

CITY COUNCIL REPORT



Meeting Date: June 9, 2026
General Plan Element: *Economic Vitality*
General Plan Goal: *Utilize redevelopment and revitalization efforts to sustain economic well-being*

ACTION

Adopt Resolution No. 13653, Authorizing a Lease Agreement with 3R Ranch, Inc. (2026-061-COS) for the North General Aviation Executive Box Hangar Space at the Scottsdale Airport.

BACKGROUND

The current Airport Master Plan for the Scottsdale Airport identified the potential for the development of individual executive box hangars on the western edge of the Kilo ramp to accommodate smaller general aviation aircraft.

A "North General Aviation Hangar Development Analysis" report completed in April 2017 evaluated the maximum hangar size and placement, identified potential aircraft that could use the hangars, and estimated the hangar development costs. A further financial lease analysis of the project costs and potential lease revenues resulted in a recommendation to pursue the project to maximize the efficiency of the Airport and its desire to serve the overall aviation community.

Building A (Phase I) and Building B (Phase II) each consist of seven contiguous executive box hangars, each dimensioned at 62 feet wide by 47 feet deep. Phase I construction was completed in December 2020 and Phase II construction was completed in October 2021.

Six executive box hangar units in Building A (Phase I) are leased out, and all seven units in Building B (Phase II) have been leased. Lease Agreement 2026-061-COS for box hangar unit A104 replaces lease agreement 2021-022-COS that was recently terminated on schedule in accordance with the lease agreement terms. Monthly base rent will vary based on amenities requested and terms negotiated. The monthly base rents from all leased box hangar units will generate over \$464,400.00 in revenues to the Aviation Enterprise Fund.

ANALYSIS & ASSESSMENT

Community Involvement

The public was provided with an opportunity to comment on the lease agreement at the Airport Advisory Commission meeting on May 20, 2026. No negative comments were received, and the Airport Advisory Commission approved a motion with a unanimous vote to recommend the City Council adopt Resolution No. 13653.

RESOURCE IMPACTS

Staffing, Workload Impact

No additional City staff or overtime will be necessary to administer the amendment to the lease agreement.

Maintenance Requirements

The maintenance of the structural integrity of the box hangar units, including doors, roof, and exterior walls, is the responsibility of the existing Aviation Maintenance staff. No new staff will be required to maintain the buildings or satisfy this Lease agreement.

The leased premises' base rent includes sewer and waste disposal service fees. Each individual tenant will be responsible for electricity and water service charges.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

Adopt Resolution No. 13653, Authorizing Lease Agreement with 3R Ranch, Inc. (2026-061-COS) for the lease of the North General Aviation Executive Box Hangar Space at the Scottsdale Airport.

Proposed Next Steps

If this resolution is approved by the City Council, the Aviation Department will take the appropriate steps to initiate the changes with Lessee.

RESPONSIBLE DEPARTMENT(S)

Aviation Department

STAFF CONTACTS (S)

Richard Formo, Assistant Aviation Director, (480) 312-7735, rformo@scottsdaleaz.gov

APPROVED BY

Rick Wielebski

5/20/26

Rick Wielebski, Aviation Director

Date

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Judy Doyle

5/20/26

Judy Doyle, Deputy City Manager

Date

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Greg Caton

5/21/26

Greg Caton, City Manager

Date

480-312-7759, gcaton@scottsdaleaz.gov

ATTACHMENTS

1. Resolution No. 13653
2. Contract No. 2026-061-COS
3. Location Map of the General Aviation Executive Box Hangars

RESOLUTION NO. 13653

A RESOLUTION OF THE COUNCIL OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA AUTHORIZING THE MAYOR TO EXECUTE LEASE AGREEMENT 2026-061-COS WITH 3R RANCH, INC., FOR THE LEASE OF HANGAR SPACE AT THE SCOTTSDALE AIRPORT.

WHEREAS, the City is the owner of certain real property known as the Scottsdale Airport;

WHEREAS, the City desires to lease box hangar space to 3R Ranch Inc. pursuant to the terms set forth in lease agreement 2026-061-COS;

NOW, THEREFORE, be it resolved by the Council of the City of Scottsdale as follows:

Section 1: The Mayor is authorized and directed to execute on behalf of the City of Scottsdale, lease agreement 2026-061-COS with 3R Ranch, Inc., a Wyoming corporation, for the lease of hangar space at the Scottsdale Airport.

PASSED AND ADOPTED by the Council of the City of Scottsdale this _____ day of _____, 2026.

CITY OF SCOTTSDALE, an Arizona
municipal Corporation

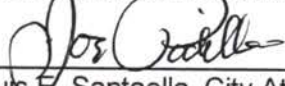
Lisa Borowsky, Mayor

ATTEST:

By: _____
Ben Lane, City Clerk

APPROVED AS TO FORM:

OFFICE OF THE CITY ATTORNEY



Luis F. Santaella, City Attorney
By: Joe Padilla, Deputy City Attorney

ATTACHMENT 1

HANGAR LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into this ____ day of _____ 2026, by and between the CITY OF SCOTTSDALE, an Arizona municipal corporation ("Lessor"), and 3R Ranch Inc., a Wyoming corporation ("Lessee").

WITNESSETH

A. Lessor is the owner of certain real property at the Scottsdale Airport (the "Airport") and the North General Aviation Box Hangars (the "Box Hangars") located thereon. The Box Hangars are located airside on the Kilo Ramp north of the wash rack.

B. Lessor desires to lease to Lessee, and Lessee desires to lease Building A unit 104, a large 62' x 47' box hangar (the "Leased Premises") generally depicted on Exhibit "A" consisting of approximately 2914 square feet of hangar space solely for the storage of the aircraft identified in the approved Scottsdale Airport Aircraft Storage Permit application (or any replacement aircraft as approved in writing by the Aviation Director).

NOW, THEREFORE, for and in consideration of the foregoing, the rent hereinafter to be paid by Lessee, and the covenants and agreements contained herein to be kept and performed by Lessee, and other good and valuable consideration, Lessor and Lessee agree as follows:

I. RECITALS

1. Recitals. The foregoing recitals are incorporated into this Agreement.

II. PREMISES

2. Premises and Fixtures.

2.1 Agreement to Lease. Lessor hereby agrees to lease the Leased Premises to Lessee and Lessee hereby agrees to lease the Leased Premises from Lessor, subject to the terms and conditions of this Agreement.

2.1.1 Lessor's Fixtures Included. The Leased Premises also includes all fixtures attached to the Leased Premises, which, once attached, are owned by the Lessor.

III. TERM OF LEASE

3. Term of Lease. Lessee is currently in possession of the Leased Premises pursuant to a short-term license issued by the Aviation Director. This Lease Agreement shall become effective on the first day of the month immediately following its execution by all Parties ("Effective Date"). Upon the Effective Date of this Lease, any such short-term license shall be deemed terminated. Provided, however, any outstanding obligations of such license shall be merged in and become obligations of this Lease and credits, deposits, or other assurances provided by Lessee pursuant to such License shall be transferred and applied to any corresponding provisions of this Lease.

Lessee's occupation of the premises is subject to the following provisions and conditioned upon Lessee's full, timely, complete and faithful performance of all obligations and things to be performed or done hereunder by Lessee. By entering this Lease, Lessee accepts the Leased Premises as is. The term of the Leased Premises shall be for a period of **36 months** from the Effective Date of this Agreement.

3.1 Holding Over. In any circumstance whereby Lessee should hold over and remain in possession of the Leased Premises after the expiration of this Agreement, such holding over shall not be considered to operate as a renewal or extension of this Agreement, but shall only create a tenancy from month to month which may be terminated at any time by Lessor upon 10 days' notice to Lessee. During any such hold over period, Lessor may, but is not obligated to, increase the Base Rent to 150% of its previous rate applicable in the last month of the Lease term and shall be prorated to the date Lessee vacates the Leased Premises.

IV. LEASE PAYMENTS

4. Lease Payments. Lessee shall pay to Lessor all of the following payments together with all other payments required by this Agreement (all payments by Lessee to Lessor required by this Agreement for any reason are collectively the "Rent"):

4.1 Rent Payment Date. All Rent shall be payable in advance on the 25th day of the preceding calendar month. For example, the Rent for September shall be payable on or before August 25th. The first installment of Rent prorated for the portion of the month remaining in the month in which the term of the Leased Premises will begin is due at least five days prior to the estimated delivery of possession of the Leased Premises as determined by the Aviation Director.

4.2 Rent. The rental amount (the "Rent") Lessee shall pay to Lessor for each of the first 12 months from the commencement of the term of this Agreement is **\$4,800**. The Rent is due and payable each month during the term hereof.

4.3 Rent Adjustment. The Rent shall be automatically adjusted upward on the one-year anniversary of the commencement of the term of this Agreement and every year thereafter on the basis of changes in the United States Consumer Price Index for all Urban Consumers (CPI-U), U.S. City Average published by the United States Bureau of Labor Statistics as of the date two (2) months prior to the adjustment date (the "Cost of Living Index"). The amount of each adjusted monthly rent installment of Rent (represented by the letter "R" in the formula set forth below) shall be equal to the then current Cost of Living Index number (represented by the letter "C" in the formula set forth below) divided by the Cost of Living Index number for the month during which the term of this Lease commences (represented by the letter "M" in the formula set forth below), and multiplied by the original monthly Rent amount (represented by the "\$" symbol in the formula set forth below). This computation is expressed by the following formula:

$$R = \frac{C}{M} \times \$$$

provided, that in no event shall the Rent be adjusted downward from any previous period. If such Cost of Living Index shall no longer be published at the adjustment date, then another similar index

published by any federal agency shall be substituted by Lessor in Lessor's reasonable discretion. In the event of a holdover without Lessor's consent, Rent shall be increased by an additional 150% over the amount of Rent otherwise payable.

4.4 Security Deposit. At the time of execution of this Agreement, Lessee shall provide to, and maintain with Lessor at all times during the term of this Agreement, a security deposit guaranteeing the faithful performance of this Agreement in the name of Lessor, in the sum of **\$2,900**. Any portion of said security deposit to which Lessee may then be entitled, net of any setoff or other obligation of Lessee to Lessor, shall be paid to Lessee by the Lessor within 60 days after termination of this Agreement.

4.5 Taxes, Liens and Assessments. In addition to all other Rent herein provided, Lessee shall pay, when due and as the same become due and payable, all taxes and general and special fees, charges, and assessments of every description which during the term of this Agreement may be levied upon or assessed against the Leased Premises, the operations conducted therein, any Rent paid or other performances under this Agreement by either party, and all possessory interest in the Leased Premises and improvements and other property thereon, whether belonging to the Lessor or Lessee. Lessee agrees to indemnify, defend, and hold harmless Lessor and the Leased Premises and such property and all interest therein and improvements thereon from any and all such taxes and assessments, including any interest, penalties and other expenses that may be imposed, and from any lien therefor or sale or other proceedings to enforce payment thereof. Lessee shall have the right to contest, but not the right to refuse to timely pay, any taxes and assessments. Lessor shall have the right from time to time to require that all of the foregoing payments be made by Lessee through Lessor whereupon such payment to Lessor shall satisfy Lessee's tax payment obligations hereunder. Lessee shall pay all sales, transaction privilege, and similar taxes.

4.6 Late Fees. Should any installment of Rent not be paid on or before the date due, a 10% late fee shall be added to the amount due or found to be due. Furthermore, any and all amounts payable by Lessee under this Agreement that are not timely paid shall accrue interest at the rate of 1% per month from the date the amount first came due until paid. Lessee expressly agrees that the foregoing represents a reasonable estimate of Lessor's costs in the event of a delay in payment of Rent.

4.7 Rent Amounts Cumulative. All amounts payable by Lessee hereunder or under any tax, assessment or other existing or future ordinance or other law of the City of Scottsdale or the State of Arizona shall be cumulative and payable in addition to each other payment required hereunder, and such amounts shall not be credited toward, substituted for, or setoff against each other in any manner.

4.8 No Setoffs. All Rents shall be paid in full directly to Lessor without setoff or deduction of any description. Lessee expressly waives any right of setoff.

4.9 Utilities. Lessor will pay all charges, fees, deposits and other amounts for sewer and waste disposal services at the applicable rates as determined by Lessor. Lessee will pay all electricity and water service charges and fees for the Leased Premises.

4.10 Maintenance by Lessor. Lessor will maintain the structural integrity of the box hangar units comprising the Leased Premises (including without limitation doors, roof and exterior

walls). Lessor is not responsible for maintenance of a routine or minor nature or of Lessee's furnishings, fixtures or improvements.

4.11 Maintenance by Lessee. Lessee is responsible for the following:

4.11.1 Janitorial and all other cleaning service in the Leased Premises.

4.11.2 Adequate and sanitary handling and disposal of all trash, garbage and other refuse related to Lessee's use of the Leased Premises.

4.11.3 All other repairs and maintenance of the Leased Premises not specifically required to be performed by Lessor, except that if it is determined by the Lessor that the failure of any of the systems described in this section is due to the negligence of the Lessee, the Lessee will be responsible for the costs of any such repairs.

V. USE RESTRICTIONS AND COMPLIANCE WITH ALL LAWS

5. Use Restrictions. Lessee's use and occupation of the Leased Premises shall in all respects conform to all and each of the following cumulative provisions:

5.1 Permitted Uses. Lessee will use the Leased Premises for aircraft storage only and for occasional vehicle storage as permitted in Section 5.10, with the exception that the Lessor may give written consent to allow other accessory and related to aviation storage uses from time to time. Such accessory and related to aviation storage uses may only be conducted following the Aviation Director giving to Lessee written notice of consent, which will not be unreasonably withheld, and Lessor through the Aviation Director may impose conditions and limitations on such consent and the Aviation Director may later revoke and retract any prior written consent at any time. Lessee and its sublessees shall further be allowed to service its aircraft(s) on the Leased Premises (including in the Box Hangars) in accordance with the Scottsdale Airport Rules and Regulations.

5.2 Compliance with Law. Lessee shall perform its obligations under this Agreement in accordance with all federal, state, county and local laws, ordinances, regulations or other rules or policies as are now in effect or as may hereafter be adopted or amended.

5.3 Airport Regulations. Lessor reserves the right to adopt, amend and enforce against Lessee rules and regulations governing the operation of the Airport, including the Leased Premises, Lessee's activities therein and thereon, and the public areas and facilities used by Lessee in connection therewith.

5.4 Aviation Regulations. Lessee shall comply with any and all rules, regulations, laws, ordinances, statutes or orders of the FAA and any other governmental authority, whether federal, state, county, or Lessor, lawfully exercising authority over the Airport.

5.5 Liability and Indemnity. Lessee shall be liable to Lessor, and shall pay, indemnify, defend and hold harmless Lessor against any and all claims, demands, damages, fines or penalties of any nature whatsoever which may be imposed upon Lessor, including attorneys' fees, arising from any violation of law caused directly or indirectly by act, omission, negligence, abuse or carelessness on the part of Lessee, its employees, agents, customers, visitors, suppliers, or invitees, except to the extent caused by Lessor's gross negligence or willful misconduct. Without

limitation, the preceding sentence requires the payment by Lessee of any fines or penalties for any breach of security arising from the unauthorized entry of any of the aforementioned persons or their vehicles onto the passenger loading areas, taxiways, runways, aircraft movement areas and any other restricted portion of the Airport.

5.6 Grant Agreement Assurances. Lessee shall observe and comply with the following covenants and conditions:

5.6.1 No person shall be excluded from participation, denied the benefits of, or be otherwise subjected to discrimination in the use of the Leased Premises on the grounds of race, color, handicap, or national origin. No person shall be excluded on the grounds of race, color, handicap, or national origin from participation in, denied the benefits of, or otherwise be subject to discrimination in the construction of any improvements on, over, or under the Leased Premises and the furnishing of services thereon.

5.6.2 Lessee shall use the Leased Premises in compliance with all other requirements imposed by or pursuant to Title 49, Code of Federal Regulations, Department of Transportation, Subtitle A, office of the Secretary, Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation-Effectuation of Title VI of the Civil Rights Act of 1964, and as said regulations may be amended.

5.6.3 Lessee shall furnish its accommodations and/or services on a fair, equal and not unjustly discriminatory basis to all users thereof, and it shall charge fair, reasonable and not unjustly discriminatory prices for each unit or service; provided, that Lessee may be allowed to make reasonable and nondiscriminatory discounts, rebates or other similar type of price reductions to volume purchases.

5.6.4 Lessee agrees that it shall insert this article and all of the other provisions of this article titled "Grant Agreement Assurances" in any agreement, lease, contract, etc. by which Lessee grants a right or privilege to any persons, firm or corporation to render accommodations and/or services to the public on the Leased Premises together with a provision that the "Grant Agreement Assurances" shall constitute a material breach thereof, and in the event of such non-compliance Lessor shall have the right to terminate the agreement and the estate thereby created without liability therefore. Either or both Lessor or the United States shall have the right to enforce the "Grant Agreement Assurances."

5.7 Federal Agreements. This Agreement shall be subordinate to the provisions and requirements of any existing or future agreement between the Lessor and the United States, relative to the development, operation or maintenance of the Airport.

5.8 War or National Emergency. This Agreement shall be subject to whatever right the United States Government now has or in the future may have or acquire, affecting the control, operation, regulation and taking over of the Airport or the exclusive or non-exclusive use of the Airport by the United States during the time of war or national emergency.

5.9 Control of Common Areas. All parking areas, driveways, entrances and exits thereto, landscaping areas, aircraft wash rack and all other Common Areas and facilities provided by Lessor for the common use of the users of the Airport, shall at all times be subject to the exclusive control and management of Lessor, and Lessor shall have the right from time to time to

establish, modify and enforce reasonable rules and regulations with respect to the use of all the Common Areas and facilities. Lessor shall have the right to operate and maintain the same in such manner as Lessor, in its sole discretion, shall determine from time to time, including without limitation the right to employ all personnel and to make all rules and regulations pertaining to and necessary for the proper operation and maintenance of the Common Areas and facilities. Lessor shall have the exclusive right at any and all times to alter, construct, re-construct, enlarge, contract, modify or relocate any of the Common Areas, to close any portion of the Common Areas for the purpose of making repairs, changes or additions thereto and may change the size, area, layout or arrangement of the parking areas or the number of spaces or the lighting thereof, within or adjacent to the existing areas and may enter into agreements with adjacent owners for cross-easements for parking, ingress or egress. The Lessor shall also have the right to place vending or amusement devices in the Common Areas and any other use which, in the Lessor's judgment, tends to benefit the Airport.

5.10 Parking. Vehicle parking will be allowed inside the hangars only when the aircraft is not occupying the hangar. Vehicle parking shall be subject to current and future rules and regulations governing parking at aircraft hangars and the Airport.

5.11 Airport Operations. Lessee acknowledges that Lessee's use of the Leased Premises shall be subject and subordinate to Lessor's operation of the Airport, which will necessarily directly and indirectly affect Lessee, the Leased Premises, and Lessee's use of the Leased Premises. Lessee's use of the Leased Premises shall not be permitted by Lessee to in any way adversely affect Lessor's use or operation of the Airport. Without limitation:

5.11.1 Lessor reserves the right but shall not be obligated to Lessee to maintain and keep in repair the landing area of the Airport and all publicly-owned facilities of the Airport, together with the right to direct and control all activities of Lessee in this regard.

5.11.2 There is hereby reserved to Lessor, its successors and assignees, for the use and benefit of Lessor and the public, a right of flight for the passage of aircraft in the airspace above the surface of the Leased Premises. This public right of flight shall include the right to cause in said airspace any noise inherent in the operation of any aircraft used for navigation or flight through the said airspace or landing at, taking off from, or operation on the Airport.

5.11.3 Lessee by accepting this Agreement agrees for itself, its successors and assigns that it will not make use of the Leased Premises in any manner that might interfere with the taxiing, landing and taking off of aircraft from the Airport, the loading or unloading of passengers or cargo or other aircraft operations or otherwise constitute a hazard. Whether any particular conduct complies with the foregoing shall be determined by Lessor.

5.12 Communications Operations Restriction. Lessee shall not install, operate, or allow the use of equipment, methodology or technology that may or would interfere with the optimum effective use or operation of Lessor's fire, emergency or other communication equipment, methodology or technology (i.e., voice or other data carrying, receiving or transmitting equipment) that is presently in use or could be in use in the future. If such interference should occur, Lessee shall immediately discontinue using such equipment,

methodology or technology that causes the interference until corrective measures are taken. Any such corrective measures shall be made at no cost to Lessor.

5.12.1 Lessor has not relinquished or limited any right of condemnation or eminent domain over the Leased Premises or any other property related to this Agreement.

5.12.2 This Agreement does not impair City of Scottsdale's power to enact, apply or enforce any laws or regulations, or exercise any governmental powers affecting in any way Lessee or the Leased Premises. Lessor's rights and remedies hereunder for Lessee's failure to comply with all applicable laws supplement and are in addition to and do not replace otherwise existing powers of the City of Scottsdale or any other governmental body.

VI. BREACH

6 Breach by Lessee. Lessee shall comply with, perform and do each performance and thing required of Lessee herein and Lessee's failure to do so shall be a breach by Lessee of this Agreement.

6.1 Events of Default. This entire Agreement is made upon the condition that each and every one of the following events shall be deemed an "Event of Default" and a material breach by Lessee of Lessee's material obligations under this Agreement:

6.1.1 If Lessee shall be in arrears in the payment of Rent or the Security Deposit and shall not cure such arrearage within 10 days after Lessor has notified Lessee in writing of such arrearage.

6.1.2 If Lessee shall fail to maintain the Leased Premises as required in this Agreement.

6.1.3 If Lessee shall fail to timely pay any taxes or other amounts herein required to be paid by Lessee to Lessor or to any other person.

6.1.4 If Lessee shall fail to obtain or maintain any licenses, permits, or other governmental approvals from Lessor or any other governmental body or timely pay any taxes with respect to this Agreement, the Leased Premises or Lessee's use of the Leased Premises.

6.1.5 If Lessee shall engage in a pattern of repeated failure (or neglect) to timely do or perform or observe any provision contained herein. Three or more failures to comply with any provision of this Agreement during any 12 month period constitutes a repeated failure by Lessee to comply with such provision.

6.2 Lessor's Remedies. Upon the occurrence of any Event of Default or at any time thereafter, Lessor may, at its option and from time to time, without further demand or notice, exercise any or all or any combination of the following remedies in any order and repetitively at Lessor's option:

6.2.1 Terminate this Agreement.

6.2.2 Enter into and upon the Leased Premises or any part thereof, and expel

Lessee and those claiming by, through or under it, and remove their effects, if any, forcibly if necessary, without being deemed guilty of trespass and without prejudice to any other remedy.

6.2.3 Abate at Lessee's expense any violation of this Agreement.

6.3 Notice of Breach. Lessee shall promptly give notice to Lessor of any event or circumstance that is (or with the passing of time or the giving of notice or both will become) an Event of Default under this Agreement.

6.4 Non-waiver. Lessee acknowledges Lessee's unconditional obligation to comply with this Agreement. No failure by Lessor to demand any performance required of Lessee under this Agreement, and no acceptance by Lessor of any imperfect or partial performance under this Agreement, shall excuse such performance or impair in any way Lessor's ability to insist, prospectively and retroactively, upon full compliance with this Agreement. No acceptance by Lessor of Rent or other performances hereunder shall be deemed a compromise or settlement of any claim Lessor may have for additional or further payments or performances. Any waiver by Lessor of any breach of condition or covenant herein contained to be kept and performed by Lessee shall not be deemed or considered as a continuing waiver and shall not operate to bar or otherwise prevent Lessor from declaring a default for any breach or succeeding breach either of the same condition or covenant or otherwise. No statement, bill or notice by Lessor concerning payments or other performances due hereunder shall excuse Lessee from compliance with this Agreement nor estop Lessor (or otherwise impair Lessor's ability) to at any time correct such notice and/or insist prospectively and retroactively upon full compliance with this Agreement. No waiver of any description (including any waiver of this sentence or article) shall be effective against Lessor unless made in writing by a duly authorized representative of Lessor specifically identifying the particular provision being waived and specifically stating the scope of the waiver. LESSEE EXPRESSLY DISCLAIMS AND SHALL NOT HAVE THE RIGHT TO RELY ON ANY SUPPOSED WAIVER OR OTHER CHANGE OR MODIFICATION, WHETHER BY WORD OR CONDUCT OR OTHERWISE, NOT CONFORMING TO THIS ARTICLE.

6.5 Reimbursement of Lessor's Expenses. Lessee shall pay to Lessor upon demand any and all amounts expended or incurred by Lessor in performing Lessee's obligations.

6.6 Default by Lessor. Notwithstanding anything in this Agreement to the contrary, in the event Lessor at any time is required to render any performance, such performance is not due until 30 days after notice by Lessee to Lessor that that the performance is due. If a cure cannot be affected during that period, Lessor shall not be in default so long as Lessor commences cure during the period and diligently prosecutes the cure to completion provided such cure must be completed within 60 days after it is due. In the event Lessor fails to render the required performance or cure a default for which it receives notice, Lessee is entitled to (i) perform on Lessor's behalf or cure such default at Lessor's sole cost and expense and deduct the amount required therefore from future Rent owed; or (ii) terminate this Agreement upon fifteen (15) days advance notice to Lessor.

VII. TERMINATION

7 Rights at Termination. The following provisions shall apply upon expiration or other termination of this Agreement at any time for any reason:

7.1 Surviving Obligations. Lessee's obligations existing or arising prior to or simultaneous with, or attributable to, the termination or events leading to or occurring before termination shall survive and not terminate.

7.2 Delivery of Possession. Lessee shall, without demand, peaceably and quietly quit and deliver up the Leased Premises to Lessor thoroughly cleaned, in good repair, maintained and repaired and in as good order and condition, reasonable use and wear excepted, as the same or in such better condition as the Leased Premises may hereafter be delivered to Lessee's possession at the beginning of the lease term.

7.3 Mutual Termination. If it is in the best interests of the City, the Aviation Director may agree with Lessee to a mutual termination of this Lease upon commercially reasonable terms that account for the circumstances existing at the time of the termination.

VIII. INDEMNITY AND INSURANCE

8 Indemnity and Insurance. Lessee shall insure the Leased Premises and its property and activities at and about the Leased Premises and shall provide insurance and indemnification as follows:

8.1 Insurance Required. Prior to entering, occupying or using the Leased Premises in any way thereafter, and in any event not later than the date 30 days after the date of this Agreement, and at all times thereafter, Lessee shall obtain and cause to be in force and effect the following insurance:

8.1.1 Airport Premises Liability Insurance. Lessee shall provide aircraft liability insurance that covers damages for bodily injury or property damage arising out of the use of airport premises including ramps and taxiways for the parking and storage of aircraft. Such insurance shall have a minimum limit of One Million Dollars (\$1,000,000) for each occurrence and a One Million Dollar (\$1,000,000) aggregate if applicable.

8.1.2 Special Perils or All Risk Property Coverage. Lessee shall maintain Special Risk Causes or Loss Property coverage, as defined by Insurance Services Office, Inc. in an amount per occurrence equal to the full replacement cost of the tenant's betterments and improvements and naming the Lessor as loss payee for the damage or destruction of that property. Lessee's Property coverage shall include debris removal coverage in an amount sufficient to clear the premises of Lessee or Lessee's customers disabled or destroyed property.

8.1.3 Hangar Keeper's Liability. If Lessee will store other than owned aircraft, Lessee shall carry Hangar Keeper's Liability coverage covering the portions of the Leased Premises used for aircraft storage in an amount equal to the full replacement cost of aircraft subject to loss or damage while in the care, custody, or control of Lessee for safekeeping, storage, service, or repair. The minimum insurance limits for this coverage shall be One Million Dollars (\$1,000,000). Lessee may pass this requirement on to a sublessee contractually if such sublessee has primary care and control of the premises.

8.1.4 Other Insurance. Any other insurance Lessor may reasonably require for the protection of Lessor and Lessor's employees, officials, representatives, officers, directors, and agents (collectively "Additional Insureds"), the Leased Premises, surrounding property, Lessee, or the activities carried on or about the Leased Premises. Likewise, Lessor may elect by notice to Lessee to increase the amount of any insurance to account for inflation, changes in risk, or any

other factor that Lessor reasonably determines to affect the prudent amount of insurance to be provided. Any modification or variation from these insurance requirements must be made by the Lessor's Risk Manager, whose decision is final. Such action will not require a formal contract amendment but may be made by administrative action by written notice providing no less than 90 days advance notice for compliance.

8.2 Form of All Insurance. All insurance policies shall meet the following requirements:

8.2.1 All policies except workers' compensation must name Lessor and the other Additional Insureds as additional insureds. Lessee shall cause coverage for Additional Insureds to be incorporated into each insurance policy by endorsement.

8.2.2 Lessee or Lessee's Insurer shall provide Lessor with at least 30 days prior notice of any cancellation, reduction or other material change in coverage.

8.2.3 All policies shall require that notices be given to Lessor in the manner specified for notices to Lessor under this Agreement.

8.2.4 "Occurrence" coverage is required. "Claims made" insurance is not permitted except for Environmental Impairment Liability and employment liability insurance.

8.2.5 Policies must also cover and insure Lessee's activities relating to the business operations and activities conducted from the Leased Premises.

8.2.6 All insurance policies shall contain a waiver of any transfer rights of recovery (subrogation) against Lessor, and all other Additional Insureds.

8.2.7 No deductibles, retentions, or "self-insured" amounts shall exceed Seven Hundred Fifty Thousand Dollars (\$750,000) in the aggregate per year, per policy. If Lessee desires higher deductibles, retentions, or "self-insured" amounts, Lessee shall notify Lessor in writing not more often than once per year requesting a change in the amount. Lessor shall have the right to accept, modify, limit, or reject Lessee's request. Lessee shall be solely responsible for any self-insurance amount or deductible. Lessor may require Lessee from time to time to secure payment of such deductible or self-insured retention by a surety bond or irrevocable and unconditional letter of credit.

8.3 Insurance Certificates. Lessee shall evidence all insurance by furnishing to Lessor certificates of insurance annually and with each change in insurance. Certificates must evidence that the policy referenced by the certificate is in full force and effect and that the policy satisfies each requirement of this Agreement applicable to the policy. For example, certificates must indicate that Lessor and the other Additional Insureds are additional insureds and waiver of subrogation and other provisions apply. Certificates must be in a form acceptable to Lessor. All certificates are in addition to the actual policies and endorsements required. Lessee shall provide updated certificates at Lessor's request.

8.4 Acceptable Insurers. All insurance policies shall be issued by insurers acceptable to Lessor. At a minimum, all insurers shall be duly licensed (or qualified unlicensed non-admitted insurer) by the State of Arizona, Department of Insurance. At a minimum, all insurers shall have and maintain an A.M. Best, Inc. rating of B++6.

8.5 Primary Insurance. Lessee's insurance including excess liability policies shall be primary insurance. Any insurance or self-insurance maintained by Lessor shall not contribute to Lessee's insurance.

8.6 Indemnity. In addition to all other obligations hereunder, to the fullest extent permitted by law, throughout the term of this Agreement and until all obligations and performances under or related to this Agreement are satisfied and all matters described in this paragraph are completely resolved, Lessee shall pay, indemnify, defend and hold harmless Lessor and all other Additional Insureds for, from and against any and all claims or harm related to the Leased Premises and/or this Agreement (the "Indemnity"). Without limitation, the Indemnity shall include and apply to any and all allegations, demands, judgments, assessments, taxes, impositions, expenses, proceedings, liabilities, obligations, suits, actions, claims (including without limitation claims of personal injury, bodily injury, sickness, disease, death, property damage, destruction, loss of use or other impairment), damages, losses, expenses, penalties, fines or other matters (together with all attorney fees, court costs, and the cost of appellate proceedings) which may arise in any manner out of any use of the Leased Premises or Lessor's property related to this Agreement or any actions, acts, errors, mistakes or omissions relating to work or services in the performance of or related to this Agreement, including any injury or damages or cause of action claimed or caused by any employees, contractors, subcontractors, tenants, subtenants, agents or other persons upon or using the Leased Premises or surrounding areas related to this Agreement, including without limitation claims, liability, harm or damages caused in part by Lessor or any other Additional Insured or anyone for whose mistakes, errors, omissions or negligence Lessee may be liable. The Indemnity shall also include and apply to any environmental, personal injury or other liability relating to Lessor's or Lessee's acquisition, ownership or use of real property developed, operated, owned, used, controlled or possessed by Lessor or Lessee under this Agreement.

Notwithstanding the foregoing, the Indemnity does not apply to:

8.6.1 Claims to the extent arising from the gross negligence or willful misconduct of Lessor.

8.6.2 Claims that the law prohibits from being imposed upon Lessee.

8.7 Risk of Loss. Lessor is not required to carry any insurance covering or affecting the Leased Premises or use of Lessor's property related to this Agreement. Lessee assumes the risk of any and all loss, damage or claims to the Leased Premises or related to Lessee's use of the Leased Premises or other property of Lessor, Lessee or third parties throughout the term hereof. Lessor expressly disclaims any representation that required insurance is adequate to protect any person or property against any risks related to the Leased Premises or any activities, uses or improvements related to the Leased Premises. Lessee's obligations to indemnify do not diminish in any way Lessee's obligations to insure; and Lessee's obligations to insure do not diminish in any way Lessee's obligations to indemnify. Lessee's obligations to indemnify and provide insurance are in addition to, and do not limit, any and all other liabilities or obligations of Lessee under or connected with this Agreement. Lessee shall be responsible for any and all damages to its property and equipment related to this Agreement and shall hold harmless and indemnify Lessor regardless of the cause of such damages. In the event Lessee secures other insurance related to the Leased Premises or any improvements, property or uses related thereto, Lessee shall effect an endorsement under such policy waiving any and all insurer's rights of subrogation against Lessor and the other Additional Insureds.

8.8 Insurance to be Provided by Lessees, Sublessees, and Others. Any subleases, contractors, or other persons occupying, working on or about, or using the Leased Premises pursuant to this Agreement must also provide for the protection of Lessor and all other Additional Insureds all of the insurance and indemnification required by this Agreement. The preceding sentence does not require such persons to provide insurance that merely duplicates insurance Lessee provides. Lessee shall cause any persons basing aircraft at the Leased Premises to name Lessee, Lessor, and the Additional Insureds as additional insureds under their aircraft liability policies. Such policies shall contain waivers of subrogation as to Lessee and Lessor and the other Additional Insureds. Lessee shall execute a written agreement with subcontractors, sublessees, or others occupying, working on or about, or using the Leased Premises pursuant to this Agreement containing the same Indemnification Clause and Insurance Requirements set forth herein protecting Lessor and Lessee. Lessee shall be responsible for executing the agreement with any sublessees, subcontractors or others occupying the Leased Premises and obtaining Certificates of Insurance verifying the insurance requirements.

IX. ASSIGNMENT/SUBLET

9 Terms and Conditions Applicable to Assignment and Subletting.

9.1 Lessee may not assign this Lease in total without the express written approval of Lessor, but Lessee may enter into subleases for a portion of the premises so long as such subleases are otherwise consistent with the terms of this Lease. Lessee shall notify Lessor and receive approval for any subleases. Regardless of Lessor's consent, no assignment of Lessee's obligations under the Lease shall:

- 9.1.1 Be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease;
- 9.1.2 Release Lessee of any obligations hereunder; or
- 9.1.3 Alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

9.2 Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending written approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default.

9.3 Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

9.4 In the event of any Default by Lessee, Lessor may proceed directly against Lessee, or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

9.5 Each request for consent to an assignment shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended

use and/or required modification of the Leased Premises, if any, \$500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

9.6 Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, or entering into possession of the Leased Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

9.7 Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing.

9.8 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Leased Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

- 9.8.1 Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until an Event of Default shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that an Event of Default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Event of Default exists, notwithstanding any claim from Lessee to the contrary.
- 9.8.2 In the event of an Event of Default by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults of such sublessor.
- 9.8.3 Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

9.8.4 No sublessee shall further assign or sublet all or any part of the Leased Premises without Lessor's prior written consent.

9.8.5 Lessor shall deliver a copy of any notice of Default by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

X. MISCELLANEOUS

10 Miscellaneous. The following additional provisions shall apply:

10.1 Amendments. This Agreement may not be amended except by a formal writing executed by the parties, including the approval of the City Council. Provided, however, the Aviation Director is authorized to approve minor administrative amendments to the provisions of this Lease which allow for relocation of Lessee to a comparable premises with additional or different features (such as a mezzanine) as long as the amount of the Rent as set forth in Section 4 is adjusted to account for the reasonable rental value of such new premises; provided always that any such relocation shall be upon mutual agreement of the parties.

10.2 Limited Severability. In the event any term, condition, covenant, stipulation, agreement or provision herein contained is held to be invalid or unenforceable for any reason, the invalidity of such term, condition, covenant, stipulation, agreement or provision shall in no way affect any other term, condition, covenant, stipulation, agreement or provision herein contained. Further, this Agreement shall be deemed automatically reformed to secure to Lessor the legal, equitable, practical and other benefits of the provisions of this Agreement as written to the very maximum extent permitted by law.

10.3 Conflicts of Interest. No member, official or employee of Lessor shall have any direct or indirect interest in this Agreement, nor participate in any decision relating to the Agreement, that is prohibited by law.

10.4 No Partnership. This Agreement and the transactions and performances contemplated hereby shall not create any sort of partnership, joint venture or similar relationship between the parties.

10.5 Time of Essence. Time is of the essence of each and every provision of this Agreement. Any payments due on Saturday, Sunday or an Arizona legal holiday shall be due on the next succeeding day that is not a Saturday, Sunday or an Arizona legal holiday.

10.6 Non-Liability of Lessor Officials and Employees. No member, official, representative or employee of Lessor shall be personally liable to any party, or to any successor in interest to any party, in the event of any default or breach by Lessor or for any performance or amount that may become due to any party or successor or with respect to any obligation of Lessor or otherwise under the terms of this Agreement or related to this Agreement.

10.7 Notices. Except as otherwise indicated, all notices, waivers, demands, requests and other communications required or permitted by this Agreement (collectively, "Notices") shall be

in writing and shall be effective only if sent by one or more of the following methods: (a) personal delivery; (b) generally recognized overnight commercial courier regularly providing proof of delivery, with delivery charges prepaid or duly charged; (c) United States registered or certified mail, return receipt requested, postage prepaid, or (d) electronic mail (email) addressed to the parties at the respective addresses set forth opposite their names below, or to any other address or addresses as any party shall designate from time to time by notice given to the other in the manner provided in this article:

If to Lessor: Scottsdale Aviation Director
 15000 North Airport Drive, Suite 100
 Scottsdale, AZ 85260

AND

 City of Scottsdale
 3939 North Drinkwater Boulevard
 Scottsdale, AZ 85251
 Attn: City Attorney

If to Lessee: Laurence Palestrant
 3R Ranch Inc.
 P.O. Box 5532
 Scottsdale, AZ 85261

Notices to Lessee, other than a notice concerning a default, may be hand delivered to Lessee's general manager. Notices given or served by personal delivery shall be deemed to have been received upon tender to the respective party. Notices given or served by mail or commercial courier shall be deemed to have been given or served as of the date of delivery (whether accepted or refused). Notice given or served by electronic mail shall be deemed to have been given or served upon confirmation of receipt from the receiving party.

10.8 Funding. This article shall control notwithstanding any provision of this Agreement or any exhibit or other agreement or document related hereto. If funds necessary to fulfill Lessor's obligations under this Agreement are not appropriated by the Scottsdale City Council, Lessor may terminate this Agreement by 30 days' notice to Lessee. Termination in accordance with this provision shall not constitute a breach of this Agreement by Lessor. No person will be entitled to any compensation, damages or other remedy from Lessor if this Agreement is terminated pursuant to the terms of this subsection.

10.9 Article Headings. The article headings contained herein are for convenience in reference and not intended to define or limit the scope of any provision of this Agreement.

10.10 Lessor's Right of Entry. Lessor reserves the right at all reasonable times during the term for Lessor or Lessor's agents to enter the Leased Premises for the purpose of inspecting and examining the same, and to show the same to actual or prospective tenants or lenders, and to make such repairs, alterations, improvements or additions as Lessor may deem necessary or desirable, and for any other purposes Lessor deems necessary. During the 90 days prior to the expiration of the term or any renewal term, Lessor may exhibit the Leased Premises to prospective tenants, and place upon the Leased Premises customary "For Lease" signs, as the case may be, which signs Lessee shall permit to remain thereon without molestation. If Lessee shall not be

personally present to open and permit entry into said Leased Premises, at any time, when for any reason an entry therein shall be necessary or permissible, Lessor or Lessor's agents may forcibly enter the same, without rendering Lessee liable therefor, and without any manner affecting the obligations and covenants of this Lease. Nothing herein contained, however, shall be deemed or construed to impose upon Lessor any obligation, responsibility or liability whatsoever for the care, maintenance or repair of the building or any part thereof, except as otherwise herein specifically provided. No exercise by Lessor of any rights under this Article 16 shall entitle Lessee to any damages for inconvenience, disturbance, constructive eviction, loss of business or other damage to Lessee occasioned thereby, nor to any abatement of rent.

10.11 Attorneys' Fees. In the event any action or suit or proceeding is brought by either Lessor or Lessee to enforce compliance with this Agreement or for failure to observe any of the covenants of this Agreement or to vindicate or exercise any rights or remedies hereunder, the prevailing party shall be entitled to recover reasonable attorneys' fees, accounting fees, and other costs incurred in that action or proceeding, in addition to any other relief to which it may be entitled.

10.12 No Third-Party Beneficiaries. Except as otherwise expressly provided, no person or entity shall be a third-party beneficiary to this Agreement or shall have any right or cause of action hereunder.

10.13 Exhibits. All exhibits attached hereto are incorporated into this Agreement by this reference.

10.14 Further Assurances. Lessee agrees to do such further acts and things and to execute and deliver such additional agreements and instruments as Lessor may reasonably require to evidence, confirm or carry out the agreement contained herein.

10.15 Construction. Whenever the context of this Agreement requires, the singular shall include the plural, and the masculine shall include the feminine. This Agreement shall be construed according to its plain meaning and neither for nor against any party hereto. Lessee acknowledges that the Rent payable hereunder was negotiated in light of the plain meaning of this Agreement and this Agreement shall therefore be interpreted according to its plain meaning and without regard to rules of interpretation, if any, which might otherwise favor Lessee.

10.16 Survival of Liability. All obligations of Lessee and Lessor hereunder and all warranties and indemnities of Lessee and Lessor hereunder shall survive termination of this Agreement for any reason.

10.17 Choice of Law. This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of Arizona, without giving effect to any conflict of laws rules, and each party irrevocably submits to the exclusive jurisdiction of the federal and state courts located in Maricopa County, Arizona for the purposes of any action or proceeding arising out of or relating to this Agreement. Each party hereby consents to such jurisdiction and agrees that venue shall lie in the state or federal courts within Maricopa County, Arizona with respect to any claim or cause of action arising under or relating to this Agreement. Each party hereby waives any objection based on *forum non conveniens* and waives any objection to venue of any action instituted hereunder.

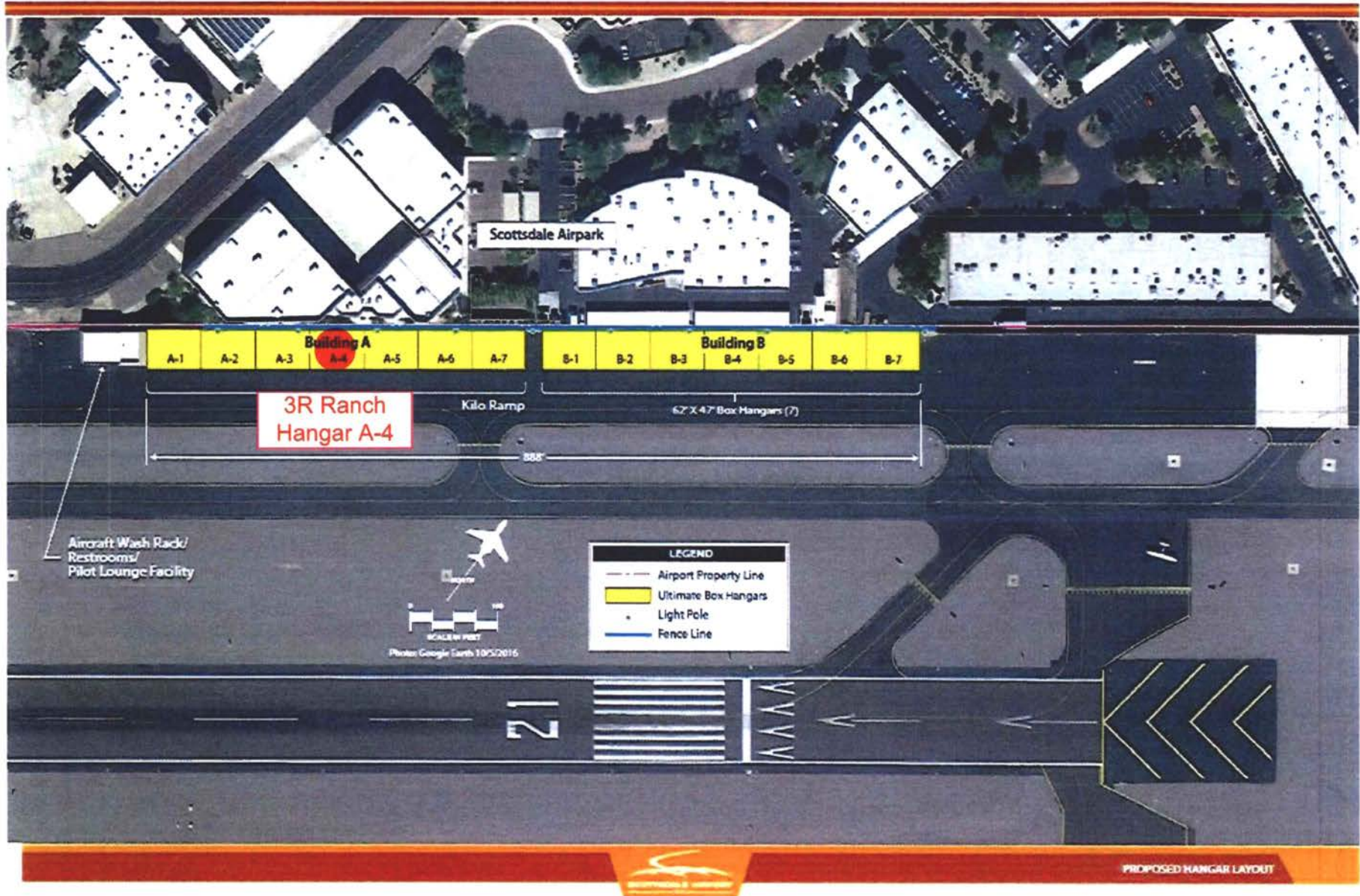
10.18 Approvals and Inspections. All approvals, reviews and inspections by Lessor under this Agreement or otherwise are for Lessor's sole benefit and not for Lessee's benefit.

10.19 Statutory Cancellation Right. In addition to its other rights hereunder, Lessor shall have the cancellation rights specified in A.R.S. § 38-511.

[Signature pages follow]

Exhibit "A" General Layout of North General Aviation Box Hangars





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ATTACHMENT 3