



DATE: October 17, 2017

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing for Financing of Airport Development Improvements by APP Properties, Inc.

RECOMMENDATION

That Council conducts a TEFRA hearing and adopts a resolution (Attachment II) approving the issuance, by the California Statewide Communities Development Authority (CSCDA), of Tax-Exempt Obligation Bonds to APP Properties, Inc. (APP) in an aggregate amount not-to-exceed \$750,000.

BACKGROUND

On December 15, 2009, Council approved the purchase and lease assignment of the Volo Holdings LLC leasehold (previously Hayward Jet Center) to Hayward FBO, LLC, wholly owned by Airport Property Partners LLC, predecessor in interest to APP. This leasehold is now operating as APP Jet Center and has a term through December 15, 2053. Council has held three (3) TEFRA hearings for APP Jet Center as follows:

- In 2009, regarding the issuance by the California Statewide Communities Development Authority (CSCDA) of \$5 million of Airport Revenue Bonds;
- In 2010 relating to the issuance by the CSCDA of \$7 million of Airport Revenue Bonds for additional facilities at the APP Jet Center, and
- On January 26, 2016, relating to the issuance by the CSCDA of an additional \$6 million for further improvements on the leasehold at the Hayward Executive Airport.

APP is a Maryland Corporation that owns and operates Fixed Base Operations (FBO).¹ APP's FBO locations are in Manassas, Virginia; Fort Pierce, Florida; and Hayward, California. In addition, APP owns and operates an aircraft storage hangar at Centennial Airport in the Denver, Colorado area.

¹ An FBO is a business that sells aviation fuel and provides services and storage for private and business aviation customers.

The original company was formed in 2009 as Airport Property Partners, LLC, and was converted to APP, a corporation taxable as a Real Estate Investment Trust, in May 2014. Mr. Thom Harrow is the Chief Executive Officer of APP. APP's financial backing comes principally from Greenwich Investment Management (GIM), a Greenwich, Connecticut investment advisory firm. GIM manages more than \$350 million for its clients and has made numerous successful airport real estate-related investments, including in the air cargo sector, with locations at Ft. Lauderdale and Jacksonville, Florida and, more recently, in the FBO sector, including FBOs in Illinois, Connecticut, and Texas.

DISCUSSION

APP is requesting an additional approval of up to \$750,000 in tax-exempt bonds to finance cost overruns associated with the latest improvements completed at the Hayward Executive Airport during 2017. The project consisted of a new 20,000 square foot aircraft storage hangar and attached 3,000 square foot passenger terminal area on the company's leasehold. The project also included the renovation and upgrade of an existing 10,000 square foot aircraft storage hangar and associated 2,000 square feet of office space, along with the conversion of the company's existing passenger terminal into office space.

The project was completed in March 2017. APP's main hangar is now fully occupied and the renovated hangar is approximately half occupied. However, funding is needed to fully fund the project due to cost overruns in several areas. PG&E significantly changed the transformer requirements to power the complex after design work was completed. The general contractor had to remove more native soil than originally expected. Furthermore, continuous rain conditions for over a month during the winter delayed the project further. As a result, APP was unable to open on time and generate cash flow. They also incurred significant claims from the contractor for completion delays considered beyond their control. Finally, one of the new tenants required construction of new dedicated office and storage space in the hangar for aircraft maintenance. Had APP not put the space in, they would not have secured the tenant.

To secure the additional financing, APP is requesting that one final TEFRA public hearing be held as soon as possible as part of a regularly scheduled City Council meeting.

Financing and Required TEFRA Hearing: Typically, the CSCDA sets the not-to-exceed borrowing amount to cover costs of financing and to ensure another hearing is not required if initial estimates are exceeded. Because the CSCDA will be issuing these bonds through a private placement in increments of \$25,000, only the amount required and supportable by revenue projections will be sold. There is no risk to either the City or the Airport; the CSCDA is issuing the bonds and bears no responsibility for repayment. As with any other mortgage arrangement, in the event the borrower defaults on the bond payments, the trustee could foreclose on the leasehold interest and take over the operation of the FBO until a subsequent operator is secured. Because California Communities only sells the bonds to select high-worth investors, the investors are responsible for reviewing the financial analysis provided to California Communities; thus, default is not likely. The source of payment for the bonds is the projected revenue from the operation of all four FBOs owned by APP. For federal tax purposes, the City is considered the owner of the improvements on the leasehold (normally,

this occurs at the termination of the lease); however, the leaseholder is still responsible for possessory interest taxes and for all liabilities associated with the improvements, including the bond obligations.

The City has been a member of the CSCDA Joint Powers Authority since 1998. The issuance of tax-exempt bonds by the CSCDA requires that the City conduct a public Tax Equity and Fiscal Responsibility Act (TEFRA) hearing. Airport improvements are one of the specific categories that are eligible for tax-exempt financing under the CSCDA Program.

TEFRA hearings have taken place in the past when the City issued bonds, usually for affordable housing. The purpose of a TEFRA hearing is to allow public comment, either for or against issuance of tax exempt bonds.

STRATEGIC INITIATIVES

This agenda item pertains to the infrastructure and/or maintenance of various buildings located at the airport, is a routine operational item, and does not directly relate to one of the Council's Strategic Initiatives.

ECONOMIC IMPACT

An important factor in the success of an airport is having well maintained and operated FBO facilities. This action is one aspect of ensuring that each FBO at the Airport contributes to that success. In addition to the direct revenue to the Airport, staff anticipates that the facility upgrades will serve to attract new business. It is estimated that the new hangar occupants will purchase 170,000 to 200,000 additional gallons of aviation fuel annually.

FISCAL IMPACT

Because this action will not change the terms of the Hayward FBO, LLC leasehold, staff expects the fiscal impact to the Airport Fund to be minimal, although some increase in fuel flowage fees (as noted above) can be expected from the APP Jet Center improvements. The project will also generate additional tax revenues to the City through additional sales and real estate taxes. Furthermore, neither the City or the Airport will incur any responsibility for any of the indebtedness assumed by APP.

SUSTAINABILITY FEATURES

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

PUBLIC CONTACT

Public noticing requirements related to TEFRA public hearings were strictly adhered to and followed. Airport staff has also been in contact with CEO Harrow during this issue, and will continue to do so up to the point where the additional financing is secured.

Prepared by: Doug McNeeley, Airport Manager

Recommended by: Morad Fakhrai, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager