



CITY OF HAYWARD

Hayward City Hall
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Cover Memo

File #: PH 16-007, **Version:** 1

DATE: January 26, 2016

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT

Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing for Financing of Airport Development Improvements by APP Properties, Inc.

RECOMMENDATION

That Council conducts a TEFRA hearing and adopts the attached Resolution approving the issuance, by the California Statewide Communities Development Authority (CSCDA), of Tax-Exempt Obligations to APP Properties, Inc. (APP) in an aggregate amount not to exceed \$6,000,000.

BACKGROUND

On December 15, 2009, Council approved the purchase and lease assignment of the Volo Holdings LLC leasehold (previously Hayward Jet Center) to Hayward FBO LLC, wholly owned by Airport Property Partners LLC, predecessor in interest to APP. This leasehold is now doing business as APP Jet Center and has a term through December 15, 2053. Council previously held a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing for APP in 2009 in connection with the issuance by CSCDA of \$5 million of Airport Revenue Bonds for APP Jet Center and also held a TEFRA hearing for APP in 2010 in connection with the issuance by CSCDA of \$7 million of Airport Revenue Bonds for additional facilities at the APP Jet Center.

APP is a Maryland Corporation that owns and operates Fixed Base Operations at three U.S. airports, as well as one hangar complex. An FBO is a business that sells aviation fuel and provides services and storage for private and business aviation customers. APP's FBO locations are in Manassas, Virginia, Fort Pierce, Florida and Hayward, California. In addition, APP owns and operates approximately 65,000 square feet of hangars at Centennial Airport in Denver, Colorado.

The original company was formed in 2009 as Airport Property Partners LLC, and was converted to APP, a corporation taxable as a Real Estate Investment Trust, in May 2014. Mr. Thom Harrow is the Chief Executive Officer of APP and the sole owner of the company. APP's financial backing comes principally from Greenwich Investment Management (GIM), a Greenwich, Connecticut investment advisory firm. GIM manages in excess of \$350 million for its clients and has made numerous successful airport real estate related investments, including the air cargo sector, with locations at Ft. Lauderdale and Jacksonville, Florida and, more recently, in the FBO sector, including FBOs in Illinois, Connecticut, and Texas.

DISCUSSION

At this time, APP is requesting approval of up to \$6 million in tax-exempt bonds, again through CSCDA, in order to finance additional improvements on the leasehold at the Hayward Executive Airport. The project consists of the construction of a new 20,000 square foot aircraft storage hangar and attached 3,000 square foot passenger terminal area on the Company's leasehold. In addition, the project will include the renovation and upgrade of an existing 10,000 square foot aircraft storage hangar and associated 2,000 square feet of office space, along with the conversion of the Company's existing passenger terminal into approximately 2,000 square feet of office space.

The Company's aircraft storage hangars in Hayward are older structures, generally built in the 1970s. These structures are not ideal to house the most modern of today's business aircraft, which require a full complement of power and amenities and, in particular, minimum ceiling and door heights of 28 feet, which is the maximum height of business jet aircraft in use today.

Financing and Required TEFRA Hearing: Typically, CSCDA sets the not-to-exceed borrowing amount high to cover costs of the financing and to ensure another hearing is not required if initial estimates are exceeded. As CSCDA will be issuing these bonds through a private placement in increments of \$25,000, only the amount required and supportable by revenue projections will be sold. There is no risk to the City or the Airport because neither the City nor the Airport is issuing the bonds and bear no responsibility for repayment. As with any other mortgage arrangement, in the event the borrower defaults on the bond payments, the trustee could foreclose on the leasehold interest and take over operation of the FBO until securing a subsequent operator. Because California Communities only sells the bonds to select high-worth investors, the investors are responsible for reviewing the financial analysis provided to California Communities; thus, default is not likely. The source of payment for the bonds is the projected revenue from the operation of all four FBOs owned by APP. For federal tax purposes, the City is considered the owner of the improvements on the leasehold (normally, this actually occurs at the termination of the lease); however, the leaseholder is still responsible for possessory interest taxes and for all liabilities associated with the improvements, including the bond obligations.

The City has been a member of the CSCDA Joint Powers Authority since 1998. The issuance of tax-exempt bonds by CSCDA requires that the City conduct a public Tax Equity and Fiscal Responsibility Act (TEFRA) hearing. Airport improvements are one of the specific categories that are eligible for tax-exempt financing under the CSCDA Program.

TEFRA hearings have taken place in the past when the City issued bonds, usually for affordable housing. The purpose of a TEFRA hearing is to allow public comment, either for or against issuance of tax exempt bonds. CSCDA has designated Vanessa Lowry of the firm of Greenberg Traurig as Bond Counsel. She has reviewed the associated documents and this staff report. Staff requests that Council hold the hearing and approve the necessary documents.

ECONOMIC IMPACT

An important factor in the success of an airport is having well maintained and operated FBO facilities. This action is one aspect of ensuring that each FBO on the Airport contributes to that success. In addition to the direct revenue to the Airport, staff also anticipates that the facility upgrades will serve to attract additional corporate and transient traffic, which can have other economic benefits for the City.

It is also estimated that construction of the project will generate approximately 50 construction jobs over the anticipated nine-month construction period. Of greater importance, it is projected that occupants of the project will purchase 170,000 to 200,000 gallons of incremental aviation fuel. The Company's employees are primarily involved in the fueling and movement of aircraft such as those that will occupy the new hangar, as well as providing services to tenants of the hangar and owners and passengers of the aircraft. Servicing these new facilities will require the Company to retain additional full time employees as well as maintain its current employment base well into the future.

FISCAL IMPACT

Because this action will not change the terms of the Hayward FBO, LLC leasehold, staff expects the fiscal impact to the Airport Fund to be minimal, although some increase in fuel flowage fees can be expected from the improvements to APP Jet Center. The project will also generate additional tax revenues to the City of Hayward through additional sales and real estate taxes. Also as noted above, the City or the Airport have no responsibility for any of the indebtedness assumed by APP.

PUBLIC CONTACT

A public notice of the TEFRA hearing was published in the *Daily Review* on January 8, 2016.

Prepared and Recommended by: Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

Attachments:

Attachment I: Resolution of the City Council of the City of Hayward approving the issuance by California Statewide Communities Development Authority of tax-exempt obligations in an aggregate principal amount not to exceed \$6,000,000.