

Leitner, Cindi (FAA)

From: Pur, Richard (FAA)
Sent: Wednesday, March 07, 2018 1:24 PM
To: Leitner, Cindi (FAA)
Subject: FW: Soccer Fields at BMI ...

-----Original Message-----

From: Carl Olson [mailto:Carl@cira.com]
Sent: Thursday, October 05, 2017 4:14 PM
To: Pur, Richard (FAA) <Richard.Pur@faa.gov>
Subject: RE: Soccer Fields at BMI ...

Good afternoon Rich,

Thank you for your thoughts/feedback concerning entities interested in non-aeronautical uses of airport land in hopes of capturing a bargain price. I expect the FAA sees a good amount of this across both the region and across the nation. As such, your concerns are quite valid. However, respectfully this is not the scenario we are working with in this instance.

In your email you asserted the FMV value needs to center upon the property's proposed use. In this instance, the proposed use of the land is to continue using it as a youth recreational facility for a final 3-5 year term ... by an organization which is a non-for-profit that has been operating at this location for 25 years ... with full/complete FAA approval concerning the uses, terms/conditions, and the methodology for establishing the annual lease rate.

In the past, your office offered discussion suggesting the Airport Authority calculate the FMV value of the revised lease based upon the cost of a replacement facility. Respectfully, as our office has previously highlighted, this methodology is not applicable. In this instance, the Airport Authority does not own the current facility nor the improvements (just the land) ... nor would the tenant own the facility/improvements at a new site. Using a random/general percentage of replacement cost, or even a simple depreciation percentage of a new facility is not applicable in this instance. Again, it must be noted the Authority does not own the facility/improvements; plus the term/scope of a new facility is likely to far exceed the scope and term of the existing site vs. the minimal improvements coupled with the firm limit of only 3-5 years remaining for the revised agreement associated with the current facility.

In your email you also raised some thoughts which our office would like to address. You mentioned that agriculture use is typically the lowest form of uses; yet here in McLean County farming is the foundation of our entire economy. Interestingly, on its own, McLean County annually produces more bushels of corn/soybeans per year than all but 11 states in the U.S. In our market, farming is the 'real world' and our approved rate setting methodology captures 'real world/real time' FMV. Understanding the property being discussed was active farm ground prior to soccer, that is continues to be surrounded by active farm ground, and is likely to return to active farm ground at the end of this 3-5 year lease agreement (until needed for aeronautical use) ... farming is not only the current highest/best use, but the basis upon which the FAA twice before approved the agricultural based lease setting methodology.

Your office also highlighted the possible example of basing FMV upon a commercial use instead of an agricultural use. A valid thought, especially given the commercial sites northeast of the property. However, respectfully, the idea of using commercial development valuations ignores the fact that this site will only be leased for a firm period of 3-5 years. As such, a commercial application is not viable ... nor is FAA policy likely to allow a longer term given the requirements of allowing an interim use. Instead underscoring the highest/best use continues to be agriculture as has been the approved process for the past 25 years.

Lastly, the FAA's most recent email suggested the value of the current site's improvements should be captured into the FMV calculations. In some instances this idea would have merit; especially if those improvements were owned by the Airport Authority. However in this instance it should be noted improvements are owned exclusively by the tenant. The Airport Authority only owns the property upon which the site improvements have been made. Moreover, the revised agreement limits the value of these improvements by prohibiting any new improvements/investments to be made to the site while also limiting the useful life of the final 3-5 year term; with ownership reverting to the Airport Authority at the end of the agreement free of charge.

Given the range of responsibilities/commitments of the ADO, our office appreciates the feedback and ensuing dialog presented by the FAA. Your office has presented thoughtful points that caused our organization to further review/evaluate the structure of this revised agreement to ensure proper compliance with FAA guidance. Following this inward review, our office is even more confident our actions meet the highest interpretations of current FAA policy. As such, we respectfully request FAA consent for the PCSL's continuing interim use of Airport Authority property designated for aeronautical use here at the Central Illinois Regional Airport for the coming 3-5 year period beginning January 1, 2018.

Thank you for your consideration of this request.

.... Carl

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-----Original Message-----

From: Richard.Pur@faa.gov [mailto:Richard.Pur@faa.gov]

Sent: Monday, October 02, 2017 9:11 AM

To: Carl Olson

Cc: Richard.Pur@faa.gov

Subject: RE: Soccer Fields at BMI ...

Carl,

There is no FAA Policy that speaks to a lease rate being 10% of the appraised value of the property. That 10% actually comes from what a couple airports I know do as a best practice to being as self-sustaining as possible.

The whole thing about the FMV really needs to center around what FMV of the proposed use is. Agricultural is the lowest form of FMV, realistically. And it is why non-aeronautical uses always show up on the airports' doorsteps. Because the FMV of that same use in the real world is always higher. So they approach the airport for a lease.

The easiest examples are something like an industrial building or maybe a self-storage facility. Let's say that you have open hangars and someone approaches the airport to store non-aeronautical property in a hangar(s). What is FMV? FMV can be the highest value of whatever the cost of equivalent square footage is at a self-storage facility in the vicinity of the airport or the actual highest and best use of that airport property as a hangar. I'm thinking that the self-storage facility rate would be higher than that of the hangar lease rate for an airplane. But if it wasn't higher, the airport should charge the higher hangar lease rate.

So what does it cost for a soccer facility like the one at BMI? They are not going to being to lease land for anything less than the agricultural rate anywhere else, and that's without any improvements! The improvements should be captured in the FMV somehow.

There is a reason people come to airports to lease land for non-aeronautical uses.....

Rich

-----Original Message-----

From: Carl Olson [mailto:Carl@cira.com]
Sent: Thursday, September 28, 2017 5:53 PM
To: Pur, Richard (FAA) <Richard.Pur@faa.gov>
Subject: RE: Soccer Fields at BMI ...

Good afternoon Rich,

Thank you for your initial feedback; it was much appreciated. If your schedule permits, I was wondering if we might schedule a time to visit on the telephone? Your thoughts raised a number of questions for our office and I would appreciate an opportunity to discuss them with you further.

Generally speaking, a farming use is actually the highest/best use of the property. Not simple because the appraisal reported the highest/best use as farming, because the site is surrounded on all four sides by active farming.

It is also worth noting that while your office suggested an industrial use may have applicability ... actually, our internal discussions suggest this use isn't likely to work. This property is specifically designated for aeronautical use. As such, FAA policy limits interim use only for a period of up to five years, and if more than three, it must meet the requirements of concurrent use. Accordingly, our office doesn't see how this site could be developed for industrial use.

With respect the FAA's thinking that a lease rate fall in the 10% of appraised value range, our office has not been able to identify such FAA policy. It would be helpful if you would share that reference with us. Respectfully, a random 10% return used by some other airport for some other purpose is not FMV ... especially given local average farm ground values ranging from \$12k-\$14/acre. Seeking a 10% return at this land valuation (\$1,250/acre based upon appraisal) is beyond market comprehension and mathematically impossible from a farming perspective.

Instead, our office thought it might be helpful to revisit the rate setting methodology we employ with our farming program to capture real time FMV. First, rates are adjusted every three years based upon a competitive RFP solicitation process. Once bids have been received, they are publicly opened and the three top bidders are invited into separate room. At this point the three top bidders engage in a competitive auction where two of the remaining bidders ultimately step aside to identify the highest/best possible bid the market can support ... the truest sense of fair market value.

As I said earlier, our office truly appreciates the opportunity to have this dialog with the FAA. If your schedule should permit a follow up conversation, I would be happy to make myself available at your convenience.

Thank you for your continued assistance and consideration.

..... Carl

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-----Original Message-----

From: Richard.Pur@faa.gov [mailto:Richard.Pur@faa.gov]
Sent: Monday, September 25, 2017 2:30 PM
To: Carl Olson
Cc: Richard.Pur@faa.gov
Subject: RE: Soccer Fields at BMI ...

Carl,

So I have had some preliminary discussions with the regional compliance contact and we collectively have preliminary concerns over the FMV. What is your proposed annual lease rate for the entire parcel?

Some general thoughts that highest and best use is not necessarily agricultural, especially on some of the parcel further from the runway, as it is very close to the industrial use to the north. Even aside from the type of use, there is some thinking that the lease rate, in general, should be in the neighborhood of about 10% of the appraised value of the property. I actually confirmed that another Primary airport I deal with does exactly that. 10%.

Just thinking out loud here, hypothetically, what if there was a weighted lease rate that was back end loaded as the lease period came closer to the end. So a transition to what our office considers more of a FMV? Start at the proposed rate and transition to something greater at year 3, or 5? Strictly hypothetical that could help sell the proposal a little easier.

Rich

-----Original Message-----

From: Carl Olson [mailto:Carl@cira.com]
Sent: Monday, September 18, 2017 2:11 PM
To: Pur, Richard (FAA) <Richard.Pur@faa.gov>
Subject: Soccer Fields at BMI ...

Good afternoon Rich; I hope all your grant work was completed without un-needed frustration. I was thinking of you this weekend ... I hope it was pleasant for you.

Attached to this message is an electronic copy of a letter being sent up to you concerning the continued use of Airport Authority property for private youth recreational purposes for a fixed/final period. The original along with a copy of the revised lease agreement and a copy of the property appraisal was placed in the mail today.

If you have any questions, or would like any additional information, please feel free to contact me at your convenience.

..... Carl