Memorandum

DATE  August 1, 2008

TO    Economic Development Committee:
      Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Jerry R. Allen, Dwain R.
      Caraway, (Deputy Mayor Pro Tem), Sheffie Kadane, Linda Koop, Mitchell
      Rasansky, Steve Salazar

SUBJECT Airport Rates and Charges Study Recommendations

Attached are the briefing materials on the Department of Aviation Airport Rates
and Charges Study Recommendations to be presented to the Economic
Development Committee on Monday, August 4, 2008.

Please let me know if you should need additional information.

Ramon F. Miguez, P.E.
Assistant City Manager

Attachment

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

"Dallas-Together, we do it better"
Airport Rates & Charges Study
Recommendations

Presented to the City Council
Economic Development Committee

Department of Aviation
August 4, 2008
Purpose

- Ensure revenues are adequate to cover costs.
- Ensure revenues can adjust with costs as they change.
- Maintain compliance with FAA revenue policy.
- Establish Reserve Funds.
FY 06-07 Revenue by Source
About 60% driven by passenger traffic (Concessions)

<table>
<thead>
<tr>
<th>Source</th>
<th>Revenue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Rental Concession</td>
<td>$5,200,289</td>
<td>12%</td>
</tr>
<tr>
<td>Terminal Concession</td>
<td>$5,133,005</td>
<td>12%</td>
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<tr>
<td>Fuel Flow Fee</td>
<td>$1,303,879</td>
<td>3%</td>
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<tr>
<td>Landing Fee</td>
<td>$3,089,936</td>
<td>7%</td>
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<tr>
<td>Parking Concession</td>
<td>$12,625,869</td>
<td>29%</td>
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<td>Other</td>
<td>$5,938,195</td>
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<tr>
<td>Lease/Rental</td>
<td>$7,476,056</td>
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<tr>
<td>Total Concessions</td>
<td>$22.959M</td>
<td></td>
</tr>
<tr>
<td>Total Airline Revenue</td>
<td>$5.923M</td>
<td></td>
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<tr>
<td>Total Revenue</td>
<td>$43.560M</td>
<td></td>
</tr>
</tbody>
</table>
Revenues rise & fall with Passenger Traffic, but Expenses can only adjust so much…

- Revenues, Expenses and Passenger enplanements
Fluctuations in passenger traffic results in deficits in difficult times, modest gains in good times

[Revenues – Expenses = Net Revenue/(Deficit)]
Remedy: The Cost Recovery Model

Airline Rates & Charges:

The City Council approved a rate model for airlines on June 25.
Included in the Term Sheet for the Love Field Modernization Program.

Adjusts with changes in airport revenues and costs to ensure total revenues are sufficient to cover total costs (see model Appendix pg. 32).

Total Annual Costs include:
- Operating and maintenance
- Debt service on LFMP bonds
- Amortization of non-LFMP capital improvements funded by AVI
- Replenishment of reserves (outlined on pages 20 - 24)

How it Works:

AVI Total Annual Cost (allocated to airline cost centers)
- Non-Airline Revenues (from those cost centers)
  Airline Revenue Requirement (from landing fees & rentals)
Remedy: The Cost Recovery Model

Airline Rates & Charges:

Better balance of revenue sources (see pro forma, pages 27 - 29).

Matches revenue to expenses to reduce vulnerability to downturns.

Projected to generate approx $10 million net revenues annually for Capital Fund.

Caps the Capital Fund balance at $30 million, beginning FY 2015.

Model will be implemented with the phased opening of new space during development of the Love Field Modernization Program (est. 2012).

Interim rate increases effective 1/1/09 with annual incremental increases ramping up to model implementation.
The Cost Recovery Model
Projected Results (Rev – Exp = Net Revenue)
Non-Airline Revenues

- The Study evaluated the following revenue sources. Recommendations are outlined on the next 10 pages.
  - Fuel Flowage Fee
  - Lease Rental Rates
  - Parking Rates
  - Car Rental Concessions
  - Ground Transportation Fees
  - Terminal Concessions
Rates & Charges Study
Recommendations

• Fuel Flowage Fees
  – Represents the General Aviation contribution to costs allocated to the Airfield Cost Center (in place of a landing fee).
  
  – Study conclusion:
    • Fuel flow fee *could* increase from current rate of $.07 to $.08.
      – See Benchmark data, Appendix page 34
    • Increase the annual fuel vendor permit fee from $100 to $1,000.
  
  – Recommendations:
    • Other considerations:
      – Fee increased 75% in 2003, from $.04 to $.07.
      – Current high cost of fuel contributes to 19% drop CYTD in GA operations.
    • Therefore, defer Fuel Flowage Fee increase until next rate evaluation.
    • *Increase annual vendor permit fee to $1,000 each.*
Rates & Charges Study Recommendations

- **Lease Rental Rates**

- Study Recommendation:
  - Base lease rates on Fair Market Appraisal

- **Appraisal of Leaseable Property (Non-Terminal leases)**
  - Airport Business Solutions, Inc., Tampa, FL
  - Dated May 23, 2008
  - Prepared in accordance with *Uniform Standards of Professional Appraisal Practice (USPAP)*

- **Purpose of Appraisal**
  - Estimate Fair Market Value to update Prevailing Lease Rates
Rates & Charges Study Recommendations

- Lease Rental Rates (Cont’d)

- Appraiser Considerations
  - Local demographic data
  - General airport information
  - Airport environment
  - Site and improvement descriptions
  - Review of existing leases
  - Rent analysis

- Appraisal Methodology
  - Fair Market Value
    - Income Capitalization Approach
    - 10% overall capitalization rate
  - Lease Rates
    - Market Comparison Approach
Rates & Charges Study
Recommendations

• Lease Rental Rates (Non-Terminal)

  – May 23, 2008 Fair Market Appraisal results (Love Field):
    • See Comparable Airports, Appendix Page 35.

<table>
<thead>
<tr>
<th></th>
<th>Unimproved Land</th>
<th>Improved Land</th>
<th>FBO/Storage Hangars</th>
<th>Maintenance Hangars</th>
<th>Office Space</th>
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</thead>
<tbody>
<tr>
<td>Current:</td>
<td>$0.32</td>
<td>$0.46</td>
<td>$2.24</td>
<td>$2.24</td>
<td>$5.08</td>
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<tr>
<td>Proposed:</td>
<td>$0.40</td>
<td>$0.65</td>
<td>$3.50</td>
<td>$3.75</td>
<td>$8.00</td>
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</table>
Rates & Charges Study
Recommendations

• **Lease Rental Rates (cont’d)**

  - May 23, 2008 **Fair Market Appraisal results** (Executive Airport):
    - See Comparable Airports, Appendix Page 36.

<table>
<thead>
<tr>
<th></th>
<th>Unimproved Land</th>
<th>Improved Land</th>
<th>FBO/Storage Hangars</th>
<th>Maintenance Hangars</th>
<th>Office Space</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current:</strong></td>
<td>$0.13</td>
<td>$0.17</td>
<td>$2.00</td>
<td>$2.00</td>
<td>$2.30</td>
</tr>
<tr>
<td><strong>Appraised:</strong></td>
<td>$0.20</td>
<td>$0.30</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
</tr>
</tbody>
</table>

**Special consideration for Executive Airport:**

The City of Dallas has lead several initiatives since completion of the Airport Master Plan Update in 2001 to develop the airport facilities, infrastructure and activity levels. These efforts have resulted in over $20 million in public and private improvements which have resulted in renewed growth in activity and service to the local and traveling public. Considering the recent success and future potential for continued development, staff recommends postponing any increase in rental rates for one year.
Rates & Charges Study Recommendations

• **Lease Rental Rates (cont’d)**

• **Recommendations:**
  • **Love Field**
    • Adopt Proposed Rates as Updated Prevailing Lease Rates.

  • **Executive Airport**
    • Postpone rate adjustment and re-evaluate in one year.

• **Effect of Implementing New Prevailing Rates:**
  Existing leases – gradual, in accordance with lease language.
  New leases – immediate.
Rates & Charges Study Recommendations

- **Parking Rates**
  - Current daily rates: Garage A - $10; Garage B - $7.
  
  - Benchmark rates are $19 “short term” and $8 “long term”. (See Appendix page 33)

  - Study recommends:
    - Gradual increase over several years toward “market”.
    - Increase spread between Garages A & B to shift more use to B.

- **Recommendations:**
  - Passenger traffic projected to increase 50%, adding pressure on garage capacity. Rate increase will balance demand between the 2 garages and could defer the need for future expansion.

  - New daily rates:
    - Garage A - $12;
    - Garage B - $8.
Rates & Charges Study
Recommendations

- **Car Rental Concessions**
  - Study found that the **business terms of the current** Car Rental Concession agreements are reasonable, appropriate and reflect current airport industry standards and practices. Re-bidding the concessions is currently underway.

- **Ground Transportation Fees**
  - New Ground Transportation Fee Ordinance implemented Dec 2006.
  - Revenue per passenger is only 30% of Benchmark average (Append. page 33).

  **Recommendation:**
  - **Increase** Taxi trip fee from $1.00 to $2.00.
  - **Replace current $2.00 trip fees** for off-airport car rental and parking operators with agreements charging 8% of gross revenue derived from their airport business.
  - **Maintain unchanged** the Courtesy Vehicles $200 annual fee, $10 vehicle decal and $.75 - $1.25 trip fee.
Rates & Charges Study
Recommendations

- **Terminal Concessions**
  - Food & Beverage *and* News & Retail:
    - Consultant observations –
      - Rental structure is consistent with industry practices.
    - Gross revenues and rental revenues paid to City have increased with recent space increases and improvements.
    - Revenues are below benchmark due to lack of available new space.

- **Staff Recommendations:**
  - Space deficiencies (and therefore, revenue potential) to be remedied through LFMP development, which will triple the available concession space.
Rates & Charges Study
Recommendations

- Terminal Concessions (Cont’d)
  - Advertising:
    - Rental structure is consistent with industry practices.

  - Revenues paid to City far exceed Benchmark average.
    - Benchmark average - $.06 per passenger
    - Love Field - $.21 per passenger (3.5 times the benchmark!)
    - Effective rents paid – 74% at Love Field, 57% Benchmark avg.

- Recommendations:
  - Advertising Concession expected to continue outstanding results.
Rates & Charges Study
Recommendations

- Reserve Funds

  - General Purposes:
    - Ensure the Dallas Airport System ability to meet its obligations in an environment in which its sources of revenue can be disrupted by safety, security and economic impacts.
    - Increase balance sheet liquidity to enhanced bond ratings.
    - Represent airport “best practices”.
    - Are provided for in the Five Party Agreement.

  - Recommendations Follow…
Rates & Charges Study
Recommendations

- Reserve Funds (Cont’d)

  - Operating Fund:
    - Working Capital Balance
      - Minimum balance equaling 30 days of O&M expenses.
    - Currently $2.5 million.

  - Operating Reserve
    - Guard against *short-term disruptions* in revenue resulting from such events as labor disruptions or airline fleet groundings.
    - 90 days of O&M expenses – currently $7.5 million.
    - Access – City Council authorization.
    - Replenishment – Future net revenues.
Rates & Charges Study
Recommendations

- Reserve Funds (Cont’d)

  - Emergency Repair & Replacement Reserve:
    - Repair/replacement for unexpected facility/equipment or infrastructure damage or failures.
      - Examples – Lightning strike damage to airfield lighting system; wind/tornado/flood damage.
    - $5 million balance.
    - Access – City Council appropriation for repair/replacement.
    - Replenishment – airline rate base.
Rates & Charges Study Recommendations

- Reserve Funds (Cont’d)
  - Contingency Reserve:
    - Guard against effects of *long-term industry disruptions*, such as airline consolidations effecting service patterns, or catastrophic events such as terrorist acts 9/11/01.
    - $10 million balance.
      - Equates to our accumulated deficits resulting from 9/11/01 events.
      - To be accessed upon exhaustion of Operating Reserve and Working Capital amounts (120 days of O&M expenses).
      - Allow for orderly response to structural change in financial conditions.
      - Access – City Council authorization.
  - Replenishment – Future net revenues.
Rates & Charges Study Recommendations

- Reserve Funds (Cont’d)
  - Debt Service Reserve (Future):
    - Current debt for Garage B covered by an insurance policy instead of a reserve fund.
    - Amount to be determined by financial advisor at time of debt issue.
Rates & Charges Study Recommendations

- **Capital Fund**
  - Capital Fund:
    - Funding built-in to Cost Recovery Rate Model.
    - Transfers into Capital Fund projected at $10 million annually.
    - Fund balance capped at $30 million as a means of preventing unreasonable accumulation of funds.
      - Cap takes effect upon completion of LFMP or 2015, and is indexed to inflation.
      - Funds programmed for People Mover and Cedar Springs/Mockingbird intersection improvements are exempt from cap until 2017.
    - Access – City Council appropriation for capital improvements
Airport Rates & Charges Study

- Summary of Recommended Changes:
  - Lease Prevailing Rates – Love Field only: set to appraised fair market rents;
  - Parking Rates –
    - Garage A, increase from $10 to $12; and
    - Garage B, increase from $7 to $8.
  - Ground Transportation Fees –
    - Increase Taxi trip fee from $1 to $2.
    - Convert off-airport car rental and parking operators from $2 trip fee to agreements charging 8% of gross revenue derived from airport business.
  - Terminal Food/Beverage and News/Retail –
    - Remedy space deficiency (increase revenue potential) through LFMP development.
  - Reserve Funds –
    - Operating Working Capital – 30 days, $2.5M
    - Operating Reserve – 90 days, $7.5M
    - Emergency Repair & Replacement - $5M
    - Contingency Reserve - $10M
    - Debt Service Reserve – To be determined
## Airline Terminal Rental
- **Current**: $2,915,832
- **FY 2010**: $1,747,000
- **FY 2015**: $8,041,000

## Airline Apron Rental
- **Current**: N/A
- **FY 2010**: N/A
- **FY 2015**: $1,475,000

## Landing Fee
- **Current**: $4,903,199
- **FY 2010**: $9,551,000
- **FY 2015**: $8,763,000

## Fuel Flowage Fee
- **Current**: $1,383,795
- **FY 2010**: $1,194,000
- **FY 2015**: $1,254,000

## Parking
- **Current**: $13,225,238
- **FY 2010**: $18,306,000
- **FY 2015**: $25,086,000

## Car Rental
- **Current**: $5,673,653
- **FY 2010**: $6,790,000
- **FY 2015**: $9,025,000

## Ground Transportation
- **Current**: $238,176
- **FY 2010**: $1,119,000
- **FY 2015**: $1,752,000

## Terminal Concessions
- **Current**: $4,832,343
- **FY 2010**: $6,968,000
- **FY 2015**: $10,887,000

## Lease/Rental
- **Current**: $6,740,888
- **FY 2010**: $6,027,000
- **FY 2015**: $6,305,000

## Other
- **Current**: $1,307,304
- **FY 2010**: $1,898,000
- **FY 2015**: $3,263,000

## Total
- **Current**: $41,220,428
- **FY 2010**: $53,600,000
- **FY 2015**: $75,851,000

## % Change
- **Current**: N/A
- **FY 2010**: 30.03%
- **FY 2015**: 41.51%
TOTAL REVENUE FY 2010

Fiscal Year 2010 Revenue Projected

- Parking Concession, $18,306,000 (34%)
- Lease/Rental, $6,027,000 (11%)
- Car Rental Concession, $6,790,000 (13%)
- Terminal Concession, $6,968,000 (13%)
- Landing Fee, $9,551,000 (18%)
- Airline Rental, $1,747,000 (3%)
- Other, $1,898,000 (4%)
- Fuel Flow Fee, $1,194,000 (2%)
- Ground Transportation, $1,119,000 (2%)

Total Revenue: $53.600M
TOTAL REVENUE FY 2015

Fiscal Year 2015 Revenue Projected

- Apron rentals, $1,475,000 (2%)
- Parking Concession, $25,086,000 (33%)
- Lease/Rental, $6,305,000 (8%)
- Ground Transportation, $1,752,000 (2%)
- Fuel Flow Fee, $1,254,000 (2%)
- Other, $3,263,000 (4%)
- Landing Fee, $8,763,000 (12%)
- Airline Rental, $8,041,000 (11%)
- Car Rental Concession, $9,025,000 (12%)
- Terminal Concession, $10,887,000 (14%)

Total Revenue: $75.851M
Airport Rates & Charges Study

Next Steps:

City Council Approval:
- Resolution Updating Love Field Prevailing Lease Rates – Aug 27.
- Resolution Increasing Parking Fees – Aug 27.
- Resolution Creating Reserve Funds – Aug 27.
- Ordinance Amendment Increasing Fuel Vendor Permit Fee – Oct.

City Council Committee Briefing:
- Ground Transportation Agreements – Oct.
Appendix

- Cost Recovery Rate Model 32
- Benchmark Analysis 33
- Appraisal Comparable Airports Lists 35
### Conceptual Framework for New Rates and Charges Methodology

**Love Field Modernization Program**

Dallas Love Field Airport  
June 2008

*Rates to be calculated based on "cost center residual" methodology*

<table>
<thead>
<tr>
<th>Cost Centers and Areas</th>
<th>Airfield</th>
<th>Aircraft Apron</th>
<th>Terminal</th>
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<tbody>
<tr>
<td>Revenues</td>
<td>Costs</td>
<td>Costs</td>
<td>Costs</td>
</tr>
<tr>
<td>- Costs</td>
<td>- Other revenues</td>
<td>- Other revenues</td>
<td>- Other revenues</td>
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<tr>
<td>Net:</td>
<td>Net Revenues</td>
<td>Net requirement</td>
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<tr>
<td>City retain 100%</td>
<td>= landing fee requirement</td>
<td>= apron fee requirement</td>
<td>= terminal rental requirement</td>
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<tr>
<td>Divisor:</td>
<td>/ airline landed weight</td>
<td>/ number of gates</td>
<td>/ airline space</td>
</tr>
<tr>
<td>Rate:</td>
<td>Landing Fee Rate</td>
<td>Apron Fee rate</td>
<td>Terminal Rental Rate</td>
</tr>
</tbody>
</table>

**Cost Recovery Rate Model**

- **City retain 100%**
  - Landing Fee Requirement
  - Apron Fee Requirement
  - Terminal Rental Requirement

**Future CIP Projects:**
- **Yes, subject to exclusions in 5-Party Contract**
Benchmarking Analysis
Summary of Select Parameters
(Note: Includes comparison of actual DAL rates and cost/revenue per enplaned passenger as indicated, with those of the survey average)

<table>
<thead>
<tr>
<th></th>
<th>DAL</th>
<th>Survey Average</th>
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<tbody>
<tr>
<td>Landing fee rate</td>
<td>$ 0.55</td>
<td>$ 2.83</td>
</tr>
<tr>
<td>Average terminal rental rate</td>
<td>$ 9.14</td>
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</tr>
<tr>
<td>Airline cost per enplaned passenger</td>
<td>$ 1.54</td>
<td>$ 6.44</td>
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<tr>
<td>Public parking rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daily rate--close in structure</td>
<td>$ 10.00</td>
<td>$ 19.00</td>
</tr>
<tr>
<td>Daily rate--long term structure/surface</td>
<td>$ 7.00</td>
<td>$ 8.00</td>
</tr>
<tr>
<td>Fuel flowe fee rates</td>
<td>$ 0.07</td>
<td>$ 0.06</td>
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<tr>
<td>Net revenue per e.p.</td>
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<td>Public automobile parking</td>
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<td>$ 5.06</td>
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<tr>
<td>Rental cars</td>
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<td>$ 1.83</td>
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<td>Ground transportation</td>
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<td>Food and beverage</td>
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<td>News and gifts</td>
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<tr>
<td>Advertising</td>
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</table>
## Airport Benchmark Data
### Fuel Flowage Fee

<table>
<thead>
<tr>
<th>DAL</th>
<th>Medium Hubs</th>
<th>Large Hubs</th>
<th>Medium Hubs</th>
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<tr>
<td></td>
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<td>DFW</td>
<td>MDW</td>
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<td></td>
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<td>Other Revenues</td>
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<td></td>
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<td>Eff. 10/1/07</td>
<td>$0.075</td>
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- **Fuel flowage fee rate ($0.xx per gallon)**
- **Fuel flowage fee revenue**
## Love Field Airport

### Comparable Airport Rates

<table>
<thead>
<tr>
<th>Airport</th>
<th>Unimproved Land</th>
<th>Improved Land (Ramp/ Apron)</th>
<th>FBO/Storage Hangers</th>
<th>Maintenance Hangers</th>
<th>Office Space</th>
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<tr>
<td>Addison</td>
<td>$0.65</td>
<td>$0.70</td>
<td>NA</td>
<td>$3.39 to $6.25</td>
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<tr>
<td>Meacham</td>
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<td>$0.25</td>
<td>$1.60</td>
<td>NA</td>
<td>$8.56 - $14.99</td>
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<tr>
<td>McKinney</td>
<td>$0.30</td>
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<tr>
<td>San Antonio</td>
<td>$0.570</td>
<td>$0.744</td>
<td>$2.33</td>
<td>Hangar $3.00 Office $3.30</td>
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<td>Oklahoma City &amp; Wiley Post</td>
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<td>6% of market value</td>
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<td>Houston Hobby</td>
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<td>Tulsa</td>
<td>$0.22</td>
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<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Memphis</td>
<td>$0.19</td>
<td>$0.30</td>
<td>$1.53 to $3.69</td>
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<td>NA</td>
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<tr>
<td>Spirit of St. Louis</td>
<td>$0.32</td>
<td>$1.40</td>
<td>$5.00</td>
<td>$9.00</td>
<td>$5.00</td>
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<td>Nashville</td>
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<td>Centennial</td>
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<td>NA</td>
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<td>Louisville</td>
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<td>$0.41</td>
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<td>$12.66</td>
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<td>$4.67 to $7.95</td>
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## COMPARABLE AIRPORT RATES

<table>
<thead>
<tr>
<th>Airport</th>
<th>Unimproved Land</th>
<th>Improved Land (Ramp/Apron)</th>
<th>Office/Hangar Space</th>
<th>Fuel Flowage Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lancaster</td>
<td>$0.13</td>
<td>$0.13</td>
<td>N/A</td>
<td>$0.06</td>
</tr>
<tr>
<td>Arlington</td>
<td>$0.22</td>
<td>$0.25</td>
<td>N/A</td>
<td>$0.05</td>
</tr>
<tr>
<td>Ft. Worth Meacham</td>
<td>$0.22</td>
<td>$0.25</td>
<td>$1.60</td>
<td>$0.118</td>
</tr>
<tr>
<td>Ft. Worth Spinks</td>
<td>$0.19</td>
<td>$0.21</td>
<td>$1.56</td>
<td>$0.118</td>
</tr>
<tr>
<td>McKinney</td>
<td>$0.30</td>
<td>$0.30</td>
<td>N/A</td>
<td>$0.09</td>
</tr>
<tr>
<td>Denton</td>
<td>$0.17</td>
<td>$0.22</td>
<td>N/A</td>
<td>6%</td>
</tr>
<tr>
<td>Majors Airport</td>
<td>$0.24</td>
<td>$0.24</td>
<td>N/A</td>
<td>$0.05</td>
</tr>
<tr>
<td>Gainesville Municipal</td>
<td>Negotiated</td>
<td>$0.14</td>
<td>$300/mo</td>
<td>N/A</td>
</tr>
<tr>
<td>Grayson County</td>
<td>$0.19</td>
<td>$0.29</td>
<td>N/A</td>
<td>Unknown</td>
</tr>
<tr>
<td>Tyler Pounds</td>
<td>$0.05</td>
<td>$0.05</td>
<td>N/A</td>
<td>$0.05</td>
</tr>
<tr>
<td>Draughon-Miller</td>
<td>$0.10</td>
<td>$0.10</td>
<td>N/A</td>
<td>$0.05</td>
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</tbody>
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