Aviation Service Providers/Airport Sponsor Agreements
Business Term Considerations for Capital Investment

The widespread network of commercial service and public-use general aviation airports in the United States allows businesses to leverage aviation for greater speed, flexibility, efficiency, and productivity. Tens of thousands of companies of all types and sizes utilize both commercial and business aviation to compete in their respective marketplaces. Ensuring the long-term availability and quality of facilities and services provided by on-airport aeronautical service providers is vital to sustaining the economic activity aviation contributes to the local, state, national, and global economies.

On-airport Aeronautical Service Providers (ASPs), such as Fixed Based Operators (FBOs) and Specialized Aviation Service Providers (SASOs), perform services that support commercial service and general aviation activity at an airport. When an ASP does not own the airport, the ASP is required to enter with the Airport Sponsor into a land lease for the development of the ASP's facilities. This differs from non-airport private enterprise where land could be purchased to facilitate development. This key difference (land lease vs. land purchase) may limit the ASP's ability to amortize the capital required to develop on-airport facilities. With a land lease, the longer the lease-term, the lower the ongoing depreciation expense for a given capital investment and the more operating funds that are available for maintaining facilities, training staff, and investing in equipment and technology.

Airport Sponsors face their own set of challenges when seeking to provide business opportunities to ASPs. Unlike non-airport property owners and developers, Airport Sponsors are subject to federal, and in some instances, state law and regulatory restrictions, such as FAA Grant Assurances and DOT policies on rates and charges.

The items outlined below offer guidance that preserves the Airport Sponsors' ability to control the length of the lease term and allow the ASP operators to amortize their capital investments for a reasonable period of time. In this fashion, a positive business relationship can be established between ASPs and Airport Sponsors that will encourage the investment of available private capital for creating jobs and positive economic activity.[1]

Objective:
Develop guidelines for Airport-ASP leases to facilitate long-term investment. By considering common sense guidelines, Airport Sponsors and ASPs can facilitate more investment in airport infrastructure. Key points that allow the needs of both the Airport Sponsor and the ASP to be met include the following:

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[1] It is recognized that Airport Sponsors have unique local circumstances that must be considered during negotiations with any Aeronautical Service Providers (ASPs) and Specialized Aviation Service Providers (SASOs). These unique local circumstances could result in modifications of this guidance.

- The length of lease terms and other agreement business terms remain a business transaction between ASP and Airport Sponsor;
- Amortization schedules negotiated between ASP and Airport Sponsor and based on the amount of the airport infrastructure investment, typical commercial amortization and depreciation practices for similar airport development projects, and the particular market environment would allow ASPs greater access to financing and the ability to generate a return on capital expenditure;
- A short lease term negatively impacts the capacity to amortize large investments and the ability to obtain financing for projects and develop a sufficient return on capital;
- If the term of the lease is shorter than the mutually agreed-to amortization schedule, the lease should include a "buy out" of the unamortized capital investment made by the incumbent ASP at the end of the specified term.

Example Investment/Amortization Scenario

Presented below is an example of a leasehold improvement recently placed into service and currently being amortized over the remaining 7 years of the lease term, versus the 30 year useful life of the asset, along with a buy-out clause.

FBO Lease Start Date	10/1/07
FBO Lease End Date	9/30/17
Asset Description	Airport/Hangar Description
Asset Placed Into Service	8/2/2010
Asset Value (Cost Basis)	$6,077,260

	Without Buy-Out Clause	**With Buy-Out Clause**
Useful Life in Years	7	30
Useful Life in Months	84	360
Monthly Amortization	$72,348	$16,881
Annual Amortization	$868,180	$202,575

Annual Amortization Savings: $665,605
Buyout by Successor or Airport – 2017 $4,659,225

Benefits for Airport Sponsors and ASPs:

- Greater access to private capital for the development of ASP facilities;
- Creation of jobs, both construction and long-term, associated with the development of airport facilities;

- Ability to continue to determine the length of ASP leases based on local conditions and policies commensurate with the level of investment by the ASP;
- Ability for ASPs with sustainable business conditions to re-invest in their facilities, people, equipment and technology and provide an opportunity for higher levels of customer service;
- Ability to amortize required capital investment in airport infrastructure over a negotiated amortization period based on similar airport development projects (typically 20 – 30 years), on the scope of the project, and on market conditions to allow ASPs a greater opportunity to obtain financing and achieve sustainability.

ASP Lease Guidelines:

- Lease term should reflect the level of capital investment required to develop the needed improvements to the leasehold as outlined in the sponsor’s minimum standards or lease requirements;
- Lease should provide appropriate amount of land for ASP to develop in a cost effective and efficient manner;
- Lease term should provide the ASP opportunity to fully amortize the capital improvements, not to exceed the maximum allowed per IRS schedule for similar commercial development;
- Where the agreed to lease term is shorter than the period required to fully amortize the capital improvements, lease provisions should be made for any successor ASP or the Airport Sponsor to “buy-out” the incumbent ASP’s unamortized capital costs at the end of the lease;
- Airport sponsors should request a certified schedule to verify the amortization and depreciation of the ASP facility investment.
- Upon agreement between existing ASP and Airport Sponsor that a new capital improvement is required to meet demand in the market, and such investment is made by the ASP, extension of lease term and/or provision for a buy-out of the unamortized capital costs of such improvement should be negotiated.