



# STAFF REPORT

**Report To:** Board of Supervisors

**Meeting Date:** Jan 5, 2017

**Staff Contact:** Steven E. Tackes, Esq

**Agenda Title:** For Possible Action: To approve the amendments to extend the airport leases between the Carson City Airport Authority and John Mayes, Ludd Corrao Family Revocable Living Trust, Seibold/Tri-Motor, LLC, Sierra Mountain Air Park South, LLC and Sierra Mountain Air Park North, LLC.

**Staff Summary:** On December 15, 2016, the Carson City Airport Authority requested approval of several lease amendments renewing Airport leases. This is a return of the item after re-negotiating the terms to add terms requested by the Supervisors during the discussion. On December 21, 2016, the Carson City Airport Authority approved revised amendments to the 5 leases identified above. The Amendments negotiated with the tenants extend the term of the leases for approximately 22 years, raise the base rental rate to the appraised value, plus CPI increases going forward, and require the tenants to collectively pay \$109,097.82 toward the Terminal Building renovation project expenses. Pursuant to NRS 844, real property leases at the Airport must also be approved by Carson City.

**Agenda Action:** Formal Action/Motion

**Time Requested:** 15min

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## **Proposed Motion**

I move to approve the amendments to extend the airport leases between the Carson City Airport Authority and John Mayes, Ludd Corrao Family Revocable Living Trust, Seibold/Tri-Motor, LLC, Sierra Mountain Air Park South, LLC and Sierra Mountain Air Park North, LLC.

## **Board's Strategic Goal**

N/A

## **Previous Action**

N/A

## **Background/Issues & Analysis**

NRS 844, Section 9, states that the Carson City Airport Authority may, "with the approval of the Board of Supervisors" lease Airport property. On November 16, 2016, the Airport Authority approved, by majority vote at its regularly scheduled and noticed public meeting, amendments to extend the 4 airport leases held with JOHN MAYES, LUDD CORRAO FAMILY REVOCABLE LIVING TRUST, SEIBOLD/TRI-MOTOR,LLC, SIERRA MOUNTAIN AIR PARK SOUTH, LLC and SIERRA MOUNTAIN AIR PARK NORTH, LLC.

Those leases were entered into, and approved by Carson City in 1994. The term was 50 years. The rental rate was \$0.075/sqft/yr. The use was limited to aircraft storage hangars.

The tenants have requested a renewal of the leases with the new 50 year term starting Jan 1, 2017. From a practical standpoint this results in an extension of the term of their leases of approx 22 years.

Per NRS 496.080 the Authority and the City can renew aircraft storage leases "without conducting a public auction and at a price at least equal to the fair market rental or lease value of the space based on an independent appraisal conducted within 6 months before the rental or lease."

The Airport Authority engaged William Kimmel, MAI appraiser (on the City list of approved appraisers) and he appraised the airport leases concluding that the fair market value of the land leased is \$0.12/sqft/yr. The Tenants are currently paying \$0.11/sqft/yr resulting from the CPI increases in the rent.

Since a one penny increase was felt by some on the Authority to be too small to justify the extension of the lease, and since the Airport had unplanned-for costs to renovate the Terminal Building due to roof leakage issues, the parties negotiated a contribution amount to the Airport in addition to the increased rent. The contribution amount was treated as an opportunity cost and was not treated as rent. In coming up with the opportunity cost calculation, the parties calculated the net present value of an increase in rent above the appraisal value by 2 more cents per sq ft. In effect, this would be the additional payment if the appraisal had come in at \$0.14 instead of \$0.12, but it is being made in a way that allows the Airport to use the funds without having to amortize receipt over the next 50 years.

The resulting flat payment of \$109,097.82 will give the Airport Authority the ability to pay for the Terminal Building project which is currently running about \$105,000.

During the December 15, Board of Supervisors meeting, 3 improvements were requested to the lease amendments. These have been included and are as follows:

1. A provision to adjust the rental rate to the current fair market rate every 10 years. This provision was added with the option left to the Authority so that the Authority could decide whether to pay for a new appraisal, or leave the rental rate at the CPI adjusted rate. If the real properties were to drop in value, it is likely the Authority would not proceed with an appraisal and reset.
2. A provision requiring continued investment and maintenance in the hangars, thus justifying the new amortization period. We came up with an objective measure requiring an additional \$0.03/sqft/yr expenditure to be verified coincident with the rental rate reset at the 10 year intervals. We did this recognizing that some expenditures may be large and only done on a non-annual basis, eg. paving.
3. A provision restricting the use to aircraft storage by way of deed restriction or other mechanism to ensure that the rental rate does not get applied if there were a change of use. Here, we instead put in a provision that has the rent jump up to the appraisal value of a full FBO lease if the use changes. Our last appraisal (2014) of such a lot was at \$0.36/sqft/yr. We have one interlineation on this provision to remove the words "most recent" as to the appraisal so that it is not interpreted to apply to the last appraisal which may have been done years ago. Instead the parties agreed that it would be an appraisal at the time the use was considered for change. While several of these leases will likely never qualify for a changed use due to their location on the Airport, we thought this approach was better for the long term, most efficient use, on the Airport.

As noted at the December 15 meeting, all of these leases are at the same rental rate and term, with the exception that the John Mayes lease was prepaid for the entire 50 years. As a result, Mr. Mayes will pay the difference in rent from \$0.11 to \$0.12 for the next 28 years along with his share of the flat payment. Then, at end of 28 years, his rent will go to the rent paid on the other leases at the then applicable rent rate with the CPI increases that have been applied, or resets that have occurred. In other words, his rent will go to \$0.12/sqft/yr increased at a minimum by 28 years of CPI increases. At that point all 5 of these leases will be making monthly rent payments to the Airport Authority at the same per sqft amount.

### **Applicable Statute, Code, Policy, Rule or Regulation**

NRS 844 Section 9 (City approval of Airport leases)

NRS 496.080 power to extend leases based on independent appraisal

### **Financial Information**

Is there a fiscal impact?  Yes  No

If yes, account name/number: Airport 5051 lease revenue and Airport 5400 miscellaneous revenue

Is it currently budgeted?  Yes  No

Explanation of Fiscal Impact: This action will result in additional revenue to the Airport Authority. The additional revenue will be used to defray the renovation expenses on the Terminal Building project which had not been budgeted.

**Alternatives**

If the City does not approve the lease amendments, then the Airport Authority will not receive the flat fee contribution and will not receive the increased rent along with CPI increases on the increased rent and the 10 yr reset to market value.

**Board Action Taken:**

Motion: \_\_\_\_\_

1) \_\_\_\_\_

2) \_\_\_\_\_

Aye/Nay

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\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Vote Recorded By)