

Proposed Changes to Rapid City Regional Airport Non-commercial Ground Lease Policies

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General Aviation Advisory Committee
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General Aviation Advisory Committee (GAAC)

- ◆ * “The GAAC is a communication conduit for General Aviation (GA) stakeholders to exchange information, solicit opinions, gather ideas, and generate vision for the future of Rapid City Regional Airport.”
- ◆ * “The GAAC works in partnership with the Airport Board and staff to promote GA activity that is in compliance with federal, state and local regulations. The GAAC provides recommendations on airport capital improvement plans and projects, changes to primary guiding documents, administration policy, and other General Aviation-related issues, projects or plans.”

[*www.rapairport.com/general-aviation](http://www.rapairport.com/general-aviation)

Proposed Changes to Rapid City Regional Airport Non-commercial Ground Lease Policies

- ◆ State of General Aviation at RAP and surrounding area
- ◆ Comparable Airport Study
- ◆ GAAC Proposal
- ◆ Myths

What's the Problem?

- ◆ Dramatic Decline in General Aviation (GA) at RAP
 - ◆ Loss of based aircraft
 - ◆ 125 based aircraft in 2018, 77 in 2021 (likely even less now)
 - ◆ No new hangar construction since 2017
 - ◆ Decline in overall aircraft operations

Spearfish



Custer



Hot Springs



Sturgis



So What?

◆ Direct Effects:

- ◆ “As noted earlier, two important metrics that are indicative of how the local airport "economy" is doing are the number of aircraft operations and the number of based aircraft at the airport. This is based on the principle that a higher amount of operations and based aircraft will translate into more demand for services, maintenance, fuel, and storage rentals.” (Wilson Appraisal, January 2020, pg. 31)
- ◆ “Based aircraft form the airport businesses’ backbone customer base. On the date of this appraisal there were nine such businesses (SASOs) at RAP catering to that base. An expanding GA segment would have the opposite effect on rents and values. So, while the supply and demand equation for the GA segment appeared to be in equilibrium on the date of value, this situation is expected to deteriorate to the extent that based aircraft leave the airport.” (Wilson Appraisal, pg. 26)

So What?

- ◆ Direct Effects:
 - ◆ Loss of infrastructure necessary to maintain Air carrier presence
 - ◆ Control tower operating at 22% capacity
 - ◆ 24/7 availability of aircraft mechanics
 - ◆ Diminished competitiveness for grants and government funding
 - ◆ Economic impact from General Aviation at RAP : **>\$31,000,000 !**
(2020 South Dakota Aviation Economic Impact Study)

So What?

- ◆ Indirect Effects:
 - ◆ Airports are Primary Gateways for Economic Development
 - ◆ 60% of General Aviation flights are business related

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- ◆ Indirect Effects:
 - ◆ Airports are Primary Gateways for Economic Development
 - ◆ 60% of General Aviation flights are business related
 - ◆ There is a critical shortage of Pilots, Mechanics, Air Traffic Controllers
 - ◆ Exposure to General Aviation is the primary pathway for entry
 - ◆ EAA Young Eagles program: >2 Million first flights, >60K have gone on to pursue aviation careers
 - ◆ AOPA: High School Stem Curriculum Program, Aviation Scholarships, Rusty Pilots Program, Flying Club Initiatives

So... Why?

- ◆ Airplanes need to be hangered
 - ◆ Where did they go?
 - ◆ Why did they go?

So... Why?

- ◆ Airplanes need to be hangered
 - ◆ Where did they go?
 - ◆ Why did they go?
- ◆ Lease Terms?
 - ◆ Cost?
 - ◆ Length of Lease?
 - ◆ Reversionary Policy?

So... Why?

◆ Reversion

Definition #1: “Upon expiration of the term of a lease agreement, the ownership of the permanent improvements transfers to the airport sponsor.”

Definition #2: “Upon expiration of the term of a lease agreement, the lessee shall remove all structures and improvements to the leased site and return them to substantially the same condition as existed prior to the lease.”

So... Why?

◆ Study Design

- ◆ Reproduce the RAP General Aviation Rates and Charges Study of January, 2020
- ◆ Two Appraisers, “Comparable” Airports
 - ◆ Sioux Falls (FSD)
 - ◆ Bismarck (BIS)
 - ◆ Missoula (MSO)
 - ◆ Billings (BIL)
 - ◆ Pasco, WA (PSC)
 - ◆ Green Bay (GRB)
 - ◆ Appleton (ATW)
 - ◆ Sturgis (49B)
 - ◆ Spearfish (SPF)

So... Why?

- ◆ Study Design
 - ◆ Calls made to each airport director or person in charge of GA leases
 - ◆ Actual copies of sample or actual GA leases/policies reviewed
 - ◆ Focus on reversion language, length of lease vs. cost of hangar, and lease renewal provisions
 - ◆ Compare detailed airport tower operations data from 2018 to 2022
 - ◆ Contacted FAA Airports District Office regarding FAA policy on hangar leases

Results

◆ Reversion

Definition #1: “Upon expiration of the term of a lease agreement, the ownership of the permanent improvements transfers to the airport sponsor.”

-Only 4/9 contained some form of this language

Definition #2: “Upon expiration of the term of a lease agreement, the lessee shall remove all structures and improvements to the leased site and return them to substantially the same condition as existed prior to the lease.”

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-0/9 Stated their intent to take ownership of hangars

-1/9 Stated their intent to require removal of hangar at end of lease term

Results

◆ Sample Comments

- ◆ FSD: “If no need for the ground in the airport master plan, we are willing to extend lease at up to 10 year intervals.” “We aren’t trying to take anyone’s hangar.” “We have not taken anyone’s hangar, nor torn any down.”
- ◆ BIS: “For a short period, we had a mandatory reversion clause, tenants hated it, so changed to what we do now.”
- ◆ BIL: “We got rid of reversionary language before 2007, all we got was junk.”
- ◆ PSC: “We are not in the business of takings peoples’ buildings or making them tear them down.”
- ◆ GRB: “We don’t want to own your hangar.”
- ◆ 49B: “As long as the hangar is kept up, we will renew the lease.”
- ◆ MSO: “We don’t want to be in the hangar leasing business.” “That’s a pretty harsh policy (when told of RAP’s policy and stated intent).”

Results

- ◆ What's the problem with reversion, anyway?
 - ◆ “Pro’s”
 - ◆ Can turn around and rent it out for 5-10X what it was getting from ground rent alone
 - ◆ Airport gets the hangar “for free”
 - ◆ Cons
 - ◆ Hangars are already 30+ years old at the start of the rental period
 - ◆ No incentive for hangar owners to maintain hangar in last 5-10 years of the lease
 - ◆ Expenses
 - ◆ Property management
 - ◆ Hangar repairs and on-going maintenance
 - ◆ Property and liability insurance
 - ◆ Liability exposure
 - ◆ Hangar removal cost at end of useful life
 - ◆ Full occupancy is in no way assured
 - ◆ Opposition from School Boards, First Responders and others

Results

- ◆ Differences in Lease length based on fixed cost
 - ◆ 2/9 airports provide for differences in lease lengths, negotiated, primarily based on hangar size
 - ◆ 0/9 airports bases hanger lease lengths (or renewal of leases) on fixed costs

GAAC's Proposed Changes

- ◆ 1. Add language to lease agreement for the option to negotiate a new lease upon expiration of the lease term
 - ◆ At the sole discretion of the Board
 - ◆ Based upon factors contained in the recommended changes to lease policy

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Trust, but Codify...

GAAC's Proposed Changes

- ◆ 2. Remove the variability in lease lengths based on dollar value of improvements



GAAC's Proposed Changes

- ◆ 3. Standardize New lease lengths
 - ◆ 40 years with one (5) year extension
 - ◆ 30 + three 5's?
 - ◆ Up to 50 years for extra-ordinary improvements

GAAC's Proposed Changes

- ◆ 3. Standardize New lease terms
 - ◆ 40 years with one (5) year extension
 - ◆ 30 + three 5's?
 - ◆ Up to 50 years for extra-ordinary improvements

Why 40 years?

FAA: "...term should be reasonably necessary to amortize a tenant's investment."

Frasca and Associates: "The useful life of the investment is usually the most logical time period to use as the term for a lease agreement"

ACRP: "...most tenants will typically enter into long-term lease agreements with the understanding that any investment in leasehold improvements will be full depreciated over the length of the lease..."



-Hangar useful life and depreciation schedule: 39 years

Myths

- ◆ GA hasn't and isn't paying Market Rate Rent
- ◆ FAA requires airports to have reversion language in leases
- ◆ Can't lease parcel for more than 50 years
- ◆ We can't compete with other airports in the area
- ◆ We don't have any room for more hangars, anyway...

Myth

- ◆ GA hasn't and isn't paying Market Rate Rent
 - ◆ Market rent \neq "How much it would take to build the taxiways, 8700 foot runway, and have full time fire and rescue..."

Myth

- ◆ FAA requires airports to have reversion language in leases

Myth

- ◆ FAA requires airport's to have reversion language in leases
 - ◆ There is no law, regulation, or FAA policy requiring reversion language in leases
 - ◆ The FAA has never withheld or reclaimed an airport's AIP funds solely due to lack of reversion language in its leases

Myth

- ◆ Can't lease parcel for more than 50 years

- ◆ Regional FAA Airport District Offices written response:

“If a lease includes any options/extensions that are automatic or controlled by the tenant, then the additional time period is considered part of the original term and subject to the 50 year limitation. If the airport sponsor controls the right to exercise and option/extension, or must consent to it, then it is truly optional and could exceed 50 years if the airport sponsor allowed those options/extensions when they come due.”

Myth

- ◆ We can't compete with other airports in the area

Myth

- ◆ We can't compete with other airports in the area
 - ◆ You can't win if you don't enter
 - ◆ We are one of the fastest growing metropolitan areas in the U.S.

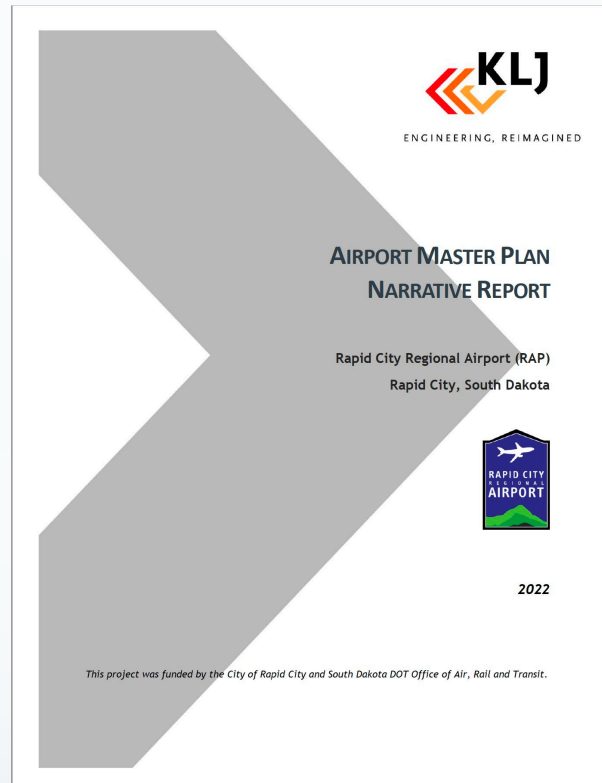
Myth

- ◆ We don't have room for any more hangars, anyway...

Myth

- ◆ We don't have room for any more hangars, anyway...
- ◆ Let's stop the hemorrhaging first!

Plan your Flight, and Fly your Plan...

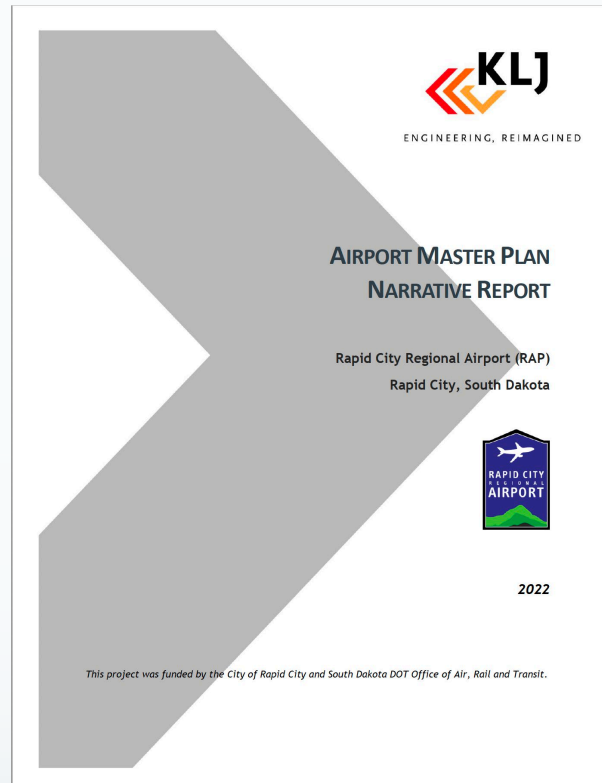


“Rapid City based aircraft is forecast to grow from 125 currently to 175 at the end of the forecast period for an average annual growth rate of 1.78%.”

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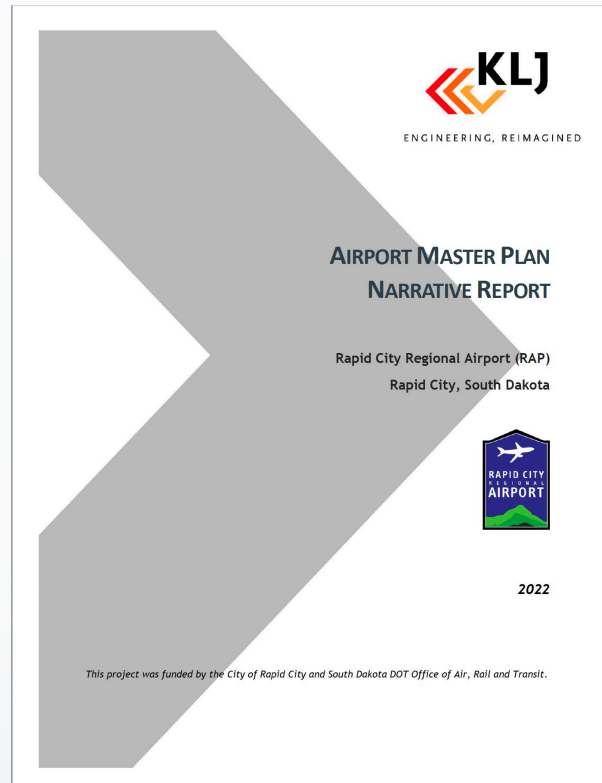
Based aircraft in 2018: 125

Based aircraft 2021: 77



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UNLESS THE PLAN NO LONGER MAKES SENSE!

Thank You!

