



DATE: January 12, 2017

TO: Council Airport Committee

FROM: Director of Public Works

SUBJECT

Airport Budget Review

RECOMMENDATION

That the Committee accepts this report as information only; no action is necessary.

BACKGROUND

Hayward Executive Airport is a division under the Public Works Department and operates as a financially independent enterprise fund. Through the administration of user fees and charges, and federal and state grants, the Airport pays for all of its operations, including transfers to fund a Capital Improvement Program (CIP), with no subsidy from the General Fund. Federal Aviation Administration (FAA) policy requires airports to take steps to achieve financial self-sufficiency.

DISCUSSION

An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Accordingly, the Airport produces all the revenue needed for daily operation and for capital improvement projects. The City's General Fund does not support airport operations.

Revenues

The Airport receives revenue from ten different sources, but primarily from the rental of space. For example, the Airport owns and operates 206 T-hangars that are rented to individuals and companies with aircraft, and it rents outdoor parking spaces for aircraft, office space and both improved and unimproved land for use by commercial operators. The Airport also receives commissions from the sale of aviation gas and jet fuel and generates revenue from services performed for airport tenants, such as pavement sweeping, weed abatement, and hangar clean-up.

Rent rates for City-owned hangars and outdoor parking spaces are approved by Council and published in the City's Master Fee Schedule. Periodic rent increases for City-owned hangars

and parking spaces are based upon 75% of the Bay Area Consumer Price Index (CPI) and Fair Market Value (FMV) appraisals alternating every two years. Rent rates and periodic increases for commercial operators are individually negotiated, but more recently include increases based on CPI and FMV as outlined above.

Staff is making progress in generating new revenue. Some of the older leasehold agreements used old methods to determine annual rent. As opportunity allows, staff will work with long-term tenants to modify those older agreements and make them consistent with current standards. The recent opening of the Meridian Hayward Fixed Base Operation will result in new annual lease income of \$126,552 for Phase I of the project. Annual lease income will increase once all phases of the project are completed by or before 2028. In general, the projected revenue from space rental has been conservatively calculated and will likely exceed the amounts currently projected for the next several years.

The Airport also receives a percentage of revenue from fuel sales in the amount of \$0.05 per gallon or 3% of gross fuel revenue, whichever is greater. Meridian and the APP Jet Center are expected to generate additional revenue from fuel sales in FY 2017 and beyond.

Staff is also working diligently to lease additional space dedicated to both aeronautical and non-aeronautical use. One preliminary negotiation currently underway is for a leasehold on the former California Air National Guard site. Economic Development is also in preliminary discussions with a tenant for non-aeronautical use for two parcels on Hesperian Boulevard.

Surplus revenue generation will permit the Airport to fund additional capital projects to enhance safety and improve infrastructure. These projects are outlined in the current CIP budget. Staff has been successful in receiving grants from the FAA and Caltrans for capital projects. In FY 2016, the Airport was awarded grants in the amount of \$1.6 million to rehabilitate the pavement on Runway 10R-28L.

Expenditures

Expenditures for the airport include items such as personnel costs, facility maintenance, utilities, supplies, insurance, and personnel training. Expenses include internal charges for items such as vehicle and equipment maintenance and replacement. They also include cost allocations and fees for services provided by the City's general fund departments, such as financial accounting, human resources, and legal counsel. The largest expense is personnel followed by cost allocations/internal service fees followed by non-personnel costs.

FISCAL IMPACT

Airport Fund

	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Adopted	FY 2017 Projected	FY 2018 Budgeted
Beginning Fund Balance	2,539,340	2,722,381	2,670,011	2,943,413	2,761,162	2,951,667
Total Revenues	3,384,168	2,998,419	3,277,503	3,204,182	3,195,731	3,372,101
Total Expenditures	3,201,127	3,050,789	3,004,101	3,386,433	3,005,227	3,530,062
Annual Surplus/(Shortfall)	183,041	(52,370)	273,402	(182,251)	190,505	(157,961)
Ending Fund Balance	2,722,381	2,670,011	2,943,413	2,761,162	2,951,667	2,793,706

As seen in the above table, over the past recent years, operating revenues have exceeded operating expenditures through the careful monitoring of expenses and other measures by staff. An operating budget surplus of approximately \$190,000 is projected in FY 2017.

In FY 2017, the adopted Airport Fund balance was approximately \$3 million. This balance was projected to cover anticipated expenditures. The Airport also maintains a separate emergency reserve of approximately \$5 million, which by direction of Council, is only available for use in the event of unforeseen circumstances or for special projects.

It should also be noted that the Airport provides other benefits to the City. Per an independent study previously commissioned by the State for all California airports, the Airport provides 300 jobs and \$300 million in annual economic impact and provides valuable public services including emergency medical, law enforcement, media, and humanitarian flights. The City realizes General Fund revenue from aircraft property tax which varies from year to year and has averaged approximately \$600,000 annually over the past ten years. The tax is collected by Alameda County, and supports Alameda County, the Hayward Public School District, the City's General Fund, and other taxing entities in Alameda County.

SUSTAINABILITY FEATURES

Staff ensures all projects and developments proposed at Hayward Executive Airport meet or exceed the sustainability requirements of the City.

PUBLIC CONTACT

The Airport operating and capital improvement budgets are reviewed by Council in public session each year. Discussions regarding the budget for individual capital projects as well as overall budget discussions are held at meetings of the Council Airport Committee (CAC).

Prepared by: Douglas McNeeley, Airport Manager

Recommended by: Morad Fakhrai, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is positioned above a horizontal line.

Kelly McAdoo, City Manager