

Memorandum



CITY OF DALLAS

DATE October 29, 2010

TO Economic Development Committee:
Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Jerry R. Allen, Dwaine R. Caraway, Sheffie Kadane, Linda Koop, Ann Margolin, Steve Salazar

SUBJECT Signature Flight Support Proposed
Lease Amendments to Leases (2) at Love Field

Attached is the briefing entitled, "Signature Flight Support Proposed Lease Amendments at Love Field", that will be presented to you on Monday, November 1, 2010.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez', written over a circular stamp or seal.

A.C. González
Assistant City Manager

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, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
David K. Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Office of Financial Services
Edward Scott, Director, Controller's Office
Helena Stevens-Thompson, Assistant to the City Manager - Council Office
Daniel T. Weber, Director, Department of Aviation

Signature Flight Support

Proposed Lease Amendments at Love Field

**Briefing to the Council
Economic Development Committee**

**Department of Aviation
November 1 , 2010**



Purpose

- Background on leasing objectives & policies
- Discuss current challenges for Love Field
- Signature Flight Support background
- Review Signature's 3 leases
- Discuss issues related to Nov 2009 rent escalation
- Review proposed amendments to 2 Signature leases
- Recommendations & next steps

Leasing Objectives & Policies

- Objectives
 - Within the bounds of FAA regulation & state statutes:
 - Maintain the highest & best use of airport land
 - Aviation use to the greatest extent possible
 - Non-aviation use must be in support of aviation uses
 - Generate revenues to support Dallas Airport System
 - Encourage private capital investment for new development and/or updating old development
 - Remain competitive among alternative airports
 - Maintain competitive environment on airport for aviation services
 - Tenant & job retention, creation

Leasing Objectives & Policies

- Policy guidance
 - The 2003 Mayor's Real Estate Task Force
 - Prevailing rental rates set by City Council based on periodic fair market appraisals
 - Escalations based on CPI changes with a min 3% and cap of 12% increase every 3 years
 - Type of rental rate used is based on status of improvements
 - Lease term length
 - Justified by amortization requirements for tenant capital improvements
 - State statute limits airport leases to 40 years

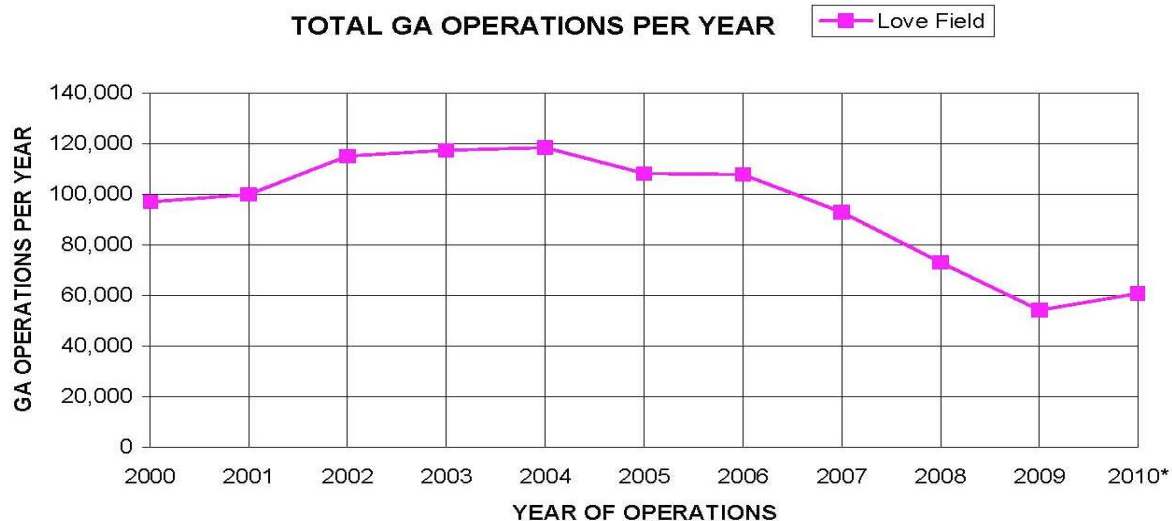
Challenges for Love Field

- Media reports impact of current economic conditions on aviation industry are widespread
 - “...upturn will not be in sight for at least the next 12 months or longer”
 - “Business jet builder Hawker Beechcraft announced it is cutting another 350 jobs, citing weak market conditions. The market for new business jets is flat to slightly down and that an upturn will not be in sight for at least another 12 months. The layoffs come just after Cessna announced another 700 job cuts”
 - **(Aviation Daily – 9/28/10)**
 - “...Cessna to cut another 700 jobs”
 - Cessna announced last week that it will lower production rate and cut another 700 jobs because of the prolonged slump in new orders. The cuts will push the company’s workforce below 8,000 fewer than half the number it employed when the global economic downturn intensified two years ago”
 - **(Aviation Daily – 9/28/10)**

Challenges for Love Field

Drop in General Aviation (GA) activity coincides with general economic recession, impacts Love Field businesses

	Year of Operations										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Total Love Field GA Operations	96,866	99,830	115,016	117,291	118,359	108,115	107,666	92,825	72,917	54,041	60,683



49% Reduction, GA Operation since 2004.
35% Reduction, GA Operation since 2007.

* 2010 Total Projected GA Operations

Challenges for Love Field

- Leaseholds vacated since 2007 represent over 32 acres currently available for lease
 - Gulfstream proposed paint hangar space
 - Old Virginia Aerospace space
 - Old Airnet, Inc. hangar space
- FBO consolidation in 2010
 - Business Jet Center acquired Vitesse Aviation
 - Reduced number of FBOs from 7 to 6

Signature Flight Support Background



- Owned by BBA Aviation plc, London
 - Listed on London Stock Exchange – BBA
 - Primary lines of business (corp. structure next pg)
 - Flight support
 - Signature Flight Support – business and general aviation
 - ASIG – commercial aviation
 - After market services & systems
 - 7 different company brands
 - » **Including Dallas Airmotive, Forest Park and Love Field facilities**
 - 200 locations worldwide, 10,000 employees

Signature Flight Support Background

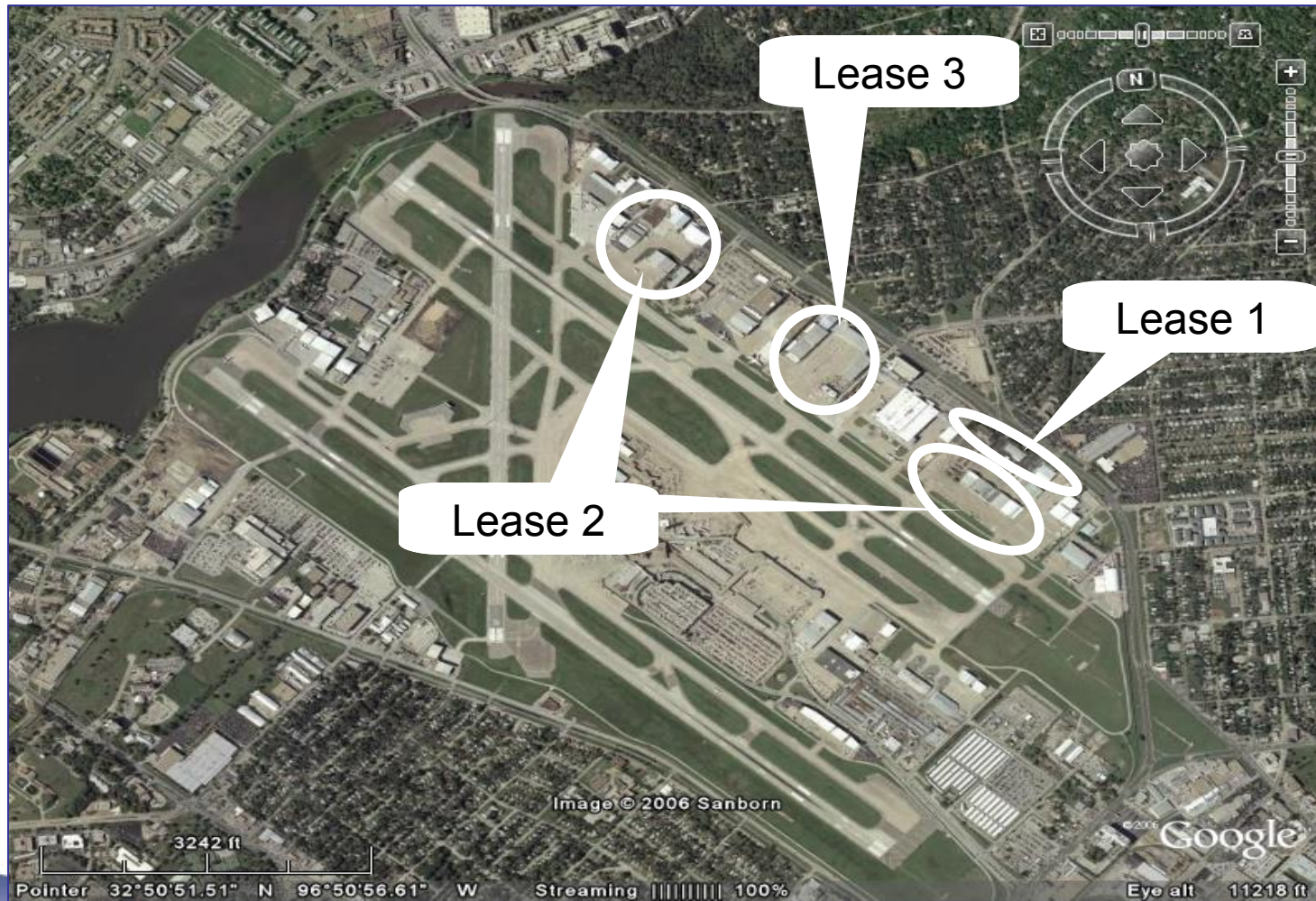


Signature Flight Support Background



- Signature Flight Support – **company-wide facts**
 - Business
 - Provides fueling, hangar & office rental, ground handling, passenger & technical services for business & general aviation customers
 - Global HQ – Orlando, FL
 - 102 locations on 5 continents
 - 36 of the top 50 US markets
 - Key international locations
 - Paris Le Bourget
 - Hong Kong
 - Munich
 - London Heathrow
 - Sao Paulo
 - Service 1 million aircraft movements annually
 - 10 million square feet of hangar space
 - 2300 employees

Signature's Locations Lemmon Ave



Signature Flight Support Background



- **Signature Flight Support – Love Field**
 - 3 leases, approx 72 acres
 - 23 hangars, FBO terminal, 2 office buildings
 - Total employment – 200
 - 42 Signature, remainder subtenant employees
 - 44 based aircraft
 - \$285M aggregate value (approx)
- Lease detail summary follows

Signature Lease 1



Signature Existing Leases at Love Field



- **Lease 1**

- Effective Date: November 1, 1993
- Term: 10 years, plus 4 10-year options, current term expires **November 1, 2013**. If all options exercised, lease would expire on November 1, 2043
- Total Land Area: 332,997 SF (7.65 acres)
- Total Improvement Area: 95,448 SF
- Annual Rent: \$360,076
- Capital Commitment: \$0.00

Signature Lease 2 (North)



Signature Lease 2 (South)



Signature Existing Leases at Love Field



- **Lease 2**

- Effective Date: November 1, 1993
- Term: 10 years, plus 4 10-year options, current term expires on **November 1, 2013**, If all options exercised lease would expire on November 1, 2043
- Total Land Area: 2,023,375 SF (46.45 acres)
- Total Improvement Area: 452,463 SF
- Annual Rent: \$2,849,572
- Capital Commitment: \$0.00

Signature Lease 3



Signature Existing Leases at Love Field



- **Lease 3**

- Effective Date: June 10, 1955
- New Term Established April 28, 1982 for 16 years, 5 months,
**plus 3 options of: 14-yrs; 5-yrs;
4yrs & 7 months**
Current term expires 10/1/12
- Total Land Area: 798,202 SF (18.32 acres)
- Total Improvement Area: 269,344 SF
- Annual Rent: \$248,111
- Capital Commitment: \$0.00

Nov 2009 Rent Escalation

- Signature's unique lease language
 - Rent escalations for leases 1 & 2 only
 - Rental rates adjust to prevailing every 3 years
 - Signature's last escalation was 2006
 - New prevailing rates effective 2008
 - All other leases are capped at 12% max increase every 3 years
 - Signature leases 1 & 2 are not capped
 - Resulted in a \$1.2M rent increase (57%) effective 11/1/09
 - Increased from \$2.045M to \$3.209M

Nov 2009 Rent Escalation

- Due to challenges described on pages 5-7
 - Impact on industry from general economic downturn
 - Airport traffic down 35%
 - Signature's general business is down 37%
 - Signature chose to absorb increase, rather than pass to customers and risk losing them to alternatives
- Signature paid increased rent under protest to avoid defaulting
 - Initiated negotiations immediately
 - Different than how many handle this kind of situation

Negotiated Agreement Proposal

- Signature will commit \$7M in capital improvements on Leases 1 & 2, with \$2M beginning 2013 and \$5M beginning 2018
- Signature will immediately exercise its 2013 options on Leases 1 & 2, extending the terms to 2023
- City will convert the rental rate on Leases 1 & 2 to the prevailing improved ground rate (\$.65/SF), resulting in an annual rent reduction of \$513,387 (25% reduction) from the pre-escalation rate
 - Escalation will be same as other similar leases – CPI, 3 yr cap of 12%
- City will reimburse the amount of the protested overpayment, less an escalation of 12% for the past year (\$245,402)

Summary of Proposed Lease Amendments



Changes in Leases

- **Signature will immediately exercise 2nd 10-yr option which will expire on Nov. 1, 2023**
- **CPI Increases every three years not to exceed 12%**
 - **Proposed revenue over remaining life of leases at 2% annual CPI increase - \$73 million**
 - **Proposed net present value of revenue stream at 6% discount rate - \$27 million**
 - **Rent would not decrease if negative CPI**
- **Reimburse Signature the amount of protested rent increase, less the agreed upon 12% escalation effective 11/1/09, an amount estimated at \$1.1M, by 12/31/10**
- **Signature Capital Improvement Commitment - \$7,000,000 over the next 10 yrs. (from Nov. 1, 2009)**
 - **2013 Commence \$2 million expenditure, to be completed during 2015**
 - **2018 Commence \$5 million expenditure, to be completed during 2019**
- **Retention of Tenant:** Successful negotiation of Leases 1 & 2 results in the City retaining an international general aviation company providing services at Love Field and further enhancing competition at the airport

Summary of Proposed Lease Amendments



Changes in Leases

ANNUAL RENT

	Prior to Nov 1, 2009	Commencing Nov. 1, 2009	Commencing Nov 1, 2010	Options Remaining
Lease 1,	\$ 243,974	\$ 273,250	\$ 216,448	3-10/yr.
Lease 2,	<u>\$1,801,054</u>	<u>\$2,017,180</u>	<u>\$1,315,197</u>	3-10/yr.
TOTAL	\$2,045,028	\$2,290,430	\$1,531,641	

- **Commencing November 1, 2009, temporarily increase Signature's annual rent for one year from approximately \$2 million to \$2.3 million (12% rate increase)**
- **Commencing November 1, 2010, rent to be reduced to the Airports improved ground rental rate, \$.65/SF,**

Recommendation



- **Staff recommends amending the Signature Flight Support Leases 1 & 2**
 - Commencing November 1, 2009, increase Signature’s annual rental payments to the City for one year from approximately \$2 million to \$2.3 million (12% rate increase)
 - Commencing November 1, 2009, Signature commits to expending not less than \$7 million in new capital improvements within 10 years
 - Commencing November 1, 2010, reduce Signature rent to improved ground lease rates in consideration of the \$7 million capital commitment
 - Signature will immediately exercise the next 10-yr options to extend the leases to November 1, 2023
 - Provide for CPI adjustments in the leases every three years not to exceed 12%, provided, there will be no rent reduction
 - Return Signature’s overpayment in the amount estimated to be \$1.1M

- **NEXT STEPS**
 - City Council consideration to authorize City Manager to execute Lease Amendments – December 8, 2010 Agenda