



Review of Aviation Real Property Leases at Fort Lauderdale-Hollywood International Airport

Office of the County Auditor

Audit Report

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**Report No. 18-11
November 8, 2017**



Office of the County Auditor

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Honorable Mayor and Members of the Board of County Commissioners:

We have conducted our review of Aviation real property leases at Fort Lauderdale-Hollywood International Airport.

We conclude that BCAD maintained a complete list of active real property leases for properties located outside of the terminal area at FLL Airport. We conclude that these active lease agreements generally comply with the Administrative Code requirements. However, we noted BCAD has not assessed interest on late payments since the implementation of PeopleSoft in April 2016. As a result, BCAD may have potentially lost \$120,000 in interest revenues for the 16-month period of April 2016 through July 2017. An Opportunity for Improvement is included in this report.

We appreciate the cooperation and assistance provided by the Broward County Aviation Department and other County agencies contacted during the course of our review.

Respectfully submitted,

A handwritten signature in blue ink that reads "Bob Melton".

Bob Melton
County Auditor

cc: Bertha Henry, County Administrator
Andrew Meyers, County Attorney
Mark Gale, Director, Broward County Aviation Department

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INTRODUCTION

Scope and Methodology

We conducted a review of Aviation real property leases at Fort Lauderdale-Hollywood International Airport. Our review objectives were:

1. To evaluate whether the Broward County Aviation Department (BCAD) maintained a complete list of active real property leases for locations outside of the terminal area at Fort Lauderdale-Hollywood International (FLL) Airport, and
2. To evaluate whether these real property leases complied with requirements of Chapter 39.3 of Broward County Administrative Code (Code) for Non-Terminal Rates and Charges.

To evaluate the completeness of the BCAD's lease records, we reviewed Airport management's lease records, Airport facility inventory and layout plan maps, and a list of tenants paid and recorded in the Aviation Operating Revenue Detail Report for fiscal year (FY) 2016; and we compared these documents to evaluate the completeness of management's records and to identify the population of active real property leases in FY 2016 for testing.

To evaluate compliance with applicable Code requirements, we reviewed Chapter 39.3 of the Code for Non-Terminal Rates and Charges; we reviewed all active real property lease agreements in FY 2016 including their amendments; we reviewed selected supporting documentation for the leases including appraisal reports, agenda items, invoices, finance sheets tracking rental payments, and interest penalties report for FY 2016; we tested these documents to ensure the lease agreements complied with the specific Code requirements; and we reconciled Aviation lease rental revenues reported for FY 2016 to the lease agreements.

We also interviewed BCAD staff to obtain an understanding of Airport leasing practices and the process to track and manage leases; we consulted with the County Attorney's Office regarding lease agreements with exceptions to the Code, and we consulted with Real Property staff regarding property appraisal methods and related compliance with the Code requirements.

Our review included 21 active real property leases for locations outside of the terminal area at FLL Airport during FY 2016. We excluded the leases within the terminal area (such as commercial airline, car rental and concession leases) from the scope of this review. Therefore, we express no conclusions regarding these leases.

Overall Conclusion

We conclude that BCAD maintained a complete list of active real property leases for properties located outside of the terminal area at FLL Airport. We conclude that these active lease agreements generally comply with the Administrative Code requirements. However, we noted BCAD has not assessed interest on late payments since the implementation of PeopleSoft in April 2016. As a result, BCAD may have potentially lost \$120,000 in interest revenues for the 16-month period of April 2016 through July 2017. An Opportunity for Improvement is included in this report.

Background

Fort Lauderdale-Hollywood International (FLL) Airport is owned by the Broward County Board of County Commissioners (Board) and is operated by the Broward County Aviation Department (BCAD). The main on-Airport land uses at FLL include airfield, undeveloped and preserve/buffer/recreational land, terminal passenger facilities, general aviation, airport support, cargo and non-aeronautical uses. Exhibit 1 below depicts the acreage and percentage of on-Airport land uses by these categories.

Exhibit 1: On-Airport Land Uses

Land Uses	Acreage	Percentage
Airfield	729	42%
Undeveloped and Preserve/Buffer/Recreational	523	31%
Terminal Passenger Facility	160	9%
General Aviation	126	8%
Airport Support	88	5%
Cargo	57	3%
Non-Aeronautical	35	2%
Total	1,718	100%

Source: Airport Master Plan Update Existing Conditions Inventory dated January 2017

Airport Real Property Leases

FLL Airport currently leases terminal and non-terminal properties to a variety of entities. As previously stated, our review covers active real property leases for locations outside of the terminal area at FLL Airport during FY 2016. This includes 21 active real property leases pertaining to general aviation, airport support, cargo, and non-aeronautical services. In FY 2016, revenues for these real property leases totaled \$6.85 million.

General aviation (GA) tenants are typically businesses and government agencies that provide a full range of services to meet the operational and safety needs of private and general aviation aircraft operators. At FLL Airport, GA tenants include six¹ Fixed Base Operators (FBOs), which provide services related to aircraft rentals and parking, hangar rentals, refueling, flight instruction, and light maintenance. Exhibit 2 below depicts all 21 real property leases and shows their services and lease types, terms, locations and rental payments made in FY16.

Exhibit 2 - 21 Real Property Leases Reviewed

#	Service Type	Tenant	Term (Yrs.)	Lease Type	Location	FY 2016 Rent Pmts
1	FBO	Azorra Aviation	32 ²	Land	Northside	\$ 306,750
2	FBO	Embraer Aircraft Holding	40 ²	Land	Northside	567,197
3	FBO	Sheltair Aviation Northside	30	Land	Northside	320,080
4	FBO	Virginia-Carolina A Joint Venture	30	Land	Northside	778,703
5	FBO	Aero Lauderdale	20	Land	Northside	863,207
6	Fuel Farm	The Carolina Group	26	Land	Northside	20,763
7	Maint.	Delta GSE Maintenance	10	Land	Northside	143,478
8	Cargo	Airside Ft. Lauderdale	29	Land	Northside	389,981
9	Cargo	Cargo Airport Services USA	5	Cargo Bldg	Northside	71,970
10	Cargo	Delta Cargo	10	Cargo Bldg	Northside	161,907
11	Cargo	Southwest Airlines Cargo	5	Cargo Bldg	Northside	143,939
12	Cargo	United Air Cargo	11	Cargo Bldg	Northside	30,118
Subtotal - Northside						\$ 3,798,093
13	FBO	Sheltair Aviation Westside	33 ²	Land	Westside	1,417,417
14	FBO	Signature Flight Support	20	Land/Bldg	Westside	879,419
15	Fuel Farm	Sheltair Aviation Fuel Farm	33 ²	Land	Westside	28,096
16	Comm	BellSouth Telecommunications	30	Land	Westside	1,280
17	Airport Support	Broward County Fire Rescue Division - Firehouse	30	Land	Westside	N/A**
18	Rental Car	Avis Rent A Car System	16	Land	Westside	374,077
19	Non-Aeronautical	Naval Air Museum	N/A*	Land	Westside	N/A**
20	Non-Aeronautical	Broward County Animal Care and Adoption	9	Land	Westside	148,383
21	Non-Aeronautical	Lauderdale Small Boat Club	10	Land	Westside	206,505
Subtotal - Westside						\$ 3,055,177
FY 16 FLL Real Property Leases Total						\$ 6,853,270

Source: Prepared by the Office of the County Auditor with information obtained from BCAD

* Historical site with no expiration date in its Memorandum of Understanding dated November 5, 1998

** No rental payments are required for Broward County Fire Rescue Division and Naval Air Museum

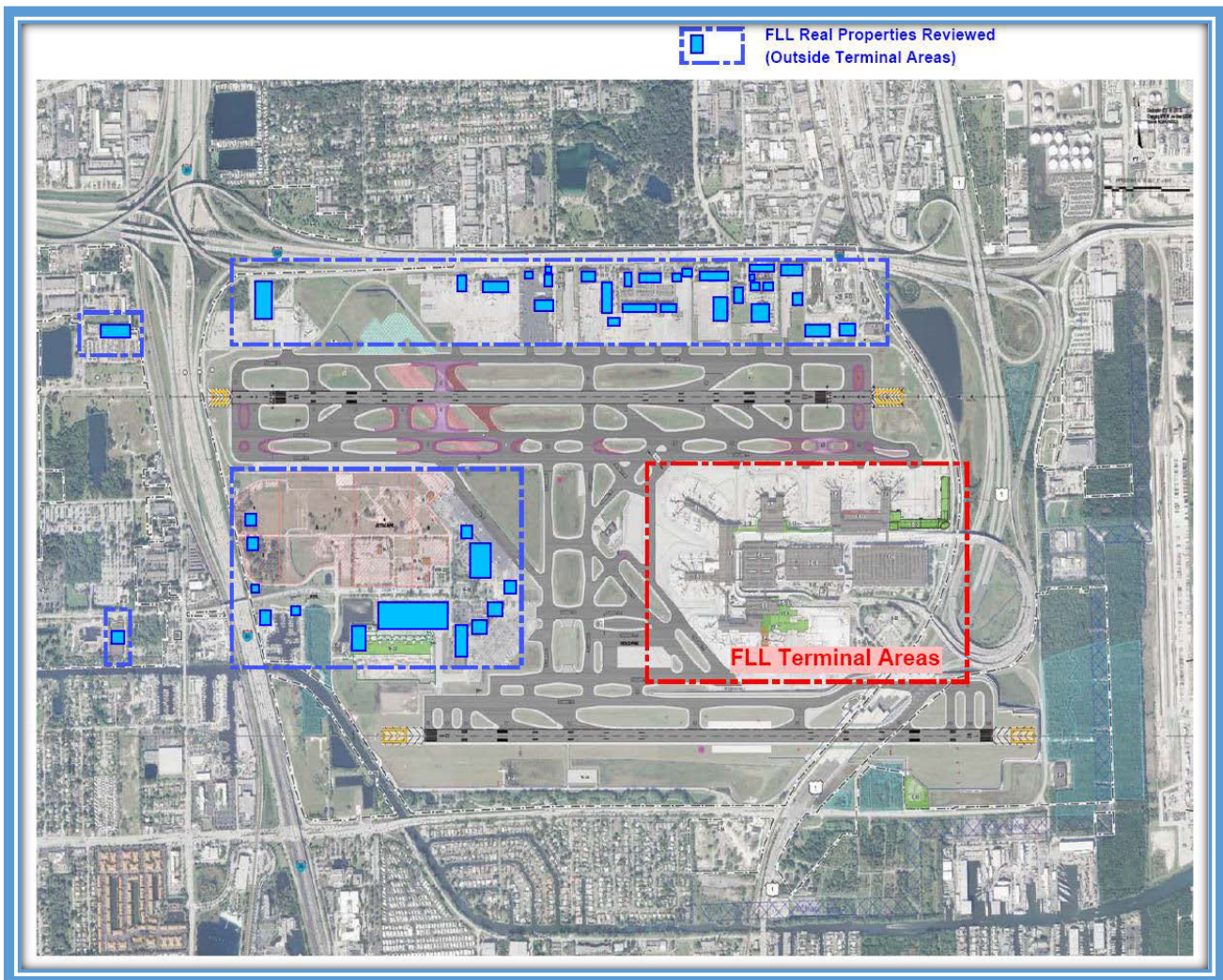
¹ Sheltair Aviation, LLC is a Fixed Base Operator that has two separate lease agreements for north and west side locations.

² Contract terms exceed 30 years, and the related amendments for term extensions were approved by the Board.

Real Property Inventory

BCAD maintains an Airport Layout Plan that identifies Airport real properties for use in developing physical, operational, and functional characteristics of improvements to the FLL Airport. The Airport Layout Plan identifies and accounts for all leased, Federal agency or County operated, and vacant properties at the Airport. Exhibit 3 below shows the land and facility locations for the 21 real property leases reviewed. Note that some leases have more than one location.

Exhibit 3: Land and Facility Locations for 21 Real Property Leases



Source: Prepared by the Office of the County Auditor with information obtained from BCAD

Airport Lease Administration

Airport leases are initiated, negotiated, managed and billed by BCAD. BCAD's Business and Properties Management and Finance Divisions have key roles in the administration of these leases.

The Business and Properties Management Division is responsible for negotiation and day-to-day administration of Airport leases. This generally includes obtaining appraisals, establishing rental rates, developing, preparing and administering lease agreements and amendments, maintaining a list of active lease records, and performing property inspections. BCAD's Finance Division is responsible for invoicing tenants, recording income, and providing financial reports.

County Policy for Airport Leases

The Broward County Administrative Code (Code), Chapter 39.3 includes the following requirements for non-terminal rates and charges at FLL Airport:

- 30-year maximum lease term,
- Market rent shall be 8-15% of the appraised value,
- 10 and 20-year appraisals to establish market rent,
- A second appraisal when projected lease rents exceed \$2 million with a final determination of value by the County,
- Annual adjustment of market rent, based on adjustments in the United States Consumer Price Index (all items) ("CPI"), or 3% over the last year's rent, whichever is greater, and
- 18% interest rate per annum for late payments.

OPPORTUNITIES FOR IMPROVEMENT

Our review disclosed certain policies, procedures, and practices that could be improved. Our review was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunity for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

BCAD Should Charge Interest on Late Payments.

During our review, we noted that interest on late payments for lease agreements have not been charged by BCAD since the implementation of the PeopleSoft System (PeopleSoft) in April 2016. This may have resulted in loss of \$120,000 in revenues for the 16-month period from April 2016 through July 2017. Chapter 39.3 of the Code requires interest at the rate of 18% per annum to be charged on all lease payments that are not made when due.

Upon our request, BCAD staff provided support showing approximately \$45,000 of interest on late payments billed for all airport active contracts prior to PeopleSoft, for the six months period of October 2015 through March 2016. Based on these prior billings, we estimated interest on late payments for all airport contracts may have been approximately \$120,000 for the 16-month period from April 2016 to July 2017 (based on prior experience). When interest on late payments is not assessed, BCAD loses revenues.

Interest on late payments were recorded in the Advantage Financial System prior to implementation of PeopleSoft in April 2016. However, as advised by BCAD staff, the County's Enterprise Resource Planning (ERP) staff are still working on setting up a process for assessing interest on late payments for not only lease agreements, but all airport contracts. As a result, interest on late payments for all airport active agreements have not been assessed in PeopleSoft since the system implementation in April 2016.

It is essential that management have adequate systems and procedures in place to bill all amounts due. Otherwise, funds due to the County are not collected.

We recommend Management:

- A. Calculate interest on late payments for all airport contracts from April 2016 to July 2017 and bill vendors for the interest.

- B. Immediately manually bill interest for all airport vendors on late payments per their contracts and the Code requirements until PeopleSoft can electronically perform this function going forward.
- C. Immediately update the PeopleSoft system to implement a process for assessing interest on late payments.

Management's Response:

A & B. Given the estimates are extrapolated from prior history, staff will conduct a cost benefit analysis to determine both accuracy and impact, on a case by case basis for late interest payments due for the affected accounts.

C. Resources are being scheduled immediately to implement the proper billing functionality to recover interest prospectively on all late lease payments.