

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

99-378

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

AGENDA:

AUGUST 23, 1999

SYNOPSIS -

On September 24, 1998, by Resolution No. A98-359, the Airport Board directed the Board Clerk to receive and file a letter and other documents from Meredith Corporation, dated September 14, 1998, requesting to lease land to construct a corporate aircraft hangar.

SUBJECT:

**LEASE AGREEMENT
WITH MEREDITH
CORPORATION**

At the direction of the Airport Board, Aviation staff negotiated the proposed lease agreement with Meredith Corporation. The proposed lease has a term of twenty years beginning on September 1, 1999, and expiring on August 31, 2019, with two five year options that are subject to approval of the City. The leased premises consist of three separate parcels containing a total of 96,649 square feet. Under the lease, Meredith will develop the facility at an estimated cost of approximately \$3,000,000. The hangar facility will be in excess of 22,000 square feet and will consist of an aircraft hangar storage area, a maintenance shop, and a passenger and pilot support area. Ownership of all buildings and improvements constructed on the leased premises will remain with Meredith during the lease term and be subject to ad valorem taxes. Ownership of the improvements will revert to the City (Airport) at the expiration or termination of the lease. Meredith, as part of the overall project, will also contribute in excess of \$390,000 for improvements to the Airport such as the construction of a taxiway and the relocation of underground storage tanks.

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

SUBMITTED BY:

**WILLIAM F.
FLANNERY
AVIATION
DIRECTOR**

The location of the proposed leased premises is on the north side of the Airport on McKinley Avenue just west of Fleur Drive at the site of the existing airfield maintenance facility (see map attached to roll call). This area of the Airport is primarily aeronautical use with multiple fixed base operations and other general aviation activities.

On July 7, 1999, by Resolution No. A99-248, the Airport Board recommended approval of the Non-Commercial Aviation Operator Lease with Meredith Corporation to City Council.

FISCAL IMPACT -

The lease calls for rentals to be paid at a rate of 1.3 times the rate established by independent appraisal. The Airport's appraisal of the property reflected a fair market value rate of \$.60 per square foot per annum which equals \$.78 per square foot per annum when increased by the 1.3 multiplier. The per square foot rental rate is to be adjusted every five years during the initial term (twenty years) based on changes in the Consumer Price Index (CPI) from the start of the period when compared to the end of the period. If applicable, rentals during the first five-year option period (years twenty-one through twenty-five) are to be determined by an independent appraisal process with the resulting fair market value rate multiplied by 1.3. Rentals for the second five-year option period are established based on changes in the CPI over the five-year period. The lease stipulates that in no event shall the rental rate be reduced below the \$.78 per square foot per annum as established for the first five years of the lease. The total square footage of Parcels A, B, and C is 96,649, which results in an annual rental amount of \$75,386.22. The lease also requires that a fuel flowage fee equal to the per gallon fee charged under Board Regulation be paid on each gallon of fuel delivered to the Lessee. The current fuel flowage fee is \$.12 per gallon. Historically, Meredith has paid approximately \$25,000 per year in fuel flowage fees.

Additionally, the lease provides that Meredith will: (1) demolish the old Maintenance Facility after the Airport has vacated and relocate the electric, gas, water, and sewer utilities; (2) relocate the Airport's existing underground storage tanks which contain fuel and glycol to the new site and have the tanks recertified; (3) construct Taxiway R-2 as reflected in Exhibit B - attached to the roll call; and (4) if requested by City, provide a loan to the Airport for the construction of the replacement maintenance facility with a repayment term of up to 10 years at 7 percent.. The loan, if desired, would need to be approved by City Council in the future. The cost of items 1 through 3 above is currently estimated in excess of \$390,000. Any costs in excess of that amount will be borne by Meredith.

RECOMMENDATION -

Approval.

BACKGROUND -

The Airport Master Plan includes the relocation of the Airfield Maintenance Facility from its present location on McKinley Avenue to a site south of old Army Post Road near the south general aviation (G/A) area (see map attached to roll call). Meredith Corporation currently subleases a corporate hangar facility on the south G/A area from Signature Flight Support. Meredith has purchased two new corporate aircraft that are anticipated to be delivered in early to mid 2000. The new aircraft cannot be accommodated in their existing corporate hangar facility on the south G/A leasehold area.

On September 24, 1998, by Resolution No. A98-359, the Board received and filed a letter and other documents from Meredith Corporation requesting consideration for leasing land to construct a corporate hangar and directed the Aviation Director to prepare minimum standards for the leasing of Airport land for construction of corporate hangars for future Board consideration. At that time, there were no minimum standards for those types of activities or for the leasing of land to allow for the construction of corporate hangars for other than commercial aviation purposes. A commercial aviation purpose is one that sells services and products directly to the general public, such as a fixed base operator.

On December 1, 1998, by Resolution No. A98-428, the Airport Board approved Airport Regulation No. 98-17 which established Minimum Standards for Non-Commercial Aviation Operators at the Des Moines International Airport. In compliance with Municipal Code, the Airport Board notified City Council of the proposed regulation, its effective date, and provided City Council with a copy for review. On October 26, 1998, City Council, by Roll Call No. 98-3354, received and filed Airport Regulation 98-17 and determined that Regulation 98-17 was not inconsistent with Chapter 4 of the Municipal Code or otherwise objectionable.

Under Board Regulation No. 98-17, Non-Commercial Aviation Operators who wish to establish a base of operation at the Airport have the option to negotiate an agreement with an existing authorized fixed base operator or other licensed commercial operator or enter into a ground rental lease with the

Airport for the leased premises. The regulation specifically allows for the leasing of city owned aircraft hangars and other associated city owned improvements to Non-Commercial Aviation Operators under terms and conditions different from those contained within the regulation. Under the regulation, any Non-Commercial Aviation Operator who constructs an aircraft fueling facility on their leased premises is precluded from dispensing fuel into any aircraft that is not wholly or partially owned or leased and used by the entity that is obligated under the lease. The Non-Commercial Aviation Operator is required to pay normal fuel flowage fees paid by other general aviation users of the Airport.

Under Regulation 08-17, a Non-Commercial Aviation Operator is strictly prohibited from engaging in the business of providing for compensation any aviation, aeronautical, or air transportation related activity including but not limited to the following:

- (1) Flight line services, which may include dispensing aviation fuels and oils, aircraft tie-down and parking, and minor aircraft repairs not requiring a certified mechanic;
- (2) Sale of new or used aircraft, including servicing and repair during warranty periods;
- (3) Rental or leasing of aircraft to members of the public;
- (4) Flight training and related instructions;
- (5) Air taxi or commuter airline operations certificated under Federal Aviation Regulation Part 135;
- (6) Airframe or power plant repair service;
- (7) Avionics, instrument, or propeller repair services;
- (8) Specialized commercial aeronautical activities, including but not limited to agricultural application, banner towing and aerial advertising, aerial photography and survey, and non-stop sightseeing flights that begin and end at the airport.

Aviation staff and representatives of Meredith Corporation have negotiated a lease for the development of a corporate aircraft hangar, which is governed by and must meet the requirements of Airport Regulation 98-17.

Provisions of the lease related to FAA and Airport Regulations, Maintenance and Operations, Damage and Destruction, Insurance and Indemnification, Default, Termination and Cancellation, and General Provisions are consistent with the provisions included in similar land lease agreements that have been previously approved by the Airport Board and City Council for the Airport.

The Leased Premises is made up of three parcels, which are to be turned over to Meredith at specified times during the lease to allow for an orderly transition from the Airport's existing airfield maintenance facility to a new airfield maintenance facility planned for construction south of "old" Army Post Road in the spring of 2000. Exhibit B reflects the legal description of the three different parcels. Parcel A (11,999 square feet), which is to be turned over on the effective date of the lease, initiates the lease and allows Meredith to complete their design and planning for their corporate hanger facility. Parcel B (77,175 square feet), which is to be made available no later than April 1, 2000, removes the westerly 100 feet of the existing airfield maintenance facility and allows Meredith to construct their new facility during the construction season of calendar year 2000. Parcel C (7,475 square feet), which is to be made available by March 31, 2003, causes the demolition of the remaining fifty feet of the existing maintenance facility and allows Meredith to expand their parking area and complete their project.

The agreement also provides for Meredith, if requested by the City, to loan the Airport up to \$1,000,000 to assist in the construction of the new airfield maintenance facility. The loan, if presented to and approved by City Council in the future, would be for a term of ten years with interest at 7 percent and subordinate to the existing Bond Resolution.



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