

HISTORY OF ADDISON AIRPORT

A small group of local aviation enthusiasts saw the expansion of Dallas to the north. On 400 acres of cotton fields, private developers built Addison Airport in 1957 with private funds. Two runways served the air traffic needs. One runway consisted of asphalt and the other runway was aggregate. The crosswind runway was later closed to allow for further hangar development at the north end of the Airport and reduce the impact of the traffic patterns on the surrounding residential neighborhoods. In the sixties, Addison Airport was the first private airport to receive a fully funded FAA control tower. During the first 20 years of the Airport's existence, it maintained its private status and grew to become the largest general aviation airport in the country. It is rare that an Airport of this magnitude could be built and maintained without local, state or federal funds.

During the mid-seventies, it became obvious that the Airport and its flight corridors were being encroached upon. As a private Airport, it is difficult to zone and protect flight corridors as easily as it is for a municipality or the federal government. This led to Henry Stuart, the Town of Addison, and the FAA coming together to transfer ownership to the Town in order to preserve the viability of Addison Airport through zoning.

In 1976, an agreement was reached between the Town of Addison, the FAA, and Addison Airport, Inc. to purchase the Airport. The Town received an Airport for free, the FAA retained its primary reliever for Dallas Love Field and the Dallas/Fort Worth International Airport, and Addison Airport of Texas, Inc. purchased a twenty-year lease on the entire Airport for funding the Town's portion of the Airport acquisition. The Airport lease was extended for four years in subsequent years.

The presence of the Airport, along with the railroad and highway networks in North Dallas, has and will continue to attract a diversity of industries to the Metroplex area. The Carrolton Chronicle reported as early as 1963 the *"for the most part growth of this area has been made possible because of the development of the Addison Airport"*.

Today, Addison remains the third largest general aviation airport in the country. The Airport operates at a substantially lower cost than airports with far less air traffic because of its single runway operation. With the continued migration of business to North Dallas, the Airport is still growing with major corporate flight departments being the prime growth sector. The Airport caters to a large number of businesses in the Dallas area as well as flight training facilities and hundreds of recreational pilots. There are approximately 750 based aircraft with a total of 165,000 annual operations with no local flying or touch-and-go's permitted.

Shortly after becoming a public Airport, funds from the federal government began to flow into capital improvement projects. The FAA's portion of these federal funds is 90 % with the other 10 % provided by direct revenue generated from airport operations. Today, daily maintenance and operations funding comes from fuel flowage fees and Addison Airport of Texas, Inc.

The vast majority of airports nationwide are often burdens to tax payers. Not only has the Airport never been a burden, but the economic impact of the Airport today exceeds \$220 million. Property taxes imposed on business aircraft and improvements account for approximately 18% of the Town's total property tax revenue. The Town's fire station, police station, and service center are all located on Airport property to better serve the community. The enormous benefits the Airport has created for the Town of Addison, with no direct cost to the tax payers, makes the Airport one of the Town's most valuable assets. The Town made its first general fund expenditure on the Airport with a street improvement during the Summer of 1993. Most communities can only dream of the positive economic impact the Airport has had on the Town of Addison. The Airport and its contribution to the community has truly been a success since its inception in 1957 and will continue to carry this community well into the twenty-first century as a steady economic booster.

ADDISON AIRPORT 2001 COMMITTEE REPORT

EXECUTIVE SUMMARY

August 25, 1998

Attached is a copy of the Addison Airport 2001 Committee's Report. The 2001 Report examines a variety of operational and management issues identified by the Committee as relevant to a complete investigation and development of a recommendation for future management of Addison Airport. The current long-term lease for management of the Airport expires on December 30, 2000. This community task force spent more than 18 months analyzing the Airport and developing this report document for the Addison City Council's consideration. The 2001 Committee conducted an inclusive and participatory investigation that involved public input into the development of the Committee's recommendation.

The 2001 Committee recommends that the City Council hire a professional service provider to administer a competitive bidding process leading to the selection of an operator of Addison Airport by September 1, 2000. The 2001 Committee recommends that the City Council consider the following policy development as vital to the successful completion of this management transition process and development of a new contract for services to manage Addison Airport. It is important to remember that the focus of this process is to identify policy issues for the City Council and bidding process consultant to consider. The 2001 Committee was not charged with developing a detailed management contract instrument.

The 2001 Committee's policy recommendations have been divided into three categories related to recommended elements of the future contract for services, recommended bidding criteria, and an environmental consideration. The policy recommendations have been prioritized for the City Council's consideration. The executive summary also identifies report chapters that provide a complete analysis of each of the recommended actions.

2001 Committee Policy Recommendations:

Elements of the Contract -

1. Continue privatization of the airport management function under a contract for services structure (*Chapter VIII*)
2. Contractually recognize that the real estate development responsibilities and the normal aviation operations responsibilities are two separate functions in the management of the Airport (*Chapter VIII*)
3. Create a new management structure based on a partnership of openness, trust, and periodic performance review (*Chapter VIII*)
4. Develop an operator compensation structure based on defined quantitative and qualitative performance standards which are prescribed in the new services contract with bonus incentives for exemplary job execution (*Chapter VIII*)
5. Ensure airport operations that offer aviation users and aviation industries a location that provides first class facilities from which to base operations and business (*Chapter VII*)
6. Ensure that the operator promotes development of the Airport in a balanced and synergistic approach in concert with all facets of the Addison Airport Master Plan and Town of Addison land use controls and goals as adopted by the City Council (*Chapter IV*)

7. Ensure that future management agreements include mechanisms for open reporting of financial information between the operator and the Town (*Chapter V*)

Bidding Criteria –

1. Hire a third-party professional service advisor to administer the request for qualifications and request for proposals process and to assist in the development of a new contract for services instrument (*Chapter IX*)
2. Ensure that the operator possesses a strong understanding of all relevant aviation regulatory codes and develops a strong working relationship with all relevant regulatory bodies (*Chapter III and Chapter VI*)

Environmental Consideration -

1. Recognize that there are environmental issues existing at the Airport and that the Town of Addison should work to ensure all environmental issues are investigated and resolved before the end of the current management agreement (*Chapter VI*)
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MEMORANDUM

To: Ron Whitehead, City Manager
From: Randy Moravec, Finance Director
Subject: Chronology of Town's Relationship with AATI

In order to understand the relationship between Addison Airport of Texas Inc. and the Town, it is important to chronicle the relationship over the last sixteen years. This narrative was compiled from several hundred sheets of correspondence acquired during this period.

1976-77 / TOWN'S ACQUISITION OF AIRPORT:

Addison airport had been in existence since the late fifties but did not become a viable enterprise until the Town was approached by Henry Stuart in 1976 with an invitation to purchase the airport. There were several reasons which supported this transaction. First, general aviation airports are successful only to the extent they receive federal funding for capital improvements. The Federal Aviation Administration generally only funds airports which are owned by governmental entities. Second, rarely do private investors have the financial capabilities to fund general aviation operations. According to the Elected & Appointed Officials' Guide to Airport Issues published by the American Association of Airport Executives: *"The investment of large sums of money would be required to construct such a facility, an investment that would be substantial for any private corporate venture. Ordinarily, the privately-owned airport in metropolitan areas which attempts to furnish such facilities is marginal in many ways."* It goes on to say: *Unless the community owns the facility, it has no way to insure that an adequate terminal building is available and properly maintained."*

Mr. Stuart's proposal would be for the Town to apply to the FAA for funds to purchase the airport. In return for providing the local share (FAA grants require a 10% local match), Mr. Stuart would receive from the Town a twenty year operating agreement. Mr. Stuart's benefit from the transaction is obvious. First, by obtaining a long-term agreement, his company assumed much of the privileges of airport ownership. Second, he was able to leverage 10% private capital with 90% federal funds; something he could never have done as an individual. Third, as a shareholder of Addison Airport Inc., the owner of almost 70% of the airport's property, he received a substantial sum from the airport sale. Finally, he would not have

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to pay local property taxes on the value of the land and existing structures. This amount is not insignificant; today that property is valued at \$67,850,670 and at current tax rates a property owner would have to pay \$1,619,873 in taxes to local governments. The claim made by the Stuarts that no taxpayer dollars have been used to support the airport is false. The federal money used to acquire the airport was derived from taxes and the Town, school district, and county are foregoing millions of dollars in taxes by not having the property on the rolls.

The operating agreement signed in December, 1976 was written solely for the benefit of Addison Airport Inc. Unlike operating agreements which are now commonplace in airports across the country, the agreement did not define any level of performance which the company would have to provide. As part of its analysis (explained later), the accounting firm of Deloitte Touche described the agreement as giving "carte blanche" to AATI in the operation of the airport.

1981-83 / FAA SANCTION:

It was only a few years after the operating agreement was signed that it became apparent the FAA was not satisfied with AATI's operation of the airport. It was the FAA's concern that AATI was conducting discriminatory practices in the dispensing of fuel at the airport. During this period, AATI required fixed base operators who sold fuel to pay a fuel flowage fee to AATI. However, AATI also sold fuel in competition with the FBO's but did not pay the fuel flowage fee. It was the FAA's opinion that this arrangement was unfair and discriminatory to the airport's fixed base operators. The FAA demanded that AATI justify the fuel flowage fee by disclosing the company's finances. AATI denied this request. In the years following this dispute, the FAA refused to use federal funds to support capital improvements at the airport because the agency could not be assured that funds derived from the improvements would be used to support aviation operations at the airport.

1983-85 / FUEL FLOWAGE FEE LITIGATION:

What had been a relatively minor dispute in 1981 grew to become an expensive lawsuit. In 1983 several fixed base operators sued AATI and the Town of Addison alleging unfair competition over the fuel flowage fee practice. Following months of litigation and negotiations, the lawsuit was settled out of court in 1985. The result of the settlement was that AATI would withdraw from selling fuel at the airport but would continue receiving the fuel flowage fee from the FBO's. AATI committed in the settlement to spend between \$100,000 and \$125,000 a year on capital improvements. Although this amount may appear substantial, it needs to be viewed in the perspective that the fuel flowage fees generated over \$500,000 annually.

1988-89 / EVALUATION:

On August 1, 1988 in a letter to Mayor Spruill, Richard Rogers, President of Million Air (a fixed-base operator), formally petitioned the Town to reduce the fuel flowage fee. Reasons cited in the letter were that money generated by leases and fuel flowage fees were not spent to maintain and improve the airport, the 8% fuel flowage fee put Addison FBO's at a competitive disadvantage with operators at Love Field, and refusal of AATI to allow FAA inspection of its

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finances led to the FAA's rejection of the Town's \$2.9 million preapplication for federal assistance. Under the terms of the 1985 agreement, Million Air's petition allowed the Town to conduct a review to determine whether the fuel flowage fee is "fair and reasonable, giving consideration to the costs, expenses, and revenues incurred or generated at the airport, and such other matters, information or records which the Town deems relevant". The Town contracted with the accounting firm of Deloitte Haskins & Sells (now Deloitte-Touche) in October 1988 to conduct the fuel flowage fee analysis. In two studies conducted over the course of fourteen months, DH&S made several findings:

- 1) *The fuel flowage fee was excessive and should either be reduced to 5.17% or assurance be received from AATI that all funds generated by the fees be used to properly maintain the airport.*
- 2) *There was an absence at AATI of any written policies and procedures affecting accounting practices, personnel policies, operational methods, etc.*
- 3) *There was excessive staffing.*
- 4) *During the test period of 1985-1988, the sole shareholder of AATI (Henry Stuart) received annual dividends averaging \$225,500 or 16.4% of operating expenses. The dividends were in addition to Mr. Stuart's compensation and benefits.*

In response to allegations made by Million Air and other airport tenants of the deterioration of facilities at the airport, the Town contracted with Eckrose/Green Associates, Inc. in December 1988 to perform a pavement evaluation at the airport. The study was completed in March, 1989 and made the following findings:

- 1) *Of the 137 pavement features inspected at the airport, almost half were in poor, very poor, or failed condition.*
- 2) *The airport was in need of approximately \$2 million in funds to adequately maintain pavement structures.*
- 3) *There was an absence at AATI of any written standards, policies, or procedures regarding the maintenance of pavement or drainage structures.*
- 4) *There was an absence at AATI of any construction history.*

Also in late 1988, the Town contracted with Wiss, Janney, Elstner Associates, Inc. to survey the condition of the "T" hangers on the airport's south side. That study concluded that while the buildings were in generally good condition, localized conditions of distress were noted at numerous locations. *The study expressed concern that certain conditions, if not addressed in the very near future, could pose safety problems.*

1990 / NEGOTIATION:

The results of the 1989 studies combined with the FAA's dissatisfaction with the operation of the airport convinced the Town that the operating agreement with AATI needed to be modified to allow the Town greater oversight of the airport's operation. Following several months of negotiation, the Town and AATI agreed to an amended operating agreement. The primary purpose of the amended agreement was to allow the Town to collect fuel flowage fees previously

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collected by AATI. These fees, amounting to approximately \$550,000 per year would be used by the Town to fund its share of maintenance at the airport as well as the local match for FAA capital project grants. The amended agreement also created the Upkeep fund through which all maintenance at the airport would be conducted. Although the fund would be administered by AATI, the Town retained sole discretion for developing and adopting the fund's annual budget. The fund would be supported by contributions from the Town and AATI. The levels of contributions varied depending upon the fund's total budget. For a \$500,000 budget, the Town's contribution would be 70%; for budgets more or less than \$500,000, the Town's contribution would be proportionately greater.

1990-91 / REVIEW OF AATI'S MAINTENANCE PROCEDURES:

The Upkeep fund began in October, 1990 coinciding with the beginning of the Town's fiscal year. Through quarterly reports submitted by AATI, the Town was able, for the first time in its relationship with AATI, to monitor the airport's maintenance activities. The responsibility for supervising AATI's use of Upkeep funds was given to the finance director and city engineer. Review of AATI's quarterly reports revealed a haphazard management condition first discovered in the 1989 studies. AATI maintained no inspection reports which would identify maintenance projects nor did AATI have any plan for directing future maintenance activities. During a February, 1991 meeting with AATI officials, Town staff requested AATI develop short and long-term maintenance objectives for the airport. *The response by AATI officials at that time was that development of an Upkeep plan was not a high priority.* Another problem the Town had with AATI's maintenance operation was that its six full-time employees were not capable of conducting an effective maintenance operation.

Significant progress was not realized with the Upkeep fund until the time came to develop the 1991-92 Upkeep budget. In July 1991 AATI submitted its proposal for the budget. Based upon their observations, Town staff recommended a budget which reduced Upkeep fund staffing, utilizing the savings in salaries to conduct additional maintenance projects. Despite AATI's initial opposition to the Town's recommended budget, the company submitted a revised proposal which essentially accomplished the Town's objective. With Council adoption of the 1991-92 budget, AATI discharged the least qualified maintenance employees and reorganized the function to be more productive. In the following months, Town staff witnessed a more cooperative and responsive attitude among the maintenance crews.

1991-92 / FAA CAPITAL PROJECT FUNDING:

During the negotiation of the 1990 amended agreement, FAA officials communicated their willingness to fund capital improvements if the Town assumed greater responsibility for the airport's operation. Within four months of the agreement's inception, the FAA awarded the Town a \$450,000 grant for security fencing. In September, 1991 the FAA funded \$1.8 million in drainage improvements. The following year, the FAA provided \$1.7 million for runway rehabilitation and medium intensity runway lighting. The Town is currently planning for the expenditure of \$1.5 million next Spring for east side taxiway improvements, lighting, and land acquisition for a west side taxiway. In the thirteen years preceding the 1990 amended agreement

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the airport received no FAA money for capital improvements. In less than three years following the agreement, the Town will have benefited from almost \$5.5 million in improvements. Application for these funds and administration of the projects have been conducted by Town staff with little involvement from AATI.

For the last few years, the Town has articulated its mission for the airport: *To make Addison airport the finest general aviation facility in the country.* Every action the Town has taken since 1988 has been based upon this objective. The Town's relationship with AATI over the past sixteen years has been characterized by AATI's uncooperative attitude toward the Town, the FAA, and the airport's tenants. It is my opinion this attitude has been detrimental to the Town accomplishing its objective.

RCM:rm