



DATE: March 19, 2008

TO: Honorable Mayor and City Councilmembers

FROM: Public Works Department

SUBJECT: **AUTHORIZATION TO NEGOTIATE AN AGREEMENT FOR THE DEVELOPMENT, DESIGN, CONSTRUCTION AND OPERATION OF FACILITIES AT OCEANSIDE MUNICIPAL AIRPORT**

SYNOPSIS

Staff recommends that the City Council authorize staff to negotiate the terms and conditions of an agreement with Airport Property Ventures for the development, design, construction and operation of facilities at Oceanside Municipal Airport.

BACKGROUND

The City Council directed staff to develop an alternate development strategy for the airport that did not include the City's financial participation, by soliciting proposals from qualified firms, individuals, partnerships, etc., who would be interested in developing the airport and taking on the responsibility for the design, construction and operation of facility improvements at the Oceanside Municipal Airport through a Request for Proposals (RFP) process. The RFP closed in October.

ANALYSIS

Three companies submitted responsive bids to the RFP: CMTS, a Los Angeles-based consortium; American Airport Corporation (AAC) of Santa Monica; and Airport Property Ventures (APV) of Los Angeles. A panel consisting of representatives of the two main citizen groups concerned with the airport, Citizens for a Better Oceanside and the Oceanside Pilots Association plus City staff reviewed the proposals and held two interviews with each company. The panel's primary concentration was on each company's development strategy, ability to fund the development, design, architectural style, operational concept and complaint resolution process. Staff held two separate interviews with each company that focused on the companies' confidential financial position and the financial aspects of their proposal.

The companies all agreed that the architectural and design style of the development would be driven by the City. All three companies would also include the City in their complaint resolution process. Generally their complaint processes would be modeled on the current system which uses the Airport Sub-Committee, Transportation Commission and finally the Council as the appeal process. All three proposers would include and enforce all conditions contained in the settlement agreement between the Citizens for a Better Oceanside and the City in all their tenant agreements.

The RFP was specific in that the City would not financially participate in the airport development. Ultimately the CMTS proposal would require City financial participation in the infrastructure development of the airport and, for primarily that reason, they were eliminated from further consideration.

Both AAC and APV requested that the City participate in the FAA asphalt management grant program and any other FAA grants that may be available to support airside improvement projects such as runway repairs, lighting, navigation aids, etc. Due to the proposed length of the agreements and the 20-year maximum life span of the FAA grant assurances for those types of grants, staff felt these were reasonable requests and should be included in the negotiations.

A synopsis of each proposal follows:

American Airport Corporation

AAC is the most experienced general aviation airport operator of the three proposers. They currently manage six airports, five in Los Angeles County and one on Midway Island. AAC would have their principal in charge and administrative, finance and accounting support located at corporate headquarters. An Operations Director plus one full-time position equivalent would be located at the airport and run the day-to-day operations. AAC proposes a term of 40 years with two five-year options. They would build out the Airport to the Master Plan adjusted for market demand. AAC would develop the south side and land lease the north side to developers to fund, build and lease the north side improvements. AAC would retain the right to develop portions of or the entire north side. Total development would take approximately five years. AAC would act as the development landlord and would administer the airport through traditional landlord/tenant relationships for the south side and any portion of the north side they choose to develop. AAC's relationship with developers on the north side would be through a land lease. AAC would maintain the airside assists and the City would be responsible for the replacement cost for the runway, lighting, etc.

AAC would pay 10 percent of all rental revenues received, abated for the first five years, plus 7 cents per gallon fuel flowage fee from day one. AAC would assume the debt payment for the state loan and would repay the General Fund loan over the life of the agreement with no interest beginning in the sixth year of the

agreement. These loan payments would be considered an expense and would not affect the 10 percent payment. AAC proposes that the City be responsible for all property taxes. AAC's financial proposal would generate approximately \$6,000,000 in rent and fuel flowage fees over the 40-year-term of the agreement in addition to the state and General Fund loan repayments.

Airport Property Ventures

APV's experience is primarily in the development and operation of large airports. They demonstrated a detailed knowledge of general aviation operational issues and noise abatement requirements and techniques. Their operational proposal would have a principal in charge and administrative, finance and accounting support located at their corporate headquarters and an Operations Director plus one full-time position equivalent located at the airport to run the day-to-day operations. APV proposes a term of 50 years with two 10-year options. They would build out the airport according to the Master Plan adjusted for market demand. The south side would be completed first followed by the north side development. Total development would take approximately six years. APV would own the improvements for the length of the agreement and administer the airport through traditional landlord/tenant rent relationships. The airside operations and maintenance would be through a no-cost maintenance agreement between APV and the City that would run concurrently with the development agreement. The City would be required to fund the replacement cost of the airside assists.

APV proposes a rent payment from the first year of a guaranteed minimum rent plus 40 percent of all net income generated above the guaranteed minimum rent. The state and General Fund loan payments are included in the minimum rent. It is anticipated that the net rent would not be significant until about year eight. APV's financial proposal would generate approximately \$10,000,000 in rent over the first 25 years of the agreement in addition to the state and General Fund loan repayments.

The Citizens for a Better Oceanside chose not to endorse or reject any of the proposals. Their recommendations focused upon ensuring the agreement contains sufficient safeguards concerning their settlement with the City. The Oceanside Airport Association endorsed the American Airport Corporation proposal. Staff would agree with the Pilots Association that AAC would be the prudent choice if the selection criterion was based solely on operational expertise; however, APV's operational expertise is not significantly less than AAC's. APV's proposal provides the City with greater control and safeguards for the settlement agreement with the Citizens for a Better Oceanside and their financial proposal is significantly greater than the AAC proposal.

Staff feels that Airport Property Ventures has the ability to operate the airport in a professional, successful manner and that their proposal presents the City with the

greatest opportunity to develop a long-term agreement that is the most beneficial to the City in terms of financial, airport development and operational aspects.

FISCAL IMPACT

The total value to the City would be part of the negotiations.

INSURANCE REQUIREMENTS

Does not apply.

COMMISSION OR COMMITTEE REPORT

This was presented to the Transportation Commission at their regular March 18, 2008, meeting, and their recommendation will be presented orally to the City Council.

CITY ATTORNEY ANALYSIS

Does not apply.

RECOMMENDATION

Staff recommends the City Council authorize staff to negotiate the terms and conditions of an agreement with Airport Property Ventures for the development, design, construction and operation of facilities at Oceanside Municipal Airport.

PREPARED BY:

SUBMITTED BY:



Gary P. Gutley
Acting General Services Manager



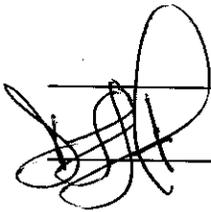
Peter A. Weiss
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REVIEWED BY:

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Joseph Arranaga, Acting Deputy Public Works Director



ATTACHMENT 1

American Airport Corporation (AAC)

1. Assumptions:

- AAC has agreed that architectural style of the development will be driven by the City and it will not significantly impact cost. They will tailor their development architectural style to what the City wants.

- AAC will include the City in the complaint resolution process. Generally the complaint process will be modeled on the current system which uses the Airport Sub-Committee, Transportation Commission and finally the Council as the appeal process.

- AAC will include and enforce all conditions contained in the settlement agreement between the Citizens for a Better Oceanside and the City in all their tenant agreements.

2. Project development plan. AAC proposes to build out to the master plan adjusted for market demand. AAC will develop the South side and allow other developers an opportunity to develop the North side through land lease agreements. AAC would retain the right to develop portions or the entire North side. It is common industry practice to have multiple parties develop a general aviation airport. Total development would take approximately five years. AAC would act as the development landlord and would administer the airport through traditional landlord/tenant relationships for the South side and any portion of the North side they choose to develop. AAC's relationship with other developers on the North side would be through a land lease. AAC would maintain the airside assists which consist of the upkeep of the runway, lighting, etc. The City would be responsible for the replacement cost for the runway, lighting, etc. AAC would provide the administrative support necessary to request FAA and State grants to fund airside projects if the City desires.

3. Airport operational plan. Principal in charge and administrative, finance and accounting support located at corporate headquarters. Operations Director plus one full-time position located at the airport. APV shall manage, operate and maintain the airport according to the highest standards and specifications of operations, maintenance and repairs normally associated with general aviation airport management. These services shall include, but will not be limited to:

- Maintain and repair all runways, ramps, taxiways, lighting, buildings, grounds and fencing.
- Administer a citizen's complaint program.
- Provide for an airport security program.
- Develop new Operations Manual, Emergency and Contingency Plan, Spill Prevention Plan and Community Information and Relationship Plan.

ATTACHMENT 1

American Airport Corporation (AAC)

- Manage all contracts with third parties including tenants, vendors, suppliers and contractors
- Prepare and submit such reports and statistical data as may be reasonably requested by the City and/or the FAA
- Undertake all accounting and financial services connected with airport revenue collection and expense payments and keep all records and accounts in accordance with Generally Accepted Accounting Principles
- Participate in periodic reporting to the City as reasonably requested to provide information regarding the airport
- Cooperate and assist the City in dealing with the FAA, the California Department of Transportation and other federal, state and local agencies in all matters relating to the operation of the airport

4. **Term:** 40 years with two 5-year options. AAC will retain the right to terminate after five years or if the North side parcel is not available or determined to be unusable.

5. **Financing plans.** AAC has demonstrated the ability to secure funding for the development without FAA, State or City participation. The City would be required to fund the replacement cost of the airside assists. AAC would provide the administrative support necessary to request FAA and State grants to fund airside projects if the City desires.

- **Potential revenue-generation for the City.** AAC proposes to pay 10 percent of all rental revenues received, abated for the first five years plus 7 cents per gallon fuel-flowage fee from day one. AAC would assume the debt payment for the State loan and would repay the General Fund loan over the life of the agreement with no interest beginning in the sixth year of the agreement. These loan payments will be considered an expense and do not affect the 10 percent payment. AAC proposes that the City be responsible for all property taxes.

The following table illustrates the financial pro forma provided by AAC through the first 10 years. Note: The first five years of fuel-flowage fees are a City estimate based on current usage.

ATTACHMENT 1

American Airport Corporation (AAC)

Year	State Loan	General Fund	Rent & Fuel- Flowage Fees	Total Value
1	\$79,500		\$2,800	\$82,300
2	\$79,500		\$2,800	\$82,300
3	\$79,500		\$2,800	\$82,300
4	\$79,500		\$2,800	\$82,300
5	\$79,500		\$2,800	\$82,300
6	\$79,500	\$12,857	\$102,304	\$194,661
7	\$79,500	\$12,857	\$105,245	\$197,602
8	\$79,500	\$12,857	\$108,262	\$200,619
9	\$79,500	\$12,857	\$111,356	\$203,713
10	\$79,500	\$12,857	\$114,530	\$206,887
Totals	\$795,000	\$64,285	\$555,697	\$1,414,982

AAC estimates their financial proposal would generate approximately \$6,000,000 in rent and fuel-flowage fees in addition to the State loan payments of \$954,000 and General Fund loan repayments of \$450,000 for a net benefit to the City of \$7,404,000 over the 40-year term of the agreement.

ATTACHMENT 1

Airport Property Ventures (APV)

1. Assumptions:

- APV has agreed that architectural style of the development will be driven by the City and it will not significantly impact cost. They will tailor their development architectural style to what the City wants.

- APV will include the City in the complaint resolution process. Generally the complaint process will be modeled on the current system which uses the Airport Sub-Committee, Transportation Commission and finally the Council as the appeal process.

- APV will include and enforce all conditions contained in the settlement agreement between the Citizens for a Better Oceanside and the City in all their tenant agreements.

2. Project development plan. Build out to master plan adjusted for market demand. South side would be completed first followed by the North side development. Total development would take approximately six years. AVP would act as the development landlord and would administer the airport through traditional landlord/tenant relationships. However, while their development plan does not anticipate sales of hangars (condo or prepaid for a set number of years) they have requested that the agreement allow it. City would be responsible for the airside operations and maintenance which consist of the upkeep and replacement cost for the runway, lighting, etc. Proposer would maintain the airside assists through a maintenance agreement that would run concurrently with the development agreement. City would be required to fund the actual maintenance and/or replacement cost of the airside assists.

3. Airport operational plan. Principal in charge and administrative, finance and accounting support located at corporate headquarters. Operations Director plus two part-time positions located at the airport. APV shall provide the customary general aviation airport services. These services shall include, but will not be limited to:

- Maintain and repair all runways, ramps, taxiways, lighting, buildings, grounds and fencing, subject to the availability of operating income from airport funds and/or government grants through a maintenance agreement.
- Administer a citizen's complaint program.
- Provide airport security as may be required to protect airport property and prevent inadvertent entry

ATTACHMENT 1

Airport Property Ventures (APV)

- Develop a new Operations Manual and Rules and Regulations in consultation with the City and airport users. Elements of these manuals shall include, but not be limited to: aircraft operations, aircraft noise abatement procedures, fire and safety, airport security, community relations
 - Manage all contracts with third parties including tenants, vendors, suppliers and contractors
 - Prepare and submit such reports and statistical data as may be reasonably requested by the City and/or the FAA
 - Conduct an annual rates and charges analysis that would serve as the basis of an annual operating budget
 - Undertake all accounting and financial services connected with airport revenue collection and expense payments and keep all records and accounts in accordance with Generally Accepted Accounting Principles
 - Participate in periodic reporting to the City as reasonably requested to provide information regarding the airport
 - Cooperate and assist the City in dealing with the FAA, the California Department of Transportation and other federal, state and local agencies in all matters relating to the operation of the airport
4. **Term:** 50 years with two 10-year options.
5. **Financing plans.** APV has demonstrated the ability to secure funding for the development without FAA, State or City participation. City would be required to fund the actual maintenance and/or replacement cost of the airside assists. APV would provide the administrative support necessary to request FAA and State grants to fund airside projects if the City desires.
- **Potential revenue-generation for the City.** APV proposes a minimum guaranteed yearly base rent plus 40 percent of all net income generated above the base rent. The State and General Fund loan payments are included in the base rent. The additional 40 percent of net income generated above the base rent is not anticipated to be significant until year 8, when it is projected to be \$23,500 and would escalate each year thereafter. The following table illustrates the financial pro forma provided by APV through the first 25 years. Note: The State loan requires a yearly payment for the next 12 years. APV proposes the General Fund loan payback would be at the discretion of the City. For purposes of comparison, the City has inserted the same General Fund loan payback scheduled as proposed by AAC.

ATTACHMENT 1

Airport Property Ventures (APV)

Year	State Loan	General Fund	Base Rent	40% of Net	Net Rent	Total Value
1	\$79,500		\$99,000		\$19,500	\$99,000
2	\$79,500		\$99,850		\$20,350	\$99,850
3	\$79,500		\$101,063		\$21,563	\$101,063
4	\$79,500		\$102,288		\$22,788	\$102,288
5	\$79,500		\$104,693		\$25,193	\$104,693
6	\$79,500	\$12,857	\$108,842		\$16,485	\$108,842
7	\$79,500	\$12,857	\$111,560		\$19,203	\$111,560
8	\$79,500	\$12,857	\$114,384	\$23,593	\$45,620	\$137,977
9	\$79,500	\$12,857	\$117,317	\$67,663	\$92,623	\$184,980
10	\$79,500	\$12,857	\$120,364	\$112,562	\$140,569	\$232,926
11	\$79,500	\$12,857	\$123,529	\$158,022	\$189,194	\$281,551
12	\$79,500	\$12,857	\$79,416	\$204,353	\$191,412	\$283,769
13		\$12,857	\$82,829	\$251,582	\$321,554	\$334,411
14		\$12,857	\$86,374	\$299,734	\$373,251	\$386,108
15		\$12,857	\$90,055	\$348,838	\$426,036	\$438,893
16		\$12,857	\$93,876	\$398,923	\$479,942	\$492,799
17		\$12,857	\$97,844	\$450,018	\$535,005	\$547,862
18		\$12,857	\$101,963	\$502,152	\$591,258	\$604,115
19		\$12,857	\$106,240	\$555,358	\$648,741	\$661,598
20		\$12,857	\$110,679	\$676,464	\$774,286	\$787,143
21		\$12,857	\$115,287	\$822,681	\$925,111	\$937,968
22		\$12,857	\$120,070	\$862,873	\$970,086	\$982,943
23		\$12,857	\$125,035	\$904,270	\$1,016,448	\$1,029,305
24		\$12,857	\$130,187	\$946,910	\$1,064,240	\$1,077,097
25		\$12,857	\$135,534	\$990,828	\$1,113,505	\$1,126,362
Totals	\$954,000	\$257,140	\$2,678,279	\$8,576,824	\$10,043,963	\$11,255,103

APV estimates that their financial proposal would generate approximately \$10,000,000 in rent in addition to the State loan payments of \$954,000 and General Fund loan repayments of \$257,140 for a net benefit to the City of \$11,255,103 for the first 25 years of the agreement.

