

Memorandum



CITY OF DALLAS

DATE April 11, 2008

TO Transportation and Environment Committee:
Linda Koop (Chair), Sheffie Kadane (Vice Chair), Jerry R. Allen, Carolyn R. Davis, Vonciel Jones Hill, Angela Hunt, Pauline Medrano, and Ron Natinsky

SUBJECT TXI Aviation I, L.L.C. Proposed Lease Amendments (2) to Two Existing Leases at Love Field

Attached is the material on two proposed Lease Amendments at Love Field that will be presented to you on Monday, April 14, 2008.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'Ramón F. Míguez'.

Ramón F. Míguez, P.E.
Assistant City Manager

Attachment

c: The Honorable Mayor & Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig D. Kinton, City Auditor
Judge Jay Robinson, Judiciary
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
David O. Brown, Interim Assistant City Manager
Jill A. Jordan, P. E., Assistant City Manager
David K. Cook, Chief Financial Officer
Jeanne Chipperfield, Interim Director, Office of Financial Services
Edward Scott, Interim Director, Office of Financial Services
Chandra Marshall-Henson, Assistant to the City Manager – Council Office
Dan Weber, Director, Aviation Administration

**TXI Aviation I, L.L.C.
Proposed Lease Amendments (2)
to Two Existing Leases**

**Briefing to the Council Transportation and
Environment Committee**



DEPARTMENT OF AVIATION

April 14, 2008



Purpose

- ❖ Review Two Leases with TXI Aviation I, L.L.C. at Love Field
 - ❖ Original 1986 lease
 - ❖ Second 2007 lease

- ❖ Review Proposed Amendments to Both Leases to add space for growth

Background



- ❖ TXI Aviation I, L.L.C.
 - ❖ One of seven Fixed Base Operators at Love Field offering aeronautical services to private/corporate aircraft operators
 - ❖ *Original* 1986 lease consisted of 168,031 square feet of land and included requirement to construct \$2.6 M hangar
 - ❖ May 1, 2007, entered into *Second* lease on 101,552 square feet of land adjacent to the *Original* lease. Included requirement to construct an additional \$2.5 M hangar
 - ❖ Also on May 1, 2007, amended *Original* lease term to coincide with term of *Second* lease and added new requirement for an additional \$1 M capital improvement

- ❖ See Appendix (page10) for details on leases and amendments

Proposed Amendments to Both Leases



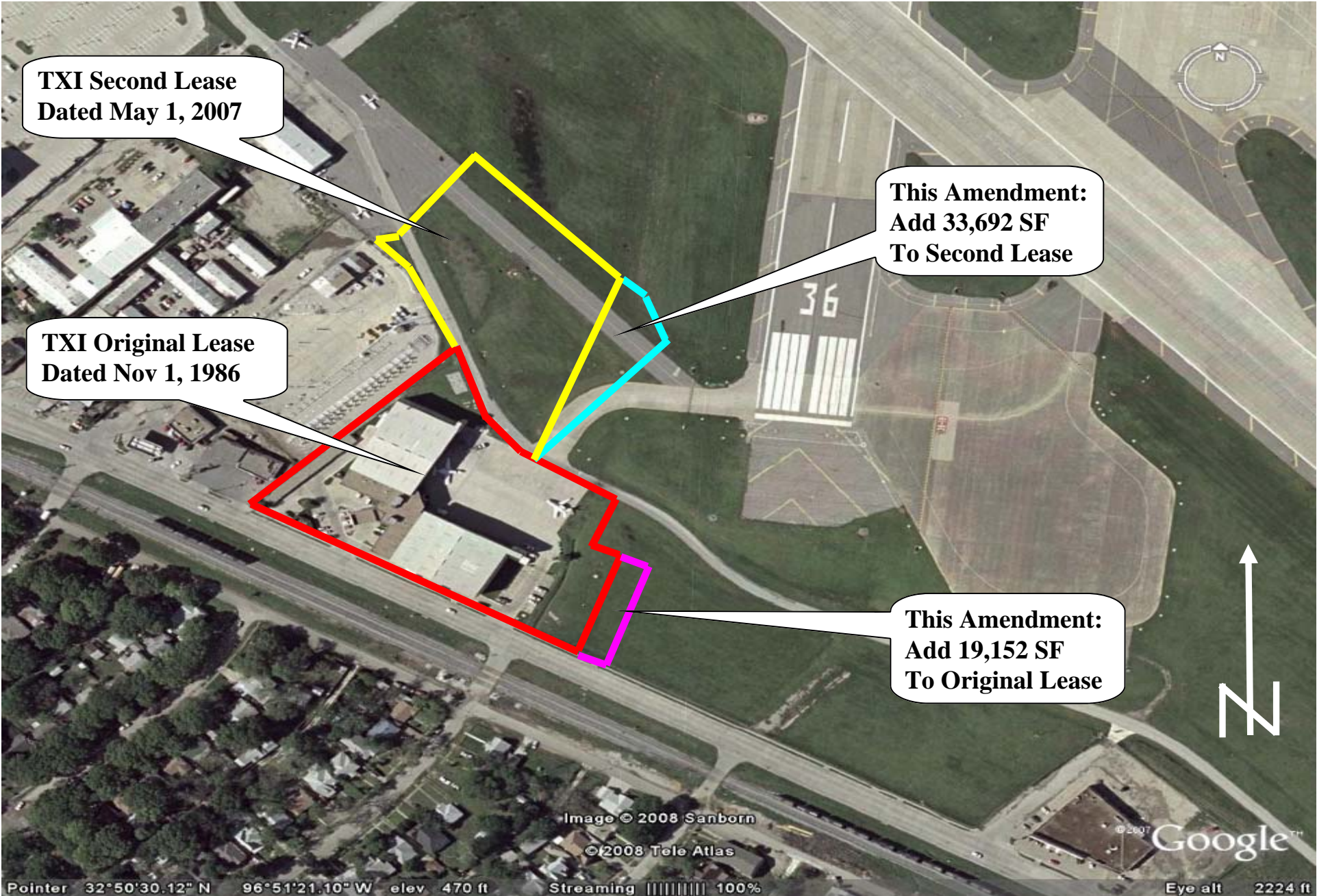
- ❖ Business growth requires a larger hangar
 - ❖ From 30,000 to 35,000 square feet

- ❖ Larger hangar displaces aircraft circulation and parking space
 - ❖ Additional 33,692 square feet needed for aircraft pavement
 - ❖ Amendment 1 to Second Lease (2007)

- ❖ Additional auto parking space needed
 - ❖ Additional 19,152 square feet needed for auto parking
 - ❖ Amendment 2 to Original Lease (1986)

TXI AVIATION I, L.L.C.





**TXI Second Lease
Dated May 1, 2007**

**TXI Original Lease
Dated Nov 1, 1986**

**This Amendment:
Add 33,692 SF
To Second Lease**

**This Amendment:
Add 19,152 SF
To Original Lease**

Proposal Summary

- ❖ Original Lease
 - ❖ Add approximately 19,152 square feet of unimproved land at \$.32/sf/yr
 - ❖ Increase the annual rental revenue in the amount of approximately \$6,129 from \$42,158 to approximately \$48,287

- ❖ Second Lease
 - ❖ Add approximately 33,692 square feet of unimproved land at \$.32/sf/yr
 - ❖ Increase the annual rental revenue in the amount of approximately \$10,781 from \$32,496 to approximately \$43,277

- ❖ Land added by both lease amendments will be subject to rental rate escalations as defined in each lease. In addition, the lease rates will be increased by a maximum of 12% immediately upon City Council approval of an updated prevailing lease rate pursuant to implementation of the rates and charges study recommendation, and shall continue to increase by a maximum of 12% every three years until the lease rate equals the new prevailing lease rate

Recommendation

- ❖ Staff recommends approval of the TXI Aviation I, L.L.C. lease amendments
 - ❖ All components of this item will conform to the Real Estate Task Force recommendations and Aviation Department policies
 - ❖ Approval of the proposed lease amendments will permit the City to convert non-revenue producing property into revenue producing asset
 - ❖ Approval of the proposed lease amendments will increase the City's total annual rental revenue from both TXI Aviation I, L.L.C. leases in the amount of approximately \$16,910 from \$74,654 to approximately \$91,564
- ❖ NEXT STEPS
 - ❖ April 16, 2008 - Seek Council's approval

QUESTIONS AND ANSWERS



Appendix

- ❖ Lease details – 1986 Original Lease
 - ❖ Details – First Amendment

- ❖ Lease details – 2007 Second Lease

TXI Aviation I, L.L.C. – Original Lease



❖ Original Lease Details

- ❖ Original 30-year Primary Term commenced on November 1, 1986 will expire on October 31, 2016, plus, two 5-year options to extend lease through October 31, 2026 (at TXI's option)
- ❖ Ground rent only for Primary Term - 30-year amortization:

	124,030.92 SF @ \$.2509/sf/yr – Impvd. Grnd.	= \$ 31,119.36
	30,000.00 SF @ \$.2509/sf/yr – Hgr./Off. Space	= \$ 7,527.00
	<u>14,000.00 SF @ \$.2509/sf/yr – FBO/Off. Space</u>	= <u>\$ 3,512.60</u>
Total	168,030.92 SF	\$ 42,158.96, annually

- ❖ Rent Escalations -
Every three years to prevailing rates not to exceed 12%. Rent escalated on November 1, 2004 and November 1, 2007 (due to increase in the Airport's prevailing rental rate, effective March 1, 2003)

Rent escalates to prevailing rates for land and improvements upon commencement of option periods

- ❖ Improvements made by lessee -
\$2,600,000 within 24 months from November 1, 1986
44,000 square foot hangar/office facility

TXI Aviation I, L.L.C. – Original Lease



- ❖ Original Lease – First Amendment
 - ❖ 1st Amendment dated May 1, 2007
 - ❖ Extended lease term to May 1, 2048 to run coterminous with TXI Aviation I, L.L.C. Second Lease
 - ❖ Deleted two 5-year options
 - ❖ New Capital Improvement Commitment
 - ❖ \$1,000,000 within 24 months (April 30, 2009)
 - ❖ 15,000 square foot hangar

TXI Aviation I, L.L.C. – Original Lease



- ❖ Original Lease – First Amendment
 - ❖ Rent Escalations –
 - ❖ Through October 31, 2016, rent rates for land only every three years to prevailing rates not to exceed 12% (same as original lease)
 - ❖ Commencing November 1, 2016 rent rates for all land and improvements, except those constructed after May 1, 2007, shall escalate to prevailing rates for similar premises (same as original lease)
 - ❖ Commencing November 1, 2026 and at three year intervals thereafter rental rates escalate based on the greater of CPI over the previous three year period or 3%, not to exceed 12% every three years
 - ❖ Commencing November 1, 2036 rent rates for all land and improvements constructed after May 1, 2007, shall escalate to the greater of i) rent paid by the lessee to the City for similar premises; or ii) prevailing rates for similar premises

TXI Aviation I, L.L.C. – Second Lease



- ❖ Second Lease
 - ❖ 40-year Term
 - ❖ May 1, 2007, effective date of lease
 - ❖ Term and payment of rent commences upon the earlier to occur; i) beneficial occupancy of the improvements or 12 months
 - ❖ Ground rent only for first 30-years (amortization period):
101,552 SF @ \$.32/sf/yr – Improved Ground = \$ 32,496.64,
annually
 - ❖ Rent Escalations -
Every three years based on CPI,
Increase will not be less than 3% nor greater than 12% every three years
 - ❖ Capital Improvement Commitment -
\$2,500,000 within 24 months from May 1, 2007
Approximately 35,000 square foot hangar/office facility