Memorandum

CITY OF DALLAS

DATE October 24, 2008

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

SUBJECT "Amended and Restated Lease of Terminal Building Premises" Briefing

Attached is the briefing entitled, "Amended and Restated Lease of Terminal Building Premises" that will be presented to you on October 27, 2008.

Please contact me if you need additional information.

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

Attachment

c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Thomas P. Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Judge C. Victor Lander, Judiciary
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Forest Turner, Interim Assistant City Manager
David Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Budget and Management Services
Edward Scott, Director, Controller's Office
Helena Stevens-Thompson, Assistant to the City Manager - Council Office
Dan Weber, Director, Department of Aviation

Amended & Restated Lease of Terminal Building Premises
(Airport Use & Lease Agreement)

Briefing to the Transportation
and Environment Committee

Department of Aviation
October 27, 2008

Purpose

- Review 5-Party Agreement terms pertaining to Lease:
- Review “Amended & Restated Lease”
  - Conversion of existing “Lease of Terminal Premises” to an “Airport Use & Lease Agreement”
- Seek Committee support for approval by City Council Nov 10.

5-Party Agreement Review

- Agreement to repeal the Wright Amendment.
  - Executed June 2006.

- Obligations of the City:
  - Undertake Love Field Modernization Program (LFMP)
  - City & Southwest Airlines to cooperate in developing LFMP.
    - TARPS / Concept Option “C” / **LFMP Term Sheet**.
  - Costs of LFMP to be borne by airlines;
    - Rates & Charges Study provided **“Cost-recovery Rate Model”.**
  - Airline leases to be amended for **term extension to 2028**;

Current Lease

- Rental rates based on **cost of space in 50 year-old terminal** facilities and adjacent aircraft apron only.
    - Average square foot rental rate approx $9.00
    - Lease does not address use of the **airfield**, or obligations & mechanism to **support its development**.
        - Current Landing Fee is set by ordinance at $.55 per 1000 lbs landed weight
    - *All costs* of Dallas Airport System are recovered by *all revenue* sources.
- Gates & adjacent aircraft ramp **exclusively leased**.
- Southwest, American and Continental all have essentially the same lease, with combinations of term and options to 2021.

Proposed Use & Lease Agreement

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- Implements the business deal to achieve the 5-Party Agreement commitments.

  - **Expands scope** of the lease of terminal space, to *also* include **terms for the *use of the Airport***, including the airfield, aircraft parking ramp;
    - Incorporates Landing Fee & new Apron Fee in lease rate model.

  - Incorporates new **cost recovery rate model** approved in the Term Sheet. Allocates Airport costs to Terminal, Apron, Airfield cost centers.
    - Airlines pay cost of LFMP thru allocations of cost to square foot rental rate.
    - Protects non-airline tenants from paying for LFMP.

  - Develop **guidelines** for future capital improvements (CIP);
    - CIP funded in rate base. **Airlines have approval rights** for certain capital improvements affecting their rates.

Basic Provisions

- 20 year term, effective retroactive to 10/1/08.
- All gates leased on a “Preferential Use” basis, rather than exclusive.
- All baggage areas (outbound & inbound) leased as “common use”.
- Office, operations and ticket counter space leased as exclusive use.
- All space subject to “accommodation provisions” for new entrant airline access to terminal.

Common Lease Form

- Use & Lease Agreement negotiated primarily with Southwest
  - Highest market share at over 90%
  - Greatest number of gates – effective 2010, will occupy 16 of 20 gates
  - Responsible for greatest share of Rates & Charges revenue to City

- Consultation with American and Continental
  - Will have 90 days to accept or reject

- Alternative to Use & Lease Agreement
  - Any scheduled airline choosing to not sign agreement will pay Landing Fees set in ordinance
  - **Section 5-31 of the Dallas City Code is proposed to be amended to increase Landing Fees at Love Field as indicated below.**
    - Effective 12/1/08 – 9/30/09: $1.50
    - Effective 10/1/09 – 9/30/10: $1.75
    - Effective 10/1/10 – 9/30/11: $2.00
    - Effective 10/1/11 and thereafter: 125% of the fee paid by airlines that have executed an Airport Use & Lease Agreement

Capital Funding

- Recognizes on-going capital needs of the Dallas Airport System.
  - Rate model recovers costs *and also* funds reserves and transfers to Capital Fund of approx $10 M annually.
    - Capital Fund **capped at $30 M**. Balances exceeding cap to be refunded to airlines.
    - **Exceptions to cap** are for improvement projects associated with People Mover and Mockingbird-Cedar Springs Intersection until 2015, at which time, exception expires.
  - Airlines have **approval rights** for any proposed capital improvement project which **impacts the airline rate** base, **except** those projects required for **safety, security or federal mandate** (Majority-in-Interest Clause).

Interim (Pre-LFMP) Rates

- FAA policy does not allow airports to charge airlines for capital improvements before they are placed into service.
  - Cost recovery rate model will take effect on Date of Beneficial Occupancy (DBO) of LFMP space (estimated 2011).

- Interim rate structure agreed to:

Terminal Building – Rates **Eff. FY 2010**		Landing Fees – **Rates Eff. 10/1/08**	
Ticket Counter and Queuing	$20.00 / SF	FY 2009	$1.00 per 1,000 lbs.
Gate Holdrooms	$20.00 / SF	FY 2010	$1.25 per 1,000 lbs.
Offices / Ticket Offices / Bag Service Offices	$15.00 / SF	FY 2011 (through DBO)	$1.50 per 1,000 lbs.
Baggage Claim	$15.00 / SF		
Bag Make-Up / Bag Screening	$10.00 / SF		
Operations / Support / Restrooms	$10.00 / SF		
Stairwells / Canopy	$ 5.00 / SF		

Phasing of LFMP Construction

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- Changes to Leased Space during construction
  - Airline leased premises in existing facility defined in exhibits to lease by location, space type and square footage. Referred to as “Pre-LFMP Space”.
  - Upon completion of LFMP phases, and relocation of airline operations to new space, “Pre-LFMP Space” lease exhibits will be replaced with “Post-LFMP Space” exhibits, reflecting changes in space location, type and square footage, for assessment of proper rental rates and amounts.
  - During period of Interim Rental Rates, airline rentals will be adjusted for changes in square footage occupied during relocations and space changes related to LFMP construction.

Cost-Recovery Rates (Post-LFMP)

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- Cost recovery rate model shown graphically next page
  - Basic Concept:

    $ AVI annual budget, allocated to each cost center
    - $ other revenue generated in, or credited to cost center
    Net **revenue requirement** for cost center

Landing Fee = Airfield Cost Center **revenue r'qmt** / landed weights

Apron Fee per gate = Apron Cost Center **revenue r'qmt** / 20 gates

Terminal Rent = Terminal Cost Center **revenue r'qmt** / leased sq ft

Cost Recovery Rate Model

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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

		Airline Cost Centers			
Cost Centers:	**Other Buildings and Areas**	**Airfield**	**Aircraft Apron**	**Terminal**	**Parking and Ground Transportation**
	Revenues	**Costs**	**Costs**	**Costs**	**Revenues**
	- Costs	**- Other revenues**	**- Other revenues**	**- Other revenues**	**- Costs**
Net:	**Net Revenues**	**Net requirement**	**Net requirement**	**Net requirement**	**Net Revenues**
	credit 0%	less: revenue sharing		less: revenue sharing	credit 75%
	City retain 100%	*= landing fee requirement*	*= apron fee requirement*	*= terminal rental requirement*	City retain 25%
Divisor:		*/ airline landed weight*	*/ number of gates*	*/ airline space*	
Rate:		Landing Fee Rate	Apron Fee rate	Terminal Rental Rate	
	transfer to: Aviation Capital Fund				transfer to: Aviation Capital Fund
Airline MII Purview of Future CIP Projects:	No	Yes, subject to exclusions in 5-Party Contract			No

Mid-Year Rate Adjustments

- **Any time** during a Fiscal Year that the City projects **variances of 10%** or more in estimates of the following, used to calculate rates:
  - **total costs** of the Terminal Building, Airfield or Apron cost centers, **OR**
  - the aggregate Total **Landed Weight** of all airlines
- Rates may be adjusted up or down for the balance of that Fiscal Year, **to ensure that Airport revenues will be adequate to recover the estimated total costs of the affected cost center.**

Year-End Adjustments

- City furnishes Airlines with accounting of
  - Actual costs/expenses
  - Actual revenues & credits
  - Actual enplaned passengers
  - Actual landed weights
  - Recalculation of Rates & Charges based on actual information

- If Airlines **overpaid**, City shall refund Airline in lump sum for excess payments within 60 days of determination.

- If Airlines **underpaid**, City shall invoice Airlines for deficiency, payable by Airlines within 60 days of invoice.

Summary, Recommendations and Next Steps

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- The proposed Airport Use & Lease Agreement will:
  - Implement the business deal to achieve the commitments of the 5-Party Agreement
  - Support the financing at Airline cost, of the LFMP
  - Ensure that the Dallas Airport System operates with “net revenues”
  - Provide substantial contributions annually to the AVI Capital Fund

- Recommend the City Council:
  - Approve the proposed Airport Use & Lease Agreement for all scheduled airlines operating at Love Field.
  - Approve an increase in the landing fee for commercial aircraft found in Section 5-31 of the Dallas City Code

- Next Step : November 10 City Council Agenda for approval