



DATE: October 11, 2018

TO: Council Airport Committee

FROM: Interim Director of Public Works

SUBJECT Phase II of Administration Building at Hayward Executive Airport: Construction Feasibility

RECOMMENDATION

That the Council Airport Committee (CAC) reviews the report and provides direction to staff for future action.

SUMMARY

The first phase of the current airport administration building at Hayward Executive Airport (HWD) was completed in 2014. The building totals approximately 5,000 square feet, and over half of the available space was dedicated to public use. During the design phase, there was discussion of a second phase of the project that could be dedicated to revenue-generating office or retail space.

Based on preliminary research, currently there does not appear to be adequate market demand for the second phase of this project. Furthermore, based on revenue projections, it may be difficult to justify the multi-million-dollar capital investment required.

BACKGROUND

For approximately twenty years, the airport administration offices were located on the first and second floors of the FAA Air Traffic Control Tower Building. The space available for public use was minimal, and the facility did not provide the modern amenities available at many other general aviation airports. The airport administration building project was conceived to address these needs, and it included a pilot lounge, weather briefing area, refreshment area, meeting room, and aircraft viewing area. It was also designed to provide additional space for staff offices. Funding came from the airport's reserve fund and the project was completed in August 2014.

During the design phase, there was a preliminary discussion about a second phase of the project totaling 3,600 square feet that could generate revenue and help offset the cost of the first phase. This second phase was depicted on the original site drawing.

DISCUSSION

Federal Aviation Administration (FAA) policy requires all activities on airport property to be directly aviation related. Acceptable uses include activities such as flight instruction, aircraft maintenance, avionics repair, fuel sales, and aircraft charter operations.

Accordingly, staff identified aviation suppliers in the greater San Francisco Bay Area and reached out to them to determine the interest in 3,600 square feet of new office space at HWD, but there was no significant interest. For example, preliminary discussions were held with area flight schools, including one based at HWD. For some, the space was too large, and for others too small. Some indicated they did not have adequate funding to complete the necessary interior improvements.

Staff also reached out to aviation insurance agents, aircraft sales organizations, and aviation start-up companies, but little interest could be generated. Some of the organizations had built a customer base in certain portions of the Bay Area and were reluctant to relocate. Others were reluctant to relocate because their employees would not be open to commuting a greater distance to HWD. Some segments of the general aviation industry have evolved, and a physical office was no longer a requirement. Still others required adjacent aircraft hangars. While the potential availability of new office space had some allure, it was difficult for some potential tenants to talk about the project in the abstract – they preferred office space they could physically see before arriving at a decision.

Financial Considerations

While exploring the potential market for new airport office space, staff also conducted a cost/benefit analysis to determine the fiscal impact of the building construction cost. There are several options available to fund construction, including debt service, use of operating reserves, and use of emergency reserves. However, the project is difficult to justify based on projected revenue.

In brief, the maximum amount of rent to be generated would be approximately \$1,200 per year; this amount is tied to the current aeronautical rental rate of \$0.33 per square foot multiplied by the building size of 3,600 square feet. Assuming an initial construction cost of \$4 million, the airport would not recoup the full cost until many years afterwards.

Hayward Airport Plaza Building

A suggestion was received from a tenant to consider managing the Hayward Airport Plaza Building once the current lease expires. This concept would not be feasible for three key reasons: 1) the amount of capital expenditure needed to upgrade the building would be cost prohibitive; 2) additional employees or contract maintenance personnel would be required; and 3) Airport staff are in the process of finalizing a new agreement with the current leaseholder, which will generate more positive income than before from this leasehold.

Conclusions

FAA policy limits the use of office space in Phase II, and to date, staff has not received significant interest in new office space from Bay Area aviation companies. This is in part because brick and mortar aviation businesses are often identified with a certain airport, and because of the inconveniences and challenges associated with relocation. Furthermore, staff's preliminary analysis indicates that while funding mechanisms are in place to construct the second phase, it may not be financially prudent to do so.

Staff will continue to monitor and evaluate market trends and report back to the Committee. If desired, staff will also discuss joint marketing efforts with the City's Economic Development team and prepare a more detailed financial analysis.

ECONOMIC IMPACT

The second phase of the Airport Administration Building project may provide some financial benefits to the community through the spending of visitors for ground transportation, meals, and lodging.

FISCAL IMPACT

There would be no impact to the General Fund, however, there would be an impact to both the Airport's operating and capital funds. The associated soft and hard costs may make construction of this project impractical.

STRATEGIC INITIATIVES

This agenda item does not directly relate to one of the Council's Strategic Initiatives.

SUSTAINABILITY FEATURES

The action taken for this report will not result in physical development, purchase, or service, or a new policy of legislation.

PUBLIC CONTACT

This is a preliminary informational report; no public contact was made.

NEXT STEPS

If the committee members wish to explore this project further, staff will discuss joint marketing efforts with the City's Economic Development team and prepare a more detailed financial analysis.

Prepared by: Douglas McNeeley, Airport Manager

Recommended by: Alex Ameri, Interim 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