APPENDIX 5















Lease Rates Analysis
Prescott Municipal Airport

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INTRODUCTION

The purpose of this White Paper is to determine if Prescott Municipal Airport's (PRC) current lease rates and policy are competitively established and adequate. This White Paper reviews existing airport lease rates and compares results of a lease rates and structures survey of similar airports to that of PRC. It identifies PRC's overall market position, ascertains the adequacy of the airport's leasing structure and policy, and recommends where improvements may need to be considered.

The key objective of this White Paper is to analyze lease rates at comparable airports. This analysis provides a "snap shot" of airport lease rates from similar airports. It allows PRC to gauge it's existing lease rates and provides assistance with the establishment of future rates within the context of the airport's market environment. It should be stated that a lease rates analysis does not supplement a property appraisal for specific lease negotiations.

The goals set forth for this analysis were accomplished through the following steps:

- Obtain and review existing leases from the City through meetings with City and Airport staff to identify current lease issues, concerns and needs;

- Establish a reasonable list of comparable airports to be researched for this effort. Lease rates for similar services and operations at similar airports was collected to achieve this goal; and

- Through market research and historical data collection, identify potential changes to current lease rates, landing fees and the use of lease inflators and their applicability, as well as a review of other techniques commonly used in the industry.

This White Paper is categorized into the following sections:

- Section 1 – Airport Market Profile
- Section 2 – Comparable Airports
- Section 3 – Summary of Key Findings
- Section 4 – Observations and Recommendations

SECTION 1 – AIRPORT MARKET PROFILE

PRC is a general aviation airport located in Yavapai County, and is centrally located approximately 8 to 10 miles between the City of Prescott, the towns of Chino Valley and Prescott Valley. The airport is owned and operated by the City of Prescott.

PRC is situated on approximately 760 acres of land. The airport serves both the commercial and multi-faceted general aviation needs for the area, including the City of Prescott, Yavapai County and residents of the local Yavapai Reservation. Additionally, PRC serves as the flight training base for Embry-Riddle Aeronautical University (ERAU).

There are currently 350 aircraft based at PRC including 300 single engine aircraft, 26 twin engine aircraft, 3 jets, 10 helicopters, and one ultra-light aircraft.

There are several businesses located at the Airport. The following table identifies each type of service provided at the Airport and the name of the businesses that provide those services.

Table 1
PRC Airport Businesses

Service Type	Business
Charter, Flight Instruction, & Rental	▪ Air Grand Canyon ▪ Arizona Skyways Airlines ▪ Embry-Riddle Aeronautical University ▪ Guidance Helicopters ▪ North-Aire, Inc. ▪ Sky School
Aircraft Repairs, Avionics, & Service Support	▪ Arizona Air-Craftsman/Wing Nuts ▪ Mile High Avionics ▪ Nostalgaire ▪ Prescott Aircraft ▪ Prescott Aircraft Interiors ▪ Powell Upholstery & Aircraft Interiors ▪ Wing Waxers – Aircraft Dealing
Airline Service	▪ US Airways Express (Operated by Mesa Airlines)
Fixed Base Operator (FBO)	▪ Legend Aviation[1]
Ground Transportation	▪ Hertz (Airport Terminal)
Miscellaneous	▪ Antelope Hills Golf Course ▪ Arizona Aviation Supplies ▪ Rittaire ▪ Susie's Skyway Restaurant

Source: Draft PRC Airport Master Plan (2008)

These businesses are housed in several facilities at the Airport, including the Commercial Terminal Building, General Aviation Terminal Building, and various other buildings on Airport property.

[1] Legend Aviation has recently become the Airport's FBO. Prior to Legend providing these services, the City of Prescott provided FBO services at PRC

SECTION 2 – COMPARABLE AIRPORTS

To collect and review lease rates for similar services and operations at comparable airports to PRC, criteria were developed to determine a list of potential comparable airports. The following broad criteria were used to develop the long list of potential comparable airports:

- Location of the airport, with preference given to those airports within the State of Arizona, southwest region, and a competitor of PRC;
- Similar size and scope in terms of acreage, runway length, use, ownership, and type; and
- Similar type of activity: training, ATCT, based aircraft level, Part 139 certification.

Table 2
Airports Considered for Comparison

Airport	Acres	Ownshp/ Use Type	Airport Type	Longest Runway	Part 139	# of Based A/C	ATCT	EAS	Comp
Prescott	**760**	**Pu/Pu**	**CS-Primary**	**7,550'**	**Yes**	**318**	**Yes**	**Yes**	**Yes**
Flagstaff Pulliam	795	Pu/Pu	CS-Primary	8,800'	Yes	130	Yes	Yes	Yes
Grand Canyon	859	Pu/Pu	CS-Primary	8,999'	Yes	9	Yes	Yes	No
Kingman	4,200	Pu/Pu	CS-Other	6,827'	Yes	268	No	Yes	No
Laughlin	650	Pu/Pu	CS-Primary	7,520'	Yes	61	Yes	No	No
Lake Havasu	646	Pu/Pu	CS-Primary	8,001'	Yes	288	No	No	Yes
Sedona	220	Pu/Pu	GA-Public	5,129'	No	100	No	No	Yes
Glendale	720	Pu/Pu	GA-Reliever	7,150'	No	357	Yes	No	Yes
Cottonwood	210	Pu/Pu	GA-Public	4,250'	No	49	No	No	Yes
Bagdad	91	Pu/Pu	GA-Public	4,575'	No	5	No	No	No
Phoenix-Mesa Gateway	3,020	Pu/Pu	CS-Other	10,401	Yes	94	Yes	No	Yes
Show Low	691	Pu/Pu	CS-Other	7,200'	Yes	63	No	No	Yes
Page	536	Pu/Pu	CS-Primary	5,950'	Yes	68	No	Yes	Yes
Yuma	3,100	Gv/Pu	CS-Primary	13,300'	Yes	167	Yes	Yes	No
Williams (H A Clark Memorial)	303	Pu/Pu	GA-Public	5,992'	No	16	No	No	No
Daytona Beach Int'l (FL)	1,800	Pu/Pu	CS-Primary	10,500'	Yes	204	Yes	No	Yes
Nashua (NH)	400	Pu/Pu	GA-Public	5,501'	No	432	Yes	No	No
St. Louis Dwnt Airport (IL)	940	Pu/Pu	GA-Public	6,997'	No	268	Yes	No	No

Sources: FAA 5010 Airport Master Records dated 12/20/2007; USDOT EAS Determinations.
Abbreviations: Pu = Public; CS = Commercial Service; GA = General Aviation; A/C = Aircraft; ATCT = Air Traffic Control Tower; EAS = Essential Air Service; Comp = Comparable Airport.

Based upon the criteria identified above and review of the data in the table, the comparable airports selected for review are shaded blue in the table above. While the airports selected are not necessarily comparable across all criteria categories, the nine (9) airports selected provide a diverse cross representation of activity at PRC and provide the best results for this analysis.

Each airport was contacted to collect relevant lease information in Spring, 2008. The airports were provided with a matrix designed to gather information in ten (10) areas of interest with respect to leases, fees, investments, lease clauses, inflators, and any additional information that the airport could provide that would assist with the analysis.

The result of this information collection effort for each comparable airport is provided in Table 3 on the following page.

Table 3
Comparable Airport Lease Information

Airport	Land Lease (sq. ft.)	"Wholesale" Hangar Rental Rate (sq. ft.)	"Retail" Hangar Rental Rate (sq. ft.)	Office Rent	% of Gross Receipts	Fuel Flowage Fee (gal)	Required Investment	Length of Leases and Reversion Clause	Inflator Used/Time
Prescott	**$0.09 to 0.30**	**$0.09/SF - $0.16/SF**	**$0.22/SF - $0.40/SF**	**$10.00 - $24.85**	**1.5% of gross income 20% of gross snack mach.**	**AvGas: $0.25 - 0.10 JetA: $0.35 - 0.10**	**varies**	**25 yr term**	**CPI**
Cottonwood	$0.42	$5.28	N/A	None	N/A	$0.05	None	25 yr initial term w/15 yr option. Reverts to airport at end of 25 yr	10% increase each 4 YR period
Daytona Beach	7%- 10% of appraisal	No DAB owned Hangars	--	% of appraisal	None	$0.07	n/a	20-30 yrs	Appraisal every 5 yrs
Glendale	$0.1375 to $0.2291	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Annual CPI
Lake Havasu	$0.28 - $0.95	$300 - $400/month Shade ports: $155/month	N/A	$30.00	10% monthly	$0.09	Case-by-case	35 years with a 10 yr option Subleases are a right of redemption Buildings revert to the airport	CPI every other year
Page	$0.34	N/A	N/A	$2.78/SF for upstairs terminal $5.56/SF for downstairs terminal	None	$0.035	None	15 yr initial term with 2 – 5 yr extension for a 25 yr total lease	Annual CPI
Phoenix-Mesa Gateway	$0.50	$10.50	$15.50	$23.00	5% concessionaire agreements only	$0.11	In minimum standards	30 yr plus two five yr options, then reverts back to airport	CPI every 3 years
Sedona	$0.48	$2.50		Main Terminal - $5.00 Terminal Annex - $3.00	2.5% of gross for all commercial leases	Self fueling $0.20	1 month's rent	20 yr initial with 2 yr options All land reverts back to the City unless optioned	CPI every 3 years
Show Low	$.3085 for all leases, com. operators pay a monthly fee	9,000 sq ft hgr = $6,000 month 3-8,100 sq ft hgrs = $3,500 month	n/a	Approx $33.00	None	$0.10	As required by minimum standards	Private hangars are 25 yrs w/10-yr option. Com. leases max of 10 yrs.	Annual CPI

Other general observations include:

Cottonwood

The FBO is the only commercial hangar rental. It is referred to as wholesale because it's very basic. The airport also has T-hangars for storage at $250.00/mo. ($0.217/SF/MO).

Flagstaff

The airport was not available to participate.

Glendale

Non-Premium Space:
With Infrastructure: $0.1718/SF
Without Infrastructure: $.0.1375/SF

Premium Space:
With Infrastructure: $0.2291/SF
Without Infrastructure: $0.1948/SF

Sedona

There are currently are 40 people on the waiting list for hangar space. That waiting list is broken down into 20% who currently use tie-downs and 80% people moving in from out of state. T-hangars are anticipated to be built in 3-5 years, once a water issue is resolved. There are currently 105 based aircraft: 2 small jets, 5 twins, and the remainder are single engine aircraft.

SECTION 3 – SUMMARY OF KEY FINDINGS

Based upon the information gathered from the comparable airports listed in Table 3, the ranges and approaches for each lease area category considered by the comparable airports in their leasing policies are identified below and compared to rates at PRC.

Table 4
Summary of Key Findings

Lease Area	Range of Comparables	PRC
Land Lease	$0.13 to $0.50 s.f. or 7% to 10% of appraised value	$0.09 to $0.30 s.f.
Wholesale Hangar Rental	$2.50 to $10.50 s.f.	$0.09 to $0.16 s.f.
Retail Hangar Rental	$15.50 s.f.	$0.22 to $0.40 s.f.
Office Rent	$2.78 to $33.00 per square foot or percent of appraised value	$10.00 to $24.85 s.f.
Percentage of Gross Receipts	2.5% to 10%	1.5 to 20.0%
Fuel Flowage Fee	$0.035 to $0.20	$0.10 to $0.35 (sliding scale)
Required Investment	Varies; minimum standards; or 1 month's rent	Varies
Length of Lease	15 to 35 year initial terms and offer option years	25 year term
Inflator	Appraisal or various term CPI	CPI

SECTION 4 – OBSERVATIONS AND RECOMMENDATIONS

PRC has many activities and existing policies in place related to property leasing. These activities are incorporated into this lease analysis as they relate to the information obtained from the comparable airports and the recommendations of this effort. Observations and recommendations for PRC regarding this lease rates analysis include the following areas:

- Leasing, including the recent lease contracts with Legend Aviation;
- Use of Property Appraisals; and
- Airport Minimum Standards.

The following discussion provides leasing observations and recommendations, the use of property appraisals for lease rate setting, along with general industry considerations to develop and implement Airport Minimum Standards for PRC as they relate to providing a "level playing field" for businesses looking to conduct commercial aeronautical activity at the Airport.

Leasing

While some variation exists at each airport, PRC is within the range of findings in most of the comparable areas considered in this analysis. As an example, a summary of the recent lease contracts signed with Legend Aviation was incorporated to this effort also. These include:

- **Prescott Aviation Land, LLC. (Legend Aviation): Contract 2008-067**
  Ground Lease for 7.17 acres; $0.30 s. f.; 25 year term; CPI

- **Prescott Aviation Fuel, LLC. (Legend Aviation); Contract 2008-179**
  Ground Lease 1 (existing) for 1.02 acres; $0.30 s. f.; 25 year term; CPI
  Ground Lease 2 (expansion) for 0.25 acres; $0.09 s. f.; 25 year term; CPI
  Fuel Flowage 100LL (Year 1 – $0.25 to Year 4+ – $0.10)
  Fuel Flowage Jet-A (Year 1 – $0.35 to Year 5+ – $0.10)
  Fuel Flowage ERAU (Year 1 – $0.12)

Table 5 on the next page identifies leasing observations and recommendations for PRC based upon the identified areas from the comparable airports and general industry practices.

Table 5
Leasing Observations and Recommendations

Lease Area	Observation	Recommendation
Land Lease	Within range, PRC may be low compared to nearby other airports	Utilize Appraisal
Wholesale Hangar Rental	Low	Investigate cause of low rates, utilize appraisal
Retail Hangar Rental	Low	Investigate cause of low rates, utilize appraisal
Office Rent	Within range	Continue as-is; Utilize Appraisal
Percentage of Gross Receipts	Within range	Look to maximize this method of revenue collection
Fuel Flowage Fee	High compared to nearby other airports	Investigate cause of high fee
Required Investment	Within range	Continue as-is, incorporate into rate setting based on size of investment
Length of Lease	Within range	Continue as-is
Inflator	Within range	Utilize CPI and/or Appraisal

PRC should continue its existing leasing policies and maximize revenues by implementing the use of airport property appraisals, minimum standards, and appropriate lease rates review from time-to-time. Developing effective airport lease agreements provides airport users with the services required while allowing the Airport to operate in a more financially self-sufficient manner. The recent leases with Legend Aviation indicate that the Airport is already implementing the observations and recommendations identified in this effort and confirms this activity.

Property Appraisals

Berger has facilitated the development of property appraisals at numerous airports to aide in the setting of market rental rates for various airport tenants including Fixed Base Operators (FBO's), corporate tenants, and others. The following are some of the activities undertaken in developing an appraisal report. This list is not meant to be comprehensive as each appraisal will be customized to the unique property.

- Physically inspect the subject property and improvements;
- Review various technical data, site plans and any other pertinent structural information available with regard to land and improvements on the subject property;
- Examine various documents pertaining to the subject property and review general data relating to the airport itself and the general aviation environment which surrounds the subject property's immediate area;
- Research and analyze the market for airport real estate in the vicinity of the subject property, and interview various real estate, airport and aviation personnel regarding current market conditions, current pricing practices and the specific costs relating to the subject property and its position within the market place;
- Evaluate the subject property for specific physical items of wear and tear, depreciation, and valuate the competitive position of the subject within the specific local market for related properties;
- Uncover and confirm pertinent market data with relation to the sale and/or lease of relevant comparable property which are similar to and are useful in estimating a value for the subject; and
- Engage in a methodical and systematic analysis of all the data collected and place it within proper context for related properties in order to develop an estimate of market value for the subject property.

The overall purpose of an appraisal is to estimate the Market Rental Rate in Fee Simple as of a given date. The value derived for the property, and the information which is used as part of the appraisal methodology, is employed as a basis for a rental rate to be paid in connection with ground rental rates charged by the airport owner, (i.e., the City of Prescott).

PRC's current initiative soliciting for Airport Property Appraisal Services (RFQ# 08AIR0430) is inline with the recommendations of this report.

Airport Minimum Standards

Airport Minimum Standards are a mechanism that provides an airport the ability to lease facilities and deliver aeronautical services in a fair and equitable manner. While no examples of unfair and inequitable commercial operating practices have been found at PRC as part of this analysis, there are numerous examples that occur at various airports due to the lack of having established and enforceable Airport Minimum Standards in place. The fundamental concept for implementing and enforcing Minimum Standards is to assure that all commercial operators are treated equally by the airport proprietor with no one entity having more favorable business terms than another. In addition to providing for this "level playing field," Minimum Standards also help an airport proprietor to assure that operations are being conducted in a safe and efficient manner and that the services being offered to the general public meet the airport owner's, users', and the general public's expectations.

Below are two example scenarios that demonstrate the need to implement, maintain and enforce Airport Minimum Standards.

- **Scenario 1 – FBO Service Provider versus Independent Mechanic:** As a privilege of providing FBO services, Example Airport requires their FBO to provide a full suite of services to the public including fuel sales, line services; aircraft maintenance; flight training; and charter services. As a condition of its lease arrangement with the Airport, the FBO is required to assure that airport users have the services needed to maintain their aircraft at the Airport. For maintenance specifically, this FBO is required to employ three full-time, FAA certified mechanics, provide services Monday through Friday from 8AM to 5PM, and be able to provide emergency services during non-regular service hours. In addition, they are also required to maintain a designated portion of their on-airport facility for aircraft maintenance along with meeting insurance requirements established by the Airport.

  An independent mechanic is operating at the same Airport out of a truck in the FBO parking lot. The mechanic may or may not be certified, does not carry the required insurance, and does not pay rent or fees associated with the privileges of doing business at the Airport. In addition, the reliability and availability of services to the public is questionable given the nature of the operation.

  It is clear how this scenario, which is not too uncommon, creates an unfair competitive practice that can weaken the financial viability of the FBO tenant. Further, the independent mechanic may be operating on the airport without the proper training and insurance, among other issues.

- **Scenario 2 – Aircraft Self-Fueling:** At public use airports that receive federal funding from the FAA, the FAA asserts that the airport proprietor has an obligation to permit an aircraft owner to self-fuel their aircraft with their own fuel. This does not mean that the owner can fuel any aircraft other than their own, and it does not mean that the owner of an aircraft who wishes to fuel their own aircraft should have any less of an obligation to adhere to the policies set forth by the airport with regard to safety, location, training, storage, handling,

environmental permitting, insurance, or other reasonable requirements that are established in the interest of the public.

As such, in today's operating environment, the typical small aircraft owner finds it both impractical and too expensive to meet necessary operational and safety criteria in order to be permitted to self-fuel. Where the issue more typically comes into play however, is with regard to corporate aircraft operators who wish to self-fuel.

In this scenario, a corporate aircraft owner purchases fuel from a fuel supplier, stores the fuel in its own facilities, and maintains equipment to safely transfer the fuel into their own aircraft and in accordance with all airport policies and procedures concerning fueling. As such, the practice would fall within the FAA's criteria for self-fueling and must be permitted by the airport proprietor. However, once the aircraft owner uses their fuel, or fuel equipment to fuel any other aircraft that are not owned directly and used exclusively by them, they are not covered by FAA policy and are subject to the same regulatory and administrative requirements to store, sell and dispense fuel as an FBO would be, including paying the airport a fee for the privilege of providing such services whether or not the corporate entity argues it is providing such services gratuitously.

These two scenarios demonstrate a couple examples where the development and adoption of Minimum Standards come into play at an airport. In more extreme cases, the circumstances allowing unfair competition to develop, or allowing one operator to have more favorable business terms than another, can ultimately leave some airports without legitimate, safe and reliable services for the public.

FAA Grant Assurances (Obligations) – When developing Minimum Standards, FAA Grant Assurances must be considered. FAA Grant Assurances are obligations imposed on an airport sponsor when funds are accepted from the FAA to complete a project for the airport. These obligations, or assurances, require the airport sponsors to maintain and operate their facilities safely and efficiently and in accordance with 39 separate assurances. Those that relate to Airport Minimum Standards include:

- ***Grant Assurance 22. Economic Nondiscrimination.***
- ***Grant Assurance 23. Exclusive Rights.***

FAA Advisory Circular Guidance – The Minimum Standards development process takes into account guidance provided by the Federal Aviation Administration (FAA). This guidance is prepared by the FAA to ensure that airport sponsors who receive FAA grant funding for capital improvements at airports continue to meet their grant assurances which includes running the airport in a fair and equitable manner without granting a tenant an exclusive right to provide a service. The recently updated FAA advisory circular guidance includes:

- ***Exclusive Rights at Federally Obligated Airports***
  Advisory Circular (AC) 150/5190-6, Released January 4, 2007

- ***Minimum Standards for Commercial Aeronautical Activities***
  Advisory Circular (AC) 150/5190-7, Released August 8, 2006

The information provided in these two guidance documents should be used during the development of the Airport Minimum Standards process to assure consistency with FAA policies and recommendations.

From the information gathered as part of this Lease Rates Analysis, it is understood that PRC is currently in the process of approving Airport Minimum Operating Standards pending City Council approval. The City is encouraged to move forward and approve these Minimum Operating Standards and to periodically review and update them to assure that they are inline with the business goals and objectives of the Airport. Included in any update process, PRC is encouraged to involve the existing tenants/stakeholders of the Airport who these standards apply to get their "buy-in" on any proposed changes. Building an Administrative Record of this involvement helps to reduce FAA Part 16 formal complaints on unfair airport business practices.

Summary

Utilizing the observations and recommendations presented above will allow PRC to further refine its general airport business practices with regard to providing a fair and equitable platform for businesses to conduct activity, while providing the users of the Airport with a high level of safe, efficient and secure aviation services. In summary, these activities include:

1. **Leases** – Maximize the Airport's revenue through effective airport lease agreements.

2. **Property Appraisals** – Follow through with the selection of a firm for airport property appraisals and utilize accordingly.

3. **Airport Minimum Standards** – Approve, adopt and maintain Airport Minimum Standards.