

	<h1>Council</h1> <h1>Communication</h1> <p>Office of the City Manager</p>	Date	February 11, 2008
		Agenda Item No. 50 Roll Call No. <u>08-</u> Communication No. <u>08-063</u> Submitted by: Craig Smith, Aviation Director	

AGENDA HEADING:

Approval of long term lease agreement with Mesaba Airlines, Inc. for occupancy of an Airplane Maintenance Base Building to be constructed at the Des Moines International Airport.

SYNOPSIS:

Recommend approval of a long term lease agreement with Mesaba Airlines Inc., John Spanjers, President, Egan, Minn. for occupancy of a maintenance building to be constructed at 2901 Army Post Road.

FISCAL IMPACT:

Amount: This lease with Mesaba will generate land rent revenue of \$114,794.90 annually plus building rent of \$508,683 annually. The land rent will be abated at 75%, 60%, 45%, 30% and 15% for the first five years of the Agreement. The building rent is calculated over a twenty year period with a ten year payback of the airport’s contribution to the construction of the building shell. The Lease Agreement also contains a clause to adjust portions of the land rent throughout the term of the lease based on inflationary factors.

Funding Source: Initially, all revenues will be applied towards repayment of the Airport’s Commercial Paper (Series C) debt obligation which is being used to fund construction of the building. After all construction debt has been repaid, revenues will be credited towards the Airport’s general operating fund, FY08 Operating Budget, EN002, AIR040100, pg. 30 to offset ongoing expenses.

ADDITIONAL INFORMATION:

During December 2006, Airport staff was contacted by Mr. Eric Van Horne from the New Frontier Management Group. Mr. Van Horne is a consultant hired by Northwest Airlines (NWA) to review airport sites for potential hangar locations that could support a maintenance base for NWA’s newly acquired fleet of Embraer 175 regional jet aircraft. NWA preferred an airport that had existing facilities that could support the base.

On April 6, 2007, Northwest Airlines published an RFP for the hangar locations. Airport staff conducted a series of internal meetings with the City’s Economic Development Office and the Des Moines Partnership to gain information and on May 18, 2007, Airport staff responded to the RFP for the maintenance facility.

On August 7, 2007, Mesaba Airlines announced its intentions to construct an \$11.8 million maintenance facility at the Des Moines International Airport subject to successful negotiation of an agreement. Staff began negotiating with representatives of NWA for the construction of a new maintenance hangar, certain apron space, parking and other details related to the construction and operation of the facility.

As a result of the negotiations, Airport staff and Mesaba have reached an agreement on all terms of a Development and Lease Agreement for a 79,975 square foot newly constructed building at the Des Moines International Airport located at 2901 Army Post Road. Agreement was also reached on the use of the Airport's south cargo apron area, related employee parking and other normal terms and conditions. It was agreed that the Airport's portion of the building costs would be repaid during the initial 10 years of a potential 20 year agreement. The initial term of the lease is ten years followed by one additional ten-year option. Since this Agreement is greater than three years, it requires City Council approval.

The building is a joint project valued at approximately \$11.8 million and provides for the first full service commercial aircraft maintenance facility at the Des Moines International Airport.

PREVIOUS COUNCIL ACTION(S):

Date: December 3, 2007

Roll Call Number: 07-2300

Action: Set date of Hearing on approval of development agreement with Mesaba Airlines, Inc. for property at the Des Moines International Airport, (12-17-07). Moved by Hensley to adopt. Motion Carried 7-0.

Date: December 17, 2007

Roll Call Number: 07-2419

Action: Hearing on development agreement with Mesaba Airlines, Inc. for property at the Des Moines International Airport. Moved by Hensley to continue the public hearing on the Agreement until January 7, 2008, at 5:00 P.M., in the Council Chambers. Motion Carried 5-2. Absent: Cownie and Meyer.

Date: January 7, 2008

Roll Call Number: 08-072

Action: Hearing on development agreement with Mesaba Airlines, Inc. for property at the Des Moines International Airport. (Continue to February 11, 2008 at 5:00 P.M.) Moved by Hensley to continue to February 11, 2008 at 5:00 PM. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S):

Date: February 5, 2008

Resolution Number: A08-037

Action: Recommendation from the Airport Board to City Council to Approve the Development and Lease Agreement with Mesaba Airlines Inc.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE