

CITY OF SAN ANTONIO  
 INTERDEPARTMENTAL MEMORANDUM  
 AVIATION DEPARTMENT

ITEM NO. 21

**TO:** Mayor and City Council

**FROM:** Kevin C. Dolliole, Aviation Director

**THROUGH:** Terry M. Brechtel, City Manager

**COPIES TO:** Christopher J. Brady, Asset Management, Budget, Legal, Finance, and File

**SUBJECT:** Amendment and Assignment of a Lease at San Antonio International Airport  
 From Fairchild Aircraft Incorporated to M7 Aerospace L. P.

**DATE:** March 13, 2003

**SUMMARY & RECOMMENDATION**

In order to facilitate the transfer of assets of a major aircraft company, the proposed ordinance authorizes the amendment and assignment of a lease for 1,070,866 square feet of ground space and 413,262 square feet of building space at San Antonio International Airport from Fairchild Aircraft Incorporated ("Fairchild") to M7 Aerospace L. P. ("M7"). The lease to be amended and assigned was originally authorized by Ordinance No. 64698 dated March 12, 1987 and is for a term ending on March 31, 2007. Fairchild filed for bankruptcy relief on June 24, 2002, under Chapter 11 of the United States Code in the United States Bankruptcy Court. In the Fairchild Bankruptcy Proceeding, the Bankruptcy Court has entered a Sale Order pursuant to which certain assets described in the Asset Purchase Agreement will be transferred and assigned by the Sellers to M7. M7 will continue as the primary aircraft maintenance support site for the repair, modification and overhaul of Fairchild's Merlin/Metro series of turboprop aircraft and also will continue to be the maintenance support site for Fairchild's 32 seat regional jetliner. M7 plans to continue the employment of over 175 local Fairchild employees at an estimated payroll of \$7 million.

To assist in amortizing costs associated with the asset purchase agreement, the proposed ordinance amends the lease by allowing M7 an option to extend the lease term for a five-year period ending on March 31, 2012.

Since October 2001, Fairchild has subleased a portion of the premises to Dornier Aviation (North America), Inc. ("DANA"). DANA has also filed for relief under Chapter 11 of the United States Code in the United States Bankruptcy Court. Since the continuation of the DANA sublease is uncertain, the proposed amendment allows M7 the option, for a six month period commencing March 17, 2003 and ending on September 17, 2003, to return portions of the assigned leased premises consisting of approximately 484,126 square feet of ground space and 139,378 square feet of building space. These premises will no longer be needed if the DANA sublease is no longer continued. Should the above-mentioned property be returned to the City, the City will be able to redevelop the returned property for general and commercial aviation uses as several aviation related businesses have requested hangar and ground space for development.

In addition and at the request of the City, the proposed ordinance further provides that the City will recapture effective as of the earlier of August 31, 2003 or sixty days following written notice from the City to M7, 62,983 square feet of ground space and 9,731 square feet of office/warehouse space. It is planned that this area will be incorporated into the abutting leasehold to assist in the planned expansion of an aircraft maintenance, repair, and overhaul business located adjacent to the current Fairchild leasehold.

Staff recommends approval of this ordinance.

### **BACKGROUND INFORMATION**

Fairchild filed for bankruptcy relief on June 24, 2002, under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court. In the Fairchild Bankruptcy Proceeding, Fairchild and three of its subsidiaries entered into an Asset Purchase Agreement (the "APA") on December 17, 2002 with 4M Investment L. L. C. ("4M"). Pursuant to an Assumption and Assignment Agreement dated January 1, 2003, 4M has assigned its interest in the APA to M7. The Bankruptcy Court has entered a Sale Order (as defined in the APA) pursuant to which certain assets described in the APA, will be transferred and assigned by the Sellers (as defined in the APA) to M7 pursuant to the terms and conditions of the APA.

### **POLICY ANALYSIS**

The proposed ordinance is in keeping with Council policy as assignments of airport leases have been permitted in the past. Further, the actions authorized by this ordinance will result in the continued productivity of the premises and the creation and retention of a significant number of aviation-related jobs.

### **FINANCIAL DATA**

Rent will continue to be paid at the rates specified in the current lease. Annual ground rentals will be \$330,632.68 (1,070,866 square feet of ground space times rates that vary from \$0.225 to \$0.3350 per square foot per year). The ground rentals are based upon a recently completed appraisal of ground space and represent a fair market value return to the City. Additionally, annual building rentals of \$0.4545 to \$3.70 per square foot per year will also be paid. This will produce annual building rentals of \$632,637.97 (413,262 square feet of building space times rates that vary from \$0.4545 to \$3.70 per square foot per year).

Should M7 elect to exercise the partial termination option, the financial impact to the City would result in the return of up to 484,126 square feet of ground space and 139,378 square feet of hangar/office space and a reduction in yearly lease payments of \$144,669.15 for ground space and \$323,592.60 for hangar/office space. It is planned that the City will recapture 62,983 square feet of ground space and 9,731 square feet of office/warehouse space to be incorporated into the abutting leasehold to assist in the planned expansion of an aircraft maintenance, repair, and overhaul business located adjacent to the current Fairchild leasehold.

In the event that M7 exercises the option and returns certain property to the City, then the City will take ownership of buildings constructed in 1999 and M7 will then pay rent for such new

buildings beginning April 1, 2007. If M7 does not exercise the option to return certain property, then the City will not take ownership of the new buildings until April 1, 2012.

**COORDINATION**

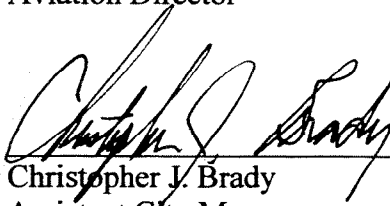
This item has been coordinated with the Asset Management Department and the City Attorney's Office.

**SUPPLEMENTARY COMMENTS**


The Ethics Ordinance Required Disclosures forms completed by the assignor and assignees are attached hereto.

**SIGNATURES**

  
\_\_\_\_\_  
Kevin C. Dolliole  
Aviation Director

  
\_\_\_\_\_  
Christopher J. Brady  
Assistant City Manager

**APPROVED:**

  
\_\_\_\_\_  
Terry M. Brechtel  
City Manager

**City of San Antonio  
Discretionary Contracts Disclosure\***

For use of this form, see City of San Antonio Ethics Code, Part D, Sections 1&2  
Attach additional sheets if space provided is not sufficient.  
State "Not Applicable" for questions that do not apply.

\* This form is required to be supplemented in the event there is any change in the information under (1), (2), or (3) below, before the discretionary contract is the subject of council action, and no later than five (5) business days after any change about which information is required to be filed.

**Disclosure of Parties, Owners, and Closely Related Persons**

For the purpose of assisting the City in the enforcement of provisions contained in the City Charter and the Code of Ethics, an individual or business entity seeking a discretionary contract from the City is required to disclose in connection with a proposal for a discretionary contract:

(1) the identity of any **individual** who would be a party to the discretionary contract:

NONE

2003 MAR 11  
AVIATION  
DEPT.

(2) the identity of any **business entity**<sup>1</sup> that would be a party to the discretionary contract:

M7 Aerospace LP

2003 MAR 11  
AVIATION  
DEPT.  
A 1:39

and the name of:

(A) any individual or business entity that would be a **subcontractor** on the discretionary contract;

NONE

and the name of:

(B) any individual or business entity that is known to be a **partner**, or a **parent** or **subsidiary** business entity, of any individual or business entity who would be a party to the discretionary contract;

4M Investments LLC

<sup>1</sup> A *business entity* means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, unincorporated association, or any other entity recognized by law.

(3) the identity of any *lobbyist* or *public relations firm* employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

NONE


**Political Contributions**

Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made directly or indirectly to any *current* or *former member* of City Council, any *candidate* for City Council, or to any *political action committee* that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2) or (3) above. Indirect contributions by an individual include, but are not limited to, contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include, but are not limited to, contributions made through the officers, owners, attorneys, or registered lobbyists of the entity.

To Whom Made:	Amount:	Date of Contribution:
NONE		

**Disclosures in Proposals**

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which, reasonably understood, raise a question<sup>2</sup> as to whether any city official or employee would violate Section 1 of Part B, Improper Economic Benefit, by participating in official action relating to the discretionary contract.

NONE		
<b>Signature:</b>  Harold J. Williams	<b>Title:</b> CEO <b>Company:</b> M7 Aerospace LP	<b>Date:</b> February 24, 2003

<sup>2</sup> For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.

**City of San Antonio**  
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(1) the identity of any **individual** who would be a party to the discretionary contract:

NONE

(2) the identity of any **business entity**<sup>1</sup> that would be a party to the discretionary contract:

Fairchild Aircraft Incorporated

2003 MAR -4 A 1:15  
AVIATION DEPT.

and the name of:

(A) any individual or business entity that would be a **subcontractor** on the discretionary contract;

NONE

and the name of:

(B) any individual or business entity that is known to be a **partner**, or a **parent** or **subsidiary** business entity, of any individual or business entity who would be a party to the discretionary contract;

Fairchild Dornier Corporation  
Merlin Express, Inc.  
Metro Support Services, Inc.  
Gen-Aero, Inc. dba Fairchild Aircraft Services

<sup>1</sup> A *business entity* means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, unincorporated association, or any other entity recognized by law.

(3) the identity of any *lobbyist or public relations firm* employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

NONE

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NONE

<b>Signature:</b>  James E. Walsh III	<b>Title:</b> CEO <b>Company:</b> Fairchild Aircraft Incorporated	<b>Date:</b> February 24, 2003
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<sup>2</sup> For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.