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DATE: July 26, 2017
TO: Grand Junction Regional Airport Authority Board
FROM: Karl J. Hanlon
RE: Letter from Grand Junction Airport Users and Tenants Association (“GJAUTA”) concerning the Airport Improvement Fuel Flowage Agreement dated April 1, 2007 (the “2007 Agreement”)

The Board Chairman, Rick Taggart, asked me to address the various issues raised by GJAUTA in its letter dated May 26, 2017 to the Commissioners. This memo addresses the issues raised and also addresses in more general terms, the 2007 Agreement by and between West Star Aviation, Inc. and the Grand Junction Airport Authority. I would note that the 2007 Agreement references the Walker Field Airport Authority, for purposes of this memo I refer to the Authority as the GJAA as it is currently known.

As a general matter, there is nothing that precludes GJAA from entering into individual agreements with particular leaseholders on the Airport for public improvements to Airport property which differentially impact those leaseholders. That is to say, when the public improvement benefits a particular leasehold interest more than others, it is both reasonable and acceptable for the GJAA to enter into an agreement with that lease-holder for purposes of recovering some or all of the money spent on the public improvements. This is no different than a municipal utility assessing properties on a water or sewer line extension additional sums as compared to other uses to recover the cost of the public line extension.

The information provided in this memo contains both my analysis of the relevant 2007 Agreement provisions as well as information provided by Staff at GJAA. It is intended for the Board’s use and should not be relied on by any third-party. The 2007 Agreement is attached for reference.

1. *This appears to be a \$3.8 million interest free loan to West Star for parking lot paving which has no due date and no specified periodic payment schedule. Is that correct?*

No. The 2007 Agreement is a voluntary cost recovery/funding agreement entered into by and between GJAA and West Star as part of the funding package for the landside road improvements to GJAA property. The parties agreed that West Star’s contribution to these improvements would be paid based upon fuel sales.

2. *Is this loan documented on a written note of indebtedness to the airport?*

No. It is not a loan, but rather a cost recovery/funding agreement.

3. *Is there any public record of a board meeting where this loan was discussed and approved?*

The Agreement was approved at the Board meeting on April 24, 2007. Attached are those minutes.

4. *It appears that the sole repayment source for the loan is from proceeds of an additional fuel flow surcharge levied on jet fuel sales only. Is that correct?*

No. It is not a loan. The 10 cents per gallon fuel flowage fee over and above the fuel flowage fee set by GJAA on a recurring basis (the "Additional Fuel Fee" defined in paragraph 1 of the 2007 Agreement) is not a surcharge, but rather a cost recovery/funding agreement by which West Star contributed to public improvements based upon its fuel sales. The agreed additional payment was applied to all fuel sales pursuant to Paragraph 1 of the 2007 Agreement.

To avoid repetition, we will address the questions following, with the understanding that "surcharge," "fuel flow surcharge" and similar terms refer to West Star's additional payments provided under the 2007 Agreement.

5. *Is the board aware that this additional surcharge has been levied, and continues to be levied on both jet fuel and aviation gasoline, contrary to the agreement?*

Paragraph 1 of the Agreement specifies that West Star's additional payment will be applied in the same manner on the same terms as the Fuel Flowage Fee set by the GJAA on a recurring basis. This fee currently, and in the past, applies to all types of aviation fuel. The Whereas recitals do not control the applicability of the fee to all types of fuel.

6. *Is the board aware that the surcharge was also imposed on a competing self serve fuel facility which sold only avgas, not jet fuel, and yet was required to help pay for the West Star improvement via the added fuel flow surcharge?*

Staff was unable to locate any agreement related to this.

7. *Is the board aware that this competing business requested a ramp improvement on its own leasehold in exchange for paying the added fuel flow surcharge but the request was rejected?*

The current Board and GJAA Staff are not aware of such a request.

8. *Why does this additional fuel flow surcharge not appear on the Rates and Charges document shown on the authority's web site?*

As it only applies to West Star, disclosure and collection are the responsibility of West Star. The 2007 Agreement does not specify how the fee is collected, i.e., whether it is added onto or taken out of fuel prices West Star charges. That having been said, it is in the Board's discretion whether to post the West Star's additional payments provided under the 2007 Agreement in the schedule of fees.

9. *It appears that a bond issue in 2007 produced the funds needed to pave the West Star parking lots. Is it true that the airport paid interest to bond holders to acquire these funds that in part were later loaned interest free to West Star for the parking lot paving project?*

Bond proceeds were used to complete the landside road improvements to GJAA property, including among other things improvements around the West Star facility. Such improvements could have been made regardless of whether the 2007 Agreement had been entered into.

10. *We note the surcharge has been disclosed in the 2016 financials but we have these questions related to its accounting:*

a. *How frequently does West Star provide an itemized accounting of both the fuel flow fees listed on the Authority's Rates and Charges schedule and the additional fuel flow surcharge which is not shown on that schedule?*

West Star provides a monthly accounting to GJAA.

b. *Do West Star reports to the Authority delineate between fuel surcharge revenue derived from jet fuel and that derived from aviation gasoline?*

West Star's monthly accounting differentiates between revenue derived from jet fuel and that derived from aviation gasoline.

c. *To date, how much has been paid to the airport by West Star from the surcharge on aviation gasoline?*

\$123,000 has been collected on aviation gasoline sales from the beginning of the agreement through June 2017.

As of December 31, 2016 GJAA has received in total approximately \$2.1 million from West Star for both fuels, and GJAA estimates receiving \$214,000 per year for a final payoff near the end of 2024.

d. *At the current pay down rate, when does the Authority estimate debt service will be complete and the surcharge lifted?*

See answer to question 10.c, above.

11. *Why are aviation gasoline purchasers, who are also paying the surcharge, not entitled to a refund for fees paid but never authorized?*

The additional payments apply to all fuel described in Paragraph 1 of the 2007 Agreement as approved by the Board in April 2007. It is paid by West Star to GJAA, not by aviation gasoline purchasers.

12. *Given the financial difficulties faced by the airport, has any effort been made to discuss with West Star a mutually agreeable accelerated repayment schedule using the company's earnings in addition to the added fuel flow surcharge?*

No. It is important to note that the additional payments come out of West Star's revenues. West Star has stated that if the 2007 Agreement were to end today, there would be no change in its price of fuels.

13. *Will the policy of interest free loans be made available to other companies which may relocate to or art at GJT?*

The 2007 Agreement was not a loan. The Board has no such policy.