

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

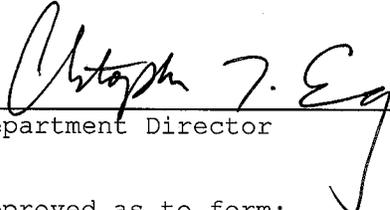
12-0609R

RESOLUTION APPROVING SECOND LEASE AMENDMENT BETWEEN  
DEDA AND AAR AIRCRAFT SERVICES INC.

CITY PROPOSAL:

RESOLVED, that the city council hereby approves of that Second Amendment Lease Agreement between the Duluth Economic Development Authority and AAR Aircraft Serves Inc. for the lease of the MRO facility at Duluth international airport, a copy of which is on file in the office of the city clerk as Public Document No. \_\_\_\_\_, reducing rents for the facility for a 5 year period.

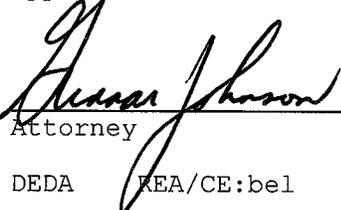
Approved:

  
\_\_\_\_\_  
Department Director

Approved for presentation to council:

  
\_\_\_\_\_  
Chief Administrative Officer

Approved as to form:

  
\_\_\_\_\_  
Attorney

Approved:

  
\_\_\_\_\_  
Auditor

DEDA KEA/CE:bel 12/04/2012

STATEMENT OF PURPOSE: The purpose of this resolution is to approve the Second Amendment to Lease between DEDA and AAR Aircraft Services Inc. for the MRO facility at the Duluth International Airport, reducing the rent for a period of 5 years. City Council approval is required pursuant to the business subsidy law, Minnesota Statute Section 116J.994 Subd. 3(d) and Paragraph 19 of the amended DEDA Enabling Legislation, Regulation 09-0324.

The MRO facility was originally constructed as part of a project involving the City, DEDA, the State of Minnesota, Northwest Airlines and other parties, part of which involved the establishment of a heavy aircraft maintenance operation for Northwest Airline's A 320 fleet. As part of Northwest Airline's bankruptcy proceeding, their obligation to continue this operation in Duluth was terminated and the facility was transferred to DEDA. After a number of years during which DEDA searched for an appropriate tenant for the facility and absorbed the substantial costs of operating and maintaining it, DEDA was able to locate and secure AAR Aircraft Services Inc. as a tenant who would re-open the facility and use it for its intended purpose, restoring some 200 high-paying jobs to the Duluth economy.

The prime potential source of aircraft in need of maintenance of the facility turned out to be Air Canada which had the need for a facility of this type and would absorb virtually all of its capacity. However, AAR, and therefore Duluth, was in competition with other potential services providers who were offering more than competitive rates to secure Air Canada's business.

In order to make AAR competitive enough to secure the business, both the State of Minnesota who had incentivised the project and DEDA were asked for additional concessions. DEDA's part was in the form of reducing its rent over the first 5 years of the lease. The cumulative amount of those reductions will be \$360,000.

The success of these measures is demonstrated in the announcement that AAR had secured a long-term agreement with Air Canada to maintain their A 320 fleet in Duluth and the arrival of the first Air Canada A 320 at the Duluth facility on November 27th.

SECOND AMENDMENT TO LEASE AGREEMENT

DULUTH ECONOMIC DEVELOPMENT AUTHORITY

NWA MRO FACILITY

AAR AIRCRAFT SERVICES, INC.

THIS SECOND AMENDMENT TO LEASE AGREEMENT, entered on the day of \_\_\_\_\_, 2012, by and between the DULUTH ECONOMIC DEVELOPMENT AUTHORITY, an economic development authority under Minnesota Statutes (1989) Chapter 469, hereinafter referred to as "DEDA", and AAR AIRCRAFT SERVICES, INC., a corporation created and existing under the laws of the State of Illinois, hereinafter referred to as "Lessee".

WHEREAS, the parties hereto entered into a Lease Agreement dated June 29<sup>th</sup>, 2012 bearing DEDA Contract No. 12 65 666, which Lease Agreement was amended by the First Amendment to Lease Agreement entered into on \_\_\_\_\_, 2012, which Lease Agreement and First Amendment to Lease Agreement are hereinafter referred to as the "Lease" for the lease of the therein-defined Leased Property and Leased Premises to Lessee; and

WHEREAS, the parties are desirous of making certain amendments to the Lease.

NOW THEREFORE, in consideration of the mutual covenants and conditions hereinafter contained, the parties hereto hereby agree as follows:

1. That Paragraph A of Article III of the Lease his hereby amended to read as follows:

1. Through August 31st:  
Commencing on the effective date of this Lease Agreement and continuing through December 31 ~~August 31, 2012~~-- \$-00- per month (\$0.00 per square foot).
2. January 1, 2013 ~~September 1, 2012~~-June 30, 2014 2013:  
Commencing on January 1, 2013 ~~September 1, 2012~~and continuing through June 30, 2014, \$4,188 ~~2013, \$8,394~~ per month (\$0.33 ~~\$0.66~~ per

Square foot per year).

3. ~~July 1, 2013-June 30, 2014~~

~~Commencing on July 1, 2013 and continuing through June 30, 2014, the monthly rental shall be \$8,365 (\$0.66 per Square foot per year), escalated with a CPI escalation as provided for in Sub-subparagraph 5 below:~~

34 ~~July 1, 2014-December 31, 2016~~ ~~June 30, 2015~~

~~Commencing on July 1, 2014 and continuing through December 31, 2016~~ ~~June 30, 2015, \$25,383.33~~ ~~\$32,998.33~~ per month (\$2.00 ~~\$2.60~~ per Square foot per year) plus an amount equal to \$0.06 per Square foot per year escalated with a CPI escalation as provided for in Sub-subparagraph 5 below .

34 January 1, 2017-December 31, 2017

Commencing on January 1, 2017 and continuing through December 31, 2017, \$33,760 per month (\$2.60 per Square foot per year plus an amount equal to \$0.06 per Square foot per year) increased by the amount by which the CPI increased during calendar year 2014, which amount shall be further increased by the amount by which the CPI was increased during calendar year 2015, which amount shall be increased by the amount by which the CPI was increased during calendar year 2016. The intent of this subparagraph is that the rent payable in 2017 shall be equal to an amount as if the rent amounts as set in this Subparagraph above had been increased each year from 2014 through 2016 by the CPI. The CPI calculations shall be in conformance with the language therefore set forth in Subparagraph 5. Below..

5. After December 31, 2017 ~~June 30, 2015~~

Commencing on January 1, 2018 ~~July 1, 2015~~ and continuing through and annually thereafter, the amount of the monthly rent payable in any year shall increase over that paid in the previous twelve (12) month period by the amount of the CPI as defined herein and as calculated hereunder. No later than July 1 of each such year, Lessee shall provide Lessor with a written certification certifying the CPI (the "CPI Certificate") for the twelve (12) month period. Thereafter each month's rent during said year shall be increased over that paid in the previous twelve (12) month period by an amount equal to multiplying the amount of the CPI increase on said CPI Certificate by an the monthly rent paid in the preceding twelve (12) month period; provided that in no event shall any monthly rent increase more than three (3%) percent annually; and provided further that if Lessee fails to deliver the CPI Certificate to Lessor by July 1 of any given year during the Term or if Lessee shall deliver a CPI Certificate which does not

accurately represent the CPI increase from the previous twelve (12) month period, DEDA may determine a rate of CPI increase for that period which the Executive Director determines to be correct and apply the rate of CPI increase so determined.

2. That in all other respects, the Lease, together with all of its terms, covenants and conditions, is hereby confirmed in its entirety.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals the day and year first shown above.

DULUTH ECONOMIC DEVELOPMENT  
AUTHORITY, an economic  
development authority

AAR AIRCRAFT SERVICES, INC., an  
Illinois Corporation

By \_\_\_\_\_  
Its President

By: \_\_\_\_\_  
its President  
"Lessee"

Attest:

By \_\_\_\_\_  
Secretary

Approved:

Countersigned:

\_\_\_\_\_  
Assistant City Attorney

\_\_\_\_\_  
City Auditor

STATE OF ILLINOIS            )  
  ) ss.  
COUNTY OF COOK            )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2012, by \_\_\_\_\_, the \_\_\_\_\_ of AAR Aircraft Services Inc., an Illinois corporation, on behalf of the corporation.



This Lease Drafted by:  
Robert E. Asleson  
Attorney for the DEDA of Duluth  
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Duluth, MN 55802  
(218) 730-5490