

REPORT TO THE CITY COUNCIL

City of Salinas, California

DATE: September 20, 2016

FROM: Gary E. Petersen, C.A.E., Director of Public Works

BY: Brett J. Godown, Airport Manager

SUBJECT: **LEASE BETWEEN THE CITY OF SALINAS AND SEATEC UNDERGROUND UTILITIES, INC.**

RECOMMENDATION:

It is recommended that the City Council approve a Resolution approving a lease between the City of Salinas and Seatec Underground Utilities, Inc.

DISCUSSION:

This report presents before the Mayor and City Council a recommendation to approve a lease between the City of Salinas and Seatec Underground Utilities, Inc (Seatec) for a ground lease located at 467 Airport Blvd. The Airport Commission considered the proposed lease at its meeting of August 25, 2016, and is recommending its approval to the Mayor and City Council.

The ground lease, approximately 1.174 acres, located at 467 Airport Blvd. is currently held by Gomes Farm Air Services. After 36 years of service to the local community, Gomes has closed their business and is selling the remaining assets. Gomes' lease provided the Lessee the opportunity to construct fixed assets on the premises. Those improvements are owned and maintained by Gomes (Lessee) through the duration of the lease. The Gomes lease does not terminate until 2044, leaving approximately 28 years remaining on the lease.

Alan Bikle of Seatec Underground Utilities has successfully negotiated the purchase of Gomes' facilities located on the airport. Mr. Bikle has been a long time tenant at the Salinas Municipal Airport. In years past he has operated a business at the airport and has rented office, shop, and hangar space for providing aviation services. Currently Mr. Bikle rents three aircraft storage hangars on the airport. It is important to note that Gomes Farm Air Service, Inc. (the business) was not for sale. The lease between the City of Salinas and Gomes will be terminated concurrently with the commencement of the lease provide in this report between the City of Salinas and Seatec Underground Utilities.

LEASE TERMS & CONDITIONS:

A number of key lease provisions are summarized as follows:

Use of Premises:

Landscaping of lands and property; a corporate office for administration of Lessee's general engineering construction business; and a hangar for storage, repairs and maintenance of owned or leased aircraft and/or aircraft allowed under this Lease; and storage, repairs and maintenance of Lessee owned vehicles,

trailers, equipment, supplies and materials used in the operation of Lessee’s general engineering construction business.

Term and Renewal:

Seatec will have a 30-year original term with the City and the right to extend the lease for two additional 10 year periods. The lease will become effective contingent upon the City Council’s approval.

Rent and Rental Adjustments:

The annual ground rent will be \$16,364.40. The ground rent will be adjusted every 2.5 years (30 months) subject to a consumer price index published by the federal government.

The current annual rate paid to the City of Salinas by Gomes for the 1.174 acres is \$13,664.28 (\$0.27 per square foot annually). This rate is based on a negotiated rate when the lease commenced in 1994 with adjustments every 30 months subject to the consumer price index.

A consideration for lease acceptance between the City of Salinas and Seatec was adjusting the rate to reflect current established rates for other ground leases on the airport. This consideration and adjustment resulted in an annual increase to the airport enterprise fund of \$2,700.12.

Right to Sublet:

The lease provides provisions for Seatec to sublet portions of their leasehold with appropriate Airport Management approvals.

Lease Assignment:

The lease provides provisions for Seatec to assign their leasehold interests with appropriate Airport Management approvals.

Repairs/Maintenance by Landlord:

The lease does not have any provisions for repairs or maintenance by the landlord because the facilities/improvements on the leasehold are owned and maintained by the Lessee.

If, in the opinion of the Lessor’s Airport Manager, the Premises are not being properly maintained, the Salinas Airport Manager may, after giving written notice to Lessee and after a reasonable time, cause such repair and maintenance to be made. The cost of such maintenance shall be added to the rent. If said costs are not paid promptly by Lessee, this Lease shall be deemed to be in default and Lessor shall be entitled to all legal remedies provided hereunder.

Insurance Requirements:

Seatec is required to meet the City’s current insurance requirements.

Capital Improvement Provisions:

In consideration of Lessor providing the two (2) ten (10) year options to renew the term of this Lease, the City of Salinas agrees to establish and maintain an escrow account established for the purposes of administering capital improvement projects for the Demised Premises as described in Section 1 of the lease. The annual contribution to the escrow account by the Seatec will be as follows:

Initial deposit at beginning of lease:		\$25,000.00
Years 1-10	\$2,500.00/year	25,000.00
Years-11-20	\$3,000.00/year	30,000.00

Years 21-30	\$3,500.00/year	35,000.00
Years 31-40 (if applicable)	\$4,000.00/year	40,000.00
Years 41-50 (if applicable)	\$4,500.00/year	45,000.00
Total:		\$200,000.00

The capital improvement fund shall be utilized by Seatec for exterior improvements (not routine maintenance) of the structures and site improvements located on the Premises as mutually agreed upon by both the City of Salinas and Seatec. The following improvements may be funded by the capital improvement fund and are deemed to be pre-approved by the City, subject to Seatec having first obtained all required approvals and permits including, but not limited to, building permits:

1. Exterior perimeter security fencing and gate improvements and construction along Airport Blvd;
2. Install/Upgrade Access Control System to be compatible with City Airport access control system;
3. Enclosing the existing awning;
4. Pavement rehabilitation (not maintenance). Tenant is responsible for regular maintenance and upkeep of pavement, including, marking refreshing pothole and crack repair, and regular pavement sealing and rejuvenation;
5. Roof replacement due to age (not maintenance).

Lessee may prepay into the fund as necessary to cover the cost of the approved capital improvements.

Standard Provisions:

The lease also includes an assortment of general provisions that pertain to standard commercial leases and government requirements, including FAA requirements.

ISSUE:

Shall the City Council approve the lease with Seatec Underground Utilities, Inc. for 1.174 acres of land, located at 467 Airport Blvd. on the Salinas Municipal Airport?

COMMISSION RECOMMENDATIONS:

The Airport Commission at their August 25th meeting unanimously recommended City Council approved the lease with Seatec Underground Utilities, Inc. at the Salinas Municipal Airport.

FISCAL IMPACT:

Seatec will pay to the Airport Enterprise Fund an annual base rent of \$16,364.40. This amount will be adjusted every 2.5 years (30 months) based on the San Francisco Bay Area Consumer Price Index.

ALTERNATIVES/IMPLICATIONS:

The Council may choose to withhold consent and direct staff how to proceed.

CITY COUNCIL GOALS:

This request supports the City Council's Goal of Effective, Sustainable Government as it ensures that the Salinas Municipal Airport continues to remain viable as an essential service provider for the local community and national airspace system.

CONCLUSIONS:

City Staff and the Airport Commission have concluded that by adopting a resolution to approve the lease with Seatec, City Council will continue to support local business growth and development in the City of Salinas, achieve implementing City Council goals, and enhance the airport enterprise fund.

Resolution
Lease