Airport Business Solutions

Airport Business Solutions
"Valuation and Consulting Services to the Aviation Industry"
131 Hollybrook Drive, Flat Rock, North Carolina 28731-8593
Phone (813) 855-3600 Fax (813) 200-1014

March 31, 2020

Ms. Tamarra Morris
Director
Office of Economic Development
New Castle County, Delaware
87 Reads Way
New Castle, Delaware 19720

RE: White Paper on Airport Management Alternatives
Wilmington/New Castle County Airport
New Castle County, Delaware

Dear Ms. Morris:

Per your request, ***Airport Business Solutions*** has provided the attached "White Paper" regarding our assessment of the Airport Management Alternatives for the Wilmington/New Castle County Airport. As discussed, this the goal of this White Paper is to provide the members of the Task Force with relevant information to allow them to make informed recommendations to the New Castle County Executive as it relates to the future management of the Airport.

We appreciate the opportunity and look forward to working with you and the Task Force on this project. If you should have further questions, please do not hesitate to contact me.

Respectfully Submitted,

Michael A. Hodges, MAI
President/CEO
Airport Business Solutions

Task Force White Paper
Wilmington/New Castle County Airport Management Alternatives
March 31, 2020

SCOPE OF THE ANALYSIS

This White Paper provides an outline and assessment of several issues relating to the historic and prospective management of the Wilmington/New Castle County Airport. The Airport is currently managed by the Delaware River & Bay Authority (DRBA) pursuant to an "Acquisition Agreement" and related "Ground Lease". The goal of this White Paper is to provide the members of the Task Force with relevant information to allow them to make informed recommendations to the New Castle County Executive as it relates to the future management of the Airport. The three options available to New Castle County we have considered are the following:

1. Terminate the existing Acquisition Agreement and Ground Lease with the DRBA and negotiate new terms and conditions with the DRBA for their continued management, operation and development of the Airport;
2. Terminate the existing Acquisition Agreement and Ground Lease with the DRBA and issue a Request for Proposals from similarly qualified and experienced airport managers and developers; or
3. Do nothing and allow the existing Acquisition Agreement and Ground Lease with the DRBA to renew automatically at the existing terms and conditions for an additional 30 years through June 2055. (The County would have the opportunity to follow a similar exercise in 2050 for a second 30-year renewal that could potentially extend the agreement through June 2085.)

AIRPORT HISTORY

The Wilmington Airport, also identified as the New Castle County Airport, is an approximate 1,288-acre general aviation airport located in the northern sector of New Castle County, Delaware. It is located five miles south of Wilmington and 25 minutes from the Philadelphia Central Business District. The Airport is the largest area of land owned and a substantial asset of New Castle County.

The Airport has three major runways and a supporting system of taxiways and aircraft parking ramps. It is home to +/-68 business jets and 220 propeller aircraft and approximately 85 total tenants. Despite the dominant number of piston-powered aircraft, the primary activity driver of the Airport is business aviation and its related support services. The Airport currently offers three full-service fixed base operations (Atlantic Aviation, Dassault Falcon Jet and flyADVANCED), several aircraft maintenance and flight training providers, aircraft charter and management companies, and is home for Flight Safety International, who provides simulator and classroom flight-training for corporate flight departments worldwide. The Airport operates as a Class I certified FAA facility and offers a 24-hour FAA air traffic control tower. The tenant mix and services offered at the Airport are extremely diverse and appeal to virtually every aspect of general aviation.

The Airport has seen several airlines begin and end scheduled service over the last 20 years, including Shuttle America (November 1998-February 2000), Delta Air Lines (June 2006-September 2007), Skybus Airlines (March 2008-April 2008), and Frontier Airlines (July 2013-April 2015). The DRBA recently announced the commencement of air carrier service by Frontier Airlines starting in May 2020. However, given the impact of COVID-19 on the airline industry, the likelihood of this occurring, at least by the proposed date, is minimal. In our opinion, in the best-case scenario, it is likely that the proposed service by Frontier will be placed on an indefinite hold. The more likely outcome will be that the proposed service to Wilmington, as well as numerous other similar locations throughout Frontier's system, will be terminated. Moreover, in that the demand for direct service to Wilmington was apparently marginally feasible given the extended period that has passed since air carrier service was offered at the Airport, as well as the proximate location of the immediate population base to the Philadelphia International Airport (20 miles north) and Baltimore/Washington International Thurgood Marshall Airport (57 miles southwest), it is likely that the recovery of the commercial airlines will be focused on their primary bases and less on their secondary markets, at least for the foreseeable future.

New Castle County acquired the Airport from the U.S. Department of Defense through an "Instrument of Transfer" and subsequently owned and operated the Airport from 1949 until 1995. In 1991, the New Castle County Economic Development Corporation (NCCEDCO) was charged with marketing and disposing of the Airport and Airport-related property for the benefit of the County in order to relieve the County of on-going Airport operating expenses and future capital expenditures needed to maintain the Airport. NCCEDCO facilitated the lease of the Airport and Airport-related property to the DRBA through the Acquisition Agreement and Ground Lease in June 1995. Since that time, the DRBA has controlled, operated and maintained the Airport and Airport-related property. The Acquisition Agreement and Ground Lease provide for an initial term of thirty (30) years through June 2025, with two automatic renewals of thirty (30) years each, yielding a maximum total term of 90 years (through June 2085) if both options are exercised.

The 1995 Acquisition Agreement transferred the entire Airport property and Airport-related property (excepting properties retained by the County), facilities, existing tenant leases, employees, operation and control by a long-term lease to DRBA. In exchange, DRBA assumed debt obligations of the County. The Acquisition Agreement remains in effect at least until June 2025 and is automatically renewed unless the County provides notice of their intent to terminate the agreement not less than 60 months prior to the termination of the initial 30-year agreement term (by June 2020). The Acquisition Agreement operates concurrently with the 1995 Ground Lease.

There have been subsequent amendments to the Ground Lease, with the "First Amendment to the Ground Lease" on January 27, 2005 allowing the DRBA to enter leases that extend beyond the term of the Ground Lease and receive assurances from the County it will honor such leases. It also allows the DRBA and tenants to make alterations to the Airport premises, as well as deleting land and easement areas needed by DelDOT for road improvements. The "Second Amendment to the Ground Lease" was dated April 18, 2008 and allowed for the sale of +/-5.514 acres of restricted property to Easter Seals by deleting this land from the Ground Lease. The "Third Amendment to the Ground Lease" was dated June 26, 2009 and allowed for the sale of +/-10.423 acres of restricted property to the State of Delaware for the Joint Force Headquarters for the Delaware Air and Army National Guard.

As stated above, the Acquisition Agreement and Ground Lease provide for an initial term of thirty (30) years through June 2025, with two automatic renewals of thirty (30) years each (if not terminated within 60 months of a scheduled expiration), yielding a maximum total term of 90 years (through June 2085) if both options are exercised.[1] If the County elects to terminate the Acquisition Agreement and Ground Lease at the conclusion of the initial term, it must give notice to the DRBA no later than June 30, 2020. Upon notice of termination, the County will then be responsible for a Termination Payment consisting of any outstanding debt obligations, unamortized capital investment costs, and outstanding Grant Agreements/Sponsor Assurances.[2] The County requested a detailed statement of the amounts and obligations comprising the DRBA's opinion of the County's Termination Payment, which was received on October 30, 2019. This Termination Payment will be discussed further herein.

In addition to their duration, the 1995 Acquisition Agreement and Ground Lease are disadvantageous to the County in several ways, including:

- DRBA is obligated to pay the County only $1.00 per year in rent under the Ground Lease, which the County has no record of receiving since 1995;
- The Airport, which reflects the County's largest asset, operates outside of the County's economic development efforts and little to no effort is made by DRBA to coordinate its operation and development plans with those of the County (the agreements do not require the DRBA to coordinate with the County, which reflects a major flaw in the existing agreements);
- The County has no right to receive non-public information regarding the operation and management of the Airport, including information regarding tenants and customers of the Airport, yet the County retains potential liability as the owner and joint sponsor of the Airport (the exception is a limited right to obtain information regarding the calculation of the termination payment);
- The County has no role in decision-making at the Airport and often learns of critical decisions made by DRBA only through third-parties, litigation or coincidence;
- Although County officials hear concerns about development and operational issues at the Airport from tenants and others, the County has no means to respond to these concerns;

[1] The operative language from the Ground Lease, which is repeated in the Assignment Agreement, is provided in Appendix A.

[2] As will be discussed herein, the County is already recognized by the FAA as a joint sponsor of the any grant agreements received since 1995 since they are the owner of the Airport.

- As the County is recognized as a joint sponsor by the FAA as it relates to grants awarded to the Airport since the Agreement's commencement, the DRBA has obligated the County to the terms and conditions of the Airport Sponsor Assurances of the FAA, including any and all financial obligations without any oversight by the County.

ANALYSIS OF RELEVANT ISSUES

Management and Financial Overview

Based upon our review of current and historic operations at the Airport, it appears that the DRBA has done an adequate job managing and maintaining the Airport since 1995. The Airport has maintained Part 139 status, which relates to safety and security standards, and are necessary for air carrier operations. However, there does not appear to be anything extraordinary about DRBA's management or operational oversight. It appears to be consistent with FAA requirements and industry standards for a high activity general aviation airport.

From an operating revenue and expense basis, a review of available financial data for the period from 2014 through 2018 was reviewed. The following reflects the Airport's operating revenues and expenses as provided by the DRBA. It is significant to note that the figures provided below exclude certain capital expenditures. In addition, as will be discussed further herein, the DRBA inappropriately classifies certain maintenance items as capital expenditures. Moreover, it must be noted that the information below conflicts with other information provided by the DRBA.

DELAWARE RIVER AND BAY AUTHORITY
New Castle Airport Revenue & Expenses
2014-2018

	Fiscal Year 2018	2017	2016	2015	2014
Revenue					
New Castle Airport					
Lease Revenues	5,646,562	5,654,045	5,766,552	5,651,646	5,443,499
Fuel Flowage Fees	367,787	381,870	359,928	398,150	480,413
Ramp Fees	-	-	-	-	-
Landing Fees	177,414	173,715	178,347	154,729	245,794
Interest Income Net of Fees	24,629	27,609	(2,982)	(16,285)	(19,170)
Passenger Facilities Fees	1,093	641	13,579	46,744	120,415
Other Income	2,174	39,161	29,089	22,718	54,330
Total Revenue New Castle Airport	6,219,660	6,277,042	6,344,512	6,257,704	6,325,281
Expenses					
New Castle Airport					
Wages	1,483,848	1,331,548	1,122,186	1,376,605	1,322,178
Benefits	1,389,465	1,435,762	1,290,692	1,389,278	1,364,791
Utilities	578,261	518,975	581,584	613,774	628,782
Insurance	476,381	524,255	620,059	500,688	533,931
Operating Expenses Charged to General Fund	404,999	248,178	293,279	-	-
Write-Off	-	-	-	5,920	811,470
All Other Operating	1,268,338	1,191,064	929,760	1,099,018	952,319
Total Expenses New Castle Airport	5,601,293	5,249,782	4,837,560	4,985,283	5,613,471
Net Income					
New Castle Airport	$ 618,368	$ 1,027,260	$ 1,506,952	$ 1,272,421	$ 711,810

In our review of the above financials, we noted that revenues are somewhat above average for a general aviation airport, which is attributable the substantial lease revenues derived from the lease of 8 hangars constructed by the DRBA approximately 20 years ago. Revenues from fuel flowage fees declined by 23.4% between 2014 and 2018, generally corresponding with the decline in operations over that period.[3] The number of based aircraft at the Airport also declined significantly over that period from 228 to 182. These trends are not necessarily attributable to anything that the DRBA did or did not do but are provided for informational purposes.

A significant question/concern regarding the management of the Airport relates to the operating expenses of the Airport over the presented period. As noted above, 2014 was the last full year that air carrier operations occurred at the Airport. While increases in revenues occurred as expected, most of the operating expenses were actually higher in 2018 than in 2014. While utilities

[3] Operations peaked in 2014, which was the last year of full air carrier operations. However, fuel delivered to commercial aircraft is typically exempt from fuel flowage fees.

and insurance costs were lower in 2018 (as would be expected without air carrier operations), “Wages”, “Benefits” and “All Other Operating” expenses are significantly higher. Moreover, there are unidentified “Operating Expenses Charged to the General Fund” assigned to the Airport in 2016 through 2018. Details regarding these expenses were not provided by the DRBA, so an assessment of the sources and reasonableness of these increases was not possible.

One of the more significant issues relating to operational expenses of the Airport relates to wages and benefits. According to information provided by DRBA, there are 24 full and part-time employees at the Airport who handle the day-to-day operations and management of the Airport. According to the DRBA, this excludes any senior leadership assigned to the Airport by the DRBA. Based upon the total number of employees, as well as the number attributable to maintenance and operations (lower wages than management), payroll expenses are somewhat high for an airport of the Airport’s size and activity type. However, the most significant concern relates to the expenses associated with benefits. Although the DRBA did not provide information as to what they include in their benefits allocation, the category generally encompasses expenses such as payroll taxes, workers compensation, health insurance, retirement plans, etc., and would be expected to run between 30 and 40 percent to total wages. (This industry standard ratio is based upon our review of financials for hundreds of airports throughout the U.S. over the past 30+ years, as well as from our current management of a general aviation airport.) The reduction of wages and benefits to a more industry standard level would yield a much higher net income for the Airport, before consideration of any capital expenses.

The substantial inconsistencies in the financial reporting by the DRBA would not typically be of significant concern given the current terms and conditions of the Acquisition Agreement and Lease, except in terms of the payback of unamortized capital investments. However, it raises several questions regarding the viability of other aspects of the DRBA’s financial reporting as it relates to the Airport. Moreover, since the scope of the analysis relates to prospective alternatives for the future management of the Airport, the potential for a higher net income stream could yield greater interest in the opportunity to manage and develop the Airport by other airport management and development firms. From a negative perspective, since the County and DRBA are considered joint sponsors of the Airport, there is a risk that the FAA could request an audit of the financials of the Airport in conjunction with the grants provided to the Airport. In that case, the excessive payroll and benefits costs associated with the DRBA operation could cause some concerns for the FAA that revenue is inappropriately being diverted from the Airport. (In 2017, the FAA required repayment of approximately $44,000 in grant funds in relation to some incorrect financial reporting by the DRBA.) While it is likely that the County would have no liability, since the FAA has not required County sign-off on any grants since 1997, and the DRBA is not required to submit detailed financial reports to the County under the Acquisition Agreement, it is certainly an issue that should be resolved prior to any transition to new management or a new agreement.

As for the DRBA's relationship with existing tenants at the Airport, several tenant representatives were contacted for insight. The overall response was mixed, with most of the negative comments relating to the responsiveness of the DRBA to tenant requests. It is difficult to assess the significance of these issues, as it is a common theme at airports for tenants to have a different level of expectations relative to responsiveness than the airport (and vice versa). However, a general theme was that the DRBA has done a good job of securing grants for the completion of various infrastructure projects and equipment necessary to operate and maintain the Airport.

One of the most relevant questions associated with the DRBA operation and management of the Airport relates to their capitalization of necessary equipment and infrastructure expenses. As demonstrated on the attached summary, since 1995 the DRBA represents that just over $141 million has been spent at the Airport on buildings, land improvements, building improvements, machinery and equipment, and infrastructure. The DRBA further represents that only 45% of those expenses were paid for by the FAA or Delaware DOT (DelDOT) grants. The remainder ($77.6 million) is reported to have been paid from DRBA funds. However, the DRBA has failed to provide adequate documentation to support this claim, yielding some questions as to whether some of these improvements were funded through bonds or other financing mechanisms. For example, during our due diligence it was discovered that the 10 blue hangars on the Airport were originally constructed using bonds.[4] In addition, other reports provided by the DRBA offer conflicting information that shows just over $81 million in FAA-eligible projects between 1997 and 2018, of which +/-$75.5 million were paid by either FAA or DelDOT grant funds.

[4] This could not be verified through available public information.

As noted above, the DRBA represents that in excess of $141 million, or an average of over $7 million per year, has been invested in the Airport since 1995. While a significant portion of this investment was funded by FAA and DelDOT grants, the net amount (combined matching funds and direct investment) reflects investment in excess of $3 million per year. For an airport that is making less than $1 million per year from an operating budget standpoint, this is difficult to understand. The projects that reflect the highest cost basis are those related to infrastructure (runways, taxiways), and those are subject to FAA grant funding. The same goes for the high cost equipment items for snow removal and primary airport maintenance. These items are also FAA grant eligible. Moreover, from our review of the capital investment list offered by the DRBA, much of the expenditures relate to items that should actually be attributed to airport and facility maintenance, as well as to the duplicative acquisition of equipment items such as mowers, airport vehicles, computers, etc. As such, it is our opinion that the capital investment summary presented by the DRBA reflects an excessive amount that is questionable from both a need and fiscal responsibility standpoint.

While the foregoing might not be a relevant issue under certain circumstances, the terms and conditions of the termination clause in the existing agreements with the DRBA calls for the County to "*assume (by an appropriate agreement to make payments to Lessee or otherwise) the remaining debt service for any debt incurred by Lessee related to the Airport and outstanding as of the date on which this Lease is to terminate.*" As such, if these or any other improvements to the Airport were funded utilizing bonds or other financing mechanisms, the amount due by the County would be substantially reduced, especially for those expenditures incurred 20 years prior. (Moreover, in that two of the blue hangars were subsequently sold to the tenant at a price consistent with the originally allocated costs, the unamortized debt should be reduced accordingly.) In addition to the foregoing, the DRBA's amortization schedule for capital improvements is reported as follows:

- Buildings – 45 Years
- Land Improvements – 30 Years
- Building Improvements – 30 Years
- Machinery & Equipment – 30 Years
- Infrastructure – 30 Years

According to FAA standards and/or IRS limits, the depreciation schedule for new buildings is generally between 30 and 40 years, machinery and equipment is 5 to 10 years, land improvements are 20 to 30 years, and infrastructure is 20 years. (Improvements to existing buildings would vary depending upon the actual expenditure.) As such, the DRBA's schedule significantly exceeds the typical industry and Federal standards and yields continued amortization of items that have been fully depreciated, thereby artificially inflating the termination payment. Moreover, the DRBA is still amortizing several million dollars of equipment that has either been retired or sold. In addition, they are amortizing the acquisition of existing facilities and improvements as if they were new and constructed by the DRBA. As addressed in a separate analysis prepared by PFM Financial Advisors, LLC (PFM), the DRBA asserts that the termination payment will be approximately $50.2 million on June 30, 2025. However, it is significant to note that this figure likely reflects the upper limits of any liability, as the estimated termination payment includes numerous items that are deemed unreasonable and inappropriate that would need to be further investigated through an audit and comprehensive inventory of existing facilities and equipment.

As noted previously, the DBRA's representation includes over 50 vehicles, numerous duplicated pieces of field maintenance equipment (mowers, snow removal equipment, etc.), numerous duplicated pieces of computer equipment, 42 airfield radios, many to replace radios still being amortized, duplicitous equipment upgrades over short periods of time, equipment that appears to have been purchased for another airport, multiple grant eligible projects presented as self-funded, and inconsistencies with regard to allocations of FAA grant funds. Therefore, after adjusting for the DRBA's unreasonable amortization schedules and the improper inclusion of stated assets will like result in a much lower termination payment.[5]

[5] It is anticipated that this disparity would require litigation to resolve.

Reconsidering the Agreements' Terms

As discussed above, the existing agreements with the DRBA are poorly written agreements that do not provide adequate protections or revenue for the County. At the time the transfer of the Airport occurred, the County and Airport were in dramatically different economic situations. The Airport had significant capital improvement needs and did not have access to the capital necessary to address those needs. It is unknown whether the County was appropriately knowledgeable of all of the funding mechanisms available to them or was merely in a situation whereby the allocation of available resources was better directed to other needs. Regardless, while the transfer of the management of the Airport under the terms and conditions set forth in the current agreements may have been appropriate and viable at that time, the current state of the Airport, and aviation industry in general, indicates that this may not be the case today. Moreover, while the County should recognize the good things that the DRBA has done for the Airport in getting it to where it is today, the County must also evaluate whether the DRBA is the right entity to guide the Airport going forward and, even if so, whether DRBA's management of the Airport should be under similar or different terms and conditions.

Prior to the COVID-19 pandemic, the demand for high quality aviation facilities has been significant, and the availability of capital for third parties to invest directly in facilities in exchange for a long-term ground lease has been much more favorable and a lower risk alternative to the structure of the existing agreements between the County and DRBA. While the long-term prospectus is unknown, based upon information and research to date, the sector of the general aviation industry that predominately supports business aviation (such as airports like New Castle County Airport) has experienced a much lower impact than airports focused on personal/recreational aviation users. For example, discussions with representatives of NetJets indicated that they are "as busy as ever", and representatives of Atlantic Aviation have stated that while their locations that primarily serve seasonal or recreational traffic (Salt Lake City, Aspen, etc.) are experiencing a significant decline in traffic, those that primarily accommodate business aviation are maintaining similar activity levels as prior to the outbreak. This is likely related to the "social distancing" aspect of private aircraft for those that must continue to travel as it relates to fewer passengers on an aircraft and the absence of a requirement to utilize the passenger terminal.

Moreover, while not an extensive list, there are several entities in the market that provide airport management and development expertise that may be interested in the opportunities at the Airport. There are several airports throughout the U.S. and Caribbean that are managed by third parties to some degree. The Gary/Chicago International Airport in Gary, Indiana was recently turned over to AFCO/AvPorts under a management and development agreement. AFCO/AvPorts also manages and is responsible for development of the Branson Regional Airport in Branson, Missouri and the Luton Airport in the United Kingdom. AvPorts is the management division of the group that currently manages the Albany International Airport, Westchester County Airport, New York/Stewart International Airport, Teterboro Airport, Tweed-New Haven Regional Airport, and Moffett Field Airport.

Other airports that are currently under management and/or development agreements in the U.S. include the Morristown Municipal Airport (DM Airports, Ltd.), the five Los Angeles County Airports (American Airports Corporation), Pearland Regional Airport (Texas Airport Partners), Addison Airport (URS/SAMI Management), and others. In the Caribbean, the Lynden Pindling International Airport in Nassau, Bahamas is managed by the Nassau Airport Development Company, a joint venture with Vancouver Airport Services of Vancouver BC, Canada. The point is not to endorse other management entities over the DRBA, but rather to advise the Task Force and County that there are numerous airport management entities around the U.S. that may have an interest in the Airport, should the County elect to terminate the existing agreements and provide the opportunity for the DRBA and others to propose to manage and develop the Airport going forward.

Additional concerns regarding the existing agreement include the inability of the County to participate or have input on the development and management of the Airport. For example, while the County maintains an active Economic Development Office, that Office has no input or participation in property or business development at the Airport. In order to maximize the economic development opportunities for the region, the Airport will play a significant role and all parties that have the opportunity to reap the rewards should have the ability to participate. Airport management agreements should reflect a partnership between the Airport sponsor (owner), management team, and the community as a whole.

RECOMMENDATIONS

As stated previously, we have considered three options available to New Castle County regarding the future management and development of the Wilmington/New Castle County Airport:

1. Terminate the existing Acquisition Agreement and Ground Lease with the DRBA and negotiate new terms and conditions with the DRBA for their continued management, operation and development of the Airport;
2. Terminate the existing Acquisition Agreement and Ground Lease with the DRBA and issue a Request for Proposals from similarly qualified and experienced airport managers and developers; or
3. Do nothing and allow the existing Acquisition Agreement and Ground Lease with the DRBA to automatically renew at the existing terms and conditions for the next 30 years through June 2055. (As stated previously, while there is a second renewal option that could potentially extend the Agreements to 2085, the County would have the opportunity to assess the renewal 5 years prior to 2055.)

Based upon the information provided herein, it is our opinion that Option 3 is not a viable option for the County. Given the current agreements' terms and conditions, the continuance of the management and operation of the Airport under the status quo is not fiscally responsible or in the best interest of the community. This is not to say that the DRBA is not doing a viable job managing and operating the Airport, but rather that the current agreements are both poorly written and very one-sided in favor of the DRBA. Under either Options 1 or 2, the County would need to develop and negotiate an agreement that clearly sets forth the requirements and expectations of both parties to the agreement.

Under a management agreement, the County is still recognized as the Airport sponsor and therefore maintains a level of obligation and liability to the FAA. The current agreements do nothing to address or clarify these issues. The Airport is a significant asset to the County, and therefore it needs to be governed by a management and development agreement that includes specific controls and oversight mechanisms, as well as the ability to audit the Airport's operations and financial results. There should be specific milestones and benchmarks that are tied to the financial, operational and development success of the Airport. The agreements must convey a partnership with an open line of communication between the County and Airport operator.

As for the alternatives of Option 1 versus Option 2, as previously mentioned, the DRBA appears to have done an adequate job of managing and operating the Airport over the past 25 years. However, the question is whether they are the right partner for the County going forward. The economics of the Airport have evolved over the years and currently reflect a thriving operation, a valuable asset, and vital economic engine to the community. Through the termination of the existing agreements, the County has the opportunity to "start over", whether it is merely with a new agreement or with a new operator under a new agreement. However, the County will not fully understand the opportunities available to it without terminating the existing agreements and issuing a Request for Qualifications and Proposals (RFQ/P) for the future management, operation and development of the Airport. As such, Option 2 is recommended to New Castle County.

The RFQ/P should set forth nominal expectations of the County, but be somewhat open-ended with regard to financial terms to allow for proposers to provide the most creative and economically beneficial financial structure over the period of a long-term management and development agreement.[6] The overall objective of the new agreement should be to yield a partnership that both incentivizes growth and development, while maintaining a thriving and fiscally responsible Airport operation that continues to be a vital economic asset to the community. It is anticipated that the RFQ/P process will encompass a 9 to 12-month period from the issuance of an RFQ/P, receipt of proposals, review of proposals, selection of an operator, and negotiation of an agreement. This process could be somewhat accelerated should the DRBA elect to default on the agreement early if the County elects to terminate it. However, it would behoove the County to set a reasonable timeline and follow it through, even if it meant entering into an interim agreement with an entity to manage the facility until a long-term operator is selected. It is likely that most of the prospective airport management entities that would have an interest in the Airport would be willing to enter into an interim agreement to both evaluate the opportunity and gain a competitive advantage in the RFQ/P

[6] Management of the Airport and development of the Airport should be separate agreements but closely coordinated to provide the County with flexibility regarding future development opportunities that might be better handled by an additional party but managed by either the County or Airport Manager.

process. The most important thing to the County should be to select the right partner and development and negotiate an agreement that appropriately protects the County and guides the Airport in a positive direction for the foreseeable future.

Buyout Terms

As indicated herein, the terms and conditions of the existing agreements with the DRBA provide for the County to reimburse the DRBA for unamortized costs incurred during the term of DRBA management of the Airport. The DRBA estimates this amount to equate to approximately $50.2 million as of June 30, 2025, while estimates from PFM Financial Advisors estimates the figure as low as $18.8 million, subject to further verification and audit of information and assumptions of the DRBA. If the agreements are terminated, it is anticipated that the DRBA will challenge any reimbursements that vary from their requests. However, as previously noted, this figure likely reflects the upper limits of any liability, as the estimated termination payment includes numerous items that are deemed unreasonable and inappropriate that would need to be further investigated through an audit. For example, the DBRA's representation includes over 50 vehicles, numerous duplicated pieces of field maintenance equipment (mowers, snow removal equipment, etc.), numerous duplicated pieces of computer equipment, 42 airfield radios, many to replace radios still being amortized, duplicitous equipment upgrades over short periods of time, equipment that appears to have been purchased for another airport, multiple grant eligible projects presented as self-funded, and inconsistencies with regard to allocations of FAA grant funds. Therefore, after adjusting for the DRBA's unreasonable amortization schedules and the improper inclusion of stated assets will like result in a much lower termination payment.

It is significant to note that many components of a potential termination payment reflect revenue producing assets and/or equipment that could be utilized by a subsequent operator. Therefore, it is our opinion that it is a reasonable assumption that these all or a significant portion of the termination payment amount could be expected to be assumed by the new entity as part of the proposal process. Nevertheless, based upon the DRBA's failure to provide detailed breakdowns and allocations of the expenditures in direct conflict to the County's request, it is anticipated that the DRBA's excessive buyout estimate reflects an attempt to force the County to renew the agreement at the current terms and conditions. At a minimum, this unwillingness to cooperate by the DRBA reflects another example of why the existing agreements should be terminated with a new state-of-the-art agreement developed and negotiated to protect the interests of both parties to the agreement. Specifically, it should provide New Castle County with more control over their asset and its economic development potential to the community.

As noted by the partial list of managed airports provided herein, the number of contract managed airports in the U.S. is extremely limited. While common in other parts of the world (where federal funding like what is offered by the FAA is not generally available), it is not readily utilized in the U.S. Moreover, with the exception of the relatively recent transition of the Gary/Chicago International Airport to contract management, most of the existing agreements have been in place for an extended period, with only renewals or extensions, not a reissuance through a public bid process. This is likely related to the parties developing a viable partnership through a shared risk/reward agreement whereby both parties work together to facilitate the success of the airport. As stated herein, contract management of an airport still must reflect a partnership whereby both entities play a role in the airport's success and community's benefit. It cannot be a one-sided agreement. The operator must have the ability to receive a return on their investment and the airport sponsor must also be able to obtain a return on their assets. An airport is a vital economic engine within a community, and as such, the airport sponsor must be able to be involved in economic development opportunities to ensure that the community benefits to the extent possible.

Appendix A

Language from Section 3 of Ground Lease

"Lessee shall have and hold the Demised premises for a term of thirty (30) years commencing on the date hereof ("Initial Term"), unless such term is extended in accordance with the provisions hereof.

This Lease shall be automatically renewed for two additional periods of thirty (30) years each (collectively, the "Renewal Terms"; the Initial Term and the Renewal Terms are collectively referred to herein as the "Term") unless not later than sixty (60) months prior to the expiration of the Initial Term or the first such Renewal Term, as the case may be, either party shall deliver notice to the other party of its intention not to renew this Lease ("Notice of Non-Renewal").

Notwithstanding the foregoing, in the event that Lessor shall determine that it shall not renew the Lease, then Lessor at the termination of this Lease shall (i) assume (by an appropriate agreement to make payments to Lessee or otherwise) the remaining debt service for any debt incurred by Lessee related to the Airport and outstanding as of the date on which this Lease is to terminate, (ii) assume all obligations under any outstanding Grant Agreements, including any Sponsor's Assurances (as defined in the Acquisition Agreement) which impose obligations on Lessee that extend beyond the date on which this Lease is to terminate, and (iii) pay to Lessee an amount equal to the Unamortized Cost of any capital investment (including capital investment in machinery, equipment, and other tangible property) made by Lessee during the Term of the Lease. . . . Lessor shall have the right to request from Lessee, not more than seventy-two (72) months prior to the termination of the Initial Term or the first Renewal Term, a detailed statement of the amounts and obligations comprising Lessor's Termination Payment, and Lessee agrees to deliver such information to Lessor not more than ninety (90) days following receipt by Lessee of such request.

In the event Lessor timely delivers Notice of Non-Renewal to Lessee, then Lessee agrees that any capital improvement or debt made or incurred without the Lessor's consent during the sixty (60) months prior to expiration of the applicable term shall not be included in computing Lessor's termination payment.

In the event that Lessor shall fail to pay Lessor's Termination Payment as required hereunder, then Lessee may, in its sole discretion, elect either to (i) declare Lessor's Notice of Non-Renewal of no further force or effect, in which case this Lease shall automatically be renewed for a period of thirty (30) years: or (ii) pursue all available remedies both at law and in equity to recover from Lessor Lessor's Termination Payment."