



T. Bert Fletcher, CPA, CGMA  
City Auditor

## HIGHLIGHTS

Highlights of City Auditor Report #1620, a report to the City Commission and City management

### WHY THIS AUDIT WAS DONE

The City of Tallahassee (City) currently leases land and facilities to 53 entities at the Tallahassee International Airport (Airport) including commercial airlines, cargo companies, rental car agencies, concessionaires, the federal government, and general aviation service providers. Several of the leasing entities (lessees) sublease Airport land/or facilities (property) to other entities (sublessees). Specifically, there are five general aviation lessees that sublease properties to eight different entities for aeronautical and non-aeronautical purposes. Additionally, there is a non-general aviation lessee that subleases property to a cargo service provider. While most of the Airport properties are leased at fair market value rates, three of the Airport properties are leased for nominal consideration (e.g., for \$1 or \$50 annually).

The scope of our audit included a review of active leases of City-owned property (land and facilities) at the Airport for which the tenants subleased some or all of the property to other entities, or for which the leases were executed for nominal consideration. The audit only addressed those leases pertaining to activities outside the main passenger terminal area.

The purpose of this audit was to determine, for the addressed leases, whether: 1) the Aviation Department maintained proper oversight over the related leasing activities, 2) the leasing activities were in the best interest of the City, 3) the City was adequately protected from exposure to risk, and 4) lease revenues due the City were reasonable and properly and timely collected.

### WHAT WE CONCLUDED

We concluded that, overall, the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which the property was leased for nominal consideration. We identified several areas for improvement related to establishing an internal leasing policy, tracking and managing leases, increasing and collecting lease revenues, executing nominal value leases, pre-approving subleases, and maintaining insurance documentation. We determined that Aviation Department management was aware of several of the noted areas prior to the start of our audit, and initiated actions to address those areas.

To view the full report, go to

<http://www.talgov.com/auditing/auditing-auditreports.aspx>

For more information, contact us by e-mail at [auditors@talgov.com](mailto:auditors@talgov.com) or by telephone at 850/891-8397.

September 6, 2016

## Audit of Selected Airport Leases

*We concluded that, overall, the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which the property was leased for nominal consideration. We identified several areas for improvement to enhance and strengthen existing leasing practices.*

### WHAT WE RECOMMENDED

To enhance and strengthen the Airport's existing leasing practices, we made the following recommendations:

- We recommend the Aviation Department continue efforts to develop a comprehensive formal leasing policy.
- To facilitate the tracking and management of Airport leases, we recommend the Aviation Department continue efforts to acquire and implement a consolidated lease management system.
- For applicable properties that have been developed by lessees, we recommend the Aviation Department, upon expiration of the existing leases, lease those properties at fair market value rates for developed property in accordance with FAA guidelines. Furthermore, the Aviation Department should determine whether it is more appropriate to allow the current lessees to continue subleasing the applicable properties or, to bypass the current lessees and establish direct leases with the current sublessees.
- We recommend the Aviation Department include provisions in its planned comprehensive leasing policy that identify criteria and circumstances in which Airport property will be leased for nominal amounts. Additionally, the rationale and justification for granting nominal value leases should be documented within applicable future lease agreements.
- For all future subleases, we recommend the Aviation Department execute Airport Use Agreements with lessees and sublessees prior to the commencement of sublease activities (except those involving T-Hangars).
- We recommend the Aviation Department enhance efforts to obtain and retain on file evidence of required insurance coverages for lessees.
- We recommend Aviation Department staff continue efforts to ensure each applicable lease contains reasonable escalation provisions.
- We recommend the Aviation Department continue to actively pursue collections for delinquent accounts. We also recommend the Aviation Department detail the escalation process for the treatment of delinquent accounts in its new formal leasing policy.

We wish to acknowledge and thank the management and staff of the Aviation Department and the Treasurer-Clerk's Risk Management Division for their cooperation and assistance during this audit.

Office of the City Auditor

# Audit of Selected Airport Leases



Report #1620  
September 6, 2016



Copies of this audit report #1620 may be obtained from the City Auditor's web site (<http://www.talgov.com/auditing/auditing-auditreports.aspx>), by telephone (850/891-8397), by FAX (850/891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

Audit conducted by:

Vanessa Spaulding, CIA, CIGA, Senior Auditor

Dennis Sutton, CPA, CIA, Audit Manager

T. Bert Fletcher, CPA, CGMA, City Auditor

## **Table of Contents**

<i>Executive Summary</i> .....	<i>1</i>
<i>Scope, Objectives, and Methodology</i> .....	<i>7</i>
<i>Background</i> .....	<i>10</i>
<i>Audit Results, Issues, and Recommendations</i> .....	<i>28</i>
<i>Conclusion</i> .....	<i>45</i>
<i>Appointed Official’s Response</i> .....	<i>45</i>
<i>Appendix A Management Action Plan</i> .....	<i>46</i>

This page intentionally left blank.

# *Audit of Selected Airport Leases*



T. Bert Fletcher, CPA, CGMA  
City Auditor

Report #1620

September 6, 2016

## *Executive Summary*

*Overall, the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which the property was leased for nominal consideration.*

*We concluded that, overall, the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some or all of the property to other entities, or for which the property was leased for nominal consideration. We identified several areas for improvement related to establishing an internal leasing policy, tracking and managing leases, increasing and collecting lease revenues, executing nominal value leases, pre-approving subleases, and maintaining insurance documentation. We determined that Aviation Department management was aware of several of the noted areas prior to the start of our audit, and has initiated appropriate measures to address those areas.*

The City of Tallahassee (City) currently leases land and facilities to 53 entities at the Tallahassee International Airport (Airport) including commercial airlines, cargo companies, rental car agencies, concessionaires, the federal government, and general aviation service providers. The general aviation tenants and subtenants leasing land and facilities at the Airport provide aeronautical services such as aircraft maintenance, flight instruction, aerial law enforcement, disaster relief, search and rescue, storage, charters, and fueling. Several general aviation tenants also sublease space to a number of other entities for both aeronautical and non-aeronautical purposes.

The scope of our audit included a review of active leases of City-owned property (land and facilities) at the Airport for which the tenants subleased some or all of the property to other entities, or for

*The scope of our audit included a review of active leases of City-owned property at the Airport for which the tenants subleased some or all of the property to other entities, or for which the leases were executed for nominal consideration.*

*We identified several areas for improvement and made recommendations that should enhance and strengthen the Airport's existing leasing practices.*

*The Aviation Department needs to complete development of a formal comprehensive leasing policy.*

which the leases were executed for nominal consideration. The audit only addressed those leases pertaining to activities outside the main passenger terminal area. Based on those parameters, our audit population included seven general aviation leases and one cargo lease. Excluded from our audit were commercial airline, car rental, parking operation, and concession leases, each of which pertained to the main passenger terminal and several of which were the subject of previous audits conducted by the Office of the City Auditor.

In regard to the leases and subleases addressed by the audit, our objectives were to determine whether: 1) the Aviation Department maintained proper oversight over the related leasing activities, 2) the leasing activities were in the best interest of the City, 3) the City was adequately protected from exposure to risk, and 4) lease revenues due the City were reasonable and properly and timely collected.

We concluded that, overall, the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which the property was leased for nominal consideration. We identified several areas for improvement related to establishing an internal leasing policy, tracking and managing leases, increasing and collecting lease revenues, executing nominal value leases, pre-approving subleases, and maintaining insurance documentation. We determined that Aviation Department management was aware of several of the noted areas prior to the start of our audit, and has initiated appropriate measures to address those areas. The specific areas and our audit recommendations are as follows:

- While the Aviation Department has a limited procedure for processing Airport leases, there is no comprehensive formal leasing policy that directly governs the administration of Airport leases. In an effort to improve the Airport's leasing practices, the Aviation Department initiated development of such a leasing policy in November 2015, prior to the start of our audit. A comprehensive formal leasing policy should enhance the Aviation Department's current leasing processes and facilitate

adherence to FAA-recommended best practices. We **recommend** the Aviation Department continue their efforts and complete and implement the needed policy.

*The Aviation Department will benefit from implementation of a consolidated lease management system.*

- The Aviation Department currently does not have a consolidated lease management system to facilitate the tracking and management of Airport leases. Currently, two Airport divisions, Commercial Development and Finance, each track and manage different aspects of Airport leases using separate Excel spreadsheets. While critical information was tracked, the use of separate Excel spreadsheets by different divisions was not always efficient. A consolidated lease management system with a centralized database would provide greater management efficiencies. We found that the Aviation Department initiated efforts, prior to the start of our audit, to acquire a new consolidated lease management system. We **recommend** those efforts be continued and an efficient and effective system be acquired and implemented.
- To recoup their cost of required capital improvements made on Airport leased properties, lessees generally charge significantly higher rates for subleased properties compared to the lease rates paid to the Aviation Department for those properties. Because of those capital improvements made since execution of the initial leases, we **recommend**, upon expiration of the current leases, that the Aviation Department execute subsequent leases of those properties at fair market value for developed property (when appropriate) in accordance with FAA guidelines. Furthermore, the Aviation Department **should** determine whether it is more appropriate to allow the current lessees to continue subleasing the applicable properties or, to bypass the current lessees and establish direct leases with the current sublessees. Currently, the Aviation Department indicated it intends to pursue execution of direct leases (when appropriate) with the current sublessees upon expiration of the applicable leases.
- Three of the Airport general aviation leases are nominal value leases where the lessees pay nothing or amounts that are

*Differences in lease and sublease rates were justified; the Aviation Department should execute future leases at fair market value for developed properties.*



*The Aviation Department should specify the criteria and circumstances in which Airport property may be leased for nominal amounts.*

*All Airport subleases should be pre-approved by the Aviation Department.*

*Required insurance coverages were maintained; enhancements to adequately document those coverages are needed.*

significantly less than market value. Those three leases were executed with Lively Technical Center, Florida Department of Management Services, and the Florida Wing of the Civil Air Patrol. Two of those leases were initially executed in 1967 and 1975. We recognize there are circumstances in which execution of nominal value leases may be appropriate. To provide clarity on this matter and to ensure fair and equitable treatment of lessees, we **recommend** the Aviation Department include provisions in its planned comprehensive leasing policy that identify criteria and circumstances in which Airport property will be leased for nominal amounts. Additionally, the rationale and justification for granting nominal value leases **should** be documented within applicable future lease agreements.

- While we noted subleases were generally pre-approved by the Aviation Department, we found that, contrary to the Airport's Minimum Standards, the Aviation Department did not document its pre-approval in the form of an Airport Use Agreement for three subleases. Airport Use Agreements were executed subsequent to the commencement of sublease activities for two of those three subleases. No Airport Use Agreement has been executed for the other sublease. For all future subleases, we **recommend** the Aviation Department execute Airport Use Agreements with lessees and sublessees prior to the commencement of sublease activities (except those involving T-Hangars).
- With the exception of one lease, evidence was available showing that lessees maintained required insurance coverages. For the one lease, the Aviation Department subsequently obtained and provided evidence of the required insurance coverages from the applicable lessee in response to our audit inquiry. We also noted that insurance documentation was not always timely routed to the Airport from City Hall or timely uploaded to OnBase (City's electronic records management system), thereby making it sometimes difficult for Aviation Department staff to ascertain that current insurance coverages

were maintained. To help ensure the City is adequately and reasonably protected from liabilities arising from lessee activities, efforts **should** be enhanced to obtain and retain on file evidence of required coverages.

*Adequate rate escalations were generally applied.*

- In accordance with FAA-recommended practices, all but one of the applicable leases contained adequate and appropriate lease rate escalation provisions that were correctly applied by Aviation Department staff. For the one lease, rate escalation provisions were not adequate, as those provisions provided for no escalation in the last years of the lease. Although this is an isolated occurrence, our audit calculations show an additional \$6,000 of lease revenues may have been earned by the Aviation Department if the lease provided for more frequent rate escalations. We **recommend** Aviation Department staff continue efforts to ensure each applicable lease contains reasonable escalation provisions.
- One of the Airport's general aviation tenants is delinquent in making lease payments to the City. We acknowledge the Aviation Department has taken appropriate measures to actively collect overdue lease payments from the lessee. We commend these efforts and **recommend** that the Aviation Department continue to actively pursue collections for delinquent accounts. We also **recommend** the Aviation Department detail the escalation process for the treatment of delinquent accounts in its new formal leasing policy. The policy should include timelines for sending delinquent notices to lessees, terms and criteria for the application of late fees and interest, and criteria regarding when to begin the process to terminate contracts for non-payment.

*The Aviation Department is taking appropriate actions regarding a delinquent account.*

*The Aviation Department has already initiated actions to address many of the issues identified in our audit.*

The Aviation Department has already initiated actions to address many of the issues identified in our audit. We wish to acknowledge and thank the management and staff of the Aviation Department and the Treasurer-Clerk's Risk Management Division for their cooperation and assistance during this audit.

This page intentionally left blank.

# *Audit of Selected Airport Leases*



T. Bert Fletcher, CPA, CGMA  
City Auditor

Report #1620

September 6, 2016

## *Scope, Objectives, and Methodology*

*Our audit addressed active leases of City-owned property at the Airport for which the tenants subleased some or all of the property to other entities, or for which leases were executed for nominal consideration.*

*Our audit objectives included determining whether the Aviation Department properly managed applicable leases and collected related revenues.*

The scope of our audit included a review of active leases of City-owned property (land and facilities) at the Airport for which the tenants subleased some or all of the property to other entities, or for which the leases were executed for nominal consideration. The audit only addressed those leases pertaining to activities outside the main passenger terminal area. Based on those parameters, our audit population included seven general aviation leases and one cargo lease. Annual lease revenues for those seven leases totaled approximately \$332,416. Excluded from our audit were commercial airline, car rental, parking operation, and concession leases, each of which pertained to the main passenger terminal and several of which were the subject of previous audits conducted by the Office of the City Auditor.

In regard to the leases and subleases addressed by this audit, our objectives were to determine whether: 1) the Aviation Department maintained proper oversight over the related leasing activities, 2) the leasing activities were in the best interest of the City, 3) the City was adequately protected from exposure to risk, and 4) lease revenues due the City were reasonable and properly and timely collected.

To satisfy these objectives, we performed various audit procedures including, but not limited to:

- Identifying and reviewing the policies and procedures governing the Aviation Department's leasing activities, to include the City's Real Estate Policy and applicable departmental policies and procedures.

- Interviewing Aviation Department staff to obtain an understanding of Airport leasing practices, to include the process used to track and manage leases and subleases.
- Obtaining and reviewing Airport property maps, conducting a site visit of general aviation leased properties, and contacting the Airport's general aviation tenants for the purpose of identifying the population of aviation leases and subleases and evaluating the completeness of the Aviation Department's current lease and sublease records.
- Identifying and reviewing authoritative guidance and best practices from the Federal Aviation Administration (FAA).
- Obtaining lease and sublease agreements executed by the Airport from the Aviation Department and the City's electronic records management system (OnBase); examining the substance of those agreements to determine whether they are standardized to the greatest extent practicable and contain appropriate terms and conditions in accordance with FAA-recommended best practices.
- Reviewing lease agreements to determine whether they were authorized, approved, and executed by the proper City authorities consistent with the City's Real Estate Policy and departmental policies and procedures.
- Reviewing lease agreements to determine if lessees were required to obtain prior approval from the Airport to sublease property; if required, reviewing subleases to determine if the Aviation Department pre-approved those subleases.
- Interviewing staff in the Risk Management Division of the Treasurer-Clerk's Office (Risk Management) to obtain an understanding of the review and approval process for insurance requirements relating to Airport leases.
- Obtaining and reviewing insurance-related documentation (e.g., certificates of insurance, approval correspondence) for each lease to determine whether insurance coverage requirements were reviewed and approved by Risk Management and whether

*We performed various audit procedures to satisfy the audit objectives.*

those requirements are substantiated by current insurance certificates.

- Making inquiries of staff in the City's Real Estate Department and Aviation Department regarding the nature and frequency of market studies (real estate appraisals) of leased Airport property; also reviewing available appraisals obtained by the Aviation Department.
- Reviewing lease agreements and associated lease summaries obtained from the Aviation Department to identify the lease rates for the purpose of determining the adequacy of lease rates in comparison to appraisals and/or other leases and fair value determinations.
- Reviewing guidance from the FAA to evaluate whether the lease agreements provided for reasonable escalation of lease rates.
- Obtaining sublease agreements executed between lessees and sublessees from the Aviation Department or general aviation tenants/subtenants; reviewing those sublease agreements to determine if sublease rates were comparable to market studies and lease rates charged by the City for the same property.
- Obtaining and reviewing Airport Finance and Administration Division and City Accounting Department records (e.g., invoices, lease summaries, accounts receivable detail reports) to determine whether proper amounts due per the lease agreements were timely billed and collected, escalation provisions were properly and timely applied, and collection efforts for delinquent accounts were appropriate.
- Obtaining and reviewing Aviation Department records and lease agreements to determine whether the term for each lease was still valid (i.e., not in holdover status after the end of the lease term and any authorized extensions); for any leases in holdover status, we determined whether the holdover was authorized and approved by appropriate management.
- Interviewing Airport staff and obtaining and reviewing inspection records to determine whether the Aviation

*Audit procedures included interviews, record reviews, site visits, and appropriate testing.*

Department adequately monitors and inspects leased properties to ensure lessees properly maintain and preserve the leased properties as required by the governing lease agreement or policies.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

## ***Background***

### **Airport History**

In 1929, the City of Tallahassee (City) opened its first municipal airport, Dale Mabry Field, which had only a single grass landing strip. A decade later, the U.S. Army established a fighter pilot training school at this location and developed three runways to serve its needs. Dale Mabry Field continued to operate as the City's municipal airport until the site was abandoned in 1961. On April 23, 1961, a new facility was completed at a different location and was named Tallahassee Municipal Airport. This site was used and expanded to meet the growing transportation needs of the region through the late 1980s. Adjacent to the Tallahassee Municipal Airport, the City opened Tallahassee Regional Airport, the existing airline terminal, on December 3, 1989. To honor a Tallahassee aviation pioneer, the terminal was named the Ivan Munroe Terminal on February 20, 2000. On June 29, 2015, Tallahassee Regional Airport was renamed Tallahassee International Airport after the Federal Aviation Administration (FAA) approved the international designation.

*On June 29, 2015,  
Tallahassee Regional  
Airport was renamed  
Tallahassee International  
Airport after the FAA  
approved the international  
designation.*

## Commercial Aviation

*Tallahassee International Airport is one of four major airports in North Florida.*

Tallahassee International Airport (Airport), the City-owned public airport, is one of four commercial service airports in the Florida Panhandle, the others being Pensacola International Airport, Northwest Florida Beaches International Airport, and Destin-Fort Walton Beach Airport. The Airport offers non-stop flights to Atlanta, Charlotte, Dallas-Fort Worth, Ft. Lauderdale, Miami, Orlando, and Tampa. American Airlines, Delta Air Lines, and Silver Airways are the three major carriers providing passenger service at the Airport. The Aviation Department reports that the Airport accounts for 32% of air passenger travel in Northwest Florida, and provides service to a total market of more than 1.4 million people throughout Tallahassee, 11 neighboring Florida counties, and 12 counties in southern Georgia. In calendar year 2015, the total number of enplanements and deplanements at the Airport was 346,926 and 345,798, respectively. Operating a dedicated air cargo facility, the Airport is also home to two air freight carriers including FedEx and Delta Cargo. In addition to commercial passenger and freight service, the Airport also provides general aviation services.

*The Airport provides general aviation services in addition to commercial passenger and freight service.*

## General Aviation

General aviation is the operation of aircraft for purposes other than commercial passenger or freight transport, and includes recreational, business, and instructional flying. The Airport's general aviation market consists of corporate-owned, military-owned, and private-owned aircraft. Approximately 136 general aviation aircraft are based at the Airport, and the public apron can accommodate an additional 77 aircraft. The vast majority (73%) of general aviation aircraft based at the Airport are single-engine planes operated by individuals, with the remainder comprised of military-owned aircraft and corporate multi-engine planes and jets. According to the Aviation Department, the Airport averages 176 flights per day, most attributable to general aviation. Through leases with the Aviation Department and related subleases, a number of companies and governmental entities provide a wide array of general aviation

*General aviation is the operation of aircraft for purposes other than commercial passenger or freight transport, and includes recreational, business, and instructional flying.*



*Support of private and business aircraft operations at the Airport is largely provided by two general aviation service providers, Flightline Group, Inc. and Million Air Tallahassee.*

*The Aviation Department consists of six divisions headed by the Director of Aviation.*

*The Commercial Development Division manages the Airport's commercial tenants.*

*The Finance and Administration Division provides financial management of Airport leases.*

services at the Airport to include flight instruction; charter services; aerial law enforcement; aerial surveying and photography; emergency preparedness and response (e.g., search and rescue, aerial firefighting support, and disaster relief); and aircraft fueling, maintenance, hangar storage, tie-down (storage), and parking. Support of private and business aircraft operations at the Airport is largely provided by two general aviation service providers, Flightline Group, Inc. and Million Air Tallahassee, each of which leases land and facilities from the Aviation Department.

### **Airport Management**

Headed by the Director of Aviation, the Aviation Department consists of six divisions: the Executive Division; Commercial Development Division; Finance and Administration Division; Facilities Management Division; Operations and Security Division, and Capital Programs Administration Division. Within these divisions, there are 55 full-time employees who support the Airport's operations. The six divisions are described below:

- The **Executive Division** is responsible for managing the Airport and provides overall direction and guidance to all Divisions within the Aviation Department. The Executive Division is responsible for monitoring and responding to federal, state, and local regulatory requirements. The Division is also responsible for strategic planning and managing media and community relations.
- The **Commercial Development Division** (Commercial Development) manages the Airport's commercial tenants including terminal concessions, rental car agencies, airlines, general aviation, and others. The Division is responsible for business development, contract solicitation and development, contract management, and tenant monitoring and compliance. The Division is also responsible for the administration of internal and external customer service programs.
- The **Finance and Administration Division** (Finance) provides financial and administrative services at all levels of the Aviation

Department, with responsibilities including accounting, human resources, and organizational development and training.

- The **Facilities Management Division** provides facilities maintenance, electrical, and janitorial services for all real properties for the Aviation Department. The Division is responsible for landscape and roadway maintenance, building code compliance, and structural maintenance, repair, and inspection. The Division is also responsible for projects relating to the Airport's sustainability initiatives.
- The **Operations and Security Division (Operations)** is responsible for managing regulatory compliance with agencies including the Federal Aviation Administration, Transportation Security Administration, Federal Bureau of Investigations, and Department of Homeland Security. The Division is also responsible for managing the operations, security, and information technology for the Aviation Department. In addition, the Division provides oversight for landside and airside operations, training and safety compliance, and police and fire rescue operations.
- The **Capital Programs Administration Division** is responsible for the daily oversight of construction contracts and provides engineering management support to the Aviation Department.

*The Airport Advisory Committee serves in an advisory capacity to the City Commission and the Aviation Department.*

Additionally, the Airport Advisory Committee serves in a consultative capacity to the City Commission and the Aviation Department. The committee is comprised of 18 members recommended by the Mayor and appointed by the City Commission. The committee advises the City and the Airport on issues related to the operation and promotion of the Airport, as well as economic development activities and opportunities.

## Airport Leases and Related Subleases

*The City leases both terminal and non-terminal property to a variety of entities including commercial airlines, cargo companies, rental car agencies, the federal government, concessionaires, and general aviation service providers.*

A lease, as defined by the FAA, is an agreement whereby the owner of real property gives the right of possession to another entity for a specified period of time and for a specified consideration, or rent. Currently, the City leases space to 53 entities at the Airport. The City leases both terminal and non-terminal property to a variety of entities including commercial airlines, cargo companies, rental car agencies, concessionaires, the federal government, and general aviation service providers. The lease arrangements executed between the City (lessor) and the tenants who lease property directly from the City (lessees) are known as prime leases. Lessees are contractually bound by prime lease agreements. Those prime leases govern the activities of the lessee and control all subsequent leases (subleases).

*Five of the Airport's 12 active leases executed between the Aviation Department and general aviation providers included subleases.*

As previously addressed, the scope of our audit included a review of the leasing activity of all airport tenants outside of the passenger terminal area that also sublease property to another entity. Leases meeting those parameters pertained to general aviation and cargo services. In regard to general aviation services, there are currently 12 active leases executed between the Aviation Department and six commercial entities (one entity executed multiple leases). Five of those 12 leases included subleases. Those five leases (with subleases) were executed with three different entities. A total of eight subleases were executed in connection with those five leases. Regarding cargo services, there are currently two active leases executed between the Aviation Department and two entities (TAC Tallahassee and Delta Cargo). For one of those leases, the lessee subleased the property to another entity that provides the cargo services (FedEx).

The general aviation and cargo services leases with related subleases are shown in **Table 1** below.

<b>Table 1</b> <b>Summary of Leases with Subleases</b>		
No.	Prime Lessee	Sublessee
<b>General Aviation Leases</b>		
1.	Flightline (multiple associated companies under Flightline) <i>(Note 1)</i>	1. Tallahassee Helicopters
		2. Enterprise Leasing Company
		3. Florida Fish and Wildlife Conservation Commission
		4. U.S. Forest Service
2.	Million Air Tallahassee	5. Florida Aviation Center
		6. Interim Solutions for Government (FAA weather station)
		7. Aeronautical Decision Making, Inc.
3.	Lively Technical Center	8. Leon County Sheriff's Office
<b>Cargo Service Leases</b>		
1.	TAC Tallahassee	1. FedEx
<i>Note 1: There are three prime lease agreements associated with these 4 subleases; see Table 2 below.</i>		

**Table 2** that follows provides additional detail on the leases and subleases addressed in **Table 1** above.

<b>Table 2 Detailed Description of Leases with Subleases</b>			
No.	Prime Lessee <i>(Lease Activities)</i>	Sublessee	
		Company	Sublease Description and Activities
<b>General Aviation Leases</b>			
1.	Flightline Development Corporation <i>(Lease to develop "Compass Pointe" facility and area)</i>	1. Tallahassee Helicopters	Office space and property to provide helicopter rental, flight training, aerial photography, tours, surveying, etc.
		2. Enterprise Leasing Company	Office space and property for car rental services.
2.	Flightline Development Corporation <i>(Lease to provide hangars for aircraft)</i>	3. Florida Fish and Wildlife Conservation Commission	Hangar space for storage and maintenance of fixed wing aircraft used in provision of patrol and investigative law enforcement services.
3.	Flightline Group, Inc. <i>(Lease of facility for aircraft maintenance; however entire facility subsequently subleased as noted)</i>	4. U.S. Forest Service	Exclusive use of facility (offices and hangar) for U.S. Forest Service purposes.
4.	Tallahassee Aviation Partners, LLC, d/b/a Million Air Tallahassee <i>(Lease to provide fueling and facilities for other general aviation services)</i>	5. Florida Aviation Center	Office space and property to operate a flight instruction school.
		6. Interim Solutions for Government (FAA weather station)	Office space to staff the FAA weather observation office.
		7. Aeronautical Decision Making, Inc.	Office space and property to operate a flight instruction school.
5.	Lively Technical Center <i>(Lease to operate an aircraft maintenance educational program)</i>	8. Leon County Sheriff's Office	Hangar and property for operation of the Leon County Sheriff's Office aerial law enforcement unit.
<b>Cargo Service Leases</b>			
1.	TAC Tallahassee <i>(Lease of land to construct a cargo service facility)</i>	1. FedEx	Facility to operate commercial cargo services.

Additional information on the lessees included in **Tables 1 and 2** is provided in the following paragraphs.

*Flightline*

*Flightline is a prominent tenant at the Airport, with leases comprising over half of all general aviation leases.*

Flightline Group, Inc. (Flightline) is a prominent tenant at the Airport, with leases comprising over half of all general aviation leases. Flightline currently leases over 800,000 square feet (SF) of property from the City. Flightline is considered a SASO, or Specialized Aviation Service Operator. A SASO, according to the FAA, is a single-service provider that offers specialized aeronautical services such as aircraft sales, flight training, or aircraft maintenance, exclusive of the sale of fuel. Headquartered in Tallahassee, Florida, Flightline is a group of companies serving the southeast region of the country that specializes in a wide spectrum of aviation services including aircraft sales; parts sales; aircraft maintenance; avionics installation, repair and testing; aviation consulting; and land and facility management and development.

*In addition to its aircraft sales and service businesses, Flightline's portfolio of companies includes Flightline Development Corporation, a company focused on airport development.*

In addition to its aircraft sales and service businesses, Flightline's portfolio of companies includes Flightline Development Corporation (FDC), a company focused on airport development. FDC specializes in the planning, design, construction, and management of general aviation facilities. The company has developed, for sublease, two sizeable areas at the airport, Compass Pointe and the T-Hangar Complex.

The site of the previous airline passenger terminal building, Compass Pointe is now an office complex that houses executive offices and other airport businesses, with over 24,000 square feet of build-to-suit space available for lease. Situated on 6.5 acres, the T-Hangar Complex houses 65 T-Hangars, eight bulk hangars, and 78 aircraft tie-downs which may be leased by private aircraft owners and businesses. See Image 1 that follows for a picture of the Flightline T-Hangar Complex located at the Airport.

**Image 1: Aerial Photo of the Flightline T-Hangar Complex**

### *Million Air Tallahassee*

*Million Air Tallahassee is an FBO, or Fixed Base Operator, supporting the operations of both itinerant aircraft and aircraft based at the Airport.*

*An FBO provides fuel service in addition to one or more aviation-related services such as aircraft storage, flight instruction, aircraft maintenance, charter operations, aerial photography, and aircraft sales.*

Another highly visible general aviation tenant at the Airport is Tallahassee Aviation Partners d/b/a Million Air Tallahassee. One of 24 “Million Air” operations around the country, Million Air Tallahassee (Million Air) is considered a “Fixed Base Operator” (FBO) supporting the operations of both itinerant aircraft and aircraft based at the Airport. FBOs differ from SASOs in that they provide fuel service in addition to one or more aviation-related services such as aircraft storage (hanging), flight instruction, aircraft maintenance, charter operations, aerial photography, and aircraft sales. According to the FAA, FBOs represent an area of significant interest to an airport because of the full complement of services FBOs provide to airport customers. In return for these services, airports grant FBOs the right to sell fuel. Million Air Tallahassee is an FBO that offers amenities to include a pilot’s lounge, weather planning room, meeting space, catering, car rental, and sleeping quarters. See Image 2 that follows for a picture of the Million Air Tallahassee FBO located at the Airport.

**Image 2: Million Air Tallahassee FBO**

### *Lively Technical Center*

*Lively Technical Center leases approximately six acres of land from the City for the operation of an aviation maintenance education program.*

Lively Technical Center (formerly the Board of Public Instruction of Leon County) leases approximately six acres of land from the City for the operation of an aviation maintenance education program. The initial lease was executed in 1967 for a term of 25 years (1967 through 1992), and was subsequently renewed for an additional 25-year period (1992 through 2017).

### *TAC Tallahassee*

*In 2008, TAC Tallahassee leased land from the City to construct a cargo facility to accommodate FedEx Corporation.*

TAC Tallahassee, a real estate development company, is a division of Titan Development and Investments of Rochester, Minnesota. In 2008, TAC Tallahassee leased land (approximately 142,000 square feet) from the City for the purpose of constructing a cargo facility (i.e., cargo building and parking area) to accommodate FedEx Corporation, a global shipping company. TAC Tallahassee entered into the lease with the City for a period 20 years, a lease which expires in 2028 and is renewable for three additional five-year periods and one additional six-year period (at the option of TAC Tallahassee).



### Nominal Value Leases

*Nominal value leases are leases in which lessees pay nothing or amounts that are significantly less than market value.*

*The Airport's three general aviation nominal value leases are with the Lively Technical Center, Florida Department of Management Services, and Florida Wing of the Civil Air Patrol.*

In addition to leases with related subleases, the scope of our audit addressed leases executed by the Aviation Department for nominal consideration. Three of the Airport general aviation leases are nominal value leases where the lessees pay nothing or amounts that are significantly less than market value. Those three leases were executed with Lively Technical Center, Florida Department of Management Services, and the Florida Wing of the Civil Air Patrol.

The lease with Lively Technical Center (described above) was executed in 1967 for a 25-year term for a one-time charge of \$1. Lively Technical Center (Lively) uses the facility to operate an aviation maintenance education program. The lease was renewed for an additional 25 years with an expiration date of July 2017. Lively subleases, at no charge, a portion of the leased property to the Leon County Sheriff's Office (LCSO), which uses the subleased property in the conduct of aerial law enforcement operations.

The second nominal lease is with the Florida Department of Management Services (FDMS), which executed an initial 25-year lease in 1975 for a one-time charge of \$1, which was renewed in 2000 for an additional 25 years. FDMS uses the leased property in the operation of aircraft included in the State of Florida Motor Pool.

The third nominal lease was executed in January 2016 with the Florida Wing of the Civil Air Patrol, which is a nonprofit organization that provides support for air search and rescue operations, disaster relief, emergency services, aerospace education, and youth aviation programs. The lease term is five years with lease charges of \$50 annually.

**Table 3** that follows provides a summary of those three leases.

<b>Table 3 General Aviation Nominal Value Leases</b>			
<b>Lessee</b>	<b>Initial Lease Start Date</b>	<b>Current Lease Expiration Date</b>	<b>Nominal Lease Rate</b>
Lively Technical Center <i>(Note 1)</i>	July 1967	July 2017	One-time consideration of \$1
Florida Department of Management Services	January 1975	December 2024	One-time consideration of \$1
Florida Wing, Civil Air Patrol	January 2016	December 2020	Annual lease rate of \$50
<i>Note 1: Lively Technical Center subleases, at no charge, a portion of the property to the Leon County Sheriff's Office for aerial law enforcement operations.</i>			

**Lease Administration**

*Airport leases are initiated, negotiated, and managed by the Aviation Department.*

Pursuant to City Commission Policy 136 – Real Estate Policy, requests to lease City-owned real property are processed by the City Real Estate Department’s Property Management Division, with the exception of aviation leases, community center leases, dark fiber leases, and joint use pole agreements. Aviation leases are initiated, negotiated, managed, and billed by the Aviation Department. Several divisions within the Aviation Department have integral roles in the administration of the Airport’s leases.

*Both the Aviation Department’s Finance and Commercial Development Divisions play key roles in administering Airport leases.*

The Aviation Department’s Finance and Administration Division (Finance) provides the financial management of the leases while the Commercial Development Division (Commercial Development) is responsible for the negotiation of leases and the day-to-day administration of the Airport’s commercial tenants (e.g., lease development, tenant relations, and compliance monitoring). In August 2015, Commercial Development added a new position, Airport Properties and Concessions Coordinator, to assist with the management of commercial tenants. The Operations Division has a large role in the monitoring of leased properties at the Airport. In addition to annual facility site visits by Commercial Development, Operations Division staff conduct routine inspections of Airport property, which consist of perimeter checks and a surveillance of all properties multiple times a day.

*FAA guidance, City policies and procedures, and the lease agreements govern the administration of Airport leases.*

Commercial Development management informed us that, while there is a limited procedure for processing Airport leases, there is currently no single, comprehensive leasing policy used by the Aviation Department to guide the Airport's lease management practices. (As described in greater detail in the sections that follow, Commercial Development is in the early stages of developing a formal leasing policy.) Rather, FAA guidance, other City policies and procedures, and the lease agreements themselves govern the administration of Airport leases. Aviation Department staff routinely reference a collection of authoritative resources to include, for example, (1) federal guidance such as the FAA Airport Compliance Manual, FAA-sponsored Airport Cooperative Research Program reports, and the Code of Federal Regulations; and (2) City policies and procedures to include City Airport Rules and Regulations, City Airport Minimum Standards for Airport Aeronautical Service and Aeronautical Activity Providers, and City Real Estate Policy 136.

*The highest and broadest authority addressing the administration of Airport leases is the FAA.*

The highest and broadest authority addressing the administration of the Airport's leases is the FAA. Created in 1958, the FAA is part of the United States Department of Transportation and is ultimately responsible for regulating civil aviation to promote safety. The Aviation Department relies heavily on the FAA Airport Compliance Manual – Order 5190.6B, a handbook that provides guidance to FAA personnel in interpreting and administering the various continuing commitments airport owners (sponsors) make to the United States as a condition for the granting of federal funds or the conveyance of federal property for airport purposes. In general, the FAA provides guidance on leasing policy, lease management systems, elements and substance of lease agreements, lease rates, etc. The specific provisions applicable to this audit are addressed in subsequent sections of this report.

In addition to FAA authoritative guidance, the Aviation Department is also governed by City policies and procedures. One such policy is City Commission Policy 136 – Real Estate Policy, last revised September 1, 2010, which governs the delegation of authority for all

conveyances of any interest in real property concerning the City, including leases to others of real property owned by the City. As previously noted, this policy does not directly govern aviation leases; however, the Aviation Department uses the policy for guidance in contract negotiations (e.g., Requests for Proposals, Requests for Quotes) and lease administration.

*The Aviation Department utilizes three types of general aviation lease agreements which include prime lease agreements, Airport Use Agreements, and sublease agreements.*

Airport lease agreements also provide criteria used to manage each lease. These leases are written, negotiated, contractual agreements between the City and another entity which are enforceable by law and authorize the conduct of certain aeronautical and non-aeronautical services or activities on Airport property. Airport tenants enter into several types of agreements which detail the contractual obligations between the City, a lessee and, when applicable, a sublessee. Specifically, the Aviation Department utilizes three types of general aviation lease agreements which include prime lease agreements, Airport Use Agreements, and sublease agreements.

#### *Prime Lease Agreements*

*A prime lease agreement requires lessees to comply with all applicable laws, ordinances, rules, and regulations of the federal, state, county, and municipal governments, in addition to the Airport Rules and Regulations and Minimum Standards.*

A prime lease agreement is the contractual arrangement between the City and a lessee. The agreement contains language which requires the lessee to comply with all applicable laws, ordinances, rules, and regulations of the federal, state, county, and municipal governments, in addition to the Airport Rules and Regulations (Rules and Regulations) and the Minimum Standards for Airport Aeronautical Service and Aeronautical Activity Providers (Minimum Standards) as adopted by the City. The Rules and Regulations are the standards applicable to all users of the Airport designed to promote the safe and efficient operation of the Airport by codifying safety and security measures within the widest range of aeronautical activities and services to the general public. Intended to supplement the Rules and Regulations, the Minimum Standards encompass the threshold requirements that must be met by businesses engaged in aeronautical activities or services at the Airport. The lease agreements typically include lease elements standard to airport agreements including an identification of the lessor and lessee, a

description of the leased premises, approved use of the premises, lease term (i.e., length of lease including the commencement date, expiration date, and any extension options), rent, a rent escalation clause, responsibility for leasehold maintenance, process for leasehold improvements, reversion of ownership, inspection, insurance obligations, indemnity clause, and rights of the lessee to sublease. Lease agreements from commercial operations such as an FBO or SASO may include lease elements beyond the standard core lease elements. For example, the added complexity of an FBO may require elements that include more stringent insurance requirements or revenue-sharing arrangements.

#### *Airport Use Agreements*

*The Use Agreement is the Airport's vehicle for formally approving a sublease.*

The Airport Use Agreement (Use Agreement) is a three-party contract between the City, a lessee, and a sublessee. Commercial Development informed us the Use Agreement is the Airport's vehicle generally used for formally approving a sublease. Additionally, the Use Agreement outlines the authorized uses of the subleased premises and requires the sublessee to comply with the Rules and Regulations, federal grant assurances (if applicable), and other obligations as appropriate. Though the FAA does not require airports to enter into Use Agreements, the Airport enters into such agreements to mitigate risk since prime lease agreements and the Minimum Standards require the Airport's advance approval for most subleases. (The Minimum Standards provide that no activity may operate at the Airport without an Agreement from the Director of Aviation.) According to Aviation Department management, utilization of Use Agreements is predicated on the fact that the consent of the City is required before a tenant can sublease any portion of their space to another entity.

*The sublease agreement is the contractual arrangement between a lessee and a sublessee that is subject and subordinate to the provisions of the prime lease agreement.*

#### *Sublease Agreements*

A sublease agreement is the contractual arrangement entered into by a lessee and a sublessee that details the specific terms and conditions for subleased property. The sublease agreement is subject to and subordinate to the provisions of the prime lease agreement between the City and the prime lessee.

## Lease Rates

*To establish the fair market value of Airport properties, the Aviation Department periodically obtains real estate appraisals from qualified professionals.*

To establish the fair market value of Airport property, the Aviation Department (1) periodically obtains real estate appraisals from qualified professionals or (2) values the property based on comparisons to similar land or facilities. The assessed value of the property is then used as the basis for negotiating the lease rates for direct leases of City property (except for nominal value leases as described on pages 20 and 21 of this report). The lease rates for land, facilities, and hangars are calculated on a square foot (SF) per year basis (“SF lease rate”). The SF lease rate(s) are included in a rental and fees provision within each prime lease agreement. Current lease rates for airport tenants are also published in the Airport’s Schedule of Rates and Charges.

Nine of the 12 general aviation leases, and the one cargo services lease (TAC Tallahassee) reviewed as part of this audit, are long-term leases with initial terms ranging from 20 to 50 years. Long lease terms afford tenants certainty for business planning purposes and an opportunity to recover any significant capital investments made to improve the property. Given the long-term nature of general aviation leases, Commercial Development informed us there is no predetermined schedule for obtaining appraisals of Airport property. As such, appraisals are requested only on an as-needed basis, typically when new leases are being negotiated or prior to the renewal of an existing lease.

*The most recent appraisal of Airport property was completed in October 2015.*

The most recent appraisal of Airport property was completed in October 2015 by Cureton-Johnson & Associates, LLC. The purpose of the appraisal was to estimate the fair market ground and building rent for various aeronautical and non-aeronautical parcels at the Airport. The appraisal included an estimation of the value of 900 undeveloped acres of land as well as the land and building used by the Lively Technical Center and Leon County Sheriff’s Office. The appraiser’s determination of market lease rates was primarily based on a comparison of the subject Airport property with similar properties within the competitive market area.

*The FAA recognizes it may not be reasonable to expect airport sponsors to request annual reappraisals of airport property given the relatively high cost to administer them.*

*Escalation clauses are standard provisions in Airport lease agreements that provide for fixed periodic increases in lease rates.*

According to FAA guidance, the airport sponsor (i.e., the City) is responsible for establishing the valuation of airport property and should be mindful of the risk of undervaluation, particularly if existing leases do not contain an appropriate escalation clause. Appraisals are used for that purpose. Although annual reappraisals of airport property are ideal, the FAA recognizes it may not be reasonable to expect airport sponsors to request appraisals on such a frequent basis given the relatively high cost to administer them. (The cost of the Airport's most recent appraisal, the Cureton-Johnson appraisal described above, totaled nearly \$8,200.) Alternatively, a more practicable and common approach recommended by the FAA is to include rate escalation provisions in lease agreements that provide for standard rent increases on a periodic basis, with the escalation tied to one or more of the consumer price indices set by the U.S. Department of Labor.

Consistent with FAA best practices, the Airport incorporates an escalation clause for the lease rates for most leases (excluding nominal value leases) to help ensure a reasonable lease rate over the life of the leases and to keep pace with inflation. Those escalation clauses provide for a fixed periodic increase in the lease rate that is tied to the inflation-based Consumer Price Index (CPI) established by the U.S. Department of Labor. The lease rate adjustment is equal to the percentage change in CPI as provided for in the lease agreement. Typically, each lease agreement also includes, as an exhibit, a lease summary which details the frequency and methodology by which CPI adjustments are to be applied. The Aviation Department's lease summaries generally provide a calculation of the total monthly lease payment, including a breakdown of the lease rate by property type (e.g., hangar, ramp, wash rack). CPI adjustments for the Airport's leases are typically applied every three years.

## Formal Leasing Policy & Lease Management System

*Commercial Development informed us they initiated development of a formal leasing policy in November 2015.*

Commercial Development informed us they began working to develop a formal leasing policy for the Airport in November 2015, prior to the start of our audit. The process of developing the policy includes combining, updating, and refining various resources (previously described) into one comprehensive, formalized leasing policy. In addition to incorporating aviation industry best practices, Aviation Department management intends for the new policy to capture both City requirements and FAA regulations for aeronautical, non-aeronautical, and concession activities. Additionally, Commercial Development informed us they are collaborating with a consultant to help rewrite the Airport's guiding documents (i.e., Rules and Regulations and Minimum Standards).

*To facilitate the administration of Airport leases, the Aviation Department expects to issue a Request for Proposal for a lease management system in 2017, budget permitting.*

In addition to the development of a formal leasing policy, Commercial Development informed us that, prior to the commencement of the audit, they initiated plans to procure a lease management system. To facilitate the administration of Airport leases, the Aviation Department expects to issue a Request for Proposal for a lease management system in 2017, budget permitting. The lease management system will be utilized by multiple divisions within the Aviation Department, to include Commercial Development, Finance, Operations, and Facilities Management.

## Risk Management

*The Airport's Minimum Standards require lessees to maintain insurance to properly protect them and the City from risk exposures.*

The Airport's Minimum Standards require lessees to maintain insurance covering them against claims or judgments arising from their activities, with the insurance extended to protect the City from exposure to those risks. Each lease agreement contains an insurance provision which details the specific types and levels of insurance that a lessee must maintain. The Minimum Standards also include a matrix of the required insurance coverage for each type of aeronautical service and activity provider (e.g., FBO, SASO). Some of the required insurance types, largely aviation-specific coverage, include Hangar Keeper's Liability, Comprehensive Airport Liability, Aircraft Liability, and Environmental Impairment Liability



*The City's real estate policy requires the Risk Management Division to review leases for the adequacy of insurance coverage.*

insurance. Worker's Compensation and Employer's Liability insurance are also required.

City Commission Policy 136 – Real Estate Policy requires that the Treasurer-Clerk's Risk Management Division review leases for the adequacy of insurance coverage and other provisions needed to protect the City's exposure to risk. The Risk Management Administrator is responsible for determining the adequacy of insurance coverage for all leases, including Airport leases. To make these determinations, the Risk Management Administrator reviews proposed lease agreements for the adequacy of required insurance coverages and compares the required insurance coverage (e.g., types, limits) as provided in the lease agreements with the current insurance certificates. If the insurance coverages are adequate and met, the Risk Management Administrator documents that determination in an e-mail to the Treasurer-Clerk's Office, Records Management Division, to be uploaded to OnBase (City's electronic records management system).

## ***Audit Results, Issues, and Recommendations***

*Overall, we concluded the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased property to other entities, or for which the property was leased for nominal consideration.*

Our audit consisted of a review of Airport leasing practices. We performed various audit procedures to answer the following questions:

- Did the Aviation Department maintain proper oversight over the Airport's leasing activities?
- Were the Airport's leasing activities in the best interest of the City?
- Was the City adequately protected from exposure to risk?
- Were lease revenues due the City reasonable and properly and timely collected?

We concluded that, overall, the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some or all of the property to other entities, or for which the property was leased for nominal consideration. We identified several areas for improvement related to establishing an

internal leasing policy, tracking and managing leases, increasing and collecting lease revenues, executing nominal value leases, pre-approving subleases, and maintaining insurance documentation. We determined that Aviation Department management was aware of several of the noted areas prior to the start of our audit, and has initiated appropriate measures to address those areas. The specific areas and our audit recommendations are as follows:

**Question No. 1. Did the Aviation Department maintain proper oversight over the Airport's leasing activities?**

*Overall, the Aviation Department maintained proper oversight of Airport leasing activities.*

We determined the Aviation Department generally maintained proper oversight over the Airport's leasing activities and has effectively administered leases included in the scope of this audit. Our audit procedures (described in the Scope, Methodology, and Objectives section of the report) disclosed the Aviation Department is effectively managing those leases to ensure compliance with FAA directives and other applicable rules and regulations. However, we identified two areas where improvements are needed. Those areas and our recommendations are addressed in the following paragraphs.

*Leasing Policy*

*The Aviation Department informed us they initiated the development of a formal leasing policy in November 2015, prior to the start of our audit.*

While the Aviation Department has a limited procedure for processing Airport leases, there is currently no formalized leasing policy governing the administration of leases. In an effort to improve the Airport's current leasing practices, the Aviation Department initiated the development of a comprehensive formal leasing policy (prior to the start of our audit). If successful, those efforts by the Aviation Department should enhance the Airport's current leasing processes and facilitate adherence to FAA-recommended best practices as described below.

*The FAA recommends that airport sponsors develop a standard airport leasing policy that applies to both land and facility leases.*

*The FAA specifies standard elements that should be included in an airport leasing policy.*

A well-crafted leasing policy provides uniform guidelines through which an airport can respond to the interests of its tenants. The FAA recommends that airport sponsors develop a standard airport leasing policy that applies to both land and facility leases. The leasing policy should be comprehensive so as to account for multiple tenant types and operations and sufficiently flexible to allow for unanticipated development opportunities. The FAA recommends the leasing policy provide for the equitable treatment of all airport tenants in order to minimize potential conflict between an airport and its tenants. An effective leasing policy should also help ensure leaseholds are administered in accordance with federal grant assurances to enable the airport to meet its obligation to provide a stable revenue source for the airport. At a minimum, the FAA recommends that a leasing policy include the following elements:

- Land lease rates (per square foot), differentiated by type and area (e.g., aeronautical versus non-aeronautical), with consideration given to the land's proximity to infrastructure.
- Building and facility lease rates (per square foot).
- Hangar lease rates (per square foot), with consideration given to the gauge of aircraft the hangar can accommodate in terms of hangar door size, height, and clear span distance.
- Standard lease terms that are compliant with state and local law.
- FBO and SASO lease requirements, which are consistent with the airport's Minimum Standards.
- Guidelines to be used to establish lease rates that are applied in a uniform manner.
- A process for adjusting lease rates and fees (e.g., escalation provisions).
- Insurance requirements.
- Obligations of the lessee, covered in a Rules and Regulations document.

*We recommend the Aviation Department continue its ongoing efforts and complete and implement a comprehensive formal leasing policy.*

- Routine inspection provisions for the safety and compliance of airport tenants and users. The policy should outline the leasehold inspection process, including the frequency with which these inspections will occur.
- Construction and improvement standards that outline pre-approval by the airport sponsor, local permitting agency requirements, and FAA notification of proposed construction once all other approvals are secured. The policy should stipulate the general use, appearance, maintenance, and scale of any leasehold improvements.
- Subletting policy.
- Consideration of appropriate lease lengths.

To further facilitate management's ability to oversee Airport leasing activities, we **recommend** the Aviation Department continue its ongoing efforts and complete and implement a comprehensive formal leasing policy.

#### *Lease Management System*

*The FAA recommends the use of a lease management system to facilitate the recording, storage, and retrieval of lease information.*

The FAA recommends the use of a lease management system to facilitate the recording, storage, and retrieval of lease information. During the audit, Commercial Development informed us the Aviation Department currently does not have a consolidated lease management system for tracking and managing Airport leases. Instead of such a system, we found that two airport divisions, Commercial Development and Finance, each track and manage leases using separate Excel spreadsheets. While the two divisions track much of the same information, Commercial Development primarily focuses on tenant-related information such as dates of contract expiration, renewal, insurance coverage expiration, etc. Finance, on the other hand, focuses on financial information such as rent amounts, escalation dates, sales taxes, and monthly billings. While critical lease information was being tracked through the described process, the use of separate Excel spreadsheets by separate divisions was not always efficient. For example, that

process did not facilitate the concurrent recording and retrieval of data by multiple users. Additionally, the maintenance of separate spreadsheets increases the risk that the update of pertinent information on one spreadsheet may not be reflected in the other spreadsheet.

*A consolidated lease management system with a centralized database would provide greater management efficiencies for the Aviation Department.*

A consolidated lease management system with a centralized lease database would provide greater management efficiencies for the Aviation Department. For example, such a system can be structured to allow multiple authorized users to record and update lease information concurrently. Retrieval of lease information can also be more efficient because of the relational nature of data stored in a database, thereby facilitating the generation of reports for Aviation Department management and regulatory entities (e.g., FAA). Databases also allow for enhanced customization and provide additional functionality as needed. For example, functionality likely could be established to provide automatic notifications of key milestones, such as lease expiration dates, insurance expirations dates, and rent escalation dates.

*The Aviation Department indicated efforts had been initiated, prior to the start of our audit, to acquire a new consolidated lease management system; we recommend those efforts be continued.*

The Aviation Department indicated efforts had been initiated, prior to the start of our audit, to acquire a new consolidated lease management system that would provide for centralized lease records and eliminate the need for separate spreadsheets maintained by different divisions. As noted in the background section of this report, the Aviation Department indicated it plans to issue a Request for Proposals for such a system in 2017, budget permitting. We **recommend** the Aviation Department continue those efforts and implement an efficient and effective consolidated lease management system.

### **Summary – Objective 1**

Overall, the Aviation Department maintained proper oversight of Airport leasing activities. To enhance that oversight, the Aviation Department is initiating efforts to develop a comprehensive formal lease management policy and to acquire and implement a consolidated lease management system. To provide for greater efficiencies and reduce the risk of administrative errors, the

Aviation Department should follow through and ensure those efforts culminate in the issuance of the needed policy and implementation of the enhanced management system.

**Question No. 2. Were the Airport's leasing activities in the best interest of the City?**

*For the leases covered by our audit, the Aviation Department's activities were in the best interests of the City.*

Overall, for the leases covered by our audit, we found the Aviation Department's leasing activities were in the best interests of the City. To make that determination, we reviewed the applicable lease agreements and ascertained whether provisions and conditions therein (including lease rates) were fair, reasonable, and appropriate. We also determined whether activities and transactions were conducted in accordance with those lease provisions and conditions. We did note two areas for which policy decisions should be made by Aviation Department management in regard to future leasing activities. Those areas are addressed in the following paragraphs.

*Future Leases of Property Currently Subleased*

*Our review showed the sublease rates charged by lessees were generally significantly higher than the lease rates paid by lessees to the City for the same properties.*

The lease rates paid by lessees under the existing agreements were based on undeveloped property. Specifically, under the terms of the executed lease agreements, the lessees leased the applicable properties at undeveloped property rates and agreed to make significant capital improvements at their own expense. Those capital improvements included buildings, hangars, etc. To determine whether those lease rates were fair and reasonable, we compared them to market lease rates determined in a recent appraisal of Airport property. The appraisal addressed undeveloped properties. Our review showed that, after lease rate escalations to address inflation, the current lease rates were consistent with the appraiser's rates.

We also reviewed sublease rates charged by the lessees to sub-lessees for the same properties. Our review showed the sublease rates charged by the lessees were generally significantly higher than

the lease rates paid by those lessees to the City for those properties. The different rates are shown in **Table 4** below.

<b>Table 4</b>				
<b>Comparison of Lease and Sublease Rates</b>				
No.	Lessee	Sublessee	Lease Rate (per square foot) (Note 1)	Sublease (per square foot) (Note 1)
<b>General Aviation Leases</b>				
1.	Flightline	Tallahassee Helicopters	\$0.59	\$11.22
		Enterprise Leasing Company	\$0.33	\$8.28
		Florida Fish and Wildlife Conservation Commission	\$0.31	\$9.00
		U.S. Forest Service	\$0.31	\$10.00
2.	Million Air Tallahassee	Florida Aviation Center	\$1.31	\$5.00
		Interim Solutions for Government (FAA weather station)	\$1.31	\$17.50
		Aeronautical Decision Making, Inc.	\$0.31	\$26.67
3.	Lively Technical Center	Leon County Sheriff's Office	\$0 (Note 2)	\$0 (Note 2)
<b>Cargo Service Leases</b>				
1.	TAC Tallahassee	FedEx	\$0.30	\$12.24
<i>Note 1: Amounts are rounded to nearest cent.</i>				
<i>Note 2: This is a nominal value lease that is addressed in a subsequent section of this report.</i>				

*The significant differences in rates resulted because current lease rates are based on undeveloped property; while the related sublease rates were established based on the property being developed.*

The significant differences in lease rates are attributed to the City leases being established for undeveloped property and the subleases being established for developed property after the lessees have made significant capital improvements. Particularly, after the lessees made significant capital improvements at their expense (as provided by the terms of the lease agreements with the City), they subleased some or all of the improved properties at rates sufficient to allow them to recapture the costs of those improvements and a profit.

**Table 5** that follows shows the leasehold (capital) improvements required of lessees for the applicable leased properties.

<b>Table 5</b>			
<b>Lessee Capital Improvements</b>			
<b>Lessee</b>	<b>Sublessee(s)</b>	<b>Required Minimum Capital Investment by Lessee</b>	<b>Required Capital Improvements of Lessee (Note 1)</b>
Flightline Development Corporation ( <i>Lease to develop "Compass Pointe" facility and area</i> )	Tallahassee Helicopters	\$500,000	Construction of new facilities and renovation of existing facilities, to include new building with 44,500 square feet (SF), 30,000 SF of ramp area, and 5,100 SF for parking.
	Enterprise Leasing Company		
Flightline Development Corporation ( <i>Lease to provide hangars for aircraft</i> )	Florida Fish and Wildlife Conservation Commission	\$750,000	Construction of new hangars and demolition or relocation of existing hangars.
Flightline Group, Inc. ( <i>Lease of facility for aircraft maintenance; however entire facility subsequently subleased as noted</i> )	U.S. Forest Service	\$160,000	Construction of new facilities.
Tallahassee Aviation Partners, LLC, d/b/a Million Air Tallahassee ( <i>Lease to provide fueling and facilities for other general aviation services</i> )	Florida Aviation Center	\$1,100,000	Construction of new general aviation terminal and upgrade of existing fuel operations; renovation and expansion of hangars.
	Interim Solutions for Government (FAA weather station)		
	Aeronautical Decision Making, Inc.		
TAC Tallahassee ( <i>Lease of land to construct a cargo service facility</i> )	FedEx	\$3,100,000	Construction of new cargo service facility.
<p><i>Note 1: Capital Improvements to City properties are "owned" by the City and revert to the City along with the leased properties at the end of the respective leases.</i></p>			



*We determined the differences in lease and sublease rates are not unreasonable.*

*We recommend the Aviation Department execute subsequent leases at fair market value for developed properties, as significant capital improvements have been made since execution of the initial leases.*

*In the past, the City executed a few leases at amounts significantly less than market value.*

Based on the above, we determined the differences in rates are not unreasonable. Notwithstanding that conclusion, we determined the Aviation Department needs to make a critical policy decision regarding the subsequent leases of the affected properties. Specifically, as the current leases involving subleased properties expire, the City must determine whether to: (1) execute subsequent leases that include those currently subleased properties with the current lessees (will allow the lessee to continue subleasing the properties) or, alternatively, (2) execute subsequent leases of the currently subleased properties directly with the current sublessees (i.e., bypass the current lessee and establish direct leases with the current sublessees). Regardless of the alternative selected and implemented, we **recommend** the Aviation Department execute the subsequent leases at fair market value for developed properties in accordance with FAA guidelines, as significant capital improvements have been made since execution of the initial leases. (NOTE: Aviation Department management informed us that upon the expiration of the applicable leases, they plan to pursue direct leases of Airport properties that are currently subleased {the second alternative noted above}.)

#### *Nominal Rate Leases*

As noted in the background section of this report, three of the Airport general aviation leases are nominal value leases where the lessees pay nothing or amounts that are significantly less than market value. Those three leases were executed with Lively Technical Center, Florida Department of Management Services, and the Florida Wing of the Civil Air Patrol. A detailed description of those three leases and the related nominal lease rates is provided on pages 20 and 21 of this report.

To determine what criteria were used to establish the rates for the City's nominal value leases, we made inquiries of Aviation Department and Real Estate Department management and reviewed the City's real estate policy and departmental policies and procedures. Management informed us that, while the Civil Air

*The Aviation Department indicated it intends to pursue a direct lease with LCSO upon its termination.*

*FAA guidance provides that an airport sponsor may charge reduced rental rates to Civil Air Patrol units operating aircraft at an airport because such units generally provide services that directly benefit the airport.*

*There are no provisions in existing policy addressing the criteria in which the Aviation Department will lease property to another entity for a nominal fee.*

Patrol nominal lease (executed in January 2016) is a recently executed lease, the other two nominal value leases were executed in 1967 and 1975, a period in which the granting of nominal value leases was asserted as being more common. With regard to the Lively Technical Center and DMS nominal value leases, Commercial Development management informed us they have no knowledge of the factors taken into consideration to establish the nominal rates as the leases are nearly 50 years old and pre-date the current Airport staff. Management also indicated that documentation supporting the negotiation and execution of those leases is not available.

Commercial Development management informed us that both the Lively Technical Center lease and the associated LCSO sublease will expire in 2017, at which time they will be renegotiated. The Aviation Department indicated it intends to pursue a direct lease with LCSO upon its termination. Regarding the Civil Air Patrol lease, Commercial Development informed us the nominal rate is allowed pursuant to FAA guidance. Specifically, the FAA Airport Compliance Manual (Sections 17.16 and 17.19) provides that an airport sponsor may charge reduced rental rates to Civil Air Patrol units operating aircraft at an airport because such units generally provide services that directly benefit the airport (e.g., search and rescue and disaster relief). The FAA does not consider the practice of granting nominal lease rates to these units to be inconsistent with the requirement to maintain a self-sustaining airport rate structure.

Since there is currently no formal Airport leasing policy (as previously described in this report), we reviewed the City's real estate policy to determine whether it addresses nominal value leases. We determined there is no reference in the City's current real estate policy, City Commission Policy 136 – Real Estate Policy, addressing the granting of nominal value leases.

*The Aviation Department should include in the new leasing policy the criteria and circumstances in which Airport property may be leased for a nominal rate.*

We recognize there are circumstances in which the granting of nominal value leases may be appropriate. For example, the lease may provide a social benefit or serve the greater good of the community. To provide clarity to this matter and to ensure fair and equitable treatment of lessees, we **recommend** the Aviation Department include provisions in the new formal leasing policy that provide the criteria and circumstances in which the Airport will lease property for a nominal rate. Additionally, to create a transparent and consistent leasing process, the rationale and justification for granting nominal leases **should** be documented within the applicable future lease agreements.

### **Summary – Objective 2**

Overall, for the leases covered by our audit, we found the Aviation Department's leasing activities were in the best interests of the City. We did note two areas for which policy decisions should be made by Aviation Department management in regard to future leasing activities. We made recommendations to address those areas.

### **Question No. 3. Was the City adequately protected from exposure to risk?**

*The Aviation Department has enacted appropriate measures to protect the Airport and City from exposure to risks.*

Our audit showed that, overall, the Aviation Department has enacted appropriate measures to protect the Airport and City from exposure to risks. To make that audit determination, we reviewed the adequacy of terms and conditions established in executed lease agreements, including, but not limited to, required insurance coverages. We also determined if the required insurance coverages were maintained. Additionally, we determined if the Aviation Department monitored and inspected leased properties to ensure those properties were properly and adequately maintained. Furthermore, we determined if the Aviation Department reviewed and pre-approved subleases of City-owned properties, as a means to ensure the sublessee uses were appropriate and contained adequate provisions to protect the Airport and City. Notwithstanding our overall conclusion, we did identify three areas for which

improvements and enhancements were recommended. Those areas are addressed in the following paragraphs.

*Lack of Documented Pre-approvals of Subleases*

As described in the background section of this report, the Aviation Department executes prime lease agreements with entities leasing Airport properties. For those Airport lessees that, in turn, sublease some or all of the leased properties to other entities, the Aviation Department (through the prime lease agreements) generally requires the execution of an Airport Use Agreement (Use Agreement). A Use Agreement is a three-party contract between the City (Aviation Department), lessee, and sublessee. The lessees also execute a separate lease agreement directly with the sublessee. The Use Agreements should be executed prior to the commencement of subleased activities.

*The Use Agreement is the Aviation Department's vehicle for formally approving a sublease.*

In addition to showing the Aviation Department's pre-approval of the sublease arrangement, the Use Agreement establishes the requirements that the sublessees must follow in regard to Airport Rules and Regulations and Minimum Standards (see page 23 of this report). This is in accordance with the FAA's Airport Compliance Manual – Order 5190.6B, which provides that airport sponsors (e.g., the City) are encouraged to develop minimum standards that require explicit advanced approval of all tenant subleases in order to protect airport users from prohibited activities. The requirement for a Use Agreement is also in accordance with the noted Minimum Standards, which require that any business operating at the Airport have an agreement between that entity and the Aviation Department.

*The FAA encourages airport sponsors to develop minimum standards that require explicit advanced approval of all tenant subleases.*

While our review showed Use Agreements were generally executed for applicable subleases of Airport properties, we identified one instance in which no such agreement was executed, and two instances where the Use Agreements were executed subsequent to the execution of the applicable subleases between the lessee and sublessee and the commencement of subleased activities. In one of those two latter instances the Use Agreement was executed almost

*Use Agreements were not timely executed for all subleases for which pre-approval was required.*

four years after the related sublease was executed. These three instances and the applicable leases and subleases are shown in **Table 6** below.

**Table 6**  
**Subleases with No Documented Aviation Department Pre-approval**

Lessee	Sublessee	Date of Sublease Execution	Date of Execution of Airport Use Agreement	Prior Approval Obtained?
Flightline Group, Inc.	U.S. Forest Service	January 2009	No Use Agreement	No
Flightline Development Corp.	Tallahassee Helicopters	August 2012	May 2016	No
Tallahassee Aviation Partners, LLC, d/b/a Million Air Tallahassee	Aeronautical Decision Making, Inc.	August 2015	February 2016	No

To limit the Airport and City’s exposure to risks, we **recommend** the Aviation Department ensure that proper Use Agreements are executed prior to the commencement of subleases and related activities (except those involving T-Hangars).

*No Evidence of Required Insurance Coverage*

As previously described in the background section of the report, Airport lease agreements include terms and conditions requiring the maintenance of specific types and levels of insurance coverage for all tenants (lessees). As part of our fieldwork, we reviewed the adequacy of insurance provisions contained in the applicable leases. We also reviewed “Certificates of Insurance” (COI) for leases to ensure that the required insurance coverages were maintained.

With the exception of one lease, the City produced, at the time of our audit fieldwork, COIs for all applicable leases, thereby demonstrating the lessees were currently and adequately insured. For one lease, evidence of required insurance coverage was not available at the time of our audit fieldwork. However, prior to the

*Evidence of required insurance coverage is necessary to demonstrate the Airport is adequately protected from risks.*

*For one lease, the Aviation Department did not maintain evidence of current insurance coverage prior to our audit inquiry.*

completion of our audit, Commercial Development obtained from the applicable lessee (TAC Tallahassee) a current COI demonstrating the required insurance coverages were maintained (i.e., comprehensive general liability).

Without a COI or other adequate evidence of required insurance coverage, the Aviation Department cannot demonstrate the Airport is adequately protected from risks such as personal injury or property damage that results from or relates to lessee activities. To help ensure the City is adequately and reasonably protected, we **recommend** that Commercial Development enhance its efforts to ensure current COIs are obtained and retained for all required coverages. To facilitate implementation of this recommendation, consideration **should** be given to tracking the insurance requirements within the lease management system.

*Critical lease insurance documentation was not always timely routed to the Airport from City Hall or timely uploaded to OnBase.*

#### *Need for Improved Routing of Insurance Documentation*

Typically, the City Treasurer-Clerk's Risk Management Division (Risk Management), located in City Hall, receives original or renewal insurance certificates and other insurance-related documentation directly from insurers. During our review, we became aware that critical insurance documentation was not always timely routed to the Airport from City Hall or timely uploaded to OnBase. Without the timely relay and/or provision of insurance documentation to the Aviation Department, unnecessary time may be spent by Aviation Department staff in searching for and obtaining the needed documentation when critical lease milestone dates (e.g., coverage expiration dates) occur. As such, we **recommend** Commercial Development work with Risk Management to develop a process which would help ensure a more efficient and timely exchange of insurance-related documentation. One efficient means of facilitating access by the Aviation Department to insurance-related documentation would be to ensure it is timely uploaded to OnBase when reviewed and approved by Risk Management.

*We recommend Commercial Development work with Risk Management to develop a process which would ensure the more efficient and timely exchange of insurance-related documentation.*

**Summary – Objective 3**

Overall, the Aviation Department has enacted appropriate measures to protect the Airport and City from exposure to risks. We did note three areas for which enhancements should be made to help ensure sublessee activities are pre-approved and appropriate and to help ensure lessees maintain required insurance coverages. Recommendations were made to address those areas.

**Question No. 4. Were lease revenues properly and timely collected?**

*Overall, lease revenues due the City were reasonable and properly and timely collected.*

Our audit showed that, overall, lease revenues due the City were reasonable and properly and timely collected. Audit procedures completed to make that determination included verifying monthly lease amounts due from lessees were properly and timely billed and collected by the City; verifying applicable lease agreements provided for reasonable escalation of rates; and determining whether those escalation provisions were properly and timely applied. Two issues were identified for which enhancements were recommended. Those issues are addressed in the following paragraphs.

*The FAA recommends that leases with terms of five or more years include escalation provisions providing for periodic rate adjustments based on a recognized economic index.*

*No Rate Escalation for Flightline Lease*

To facilitate parity between new and established leases, the FAA specifically recommends that leases with terms of five or more years include an escalation provision for periodic adjustments based on a recognized economic index (e.g., Consumer Price Index). Such periodic lease rate adjustments help revenues keep pace with market rates and current appraisal values. As part of our fieldwork, we reviewed prime lease agreements and associated lease records to determine whether the leases provided for proper, timely, and reasonable escalation of the lease rates.

*Periodic lease rate escalations help revenues keep pace with market rates and current values.*

For the leases reviewed, we determined each of the prime lease agreements contained inflation-based escalation clauses, with the exception of the older Lively Technical Center (nominal value)

lease executed in 1967. For most applicable leases, we verified the rates were properly adjusted at regular intervals of every three to five years based on the change in the Consumer Price Index (CPI) (e.g., CPI – All Urban Consumers: U.S. City Average; All Items, Unadjusted).

*For one lease, adequate escalation provisions were not always included in the related agreements executed by the Aviation Department.*

However, we identified one isolated instance where adequate escalation provisions were not included in an amendment to a lease agreement executed with Flightline Group, Inc. In that instance, if more reasonable lease rate escalations (e.g., every three years) had been included in the amendment to the initial lease agreement, additional lease revenues of approximately \$6,000 may have been earned over the last several years of the lease.

*If more reasonable lease rate escalations had been included in the amendment to the initial lease agreement, additional lease revenues of approximately \$6,000 may have been earned over the last several years of the lease.*

We acknowledge that, for all but one lease, escalation provisions were reasonable and properly and correctly applied. We **recommend** Aviation Department staff continue efforts to ensure each applicable lease contains reasonable escalation provisions. Additionally, we **recommend** the new leasing policy, addressed and recommended on pages 29 through 31 of this report, include appropriate provisions regarding escalation of lease rates, including the nature and frequency that such escalations should be applied.

#### *Delinquent Account*

For the applicable Aviation Department leases addressed by our audit (i.e., excluding nominal value leases), we tested to determine if lease amounts due the City were properly and timely billed and collected by the City. Specifically, we judgmentally selected and reviewed activity for lease amounts due the City during the period October 2013 through April 2016. Our tests showed those amounts were properly and timely billed and, with the exception of one lease, also timely collected by the City.

*One lessee has not always been timely in making its lease payments.*

The one instance for which periodic payments have not always been timely made (collected) involves the lease with Tallahassee Aviation Partners, LLC, d/b/a Million Air Tallahassee (Million Air). The governing lease agreement provides for monthly lease payments of \$10,697. At the time of our audit, Million Air was



delinquent (more than 30 days overdue) in amounts that totaled \$32,639. Notwithstanding the delinquent account status of the Million Air lease, we determined that City management is taking timely and appropriate actions to address the delinquent balance. Specifically, the Aviation Department Finance Division has sent delinquent account notices and assessed interest on overdue amounts. Also, Aviation Department management remains in direct communication with Million Air's chief financial officer and has consulted with both the City Manager (former and current) and City Attorney's Office on this matter.

*City and Aviation  
Department management  
are taking timely and  
appropriate actions to  
collect on the one  
delinquent account.*

We **recommend** the Aviation Department continue efforts to collect the delinquent amounts. Additionally, we **recommend** the Aviation Department include specific provisions within the formal leasing policy (to be developed) specifying the steps that should be taken to collect delinquent accounts, including timeframes for sending delinquent notices, applying late fees and interest charges, turning delinquent accounts over to a collections agency, and terminating a lease for nonpayment.

#### **Summary – Objective 4**

Overall, lease revenues due the City were reasonable and properly and timely collected. Reasonable rate escalation provisions were generally included in applicable lease agreements and applied appropriately on a periodic basis. Two issues were identified for which audit recommendations were made.

## Conclusion

*Overall, our audit showed the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which the property was leased for nominal consideration.*

Overall, our audit showed the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which the property was leased for nominal consideration. We did identify several areas for improvement related to establishing an internal leasing policy, tracking and managing leases, increasing and collecting lease revenues, executing nominal value leases, pre-approving subleases, and maintaining insurance documentation. We determined that Aviation Department management was aware of several of the noted areas prior to the start of our audit, and has initiated appropriate measures to address those areas. Audit recommendations were made to address the applicable issues.

We wish to acknowledge and thank the management and staff of the Aviation Department and the Risk Management Division for their cooperation and assistance during this audit.

## Appointed Official's Response

### City Manager:

We appreciate the Office of the City Auditor's thorough examination of selected Airport lease and sublease agreements. We are pleased that the findings indicated, overall, that the Aviation Department effectively managed the lease and sublease of properties located at the Airport. It is noteworthy that the Aviation Department, prior to the audit, had drafted an RFP for a lease management system and had begun developing a Leasing Procedures document to standardize its leasing practices. We anticipate these tools will streamline and enhance the lease monitoring and compliance process. We are confident that the recommended action steps, identified in the audit, will enhance the lease tracking process at the Airport and will be satisfied within the timeframes identified in the Management Action Plan. We would like to thank the Aviation Department and Risk Management Department for their cooperation during the audit and continued commitment to ensuring best practices are followed in the administration of Airport leases and subleases.

## *Appendix A Management Action Plan*

Action Steps		Responsible Employee	Target Date
<b>A. Objective:</b>	To ensure the Aviation Department maintains proper oversight over the Airport’s leasing activities		
	1) A formal comprehensive leasing policy that incorporates best practices will be developed and adopted.	Victoria Maleszewski	03/31/17
	2) A consolidated lease management system will be acquired and implemented, budget permitting.	Casey Naylor	12/31/17
<b>B. Objective:</b>	To ensure the Airport’s leasing activities are in the best interest of the City		
	1) If and/or when new leases are executed upon the expiration of current leases of Airport properties that were developed by the lessees, those new leases will be executed at fair market value for developed property when appropriate.	Casey Naylor	03/31/17
	2) For properties currently subleased by lessees, a determination will be made upon the expiration of the applicable leases whether it is in the City’s best interest to continue to allow those properties to be subleased, or whether it is more appropriate for the Aviation Department to lease those properties directly.	Victoria Maleszewski	12/31/17
	3) The formal comprehensive leasing policy developed pursuant to step A1 above will provide the criteria and circumstances in which Airport property will be leased for nominal consideration.	Victoria Maleszewski	03/31/17
	4) If and/or when the Aviation Department leases Airport properties for nominal rates, the rationale and justification for leasing those properties for nominal rates will be included in the applicable lease agreements or documented	Casey Naylor	12/31/17

Action Steps		Responsible Employee	Target Date
in the lease file when appropriate.			
<b>C. Objective:</b>	To ensure the City is adequately protected from exposure to risk		
1) All subleases shall be pre-approved by the City prior to execution between the parties and prior to execution of the Airport Use Agreement. If and when appropriate, Use Agreements, which authorize all subleases (with the exception of T-Hangars), will be executed between lessees, sublessees, and the City.	Victoria Maleszewski	12/31/17	
2) Required insurance coverages will be tracked in the new consolidated lease management system.	Casey Naylor	12/31/17	
3) Commercial Development will work with the Treasurer-Clerk’s Risk Management Division to ensure insurance-related documentation is timely exchanged as appropriate.	Casey Naylor	12/31/17	
<b>D. Objective:</b>	To ensure lease revenues are reasonable and properly and timely collected		
1) When applicable, appropriate escalation provisions will be included in each subsequent lease agreement.	Patsy Capps	12/31/17	
2) The formal comprehensive leasing policy developed pursuant to step A1 above will include appropriate provisions regarding escalation of lease rates, including the nature and frequency that such escalations should be applied.	Victoria Maleszewski	03/31/17	
3) Efforts will be continued to collect on Million Air’s delinquent account.	Patsy Capps	03/31/17	
4) The formal comprehensive leasing policy developed pursuant to step A1 above will include appropriate actions that should be taken in regard to collecting amounts for delinquent accounts.	Victoria Maleszewski & Patsy Capps	03/31/17	