport Authority, leaving them no tenant and a debt of $3 million on that facility. Fortunately, Grumman was in an expansion mode at that point, stepped in, agreed to lease that building.

The terms of that lease essentially were that they would absorb the $3 million of debt service for the lease term. At the expiration of that lease term, that is that balance sheet item that keeps showing up at audit time that keeps confusing everybody, but that's that transaction.

The way Grumman went about financing it was by adding another project to the airport, which was the North 40 project. So effectively, they took the $3 million of debt service on Hangar 27, rolled it into their development cost for the North 40, created a $7 million bond issue that they paid off at the earliest possible date.

To give you an order of magnitude, when that was issued as debt, the interest rate was about 11 1/2 percent. That was a good government kind of rate. So Grumman was interested at the earliest

date they could redeem those bonds at which I believe was year 15 -- I may not have that right.

But about year 15, they paid that nut off. As soon as they could -- they were legally allowed to pay off the bond, they paid it off because it didn't -- at the time of payoff, the interest rates were about 3 percent. So it just didn't make any sense.

Fast forward now. All those things fall off the books at this point. All of those -- that's what's been referred to historically around here as the deferred rent. That's how we got there. Grumman picked up the debt of the Authority in exchange for rent.

So the reason they've been living there rent-free is that we didn't have to figure out how to pay for $3 million in debt service we clearly didn't have in 198 -- well, it was about 1990 at that point. So that's how that evolved to what it is.

Those leases, the original North 40 lease and the original 27 leases have now reached their maturation. North 40 was actually a few months ahead of -- or a few years ahead of the North 40.

The North -- we extended that by five years, what,

two years ago I believe it was. So now it's sitting at 2013 to renew automatically. And the other one renews this year on schedule. So, that -- that's history.

MR. MARTINELLI: The quid pro quo for them picking it up and getting it rent-free was that we would then end up owning the facility --

MR. WUELLNER: Absolutely, at the end of the first lease term.

MR. MARTINELLI: -- at the end of the first year. So we own that facility really at no cost to us, just to build it, which I think was pretty good.

MR. WUELLNER: It was a pretty good deal.

MR. MARTINELLI: Yes.

MR. WUELLNER: It's taken a while to get cash flow so to speak, but it is -- was a good deal in terms of ownership of an asset. No doubt.

Also, when you did the five-year extension of that, a part of what we had agreed to with them was that they would provide the ARFF service for the airport under -- under the terms of that agreement, which you had dealt with separately. But that was part of the quid pro quo of extending that lease, was getting them to agree to do that. And they

don't normally do that because they're not a fire department, you know, from their perspective.

MR. GEORGE: Well, one of the big things was that they had to maintain the building since it was now under a lease and not under --

MR. WUELLNER: Yeah.

MR. GEORGE: -- you know, the other kind.

MR. BURNETT: And -- and we got some concessions out of them related to the parking area.

MR. WUELLNER: We did --

MR. BURNETT: Terminal --

MR. WUELLNER: -- terminal parking area.

The other piece I now mention, too, is the original deals especially on the North 40 included option-related property that was tied up for the first term of that lease. Up till two years ago, we couldn't touch that whole property between the existing North 40 and the hush house out there, that whole peninsula back there --

MR. GEORGE: Seventy acres.

MR. WUELLNER: Yeah, 70 acres was not touchable. It was under an option to them and there was no legal way to get it out of there that was, you know, easy short of paying them for it.

And we had some opportunities at one time and actually did that evaluation. I say fortunately the projects didn't go forward to where we had to come up with some arrangement with Grumman because they were not particularly motivated to release it.

Now that property is no longer under option with Grumman. They have a right of first refusal related to that property so that if we identify a use that's not theirs, they need to immediately come in and rent that property and make us whole financially so we don't -- at that point, there's real money on the table. Or they can decline it and somebody else can develop it. So that's maybe more than you want to know but you need to know.

MR. YOUMAN: Yeah.

MR. WUELLNER: Personnel, let me explain to you what's going on there because it kind of looks odd when you first look at it.

But under proposed year, you'll see we ratchet the number of staff up by one. It's not quite one, but what we're -- what I'm doing here is I've got one retirement that's been no -- you know, we've been noticed on that's going to happen next June. That's that fiscal assistant, you know, basically

Donna's position.

I need to find or identify somebody approximately the first of the year to bring in and parallel that job with her for quite a while to be sure that we have a seamless transition of all of our fiscal matters into the new person. You'll see in the next year that reduces back by one staff person and at least -- yes, sir?

MR. GORMAN: Why wouldn't you sub that out or could you sub that out to --

MR. WUELLNER: Honestly, I think you create more headaches trying to -- the internal bookkeeping is kind of core to how business -- I mean, if you contracted that out, I'd be paying -- every time somebody wrote a check to the Airport Authority or we had to write a check, I'm paying some private outside entity to do that.

The way we have it structured now is the normal bookkeeping functions are an internal function. That's then validated monthly by the external, the actual CPA. And then that's followed on annually by an external audit by yet another firm to look at the financial accounting.

So there's a lot of safeguards in place. From a financial standpoint, I can tell you to get that level of bookkeeping detail, I -- I don't know how

you'd get it for anywhere near the cost of the salary, when you factor in the overhead and all of the things that would go with someone doing that as a business. Even if you were paying them $20 an hour, you're paying them $30, $35 an hour out the door for that.

So -- and a lot of -- since they're not based in our office, even accessing records, financial records, which is done routinely in the course of business, would be that much more complicated. So, I -- I personally couldn't really support it being an outside function. I think it's something -- maybe as it got bigger, bigger and there's a lot of money involved and it -- maybe it takes an economy of scale at some point.

MR. MARTINELLI: And you went from an outside to the inside. When you first came here, you had an outside service, and all I was going to say, you had an outside service, and you migrated to the inside, which is certainly more economical and more efficient.

MR. WUELLNER: At the level we're doing it. You know, if I were buying a CPA, that would be another matter. You know, now I'm paying a lot more money for something that could be done for a

few hundred dollars a month, which is how it's done now with the CPA, an outside CPA.

Because that's a -- I believe it's a $400 a month expenditure. They have the CPA take our financial records monthly and do the compilation on, which is what you see on a monthly. That's a $400 a month effort. But all of the data, all of the work that went into getting those numbers to him would be I think extremely expensive to outsource.

MR. YOUMAN: How many employees does this existing positions count? Oh, there it is right at the top.

MR. WUELLNER: Just one. It's effectively one.

MR. YOUMAN: Never mind.

MR. WUELLNER: We'll make a -- a judgment call later in the calendar year or early next calendar year as to the timing of getting that person on. I think it's extremely important we have somebody who's seen all aspects of what we do.

Many of the things we touch have a seasonal component to them such as annual audit, budget preparation. There's a recurring nature of grants and grant billing, as well as just tracking

construction projects from a financial side. Paying the bills. Collecting the -- the rents, those kind of things.

I'm not looking to bring somebody on at entry level in that they're -- somebody who's never done this before. But even somebody who's done this before needs to understand that they may be coming from the private sector to public.

The methodologies, the rules, the things of that nature are different and, you know, I'd have to hate the expertise Donna's acquired over the last five years or eight years, whatever it is, in that position, you know, just by we're not prepared. I don't have the time nor the patience nor the interest at this point to recreate that detail in another position or another person.

CHAIRMAN BARRERA: We have nine minutes left on our workshop.

MR. WUELLNER: Okay. Thank you. Operating expenditures. Actually those go down. There -- there are some adjustments on benefits and things like that. Those are not new benefits, they're just simply adjustments we anticipate for insurances as well as additional contribution

Florida Statutes has for retirement this year.

They've made an adjustment for all participants -- participants in that plan.

We have made some rev -- or expenditure adjustments. A couple of the big ones related to outside government fees. Doug and I have touched base right before this meeting. We may need to put some money back in there under governmental fees.

It would appear that the payments to the property appraiser in particular are a year in arrears in terms of how -- how they budget. So we probably owe them another fiscal year's worth of property appraiser fees, which is going to be in the vicinity of $60,000. That's not an exact number, but it would be in that neighborhood.

And that will -- that should -- assuming we continue to assess zero ad valorem dollars, should eliminate that from the expenditure in next year's budget or pull it back out. It's not in there currently. So it would be an upward tic in the next iteration.

Currently the way operating budget's -- there's not a whole lot of -- I would ask you to take a look at that over the next, you know, couple of weeks and, you know, if you've got questions, those specific line items or what's in it, those

kind of things, we'll be happy to address them. But I'm -- given the shortness of time, I'm not going to run through them line item by line item.

We did lock in insurance for two years, so that you know. You know, we had reduced -- been able to get about 15 percent even lower than we did the last time. So that rate is locked for two years. So that's a little stability on the insurance side. So we're not taking any huge risks on the property insurance anyway at this point. It's continued to come down, assuming we don't have any -- ours will stay down regardless for at least the two years.

MR. GORMAN: Are the deductibles locked in, too?

MR. WUELLNER: Yes. Absolutely. Every -- we were able to renew basically across the board at 15 percent -- 15 percent less than we did last time and lock it for two years. So...

MR. GEORGE: By the way, that was a good move on your part, to get the insurance quotes earlier in the year so you know what it is.

MR. WUELLNER: Ahead of hurricane season, which -- which was our problem historically.

MR. GEORGE: That's true.

MR. WUELLNER: We'd quote in September when we're right in the middle of it. It's all well when the weather's good.

No real surprises on the nonoperating side. I will tell you that as we built the budget out from -- for next year on, we are not touching -- we are another not currently budgeting to touch reserves based on the enhanced revenue that we expect from Grumman.

Now that bet's off if something happens with, you know -- that's always, you know, an issue annually. I don't expect any complications, but that -- you know, that variable's always on the table.

MR. YOUMAN: If you-all can hold total -- if I subtracted correctly from 09-10 to the 14-15 years, if you can hold it to $6,053 total -- or $30,245 in five years for each year, a $6,053 average increase, that would be phenomenal, because inflation's going to be higher than that.

MR. WUELLNER: Yeah. Well, we -- we keep managing it.

MR. YOUMAN: Yeah.

MR. WUELLNER: I mean, we've actually for the last several years brought operating expenses down

each year.

MR. YOUMAN: You have.

MR. WUELLNER: It's hard.

MR. MARTINELLI: Ed, quick question.

MR. YOUMAN: That's what your job is.

MR. MARTINELLI: Under reserves of $4 million --

MR. WUELLNER: Yes, sir.

MR. MARTINELLI: -- is there any interest income?

MR. WUELLNER: Interest is reflected on the front page under interest income.

MR. MARTINELLI: Okay. But that doesn't go into the reserves?

MR. WUELLNER: Currently it just goes into operating because it's not a big number right now.

MR. MARTINELLI: Okay.

MR. WUELLNER: But it easily could. We could wrap it -- wrap it in there.

MR. MARTINELLI: Okay. Whichever -- I think that's a decision maybe that the board might make.

MR. WUELLNER: Historically we've always, at least since I've been here, it's been on the outside, but --

MR. MARTINELLI: Okay. Okay.

MR. WUELLNER: Which brings you to the last page of capital real quick. I'm not going to get into the multi years afterwards.

Suffice it to say the capital program as it's laid out here reflects what we know to be in the FDOT five-year work program and FAA's horizon that we know about. So the first couple of years are I would consider highly reliable. Years after say year 2011, 2012 and out, the projects could change by description.

The amount of money allocated at this point, likely won't change. So you might get a different project title in there. You might decide you want it -- the actual grant written for something else. But the total amount of money probably won't change.

MR. GORMAN: And those -- these figures here are sustainable, using --

MR. WUELLNER: Yes.

MR. GORMAN: -- zero ad valorem?

MR. WUELLNER: Yes. That's -- that's what I want to -- if we go to the front page and read along the bottom, you'll see the only year where there's at this point an amount of money that's not covered is next year, and the number is $38,000.

That can be -- we can make that work. And then there's a lot of time between now and next year to identify that additional revenue. And it's only the one year.

MR. YOUMAN: When we secure the multimodal facility, how much do you anticipate the airport will have to put out?

MR. WUELLNER: We have not done that.

MR. YOUMAN: I mean, just what -- do you have a figure in your head just from your experience granting?

MR. GEORGE: Watch out. He'll hold you to it.

MR. YOUMAN: No, I won't hold you to it and nobody will hold you to it.

MR. WUELLNER: Depending on the source of the money, it would -- you know, in fairness, would run anywhere from 50 -- we would be responsible for anything from 50 to say 2.5 percent. So we --

MR. YOUMAN: If we use -- if we use the 20 percent figure that was being bandied about in the paper --

MR. WUELLNER: In relation to the ARRA grant that's out -- that they're all working on now, yes, that's a -- that's a -- what, a $2 million number I think. I did -- I have not seen the evaluation

what the site costs are. I would expect they'd be way less at the multimodal site for the rail component than they would be anywhere else, but...

I think they're using a $3 or -- $3 million kind of number, I don't remember off the top of my head, for the development costs. That's -- and that's an 80/20 grant as it's currently structured under that AR -- American Reinvestment and Recovery Act, whatever it is. Under that structure, it's an 80/20 grant.

MR. YOUMAN: Uh-huh.

MR. WUELLNER: So those costs would be whatever it became at some point. That doesn't preclude finding other sources for the 20 percent, either. So --

MR. YOUMAN: Which we have the ability to do.

MR. WUELLNER: Sure. Especially -- you know, I -- one of the capital projects, I just kind of glossed over it, but one of -- we have a lot of FAA money in the mix right now, a lot of FAA money over the next 18 months.

That's why the budget looks like it just kind of goes through the ceiling here for a -- for a year or two. But there's -- you know, we literally have two or three $5 million kind of chunks coming

at us that rarely show up in GA-size airports of ours.

MR. GORMAN: That's my question, just a quick question. This Air -- Airport Improvement Program, you don't anticipate any changes in their funding structure? Because, you know, the -- you hear that on the media and whatever.

MR. WUELLNER: It -- my understanding right now its status in Congress is that the House and Senate have agreed on everything but the increase in PFC level, if it's going to happen and to what level PFCs might be, which is independent of anything we're budgeting.

The other piece is the inclusion of International Association of Firefighters requirements into the ARFF picture, which would require more firefighters be employed by airports. So it's basically a union push to get more firefighters on airports. And that of course at this point gets passed down to airports.

There's no substantive changes to the grant program as it's set out now, and it's a multiyear program. Now, whether it gets through Congress.

It's been approved by both houses. It's been in the conference committee for a while. I've

heard -- they keep extending, those of you that don't follow that bouncing ball, but we're on our fourth extension of AIP for this current fiscal year.

MR. GORMAN: That's all I've heard about, is the extension.

MR. WUELLNER: Each time they extend it, it's because they're this close to getting a multiyear bill passed and whatever. So far, it's not happened.

CHAIRMAN BARRERA: And it's now 4 o'clock. We need to suspend our workshop. Buzz, any information you were going to share, if you could do that in your Authority comments under the regular meeting. That's the workshop --

MR. GEORGE: I can. I can do it in three minutes right now.

CHAIRMAN BARRERA: We -- we've already gone over our time. It's 4 o'clock.

MR. GEORGE: But you started late, so therefore you owe me some --

CHAIRMAN BARRERA: Well, I am going to conclude the workshop and we'll give a five-minute recess and we can start our board meeting.

(Meeting adjourned at 4 o'clock.)

REPORTER'S CERTIFICATE

STATE OF FLORIDA)

COUNTY OF ST. JOHNS)

I, JANET M. BEASON, RPR-CP, RMR, CRR, FPR, certify that I was authorized to and did stenographically report the foregoing proceedings and that the transcript is a true record of my stenographic notes.

Dated this 20th day of July, 2010.

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JANET M. BEASON, RPR-CP, RMR, CRR, FPR