



Los Angeles
World Airports

September 9, 2011

LAX
LA/Ontario
Van Nuys
City of Los Angeles

The Honorable City Council
of the City of Los Angeles
City Hall – Room 395
Los Angeles, CA 90012

Antonio R. Villaraigosa
Mayor

Reference: CF 11-1518

Board of Airport
Commissioners

This is to hereby transmit for your information the Mayor approved City Administrative Officer's report covering the Award of 30-Year Ground Lease to Pacific Aviation Development, LLC for the Development of the Van Nuys Airport Propeller Park at the Former Air National Guard Site and Certification of the Final Negative Declaration.

Michael A. Lawson
President

Sincerely,

Valeria C. Velasco
Vice President

Joseph A. Aiedas
Robert D. Beyer
Boyd Hight
Fernando M. Torres-Gil

Mark S. Adams, Director
Government Affairs Division
Los Angeles World Airports

Gina Marie Lindsey
Executive Director

MSA:CI

Attachments



0150-09635-0000

TRANSMITTAL

TO Gina Marie Lindsay, Executive Director Department of Airports	DATE SEP 06 2011	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

**AWARD OF 30-YEAR GROUND LEASE TO PACIFIC AVIATION DEVELOPMENT,
 LLC FOR DEVELOPMENT OF THE VAN NUYS AIRPORT PROPELLER PARK
 AT THE FORMER AIR NATIONAL GUARD SITE AND CERTIFICATION OF
 THE FINAL NEGATIVE DECLARATION**

Transmitted for further processing, including Council consideration. See the
 City Administrative Officer report attached.


 MAYOR

MAS:WDC: 10120025t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 01, 2011

CAO File No. 0150-09635-0000

Council File No.

Council District: 6

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Transmittal from the Department of Airports dated August 12, 2011; referred by the Mayor for report on August 16, 2011

Subject: **AWARD OF 30-YEAR GROUND LEASE TO PACIFIC AVIATION DEVELOPMENT, LLC FOR DEVELOPMENT OF THE VAN NUYS AIRPORT PROPELLER PARK AT THE FORMER AIR NATIONAL GUARD SITE AND CERTIFICATION OF THE FINAL NEGATIVE DECLARATION**

SUMMARY

The Executive Director of the Los Angeles World Airports (LAWA; Department) requests (1) authority to approve a 30-year ground lease (Attachment I) with Pacific Aviation Development, LLC (Pacific Development; lessee) for development of 30.6 acres of vacant land on the northwest corner of the Van Nuys Airport--the former Air National Guard site--for what is called the "Van Nuys Airport Propeller Park" (Propeller Park); and (2) certification of the Final Negative Declaration (Attachment 2) prepared for the park. Pacific Aviation Development was selected as a result of a competitive process that began in 2007. The Propeller Park has been designed for the exclusive use of propeller aircraft of less than 12,500 pounds gross takeoff weight and military aircraft built prior to 1950.

The lease with Pacific Aviation Development will generate approximately \$14,831,309 in total revenue during the 30-year term (approximately \$494,377 annually, excluding the yearly and periodic rental increases). Projected revenue for the first year is \$247,188. The proposed lease rates will be subject to annual rent adjustments, for both land and improvements, based upon the Consumer Price Index, plus an additional one percent per year for land rent beginning on July 1, 2016. In addition, the lease includes a provision that, within three years of the commencement of the lease, Pacific Aviation Development will invest approximately \$21 million in infrastructure and improvements.

The Propeller Park will consist of airplane hangars; aircraft tie-down parking; an aircraft ramp; maneuvering and maintenance areas; an oil and fuel recycling capability; an on-site wash rack with a clarifier (oil/water separator); space for classrooms and meeting rooms, flight schools, and avionics and maintenance services; a stationary self-service above-ground aircraft fueling facility; and a small restaurant—all in support of propeller-driven aircraft. In addition, infrastructure improvements will be made to promote a positive community and business environment (e.g., construction of a green belt between Balboa Boulevard and the parking lots on the western

perimeter of the project; planting of shrubs, trees, and plants in the green belt and in planters in the parking lots; and improvement of existing and construction of new sidewalks and sewer, water, and electrical lines along Balboa Boulevard).

Under the terms of the proposed lease, Pacific Aviation Development will finance, design, construct, market, and operate a facility exclusively for propeller-driven aircraft. Propeller aircraft and hangars that are being displaced by other airport development projects, as well as other propeller aircraft-related businesses, will be relocated to the Propeller Park within 18 months from the time of the lease commencement. In addition, the development will incorporate proven sustainability principles. The above-referenced aspects of the proposed lease, and this report, are based upon revised information received from the Department subsequent to the initial request submittal.

Background and Lease Terms

The Van Nuys Airport, as of July 2011, is ranked as the busiest general aviation airport in the world. The airport serves private, corporate, charter, and public safety aviation, as well as some military aircraft exclusively and functions as a reliever airport for Los Angeles International Airport (LAX). As of December 2010, propeller-driven aircraft comprised about 65 percent of the 667 general aviation and military aircraft based at the airport. The mix of aircraft types at Van Nuys Airport has changed, resulting in a reduction in the number of propeller aircraft and an increase in the number of jets, thereby necessitating additional and/or modified storage facilities to accommodate jet aircraft.

Development of the Van Nuys Airport Propeller Park at 8030 Balboa Boulevard, Van Nuys, is a result of, and consistent with, the Van Nuys Master Plan Study initiated by the City Council in 1992. In January 2006, Alternative J of the Master Plan was adopted by the Council. As part of Alternative J, a 30.6 acre parcel of vacant land on the west side of the airport was set aside for development of a propeller park. In 2007, LAWA released its first Request for Proposals (RFP) for development of the Propeller Park. The initial proposals were rejected due to non-compliance with basic administrative requirements. Subsequently, the RFP was re-released, which resulted in the selection of Pacific Aviation Development, LLC in March 2008. In April 2008, LAWA awarded a separate contract to provide the following in preparation for the development of the Propeller Park: site clearance, demolition of vacant buildings and structures, hazardous materials abatement, site grading, and reconstruction of paving. Final site preparation was completed in June 2009. However, the results of a nearly two-year environmental review were not approved until February 22, 2011, when the Board of Airport Commissioners (Board) adopted the Final Negative Declaration (NG-10-404 AD) for the project. Shortly thereafter, on May 16, 2011, the Board approved new five-year land rental rates for the airport retroactive to July 1, 2010, for the period ending June 2015, that are applicable to the proposed lease.

To accommodate a change in the Propeller Park's original proposed financing plan, the current lease reflects a restructuring to provide for the issuance of conduit tax-exempt bonds (in a conduit tax-exempt bond transaction, the municipal issuer [City] issues the bonds and loans the proceeds from the sale of the bonds to a private entity for an authorized project. There is no local municipal guaranty and the issuing municipality has no liability with respect to the bonds. The municipality acts merely as a conduit to promote development and afford businesses meaningful savings), the proceeds of which will be used for construction and permanent financing. To make the financing

structure marketable, the proposed lease provides that Pacific Aviation Development may assign all of its right, title, and interest to and in the lease to a Limited Liability Company (LLC) known as AvCap VNY, LLC (AvCap). AvCap VNY, LLC was formed to provide additional equity through an assignment and leaseback to Pacific Aviation Development. AvCap can issue tax-exempt private activity bonds through a "conduit issuer" such as the California Statewide Communities Development Authority as an alternative means of financing the project. Pacific Aviation Development has one year to assign the lease to AvCap, otherwise bank lending will be used with construction loans followed by permanent financing. If the lease is assigned to AvCap, Pacific Aviation Development will sublease the entire 30.6 acre site and improvements for the same terms as contained in the proposed lease.

Current Van Nuys Airport rental rates benefit property used exclusively for the service of propeller-driven aircraft (the monthly rental rate is 50.6 percent lower than that for "unrestricted aeronautical land"—land that accommodates jet aircraft and helicopters). Consequently, for the first year of the proposed lease with Pacific Aviation Development, LAWA will lose \$252,700 in revenue and \$15,159,700 over the 30-year term of the lease when compared to the rental revenue from unrestricted aeronautical land. However, the loss in rental revenue to LAWA will be offset by the lessee's investment of \$21 million in infrastructure and improvements that will become the property of the Department upon completion of construction. Furthermore, conversion of the former propeller aircraft land and facilities will make room for future development with higher and better economic uses. By establishing the proposed lease with Pacific Aviation Development, LAWA will benefit in the following manner:

- The 1992 Van Nuys Master Plan Study recommendations will be addressed and closed-out
- Revenue will be generated from what is currently vacant, non-revenue producing land, as well as a return obtained on the Department's investment of approximately \$4.4 million expended for demolition and remediation of the contaminated site
- Approximately \$21 million in infrastructure and improvements (including street improvements and perimeter fencing)—that LAWA will own at the conclusion of construction—will be provided by the lessee
- Land will be made available for future development with higher and better economic uses
- Consolidation and improvement of the facilities for propeller-driven aircraft will occur

The proposed lease terms exempt Pacific Aviation Development from liability and responsibility for pre-existing hazardous substances found at the site. The lease gives the LAWA Executive Director sole discretion for the remediation of hazardous substances and whether the City will (1) pay the lessee to remediate the site, (2) delete the contaminated land and improvements from the lease area, (3) adopt a shared cost solution, or (4) terminate the lease. However, if LAWA deletes the contaminated land from the lease, or if the lease is terminated, Pacific Aviation Development will receive a prorated reduction in rent, capital investment, and required improvements, as well as compensation for any appropriate bond redemption costs.

The proposed lease will be for \$16,156.11 per acre, per year for land for the first six months of the agreement (1/1/12-6/30/12) for one-third (10.20 acres) of the eventual project size. The per-acre, per-year rental amount will be consistent throughout the term of the lease (with the exception of the

every-fifth-year adjustment to the fair market rental rate and the automatic one percent annual rental increase) and will be applied to two-thirds (20.40 acres) of the eventual project size beginning with the second six-month period of the lease (7/1/12-12/31/12). The \$16,156.11 per-acre, per-year rental rate will be applied to the total project area (30.60 acres) beginning January 1, 2013 (see Attachment 3). The reason for the phasing of the per-acre rental payments into three parts is to provide the lessee with a reduced rent for the first year of construction. This was determined by the Department to be an equitable approach since the lessee will not begin full operations and, consequently, receive significant revenues from the project, until at least the second year of the project. In addition to the monthly rent, the lessee will be responsible for the cost of all utilities for the Propeller Park.

Another feature of the proposed lease is the possible application of a new financing mechanism affecting Van Nuys Airport tenants known as the Airport Deficit Recovery (ADR) Program. As part of the ADR—which is still pending approval by the Board of Airport Commissioners—Van Nuys Airport tenants would be responsible for contributing a proportional share (not to exceed 50 percent of the tenant's rent for the preceding year) toward resolving any fiscal year operating shortfall experienced by the Van Nuys Airport. As of the writing of this report, this proposal by LAWA had not been approved for implementation.

Alternatives to Approving the Proposed Lease

According to the Department, there are two alternatives to approving the proposed lease with Pacific Aviation Development, LLC:

- Not developing the site: This is not recommended in that failure to develop the site would be inconsistent with the Van Nuys Master Plan Study adopted by the Council in 1992
- Delaying development of the site: Since the land is currently vacant, failure to adhere to the proposed timeline for development would delay revenue to LAWA and could jeopardize the investment of approximately \$21 million in needed infrastructure and improvements

Compliance with City Administrative Requirements

The Department has determined that, since the proposed agreement is a property lease, it is not subject to the provisions of Charter Section 1022.

With respect to the Department's compliance with CEQA (California Environmental Quality Act) guidelines, the referenced Initial Study/Negative Declaration that was prepared for this project indicates that the proposed project will not have a significant impact on the environment.

Pacific Aviation Development, LLC is either in compliance with or the Department will monitor and ensure the company's compliance with the City's insurance requirements, the Service Contract Worker Retention and Living Wage Ordinances, Affirmative Action Program, Contractor Responsibility Program, Child Support Obligations Ordinance, and Equal Benefits Ordinance. The proposed lease is exempt from both the First Source Hiring Program for non-trade LAX jobs since the project does not involve LAX and provisions of the Minority/Women Business Enterprise program pursuant to the Mayor's Executive Directive 2001-26.

Pursuant to Charter Section 606, "Process for Granting Franchises, Permits, Licenses and Entering Into Leases," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a franchise, permit, license or lease that is longer than five years within 30 days after submission to Council, the lease shall be deemed approved. In addition, the proposed lease, being that it is for a period longer than five years, must be approved by the Council. Additionally, to become effective, the City Attorney must approve the lease as to form.

RECOMMENDATIONS

That the Mayor:

1. Approve, subject to City Attorney approval as to form, the proposed 30-year lease between the Los Angeles World Airports and Pacific Aviation Development, LLC (Lessee) for real property at the Van Nuys Airport to enable Lessee to develop the approximately 30.6 acre Van Nuys Airport Propeller Park;
2. Certify the Final Negative Declaration (NG-10-404 AD) prepared for the proposed Van Nuys Airport Propeller Park Development Project at 8030 Balboa Boulevard and adopted by the Board of Airport Commissioners on February 22, 2011 (Resolution No. 24375), and find that the project will not have a significant effect on the environment, pursuant to the City's Environmental Quality Act Guidelines and is in compliance with the California Environmental Quality Act; and
3. Return the proposed lease and Final Negative Declaration to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

Approval of the proposed lease agreement with Pacific Aviation Development, LLC will generate approximately \$14,831,309 in revenue during the 30-year term of the agreement and an average of \$494,377 annually (not including an every-fifth-year adjustment to the fair market rental rate and an automatic one percent annual rental increase) for the Los Angeles World Airports. This project complies with the Department of Airports adopted Financial Policies.

Time Limit for Council Action

Pursuant to Charter Section 606 and the Los Angeles Administrative Code Section 10.5, unless the Council takes action disapproving a franchise, permit, license or lease that is longer than five years within 30 days after submission to Council, the lease shall be deemed approved.

MAS:WDC:10120025

Attachments