



Memorandum

File #: 19-00106

City Council

3/28/2019

LEGISLATIVE ACTION ITEM

SPONSOR: Grover C. Robinson, IV, Mayor

SUBJECT:

APPROVAL OF THE PROJECT DEVELOPMENT AGREEMENT AND THE MASTER LEASE OF REAL PROPERTY WITH VT MOBILE AEROSPACE ENGINEERING, INC.

RECOMMENDATION:

That City Council approve the Project Development Agreement and the Master Lease of Real Property between VT Mobile Aerospace Engineering, Inc. and the City of Pensacola. Further, that City Council authorize the Mayor to execute the Project Development Agreement and the Master Lease of Real Property and to execute all documents necessary to complete the transaction.

HEARING REQUIRED: No Hearing Required

SUMMARY:

On December 17, 2013, the City executed a nonbinding Memorandum of Understanding with ST Aerospace allowing the City of Pensacola to begin contract negotiations with VT Mobile Aerospace Engineering, Inc. (VT MAE) for the construction and operation of a maintenance, repair, and overhaul (MRO) facility at the Pensacola International Airport. City Council approved the negotiated lease agreement on September 9, 2014. The 173,000 sq. ft. facility officially opened in June 2018 and is on the way to creating 400 new high-wage jobs for the area.

The Mayor and Staff have a longer term strategy to grow the MRO capacity, sometimes referred to as "Project Titan". A second hangar similar in size and configuration to the first hangar, a possible support services center, an aircraft apron and automobile parking would be constructed on 16 acres of Airport property directly south of the first hangar. The construction of this second hangar area was otherwise contemplated and accounted for during the development process for the first hangar, and is referenced in the current real property lease with VT MAE. Additional facilities consisting of two hangars, each approximately 191,000 sq. ft., a 100,000 sq. ft. support services center, a 120,000 sq. ft. administrative office building, aircraft aprons, and automobile parking would also be constructed on approximately 50 acres of Airport property adjacent to Tippin Avenue on the west side of the Airport. It is expected that the project will create a minimum of 1,325 full-time jobs with an annual average salary of \$44,461, excluding benefits. If VT MAE fails to achieve the minimum number of jobs within the first ten years of the completion of the last hangar, it shall reimburse the City in the clawback amount stated in the respective grant agreements. The total project cost of \$210,125,000 is funded by a combination of VT MAE investment, state and federal grants, and local funds.

The Project Development Agreement outlines the rights and obligations of both VT MAE and the City with respect to the actual development and construction of the project itself. For the design and construction of the project, the City will use the same process successfully used during the development of the first hangar. The City will engage architects/engineers to design the project and provide other design professional services required, will engage a program manager for the overall management of the project, and will engage a construction manager at risk to first participate in the development of plans for cost estimating, construction scheduling, and value engineering, and then provide a guaranteed maximum price and construct the facility.

The ongoing rights and obligations with respect to VT MAE's actual use of the property after construction are outlined in the Master Lease of Real Property. The Master Lease of Real Property for the improvements to be constructed is substantially similar to the existing Real Property Lease between the City and VT MAE for Hangar 1. Changes include the fact that language related to the actual development is placed in a separate Project Development Agreement, and the job creation section has been modified to fit the job creation elements required by grants associated with this project. The lease term will be thirty years like the current lease. The rental rate will be determined via an appraisal to determine the fair market value of the land. Also like the existing lease, during each lease year other than years ten and twenty, the ground rent will increase by a CPI adjustment with an annual limit of 2% per year. At the end of the 10th and 20th years of the lease term, the rent will be re-determined based on an appraisal, with the new rent to go into effect the following year.

PRIOR ACTION:

June 13, 2013 - City Council adopted a resolution to support the acceptance of a grant offered by the Florida Department of Transportation as a Joint Participation Agreement # 43360229401 in the amount of \$11,090,000 for air commerce park phases I and IA - Infrastructure Development.

February 13, 2014 - City Council Discussion Item and Presentation on the ST Aerospace Economic Development Project at the Pensacola International Airport.

February 27, 2014 - City Council approved the Interlocal Agreement with Escambia County and the City of Pensacola for Funding of Economic Development Project - ST Aerospace of Mobile, Inc.

September 9, 2014 - City Council approved the lease with VT Mobile Aerospace Engineering.

July 16, 2015 - City Council approved the selection of Greenhut Construction and authorized the Mayor to execute the contract.

September 17, 2015 - City Council authorized the Mayor to execute acceptance of the Florida Department of Transportation Joint Participation Agreement # 43571729401 in the amount of \$1,531,546 for construction funding to expand the cargo apron and construct a taxiway connector at the Pensacola International Airport of which \$1,121,242 will be used towards taxiway connecting future VT MAE facility to runway 17-35.

March 17, 2016 - City Council authorized the Mayor to execute acceptance of the Florida Department of Transportation Joint Participation Agreements # 42030029401, # 42960929401, and # 42960939401 in the amount of \$2,975,305 for construction of a taxiway connector at the Pensacola International Airport.

April 14, 2016 - City Council authorized the Mayor to execute acceptance of the Florida Department of Transportation Joint Participation Agreement # 43571769401 in the amount of \$8,599,600 for construction of a hangar at the Pensacola International Airport.

September 22, 2016 - City Council authorized the Mayor to execute Amendment No. 1 to the lease the VT Mobile Aerospace Engineering.

September 22, 2016 - City Council authorized the Mayor to execute Amendment No. 1 to the contract with Atkins North America.

February 8, 2017 - City Council authorized the Mayor to execute Amendment No. 2 and Amendment No. 3 to the contract with Atkins North America.

March 8, 2018 - City Council authorized the Mayor to execute acceptance of the State of Florida Department of Economic Opportunity Grant Agreement G0009 in the amount of \$4,000,000 for construction of infrastructure related to MRO expansion.

September 13, 2018 - City Council authorized the Mayor to accept and execute the State of Florida Department of Transportation Public Transportation Grant Agreement Financial Project 441494-2-94-01 in the amount of \$3,000,000 for Pensacola International Airport Facilities Development related to MRO expansion.

September 13, 2018 - City Council committed funding in the amount of \$10 million from Local Option Sales Tax Series IV in support of the aerospace maintenance repair and overhaul (MRO) campus expansion.

February 6, 2019 - City Council approved the amended Interlocal Agreement between the Escambia County Board of County Commissioners and the City of Pensacola related to additional funding requirements for the aerospace maintenance, repair and overhaul (MRO) campus expansion at the Pensacola International Airport, and approved additional Local Option Sales Tax IV funding of \$5 million for the City's share of the aerospace maintenance, repair and overhaul (MRO) campus expansion at the Pensacola International Airport.

FUNDING:

Budget:	\$ 35,000,000	ST Aerospace Engineering
	3,000,000	State Legislature
	14,000,000	Governor's Job Growth
	45,000,000	FDOT Grant
	15,000,000	Escambia County
	15,000,000	City Local Option Sales Tax Series IV
	12,250,000	Federal - U.S. Economic Development Administration
	66,000,000	Triumph Gulf Coast
	<u>4,875,000</u>	Anticipated Additional Funding (City Responsibility)
	<u>\$ 210,125,000</u>	

Actual: \$ 210,125,000 Estimated

FINANCIAL IMPACT:

The project will create 1,325 direct new jobs. It's estimated that another 216 industry jobs will be created as a result of the MRO campus complex. When combined with the 400 new jobs associated with Hangar 1, nearly 2,000 direct jobs in the targeted aviation/aerospace industry will be created. A further 3,400 indirect and

induced jobs are also estimated per a study performed by the Haas Center. While the complex will have a direct financial impact to the Airport in terms of ground rent received, the financial impact to the State of Florida is a net annual increase of GDP of \$600 million per year and a net annual increase in personal net incomes of \$400 million per year, most of which will be experienced in NW Florida.

CITY ATTORNEY REVIEW: Yes

3/13/2019

STAFF CONTACT:

Christopher L. Holley, City Administrator
Daniel Flynn, Airport Director

ATTACHMENTS:

- 1) Project Development Agreement
- 2) Master Lease of Real Property

PRESENTATION: No