



CITY OF
HAYWARD
HEART OF THE BAY

8

DATE: December 16, 2008
TO: Mayor and Council
FROM: Director of Public Works
SUBJECT: Amendment to Epic Aviation Leasehold at Hayward Executive Airport

RECOMMENDATION

That Council adopts the attached resolution approving an amendment to the Epic Aviation Lease including a 36-month extension to the development timeline for Parcel B and the addition of Parcel C.

BACKGROUND

The Epic Aviation Lease was last modified in February 2004. At that time, as part of Council's approval for expansion of the Ascend II Lease and to allow the City to pursue construction of T-hangers, a portion of the original 6.22 acre Epic Aviation leasehold designated as Parcel "B," consisting of 2.09 acres, was to revert to the City for construction of the "Skywest" T-hangers Project (see Exhibit A). In exchange for the provision to return the 2.09-acre parcel to City control, the Epic Aviation Lease for the remaining 4.12-acre Parcel "A," was to be granted a lease extension to January 31, 2054, contingent upon completion of the then proposed Ascend II development. As noted in the January 20, 2004 Council agenda report, the combined actions were intended to help meet the growing demand for hanger space at the airport, as previously identified in the Airport Master Plan in 2002. However, because it was not certain if the "Skywest" T-hanger project could be cost effectively built by the City, the lease contained an option for Epic Aviation to construct the "Skywest" T-hanger project (or a reasonable alternative), at its expense, if the City determined it was unable to build the project. Based upon the option to allow Epic Aviation to construct T-hangers, Parcel "B" had a separate five-year term expiring December 31, 2008.

On July 18, 2006, after reviewing bids for the Skywest T-hanger project that were 37 percent above the City Engineer's estimate, Council rejected all bids, and staff was authorized to negotiate with Epic Aviation to develop the full leasehold, including the expansion parcel (Parcel C). The Ascend II development was completed during this period of time, and the base lease for Parcel "A" has now been extended to 2054.

Over the past two years Epic Aviation, represented by Ascend Development under a management agreement, has been working with City staff on various proposals for a hanger development that would be consistent with the terms of its lease and still meet the needs of the airport and the

developer. Discussions were also held with the owner of the Hayward Hangers leasehold adjacent to this parcel, who has received approval for 30 small box hangers; and whose construction needed to be coordinated with any construction proposed by Epic Aviation. Existing development on the 4.12-acre Parcel "A" consists of 2 separate hangar buildings and office space. Epic Aviation is an LLC under the same ownership as Valley Oil Company, whose corporate offices are located in Oregon. Valley Oil Company, formerly a Fixed Based Operator at the Airport, is owner of this leasehold and the reason Epic Aviation lease continues to allow provision of fuel services.

Construction of the planned T-hangers has not occurred on the site by either the City or Epic Aviation, due primarily to the soaring costs of construction and the very high rent that would be needed to recoup the cost to develop. Ascend Development, under its agreement with Epic Aviation, has asked that the City grant an extension of the time period to complete construction of the proposed site plan and the addition of the expansion area as envisioned in the lease and necessary for any project replacing the City's Skywest T-hangar project. The proposed site plan (see Exhibit B) includes a mix of small box hangers that would be more cost effective and would provide similar, if not greater, utility than the T-hangers. This is primarily due to the wide range of aircraft types that could fit in the hangars, as well as allowing for multiple tenancy arrangements among light aircraft owners.

DISCUSSION

One of the issues that arose during discussions of this lease proposal at the Council Airport Committee (CAC) has been whether the City should try again to construct airport owned T-hangers. The local General Aviation tenant group (NCHRG), chaired by Mr. Gerald Turney, has expressed its desire to see new T-hangers built and available to rent, but only if the hangars are offered to the public at a highly subsidized rental rate. The attached CAC agenda report from October 30, 2008, provides a detailed discussion of the arguments for pursuing the lease amendment (Exhibit C, attached). At the meeting, the members of the CAC voiced their support for Ascend Development's plan to build a mixture of individual box hangars as an alternative to large buildings containing individual T-hangars. The proposed plan includes a mixture of small (2,500sf), medium (3,000sf) and large (6,400sf) individual hangars that will provide the utility, residual value, and assured occupancy levels necessary to justify the construction.

While staff supports the lease amendment, certain conditions have been included to insure that further delays in development are minimized. This amendment also incorporates a key service need on the airport: replacement of a low lead Aviation Gas (100LL) self-serve fueling facility. Construction and inclusion of the replacement facility in the lease is a major benefit to the airport and is being identified as a primary condition of the lease amendment. The proposed lease amendment includes the following new terms and conditions:

1. A lease extension on Parcel "B" and Parcel "C" for a maximum period of three (3) years. If adequate progress is not made on the planned development, the City will still have the right to revert to the existing lease and proceed with other options to develop Parcels "B" and "C."

2. Ascend Development shall present Plans and Specifications of the full development for approval within 180 days of the lease amendment.
3. Following approval of Plans and Specifications, Ascend Development shall obtain a construction permit within 180 days, contingent upon the City's processing of the application for issuance of the permits required to construct. The permit shall include all property improvements for construction of the individual box hangars on Parcels "B" and "C."
4. Required construction shall be completed within 24 months of issuance of permits.
5. As a condition of granting the lease extension, Epic Aviation shall construct and place into service, a 100LL, self-serve fueling facility, as shown on the site plan. Airport staff will work with the Hayward Fire Marshal to assist with obtaining permits necessary for an above ground, self-contained system.

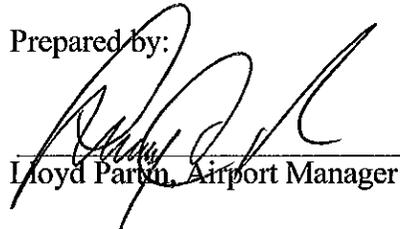
FISCAL AND FINACIAL IMPACT

The present inclusion of Parcel "B" into Epic Aviation's lease provides \$27,269 annually to the Airport Operating budget. The parcel totals 90,895 square feet in size, or 2.09 acres. If the lease inclusion of Parcel "B" is allowed to expire on December 31, 2008, the Airport would immediately lose this revenue from future years' budgets or until such time as the City determined other appropriate uses of this small, irregularly shaped parcel. Approving the recommendation to amend the lease for the purpose of building larger box hangars provides continued revenue while construction is occurring and will incorporate future land value increases into future budgets. In addition, adding Parcel "C" to the leasehold would add 58,312 square feet and \$17,494 in annual lease revenue. The project will allow for greater utility of the hangars built, encouraging both small general aviation and larger aircraft to make use of the increased space. It is anticipated that the addition of more aircraft based at Hayward will result in an increase in the amount of aircraft property tax going to the City's general fund.

PUBLIC CONTACT

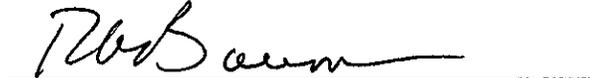
This matter has been discussed at CAC meetings and through individual meetings between staff and various tenant and commercial operator groups on the airport. On each occasion, discussion has included extension of the lease period required for construction and the merits gained by the mixture of various sizes of individual box hangars to be built. The group of tenants led by Mr. Gerald Turney, locally referred to as the Non Commercial Hangar Rent Group (NCHRG), has continued its support and advocacy of more City-financed and City-built T-hangars and opposes the construction of larger individual box hangars on the lease site. Mr. Turney's group cites the sheer number of potential tenants who hold a space on the hangar waiting list as reason enough to construct more T-hangars. Other tenants and commercial operators on the airport strongly support the larger box hangar concept, realizing that construction of hangars of the various sizes proposed will fill a vital need that exists while bringing additional revenue streams to the airport and the City.

Prepared by:



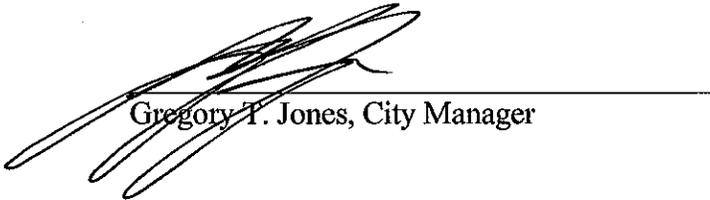
Lloyd Parson, Airport Manager

Recommended by:



Robert A. Bauman, Director of Public Works

Approved by:



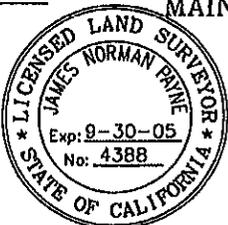
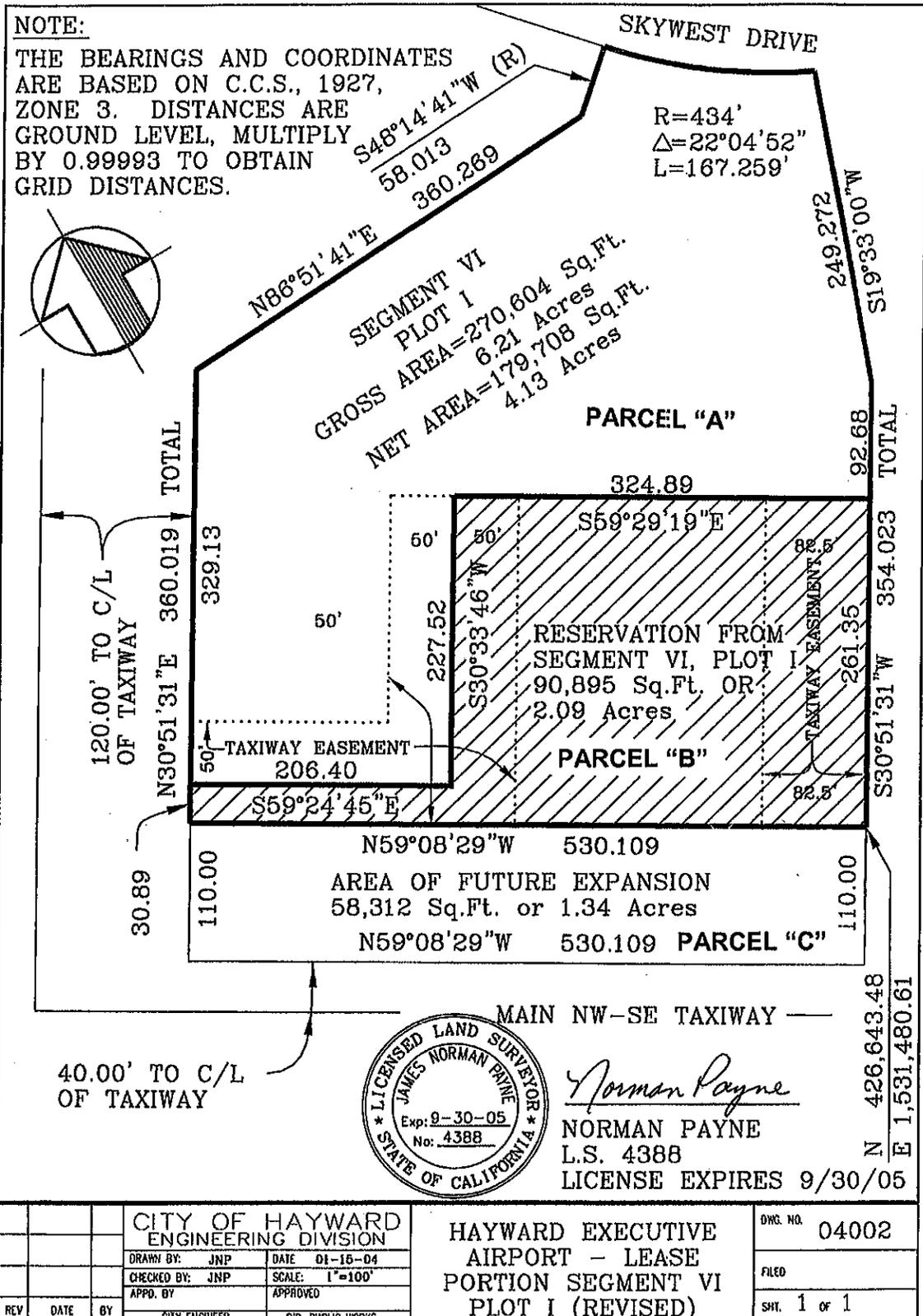
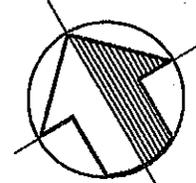
Gregory T. Jones, City Manager

Attachments:

- Exhibit A: Epic Lease Plat Plan
- Exhibit B: Proposed Site Development
- Exhibit C: CAC Staff report
- Draft Resolution

NOTE:

THE BEARINGS AND COORDINATES ARE BASED ON C.C.S., 1927, ZONE 3. DISTANCES ARE GROUND LEVEL, MULTIPLY BY 0.99993 TO OBTAIN GRID DISTANCES.



Norman Payne
 NORMAN PAYNE
 L.S. 4388
 LICENSE EXPIRES 9/30/05

CITY OF HAYWARD ENGINEERING DIVISION		
DRAWN BY: JNP	DATE: 01-15-04	
CHECKED BY: JNP	SCALE: 1"=100'	
APPD. BY:	APPROVED:	
REV	DATE	BY

HAYWARD EXECUTIVE
 AIRPORT - LEASE
 PORTION SEGMENT VI
 PLOT I (REVISED)

DWG. NO.	04002
FILED	
SHT.	1 of 1

Exhibit A-1

**DUE TO THE COLOR OF
THE REFERENCED
EXHIBIT, IT HAS
BEEN ATTACHED AS
A SEPARATE LINK**



DATE: October 30, 2008
TO: Council Airport Committee
FROM: Robert A. Bauman, Director of Public Works
SUBJECT: Informational Update on Epic Aviation Lease

RECOMMENDATION

That the Committee reviews and comments on this report.

BACKGROUND

During its last meeting, held April 24, the Committee was informed that negotiations were continuing between the Airport and Epic Aviation (represented by Ascend Development) pursuant to construction of hangars on the leasehold. Ascend Development plans to build a mixture of individual box hangars as an alternative to large buildings containing individual T-hangars (see Exhibit A). The proposed plan includes a mixture of 4 small (3,000sf), 6 medium (3,600 – 5,600sf) and 3 large (12,000sf) individual hangars that will provide the utility, residual value, and assured occupancy levels necessary to justify the construction. A portion of the Epic Aviation leasehold, upon which the Skywest T-hangars were to be constructed, is due to terminate on December 31, 2008, unless an extension is granted.

DISCUSSION

Over the last several months, the interested parties have met on an ongoing basis with the goal of reaching an agreement on the type of development that would provide the greatest benefit and utility to current and future airport customers. At each meeting, Ascend Development has shared with Airport staff and the local tenant group its concerns relative to the cost to build small T-hangars on the property. Ascend has made clear to Airport staff its reluctance to develop and build hangars that potentially have an uncertain future occupancy rate and a much higher rental rate than presently exists for similar sized hangars on the airport. Given the necessity to recoup the cost of construction and still factor in a modest return on its investment, the concerns appear to be valid, particularly with the present state of light general aviation activity worldwide.

Other factors, not previously considered, must also now be factored into a decision on the type of hangars to build. Limiting the hangar size to provide access to only a very small, and now declining, segment of the aviation market is not a wise market approach. Larger, individual box-style hangars are less costly to build and maintain and have greater utility and marketability, while producing the same, if not greater impact upon reducing the already existing hangar waiting list. Because

Exhibit C-1

occupancy costs are shared, they provide better value and less cost to the individual tenant, when compared to the cost of occupancy of new individual T-hangars.

Increasing fuel costs is another factor to consider. Aviation gasoline sales at the airport have declined steadily over the last four months. August 2008 100LL aviation gasoline sales were 45 percent less than August 2007 sales. Aviation fuel prices and shortages have contributed to a reduction in light general aviation activity throughout the U.S., as much as 60 percent in some markets. Hayward has seen a 45 percent decrease in local-based light aircraft traffic, while seeing a 22 percent increase year-to-date in corporate jet and turbo-prop traffic, with a 7 percent reduction in Jet-A fuel sales locally for the same month year-to-date comparison.

Demand for hangar space to support corporate aircraft ranging in size from small reciprocating, twin engine aircraft, to turbo props and jets remains strong even in the present market situation. This is primarily due to the effects of FAA regulation to reduce the operations at the larger metro airports because of the limited capacity of the Air Traffic Control system. Reductions in operations at metro airports provide a greater margin of separation between departures and arrivals of commercial traffic that equates to increased safety. That impact is driving both corporate and light general aviation traffic from the larger metro airports into the other larger bay area general aviation airports, such as Hayward.

The argument from the local general aviation tenant group, Non Commercial Hangar Rent Group (NCHRG), continues to center upon its desire to see new T-hangars built and available for rent, only if they are offered to the public at a highly subsidized rental rate from the airport. Such practice is not consistent with the Airport's need to remain self-sufficient, fund needed improvements, and charge market rate rents, while remaining consistent with FAA grant assurance requirements.

The Hayward Airport provides direct value that can be measured by many factors. The Airport's proximity to the large metropolitan areas of Oakland, San Jose and San Francisco provides definitive value from its location, while our airport services and capability provide benefits that can only be matched at the larger metro airports.

Because of the high cost to construct T-hangars, most other airports in the area are not constructing new hangars for government rental. This was also the conclusion reached when bids were rejected in 2006 for the Skywest T-hangar project, and staff began to negotiate with Epic Aviation, as allowed in the existing lease. While some costs may have changed since those bids, staff's analysis has determined that full development costs for new T-hangars would be approximately \$125 per square foot and would, therefore, need to rent for over \$650 per month to recover that investment in about 20 years. The South County Airport in Santa Clara County, located one mile east of the City of San Martin, constructed 91 new T-hangars. Although they also have an extensive waiting list, they presently have 40 spaces not yet leased.

It appears today, that for smaller aircraft, construction of small box hangars makes more sense, whether done by private development or the City. Based on the existing lease, the City can accept Epic's proposal to build small box hangars as being reasonably consistent with the originally planned T-hangars. The small and medium size box hangers in the proposed plan could conservatively accommodate 31 small aircraft versus the 43 T-hangars in the city's Skywest

T-hanger plan. It should also be noted that the existing approved Hayward Hangers development plan for the leasehold adjacent to Epic Aviation includes 30 small box hangers (2,000 sf). Part of delay in reaching agreement with Epic Aviation has been caused by efforts to combine these two leaseholds to improve efficiency. While that has not happened to date, the latest layout proposed by Epic Aviation does permit that consolidation in the future.

Proceeding in the manner described above would require a City Council-approved lease amendment to extend the Dec. 31, 2008 termination date for the 2.09 acre parcel B, expansion of the leasehold to include the 1.34 acre Area of Future Expansion (see Exhibit B), and establishment of a new required date for construction completion, per an approved development plan. Staff believes this is the best course at this time and will encourage Epic Aviation to keep the construction costs down for the small box hangers to make them more affordable for groups of small general aviation aircraft owners. Epic Aviation has identified some specific strategies to keep costs down for these hangers.

It should also be noted that Epic Aviation's proposed plan (Exhibit A) does include a fueling facility. Staff has been seeking a way to replace the self-service Avgas facility recently eliminated by Volo Aviation, and this might be a possible opportunity. If operated by one of the existing FBOs, such a facility could exist on the Epic leasehold. However even though the Epic Lease does permit fueling because the predecessor lease holder was Valley Oil, staff has indicated that any fueling facility on the Epic leasehold would need to meet the new minimum standards. As proposed, the EPIC leasehold would not meet the requirements of an FBO or a Self-Fueling Permittee. Mr. Briggs has indicated he believes that the new requirements do not apply to the existing lease; however, staff disagrees. Staff fully supports the provision of a self-service Avgas facility, but not a full-fueling service. At this time Ascend Development has agreed that their proposal will not include any fueling other than self service Avgas. Epic Aviation has indicated they would support including the self-service Avgas if it was predicated on financial feasibility. Staff can accept this as a condition of the development approval but cannot recommend full-service fueling. The alternative would be to let the lease provisions for Parcel B expire.

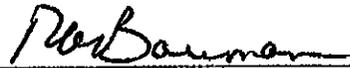
Staff recommends that Epic's proposal be discussed and that the Committee provides comments on the Ascend Development plans and staff's recommendation to accept the proposed box hangar development with limited fueling (self-service Avgas). Staff would also recommend that an alternative site be considered in the new Airport Layout Plan, designating a potential site on the south side of the airport that could support construction of publicly constructed small box hangars.

Exhibit C-3

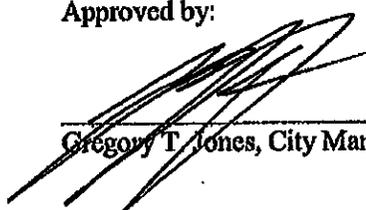
Prepared by:


Lloyd Partin, Airport Manager

Recommended by:


Robert A. Bauman, Director of Public Works

Approved by:


Gregory T. Jones, City Manager

Attachments:

- Exhibit A: Epic Site Plan
- Exhibit B: Epic Lease Plot Plan

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward