



Council Agenda Report

From: Mark Scandalis, Airport Manager

Subject: Approval of Airport Lease Agreement–Lot 42

CEQA Determination: The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Date: December 5, 2023

Facts

1. On October 27, 2022, the Airport Commission approved an aviation specific development concept for Lot 42, submitted by Legacy Aviation Development on behalf of its client Wright Stuff Hangars, LLC.
2. Following Airport Commission approval of concept, a lease agreement was negotiated by Airport staff in accordance with the City Council adopted lease policy.
3. Terms of the negotiated lease agreement are as follows:
 - a. Lease term: 20 years, with two 10-year options to extend for a total possible lease term of 40 years.
 - b. Rent commencement: 18 months following the effective date or upon issuance of the Certificate of Occupancy, whichever is first.
 - c. Base rent: \$6,639 per month.
 - d. CPI Adjustments: Yearly cost of living increases following rent commencement and every year thereafter. Every five years following the commencement date, rent may be adjusted upon appraisal of real property. Increases are capped at 8 percent per year and 20 percent over any five-year adjustment period.
 - e. Site Plan: Tenant agrees to apply for City approval of site plan within 120 days following the effective date of the lease.
 - f. Default: Failure to complete construction within five years is an event of default.
 - g. Additional City Revenue: In addition to the lease revenue, the agreement also calls for the City to collect 7.5 percent of gross revenue for transient aircraft storage.
 - h. Other Considerations: In addition to the primary aviation use, the Tenant has the option to use the leasehold as an event venue up to 24 times per year, in accordance with local and FAA regulations. The City has the option to use the event venue at no cost one time per year.
 - i. Reversion: Upon expiration or sooner termination of the lease agreement all improvements will become the property of the Airport.
4. On October 26, 2023, the Airport Commission voted 5-1 to recommend to the City Council that the proposed lease be approved. Per Airport Leasing Policy, the City Council concurrence is also required.

Options

1. Take no action;
2. Authorize the City Manager to execute the lease agreement with Wright Stuff Hangars, LLC, subject to any minor, technical, or non-substantive changes as approved by the City Manager and City Attorney; or
3. Provide alternative direction to staff.

Analysis and Conclusions

Parcel 42 at the Airport has been available for development for a significant amount of time. The area depicted was identified for commercial aviation development in the 2004 Airport Master Plan. Advertisement of this development opportunity has been done through direct communication by Airport Management to members of the public inquiring about development opportunities and communication through public discussion at Airport Commission meetings.

The proposed aeronautical development on the 5.4 acre parcel includes two large executive hangars with a building area totaling 61,000 SF +/-, a taxiway running the full length of the parcel, concrete apron/ramp space for aircraft parking, dedicated car parking areas, and the extension of dry and wet utilities along the boundary of lot 42 and 41 to benefit the future development of lot 41. The northern most hangar, "The Douglas Hangar" includes a proposed secondary use as an event space and is to be designed for assembly use, per building and fire departments standards. Once constructed this 31,000 SF building will provide a large event venue for the local area with expansive views of the Airport in the background.

As the Airport grows the need for hangar space will continue and this lease and the planned construction will help to serve the needs of the Airport now and into the future. Additionally, this lease agreement will provide necessary revenue to the Airport fund for the continued operation and maintenance of the Airport.

Fiscal Impact

At rent commencement, the lease agreement will provide additional revenue for the betterment of the Airport. Rental income will be \$6,639 per month or \$79,668 per year. The rental rate will track fair market value over the life of the lease with yearly cost of living increases and 5-year market adjustments based on appraisal of real property. In addition to the lease revenue, the lease agreement also calls for 7.5 percent of gross revenues received from transient aircraft storage. It would be difficult to estimate this potential revenue since it would be highly dependent on amount of use and size of aircraft stored, but generally it could be expected that transient aircraft would be charged \$0.80 - \$1.00/SF/night, of which the City would earn 7.5 percent.

CEQA

The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378. The City's approval of this Lease does not constitute approval by the City of any proposed development on the Premises or of other activity on the Premises that would have a direct or reasonably foreseeable indirect environmental impact pursuant to the California Environmental Quality Act, Public Resources Code Section 21000 et seq. ("CEQA"). (See 14 C.C.R. §§ 15060(c); 15378(b).) Moreover, Tenant's future use or development of the Premises is expressly conditioned on CEQA compliance.

Recommendation (Option 2)

Approve Resolution 23-XXX, authorizing City Manager execute the lease agreement with Wright Stuff Hangars, LLC, subject to any minor, technical, or non-substantive changes as approved by the City Manager and City Attorney.

Attachments

1. Resolution 23-XXX - Approval of Parcel 42 Lease Agreement
 - a. Parcel 42 Lease Agreement