

**NOTICE OF PUBLIC MEETING
PHOENIX AVIATION ADVISORY BOARD
BUSINESS AND DEVELOPMENT SUBCOMMITTEE**

Pursuant to A.R.S. Section 38-431.02, notice is hereby given to the members of the **PHOENIX AVIATION ADVISORY BOARD, BUSINESS AND DEVELOPMENT SUBCOMMITTEE** and to the general public, that the **BUSINESS AND DEVELOPMENT SUBCOMMITTEE** will hold a meeting open to the public on **Thursday, May 4, 2023 at 2:30 p.m.** located at the **City of Phoenix Aviation Department, 3 North Conference Room, 2485 E. Buckeye Road, Phoenix, Arizona 85034**, or via WebEx teleconference.

Meeting Attendance Options:

- **Watch the meeting virtually using the WebEx link provided below.**

<https://cityofphoenix.webex.com/cityofphoenix/onstage/g.php?MTID=ef6e7b98b0241f2ff68e255623832bc19>

- **Call-in to listen to the meeting**, dial 602-666-0783 and Enter Meeting ID 2467 995 1533 # Press # again when prompted for attendee ID.
- **Attend the meeting in-person at the Aviation Headquarters**

Public Comment: If you wish to provide a written comment or speak at the meeting virtually or by phone, please submit a request to pearl.meza@phoenix.gov no later than 10 a.m. on Thursday, May 4, 2023. The email should include your first and last name, email address, the item number(s) and whether you would like your comment read into the record or if you wish to speak. Those who wish to attend in person may submit a request to speak by completing a speaker card at the registration desk at the beginning of the meeting.

One or more board members may participate via teleconference. Agenda items may be taken out of order.

The agenda for the meeting is as follows:

CALL TO ORDER

MINUTES OF MEETING

1. **For Approval or Correction, the Minutes of the Business and Development Subcommittee Meeting on March 2, 2023**

DISCUSSION AND POSSIBLE ACTION (ITEMS 2 - 4)

2. Arizona Aviation Partners, LLC Ground Lease at Phoenix Goodyear Airport

This report requests that the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to execute a ground lease with Arizona Aviation Partners at Phoenix Goodyear Airport.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

3. Derek Engineering, Inc. Ground Lease

This report requests that the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to enter into a ground lease with Derek Engineering, Inc.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

4. AerSale, Inc. Lease Amendments

This report requests that the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to amend and restate ground leases for AerSale, Inc. at Phoenix Goodyear Airport.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

SUBCOMMITTEE INFORMATION AND FOLLOW-UP REQUESTS

CALL TO THE PUBLIC

This is the time for the public to comment. Members of the Board may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. Section 38-431.01(H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for further consideration and decision at a later time.

ADJOURNMENT

For further information, please call Pearl Meza, Management Assistant II, Aviation Department at 602-273-3382. For further documentation on this meeting, please visit skyharbor.com.

Persons with a disability may request a reasonable accommodation, please contact Pearl Meza, Management Assistant II, Aviation Department at 602-273-3382. Or 7-1-1 friendly.

The next Business and Development Subcommittee meeting is scheduled to take place Thursday, August 3, 2023.



**PHOENIX AVIATION ADVISORY BOARD
BUSINESS & DEVELOPMENT SUBCOMMITTEE
SUMMARY MINUTES**

March 2, 2023

Meeting held via WebEx

Subcommittee Members Present

Sandra Ferniza - Chairperson
Stephanie Cherny
Andrew Cohn

Subcommittee Members Absent

Staff Present

Abbe Slade
Carolina Potts
Chad Makovsky
Jason Gitkin
Jay DeWitt
Jennifer Holland
Jennifer Maples

Jordan Feld
Julie Rodriguez
Linda Duarte
Marshall Kain
Matthew Heil
Michael Hughes

Ola Lukan
Pearl Meza
Roxann Favors
Richard Graham
Sarah Demory
Shawna Larson

Members of the Public Present

Karen Ratliff

CALL TO ORDER

Chairperson Ferniza called the meeting to order at **2:30 p.m.**

MINUTES OF MEETING

- 1. For Approval or Correction, the Minutes of the Business and Development Subcommittee Meeting on January 5, 2023.**

A motion was made by Mr. Cohn, seconded by Ms. Cherny, that this item be approved.

No public comments.
The motion carried.

DISCUSSION AND POSSIBLE ACTION (ITEMS 2-5)

2. Tal Wi Wi Ranch Water Distribution System Maintenance and Operations Services

Mr. Jordan Feld presented this item. He discussed the property boundaries and current water system, the terms of the proposed contract, related certification requirements, and the selection criteria for the procurement. The selected contractor is Blue World Construction.

A motion was made by Mr. Cohn, seconded by Ms. Cherny, that this item be approved.

No public comments.
The motion carried.

3. Mesa Airlines Hangar Ground Lease Extension

Mr. Richard Graham presented this item. Mr. Graham displayed a map of the airport and highlighted the portion of the airport that is leased to Mesa Airlines.

Mr. Graham outlined the terms, including the total cost and revenue of the proposal, he also expressed that the lease extension coincides with the adjacent corporate hangars. Having the leases coincide allows for a smooth transition for future development of the land should the opportunity arise.

Mr. Cohn ask what the square footage of the contiguous space was versus the square footage for just the leased space.

Mr. Graham responded that by his estimation, Mesa Airlines leases about 50% of the space.

A motion was made by Ms. Cherny, seconded by Chairperson Ferniza, that this item be approved.

No public comments.
The motion carried.

4. Civil Air Patrol Lease Extension Amendment

Mr. Richard Graham presented this item. He gave a brief background on the Civil Air Patrol, the services they provide to the state of Arizona, and the area they lease at Deer Valley Airport. He then discussed the lease terms, and the proposed capital improvements if the organization receives grant funding.

Ms. Ferniza asked about the timeline and source of the potential grant award.

Mr. Graham responded that grant funds are expected to be disbursed this calendar year and that the amount is ~\$5,000,000. In order to receive the 5-year extension CAP would need to provide proof of hangar expenditures amounting to at least \$1,000,000.

A motion was made by Ms. Cherny, seconded by Mr. Cohn, that this item be approved.

No public comments.
The motion carried.

5. DV Parcel B Owner, LLC dba Mack Industries License for Road Construction

Mr. Richard Graham presented this item. Mr. Graham gave a brief background on DV Parcel Owner and the area at Deer Valley Airport that they occupy.

Mr. Graham discussed that Mack Industries is requesting to build and maintain a road on the strip of land that separates their properties. This road would connect the north end of the airport to Pinnacle Peak Rd.

Mr. Graham outlined that for this license there would be no term as it would be perpetual but can also be cancelled by the Aviation Department at any time with notice and allow Mack to cancel only after the initial ten years of road upkeep. He also noted that Mack Industries is building the road at their own expense.

Mr. Cohn asked if there was an outside date for Mack Industries to perform the work.

Mr. Graham responded that Mack Industries needs this road for their operations and since they are the ones making the investment, that there have been no construction milestones incorporated into the agreement.

Mr. Cohn asked if the ten-year maintenance requirement began upon the start of construction or once the road was complete?

Mr. Graham responded that the ten-year agreements start once the road is complete.

A motion was made by Ms. Cherny, seconded by Mr. Cohn, that this item be approved.

No public comments.
The motion carried.

INFORMATION AND DISCUSSION (ITEM 6)

6. Quarterly Revenue, Enplanements, and Business Activity Update

Mr. Jay DeWitt presented this item. Mr. DeWitt began with a summary of the recovery of Sky Harbor Airport from the pandemic; he noted how the airport recovered faster than the majority of large hub airports. Mr. DeWitt then shared enplanement forecasts for Sky Harbor.

He then discussed other metrics used to gauge airport activity, including Origination & Destination (O&D) traffic. Mr. DeWitt shared that O&D passengers have increased from 60% in 2016 to over 71% in 2022.

He also discussed the airports publicly posted financial targets, and the airport's sources of revenue, including the non-aeronautical revenue drivers such as parking, rental cars, and concessions. At the beginning of 2020 Parking revenue dropped significantly due to the pandemic but has gradually risen to record highs for the airport.

Next, Mr. DeWitt highlighted rental car operations. The spring of 2020 saw revenue declines, but since then revenues have steadily increased. 2022 ended with a solid car rental season but, due to selection shortages and pricing, rentals were still below 2019 levels for the same time period.

Lastly, Mr. DeWitt focused on concessions. He showed a graph depicting concessions sales along with enplanement numbers. From this graph, it's easy to see the correlation between concession gross revenue to enplanements. While 2022 was not as profitable as 2019, the forecast for 2023 is promising.

SUBCOMMITTEE INFORMATION AND FOLLOW-UP REQUESTS

None.

CALL TO THE PUBLIC

None.

ADJOURNMENT

The meeting adjourned at **3:01 p.m.**

BUSINESS AND DEVELOPMENT SUBCOMMITTEE REPORT	
To:	Business and Development Subcommittee
From:	Chad R. Makovsky, C.M. Director of Aviation Services
Subject:	Arizona Aviation Partners, LLC Ground Lease at Phoenix Goodyear Airport

Description

This report requests that the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to execute a ground lease with Arizona Aviation Partners (AZ Partners) at Phoenix Goodyear Airport.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Report Summary

AZ Partners has requested to enter a ground lease to develop hangars, apron space, automobile parking, and an access road on approximately 32 acres at Goodyear Airport. AZ Partners intends to market the hangars under individual sublease agreements approved by the City.

Construction will be completed in two phases: Phase 1 will be located on approximately 16.1 acres of vacant land and AZ Partners will have an option to build Phase 2 on approximately 16.5 acres of vacant land. AZ Partners will have 24 months to build the Phase 1 hangars and 48 months to build the Phase 2 hangars. Improvements will include a road that will provide access for AZ Partners and their sublessees as well as a new corporate hangar complex to be constructed by the current Fixed Base Operator Lux Air. Construction will require the relocation of utilities, including an eight-inch natural gas pipeline, which is estimated to cost \$1.4 million that is proposed to be reimbursed through rent credits.

Contract Term

The Primary Term of the ground lease will be thirty (30) years, which will be preceded by a 24-month Development Term to complete the Phase 1 improvements. AZ Partners will have 48 months to complete the Phase 2 improvements. The lease will include one ten (10) year option to extend at the sole discretion of the Director of Aviation Services.

Financial Impact

First year rent for the Primary Term of the Phase 1 parcel is anticipated to be approximately \$252,474 per year and \$258,746 per year for the Primary Term of Phase 2 parcel.

AZ Partners will pay annual rent of \$38,812 per year on the Phase 2 Parcel until construction on the Phase 2 Parcel commences, or the 48-month option term expires, whichever occurs first. Total estimated revenue over the 30-year lease term and 10-year option will be approximately \$20.5 million. All rents are subject to annual increases based on the Phoenix-Mesa Scottsdale Consumer Price Index.

Location

Phoenix Goodyear Airport - 1658 S. Litchfield Road, Goodyear, Arizona.

Recommendation

Request the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to enter a ground lease with Arizona Aviation Partners, LLC.

BUSINESS AND DEVELOPMENT SUBCOMMITTEE REPORT	
To:	Business and Development Subcommittee
From:	Chad R. Makovsky, C.M. Director of Aviation Services
Subject:	Derek Engineering, Inc. New Ground Lease

Description

This report requests that the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to enter into a ground lease with Derek Engineering at Phoenix Sky Harbor International Airport.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Report Summary

Derek Engineering, Inc., is requesting to enter into a ground lease on four separate parcels located at 1121, 1125, 1133, and 1135 East Watkins Street (Maricopa County Assessor Parcel Numbers 115-47-034C, 115-47-034D, 115-47-035A, and 115-47-036B) for the sole purpose of temporarily parking employee vehicles while developing the un-addressed eighteen acres adjacent to the west for Prologis. Derek Engineering is currently under a temporary license for parking which expires April 30, 2023.

Contract Term

The lease term is one year, with no options to extend.

Financial Impact

Rent will be approximately \$1,982.98 per month (\$0.70 / square foot). Total anticipated rent from this ground lease over the term will be approximately \$23,795.80.

Location

Phoenix Sky Harbor International Airport – 2485 E. Buckeye Road

Recommendation

Request the Business & Development Subcommittee recommend to the Phoenix Aviation Advisory Board to enter into a ground lease with Derek Engineering, Inc., for one year with no options to renew at Phoenix Sky Harbor International Airport.

BUSINESS AND DEVELOPMENT SUBCOMMITTEE REPORT	
To:	Business and Development Subcommittee
From:	Chad R. Makovsky, C.M. Director of Aviation Services
Subject:	AerSale, Inc. Amended & Restated Lease, New Ground Lease, and Aircraft Storage Ground Lease Agreement at Phoenix Goodyear Airport (GYR)

Description

This report requests that the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to amend and restate ground leases for AerSale, Inc. at Phoenix Goodyear Airport.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Report Summary

AerSale and its predecessor—Aeroturbine, have operated a Maintenance, Repair, and Overhaul (MRO) business at Phoenix Goodyear Airport (GYR) under Hangar Lease No. 75812 since 1996, and Hangar Lease No. 136123 since 2013. Both leases are scheduled to expire in 2026.

AerSale's total footprint at GYR is approximately 90.5 acres, which includes both hangars, apron, aircraft storage, parts storage, and automobile parking. AerSale has requested terms for an amended and restated lease and the new ground lease for forty (40) years. AerSale also wants to construct a new hangar capable of supporting three 737 aircraft with an investment of approximately \$40 million on land currently used for parts storage.

Staff has offered to amend and restate Lease No. 75812 to include both existing hangars, including apron and automobile parking; enter into a new ground lease for construction of the new hangar; and enter into a ten-year new ground lease to store aircraft. Staff is seeking permission to apply rent credits for the relocation of utilities that conflict with the development site in an amount not to exceed \$1.5 million, and an additional rent credit for the replacement of an outdated fire suppression system that serves both existing hangars as well as the airport Fixed Based Operator, Lux Air, hangar facility in an amount not to exceed \$2 million.

Contract Term

The term of the amended and restated Lease No. 75812, and ground lease for the new hangar will be forty (40) years. The term of the new ground lease for aircraft storage will be ten (10) years with one 5-year option to extend at sole discretion of the Director of Aviation Services.

Financial Impact

Rent paid by AerSale under the current leases is approximately \$1,115,000 per year. The new leases will increase revenue to the City to approximately \$1,474,000 per year; and the increased revenue is the result of adjusting existing rates under the current leases to reflect current market rates to be applied in the new agreements. All rents will be subject to the greater of annual Consumer Price Index adjustments per the Phoenix-

Mesa-Scottsdale index or three (3%) percent. Total revenue estimated over the combined lease terms will be approximately \$54.5 million.

Location

Phoenix Goodyear Airport -1658 S. Litchfield Road, Goodyear, Arizona.

Recommendation

Request the Business and Development Subcommittee recommend to the Phoenix Aviation Advisory Board to amend and restate Hangar Lease No. 75812; enter into a new ground lease; and enter into a new ground lease for the aircraft storage with AerSale, Inc.