

Addison Airport Management Contracts – Next Phase

City Council
January 14, 2020



ADDISON

Terms of Current Contracts

Real Estate Services - SAMI

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- Effective October 1, 2010
 - Expires September 30, 2020
 - No extensions
- Responsible for oversight of real estate portfolio
 - Under direction of a licensed real estate broker
- SAMI provides the Real Estate Manager, Accounting Manager, Lease Administrator
 - Asset Manager added in 2014
 - Town has the right to approve the Real Estate Manager
- Risk notes:
 - Real estate portfolio derives over 80% of airport revenues
 - A substantial quantity of leases (20+) will expire in the next 5 years

- Pass-through operating costs
 - Floor of \$332,000
- Management fee:
 - Minimum \$120,000 adjusted by CPI – based on 3% of gross revenue
 - \$193,337 in FY2019
- Incentive compensation:
 - If Gross Revenue increases by more than 3.5% over the previous year, a higher percentage of revenue is factored for incentive compensation calculation

Terms of Current Contracts

Operations - AECOM

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- Effective October 1, 2010
 - Expires September 30, 2022
 - Automatic one-year extensions available through September 30, 2050
- Town can Terminate for Convenience with 90 days notice prior to the start of a fiscal year
 - For example, to terminate the contract by September 30, 2020, notice must be given no later than July 1, 2020
 - Contract stipulates Town's responsibility to pay Termination for Convenience Fee (FY2020 - \$42,500) and other amounts compensable under the contract, as well as any reasonable demobilization costs

- Responsible for day-to-day airport operations
- Not responsible for real estate related duties
- AECOM to provide Director, Deputy Director, Operations Manager, Maintenance Manager, Office Manager, Maintenance Technicians (4)
 - The Management Assistant is a Town employee assigned to the airport
 - Town has the right to approve the selection of the Airport Director
- Risk notes:
 - True labor multiplier not applied
 - Management team may not all move to Town employment

- Personnel Costs:
 - Operational costs are borne by the Town as a pass-through
 - \$170,000 management fee
 - Plus 2.5% of Gross Revenue over \$4,000,000 for the proceeding fiscal year
 - Direct Expense Amount \$36,000 per year, annually adjusted by CPI
 - Currently \$43,871.40 (FY2019)
- Transition:
 - Town will make every effort to assure orderly transfer of contract responsibilities
 - Extend employment to staff in good standing
 - If new third-party operator, require new operator to extend employment offers to staff in good standing
 - No requirement to require same for the airport director; Accredited Airport Executive required

2019 Contract Assessment

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- Dan Benzon –
 - Executive VP of Landrum & Brown
 - Former president of Trillion Aviation
 - Consultant on airport management strategies, leases, on-airport development, program management
- Reviewed Addison airport management and operations structure
 - Found that airport is well-run with highly competent, professional staff on both operations and real estate sides

- In 2019 Mr. Benzou was asked to review the current contracts and make a recommendation on how to proceed when the contracts expire
 - Should the Town continue to manage Addison Airport through 3rd party contracts?
 - If yes, should it continue with the current contractors?
 - Should both the operations and real estate contracts be up for consideration even though they have different expiration dates?
- May 2019 - Provided report with evaluation and recommendations

Options to Consider

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Options to Consider: Pros and Cons

- Renew – extend the contracts with same Terms and Conditions (Ts&Cs)
 - Keeps continuity of the current staff
 - Doesn't provide opportunity to update provisions
- Redo – renegotiate the contract and modify the Ts&Cs
 - Allows opportunity to implement “lessons learned”
 - Could be protracted and disruptive
- Rebid – request proposal from other 3rd party contractors
 - Allows opportunity to test the market
 - Limited market for firms who provide airport operations, specialized airport real estate services
 - Potential disruption of current airport staff
- Retain – in-source the staff in good standing as Town employees
 - Greater control over staffing and finances
 - Saves management fee, incentive payments, and other charges
 - Follows standard U.S. airport industry management practice

Cost of 3rd Party Contracts

Salaries, Benefits, and Taxes

Direct Expense Charge

Management Fee

Incentive Payment

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Current Cost of AECOM and SAMI Personnel - 11 Positions	
Salaries	\$785,730.43
Taxes and Benefits	\$604,686.64
Total Salary and Benefits	\$1,390,417.07

Management Fee, Direct Expense, Incentive Bonus

Management Fee, Incentive Bonus, Direct Expense Charges			
FY2019	AECOM Management Fee	\$170,000.00	
	AECOM Incentive Bonus	\$63,683.00	
	Direct Expense Charge	\$43,871.40	
AECOM Total FY2019			\$277,554.40
FY2019	SAMI Management Fee	\$193,337.00	
	SAMI Incentive Fee	\$95,000.00	
SAMI Total FY2019			\$288,337.00
Total Fees and Charges AECOM and SAMI Combined			\$565,891.40

Cost for Town of Addison Full Time Equivalent Positions

Salaries
Benefits



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Town of Addison Cost to In-Source 11 Positions	
Salaries	\$785,730.43
Taxes and Benefits	\$491,678.90
Total Salary and Benefits	\$1,277,409.34

Cost Comparison

Third-Party Contractor vs. Town In-Sourced Operation

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Cost Comparison

Town of Addison and Third-Party Provider Cost Comparison		
Full-Time Positions	AECOM and SAMI	Town of Addison
11 Positions	\$785,730.43	\$785,730.43
Total Taxes and Benefits	\$604,686.64	\$491,678.90
Total Salary and Benefits	\$1,390,417.07	\$1,277,409.33
Total Various Charges and Equipment Costs	\$565,891.40	\$17,505.00
Total All Costs	\$1,956,308.47	\$1,294,914.33
Current Budgeted Cost of SAMI Management Fee and Incentive Bonus	N/A	\$288,337.00
Sub-Total Cost Comparison	\$1,956,308.47	\$1,583,251.33
Termination for Convenience Fee (one-time cost)	N/A	\$42,500.00
Total Cost Comparison	\$1,956,308.47	\$1,625,751.33

Recommendation

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Management Contracts – Recommendation

- Redo – SAMI contract
 - Negotiate new Ts&Cs
 - Continue responsibility of real estate portfolio
 - In-source responsibility for revenue collection and disbursement to bring into Finance Department
 - Town employee assigned to and officed at the airport
 - Provides greater oversight of revenue
 - Provides unfettered access to Town’s network and financial system
 - Provides oversight by Town’s CFO
 - Provides alignment with Town’s standard financial polices and practices
- Retain – Terminate AECOM contract on September 30, 2020 to make it co-terminus with SAMI’s contract
 - Pay AECOM \$42,500 Termination for Convenience Fee
 - Offer employment as Town staff to operations staff in good standing, including the Airport Director

Council Direction Needed

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Questions for Council – SAMI Contract

- Does Council agree with Staff's recommendation to renegotiate SAMI's contract with new Terms and Conditions?
- Does Council agree with staff's recommendation that the responsibility for the revenue collection and disbursement be brought in-house under the auspices of the Finance Department, CFO?
- If Council does not agree with Staff's recommendation, is additional information is needed and are there additional concerns?

Questions for Council – AECOM Contract

- Does Council agree with Staff's recommendation that the airport operations be in-sourced to the Town?
- Does Council agree with Staff's recommendation that the AECOM contract should be terminated early?
 - If yes, this necessitates the payment of a \$42,500 Termination for Convenience Fee
- If Council does not agree with Staff's recommendation, is any additional information needed and are there additional concerns.

- If so directed, begin negotiations with SAMI for new contract
 - Develop deal points
 - Bring new SAMI contract to Council for consideration
 - Begin process to bring financial responsibility in-house
 - Begin process to bring Accounting Manager in-house as Town employee
- If so directed, prepare notification for AECOM for either early termination or termination on September 30, 2022
 - If early termination, begin process to bring AECOM staff in-house as Town employees
- Update Council as needed

Questions / Discussion

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