



CITY OF LONG BEACH

LONG BEACH AIRPORT

R-27

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September 23, 2008

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the Third Amendment to Lease No. 16419 with Catalina Flying Boats, Inc. for City-owned property at 3215 East Spring Street to extend the term of the lease through May 31, 2048, at the initial monthly rental rate of \$3,870. (District 5)

DISCUSSION

In 1992, the City Council authorized the execution of Lease No. 16419 (Lease) between the City of Long Beach and Catalina Flying Boats, Inc. (CFB) for approximately 1.24 acres of City-owned property located at 3215 E. Spring Street at the Long Beach Airport. The site is presently improved with a 4,400 square foot aircraft hangar and aircraft tie-down areas with capacity for up to three aircraft. CFB provides local charters and same-day air and delivery services to Catalina Island. The 25-year Lease will terminate in 2017. The current annual rent is approximately \$39,100. The annual rent is adjusted every five years based on a fair market land value reappraisal. The improvements are owned by CFB.

There are approximately nine years remaining on the current term of the Lease. CFB has requested an amendment to the Lease to extend the term through 2048, an additional 31 years, in order to secure financing for the installation of fueling tanks on the site for its aircraft. CFB also seeks to secure occupancy consistent with the useful life of the proposed capital improvements.

In June 2007, at staff's request, Keyser Marston Associates produced a lease extension analysis for the CFB leasehold to determine the potential additional revenue to the City from leasing the improvements to another tenant during the proposed 31-year extension period. At the end of the current Lease period in 2017, the City would own the improvements and could lease the site to another tenant for rent based on both land value and improvements. For purposes of the analysis, the following assumptions were utilized:

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- Annual operating income for the property was based on current lease rates for the hangar and tie-down areas escalated at three percent annually;
- Annual operating expenses were estimated at 20 percent of gross revenues and annual vacancy rates were estimated at three percent of gross revenues;
- Annual ground rent payments were based on the current annual ground rent payment escalated at three percent annually.

Based on the analysis, the present value of the potential additional revenue during the proposed 31-year extension period would be approximately \$87,951. The present value reflects the value of the lease extension to CFB and is the amount that would accrue to the City as additional consideration for the proposed 31-year extension period. This additional consideration, also known as a lease extension fee, may be paid as a one-time immediate payment or paid as additional monthly rent amortized over the term of the Lease at a negotiated interest rate.

In that regard, staff has negotiated a 31-year lease extension based on the following general terms and conditions:

- Lessor: City of Long Beach;
- Lessee: Catalina Flying Boats, Inc.;
- Premises: 1.24 acres of land;
- Term: The term of the Lease shall be extended to expire on May 31, 2048;
- Rent: Scheduled ground rent shall remain as set forth in the current Lease with fair market land value reappraisals every five years. Effective October 1, 2008, Lessee shall pay as additional rent the monthly sum of \$612.24 through May 31, 2048. This represents the lease extension fee of \$87,951 amortized at the negotiated interest rate of eight percent.

All other terms and conditions of the Lease shall remain unchanged. This letter was reviewed by Deputy City Attorney Richard F. Anthony on August 22, 2008, and Budget Management Officer Victoria Bell on August 26, 2008.

TIMING CONSIDERATIONS

City Council action is requested on September 23, 2008, in order to formalize the Third Amendment with Catalina Flying Boats.

FISCAL IMPACT

Annual revenue of an additional \$7,347 shall accrue to the Airport Enterprise Fund (EF 320) at the Long Beach Airport (AP). There is no impact to the General Fund.

SUGGESTED ACTION:

Approve recommendation.

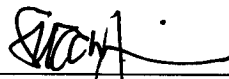
Respectfully submitted,



CHRIS KUNZE
ACTING DIRECTOR
LONG BEACH AIRPORT

CK:JMLR:jmlr
09.23.08 CCltr.3rdAmend.CFB.v.3.doc

APPROVED:



PATRICK H. WEST
CITY MANAGER