



DATE: July 6, 2017

TO: Council Airport Committee

FROM: Director of Public Works

SUBJECT Airport Hangar Rental Rate Study

RECOMMENDATION

That the Committee reviews this information, and provides comments and a recommendation to move forward with a second rental rate study.

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 finances all its operations including transfers to fund a Capital Improvement Program (CIP). Federal Aviation Administration (FAA) policy requires airports to take steps to achieve financial self-sufficiency.

In addition to cost reductions that have been achieved in the operating budget over time, there are several normal and customary methods used to increase revenue that will help ensure the financial self-sufficiency of Hayward Executive Airport. These include the renegotiation of existing commercial lease agreements, leasing vacant parcels for aeronautical and non-aeronautical commercial use, and increasing rental rates for individual tenants in City-owned T-hangars, offices, and storage areas.

DISCUSSION

Since 1999, rent increases for City-owned hangars have been based upon 75% of the Bay Area Consumer Price Index (CPI) increases and Fair Market Value (FMV) appraisals, alternating every two years. Rent rates for City-owned hangars and outdoor parking spaces are approved by Council and published in the City's Master Fee Schedule. This schedule is posted on the City's website. Airport staff sends a letter to each tenant notifying them of the revised rental rate in advance of implementation. Each tenant in City facilities also receives a quarterly statement that specifies the current rental rate.

An airport rent study for hangars owned and operated by the City was conducted by an independent aviation consulting firm and completed on March 28, 2017. Based on a survey of comparable airports in the San Francisco Bay Area and throughout the United States, almost all the current rental rates at Hayward were found to be below market. Accordingly, rental

rate increases recommended by the consultant varied from 5% to 51% depending on the type of hangar facility. Staff supported the consultant's recommendations, but to reduce the financial impact to tenants staff recommended that increases be limited to 10% per year until market rate was achieved. Staff presented this recommendation to the Council Airport Committee (CAC) on April 13, 2017 and to Council on May 2, 2017. On May 2, 2017, Council approved the staff recommendation of a not-to-exceed 10% increase over the next fiscal year, with the stipulation that future increases proposed by staff would be subject to further review.

At a meeting on April 17, 2017, and in other informal conversations, tenants raised questions regarding the accuracy of the 2017 Airport Rent Study, including whether the consultant used inappropriate airports for comparison, whether the analysis was flawed, and if staff somehow influenced the results. As a result, staff proposed to Council that a second rental rate study be conducted by a third-party consultant to address these questions. The consultant selected will be independent and experienced in real property appraisals and, if possible, experienced in conducting airport rent studies of their own. Staff would like to proceed if the Committee agrees that a second study would be beneficial. To clarify, a second study will address certain pertinent questions, and it is not intended to replicate all the work completed in the original Airport Rent Study. Staff proposes that the second report determine the following:

- Were appropriate criteria (such as runway length, total number of based aircraft, and the presence of a control tower) used to create the airport profiles, and were truly comparable airports selected throughout the United States?
- Was the selection of specific hangars for comparison based on reasonable standards, including hangar size and whether the hangars were municipally or privately-owned?
- Were the most appropriate competitive airports in the Bay Area selected for comparison, including both general aviation and commercial-service airports?
- Were the rental rates for other airports accurately reported?
- Was the analysis conducted in an appropriate manner, and given current market conditions, could the recommendations made for new rental rates be considered reasonable?

Staff also requests guidance regarding the optimal time to undertake a second study. While it could be undertaken immediately, staff recommends that the second study be postponed until staff reports back to the Committee prior to next year's Master Fee Schedule update regarding the effects of the approved not-to-exceed 10% rental rate increase on vacancy rates and hangar waiting lists. Staff will hold tenant meetings to solicit tenant input and to advise of the progress made in the procurement process and prior to preparation of the study.

FISCAL IMPACT

A current cost estimate for the study is not available, but is expected not to exceed \$10,000.

SUSTAINABILITY FEATURES

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

PUBLIC CONTACT

Discussions regarding the proposed study were held at the Council meeting on May 2, 2017 and at the Council Budget Workshop on May 20, 2017 and Council work session on June 6, 2017.

NEXT STEPS

Once the Committee has completed the review and offered comments, in the event approval is granted, staff will proceed with the study.

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Recommended by: Morad Fakhrai, Director of Public Works

Approved by:



Kelly McAdoo, City Manager