

Legislation Text

File #: 20-786, **Version:** 1

Presenter/Contact

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SUBJECT:

Discuss and consider approval of a resolution recommended by the Board of Directors of the City of New Braunfels Economic Development Corporation approving a project expenditure of up to \$320,000 to Aviation Academy of America for construction of certain infrastructure improvements at the New Braunfels Regional Airport, an eligible project expenditure; and declaring an effective date.

BACKGROUND / RATIONALE:

Aviation Academy of America (VT-AAA) is a Part 141 flight school with a current location at the New Braunfels Regional Airport. VT-AAA offers flight training and certifications that can equip an individual without any experience with all the certifications, hours and training needed to fly for regional or major airlines. The company is a subsidiary of VAAYU Group, which is a consortium of companies focused on aerospace education, engineering, logistics and maintenance. Part 141 refers to a part of Federal Aviation Regulations (FARs) that describes the regulations for flight training institutions and flight schools. Under Part 141, a flight school seeks and must maintain FAA approval for its training curriculum, syllabus and lesson plans for a more structured flight training environment.

The flight school has seen and anticipates significant growth in demand for its services in flight training and aviation maintenance technicians (A&P). Currently, the school operates out of an existing hangar, with classroom space provided in different facilities at KBAZ and office space leased off the airport. The company desires to consolidate these functions into one facility and provide space to accommodate the anticipated demand in flight training and A&P techs in a single facility adjacent to Taxiway F and the current air traffic control tower. The expansion would allow the company to train an additional 400-500 student pilots annually, with additional flight instructor positions, maintenance personnel and support staff positions.

The company is planning a build-to-suit hangar, office and classroom space adjacent to the existing Canyon Aviation hangars. The planned ~23,000 hangar would incorporate ~12k SF of hangar space, and ~11k SF of classroom and office space. The hangar developer/owner would enter a 40-year ground lease with KBAZ and VT-AAA anticipates purchasing the hangar at the end of its first 15 year lease. The estimated total development cost of the hangar is ~\$3M. The project will be responsible for providing vehicular access to the hangar by extending an existing access road that currently terminates around the Canyon Aviation hangars.

Proposed lease rates of ~\$11/SF are in line with market rents at the airport and the hangar's financing terms appear reasonable. The project shows an approximate financing gap of ~\$280,000-\$350,000 assuming an after-tax leveraged investor Internal Rate of Return of 10%.

Performance Agreement:

The draft performance agreement outlines the major terms of the proposed agreement. Specifically, it calls for the company to:

- Construct or cause to be constructed a minimum 22,000 ft² of hangar and office/classroom space at BAZ.
- Create and maintain new, full-time positions according to the following schedule:
 - 10 positions within one year of receipt of Certificate of Occupancy (“COO”) for facility
 - 5 additional positions (15 new) within two years of receipt of COO
 - 5 additional positions (20 new) within three years of receipt of COO
 - Maintain at least 20 new positions for a period of five years from date of COO at an annual base gross payroll of \$800,000
 - All the positions should be in place for at least one year prior to receiving any funds and would require yearly affidavits signed by principals that the positions exist. This would be verified through a review of Form 941s and other related payroll information.
- Purchase at least 60,000 gallons of 100 LL fuel from the FBO at KBAZ on an annual basis.
- There would be no ongoing commitments between the parties after 5 years.

The airport will also enter an MOU with the company to provide for graduated fuel discounts as quantities purchased increase. Every shortfall of 1,000 gallons of fuel purchased will result in a reduction of \$1,000 in proposed incentive payment annually.

ADDRESSES A NEED/ISSUE IN A CITY PLAN OR COUNCIL PRIORITY:

x	Yes	Envision New Braunfels	ACTION 1.9: Position the NB Airport so that it will be a preferred regional airport. ACTION 1.8 Concentrate future investment in industrial and employment centers near existing and emerging hubs, such as the airport; and along existing high capacity transportation networks, such as Interstate Highway 35.
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FISCAL IMPACT:

The EDC’s typical incentive offering is to provide the company with an amount equal to the company’s net fiscal impact over five years. The fiscal impact analysis undertaken for this project shows a 10-year net present value of \$527,591 and 5-year payback of \$323,568. This assumes a relatively conservative \$1.25M appraised value for the new hangar, \$500,000 in business personal property and an estimate of the annual net revenue derived from a doubling of current fuel purchases from the FBO at the airport. The company purchases aviation fuel at the New Braunfels Regional Airport for its training operations and the model assumes a doubling of fuel purchases over the project’s first five years:

Scenario	10 year Net Fiscal Impact	Present Value	5-year payback
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Expansion- with fuel sales considered	\$690,278	\$527,591	\$323,568
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The proposed payout to the company over 5 years is approximately \$64,000 annually. The company must fulfill the performance requirements in order to be eligible for the annual grant funds.

There are sufficient funds available for this project expenditure.

COMMITTEE RECOMMENDATION:

The Economic Development Corporation Board of Directors unanimously approved the expenditure at its meeting on October 15, 2020.

STAFF RECOMMENDATION:

Staff recommends approval of the resolution and project expenditure.