

FREQUENTLY ASKED QUESTIONS (FAQ)

Some airport hangar tenants have commented regarding the rent increase for various types of hangars, offices, and storage areas of the Hayward airport that City Council approved as part of the City's Master Fee Schedule on May 2, 2017. Staff would like to take this opportunity to respond to some of the questions and comments that were received, and to dispel any misunderstandings.

- **What is the airport policy regarding rent increases?**

As outlined in the Master Fee Schedule approved annually by City Council, since 1999 it has been the policy to adjust airport rent every two years by 75% of the local Consumer Price Index (CPI), and to adjust it every other two years based on the results of a market rent study performed by an independent aviation consultant. The study compares Hayward's rental rates with other similar airports in the Bay Area and across the country. The objective is to be as close to market rate as possible without exceeding it. This assures that tenants will not be charged far in excess of market rate, and that Hayward will be using rental rates that are commensurate with other, similar airports.

- **What is the credibility of the aviation consulting company that did the work?**

The consultant, Aviation Management Consulting Group of Centennial, Colorado, has been in business since 1988. They are one of just two firms in the country with significant experience in airport rent studies, and the only one with a sole concentration on general aviation airports. They maintain an extensive database of airport statistics and use proprietary algorithms in their work to provide meaningful results. In this case, they independently identified comparable airports based on criteria such as runway length, historic activity levels, and total based aircraft. City staff has no role in determining the outcome or the recommendations made in the report. The latest study found that Hayward airport's rental rates are, in most cases, significantly below market rate.

- **This rent increase hurts the based tenants and should not be implemented.**

A common concern of airport tenants is the escalating cost of aircraft ownership, including rental increases. Airport staff shares this concern. However, Hayward Executive Airport is established as an Enterprise fund, which means the airport is financially independent. The airport depends on cost containment and the revenue generated to cover the costs associated with daily operation. Consistent with the direction from City Council, the Federal Aviation Administration (FAA) also requires all airport owners to make their airport as financially self-sustaining as possible. Accordingly, Hayward airport is run much like a commercial business, with the objective of operating in the black. Periodic rent increases, among other measures, are a normal and customary way to help achieve that objective.

- **How will the revenue generated by this rent increase be used?**

The revenue generated will help operate and improve the airport. For instance, the City's Capital Improvement Program (CIP) budget details the upcoming projects designed to enhance safety and capacity at the airport. Some of the projects are eligible for grants from the FAA and Caltrans. But projects in revenue-generating areas, such as the paved alleyways between T-

hangars, are not eligible for those funds and must be completely funded by the airport. There are multiple unfunded projects that are not listed in the CIP budget, such as pavement rehabilitation of taxilanes and taxiways, perimeter fencing, LED conversion of taxiway and runway edge lighting and directional signs, T-hangar restroom remodeling, and construction of a new air traffic control tower. These projects conservatively total an estimated \$10 million. Other uses for the revenue include the purchase of daily supplies and services.

- **Commercial tenants are not paying their fair share in rent.**

Rent for individual T-hangar tenants and commercial tenants is very different. Ground rent is just one of the costs paid by commercial tenants. They are also required to fully fund their facility's construction costs – often in the millions of dollars – in addition to annual utility and maintenance costs. This levels the playing field since individual hangar tenants are not responsible for any of these additional costs.

- **The corporate jets based at Hayward take a disproportionate toll on airport pavement and drive up maintenance costs.**

There are currently 36 jets at the airport, just 8% of all based aircraft. This is important because frequency of operation is a key factor in pavement wear and tear. In addition, the U.S. Army Corps of Engineers built the airport to accommodate a variety of military aircraft. Over the years, those included the C-118 (Gross Weight 97,200 lbs.) and the Lockheed C-130 Hercules (Gross Weight 155,000 lbs.). Today, based jets range from 6,000 to 98,000 lbs. Gross Weight, but the average jet at HWD is approximately 30,000 lbs. So, the airport runways are more than able to accommodate jet traffic without undue pavement wear and expense.

- **Years ago, City officials promised that proceeds from the development of non-aeronautical parcels on airport property would be used to subsidize T-hangar rent.**

City staff reviewed Council and Council Airport Committee (CAC) staff reports for the past fifteen years and recently spoke with the staff in charge of the airport at the time. No written reference to such a binding agreement could be found, and the former employees confirmed there was no promise of subsidized rent.

- **Are rent increases prohibited under the latest Airport Master Plan or as part of a binding agreement?**

The Airport Master Plan (AMP) makes recommendations for future development of the airport. The AMP relies on various operational projections and financial assumptions to help determine future infrastructure needs, but it's not a financial blueprint for daily airport operations, and it's not relevant to this discussion. City staff reviewed the AMP and other documents and found no record of a binding agreement prohibiting discretionary rent increases. All rental rate increases proposed by staff are subject to review and approval by the City Council.

- **Can the airport operating fund balance or real estate fund be used to reduce the cost of hangar rental?**

Based on customary accounting practices, the airport operating fund balance is maintained in reserve to cover the ordinary costs of operation, should it be necessary. The current fund balance is adequate for approximately six to nine months of operation. The proceeds of the airport real estate fund are intended for urgent projects or emergency needs, and use of this fund must be authorized by City Council.

- **What are the next steps and staff plans to increase revenue generated at the airport?**

To reduce the financial burden to our tenants, staff will phase in the current rent increase over time. Staff will also engage a professional and experienced third-party consultant or appraiser to review and verify the original assumptions used, the airports selected for comparison, and the results provided in the current fair market value study. In addition, the airport is increasing revenue through renegotiation of existing commercial leases and aggressive marketing of vacant parcels for new development.