

GILLESPIE FIELD DEVELOPMENT COUNCIL

Wednesday, March 21, 2018

AGENDA ITEM #7

NEW INDUSTRIAL LEASE WITH GRAPHIC BUSINESS SOLUTIONS, INC. AND TWO NEW INDUSTRIAL LEASES WITH KENNETH A. HAMILTON AND ELAINE M. HAMILTON



BACKGROUND

On January 31, 1978 (30 and 31), the Board of Supervisors approved the following industrial ground leases in the Gillespie Field Industrial Park: (30), the 55-year lease with Michael House, for Lot 7 of Block 1; and (31), the 55-year lease with James E. Farris, for Lots 8 and 9 of Block 1. Both leases commenced on February 1, 1978 and will terminate on January 31, 2033. The 55-year lease, known as County Contract No. 12663R, for Lot 7, was subsequently assigned to Graphic Business Solutions, Inc. In 1997, the two-lot leasehold that consisted of Lots 8 and 9, was separated. On June 24, 1997 (23), the Board of Supervisors approved the lease amendment, reducing the original premises, to include Lot 8 only, and a new 35-year 7-month lease for Lot 9, which commenced on July 1, 2017. Recently, both of these leaseholds: the Lot 8 lease, currently known as County Contract No. 12666A, and the Lot 9 lease, currently known as County Contract No. 71955A, were assigned to Kenneth A. Hamilton and Elaine M. Hamilton.

This is a request to recommend the County Board of Supervisors approve three new 50-year industrial ground leases: one with Graphic Business Solutions, Inc., and two with Kenneth A. Hamilton and Elaine M. Hamilton, which will replace the existing leases.

Federal law requires that airport land be released by the Federal Aviation Administration (FAA) prior to being used for non-aeronautical purposes. The FAA agrees to such releases when the land is not suitable for aeronautical use or is not needed to meet aviation forecasts. The FAA had previously released this area for industrial use because the land is separated from Gillespie Field airport operational areas by a flood control channel and Marshall Avenue. Federal law also requires that the County receive market rent for airport land and that revenue must be used for the operation and maintenance of the County Airports System.

PROPOSED LEASES

The new leases are based on the most recent County standard industrial lease format approved by County Counsel, which includes updates made to stormwater requirements, indemnity and other protections. If the proposed actions are approved, the new 50-year leases are scheduled to commence on July 1, 2018.

Base Monthly Rent

Currently, lessees in the Gillespie Field Industrial park pay approximately \$4,816 per acre per month for the useable area of their leaseholds. If the new leases are approved, the base monthly rent for each lease shall continue at the same rate until December 31, 2018. On January 1, 2019, and every five years thereafter, the rent will be adjusted by using the Industrial Land Value Index formula contained in the leases. This schedule would keep these lease adjustments on the same schedule as other leases in the Gillespie Field Industrial Park.

Equity Payments

At the end of most ground leases, including the current leases identified above, existing buildings and improvements become the property of the County. As the County's ownership of the leasehold improvements would be postponed as a result of granting the new leases, the lessees would pay the County compensation for postponing this reversionary interest, otherwise known as an "Equity Payment." The County and Lessees have agreed to the Equity Payments as described below for each lease. The amount of the payments vary depending on the property value, based on the size, use and condition of the existing improvements

Required Leasehold Improvements

As additional consideration for the County granting new leases, the lessees would be required to meet minimum capital investment requirements. As these lease parcels have been completely built-out, the lessees would invest this amount into renovation and modernization of the buildings and into upgrades that would improve energy efficiency and water conservation of the leaseholds. The required capital investments, in the amounts listed below, vary based on the usable acreage for each property.

The individual terms for each lease are as outlined below:

Graphic Business Solutions, Inc., County Contract No. 12663R

Base Monthly Rent: \$4,480

Acres: 0.93 net

Equity Payment to County: \$228,846

Required Investment: \$164,285; which has been determined to be satisfied by the recently completed office area redesign and modernization, including energy-efficient upgrades and replacement of windows and doors.

Kenneth A. Hamilton and Elaine M. Hamilton, County Contract No. 12666A

Base Monthly Rent: \$4,528

Acres: 0.94 net

Equity Payment to County: \$181,436

Required Investment: \$166,051; the proposed improvements include modernization of the building façade, energy-efficient roofing, replacement of exterior windows, and landscaping updates, including low water usage irrigation, drought tolerant plants and hardscape design.

Kenneth A. Hamilton and Elaine M. Hamilton, County Contract No. 71955A

Base Monthly Rent: \$4,528

Acres: 0.94 net

Equity Payment to County: \$211,337

Required Investment: \$166,051; partially satisfied by the recently completed concrete pad expansion, the remaining portion of the required investment to be satisfied within seven years from the commencement of the lease by completing qualified projects that would include upgrades increasing energy efficiency and water conservation of the leasehold.

RECOMMENDED MOTION

“Gillespie Field Development Council recommends the Board of Supervisors approve the proposed new 50-year Industrial Lease with Graphic Business Solutions, Inc., and the two proposed new 50-year Industrial Leases with Kenneth A. Hamilton and Elaine M. Hamilton, as recommended by staff.”