

TIME CERTAIN
ITEM NO. 4a
2:30PM

**CITY OF SAN ANTONIO
INTERDEPARTMENTAL MEMORANDUM
AVIATION DEPARTMENT**

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: Lease with AERO SKY, L.L.C. at San Antonio International Airport

DATE: May 29, 2003

SUMMARY & RECOMMENDATION

In order to facilitate major expansion of an aircraft service facility, including the construction of a new hangar and related facilities costing in excess of \$4,260,000, the proposed ordinance authorizes the execution of a new twenty-five year lease agreement with AERO SKY, L.L.C. ("AERO SKY") at San Antonio International Airport. AERO SKY has operated at the airport since 1993 performing aircraft maintenance and repair services. Since 1995, Aero Sky has leased two city-owned buildings located on the north side of the airport. In order to increase airport property having direct access to the Air Operations Area and to improve drainage on that portion of the airport, the City is undertaking a Streets, Drainage and Utility Relocation Project (the "Project") which will provide airfield access to approximately 10 acres abutting the current AERO SKY leased area. The new lease with AERO SKY will enable the tenant to ultimately lease 645,044 square feet of ground area (approximately 14.8 acres), made available to the tenant in phases necessitated by the Project activities. AERO SKY will initially continue its operation in the two city-owned buildings while it constructs at its sole cost a hangar containing approximately 83,200 square feet, supporting apron and vehicular parking. It subsequently will add a shop area containing approximately 40,000 square feet. The tenant anticipates that its phased facility construction will be completed in two years and that its workforce will increase from approximately 40 to 80 employees with over \$2,576,950 in annual salaries.

In connection with the new lease, the proposed ordinance terminates the current lease with Bernard Fourrier, the General Manager of AERO SKY. That lease, authorized by Ordinance No. 82300 of May 31, 1995 and scheduled to expire on May 31, 2005, consists of 204,519 square feet of ground space, a hangar containing 26,185 square feet and an office building containing 7,218 square feet. The lease to be authorized pursuant to the proposed ordinance will continue to lease those buildings to AERO SKY until completion and occupancy of the new AERO SKY facilities. At such time, the city-owned buildings will be declared surplus to the needs of San Antonio and will be demolished by the tenant. Also, to be declared surplus and to be demolished by the tenant is an 8,276 square foot metal hangar, currently used for storage and located on a new area to be incorporated into the proposed lease. These buildings are approaching the end of their useful life,

are in poor repair and need to be removed in order to allow access from AERO SKY's new hangar to the airfield.

Staff recommends approval of this ordinance.

BACKGROUND INFORMATION

AERO SKY is a heavy maintenance FAA Approved Repair Service Station located at San Antonio International Airport. It currently operates out of two-city-owned buildings and the proposed ordinance will enable the construction of a new hangar and related facilities by AERO SKY at its sole cost. Phase 1 will consist of the construction of a new hangar facility, containing 83,200 sq. ft. and capable of housing four 727 aircraft, and a temporary ramp to permit operations to begin in the new hangar. Phase 1 is estimated to take approximately twelve months to complete. Phase 2, to be completed in conjunction with Phase 1, will include the construction of a new employee/customer parking area for approximately 100 cars on the north side of the leasehold. Phase 3, scheduled for completion in November 2004, will include the demolition of the existing city-owned hangar and office building, and the construction of additional aircraft parking ramp that will accommodate a minimum of six medium-body and one wide-body aircraft. Phase 4, to be completed in June 2005, will include the construction of a new 40,000 sq. ft. building to contain maintenance shops, administrative offices, and storage. The total construction contract is estimated at \$4,260,000 with a start date of June 2003 and completion estimated in June 2005. Additionally, and in order to expedite the construction process, it is anticipated that certain utility relocation work, as well as the relocation of Federal Aviation Administration RTR cables, may be performed by Lessee at its cost and that the Lessee, upon prior authorization and subsequent review of such certified cost by Aviation Director, will receive a rental credit therefore.

POLICY ANALYSIS

The proposed ordinance is in keeping with Council policy as leases at the airport have been permitted in the past. Further, the proposed demolition of old City-owned structures and the construction of new facilities would facilitate the continued growth and expansion of an existing airport tenant.

FISCAL IMPACT

Initially, AERO SKY will lease two tracts of ground and two buildings situated thereupon. The first tract consists of 141,377 square feet of ground space and will be leased at the rate of \$.2112 per square foot per year, producing an annual ground rental of \$29,858.83. The second tract comprises 63,142 square feet of ground space and will be leased at the rate of \$.20 per square foot per year, producing an annual ground rental of \$12,628.40. These rates will remain in effect from the commencement date through May 31, 2005 (the date upon which AERO SKY's current lease expires) and by June 1, 2007 will have gradually increased to a ground rental rate of \$.30 per square foot per year for each tract. This will produce combined ground annual ground rental rates of \$61,355.70 (204,519 square feet times \$0.30 per square foot per year). Rental will be paid for the two buildings occupied by AERO SKY from the lease commencement date until the date that demolition commences. Rent for the 26,185 square foot hangar will be \$18,308.56 (26,185 square feet times \$0.6992 per square foot per year). Rent for the office building will be

\$12,196.98 (7,218 square feet times \$1.6898 per square foot per year). Also, beginning on the lease commencement date, AERO SKY will occupy an additional tract of ground space containing 109,363 square feet. Rental for this tract will commence upon the earlier of eleven months after the lease effective date or the date upon which the Lessee receives a Certificate of Occupancy for its new hangar. The initial rental rate for that 109,363 tract of land will be \$.25 per square foot per annum, producing an annual ground rental of \$27,340.75. This rate will remain in effect through May 31, 2006 and will escalate to a ground rental rate of \$.30 per square foot per year by June 1, 2007, producing an annual ground rental of \$32,808.90. Depending upon developmental milestones set forth in the lease agreement, additional tracts of land will be phased into the ground space under lease. Ultimately (by mid to late 2005) approximately 645,044 square feet of ground space will be leased at a total annual rental of \$193,513.20 (645,044 square feet times \$.30 per square foot per year). Commencing in August 2009, this rental rate will be subject to an adjustment at five-year intervals based upon the Production-Manufacturing and the Producer Price Index. Upon completion of the improvements and the verification of costs therefore, AERO SKY, in accordance with the Aviation Economic Development Program, may be eligible to receive partial ground rental abatement. Based upon verification of the amount to be expended by AERO SKY for its improvements, the Lessee would receive a 30% ground rental abatement for a ten-year period. Initially, this would result in an annual ground rental reduction of \$58,053.96.

COORDINATION

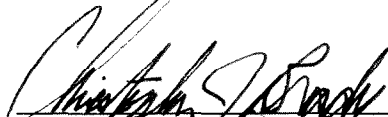
This item has been coordinated with the City Attorney's Office, the Asset Management Department and the Economic Development Department.

SUPPLEMENTARY COMMENTS

The required Discretionary Contracts Disclosures form completed by the lessee is attached hereto.



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

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

Aero Sky, L.L.C.

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;

None

(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.

¹ 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.

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 question² 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.

Signature: 	Title: Manager Company: Aero Sky, L.L.C.	Date: May 7, 2003

² 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.