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November 20, 2014

VIA EMAIL & U.S. MAIL

Anthony Garcia
Federal Aviation Administration
AIRPORTS DIVISION
P.O. Box 92007
Los Angeles, CA 9009-2007

*Re: Federal Aviation Administration Land Use Inspection Report of
May 15, 2014*

Dear Mr. Garcia

As requested in the Federal Aviation Administration Land Use Inspection May 15, 2014 Report (the "Report") and follow up correspondence, please find this letter discussing the City of Cottonwood's (the "City") corrective action strategy for the compliance issues identified in the Report. This letter updates the interim letter sent previously.

The City has been diligently pursuing corrective action after receiving the Report. The City retained this firm to assist the City in this matter. Following the Report, the City focused efforts upon investigating the facts underlying the concerns raised in the report and has begun implementing specific policies and procedures in consultation with the FAA. To this point, the City has ascertained the following items and implemented the following policies and procedures.

Collection of Rents:

The City has conducted an audit for the previous 3 years to determine the status of the leasehold tenant's payments of rental amounts due. The City's audit revealed that only two of the 43 tenants were currently delinquent on lease payments and further, that one tenant was delinquent for the year 2012. The City will notice those tenants to bring their rental payments current. Should those tenants fail to bring their rental payments current, the City will seek the appropriate legal relief. The audit suggested that City processes for ensuring the payment of rent by the airport tenants is adequate. The City will pay particular attention to this issue and ensure that the tenants are paying rents in a timely fashion.

Fair Market Value Appraisal:

The City retained Axia Real Estate Appraisers to conduct an appraisal of the non-aeronautical properties to ascertain the appropriate rental rates for the properties. The City made that appraisal available to the FAA and our understanding is that the FAA has no objection to the findings of the appraisal. The appraisal found that the appropriate market rental for the non-aeronautical property was \$480 per acre. At present the tenants pay \$435 per acre for the parcels that those tenants, or those tenants' predecessors, developed. Thus, it appears that the tenants of the developed parcels are paying 90 percent of fair market value. The City is addressing any deficiency in the lease assignments through the lease assignment process.

There were four leased areas which were not part of the appraised parcels. The Yavapai College Fire Training Center lease, the Valley Verde Humane Society lease, the Cottonwood Public Works Department Parcel and the Mongini leases. The Yavapai College Fire Training Center lease, the Valley Verde Humane Society lease, and the Cottonwood Public Works Department Parcel will be revised to contain appropriate language subordinating the leases to federal grant assurances. In addition, the lease rates will be revised to the rate determined by the appraisal and the appropriate rent escalator will be placed in the lease.

The City intend to approach the Mongini lessees with various proposals to discuss resolution of the issues underpinning that lease bearing upon the fair market value of the lease.

Lease Assignments:

The City has instituted a policy of requiring specific language in future consents to assignments to address future escalations in the rental payments.

Where a lessee of a non-aeronautical use parcel is requesting consent to an assignment of the lease the City requires the assignee to accept the following language:

City of Cottonwood Conditions. Assignee hereby agrees to the following conditions in consideration for the City of Cottonwood's consent to this Assignment:

a. Monthly Base Rent Increase. Commencing on the one year anniversary of the execution of this Assignment, and on each annual anniversary thereafter during the term of the Ground Lease, the Monthly Base Rent shall be increased by the COLA percent rate set annually by the Social Security Administration in October of the previous year.

b. Inspection. The City of Cottonwood shall be allowed to immediately enter into and inspect the Parcel and any buildings thereto at any time should the City of Cottonwood determine in its sole discretion that an emergency exists. The City of Cottonwood shall also be allowed to inspect the Parcel and any buildings thereto, during customary business

hours, upon giving the Assignee (5) five days' notice of such inspection. Assignee hereby agrees to reasonably cooperate by opening any buildings to facilitate such an inspection.

c. Rules and Regulations. The City of Cottonwood reserves the right to adopt, amend and enforce reasonable rules and regulations governing the Leased Premises and the public area and facilities used by the Assignee. Such rules and regulations shall be consistent with the safety, security and overall public utility of the Airport and with the rules, regulations and orders of the Federal Aviation Administration or such other successor agency as may hereafter be designated by the Federal Government with respect to aircraft and airport regulation. Assignee agrees to obey by all such rules and regulations adopted or amended by the Landlord and specifically agrees that violation of any such rule and regulation shall constitute an Event of Default as provided in this Agreement.

d. Part 77. Assignee agrees to comply with the notification and review requirements contained in Part 77 of the Federal Aviation Regulations (14 C.F.R. Part 77) in the event any future structure or building is planned for the premises, or in the event of any planned modification or alteration of any present or future building or structure situated on the premises. Assignee expressly agrees that it will not erect or permit the erection of any structure or object such that the object encroaches into any Part 77 airspace. In the event that Assignee allows or fails to mitigate an object that encroaches into any Part 77 airspace, the City of Cottonwood reserves the right to enter into the Leased premises and remove the offending structure or object at the expense of the Assignee.

e. Non-Discrimination. Assignee agrees that: (i) no person on the grounds of race, creed, color, national origin, sex, sexual orientation, age, or handicap shall be excluded from participation in, denied the benefits of, or be otherwise subject to discrimination in the use of said facilities; (ii) in the construction of any improvements on, over or under such land, in providing employment, and in the furnishing of services thereon, no person on the grounds of race, creed, color, national origin, sex, sexual orientation, age, or handicap shall be excluded from participation in, denied the benefits of, or otherwise be subject to discrimination; and (iii) Assignee shall use the premises in compliance with all of the requirements imposed by or pursuant to 41 C.F.R. Part 60, 49 USC 306, 49 C.F.R. Part 21, 49 C.F.R. Part 27, or the assurances contained in FAA Order 5100.38A as said laws, regulations, or assurances may be amended from time to time. Assignee assures that it will comply with pertinent statutes, executive orders and such rules as are promulgated to insure that no person shall, on the grounds of race, creed, color, national origin, sex, sexual orientation, age, or handicap be excluded from participating in any activity conducted with or benefiting from Federal assistance. This provision obligates the Assignee or its transferee for the period during which Federal assistance is extended to the airport program, except for Federal assistance as to provide, or is in the form of personal property or real property or interest therein or structures or improvements thereon. In these cases, this provision obligates the party or any transferee for the longer of the following periods: (a) the period during which the property is used by the sponsor or any transferee for a purpose for which Federal assistance is extended, or for another purpose involving the provision of

similar services or benefits; or (b) the period during which the airport sponsor or any transferee retains ownership or possession of the property. **Assignee** shall furnish its accommodations and/or services on a fair, equal and not unjustly discriminatory basis to all users thereof, and it shall charge fair, reasonable and not unjustly discriminatory prices for each unit of service, provided, however, that Assignee may be allowed to make reasonable and nondiscriminatory discounts, rebates or other similar types of price reductions to volume purchasers or users.

f. Affirmative Action. Regardless of the applicability of 14 C.F.R. Part 152 to the airport, Assignee assures that it will undertake an affirmative action program as described in 14 C.F.R. Part 152, subpart E to assure that no person shall, on the grounds of race, creed, color, national origin, sex or sexual orientation be excluded from participating in any employment activities covered in 14 C.F.R. Part 152, subpart E. Assignee assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by this subpart. Assignee agrees that in the event facilities are constructed, maintained or otherwise operated on the said property described in this Lease for a purpose for which a DOT program or activity is extended, or for another purpose involving the provision of similar service or benefits, Assignee shall maintain and operate such facilities and services in compliance with all requirements imposed pursuant to Title 49, Code of Federal Regulations, DOT, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally Assisted Programs with the Department of Transportation - Effectuation of Title VI of the Civil Rights Act of 1964 as said regulations may be amended from time to time.

g. Subordination. Assignee agrees that this Assignment of the Parcel shall be subordinate to the provisions and requirements of any existing or future agreement between the City of Cottonwood and the United States, or the City of Cottonwood and the State of Arizona, relative to the development, operation or maintenance of the Airport.

In the situation in which the assignment is for an aeronautical use parcel, the City requires the following language:

City of Cottonwood Conditions. Assignee hereby agrees to the following conditions in consideration for the City of Cottonwood's consent to this Assignment:

a. Aviation Usage. The Unit shall be primarily utilized for Aeronautical Use as defined, from time to time, by the Federal Aviation Administration. Owners and Occupants of the Unit shall not permit or keep on or in the Unit, except fuel inside a fuel tank of an aircraft or as approved in writing by the Board, any flammable, combustible or explosive material, chemical or substance in a manner, which may, by virtue of the type of material or quantity kept, increase the insurance rate or make insurance on any unit unobtainable or unenforceable. All such substances shall be kept in containers or other receptacles as directed by the applicable Fire Department, insurance agency, or other governmental authority. Further, no toxic materials of any kind in quantities exceeding that allowable by law shall be stored or kept in or on the Unit, or any portion thereof. All such material shall

be kept on the Property in strict accordance with all applicable laws, statutes, rules, ordinances and regulations. The Unit may not be used as a residence.

b. Inspection. The City of Cottonwood shall be allowed to immediately enter into and inspect the Unit at any time should the City of Cottonwood determine in its sole discretion that an emergency exists. The City of Cottonwood shall also be allowed to inspect the Unit, during customary business hours, upon giving the Board of Directors (5) five days' notice of such inspection. Assignee hereby agrees to reasonably cooperate by opening the Unit to facilitate such an inspection.

c. Rules and Regulations. The City of Cottonwood reserves the right to adopt, amend and enforce reasonable rules and regulations governing the Leased Premises and the public area and facilities used by the Assignee. Such rules and regulations shall be consistent with the safety, security and overall public utility of the Airport and with the rules, regulations and orders of the Federal Aviation Administration or such other successor agency as may hereafter be designated by the Federal Government with respect to aircraft and airport regulation. Assignee agrees to obey by all such rules and regulations adopted or amended by the Landlord and specifically agrees that violation of any such rule and regulation shall constitute an Event of Default as provided in this Agreement.

d. Part 77. Assignee agrees to comply with the notification and review requirements contained in Part 77 of the Federal Aviation Regulations (14 C.F.R. Part 77) in the event any future structure or building is planned for the premises, or in the event of any planned modification or alteration of any present or future building or structure situated on the premises. Assignee expressly agrees that it will not erect or permit the erection of any structure or object such that the object encroaches into any Part 77 airspace. In the event that Assignee allows or fails to mitigate an object that encroaches into any Part 77 airspace, the City of Cottonwood reserves the right to enter into the Leased premises and remove the offending structure or object at the expense of the Assignee.

e. Non-Discrimination. Assignee agrees that: (i) no person on the grounds of race, creed, color, national origin, sex, sexual orientation, age, or handicap shall be excluded from participation in, denied the benefits of, or be otherwise subject to discrimination in the use of said facilities; (ii) in the construction of any improvements on, over or under such land, in providing employment, and in the furnishing of services thereon, no person on the grounds of race, creed, color, national origin, sex, sexual orientation, age, or handicap shall be excluded from participation in, denied the benefits of, or otherwise be subject to discrimination; and (iii) Assignee shall use the premises in compliance with all of the requirements imposed by or pursuant to 41 C.F.R. Part 60, 49 USC 306, 49 C.F.R. Part 21, 49 C.F.R. Part 27, or the assurances contained in FAA Order 5100.38A as said laws, regulations, or assurances may be amended from time to time. Assignee assures that it will comply with pertinent statutes, executive orders and such rules as are promulgated to insure that no person shall, on the grounds of race, creed, color, national origin, sex, sexual orientation, age, or handicap be excluded from participating in any activity conducted with or benefiting from Federal assistance. This provision obligates the Assignee or its

transferee for the period during which Federal assistance is extended to the airport program, except for Federal assistance as to provide, or is in the form of personal property or real property or interest therein or structures or improvements thereon. In these cases, this provision obligates the party or any transferee for the longer of the following periods: (a) the period during which the property is used by the sponsor or any transferee for a purpose for which Federal assistance is extended, or for another purpose involving the provision of similar services or benefits; or (b) the period during which the airport sponsor or any transferee retains ownership or possession of the property **Assignee** shall furnish its accommodations and/or services on a fair, equal and not unjustly discriminatory basis to all users thereof, and it shall charge fair, reasonable and not unjustly discriminatory prices for each unit of service, provided, however, that Assignee may be allowed to make reasonable and nondiscriminatory discounts, rebates or other similar types of price reductions to volume purchasers or users.

f. Affirmative Action. Regardless of the applicability of 14 C.F.R. Part 152 to the airport, Assignee assures that it will undertake an affirmative action program as described in 14 C.F.R. Part 152, subpart E to assure that no person shall, on the grounds of race, creed, color, national origin, sex or sexual orientation be excluded from participating in any employment activities covered in 14 C.F.R. Part 152, subpart E. Assignee assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by this subpart. Assignee agrees that in the event facilities are constructed, maintained or otherwise operated on the said property described in this Lease for a purpose for which a DOT program or activity is extended, or for another purpose involving the provision of similar service or benefits, Assignee shall maintain and operate such facilities and services in compliance with all requirements imposed pursuant to Title 49, Code of Federal Regulations, DOT, Subtitle A, Office of the Secretary, Part 21, Nondiscrimination in Federally Assisted Programs with the Department of Transportation - Effectuation of Title VI of the Civil Rights Act of 1964 as said regulations may be amended from time to time.

g. Subordination. Assignee agrees that this Assignment of Unit #2 shall be subordinate to the provisions and requirements of any existing or future agreement between the City of Cottonwood and the United States, or the City of Cottonwood and the State of Arizona, relative to the development, operation or maintenance of the Airport.

The FAA was made aware of the language because we sought your approval prior to implementing the language. We believe that the language addresses the FAA's concerns regarding rental escalation and limiting non-aeronautical usage on the aeronautical parcels. The language will be inserted into each lease assignment as each tenant seeks an assignment. The timeframe for full implementation of this step will depend upon the timeframe under which the tenants seek assignments of their leases.

Prevention of Future Non-Aeronautical Activities:

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The City is now acutely aware of the FAA's concerns regarding the non-aeronautical usage of property. The City has no plans to seek any further non-aeronautical usage of airport property. However, in the event that the City were to consider non-aeronautical usage of property, the City would seek the appropriate release of the property from aeronautical restriction in the policies and procedures provided in the then current regional guidance well prior to contemplating any such non-aeronautical use.

The City takes its grant assurance responsibilities seriously and has undertaken sustained and concentrated effort to implement these corrective action strategies to remedy those issues that are a concern to the FAA. If you have any questions regarding the foregoing, please feel free to contact the undersigned.

Very truly yours,

HINSHAW & CULBERTSON LLP

A handwritten signature in black ink, consisting of a stylized 'T' on the left, a horizontal line, and an 'I' on the right, enclosed within a large oval.

Timothy I. McCulloch

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