

## PALOMAR AIRPORT ADVISORY COMMITTEE

Thursday, May 19, 2016

AGENDA ITEM # 4

### LEASE AMENDMENT TO AVIATION LEASE WITH JET SOURCE, INC

#### BACKGROUND

On December 10, 2003, the Board approved a new 30-year aviation lease with Jet Source, Inc. at McClellan-Palomar Airport. The Lease has been subsequently amendment four times; 1) In December 2006 to extend the term by 10 years as part of a project to provide user fee customs service and improved stormwater pollution prevention; 2) In November 2008 to adjust rent and delivery of rent payments; 3) In March 2010 to provide a one-time rent credit to mitigate the effects of runway closure during a runway improvement project; and 4) in November 2013 to adjust rent and update lease language. The lease is scheduled to terminate December 31, 2043.

#### PROPOSED AMENDMENT

Jet Source, Inc. is a full-service Fixed Base Operator providing complete line service, aircraft fueling, detailing, flight planning, weather status, flight following, communication and concierge services at the airport. The lease currently includes 8.49 acres used for business offices, aircraft hangars, aircraft parking and the fueling of aircraft. The leasehold includes a 1.66-acre parcel, shown in the picture below and highlighted in red, that is not contiguous with the rest of the leasehold, highlighted in blue. The parcel is improved with a 20,000 square foot hangar and 1,480 square feet of office space. The uses on this parcel do not impact Jet Source Inc.'s main business operations. The parcel is located directly adjacent to the County's public terminal building. Regaining control of this leased area would provide the County with flexibility to use the property in the future, without having to wait for the current lease to expire in 2043.



County and Jet Source, Inc. have negotiated an agreement for the County to buy out the remaining lease term for this 1.66-acre parcel from Jet Source, Inc. for a payment of \$1.7 million. This would be accomplished through an amendment to the lease that would be effective July 1, 2016. The amendment would provide that the \$1.7 million would be paid through rent credits to Jet Source, Inc. that would pay off its equity balance owed to the County in full and any outstanding rent and customs payments. The remaining balance would be applied towards future rent and customs payments, over a period estimated to be approximately three years, depending on the amount of actual monthly billings. These billings vary each month due to customs usage and percentage rent income from subleases. The Jet Source, Inc. premises would be reduced from the current 8.49 acres to 6.83 acres, so the monthly base rent would be reduced proportionally from \$20,767 to \$16,707.

The County plans to continue the existing uses by keeping the private subleases for the hangar and offices with the small businesses that are currently operating there. In the long term, the area could provide space for a number of future options, including additional customs space, passenger areas, or storage of Airport Rescue and Fire Fighting equipment. The County will continue the overall long-term facility planning of the McClellan-Palomar Airport Master Plan along with the environmental review process to determine if any alternate uses would be appropriate. It is anticipated this process will be completed in 2017 and staff will return to the Board for consideration of the full Master Plan and Certification of the Programmatic Environmental Impact Report at that time.

The amendment will also revise contact information for both parties; revise the appraisal process in the lease to updated standards, including more realistic timelines; update exhibits to reflect new premises and include the most recent stormwater and hazardous materials lease language. The amendment also revises the transfer fees and premium for subleases and other transfers to make them consistent with other aviation leases at the airport.

**Recommended Motion**

*“Palomar Airport Advisory Committee recommends that the Board of Supervisors approve the Fifth Amendment to Aviation Lease between the County of San Diego and Jet Source, Inc (County Contract Number 75758R).”*