



**DATE:** January 15, 2019

**TO:** Mayor and City Council

**FROM:** Interim Director of Public Works

**SUBJECT:** Hayward Executive Airport Hangar Rental Rates - Amendment to FY 2019 Master Fee Schedule

### **RECOMMENDATION**

That the Council adopts the attached Resolution (Attachment II) authorizing an amendment to the FY 2019 Master Fee Schedule which increases Airport standard hangar rental rates by 5% in FY 2019 through FY 2022 and all other sized hangars by 2.5% in the same years.

### **SUMMARY**

In May 2017, staff recommended 10% increases per year on rental rates for City-owned hangars at the Hayward Executive Airport for five consecutive years, beginning in FY 2018, to implement recommendations of a City-sponsored hangar rate study to move a step closer to parity with comparable and competitive airports and financial self-sufficiency at the Airport. The City Council approved a 10% increase for FY 2018 and conditioned consideration of future increases upon continued demand for hangar space as indicated by occupancy rates and waiting list lengths. In the more than a year following the last rate increase, occupancy rates have remained at 100% and waiting list volumes have remained generally consistent before and after the rent increase. The adopted FY 2019 City budget indicates operating deficits at the airport in future years, so implementation of rate increases is still necessary.

Staff has had numerous meetings with tenants, received their concerns and comments, and has developed an alternative rate adjustment structure that would result in increases of substantially less than 10% annually, and which would be implemented over the next four years. For standard sized hangars, which had the largest deviation from market rates at 51%, staff proposes increases of 5% per year for the next four years. For other sized hangars, given their smaller deviation from the market rates and further input from the tenants, staff is recommending rate adjustments of 2.5% per year for four years.

### Council Airport Committee Action

The rent increase was last discussed with the CAC on April 12, 2018 and CAC recommended a 10% rate increase for FY 2019 for Council consideration. However, the Committee also urged staff and the hangar tenant community to discuss the issues and try to find a solution that can address the rent disparity and the financial needs at the Airport while being more amenable

to the tenants. This Council action is a follow up to that April 2018 CAC meeting. There was delay in bringing this back to Council because of the desire to meet with the tenants to attempt to develop a mutually agreeable solution and to wait for a response from the FAA on the complaint mentioned below.

### Federal Aviation Administration (FAA) Determination

As a recipient of FAA-administered financial assistance, the City is obligated to agree to certain assurances, including making the airport available for public use on reasonable terms, and maintaining a fee and rental structure that will make the airport as self-supporting as possible. The Hayward Hangar Group (HHG) submitted letters to the FAA asserting that the City had violated the federal grant assurances. The Western Pacific Region-Airports Division of the FAA conducted a thorough review of the City's rate setting processes and has made an Informal Determination that the Airport was in full compliance with all grant assurances and that no further FAA action is warranted. A more complete description of the alleged violations and the FAA's findings are included in the Discussion section of this report as well as in Attachment III to this report.

### **BACKGROUND**

The Airport operates as an enterprise fund and relies solely upon the revenue it generates to fund its operating and capital improvement budgets. The Airport 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 financially self-sufficient. The Federal Aviation Administration (FAA) has a similar policy objective for airports. The City also strives to have rental rates that are comparable to those of other similar airports. Periodic adjustments in hangar rental rates are consistent with these objectives.

### Using Market Rate for Adjusting Rents

A standing City policy for adjusting hangar rates was recommended by the CAC and later adopted by Council. At its meeting on April 27, 1997, CAC recommended to Council to:

Revise the current methodology for aircraft storage rate increases to be every other year, on odd numbered years, and adjusted at 75% of the CPI increase during the same period, **unless otherwise directed by City Council. Every four years, staff will conduct a market analysis to ensure that hangar rents are consistent with prevailing market rates.** If analysis demonstrates that hangar rates required modifications, such shall be accomplished during the next hangar adjustment period. The next increase would not occur until July 1999.

Subsequently, on May 25, 1999, as part of the master fee schedule adjustments for 1999-2000, Council approved the following:

**It is City policy, to conduct a survey of other agencies' operating rates every four years.** During the interim years, Hayward Executive Airport rates are adjusted based on 75% of the consumer price index.

Unfortunately, based on a variety of reasons, this policy regarding conducting market rate studies every four years, and increasing the rents by recommendations of the market rate study every four years and by 75% of CPI in other years, has not been followed. The last market rate study before this current one, was conducted in 2007, exactly ten years before the current one. Twice in the years following the 2007 market rate study, once in 2011 and again in 2015, for various reasons, the City did not prepare a market survey. This contributed to widening of the gap between the hangar rents charged in Hayward versus those at comparable and competitive airports and has kept rents at a level that does not sustain the funding necessary to make capital improvements at the Airport.

In March 2017, Aviation Management Consulting Group (AMCG) completed a comprehensive and independent Airport Rent Study to determine whether the rents charged for hangar space at the Hayward Executive Airport were comparable to and consistent with the prevailing market rates charged at other similar airports. AMCG is a highly respected firm that specializes in aviation-related issues. To complete this study, AMCG identified a cross section of airports within 30 nautical miles (about 35 miles) of the Hayward Airport that are considered competitive, and comparable airports, based on the level of aeronautical activity and infrastructure indicators, such as historic activity levels, presence of a control tower, runway length, and airport acreage. Rental rates and related information from these airports were compiled, the results of which 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%. The Airport Rent Study can be found at the following link.<sup>1</sup>

On May 2, 2017, Council approved an increase in the rental rates for City-owned hangars at Hayward Executive Airport for FY 2018. To ensure that the Airport is financially self-sufficient, and that one group of customers does not unreasonably subsidize another, staff recommended five consecutive increases of 10% per year to catch up over time. However, Council approved only the first 10% rate increase for FY 2018 and conditioned consideration of approval of the increases in subsequent years upon continued demand for hangar space at the Airport as indicated by 1) the occupancy rate, and 2) the number of applicants on the hangar waiting lists. Council also directed staff to have robust discussions with the Airport community regarding future year rent adjustments.

Accordingly, with the desire to achieve a long-term solution that would meet the Airport's financial needs and be acceptable to the hangar tenant community, City staff met four separate times in April and May with members of the Airport community to develop an alternative option to the recommended 10% increase. While progress was made, full and final agreement was not reached. To move forward, staff convened additional meetings on June 15<sup>th</sup>, July 2<sup>nd</sup> and again on November 10<sup>th</sup> to present and discuss staff recommendations and to receive input from the tenants. The results of these meetings and staff recommendations are summarized in the Discussion section of this report.

#### Council Airport Committee Action

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<sup>1</sup> <https://www.hayward-ca.gov/sites/default/files/airport/Airport%20Rent%20Study-032917.pdf>

The occupancy and hangar waiting list data was discussed with the CAC on [April 12](#)<sup>2</sup>. In light of the data showing continued 100% occupancy and steady demand, CAC recommended a 10% rate increase for FY 2019 for Council consideration. However, the Committee also urged staff and the hangar tenant community to discuss the issues and try to find a solution that can address the market disparity and the financial needs at the Airport while being more amenable to the tenants.

## **DISCUSSION**

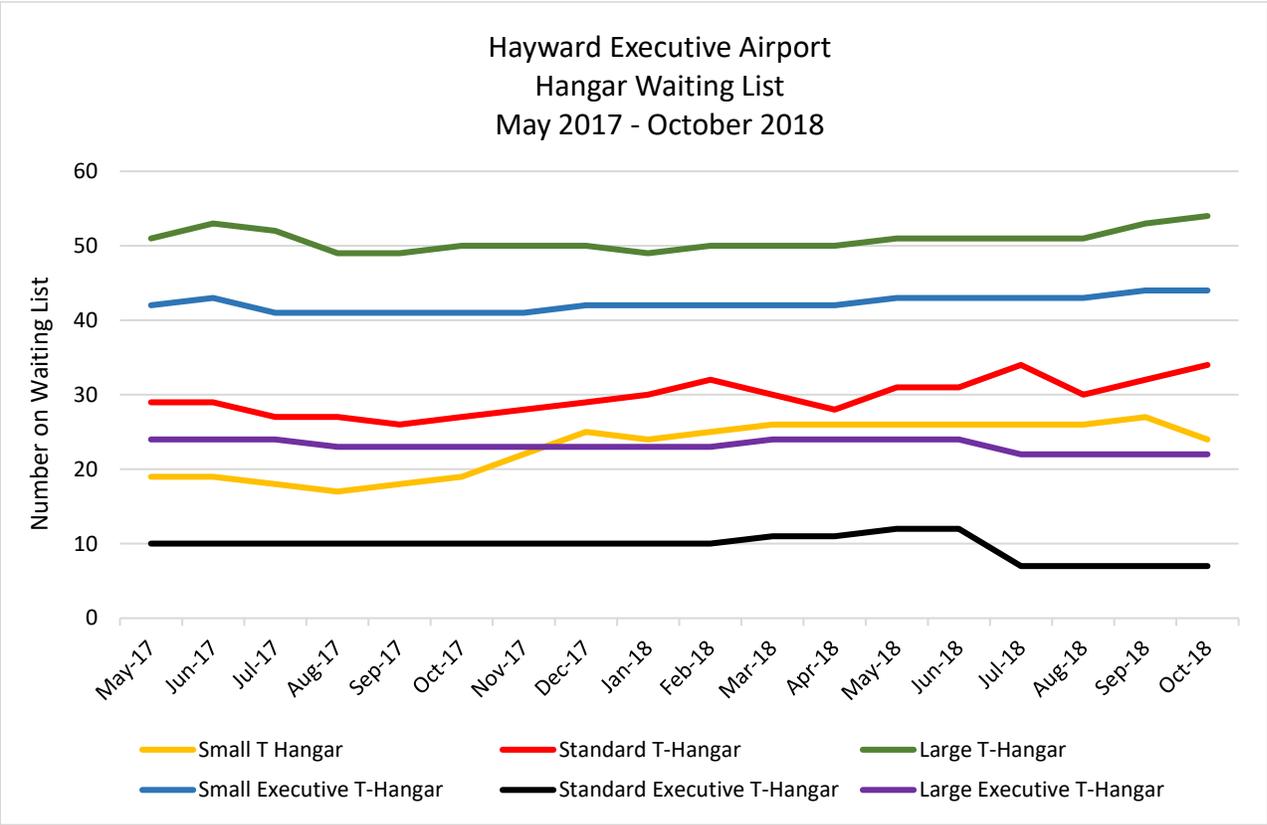
### ***Hangar Space Demand***

Even after the most recent rent increase for FY2018, hangar rents continue to remain well within the average rates of comparable Bay Area airports. As a result, and given the central location of the Hayward Executive Airport and the amenities that it offers, the occupancy rate has been consistent and remains at 100% in City-owned hangars. Occupancy is the first and foremost measure of the reasonableness of the rents.

Staff also reviewed hangar wait list data from May 2017 through October 2018. As shown in the chart below, this analysis indicates that the demand for hangars remained generally consistent, and in fact, modestly increased for some hangar sizes, including standard sized, since the rent increases. This suggests that the rent increases implemented last year did not have a perceptible impact on wait list. There were fluctuations over the timespan, but this is typical, particularly during the last two months of the year. When a vacancy occurs, it is often necessary for staff to contact several individuals on a given waiting list to find one able to take immediate possession of a hangar. This is related to the readiness of the prospective tenants. Those who decline may remain on the list for consideration in the future, subject to waiting list policy.

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<sup>2</sup> <https://hayward.legistar.com/LegislationDetail.aspx?ID=3473157&GUID=90AD90F6-5E01-43E1-BA1C-494CEBF3BD10&Options=&Search=>



**Financial Forecast**

The latest five-year projection of the operating budget shows that while the Airport experienced a surplus of approximately \$242,000 in FY 2017, a loss of \$15,800 occurred in FY 2018. Operating deficits are also anticipated in FY 2019 and FY 2023 with a total net loss of \$14,000. Preliminary analysis suggests that this deficit may grow in future years beyond FY 2023 as expenditures continue to rise. Therefore, the additional rent revenue is essential to help offset some of the potential deficits.

Federal Aviation Administration (FAA) Determination

Airport owners, including the City of Hayward, agree to certain obligations, or assurances, when they accept funds from FAA-administered airport financial assistance programs. Among these assurances is the requirement for airports to be made available for public use on reasonable terms and without unjust discrimination to all types and classes of aeronautical activities. To be in compliance with this obligation, airports must maintain a fee and rental structure that will make the airport as self-sustaining as possible.

The Hayward Hangar Group (HHG) submitted several complaint letters, dated December 11 and December 17, 2017, and January 2, 2018, to the FAA alleging that Hayward Executive Airport was not in compliance with the above-described assurance for the following reasons:

- a. The proposed rental rates were inconsistent with the City's past practices for increasing rents and that the City was not transparent in selecting and executing an agreement with a consultant to conduct a market rental rate analysis.
- b. The proposed rate system is unfair and discriminatory because the City is not applying a consistent methodology for establishing fees.
- c. The City is unwilling to negotiate and compromise with hangar tenants at the local level and did not comply with the California Public Records Act.
- d. The City is secretly planning to demolish City-owned hangars.

The Western Pacific Region-Airports Division of the FAA conducted an investigation of these allegations that included information and records provided by the City. In its letter of response, Attachment III, dated September 27, 2018, the FAA made an Informal Determination that fully refuted each and every allegation and indicated that the Hayward Executive Airport was in compliance with all grant assurances and that no further FAA action was warranted. The FAA specifically noted that the proposed rate adjustments are justified and that percentage differences depending on the hangar type are reasonable. The FAA found no evidence that the market rate consultant was inappropriately selected and retained. The FAA further determined that hangar tenants were provided with adequate notice and information, along with multiple opportunities to offer input and comments. Lastly, there was no evidence to demonstrate the City planned to demolish hangars. Based on the result of this investigation, the FAA's determination is final for this Part 13 complaint.

### ***Proposed Hangar Rate Adjustment Options***

In considering all of the factors in this matter over the past year, staff has developed alternative rate adjustment options to address the need for additional revenue while considering the City's desire to maintain reasonable rates for hangar tenants. Staff is proposing that rate increases be substantially reduced as compared to the original proposal of 10% increase for FY 2019, as contemplated and recommended by the CAC at its April 12 meeting.

### **Discussions with Members of Hangar Tenant Community**

Discussions were initiated when the City was contacted by tenants wishing to discuss recent capital improvement projects at the Airport. Staff met with three tenants and discussed the projects. The discussions continued in April and May (April 10<sup>th</sup>, April 24<sup>th</sup>, May 14<sup>th</sup>, and May 29<sup>th</sup>) and evolved into a discussion of the proposed rent increase. While communication proceeded in a very respectful and productive manner, staff and the tenants could not agree on a final framework. Therefore, staff called a broader meeting of the tenant group on June 15<sup>th</sup> to explain staff's proposed approach to rate adjustments. Nine members of the larger tenant group attended the meeting. Attendees were proactive members of the Airport community, and several confirmed that they represented the views of other, similarly-situated tenants.

At that meeting, an alternative rate increase structure was proposed for standard sized hangars, which was lower than the original 10% annual increases but higher than the rates that staff is currently proposing. A straw vote at the conclusion of the meeting showed that all

tenants in attendance supported the alternative structure, except one who abstained from voting. However, subsequent to the June 15<sup>th</sup> meeting, staff received additional comments from the tenants, indicating that there were still remaining concerns about the proposed rental fee adjustments.

In response to this additional input, and after a final meeting on November 10<sup>th</sup> during which tenants provided further comments requesting that the City consider a further reduction in the proposed adjustments, staff has refined the proposed rates as outlined below for Council’s consideration.

Standard Sized Hangars

Standard sized hangars, which had the largest deviation from market rates and represent 82% of the total hangar population at the Airport, are proposed to be increased by 5% per year for this and next three fiscal years, as shown in the table below.

HANGAR TYPE	PROPOSED RENTAL RATES (BY FISCAL YEAR – 5% INCREASE PER YEAR)			
	2019	2020	2021	2022
Standard T-Hangars	\$393	\$412	\$433	\$455

Proposed Rent Adjustment for Other Sized Hangars

The disparity between the rents for other sized hangars in Hayward versus other communities is less than 51% (ranging between 0% and 26%). While the increases for these hangars were not discussed in detail with the tenants at the meeting of June 15<sup>th</sup>, the tenants requested staff consideration of this lower deviation from the market in proposing an adjustment to these rates. After considering various factors and for simplicity, staff recommends that the rates for other sized hangars be increased by 2.5% each year for four years (which is likely less than the anticipated average annual inflation in the next four years).

The following table shows all of the proposed rents for each type hangar for each of the four years:

HANGAR TYPE	PROPOSED RENTAL RATES (BY FISCAL YEAR – 2.5% INCREASE PER YEAR)			
	2019	2020	2021	2022
Row "A" T-Hangars	\$273	\$280	\$287	\$294
Large T-Hangars	\$526	\$539	\$553	\$566
Executive	\$912	\$935	\$958	\$982
Executive I Hangars	\$1,262	\$1,294	\$1,326	\$1,359
Executive II Hangars	\$1,377	\$1,411	\$1,447	\$1,483

## **ECONOMIC IMPACT**

A standard hangar tenant would pay an additional \$19 per month in FY 2019 with the proposed adjustment. If approved by Council, the effective date of the adjustment is scheduled for April 1, 2019, affecting only the last three months of FY 2019.

## **FISCAL IMPACT**

This action has no impact on the General Fund. The rent increase is expected to generate an additional \$13,000 in revenue for FY 2019 and \$52,000 in each of the next three years and will assist with offsetting future operational expenditures in the Airport fund. As indicated above, the revenues in FY 2019 are lower due to increases only going into effect for the remaining three months of the fiscal year.

### Capital Maintenance Needs

The Airport has several needed projects that are currently unfunded. These include paving and safety-related projects. While the additional funds generated with the proposed increase are not nearly enough to make a dent in the outstanding needs, they can help address some of the maintenance needs at the hangars, such as repairing and sealing the roofs, repairing some of the slabs, and maintaining the doors in good, operating condition. They can also assist in the cost of pavement maintenance for the hangar access roads.

## **STRATEGIC INITIATIVES**

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

## **SUSTAINABILITY FEATURES**

No sustainability features are associated with this item.

## **PUBLIC CONTACT**

This item was considered at the CAC meeting of April 12, 2018. Additionally, the proposed rent increase was discussed with some hangar community members over a series of meetings from April to November 2018. A public hearing notice was published in the *Daily Review* on January 4, 2019 and January 11, 2019.

## **NEXT STEPS**

If approved by Council, the new hangar rates will be effective on April 1, 2019, which exceeds the sixty-day window required under the City's Administrative Rule 1.21 for Master Fee Schedule changes. Pursuant to adoption of the resolution revising the City's Master Fee Schedule, staff will distribute notices to all Hayward Airport tenants with the heretofore mentioned effective date of April 1, 2019.

*Prepared by:* Doug 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.

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Kelly McAdoo, City Manager