



City Council Report

Date: August 19, 2024
To: City Council
Through: Candace Cannistraro, Deputy City Manager
From: Corinne Nystrom, Airport Director
Subject: Falcon Field Airport -SRP Master Tenant Lease
City Council District No. 5

Purpose and Recommendation

The purpose of this report is to recommend that City Council adopt the attached Resolution, which authorizes the City Manager, or his designated representative, to execute the Master Tenant Lease between the City of Mesa and Salt River Project Agricultural Improvement and Power District (SRP) for approximately 5 acres of land at Falcon Field Airport (“Airport”) for the purpose of constructing an aircraft hangar and maintenance facility, aircraft parking ramp, and ancillary office space for SRP’s aviation operations.

Background

SRP has been conducting their aviation operations at Phoenix Sky Harbor Airport for several years. Their lease with the City of Phoenix will be expiring in 2025 and will not be renewed. Anticipating the need to relocate their aviation operations to another airport, SRP contacted Falcon Field Airport. Airport management worked with SRP to select a site on the Airport for the relocation of their operations. In accordance with A.R.S. 28-8425, the Airport published a Notice of Intent to Lease (“NOI”) in a local newspaper to invite interested parties to submit proposals to lease approximately 5 acres of Airport vacant land located on the north side of McKellips Road (“Subject Property”). Airport tenants and community email contacts were also provided a copy of the NOI, and it was posted on the Airport’s website. The NOI was advertised for a minimum of 30 days after the first date of publication in the Arizona Business Gazette. Although several parties have expressed interest over the years in leasing the Subject Property, the only written proposal received following the NOI advertisement was from SRP.

Discussion

Since SRP was the only party to submit a written proposal to lease the Subject Property, the Airport entered into lease negotiations with them using the Master Tenant Lease template that was approved by City Council on February 11, 2019. Because of special circumstances on the Subject Property and the fact that SRP is a

political subdivision, some modifications needed to be made to the Lease template. Since some of the changes are material, the lease must be brought before City Council for approval. The primary material changes include:

- 1) Language to acknowledge that SRP is self-insured.
- 2) Language which addresses the need to partially abandon a water line easement on the Subject Property and to abandon in place two existing water lines so that structures can be built over them. The abandonment of these water lines will not affect SRP or other airport tenants' access to the main City water line.
- 3) Language which authorizes SRP to construct above ground fuel storage tanks on the Subject Property, which will be built at SRP's sole cost and expense and in compliance with all applicable federal, state (including Arizona Department of Environmental Quality) rules and regulations, City of Mesa ordinances and regulations, and all requirements that may be imposed by the City as part of the City's consent to such use.

Falcon Field Airport recommends approval of the Resolution and the Master Tenant Lease with SRP.

Alternatives

Alternative 1 is to approve the Master Tenant Lease with SRP. The Subject Property is classified on the Federal Aviation Administration-approved Airport Layout Plan as aeronautical use property. It cannot be used for a non-aeronautical purpose. The SRP development is for an aeronautical use. It will benefit the Airport, the City of Mesa, and the entire region that SRP serves. It is an excellent use of the Subject Property.

Alternative 2 is to not sign the Master Tenant Lease with SRP and continue to market the Subject Property to another aeronautical user. Pursuing this alternative would result in SRP not meeting its deadline to build a new facility at another airport in time to relocate their aviation operations from Phoenix Sky Harbor Airport when their lease expires in 2025. Furthermore, the City of Mesa would not be able to enjoy the benefits of bringing the SRP aviation operations to Mesa.

Fiscal Impact

The Lease term is 40 years. The Airport Enterprise Fund will receive \$39,270.60 in rent revenue the first year of the lease, \$58,905.90 of rent revenue the second year of the lease, and \$78,541.20 of rent revenue the third year of the lease. Thereafter, annual Consumer Price Index (CPI) rental rate adjustments will automatically occur. In addition, revenue will also be generated for the Airport Enterprise Fund through fuel flowage fees collected through aircraft fuel sales to SRP for their aircraft.

Coordinated With

The Airport coordinated with the following City departments during the lease negotiation process: City Manager's Office, City Attorney's Office, Engineering, Development Services, and Mesa Fire and Medical.