

GILLESPIE FIELD DEVELOPMENT COUNCIL

Wednesday, September 18, 2019

AGENDA ITEM # 7

NEW AVIATION GROUND LEASE WITH CIRCLE AIR GROUP, LLC.



BACKGROUND

On May 25, 2011 (1), the Board of Supervisors approved a new 30-year aviation lease with Raven Aeronautical Holdings, LLC. The lease was subsequently assigned to Circle Air Group, LLC ("Circle Air"). There are two buildings on the leasehold, with offices and hangars used for aircraft repair, storage, and other aviation-related uses. The current lease, County Contract No. 504325, commenced on June 21, 2011 and is scheduled to terminate on June 20, 2041. The lease was amended on October 5, 2016 (5), to update lease language. Circle Air has requested a new lease, with a termination date of June 20, 2061, which would extend the lessee's tenancy on that leasehold premises to the maximum cumulative 50-year term allowable under the law.

PROPOSED LEASE

The new lease is based on the most recent standard aviation lease format approved by County Counsel.

Rent

Circle Air has accepted the County's proposal of incremental rent increases over the five-year period beginning December 1, 2019. Thereafter, the rent would be renegotiated to reflect the market rate. For the first year of the new lease, the base monthly rent would be \$11,123, or a 5.33% increase as of December 1, 2019, as offered to all Gillespie Field Aviation Lessees. Rent will increase by an additional 2% plus the CPI-based cost of living adjustment for each of years 2-5 of the new lease. This rent schedule is based on the appraised market rent for the Gillespie Field aviation use properties, of \$1,360/acre/month, phased-in over 5 years, plus any decrease in the purchasing power of the dollar over that same period.

Capital Investment and Equity Offsets / Sustainability

At the time Circle Air took assignment of the lease in July 2016, all capital investment requirements had been met. Despite this, Circle Air elected to move forward with a substantial facility renovation project at a cost of approximately \$2.4 Million. If the proposed 20-year lease extension had been granted prior to this investment, \$2.4 Million would have been enough to cover both the capital investment requirement of \$880,000 and an equity payment amount of up to \$1,520,000. As this expense was made over a 3-year period, which is the typical timeframe for capital investment requirements to be met, the parties have agreed that this investment is sufficient to warrant issuance of a new lease, extending term by 20 years, without additional capital investment or equity requirements.

Circle Air's \$2.4 Million project further included numerous approved sustainability upgrades. Examples of these sustainability upgrades are:

- Title 24 lighting conversion with automatic sensing for both inside and outside lights;
- New high efficiency HVAC "mini-units" throughout the entire office building;
- Replacement of all windows with high efficiency triple pane glass;
- Installation of all new LED lighting in all hangars; and,
- Installation of large industrial ceiling fans within the hangars to reduce heat load.

Term

If the proposed action is approved, the new 41-year 7-month lease for the 8.8-acre premises would commence on December 1, 2019 and terminate on June 20, 2061.

This is a request for Gillespie Field Development Council to recommend the County Board of Supervisors approve the new aviation ground lease with Circle Air, which would supersede their current lease.

RECOMMENDED MOTION

"Gillespie Field Development Council recommends the Board of Supervisors approve the proposed new Aviation Ground Lease with Circle Air Group, LLC, as recommended by staff."