

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
Agenda Item Summary Sheet**

**Name:** Finance and Facilities Committee

**Date:** November 18, 2014

**Title:** Approval for Lake Superior College Lease at Duluth Airport

**Purpose (check one):**

Proposed  
New Policy or  
Amendment to  
Existing Policy

Approvals  
Required by  
Policy

Other  
Approvals

Monitoring /  
Compliance

Information

**Brief Description:**

Board Policy 5.14, Procurement and Contracts, Subdivision 3, requires that contracts, including amendments, with values greater than \$3,000,000 be approved in advance by the Board of Trustees. Lake Superior College is seeking approval for a lease with the Duluth Airport Authority estimated to cost \$1.8 million - \$3.65 million, depending upon the term.

**Scheduled Presenter(s):**

Brian Yolitz, Associate Vice Chancellor for Facilities

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>BOARD ACTION</b>
<b>Approval for Lake Superior College Airport Lease at Duluth Airport</b>

**POLICY**

Board Policy 5.14, Procurement and Contracts, Subdivision 3, requires that contracts, including amendments, with values greater than \$3,000,000 be approved in advance by the Board of Trustees.

**BACKGROUND**

Lake Superior College is seeking approval for a lease with the Duluth Airport Authority estimated to cost \$1.8M - \$3.65M depending upon the term. The lease would concern 39,577 square feet at the Duluth Airport for its aviation maintenance and pilot programs.

Lake Superior College started an Aviation Maintenance Technician program in fall 2014. The early success of local employers, AAR, and the growth of Cirrus created a demand for graduates of this program. The college began recruiting students in July 2014 after receiving program approval from the FAA. Classes were full at the start of fall semester. Courses and labs are now being held on campus but the space will not be adequate next year. Second year program requirements include starting airplane engines, which cannot be accommodated in the current campus facility.

The college currently operates a pilot program in leased space at the airport, and leases a hangar to store its airplanes used in the program. The lease requires the hangar owner to move the planes in and out of the hangar for which the college pays a fee for this service.

This proposed lease would move the Aviation Maintenance Technician program to the airport and consolidate it with the pilot programs. Lake Superior needs space located at an airport. It has reviewed all available buildings at the airport and determined that Hangar 103 at the Duluth Airport is the best option because of its size, layout, and location. The Duluth airport provides exposure for the program and an easy commute for Lake Superior students. The maps showing the locations of the airport and hangar in relationship to the campus are contained in **Attachment A**.

**COST**

A summary of major lease terms are contained on **Attachment B**.

*Approval for Lake Superior College Airport Lease at Duluth Airport*

The total rent rate includes a base rent and an amortized amount for build out costs of about \$9.15 per square foot for the first five years of a ten year lease to \$9.35 per square foot for the final five years.

The cost to renovate the hangar is \$2.2 million plus financing expenses which the Duluth Airport Authority will provide to build out the space, and which the campus will pay back through the rent cost. The amortized cost for the build out adds approximately \$5.43 per square foot to the lease cost during the lease term, although the cost is amortized over 15 years. The college has agreed to reimburse the airport authority for any unamortized build out costs if it terminates the lease prior to year ten.

Lease operating costs (utilities, insurance, etc.) are currently estimated to be \$200,000 annually. The college expects to save nearly \$100,000 annually from leases that it cancels as a result of this consolidation.

The total impact on the college's operating budget will be approximately \$450,000 - \$500,000 per year. The college estimates the Aviation Maintenance Technician program will generate 50 to 100 new FYE resulting in a near breakeven pro forma. The college has enough flexibility in its budget to make the lease financially feasible and feels the program investment is warranted.

**RECOMMENDED COMMITTEE ACTION:**

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion.

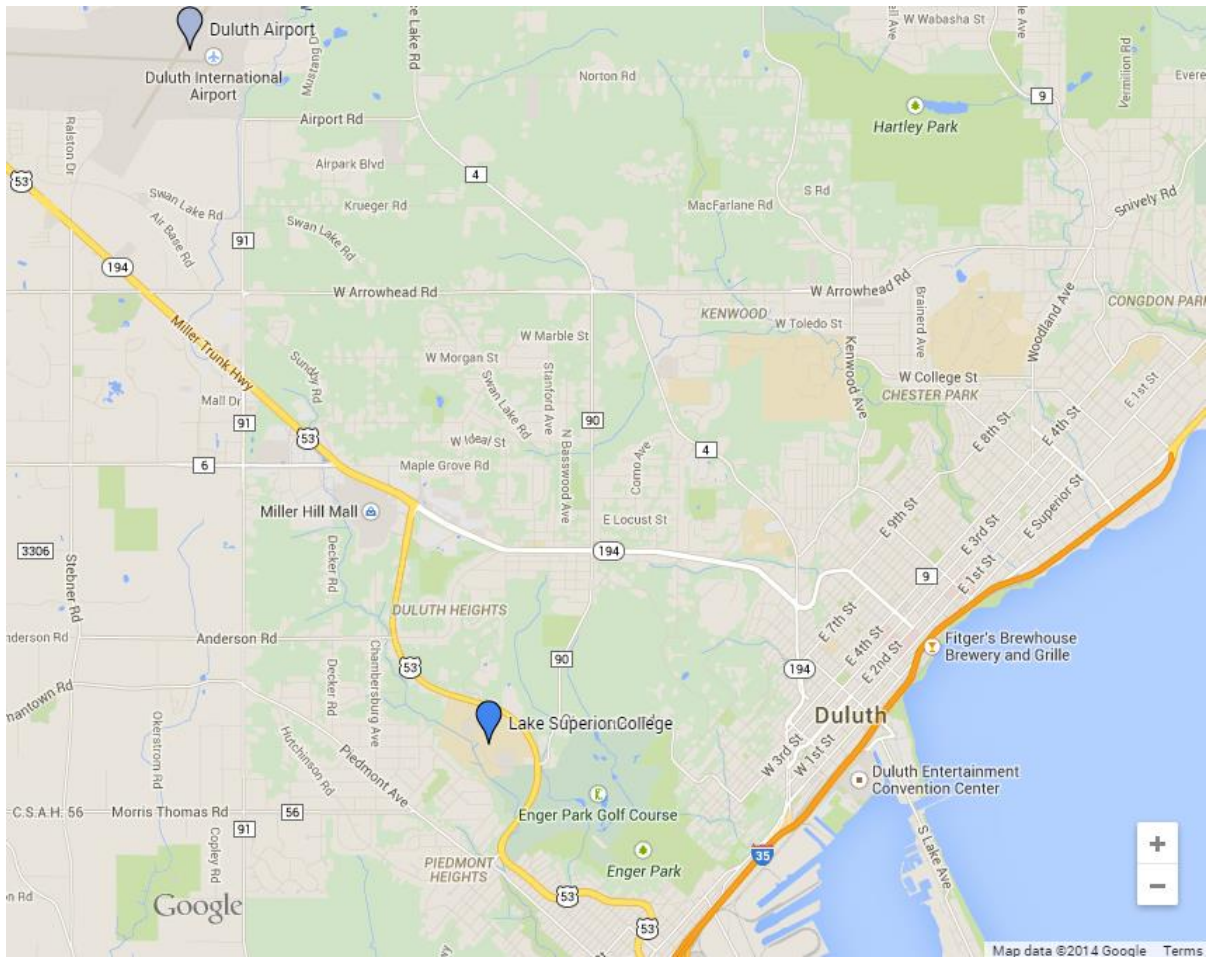
The Board of Trustees authorizes the Chancellor or his designee to execute all necessary lease and related documents including renewals, with the Duluth Airport Authority, its successor and assigns to lease property at the Duluth airport for Lake Superior College.

**RECOMMENDED MOTION:**

The Board of Trustees authorizes the Chancellor or his designee to execute all necessary lease and related documents including renewals, with the Duluth Airport Authority, its successor and assigns to lease property at the Duluth airport for Lake Superior College.

*Date Presented to Board of Trustees: November 18, 2014*

**Image 1 of 2**  
**CAMPUS MAPS AND LEASED PREMISES**



**ATTACHMENT B  
AIRPORT LEASE  
SUMMARY OF MAJOR PROVISIONS**

Leased Premises	Hangar 103, Duluth Airport, 39,577 square feet
Commencement	July 1, 2015
Initial Term	10 years July 1, 2015 – June 30, 2025
Rent: Initial Term	Years 1 -5 - \$362,101/year Years 6-10 - \$370,422/year
Tenant Building out	\$2.2 million amortized over 15 years (airport authority takes on risk of lease is not renewed)
Total rent:	\$3,662,615 (over 10 years)
Operating costs	\$4-\$5 per square foot
Contraction/ Termination	For lack of appropriation or pursuant to Minn. Stat. §16B.24
Parking	Included within leasehold