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Department of Transportation

AIRPORT ECONOMIC DEVELOPMENT PROGRAM

PURPOSE:

To provide a process and policy guidance for administering airport economic development projects.

AUTHORITY:

Sections 20.23(3)(a), and 334.048(3), Florida Statutes (F.S.)

REFERENCES:

- Section 332.006(9), F.S.
- Section 475, Part II, F.S.
- Aviation Program Management, Procedure No. 725-404-040
- Florida Aviation Project Handbook
- Florida Aviation System Plan (FASP)
- Public Transportation Joint Participation Agreement (JPA), Procedure No. 725-000-005

SCOPE:

This procedure applies to all FDOT Central and District Office Aviation personnel.

DEFINITIONS:

Airport Sponsor: The local government who is the owner of an airport and the airport manager. A local government includes municipalities, counties, and airport authorities created by Florida law.

Appraisal: A written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information.

Aviation Office: The Department's Central Aviation and Spaceports Office and associated staff.

Commercial Service Airport: An aviation facility that has regularly scheduled commercial passenger service, and is designated as a Commercial Service Airport in the Florida Aviation System Plan.

District Office: One of the seven geographically decentralized Department offices responsible for the review and processing of aviation grants and projects.

Economic Development Project: Primarily, the construction of industrial parks and buildings on airport property that are leased to generate revenue for the airport, encourage new on-airport jobs and encourage private sector investment at the airport. Can include, but is not limited to: new land, and the cost of infrastructure development and facilities such as aircraft navigation aids or instrument approaches that are not justified by the operational needs of an airport, but are constructed for the purpose of attracting new airport business.

Fair Market Value (FMV): The highest price estimated in terms of money that a property will bring if exposed for sale in the open market allowing a reasonable time to find a purchaser or tenant who buys or rents with knowledge of all the uses to which it is adapted and for which it is capable of being used. It is also frequently referred to as the price at which a willing seller would sell and a willing buyer buy, neither being under undue pressure. FMV will fluctuate based on the economic conditions of the area.

General Aviation Airport: An aviation facility that has no regularly scheduled commercial passenger service and is designated as a general aviation airport in the Florida Aviation System Plan.

Market Rent: The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement, including permitted uses, use restrictions, expense obligations; term, concessions, renewal and purchase options, and tenant improvements.

Qualified Appraiser: A certified general appraiser, according to ***Section 475.611(1)(k), F.S.***

GENERAL:

The objective of the airport economic development program is to encourage development on airport property that will promote airport financial self-sufficiency.

1. PROJECT IDENTIFICATION

Annually, District Offices shall solicit airport economic development project applications from airport sponsors in their districts. Only publicly owned airports that are open for public use are eligible for state funding from this program. All facilities and related infrastructure are eligible for state funding under this program.

2. PROJECT PRIORITIZING AND RANKING

Economic development projects for publicly owned airports shall be reviewed on a case-by-case basis and prioritized based upon the merit of the project, the needs of the airport concerned, and the airport's ability to fund the project.

3. ECONOMIC FEASIBILITY ANALYSIS

The airport sponsor shall provide an economic feasibility analysis that demonstrates the revenue-producing potential of the proposed project. If the proposed total project amount is between $10 million and $50 million, the airport sponsor will provide this analysis to be used by the District Office to determine the merit and relative priority of the project for entry in the work program.

The development of the economic feasibility analysis should not unduly burden the airport sponsor. The appropriate detail and complexity of the analysis that the District Office will require shall depend on the size and complexity of the project. **Attachment A** to this procedure contains guidelines which may be used by the sponsor when developing a project's economic feasibility analysis.

For projects where the total project cost is less than $10 million, an economic feasibility analysis may be required on a case-by-case basis.

For projects where the total projects cost equals or exceeds $50 million, the airport sponsor shall prepare and submit the economic feasibility analysis based on FDOT's "*Economic Analysis for FDOT Partners Seeking Funding for Major Capacity Projects*" document.

4. FAIR MARKET VALUE REQUIREMENTS

As a general requirement, airports will disclose to the Department the source(s) of all economic development project funds prior to the execution of any Joint Participation Agreement (JPA) for these projects.

4.1 State - Local Projects

When projects are funded totally by the airport sponsor and the State, an independent appraisal by a qualified appraiser may be required as the basis for establishing fair market value (FMV) of the project. If the Department deems an appraisal is necessary, the established FMV shall be used to obtain fair market rent and support the basis of extended lease values. In this case, the sponsor shall provide the appraisal to the Department prior to the Department giving approval for any third party contracts related to the subject project.

4.2 Private Sector Participation

When the airport sponsor's share, or a portion thereof, of an economic development project is being provided by the private sector, FMV information on the non-private portion of the development shall be obtained and approved as a condition of eligibility for the project prior to executing the JPA for the project. An independent appraisal performed by a qualified appraiser shall be required to establish the FMV for the expected life of the project, but the lease shall not exceed a 20 year period. This lease shall provide for periodic adjustments to reflect current fair market rent every 5 years and use annual consumer price index adjustments as a measure of gradual lease adjustments rather than a large adjustment at 5 year intervals.

4.3 Large Projects

FMV appraisals performed by a qualified appraiser plus a review appraisal shall be obtained on all economic development projects which have an estimated total project cost in excess of $1.0 million, regardless of where local funds are being obtained. This FMV information shall be provided by the sponsor prior to execution of the JPA.

4.4 Fair Market Value Targets

A target annual fair market rent of 8% to 12% of appraised value shall be set in establishing the fair market annual rental/lease value for economic development projects with a return on investment of project funds being realized from the onset of the rental/lease agreement.

4.5 Lease Review Guidelines

Attachment B to this procedure contains ***Guidelines for Lease Review*** which may be used by the sponsor in evaluating the requirements of the lease being established for economic development projects.

5. FUNDING

5.1 Planning, Programming and Funding Projects

All projects shall be planned, programmed, funded and managed in compliance with the ***Procedure No. 725-040-040, Aviation Program Management***.

5.2 Total State Participation

This program is a 50%-50% state and local matching grant program. If a local agency receives funds from another state agency, that amount shall be subtracted from the total cost of the project with the remainder being eligible for 50% funding from the Department.

6. TRAINING

None Required

7. FORMS

There are no forms required by this procedure. The SAMPLES provided in this procedural document ***(Attachments A and B)*** can be tailored or changed to fit specific circumstances and provide only a starting point for users. Samples are not official forms of the Department.

ATTACHMENT A

PROJECT ECONOMIC FEASIBILITY ANALYSIS OUTLINE

The purpose of this outline is to provide general information for use by airport sponsors when preparing a project economic feasibility analysis. This analysis is required when the total project amount is between $10 million and $50 million. The analysis should firmly clarify project purpose, objective, and perspective and demonstrate the project feasibility using traditional metrics such as Benefit Cost Analysis (BCA), Net Present Value (NPV), Return On Investment (ROI), or Internal Rate Of Return (IRR)) to support the project. Airport sponsors may choose the methodology needed to support the project based on their situation which will then be provided to the appropriate District Office for their review and approval.

For projects where the total project cost is less than $10 million, an analysis may be required on a case-by-case basis.

For projects that equal or exceed $50 Million, the airport sponsor will follow the guidance set forth in the FDOT "*Economic Analysis for FDOT Partners Seeking Funding for Major Capacity Projects*" guidance document.

Project Feasibility Analysis Outline

1. Outline Overview and Approach:
    a. Clarify Purpose:
        i. Promote/sustain economic growth
        ii. Accommodate operational demand
        iii. Generate airport revenue
    b. Clarify Objective
        i. Financial (ROI/BCA) project evaluation metrics
    c. Specify Perspectives
        i. Entire Project – Evaluate feasibility, regardless of funding source
        ii. Funding Source – Identify all public/private equity
2. Collect Annual Data
    a. Specify General Assumptions
        i. Analysis period (i.e., 20-years)
        ii. Facility life (i.e., 30-40-years)
        iii. Annual monetary rates
    b. Estimate all Costs by year
        i. Investment
        ii. Operating
    c. Estimate Revenues
        i. Traditional fees and rents

ii. Tax remittances

3. Project Feasibility
   a. Select a traditional metric (BCA, NPV, ROI, IRR) to support the project.
   b. Provide any optional supplemental analysis to support the project (Break-even analysis, Payback period, etc…)

ATTACHMENT B

SAMPLE GUIDELINES FOR LEASE REVIEW

Instructions: Fill in the requested information and place a check on the line for which the requirements have been satisfied.

Basic Information:

Airport: ___________________________________ Date:________________________
Lessee:____
Location On Airport:____
Term: _______ Years With: _________ Option(s) Of: _________ Year(s): ______

____ The lease is consistent with the Airport Layout Plan approved by the Federal Aviation Administration and FDOT on the following date:____________________
____ The lease is environmentally compatible with airport operations.

Appraisal Requirements:

____ Appraisal dated ____________ reflects current Fair Market Value.
____ Fair Market Value reflects _____ % of Fair Market Value.
____ Rental $_________ per ________(month or year).

Minimum Recommended Clauses:

____ Escalation
____ Non-Discrimination
____ Airport Protection
    _____ Airspace Protection
    _____ Compatible Land Use Controls
    _____ Runway Overflight Protection
____ Property Rights Reserved
____ Non-Exclusive Rights (aviation leases only)

I, __________________________, have reviewed the enclosed lease and certify that the lease meets the minimum requirements set forth by the Department. I further understand that failure to support fair market value or to comply with the required clauses could jeopardize project funding.

____
Signature

____
Printed Name

____
Title

Additional Recommended Clauses

A. Use Defined
B. Subordination
C. Tax Responsibility
D. Maintenance & Repair
E. Indemnification
F. Insurance Requirements
G. Subleases
H. Inspection of Premises
I. Default
J. Delinquent Payments
K. Severability
L. Damage Assessment Procedure
M. Mediation
N. Ownership Of Improvements
O. Lessor's Interest (not subject to lessee's liens

Specific Leasing Requirements

General: Regarding rental rates, the Department is unilaterally opposed to excessively low (or no) rent for land which in a sense belongs to the public, regardless of whether it is considered aviation or non-aviation use land.

Public lands shall not be made available to a private enterprise without obtaining a fair market return. No private individual, or firm, has a right to the use of publicly funded airport land for personal gain without paying their fair share of the maintenance, development and operation of the facility. Having invested substantial public funds in the capital airport plant, the public owner and the State of Florida have thereby created a business opportunity for privately owned aviation services and non-aviation uses which otherwise would not exist. Therefore, the Sponsor has both a right and obligation to command a reasonable return on their investment. Therefore, a no rent or excessively low rent lease (Aviation or Non-aviation) will not meet the requirement of the Fair Market Value (FMV) portion of ***Exhibit "C"***, ***Aviation Program Assurances***.

A fair market annual rental value (historically 8% to 12% of fair market value) shall be assessed for all property needed to support the improvements to include airside and landside parking, drainage and green area requirements, access, etc... The fair market rental value of land to be leased shall be determined by an acceptable market analysis, usually by appraisals. Such leases must bring a fair market return to the airport.

As an alternative to or in addition to charging a base fee for all land under lease, airport owners may charge a percentage of the gross income of the Fixed Based Operator (FBO). This method may result in a fair return on the land and allows the airport to grow as the FBO grows. Regardless of the rates or methods used, they must remain non-discriminatory. (This will be further addressed in the ***Recommended Minimum Lease Clauses Section***.)

Please note, fuel flowage fees are considered a pass through actually paid to aircraft operators and, therefore, are not considered applicable to rent. A fuel flowage fee shall be applied equally to all airport tenants, whether commercial or private. Further, the fees shall be applied to all fuel delivered to the airport for economy of collection.

Approved Airport Layout Plan (ALP): An approved ALP is required by the State that depicts the entire property, and identifies the present facility and the plans for future development. The ALP reflects an agreement between state and federal agencies and the airport owner as to the proposed allocation of areas of airport to specific operational and support functional usages. Thus the ALP becomes the controlling instrument in both aviation and non-aviation development. As it relates to leasing, it readily identifies those areas that may be leased to conduct non-aviation enterprises.

Recommended Minimum Lease Clauses:

Non-Discrimination

"The tenant for itself, its personal representatives, successors in interest, and assigns, as a part of the consideration hereof, does hereby covenant and agree that (1) no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or be otherwise subjected to discrimination on the use of said facilities. (2) that in the construction of any improvements on, over or under such land and the furnishing of services thereon, no person on the grounds of race, color, or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination. That in the event of breach of any of the above non-discrimination covenants. Airport Owner shall have the right to terminate the lease and to re-enter as if said lease had never been made or issued."

Airport Protection

"It shall be a condition of this lease, that the lessor reserves unto itself, its successors and assigns, for the use and benefit of the public, a right of flight for the passage of aircraft in the airspace above the surface of the real property hereinafter described, together with the right to cause in said airspace such noise as may be inherent in the operation of aircraft, now known or hereafter used, for navigation of or flight in the said airspace, and for use of said airspace for landing on, taking off from or operation on the airport.

That the Tenant expressly agrees for itself, its successors and assigns, to restrict the height of structures, objects of natural growth and other obstructions on the hereinafter described real property to such a height so as to comply with ***Federal Aviation Regulations, Part 77***.

That the Lessee expressly for itself, its successors and assigns will prevent any use of the hereinafter described real property which would interfere with or adversely affect the operation or maintenance of the airport, or otherwise constitute an airport hazard."

Property Rights Reserved

"This lease and all provisions hereof are subject and subordinate to the terms and conditions of the instruments and documents under which the Airport Owner acquired the subject property from the United States of America and shall be given only such effect as will not conflict or be inconsistent with the terms and conditions contained in the lease of said lands from the Airport Owner, and any existing or subsequent amendments thereto, and are subject to any ordinances, rules or regulations which have been, or may hereafter be adopted by the Airport Owner pertaining to the _______________ Airport."

Exclusive Rights (required in aviation leases only)

"Notwithstanding anything herein contained that may be, or appear to be, to the contrary, it is expressly understood and agreed that the rights granted under this agreement are nonexclusive and the Lessor herein reserves the right to grant similar privileges to another Lessee or other Lessees on the other parts of the airport."

Escalation Clauses

"Since the annual cost to satisfactorily operate and maintain the airport will most likely increase throughout the term of the lease, provisions shall be made to ensure that fair market rental value rates remain current throughout the life of the lease. Rental rates shall be adjusted at a minimum of 5 year increments. Also, the FMV requirements contained in this procedure apply throughout a 20 year life for the improvements being constructed. Therefore, an annual CPI adjustment not only helps to meet this requirement, but also makes the five year adjustment resulting from a re-appraisal less radical. An escalating clause or other means of automatically adjusting lease payments must be incorporated into long term leases to provide for this adjustment. A local, state or federal cost of living index can be utilized as the basis for determining the increase."

The following is a sample clause:

"Lessor and lessee recognize and agree that the purchasing power of the United States dollar is evidenced by the (name of appropriate index). In XXXX, and every five years thereafter, the parties hereto shall compare the price index for said year with the price index for (state year the lease is executed) and the annual rental payments shall be increased (or decreased) in the same proportion as said price index has increased (or decreased) with the price index for (state the year the lease is executed)."