



REPORT TO THE CITY COUNCIL

AGENDA ITEM NO.	
COUNCIL MEETING	06/12/2007
APPROVED BY	
DEPARTMENT DIRECTOR	
CITY MANAGER	

June 12, 2007

FROM: RUSSELL C. WIDMAR, AAE
Director of Aviation

SUBJECT: APPROVE TEN YEAR EXTENSION OF SKYWEST AIRLINES' HANGAR P-3 LEASE AT FRESNO YOSEMITE INTERNATIONAL AIRPORT

KEY RESULT AREA

One Fresno

RECOMMENDATION

That the City Council approve a ten year extension (commencing November 1, 2007) of Skywest Airlines Inc.'s lease of Hangar P-3 and site at the Fresno Yosemite International Airport (FYI) with the rent fixed at \$38,000.00 per month for the first two years, \$45,000.00 for the third year, and subject to adjustment for the fourth and each subsequent year based on the percentage growth, if any, of certain indices regularly published by the US Department of Labor, Bureau of Labor Statistics; and with a right in Skywest to terminate the lease at any time by giving sixty days' advance notice.

EXECUTIVE SUMMARY

Flying on behalf of United Airlines as "United Express" and on behalf of Delta Air Lines as "Delta Connection", Skywest is FYI's largest airline, carrying about 34% of all FYI's passengers. Additionally, they are the only airline with a significant aircraft maintenance capability here: their mechanics check and service nine aircraft at Hangar P-3 every night. FYI is also a Skywest "crew base" – i.e. a city where many of their cabin and cockpit crew members live and where their work schedules and routings ("duty rigs") begin and end.

Skywest began using Hangar P-3 on June 1, 1998 when they assumed the lease from WestAir Airlines, Inc. The assumed lease will expire on October 31, 2007. Skywest is interested in a lease extension, provided they can terminate in the event they lose their contracts with United and/or Delta or must otherwise reduce or curtail their local maintenance operations. Notwithstanding that potential, they are prepared to invest hundreds of thousands of dollars in improvements to and at the 60+ year old hangar largely to improve their employees' working conditions. The Airports Department considers it very much in the City's interest to encourage such investment.

Since the Airports Department operates on a self-supporting basis, there would be no impact to the General Fund from the recommended action.

KEY OBJECTIVE BALANCE

Skywest's employees will be more comfortable in the improved hangar environment (Employee Satisfaction) while Skywest's valued flights and local employment will be sustained (Customer Satisfaction and Financial Management).

BACKGROUND

Hangar P-3 dates from the 1950s when it was used by North American Aviation as a base for overhauling Korean War era F-86 Sabre Jet fighters. It is still structurally sound and adequately fire-protected , but it is

stifling hot inside in the summertime and the two acre, sheet metal roof is getting thin in spots.

Skywest proposes to have the roof coated with a white Eraguard 1000 Acrylic coating which is considered a "Cool Roof" and is Energy Star certified. According to the manufacturer, this will reduce the temperature in the hangar and restore and extend the weather integrity of the roof. It comes with a five year warranty. Skywest's cost would be \$150,000.

Skywest is also investigating the feasibility of further reducing the inside air temperature by installing a water evaporation system ("swamp coolers"). They are also considering cleaning and sealing the hangar floor with epoxy paint, and making other repairs and improvements to the aircraft ramp and site.

Skywest's current rent is \$44,219.37 per month. It was last adjusted effective November 1, 2006. In a simple extension it would be adjusted again effective November 1, 2007, and each November 1 thereafter. However, by establishing a rental of \$38,000.00 per month for the first two years of the proposed lease extension, Skywest would be given an opportunity to recover about \$150,000 of their cost of hangar improvements – as an inducement to make those improvements. The rent would "snap back" to the approximate market price of \$45,000 per month for the third year and be adjustable in the fourth and each successive year according to the percentage increase, averaged, of two cost-of-living indicators computed and published monthly by the Bureau of Labor Statistics of the US Department of Labor.

All of Skywest's flying at FYI is done on behalf of either United Airlines (to United's hubs in Los Angeles and San Francisco mostly in 30 passenger turboprops, and to United's Denver hub in 50 passenger regional jets) or on behalf of Delta Air Lines (to Delta's Salt Lake City hub in 50 seat regional jets). Both United and Delta have recently emerged from bankruptcy where they shed a lot of contracts they considered unfavorable. Happily, their contracts with Skywest for Fresno services were not terminated, but they still could be as United and Delta are still struggling to achieve sustainable profitability. Accordingly, Skywest cannot responsibly sign any long term real property leases without termination provisions. However, they are sufficiently sanguine about their Fresno operations that they are willing to make some significant investments here.

FISCAL IMPACT

There will be no impact to the General Fund from this action.