



**BOULDER CITY  
CITY COUNCIL**

**MAYOR**  
JOE HARDY

**COUNCIL MEMBERS:**  
COKIE BOOTH  
MATT FOX  
SHERRI JORGENSEN  
STEVE WALTON



**MEETING LOCATION:**  
**CITY COUNCIL CHAMBER**  
401 CALIFORNIA AVENUE  
BOULDER CITY, NV 89005

**MAILING ADDRESS:**  
401 CALIFORNIA AVENUE  
BOULDER CITY, NV 89005

**WEBPAGE:**  
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**CITY MANAGER:**  
TAYLOUR TEDDER, CECD

**CITY ATTORNEY:**  
BRITTANY LEE WALKER, ESQ

**CITY CLERK:**  
TAMI MCKAY, MMC, CPO

**ADMINISTRATIVE SERVICES DIRECTOR:**  
BRYCE BOLDT

**COMMUNITY DEVELOPMENT DIRECTOR:**  
MICHAEL MAYS, AICP

**PUBLIC WORKS DIRECTOR:**  
JAMIE CURRERI

**UTILITIES DIRECTOR:**  
JOSEPH STUBITZ, P.E.

**POLICE CHIEF:**  
TIM SHEA

**FIRE CHIEF:**  
WILLIAM GRAY, CFO

**ACTING FINANCE DIRECTOR:**  
ANGELA MANNINEN, CFE

**PARKS & RECREATION DIRECTOR:**  
ROGER HALL

# City Council Meeting

## March 14, 2023

### Item No. 11

### Staff Report

**TO:** Mayor and City Council

**FROM:** Taylour Tedder, City Manager

**DATE:** March 14, 2023

**SUBJECT:**

For possible action: Discussion and direction regarding hangar ground lease nos 93-A240, 93-A247, and 93-A248 expiring in 2023

**Business Impact Statement:**

This action will not have a significant economic impact on business and will not directly restrict the formation, operation, or expansion of a business.

**Action Requested:**

That City Council review proposal from tenants, and discuss and provide direction to Staff regarding hangar leases expiring in 2023.

**Overview:**

- Several ground lease agreements at the Boulder City Municipal Airport are set to expire in April and May of 2023.
- On August 24, 2022, City staff sought direction regarding such leases.
- City Council directed staff to solicit for qualified companies to conduct an appraisal for a new lease rate once the current leases expire.
- City staff solicited for qualified firms to submit qualifications and provide appraisals for the expiring leases.
- On November 7, 2022, City staff presented the results of the appraisals, and the City Council directed staff to move forward with a 3-year/2-year new lease option at gross value with annual CPI and include an assignment clause for staff approval.
- In January 2022, Rod Woodbury approached the City asking that the expiration of the leases be deferred for a fee.
- Other airports have what is known as a reversion deferral fee allowing the tenant to extend the ground lease and delay the City

- obtaining ownership of the tenant's hangar.
- City Council direction is needed to determine whether to proceed with the previous direction and enter into new leases once the current ground leases expire, or allow tenants to pay a reversion deferral fee and extend the current ground lease.

Background Information:

There are three different lease forms on the hangar ground leases expiring in 2023. These leases were originally entered into with one party and that party was tasked with development of the vacant land. After the hangars were developed, the ground leases were later subdivided and assigned to different individuals. There are currently 25 individual leases set to expire; 9 on April 27, 2023, and 16 on May 5, 2023. Once these leases expire the improvements on the land become property of the City.

For example, Section 8.1 of Lease 93-240 provides as follows:

"All privately owned hangars shall remain the property Tenant during the term and option periods of this Lease agreement. Said hangars shall become the property of City upon termination of this Lease."

The City notified the parties of these leases of the upcoming expiration two years prior.

During the August 24, 2022 City Council meeting, City Staff sought direction regarding airport leases set to expire in 2023, 2024, 2028. City Staff requested permission to obtain appraisals for the hangars to determine per square foot fair market value (FMV) rates for triple net and gross leases. City Council directed City Staff to solicit for qualified companies to conduct an appraisal for the private general aviation hangars at the airport.

City Staff solicited for qualified appraisal firms to submit their qualifications in July 2022. A list of appraisal companies was established and two were chosen to complete appraisals on the airport hangars. Anderson Valuation Group, LLC and CBRE Valuation & Advisory Services were engaged to complete the two appraisals (Attachment 1 & 2).

<b>2023 Appraisal Average</b>				
	Monthly Rate / psf		Annual Rate / psf	
	Gross	Triple Net	Gross	Triple Net
Anderson Appraisal	\$0.3960	\$0.3780	\$4.7200	\$4.5200
CBRE Appraisal	\$0.5600	\$0.4000	\$6.7000	\$4.7500
<b>Average of All Appraisals</b>	<b>\$0.4780</b>	<b>\$0.3890</b>	<b>\$5.7100</b>	<b>\$4.6350</b>

On November 7, 2022, the City Council directed staff to move forward with a 3-year lease with a 2-year renewal option in accordance with exceptions to the competitive bidding requirement under state law. The City Council further directed that the leases be drafted as gross leases with annual escalation clauses indexed to the Consumer Price Index (CPI) and allow assignment with staff approval.

In January 2023, Mr. Rod Woodbury representing several ground lease tenants approached City staff with a proposal to extend the ground leases in exchange for payment of a fee and amongst other terms.

At the beginning of a development lease the term of the lease is determined so as to provide the tenant sufficient time to retire the initial financing and provide a reasonable return for the tenant's development of a facility, in this case hangars. Since the leasehold has already been improved with hangars, there is no initial investment to be made there must be value to contemplate a lease extension. Some airports allow tenants to pay a deferral fee in lieu of the city obtaining ownership of the tenant's hangar. The deferral fee is typically equal to the City's accumulated expected annual return for the reversionary extended term (including annual escalation) discounted to a net present value by the current prime rate as set forth by the FED. Examples of deferral fee policies are attached (Attachment 3 & 4).

As per the City Council's direction at the November 7, 2022 meeting, a 3-year/2-year term lease has been drafted in preparation for the ground leases expiring. An example is attached hereto. (Attachment 5).

Under the Federal Aviation Administration's grant assurances, the City has agreed to maintain a fee and rental structure for the facilities at the airport which will make the airport as self-sustaining as possible. Additionally, leasing of airport property must be at fair market value and leases should be for a cumulative term of no longer than 50 years.

City staff recommends that the City enter into new leases with the current tenants once the current ground leases expire, if the tenant is in good standing the first right of refusal will be offered to the leaseholder and then to the renter if the leaseholder opts to not engage in a new lease. A new lease will update lease language, provide consistency of ownership, reduce the potential for and help facilitate the successful resolution of conflicts/disputes, complaints and lawsuits.

If the City Council wishes to move forward with tenants' proposal to defer expiration of the existing ground leases. City staff recommends tenants form an LLC or an HOA and lease groups of hangars that are built on pads or otherwise connected by utilities or alarm systems, and all tenants agree to defer extension.

Suggested Grouping:

- Hangars TW3-16, 4-13, 4-15
- Hangars TW3-18, 3-20, 3-22, 4-17, 4-19, 4-21

- Hangars TW3-24, 3-26, 3-28, 3-20, 3-32, 3-34, 3-36, 3-38, 4-23, 4-25, 4-27, 4-29, 4-31, 4-33, 4-35, 4-37

The City staff recommends the deferral fee be determined to be equal to the City's accumulated expected annual return for the reversionary extended term on the hangars (and other improvements) ownership, discounted to a net present value by the current prime rate as set forth by the FED (assuming the hangar and other improvements are not contaminated and have been properly maintained, repaired, and replaced in accordance with the terms and conditions of the lease). Attached is what such a deferral fee would look like based on this calculation. (Attachment 6). The deferral fee will provide the required value for the term of the lease extension.

Additionally, the lease extension term should be no longer than 20 years, as the lease with options was for 30 years.

#### Financial:

##### **New Lease Rental Option** *(3-Year/2-Year Agreement)*

Total Hangar Rental Square Footage	32,302
Gross Annual PSF Rate	\$5.71
Total Annual Rental Revenue	\$184,444.42
Rental Revenue over 20 years*	\$4,481,514.28

##### **Deferral Fee Option** *(Lease Extension)*

Total Lease Square Footage	32,846.56
Total Annual Ground Lease Rate**	\$19,405.92
Ground Lease Rate over 20 years*	\$471,512.81
Total Deferral Fee over 20 years	\$1,563,233.03
Deferral Option Revenue over 20 years***	\$2,034,745.84

*\*Calculated using a 2% CPI increase annually.*

*\*\*Ground Lease will continue to be paid over the course of the deferral option.*

*\*\*\*Ground Lease Rate over 20 years + Total Deferral Fee*

#### Boulder City Strategic Plan Goal:

Goal C: Manage Growth and Development

Department Recommendation: That City Council review proposal from tenants and discuss and provide direction to City Manager regarding hangar leases expiring in 2023.

**Sample motions -**

For new leases- **Move** to direct the City Manager to offer new short-term leases like the sample lease to existing tenants when the current leases expire with language allowing current tenant a right of first refusal to enter into a new lease upon expiration.

For deferral fee option- **Move** to direct the City Manager and City Attorney to negotiate and draft a possible lease extension with the current tenants if the tenants agree to the following conditions: (1) tenants form an HOA or LLC to be party to the ground lease in the grouping suggested above; (2) all tenants agree to such deferral extension; and (3) tenants pay the recommended deferral fee.

Attachment:

- Attachment 1: CBRE Appraisal
- Attachment 2: Anderson Appraisal
- Attachment 3: Leasing Policy- Redmond, OR
- Attachment 4: Leasing Policy- Rapid City, SD
- Attachment 5: Draft 3year/2year lease
- Attachment 6: Sample deferral fee calculation