



**Council
Communication**
Office of the City Manager

Date	May 22, 2006
Agenda Item No.	50
Roll Call No.	<u>06-</u>
Communication No.	<u>06-293</u>
Submitted by: Craig Smith, Aviation Director	

AGENDA HEADING:

Hearing on approval of the Fifth Amendment to Land Lease Agreement for Parcel Distribution Facility with United Parcel Service at the Des Moines International Airport.

SYNOPSIS:

United Parcel Service, Inc. (UPS), (55 Glenlake Parkway NE, Atlanta, Georgia, 30328, Michael Eskew, President), and the Aviation Department have negotiated a Fifth Amendment to the Land Lease. Significant terms are as follows:

- Construction of a new 250,000 square foot, \$12,000,000 Sort Facility is extended until December 31, 2014.
- UPS will make a lump sum payment in the amount of \$2,000,000 to the Airport for the construction of a service road adjacent to the UPS parcel and north of Army Post Road. The City Engineer's estimate for the road construction is only \$1,500,000. The Airport, therefore, anticipates that \$500,000 of the UPS lump sum payment will be available for other aviation projects. However, the Airport will be responsible for any additional road construction costs if the project exceeds \$2,000,000.
- UPS will completely backfill and compact the existing detention facility located on the leasehold no later than December 31, 2007. Fill dirt will be provided from the Airport's borrow site.
- UPS shall make an additional payment to the Airport in the amount of \$2,000,000 on January 1, 2015, if the new Sort Facility is not completed by December 31, 2014.

FISCAL IMPACT:

Amount: \$2,000,000 (revenue)

Funding Source: UPS is required to make a lump-sum payment to the Airport in the amount of \$2,000,000 to reimburse the City for the cost of constructing a service road adjacent to the UPS leasehold. All current rates, charges, and fees continue as described in the current lease agreement.

ADDITIONAL INFORMATION:

On September 14, 1999, the Airport Board recommended to the City Council approval of a Land Lease Agreement with United Parcel Services, Inc. (UPS) for 30.74 acres of Airport property on which UPS is to construct a new sort and distribution facility. On October 18, 1999, the Des Moines City Council approved the Land Lease Agreement with UPS.

The following is a summary of the main provisions of the Original Land Lease Agreement:

- The Lease required UPS to construct a new sort and distribution facility of at least 250,000 square feet with a construction cost of not less than \$12,000,000 with a deadline for construction of the new facility as December 31, 2003. The new facility is to remain under the ownership of UPS throughout the lease term, thereby requiring the payment of ad valorem taxes by UPS. The City is to provide a 10-year partial declining exemption from taxation on the facility and improvements.
- The Lease has a term of thirty (30) years beginning on January 1, 2000, and expiring on December 31, 2029, with two additional option periods if exercised by UPS. The first option period is for a term of twelve (12) years and six (6) months. The second option period is for a term of ten (10) years.
- The initial leasehold was for 30.74 acres of land, including a portion of “old” Army Post Road. By amendment, option land has since been added to the leasehold bringing the total to approximately 43.5 acres.
- The Lease obligated the Airport to install a traffic signal at SW 28th Street and Relocated Army Post Road and to install water, telephone, and sanitary sewer to the site.
- Construction of the project is to be in accordance with all federal, state, and local laws, regulations, ordinances, and codes. Ownership of all buildings and improvements constructed on the leasehold revert to the Airport upon termination of the Lease.

Upon recommendation of the Airport Board, on January 8, 2001, the City Council approved the First Amendment to the Land Lease Agreement with UPS. The First Amendment provided for UPS to lease the first parcel of Option Land (old Airport Baptist Church property) once the City had possession of the property.

Upon recommendation of the Airport Board, on April 22, 2002, the City Council approved the Second Amendment to the Land Lease Agreement with UPS. The Second Amendment leased to UPS the first and second parcel of Option Land as set forth in the original Agreement. The Second Amendment also extended the deadline for completion of their new package sort and distribution facility from the original deadline of December 31, 2003 to December 31, 2005.

Upon recommendation of the Airport Board on December 8, 2003, the City Council approved the Third Amendment to the Land Lease Agreement with UPS. The Third Amendment, among other modifications, changed the Agreement to: (1) increase the monthly land rental payments from \$39,409.05 to \$42,161.71 during the initial term then adjust the rental after the initial term; and (2) further extend the deadline for completion of their new facility until December 31, 2009; and if the project was not completed by December 31, 2009, UPS was to have made an additional payment of

\$1,000,000 to the Airport. This payment has been included in the \$2,000,000 payment for the Service Road outlined in this Fifth Amendment.

Upon recommendation of the Airport Board to City Council, on February 7, 2005, the City Council approved the Fourth Amendment to the Land Lease Agreement with UPS. The Fourth Amendment, among other modifications, changed the Agreement in two ways: (1) clarify payment of sanitary sewer connection fees through the Southeast Airport Sanitary Sewer Extension to be made by UPS; (2) the Site and Grading Plan shall be presented to the Aviation Department for review not later than September 30, 2006.

The existing Land Lease, along with all subsequent Amendments, still provides the following:

- Monthly lease payments to the Airport in the amount of \$42,161.71. (\$505,000 annually).
- A Site and Grading Plan will be presented to the City for review not later than September 30, 2006.
- Annual Payment in Lieu of Taxes (PILOT) to City of Des Moines. Currently at \$297,360 annually, the PILOT charge increases each year until the new facility is constructed (estimated at \$495,600 in 2014).
- Default and Material Obligation – Should it be determined by the Airport that UPS is in material default of the lease agreement, UPS is subject to pay all of the outstanding principal of, including interest and redemption premium, any amount due on the Airport Revenue Bonds (Series 1998C) that were used to purchase the land currently leased by UPS. The Airport, at the request of UPS, has calculated this potential cost and estimate the amount to be approximately \$4,200,000 with a payoff date of July 1, 2006. The earliest call date for bond redemption is July 1, 2008.

PREVIOUS COUNCIL ACTION(S):

Date: May 8, 2006

Roll Call Number: 06-890

Action: Setting date of hearing on approval of the Fifth Amendment to the Land Lease Agreement for Parcel Distribution Facility with United Parcel Service at the Des Moines International Airport, (5-22-06). Moved by Vlassis to adopt. Motion Carried 6-1.

Date: February 7, 2005

Roll Call Number: 05-348

Action: Hearing on Fourth Amendment to the Land Lease for Parcel Distribution Facility, with United Parcel Service, Inc, to clarify payment of sanitary sewer connection fees, and set the date the Site and Grading Plan shall be presented to the City. (Council Communication No. 05-057) Moved by Hensley to adopt. Motion Carried 7-0.

Date: December 8, 2003

Roll Call Number: 03-2785

Action: Hearing on United Parcel Service Agreements: ([Council Communication No. 03-585](#)) (A) Third Amendment to Land Lease Agreement. Moved by Hensley to adopt. Motion Carried 6-1.

BOARD/COMMISSION ACTION(S):

Date: May 2, 2006

Resolution Number: A06-88

Action: Recommendation to City Council to Approve the Fifth Amendment of the Land Lease Agreement with United Parcel Service.

Date: December 7, 2004

Resolution Number: A04-252

Action: Recommendation to City Council to Approve the Fourth Amendment of the Land Lease Agreement with United Parcel Service.

Date: November 4, 2003

Resolution Number: A03-263

Action: Recommendation to City Council to Approve the Third Amendment of the Land Lease Agreement with United Parcel Service.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE