

STAFF REPORT*CITY OF OCEANSIDE*

DATE: May 14, 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, airport management operator experience, 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.

The City has accepted FAA grants in the past and one of the grant assurances requires the City to maintain the airside assets, such as lighting, the runway, taxiways, navigations aids, etc., to FAA standards. Both AAC and APV agreed to be responsible for the day-to-day maintenance of the airside assets but that the City would be responsible for all replacement and FAA-required improvements. To assist in funding the replacement or required improvements both proposers 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. Since the maintenance, upkeep and replacement of airside assets is beyond the scope of the groundside airport development and is a responsibility the City cannot delegate, staff felt the administrative assistance offered by both proposers in seeking FAA grants for airside projects would be a financial benefit to the City 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 the north side would be divided into more than one parcel and leased to developers to fund, build and lease/operate the improvements. Total development would take approximately five years and it is estimated that AAC would invest approximately \$6,000,000 to fund their airport development plan. AAC would act as the development landlord and would administer the airport through traditional landlord/tenant relationships for the south side. AAC's relationship with developers on the north side would be through land lease agreements. AAC would maintain the airside assets 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. "Leased" property is subject to possessory interest tax (PI) verse property tax. Staff assumes the Assessor will use the income approach to value the PI. This is the most commonly used method. While this type of PI is normally less than property tax, staff can not assign a value to it at this time but feels it will be incidental to the overall proposal value. Considering the State and General Fund loan repayments as a value to the City, AAC's proposal has a total value to the City at 25 years of approximately \$4,000,000.

Airport Property Ventures

APV's experience is primarily in the development and operation of large airports. The airport management experience of APV is with the principal individual and not the newly formed company. 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 and it is estimated that APV would invest approximately \$22,000,000 into their airport development plan. AVP 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 in the form 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. APV's financial proposal would generate approximately \$11,000,000 in revenue over the first 25 years of the agreement.

It is staff's opinion that APV has the ability to operate the airport in a professional, successful manner; their operational expertise is not significantly less than AAC's and their tenant/landlord relationship verses the landlord/developer relationship proposed by AAC provides the City with greater control and safeguards for the settlement agreement with the Citizens for a Better Oceanside. APV will assume a much greater financial risk than AAC as well as provide the City a significantly greater financial return than the AAC proposal. For these reasons staff feels the Airport Property Ventures 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 their overall 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

The Transportation Commission held a special meeting April 29, 2008 to review the airport RFPs. American Airports Corporation and Airport Property Ventures presented their proposals to the Commission. The Citizens for a Better Oceanside presented a recommendation to the Commission in support of the Airport Property Ventures proposal while the pilots association told the Commission that their organization could work with either proposer and did not endorse one proposer over the other.

The Commission voted on a motion to recommend to Council that Airport Property Ventures' proposal be selected and that upon completion of the negotiations for the agreement that the essential terms of the agreement be reviewed by the Commission prior to Council consideration. The Commission vote was 3-3 and there were no further motions.

CITY ATTORNEY ANALYSIS

The City Council has discretion to select a company from those who submitted proposals meeting the criteria set forth in the RFP. Any proposed agreement will be reviewed as to form and legality by the City Attorney's Office.

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. Gurley
General Services Manager



Peter A. Weiss
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager

Donald L. Hadley, Deputy City Manager

Joseph Arrañaga, Deputy Public Works Director






