



DATE: April 13, 2017
TO: Council Airport Committee
FROM: Director of Public Works
SUBJECT: Airport Budget Review

RECOMMENDATION

That the Committee accepts this report as information only; no action is necessary.

BACKGROUND

This report provides additional information requested by members of the Council Airport Committee (CAC) at the meeting on January 12, 2017. 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.

DISCUSSION

An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Accordingly, the airport produces all the revenue needed for daily operation and for capital improvement projects. While the City's general fund does not support airport operations, airport operations indirectly provide financial support to the general fund, such as through sales tax and property tax.

Operating Budget

Revenues:

The airport receives revenue from ten different sources, but primarily from the rental of space. Those sources are specified in Attachment II. At the request of Committee members, Attachment II now also provides operating budget information for the past ten fiscal years. For example, the airport owns and operates 206 T-hangars that are rented to individuals and companies with aircraft, and it rents outdoor parking spaces for aircraft, office space, and both improved and unimproved land for use by commercial operators. The airport also receives commissions from the sale of aviation gas and jet fuel, and it generates revenue from services performed for airport tenants, such as pavement sweeping, weed abatement, and hangar

clean-up. Revenue from fuels sales is calculated based on \$0.05 per gallon or 3%, whichever is more.

Rent rates for City-owned hangars and outdoor parking spaces are approved by Council and published in the City's Master Fee Schedule. Periodic rent increases for City-owned hangars and parking spaces are based upon 75% of the Bay Area Consumer Price Index (CPI) increases and Fair Market Value (FMV) appraisals alternating every two years. The FMV rent study for hangars owned and operated by the Airport due in FY 2017 has just been completed. Based on a survey of comparable airports in the San Francisco Bay Area and throughout the United States, the findings represent a significant increase in hangar rates. Monthly rental rate increases vary based on the type of hangar and the square footage, but in the latest study the increases range from 5% to 51%, with an average increase of 27.6%. See Attachment V for results of the study showing current hangar rates, market rates and proposed FY 2018 rates. In the past, by direction of Council, market rates have been reduced to make recreational flying more affordable, and Council could opt to make a similar adjustment in FY 2017. The total increase could also be implemented in steps. As such, staff recommend the increases be implemented at a not to exceed rate of 10% annually. The schedule and methodology for rent increases has been in place for more than a decade and is familiar to most airport tenants. After approval by Council, the rental rates for hangars and other facilities operated by the City at the airport are incorporated into 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 thirty days or more in advance of implementation. Each tenant in City facilities also receives a quarterly statement that specifies the current rental rate. With the latest market rate adjustment, staff will also post the new rates on the airport webpage.

Rent and periodic rent increases for commercial operators are individually negotiated, but more recently include rent increases based on CPI and FMV similar to above. Some of the older agreements used outdated methods to determine annual rent. Staff does renegotiate old leases to reflect current practices.

Staff is making good progress in generating new revenue. The recent opening of the Meridian Hayward Fixed Base Operation will result in new annual lease income of \$126,552 for Phase I of the project. Annual lease income will increase once all phases of the project are completed in 2028. In addition, Meridian will provide revenue from fuel sales. APP Jet Center is expected to generate additional revenue from fuel sales now that their new FBO facility is completed. The projected revenue from space rental has been conservatively calculated and is incorporated into the budget projections.

Because the large commercial leaseholders at the airport are private corporations, information regarding financial results and projections are proprietary in nature and not readily available. However, thanks to Mr. Briggs of Ascend Development, we have a benchmark for the financial contributions of his company under three separate ground leases. The total annual contribution is \$549,236, including the payment of ground rent of \$182,000 to the City and property taxes paid for buildings and land of \$67,236. That total amount also includes property taxes in the amount of \$264,000 for based aircraft paid by his tenants as

well as estimated fuel flowage fees paid of \$36,000. Given that Ascend Development is an established business with approximately fifty tenants, staff recommends that a more conservative annual contribution of \$300,000 be used to estimate the annual impact of other, newer commercial tenants on the airport.

Attachment III depicts parcels currently leased, renewal date, and current rent. Staff is also working diligently to lease additional space dedicated to both aeronautical and non-aeronautical use. For example, Attachment III depicts three larger parcels available for future non-aeronautical development. The parcel on A Street (Parcel No. 28) totals approximately 164,000 square feet. The parcels on Hesperian Ave. (Parcel No. 27) total approximately 161,000 square feet. At the current average rent for non-aviation of approximately \$1.10 per square foot, per year, this will generate the equivalent of \$357,500 annually when all three available parcels are developed. The former California Air National Guard (CANG) site (Parcel No. 2) has approximately 20 acres available for aeronautical, or potentially non-aeronautical development. The current aeronautical rate of \$0.32 per square foot, per year yields annual income of \$278,700 for the CANG site. A non-aeronautical rate of \$1.10 per square foot, per year produces annual income of \$958,320.

The re-negotiation of below-market commercial leases represents an additional source of revenue. A lease with Air Plaza West for an office building on Hesperian Ave., and a lease with Pacific Roller Die for an office building on West Winton Ave. will each expire within the next five years. At the current non-aeronautical rate of \$1.10 per square foot, per year, these leases have the potential to generate \$124,000 in additional revenue. The lease for the 126-acre Skywest Golf Course that is operated by the Hayward Area Recreational District is also due to expire in 2019, but due to the specialized use of the parcel, more research is necessary before an estimate of revenue potential can be provided.

Expenditures:

The major groupings of expenditures in the airport budget are also shown in Attachment II. These include items such as various personnel costs, facility maintenance, utilities, supplies, insurance, and staff training. Expenses include internal charges for items such as vehicle and equipment maintenance and replacement. They also include cost allocation for services provided by the City such as financial accounting, human resources, and legal counsel.

Operating revenues exceeded operating expenditures in FY 2014 and FY 2016 through the careful monitoring of expenses and other measures by staff. An operating budget surplus of \$95,117 is projected in FY 2017.

In FY 2017 the adopted Airport Fund balance was \$3,040,797. This balance is sufficient to cover anticipated operating expenditures for a period of approximately ten months. Based on discussion with Finance staff, a prudent operating balance should include between three to six months of operational costs. The airport also maintains an Emergency Reserve Fund of \$5,343,800 that by direction of Council is available for use in the event of unforeseen circumstances or for special projects, which are evaluated on a case-by-case basis. For

example, after recommendation by staff, Council authorized the use of \$2,272,000 from the Reserve Fund for the construction of the Airport Administration Building in 2013.

The budget includes debt service for an inter fund loan in the amount of \$2.5 million for the construction of various capital improvements at the airport. This loan from the Water System Improvement Project in 2001 requires a total annual payment of approximately \$165,000 (interest and principal). The Finance Department recently refinanced this debt for an earlier payoff in 2024. The remaining balance of this loan is currently \$1,312,933.

Capital Improvement Plan (CIP) Budget

Capital improvements are necessary to maintain existing infrastructure and to construct new facilities to enhance airport safety and increase capacity. Such projects are outlined in the CIP budget that, in turn, is funded by the airport's operational budget. Capital projects are also funded through monetary grants from Caltrans and the (FAA). Major items are reflected in the CIP budget. A summary of proposed FY 2018 CIP projects is shown in Attachment IV.

Existing infrastructure is closely monitored. Airport staff inspects the airfield twice daily. The airport receives an annual inspection by Caltrans on behalf of the FAA. The airport pavement receives a special inspection by a third-party consultant every two years as part of the Airport Pavement Maintenance Plan. Staff also invites inspections by the airport's insurance underwriter. The condition of airside and landside lights, signs, markings, pavement, obstruction lights, and other items is noted, and these records reveal trends and the requirement for maintenance or replacement.

Future airport development is generally guided by the Airport Layout Plan (ALP). The ALP was conducted in January 1999 and presents demand forecasts, facility requirements, development alternatives, and plans. An extensive ALP update was completed in 2011. This planning document was similar in content and depth to a full master plan study. In addition, in FY 2018, a third-party consultant will complete an Infrastructure Improvement plan. This two-part study will evaluate the condition of structures at the airport owned and operated by the City, including nineteen hangar buildings and the control tower building. After the evaluation, a forecast will be made of future aviation demand, including the anticipated type and number of based aircraft. The study will conclude with a determination of the best and highest use of current airport assets, and whether those structures should be maintained, renovated, or replaced. If replacement is indicated, the study will offer suggestions for future development based on the demand forecast. The Infrastructure Improvement plan will also include recommendations of development for undeveloped parcels on the airport.

As detailed in Attachment IV, the CIP fund balance remains positive throughout the ten-year forecast period. Staff will provide additional information about individual projects as requested.

Staff has been successful in applying for and receiving grants from the FAA and Caltrans for capital projects. In FY 2016, the airport was awarded grants in the amount of \$1.6 million to rehabilitate the pavement on Runway 10R-28L.

Other Considerations

A few based tenants have inquired about the availability of a Customs facility at the airport. Staff has held discussions with U.S. Customs and Border Protection, and current construction standards for an airport facility require a minimum of 5,000 square feet building with other very specific features. Funding for one customs officer with annual salary and benefits totaling between \$175,000 and \$200,000 is also required. Staff was informed that Hayward's existing, vacant airport offices are inadequate, even if renovated. Other general aviation airports have invested between \$2.5 and \$3.0 million to construct a new customs facility to the current standards, with construction costs recouped through a user fee per transaction. However, it's unlikely that periodic use of such a facility by a limited number of based tenants would support such an expenditure by the City. Funding of the project by the users themselves or Hayward's two fixed base operators could be explored. In addition, the possibility of a fee-for-service arrangement with U.S. Customs could be investigated. At one time, customs agents would service general aviation airports by prior arrangement, but this practice has been largely discontinued. Staff anticipates the reinstitution of fee-for-service would require Congressional assistance.

It should also be noted that the airport provides other financial benefits to the City, including 300 jobs and \$300 million in annual economic impact, and it provides valuable public services including emergency medical, law enforcement, media, and humanitarian flights. The City realizes revenue from aircraft property tax that averages \$621,500 annually. The tax is collected by Alameda County, and the City's share is calculated from the assessed value of aircraft based at Hayward Executive Airport. This revenue also supports Alameda County, the Hayward Public School District, and HARD.

SUSTAINABILITY FEATURES

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

PUBLIC CONTACT

The airport operating and capital improvement budgets are reviewed by Council in public session each year. Discussions regarding the budget for individual capital projects as well as overall budget discussions are held at meetings of the Council Airport Committee (CAC).

Prepared by: Douglas McNeeley, Airport Manager

Recommended by: Morad Fakhrai, Director of Public Works

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager