



City of Santa Barbara
Airport Department

Meeting: 11/26/18
Agenda Item No. 7

DATE: November 26, 2018
TO: Airport Commission
FROM: Aaron Keller, Interim Airport Director AK
SUBJECT: License Agreement with Federal Express, Inc (FedEx)

RECOMMENDATION:

That Airport Commission approve and authorize the Airport Director to execute a) a one-year License Agreement with Federal Express, Inc. (FedEx), a Delaware corporation, for approximately 49,410 square feet of hangar space in Hangar 3, approximately 10,000 square feet of office space, and 10,500 square feet of paved land for exclusive use located at 495 S. Fairview Avenue at Santa Barbara Airport for a monthly rental of \$45,612 exclusive of utilities and Common Area Maintenance (CAM) charges; b) rescind approval of a previously proposed Tolling Agreement, which ultimately was not executed by FedEx.

DISCUSSION:

On May 9, 2018, the large multi-hangar facility at 495 S. Fairview Avenue reverted to City ownership in accordance with a 50-year ground lease agreement signed in 1968 between the City and then tenant Aero Spacelines, later acquired by Ampersand Aviation in 1998. The hangars have been used for both storage of aircraft and the air cargo operation of FedEx while under the agreement with Ampersand Aviation. This use conforms to zoning for Aviation Facilities (AF).

FedEx Operations

FedEx leased Hangar 3 in 2006 from Ampersand Aviation and made significant investments to adapt the hangar space for use as an air cargo receiving and processing facility. The finished space in Hangar 3 is used as management offices for FedEx personnel, and also as a customer retail location where customers can ship envelopes and packages with the full-service assistance of FedEx staff. In addition to use of the hangar and office, FedEx uses approximately 10,500 square feet of paved parking area on the east side of the hangar for loading and unloading of cargo, as well as parking for the 40 employees based at the facility. FedEx uses the ramp area on the airfield side of the hangar for staging of their feeder aircraft which arrives and departs two-three times daily between Santa Barbara and Ontario Airport in San Bernadino County.

Due to the modifications of the hangar for this use and the value of the air cargo operation to the greater Santa Barbara region, the Airport has recommended continued use of Hangar 3 for the operation. Airport staff commenced negotiation of a long-term lease with FedEx. Initially, however, the City proposed the use of a Tolling Agreement with FedEx, which would preserve the City's rights while negotiating a long-term lease. The Commission approved this Tolling Agreement in May 2018, but FedEx declined to execute it, with a preference for a short-term license agreement to precede a long-term lease agreement.

License Agreement

The City agreed to pursue a license agreement, so that FedEx as quickly as possible could enter into a contractual relationship with the City. The Airport also expects to receive back payment of rent as a "license fee" to May 9, 2018 and ongoing rent while a long-term agreement moves through the process of Airport Commission and City Council approval, as well as a 30-day waiting period to enact an Ordinance for the agreement. Airport staff have worked to negotiate both the license agreement and the long-term agreement at the same time. Negotiations have been more complex than most other property negotiations at the Airport due to discussions about such matters as parking lot and ramp area use, common area maintenance (CAM) charges and desired upgrades to the leasehold premises.

License Agreement Terms

Under FedEx's previous sublease agreement with Ampersand, the company paid \$41,299 a month. Upon execution of the short-term license agreement, FedEx will pay accrued back rent from May 9, 2018 to the date of execution at the rate of \$45,612 per month. The license fee for fractional months will be prorated on the basis of a 30-day month. Thereafter, commencing on December 1, 2018, FedEx will pay the license fee due on the first day of the calendar month. FedEx will provide a deposit equivalent to one and one half month's license fee (\$68,418). The license agreement will expire on May 8, 2019, or upon the execution of a long-term lease agreement.

FedEx also will pay its proportionate share (estimated 27.4%) of common area maintenance charges (CAM), payable with the license fee. The monthly CAM is \$1,027.89 based on an annual operating budget of \$44,980.00 for facility maintenance. A reconciliation of actual costs will occur within 30 days of the termination of the license agreement.

The Airport will provide water and sewer service to the premises at a minimum rate of \$23.09 per month for water and \$15.39 for sewer, or the metered amount for water and 2/3 of the water calculation at these rates per unit. FedEx will pay the City for the cost of actual use of electricity and natural gas.

All other City standard insurance and liability provisions will also apply to the short-term license agreement.

PREPARED BY: Business Development/Properties