CITY COUNCIL COMMUNICATION:

02-542

AGENDA:

OCTOBER 21, 2002

SUBJECT:

AGREEMENT TO TERMINATE THE AMENDED AND SUBSTITUTED LEASE AGREEMENT WITH S & W CORPORATION

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

WILLIAM F. FLANNERY
AVIATION DIRECTOR

ITEM 37

OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA

SYNOPSIS —

The proposed agreement between the Airport and S & W Corporation would terminate the S & W Corporation lease on Airport land early on November 1, 2002. Currently, the lease is scheduled to end on October 14, 2003, with two five-year extensions. As part of the agreement, the Airport would pay S & W Corporation for the unamortized value of improvements as of November 1, 2002.

Due to the original 30-year length of this agreement, this early termination agreement must go before the City Council for approval.

FISCAL IMPACT —

The present value of unamortized improvements and essentially the cost of this lease termination is $37,000 less a pro-rata share of taxes. The value of unamortized improvements at the end of the lease term (October 14, 2003) would be about $33,000. Staff estimates it can easily collect rent on this difference ($4,000) in the first month or two with a new tenant.

RECOMMENDATION —

On October 1, 2002, by Resolution A02-208, the Airport Board recommended approval of Agreement for Termination of Amended and Substituted Lease Agreement with S & W Corporation.

BACKGROUND —

The City of Des Moines leased land north of what was then Army Post Road to Corn States Hybrid Service, Inc. in 1973. Later, this lease was assigned to S & W Corporation. In the 30 years that S & W Corporation has held the lease, the building located on the property was constructed and expanded twice. For much of the lease, the Federal Aviation Administration (FAA) Flight Standards District Office occupied the building. Two years ago the FAA announced its intention to relocate to the Ankeny airport. Since that time, the building has been vacant and S & W Corporation has been unable to find another tenant for the building.

In the past two years, S & W Corporation has, from time to time, been delinquent on rental payments but is presently current. The lease is scheduled to terminate on October 14, 2003, but has two, five-year extensions if agreeable by both parties.

The lease stipulates that, if at the end of the original lease term, the Airport does not permit the first or second extensions, the Airport agrees to pay Lessee 50% of the, then amortized, value of Lessee's improvements. The

	value of this buy-out is about $33,000 at the end of the original lease term, October 14, 2003. Due to the on-going project to expand the south air cargo apron, staff believes the building and land should be under the control of the Airport and not under lease to S & W Corporation for another five to ten years as the extensions would allow. In addition, staff believes it can find a suitable tenant for the building that will accept a short-term agreement, thereby preserving the Airport's maximum flexibility as the south air cargo apron expands. All of the factors listed above prompted staff to initiate discussions with S & W Corporation for an early termination of the lease. The proposed agreement with S & W Corporation would terminate the lease on November 1, 2002, nearly one year early. The Airport would pay S & W Corporation for the unamortized value of improvements as of November 1, 2002. Staff and representatives from S & W Corporation have agreed to a figure of $37,000, less any pro-rata share of taxes on the improvements and property as the unamortized value.