



DATE: September 13, 2016

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT

Commercial Aviation Site Lease with Aviation Training, Inc.

RECOMMENDATION

That Council approves a resolution authorizing the City Manager to negotiate and execute a ground lease with Aviation Training, Inc.

BACKGROUND

On September 1, 1975, Aviation Training, Inc. entered into a Commercial Aviation Site Lease with the City for a parcel of land identified as Plot "F," Segment VI, located at 21593 Skywest Drive (Attachment III). The parcel consists of approximately 50,018 square feet of improved land. The lease with Aviation Training, Inc. expired on August 31, 2015. The company was interested in a lease extension. Jerome Hoffman of Aviation Training, Inc. and his attorney appeared before the Council Airport Committee (CAC) and City Council to make the request. However, based on the recommendation of staff, a decision was made to explore all available options.

Park Avion Property Management HWD, LLC, a commercial tenant at the Airport, informed staff of their interest in assuming the Aviation Training leasehold once it became available. Under the terms of the lease amendment, with certain specific limitations, Park Avion is entitled to a right of first refusal for up to three leaseholds at the airport when they become available, and are permitted a 180-day due diligence period to inspect the property. However, after completing a due diligence investigation of the Aviation Training leasehold, Park Avion withdrew their proposal. The City is currently in possession of the leasehold with a subtenant, Flying Vikings, occupying the space to provide flight instruction to the general public.

DISCUSSION

In addition to Park Avion, staff received inquiries about the leasehold from three other companies. Jerome Hoffman of Aviation Training, Inc. has met with City staff on four different occasions to continue discussions on the opportunity. On June 15, 2016, he submitted a written proposal to obtain a new commercial ground lease with the City. To date, staff has not received a written proposal or received the same level of interest from the other parties. The

City has the option to issue a Request for Proposals (RFP) for available space at the airport or accept submitted proposals. In the past, the City has taken both approaches. Because of their long tenure at the airport, the original investment to construct the existing hangar and office building, the longstanding business relationship with the existing subtenant, and the limited market for older airport buildings, staff recommends that Aviation Training, Inc.'s proposal be considered.

Aviation Training, Inc.'s proposal outlines steps taken to assess the current condition of the hangar and office buildings, including inspections by the City of Hayward's Fire Marshal and National Property Inspections. Based on the conditions found, Mr. Hoffman met with building and landscaping contractors to prepare a list of proposed improvements to the leasehold totaling an estimated cost of \$175,000. The proposed improvements include the following items:

- Repave the vehicle parking lot
- Repair perimeter fencing
- Remove existing landscaping and install new street side landscaping
- Install a new four-inch sewer lateral pipe from the street to the building
- Remove the signage on the front side of the office building that does not meet current code requirements
- Install two new custom-made fabric awnings
- Remove the lower portion of the building exterior stone veneer and install a new custom pressure-treated skirt
- Pressure-wash and repaint the building exterior
- Clean and reseal the building skylights
- Replace the existing wood separations on the front of the building
- Replace the toilet in the second floor restroom
- Replace the shop sink in the hangar
- Overhaul the large hangar doors
- Replace the carpet in the upper office and hallway
- Replace the existing staircase to the rear of the hangar loft
- Replace the existing baseboard heaters in all office areas
- Install new GFCI plugs in all restrooms
- Inspect for asbestos tile in the maintenance office and replace if necessary

In consideration of these improvements and his desire to amortize them over an adequate length of time, Mr. Hoffman requests a lease term of thirty years, and staff concurs.

The Council Airport Committee (CAC) has unanimously recommended this item for further action by Council.

FISCAL IMPACT

The proposed rent was negotiated at \$0.44 per square foot per year for this improved land. This rate is based on a survey of comparable general aviation airports for improved land. This

is in excess of the \$0.32 per square foot per year for unimproved land at the Airport. The rate of \$0.44 per square foot is subject to increase as outlined in the Airport's existing Policy Establishing Periodic Adjustments to Land Value. The initial rent is equivalent to \$22,008 annually. This is in addition to the value of the improvements to be made to the facility.

SUSTAINABILITY FEATURES

No additional physical improvements to the leasehold are anticipated during the remainder of this ground lease. Therefore, this section is not applicable.

PUBLIC CONTACT

Extension of the original lease between the City and Aviation Training, Inc. was discussed at the CAC Meeting on July 10, 2014 and the Council meeting on July 15, 2014. Most recently, this item was presented to the CAC on June 14, 2016. There was public discussion at that meeting and CAC unanimously recommended this item for further action by Council.

Prepared by: Douglas McNeeley, Airport Manager

Recommended by: Morad Fakhrai, Director of Public Works

Approved by:



Kelly McAdoo, City Manager