

Dear Members of the Heber City Council,

On 21 October 2015, the Heber City Airport Advisory Board votes to request that the City Council decide whether it wants to issue an RFP for a second FBO at the Heber City Airport. For the following reasons, issuing an RFP is not in the City's best interests.

**The fuel volume at the Heber City Airport cannot support two viable FBOs and the City should get professional advice on this issue.**

The total fuel volume for 2014 at the Heber City Airport was around 350,000 gallons. The OK3 AIR business model figures 250,000 gallons as the break-even point at current levels of staffing, equipment, insurance, and annual capital spending. This means that, below 250,000 gallons, the business cannot be profitable without drastically reducing costs in the areas of personnel, equipment and insurance, and therefore, reducing the level of service that we provide. Below 200,000 gallons, we cannot be profitable under any circumstances, such as was the case in 2009, at the trough of the great recession.

This formula assumes current fuel profit margins. If a second FBO is introduced into the market, fuel margins will be reduced by half at a minimum. The breakeven point for each FBO under this scenario will be about 400,000 gallons, for a total airport fuel volume of 800,000 gallons. For two FBOs to be marginally profitable at the Heber Airport, we would need a total fuel volume of around 1,000,000 gallons. This is unrealistic, even if the City approves a C category upgrade to the airport. In fact, there is no scenario under which the total fuel volume at the Heber Airport will triple.

Two FBOs at the Heber City Airport will be a race to the death for both. At a minimum, the City should get advice from aviation professionals on this issue before making any decisions.

**OK3 AIR cannot renegotiate the terms of its current FBO lease while there is uncertainty about its future.**

As discussed above, the market at the Heber City Airport is not large enough to support two viable FBOs. If OK3 AIR knows that its business is at risk, it cannot feasibly renegotiate the terms of its current FBO lease to include higher lease rates. Why the City would jeopardize these negotiations, while spending time and money trying to solicit a second FBO into a market that cannot support it, is a question that needs to be considered by the Council.

**Issuing an RFP when the Airport's future is undecided is unwise.**

Even if the City were to decide to move forward with an RFP for a second FBO, it would be unwise to do so while there remains some uncertainty about whether the airport will be upgraded to C category in the future; for two main reasons:

Firstly, it is very unlikely that you will attract serious FBO candidates when there currently is insufficient fuel volume to support two FBOs, and the future of the airport is uncertain.

Secondly, locating a second FBO in the area proposed will tie the City's hands if it were at some point to decide to upgrade to C category. The area in question will most probably be where the future ramp will be built, and the City will need to be able to negotiate comparable ramp with OK3 to what we currently have in our lease (which does not expire until 2041). Otherwise the City would in effect be condemning the business, which could be unreasonably costly.

### **Heber City is not in violation of its FAA Grant Assurances.**

An allegation was made during the last Airport Board meeting that the City **has** to allow another FBO at the airport or it would be in violation of FAA Grant Assurance #23, Exclusive Rights. This is not true.

Grant Assurance #23 provides that:

For purposes of this paragraph, the providing of the services at an airport by a single fixed-based operator shall not be construed as an exclusive right if **both** of the following apply:

- a. It would be unreasonably costly, burdensome, or impractical for more than one fixed-based operator to provide such services, **and**
- b. If allowing more than one fixed-based operator to provide such services would require the reduction of space leased pursuant to an existing agreement between such single fixed-based operator and such airport.

At the Heber City Airport, as things currently stand, both of these criteria are met.

First, it would be unreasonably costly to the City to introduce a second FBO. In the short term, the City would be giving up possible higher lease rates from OK3 AIR while paying for consultants to prepare and issue an RFP. In the long term, the City would be crippling the financial health of the airport, at great cost to the City and its existing operator, and to the possible benefit of only the end user. It would also be burdensome for the City Council, Airport Board, City Manager, and Airport Manager to oversee an RFP process at a time when resources would be better spent on deciding what the future of the Airport will be and on renegotiating the current FBO lease. And it would be impractical to have two FBOs when the market cannot support them.

Second, you would have to reduce the existing OK3 leasehold in order to allow another FBO to operate, because OK3 AIR leases the entire ramp area.

In sum, issuing an RFP for a second FBO is not in the City's best interests for the following reasons:

- The fuel volume at the Heber City Airport cannot support two viable FBOs.
- OK3 AIR cannot renegotiate its current FBO lease when its future is uncertain, so the City would be giving up significant potential revenue.
- Issuing an RFP when the future of the airport is undecided is premature and unwise.
- The City is not in violation of Grant Assurance #23.

I will be at the City Council meeting and prepared to address these issues if needed. In the meantime, please do not hesitate to contact me with any questions or concerns.

Sincerely,

Nadim AbuHaidar  
President, OK3 AIR