



Legislation Details (With Text)

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On agenda: 6/28/2023 **Final action:**

Title: Authorize a Termination of Lease Agreements with DCS Aviation, LLC (“DCS”) dba Development & Construction Services, LLC, consented to by First State Bank, as leasehold mortgagee, to terminate two leases at Dallas Executive Airport and to pay DCS a termination payment - Not to exceed \$6,000,000.00 - Financing: Aviation Fund

Sponsors:

Indexes: 3

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Attachments: 1. Map, 2. Resolution

Date	Ver.	Action By	Action	Result
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STRATEGIC PRIORITY: Economic Development

AGENDA DATE: June 28, 2023

COUNCIL DISTRICT(S): 3

DEPARTMENT: Department of Aviation

EXECUTIVE: Kimberly Bizer Tolbert

SUBJECT

Authorize a Termination of Lease Agreements with DCS Aviation, LLC (“DCS”) dba Development & Construction Services, LLC, consented to by First State Bank, as leasehold mortgagee, to terminate two leases at Dallas Executive Airport and to pay DCS a termination payment - Not to exceed \$6,000,000.00 - Financing: Aviation Fund

BACKGROUND

On November 1, 2016, the City of Dallas (“City”) entered into a thirty-year Lease of Land (the “Base Lease”) with DCS Aviation, LLC (“DCS”) dba Development & Construction Services, LLC, with two five-year renewal options, for approximately 91,700 square feet (2.11 acres) of land (the “Leased Premises”) at Dallas Executive Airport (the “Airport”). Pursuant to the Base Lease, DCS was required to develop and construct new aircraft hangars with vehicular parking and aircraft ramp area on the undeveloped land, which was completed in April 2019. The City collects monthly ground rent from DCS for the Leased Premises.

On July 1, 2017, the City entered into a twenty-nine year and four-month Lease of Land and Facilities (the “Lease-Back”) with DCS with two five-year renewal options, to run concurrently with the Base

Lease, whereby the City of Dallas ("City") leased back the Leased Premises with the hangar improvements constructed by DCS. The City entered into the Lease-Back in an effort to better manage aviation-related operations and provide a higher quality and standard of hangar availability at the Airport. Under the Lease-Back, the City makes monthly rent payments to DCS for both the ground and hangar improvements.

The City has since subleased all eight aircraft hangars constructed by DCS to various end-users of the facilities. While the City continues to make monthly rent payments to DCS, the City also collects rent from the sublessees for a marginal net revenue. However, over the remaining approximately thirty-three and a half years of the Base Lease and Lease-Back, including all available renewal option periods, the total net financial impact to the City is estimated to be a loss of approximately \$309,000.00, including an estimated \$13,700,000.00 of lease payments remaining to be paid to DCS over the same period. This is due to the nearly two and a half years that were required to fully sublease all eight hangars and generate revenue in the midst of COVID-19.

The City and DCS now desire to enter into a mutual termination agreement, consented to by First State Bank, as leasehold mortgagee, to terminate both the Base Lease and the Lease-Back and for the City to make a termination payment of \$6,000,000.00 to DCS. The leasehold estate under the Base Lease is subject to two leasehold mortgages granted to First State Bank as the leasehold mortgagee. The Base Lease provides that during such time as the leasehold estate is subject to a leasehold mortgage, the Base Lease may not be modified or voluntarily surrendered without the prior written consent of the leasehold mortgagee. In consideration for the leasehold mortgagee's consent to the termination agreement, the termination payment shall be remitted to DCS in two installments, the first of which, in the amount necessary to cause the release of all of First State Bank's liens on the leasehold estate(s), DCS is assigning to First State Bank, as leasehold mortgagee, as part of this transaction.

While the termination of both leases would alleviate the City of its obligation to pay DCS the remaining lease payments, DCS will also be alleviated of its obligation to pay the City approximately \$1,300,000.00 remaining over the thirty-three and a half years remaining on the lease. The City will, however, continue to collect rent from the subleases, estimated to be approximately \$12,100,000.00 over the next thirty-three and a half years. Including the termination payment, this results in an estimated total net financial impact of approximately \$6,100,000.00 in revenue to the City over the same period.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On March 23, 2016, the City Council authorized the Lease of Land by Resolution No. 16-0489.

On June 28, 2017, the City Council authorized the Lease of Land and Facilities by Resolution No. 17-1034.

FISCAL INFORMATION

Fund	FY 2023	FY 2024	Future Years
Aviation Fund	\$6,000,000.00	\$0.00	\$0.00

OWNER

DCS Aviation, LLC

Robby Rahmani, Managing Member

MAP

Attached