Saint Johns County Airport Authority

Master Plan Workshop – Initial Meeting
Northeast Florida Regional Airport (UST/KSGJ)

Airport Conference Center, Thursday, June 22, 2023, 10:00 am

Presumptive Committee Members:

Joe Duke, Jack Gorman, Bruce Kreis, Jose Riera; excused – Alan Bock, Jaime Topp

Authority Board Members:

Dennis Clarke, Reba Ludlow

Agency staff:

None

Passero Associates LLC Engineering Consultant:

Stanley Price, PE

Members of the Public:

None

Mr. Clarke called the meeting to order at 10:00 am.

Mr. Clarke stated the topic of today's workshop would be hangar financing and management. Mr. Clarke had previously distributed a draft, **Proposal to Incorporate a Special Purpose Entity**, for the purpose of financing, building, managing, maintaining T-hangars, and managing the waiting list of applicants.

Mr. Clarke explained the rationale behind the proposal. The St. Johns County Airport Authority is a type of special purpose utility. Among other features, utilities are natural monopolies managing highly technical and complex systems and have 90% or more of their balance sheet comprised of fixed assets. An electric company, for example, is granted a franchise by a state public service commission to serve a defined geographical territory in exchange for being allowed to earn a fair return on its privately invested assets. Moreover, if the utility operates nuclear and fossil fuel generating plants, they are also subject to regulation by the Nuclear Regulatory Commission and the Federal Energy Regulatory Commission.

As a statutory unit of Florida Government, the St. Johns County Airport Authority does not answer to a state regulatory commission but, to qualify to receive aviation grant funds, must provide “grant assurances” to the Federal Aviation Commission and the Florida Department of Transportation certifying that the Authority is providing a public service on a fair and equitable basis.

The difference between a private utility and a publicly owned utility is that the former is permitted a “rate-of-return” on invested assets, whereas a publicly owned utility should set rates for services on a “cost-recovery” basis.

Functionally, the Authority’s primary purpose is to design, build, operate, and maintain aviation related infrastructure, including runways, taxiways, aprons, instrument landing systems, a control tower, lighting systems, visual glidepath devices for landing aircraft, directional and instructional signage for taxiing aircraft, self-fueling systems, access roads, drainage, and safety systems. Most aviation related systems were installed with grant funds administered by the Federal Aviation Administration and the Florida Department of Transportation, Aviation Division. In the Special Purpose Entity Proposal, these costs are referred to as “horizontal costs.”

While building and managing hangars is necessary to house tenants, referred to in the Special Purpose Entity Proposal as “vertical costs”, it is secondary to the Authority’s mission. In Mr. Clarke’s opinion, the reluctance to use debt to construct hangars is short sighted and is manifested in a nationwide shortage of hangars. Our Authority currently has over 300 individuals, partnerships, and corporate entities waiting for hangar space. Thousands of aircraft owners, with the means to service the debt, are languishing on large and growing waiting lists. Meanwhile, the nation’s general aircraft fleet is prematurely aging while exposed to the weather and waiting for the construction of hangars.

A special purpose entity would also help to ensure that the various tenant classes are charged fair and equitable rates, consistent with FAA guidelines. The St. Johns County Authority has four basic classes of tenants: commercial businesses providing aviation related services to the public, corporate businesses housing their own aircraft, private citizens and entities housing their own aircraft, and non-aviation businesses, such as a restaurant.

One of the challenges facing the St. Johns County Airport Authority in charging fair and equitable rates is that the accounting system and procedures the Authority uses are insufficient to properly allocate costs among its various classes of tenants. The accounting and administrative systems could be overhauled to reflect the tenant classes and functions of the Authority, but this would require a time-consuming evaluation and re-configuration of the books plus writing detailed accounting rules, procedures, allocations, etc., and ongoing management. Setting up a separate legal entity to accomplish the same objectives would be easier and less costly.

Other notable features of a special purpose entity would include the issuance of debt to build hangars, the virtual assurance of a 100% occupancy rate, requiring applicants to post security deposits, and, most importantly, be self-governing by permitting the tenants elect a governing board of representatives from among their ranks. The governing board would then report and be accountable to the Aviation Authority. A self-governing entity would be motivated to maintain their premises to the highest standards while operating under Florida's Sunshine Law.

Concluding his introduction, Mr. Clarke explained that his approach to separating the primary functions of the Authority from the secondary function of building hangars was the inspiration for the **Proposal to Incorporate a Special Purpose Entity.**

Following Mr. Clarke's introduction, a discussion ensued about the market rates for T-hangars, principally in Florida. Mr. Duke noted that an airport he frequently visits charges up to $1100 per month. Other airports, such as Palatka, charge less than the weighted average $468 per month of St. Augustine. Perhaps if we charged more the waiting list of over 200 would decline as aircraft owners sought less expensive options. Mr. Clarke explained that the financial proforma supporting the Special Purpose Entity did not contain an analysis of market rates but that periodic surveys should be conducted.

Another participant questioned whether the Special Purpose Entity would cover all related costs. Mr. Clarke explained that the simplified proforma income statement attached to the proposal primarily considered only the debt service and ground lease charges. The scenarios represented in the analysis, with debt retirement periods of 5, 10, 15, 20, and 30 years, were only to prove that the cash flow would cover debt service plus ground lease payments to the Authority.

The only scenario that showed negative cash flow was the five-year debt amortization period. The 10-, 15-, 20- and 30-year debt retirement scenarios all proved positive cash flow when considering the current weighted average lease income of $468 per month, less debt service and ground lease payments to the Authority. Mr. Clarke suggested that he would revise the analysis to represent other costs, such as insurance, maintenance, repair, and utilities.

A question was posed as to whether all T-hangars should be transferred to the special purpose entity. Mr. Clarke explained that the only way the special purpose entity would be viable would be to transfer all existing 132 T-hangars. If the 30 new hangars were isolated, the lease rate on that group would have to be raised. Mr. Clarke further explained that charging the same rate, on a square footage basis regardless of the vintage of the hangar group, is the fairest option, in that older hangars require more maintenance and therefore, absorb more operating costs than new hangars.

Mr. Riera brought up the subject of the non-aeronautical uses of T-hangars. He reported that he was aware of several hangars that contained only personal belongings and no aircraft. Mr. Gorman suggested that if a tenant is storing an aircraft but is using the excess space for personal belongings, that should be allowed. The group generally agreed with that opinion but also said that at least one aircraft registration number should be associated with each hangar. Furthermore, FAA rules govern the use of aircraft hangars as storage space for non-aviation related assets. The group concluded that this matter should be referred to the Authority's Executive Director with instructions to evict T-Hangar tenants for not storing airworthy aircraft, thus freeing up space for waiting list applicants.

The group put aside the T-Hangar issue for the time being and the discussion turned to the Commercial and Corporate Hangar waiting lists, which collectively contain over 80 applicants. Mr. Clarke explained that he has had discussions with Mr. Holesko of Passero Associates about polling the applicants as to their physical space requirements then graphically representing those requirements on a plot plan of the airport. According to Mr. Clarke, Mr. Holesko highly favors this option to efficiently utilize the limited space currently available, including the Gun Club property in the northeast quadrant and the expansion of the southwest quadrant along U.S. 1. The group reached the consensus that this was a good idea and Mr. Clarke promised that he would introduce the matter at an Authority public meeting for further discussion.

The discussion then turned to the financing options available to Commercial and Corporate hangar applicants. A participant suggested that some applicants will choose to self-finance construction of their hangars, but others might simply want to rent space either from the Authority or sub-lease from primary tenants. The financing options should be considered separately from the positioning of the facilities. Like sized hangars should be located together, for example, banks of 100’ x 100’ hangars along one access road vs. 60’ x 60’ foot box hangars in another area.

Mr. Duke inquired about the formation of a Hangar Condominium as a vehicle for financing and maintaining commercial and corporate hangars. For individual buyers to get financing, banks require “condo-izing” the hangars under a shared roof and walls, and a land lease declaration, like residential condominiums. This enables individual ownership of the units. However, the equity interest in a hangar condominium expires at the end of the ground lease and ownership of the hangar reverts to the Authority. There are numerous examples of aircraft hangar condominium associations and the participants agreed that this option should be given top consideration.

Other topics discussed included Northrup Grumman’s possible expansion plans. A participant noted that the Authority’s non-aviation property on the west side of U.S. 1 could be a viable location to Northrup’s vendors and suppliers that do not need immediate airside access. Mr. Clarke reported that plans to seek a meeting with County officials to discuss the overlapping interests of the County and the Authority, particularly commercial and industrial companies seeking non-aviation property under ground lease arrangements.

The final topic of discussion was the 3,200' x 75' parallel runway 13-31 that appears in the Master Plan and would be located about 6,000 feet west of Runway 13-31 Authority property. Mr. Clarke distributed a diagram of the runway drawn by Passero Associates. Mr. Clarke reported that he had discussed the proposed runway with Mr. Holesko, CEO of Passero.

Specifically, Mr. Clarke asked how many T-hangars could be built adjacent to the new runway. Mr. Holesko responded with a prototype layout showing 14 hangar buildings, seven on either side of the runway, and each housing four box type hangars, for a total of 56 hangars. Mr. Clarke also reported that Mr. Holesko suggested that the runway length could, and should, in his opinion, be lengthened to at least 5,000 feet. Lengthening the runway would allow larger fixed wing aircraft to land in an emergency and be able to take off again. In addition, with the proper configuration and building size, as many as 200 T-hangars could be constructed adjacent to the lengthened runway.

Several questions were posed by the group as to whether the western field would be within sight of the control tower and whether the landing patterns would have to be changed. Mr. Clarke responded that according to his discussions with Mr. Holesko, an RCO (remote communication outlet) could be installed allowing pilots to communicate with the tower via radio while on the ground. Live feed video cameras would be installed in strategic spots to allow the tower controllers to continuously view the field. The controllers might also favor limiting pattern work on the western parallel runway or requiring right patterns on runway 13R and left on 31L to provide adequate separation from traffic on the main runway. The group decided that more discussions should be held on the merits of constructing the parallel runway.

There being no further items to discuss, the meeting adjourned at 12:00 Noon.