



DATE: April 13, 2017

TO: Council Airport Committee

FROM: Director of Public Works

SUBJECT

Approval of Minutes of the Council Airport Committee Meeting on January 12, 2017

CALL MEETING TO ORDER

Council Member (CM) Zermeño called the meeting to order at 5:30 p.m. with CM Márquez and CM Mendall present.

City staff: Morad Fakhrai, Director of Public Works
Doug McNeeley, Airport Manager
David Decoteau, Airport Operations Supervisor
Noemi Dostal, Management Analyst II
Jimmy Vasquez, Airport Operations Specialist
Qiana London, Administrative Secretary

Members of the public present:

David Cunningham
Ben Henderson
Greg Johnson
Carlos Rodriguez
Scott Briggs
Gary Briggs
Mary Anne Drummond

PUBLIC COMMENTS

None.

1. Approval of Minutes for October 13, 2016

Minutes approved as submitted.

2. Airport Budget Review

Public Works Director, Morad Fakhrai, provided an overview of the staff report. He explained the Airport is a division of the Public Works department and operates under an enterprise fund and does not receive any support from the general fund.

CM Zermeño inquired about Federal Aviation Administration (FAA) budget guidelines. Mr. Fakhrai stated the FAA requires the Airport to be financially self-sufficient and that revenue generated at the Airport must be spent at the Airport.

Mr. Fakhrai indicated the Airport generates tax revenue that benefits the general fund. A fund balance is maintained in the operating budget and a separate emergency fund is available for uses approved by Council.

Revenue is generated by the rental of hangars and outdoor parking spaces owned by the Airport. These rental rates are adjusted periodically by reference to the Consumer Price Index (CPI) and a study of rates at other airports. Revenue is also generated by long-term leases for commercial development. Commercial rates are \$0.32 per square foot, per year for aviation use, and between \$1.20 and \$1.40 per square foot, per year for non-aviation projects. The Airport receives a commission on the sale of fuel of \$0.05 per gallon or 3% of the gross revenue, whichever is more. The Airport also generates revenue through commissions from the Skywest Golf Course and through maintenance services provided to tenants by staff.

Mr. Fakhrai indicated that a primary goal is to increase revenue to provide improved facilities and better service for tenants and customers. This can be accomplished through the renegotiation of long-term leases. For example, one such lease currently generates \$160 in revenue per year, but has the potential to generate \$30,000 to 40,000 per year after renegotiation. In response to a question from CM Marquez, Mr. Fakhrai said he would provide more information regarding the number of long-term leases at the next CAC meeting.

Mr. Fakhrai indicated that another way to increase revenue for the airport is by developing vacant land. The airport has been working diligently with the Economic Development team to attract both aviation and non-aviation potential developers. Prospective opportunities will be presented at a future meeting. The lease negotiated with Meridian Hayward is producing additional revenue, and commissions from fuel sales will continue to increase. Revenue from the golf course varies based on weather conditions, but on average yields approximately \$120,000 to \$140,000 per year. The former California Air National Guard site represents another opportunity for future development and additional revenue.

Mr. Fakhrai provided information regarding expenditures and indicated that the largest single expense is staff salaries, which is consistent throughout the City. There are also internal charges for vehicle and equipment procurement, and maintenance. Another significant expense is cost allocation for services provided by the City Attorney's Office, Finance Department, Police, Fire, and Human Resources. The Finance Department recently hired an outside consultant that completed a cost allocation study and determined that the airport's impact to the general fund for services rendered is substantial. The use of cost allocation is

consistent with other airports and is approved by the FAA. In response to questions, Mr. Fakhrai stated that all City departments are impacted by cost allocation, and that the Airport pays \$162,000 annually in cost allocation fees.

Mr. Fakhrai discussed a loan to the Airport from the Water Fund to construct various capital improvements that requires an annual payment of approximately \$150,000 to \$160,000. The loan will be paid off in 2024 and this will positively affect the Airport's financial condition.

Mr. Fakhrai explained that the airport transfers funds into the CIP budget so that projects that are not fully funded can be completed. The airport strives to obtain funding from the FAA or other state agencies, but when the funding is unavailable then funds are brought in from the operating budget to the CIP airport budget.

Mr. Fakhrai provided further overview of the airport's revenues and expenditures over the past few years as well as projections for the future. He indicated that the airport has had a surplus in past years. In 2015, the City switched financial systems resulting in accounting errors. As a result, a double payment was made in 2015. When the two payments are averaged, the budget shows that the airport is \$150,000 to \$160,000 in the positive. However, going forward in FY18 and FY19, the budget shows a shortage by the same amount. The airport thought there would be a shortage in FY17, but between some savings and additional revenue that has been generated, airport staff projects that the budget will be \$109,000 in the positive, which is consistent with prior years. Airport staff has done a good job of managing expenditures and more revenue is being received than expected from lease and fuel sales. Additionally, there is a fund balance of \$3 million that can be used should the projected shortfall occur.

CM Márquez inquired whether the fund balance was separate from the reserve fund.

Mr. Fakhrai clarified the fund balance is separate and that each year the fund balance has increased. He also stated that in FY 2024 the debt service loan will no longer apply and that amount is approximately the same as the projected shortfall. Once the loan is paid the budget will become balanced.

Mr. Fakhrai clarified that land rent will not increase after FY 2018 for the time being, but will eventually increase. For now, it is not being increased because there are varying leases that mature at different times.

CM Márquez asked for clarification on what the interest refers to.

Mr. Fakhrai clarified that he is referring to interest on the fund balance and that the amount is minimal.

CM Zermeño inquired if the numbers shown included the \$5 million in the reserve fund.

Mr. Fakhrai responded that the numbers do not include the reserve fund. The reserve fund has only been used thus far for the shortfall of building the airport administration building, which was approved by Council and is only to be used in similar types of circumstances. CM Zermeño indicated that he still does not understand the minuses reflected in the budget. He asked for further elaboration for the projected shortfall of \$150,000 to \$170,000 reflected from FY18 through FY21.

Mr. Fakhrai explained that expenses continue to increase and that the revenue forecast has been prepared conservatively. For example, airport staff forecast a shortfall for FY 2014 through FY 2016, but ultimately did better than projected by limiting expenditures and generating additional revenue. Staff anticipates that revenue will continue to increase.

CM Zermeño asked if the FAA pays rent to the City for the control tower building. Mr. Fakhrai stated that the FAA does pay rent and that they may be interested in leasing additional space on the first and second floors, subject to approval.

Mr. Fakhrai outlined ways that the airport directly and indirectly benefits the City. There was an analysis done several years ago by the state for several airports throughout California. Through the study, it was determined that the Hayward Executive Airport generates approximately 300 jobs in our community and yields approximately \$300 million of additional economic impact. Also, the airport contributes property taxes on aircraft based at the airport. The amount received fluctuates based on the number of aircraft, from \$400,000 to \$1 million, but over the last ten years it has averaged \$600,000 annually for the City. This revenue goes to the general fund.

Airport Manager, Doug McNeeley, further clarified that the money is dispersed to the public-school system, general fund, and parks. Mr. Fakhrai reiterated that the \$600,000 is what goes to the City.

CM Márquez recommended that going forward the property tax amount be separated from the general fund so that there is a clear distinction of what the value is. She also expressed appreciation for depicting the \$5 million revenue amount, but also recommended that the amount be kept separate so that it is clear what amount is in reserves. She also inquired if Council's policy is to maintain the reserve amount at \$5 million dollars because an amount previously mentioned was \$7 million.

Mr. Fakhrai clarified that there is no minimum or maximum amount. He reiterated that the policy states that the funds be used in the event of an emergency or for specific projects. The airport has the fund balance that assists with ongoing operations, but the reserve fund is set aside for certain projects.

CM Márquez asked about the Water Fund loan balance, and Mr. Fakhrai stated it was approximately \$2 million, that the loan was requested ten years ago, and that it would be paid off in 2024.

CM Márquez indicated there were previous concerns regarding costs associated with the runway repaving project. She expressed concern for why tenants would be asked to share in the cost of the project. Mr. Fakhrai clarified that tenants were not asked to share the costs of the repaving project. The project was 90% funded by grants from the state and the FAA.

CM Márquez inquired if it is common practice at other airports for capital projects to be subsidized, and Mr. McNeeley responded there is no subsidization, and that proper notice of the project had been provided to tenants.

CM Mendall expressed his dissatisfaction with the staff report and presentation. He had anticipated a more detailed explanation to better understand the long-term financial picture for the airport. In addition, he expressed a desire for more historical context. This information is necessary to set policy guidelines going forward.

CM Mendall asked why there were deficits in some years and not others. He asked if there was a pattern attributable to certain occurrences.

Mr. Fakhrai responded that there is no pattern, and explained that in 2015 the debt service for the Water Department was counted twice, an accounting error.

CM Mendall stated that there is no underlying cause for the alternating pattern and that it's only a coincidence for the one year.

Mr. Fakhrai indicated that the alternation only occurred one year and that he does not see a pattern of surplus and deficits. The actuals have been consistently in surplus, and budget forecasts indicate a consistent shortfall. However, airport staff should be able to do a better job of closing the gap.

CM Mendall indicated that he would like to provide specifics of what he would like to see when the information is presented again assuming his colleagues agree and want it as well. He would like to see what the budget looks like going back five to ten years. Ideally, he would like information for the last ten years because that way long-term patterns can be identified.

Mr. Fakhrai clarified that all the details may not be provided as the financial system changed during that time, and specific details may not be available.

CM Mendall indicated that there should be a policy on what the size of the general fund reserve should be as well as the emergency reserve since there is no policy guidance in place. He stressed the importance of seeing the separate CIP budget to determine the CIP expenses at the airport over the years and what percentage are being funded by outside sources versus the airport fund versus the City's CIP budget subsidizing them for the last ten years.

Mr. Fakhrai clarified that the City's CIP budget does not support the airport. He further elaborated that the airport CIP is fully funded by either the airport or grants received and he added that nothing comes from the general fund.

CM Mendall thanked Mr. Fakhrai for the clarification and reiterated that he would like to see the numbers over the years. He also indicated that he would like to get an understanding on the impact of new leases at the airport on revenues. He would like to know the total cost benefit associated with the leases. He acknowledged that providing the information may be difficult, but suggested that estimations be used to provide a sense of the impact. This way, the policy makers can make informed decisions and gain an understanding of what becomes possible as more tenants are acquired. CM Mendall further clarified that he would like to know the balance of the loan to the Water Department and the annual payment amount.

CM Mendall requested clarification on the information that was presented, but was not included in the staff report and asked to have additional time to review the material to assess what other questions may arise. Additionally, he indicated that as a policymaker he is trying to figure out what resources are available to grow, expand or improve the airport long-term. Likewise, what levers are available that can potentially increase revenues. On the other hand, he is trying to determine what the CIP needs are that become possible if revenue increases. However, right now, the information is unclear. But, once the information is provided, the policymakers can better determine the direction to move in.

Mr. Fakhrai indicated that staff would do the best they could to provide the requested information. CM Mendall thanked Mr. Fakhrai for the efforts and stated that he was not clear on what he was looking for and is happy to provide additional clarification as needed before the next meeting.

Mr. Fakhrai clarified that the next CAC meeting is in April and the mid-year budget review will take place in March.

CM Márquez indicated that a lot was asked of the airport staff and hopes that the request can be aligned with the mid-year review so that it is simultaneously worked into the existing workflow. Mr. Fakhrai indicated that staff is currently working on the City CIP so staff will be coming back with work sessions and presentations for the Budget and Finance committee, etc.

CM Márquez suggested that the committee review the CIP portion that is specific to the airport before it goes to Council. She clarified that she is making the recommendation to streamline the processes since a lot was asked of the airport staff.

Mr. Fakhrai responded that staff would work on a schedule and determine what can be done by April because the process of getting the CIP together requires several entities. It may be necessary to arrange a special meeting in the event the April meeting cannot be accommodated.

Mr. Fakhrai clarified that it will take some time to gather the information. Additionally, he clarified the information presented by the next meeting will be limited based on the information that can be put together. Furthermore, the CIP information may not be readily available for the next meeting and, if not, there are other opportunities outside of this committee for input to be provided.

CM Zermeño specified that there will be a full day budget workshop on May 22 and indicated that the information should be reviewed prior to that meeting.

CM Márquez clarified that the workshop is for the general fund only and the committee mainly focuses on the enterprise funds.

Mr. Fakhrai explained that for the last couple of years Public Works has been moved to a regular session because that is where the CIP is done. He is unclear the way it will work this time. However, he will try to determine a way to bring the information to the committee.

CM Zermeño indicated that he would also like to know how much of the general fund has been impacted by what the airport gives to the general fund. He would like to see this information in May. Specifically, how much money does the airport give to the general fund. Furthermore, he asked to see interest and tower rent separated out of the budget.

CM Zermeño agreed with CM Mendall and explained that it is important to be as clear as possible because the committee needs to set policies, and to do so, they need to understand the information perfectly as much as they can. He also reiterated CM Márquez's point about separating the CIP and Mr. Fakhrai confirmed this could be done.

CM Zermeño requested clarification on the \$5 million in reserves. He also indicated that he would like to add a line item that shows how many other old leases exist at the airport.

Mr. McNeeley explained that there are a handful of old commercial leases. He reminded everyone that the leases were written in the 1970s with terms and conditions that would not be common today.

CM Zermeño explained that he would like to know how the new leases will affect the budget once they are reconfigured. Specifically, he would like to see how the airport will grow.

Mr. Fakhrai indicated that staff does not have this information. However, staff will work with experts to determine the conditions of the assets the airport currently has and what they should look like in five to ten years from now, particularly they will determine what should be done with the vacant land at the airport. Hopefully, these questions will be answered once the study is done and will be useful when developing a master plan.

CM Mendall explained the information mentioned by Mr. Fakhrai is what he is looking for and hopes the information gets relayed back to the committee.

CM Zermeño indicated that an example that could impact the budget nicely is the introduction of U.S. Customs service at the airport to handle international arrivals.

Mr. McNeeley responded that research has been done and there is demand from existing tenants, but customs has changed the way business is done within the last ten years. Previously, they would come out when needed and provide a service for individual calls, but now they require the construction of a facility and have a list of necessities that would cost

approximately \$2 million to \$3 million. Airport staff would need to consider the cost benefit and determine if it makes sense to have the facility and whether funding can be obtained another way. While it is a possibility in the future, it isn't a certainty.

Mr. McNeeley further explained that airport staff has been extremely conservative with the budget. Staff is actively working on opportunities that will generate more revenue for the airport. However, unless opposed by the committee, he would rather not include budget line items that may or may not come to pass.

CM Zermeño confirmed that he expects administrators to be conservative with the budget. He also confirmed staff has the information needed to move forward with obtaining the requested information.

CM Márquez indicated the committee was segueing into a different agenda item which deals with vision and strategic planning.

Mr. Fakhrai explained that vision and strategic planning is more long-term and will more than likely be discussed further a year from now.

CM Zermeño suggested the item be placed on the agenda.

Mr. Fakhrai agreed and mentioned that staff will come back with updates and questions.

PUBLIC COMMENTS

Mr. Briggs explained that he had several comments and questions because of reading the staff report. However, since there will be a more comprehensive report in the future, he decided to wait until that time except for one point. He indicated that he would like to understand how the subject of transfers out fits into the budget. He asked Mr. Fakhrai to clarify the amount of money that the airport reimburses to other City departments for services used. He mentioned that the City budget transfers out line averages about \$1.2 million annually and does not understand why and requested additional information be included in the more comprehensive report.

Mr. Fakhrai clarified that the transfers out line item is not solely for general fund services, it includes debt service for the Water Department and CIP. Additionally, he reiterated the general fund services are approximately \$160,000 per year.

Mr. Briggs asked for clarification on the interest amount on the loan for the water improvement.

Mr. Fakhrai indicated that the interest amount on the loan was between \$150,000 and \$160,000.

Mr. Briggs stated that the reimbursed City services and debt service combined is approximately \$300,000. He further indicated that if the total transfer out amount is \$1.2

million, there is still approximately \$900,000 per year that is not broken out separately in the report.

Mr. Fakhrai explained the transfers out that will happen in the next couple of year total approximately \$900,000. These transfers will be to CIP and other projects.

Mr. Briggs inquired whether the transfers to the CIP would increase the budget by a rate of \$800,000 to \$900,000 each year.

Mr. Fakhrai responded that would be the case if no projects were completed.

Mr. Briggs indicated that he would like to see additional detail regarding the CIP budget. He also stated that his interest is in the airport becoming solidly in the black and remaining that way in the future for the health and preservation of the airport.

3. Evaluation of Airport Noise Program

Regarding this presentation, Mr. McNeeley explained staff has organized the information differently and included new data to show Hayward Executive Airport in comparison to other Bay Area airports. He requested input from the committee on this new approach.

Airport Operations Specialist, Jimmy Vasquez, provided an overview of the airport noise program. He indicated that noise complaints over the last five years show a consistent pattern. On average, the complaints vary between 500 to 600 with San Lorenzo accounting for 80%. At the end of 2016, there were approximately 630 complaints, an increase in comparison with 2015. He attributed this increase primarily to the operation of a particular aircraft being tested for the Reno Air Races, and the operation of a freight aircraft in the overnight hours.

Mr. McNeeley commented that these numbers are considerably lower than they were ten years ago. Previously, the airport averaged approximately 1,200 complaints per year. He attributed the reduction to more prompt attention to complaints and proper follow-up.

Mr. Vasquez further elaborated on the amount of noise complaints in comparison to operations. An analysis from September through December indicated that there was a higher number of complaints due to heavy activity in September, and the number gradually decreased later in the year.

CM Zermeño asked for clarification on why operations decreased in December, and Mr. Vasquez indicated that summer is the most active time of the year due to good flying conditions.

Mr. Vasquez stated that an exceedance of the airport noise ordinance occurs when the allowable decibel level is surpassed. Staff contacts the aircraft owner to prevent further occurrences, but there are progressive penalties for repeat offenders. Mr. McNeeley added

that he recently levied a monetary fine on a jet that has repeatedly violated the noise standards.

Mr. Vasquez reviewed a chart that compared Bay Area airports regarding annual aircraft operations and the number of annual noise complaints. He noted that the number of complaints received was relatively modest in comparison with many other airports.

Mr. Vasquez also noted that most complaints received stem from only three homes. If those homes were removed from the analysis, the number of complaints would be significantly lower. Mr. McNeeley noted a similar pattern at many other airports.

PUBLIC COMMENTS

Mr. Briggs inquired about the aircraft that was just fined by staff, and indicated that while the aircraft is not based at Hayward, it is associated with one of his current tenants. There was a discussion about the equipment onboard the aircraft and the nature of the violation.

Mr. Briggs requested that if action is going to be taken against an operator or a fine levied that advanced notification be given to the FBO in an effort for the hangar operator to get involved with the customer and resolve the matter before it gets to that point. Mr. McNeeley indicated that multiple discussions were had with APP Jet Center as well as pilots flying the aircraft, but because the customer continued to exceed the ordinance airport staff felt the fine was their obligation to the community. This was the first fine levied in five and a half years. He stated the fine was \$250.

CM Mendall expressed his appreciation for Mr. Briggs' comments, but expressed his support for monetary fines in appropriate cases.

4. Future Agenda Items

CM Mendall suggested that each item be addressed separately.

- Detailed airport budget, which hopefully will occur this budget season
- CIP budget and long-term budget, which is long-term and will not come right away
- Long-term planning and vision, which will occur sometime next year

Committee Member/Staff Announcements and Referrals

CM Márquez stated that she has another commission meeting next Wednesday so she will not be able to attend the noise forum at the Oakland Airport at 5:30 p.m.

Mr. McNeeley announced that in the latest addition of the airport newsletter an aerial shot is provided of the completed pavement project. He also congratulated Meridian on their grand

opening. Finally, he noted that APP Jet Center is scheduled to complete construction on their new facility on March 1.

CM Zermeño inquired if there will be a tour. Mr. McNeeley responded that APP Jet Center will have a grand opening and at that time there should be a tour of the entire facility.

Next CAC meeting is proposed for April 13, 2017.

ADJOURNMENT

The meeting adjourned at 6:50 p.m.