



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Transportation

CM/ DCM/ ACM: Mario Canizares

DATE: October 5, 2017

SUBJECT

Receive a report, hold a discussion on Airport Budget related items.

BACKGROUND

During the preparation of the FY17-18 Airport Budget, Airport and Finance staff conducted additional review of revenues and expenditures, along with additional Airport Staff evaluation of leases and leasing practices. Additional details on the Airport 10-Year Pro Forma and Reversionary Clause are provided below.

Airport 10-Year Pro Forma

The updated Airport 10-year Pro Forma, as provided in the Informal Staff Report, August 11, 2017 (Exhibit 2), includes a review and evaluation of Airport revenues and expenditures through FY 2026-27. Two versions of the Pro Forma were prepared, one including the Airport Enterprise Fund covering debt services and one with debt service covered by the General Fund.

Several revenue enhancements were identified, including lease rate enhancements due to Consumer Price Index (CPI) adjustments, new acreage leasing, FBO commissions, and updated gas well royalties. Additional, previously projected expenditure increases were reevaluated and refined to reflect lower anticipated percentage increases over the 10-year projection period.

Staff is continuing further evaluation to ensure the current fee structure meets industry practices and is comparable to other similar general aviation airports in the Metroplex area. Staff proposes the development of a Rates and Fees Schedule and Leasing Policy to provide details on fee structure and policies on leasing practices (previously conducted 2011 by SAMI Management). These documents would be brought before the Council Airport Committee for consideration at a later date.

Reversionary Clause

In June 2011, City staff engaged the services of SAMI Management, Inc. to review best management practices for general aviation airports to administer a property reversion clause typically contained in aviation ground leases. SAMI Management is a privately held real estate company located in the Metroplex specializing in the leasing, management and advisory of real estate assets within the aviation industry. SAMI Management currently provides lease administration, property-level accounting, asset management and strategic planning for Addison Airport. The Best Practices for Asserting Ground Lease Reversionary Rights at Denton Municipal Airport (Exhibit 3) provided a description of a typical reversionary clause process and recommendations.

The SAMI report provided detailed descriptions on how the City should review, manage and implement reversionary actions. Specifically, steps were identified on handling the disposition of building improvements, reversion at the end of the lease agreement, and deferment of the reversion event through a new lease agreement. Calculation methodologies were provided to determine if the opportunity cost of the deferment of the reversion is in the best interest of the City. These calculations would assist in determining if a new lease agreement, deferment of a reversion, or transition of assets to the City is warranted.

Staff recently met with an outside aviation legal firm for a tour of the Airport and briefly discussed the reversionary issue. SAMI Management is a professional real estate firm and does not appear to have a legal background or provided any legal advice. Staff recommends that an outside aviation legal firm review the SAMI report to ensure the direction provided does not conflict with any current FAA/TxDOT grant assurances or directives. Following the legal review, Staff will prepare several options to consider for addressing future reversionary lease issues. Any leases approaching reversion will be evaluated by Staff in accordance with the adopted option and a recommendation presented to the Council Airport Committee for consideration.

OPTIONS

1. Accept Staff recommendations as provided
2. Accept Staff recommendations with additional direction
3. Take no action at this time.

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

Airport Budget

- City Council Work Study presentation, June 27, 2017
- City Council Work Study presentation, August 3, 2017

SAMI Report

- Airport Advisory Board reviewed SAMI Report, December 13, 2010
- Airport Advisory Board reviewed SAMI Report, February 21, 2011
- Council Airport Committee provided staff direction regarding the implantation of the SAMI Report on July 19, 2011
- Council Airport Committee further discussed the SAMI Report on August 2, 2011

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Economic Development

Related Goal: 1.1 Manage financial resources in a responsible manner

EXHIBITS

1. Agenda Information Sheet
2. Informal Staff Report – Overview of Airport Budget, August 11, 2017
3. SAMI Management Report – Best Business Practices for Asserting Ground Lease Reversionary Rights at Denton Municipal Airport, July 12, 2011

Respectfully submitted:
Scott T. Gray, C.M., C.A.E.
Airport Manager