



City of Santa Barbara
Airport Department

Meeting: 6/20/18
Agenda Item No. 9

DATE: June 20, 2018
TO: Airport Commission
FROM: Hazel Johns, Airport Director *HJ*
SUBJECT: Transfer And Appropriation Of Funds For Construction Of Light Industrial Buildings At 6100 Hollister Avenue

RECOMMENDATION:

That the Airport Commission receive a report from staff on the financial terms, appropriation, and repayment of funds, from the General Fund to the Airport Development Fund for the purpose of completing Phase I of light industrial development at 6100 Hollister Avenue.

DISCUSSION:

Background

In August 2014, Council approved a Purchase and Sale Agreement with Direct Relief (DR) for the sale of an eight-acre portion of Parcel 22 in the Airport Commercial/Industrial Specific Plan (SP-6) area. The proceeds from the sale, \$8.7 million, were placed in the Airport Development Fund to be used for the design and construction of new light industrial buildings and related infrastructure at 6100 Hollister Avenue.

The project is proposed to be built in two phases, with sale proceeds from DR as the funding source for the first phase. Subsequent funding of the Airport Development Fund for the second construction phase will be derived from a portion of the revenue generated by the completed first phase of development, with the Airport Operating Fund and Airport Development Fund splitting the revenue in total.

6100 Hollister Avenue Light Industrial Development

In March 2018, Council awarded a construction contract to Tomar Construction to build 12,628 square feet of the approved total project of 47,173 square feet. The work awarded consisted of the construction of three buildings: Building 1, comprising 3,790 square feet of retail space; Building 2, comprising 4,419 square feet of light industrial space; and Building 3, which is a mirror image of Building 2. Construction began in mid-April 2018.

Bid alternatives for Phase I of the project included the construction of Buildings 4 and 5, totaling 9,400 square feet of light industrial space for \$3.4 million. This amount exceeded the project budget for Phase I by approximately \$3 million and was not included in the contract award to Tomar Construction.

Transfer and Appropriation of Funds

Since the Airport would like Buildings 4 and 5 constructed as soon as possible in order to recognize the Project's full revenue potential, Airport and Finance staff began discussions regarding a possible transfer and appropriation of \$3.1 million dollars from the City General Fund to the Airport Development Fund to finance construction of the two buildings. The transfer, appropriation, and repayment would be memorialized by Council Resolution and secured by Airport Development Fund revenues. The Airport Operating Fund and its reserves would serve as additional guarantors. The funds would be subject to a 3.5% straight interest rate and repayment in 9 years.

BUDGET/FINANCIAL INFORMATION:

On May 1, 2018, Council directed staff to present the loan proposal to the City's Finance Committee.

On May 15, 2018 the Finance Committee unanimously approved the terms for fund transfer to City Council.

Proposed terms include: an interest of 3.5% per year and a 9-year term, the \$3.1 million would require annual debt service payments of \$408,140. Using conservative monthly rental income estimates of \$1.45 per square foot for light industrial and \$1.90 per square foot for retail, the Airport Development Fund would generate enough revenue to pay the annual debt service over the 9-year term, except in the first year when the Airport Operating Fund would need to provide a subsidy of \$16,400. Over a 15 year period, the completed Project should generate a total of \$7.5 million in revenue compared to \$4.8 million generated by three buildings.

The Resolution for the fund transfer will be presented to Council on July 10, 2018.

PREPARED BY: Hazel Johns, Airport Director