

# Mayor and Council Communication

**DATE:** 03/09/21

**M&C FILE NUMBER:** M&C 21-0184

**LOG NAME:** 55AFW FEDEX LAND AND SPECIAL FACILITIES LEASE AMENDMENT NO 2

## **SUBJECT**

(CD 7) Authorize the Execution of Second Amendment to Land and Special Facilities Lease Agreement with Federal Express Corporation Relative to the Use of Approximately 168 Acres of Land and Facilities Being Situated at Fort Worth Alliance Airport on Lot 1, Block 1, FEDEX Addition, City of Fort Worth, Denton County, Texas, Located at 2001 World Wide Drive, Fort Worth, Texas 76177 and a New Cargo Carrier Operating Agreement

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## **RECOMMENDATION:**

It is recommended that the City Council:

1. Authorize the execution of Second Amendment to Land and Special Facilities Lease Agreement with Federal Express Corporation relative to the use of approximately 168 acres of land and facilities being situated at Fort Worth Alliance Airport on all of Lot 1, Block 1, FEDEX Addition, City of Fort Worth, Denton, Texas, Located at 2001 World Wide Drive, Fort Worth, Texas, 76177; and
  2. Authorize the execution of a new Cargo Carrier Operating Agreement with Federal Express Corporation at Fort Worth Alliance Airport.
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## **DISCUSSION:**

The purpose of the M&C is to authorize the execution of a Second Amendment to Land and Special Facilities Lease Agreement with Federal Express Corporation relative to the continued use of 168 acres of land and facilities owned by the City of Fort Worth at Alliance Airport to support their package sorting and air cargo transport operations.

The City Council, on April 11, 1995, approved Resolution No. 2055 authorizing the City Manager to proceed with the design phase of Alliance Airport Improvements - Federal Express Southwest Hub.

On November 21, 1995, the City Council approved M&C G-11309 which authorized the City Manager to submit to the Federal Aviation Administration an amendment to the Alliance Airport Layout Plan that would include the Federal Express site in the airport boundary and increase the size of the Airport.

On March 26, 1996, M&C C-15358, the City Council:

1. Adopted a Resolution Approving a Resolution of Alliance Airport Authority, Inc. with respect to the issuance of Bonds for Federal Express Corporation;
2. Adopted a Resolution Authorizing the Execution of an Operating Agreement and an Assumption and Assignment Agreement with respect to the facilities financed by the Alliance Airport Authority, Inc., for use by Federal Express Corporation;
3. Authorized the City Manager to execute a Second Amendment to Management Agreement with Alliance Air Services relative to the revision of the Alliance Airport Layout Plan to include the Federal Express Corporation donated property as part of the Alliance Airport and to exclude payments made to the City or Alliance Airport Authority for the bond indebtedness as Airport Revenue as defined in the Management Agreement; and
4. Authorized the City Manager to approve the assumption of "Right of First Opportunity to Negotiate a Lease".for Hillwood/2470 Ltd. at Alliance Airport, granting Hillwood the first opportunity to negotiate a lease of the property when the property is no longer leased to Federal Express Corporation.

On or about April 1, 1996, the Alliance Airport Authority, Inc. ("Authority"), and Federal Express Corporation ("FedEx") entered into a Land and Special Facilities Lease Agreement ("Lease") for the use of approximately 168 acres of land and construction of facility improvements to be used by FedEx, the construction of which was financed through the sale of tax exempt Special Revenue Bonds issued by the Authority in the amount of \$249,540,000. The Agreement was for twenty-five (25) years with a termination date of April 1, 2021. Consideration for the Agreement was the repayment of the bond debt by FedEx. FedEx retired the debt in April 2016 and has been paying \$1 per year under the ground lease payment provision of the Lease.

The Authority and FedEx contemporaneously with the execution of the Agreement, entered into an Assignment and Assumption of the Lease dated April 1, 1996, (CSC 21755), assigning to the City all right, title and interest in the leased premises and improvements, and conveyed fee simple interest in the 168 acres to the City via Warranty Deed dated April 10, 1996, as recorded in Instrument No. 96-R0024070 in the real property records of Denton County, Texas.

On or about May 1, 2006, the Authority and FedEx, with consent of the City, executed the First Amendment to the Agreement via Resolution No. 3332-04-2006, dated April 4, 2006 to add provisions and make necessary changes in order to move forward with the issuance of the refunding

bonds.

**Second Amendment to Land and Special Facilities Lease Agreement ("Lease")**

With the aid of two (2) appraisals of the property a negotiated agreement has been reached with FedEx to amend and extend the Lease, set to expire on April 1, 2021, under the following terms and conditions:

- Lease Term: 20 Years, effective April 2, 2021 and expiring on April 1, 2041
- Base Rent:
  - \$2,012,474.20 annually, years 1-5
  - Base Rent to escalate 6% on April 1,2026, with 2% annual rent adjustment starting in year 6 and continuing each year thereafter during the remaining term of the Lease
- Additional Consideration:
  - FedEx shall make qualifying capital improvements in the amount of \$20M prior to March 31, 2041 - any unspent portion will be paid to the City at the end of the lease term or default.
  - At least \$15M of the capital improvements must be made by March 31, 2026. If not, Base Rent will be increased by .0787% of the unspent portion of the capital investment obligation through the remaining term of the Lease.
  - Capital investment may include facility expansion for a U.S. Customs clearance operation.

**Cargo Carrier Operating Agreement**

Concurrently with the execution of the Lease extension, FedEx will enter into a new Cargo Carrier Operating Agreement to be coterminous with the Lease under the following terms:

- Term: 20 Years, effective April 2, 2021 and expiring on April 1, 2041.
- Landing Fee Rate: \$1.65 per one-thousand pounds maximum gross weight of aircraft, adjusted annually based on the upward percentage change in the Consumer Price Index (CPI), or 85% of the City's published Non-Signatory Landing Fee Rate, whichever is the lessor.
- Special Charges by the City are assessed for:parking on a public ramp, special licenses and permits, special services requested by FedEx and costs for removal of disabled aircraft. The rate for the Special Charges is based on reasonable, documented out-of-pocket costs and expenses plus twelve percent (12%).

The Cargo Carrier Operating Agreement is projected to generate first year revenue of approximately \$1,385,000.00. Under the Management Agreement between the City of Fort Worth and Alliance Air Services, which manages Alliance Airport, Alliance Air Services receives sixty-five percent (65%) of funds collected under the Cargo Carrier Operating Agreement and the City receives thirty-five (35%) of the funds. The funds are disbursed monthly to the City of Fort Worth Aviation Department. Cargo Carrier Operating Agreements comply with airport policy as well as City, state, and federal guidelines.

ADVISORY BOARD APPROVAL: On February 4, 2021, the Aviation Advisory Board will vote to recommend that the City Council approve the New Cargo Carrier Operating Agreement.

Fort Worth Alliance Airport is located in Council District 7

A Form 1295 is not required because: This contract will be with a publicly-traded business entity or a wholly-owned subsidiary of a publicly-traded business entity: Federal Express Corporation

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**FISCAL INFORMATION / CERTIFICATION:**

The Director of Finance certifies that upon approval of the above recommendation the Aviation Department and the Financial Management Services Department have the responsibility for the collection and deposit of funds due to the City under these Agreements. Revenue from the agreements are estimated at \$3,397,474.00 annually.

**Submitted for City Manager's Office by:** Fernando Costa 6122

**Originating Business Unit Head:** Roger Venables 6334

**Additional Information Contact:** Roger Venables 6334

Expedited