



DATE: July 6, 2017

TO: Council Airport Committee

FROM: Director of Public Works

SUBJECT

Approval of Minutes of the Council Airport Committee Meeting on April 13, 2017

CALL MEETING TO ORDER

Council Member (CM) Zermeno called the meeting to order at 5:30 p.m. with CM Mendall present, and CM Salinas absent.

City staff: Morad Fakhrai, Director of Public Works
Doug McNeeley, Airport Manager
David Decoteau, Airport Operations Supervisor
Noemi Dostal, Management Analyst II
Karyn Neklason, Management Analyst II
Jimmy Vasquez, Airport Operations Specialist
Qiana London, Administrative Secretary
Kelly McAdoo, City Manager

Members of the public present:

David Esquivel
Gary Briggs
Tom Carry
Wayne Cook
Mats Salomonsson
Celine Correa
Carlos Rodriguez
Greg Johnson
Scott Briggs
Jerry Turney

PUBLIC COMMENTS

- Mr. Briggs gave recognition to City staff for accomplishments over the last week. Staff was able to find an efficient solution to proceed with paving and restriping in a timely fashion.

- Ms. Correa expressed concerns about a need for repairs to a facility occupied by a particular commercial tenant. Airport staff responded they have addressed those items that the Airport is required to correct. The tenant was advised that negotiations are nearing completion with a new leaseholder.

1. Approval of Minutes for April 13, 2017

Minutes approved as submitted.

2. Airport Budget Review

Public Works Director, Morad Fakhrai, gave an overview of the staff report. He provided detailed information regarding the materials provided to the committee. The Airport operates as an enterprise fund and does not impact the general fund. He noted there are separate operating and CIP funds. There is also an emergency reserve fund.

CM Zermeño inquired about fluctuations in FY 2014 & FY 2015 for land and hangar rents. Mr. Fakhrai stated the City switched financial systems during this time, and some of the information for rent was misplaced, but after FY 2016 all required information is accurate.

CM Mendall confirmed that the fluctuations should not be interpreted as frequent changes, but as accounting errors that occurred over time. Mr. Fakhrai agreed.

Mr. Fakhrai stated that in FY14 Council approved a \$2.17 million transfer from the Airport's emergency fund to complete the Airport Administration Building. He also noted that in the next three years staff anticipates increases in land rent based on renegotiated commercial leases and anticipated increases in rental rates for City-owned hangars, offices, and storage areas.

Mr. Fakhrai clarified that Council approves increases in rental rates through the Master Fee Schedule. The methodology for rental rate increases includes alternate increases based upon changes in the Bay Area Consumer Price Index (CPI) and Fair Market Value.

CM Zermeño indicated that the proposed rental rates increase between 5% and 51%. Mr. Fakhrai stated the increases were based on the results of an airport rent study completed by an airport consultant to determine Fair Market Value. To avoid major impact to the tenants, staff is recommending that future increases are no more than 10% per year until the recommended increases are fully implemented.

CM Mendall indicated that rents currently 51% below Fair Market Value, with a 10% annual increase, will take approximately thirty years before they are caught up. He stated that the staff recommendation will keep rates below Fair Market Value in perpetuity and believes this will not satisfy airport needs. CM Zermeño agreed.

Mr. Fakhrai agreed that while it will take some time to catch up, the length of time will depend on the type of hangar. He stated that gradual increases recommended by staff will present less of a financial burden for airport tenants. He also mentioned that staff is open to direction from Council to increase at a higher rate in order to catch up more expeditiously.

CM Zermeño recommended that staff consider building more hangars to help address the waiting list. Mr. Fakhrai agreed and stated that staff will bring an infrastructure plan back to the committee in the future.

CM Mendall recommended that those rates that are significantly below Fair Market Value be increased more aggressively.

CM Zermeño asked if other municipal airports are charging rent equal to or greater than Hayward. Mr. Fakhrai confirmed that, based on the results of the study, most of the Airport's current rates were below market.

CM Mendall inquired how the fees charged by the Airport compare with other airports in the local area. Airport Manager, Douglas McNeeley, explained that staff has begun to prepare a spreadsheet which contains survey results of six other airports in the Bay Area. He indicated that Hayward appears to be one of the least expensive.

CM Mendall thanked staff for providing more detailed budget information clarifying that revenue and expenditure streams are consistent. He noted that there is only \$700,000 to \$950,000 annually that is being invested in the airport CIP to benefit based tenants, which implies that there isn't a significant source of revenue for major improvements. If significant improvements are to be made, then staff should reconsider charging such low rates for hangar space. However, he cautioned that staff should not be overly aggressive, and that a determination should be made regarding the effects that rental rate increases would have in the long-term.

Mr. Fakhrai outlined potential opportunities for additional revenue, and upcoming CIP projects.

CM Zermeño suggested that the committee recommend a 15% increase on standard hangar rates as opposed to 10%. CM Mendall agreed that a 15% increase should be applied to the rates that are currently more than 30% below Fair Market Value, but recommended holding off on making a motion until the conclusion of Mr. Fakhrai's presentation.

Mr. Fakhrai explained that there are sites at the airport that can attract new development, which would increase revenue. Several older leases are up for renegotiation at a higher rental rate, and this will positively impact revenue. The Airport's two Fixed Base Operators (FBOs) are anticipated to generate increased fuel sales in the next few years, and this will also enhance revenue.

Mr. Fakhrai indicated that one vacant parcel near the intersection of A Street and Skywest Drive, in particular, can be used for non-aeronautical purposes such as retail or for a new hotel, and has the potential to generate significant revenue.

CM Zermeño inquired whether there have been any expressions of interest in that parcel. Mr. Fakhrai indicated that there have been some inquiries, however, the parties wanted to purchase the land. Council direction has been to lease, rather than sell airport parcels. Leasing is also consistent with current FAA guidelines. Mr. Fakhrai noted there are other parcels that can be developed for non-aeronautical use to increase revenue, including the former California Air National Guard (CANG) site.

CM Zermeño asked if there is sufficient room for the planned Hayward Fire Department (HFD) fire training facility on the parcel adjacent to the CANG site. Mr. Fakhrai indicated there would be adequate space.

Mr. Fakhrai explained that the large parcel currently leased to the Hayward Area Recreation and Park District (HARD) for the Skywest Golf Course will be up for renegotiation in 2019. This represents an opportunity to generate additional revenue. Staff will make a recommendation to Council on how best to move forward.

CM Mendall recommended that the conversation with HARD begin before the expiration of the lease in 2019. Mr. Fakhrai indicated that informal conversations have already begun.

CM Zermeño inquired whether the restaurant on the HARD parcel is a part of the lease. Mr. Fakhrai confirmed the restaurant is part of the commission generated for the airport. Revenue is generated from sales at the restaurant as well as from fees on the golf course.

CM Mendall mentioned that he was unaware that a percentage of revenue from the restaurant was received by the airport. Mr. Fakhrai confirmed this and reiterated that negotiations for a new HARD lease could generate additional revenue.

Regarding the operations budget, Mr. Fakhrai explained that the largest expenditure is for personnel salaries. Other expenditures are dedicated to utilities, maintenance, internal services, and transfers to the airport CIP. He clarified that the debt to the Water Department is one such internal services expenditure that will be paid in full by 2024. Likewise, he mentioned that the budget transfer to the airport CIP of \$3 million dollars in 2014 was an expenditure used, in part, to complete the Airport Administration Building.

Mr. Fakhrai clarified that the airport uses cost allocations to pay the general fund for use of various City department services.

CM Mendall asked if cost allocations expenses are paid by every department in the City. Mr. Fakhrai said they are, but clarified that because the Airport is an enterprise fund, it does not use revenue from the general fund for these expenses, unlike most other City departments. He added that periodically, a consultant reviews cost allocations throughout the City and makes recommendations for adjustment.

CM Mendall inquired if the maintenance done to existing buildings is up to date or is there deferred maintenance that is accruing each year. Mr. McNeeley responded that staff does what they can within the limits of the operating budget and a four-person maintenance team. He informed the committee that contractors must be used for certain jobs due to the need for specialized equipment or personnel. He also noted the airport receives grants from the FAA and Caltrans for large projects that can offset up to 90% of the cost of construction. The FAA and Caltrans generally fund projects in common areas of the airport that do not generate revenue.

Airport Operations Supervisor, David Decoteau, added that there are some longer-term items that need to be repaired that are being addressed temporarily until more permanent repairs can be completed.

Mr. Fakhrai indicated that on occasion, some maintenance items that do not affect safety are deferred due to budgetary concerns. In response to CM Mendall, he also stated that capital improvements to facilities that are not eligible for grant funding are sometimes deferred.

CM Zermeno suggested that staff begin to prepare the proposed infrastructure plan to address future needs at the airport. Mr. Fakhrai confirmed that staff will soon begin this work.

In response to questions, Mr. Fakhrai provided further information on the overall expenditures and revenues for the airport from 2008 to date. He explained that the emergency reserve fund balance, by direction of Council, was used three or four years ago to finish the Airport Administration Building, which is why the emergency fund balance decreased. CM Mendall indicated the expenditure from the emergency reserve fund makes sense given the current budget.

Mr. Fakhrai explained that if approval to increase hangar rates is received from Council in the Master Fee Schedule, additional revenue will be generated. In general, the Airport's operating fund balance currently shows a decrease for FY19, but an increase is anticipated in future years. With the increased revenue outlined to the Committee, the transfer to the CIP budget can be increased to accommodate additional projects.

When asked by CM Zermeno about the status of the Water Department loan to the Airport, Mr. Fakhrai replied that transfers will cease in 2024 when the loan is retired.

In response to questions, Mr. Fakhrai explained that land rent revenue projections only reflect revenue from existing sources. However, currently undeveloped sites could yield significant additional revenue to be used for future airport improvements.

CM Mendall inquired about the cost of a new tower if it were built. Mr. McNeeley indicated that currently it would be about \$7 million. Mr. Fakhrai clarified that funding would likely come from a commercial loan or bond issue and not the airport reserve or emergency funds.

CM Mendall asked about the cost associated with additional T-hangars. Mr. McNeeley responded that the cost would be approximately \$1.5 million to \$2 million per building. CM

Mendall suggested that one additional T-hangar be developed every few years since they could be funded with the projected surplus. Mr. Fakhrai indicated this could be accomplished depending on the size of the hangars.

CM Zermeño inquired if an infrastructure committee was being established to conduct a study. Mr. Fakhrai responded that the City has formed an Infrastructure Committee, but it does not cover the airport.

Mr. Fakhrai explained that the airport CIP provides funding for major projects, and the FAA reimburses the airport through grants for eligible projects. He also discussed future infrastructure plans.

CM Mendall observed that the current CIP budget reflects maintenance that the airport is required to complete out of necessity as opposed to other projects that staff might wish to undertake. Mr. Fakhrai replied that, if additional revenue can be generated, other projects could be considered.

Mr. Fakhrai elaborated further on revenues and expenditures from the operating budget. He also mentioned that the infrastructure plan should be completed by July 2018. Staff will retain an outside consultant to evaluate existing facilities and make recommendations for future development and capital improvements, which will be presented to Council and the Committee.

Mr. McNeeley stated that one of the concerns for existing tenants at the airport is a loss of facilities during these improvements, and staff is sensitive to this concern.

Mr. Fakhrai stressed the financial contributions made by tenants, including the payment of rent and property taxes. Tax revenue is distributed to the general fund, the County, and the school district, as permitted by law.

CM Mendall asked for clarification on how the funds are added to the general fund. Mr. Fakhrai explained that the state distributes these funds directly and that funds are not moved from the airport operating fund to the general fund.

Mr. Fakhrai emphasized that additional development would generate more revenue for the airport, including ground rent, property tax, and fuel sales. He also added that the Airport contributes more than 300 jobs to the community and has a multi-million-dollar economic impact.

Mr. Fakhrai indicated that customs service may be difficult to obtain for the Airport due to revised minimum facility standards by U.S. Customs. Mr. McNeeley elaborated that such a facility could cost between \$2 million and \$3 million to construct at the Airport's expense. Staff is investigating whether a simple fee-for-service arrangement could be negotiated.

CM Zermeño encouraged staff to consider strategies to make customs service available, provided there is a need. Mr. Fakhrai confirmed that certain tenants have contacted staff

about the possibility of customs service, but it was unlikely that current demand could justify the costs involved.

CM Mendall recommended that staff wait until the infrastructure planning process has been completed and determine where customs services falls amongst the list of priorities.

CM Mendall expressed his appreciation for staff's efforts in gathering additional budget information. He added that his long-term vision for the airport is to consider ways to expand by undertaking new capital projects, including hangars or a new air traffic control tower.

PUBLIC COMMENTS

Mr. Turney expressed concerns about the proposed hangar rate increases. He indicated that from a historic point of view, there has never been a 10% increase. He does not agree that current rental rates are up to 50% below Fair Market Value, and the current methodology used to calculate rental increases does not seem equitable.

Mr. Briggs commented that the hangar rates increase should be location specific and based on size, and before additional hangars are built that staff should consider the demand.

CM Zermeño thanked the public for their comments.

CM Mendall indicated that, according to the staff report, rates have been increased in the past, but with a cap of 10%.

3. Evaluation of Airport Noise Program

Mr. Fakhrai requested that future reports occur bi-annually as opposed to once a quarter.

CM Mendall indicated that once or twice a year is sufficient. Mr. Fakhrai stated that staff would move forward with twice a year and will ask the committee to reconsider once a year in the future.

CM Zermeño agreed that reports can be given less frequently as the information presented in the reports is redundant.

Airport Operations Specialist, Jimmy Vasquez, provided a brief overview of the airport noise program. He provided information from January 2017 through March 2017. Over 50% of the complaints received came from approximately three households.

CM Zermeño inquired if the complaints received were for aircraft arriving or departing from Hayward, or for airliners bound for Oakland International Airport. Mr. Vasquez indicated that many of the complaints received were not for aircraft operating at Hayward.

PUBLIC COMMENTS

None.

4. Future Agenda Items

None.

Committee Member/Staff Announcements and Referrals

Mr. McNeeley announced that the Oakland Noise Forum requires a member from the Hayward community to participate. Previously, CM Márquez acted on behalf of the community. The committee agreed that CM Salinas will be her replacement.

CM Zermeno announced that he will not be present for the next CAC meeting.

Next CAC meeting is proposed for July 6, 2017.

ADJOURNMENT

The meeting adjourned at 7:07 p.m.