



Staff Report

File #: 18-477

Version: 1

Date: 11/13/2018

Item #: 3.3b.

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Kristin Retherford, Urban Development Department Director

SUBJECT:

Airport ground lease with Ponderosa Financial Services, LLC

Ward(s): 2

Councilor(s): Andersen

Neighborhood(s): SEMCA

ISSUE:

Shall City Council authorize the City Manager to execute a ground lease with Ponderosa Financial Services, LLC?

RECOMMENDATION:

Authorize the City Manager to execute a ground lease with Ponderosa Financial Services, LLC.

SUMMARY AND BACKGROUND:

Ponderosa Financial Services, LLC (Marvin May, Member) (Lessee) and predecessor entities have leased ground at the Salem Municipal Airport (Airport) for a hangar since 1980 (Attachment 1). The hangar is 7,200 square feet. The lease includes a fuel dispensing facility, and an underground fuel storage tank. The lease expires on October 31, 2024.

Lessee has built a new hangar at the Airport and is marketing the current hangar for sale. Potential buyers are concerned with the short term remaining on the lease, the large size of the hangar, and the responsibilities and liabilities from the underground fuel storage tank. Lessee has requested a new lease to increase the marketability of the property.

FACTS AND FINDINGS:

Current practice for lease renewals is to wait until the lease is near expiration and negotiate a new lease at that time. A new lease is recommended (Attachment 2) because of the short term remaining on the lease and the responsibilities a new owner will have for the fuel facility and underground storage tank. Also a consideration is the Lessee's over \$1 million dollar investment in a new hangar. The hangar project included extending utilities to the site, an expense that would have been the Airport's responsibility. The Airport does not have funds for capital projects such as utility extensions. The Lessee funding the utility extension and recovering the expense through lease credits over time is indicative of the cooperation between the Lessee and Airport. A new lease will increase the probability of the hangar being used.

If a new lease is executed, it will supersede and replace the current lease, and will utilize the standard lease template including standard rate increases and appraisal terms.

Lease Start Date: January 1, 2019
Lease Expiration Date: December 31, 2034
Extension Option: One 10-year term
Lease Rate: \$4,515.20 annually (\$0.34 per s.f.), market rate and identical to existing lease

Clint Dameron
Real Property Services Manager

Attachments:

1. Current Lease
2. Proposed Lease