



DATE: **October 13, 2016**

TO: **Council Airport Committee**

FROM: **Director of Public Works**

SUBJECT

Approval of Minutes of the Council Airport Committee Meeting on July 14, 2016

CALL MEETING TO ORDER

Council Member (CM) Zermeño called the meeting to order at 3:35 p.m. with CM Mendall and CM Márquez present.

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

Members of the public present:

Gary Briggs
Ben Henderson
Greg Johnson
Tom Panico
Jerry Hoffman

PUBLIC COMMENTS

Gary Briggs, President of ParkAvion, made the following comments and asked that they be placed into the record verbatim:

Runway Rehabilitation Project – As you know, I’ve been a vocal critic of the City’s plans to complete the Runway Rehabilitation Project in accordance with the last proposed schedule, which is labeled as a five-day schedule, but is in fact an eight-day schedule. This is a longer schedule than what was discussed with the City’s consultant in early 2015. I have worked very hard on this issue in a sincere attempt to assure the outcome causes a minimum of disruption to airport tenants, and at the same time, to recognize the City has challenges in figuring out how to fund the project. It’s now

come to my attention that there is, or may be, a belief among City personnel that I am somehow attempting to sabotage the project, and attempting to create a framework to provide for monetary claims by tenants. As I look you in the eye this afternoon, and I as I have assured Mr. McNeeley, I want to go on the record stating to you that nothing could be further from the truth. I fully support the project, and I recognize and appreciate the fact that it will both resolve the current surface issues, and also create a safer runway environment through the grooving that is planned. My attention to this issue, and my frequent commentary is aimed solely at reducing the amount of time the runway will be closed.

As it stands today, I've asked the City to study whether construction crews could start from each end of the runway, both working toward the middle, thereby dramatically reducing downtime. In addition, I asked the City to include this requirement in the construction bidding documents. Mr. McNeeley has informed me that working simultaneously from both ends of the runway will not work because it would be impossible to create a smooth transition at the joint where the two paving processes meet. I have to admit that I'm skeptical of that reasoning, and here's an example of why:

The Transcontinental Railroad was built in the United States between 1863 and 1869. When completed, it connected Council Bluffs Iowa and San Francisco. It was built by three separate, private companies. This historic rail line was constructed from both the West and the East simultaneously, and the construction crews met at Promontory Summit, Utah, where the "Golden Spike" was driven, the spike that successfully connected the railroad tracks that were under construction from both directions.

This feat was achieved without the benefit of computer aided design, modern measuring equipment, modern construction techniques, or even telephones. Given this example of a 1,907-mile project that "met in the middle", it is difficult to imagine that joining a 5,000-foot runway paving project in the middle is an impossible task. To be fair, Doug has promised an additional meeting with the Tenant Task Force to discuss the issue before it's finalized, so perhaps there's a solution that I'm not yet aware of. I sincerely hope this meeting is a collaborative effort that includes tenants, the City, the consultant and the contractor to find a better solution rather than a meeting where tenants are simply told "here's the schedule and it's the best we could do".

If the real issue here is funding, which I believe it is, then that provides a Segway into my next subject, which is airport finances.

Airport Finances – Over the last two to three years, several issues have come up that required money to address. Examples include a damaged gate, damaged fire water line, removal of trees causing a potential obstruction to air traffic, and pavement repair needs. In each case, I was told that funds were simply not available within the confines of the airport's budget. After numerous discussions with Mr. McNeeley about this issue, I learned that the airport is actually operating at a deficit. I was very surprised at

this because I recall a time when that was not the case. I dug further and found that a substantial portion of airport revenues are routinely rerouted to the City's general fund or other City departments. I'm told that this is not a diversion of funds, but rather reimbursement for services provided to the airport by other City departments. I verbally requested documentation of this practice, so I could quantify it. That was followed up by an email request dated April 28, 2016 to Mr. McNeeley, which was not answered. At that point, I searched the City's website and found the following:

This information is based on 2011 actual numbers through 2019 projected numbers. For this period, an average of 38.3% of the airport's annual revenues were transferred out, and are projected to be transferred out through 2019. Actual transfers from 2011 through 2015 were 45.6% of total airport revenues. No business or enterprise fund can operate at a surplus when almost 50% of total revenues are lopped off the revenue line. Mr. McNeeley's hands are tied, unable to address even minor requests for unbudgeted repairs needed at the airport. Last winter's rains caused significant damage to pavement in many areas of the airport. The airport needs to have emergency funding available to address these kinds of items when they arise unexpectedly. On my own leasehold, rain damage is causing me to spend about \$100,000 on unbudgeted pavement repairs. So, I understand the issue of unbudgeted expenses.

With this in mind, the airport continues to heavily subsidize hangar rental rates for City owned hangars. Again, our Airport Manager's hands are tied, due to City Council policy that places limits on rent increases. My understanding is this policy is in effect to protect long-time hangar lessees, which own and operate small recreational aircraft within the confines of a family budget. In other words, "the little guy". I don't argue with this noble effort, and in fact support it wholeheartedly. This broad-brush approach, however, has created unintended consequences. The reality is that while some of the hangars are occupied by individuals that simply cannot afford to pay market rates, many are not. Some are occupied by jets, some by financially stable business owners, and others by individuals that sublease space to third party tenants. It's difficult to make the case that a jet owner has to choose between hangar rent and food on the table. In addition, the City has fifteen executive hangars, hangars that will accommodate larger or multiple aircraft. Clearly, this size hangar is not aimed at the "little guy" with a single small aircraft. Increasing rental rates for these fifteen executive hangars alone would boost airport revenues by \$281,000 per year. That's a sizable opportunity in the context of the airport's budget, and in some years would make the difference between a deficit and a surplus. With a two-year waiting list for City owned hangars, the basic laws of supply and demand demonstrate that rates are heavily subsidized.

If the City Council wants to continue to subsidize rental rates for those tenants that do not need a subsidy, then that same Council needs to be prepared to authorize additional funding when unbudgeted expenses arise. This is just one example, but one that is easily implemented. With total revenues in the range of \$3 million annually, this airport can and should be operating at a surplus.

Director of Public Works, Morad Fakhrai, stated that the City's plan to have a paving contractor on board within the next few weeks in order to minimize the length of the runway rehabilitation project as much as possible, within budgetary constraints. He added that staff will schedule a third tenant meeting to discuss the project before the start of construction. He also stated that staff would like to review Mr. Briggs' comments regarding airport finances before responding.

CM Márquez asked if the airport budget could be discussed at a future committee meeting. Mr. Fakhrai replied that staff will add it to the agenda and request assistance from the Finance Department.

CM Zermeño suggested that staff discuss the option of paving the runway from each end at the next meeting with tenants.

1. Approval of Minutes for July 14, 2016

Minutes approved as submitted.

2. Commercial Aviation Site Lease with Aviation Training, Inc.

Airport Manager, Doug McNeeley, provided an overview of the staff report stating the lease for Aviation Training, Inc. (ATI) had expired on August 31, 2015. At the time, ATI expressed a desire to negotiate a new lease, but staff recommended exploring all available options. Mr. Briggs, through ParkAvion's second lease amendment, is allowed a right of first refusal on property that becomes available on the north side of the airport. However, Mr. Briggs conducted a due diligence inspection and informed staff he was not interested in ATI. Subsequently, there were informal conversations with others, but ATI expressed strong interest. On June 15, 2016, Mr. Hoffman submitted a written proposal, including a list of leasehold improvements that he would make estimated at \$175,000.

Mr. Hoffman made a brief presentation outlining his experience and the proposed leasehold improvements.

CM Mendall inquired if a new lease will require ongoing maintenance. Mr. McNeeley stated that is now a standard provision in City leases.

CM Mendall inquired if ongoing maintenance was required in the previous ATI lease. Mr. McNeeley stated that most of the issues developed as a result in changes in City code. He noted, for example, a large exterior landside advertising sign installed years ago does not meet current code requirements.

CM Márquez asked how long current subtenant Flying Vikings had been in operation and how many jobs they created. Mr. Hoffman replied that they have been in operation for approximately fifteen years with six employees.

CM Zermeño asked how Flying Vikings will advertise their flight school if the exterior sign is removed. Mr. Hoffman indicated that is a matter for future discussion with his subtenant. Mr. McNeeley stated that all proposed improvements will have to go through the City permitting process.

CM Zermeño asked how many tenants currently occupy the building. Mr. Hoffman replied himself and Flying Vikings.

CM Mendall inquired about the nature of Mr. Hoffman's business. Mr. Hoffman replied that he's involved in aircraft sales and leasing, and that he occupies a small office.

PUBLIC COMMENTS

Mr. Briggs made the following comments that he asked to be placed into the record verbatim:

Commercial Aviation Site Lease with Aviation Training, Inc. – I am compelled to provide comments on this subject because the staff report contains incorrect statements that have a significant impact on next steps for this property. In accordance with my ParkAvion lease amendment referenced in the staff report, ParkAvion notified the City, in a letter dated March 19, 2015, that ParkAvion desired to enter into a long-term lease with the City for that property. I met with Mr. McNeeley and we agreed on the basic lease provisions. Numerous verbal and email follow-up requests were made for a draft lease to be provided by the City. During this period, I was never provided a draft lease, and was told the City's legal resources were stretched too thin to free up enough staff time to actually draft the document. This continued for almost nine months. It's interesting to note that while the draft lease for ParkAvion was never provided, the City did find the resources necessary to draft a lease for the tenant occupying the Aviation Training property. The draft lease that was never provided was to include a provision for a due diligence period to fully investigate the leasehold, once the lease was executed. While ParkAvion did tour the leasehold, the due diligence process was never initiated because no lease had been received. Proper due diligence includes in-depth environmental survey work, and other costly inspection services. It is normal practice to incur these expenses after the lease has been negotiated and signed, with a right to terminate the lease if significant problems are found. So, the statement in the staff report that ParkAvion completed due diligence and then withdrew their proposal, is not a factual one, and in fact, ParkAvion remains interested in the property today.

In the closing months of 2015, it became apparent that the American Aircraft Sales leasehold would become available. In a letter to the City dated December 2, 2015, having never received a draft lease from the City for the Aviation Training leasehold after repeated requests during the previous eight months, ParkAvion made a formal request to the City, in accordance with the lease amendment referenced previously, to enter into a long-term lease with the City for the American Aircraft Sales leasehold, in lieu of the Aviation Training leasehold. Before taking this action, I discussed the matter with Mr. McNeeley, indicated my desire to have an opportunity to lease the Aviation

Training leasehold also, and was told the City could not negotiate a lease with me for the Aviation Training leasehold because other parties were interested, but that I would have an equal opportunity to compete with other interested parties, since the Aviation Training leasehold would be addressed via the RFP process.

Now, another eight months later, after repeated verbal and email follow-up requests for a draft lease of the American Aircraft Sales leasehold, I have still not been provided the draft agreement. Again, I was told that City resources are spread too thin to produce the draft. I note that during this same period, the City did find sufficient resources to negotiate a deal with Mr. Hoffman.

Mr. Hoffman had this property from 1975 through 2015. During this period, the property suffered serious neglect, benefitted from very little to no reinvestment, and was allowed to deteriorate significantly both in appearance and utility. When I toured the property I found a well-documented broken sewage line that had never been addressed, allowing raw sewage to bubble up to the surface. In addition, hazardous materials in the form of stacks of old tires and batteries were present, along with derelict cars. It's very surprising that with a 40-year history of neglect and poor management practices that the City would be interested in another 30-years of the same.

The staff report also states that three other companies have expressed interest in the leasehold. It seems that the logical solution is to proceed with a Request for Proposals for this property, with a commitment from the City that whoever wins the RFP, is required to maintain the property consistent with the City's own rules and regulations.

Mr. McNeeley clarified that under the terms of the Second Amendment, Mr. Briggs is required to conduct a due diligence investigation and provide written notice of his desire to proceed before a lease is drafted. After his due diligence, Mr. Briggs informed staff he was no longer interested in the ATI leasehold. Mr. McNeeley noted the City has an option to issue an RFP or receive expressions of interest for available property, and in the past the City has exercised both options. He noted the City had previously reviewed such an expression of interest from Mr. Briggs for the ParkAvion hangar project, and his request was approved without an RFP. He stated he had not informed Mr. Briggs the City had made a decision to issue an RFP.

Mr. McNeeley reiterated that most of the issues with the building are code issues. Regarding the sewer line concern, he outlined the steps the City has taken to resolve it, including ongoing quarterly inspections by a private contractor.

CM Mendall asked if Flying Vikings had been approached about leasing the building. Mr. McNeeley replied that he did approach the company, but they were concerned about the cost of necessary renovations.

CM Mendall asked if Mr. Hoffman will be able to fund the necessary improvements with one tenant. Mr. Hoffman said he could. CM Mendall noted it's a benefit to the City that a private company is assuming the financial risk for renovation of the facility.

CM Márquez inquired about the most recent airport RFP issued by the City, and who reviewed the RFP document in the City Attorney's office. Mr. McNeeley replied that an RFP for the California Air National Guard site was issued this year, and that Assistant City Attorney Joseph Brick assisted with a legal review.

CM Zermeño asked for additional information regarding Mr. Briggs' first right-of-refusal for airport property. Mr. McNeeley explained the Hayward Hangars' leasehold is adjacent to property leased to Mr. Briggs' company. The two hangar buildings proposed by Hayward Hangars were in such a location that an easement was required onto Mr. Briggs' leasehold to permit access to the hangars. After a long discussion, it was agreed that, instead of an easement, Mr. Briggs would relinquish a portion of his leasehold for the benefit of Hayward Hangars. In lieu of a cash payment to Mr. Briggs, a right-of-refusal was negotiated allowing Mr. Briggs three opportunities to lease one parcel on the north side of the airport as they became available. Each time a parcel became available, Mr. Briggs agreed to conduct a due diligence investigation and notify the City of his intentions. If he passed on the first opportunity, he would have a second chance. If he passed on the second opportunity, he would have a third chance. If he declined a third time, he would have no further opportunities.

CM Márquez asked if Mr. Briggs' second opportunity for the former American Aircraft Sales leasehold is comparable in size to the first opportunity with ATI. Mr. McNeeley stated the American Aircraft Sales leasehold is larger and more conducive to the construction of new hangars.

Mr. Fakhrai clarified that the Second Amendment does not permit Mr. Briggs to tie up three different parcels at the same time.

Mr. Briggs confirmed the American Aircraft Sales leasehold represents a better opportunity for long-term development. He said he and Mr. McNeeley had a conversation about the possibility of combining the ATI and American Aircraft Sales leaseholds into one parcel, and that because there is interest from several developers it would make sense to issue an RFP for the ATI leasehold.

Mr. McNeeley confirmed the discussion with Mr. Briggs and noted that a combined leasehold would benefit Mr. Briggs' company. He reiterated that a decision was never made to issue an RFP for the ATI leasehold. He also noted that after Mr. Briggs passed on the ATI leasehold he expressed no further interest in it. Mr. Hoffman contacted staff repeatedly and presented a written proposal that included \$175,000 in improvements.

Mr. Fakhrai noted that entering a lease with Mr. Hoffman and ATI does not preclude other development options in the future if they are in the best interest of the airport. He opined that Mr. Hoffman may well entertain such an offer.

CM Márquez asked if there was anything in the ATI lease that would preclude future discussions with another developer. Mr. Fakhrai said there is nothing to preclude it and noted the City will have to review and approve any proposed changes.

CM Mendall said he was pleased there is so much interest in this leasehold. He thanked Mr. Hoffman for going through the negotiating process with the City.

CM Zermeño asked about the next steps regarding Mr. Briggs' interest in the American Aircraft Sales leasehold. Mr. McNeeley said that he will be working with Mr. Briggs to complete the lease for the American Aircraft Sales leasehold.

CM Zermeño also asked about the third leasehold for which Mr. Briggs could also have a right of first refusal. Mr. McNeeley said that there is not currently a third opportunity available. Mr. Fakhrai said that if an agreement is reached with Mr. Briggs for the American Aircraft Sales leasehold that satisfies the conditions of the Second Amendment, Mr. Briggs would not have right of first refusal for a third parcel.

The Committee unanimously recommended this item for Council action.

3. Evaluation of Airport Noise Program April-May 2016

Operations Supervisor, David Decoteau, provided an overview of the staff report stating that due to good weather conditions we had a significant increase in aircraft operations in May and June, and a slight increase in operations in July. Typically, an increase in operations brings an increase in noise complaints. Many of the most recent complaints were due to a cargo company operating late at night. Mr. Decoteau met with the chief pilot and came to an agreement for operational changes, including no further intersection departures. Since then, there have been no further complaints.

CM Márquez informed the committee that she is now the designee for the Oakland Community Noise Management Forum.

CM Mendall asked if aircraft operators pay more for night landing. Mr. Decoteau said there are no such landing fees, but certain operations are restricted at night. The short runway is closed and no touch-and-go landings are permitted. He noted the airport noise ordinance outlines punitive measures for repeat offenders, including monetary fines.

CM Mendall asked if any monetary fines had been issued in the last year. Mr. McNeeley stated that no fines had been necessary. Written notification to aircraft owners resulted in compliance.

CM Zermeño noted the total number of aircraft operations for the year-to-date were down, but complaints were up in comparison with the results for 2015. Mr. Decoteau attributed many of the calls to the nighttime cargo operator discussed earlier in the presentation.

PUBLIC COMMENTS

None

Future Agenda Items

- CM Márquez welcomed CM Mendall to the Council Airport Committee.
- Due to scheduling conflicts, the members unanimously agreed to move future Council Airport Committee quarterly meetings to the second Thursday of the month.
- CM Márquez requested an update from Economic Development Manager, Micah Hinkle, regarding the lease of non-aviation parcels on the airport.
- CM Zermeño requested a future item regarding the airport budget. Mr. Fakhrai said staff will work on this and invite a representative from the City Finance Department.

Committee Member/Staff Announcements and Referrals

Mr. McNeeley noted the Meridian Hayward project is now scheduled for completion in late September 2016. The APP Jet Center project is currently scheduled for completion in January 2016.

Mr. McNeeley updated the committee members on the Runway 10R-28L Pavement Rehabilitation Project. Staff will inform tenants of the next public meeting on this project through an email blast and the airport website. The Caltrans grant has been awarded and Council acceptance of a grant from the Federal Aviation Administration is on the agenda for the Council meeting next Tuesday. The project should be underway in late August or early September.

Mr. McNeeley said that staff is having initial discussions with one potential aviation and one non-aviation tenant for space on the airport.

CM Mendall requested a briefing from Mr. McNeeley in August on airport affairs. He also invited airport tenants to contact him.

CM Zermeño asked if paving operations during the Runway Rehabilitation Project will be conducted twenty-four hours a day. Mr. McNeeley said that is the current plan.

Next CAC meeting is scheduled for October 13, 2016

ADJOURNMENT

The meeting adjourned at 5:01pm.