

**City of Modesto Public Works  
Civil Grand Jury Case No. 09-06C  
2008-2009**

**SUMMARY**

The 2008/09 Stanislaus County Civil Grand Jury received a complaint regarding the leasing practices at the Modesto City/County Airport.

The complaint alleged the Modesto City Council approved ground (land) and hangar leases without appropriate review.

Existing ground (land) and hangar leases, and related documents, were reviewed. The Civil Grand Jury concluded that the procedures and policies for granting leases should be revised. Additionally, the airport's properties should be under the purview of a Property Manager.

**BACKGROUND**

The complaint alleged the Modesto City Council approved ground (land) and hangar leases without appropriate review.

The Modesto City/County Airport has entered into numerous types of leases. This investigation addresses only ground (land) and property (hangar) leases.

- The terms of the original ground (land) leases stipulated that the lessees were to construct buildings at their expense. At the end of the lease, the hangar and any additional improvements would become the property of the City of Modesto. Options were available for extensions or renegotiations.
- Proposed leases were submitted to the City Council as a consent item on the agenda without the opportunity of public input.

**METHOD OF INVESTIGATION**

- Conducted interviews with the complainant, Airport Management past and present, and the Director of Modesto City Public Works.
- Conducted an on-site tour of the airport.
- Review of current leases and agreements.
- Searched websites for the City/County Airport, the City of Modesto Public Works, and the meeting agendas and resolutions of the Modesto City Council.
- Discussed assessing practices with the County Assessor's Office.
- Consulted with legal counsel.

## **FINDINGS**

- The City Council granted extensions on long-term leases without an increase in the rent.
- In the case of Hangar 7, the initial lease expired and the City took no action. Four years later the lessee requested an "extension" of his lease, which was granted. Shortly thereafter the lessee assigned the lease to a third party with the approval of the City. The original lease did not include a holdover provision or an option to renew. The "extension" is dated and effective four years after the expiration of the original lease.
- The ground lease for Hangar 7 was for a term of 20 years. At the expiration of the lease, the improvements were to revert to the City of Modesto. When this lease expired the City took no action for approximately four years at which time it entered into a 15-year extension of the expired lease.
- The City of Modesto now owns both the land and improvements. They acquired the hangar by a quit claim deed from the original lessee. As it now stands, the occupant of Hangar 7 has a lease for the ground only.
- The City/County Airport entered into several other long-term ground leases. During the term of these leases, the City agreed to 15-year extensions, rather than acquiring the title to the improvements as provided under the terms of the leases.
- At the time of this investigation, there was no current Airport Master Plan in place.
- From information gathered through interviews, the Modesto City/County Airport needs the expertise of a professional Property Manager.
- City of Modesto Council Agenda Report presented the leases as a consent item.

## **RECOMMENDATIONS**

The Grand Jury considers the lack of oversight of City resources a serious problem. In a period of financial crisis the City has ignored a valuable resource. It is strongly recommended that the following issues be addressed.

- The lease for Hangar 7 should be renegotiated.
- The City of Modesto should have a Property Manager review all leases.
- A copy of the updated Airport Master Plan be submitted to the Civil Grand Jury.
- Reassess the process in which the ground leases are given extensions.
- Any future Airport leases be open to public discussion.

## **RESPONSE**

- Modesto City Council
- Airport Manager
- City of Modesto Public Works