

Ken.spirito@byd.com

From: Ken Spirito
Sent: Tuesday, January 31, 2017 9:49 AM
To: Renee Ford
Subject: FW: PHF - Loan Payment, People Express

Can you please provide the information to answer these questions? Send your responses to me and I will then respond to Kyle's email.

Thank you.

Ken

From: Kyle.Allison@faa.gov [mailto:Kyle.Allison@faa.gov]
Sent: Tuesday, January 31, 2017 9:40 AM
To: Ken Spirito
Cc: Matthew.Thys@faa.gov
Subject: PHF - Loan Payment, People Express

Ken,
We received the article below, as well as, information from the Virginia Department of Aviation about a recent payment made by the Peninsula Airport Commission. According to the information we received, the Commission made a recent payment to a bank for a loan guarantee that the Commission provided to support People Express' airline service into Newport News/Williamsburg International Airport (PHF). We need to get some additional details regarding the payment. If you could respond to the questions below, it would be greatly appreciated.

Did the Peninsula Airport Commission provide a loan guarantee in association with People Express's proposed airline service to/from PHF?

If so...

- When was the guarantee provided?
- For how much?
- Was the Commission obligated to pay the loan guarantee?
- When was payment made to the bank?
- How much was paid and specifically what type of funds were used to make the payment?

We may have additional questions, but at the moment need to get a handle on the accuracy of some of the information in the article.

Sincerely,
Kyle

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VA: Peninsula Airport Commission Pays Off \$4.5M People Express Loan from TowneBank

Dave Ress On Jan 26, 2017

Source: *McClatchy*

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Jan. 26--The failure of People Express Airlines cost the Peninsula Airport Commission \$4.5 million because it guaranteed a loan to the startup, subsidized airline from TowneBank, the Daily Press found after raising questions about a court case and reviewing the commission's financial records.

The commission board voted to guarantee a line of credit for People Express from TowneBank under a motion empowering chairwoman LaDonna Finch "to do and commit any act ... the chair deems necessary to provide for the adequate, economical and efficient provisions of air service" at Newport News/Williamsburg International Airport, according to minutes obtained via a Freedom of Information Act request. The line of credit was for \$5 million, and People Express drew \$4.5 million during the four months that followed, before it closed its doors and went out of business, airport commission executive director Ken Spirito confirmed.

Commission attorney Herbert V. Kelly, who drafted the motion, which was made by Newport News City Manager Jim Bourey, said the broad language was meant to accommodate a fast-moving situation in the final days before People Express launched its short-lived service.

Kelly said the airport commissioners understood that support meant a loan guarantee.

Minutes from the time show no public discussion about such a commitment. Kelly and Bourey said the issue had been discussed behind closed doors.

Kelly, a director of TowneBank's Peninsula unit, said the bank and People Express had not yet finalized a loan agreement when the commission voted on the resolution and the commission wanted to avoid calling a special meeting to ratify a completed guarantee agreement. Kelly said he does not feel he had a conflict of interest because the bank and People Express were represented by different law firms than his. Brian Skinner, president of TowneBank Peninsula, said Kelly's service on the bank's advisory board does not involve him in any business or loan decisions.

Finch did not respond to a voicemail asking for comment about the guarantee or the broad scope of her authority under the resolution.

Bourey said that after discussions in closed meetings, he was generally aware that the resolution would authorize a loan guarantee.

Commissioner Aubrey Fitzgerald, who seconded the motion, said he could not remember if the resolution was intended to cover the never-disclosed guarantee.

Former commissioner Bert Bateman, who is an executive at TowneBank, was not at the meeting. He said he recused himself from all commission discussions touching on financial arrangements between the bank and People Express and was not involved in any of the bank's decisions about making the loan, which Skinner confirmed.

TowneBank chairman and Chief Executive Officer G. Robert Aston said the bank arranged the loan to People Express at the request of the commission and to meet its goals, adding that TowneBank has been the commission's bank since 2003.

Spirito said the commission saw the guarantee as a necessary commitment to return low-cost service to New York and other cities, which had been a mainstay of the airport for 15 years before the departure of AirTran Airways in 2012.

"Four and a half million is a lot of money, a lot of money, but when AirTran left that was a huge economic blow," Spirito said. He said state aviation department studies suggest the cost to the area was \$150 million a year, and added that while sometimes such studies can exaggerate, the operator of one hotel where AirTran crews stayed said the airline's departure cost it \$750,000 a year.

"Yes it was a lot of money, yes there was a lot of risk ... there are risks that work out and risks that don't," he said. "We felt it was a good investment."

Spirito said he thought the commission should do the same again if necessary to bring back the kind of low-cost service that allowed the airport to pull in passengers from a broad swath of eastern Virginia, as AirTran did.

"Airlines make a huge investment when they come to an airport -- why should all of the risk fall on them? This is a partnership," he said.

Support from the commission and Peninsula localities for Elite Airways, which plans to launch service to Newark, N.J., and Islip, Long Island, will be more modest.

People Express launched its service to New York and Boston with two planes and a promise that never materialized for a third. The planes were operated by a Nevada-based company that had a negative net worth of \$30 million. It had promises of \$1.6 million a year in subsidies from the federal government and local governments. None of the local subsidies were ever paid to the airline.

In addition, the commission's just released audited financial report shows that the commission paid \$425,661 to advertise People Express's service.

Spirito said that Nevada company's financial condition was not a concern, noting that it is still flying.

The \$4.5 million payout led the commission to restate its financial results for fiscal year 2014, to show a loss for that year of more than \$11.4 million, according to the new audited financial report. The Daily Press obtained a copy of the report via a Freedom of Information Act request. The report shows losses of more than \$7 million for fiscal year 2015, when it recorded the \$425,661 it spent on People Express advertising, and a loss of more than \$7 million in fiscal year 2016.

Newport News Councilwoman Pat Woodbury said that if she had known about the loan, she wouldn't have supported the People Express project.

"I am horrified, but no, I did not know about it. We were not told about it," Woodbury said Wednesday.

"We certainly needed a carrier of that type, and so I was in support, but not for that amount of money."

She called the discussion of the deal behind closed doors "ridiculous."

"We absolutely need to be and should be transparent. The airport commission should be transparent, and the dealings they have should be transparent."

Council members Marcellus Harris, Sharon Scott, Sandra Cherry and Mayor McKinley Price did not return calls seeking comment.

In contrast to People Express, Elite already operates in 14 communities, with a fleet of a dozen jets. It is expanding service in Vero Beach, Fla., although it has had to transform its nonstop service between Naples, Fla., and Newark to a one-stop because demand in that seasonal market has not been strong enough. It is owned by two California multimillionaires and a former 757 flight instructor and airline consultant.

Elite could receive up to \$900,000 in incentives from local governments, mostly comprising of a guarantee that if first year revenue falls short of \$500,000, localities will make up the difference.

The commission is spending nearly \$400,000 on equipment and information technology that it will use to run Elite's ground operations at the airport and that would be available for other airlines.

The commission plans to hire and pay for 20 people to run Elite's ground operation, Spirito said.

The commission also gave Elite \$100,000 to advertise the new service in Newark and Islip and has spent \$200,000 locally to promote the new connection, director for air service and marketing Jessica Wharton said. She said that amount could increase.

Spirito said Elite's plans to straddle a New York market by serving one airport just west of the city, in Newark, and another just east, in Islip, allows it to crack into the market low-fare carriers often can't crack because of the high cost of acquiring landing rights at LaGuardia Airport. In addition, he noted, Islip is close to Canon Inc.'s U.S. headquarters. Getting a direct airline connection to New York has been something the firm has long hoped for, and could be critical to securing expansion of its Newport News facility, Spirito said.

Daily Press reporter Reema Amin contributed to this report. Res can be reached by phone at 757-247-4535.

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