



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 07/18/06
AGENDA ITEM 3
WORK SESSION ITEM _____

TO: Mayor and City Council
FROM: Director of Public Works
SUBJECT: Authorization to Execute a Commercial Aviation Site Lease with Hayward Hangars, LLC

RECOMMENDATION:

It is recommended that City Council adopt the attached resolution authorizing the City Manager to execute a new lease with Hayward Hangars, LLC.

BACKGROUND:

On July 26, 2004, Council authorized assignment of the lease with Dennis McDonald to Hayward Hangars, LLC. The original lease with Dennis McDonald was entered into on May 1, 1965, and is scheduled to terminate on June 30, 2013. This lease property, located at 20995 Skywest Drive, is 2.42 acres in size (Exhibit "A"). The property is currently operated by a subtenant, Sullivan Propeller Specialists. Sullivan's business activities include commercial aviation services, aircraft propeller sales, repair and maintenance, aircraft storage and tie-down, and minor aviation-related pilot assistance.

Only a single 8,000 sq.ft. hangar building has been constructed since execution of the 1965 lease. Under the proposed new lease, Hayward Hangars, LLC, will improve the existing facility and construct 30 new "box style" hangar units, each with approximate dimensions of 40'x50'. The location is shown on Exhibit "A." In accordance with provisions of the proposed lease, site-specific improvements must be constructed within five (5) years of execution. In order to finance the construction of additional hangars, Hayward Hangars, LLC, has requested a lease extension of 35 years, plus a 5-year option. These newly constructed improvements must exceed a minimum cost of \$2 million. In order to accommodate the project improvements, the new lease also expands the premises by an additional 43,666 sq.ft. Should Hayward Hangars, LLC, be unsuccessful in constructing all of the improvements as required by the new lease, the lease termination date will not extend beyond the current termination date of June 30, 2013.

Currently, a portion of the proposed new leasehold is occupied by a Federal Aviation Administration (FAA) Automated Surface Observing System (ASOS). The parties have agreed that the construction improvements cannot occur until the ASOS is relocated to its new location on the airfield; tentatively scheduled for later this year.

Although a straightforward lease extension of Hayward Hangars' existing lease is plausible, it was determined that it would be more advantageous for both parties if an entirely new lease agreement was drafted. This new lease would rescind and terminate any and all prior leases, agreements,

contracts and amendments. The assigned lease from Dennis McDonald (originally signed in 1965) to Hayward Hangars, LLC, has been amended numerous times and is cumbersome to administer efficiently.

Some of the key terms of the new lease are:

1. A standard Land Value (rent) for all similar aviation uses on the airport.
2. Commencing January 2008, and every 10 years thereafter, a periodic appraisal to adjust the standard land value based on rental rates, fees and charges for similar aeronautical land at comparable airports in the Northern California region.
3. Commencing January 2013, and every 10 years thereafter, a rent adjustment based upon 75% of the San Francisco-Oakland-San Jose Consumer Price Index (CPI) increase from the previous 5-year period with a maximum increase of 7%.

This hangar development proposal was first presented to Council Airport Committee at its meeting of January 27, 2005. The FAA has provided written concurrence of the project regarding proper building height and safety set back issues.

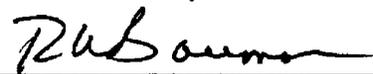
It is staff's position that this new lease is beneficial to both the City and the tenant, and therefore recommends that the City Council authorize the execution of the Commercial Aviation Site Lease with Hayward Hangars, LLC. Due to its length, the proposed lease is not attached, but is available for review in the office of the City Clerk.

Prepared by:



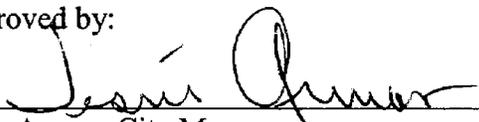
Brent S. Shiner, Airport Manager

Recommended by:



Robert Bauman, Director of Public Works

Approved by:



Jesús Armas, City Manager

Attachments: Exhibit A: Location of Hayward Hangars, LLC
Exhibit B: Conceptual Layout of City and Hayward Hangars, LLC, Projects



**LOCATION OF HAYWARD HANGARS, LLC
EXHIBIT A**



CONCEPTUAL LAYOUT OF CITY AND HAYWARD HANGARS, LLC, PROJECTS

EXHIBIT B

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 06-

Introduced by Council Member _____

**RESOLUTION AUTHORIZING THE CITY MANAGER
TO EXECUTE A COMMERCIAL AVIATION SITE
LEASE WITH HAYWARD HANGARS, LLC**

WHEREAS, on July 26, 2004, Council authorized assignment of the lease with Dennis McDonald to Hayward Hangars, LLC, for the property located at 20995 Skywest Drive, which is currently operated by a subtenant, Sullivan Propeller Specialists; and

WHEREAS, the existing Commercial Aviation Site Lease expires on June 30, 2013; and

WHEREAS, the existing Commercial Aviation Site Lease with Hayward Hangars, LLC has been amended numerous times since 1965 when the original lease was executed, making it cumbersome to efficiently administer; and

WHEREAS, Hayward Hangars, LLC, proposes to construct new hangars and substantial expansion of its current premises, exceeding the required minimum cost of \$2,000,000; and

WHEREAS, it is advantageous to both the City and Hayward Hangars, LLC to enter into an entirely new lease agreement for 35 years with a 5-year option; and

WHEREAS, the proposed Commercial Aviation Site Lease provides that, in the event that all proposed improvements are not completed within five years, the termination date of the new lease agreement shall not extend past the current lease's termination date of June 30, 2013.

NOW THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the City Manager is hereby authorized and directed to execute on behalf of the City of Hayward a Commercial Aviation Site Lease with Hayward Hangars, LLC for a term of 35 years plus a 5-year option.

BE IT FURTHER RESOLVED by the City Council of the City of Hayward that should Hayward Hangars, LLC be unsuccessful in constructing all the improvements required by the new lease, then the lease termination date shall not extend beyond the existing Commercial Aviation Site Lease termination date of June 30, 2013.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2006

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward