



Napa County

Board Agenda Letter

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Board of Supervisors

Agenda Date: 12/6/2022

File ID #: 22-2044

TO: Board of Supervisors
FROM: Steven Lederer, Director of Public Works
REPORT BY: Leigh Sharp, Deputy Director of Public Works - General Services
SUBJECT: Approval of fixed base operator agreements at the Napa County Airport

RECOMMENDATION

SET MATTER 9:30 AM - Airport

Director of Public Works requests the following actions regarding fixed base operator (FBO) Agreements at the Napa County Airport:

1. Adoption of a resolution determining that long-term leases at the Napa County Airport are “exempt surplus land” for the purposes of the Surplus Lands Act pursuant to Government Code section 54221(f)(1)(G) because Governing Laws prohibit the use of Napa County Airport property for housing.
2. Approval of and authorization for the Chair to sign the following agreements associated with FBO services to be provided by SkyserviceUS California LLC, contingent upon concurrence from the State of California that leases at the Napa County Airport are “exempt surplus land”:
 - a. A ground lease, license, and operating agreement (Napa County Agreement No. 230234B with SkyserviceUS California LLC for a term of thirty years plus two consecutive five-year option periods to construct leasehold improvements and to provide Fixed Base Operator services at the Napa County Airport (4/5 vote required); and
 - b. A Guaranty Agreement No. 230235B with ALIS IA Aviation, LLC (Guarantor) for the benefit of Napa County whereby Guarantor unconditionally guarantees full and prompt performance and payment for each and every obligation of Leading Edge California, LLC within Napa County Agreement No. 230234B.
3. Approval of and authorization for the Chair to sign the following agreements associated with FBO services to be provided by Napa Jet Center, Inc doing business as Atlantic Aviation conditional upon concurrence from the State of California that leases at the Napa County Airport are “exempt surplus land”:
 - a. Approval of and authorization for the Chair to sign a ground lease, license, and operating agreement (Napa County Agreement No. 230232B with Napa Jet Center, Inc. doing business as Atlantic

Aviation for a term of thirty years plus two consecutive five-year option periods to construct leasehold improvements and to provide Fixed Base Operator services at the Napa County Airport (4/5 vote required); and

b. Approval of and authorization for the Chair to sign Guaranty Agreement No. 230233B with Atlantic Aviation FBO, Inc. (Guarantor) for the benefit of Napa County whereby Guarantor unconditionally guarantees full and prompt performance and payment for each and every obligation of Napa Jet Center, Inc. within Napa County Agreement No. 230232B.

4. Approval of the following actions related to surplus fuel farm equipment located at the Napa County Airport:

a. Declare certain capital asset fuel farm equipment as surplus and no longer required for public use;

b. Authorize the Auditor-Controller to remove these surplus assets, which are fully depreciated, from the capital asset listing; and

c. Authorize the sale of capital asset surplus fuel farm equipment to Napa Jet Center Inc. doing business as Atlantic Aviation consistent with Napa County Agreement No.230232B.

EXECUTIVE SUMMARY

Since 2017, with support and direction from the Board of Supervisors, staff has been making progress toward establishing two fixed base operators (FBOs) at the Napa County Airport. Approval of the proposed agreements with SkyserviceUS California LLC (Skyservice) and Napa Jet Center, Inc., doing business as Atlantic Aviation (Atlantic), will conclude this process. Combined, over the full term of the agreements (30 years) plus option terms (10 years total), the Airport is anticipated to obtain benefits valued at over \$130 million, including rents and fees paid directly to the Airport, capital investment required of each FBO, and financial obligations related to possessory interest. Approval of the two lease agreements ensures that the Airport is meeting Federal Aviation Administration (FAA) grant assurances for non-exclusivity. Lease terms for each FBO are virtually identical and were specifically crafted to encourage healthy competition and to ensure economic nondiscrimination. A summary of key terms is included in the background section of this report.

Approval of the guaranty agreements with the respective parent company of each FBO provides the County with assurance that the parent company unconditionally guarantees full and prompt performance and payment for each obligation of the FBO contained in their respective lease agreements.

Requested actions related to the fuel farm equipment located at the Airport will declare such equipment, which is fully depreciated, surplus and authorize sale of such equipment to Atlantic per the terms in Napa County Agreement No. 230232B.

Lastly, adoption of a resolution determining that long-term leases at the Napa County Airport are “exempt

surplus land” for the purposes of the Surplus Lands Act is required under Government Code 54220 et seq. prior to taking action to “dispose” of property. Although the Surplus Lands Act does not define disposition of property, the California Department of Housing and Community Development (HCD) has issued guidelines which characterize leases longer than five years where development or demolition is contemplated as disposition. Under the conditions of the proposed leases and the HCD guidelines, the Board must take action to find that the Napa County Airport is “exempt surplus land.”

Procedural Requirements

1. Staff Report
2. Public Comments
3. Motion, second, discussion, and vote.

FISCAL & STRATEGIC PLAN IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	Yes
Where is it budgeted?	Airport Enterprise (Fund 5010; Org 5010000)
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	Approval of the FBO leases and associated guaranty agreements will lead to significant development improvements at the Airport to implement the Boards vision of transforming the Airport into a “gateway” to the Napa Valley. The lease agreements will also bring significant revenue to the Airport, furthering the financial sustainability of the Airport Enterprise Fund. Additional requested actions are integral to execution of the two lease agreements.
Is the general fund affected?	No
Future fiscal impact:	Revenues to be derived from the leases will be budgeted each fiscal year.
Consequences if not approved:	There would be a lost opportunity to develop new facilities at the Airport and new Airport revenue would be lost.
County Strategic Plan pillar addressed:	Livable Economy for All

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The Board previously considered and adopted a Mitigated Negative Declaration and Mitigation Monitoring and Reporting Program for this Project, pursuant to Resolution No.

2020-120. There have been no substantial changes to the Project or new information of substantial importance within the meaning of CEQA Guidelines section 15162 that would warrant additional environmental review in connection with this action.

BACKGROUND AND DISCUSSION

FBO LEASES

In early 2017, the County Executive Office prepared a preliminary analysis of the potential value of Airport real estate and suggested that a consultant be hired to conduct an evaluation of the Airport including evaluation of the real estate value and the potential for the airport to support two fixed base operators (FBOs). The evaluation was completed in July 2017 and major recommendations included update Airport minimum standards, rules, and regulations; create a redevelopment plan that includes a second FBO; and develop a plan for a new County airport terminal and operations/maintenance area.

On February 12, 2019, staff presented updated draft minimum standards, rules, and regulations for the Airport and requested direction from the Board related to seeking a second FBO for the Airport through a request for proposals process.

On June 4, 2019, the Board amended section 1.28.040 and Chapter 11.28 of Napa County Code to update Rules and Regulations for the Napa County Airport, adopted updated policies related to Airport Minimum Standards, Development Standards, and Leasing/Rent Fees, and amended Part I, Section 3 of the Napa County Policy Manual to be consistent with the newly adopted rules, regulation, and policies. These updates and changes established a foundation for future development at the Airport.

On August 27, 2019, staff presented a draft request for proposals (RFP) for a second FBO at the Airport with the objectives of enhancing airfield infrastructure, providing a positive experience for all airport users; creating a gateway to the Napa Valley; improving the Airport's economic performance through rents, fees, capital contributions, and workforce activities; and promoting a sense of place and pride at the Airport. The RFP was released on August 29, 2019, and respondents were given approximately seven months to respond. Due to economic uncertainties related to the Covid-19 pandemic, the due date was extended twice to July 17, 2020. The County received and considered three responses, negotiated with two respondents, and ultimately, consistent with the rights reserved under the RFP, on June 23, 2021, decided not to award a lease out of the RFP.

With sustained interest in redeveloping the terminal area of the Airport and securing a second FBO, the County initiated direct negotiations with interested FBOs while simultaneously negotiating with the existing FBO (Lynx FBO Enterprise, LLC. at the time, and now Atlantic).

The two leases for consideration today are a result of direct negotiations with Skyservice and Atlantic. Terms of the leases are virtually identical and major terms are summarized as follows:

Term and Effective Date

The Effective Date of the leases will be the date the leases are executed by the County. The term of each lease is thirty (30) years with an option to extend for up to two (2) consecutive, five (5) year periods, for a total

maximum term of forty (40) years.

Premises

The premises for each FBO includes approximately 10 acres (435,600 square feet (SF)), including terminal redevelopment area and fuel farm area, consistent with the Board adopted Terminal Area Layout Plan, attached.

The totality of the redevelopment area will not be available to either FBO as of the Effective Date of the leases. Rather, sections of the leasehold will become available over time because the County will need to relocate some existing facilities to ensure ongoing Airport operations (County Relocation Project). The County's Relocation Project includes relocating its existing offices out of the existing terminal building, demolishing the existing terminal building, vacating its storage facilities, ensuring the relocation of the self-serve island, realigning a section of sanitary sewer main, and relocating a rotating beacon and the airfield electrical vault and associated electrical lines that run under a portion of the premises. This work is on-going and is anticipated to be complete within 16 months of lease execution.

Under the proposed FBO lease, both FBOs will also lease existing commercial hangars. Skyservice will lease the 20,000 square foot commercial hangar that is situated on a leased area of approximately 58,236 square feet located at 3030 Airport Rd.

Atlantic has an existing ground lease (Land Lease Agreement No. 4174 dated June 15, 1999), upon which a 30,000 square foot commercial hangar was erected. Agreement No. 4147 has a termination date of June 30, 2029. Under the proposed FBO lease, Agreement No. 4147 is terminated, and the 30,000 square foot hangar that is situated on approximately 59,049 SF of leased area at 2038 Airport Rd. is included in the premises of the new lease.

Lease Rates

Ground lease rates for Atlantic start at \$1.00 per square foot per year and are subject to a consumer price index (CPI) increase annually as of the Effective Date and, at County's discretion, by appraisal every five years. In recognition of Agreement No. 4147 in which Atlantic would continue to pay ground rent for the hangar located at 2038 Airport Rd. for an additional 6.5 years, the proposed FBO lease provides that Atlantic shall pay ground rent of \$1.00 per SF per year through June 30, 2029 and effective July 1, 2029, begin to pay a monthly lease rate reflective of "improved property" (to be calculated with annual CPI adjustments dating back to the Effective Date of the lease).

Ground lease rates for Skyservice start at \$0.75 per SF per year and increase annually to reach \$1.00 per SF per year in year five of the lease, and thereafter are subject to an annual CPI increase and, at the County's discretion, an increase based upon appraisal every five years. The slight difference in ground lease rate during the early years of the lease is reflective of the differences between the rental areas and the additional expenses that Skyservice will incur to develop temporary facilities to initiate operations. Consistent with the Atlantic lease, the County, at its discretion, has the ability to evaluate and increase rents by reappraisal every five years. This provision allows the County to evaluate any long-term discrepancy and make adjustments as needed.

For the hangar located at 3030 Airport Rd., Skyservice will be paying a lease rate at \$1.10 per SF per month, subject to annual CPI adjustments.

Fuel Flowage Fee

Fueling operations are the predominant line of business for FBOs. Both operators agreed to share in their fuel revenues by offering \$25.00/100 gallons for jet fuel and \$12.00/100 gallons for Avgas, which has been negotiated to remain fixed for four years. In subsequent years, the Board may choose to modify the amount as proposed in an updated Fee Schedule.

Final negotiations on airport fueling revenue also include a minimum amount that is guaranteed to the airport (minimum annual guarantee or "MAG"). The airport can expect \$350,000 from each FBO for each fiscal year for the first four years (prorated) which increases two percent each year thereafter. If actual fuel flowage activity generates airport revenue under the guaranteed minimum, each operator will make up the difference respective to their shortfall. The obligation to meet the fuel MAG for Skyservice will become effective at the conclusion of the pioneering period, when development is complete and occupancy permits have been issued. Atlantic, as the existing FBO on-site, will be obligated to meet the fuel MAG starting in year one of the agreement.

Capital Improvement and Investment

For the opportunity to develop new FBO facilities according to the negotiated development schedule, both FBOs have committed a minimum investment of \$13.6 million. In addition, Atlantic has committed \$1.4 million to improve their existing large hangar at 2038 Airport Road and Skyservice has committed \$1.8 million to improve the large hangar at 3030 Airport Road over a fifteen year, three phase schedule.

Tax Minimum Annual Guarantee (MAG)

Per FAA order 5190.6B, airport revenue includes revenues paid to or due to the airport for use of airport property. Each operator will pay possessory interest taxes on aircraft and improvements to the leasehold to the County. Both FBOs agreed to submit an annual tax report identifying taxes paid and will remit to airport, as additional rent, any shortfall below \$200,000 per year.

Restaurant and Flight School Obligations

As part of negotiations, and as priority services identified as desirable by the Airport Advisory Committee, Atlantic agreed to provide flight training operations for the duration of the lease and Skyservice agreed to build restaurant space within its terminal and to use commercially reasonable efforts to sublease the space to a commercial restaurant operator.

Self-Serve Fuel

Pursuant to Napa County Agreement No. 200377B, Atlantic operates a 24-hour self-service fuel facility at the Airport which is currently located on the proposed leasehold of Skyservice. The proposed lease with Atlantic provides that Atlantic will continue to operate the self-serve fuel facility at an alternative location pursuant to Agreement No. 200377B until such time when a new self-serve fuel agreement is executed and Agreement No. 200377B is terminated.

Pursuant to Amendment No. 1 to Agreement No. 200377B Atlantic is required to relocate, at Lessee's sole cost, the existing self-serve facility to an alternative location by December 31, 2022 including tank removal and relocation, installation of underground utilities, permitting, and restoration of the initial license area. Atlantic is scheduled to remove the facility by December 5, 2022 and to restore the initial license area by December 31, 2022. Due to permitting and other delays, Atlantic will require additional time to install underground utilities

and make the facility operational at the new location. Provided that the tank is removed from its current location by December 5, 2022, Airport staff intends to request an amendment to Agreement 200377B to extend the timeline by four months for permitting, installation of underground utilities, and tank relocation.

Development and Schedule

Each FBO will be developing an executive terminal, an aircraft storage hangar, a fuel farm facility, and a vehicle parking area to meet or exceed the Airport's Minimum Standards. In addition, they will be developing a new aircraft parking apron and completing improvements to the existing apron. To complete their improvements, the County will need to implement a "Relocation Project" including relocating its existing offices out of the pre-existing terminal building, demolishing the pre-existing terminal building, vacating its storage facilities, realigning a section of sanitary sewer main, and relocating the rotating beacon and airfield electrical vault and associated electrical lines that run under a portion of the Premises.

The proposed FBO leases include a timeline to complete the leasehold improvements, summarized as follows (timelines from Effective Date of Agreement):

- Lessee to submit design review and final development plans to County in months 6 and 7.
- Lessee to obtain development permits by month 11.
- Lessee to complete development of fuel farm by month 12.
- County to relocate electrical vault and beacon, demolish existing terminal, and relocate sewer line by month 16.
- Lessee to receive certificate of occupancy for terminal area developments and be in full compliance all Airport Minimum Standards in 2.5 years.
- County to complete realignment of Airport Road by 3.5 years.
- Lessee to complete improvements to existing apron by year 7.

Assurances

As described in the executive summary, guaranty agreements with the respective parent company of each FBO provides the County with assurance that the parent company unconditionally guarantees full and prompt performance and payment for each and every obligation of the FBO contained in their respective lease agreements. In addition, the lease itself provides assurances including insurance requirements; requirements for performance and payment bonds issued in an amount not less than 100% of the total cost of work for any contracted work over \$25,000; and provisions for liquidated damages.

SURPLUS LANDS ACT

Government Code 54220 et seq. requires adoption of a resolution by the Board of Supervisors determining that long-term leases at the Napa County Airport are "exempt surplus land" for the purposes of the Surplus Lands Act prior to taking action to "dispose" of Airport property. Although the Surplus Lands Act does not define "disposition of property," the California Department of Housing and Community Development (HCD) has issued guidelines which characterize leases longer than five years, where development or demolition is contemplated, as disposition. Under the conditions of the proposed leases and the HCD guidelines, the Board must take action to find that Napa County Airport land is "exempt surplus land."

Pursuant to Government Code section 54221(f)(1)(G), exempt surplus land includes "surplus land that is

subject to valid legal restrictions that are not imposed by the local agency and that would make housing prohibited, unless there is a feasible method to satisfactorily mitigate or avoid the prohibition on the site.” The County has received and is still receiving federal grants for improvements at the airport, which require that the County use airport property only for aviation-related uses, and restrict the use of airport property such that housing, recreation, and other non-aviation uses are prohibited or otherwise infeasible. The proposed resolution has been provided to HCD for review and concurrence with the requested determination. HCD has provided verbal assurance that our resolution will meet their requirements for a favorable determination and once the Board adopts the resolution, HCD will provide their determination in writing.

SURPLUS OF FUEL FARM EQUIPMENT

Each FBO will be developing new bulk aviation fuel storage facilities per the terms of the agreements. Until their new fuel farm is developed and operational, Atlantic will continue to use the existing fuel farm, consisting of three 12,000-gallon fuel tanks and associated distribution equipment (collectively referred to as fuel farm equipment). The fuel farm equipment is fully depreciated and is no longer of use to the County. Through negotiations with Atlantic, and within Agreement No. 230232B, County transfers ownership of the fuel farm equipment to Atlantic for \$1 in recognition of the short remaining useful life of the equipment and the cost of vacating the existing site when the new fuel farm site is developed.

California Code Section 25504 states that the County Purchasing Agent may by direct sale or otherwise sell, lease, or dispose of any personal property belonging to the county not required for public use, subject to such regulations as may be provided by the Board of Supervisors; and Section 12-1(b) of the County Purchasing Policy directs that fixed assets that are the property of the County shall not be sold, turned in for credit, or otherwise disposed of without the approval of the Board. The requested actions related to the fuel farm equipment located at the Airport will declare such equipment surplus and authorize sale of such equipment to Atlantic per the terms in Napa County Agreement No. 230232B.