

Rapid City Regional Airport

General Aviation Rates and Charges Study

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FRASCA & ASSOCIATES, LLC



General Aviation Rates and Charges Study

- **Rapid City Regional Airport has undertaken an effort to standardize both leasing and rates and charges policies airport-wide using industry best practices**
- **Frasca & Associates (FRASCA) was engaged to recommend a new General Aviation (GA) Rates and Charges Policy that is:**
 - Compliant with relevant federal regulations
 - Reflects industry best practices
 - Complementary to the new 2018 Airline Agreement
- **Two independent appraisals were conducted by certified appraisers to provide indicative fair market value rental rates for sample GA tenants**
- **FRASCA report makes recommendations regarding:**
 - Ground rental rates
 - Defining leasehold areas
 - Leasing provisions



General Aviation Rates and Charges Study - Background

GA Rates and Charges Study continues a multi-year process undertaken by the Rapid City Regional Airport to modernize, standardize, and incorporate best practices into agreements and leases.

2014 Standardized Leases

- Airport developed and adopted standardized leases for commercial and non-commercial use
- Annual escalation of rates by CPI with reset by Rent Study every 5 years
- Differential rates for:
 - Improved versus unimproved areas
 - FBO versus other GA tenants
 - FBO land occupied by buildings versus tie down areas

2017 GA Rates and Charges Study

- Summarized RAP GA facility, operational, and service data
- Reviewed historical revenues
- Summarized relevant federal regulations
- Reviewed Airport guiding documents
- Reviewed peer airports
- *Recommended review of leasing practices*

2018 Airline Agreement

- Developed reasonable and maintainable cost center accounting
- Calculated passenger airline rates, fees, and charges on industry standard basis
- Increased passenger airline landing fee rates to full cost recovery of related airfield facilities

Federal Guidance Relevant to General Aviation Rate Setting

Federal Grant Assurances for Airports

22(a), Economic Nondiscrimination: [The airport sponsor] will make the airport available as an airport for public use on reasonable terms and without unjust discrimination to all types, kinds and classes of aeronautical activities, including commercial aeronautical activities offering services to the public at the airport.

24, Fee and Rental Structure: [The airport sponsor] will maintain a fee and rental structure for the facilities and services at the airport which will make the airport as self-sustaining as possible under the circumstances existing at the particular airport, taking into account such factors as the volume of traffic and economy of collection.

FAA Rates and Charges Policy (FAA Order 5190.6B)

...aeronautical fees for landside or non-movement area airfield facilities (e.g., hangars and aviation offices) may be at a fair market rate but are not required to be higher than a level that reflects the cost of services and facilities.

General Aviation Rates and Charges - Industry Best Practices

Lease Elements	Industry Best Practices
Term	<ul style="list-style-type: none"> ▪ Duration needed for developer to amortize investment in improvements ▪ Typically 20-30 years ▪ Term extended with reinvestment in facilities
Scope of Rates, Fees, and Charges	<ul style="list-style-type: none"> ▪ Ground rent or ground and building rent if tenant leasing an airport-owned building ▪ Some airports charge privilege fees, a percentage of tenant gross revenues, but typically corresponds to lower rental rates ▪ Reimbursement for services provided by airport
Escalation Provisions	<ul style="list-style-type: none"> ▪ Establish rental rates based on appraisal ▪ Escalation tied to one or more of the consumer price indexes ▪ Update appraisals and reset rates every 3 to 5 years
Reversion Clauses	<ul style="list-style-type: none"> ▪ Term tied to useful life, investment fully depreciated over length of lease ▪ Improvements revert to airport at the end of the lease
Definition of Leasehold Areas	<ul style="list-style-type: none"> ▪ Uniform rates charged over entire parcels ▪ Differential rates for improved and unimproved land, with standard based on whether land is paved and/or has access to utilities

General Aviation Rates and Charges Study - Conclusions and Recommendations

- **Establish rental rates based on fair market value**
- **Accept the opinion of the lower appraisal as to fair market value**
 - Two independent appraisal reports conforming with relevant FAA regulations suggest market rental rates for GA facilities between \$0.27 and \$0.39
 - Implement new rental rates as provided for in agreements or as agreements renewed

Type of Land (per sq ft)	Improved	Unimproved
Aircraft Storage	\$0.30	\$0.27
SASO	\$0.33	\$0.30
FBO	\$0.33	\$0.31

- **Maintain existing rent escalation and market reset provisions**
- **Establish following definitions of leasehold areas**
 - Square feet of developable land excluding taxiway and/or taxilane object free area
 - Maintain charging differential rental rates for improved and unimproved land, with standard based on whether land is paved or has access to utilities
 - Cease charging differential rental rates for land occupied by a building
- **Incorporate reversion clauses into future leases**