

Airport Rates & Charges Study - Ground & Facilities Lease Rates

Briefing for Members of the City Council Finance,
Audit and Accounting Committee

Department of Aviation
February 11, 2008



Purpose

- To consider the Airport Ground & Facilities Lease Rates recommendation separately from other Rates & Charges Study recommendations, to allow for a timely implementation process.

- Review of Lease Rates is one of 7 tasks in Study.
- City Council has requested that future leases be based on recommendations of Rates & Charges Study, rather than current prevailing rates.
- On-going leasing activity requires staff to be responsive to requests.

- Council consideration will allow this recommendation to be implemented while other recommendations are still being developed.



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1. Current Leases and Methods of Determining Rates
2. Rates & Charges Study Recommendation, Implementation.
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Airport Leases and Current Rate Methodology

- Categories of Leases and Rental Agreements:
 - Full Service FBO's
 - Specialty Aviation Support Services
 - Manufacturing Services
 - Airline Terminal Leases
 - Airline Support Facility Leases
 - Other Terminal Leases
 - Non-specific Aviation Leases
 - Rental Car Leases

- Total Tenants – 47; Annual Revenue – \$9,932,289.

- Currently, lease rates are recommended to Council, based on staff surveys of lease rates at other comparable airports for similar space.

- Resulting prevailing lease rate effective March, 2003 (resolution 023525):
 - Improved Ground - currently: \$.46/sf/yr
 - Unimproved Ground - currently: \$.32/sf/yr



Airport Lease Rates

Study Recommendation

- Ground & Facility Rents (excluding airline terminal)
 - Study recommends that lease rental rates should be based on a reasonable rate of return (i.e., 8%-10%, depending on market conditions) on the Fair Market Value of the leaseable properties, as determined by an *independent* appraisal.
 - *Existing leases* have rental rates which are set for their remaining terms. Some of these leases will be affected *immediately* by Study Recommendations, while others will not (depending on lease language) until an *option period or renewal*.
 - Staff concurs with the Study Recommendation because:
 - Transparent process,
 - Uniformity among leases,
 - Consistency over time.



Airport Lease Rates

Implementation of Recommendation

- Conduct Fair Market Value Appraisal of leaseable properties at Love Field and Executive Airport, using an appraiser specializing in valuation of airport properties.
 - Comparable airports nationwide, regionally and locally.
 - Factor in local market conditions.
 - Recommend appropriate rate of return.
 - If warranted, recommend reasonableness considerations, or phase-in.

- Use to determine Prevailing Lease Rates for:
 - Improved Ground
 - Unimproved Ground
 - Hangar Space
 - Office Space
 - Cargo/Support Space

- Update on periodic basis (4 years or less). Review annually as part of budget process to be adopted as part of rate ordinance.



Expeditious Implementation Needed: Gulfstream Proposed Consolidated Lease

- The procurement and appraisal process will likely take 3-4 months to complete. In order to act in a timely manner on the Gulfstream Consolidated Lease proposal, the following steps are proposed:
 - Initiate Fair Market Value Appraisal process of leaseable airport properties.
 - Utilize current Prevailing Lease Rates to complete negotiations, and enter into the consolidated lease:
 - \$0.46/sf/yr for improved land
 - \$2.24/sf/yr for hangar space
 - \$5.08/sf/yr for office space
 - Include lease language that provides, upon completion of the FMV appraisal and City Council approval of the resulting Prevailing Lease Rates, the consolidated lease will adjust by its negotiated terms:
 - immediately escalate to the new Prevailing Lease Rates with a 12% cap;
 - continue to escalate to the new Prevailing Lease Rates with a 12% cap, every three years.



Special Case: Dallas Executive Airport

■ Circumstances at Dallas Executive Airport suggest a modified approach:

- 75 acres (+/-) available for aeronautical development;
- 270 acres (+/-) available for non-aeronautical commercial/industrial development;
- Dallas Executive Airport competes with 10 other airports for tenants and traffic.

■ Dallas Executive Airport has experienced recent traffic growth and interest from potential new tenants:

- The airport ranked # 2 of 10 competing airports in the Metroplex for takeoffs & landings in 2006. These operations are up 8.58% to 146,540 takeoffs & landings in 2007.
- Two international aircraft manufacturers have expressed interest in Dallas Executive Airport, and received presentations from Economic Development and Aviation staffs since Oct, 2007.

■ A policy allowing consideration of a modified approach to leasing at Dallas Executive Airport will enable the City to capitalize on these positive trends:

- Establish prevailing rates as recommended by Rates & Charges Study;
- Consider non-discriminatory alternative rates and escalation practices in consideration of exceptional proposal features, including:
 - Capital investment exceeding \$1 million;
 - Employment commitments of at least 25 FTE's.
- Proposed non-discriminatory alternative practices to be briefed to Committee case-by-case.



Staff Recommendation

■ Authorize the City Manager to establish procedures and procure services pursuant to the Rates & Charges Study recommendations:

- Lease rates to be based on a reasonable rate of return on the Fair Market Value of leaseable airport properties, as determined by an independent appraisal. Appraiser to be experienced in appraising airport properties.
- Will constitute Prevailing Lease Rates for Love Field and Executive Airports:
- Update Fair Market Values of leaseable airport properties periodically to update Prevailing Lease Rates.
- Support the use of existing Prevailing Lease Rates to facilitate negotiation of Gulfstream Consolidated Lease, which will adjust to new Prevailing Lease Rate determined according to the Rates & Charges Study recommendation presented herein, and escalate at a rate of 12% every 3 years until it reaches the Prevailing Lease Rate.
- Support modified approach for Dallas Executive Airport to allow consideration of alternative rates and escalation practices on case-by-case basis.

■ NEXT STEPS

February 27, 2008 - Council Agenda to approve recommendation.

