630 East Hopkins
San Marcos, TX 78666

City of San Marcos

Legislation Text

File #: Res. 2020-37R, **Version:** 1

AGENDA CAPTION:

Consider approval of Resolution 2020-37R, approving an Airport Facility Lease Agreement for Non-Commercial Use with McCoy Corporation for property located at 1521 Airport Drive at the San Marcos Regional Airport for an initial term of ten years with options to renew totaling thirty years; authority the City Manager or his designee to execute the Lease Agreement; and declaring an effective date.

Meeting date: March 3, 2020

Department: General Services/Airport - Texas Aviation Partners, LLC

Amount & Source of Funding

Funds Required: Click or tap here to enter text.
Account Number: Click or tap here to enter text.
Funds Available: Click or tap here to enter text.
Account Name: Click or tap here to enter text.

Fiscal Note:

Prior Council Action: Click or tap here to enter text.

City Council Strategic Initiative: [Please select from the dropdown menu below]

Choose an item.

Choose an item.

Comprehensive Plan Element (s): [Please select the Plan element(s) and Goal # from dropdown menu below]

☒ Economic Development - Promote & Support Potential of San Marcos Regional Airport

☐ Environment & Resource Protection - Choose an item.

☐ Land Use - Choose an item.

☐ Neighborhoods & Housing - Choose an item.

☐ Parks, Public Spaces & Facilities - Choose an item.

☐ Transportation - Choose an item.

☐ Core Services

☐ Not Applicable

Master Plan: *[Please select the corresponding Master Plan from the dropdown menu below (if applicable)]*

Choose an item.

Background Information:

In 2016, Council approved an FAA grant for hangar construction through the Texas Department of Transportation Aviation Division. Construction began in August 2019 and is scheduled for completion in March 2020. The total project cost is $881,667 with the City's match consisting of $214,036.

In October 2016, airport management sent a newsletter to all airport users to determine if any existing tenants would be interested in expanding or relocating their business to the new facility. After meeting with multiple existing tenants to determine their needs, airport management began negotiations with McCoy Corporation for the lease of the new facility.

McCoy Corporation utilizes the airport for their corporate aircraft and has been a tenant in good standing since 1979. Upon completion of the FAA-funded hangar, McCoy's existing facility will be vacated and marketed to a new user via RFP.

As part of the lease agreement, McCoy is investing approximately $201,400 toward the construction and finish out of approximately 600 square feet of office and restroom space. A breakdown of improvements can be found in Exhibit D of the lease and includes office/restroom buildout, wainscot on the public-facing side of the building, fire and burglar alarm system, hangar floor surface finishing, and xeriscape landscaping.

These additions increase the value of the facility, as reflected in the proposed rate, while eliminating the need for additional City funding.

The initial lease term is 10 years with two 10-year options. The lease rate is $5.50 per square foot per year ($3,689.58 per month) for the first five years to increase by 10% every five years.

For context, most new facilities at the airport are built by private individuals on ground leased property. The current ground lease rate is $0.20 per square foot per year. Therefore, if McCoy built this facility themselves, they would pay approximately $134.00 per month. Having a grant-funded hangar means the City only has to invest a percentage of the total cost and immediately receives the benefit of owning the hangar and therefore charging market facility rates from day one. As a brand-new facility, the $5.50 per square foot rate is the highest rate currently charged by the airport and is comparable to newer hangars being subleased by private individuals.

McCoy will receive a 50% reduction of their rent equal to the value of their improvements until their total capital outlay is exhausted. City Council has approved this method of tenants funding capital improvements at their cost in exchange for a reduced rent for a period of time as a way of making necessary improvements to City-owned facilities in lieu of spending general funds. Projects are only considered eligible for rent reduction if the requested improvements are either necessary for the general maintenance and upkeep of the building or enhance the building in a manner that would allow the airport the charge a higher market rate.

McCoy's investment of $201,400 is a not-to-exceed amount and will be verified and reconciled upon completion and acceptance of their improvements. At the maximum investment amount, their capital outlay would be exhausted prior to the expiration of the initial 10-year term. In the past, improvement credits were applied to 100% of the monthly rent, however, airport management is suggesting that only 50% of the rent be eligible for credits. This ensures the City is still receiving actual rent from the tenant.

This project and proposed lease terms are in line with the airport's master plan as well as the ongoing effort to reduce the airport's burden on the general fund - both in terms of additional rent as well as improvements to facilities without capital outlay.

Council Committee, Board/Commission Action:

N/A

Alternatives:

Click or tap here to enter text.

Recommendation:

Click or tap here to enter text.