

COUNCIL ACTION FORM

**SUBJECT: PROPOSED REVISIONS TO THE MUNICIPAL AIRPORT'S
FIXED BASE OPERATOR (FBO) CONTRACT**

BACKGROUND:

On March 27, 2012, City Council approved a one year extension to the Fixed Base Operator (FBO) lease with Hap's Air Service, the current FBO. That lease extension will expire on June 30, 2013. **Typically, the City would proceed to solicit proposals from prospective FBO's to determine the best firm to perform critical services at our airport and to establish a specific expiration date for the contract. However, the first change that is being proposed involves an addendum to the existing contract to extend the current FBO lease until such time that the new Ames Airport Terminal is constructed, which is planned in the 2015/16 year of the Capital Improvement Plan (CIP). In the case of unforeseen circumstances, the addendum will also provide an option for 30 days written notice of contract termination.**

Given the current vision for the future of the Ames Airport as a gateway to the community, it will be in the City's best interest for the creation of a new FBO lease contract to coincide with the construction of those identified airport improvements. Improvements such as a new Terminal Building and Runway Extension will call for additional and enhanced services that will need to be included in the Minimum Operating Standards of a new FBO lease; one that will reflect the new and growing status of the Ames Airport.

Staff has met with Diana Holden, President of Hap's Air Service, to discuss the terms of the proposed extension. She has agreed to the change that modifies the expiration of the lease to be an event (the construction of the new terminal building) rather than a fixed date.

In discussion with Hap's Air Service, they expressed their desire to reinvest in their business in order to stay current with the growing needs of the airport. Part of this discussion focused on the impact that past and current infrastructure projects, including the recent West Apron Rehabilitation project, has had and is having on their revenues - mainly due to lost fuel sales. **Therefore, as part of the lease extension, Hap's Air Service is requesting a second change to the contract for a 50% reduction in their lease payments (excluding fuel flowage fees) for the months of July, August, and September while the West Apron Rehabilitation project is under construction to help mitigate these losses.**

Currently, Hap's Air Service pays \$29,000 per year for the FBO lease and \$12,000 per year to lease the T-hangars, which equates to approximately \$3,416.67 per month. A 50% reduction over the first 3 month of FY 2013/14 will equate to a total impact of \$5,125.

It should be noted that, after the completion of the West Apron Rehabilitation project, there are no planned surface improvements that could potentially affect revenues of the FBO until the extension of Runway 01/19. In addition, it is estimated that, over the next five years of the current CIP, only \$30,000 will be needed from the Airport Construction Fund for the Master Plan update.

Equally significant is the fact that after the construction of the terminal building, which is anticipated to have an attached hangar, there will be several new revenue opportunities associated with the new terminal building that will potentially offset impacts to the FBO from future improvement projects. Therefore, this requested reduction by the FBO is only applicable in the three month period during the West Apron Rehabilitation and should not serve as a precedent for future improvements.

Typically, Airport revenues from leases, farming, flowage fees, and other sources far exceed yearly operational costs. This surplus is saved to be used as matching funds for federally funded grant projects through the Federal Aviation Administration. City Finance staff performed an analysis of the Airport Fund and determined that the year-end balance for FY 2013/14 will be approximately \$168,000. **Given the current airport budget, there should be little impact seen from reducing the FBO contract in the amount of \$5,125.**

ALTERNATIVES:

1. a) Direct the City Attorney to draft an addendum to the FBO lease with Hap's Air Service to extend the contract to such time that the new Ames Terminal Building is constructed or upon 30 days written notice of a newly established termination date.

b) Include a 50% reduction in the FBO lease for the months of July, August, and September 2013 only, totaling \$5,125.
2. Direct the City Attorney to draft a one-year extension to the existing FBO lease agreement with Hap's Air Service, thereby setting a new lease expiration date of June 30, 2014.
3. Reject the proposed extension and direct staff to proceed to solicit FBO proposals.

MANAGER'S RECOMMENDED ACTION:

With the creation of the new Ames Terminal Building, there will be a significant change in the way the Ames Airport is seen and used compared to current conditions. Along with this improvement will come the need to change the way the airport is operated. Therefore, the best course of action at this time is to extend the existing FBO contract until the new Terminal is under construction. A new FBO contract would then be solicited and negotiated in advance of the opening of the Terminal Building.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby directing the City Attorney to draft an addendum to the FBO lease with Hap's Air Service to extend the contract to such time that the new Ames Terminal Building is constructed or upon 30 days written notice of a newly established termination date, and include a 50% reduction in the FBO lease for the months of July, August, and September 2013 only, totaling \$5,125.

ADDENDUM TO THE AMES AIRPORT FIXED BASE OPERATOR'S LEASE AGREEMENT

THIS AGREEMENT is entered into the _____ day of _____, 2013, effective the 1st day of July 2013, between the **City of Ames, Iowa**, hereinafter referred to as the "Lessor", and **Hap's Air Service, Inc.**, hereinafter referred to as the "Lessee".

WITNESSETH:

WHEREAS, on or about March 27, 2007, the Lessor and the Lessee entered into a Fixed Base Operator's Lease effective July 1, 2007, for a term of five years ending on June 30, 2012; and

WHEREAS, on or about March 27, 2012, the parties agreed to an additional one year term of the original five year lease; and

WHEREAS, the Lessor is now contemplating substantial improvements to the airport infrastructure and facilities and wishes to assure the reliable continuation of the critical services the Lessee provides until such time as the airport improvements are completed; and

WHEREAS, the Lessor and Lessee now desire to extend the term of said Lease for such additional time period ending as will coincide with the construction and completion of the new Terminal building; and

WHEREAS said Lessor and Lessee intend, understand, and agree that all terms and conditions of said original Lease, including all permitted and mandatory activities of the Lessee, shall remain in effect for the additional duration of the lease, except as hereinafter expressly provided;

NOW, THEREFORE, in consideration of the rents, covenants and agreements as contained in the Fixed Base Operator's Lease, the Lessor and Lessee do extend the term of the Lease from June 30, 2013, until the construction and completion of the new Terminal Building, with lease rates to remain the same during that period as they are for the current year July 1, 2012, to June 30, 2013. except as follows:

- (1) The Parties agree that Lessee shall receive a 50% reduction in their lease payments (excluding fuel flowage) for the months of July, August, and September of 2013.
- (2) The Parties further agree that the Lessor has the right to terminate this contract upon thirty (30) days written notice to the Lessee, notwithstanding

any other provisions in the original contract that are inconsistent with or to the contrary.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

CITY OF AMES, IOWA, Lessor

HAP'S AIR SERVICE, INC., Lessee

By: Ann Campbell, Mayor

By: Diana Holden, President

Attest:

Approved to form:

By: Diane Voss, City Clerk

By: Judy Parks, City Attorney