Memorandum 14-015 Era Aviation Lease

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TO: Mayor Wythe and Homer City Council

FROM: Walt Wrede

DATE: January 18, 2014

SUBJECT: New Lease / Era Aviation

Era Aviation's lease at the Airport Terminal expired on December 31, 2014. We have been operating in January under a holdover clause while a new lease is negotiated. Lease negotiations are complete and both parties are ready to sign the lease pending approval by the Homer City Council. The term of the lease is five years and the annual rent is $59,948.76 payable in equal monthly installments of $4,995.73. Both parties would prefer a longer term but we are limited to five years by DOT/PF which is the owner of the land under the terminal. In short, the City owns the airport terminal building and leases the underlying land from the State of Alaska. Era leases space inside the terminal from the City.

Section 11.2 (F) of the Lease Policies provides that the City Council may elect to not require a competitive bidding process for a lease which has expired if it finds that it is in the best interest of the City to enter into a new lease agreement with the current lessee. If it chooses to do so, it must make a finding by resolution. In making the finding, it must consider relevant facts which include, but are not limited to:

The lessee's past capital investment and binding commitment to future capital investment
The lessee's financial condition and prior lease history
The number of persons employed and the prospects for future employment
Tax revenues and other financial benefits to the City of Homer anticipated in the future if the lease is renewed
Consistency of the past use and intended future use with all applicable land use codes and regulations in the Comprehensive Plan and Overall Economic Development Plan
Other opportunities for use of the property that may provide greater benefits to the City of Homer
Other social, policy, and economic considerations as determined by the Council.

I have reviewed Era's request for a new lease and evaluated it based upon the considerations above. While these considerations are tailored for land leases and not a lease of space within a public building, they are still instructive and useful in this case. Era has made significant capital investments within the building and in new planes and equipment which have improved service to the community. Era has a very good prior lease history and it has the financial and administrative capacity to comply with the terms of the lease agreement. The company employs many local residents and it has discussed expansion of its operations and leased area with the City. The company generates revenue through rent and sales taxes and the proposed use is consistent with an airport terminal located at a State airport. This lease is consistent with the Comprehensive Plan and Economic Development Plan. The community and economic benefits associated with Era doing business and serving the community from the Homer Airport Terminal are diverse and substantial. In my view, the benefits are obvious and do not need to be described in great detail here.

For the reasons articulated above, I recommend that the Council award a new lease to Era Aviation without a competitive bidding process. I think it is important to note that in addition to the reasons stated above, competitive bidding does not make sense in this case because there is no better use for the space to be leased. It is specifically designed and designated for air carriers. Second, there are very few competitors in the Alaska market right now and some question whether Homer has enough business to support two airlines. In short, it is unlikely

that the City would receive another competitive bid. We have additional space for a second carrier (the area vacated by Grant Aviation) and we plan to issue an RFP for that space shortly.

RECOMMENDATION: Approve a new five year lease at the Airport Terminal for Era Aviation without a competitive bidding process.

Fiscal Note: Revenue: $59,948.76 annually.
Related Resolutions**Memorandum - Related Resolutions:** Resolution 14-022 Approving a New Five Year Lease at the Homer Airport Terminal Between the City and Era Alaska

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