

CITY COUNCIL WORK SESSION

APRIL 4, 2023

The City Council of the City of McKinney, Texas met in work session in the City Hall Council Chambers, located at 222 N. Tennessee Street, McKinney, Texas on Tuesday, April 4, 2023 at 4:00 p.m.

The work session was broadcast live on cable television and through the City's website on Spectrum Channel 16; AT&T U-Verse Channel 99; and <https://mckinneytx.new.swagit.com/views/130>. A video recording of the work session is available to the public through the City of McKinney meetings archive.

Mayor George C. Fuller called the meeting to order at 4:00 p.m. upon determining a quorum of the City Council consisting of himself and the following members were present: Mayor Pro Tem Rainey Rogers, and Council Members Justin Beller, Geré Feltus, Rick Franklin, Charlie Philips, and Patrick Cloutier.

These City of McKinney Staff were present: City Manager Paul Grimes, Assistant City Manager Kim Flom, Assistant City Manager Barry Shelton, Assistant City Manager Steve Tilton, City Attorney Mark Houser, City Secretary Empress Drane, City Secretary Administrative Assistant Blenda Sims, Director of Organizational Development & Performance Management Joseph Mazzola, Director of Strategic Services Trevor Minyard, Director of Public Safety Greg Conley, Police Chief Joe Ellenburg, Assistant Police Chief Matthew Kasmerski, Police Financial Analyst Cammie Martin, Assistant Fire Chief Chris Lowry, Chief Financial Officer Mark Holloway, Director of McKinney National Airport Kenneth Carley, Community Services Administrator Shirletta Best, Community Services Coordinator Margaret Reams, Housing & Community Development Administrative Assistant Lupe Armijo, Transit Service Administrator Akia Pichon, Transit Service Coordinator Jasmine Stillwell, Parks Planning Manager Jill Yount, Video Producer William Hicks, Director of Engineering Gary Graham, Facilities Construction Manager Patricia Jackson, and President of McKinney Economic Development Corporation (MEDC) Peter Tokar III.

There were approximately thirty (30) members of the public present in the audience including 2023 Election Candidate Michael Jones, 2023 Election Candidate

Tom Meredith, McKinney Community Development Corporation (MCDC) Secretary Deborah Bradford, 2023 Bond Election Committee and Capital Improvements Advisory Committee (CIAC) Member Steve Wilson, and 2023 Bond Election Committee Member David Clarke.

Mayor Fuller called for the Information Sharing item:

23-0245 Proclamation for National Community Development Week

Mayor Fuller called for Public Comments.

Hank Johnston, 2627 Clublake Trail, McKinney TX 75072, spoke regarding the airport bond election stating not enough information was available for the voters to decide on the measure. Mr. Johnson also submitted written comments as follows:

"Mr. Mayor, Mayor Pro Temp, Honorable Council Members,

I'm Hank Johnston, 2627 Clublake Trail. Property Owner in McKinney for nearly thirty years but many of those, until two years ago, were in South Carolina where I was a Council Member and Mayor for 10 years. In full disclosure, I also own property south of the airport. I'm here today not for nor against the Airport expansion...not enough information. However, I am against the Bond Election, same reason...not enough information for a public vote.

I attended the Open House a couple of weeks ago disappointed. The study you've commissioned, in my opinion, doesn't come close to giving the public the information they need. The traffic study doesn't consider all the traffic in the area with all the warehouse development currently in process along FM 546, Spur 399 not being completed, 380 bypass not completed yet the flyMcKinney material discusses the projected travelers coming from the counties North and East of Collin County. The public needs a complete picture of all traffic projections before considering additional development. Have any of you ever traveled 380 from Princeton in the morning?

The environmental aspect of the study doesn't consider the total migratory bird impact in this area especially around the Heard Museum and needs a complete picture of auto and air traffic impacts.

It has been stated that nothing's going to happen without a commitment from an airline, yet the materials discuss construction starting in 2024 and 2025 with completion in 2026. If you're that close to having an airline commitment, the public needs to know

more. You don't have to discuss who's coming but who have you talked with, what type of flights are anticipated...connector flights or direct to major airports. Airline transportation hasn't reached pre-covid levels. DFW and Love air transportation is down more than nationally. DFW has postponed indefinitely construction of terminal F. And instead is adding more gates than is planned in this expansion to terminal C. Regional aircraft seats in 2021 were down 23%. The FAA estimates it will be 2024 before 2019 levels are reached and 2025 for International. DFW is not projected to reach capacity until 2038. Where is the justification for this airport expansion?

The Bond Election is asking for approval for raising taxes to cover principal and interest with 7-12 year before self sustainable operation. Also, McKinney is on the hook to pay for some percentage of the costs for the 380 bypass costs. What's that projected cost? Taxes are already out of sight in McKinney and Collin County. This Bond Election appears to be a rush to judgement.

I beg you to withdraw this item from the Ballot, complete all the studies, economic, traffic, and environmental presenting a complete picture and come back when the benefits can completely be communicated to the public."

Dianca Bell, 703 Throckmorton Pl, McKinney TX 75069, stated her child sustained an injury in a classroom at Caldwell Elementary School requested the City Council to provide assistance in the matter.

Wade Hinkle, 2106 Fairway Vista, McKinney TX 75072 spoke in support of developing commercial service at the airport.

Mayor Fuller called for the Council to discuss agenda items for the City Council Regular Meeting to be held on Tuesday, April 4, 2023 at 6:00 p.m. There was no discussion of said items.

Mayor Fuller called for the Work Session item.

23-0246 Discuss Airport Terminal Project Financial Model

Adam Giombetti of WJ Advisors presented information regarding the item. The presentation was not included on the agenda but is included in these minutes as *Appendix A: Presentation*.

Mayor Fuller called for Council Liaison Updates regarding city Boards & Commissions at which time there were no updates.

Mayor Fuller called for the Executive Session at 4:45 p.m. in accordance with the Texas Government Code:

A. Section 551.071(2) Consultations with Attorney on any Work Session, Special Session, or Regular Session agenda item requiring confidential attorney/client advice necessitated by the deliberation or discussion of said items (as needed)

B. Section 551.071 (A) Pending or contemplated litigation

C. Section 551.072. Deliberations about Real Property

- Honey Creek Development Agreement Term Sheet

- Municipal Facilities

D. Section 551.074. Personnel Matters

- City Manager Annual Performance Evaluation

E. Section 551.087. Deliberation Regarding Economic Development Matters

- Craig Ranch Hotel, LLC

- Project 20-09 TUPPS Brewery & Entertainment Destination

- Project Hemispheres

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- Craig Ranch Hotel, LLC

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Council returned to the open work session with the following Members present: Mayor George C. Fuller, Mayor Pro Tem Rainey Rogers, and Council Members Justin Beller, Geré Feltus, and Patrick Cloutier.

Council Members Rick Franklin and Charlie Philips did not return from the executive session.

Council unanimously approved the motion by Council Member Patrick Cloutier, seconded by Mayor Pro Tem Rainey Rogers, to approve the resolution on Craig Ranch Hotel as discussed in the executive session. The resolution not included on the agenda is included in these minutes as *Appendix B: Resolution*.

Council unanimously approved the motion by Council Member Patrick Cloutier, seconded by Mayor Pro Tem Rainey Rogers, to approve the Millen Oil item as discussed in executive session.

Council unanimously approved the motion by Mayor George Fuller, seconded by Council Member Patrick Cloutier, to approve the employment for the City Manager as discussed in the executive session.

Council unanimously approved the motion by Mayor Pro Tem Rainey Rogers seconded by Council Member Patrick Cloutier to adjourn the work session at 5:59 p.m.

These minutes were approved by the City Council on April 18, 2023.

SIGNED:

GEORGE C. FULLER, Mayor
RAINEY S. ROGERS, Mayor Pro Tem

ATTEST:

EMPRESS DRANE, City Secretary

City of McKinney, Texas

2023 BOND ELECTION NEW TERMINAL FORECAST ASSUMPTIONS

APRIL 4, 2023



KEY TAKEAWAYS

- Multiple step process was used to develop the new terminal forecast
- Operating forecast is conservative but in-line with other similar sized airports
- The City will have to support a portion of the operations (e.g., debt service), as net revenues are not sufficient
- Traffic and federal funding are key risk factors that could impact the results



SLIDE 2

APPROACH AND OVERVIEW



SLIDE 3

APPROACH – WHAT WE DID

- Reviewed multiple financing structure options
- Assisted TKI Management in developing TKI operating revenue and expense projections based on internal estimates and comparable airport data
- Analyzed two different financing structures options based on
 - City General Obligation (G.O.) Bonds
 - Revenue Bonds (e.g., water treatment plant)

Baseline Assumptions

Construction starts in 2023

Facility operational in 2026

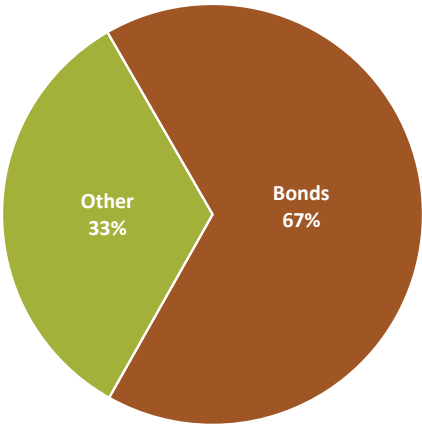


SLIDE 4

FUNDING SOURCES OVERVIEW

- TKI is expected to be funded with a combination of
 - General Obligation Bonds issued by the City
 - Federal grants received from ticket taxes
 - Other including low-interest federal transportation infrastructure loans

Funding Sources = \$300.7M



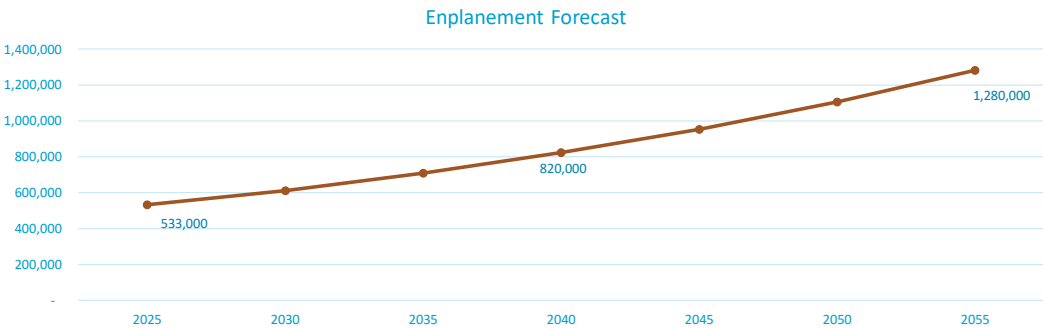
Preliminary – Subject to Change – For Discussion Purposes Only



SLIDE 5

PASSENGER TRAFFIC FORECAST

- CMT (a consultant to the City) prepared an in-depth market analysis assessing everything from the reasonableness of the geographic region to be served by TKI to air traffic demand projections. From this analysis, CMT prepared multiple projections of forecast aviation activity
- The traffic forecasts ranged from “very low” (178k departing passengers) to “very high” 888k (departing passengers) in 2025, the year when the new terminal is expected to be operational
- For financial modeling purposes, the medium range was selected (~3.0% growth) starting in 2026



The passenger forecast is the main driver of the airline and non-airline revenue outputs

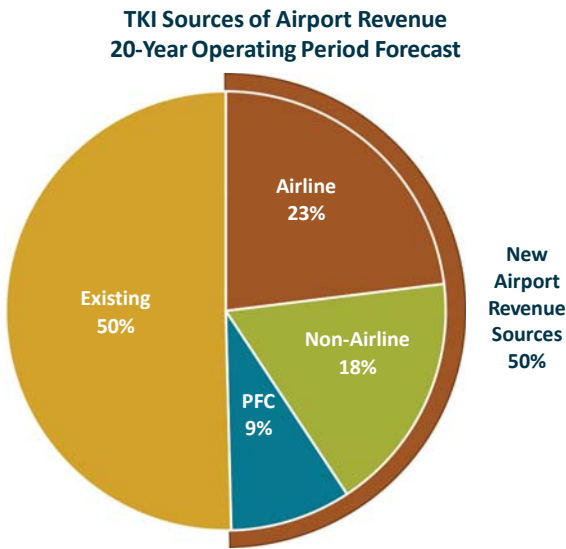
SLIDE 6

SOURCES AND USES OF AIRPORT REVENUE

SLIDE 7

SOURCES OF AIRPORT REVENUE

- There are four main sources of revenue:
 - Airline** – Includes landing fees and new terminal use fees
 - Non-Airline** – Includes public parking, car rental and terminal concessions
 - Passenger Facility Charge (PFCs)** – \$4.50 collected per enplaned passenger to fund Federal Aviation Administration (FAA) approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition
 - Existing Airport Revenues** – Includes FBO, fuel and general aviation sources per management based on the current operations



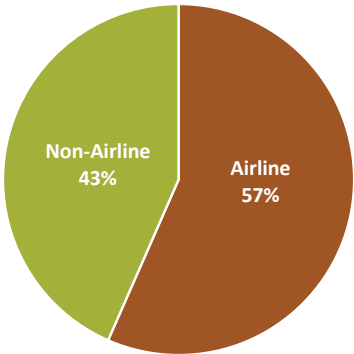
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SLIDE 8

SOURCES OF AIRPORT REVENUE – NEW TERMINAL

- Airline revenue
 - A fixed and escalating passenger fee was developed in order to attract carriers to operate out of TKI
 - Passenger fee was based on current fees (cost per enplanement) at other North Texas airports
- Non-Airline revenue
 - A per passenger spend assumption was developed based on comparable sized airports
 - Factors that determine passenger spend include type of traveler (e.g., business vs. leisure) and number of options
- Until traffic develops, TKI will be relying more on airline revenues when compared to the small hub average

TKI Operating Airport Revenues
20-Year Operating Period Forecast



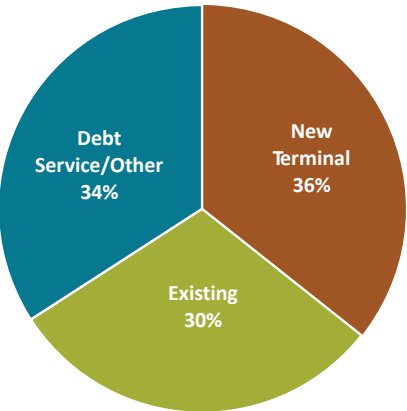
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SLIDE 9

USES OF AIRPORT REVENUE

- There are three main uses of revenue:
 - New Terminal** – To pay operating expenses of the new terminal such as personnel, services, contractual services and supplies to manage the day-to-day operations
 - Existing Airport Facilities** – Includes personnel, services and supplies to manage the current general aviation facilities/operations
 - Debt Service/Other** – Includes the G.O. Bonds debt issued by the City (e.g., interest and principal payments on all outstanding debt) and any other reserve or funding requirements

TKI Uses of Airport Revenues
20-Year Operating Period Forecast



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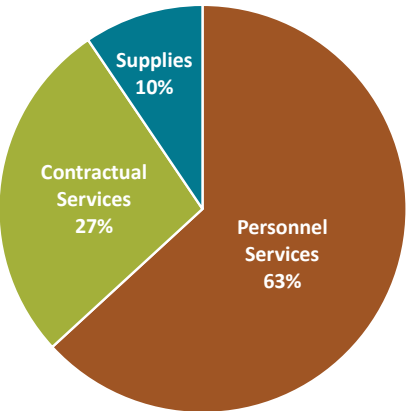


SLIDE 10

USES OF AIRPORT REVENUE – NEW TERMINAL

- A detailed operations and maintenance (O&M) forecast was developed based on other similar sized airports and TKI’s needs to become a commercial airport. The following categories were analyzed:
 - Personnel Services** – Includes additional airport personnel staffing needs as well as fire and police staff
 - Contractual Services** – Includes contracts to maintain and operate the facilities including janitorial, parking, terminal management and conveyances
 - Supplies** – Includes expenses primarily purchased through purchasing (e.g., computers, parts, paint)

TKI Uses of Airport Revenues
20-Year Operating Period Forecast



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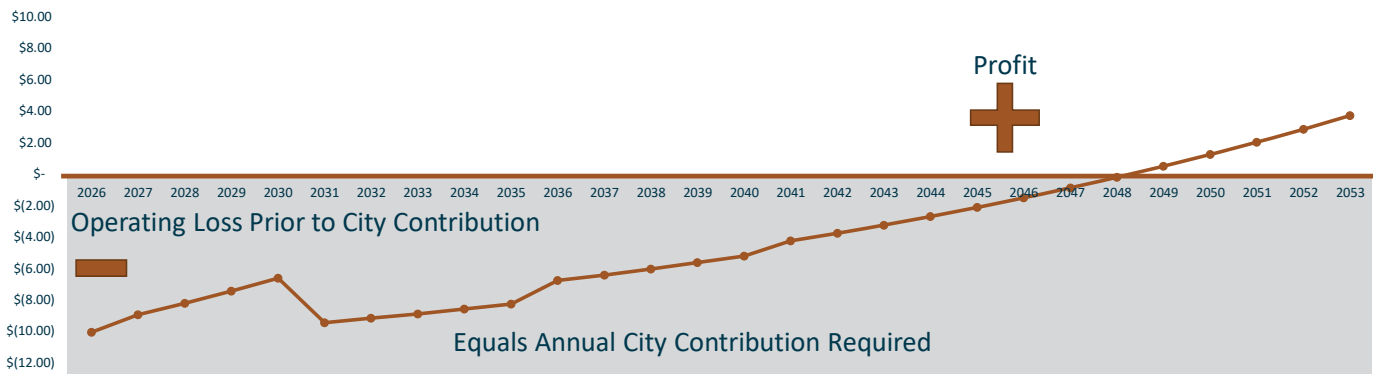


SLIDE 11

AIRPORT ANNUAL NET REVENUES/(LOSS) – PROFIT/(LOSS) FORECAST

- Reflects the amount that City will need to contribute until the Airport becomes self-supporting (profit)
- A 10% increase in airline or non-airline revenues would allow the Airport to become self-supporting approximately 2-years earlier

Airport Annual Net Revenues/(Loss) Forecast
(\$ in millions)



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SLIDE 12

SCENARIO OVERVIEW

- The outcomes of financial modeling can vary widely depending on the assumptions and inputs used in the model
- Several scenarios were analyzed to determine the City’s risk and opportunity
- Sensitivities include adjusting the following key project assumption categories:



SLIDE 13

MODEL SCENARIOS SENSITIVITY OUTPUTS

NPV (2023-2050)/ Break-Even Year	Negative Outcome Assumption	Category	Positive Outcome Assumption	NPV (2023-2050)/ Break-Even Year
		Base Case (\$81M) – 2048/2049		
(\$115M) 2053	(10%) decrease	<--Traffic-->	+10% increase	(\$61M) 2045
(\$81M) 2048/2049	Base Case O&M Assumption	<--O&M-->	25% reduction	(\$40M) 2042
(\$91M) 2051	(\$1) in per passenger spend	<--Non-Airline-->	+\$1 in per passenger spend	(\$71M) 2047
(\$101M) 2051	(\$20M)	<--Grants-->	+\$20M	(\$60M) 2046
(\$101M) 2051	O&M base case and (\$20M) in Grants	<--Combo-->	O&M reduction and +\$20M in Grants	(\$20M) 2040
(\$130M) 2054		<--All-->		\$9M 2036

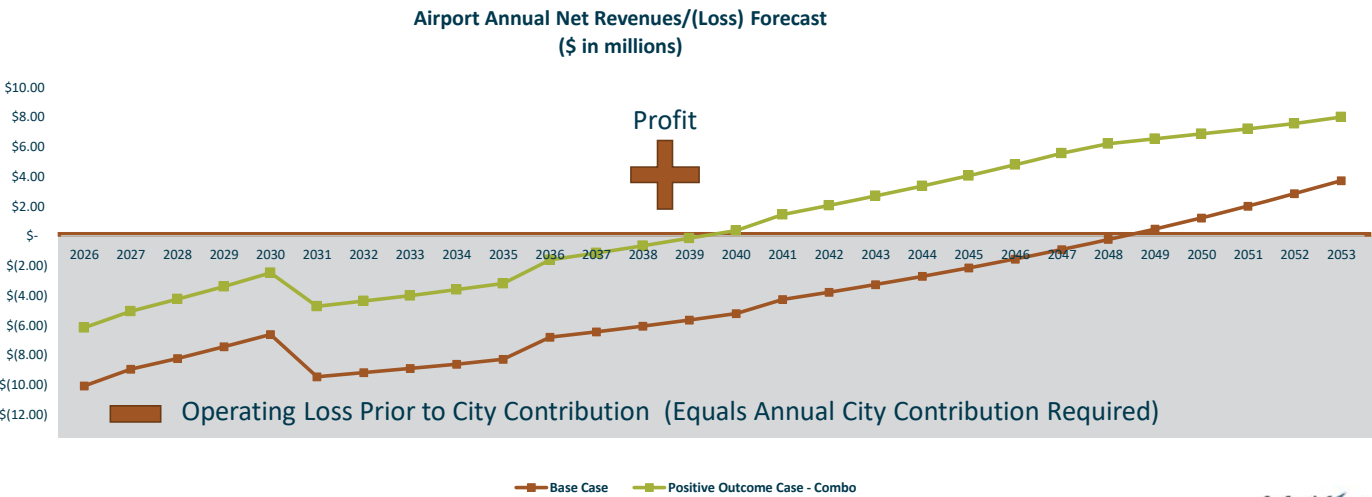
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SLIDE 14

AIRPORT ANNUAL NET REVENUES/(LOSS) – PROFIT/(LOSS) FORECAST - COMPARISON

- The Airport could be self-supporting 8 years earlier if the City was able to reduce O&M expenses by 25% (e.g., non 24/7 facility) and obtain an additional \$20M in grants



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SLIDE 15

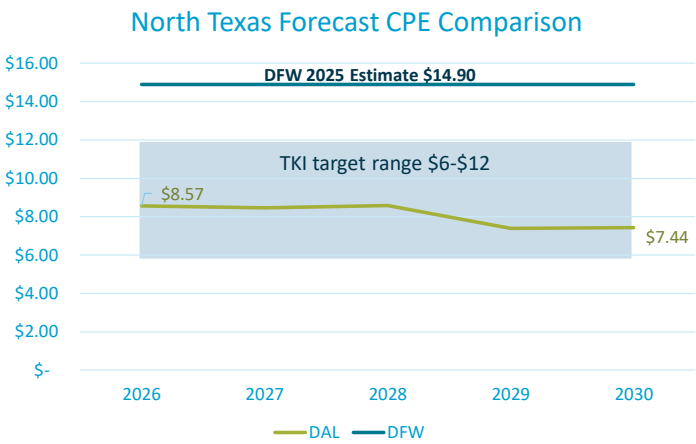
APPENDIX



SLIDE 16

COST PER ENPLANEMENT – AIRLINE REVENUES

- Known and Escalating Cost per Enplanement (CPE)
(Includes landing fees and terminal rentals)
- Comparable Dallas airport CPE estimates (Pre-COVID-19)
 - Dallas Love Field (DAL) – 9/30 Fiscal Year (FY)
 - FY2019: \$7.67
 - 2026 Estimate: \$8.57 - \$9.02 (per “2022 Dallas Investor Conference”)
 - Dallas Fort-Worth International Airport (DFW) – 9/30 Fiscal Year (FY)
 - FY2019: \$12.95
 - 2025 Estimate: \$14.90 (per Official Statement 2022A Series Bonds)



Note: Each airport is different in terms of what the airlines operate/pay for directly and what the airport operator provides and charges airlines through rates and charges. CPE does not factor in what airlines operate/pay for directly. As such, not all CPE comparisons are appropriate.

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SLIDE 17

COMPARABLE AIRPORT DATA

- Nonairline revenue (includes parking and rental car privilege fees, and retail and food & beverage concessions) and operations and maintenance (O&M) expense projections for TKI are based on a review of-comparable airports

	Nonairline revenues			O&M Expenses
	Parking and rental car privilege fees	Retail and food & beverage		
Per passenger:				
Assumption for TKI (in 2026):	\$6.76	\$0.76		\$17.10
				(new terminal only)
AVERAGE (based on FAA FY 2019 data):				
Up to 500,000 departing passengers	\$11.19	\$0.76		\$15.98
Includes Medford, OR and Lubbock, TX airports				
750,000 to 850,000 departing passengers	\$8.68	\$1.33		\$17.83
Includes Long Island MacArthur, NY and Colorado Springs, CO airports				
1.0M to 1.2M departing passengers	\$12.87	\$1.29	\$15.43	
Includes Piedmont Triad and Dane County, WI airports				
Small hub airport average	\$11.11	\$1.41	\$18.71	

SLIDE 18



(End of Appendix A: Presentation)

D44
RESOLUTION NO. 2023-04-__ (R)

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MCKINNEY,
TEXAS, SUPPORTING HOUSE BILL 1962 TO ENHANCE THE CITY'S
ABILITY TO ATTRACT A QUALIFIED HOTEL AND PROVIDING FOR AN
EFFECTIVE DATE**

WHEREAS, the Texas Tax Code authorizes the city to collect a Hotel Occupancy Tax to be used to further tourism and the hotel and convention industry; and

WHEREAS, House Bill 1962 of the 88th Legislative Session would allow for the state's portion of the hotel occupancy tax from a qualified future hotel to be returned to the City of McKinney for use as an incentive for the development of the qualified hotel; and

WHEREAS, the inducement of a new hotel and related facilities would develop the economy by bringing tourism dollars into the city.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MCKINNEY, TEXAS, THAT:

- Section 1. That the City of McKinney supports the passage of House Bill 1962 of the 88th Legislative Session and any other legislation that would expand the city's ability to promote tourism and the hotel and convention industry through the inducement of qualified hotels.
- Section 2. That the City Council encourages all state representatives and senators to vote in favor of House Bill 1962 and any other similar legislation, as means of allowing Texas communities to grow their local economies through the use of locally collected hotel occupancy taxes.
- Section 3. This Resolution shall be effective upon its passage.

DULY PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF MCKINNEY, TEXAS ON THE 4TH DAY OF APRIL 2023.

CITY OF MCKINNEY, TEXAS



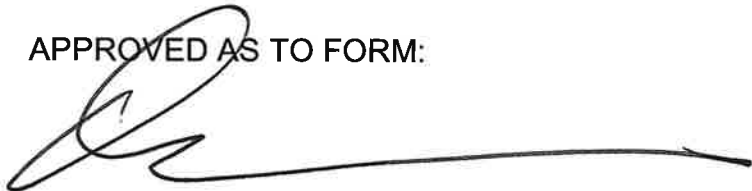
GEORGE C. FULLER
Mayor

ATTEST:



EMPRESS DRANE
City Secretary

APPROVED AS TO FORM:



MARK S. HOUSER
City Attorney