

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

99-240

SYNOPSIS -

AGENDA:

MAY 24, 1999

SUBJECT:

AMENDMENT NO. 1
TO AIRMAIL
FACILITY LEASE
AGREEMENT WITH
UNITED STATES
POSTAL SERVICE

In 1995, a new Lease Agreement was negotiated between the City and the United States Postal Service (USPS) for the expansion of the City owned building at the Des Moines International Airport occupied by the USPS. On September 5, 1995, by Roll Call No. 95-3440, the City Council approved the new Lease Agreement between the City and the USPS. While the Lease Agreement, executed prior to construction, estimated the net floor space at 15,966 square feet, the building plans were changed during construction reducing the net floor space to 15,387 square feet. The proposed Lease Amendment Number 1 reduces the square footage stated in the Agreement to 15,387 square feet.

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

In addition, the actual start date of the term of the Lease Agreement was left blank due to the uncertainty of when USPS would actually be able to gain beneficial occupancy of the new space. In discussions between representatives of both parties, it was proposed to set the start date of the new Lease as May 11, 1998. In addition, the proposed Amendment Number 1 could not be approved by the City until the total cost of the construction of the building addition was paid by USPS. On March 22, 1999, by Receipt No. 03708, the final payment was received and recorded by the City. On May 17, 1999, by Roll Call No. 99-1508, the City Council approved the setting of the date of public hearing for May 24, 1999, and directed the City Clerk to publish the notice of the hearing.

SUBMITTED BY:

WILLIAM F.
FLANNERY
AVIATION
DIRECTOR

FISCAL IMPACT-

There is no fiscal impact for the proposed Lease Amendment Number 1. The lease payments remain the same. The current rental rate of \$1,947.43 per month for the building and land will remain in effect until August 31, 2001. The rental rate for each subsequent five-year period, beginning with September 1, 2001, will be calculated based on a qualified, independent

certified appraisal. This will ensure that fair market value for the land and buildings within the leasehold will be appropriately charged over the remaining lease term.

RECOMMENDATION-

Since the term of the lease is for a period over five years, City Council must approve Lease Amendment Number 1. On May 4, 1999, by Resolution A99-145, the Airport Board recommended approval of the Lease Amendment to the City Council.

BACKGROUND-

On October 4, 1971, by Roll Call No. 4568, the City Council approved a Lease Agreement between the City and the United States Government through the USPS for use of the Air Transfer Office at the Des Moines International Airport. This Lease Agreement provided for a ten-year rental of the building and surrounding area, with four successive five-year extensions at the option of the USPS which extended the agreement until August 31, 2001.

On September 21, 1981, by Roll Call No. 4835, the City Council approved an Amendment to revise the annual rental rate and to assign obligations for maintenance and utility service costs to the United States of America. On April 23, 1990, by Roll Call No. 90-1746, City Council increased the leasehold to 36,613 square feet to allow for maneuvering room for mail trucks on the east side of the USPS Air Mail Facility. Therefore, due to the increased leasehold, the rental rate was increased.

On July 24, 1995, by Roll Call No. 95-2861, City Council increased the leasehold to 39,504 square feet to allow for the expansion of the USPS Air Mail Facility. The increased leasehold also increased the rental payments by the USPS to the City to \$23,369.12 per annum or \$1,947.43 per month.

The Airport Board, by Resolution No. A95-156, dated July 11, 1995, approved inclusion of the expansion of the USPS facility in the Airport's Fiscal Year 1995-1996 Capital Improvement Program. The Board, by Resolution No. A95-171, dated August 1, 1995, approved the plans and specifications, form of

contract, and set the date of the hearing and bid opening for the USPS expansion project. It was desired by both parties to enter into a new agreement which would: 1) provide mechanisms for reimbursement of the cost of improvements being constructed by the City; and 2) provide for a new term and rental rate formula which would provide the USPS with a reasonable amortization of their construction investment and provide the Airport with reasonable rental rate increases over the new lease term.