CHAPTER 6
REVERSION AND DIRECT MANAGEMENT OF AIRPORT FACILITIES

6.1 PURPOSE

As Chapter 5 indicates, Renton has expressed interest in taking a more direct approach to leasing property on the airport. Currently, the City has control over about 21% of the airport leasable area. Three City-operated parcels already carry buildings that are leased: The City T-hangar, the tower building, which is shared by FAA and City airport staff, and Apron C with two buildings formerly used by Boeing. The following therefore focuses on various options for dealing with leaseholds as they expire. The Chapter addresses the following questions:

- What issues must be considered before a decision as to whether to invoke the reversion clause is made?
- How do other airports approach reversion decisions?
- What are the options for reversion?
- What are the options for offering available sites for re-use?
- What are the options for direct leasing?
- What conclusions can be drawn with regard to the potential for the City to assume more proactive control of airport leases, airport construction and leasing of facilities, and airport property management?

6.2 CONCLUSIONS

- There are a variety of approaches to reversion and direct leasing in use around the country.
- The parcels currently under complete control of the City are the City T-hangar, the tower building, the former restaurant property, where the building was demolished in 2002, and Apron C on the northwest side of the airport which was returned by Boeing in 2002. Greater control and direct management of the airport can only come if the City takes over other leaseholds as current leases expire[1].

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[1] Chapter 3 provided an overview of the expiration schedule and the potential for taking over additional portions of the airport as they become available.

- If a strict policy is adopted to universally invoke the reversion clause, without the possibility for negotiation, tenants will not make investments in their facilities in the later years of their lease, and most buildings will be rundown by the reversion date.

- The City currently cannot address one of the most important decision factors, the condition of the buildings that it could take over in the next few years, without conducting detailed building inspections.

- Diverse skills are needed to perform building management, customer relations and revenue collection; they are unlikely to be found in one person. The City would have to recruit staff with the right skill sets.

- Given the availability of several sites, including the former restaurant property and Apron C, there is the potential for the City to use the years until the Boeing leases expire to carry out a pilot project to test whether a more direct leasing approach is a viable option for the City.

- The private sector appears willing and able to invest in the airport should the City decide to offer reverting leaseholds and/or the restaurant property to prospective tenants.

- Washington State's Constitutional prohibition is not an obstacle to new leases if substantial investment made as a *quid pro quo*; the King County Prosecutor's office uses this approach at Boeing Field.

- Whatever the City's decision is on reversion, it needs to be clear and consistent toward all existing and prospective tenants and use a Leasing Policy Ordinance to codify its approach.

6.3 FINDINGS

6.3.1 Various Approaches to Reversion

Many lease documents for long-term ground-leases at airports across the country contain a provision that an improvement made by the tenant reverts to the airport sponsor at the end of the lease period (plus any extensions that may have been granted). This is the case at Renton Airport.

The key occasion for use of reversion language is in the initial lease of undeveloped land on which facilities are to be placed by the lessee. (Once that original reversion occurs, and the lessor takes title to the facility, its interest is protected by language regarding maintenance, repair, and surrender of premises). An example of language providing for reversion at the end of the term is found in the original 1975 lease to the predecessor in interest of Cedar River Hangar Limited Partnership, Inc. Paragraph 5 of LAG 07-75 provides that:

> "As further consideration for this Lease, it is stipulated and agreed that at the expiration of the renewed term of this lease as provided in paragraph 24 herein contained or at any other termination of this Lease, all structures and any and all improvements of any character whatever installed on the leased premises shall be and become the property of the Lessor City and title thereto shall pass and revert to Lessor City at such termination, and none of the improvements now or hereafter placed on the leased premises shall be removed there from at any time without Lessor's written consent. The Lessor shall have the alternative, at its option, to require Lessee to remove any and all improvements and structures from the demised premises and repair any damage caused thereby, at Lessee's expense."

Approaches to reversion vary among airports. For example, Boeing Field—which has a reversion clause in its leases—performs an inspection of the tenant premises well before the expiration date of the lease, and determines whether the condition and use of the premises and the willingness of the tenants to make new investments in the leasehold merit an extension of the lease. In some cases, a new lease has been approved, with suitable ground lease escalators, if the tenant was willing to make significant new investments in the leasehold. In other cases, an inspection has shown seriously deficient buildings that cannot readily or cost-effectively brought up to fire and other buildings codes and constitute a hazard to the public and the users. Then, the airport notifies the tenant that the reversion clause of the lease will take effect.

Performing the inspection well in advance of the lease expiration date, especially if the building is in good condition, allows the tenant to get an early answer on what lies ahead, make investments before the lease is up, and keep the building in good condition. A requirement for new leases, allowing for periodic inspections of new facilities by airport staff, can also help ensure that the airport takes over a building that has been properly maintained. If such an inspection is postponed until the lease has almost expired, what had been a solid building may suffer from deferred maintenance, since the building owner will be reluctant to sink money into it without knowing how much time is available to amortize such improvements.

Oregon Division of Aviation (ODA), addresses this important issue in a flexible fashion:

> "At the expiration of the Base Term and any renewals, Lessee may request a new lease. If ODA determines that the lease premises are not required for other airport uses, Lessee has met its obligations under the terms of the preceding lease, and ODA otherwise finds that a new lease is appropriate, ODA may negotiate a new lease. The duration of the new lease shall be at ODA's option.
>
> "Each renewal or new lease following the base lease shall incorporate all current terms and conditions for leases and any special

> terms ODA deems necessary based on the particular circumstances of the lessee and leased property[2]."

This pragmatic approach seems at first sight more realistic than a hard and fast rule, because conditions vary widely. A tenant's ability to get new financing for needed improvements and the precise assurances needed by the lending organization will depend on what they can get by lending elsewhere, on their confidence in the applicant—and his or her landlord—and on their interest in aviation. The successful agreement to a new lease or lease extension with updated terms will make it possible to secure new financing. Such new terms could include higher lease rates, because the new lease includes both land and facilities that are or could be City-owned (perhaps offset to the extent that the tenant is required to make investments to bring the premises up to code (e.g. fire, seismic, asbestos, ADA)). However, it may also cause problems. The option for a new lease could be considered a right for continued occupancy in court even if the tenant has not complied with all conditions placed upon him or her.

Another approach is to let tenants develop improvements but have the airport sponsor take ownership upon completion, early in the leasehold. To maintain ownership of all buildings on the airport, Grand Prairie, Texas uses the following approach for new improvements: New development at the airport occurs if (new) tenants build their own facilities. The City takes over ownership of the building once it is completed and rents it out at ground lease rate until it is paid off. Tenants are required to take care of the "rented" building during the lease period, and the City does inspect and request repairs and maintenance if needed (in particular during the last five years of the initial lease). After the initial lease is expired, the City takes over building management, although the tenant may still be required carry out maintenance and repair work: For example, the existing FBO at Grand Prairie is responsible for putting a new roof on the building he leases if that is required.

Yet, while the reversion clause exists in many leases, its application is often not an automatic step. As one expert airport real estate appraiser puts it: "Improvement reversion at the end of a long-term ground lease is like most things in life – a mixed bag, neither Fish or Fowl and a definite Maybe."[3]

6.3.2 General Decision Factors for Reversion and Direct Leasing

The decision whether to invoke the reversion clause depends on a number of factors, including:

- Are there any legal responsibilities that impact the City's ability to make decisions about reversions? The section on state requirements in this chapter indicates that the City has a fiduciary responsibility towards its residents based on a constitutional

[2] Oregon Department of Aviation: *Leasing Policy Commercial Property,* Salem, OR, August 15, 2001.

[3] "The Reversionary Process: When What Was Once Theirs, Becomes Yours," NOTAMS Volume 2, Number 2, 1995, Airport and Aviation Property Web.

prohibition on giving money, property, or credit to any private entity. This appears to apply to buildings that revert to the airport after the initial lease has run out. Based on this provision in Washington's constitution, King County offers tenants at Boeing Field a new lease on their leasehold only if they are willing to make substantial new investments in their premises, [as a *quid pro quo*] and if all other factors indicate that this is appropriate.

- What is the condition of the improvement when it reverts to the City? Unless the airport has conducted a detailed engineer's inspection, say 2-5 years before the building reverts, it will be difficult to determine what it will receive. A facility may look good from the outside but may have serious structural, roofing or mechanical deficiencies that may be costly to fix.

- How much will it cost to make the building attractive enough to make it serviceable and rentable, and bring it up to code, should that be required? Again, this cannot be determined without a thorough engineering study. It is unlikely that the City will be able to rent a newly acquired building at an acceptable rate without making some improvements. Depending on the condition of the building, this can be an expensive proposition, and the City must have the funds to do so. This is an important consideration, in particular at an airport such as Renton that is required to be financially self-sufficient.

- What will the annual maintenance and management costs be? Again, this cannot be determined without a thorough engineering study. The airport manager and his or her staff must deal with any issues relating to the building after the airport has taken it over. This means increased staff time and a different array of staff skills, to manage the building, increased accounting costs, and very likely more communication with the tenant over maintenance and other issues. Depending on the condition, size, and type of buildings reverting, and the timeframe over which reversions occur, it may be difficult to maintain appropriate staffing levels. The airport real estate expert again: "Many airport managers report that the reversion process, while sounding good, creates a number of headaches and expenses which have altered their perception of the process' overall desirability."[4] This is in part because buildings that revert are at or close to the end of their useful life and maintenance costs are higher than early on during their life.

- Is there interest from prospective tenants in the leasehold? If so, the City must ensure that there is no discrimination against prospective tenants. Where the airport is completely built out and there is demand for facilities from would-be new entrants (as is the case at Renton), the airport may be obligated to accept competitive proposals for use of buildings rather than simply continue the existing tenancy indefinitely (be it through a new ground or a building lease), or risk a complaint that it had granted a *de facto* exclusive use. In such a case, the City could consider putting out a Request for Proposals for the lease of reverted land and facilities. This will maximize competition

[4] Ibid.

at the airport, head off complaints from parties who would otherwise be shut out of applying for space, and allow the City to negotiate aggressively with competing existing and prospective tenants.

- Does the current use match the use proposed by the current Airport Master and Layout Plans? A change in the designation of the leasehold in the Master Plan and related Layout Plan for the airport can make reversion necessary. For example, Renton's 1997 Master Plan, which was approved by both the City Council and FAA, calls for a relocation of the majority of Boeing's operations from Apron C on the west side of the airport to the southeast corner of the airport when Boeing's current leases expire and as existing leases in the southeast corner expire. If the plan is implemented, tenants with leaseholds in the southeast corner would be precluded from getting new leases for the leaseholds they currently occupy.

- Do the premises meet today's and future airport users' needs? The analysis provided in Chapter 4 identified needs for hangar space for aircraft storage and aeronautical services. In deciding about the future of an existing facility, projected needs for the type of facility about to revert must be weighed against other needs.

- Does the current use provide the best and highest use for the leasehold? The City has an obligation to make the airport as financially self-sufficient as possible and to avoid giving credit, property, or money to any private entity. For example, T-hangars for small aircraft on the east side of the airport north of Apron A (Cedar River Hangar, map site 6b) most likely provide the highest use of that leasehold due to safety-related height restrictions. On the other hand, the best and highest use of leaseholds in the southeastern corner of the airport is less clear.

- Is City staff prepared to be entrepreneurial and run the reverting premises in a business-like fashion[5]? If the City decided to take over improvements and facilities as leases expire, it would dramatically increase the number of tenants it must manage: e.g. Cedar River Hangars now handles 29 T-hangars and about 50 tie-down spaces, enabling City staff to deal with but a single tenant. If the City were to take over direct management of these facilities at the end of Cedar River Hangar's lease 45 months from now, it would have over 70 new tenants whose accounts would need to be managed individually and who would communicate individually with City staff on any issues they might have. This is an important consideration. Regular business hours would not be sufficient, and City staff would need to develop a strong customer orientation. City airport maintenance and administrative staff would need to be available during hours when there is business, which, due to the nature of general aviation at Renton, is often after hours or during the weekend. This could mean that

[5] The City-operated tie-downs on the west side of the airport currently have a significantly higher vacancy rate than any of the tie-downs areas operated by tenants. This indicates that this is indeed an issue to address; the City did price its tie-downs higher in order not to harm private operators but potential customers are also reported as having difficulties consummating the rental transaction.

the City must hire more staff than may be strictly necessary to do the work to cover these additional hours.

- The personnel requirements for direct leasing are challenging. Skills and functions needed include, for example, the following:
  - Preventive maintenance;
  - Running repairs;
  - Security;
  - Janitorial;
  - Landscaping and grounds maintenance;
  - Responding to tenant complaints;
  - Troubleshooting;
  - Marketing
  - Advertising;
  - Inspection of premises from time to time to ensure compliance with airport rules and with lease;
  - Building condition inspection and scheduling major maintenance;
  - Writing up new leases, obtaining insurance forms, credit checks etc;
  - Accounting, collection of payments; pursuit of non-payments, financial reporting;
  - Monitoring environmental compliance; and
  - Rate-setting.

6.3.3 Reversion Options in General

Considering the complexity of the decision, it is not surprising, then, that different airports have taken various approaches. Until recently, tenants at Renton Airport who requested a new lease on their existing leasehold were generally granted that new lease, in particular if they were willing to make new investments. Currently, the City is considering invoking the reversion clause on leases that will expire in a few years unless tenants make substantial new investments. This is because of concerns about the fiduciary responsibility the City has toward its residents, and because a more direct approach to leasing property on the airport may provide a greater level of control over the airport than the current less direct approach.

While it may be easier for tenants to secure funding for improvements if the lease does not contain a reversion provision, problems could arise for the City. If the City did not have a provision for reversion in the lease contract, it might be problematic if the City decided not to renew the lease for any reason, such as implementation of the Airport Master Plan. A lease contract without a reversion provision might be considered a right for continued occupancy in court if the tenant chose to appeal the decision. This could be the case even if the tenant violated the conditions of his or her prior lease. It may also cause difficulties with regard to FAA's non-discrimination requirement on an airport that is (almost) fully developed and occupied as Renton is since such an approach *de facto* "grandfathers" existing tenants.

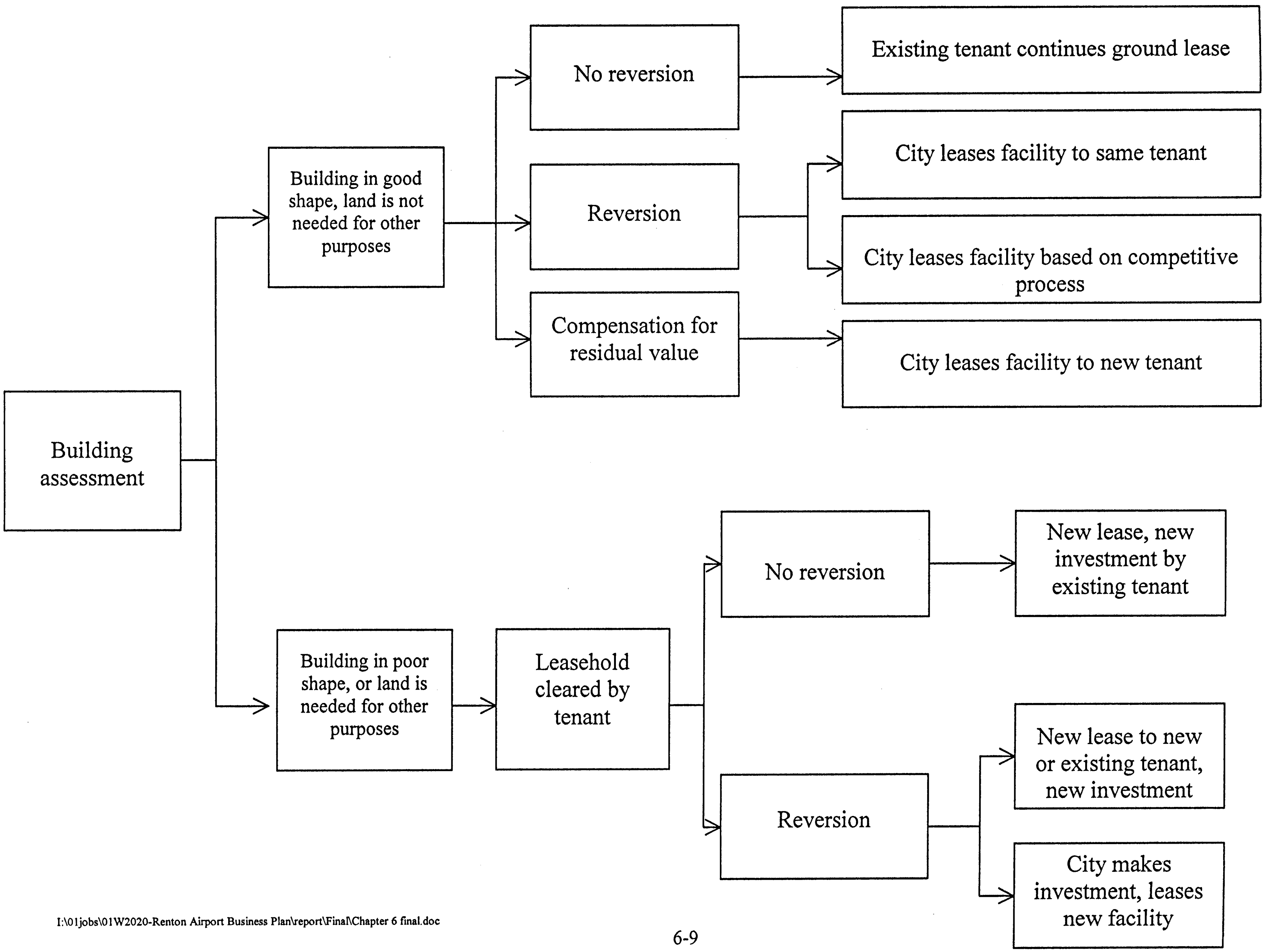
Another option is to have a reversion clause in the lease itself with a clear set of parameters as to when the clause would or would not be invoked. However, this provides similar problems to a lease document that does not contain a reversion clause. While it may make it more unpredictable for tenants, an approach that leaves the reversion decision to an administrative process provides the greatest degree of flexibility to the City. In any case, however, it will be necessary to apply the provision in an open, fair, and non-discriminatory fashion to avoid potential litigation. Figure 6-1 illustrates the various reversion options available to Renton. It also indicates that the first step in any reversion decision must be a thorough engineering study to determine the viability of the building.

The City must conduct a thorough building engineering study to determine whether the building is in a good enough shape to enable the City to earn additional revenue by taking it over, or what it would cost to make it leasable. To date, Renton has not conducted any study of the leaseholds that are reaching the end of their lease in the next few years. At this point, therefore, it cannot be determined how much money the City would have to spend to make any such premises leasable, or what the maintenance cost over the remaining life of the facility would be. There are many factors that influence the cost of taking over such facilities, that can only be determined with a thorough engineering study near the end of the potential change of ownership. Airports typically conduct such a study 2-5 years before the end of the lease term and any extensions.

There is a standard approach to determining depreciation and the need for maintenance of hangars over their lifetime, on average those costs amount to 10 percent of the construction cost over a 30-year time period (in current dollars). However, this information is unreliable because it is accurate only if the owner has carried out proper maintenance over the lifetime of the facility, and if there are no unforeseen incidents such as an earthquake or windstorm that cause damage not included in basic maintenance cost estimates. For example, Cedar River Hangar recently spent over $25,000 for a new roof for a portion of its hangars after a major windstorm; and the damage would have been even greater if owners had not worked hard during the storm to prevent further damage.

Once the engineering study has been completed, there are various options depending on whether the building is in good or in poor condition, which are discussed in turn below.

Figure 6-1: Range of Reversion and Management Options



6.3.3.1 Building is in Good Shape and Land is Not Needed for Other Purposes

Figure 6-2 provides an overview of reversion options for buildings that are in good shape and if the leasehold is not needed for specific purposes. The following provides an evaluation of these options.

6.3.3.1.1 No Reversion: Existing Tenant Receives New Ground Lease

The least restrictive approach to reversion would be to give the tenant a new ground lease and let him or her continue to use the building. This pragmatic approach may be appropriate if the building is in reasonably good shape and the type of land use on the leasehold meets the needs of the airport and its tenants. It provides an incentive for tenants to maintain their buildings well and make improvements over time, and to make sure that all airport rules and lease conditions are met at all times. It is also easy to manage and provides stability on the airport.

However, providing an existing tenant with a new (long-term) lease may not meet federal non-discrimination requirements if there is other demand for the leasehold, because it precludes opportunities for new tenants, an important consideration at a developed airport such as Renton. (A short-term lease may be appropriate if the Airport Master Plan and/or Layout Plan defines a new use for it but the new use is not practical yet because other leaseholds that would be needed are not available yet.) If the ground lease is renewed without requiring the tenant to make a major new improvement in the building, the City may be in violation of Washington's Constitutional prohibition against giving money, property, or credit to any private entity because it could be considered as providing property to a private entity. Should Renton decide to consider a new ground lease on existing buildings in response to a tenant proposal for major new investments in the leasehold, such a step will require a rational, equitable approach to determining the threshold level of investment that triggers this strategy, as well as the new ground lease rate. To avoid equity problems, expenditures necessitated by deferred maintenance should not count as new improvements, even if the cost is substantial.

6.3.3.1.2 Reversion: City Takes Over the Building

For the reversion options under which the City takes over the building, a number of issues must be considered. A major advantage of this approach is that the City would gain more control over the airport, as there would be no tenant subleasing arrangements. The City would also gain additional revenue. On the other hand, this approach requires the City to commit staff time and resources to maintaining and managing the buildings. Building maintenance and management needs for facilities that have reverted to the City will vary. As indicated above, given the variability in building maintenance demands, and the lack of a thorough engineering study for any of the buildings about to revert, it is not clear whether this approach would result in increases in rent sufficient to cover the increased costs that would accrue to Renton. Since facilities would revert to the City over a long period of time, other factors (such as whether building maintenance can be adequately handled by existing City staff, or would require additional hiring) are also relevant. Further detailed analysis would be required.

Figure 6-2: Building in Good Shape and Land Not Needed for Other Purposes

Reversion Decision	Outcome	Advantages	Disadvantages
No reversion	Existing tenant continues ground lease without making any new investments	• Pragmatic approach • Provides incentives for tenants to maintain premises well and make new investments • Encourages stability on the airport • Easy to manage	• May violate Washington State's constitutional prohibition against giving money, credit or property to any private entity • May not meet non-discrimination requirements since it precludes opportunities for new tenants
No reversion	Existing tenant continues ground lease but only if he makes a major investment in existing/new premises	• Pragmatic approach • Approach has been used on the airport in the past • Provides incentives for tenants to maintain premises well and make new investments • Encourages stability on the airport • Easy to manage • Provides new asset(s) for the airport	• May be problematic if it precludes opportunities for new tenants • City must develop a rational, equitable approach to determining at what level of investment a new lease is appropriate
Reversion	City leases premises to same tenant (Tenant has right of first refusal)	• Least disruptive of reversion options • Works if premises are in reasonably good condition • Gives existing tenant some incentive to maintain the premises • Potentially less burden on airport sponsor with regard to initial repair and maintenance efforts	• Often difficult process to find agreement on lease rate • Will require airport staff time to manage and maintain premises, including time outside regular business hours • Will require business-like, customer-oriented attitude on part of airport staff • At some point, may require extensive capital investment on the part of the airport • No leasehold excise tax revenue

Reversion Decision	Outcome	Advantages	Disadvantages
Reversion	City leases premises to new tenant	• Works if premises are in reasonably good condition • Addresses federal non-discrimination requirement if RFP non-discriminatory • Allows airport to look for the best tenant	• Will require initial, potentially substantial capital investment to make premises attractive to prospective tenants • Will require airport staff time to manage and maintain premises, including time outside regular business hours • Will require business-like, customer-oriented attitude on part of airport staff • At some point, may require extensive capital investment on the part of the airport • No leasehold excise tax revenue
Compensation for residual value	City leases premises to new tenant	• Provides incentive for tenant to maintain premises well • Makes reversion issue less contentious if option is available • Provides additional income for the airport over the lifetime of the lease • Addresses federal non-discrimination requirement if RFP non-discriminatory • Allows airport to look for the best tenant • No subtenants	• Requires capital reserve to purchase premises at the end of the lease • Appraisal process at the end of the lease may prove contentious and costly • Very little precedent in airport industry • Will require airport staff time to manage and maintain premises, including time outside regular business hours • Will require business-like, customer-oriented attitude on part of airport staff • At some point, may require extensive capital investment on the part of the airport • No leasehold excise tax revenue

Source: Hanson Professional Services, Inc.

If the City accepted reversion of an entire facility and were planning to lease it all, it would need to maintain the building and provide any required repairs or modifications between the end of the initial lease and the beginning of the new lease. The new lease should then transfer responsibility for building maintenance to the new tenant, with the City periodically inspecting the facility. The lease can allocate responsibility for repairs as well; it is common for the tenant to perform and pay for minor repairs, and for the "landlord" to perform and pay for major repairs (generally, roofing and structural, electrical and plumbing system items).

If the City decided to take over management of a building leased out to multiple occupants (such as a T-hangar with multiple bays), building management and maintenance would require a more active and ongoing presence on the Airport. T-hangar tenants are generally not responsible for maintenance of their leaseholds beyond general cleaning and items such as replacing accessible light bulbs; maintenance staff must be available for ongoing tasks.

If the facilities are surrounded by ramp or apron areas, the lease must also allocate responsibility for maintaining those areas, for inspecting them for Foreign Object Debris, performing snow removal and the like.

In addition to providing maintenance for reverted buildings, the City would need to staff the management and administration of the new leases. If the entire premises are leased to a single tenant, administrative costs will be relatively low; they will be more substantial if the premises are leased out in parts (e.g. a T-hangar). City staff estimates that each T-hangar tenant in the City's existing hangar requires about an hour per year in administrative time. This is in addition to the cost of accounting, which is carried out by Renton's finance department. It also does not cover any time spent with tenants who come to airport staff with any kind of issue related to the airport or their lease.

A major disadvantage of this approach is that tenants who know that their property is going to revert to the City are less likely to make any improvements or major maintenance efforts during the last years of their lease. The City would have to enforce proper maintenance in hopes of encouraging a situation where the buildings it takes over are viable and safe and can be remodeled and rented out with only a modest amount of investment. For any new leases this problem could be remedied by requiring tenants to allow periodic building inspections by City staff. Tenants would be required to remedy any deficiencies discovered by the inspection within a reasonable time frame. The City could enforce this by including an eviction clause in case of noncompliance in its leasing policy and/or leasing documents for all new leases. It would also increase the City's responsibilities for maintaining airport facilities, increasing the operational budget needs. Direct leasing of existing buildings also would mean that the City would not collect any leasehold excise taxes for the premises. At the end of the useful life of the building, it would also be the City's responsibility to remove the building. If there were any contamination issues not discovered when the City took over the building, there could be additional costs, either for efforts to assign responsibility for clean up to the previous tenant, or for removing the contamination at City cost.

If the City does decide to take back a building there are two options: It can lease the premises to the existing tenant or it can lease it to a new tenant. Each is discussed below.

6.3.3.1.3 City Takes Over the Building and Leases it Back to the Existing Tenant

Under this approach, the premises revert at the end of the initial term plus any extensions, and then the ***building*** is leased back to tenant at a new rate. This is the least disruptive of all reversion options. This approach works if the tenant is interested in staying on the airport. If current tenants know that there is a chance to keep the building there is some incentive to maintain the building and ensure that all airport rules and lease conditions are strictly adhered to.

It also means that there will likely be less of a burden on the airport with regard to initial repair and maintenance efforts that may be needed to attract a new tenant. The advantage of this approach would be that the City would gain more control over the airport over time as facilities revert, yet it would not have to spend major funds on new facilities. There would be no subtenants.

On the other hand, at an almost completely built-out airport such as Renton, there is the potential for legal challenge if the leasehold is not opened to competition. It may also prove difficult to find agreement on a new lease rate.

6.3.3.1.4 City Takes Over the Building and Leases the Building Through a Competitive Process

This approach works if the building does not require significant investment to make it attractive to prospective new tenants. The City develops a Request for Proposals to identify the most qualified new tenant and addresses the federal non-discrimination requirement by ensuring that the RFP for the premises is written in a non-discriminatory way. The approach has similar advantages to turning the building back to the existing tenant.

6.3.3.1.5 Compensation for Residual Value

A third option has recently been implemented by the public airport in Klamath Falls, Oregon. At the request of one of its tenants, the City is giving two options for long-term ground leases to prospective new tenants developing aircraft storage hangars for private or corporate purposes: The first is a contract with a traditional reversion option (after a maximum of 40 years) and the second an option under which the City would reimburse the tenant for the residual value of the facility after a 45-year lease period. Tenants choosing the latter option are required to pay a 20 percent premium over the regular ground lease rate during the entire duration of the new lease[6].

This second option has the advantage of providing an incentive for the tenant to maintain the facility well. It also makes reversion less contentious because there is another option available. The airport receives additional income during the lifetime of the lease.

On the other hand, it is critical for the airport to carry out thorough inspections in the later years of the lease to ensure that it is taking over a viable building. The appraisal process at the end of the lease is potentially difficult and costly if the tenant and the airport disagree about the residual value of the facility. Another issue that must be considered is that this approach will require the airport owner to tear down and remove the building at the end of its useful life, and it is taking over the building at the end of its life when maintenance costs are bound to be higher than during the early years of the lease. Another consideration is the fact that, while this approach is fairly common with regard to other real estate, there is very little precedent on airports.

6.3.3.2 Building is Not Salvageable or Land is Needed For Other Purposes

The following analysis addresses reversion options that can be pursued if the premises are not salvageable and need to be removed, or if the land is needed for other purposes.

If the building is not salvageable, in the opinion of the City after an engineering study and thorough inspection of the major building systems, the premises revert at the end of the original term plus any extensions. The tenant is required to demolish the building, clear and decontaminate the site, and the airport sponsor puts the site out to bid to new occupants or uses it for sponsor-built facilities.

An issue arises when the land is needed for another purpose. For example, the current Renton Master Plan calls for consolidation of all general aviation activities on the west side of the airport while Boeing would occupy the entire east side of the airport. Should the City go forward with this plan, the non-Boeing leaseholds on the east side of the airport would revert to the City and be re-leased to Boeing.

Under any of the building removal options, environmental remediation efforts may be required. This can be a difficult and potentially contentious issue if the tenant indicates that the contamination was present before the lease, or if the cost of remediation is prohibitive or would bankrupt the tenant.

There are three options for developing new uses for newly vacated land: The City can lease the empty land back to the existing tenant who will make a new investment, lease it to a new (or, potentially the existing tenant) after an open, non-discriminatory competition, or develop the land itself. Figure 6-3 provides an overview of the options and their respective advantages and disadvantages. The following provides additional analysis of these options.

Figure 6-3: Building Not Salvageable or Land Needed for Other Purposes

Reversion Decision	Outcome	Advantages	Disadvantages
No reversion	New lease to existing tenant, new investment	• Encourages stability on the airport • Airport continues to work with known tenant	• May not meet non-discrimination requirements since it precludes opportunities for new tenants
Reversion	New lease to new (or current) tenant based on open, non-discriminatory competition, new investment	• Addresses federal non-discrimination requirement if RFP non-discriminatory • Allows airport to look for the best tenant	• Disrupts airport operations, in particular if FBO leaves • May have to address contamination issues
Reversion	City makes new investment, leases improvement	• Addresses federal non-discrimination requirement if RFP non-discriminatory • Allows airport to look for the best tenant	• Will require airport staff time to manage and maintain premises, including time outside regular business hours • Will require business-like, customer-oriented attitude on part of airport staff • Will require extensive capital investment up front on the part of the airport • May require the use of City general revenue bonds and affect the City's bond rating • No lease tax revenue • May have to address contamination issues

Source: Hanson Professional Services, Inc.

6.3.3.2.1 No reversion: Return land to existing tenant

In a situation where newly cleared land becomes available, one option would be to provide the existing tenant with a new ground lease at a new renegotiated rate without invoking the reversion clause if the existing lease is not in default. It allows existing tenants to continue their presence on the airport and provides stability on the airport. On the other hand, at a built-out airport such as Renton, it is possible that prospective new tenants would challenge such a decision if the leasehold is not opened to non-discriminatory competition.

6.3.3.2.2 Reversion: Put the land out to bid in open, non-discriminatory competition

A more viable alternative may be to have the land revert at the end of the original term plus any extensions, and put the land out to bid so that existing or new tenants can develop the land under a new lease. This approach ensures that existing tenants do not receive different treatment than potential new tenants, and removes one potential for a legal challenge.

It also allows the airport to seek out the best tenant for the property. On the other hand, it may require significant staff effort to develop and manage an appropriate open, non-discriminatory RFP process to select the new tenant. It could also significantly disrupt the operation of the airport, for example if the primary FBO should leave.

Renton Airport is fully built-out, meaning that on its 168 acres, with the exception of the former restaurant parcel and the northernmost portion of Apron C with its two buildings, there is no unoccupied land waiting for users. Rather, the only land that will become available is if an existing leasehold expires and buildings are torn down. For any sites that become available because the existing buildings are not salvageable, the City must decide on the best course of action with regard the leasehold. A critical issue is the decision about how to decide who will receive the newly available land and how it will be developed in a non-discriminatory fashion.

Conflicts leading to complaints against airports frequently arise when there are conflicting demands for the use of space. If it receives a complaint, FAA will examine how decisions about space allocation are made, to determine whether those decisions were reasonable and non-discriminatory, consistent with the Airport Layout Plan and with aeronautical development needs, and do not result in grants of exclusive rights. In addition, as the space available at the airport becomes more constrained, FAA’s scrutiny tends to become tougher. A good system of space allocation principles on the City’s part can act as a “shield” against FAA criticism of its actions.

The City should establish a system of priorities for allocation of available leaseholds, including both old facilities coming up for re-lease and new facilities. This priority system would allow the City to make reasoned, rather than *ad hoc*, decisions when a site becomes available. It should be based on the Master Plan and any other relevant plans and studies that provide direction on airport (tenant) needs and planning goals.

In cases where several parties have expressed interest in developing an aviation parcel, FAA decisions have supported making allocations of space based on several relevant factors: (a) where aeronautical land is in demand for aeronautical use, it must be put to aeronautical use; (b) if the airport sponsor has done a study that shows current or anticipated demand for specific aeronautical services, it may give priority to those services in allocating available space (i.e., if the airport has an unmet need for additional general aviation storage hangars, it can build such hangars and meet that demand rather than assigning the land to a second FBO or as expansion space to an incumbent FBO), and (c) if there are multiple areas available for lease, it can give a preference to adjacent users in order to keep leaseholds contiguous rather than broken up. If new land becomes available, the City could consider putting out a Request for Proposals for the lease of reverted land and facilities. This would maximize competition at the airport, head off complaints from parties who would otherwise be shut out of applying for space, and allow the City to negotiate aggressively with competing existing and prospective tenants.

6.3.3.2.3 Reversion: The City Develops the Land and Leases the New Facilities

The City of Renton has expressed interest in becoming more actively involved in direct leasing of facilities of the airport. To use City funds to develop new hangars and other facilities at the airport would be the most dramatic step in that direction. This approach would allow the City to provide shorter lease terms, because there is no need to amortize private investment. It can also permit higher quality development than might be funded by private sector (“red carpet” gateway facilities); and the entire profit generated by facility can and must be retained by the airport fund.

A major disadvantage of City-built development is that it ties up airport capital in facilities that could be privately funded. The facility may also be hard to market if it is not based on demand. Last but not least, it can encumber City’s general bonding capacity unless it is entirely funded with existing reserves. The City currently has reserves of about $2.5 million and might be able to fund some improvements with reserves. For example, an eight-bay T-hangar, for which there is demand in the region, would cost about $250,000. If bonds are required, it is highly unlikely that lending institutions would consider the revenue stream generated by the airport sufficient to provide the bonds required to finance such a facility. This would require the City to use its general bonding capacity to finance new development.

6.3.4 Options for Direct Leasing at Renton Airport

As the review above indicates, airport sponsors have various reasons for using a more direct approach to leasing hangars and tie-downs on the airport. Some airports simply do it because they cannot support a viable Fixed Base Operator. Some can generate revenue by providing some facilities for which there is significant demand. (e.g. hangars for aircraft storage). Still others pursue it because it provides a greater level of control than ground leases since the lease duration is shorter. Finally, some local jurisdictions are using the airport as an economic development tool and actively strive to provide a “red-carpet” facility that will attract business travel and, because of its convenience, businesses interested in locating near an airport catering to their needs.

The following Section, 6.3.4.1 outlines the considerations that are most directly relevant for Renton. Section 6.3.4.2 provides options for a more direct approach to leasing at Renton Airport.

6.3.4.1 Critical Decision Factors For Renton

6.3.4.1.1 Viability of Buildings to Be Taken Over as Leases Expire

Unless an airport’s leasing policy and/or leasing documents contain a clause allowing periodic inspections, a building inspection can only usefully be performed in the couple of years prior to a pending reversion date, it is not possible to determine—for Renton or for any such airport—the costs of bringing the building up to code and to a condition suitable for a new lease. The viability of the buildings that revert to the City during the next few years has not been determined, and without a thorough engineering study of the buildings nearer the time that each lease ends, it is impossible to say what it would cost to make them leasable and maintain them for the rest of their useful life. Thus, at this point is difficult to determine whether it would make sense for Renton to take this approach and take over existing buildings as they revert to the City.

Another issue that must be considered is that, if it becomes apparent that reversion clauses will universally be enforced with no flexibility in regard to the situation, then all tenants on the airport will do what makes good business sense, that is, carry out only minimal maintenance to ensure the safety of their existing buildings during the later years of their lease—but nothing more. This means that the City would have to rehabilitate reverting buildings before they can be leased again. An assessment, even cursory, of existing buildings with lease termination clauses more than five years out would be of little value; if a clear reversion policy is in place for all leases, then existing buildings becoming available by that point may not be salvageable.

In the meantime, the City’s aviation customers would suffer from the experience of run-down and possibly even unsafe facilities. Factors that must be considered are the amount of space, location, and time when individual leaseholds would revert to the City. Figure 6-4 illustrates that only relatively small portions of the leasable space of the airport would become available over the years if Boeing remains on the airport. If Boeing renews its lease, less than 60% of the airport would be available after 30 years. While the timing of these potential reversions may help the City accumulate the funds that will be required to rehabilitate buildings or make investments in new development, it makes the management and operation of these facilities more difficult because they do not revert in neat packages that can easily be translated into increments of additional staff.

6.3.4.1.2 Availability of Funding to Develop New Facilities as Space Is Vacated

Here, a major factor is the ability of the City to fund potential new development from capital reserves. Until recently, Auburn Municipal Airport took a direct approach to developing and leasing hangars, tie-downs, and other facilities on the airport. It owns most existing facilities and improvements on the airport with the exception of a maintenance facility owned and operated by the FBO. The last facility built with City funds was a 40-bay T-hangar in the spring of 2001. Auburn used City general revenue bonds to finance the facility. Because of its impact on the bonding capacity of the City, the City council recently decided to abandon its direct approach. Recently, it leased all available land, with new tenants planning to construct T-hangars, corporate hangars, and a facility for future aviation-related businesses and aircraft storage.

Figure 6-4: Potential Reversion of Leasable Airport Land

Time Period Area Becomes Available	Percentage of Leasable Space on the Airport	Cumulative Percentage Without New Boeing Lease	Cumulative Percentage With New Boeing Lease**
Currently under city control	21%	21%	21%
Currently month-to-month (tie-downs only)*	5%	26%	26%
Now through 2010 (excl. Boeing)	9%	34%	34%
Boeing (2010)	41%	76%	
2011 though 2019	10%	86%	44%
2020 through 2029	14%	100%	58%
TOTAL	100%		

* Includes areas on Apron C that are part of the original Boeing lease and must be returned to Boeing if needed. ** Assumes that Boeing will retain the currently leased areas.
Sources: Lease documents, City of Renton.

Grand Prairie, TX has a similar number of based aircraft and operations to Renton, and is also close to a major metropolitan area, yet it barely breaks even. Since it is Renton's policy to manage the airport as a separate fund, it would have to provide all funding necessary for both operations and development. It is unlikely that the Renton airport can generate sufficient revenue for both purposes.

6.3.4.1.3 Ability to Maintain the Financial Self-sufficiency of the Airport

Another issue to be considered is the airport's situation without a Boeing tenancy. Under a scenario without Boeing on the airport after its current lease expires, it may be difficult for the City to maintain the airport's financial self-sufficiency. Boeing currently pays a lease rate for undeveloped apron space that is comparable to that of other tenants who have built facilities on their leasehold. It provides over 50% of the revenue generated on the airport. Due to infrastructure and other constraints, it is highly unlikely that the City would be able to generate the same revenue from the vacated premises in the short and intermediate term. Moreover, as the utility information provided in Chapter 3 indicates, it would be very costly to provide the public infrastructure required if the City were to develop these parcels. The high degree of dependence on Being as a revenue source and the high cost of utility replacement combine to suggest that the City should follow strategies that maintain or build reserves against a possible future without Boeing. This makes it critical for the City to strongly consider an approach that requires only minimal investment of scarce City funds in essential public airport facilities, leaving the private sector to address other needs.

6.3.4.1.4 Ability to Develop a Stronger Customer Orientation

Consultant discussions with airport tenants, and the fact that the City-operated tie-downs on the west side of the airport have a significantly lower occupancy rate than the privately operated tie-downs on the airport tend to suggest that, currently, the City's approach to managing these facilities is not competing successfully with the private sector. Any effort to take a more direct approach to leasing will require City staff to be trained to provide more customer-focused services. It would be essential for the City to succeed in facilitating this paradigm shift.[6]

During 2002, City staff were able to lease these tie-downs at levels comparable to those of the private sector. This indicates that problems identified through tenant interviews in 2001 have been resolved.

6.3.4.1.5 Demand for Facilities and Services at the Airport

Chapter 4 indicated that, based on current projections for growth in based aircraft and operations, there will be only relatively small increases in demand for maintenance and other service-oriented facilities at Renton over the timeframe of the Business Plan. There appears to be a strong latent demand for aircraft hangar storage and services for seaplanes in the region, and Will Rogers-Wiley Post Memorial Seaplane Base is the only seaplane base in the region that is not completely at capacity. Our research for Chapter 4 also indicates that there is a large gap between the supply and the demand for hangars for aircraft storage, and that gap will not be reduced over the planning timeframe.

[6] City staff indicate that until recently it has been City policy to direct prospective tie-down tenants to commercial tenants on the airport.

6.3.4.2 Options for More Direct Airport Management

One of the central issues addressed by this Business Plan is the City's interest in taking a more direct approach to managing facilities and leases at the Airport. The following provides a brief overview of the options that are open to the City.

6.3.4.2.1 Option 1: Expand City Role to Take More Aggressive Role in Building Management

Under this approach, the City would play an increasing role in the management of airport facilities. Instead of only accepting back bare sites (at the end of a building's useful life, when the tenant had cleared the building and removed any contamination), the municipality would go into the facilities management business. It would:

- Seek reversions at the earliest opportunity (i.e. the City would not grant any new leases for existing facilities once the lease and any tenant options for extension have expired);
- Conduct any building remodels necessary to provide safe, seismically-updated, habitable, and ADA-compliant facilities to be re-marketed;
- Study the market at other airports to set rents for various types of facilities[7];
- Market the space to tenants, entering into negotiations and leases for both buildings and any available unimproved land;
- Take promotional actions to quickly find tenants for vacant spaces;
- Provide maintenance and janitorial services to tenants including both pavement and buildings maintenance (with the specific maintenance responsibilities to be negotiated as a lease term); and
- Receive rents and perform associated bookkeeping and other necessary leasing/rental steps.

This approach would provide the City's airport fund with increased income—from existing facilities originally developed with private sector funding—for the remainder of their useful life. The City would have to invest to ensure that such facilities meet building code and Americans with Disabilities Act (ADA) requirements and are attractive to prospective tenants.

By also continuing to provide land leases of unimproved land for private sector investments, the City would not need to make major investments for new facilities. It could ensure appropriate maintenance of any new facilities by requiring that tenants allow the City to inspect the facilities periodically and remedy any deficiencies.

An advantage of this approach is that the City would gain more control over the airport over time as facilities revert, yet would not have to spend major funds on new facilities. The major disadvantage is that tenants who know that their property is going to revert to the City are likely to defer maintenance during the last years of their lease. The City would have to enforce adequate maintenance in an effort to ensure viable buildings at reversion that could be remodeled and rented out with only a reasonable amount of investment. It would also increase the City's responsibilities for maintaining airport facilities, increasing operational budget needs.

6.3.4.2.2 Option 2: City Goes Into the Airport Development Business

Under this approach, the City would cease to provide leases of unimproved land or of land that reverted to the City after existing structures were razed. Instead, it would use a portion of its current airport surplus, together with its bonding authority, to construct new facilities and rent or lease them upon completion. This could include both hangars for aircraft storage and aviation-related businesses and other facilities such as a pilot lounge, customs facilities, an aircraft washing facility, and any other needed improvements.

By developing the airport directly itself, the City would take control over the facilities provided on the airport. This approach gives the City the greatest control over the quality and type of facilities available at the airport. As stated earlier, this can be a valuable economic development tool. However, the City would have to use its funds to develop these facilities, likely encumbering its general revenue bonding capacity. While the income from these facilities can be used to repay the bonds issued, revenue in excess of that needed for bond repayment is restricted to the aviation purposes. The City of Auburn recently abandoned its approach to own all facilities on the airport because further airport development would have had a negative impact on the City's bond rating. Auburn has begun to lease unimproved land to private developers to develop hangars and other aviation-related facilities on the airport, reversing a long-time policy of direct leasing.

At Renton, several of the existing tenants may have access to financing for new hangars and other facilities. They have expressed interest in developing major parts of the airport at no financial cost to the City. This includes development of the former restaurant parcel, with provision of Customs facilities. This raises the question whether the public sector should spend scarce public dollars on what the private sector has expressed a willingness to do.

6.3.4.2.3 Option 3: City Provides Limited Services, in Particular Fuel Sales

Under this scenario, the City would provide additional services using its own equipment and its own employees. The City already owns and operates a T-hangar with space for 10 aircraft. It also operates a tie-down area for based aircraft on the West side of the airport. In addition to these services, the most common service provided by public agencies owning airports is fuel sales. This is relatively common at smaller general aviation airports where demand is too low to provide for sufficient income for a private enterprise but less common at airports that can support private fuel sales. Renton currently has two Fixed Base Operators (FBOs) selling fuel. Selling fuel would put the City in competition with the private sector and could jeopardize the economic viability of these operators, while also requiring subsidy itself, since Renton's total volume of fuel is relatively small.

It is not clear that the City would receive any benefit from selling fuel since two FBOs are already doing so. However, currently, fuel is available at Renton airport only during the business hours of the existing FBOs. Only one of them sells jet fuel, which is needed by both helicopters and jets, and tenants have expressed concerns about its availability during off-hours. Some tenants have to go to Boeing Field just to get (jet) fuel, and thus generate unnecessary noise because they need to stay at low altitude for that short trip.

It is the opinion of some airport tenants that the total volume of fuel sold at Renton Airport is too low to warrant a stand-alone staffed operation. FBOs staff their fuel service in tandem with many other duties. On the other hand, a supplemental self-fueling station would require no dedicated personnel and could be a useful addition.

6.3.4.3 <u>Immediate Options for a More Direct Approach to Leasing at Renton</u>

There is a lack of space for expansion on the airport. Only limited amounts of space will become available for redevelopment during the first eight years of the Business Plan. At that point, the Boeing lease expires and, if not renewed, could create a substantially different situation. To date, there is great uncertainty about Boeing's plans to remain on the airport past the existing 2010 lease, and about the amount of space the company will retain if it decides to continue operations at Renton.

The factors listed above provide guidance for the development of options for a more direct approach to leasing at Renton during the first eight years (until the Boeing lease expires) of the planning timeframe. Actions taken during the next few years could test the viability and practicality of a more direct approach to managing leases at Renton. If the test is successful, then the City would be well-placed to continue with direct leasing on a larger scale if and when the Boeing leasehold is vacated. It appears prudent to develop an approach that would use the years until the Boeing decision is made to test whether it makes sense for the City to take a more direct approach to leasing airport property.

The following provides a description of the options that are available to the City.

6.3.4.3.1 City Develops the Restaurant Property

The most immediate option for direct leasing that the City can take is to develop the former restaurant property. There is a clearly identified need for a passenger terminal and Customs facility to support seaplane operations at that location. It is unclear that this could be a commercially viable project. Thus, this is a suitable project for the public sector.

A terminal and customs facility in that location would cater to the seaplane operators in the region. The analysis in Chapter 4 determined that Will Rogers-Wiley Post Memorial Seaplane Base is the only seaplane facility in Central Puget Sound with any potential for growth. With improved and new facilities, it would likely attract additional operators and revenue to the airport. Since seaplanes take off and land over the lake and do not practice touch-and-go operations at Renton, the impact of additional operations on the community would likely be modest. Development of the parcel for seaplanes support could be done independent of the rest of the airport. It would not impact the City's ability to change the layout and location of other general aviation and Boeing facilities, should Boeing choose to stay at the end of its current lease. The City could use the new passenger terminal to determine its capacity to act as a developer and landlord for this type of facility.

The City currently has reserves that may be sufficient to carry out this effort without additional City resources (but these funds would then not be available for future development or other airport capital needs) and some federal assistance is possible.

6.3.4.3.2 City Manages Reverted Sites as Leases Expire

Between the end of 2001 and 2010, the leases for five of the airport's tenants (other than Boeing) expire:

Figure 6-5: Leases Expiring Between 2001 and 2010

Current Occupant	Map ID #	Lease Term End After Options	Ground Lease Sq. Ft.	Tie-downs Sq. Ft.	Hangars Sq. Ft.	% Total Airport Leasable Area
Jobmaster	10	2003	14,232		4,512	0.6%
Puget Sound Energy	8	2003	21,885		5,742	1.4%
Cedar River Hangar*	6b	2005	165,877	80,677	27,000	8.1%
Aero Dyne	15a-d	2006	81,966	30,591	20,375	11.7%
Chamber of Commerce	13	2010	9,600			12.1%

* Tie-downs month-to-month. Source: Lease Documents.

Should the City choose to take a more direct approach to leasing and to take buildings over as leases expire, it could test the viability of doing so by invoking the reversion clause as leases expire in the next few years.

Jobmaster and Puget Sound Energy leases expire in 2003. They are located on the west side of the airport, in an area designated for general aviation purposes by the 1997 Airport Master Plan. For these tenants, the City could determine its approach based on their ability and willingness to make new investments. It should be noted, however, that if the City decides to take their facilities over as leases expire, it will be difficult to step back from this approach if it is deemed impractical later on, because the City has an obligation to treat all tenants equitably.

Cedar River Hangar's (lease expires 2005) and Aero Dyne's (lease expires 2006) leaseholds are located on the east side of the airport. Cedar River Hangar's lease is designated as general aviation and, due to height restrictions, cannot be developed further. For this tenant, the City could determine its approach based on their ability and willingness to make new investments, or take the facility over when the lease expires. If the reversion clause were invoked, similar concerns to those outlined for Jobmaster and Puget Sound Energy would apply.

Aero Dyne is located in the southeastern corner of the airport in an area designated in the 1997 Master Plan for Boeing. This site has problems because its buildings are located across the taxiway inside the perimeter of the airport. Changes to the configuration of uses in this area of the airport are warranted independent of Boeing's decision to stay at the airport beyond its current lease. The City could take over these buildings as the lease expires and determine its capacity to act as a landlord for conventional hangar and office space at least until 2010 when the Boeing lease terminates and bigger decisions about the future of the airport can be made.

6.3.4.3.3 City Develops Aircraft Storage Hangars

The analysis of the region's general aviation system provided in Chapter 4 clearly indicates that there is a large gap between supply and demand for hangar space for aircraft storage. Demand exists in particular for storage of the type of aircraft that accounts for the majority of operations at Renton, small single-engine piston aircraft. This gap is expected to remain in place over the planning period.

Additional hangars for storage of small single-engine piston aircraft could provide a significant and reliable revenue source for Renton. Boeing has recently turned back a large unneeded portion of Apron C, including the two buildings located on the north end of Apron C on the northwest side of the airport (south of the restaurant property). It appears that the company will not require the use of Apron C and might be willing to turn it back to the City entirely. Should that be the case, the City could consider development of additional hangars for aircraft storage in that location. This could also provide some synergy with a potential new terminal at the former restaurant site. A major issue to be resolved is the fact that Apron C currently receives its water through Boeing.

6.3.4.3.4 Summary

Figure 6-6 summarizes the benefits and costs of direct leasing and use of the reversion clause.

Figure 6-6: Reversion and Direct Leasing Costs and Benefits

Benefits	Costs
• Additional revenue (e.g. Cedar River Hangars estimates $116,000 in revenues through direct leasing vs. $38,000 now).	• Higher maintenance costs (Cost cannot be determined without engineering study.) • Additional maintenance and management staffing required. Required staff increases may be difficult to manage due to reversion schedule–small, inconsistent portions of the airport reach the end of their leases at irregular intervals.
• Potentially more control over who leases on the airport; what activities are carried out.	• More administrative and management staff required. Required staff increases may be difficult to manage due to reversion schedule–small, inconsistent portions of the airport reach the end of their leases at irregular intervals. • More (time-consuming) direct interaction with all tenants on the airport (e.g. if take over Cedar River Hangars go from 1 tenant to over 70 tenants).
• Shorter leases are possible.	• Will require staff that is highly customer-oriented and available outside regular business hours – may require additional staff.
• Conformity with Washington's constitutional prohibition of giving funds, property or credit to a private entity.	• Tenants who know that their buildings will revert are bound to carry out only minimal maintenance: o Buildings may not be salvageable after they revert. o Buildings may be expensive to bring to up to leasable state.
	• Buildings may be outdated and require significant update work to make leasable.
	• Airport revenues are unlikely to generate a revenue stream that is high and reliable enough to be sufficient guarantee for bonds. • City may therefore have to use general bonding capacity to fund new development on the airport.
	• City is responsible for demolishing building after the end of its useful life if it takes over buildings.

Source: Hanson Professional Services Inc.