



DATE: January 26, 2023

TO: Council Airport Committee

FROM: Director of Public Works

SUBJECT: FY23 and FY24 Hangar Rent Increase and FY24 Master Fee Changes at Hayward Executive Airport

RECOMMENDATION

That the Council Airport Committee (CAC) reviews this report and provides comments and a recommendation to Council to approve hangar rent increases for FY23 and FY24 as well as certain changes to the Master Fee Schedule for FY24.

SUMMARY

The Airport operates as an enterprise fund and relies solely upon the revenue it generates to fund its operating and capital improvement budgets. Accordingly, the Airport does not receive any financial support from the City's General Fund.

Airport staff regularly monitors the operating budget to reduce cost and increase revenue whenever possible. Staff has also been successful in applying for and receiving monetary grants from the FAA and Caltrans to fund capital projects, totaling approximately \$3 million over the past 10 years. The objective, in conformance with Council directives and Federal Aviation Administration (FAA) standards, is to become and remain financially self-sufficient.

On January 15, 2019, Council approved annual rental increases for hangar tenants. Standard-sized hangars were increased by 5% annually, and other types of hangars were increased by 2.5%. These increases were to be implemented over four fiscal years (from FY19 through FY22). Going forward, staff used objective criteria to establish new rental rates for FY23:

- Current rental rates at nearby general aviation airports for comparable hangars
- The cost of future capital projects to improve infrastructure and enhance safety
- Current and historical Consumer Price Index (CPI) rates for the San Francisco Bay Area

According to the latest data from October, the annual CPI increase was 6.0% and would be applied to FY23 rates. In order to lessen the financial impact to tenants, the proposed FY23 increase would be effective on April 1, 2023, while the FY24 increase would coincide with the

start of that fiscal year, which is July 1, 2023. The FY24 adjustment will measure the percentage increase between the CPI data from April 2022 and April 2023.

In addition to hangar rent increases, airport staff is also recommending adjustments to the FY24 Master Fee Schedule by the same increase of 6% for hangar storage rooms, office spaces, and tie down spaces.

BACKGROUND

Hangar Rent Increases

The Airport operates as an enterprise fund and relies solely upon the revenue it generates to fund its operating and capital improvement budgets. It does not receive financial support from the City's General Fund. Both the Council and the Council Airport Committee (CAC) have expressed a desire to make the Airport as financially self-sufficient as possible. The FAA has a similar policy objective for airports. A key element of self-sufficiency is to reduce costs and increase revenue whenever possible. On the cost side, for example, staff recently replaced a software package with a new one that provides more capabilities at a lower monthly cost, saving approximately \$25,000 over the life of the contract. Staff also works to increase revenue by leasing vacant parcels of land for commercial development, renegotiating existing commercial leases, as well as instituting rental increases for individual and commercial tenants. For instance, over the past ten years, new commercial leases totaling over \$41 million have been executed.

A standing City policy for adjusting hangar rates was recommended by the CAC and later adopted by Council. At its meeting on May 25, 1999, a methodology was recommended to and approved by Council to increase rates every other year, on odd numbered years, by 75% of the CPI during the same period. In addition, staff was to conduct a market analysis every four years to ensure that hangar rents are consistent with prevailing market rates.

Because of adverse economic conditions, there were occasional deviations from this policy. For example, the last market rate study prior to 2017 was conducted in 2007. This contributed to widening of the gap between the hangar rents charged at Hayward in comparison with those at other airports. As a result, rental rates at Hayward did not keep pace, and that in turn created some budget challenges.

In March 2017, a market rate study was completed by an outside firm to determine whether the rents charged for hangar space at Hayward Executive Airport were comparable with those at other similar airports. The firm identified comparable local airports and airports in other cities across the country. The results of the study indicated that Hayward's rental rates for standard sized hangars were 51% below the market rate, while most of the other hangar sizes were below the market rate by up to 26%.

To arrive at rental rates that would meet the Airport's financial needs and be acceptable to the hangar tenant community, City staff met four separate times with tenants to develop an amenable rent structure. The net result of this dialogue was realized on January 15, 2019,

when the Hayward City Council approved annual standard sized hangar rent increases of 5% (and all other hangars by 2.5%) from fiscal year 2019 through fiscal year 2022.

Master Fee Schedule Updates

In addition to hangars, the Airport rents office space, storage rooms, and outdoor aircraft tie down space. Storage room rental rates were increased in FY19; the rates for offices and tiedown spaces now require adjustment to remain competitive.

DISCUSSION

Hangar Rent Increases

As noted earlier, Council approved a four-year series of hangar rent increases in 2019. That series of increases concluded on June 30, 2022. A decision was made to delay future rent increases for the first portion of FY23 until airport staff could review the actual revenues and expenditures for FY22. It was determined that to keep pace with inflation and meet the need for future capital improvements, such as paving and hangar repairs, rental increases are indicated for both FY23 and FY24. It should be noted that hangar occupancy rates have remained steady after implementing the prior rent increases and through the COVID19 pandemic.

Justification

It is important to clarify the reasons for the proposed rental increases and the methodology used for the adjustment. Hayward Executive Airport operates as a financially independent enterprise fund. Through the administration of fees and charges, the Airport finances all its operations including transfers to fund a Capital Improvement Program (CIP). The Airport does not receive revenue from the City's General Fund. The costs incurred to operate the airfield are noted under "expenditures" in the Airport's FY23 budget forecast (please refer to Attachment II).

Recent history shows that revenues are not keeping pace with the costs to maintain and manage the Airport. Personnel costs continue to increase due to a rise in retirement and medical costs. In addition, the Airport's yearly contribution to fund its capital improvements continues to increase as construction contracts and associated material (such as asphalt) become more expensive. For Fiscal Year 2023, the Airport is expected to experience a shortfall of approximately \$1.5 million. A budget surplus is forecast in FY24, but this result is based on revenues from land leases that are currently under negotiation or capital projects that are under review by Council.

In response, Airport staff has taken steps to generate revenue from all sources:

- A commercial ground lease was signed with a second Fixed Base Operator (FBO), Meridian Hayward. The company began operations at the Airport in October 2016, and the lease generates annual revenue of over \$135,000.

- Council approved commercial ground leases for the construction of two new hotels on Airport property. One hotel is currently operational, and once the second hotel is completed in 2024, together they will generate \$420,000 in annual revenue.
- Council approved the negotiation and execution of several commercial ground leases for both aeronautical and non-aeronautical use at the Airport, which total over \$41 million in additional revenue.
- Other future agreements for large parcels of vacant land at the former California Air National Guard (CANG) and Skywest golf course sites will significantly improve the Airport's financial position.

Future capital development will not be assured until the deals are finalized, bank financing is secured by the commercial tenants, building permits are issued, and the projects are constructed.

Methodology

Staff reviewed strategies employed in the past to make a recommendation for rental increases. Since a third-party rental study was completed less than five years ago, consideration was focused on employing an increase tied to the Consumer Price Index (CPI).

To keep pace with inflation, staff recommends that hangar rents be increased by CPI for both FY23 and FY24. In early FY24, staff will review the airport's financial standing to determine if future CPI-related increases are needed, or some other form of rent adjustment would be preferable. The concept of annual rent increases tied to CPI is used by many of the general aviation airports in the Bay Area, including Reid-Hillview, San Martin, Livermore, Palo Alto, and Buchanan Field.

The additional revenue generated will enable the completion of capital improvements that enhance safety and efficiency for all tenants.

For FY23, staff is recommending that the new rates be implemented by April 2023. This time frame includes Council consideration of the item in February and, if approved, would allow airport staff time to notify tenants at least thirty days in advance of the rate change, which is a requirement.

The CPI for the Bay Area (all urban consumers/all goods) rose by 6% between October 2021 and October 2022, which will be applied to all monthly hangar rental rates at the airport for FY23. This amount is comparable with the annual 5% increases from the prior four fiscal years.

It should be noted that, in order to moderate this increase to hangar rental rates for FY23 and to lessen the financial impact to tenants, the adjustment will be implemented in April 2023 and not applied retroactively to July 1, 2022. The FY24 increase will be an evaluation of the rate of change in CPI between April 2022 and April 2023.

A summary of the rate changes per hangar type is highlighted below and are rounded to the nearest dollar:

Hangar Type	Current Rent/Month	FY23 Rent (Effective 4/1/23)	FY24 Rent (Effective 7/1/23)
Small	\$294	\$312	FY23 rent + CPI adjustment
Standard	\$455	\$482	FY23 rent + CPI adjustment
Large	\$566	\$600	FY23 rent + CPI adjustment
Small Executive	\$982	\$1,041	FY23 rent + CPI adjustment
Standard Executive	\$1,359	\$1,441	FY23 rent + CPI adjustment
Large Executive	\$1,483	\$1,572	FY23 rent + CPI adjustment

Updates to Master Fee Schedule

Each year, airport staff evaluates the various fees associated with the Master Fee Schedule to ensure they are fair and reasonable in light of existing economic conditions and financial needs of the airport. The last update occurred in FY21 and focused on increases to staff costs to perform certain functions, such as ramp sweeping services and hangar cleaning performed by Maintenance staff after tenants vacate.

For FY24, staff is recommending changes to several rates by the same CPI increase of 6.0% (rounded to the nearest dollar) that is proposed for the hangars:

- **Hangar storage rooms**

Storage Room Type	Current Rent/Month	FY24 Rent (Effective 7/1/23)
Small	\$73	\$77
Medium	\$101	\$107
Large	\$196	\$208
Extra Large	\$250	\$265

- **Office spaces**

Current Rent/Month	FY24 Rent (Effective 7/1/23)
\$650	\$689

- Tie down spaces

Current Rent/Month	FY24 Rent (Effective 7/1/23)
\$60	\$64

ECONOMIC IMPACT

For the full fiscal year, a standard hangar tenant would pay an additional \$27 per month, or \$324 annually with the proposed 6% adjustment. With the implementation date deferred to April 1, 2023, tenants will instead pay an additional amount of \$81 per hangar for the balance of FY23.

FISCAL IMPACT

The rent increase is expected to generate an additional \$19,000 in revenue for FY 2023.

STRATEGIC ROAPMAP

The additional rent generated from the increase will support the Strategic Roadmap to Invest in Infrastructure. Specifically, this item will support the following project:

Invest in City Facilities & Property

N12: Upgrade and maintain Airport infrastructure and facilities

N12a: Rehabilitate the Pavement in Phases

N12b: Design and Construct Capital Improvements to Airport Hangars

SUSTAINABILITY FEATURES

This report does not pertain to any sustainability features.

PUBLIC CONTACT

The agenda and staff report for this item have been posted on the City's website and distributed to interested parties.

NEXT STEPS

If approved, Airport staff will implement the FY23 increase on April 1, 2023, to allow notification to tenants at least thirty days in advance.

Prepared by: Doug McNeeley, Airport Manager

Recommended by: Alex Ameri, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', with a long horizontal stroke extending to the right.

Kelly McAdoo, City Manager