CITY OF JOPLIN
COUNCIL AGENDA ITEM

ITEM
Council Bill 2023-134 Airport Land Lease Rate Schedule

MEETING DATE
July 17, 2023

ORIGINATING DEPT
Public Works-Airport

ATTACHMENTS
Council Bill 2023-134, Proposed Land Lease Rate Schedule, CMT Rates & Charges Study.

REVIEWED BY
Director of Public Works, Daniel Johnson; Finance Director, Leslie Haase; City Attorney, Peter Edwards; Assistant City Manager, Tony Robyn; City Manager, Nicholas Edwards

SUMMARY
This Council Bill authorizes the City to adopt the updated Airport Land Lease Rate Schedule for airport land in compliance with Federal Aviation Administration (FAA) regulations.

BACKGROUND

The FAA requires, under the Federal Grant Assurances, that all airports who accept federal funds through the Airport Improvement Program or related grant programs receive a "Fair Market Value" for land accrued under the program's authority. In 2004, at the request of the FAA, the Airport established a land lease rate schedule that would bring low rates back in line with market values. That schedule covered a period through 2029. Recently, new lease agreements were drafted, and tenants wanted to see projected rates beyond 2029. In May of this year, city staff commissioned Crawford, Murphy, and Tilley ("CMT") to conduct a Rates and Charges Study comparing JLN rates with similar airports in our region. The purpose of the study was to review the current 25-year land lease rates established in 2004 and evaluate the continuation of that schedule for future lease agreements, for the period beginning in 2030 to 2054.

CMT evaluated the land lease rates and operations at the airports in the following cities: Columbia, MO, Cape Girardeau, MO, Springfield, MO, Northwest Arkansas and Wichita, KS. These airports were chosen because they are similar to Joplin and geographically close to Joplin. The full study is attached hereto as an Exhibit.

The report concluded that for the period 2025 – 2029 the predetermined Land Lease Rate for JLN would rise from $0.129 to $0.149, an increase of 15.5%. This amount was determined to be a fair market return and was in keeping with the current rate schedule. It was the consultant's recommendation that the city continue with the current rate and fee schedule for future lease agreements beginning in 2030.

FUNDING SOURCE
N/A

RECOMMENDATION

Staff recommends adoption of Council Bill 2023-134 on first reading.

Land Lease Rate History & Justification

The FAA requires under the Federal Grant Assurances the Airport receive a “Fair Market Value” for land accrued under the program. The follow is from the FAA Grant Assurance Guidance.

Public lands will not be made available for 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 FAA 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.

Further, a no rent or excessively low rent lease (Aviation or Non-aviation) will not meet the requirement of the Sponsor's assurance contained in current grant agreements, which reads in part:

"Sponsor will maintain a fee and rental structure consistent with assurances 22 and 23 for the facilities and services being provided the airport users which will make the airport as self-sustaining as possible under the circumstances existing at that particular airport, taking into account such factors as the volume of traffic and economy of collection."

A fair market rental value (historically 8% to 12% of fair market value) should be assessed for grounds within the leasing area. The fair market rental value of land to be leased should be determined by an acceptable market analysis, usually formal appraisals. Such leases must bring a fair market return to the airport.

The Airport is Federally Audited each spring to assure compliance with the Grant program. In the spring of 2004 the FAA requested the Airport to reevaluate the land values. Based upon an Appraisal conducted June 17, 2004 land at the Joplin Regional Airport had a Market value of $.90/sq ft.

In 2004 the Airport Land Lease Rate was $.07/sq. ft. per year. The Airport felt that a 1200% increase in the land lease rate would be detrimental to the development of the Airport. The Airport negotiated with the FAA a Land Lease Rate schedule that would provide a steady, justifiable increase in the rate over the next 25 years.

The appraiser assumed a 2% increase in land value per year and the Airport value sees an average of 3% growth per year thus a 5% annual growth was applied.

The rate is adjusted every 5 years through the 25-year term of the original agreement. After the initial 25-year term (2030) the leases will be renewed in 5-year increments. The same formulation will be applied with a maximum of no more than a 25% change in the 5-year cost. This new rate will be applied for the length of the next 25-year term.

This is the original rate schedule from 2004.

LAND LEASE RATE SCHEDULE		
YEAR	**LEASE YEAR**	**RATE/SQ'/YR-Rev**
2005	1	$0.070
2006	2	$0.070
2007	3	$0.070
2008	4	$0.070
2009	5	$0.070
2010	6	$0.095
2011	7	$0.095
2012	8	$0.095
2013	9	$0.095
2014	10	$0.095
2015	11	$0.111
2016	12	$0.111
2017	13	$0.111
2018	14	$0.111
2019	15	$0.111
2020	16	$0.129
2021	17	$0.129
2022	18	$0.129
2023	19	$0.129
2024	20	$0.129
2025	21	$0.149
2026	22	$0.149
2027	23	$0.149
2028	24	$0.149
2029	25	$0.149

All tenants with Ground Leases are charged from this same schedule.

UPDATE:

On 7/6/2023, it was proposed that the Lease Rate Schedule be extended another 25 years to accommodate any future lease agreements whose term would have extended beyond the original calculated values. The traditional formula for growth was applied as it has closely resembled actual real estate growth rates for the area and meets the Fair Market Value requirement.

The extended Land Lease Rate Schedule is below:

LAND LEASE RATE SCHEDULE		
YEAR	Lease Year	Rate/SqFt
2030	1	0.172
2031	2	0.172
2032	3	0.172
2033	4	0.172
2034	5	0.172
2035	6	0.198
2036	7	0.198
2037	8	0.198
2038	9	0.198
2039	10	0.198
2040	11	0.228
2041	12	0.228
2042	13	0.228
2043	14	0.228
2044	15	0.228
2045	16	0.262
2046	17	0.262
2047	18	0.262
2048	19	0.262
2049	20	0.262
2050	21	0.302
2051	22	0.302
2052	23	0.302
2053	24	0.302
2054	25	0.302

Joplin Regional Airport – Rates & Charges Study



6/28/2023

CMT
Crawford, Murphy & Tilly

Background

The Federal Aviation Administration (FAA) requires, under the Federal Grant Assurances, that all airports who accept federal funds through its Airport Improvement Program (AIP) or related grant program(s) receive a "Fair Market Value" for land accrued under the program's authority. FAA Grant Assurance Guidance Handbook provides the Airport (sometimes referred to by the FAA as the Sponsor) the following insight:

> *Public lands will not be made available for 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 FAA 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.*

Further, a zero-land rent lease rate or excessively low land rent lease rate (Aeronautical or Nonaeronautical) will not meet the requirement of the Sponsor's Federal Grant Assurance contained in current federal agreements, which reads in part:

> *Sponsor will maintain a fee and rental structure consistent with Assurances 22 and 23 for the facilities and services being provided the airport users which will make the airport as self-sustaining as possible under the circumstances existing at that particular airport, taking into account such factors as the volume of traffic and economy of collection.*

2004 Land Rent Lease Rate

The Joplin Regional Airport (JLN or Airport) ensures annually, via an audited process, compliance with AIP Grant Assurances. In the Spring of 2004, the FAA requested JLN reevaluate its then current land rent lease values. Based upon an appraisal conducted June 17, 2004, the land rent lease rate at JLN had a market rental value of $0.90 per square foot per annum.

In 2004 the Airport Land Lease Rate received by JLN tenants was only $0.07 per square foot per annum. There was a significant difference between current land rent lease rates and what was determined to be fair market value land rent lease rate. The Airport believed that a 1,200% increase in the land rent lease rate would be detrimental to any future development of the Airport and would be an enormous financial shock to current tenants. The Airport, therefore, negotiated with the FAA a Land Rent Lease Rate Schedule that would provide a steady, justifiable increase in the rate over the subsequent 25-year period.

All tenants where a Land Rent Lease Rate is applicable utilize the following Land Lease Rate Schedule:

Land Lease Rate Schedule		
Year	Lease Year	Rate/SF/Annum
2005	1	$0.070
2006	2	$0.070
2007	3	$0.070
2008	4	$0.070
2009	5	$0.070
2010	6	$0.095
2011	7	$0.095
2012	8	$0.095
2013	9	$0.095
2014	10	$0.095
2015	11	$0.111
2016	12	$0.111
2017	13	$0.111
2018	14	$0.111
2019	15	$0.111
2020	16	$0.129
2021	17	$0.129
2022	18	$0.129
2023	19	$0.129
2024	20	$0.129
2025	21	$0.149
2026	22	$0.149
2027	23	$0.149
2028	24	$0.149
2029	25	$0.149

As further negotiated with the FAA, after the initial 25-year term (2030) the leases will be renewed in 5-year increments. The same formulation will be applied, if warranted, with a maximum of no more than a 25% change in any 5-year period.

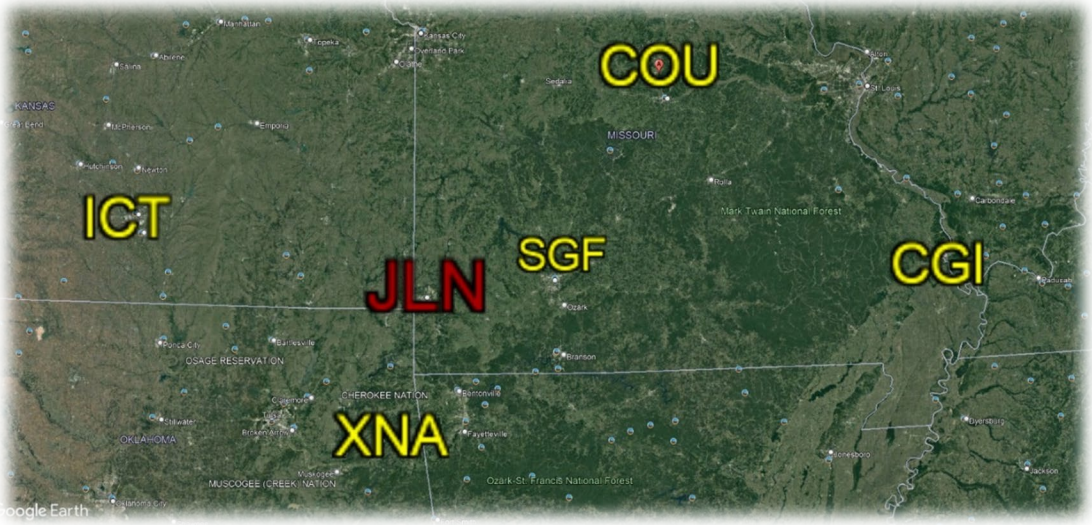
Rates & Charges Study

In anticipation of the upcoming 2030 appraisal and reapplying the results to an updated Land Lease Rate Schedule, if necessary, JLN requested Crawford, Murphy & Tilly (CMT) analyze peer comparable regional airport land rent lease rates with JLNs current values.

The peer airports to be explored are:

1. Columbia Regional Airport (COU), Columbia, Missouri
2. Cape Girardeau Regional Airport (CGI), Cape Girardeau, Missouri

3. Springfield-Branson National Airport (SGF), Springfield, Missouri
4. Northwest Arkansas National Airport (XNA), Fayetteville, Arkansas
5. Wichita Dwight D Eisenhower National Airport (ICT), Wichita, Kansas



These airports were chosen because they best represent similar airports as compared to JLN within a geographical region. Real estate valuation tends to be "regionalized." The peer airports also have regularly scheduled passenger commercial service. The following table provides the miles (straight line) to JLN from its respective peer.

	Miles to JLN
CGI	272
COU	170
ICT	165
SFG	62
XNA	60

This study, as prepared by CMT, will not provide analysis of local conditions that may influence the overall valuation of property at a particular airport. In analyzing peer airports, however, it is important to fully understand the similarities and differences each peer airport delivers. Therefore, we will provide:

1. Based Aircraft
2. Aircraft Operations
3. Scheduled Airline Commercial Service
4. Metropolitan Statistical Area (MSA)

1. <u>Based Aircraft</u>

Based aircraft is an indication as to the number of tenants and local operations per year, which contributes to the value that the airport provides to the overall local community.

Airport	Based Aircraft
CGI	61
COU	32
ICT	208
JLN	128
SFG	145
XNA	8

Source: AirNav

2. Airport Operations

Below depicts the number of itinerant and local operations for each airport for Calander Year (CY) 2022. Itinerant operations are performed by an aircraft that lands at an airport, arriving from outside the airport area, or departs an airport and leaves the airport area. Local operations mean operations performed by aircraft which operate in the local traffic pattern or within sight of the airport or are known to be departing for or arriving from flight in local practice areas located within a 20-mile radius of the airport.

	Itinerant					Local			
Airport	Air Carrier	Air Taxi	General Aviation	Military	Total	Civil	Military	Total	Total Operations
CGI	-	-	-	-	-	-	-	-	-
COU	1,964	3,177	12,215	273	17,629	11,228	132	11,360	28,989
ICT	16,573	19,207	38,396	11,675	85,851	17,622	5,975	23,597	109,448
JLN	3	2,378	8,438	116	10,935	6,809	12	6,821	17,756
SGF	10,848	16,799	18,566	3,542	49,755	6,145	891	7,036	56,791
XNA	20,872	5,429	5,990	5,489	37,780	422	4,468	4,890	42,670

Source: FAA OPSNET – CGI data not available

Local operations are driven by based aircraft. ICT, with the most based aircraft (208), has the highest Local Total Operations (23,597). Where XNA has the lowest number of based aircraft (8) and therefore the lowest Local Total Operations. ICT, XNA, and SGF lead in Total Operations. Despite XNA having few based aircraft, they have significant Itinerant traffic to make up for the difference in their lack of Local Operations.

3. Scheduled Airline Commercial Service

The designated peer airports have regularly scheduled airline commercial service in one form or another. Some airports have more enplanements with higher load factors indicating that the community is embracing the air carrier service. Using CY 2022 data the table below depicts number of departures, capacity, enplanements, and load factor.

Airport	Departure Count	Capacity	Enplanements	Load Factor
CGI	640	29,500	8,713	29.5%
COU	1,639	104,478	81,643	78.1%
ICT	9,940	970,904	762,309	78.5%
JLN	639	31,950	20,786	65.1%
SGF	8,542	649,512	539,344	83.0%
XNA	12,192	1,041,698	812,848	78.0%

ICT, SGF, and XNA lead in enplanements and they also have similar load factors.

4. Metropolitan Statistical Area

A Metropolitan Statistical Area (MSA) is a geographic region that includes a core city with a large population and its surrounding region, which may include several adjacent counties. The general concept of a MSA is that of a core area containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with that core.

	MSA
CGI	97,517
COU	210,864
ICT	647,610
JLN	181,409
SGF	475,432
XNA	525,032

Source: MSA 2020 Census

COU, CGI, and JLN have similar MSAs with ICT, SGF and XNA having significantly more populations.

Peer Airport Land Lease Rate Comparison

CGI rates differ based upon whether the tenant built the facility. As an incentive to encourage development, CGI offers a land rental rate of $0.16 per square foot per annum. In the case of a tenant who is leasing an existing facility the land rental rate is $0.20 per square foot per annum. XNA does not have any nonaeronautical land leases. COU is in the process of updating their rates based upon an appraisal to be accomplished by the end of this calendar year.

Airport	Escalation Method	Aeronautical Rate/SF/Annum	Nonaeronautical Rate/SF/Annum
CGI	Accumulated CPI every 5 years	$0.16 or $0.20	$0.16 or $0.20
COU	Accumulated CPI every 5 years	$0.08	$0.08
ICT	Annual 3% Fixed	$0.542	$0.542
JLN	Per Land Lease Rate Schedule	$0.129	$0.129
SFG	Accumulated CPI every 5 years	$0.27	$0.27
XNA	Annual 2% Fixed	$0.35	N/A

Observations

Aeronautical vs Non-Aeronautical Lease Rates

JLN does not distinguish between aeronautical and non-aeronautical land for the purpose of the land lease rate. Neither do the peer airports.

CPI vs Annual Fixed Rate

JLN escalates rents based on a predetermined amount negotiated with the FAA. Other peer airports - ICT (3%) and XNA (2%) - automatically increase rates at fixed intervals annually. Others utilize Consumer Price Index (CPI-U).

Critiques of the usage of CPI-U would contend that those indicators that determine variability in CPI-U are not the same indicators utilized in determining commercial real estate valuations, especially on airports. There may be some merit in the argument, however, CPI-U is measurable, undisputable, dependable, and historical. And until there is some other "measurement" that meets the same qualities as CPI-U, we recommend, when able, to use CPI-U as an annual escalator. Although automatic escalations set on a predetermined percentage may provide that comfort level from the tenant and an airport knowing what the rents shall be each year over time, it does little to recognize market fluctuations.

If JLN were to enact escalations based upon CPI-U, it is recommended to do so annually and not wait every 5 years to sum the aggregate of CPI-U over that period. CGI and COU use this method. By escalating the CPI-U annually, the end financial result favors JLN (discussed in more detail below), however, escalating once every five years means that the increase in rent could be substantial on a percentage basis. In other words, the difference in rents from what was paid in Year 6 is noticeably more than in Year 5. If annual escalations are calculated, then the increase is gradual and less impactful when compared between escalation years. This method is more psychological than financial to your tenants; however, tenant relations may not be "strained" when annual escalations are calculated. Smaller increments taken over a 10-year

period will result in more revenue to JLN than taking the same 5-year escalation only once in a 10-year period.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Example 1	$100,000	$100,000	$100,000	$100,000	$100,000	$115,000	$115,000	$115,000	$115,000	$115,000	**$1,075,000**
Example 2	$100,000	$103,000	$106,090	$109,273	$112,551	$115,927	$119,405	$122,987	$126,677	$130,477	**$1,146,388**

- Example 1 assumes the initial rent is $100,000 per year and that the rent remains constant for 5 years. In year 6 it is calculated that for years 6 -10 (5-year period) the previous CPI over the preceding 5 years was 15% (3% per year). The total is $1,075,000.

- Example 2, annual escalations were taken for all 10 years of 3% - the sum would be $1,146,387 ($71,387 more than one-time escalation).

The key being that in Example 1 the difference in rent between Years 5 and 6 is $15,000 but the highest difference in Example 2 would be between years 9 and 10. That escalation is only $3,800. Constant incremental “steps” up the stairway rather than taking “floors” at a time.

It is also suggested that if annual escalations are put into place that JLN cap the amount of such escalation. If the cap is, for example 3%, your tenant can now calculate their maximum rent over a 10 or even 15-year period. And in fact, the actual amount paid may be less given the relatively low historical inflation rate. Albeit not currently, however, even in these inflationary conditions, placing a cap will provide your tenant comfort knowing that rents will not follow these extreme conditions.

CMT provides this information above so that if in 2030 the appraisal reveals that JLNs Lease Rate Schedule has indeed brought the rents to fair market value, that JLN merely consider alterative methods in escalation than at a fixed value.

JLN Land Lease Rate Schedule

Based upon what the data above exposed, one can categorize the airports presented in this Study into two distinct groups, SGF, ICT, and XNA in one group - and JLN, CGI, and COU in another.

SFG, ICT, XNA have more operations, enplanements and a larger MSA than CGI, COU, and JLN. JLN ranks third in the number of based aircraft. In all other categories JLN ranks below third.

The fact that SFG, ICT and XNA commands higher land rental rates than CGI, COU, and JLN is therefore predictable. And that CGI, COU and JLN have “lower but similar” land rental rates is also predictable.

For the period 2025 – 2029 the predetermined Land Lease Rate for JLN will rise from $0.129 to $0.149, an increase of 15.5%. This appears, in consideration of the factors identified above, to be a reasonable fair market return as compared to JLN’s identified peer airports.

The extended Land Lease Rate Schedule is below:

LAND LEASE RATE SCHEDULE		
YEAR	Lease Year	Rate/SqFt
2030	1	0.172
2031	2	0.172
2032	3	0.172
2033	4	0.172
2034	5	0.172
2035	6	0.198
2036	7	0.198
2037	8	0.198
2038	9	0.198
2039	10	0.198
2040	11	0.228
2041	12	0.228
2042	13	0.228
2043	14	0.228
2044	15	0.228
2045	16	0.262
2046	17	0.262
2047	18	0.262
2048	19	0.262
2049	20	0.262
2050	21	0.302
2051	22	0.302
2052	23	0.302
2053	24	0.302
2054	25	0.302

COUNCIL BILL NO. 2023-134 ORDINANCE NO.

AN ORDINANCE adopting the updated Airport Land Lease Rate Schedule for airport land accrued under Federal Aviation Administration (FAA) grant programs.

WHEREAS, the City is required by the Federal Aviation Administration to receive a fair market value for public lands acquired through the Airport Improvement Plan and other related grant programs.

WHEREAS, the current land lease rate schedule was adopted in 2004 for a 25-year period and will end in 2029, and an extended schedule is necessary to apply to future land lease agreements.

WHEREAS, the firm of Crawford, Murphy & Tilly (CMT) performed a Rates and Charges Study and concluded that the current fee schedule is appropriate based on the comparison of peer airports and land valuations.

WHEREAS, CMT also recommended that the current Land Lease Rate Increase Schedule be continued for an additional 25-year period beginning in 2030 and ending in 2054.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF JOPLIN, MISSOURI, as follows:

Section 1. That the current Airport Land Lease Rate Schedule shall remain in effect through 2029.

Section 2. The Land Lease Rate Schedule attached hereto as Exhibit A is hereby adopted and shall be put into effect for the years 2030 through 2054.

Section 3. That this ordinance shall be in full force and effect from and after its passage and approval by the Mayor and City Council.

PASSED BY THE COUNCIL OF THE CITY OF JOPLIN, MISSOURI, this _____ day of_____, 2023, by a vote of_____.

_____
Douglas W. Lawson, Mayor

ATTEST:

_____
Holly Nagy, City Clerk

APPROVED AS TO FORM:

_____
Peter C. Edwards, City Attorney