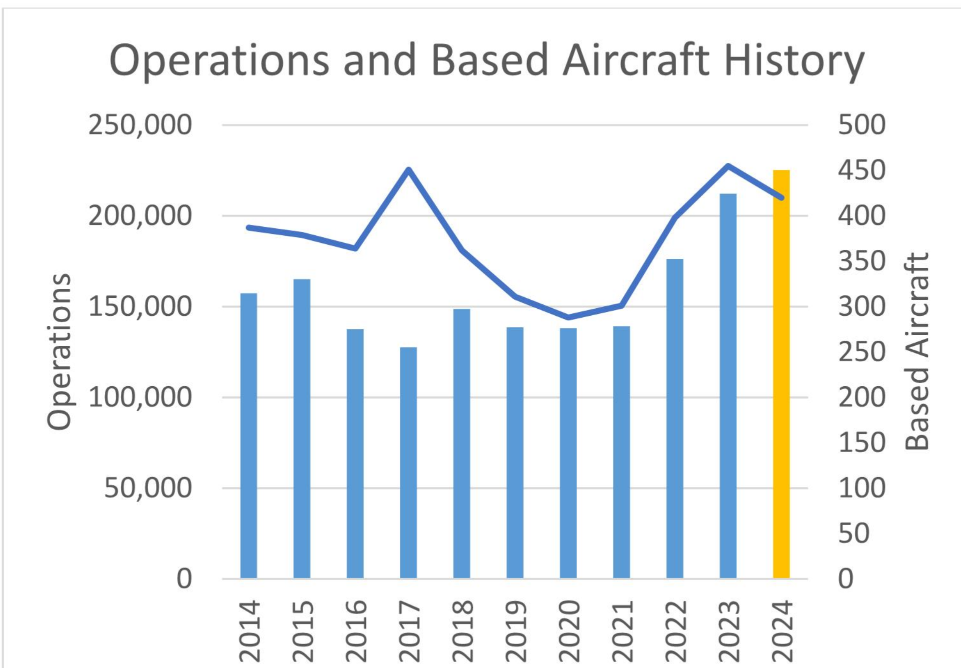
INFORMAL STAFF REPORT
TO MAYOR AND CITY COUNCIL

SUBJECT:
2025 Airport Rates Analysis and Recommendation

EXECUTIVE SUMMARY:
The growth of the Denton Enterprise Airport, when coupled with increased infrastructure funding needs and declining gas well revenues, has resulted in a projected annual budget deficit in the City's five-year financial forecasts. The rates and fee structure changes are needed to fund current and future operational and capital costs. With the support of a recent general aviation fee study, Airport staff and the Airport Advisory Board (AAB) recommend several changes to improve future financial sustainability.

BACKGROUND:

Impact of Airport Growth
The Denton Enterprise Airport has experienced substantial growth since 2014. Examples of this growth can be seen in the areas of based aircraft, operations, and the enhancements to infrastructure to support operations, such as the 2019 addition of a parallel runway and the 2024 reconstruction of the main runway.



The image above illustrates this growth period. Over the past four years, flight operations have grown considerably, from an average of 150,000 per year to over 200,000 per year. Projections included in the 2024 Master Plan view this trend as continuing. Over 240,000 operations are expected in 2029, while that number will increase to over 320,000 in 2044. The number of based aircraft, an approximation of overall airport development, has increased from less than 300 in 2020 to over 400 today. Those numbers will continue to increase with 475 based aircraft expected in the year 2029 and 717 based aircraft expected in 2044. (NOTE: The based aircraft count process was updated just prior to 2020. Prior counts are deemed to be less accurate than more current counts.)

The 2021 Airport Pavement Management Program update identified pavement segments that continue to require rehabilitation or reconstruction, the cost of which would exceed $22 million (in 2021 dollars). An additional 22 pavement segments require significant maintenance at over $1.5 million (in 2021 dollars). Future infrastructure needs will only increase as airport activity increases. They will include taxiway and taxi lane rehabilitation, vehicular roadway maintenance, rehabilitation or replacement of the air traffic control tower, and drainage and stormwater improvements. The **growth in airport activity, along with current and future infrastructure needs, is a significant driver of operational and capital costs** for the airport.

Economic Conditions

In addition to growth, Denton Enterprise Airport has faced general economic conditions that create challenges in funding operations and infrastructure. The general economy has seen a trend of rising inflation and cost of goods, particularly in the construction industry. Increased borrowing rates and increased costs of labor and services also adversely impact the Airport's ability to fund improvements, utilize technology, or source airport services.

The table below provides an example of the five-year change in the Consumer Price Index (for urban areas) and inflation rates for several important categories of construction supplies. While interest rates and supply costs have stabilized in the last 1-2 years, the impact of increases experienced over the 2019-2023 timeframe continues to impact current costs.

5-Year Inflation Rates (ending in 2023)

Category	*Inflation Rate*
CPI-U	**21.3%**
Roadway Supplies	35.9%
Concrete	40.4%
Steel	36.8%

Figure 1 - Source: Bureau of Labor Statistics

Regulatory Conditions

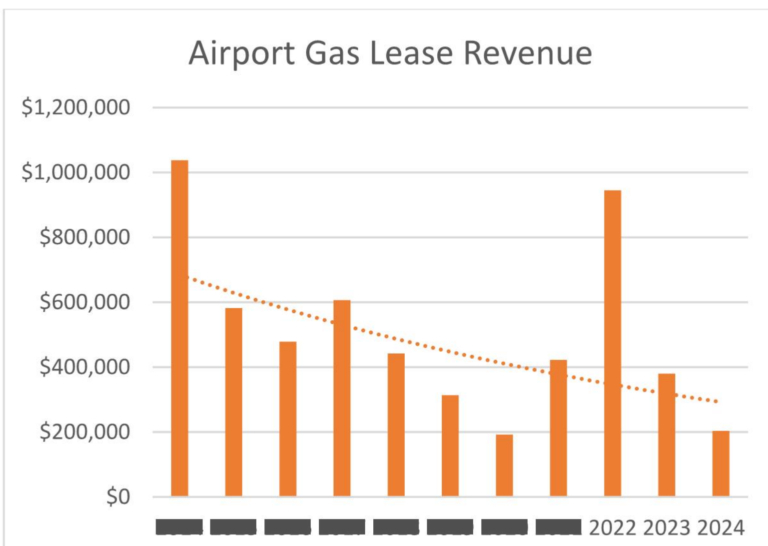
The airport must cover its expenses through airport revenues as an enterprise operation. In other words, the airport's cost is borne by airport users, not the general taxpayer who does not otherwise use the airport. Federal Aviation Administration (FAA) Grant Assurance 24 supports and promotes this approach to airport funding. FAA grant assurances are obligations that an airport must agree to in order to receive FAA funding for large infrastructure projects.

Currently, that funding covers 90% of a project's cost. FAA Grant Assurance 24 addresses fees and rental structures and states that the airport sponsor will strive to be as "self-sustaining as possible." In short, as the general economic conditions have continued to drive prices higher, the airport's obligation to fully fund its operations with airport revenues remains unchanged.

Current Financial Conditions

Denton Enterprise Airport derives most of its revenues from rent on ground leases, fuel flowage fees assessed on fixed base operators, hangar and tie-down fees assessed on fixed base operators, and gas well royalties. Since 2024, revenues have shown steady growth driven by lease revenues, hangar rentals, and tie-down fees. **Fuel flowage revenues have remained flat and variable**, despite the substantial growth in airport operations and based aircraft.

Revenues from airport gas leases can best be described as highly inconsistent. The graph below shows revenues from this source over the last 10 years. While two of those years show revenues at or above $1 million, most years will show revenues at $400,000 or less. Of concern is the **overall downward trend of these revenues** during that time. It is the Airport's assessment that the gas lease revenues cannot be counted on for future ongoing operational costs, due to its unpredictable and variable nature.



Expenditures for the Airport can generally be categorized as personnel-related, operational and supply costs, cost of service payments, and debt service payments. Over the past 10 years, operational costs have remained relatively stable. The airport fund began making payments on its own debt service in 2021, and the **key driver of expenditures has primarily been infrastructure project-related debt**. Prior to this, the City of Denton general fund made these payments which were supplemented by gas lease revenue.

While the airport can fund its operations through existing revenues, the significant reduction in gas lease revenue coupled with project-related debt payments has presented a significant financial challenge, including recent budget deficits that were balanced through the use of the Airport fund balance. Currently, future Airport revenues cannot sustain anticipated expenses and, as a result, the Airport Fund is projected to balance operational deficits in each of the next 5 years. **This trend will result in the eventual exhaustion of the Airport Fund balance.**

DISCUSSION:

Understanding the financial challenges the Airport faces, the City engaged Aviation Management Consulting Group (AMCG) to perform a financial analysis of the Airport.

Fee Study and Recommendations

This financial analysis would include a General Aviation Fee Study to analyze and make recommendations for the Airport rates and fee schedule. In its analysis, the study utilized a cost-center approach to help ensure that those activities that generate the greatest financial costs to the Airport would provide commensurate revenues through its fees.

The Fee Study made several recommendations, particularly **increasing the Fuel Flowage Fee** (charged to FBOs and private fuel farms) and **implementing several new fees**: a Landing Fee for larger aircraft, an annual Aeronautical Permit Fee for airport businesses, an Airside Access Fee, and a Hangar Wait List fee. It also recommended the Airport review the rental rates it charges for city-owned hangers so that they may be more consistent with what is charged in the private sector.

A summary of the study fee recommendations is below:

TYPE OF FEE	FEE
Fuel Flowage Fee	
Avgas (Commercial)	$0.22
Jet (Commercial)	$0.22
Avgas/Jet (Non-Commercial)	$0.34
Percentage of Gross Receipts	
Hangar/Tiedown	12% for existing agreements
Landing Fee	
All Non-Based Aircraft	
Light Sport	$0.00
Piston Single-Engine	$0.00
Turbine Single-Engine	$1.75 per 1,000 MGLW
Piston Mult-Engine	$1.75 per 1,000 MGLW
Turbine Multi-Engine	$1.75 per 1,000 MGLW
Business Jet	$1.75 per 1,000 MGLW
Helicopter	$0.00
Other/Military	N/A

Aeronautical Permit Fee	
Fixed Base Operator	$1,500.00
Aircraft Maintenance Operator	$750.00
Avionics or Instrument Maintenance Operator	$750.00
Aircraft Rental or Flight Training Operator	
Small (10 or less aircraft)	$500.00
Medium (11-25 aircraft)	$750.00
Large (more than 25 aircraft)	$1,000.00
Aircraft Charter or Aircraft Management Operator	$750.00
Aircraft Sales Operator	$750.00
Aircraft Storage Operator	$750.00
Other Commercial Aeronautical Activities	$750.00
Independent Operator	$500.00
Non-Commercial Flying Club	$750.00
Self-Fueling Permittee	$500.00
Training Facility	$750.00
Airport Access Fee	
Annual Renewal	$25.00
Other Fees	
Aircraft Waitlist Fee	$100.00

Public Feedback

After an initial presentation to the AAB in early November 2024, Airport staff sought public feedback on the Airport's financial condition and the study's proposals. In addition to emails to airport stakeholders and two in-person town hall meetings, Airport staff maintained an engagement page at www.discussdenton.com/airport. The engagement page provided documents, presentations, background information, and the ability for the public to ask questions or leave comments.

Through these feedback opportunities, staff found:

- A few concerns with access, waitlist, and permit fees
- Fuel Flowage Fee increases are not desired but are acceptable if there is no better option
- There was mixed feedback on landing fees:
    - Concerns for its impact on businesses and itinerant traffic
    - Concerns it could be applied to based aircraft in the future
    - Some support for landing fees in comparison to fuel flowage fee increases
- A desire for general fund support in recognition of the airport's economic impact. (NOTE: the General Fund provided financial support to the Airport Fund through the year 2020)

City-Owned Hangars Comparison

The City of Denton owns and leases 27 general aviation hangars. It is a best practice that monthly rental rates for these hangars are not substantially below market value. This ensures that the City optimizes the revenue potential that the local hangar market will permit and that the City is not setting its rates to a level that would adversely impact the rental pricing of privately owned hangars at the airport.

Using a standard T-hangar (950 to 1,000 square feet) benchmark, Airport staff evaluated market prices for similarly sized private hangars for rent at Denton Enterprise Airport. **Staff found that**

City T-hangars were priced 56% lower than the highest-priced privately leased T-hangar at the Airport and 46% lower than the average private sector prices for T-hangars. Additionally, the City-owned T-hangars are seven years old, while the T-hangars for the private sector range from 20 to over 50 years old. Based on this information and the demand for hangars, demonstrated by a 100+ person hangar wait list, staff feels the rental rate for City-owned hangars should be increased to align with the market more closely.

Staff and AAB Recommendations

Staff recommends, with the concurrence of the AAB on Dec. 11, 2024, to adopt the following changes to the Airport Rates and Fees Schedule:

1. Implement an annual Access Fee of $25 for airfield access cardholders;
2. Implement an annual Permit Fee for commercial aeronautical activities at the airport as recommended by AMCG;
3. Implement a one-time non-refundable hangar waitlist fee of $100 for city-owned hangars;
4. Increase the Fuel Flowage Fee assessed to fixed base operators by $0.05;
5. Increase the Fuel Flowage Fee assessed to private-use fuelers by $0.08; and
6. Increase the rent for city-owned hangars by approximately 25% to more closely align with the local market.

The table below summarizes the impact of the recommended changes. Rather than the fund balance losing over $200,000 in the final year of our forecast (FY2028-29), the fund will nearly break even, only losing a projected $151. Additionally, the fund balance will have retained nearly $950,000, only being reduced by just over $181,000 instead of $1.1 million without any rate changes. **These changes significantly limit further fund balance loss and are important in strengthening the Airport's financial position.**

Fund Balance Impacts	Take No Action	Implement Recommendations
FY 2028-29 Change in Fund Balance	($238,681)	($151)
FY 2028-29 Ending Fund Balance	$1.924M	$2.871M
5-Year Fund Impact	($1,128,863)	($181,049)

The increase in City-owned hangar rents would be reflected through the following rate changes:

Type	Current Rate	New Rate	% Increase
T-Hangar A/B (1,332 SF)	$600	$750	25%
T-Hangar C/E (1,132 SF)	$400	$500	25%
T-Hangar D (981 SF)	$350	$450	28.5%
Box Hangar (1,287 SF)	$525	$675	28.5%

The Airport fund may be further impacted over the next five years by the receipt of right-of-way funding for the TxDOT Loop 288 extension, additional land lease revenue, higher than anticipated fuel sales, and the reversion of leased property to the city that can be released by the City at fair market rates. Since these possibilities are not guaranteed and entail revenue amounts that are not yet known, they have not been included in these calculations.

Next Steps
The Council will receive a brief overview of the rate recommendations at its Jan. 14, 2025, work session, with consideration of Airport Rates scheduled for the Feb. 11, 2025, City Council meeting. Any changes to Airport rates and fees would be effective at the midyear point of the current fiscal year, April 1.

CONCLUSION:
Changes to the rate structure that result in additional revenue, coupled with the continued development of airport property and attraction of itinerant air traffic, provide a strong basis for the ongoing financial health of the airport. Additionally, growing the Airport Fund balance is the best mitigation for the adverse financial impacts of any unanticipated or significant future costs. The recommendation provided presents the best current option toward creating sufficient revenue to fund operations and capital costs while minimizing the impact of the increases on airport users. Airport revenues will be evaluated annually as part of the budget process to further strengthen the Airport's financial position.

ATTACHMENTS:

1. General Aviation Fee Study

STAFF CONTACT:
Ryan Adams
Airport Director
Ryan.Adams@cityofdenton.com
(940) 349-7744

REQUESTOR: Staff Initiated
STAFF TIME TO COMPLETE REPORT: 2 hours
PARTICIPATING DEPARTMENTS:
Airport
Finance