

 <b>Council</b> <b>Communication</b> Office of the City Manager	<b>Date</b>	January 26, 2009
	<b>Agenda Item No.</b> <b>41</b> <b>Roll Call No.</b> <b>09-</b> <b>Communication No.</b> <b>09-019</b> <b>Submitted by: Craig Smith, Aviation Director</b>	

**AGENDA HEADING:**

Approval of Amendment to the United States Postal Service Building Lease Agreement at the Des Moines International Airport.

**SYNOPSIS:**

The United States Postal Service (USPS) leases a City-owned building at the Des Moines International Airport. The USPS has occupied the property since its construction and has been under its current lease since 1995. The lease calls for initial rent payments of \$23,369.12 annually with appraisals and appropriate rent adjustments occurring in 2001 and again in 2006. However, USPS never initiated this process so ultimately USPS and Airport and City staff settled on a method to calculate the rent in arrears by applying a formula based on comparable rents at the Des Moines Airport. This amendment outlines this understanding and also because USPS has concluded that the Des Moines mail facility is not needed for future operations, the lease will be terminated effective January 31, 2009.

**FISCAL IMPACT:**

Amount: \$442,487.88

Funding Source: A funding source is not applicable as this amendment addresses revenues due to the Aviation Department in the above amount. The amendment formalizes an agreement between the parties that \$442,487.88 owed to the Airport by USPS for underpaid rent from September 1, 2001, through September 30, 2008, and also that rent should be adjusted to \$88,321.32 annually beginning October 1, 2008.

All additional revenue received as settlement of past due rent will be allocated to the FY09 Airport's Non-Airline Operating Revenue. At the end of the current fiscal year, this revenue will be shared by the airlines and Airport (up to \$1.7 million). The FY10 Aviation Department Operating Budget has been prepared under the assumption that no revenue would be earned from

the post office facility, so revenue gained by re-leasing the facility to another party would be counted as additional revenue towards that year's Airport Non-Airline Operating Revenue.

#### **ADDITIONAL INFORMATION:**

On September 5, 1995, by Roll Call No. 95-3440, the City Council approved a lease agreement between the City and the United States Postal Service (USPS) that provided for the expansion of a City owned building at the Des Moines International Airport occupied by the USPS. The City let the project for construction of the expansion and the USPS reimbursed the City for the costs incurred. Lease Amendment Number 1, approved by Roll Call No. 99-1686, reduced the leased square footage stated in the agreement from 15,966 square feet to 15,387 square feet to conform to the actual space after construction.

USPS occupied the property and paid initial rent of \$23,369.12 annually in accordance with the lease. The lease provided for rent increases through a cumbersome process to be implemented by the USPS of having the property appraised every five years to determine its market value. The lease rate was then to be set as a percentage of the value. The rent should have been adjusted in 2001 and again in 2006, but USPS never initiated the appraisal process and consequently the rent was never adjusted. Recently, Airport staff pointed out this omission and requested USPS to begin the appraisal process and pay the back rent due. After much discussion, USPS and city staff settled on a method to calculate the rent in arrears by applying a formula based on comparable rents at the Des Moines Airport. The parties now agree that \$442,487.88 is due the Airport for underpaid rent from September 1, 2001, through September 30, 2008, and further agree that the rent should be adjusted to \$88,321.32 annually beginning October 1, 2008.

The lease has an expiration date in 2016. However, USPS has of late been reviewing its facilities to decide whether certain ones should be closed. After that review, it was determined that the Des Moines facility has had minimal activity for several months and is not needed for USPS future operations. The lease permits the USPS to terminate it at any time by giving 30 days written notice. The Airport received notice in December that USPS will be terminating the lease

#### **PREVIOUS COUNCIL ACTION(S):**

Date: May 24, 1999

Roll Call Number: 99-1686

Action: On amendment No. 1 to Airmail Facility Lease with United States Postal Service, for property at the Airport, to change commencement date and reduce building square footage. (Council Communication No. 99-240). Moved by Flagg to adopt and periodically review terms of lease to assure rates are adequate. Motion Carried 5-2.

Date: September 5, 1995

Roll Call Number: 95-3440

Action: Approved USPS Lease Agreement

**BOARD/COMMISSION ACTION(S):**

Date: January 6, 2009

Resolution Number: A09-022

Action: Board recommends that the City Council approve Amendment No. 2 to the United States Postal Service Lease and authorize and direct the Mayor to execute the Amendment and the Clerk to attest to the Mayor's signature.

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE**

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