

**LATE MATERIALS
RECEIVED
RELATED TO ITEM
VII. B. 1.**

Pease Aviation Partners,
LLC (d/b/a Million Air
Portsmouth) at 53 Exeter
Street – FBO Application

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January 20, 2021

Paul Brean, Executive Director
Pease Development Authority
55 International Drive
Portsmouth, NH 03801

Dear Paul:

The Chair's decision to hold Thursday's PDA meeting by zoom is a wise one in light of the rampant spread of the Coronavirus and the fact that at least two of the members of our Board are in a higher risk category (i.e. slightly over 55). Although the zoom format is appropriate, I miss the collegiality that has always typified in-person PDA meetings and which continues to be exhibited by all Board members. Unfortunately, I find zoom meetings to have limitations in facilitating in-depth discussions and, for that reason, I am taking this opportunity to outline my thoughts on an agenda item in this letter.

Pease Aviation Partners LLC

The information submitted to us concerning Million Air and it's management team and it's related entities is most impressive. Page 5 of the January 7th letter to you, however, makes it clear that the proposed agreement would not be with Million Air but rather with a Texas limited liability corporation established in Houston, Texas on October 9, 2020. Page 5 of that letter states:

Financial responsibility will be solely with Pease Aviation Partners, LLC which is owned by our REW Investments Inc. Financing will be established through a bond financing program.

Commitment to Pease

In its initial letter of intent, PAP candidly indicated that if it does not get the military fuel contract, it wants to have the ability to walk away from the entire proposal that it was making. The only change in the more recent letter of intent is that this qualification is not mentioned. However, given the limited nature of the entity making the proposal, I am not sure there is any substantial difference between legal implications of the two letters. PAP may be expending funds on a monthly basis for a lease in order to claim a location at Pease, however, I do not see that there is any real financial commitment by this Texas LLC to a long-term investment at Pease. It may make business sense for them to make an elaborate proposal in order to secure the defense logistics contract, however, if PAP does not obtain the fuel contract, it can walk away with almost no financial consequences to this newly formed LLC, just as they proposed in their initial letter of intent.

The January 11, 2021 Port City Air Inc. Memorandum

The Port City Air Memorandum is interesting and may or may not make a valid legal case. I must confess that most equal protection arguments (perhaps most legal arguments) cause my eyes to glaze over (although I like to think that I have a basic sense of fairness). Consistent with that belief, two of the documents attached to that Memorandum caught my attention. Specifically, (1) the Conditions spelled out in the May 15th, Memo from Mark Rowell to Port City; and (2) the Requirement for Minimum Standards spelled out on pages 7 & 8 of the June 19, 2000 PDA letter to Port City Air Repair Inc.

May 15, 1998 Conditions

On page 1 listed under CONDITIONS the following is stated:

Conditions Port City Air Craft Repair Inc. needs to meet prior to becoming a full-service FBO, i.e. before Port City may sell fuel:

Paul Brean, Executive Director
January 20, 2021
Page 3

Construction of the permanent hangar and or office/terminal facility must be underway to include an approved site plan, a building permit, a signed lease with the PDA, a signed contract with the contractor, and a construction bond/site review agreement.

The June 19, 2000 PDA Requirements Letter

On pages 7 and 8 of the June 19, 2000 letter from George R. Meyer, Executive Director of the PDA, to Port City Aircraft Repair, Inc. the following is stated:

Minimum standards:... Port City may not commence operations as a fixed base operator in the Interim Premises until such time as the following conditions have been met:

2. Commencement of Construction of the Facility, which shall be deemed to include the provision of evidence by Port City that it has placed a non-refundable order for the steel required to complete the construction of the Facility, or the posting of a guarantee to ensure the Commencement of Construction of the Facility in such form as is acceptable to and has received the prior approval of the PDA board of directors.

Welcome to Pease Aviation Partners

If Pease Aviation Partners LLC is prepared to make a meaningful commitment to Pease, then I welcome them and I will support their applications. PAP cannot, and should not, be discriminated against in any way, however, they should be required to meet minimum standards of fairness before they are certified to sell fuel as an FBO at Pease and that should not be a problem since PAP has indicated that it wants to come to Pease regardless of the Defense Logistics fuel contract.

I would request that MOTION VII,B1 be amended to include language similar to the following:

*Prior to Pease Aviation Partners LLC being certified as a full-service FBO and prior to PAP selling fuel, construction of its proposed new 12,000 * square-foot FBO/Passenger facility must be underway as evidenced by an approved site plan, building permit, signed lease with*

Paul Brean, Executive Director
January 20, 2021
Page 4

the PDA and a signed contract with a contractor, a construction bond site review agreement and evidence that it has placed a nonrefundable order for the steel required to complete construction of the facility or the posting of a guarantee to ensure the commencement of construction of the facility in such form as is acceptable to and has received the prior approval of the PDA Board of Directors.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Peter", written over a circular scribble.

Peter J. Loughlin

* I may be a bit confused on the size of the building. The November 10, 2020 letter to you from Charles Suma, COO, (page 5) refers to "not less than 12,000+/- square feet of new hangar space and up to an additional 2000 square feet of FBO facilities...." The January 13, 2021 MEMORANDUM to you from Maria Stowell, P.E., refers to "[a]n approximately 18,500 square foot building to house hangar space, offices, and customer services," while the January 7th letter to you from Charles Suma indicates on page 2 that "Phase II will see a 6000 sq ft new FBO that will house an impressive passenger facility...."

MEMORANDUM

From: Port City Air, Inc.
Date: January 20, 2021
Subject: Equal protection and other issues related to Million Air's application

Introduction.

Port City Air prepares this memorandum to identify the preferential treatment that Million Air asks of the Pease Development Authority ("PDA"), and to advocate for equal protection. The PDA required Port City Air to meet the PDA's Minimum Standards for Commercial and Noncommercial General Aviation Operators (the "Minimum Standards"), make major capital investments in buildings and equipment, construct an EPA and NHDES approved fuel farm, and nearly complete its hangar facility before it could operate as a fixed-base operator ("FBO") or sell fuel from its interim location. Million Air wants FBO status to pump fuel far earlier in its application process than Port City Air was allowed, and without meeting the Minimum Standards, so it can bid on a military fuel contract.

This memorandum discusses the current economics at KPSM, and the reason for Million Air's rushed applications. It highlights the preferential treatment that Million Air requests but that Port City Air did not receive when it established itself at KPSM. It ends by discussing the dangerous effect that Million Air's rush has on the Board's public-deliberation process.

Airport operations at KPSM.

Portsmouth International Airport ("KPSM") and Port City Air have emerged as a first-class airport and FBO capable of servicing any type of aircraft flying in the world. KPSM earned its prestige through its unique characteristics and infrastructure; the U.S. Department of Defense ("DOD") recognizing KPSM as a critical Tech-Stop base for heavy-lift military aircraft and flight squadrons crossing the North Atlantic; and unprecedented strategic investments in operating capacity and capabilities creating a 'best-in-class' level of service quality by Port City Air, KPSM's current aviation service provider. To underscore this success, between 2012 and 2020 KPSM has achieved a compounded growth rate of 26% in fuel sales at KPSM. By comparison, Manchester-Boston Regional Airport reported a 53% decline in passenger traffic between 2008 and 2019, and a 36% decline in traffic between 2012 and 2019.

KPSM has grown into a primary destination-of-choice for a diverse range of DOD operations and many of the world's leading commercial, cargo, and general aviation carriers. Port City Air has invested in growth across all sectors of these aviation markets (military, airline, general aviation, cargo, etc.), enabling KPSM to service all incoming aircraft: from hobby pilots flying two-seat piston aircraft, to Air Force crews refueling C-5 Galaxy aircraft on their way overseas, to Antonov AN-124 Ruslan cargo freighter carrying oversize cargo. Given the diversity of the size and type of aircraft, and the frequency of flights, Port City Air must maintain a unique, on-demand, always-available range of ground handling equipment, skilled service teams and refueling capabilities. Port City Air and its related companies employ over 100 people in support of these mission capabilities.

The military accounts for over 76% of the current annual fuel uplift at KPSM. Port City Air can only sustain its broad support capability of non-fuel related services (cargo-handling, ground-handling, airport terminal / Station Management services (i.e., Allegiant and Frontier Airlines), catering, and aircraft maintenance operations because of the DOD's military traffic.

The Defense Logistics Agency (“DLA”), which awards and administers the military fuel contract at KPSM, can only select one vendor to sell fuel to the military.

The remaining 24% of fuel need is not enough to support a second FBO operation, and it is not enough to support the broad spectrum of civilian customer aviation needs. Million Air proposes a limited operation of 21 employees and makes no mention of the cargo, catering, maintenance, or other specialized needs that Port City Air currently meets. See FBO application at 8. Should Million Air win the military fuel contract, Port City Air would lose the ability to service the sectors that Million Air does not intend to service, and the Seacoast community could lose up to eighty or more jobs.

The preponderance of KPSM’s heavy-lift aircraft and commercial military traffic make KPSM an extraordinary and unique anomaly within the aviation industry. Very few FBOs in the country can accommodate heavy-lift aircraft and, for most of those FBOs, military traffic accounts for only a small percentage of airport traffic (5-10%). While KPSM’s traffic fundamentally differs from almost all other airports, the PDA’s Minimum Standards are designed and intended for “FBO traffic” and set “General Aviation Standards,” which, as measured by fuel sales, only accounts for less than 10% of KPSM’s traffic.

While the DLA contract typically accounts for less than 10% of fuel sales at other airports, at KPSM, the unintended consequence of the high ratio of military traffic to other business is that, every four years, the DLA contract effectively awards an “exclusive right” to a single vendor, to service over 76% of KPSM’s traffic as measured by fuel sales; the very condition the PDA’s Minimum Standards are supposed to avoid.

The reason behind Million Air’s rush for approval.

To bid on the military fuel contract, a bidder must either have an “operational presence” at the airport, or it must produce a contract with an established FBO to provide the fuel. Since the PDA decides who operates as an FBO at the airport, or who has an “operational presence” at KPSM, the PDA effectively decides who can bid on the DLA contract.

The military fuel contract permits—but does not guarantee—that DOD flights will come to Portsmouth. The DLA awards the contract, but it does not decide where aircraft land. Mission planners within the various military branches decide where aircraft land. Traditionally, aircraft flying long-haul routes over the Northeast have stopped in Bangor, Maine, or the Canadian Maritime airports. Port City Air has captured significant market share from these airports by offering exceptional service and investing far beyond the Minimum Standards to provide the fast, efficient, and concierge-level service to predominantly wide-body commercial aircraft and heavy-lift military aircraft and squadrons. This unprecedented level of resources and service forms the bedrock of a reputation that earns repeat business, benefitting KPSM, the City of Portsmouth, and the Seacoast’s economy.

With PDA-endorsed FBO status, or even an endorsement of “operational status” in the form of an approved Letter of Intent or Fixed-Base Operator application, Million Air has made it clear that it intends to leverage this unearned “operational status” into a credential sufficient to bid on the military fuel contract without having to invest in any of the necessary infrastructure to meet the Minimum Standards or properly service the contract. Future site approvals and other regulatory processes are irrelevant to the question of who will survive as an FBO at KPSM

because going forward, the DLA will determine who is awarded the “exclusive right” to KPSM’s 76% market share of heavy-lift DOD traffic. That also means that anyone with a letter-of-intent or “operating status” can apply. That also means low or no financial risk to Million Air (it has already made it clear in its original LOI that it intends to bid before investing), but at the risk of significant of potential loss for the PDA, KPSM and the Seacoast economy.

The record belies any claim by Million Air that it is not rushing to bid on the military fuel contract. The original Letter of Intent specifically provides that Million Air may terminate its lease if it “is precluded from completing construction of the fuel farm before such date that would permit [Million Air] to bid for the upcoming military fuel contract.” Million Air’s original Letter of Intent (“LOI”) at 8.

Even if that language is removed, Million Air will retain a *de facto* power to escape. If granted the LOI or FBO operating status, Million Air can bid on the military fuel contract before making any significant investment at KPSM. If Million Air loses the bid, it can simply withdraw its applications and never begin construction. This *de facto* power to escape warrants scrutiny, including a proper due diligence inquiry into whether Million Air has delivered on unsecured promises at other airports.

Equal protection through consistent process.

For equal-protection reasons and to ensure fair competition, the law directs that the PDA should treat all FBO applicants the same. The State and Federal Constitutions require equal protection under the laws. N.H. Const. Pt. 1, art. II; U.S. Const. amend. XIV. Equal protection means the government, including governmental bodies like the PDA, must treat similarly situated persons (including companies) the same unless an adequate basis exists for different treatment.

Here, where both Port City Air and Million Air are, or seek to be, FBOs at the airport, the PDA should treat them the same. That means the PDA should not give Million Air procedural shortcuts that it did not provide to Port City Air or other FBO applicants because by doing so would amount to an anti-competitive, unfair advantage that violates the PDA’s own rules, processes, and Minimum Standards.

The PDA applied a rigorous process to Port City Air.

The PDA set forth and documented its requirements of Port City Air when it became an FBO at the airport. In a 1998 memorandum, attached as Exhibit 1, the PDA spelled out the “conditions [Port City Air] needs to meet prior to becoming a full service FBO, i.e. before Port City may sell fuel”. Ex. 1 at 2. The memorandum laid out the codified Minimum Standards that Port City Air had to meet. Of note, Port City Air had to:

- 1) Secure 12,000 square feet of hangar space (but Port City Air was not allowed to count 5,500 s.f. of the 12,000 s.f. hangar space within Hangar 213 in which Port City Air had been operating a Part 145 repair station for over three years). Ex. 1 at 2.
- 2) The demolition and removal of three 10,000-s.f. former military hangars. Ex. 1 at 2.
- 3) Commence construction operations for its permanent facility, which included obtaining a fully approved site plan, fuel farm, building permits, signed lease with the PDA, a signed contract with the contractor, and a construction bond/site review agreement. Ex. 1 at 2.

Again in 2000, as demonstrated by the letter attached as Exhibit 2, the PDA confirmed the above-described arrangement and provided further clarification. The PDA did not allow Port City Air to commence operations as an FBO, even though Port City Air had interim premises, (which had been fully operational for over five years as KPSM's only Part 145 repair station), until it:

- 1) Met the Minimum Standards. Ex. 2 at 2-3.
- 2) Commenced construction of the permanent facility, including "provision of evidence that Port City Air has placed a non-refundable order for the steel required to complete construction of the Facility, or the posting of a guarantee to ensure the Commencement of Construction of the Facility in such form as is acceptable to and has received the prior approval of the PDA Board of Directors;" Ex. 2 at 2-3.
- 3) Incorporated all the Airport Committee's recommendations.

The PDA's later communications show that the PDA withheld fueling permission until even later in the process than the 1998 letter or 2000 memorandum required. In July 2002, the PDA determined that Port City Air had met the Minimum Standards, but it did not permit fueling operations for another eight months, until Port City Air had almost completed construction of its permanent FBO facility, despite having completed the construction of its fuel farm and having acquired all the necessary ground-handling equipment. The letters proving that sequence are attached as Exhibit 3.

It has consistently been the PDA's practice to apply a lengthy, highly detailed review process to control all of Port City Air's requests related to new facilities or facility upgrades both at KPSM and the Trade Port, including recent upgrades to Port City Air's fuel farm and lease expansion. Port City Air began the application process for its lease expansion in September of 2018, which it recently completed in September 2020 after multiple review processes taking two years. Port City Air applied for its fuel farm renovation in July of 2020 and the site and technical review process is still ongoing. While Port City Air fully supports and respects the PDA's review and control process, it is unfair and inequitable for the PDA to grant Million Air FBO "operational status" on a faster timetable than the PDA offered Port City Air (even to improve existing facilities).

Million Air seeks preferential treatment.

Million Air requests a different, preferential arrangement. It does not want to be required to make the same capital investment before obtaining FBO status, yet it wants the PDA to grant it the opportunity to capture KPSM's single most important commercial contract and revenue source. In its original LOI, Million Air explicitly stated that it wants to terminate its Lease if it "is precluded from completing construction of the fuel farm before such date that would permit [Million Air] to bid for the upcoming military fuel contract." See Million Air's Letter of Intent ("LOI") at 8. Million Air proposes to "commence construction of the fuel farm, followed by the FBO building and hangar" "[i]mmediately upon execution of the Agreement." LOI at 5. Further, it proposes a two-phase operations plan, where it would operate out of interim subleased premises. LOI at 5.

Million Air's proposal is different, preferential, and unfair because, unlike the rules and procedures applied to Port City Air:

- 1) Million Air would be allowed to establish an interim, temporary “operational presence” on the field without having invested any meaningful resources at KPSM.
- 2) Million Air could immediately commence construction of a fuel farm on a timeline that may, if completed on time, permit it to service the military fuel contract. In contrast, the PDA is currently requiring Port City Air to follow a one-plus year process to simply renovate a pre-existing fuel farm at KPSM.
- 3) Million Air could begin fueling aircraft without commencing the construction of any permanent facilities. It could do so by constructing a temporary fuel farm without making any on field improvements and without requiring Million Air to place a “non-refundable order for steel to build its facility” or nearly completing construction of its permanent FBO facility. The PDA required Port City Air to meet all those steps before it could sell fuel.
- 4) Million Air could run its first operational phase without meeting Minimum Standards. Million Air’s LOI only proposes that Phase II will meet the Minimum Standards. Original LOI at 5 (“Construction/Operating Phase”).
- 5) Million Air’s proposed interim hangar space is currently full of existing KPSM-based aircraft. The proposed sublease does not grant exclusive rights to the hangar and there is no guarantee or assurance that any meaningful hangar space would be used to service FBO customers.
- 6) Million Air would obtain FBO “operational status”, the only credential necessary to bid on the military fuel contract, before putting a shovel in the ground or making any capital investments or improvements. The PDA only granted FBO status to Port City Air after it had agreed to lease interim facilities, had made nearly \$3mm in capital investments including full site permitting and approval, had fully met the fuel farm and equipment Minimum Standards, and nearly completed its permanent hangar facility including the purchase of steel. See Ex. 3.

The PDA also required Port City Air to incorporate a multitude of PDA recommendations by the airport committee before it could sell fuel. Here, Million Air submitted a 55-page FBO application on January 7, 2021, which was not provided to the Airport Committee until mid-day on January 8, 2021. That left only one business day for the Airport Committee to review the FBO application and make recommendations before potentially granting the FBO application. This hurry-up timeline precludes the Airport Committee from conducting a meaningful due diligence review of Million Air’s application. It also precludes any meaningful opportunity for public review or comment as required by RSA chapter 91-A.

The preferential treatment poses a risk to the PDA and Seacoast economy.

Approving Million Air’s request for preferential treatment would permit Million Air to bid on the military fuel contract before it meets either the Minimum Standards or the heightened bar necessary to earn and keep repeat business with military customers. If Million Air fails to meet the concierge-level service that Port City Air provides, military customers could return to Bangor, ME, or be diverted to other locations in the Northeast such as Rome, New York, where Million Air has a new facility with its own military fuel contract.¹ If that happens, Million Air

¹ Million Air advertises its Rome, NY location as having a “DLA Approved Aviation Fuel and Ground Services” arrangement. See <https://www.millionair.com/locations/rme/>.

could still attract market share even while KPSM might lose customers and the direct and indirect revenue it brings to the PDA, Seacoast community and State.

The erosion of the PDA's Minimum Standards and FBO approval process would not likely stop with the Letter of Intent or the FBO application. By allowing unequal enforcement of the Minimum Standards and hastening the PDA's regulatory processes, Million Air could win the military fuel contract without any assets in place. In that event, KPSM's success will depend on Million Air's success, creating an environment where the PDA risks having to make more concessions to Million Air or lose airport traffic, and where a "race-to-the-bottom" DLA bid cycle every four years could lead to a margin war that impoverishes KPSM and hurts KPSM's ability to compete against Bangor and other airports.

The rushed process offends the Board and the law's public-deliberation process.

The PDA is required to "at all times act in a manner which is consistent with the public good. . . ." RSA 12-G:7. It controls land use, creates and enforces land use controls, and regulates KPSM. RSA 12-G:8. It has the power to hire consultants and advisors to aid its decision making processes. *Id.* As a public body, the Board and its Committees' meetings must be open to the public. RSA 91-A:2, I. The purpose of New Hampshire's right-to-know laws is "to ensure both the greatest possible public access to the actions, discussions and records of all public bodies, and their accountability to the people." RSA 91-A:1.

This process has been rushed, and it has precluded this Board from duly considering Million Air's application. It has also stymied an interested public from commenting. For example, Million Air submitted its initial Letter of Intent on November 10, 2020, and the Board was asked to vote on it, without further study, only nine days later. Since then, on January 7, 2021, Million Air submitted a 55-page FBO application, with significantly different terms than the November letter of intent contains. Staff approved it the next day, and provided it to the Airport Committee that afternoon. That left one business day for the Airport Committee to review and assess the application. The public meeting notice did not list an agenda for that Airport Committee meeting.

Million Air submitted a revised Letter of Intent dated January 7, 2021, which only recently reached the Board, and which was only posted to the PDA's website, with the January meeting's agenda, on January 19, 2021. It is impossible for the public to gauge whether this cycle of short notice to the PDA Board and no notice to the public violates the PDA's Bylaws because those bylaws are not available online, either.

The rushed application process with little or no notice has stymied the Board from doing its job. The Board cannot receive meaningful public input or be held to public account if the public does not receive notice and a meaningful opportunity to evaluate Million Air's applications. The Board cannot do its job of evaluating the applications because it, too, has received them on short notice. It is particularly important to conduct a full and fair review process here, since the Board's decision will impact KPSM's ability to service incoming aircraft, which affects the future likelihood of repeat business, KPSM's ability to compete against Bangor and other military-capable airports, and the number of jobs at KPSM.

Important questions remain. How will Million Air “grow jobs” and service KPSM’s commercial, general aviation and cargo customers if Million Air’s limited, 21-person general aviation facility wins the military contract, putting Port City Air’s 100-plus person operation in jeopardy and unable to participate in the servicing nearly 80% of KPSM’s market share? Has the Board done its due diligence of Million Air to ensure that Million Air has delivered its promises made to other airports? Has the Board evaluated the terms and performance of Million Air’s bonds? Should the Board require investment or guarantees from Million Air before it grants FBO status—like the PDA required of Port City Air? Does Million Air’s proposed sublease meet the Minimum Standards, since the sublease does not grant exclusive rights and the hangar is already used to house existing KPSM-based aircraft? Should the PDA treat Million Air the same as it treated Port City Air and require Million Air to meet the same terms as PCA had to meet with its PDA-drafted memorandum of understanding (See Ex. 2)?

Additionally, Million Air’s Letter of Intent relies on subleasing a hangar from Executive Hangar, LLC. To operate a FBO in that hangar, the PDA would need to deviate from its land use controls and authorize a change of use. Before approving the Letter of Intent, the Board should consider whether the circumstances warrant a change in use, and whether the proposed change in use will negatively impact KPSM or surrounding aviation tenants’ operations.

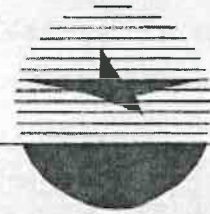
Conclusion.

The Minimum Standards and application process used with Port City Air ensured that Port City Air was fully ready to service aircraft before it received PDA approval. Million Air proposes to become a PDA-permitted FBO or to claim operational footing at KPSM with little or no investment, and without having any assets in place. That would permit Million Air to bid and potentially win the military contract without any guarantee that it could fully support or keep KPSM’s current level of services for the military business. That unequal application of the law benefits Million Air but hurts Port City Air and puts the PDA, KPSM, and the Seacoast’s economy at risk. Should Million Air win the DLA contract, the PDA will likely be pressured to make further concessions because, in the event of any service shortfalls, the PDA would be unduly pressured to accommodate almost any request by Million Air to bypass other regulations or expedite approvals to ensure KPSM’s competitive footing and financial success.

The Board should course-correct Million Air’s application process so that the applications can be properly noticed to the public, evaluated by the PDA Board, and decided once the PDA Board completes an adequate due diligence review. The PDA Board should take an active role in negotiating the letter of intent, to ensure that it applies the same requirements and process to Million Air as it applied to Port City Air. It should not grant Million Air any operational status until Million Air has obtained land-use approvals and demonstrated its capability by building its permanent facility, just as the PDA did with Port City Air. That is the only approach that ensures keeps the PDA in control of its future.

Exhibit 1

PEASE DEVELOPMENT AUTHORITY



Airport Management Department, Pease International Tradeport
36 Airline Avenue, Portsmouth, New Hampshire 03801
(603) 433-6536 Fax: (603) 334-6135 TDD: Relay NH 1-800-735-2964

Memo

To: Richard Collier, Port City Aircraft Repair, Inc.
From: Mark Rowell *Mark Rowell*
Subject: Full Service FBO
Date: May 15, 1998
CC: George Meyer, George Bald, Jerry Dexter, Lynn Hummel

I have attached a list of conditions Port City Aircraft Repair, Inc. needs to meet prior to becoming a Full Service FBO and an outline of the process you need to follow. These documents are not intended to replace anything in the PDA Minimum Standards for Commercial and Noncommercial General Aviation Operators dated November 13, 1997.

I have also attached a diagram of the southern end of the General Aviation Area with the site you might want to focus on highlighted. Please keep in mind our interest in developing the 20± acre lot to the south of the apron. We would be happy to review any preliminary layout you might have before you invest a lot of time in it only to find it is unworkable/unacceptable.

CONDITIONS

Conditions Port City Aircraft Repair, Inc. needs to meet prior to becoming a full service FBO, i.e. before Port City may sell fuel:

A minimum of 12,000 s.f. of suitable temporary hangar space and 2,000 s.f. of suitable/properly equipped temporary office/terminal space (ADA compliant) leased at \$3.25 per s.f.. Note: Bldg 110/307 is less than 2,000 s.f. (1,300 s.f. ±) so some office facilities would need to be located elsewhere, perhaps in Hangar 213. Also, 5,500 s.f. of Hangar 213 is required to meet the minimum standards for Port City's limited service specialty operation and should not be applied to the 12,000 s.f. of hangar required of a full service FBO.

A minimum of 30 temporary vehicle parking spaces.

Removal of the three southernmost shade shelters.

Installation of tie-downs on the aircraft parking apron.

Construction of the permanent hangar and or office/terminal facility must be underway to include an approved site plan, a building permit, a signed lease with the PDA, a signed contract with the contractor, and a construction bond/site review agreement.

All required insurance must be in place.

All required equipment in place to include:

2 - jet fuel trucks (1 5,000 gal min)

2 - 100LL trucks (1 500 gal min)

1 - deicing vehicle

1 - follow me vehicle

1 - tow vehicle and tow bars (75,000 lbs capacity)

Energizers

Starters

Ground power units

Fire extinguishers

Aircraft recovery equipment (for aircraft up to 12,500 lbs)

Snow removal equipment/contract

Equipment to inflate tires, service potable water, service lavatories, dispose of domestic and international waste, cleaning aircraft windows and interiors

Necessary staff to meet minimum standards and required hours of operation must be hired, trained (to include FAR Part 139 fueling training), and available.

PROCESS

1. Develop a draft layout/site plan of the permanent facility to include:

Hangar location and size

Office/terminal location and size

Aircraft parking apron location (150,000 s.f. minimum)

Vehicle parking lot location and size (30 vehicles minimum)

Access road location

Security fence location

2. Submit the draft layout/site plan along with a time line and business plan to the PDA for staff review.
3. Develop the final layout/site plan, time line and business plan based on PDA staff comments and recommendations.
4. Present the layout/site plan, time line and business plan to the Airport Committee of the PDA Board.
5. Negotiate an LOI with the PDA. The LOI will address the requirements listed under **CONDITIONS** as well as the proposed layout and lease outline for permanent facilities.
6. Present the LOI to the Marketing Committee of the PDA Board.
7. Present the LOI to the PDA Board.
8. Submit the site plan to the Base Conversion Agency for 60 day review process for areas construction in Areas of Special Notice.
9. Schedule a public hearing with the Pease Technical Review Committee and then the PDA Board of Directors to approve the site plan.
10. Satisfy **CONDITIONS** from page 1.

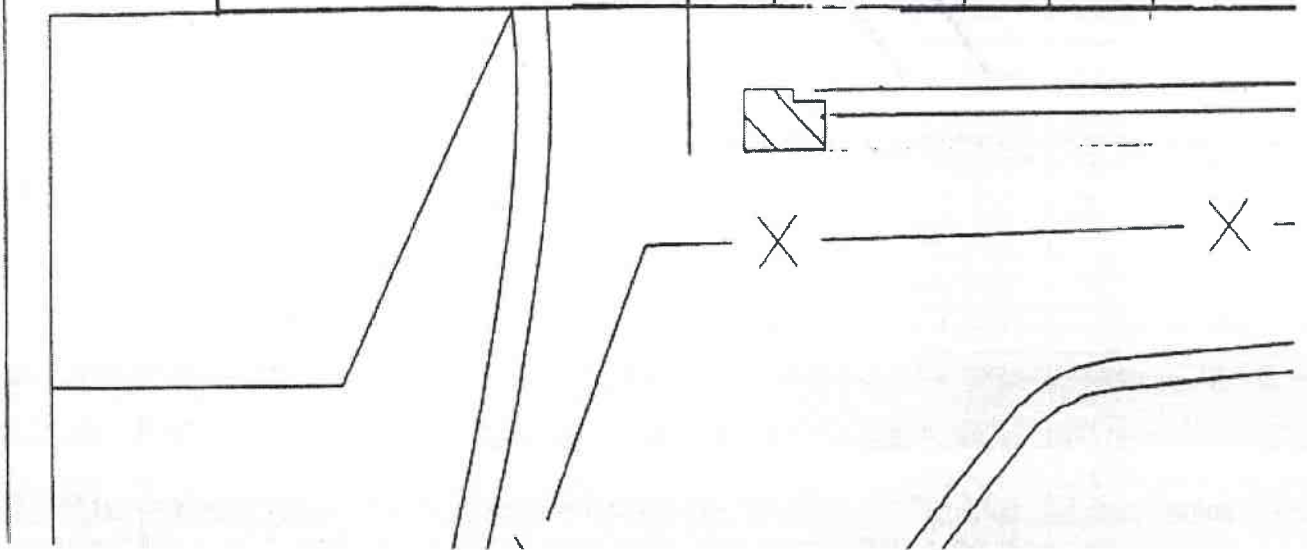
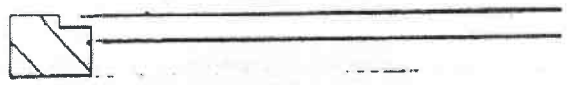
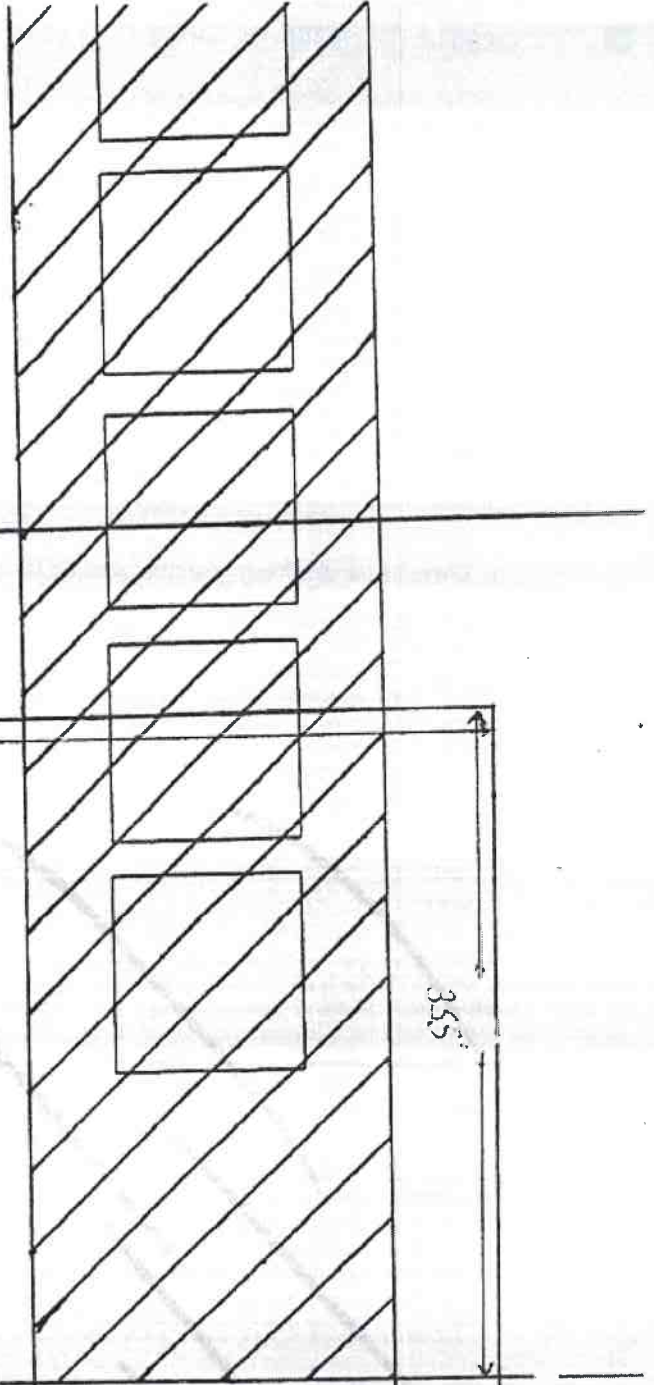
North

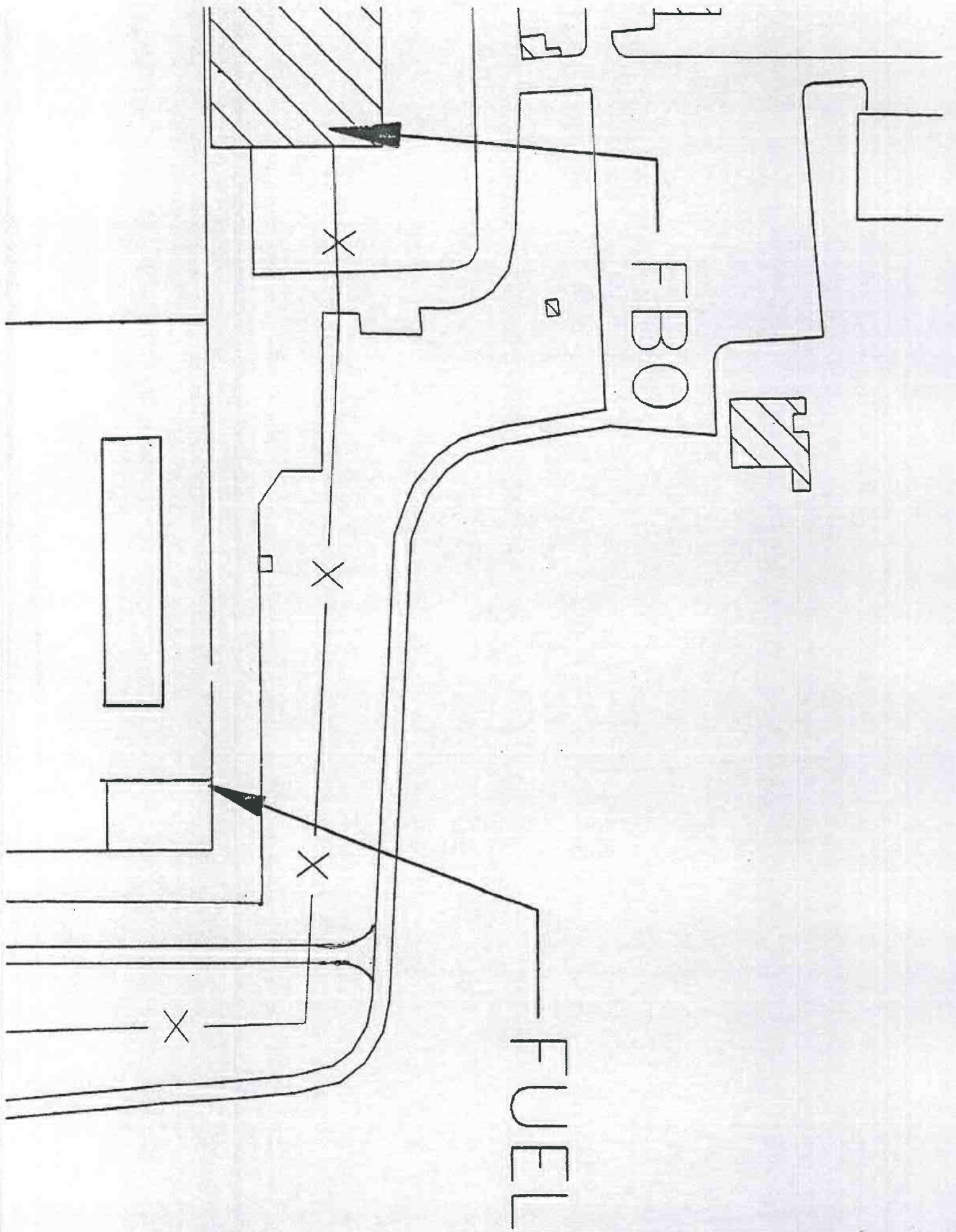
OMETER

90'

515'

355'





FBO

FUEL

X

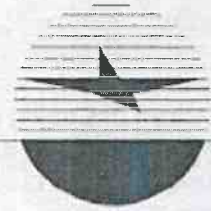
X

X

X

Exhibit 2

PEASE DEVELOPMENT AUTHORITY



360 Corporate Drive, Pease International Tradeport, Portsmouth NH 03801
(603) 433-6088 Fax: (603) 427-0433 TDD: Relay NH 1-800-735-2964

DRAFT
June 19, 2000

Richard B. Collier, President
Port City Aircraft Repair, Inc.
44 Durham Street
Portsmouth, NH 03802-3021

Dear Mr. Collier:

On behalf of the Pease Development Authority ("PDA"), we are pleased to submit the following outline of terms and conditions of a proposed agreement with Port City Aircraft Repair, Inc. ("Port City") for aviation development at Pease International Tradeport ("Pease"). It is the intent of Port City and PDA that this proposed agreement shall, upon execution, be forwarded to the PDA Board of Directors for approval at its meeting on June 22, 2000. Please note that following approval by the PDA Board of Directors, the application to become a full service Fixed Base Operator will require approval of the PDA Airport Committee.

When approved by the PDA Board of Directors, the terms set forth in this letter shall constitute a Memorandum of Understanding ("MOU") between the parties reflecting our mutual commitment in principle to conclude with due diligence and in good faith an appropriate Lease and/or Sublease (the "Agreement" and/or "Sublease") based upon these terms and such other mutually acceptable terms and conditions as are necessary and appropriate.

The central business terms of our understanding and upon which I am prepared to make a presentation to the PDA Marketing Committee are as follows:

Landlord: Pease Development Authority

Tenant: Port City Aircraft Repair, Inc. d/b/a/ Port City *AIR*

Subleased Premises: For and in consideration of the rents and covenants to be paid and performed by Port City and subject to the terms and conditions set forth herein, PDA agrees to lease and/or sublease to Port City and Port City agrees to lease and/or sublease from PDA the land area described below, which land area is located in the Airport Zone and is shown on the plan (designated as "Second FBO") attached hereto as Attachment No. 1:

A certain parcel of land located on the General Aviation Apron ("Subleased Premises" or "Premises"). The Subleased Premises are estimated to contain [*] +/- square feet excluding any required access road.

Port City at its option and sole expense may conduct a field survey to measure precisely the area square footage of the Subleased Premises. The square footage for the Subleased Premises shall be adjusted to reflect accurate certified survey

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 2

results, provided, however, that any such adjustment shall be effective only as of the first day of the next month following submission of the certified field survey to PDA and that Port City shall not be entitled to any retroactive benefits, including rent adjustments. Following receipt of the certified survey results, the Parties shall execute an acknowledgment reflecting the revised area square footage. Failure to execute such an acknowledgment shall not effect either the validity of the Sublease or the effective date of any adjustment to the Annual Ground Rent.

**Right to Use
Apron Area:**

Port City shall have the right in connection with its lease/sublease to certain apron space consisting of 150,000 +/- square feet, which space shall not be part of the Subleased Premises or Interim Premises.

Interim Premises:

Until such time as Port City has completed construction and is in receipt of Certificate of Occupancy of the Facility, as defined below, PDA agrees to lease and/or sublease to Port City and Port City agrees to lease and/or sublease from PDA the land and buildings described below, which land and buildings are located in the Airport Industrial Zone, as more particularly shown on the plan attached as Attachment No. 2:

Building 110 consisting of 1,300 +/- square feet and Hangar 213 (also known as 44 Durham Street) consisting of 28,400 +/- square feet.

As a condition precedent to its execution of a lease and/or sublease for occupancy of the entirety of Hangar 213, Port City shall provide PDA with a letter from High-Tech Aircraft Corporation ("High-Tech") confirming High-Tech's consent to relinquish its License with PDA and to enter into a sublease agreement with Port City for the portion of Hangar 213 it presently occupies. Port City agrees to enter into a sublease agreement with High-Tech should High-Tech elect to continue occupying a portion of Hangar 213.


Port City at its option and sole expense may conduct a field survey to measure precisely the building area square footage of the Interim Premises measured from the outside edge of the outside walls. The square footage for the Interim Premises shall be adjusted to reflect accurate certified survey results, provided, however, that any such adjustment shall be effective only as of the first day of the next month following submission of the certified field survey to PDA and that Port City shall not be entitled to any retroactive benefits, including rent adjustments. Following receipt of the certified survey results, the Parties shall execute an acknowledgment reflecting the revised building area square footage. Failure to execute such an acknowledgment shall not effect either the validity of the Sublease or the effective date of any adjustment to the Building Area Rent.

**Sublease Term and
Term**

Commencement:

The Agreement shall be effective upon execution and shall continue for a base

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 3


~~OPEN~~
~~ISSUES~~
~~By [signature]~~

term of twenty (20) years (the "Base Term") commencing on the earlier to occur of the following events: (i) occupancy of all or any portion of the Subleased Premises or Interim Premises, or (ii) October 1, 2000 (the "Term Commencement Date"), with three (3) successive ten (10) year options to extend the Base Term. In no event shall the Base Term and all option periods extend beyond fifty (50) years from the Term Commencement Date.

Port City's right to exercise its options to extend the Base Term of its Sublease shall be contingent upon the completion of all phases of its planned improvements to the Subleased Premises which improvements are more particularly described hereafter. Further, the Sublease Agreement shall provide that in the event Port City does not construct the Expanded Facility within a mutually agreed period of time, the PDA may require that a portion of the Subleased Premises reserved for construction of the Expanded Facility be removed from the Sublease Agreement returned to the PDA for future development.

Site Plan and Design Permitting:

Notwithstanding the requirements on the Minimum Standards, Port City has agreed that it will undertake and continue with due diligence and at its sole expense construction of [*] +/- square feet of new hangar facilities, with related paving, utilities, landscaping, drainage and associated site improvements (the "Facility") for establishment, operation and maintenance of a fixed base aircraft operation, to include the provision of basic aeronautical services to aircraft and related ground service equipment that may be based on and/or transit the Airport.

Port City has indicated its present intent to undertake at its sole expense the construction of an additional hangar consisting of [*] +/- square feet with related paving, utilities, landscaping, drainage and associated site improvements (the "Expanded Facility") in connection with the establishment, operation and maintenance of a fixed base aircraft operation, which shall include the provision of basic aeronautical services to aircraft and related ground service equipment that may be based on and/or transit the Airport.

Port City acknowledges that PDA's willingness to enter into a Sublease is contingent upon Port City establishing a time line for the construction of the Facility which is acceptable to PDA.

1. Port City shall be solely responsible for the development of plans and specifications for any proposed renovations at the Premises and for making any required submission and obtaining any necessary approval, including subdivision approval, in accordance with the provisions of the PDA Land Use Controls. PDA agrees to use its best efforts (without

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 4

obligation on the part of PDA to incur any expenses) to assist Port City in such process.

2. The following is a partial list of issues identified and required to be addressed by Port City and PDA during the negotiation of the Agreement in connection with Port City's proposed development of the Subleased Premises:

- A) Conformance with ALP;
- B) PDA Reservations of Access to Apron/Taxiways;
- C) Adequacy of Parking;
- D) Siting for Noise Mitigation;
- E) Siting for Air Traffic Control Tower Line of Sight;
- F) Subdivision and Site Plan Approval;
- G) Construction of Access from Grafton Drive;
- J) Area of Special Notice Approval;
- K) Deicing Restriction;
- L) Construction Access;
- M) Permanent Road Access;
- N) Location of Fuel Farm/Right of PDA to Relocate Fuel Farm at no additional cost to Port City;
- O) Removal for the Facility of Shelter #'s 1,2, and 5;
- P) Removal for the Expanded Facility of Shelter #'s 3 and 4, subject to a ground rent credit following receipt of a certificate of occupancy for the Expanded Facility not to exceed \$30,000 per shelter; and
- Q) Installation of utilities, as required.

Building Area Rent: The Building Area Rent due for the Interim Premises, Building 110 and Hangar 213, during the Base Term of the Agreement will be \$3.25 per square foot. (The Building Area Rent due for Hangar 214 during the Base Term of the Agreement will be \$2.00 per square foot.) Building area rent for the Interim Premises will commence on the Term Commencement Date. *DEL*

Annual Ground Rent: The annual ground rent ("Ground Rent") per acre for the Subleased Premises during the Base Term of the Agreement will be as follows:

Years 1 - 5 an annual amount equal to \$.30 per square foot
[commencing on
Certificate of
Occupancy]

Years 6 - 10 an annual payment equal to \$35 per square foot

Years 11 - 15 and

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 5

02 PDA SHARES
DEMO COST/SHELTER

50% of the 60,000 sq ft better total

each five year period thereafter, including any applicable option period

an annual payment equal to the per square foot rate for the previous five year period plus CPI adjustment

The Ground Rent will be based upon the total area of the Subleased Premises, estimated at[*] +/- square feet, and is subject to adjustment upon final determination of the exact acreage of the Subleased Premises.

Escalation Adjustment:

CPI Adjustment: As of each adjustment date, the Building Area /Ground Rent shall be adjusted to reflect the change in the Consumer Price Index for All Urban Consumers applicable to the Boston area (base year 1982-1984=100) published by the United States Department of Labor, Bureau of Labor Statistics (the "Index").

On the first day following the expiration of the fifth year of the Base Term of the Agreement and on the first day of each fifth year thereafter (the "Adjustment Date(s)") Building Area /Ground Rent subject to escalation adjustment shall be adjusted as follows:

For the first adjustment, the basis for computing such adjustment shall be the Index most recently published prior to the beginning of the first year of the Base Term ("Beginning Index"). If the Index most recently published prior to the first Adjustment Date ("Extension Index") has increased over the Beginning Index, the rental rates for Building Area /Ground Rent for the one year period commencing as of such Adjustment Date shall be equal to the result obtained by multiplying the rental rate in effect on the Adjustment Date by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index.

Condition of Subleased Premises:

Except as otherwise provided herein, Port City shall take the Subleased Premises in an "as is" condition without warranty or representation of any kind; provided, however, Port City shall have no liability or responsibility to PDA for environmental impacts and damage caused by the use of the United States of America - Department of the Air Force ("Air Force" or "Government") of Hazardous Substances on any portion of Pease, including the Subleased Premises. Port City and PDA acknowledge the obligation of the Air Force to indemnify PDA and Port City to the extent required by the provisions of Public Law No. 101-511 Section 8056.

Taxes/Fees/Services:

In accordance with the provisions of the Municipal Services Agreement by and between the PDA and the City of Portsmouth with an effective date of July 1,

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 6

1998, Port City shall pay to PDA a municipal services fee to include the cost of providing police, fire and public works services.

Utilities: PDA will bring utility lines at reasonable capacities to the points existing as of the Term Commencement Date or such other points as may be designated by PDA. Port City will be responsible for installing and paying for all utilities, including electric, gas, telephone, water and sewer from such points to the Subleased Premises.

Net Lease: The Agreement shall be triple net to PDA and all costs associated with the use, occupancy, maintenance and insurance of the Premises shall be borne by Port City.

Use: Full Service Fixed Base Operator and maintenance facility (consistent with the present use by Port City of a portion of Hangar 213)

Sublease and Assignment: Port City may, subject to Condition 20 of the lease between the PDA and the Air Force ("Master Lease"), without the approval of PDA, assign its rights under the Agreement to or enter into a sublease of the Interim and/or Subleased Premises with an affiliate (i.e., any corporation that controls, is controlled by or is under common control with Port City). For purposes of the preceding sentence, the term "control" shall mean ownership or other beneficial interest in at least fifty-one percent (51%) of the voting stock or other voting interest of a corporation. All other assignments shall be subject to approval of PDA.

PDA shall not unreasonably withhold its consent to any sublease or assignment if: (1) the use of the Interim and/or Subleased Premises associated with any sublease(s) or assignment(s) is permitted under the Agreement, (2) the sublease(s) are consistent with the terms and conditions of the Agreement; provided, however, that Port City may rent the subleased area at rentals deemed appropriate by Port City, (3) Port City remains primarily liable to PDA to pay rent and to perform all other obligations to be performed by Port City under the Agreement, and (4) the proposed sublessee is financially and operationally responsible. In the event the Building Area /Ground Rent for the Interim and/or Subleased Premises exceeds the rental charged to Port City under the Agreement, Port City shall remit fifty percent (50%) of such excess to PDA upon receipt by Port City; provided, however, that any rental received by Port City during a period in which no rental is due to PDA shall be paid in its entirety to PDA.

*Clarify language
Not a problem*

Environmental Protection: Port City acknowledges that Pease has been identified as a National Priority List (NPL) Site under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) of 1980, as amended. Port City acknowledges that

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 7

PDA has provided it with a copy of the Pease Federal Facility Agreement ("FFA") entered into by EPA, and the Air Force on April 24, 1991, as amended, and agrees that it will comply with the terms of the FFA to the extent the same may be applicable to the Subleased Premises and that should any conflict arise between the terms of the FFA and the provisions of the Agreement, the terms of the FFA will take precedence.

RSA 422:237

Port City shall comply with all federal, state and local laws, regulations and standards that are or may become applicable to Port City's activities at the Premises. Port City shall not assume any liability or responsibility for environmental impacts and damage caused by the Air Force's use of Hazardous Substances on any portion of Pease, including the Premises. The parties acknowledge the obligations of the Air Force to indemnify PDA and Port City to the extent required by the provisions of Public Law No. 101-511, Section 8056.

To the extent the same is available and applicable, PDA will furnish the following data to Port City: relevant maps, diagrams, surveys, drawings, engineering studies and plans related to the Premises, including but not limited to, the Environmental Baseline Survey; approved airport layout plan; existing property drawings and plans; Health and Safety Plans; Construction Work Plans and planning and engineering studies conducted for the PDA or for others, including available studies conducted for the Air Force, and pertaining to Pease and or the Premises. PDA makes no warranty or representation, actual or implied, as to the accuracy of any material to be furnished to the Port City.

Brokerage:

Each party warrants to the other that it has had no dealing with any real estate broker or agent in connection with the negotiation of this letter or the Agreement.

Repairs and Maintenance:

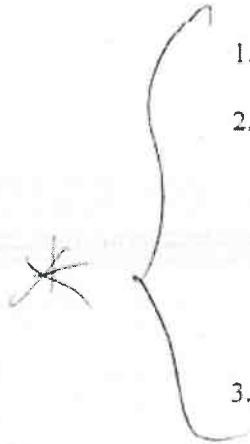
Throughout the term of the Agreement, and without cost to PDA, Port City shall take good care of the Subleased Premises and related improvements, including sidewalks, curbs, apron areas designated for Port City's exclusive use, and shall keep the same in good order and condition, and shall promptly at its own cost and expense, make all necessary repairs thereto. Port City's obligation hereunder shall also include grounds maintenance and restoration and snow removal from the Subleased Premises, including any apron areas designated for Port City's exclusive use.

*Repair?
good condition
safety 5,000
25'x25'*

Minimum Standards:

Port City and its sublessees' use of the Subleased Premises shall be subject to compliance with Minimum Standards as the same are from time to time promulgated by PDA. Notwithstanding any provision of the Agreement to the contrary, Port City may not commence operations as a fixed base operator in the Interim Premises until such time as the following conditions have been met:

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 8



1. All requirements of the Minimum Standards, including submission of a time line for satisfying same;
2. Commencement of Construction of the Facility, which shall be deemed to include the provision of evidence by Port City that it has placed a non-refundable order for the steel required to complete construction of the Facility, or the posting of a guarantee to ensure the Commencement of Construction of the Facility in such form as is acceptable to and has received the prior approval of the PDA Board of Directors;
3. The incorporation of the recommendations, if any, of the Airport Committee.

Restrictions on

Aircraft Operations: Port City is aware of PDA's efforts to promulgate proprietary regulations that will include certain restrictions on aircraft operations. Port City has agreed to comply with all such future rules and regulations, and will agree and obtain the agreement of its successors in interest, in accordance with the provisions of 14 CFR Part 161, to voluntary operating restrictions which are reasonably consistent with the aircraft operation restriction provisions incorporated herein as Attachment No. 3.

Neither this letter, nor the MOU constitutes a reservation of the Premises, an option to lease and/or sublease the Premises, or an offer to lease and/or sublease the Premises, and no legal obligation shall arise with respect to the Premises or lease thereof until a Lease and/or Sublease Agreement is executed by the Parties.

I believe this proposal addresses the terms as discussed to date. It is my hope that you will be in a position to advise us of your commitment to Pease by executing this original and the enclosed copy in the space provided and returning the original to my attention. If you have any questions, please give me a call.

Sincerely,

George R. Meyer
Executive Director

GRM/mhg

cc. David R. Mullen
Lynn Marie Hinchey
Gerald H. Dexter
Mark Rowell

Richard B. Collier, President
Port City Aircraft Repair, Inc.
June 19, 2000
Page 9

I have read the foregoing and it correctly states the terms upon which we will proceed to negotiate a mutually acceptable Lease and/or Sublease Agreement for the Premises with PDA, subject to the PDA Board of Directors, the PDA Airport Committee and any other governmental approvals that may be required.

Port City Aircraft Repair, Inc.

Date

By:
Its duly authorized:

Exhibit 3

7-26-2002

PEASE DEVELOPMENT AUTHORITY

Airport Management Department, Pease International Tradeport
36 Airline Avenue, Portsmouth, New Hampshire 03801
(603) 433-0536 Fax: (603) 334-6135 TDD: Relay NH 1-800-735-2964



July 26, 2002

Mr. Edward Stead
7 Hutchins Cove Dr.
Kittery, ME 03904

Via FAX: 207-439-6866

Dear Mr. Stead:

This letter confirms that Port City Aircraft Repair, Inc. currently meets the minimum land and facility requirements to operate as a full-service fixed base operator on an interim basis until construction of the permanent facilities is completed.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark K. Rowell', is written over a horizontal line.

Mark K. Rowell
Airport Manager

3-28-2003

PEASE DEVELOPMENT AUTHORITY

Airport Management Department, Pease International Tradeport
36 Airline Avenue, Portsmouth, New Hampshire 03801
(603) 433-6536 Fax: (603) 334-6135 TDD: Helay NH 1-800-735-2964



March 28, 2003

Mr. Richard Collier
General Manager
Port City Aircraft
44 Durham Street
Portsmouth, NH 03801

Dear Mr. Collier

Subject to Port City's ongoing obligations to comply with its Sublease and all applicable rules and regulations in connection with its FBO operations, this will serve to confirm that Port City Aircraft may commence aircraft fueling operations, effective March 28, 2003.

Please do not hesitate to contact me with any questions by calling (603) 433-6536.

Sincerely,

Kim (Bill) Hopper, A.A.E.
Airport Operations Manager

cc: George R. Meyer, Executive Director
Mark Gardner, Staff Attorney
Mark K. Rowell, Airport Manager
Pease Airport Operations Division
Deputy Chief William Hartekopf, Pease ARFF