

Memorandum



CITY OF DALLAS

DATE April 6, 2018

TO Honorable Mayor and Members of the City Council

SUBJECT **City Council Agenda Item #4 – April 11, 2018**

In response to questions raised regarding the above agenda item by some Council members as well those from the Economic Development & Housing Committee, please find the following information:

One of the major goals of the Department of Aviation is to attract corporate business aircraft and related businesses. This lease is intended to serve as a catalyst project to further that goal by developing the west side of Dallas Executive Airport in line with the City of Dallas' GrowSouth Plan. The total capital investment to develop the project is estimated at \$15.9M. The Department of Aviation has a responsibility to construct infrastructure that allows access to the runway, and since none exists on the west side of the airfield, it is necessary to begin the goal of expanding development of the airport. The \$4.1 million reimbursement for this access is part of the total project and is not an exclusive use as part of the lease. By way of example, the City constructed taxiway R, in advance of development and only recently approved new hanger development that was possible because Taxiway R provided airfield access.

The City's capital contribution to this development is \$3.5 million, with a lease revenue of \$5.6 million over the primary term of the lease resulting in a net direct return to the Department of Aviation of \$2.1 million. More importantly, Aviation is securing the amenity of a permanent aircraft maintenance and repair operation which will drive additional activity at Dallas Executive and create an additional twenty-five jobs, while relocating another forty jobs to the airport. The funding for this project is generated by non-airline revenues. Under the use and lease agreement the City has with the airlines, all revenues from commercial airline activities is dedicated to costs at Dallas Love Field and cannot be used at Dallas Executive. But for the Department's contribution, the development costs are too high for the project to be financially sound.

The main reason this development is more costly is because there is no existing infrastructure on the west side of the airport. Other developments have benefited from prior City investments that foster development, and since the Dallas Executive Master Plan identified the west side of the airport as an area with significant potential, this project is strategic in jump starting activity on the west side. Therefore, as a catalyst project, there are higher costs associated with breaking new ground, and the City's subsidy on the deal brings the development cost in line with the other hangar development at the airport.

While airport development projects have economic impact, they are not economic development due to the fact that the purpose of the Department of Aviation's primary purpose is to generate revenue for the system to support department activities.

The Department of Aviation uses many of the same decision criteria as are used in evaluating requests for City incentives. Since these developments ultimately are airport improvements, and the value of the improvements benefit the City, the yield curve on the City's investment in the project can be flat for an extended period. Because none of the property or improvements become private property, all investments benefit the airport over the long-term. Ultimately, this project is net revenue positive and brings significant and needed amenities to Dallas Executive which will help spur future development in the area.

Additionally, a question was asked regarding the term of the lease. It has been the experience of the Department in discussions with other airport developers and lenders that long-term leases are necessary for adequate payback of capital investment, since net profit margins on aviation projects is low. In analyzing the City's capital contribution to this project, it is based on the economics of the project so that it generates sufficient revenue to pay the cost of development.

By examples below, the most recent leases executed by the City for airport projects have had similar terms.

<u>Project</u>	<u>Council Approval</u>	<u>Primary Term</u>	<u>Options</u>	<u>Total</u>
Business Jet Access Lease consolidation	Dec. 2017	37 years	1-5 yr	42 years
DCS Aviation (DEA hangar development)	March 2016	30 years	2-5 yr	40 years
Braniff Centre – Commercial (Randall Reed development) 10yr rent abatement	Sept. 2015	39 years	3-10 yr	69 years
Braniff Centre – Aviation (Lincoln Properties & Blue Star development) 10yr rent abatement	Sept. 2015	39 years	3-10 yr	69 years
Commemorative Air Force (includes capital campaign match)	Dec. 2014	39 years	N/A	39 years

The Department also recently reviewed its lease activity and process with the City Attorney's Office and the Airports Compliance group of the Federal Aviation Administration to confirm that they were consistent with all FAA regulations and guidelines with respect to the leases and terms of leases.

By comparison, the market rates of Dallas Love Field and Dallas Executive Airport dictate what level of development expense can be incurred for the project to be financially feasible. The most recent hangar developments approved by City Council at Dallas Love Field and Dallas Executive have had development costs as follows:

Project	Developer cost \$/sf
Braniff Centre (Dallas Love Field)	\$52.34
DCS (Dallas Executive)	\$35-\$40
Proposed Project	
Without City Participation	\$51.60
With City Participation	\$36.30

The Department wants to ensure that there is clarity in its aviation development business practices and the deals recommended to the City Council are based on the economics of the unique market forces at both Dallas Love Field and Dallas Executive.

The most recent market rate study that was performed for the City last month shows the hangar rental rate for a development project such as this one at approximately \$4.00/sf - \$6.00/sf for hangar space with larger office spaces leasing for between \$5.00/sf - \$10.00/sf. At that level of revenue, the debt service coverage ratios are too low to support the funding of the project. **The goal of the City's investment is to "buy down" the rental rate necessary to entice the private investment.**

The 3-10 year options represent significant revenue to the airport. Each option would be mutually executed by the Lessee and the City, and will be at the prevailing rate for the improved property. The revenue estimate is \$5,995,078.20 per option period or \$17,985,234.60 total throughout all three options. Since the airport is required to be non-discriminatory in its leasing, all tenants pay the same prevailing rate on leased property. Whether the options are exercised by the tenant or a new tenant is sought, the revenue is identical.

The lease also provides a right of first refusal on the adjacent tract of land for the initial 10 years of the lease term. This limited right allows the developer to match any offer that the City may receive to lease and develop the same tract. Should the developer not be ready or able to match the proposed offer, the City will move forward with the initial offeror. The developer will also pay the City an additional \$500/month for the right. **This provision does not give any acquisition rights, nor does it prevent the airport from seeking additional development on those tracts.**

The Department completed its analysis of the financials consistent with prior development of previous aviation projects. Though not part of the project sizing and in response to questions raised regarding the rate of return to the developer, a more detailed underwriting analysis is being performed and should be available no later than Monday April 9, 2018. Staff will contact each Councilmember to discuss the underwriting analysis prior to Wednesday, April 11, 2018.

The action that Council will be taking on this project is to authorize the City Manager to execute the proposed lease. As a point of further clarification, the lease will not be executed until all final documents, including final loan approvals and loan documents, payment and performance bonds, equity partnership agreements, property surveys, certificates of insurance, and any other documents required by the City are received. Additionally, the City bears no risk as no City funds will be expended until all documentation has been provided and the project is fully completed. **The \$4.1 million in offsite improvements will not be reimbursed until those improvements are completed and accepted by the City. The \$3.5 million capital contribution will be paid in 2 installments after the final improvements are completed.**

Additional questions from Councilmembers with responses found below:

1. **Question:** When will the Instrument Landing System(ILS) be restored?

Answer: The installation of the equipment is scheduled to be completed by the end of June 2018 with the flight inspection review of the approaches July 18, 2018 – Aug 16, 2018, and the Flight Check TBD between July 18 – Aug 16, 2018 depending on weather and aircraft schedule. The approach procedures scheduled to be published by November 8, 2018.

2. **Question:** What is the status of the FBO and Facilities Management Services Contract?

Answer: The draft specifications have been completed and are under final review by the Department of Aviation and the Office of Procurement Services. The Request for Proposals(RFP) is scheduled to be issued by the end of April.

3. **Question:** Where else has the consultant that is drafting the FBO and Management Services RFP worked?

Answer: Airport Business Solutions has done aviation consulting work at over 50 airports across the country. They most recently have developed RFP's for Salt Lake City and Raleigh Durham airports.

4. **Question:** What is the current number of employees at Dallas Executive, and what does this potential increase in employees represent as a percentage increase?

Answer: There are currently 107 private jobs at DEA (89 Full-Time & 18 Part-Time) according to a recent TxDot survey. The relocation of the proposed tenant is bringing 65 jobs (40 relocation + 25 new jobs) a 61% increase in private employment.

5. **Question:** Please provide the dates of Mr. Rodney Burchfield's employment with the City of Dallas and a description of the projects he worked on, including explicitly discussing any work he did with or for the Aviation Department. Please indicate which current City of Dallas employees at Aviation he worked with as a City of Dallas employee.

Answer: Mr. Burchfield worked in Human Resources Department beginning in August 2010 prior to joining the Economic Development Department (EDD) in January 2013. He left the City in September 2015. As a Senior Coordinator for the department he worked on various real estate projects for both Dallas Executive and Dallas Love field. Current City employees in Aviation who worked with Mr. Burchfield include the department executives, the staff of the real estate division, as well as finance and accounting staff.

DATE April 6, 2018
SUBJECT City Council Agenda Item #4 – April 11, 2018 - Page 5

Should you have any questions, please feel free to contact me or Mark Duebner, Director of Aviation.



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