

County of Santa Clara


Roads and Airports Department
Roads and Fleet Operations

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San Jose, California 95131-2499
(408) 494-2760 FAX 297-0530



Date: November 30, 2005

To: Board of Supervisors

From:  Michael Murdter
Director, Roads & Airports Department

Subj: **FIXED BASE OPERATOR (FBO) MASTER LEASES AT
REID HILLVIEW AIRPORT**

During the October 18, 2005 Board meeting discussion regarding the Reid Hillview Airport (RHV) Business Plan, the Board directed the Administration to provide the following information:

- 1) Who the Fixed Base Operators (FBO) are at RHV;
- 2) The amounts paid by the FBOs to the County and an evaluation as to whether these amounts are the norm in aviation circles;
- 3) How much of the FBOs' revenue is derived from the flight schools and how much space the flight schools occupy at RHV;
- 4) Demographic information relating to the users of RHV and who will benefit from the Business Plan.

1. RHV Fixed Base Operators information

Attachment 1 is a summary table containing a variety of information relating to the FBO Master Leases and Attachment 2 contains site plans depicting the FBOs. Attachment 3 is a copy of a memorandum to the Board of Supervisors dated September 30, 2004, which provides a history of the nine FBO Master Leases at RHV.

2. Amounts paid by the RHV FBOs to the County

The rent in a ground lease is typically structured as a percentage of, or rate of return on, the underlying land value. As discussed in Attachment 3, all FBO master leases at RHV specify that the ground rent to be paid by the lessee is eight and one-half percent (8.5%) of the fair market value (FMV) of the premises (excluding buildings and

improvements¹) and provide for periodic adjustments pursuant to a reappraisal of the premises. The most recent reappraisal, performed by Hulberg & Associates, determined that the annual market rent for each of the FBO sites as of January 1, 2005 was \$0.21 per square foot.

By specifying a percentage of the value of the property as the ground rent, the County built in the potential for the lease revenue to increase in step with increases in the value of the property. The value of the property, in turn, depends in large part on the general market conditions for general aviation. Since the appraisal process includes, and is strongly influenced by, an analysis of the market for similar properties ("comparables"), we are assured that the FBO lease rates are in line with other airports. As noted in Section 3(a) of the memorandum from Bay Area Economics (Attachment 4), the rent comparables contained in the Hulberg appraisal are still valid.

The specified rate of return of 8.5% of the underlying land value is within the range of historic rates of return for ground leases in the Bay Area of 8.0% to 10.0% according to Hulberg and is close to the rate of return used to calculate the expected market rent for the parcels identified in the Business Plan for non-aviation commercial leases.

According to Hulberg, the primary factor impacting the rate of return is the terms of the ground lease. If the terms of the ground lease are more favorable to the tenant, the rate of return is typically near the high end of the range (i.e. closer to 10%). If the terms are more favorable to the landlord, the rate of return is typically near the low end of the range (i.e. closer to 8%). Since revaluation clauses such as those contained in the RHV FBO leases are not desirable from a tenant's standpoint, such clauses put downward pressure on the rate of return. The lack of a revaluation clause would put upward pressure on the rate of return.

The rates of return in ground leases do not typically change over time. Changes affecting the market rent over time are reflected in the base land value, which accounts for a variety of factors related to the land.

It is important to note that the FBO ground lease appraisal is based on the specific use for which the property is being leased: airport-related activities as described in the leases' "Use of Premises" clause. Therefore, unlike the appraisals for the non-aviation commercial parcels, the "highest and best use" determination does not consider other uses that may have the potential to generate higher revenue. This is the reason for the wide disparity between the market rent for the FBO leaseholds and the market rent for the non-aviation commercial parcels.

¹ The FMV appraisal of the premises does not include buildings and improvements because all buildings and improvements were funded by the FBOs. In other words, only the bare dirt is included in the FMV because that is what the County leased to the FBOs.

Since all RHV FBOs pay the same amount of annual ground rent per square foot (\$0.21) the total annual ground rent is therefore a function of the size of the leasehold. Total annual ground rent paid by the nine FBOs is \$163,284 as shown on Attachment 1. The four FBOs who sell fuel also pay a \$0.10/gallon fuel flowage fee; total FY 2005 fuel flowage fee revenue was \$43,808. Total revenue to the Airport Enterprise Fund (AEF) from the nine RHV FBOs is therefore \$207,092. Revenue to the General Fund from the FBOs for possessory interest taxes and personal property taxes is not included in this figure.

3. RHV FBO flight school revenue and amount of space occupied

Only three FBOs at RHV currently operate flight schools². Although there is no lease provision requiring the FBOs to make their financial data available to the County, all three FBOs voluntarily disclosed that their respective flight schools constitute 100% of their total revenue³.

The nine RHV FBOs occupy a total of 17.865 acres as shown on Attachment 2. Of this area, the three FBOs who derive 100% of their revenue from flight school operations occupy 4.325 acres, or 24.2% of the total FBO area. The total amount paid to the County by these three FBOs is \$41,972, or 20.3% of total RHV FBO-related revenue.

4. Information relating to RHV users and economic impacts

Attachment 4 provides demographic information relating to the RHV users as well as data relating to the economic impact of the County airports.

Attachments: 1) Table – FBO Master Leases
 2) FBO Site Plans
 3) Roads & Airports Dept. memorandum dated September 30, 2004
 (w/o attachments)
 4) Bay Area Economics memorandum dated October 28, 2005

cc: Pete Kutras, County Executive
 Jane Decker, Deputy County Executive
 Ann Ravel, County Counsel
 Mark Gonzalez, Deputy County Counsel
 Phyllis Perez, Clerk of the Board (RA01 101805.1/RA01 101805.2)
 CH, EP, LF

² Flying clubs, wherein aircraft owners make their aircraft available to club members for a wide variety of aeronautical purposes including flight training, were not included.

³ The FBOs declined to disclose specific dollar amounts.

ATTACHMENT 1

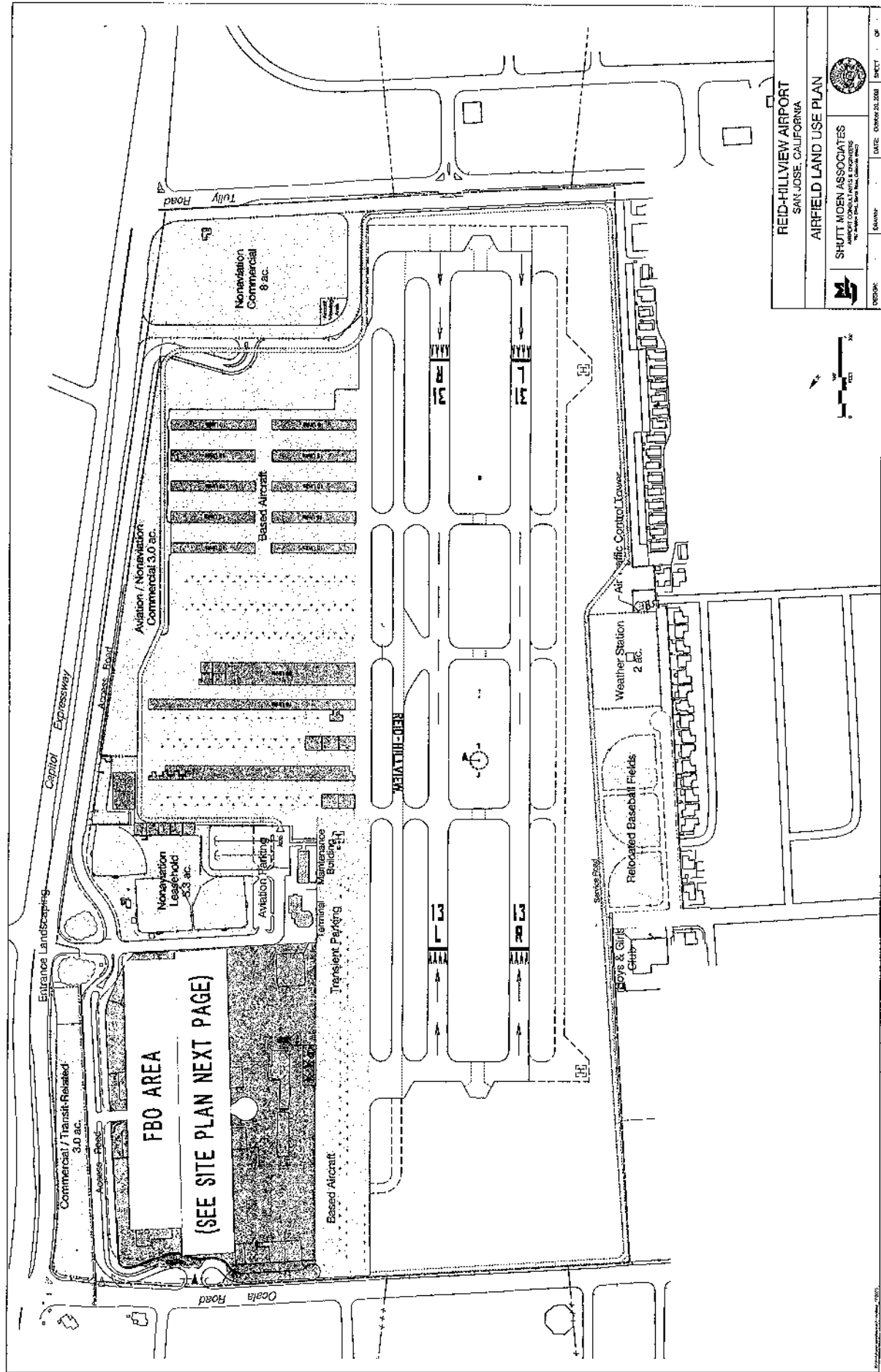
REID HILLVIEW AIRPORT MASTER FIXED BASE OPERATOR (FBO) LEASES

	FBO	Expiration Date of Current Lessee Option	Remaining Lessee Options	Expiration Date of Final Lessee Option	Flight School?	Leasehold Size (acres)	Annual Ground Rent	Annual Fuel Flowage Fees
1	Hiroyasu Takai 2555A Robert Fowler Way	12/31/2009	(1) 6-year option	12/31/2015	-	2.762	\$25,260	\$15,236
2	Frank & Doreen Jurado 2555 Robert Fowler Way	12/31/2009	(1) 6-year option	12/31/2015	Yes	1.059	\$9,684	-
3	JWA Enterprises 2505 Cunningham Ave.	12/31/2009	(1) 6-year, 6-month option	6/30/2016	-	2.395	\$21,852	-
4	Gee Bee Properties 2502 John Montgomery Dr.	12/31/2009	(1) 5-year option (1) 1-year, 7-month option	7/31/2016	-	1.719	\$15,720	-
5	Amelia Reid Aviation 2636 Robert Fowler Way	12/31/2009	(1) 7-year, 10-month option	10/31/2017	Yes	2.241	\$20,448	\$2,468
6	Marconet Properties 2655 Robert Fowler Way	12/31/2009	(1) 8-year, 4-month option	4/30/2018	-	2.242	\$20,508	\$14,607
7	California In Nice 2575 Robert Fowler Way	12/31/2009	(1) 9-year, 3-month option	3/31/2019	Yes	1.025	\$9,372	-
8	LP Enterprises 2635 Cunningham Ave.	12/31/2009	(1) 10-year option	12/31/2019	-	2.159	\$19,740	\$11,497
9	Airport Properties 2660 John Montgomery Dr.	6/30/2008	(3) 5-year options	6/30/2023	-	2.263	\$20,700	-
TOTALS						17.865	\$163,284	\$43,808

The location of each FBO is shown on the attached site plan. The numbers on the site plan correspond to the numbers in the first column.

ATTACHMENT 2

(1 OF 2)



REID-HILLVIEW AIRPORT
SAN JOSE, CALIFORNIA

AIRFIELD LAND USE PLAN



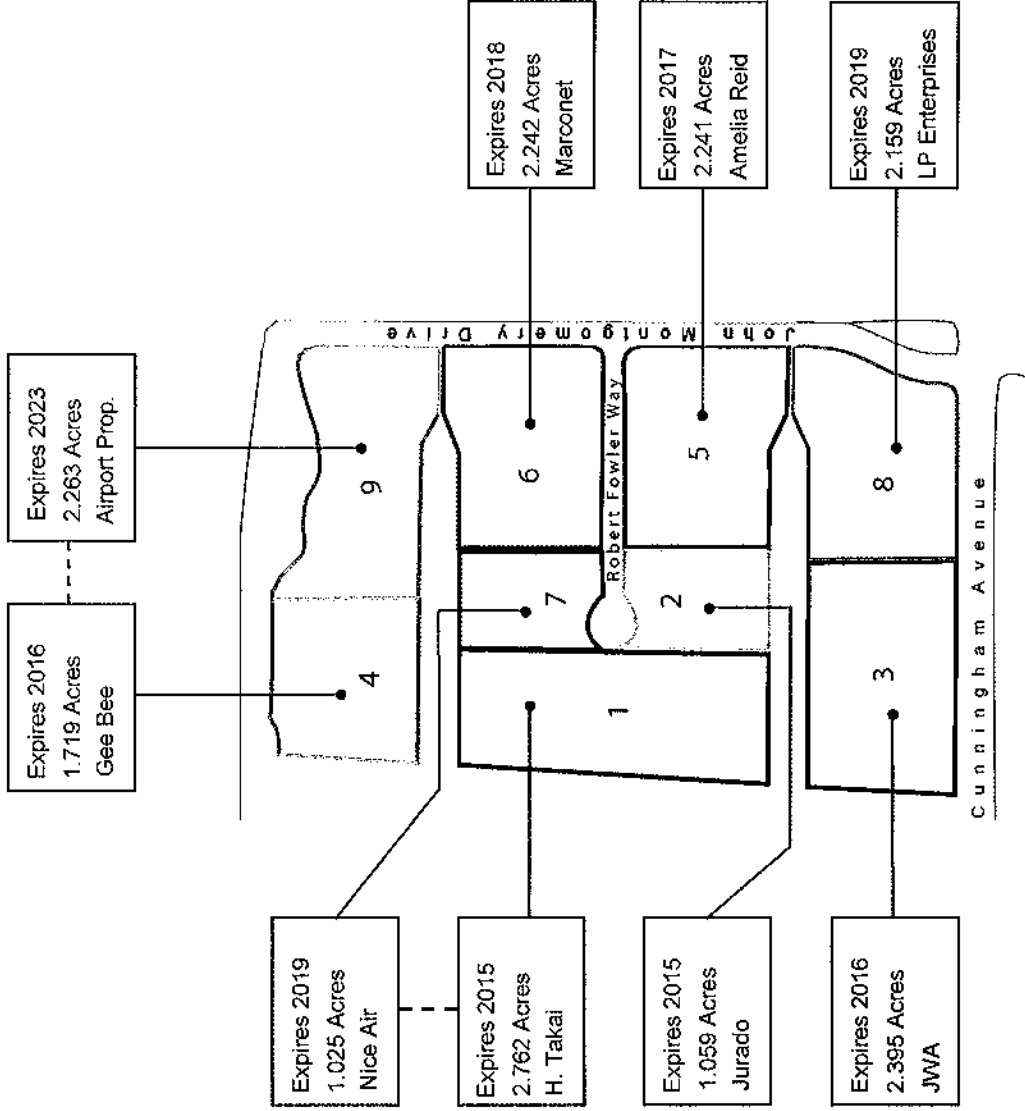
SHUTT MOEN ASSOCIATES
INCORPORATED
REGISTERED CIVIL ENGINEERS
REGISTERED LAND SURVEYORS

DATE: October 24, 2008



SCALE: 1" = 20'

Ried-Hillview Airport Lease Properties



17,865 Acres Total

----- INDICATES FBO's HAVING SAME OWNER

County of Santa Clara

Roads and Airports Department



101 Skyport Drive
 San Jose, California 95110-1302
 (408) 573-2400

Date: September 30, 2004

To: Board of Supervisors

From: *MM* Michael Murdter
 Director, Roads & Airports Dept.

Subj: **FIXED BASE OPERATOR (FBO) MASTER LEASES AT
 REID HILLVIEW AIRPORT**

During the August 31, 2004 Board meeting discussion regarding the Reid Hillview Airport (RHV) Master Plan Update, the Board directed the Administration to:

- 1) Prepare a listing of the changes (extensions) to the Fixed Base Operator (FBO) leases at RHV;
- 2) Consider the FBO leases as part of the Business Plan of the RHV Master Plan; and
- 3) Include additional options for relocating the Little League baseball fields in the Environmental Impact Report (EIR).

This memorandum addresses item (1) above. Item (2) will be addressed in conjunction with the RHV Business Plan, a draft of which should be complete within 60 days. Item (3) will be addressed in the EIR, which will get underway in 2005 if our grant application for funding the Master Plan environmental documentation is approved by the Federal Aviation Administration during the upcoming grant funding cycle.

A. Background

The nine remaining FBO master leases¹, all of which were entered into between 1965 and 1973, originally specified an initial term of 30 years with four five-year renewal options for a total maximum term of 50 years. The options provide the lessee with the unilateral right to extend the lease term and are therefore exercised at the lessee's sole discretion. According to the lease, to exercise an option the lessee need simply notify the County; no lease amendment is executed by the parties.

¹ There were originally 10 FBO master leases. In the early 1990s, one lease (Swift Ave. property) was terminated as part of the settlement of a lawsuit brought by the lessee.

Adjustments to the rent paid by the FBOs do require lease amendments. The leases specify an annual ground rent of 8.5% of the fee simple value of the leasehold premises (not including improvements) and provide for periodic adjustments pursuant to a reappraisal of the premises.

B. 1990-1991 Amendments

In the late 1980s, prior to expiration of the initial lease terms, a dispute arose between the County and eight of the nine FBOs regarding the adjustment of the ground rent, which was ultimately resolved through the execution of a Board-approved amendment to each lease between July 1990 and February 1991 (hereinafter the "1990-1991 amendments"). These amendments established the new rental rate through December 31, 1999, synchronized the leases to expire on that date, and adjusted the terms of the lessee options in order to maintain the overall 50-year term contemplated in the original leases. The amendments also synchronized the rate adjustments to take place every five years based on a reappraisal of the premises and introduced a binding arbitration provision in the event the parties cannot agree on the appraised value. A typical 1990-1991 amendment is attached (Attachment 2).

Clearly, the overall intent of the 1990-1991 amendments - in addition to settling the immediate dispute over the rental rates - was to simplify the process for future rental rate adjustments. Synchronizing the lease expiration and periodic rent adjustment dates permitted all leases to be adjusted simultaneously every five years with only one appraisal required. Again, the overall 50-year term of the leases remained intact and therefore the expiration date of the final lessee option remained the same as specified in the original leases. All nine FBOs exercised their first option upon expiration of the initial lease term; Attachment 1 provides information relating to the term of each FBO lease including the expiration date of the current lessee option, the number and duration of remaining lessee option(s) and the expiration date of the final option.

C. 1997 Board Referral

In 1997, the Board directed staff to explore the feasibility of inserting a two-year cancellation clause in new and existing leases. The Board referral and staff response are attached for ease of reference (Attachment 4). The Board considered the issue but deferred action on a leasing policy to the Master Plan process. The Business Plan will include a discussion of leasing policy at RHV as it relates to the FBOs as well as the proposed non-aviation commercial leases.

D. 2000-2001 Amendments Adjusting the Rental Rate

The first rental rate adjustment called for in the 1990-1991 amendments was scheduled for January 1, 2000. The required appraisal was completed in December 1999 and

distributed to the FBOs but they all initially refused to accept the new rental rate contained in the appraisal. Two FBOs eventually accepted the new rate in 2000 and amendments adjusting their rental rates (retroactive to January 1, 2000) were approved by the Board on June 27, 2000 and September 12, 2000. After continued resistance from the other FBOs, staff invoked the binding arbitration clause in July 2001. However, after receiving letters from County Counsel notifying them of the County's intent to proceed to binding arbitration, the remaining FBOs accepted the new rate and amendments adjusting their rental rates (retroactive to January 1, 2000) were approved by the Board on October 16, 2001. A typical amendment is attached (Attachment 3).

E. 2005 Amendments Adjusting the Rental Rate

The next rental rate adjustment is scheduled for January 1, 2005; the required appraisal is currently underway and is scheduled for completion by November 30, 2004. This time, staff intends to give the FBOs 30 days to review the appraisal and sign a lease amendment adjusting the rental rate. Arbitration letters will be issued immediately following the 30-day review period to FBOs who do not accept the new rate. All amendments adjusting the rental rate will be agendaized for Board approval.

cc: Pete Kutras, County Executive
Jane Decker, Deputy County Executive
Ann Ravel, County Counsel
David Kahn, Deputy County Counsel
Phyllis Perez, Clerk of the Board (RA02 083104.1)
CH, EP



M E M O

Date: October 28, 2005

To: Michael Murdter, Director, Roads and Airports Department
Santa Clara County

From: David Shiver, Principal
Nancy Eaton, Senior Associate

RE: Response to comments from Board of Supervisors

The purpose of this memo is to assist in responding to comments from the Board of Supervisors during its October 18 meeting. We have reviewed our master plan work from Element 2 and have also done supplemental research.

1. PILOT DEMOGRAPHICS

1.1 Number and location of pilots

According to the AOPA (Aircraft Owners and Pilots Association), there are currently 3,879 pilots in Santa Clara County. This represents approximately 5.6 percent of the 68,693 within all of California.

Palo Alto Airport. According to County data, aircraft owners based at Palo Alto Airport are concentrated in northern and central Santa Clara County, and southern and western San Mateo County. An estimated 59 percent of aircraft owners based at Palo Alto Airport live in Palo Alto, Menlo Park, Mountain View, Los Altos, Los Altos Hills, Portola Valley, Atherton, and Woodside.

Reid-Hillview Airport. The County's database of aircraft owners based at Reid-Hillview Airport indicates that the majority reside in central Santa Clara County. An estimated 85 percent of aircraft owners based at Reid-Hillview Airport live in San Jose, Campbell, Cupertino, Monte Sereno, Los Gatos, Saratoga, Sunnyvale, Santa Clara, Milpitas, Fremont and Union City.

South County Airport. County data indicate that most aircraft owners based at South County Airport reside in the area surrounding the airport. An estimated 58 percent of aircraft owners based at South County Airport live in San Martin, Morgan Hill, or Gilroy.

1.2 Pilot profile

According to leaders of California and Bay Area pilots' organizations (California Pilots Association, Association of Bay Area Pilots), as well as aircraft dealers with operations in the

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Bay Area, there are differences between the AOPA's national pilot profile and the profile of Santa Clara County pilots.

According to interviews conducted by BAE, the average age of pilots in Santa Clara County is estimated to be between 46 and 50 years old—below the average age of 54 years for AOPA members nationally. This is because Santa Clara County has a large portion of new pilots who tend to be younger than the average AOPA member. For the U.S. as a whole, older pilots (55 years and above) who served in the military and learned to fly in the 1960s and 1970s make up a significant portion of the pilot population. The rising levels of income and wealth in Santa Clara County have brought new pilots into aviation. Generally, members of this group, who are in their mid- to late-40s, did not serve in the military and are consequently learning to fly at their own expense.

In addition, women are estimated to make up 10 percent of Santa Clara County pilots—far above the four percent female participation indicated by AOPA's national membership statistics. One possible explanation for this discrepancy is that in families where both spouses have a pilot license, only one spouse (typically the husband) will purchase an AOPA membership.

According to interview subjects, compared to other parts of California and the U.S. as a whole, Santa Clara County has attracted dedicated pilots. In other parts of the country, many people take flying lessons as a passing interest or as a form of recreation, with no intention (or financial ability) to eventually purchase an aircraft. On the other hand, in Santa Clara County, buyers of aircraft are almost exclusively new pilots with a strong interest in aviation who are committed to flying as both a mode of recreation and transportation. This is partly driven by the County's levels of wealth and personal income, and by the easy access pilots based in Santa Clara County enjoy to attractive destinations such as Monterey, Napa, and Sonoma.

New pilots in Santa Clara County who purchase aircraft typically start with beginning level airplanes, even though many are able to afford a more expensive machine. Because new pilots have not logged enough flying hours and cannot obtain insurance for high performance aircraft, their first purchase is usually of a less complex plane. Three or four years later, with more experience and more flying time, an owner will sell his/her beginning level airplane and purchase a more advanced model. Consequently, for aircraft dealers, Santa Clara County is considered to be one of the best markets in the U.S. for high-end aircraft.

Demographic information for AOPA members is not available on a regional basis. However, AOPA members in the U.S. overall have the following characteristics:

- 96 percent are male
- Average age is 54 years
- 89 percent are college graduates
- 33 percent have pursued postgraduate studies or hold postgraduate degrees
- 30 percent are self-employed
- Median household income is \$109,000
- Average flying time is 107 hours per year



1.3 Purpose for Flying

A survey of pilots at E16, PAO and RHV showed that recreation, flight training and personal business are the top three reasons for flying. Aircraft maintenance and company business were cited less frequently (see table below). The figures in the columns do not sum to 100 percent because the survey allowed respondents to select more than once choice. For example, at South County Airport, 33 percent of respondents said that they fly for company business; 52 percent said they fly for personal business, 67 percent said they fly for recreation; 37 percent said they fly for flight training; and four percent said they fly for aircraft maintenance.

	E16	PAO	RHV
Company Business	33%	15%	20%
Personal Business	52%	56%	47%
Recreation	67%	87%	77%
Flight Training	37%	56%	53%
Aircraft Maintenance	4%	24%	19%

Source: Airport User and Tenant Questionnaire; Bay Area Economics.

2. DIRECT FISCAL BENEFITS TO THE COUNTY AND CITIES

2.1 Fiscal benefits

Based on our study of the economic impacts of the Santa Clara County Airport System that was completed as part of Element 2, BAE estimates that E16, PAO and RHV generate approximately \$770,000 in local tax dollars every year. In addition, the three airports annually generate approximately \$220,000 in fuel tax and other assessments to the State of California, and also \$248,000 in federal fuel tax revenue. Total annual tax revenue generated by E16, PAO and RHV to federal, state and local tax recipients is estimated at \$1.2 million.

The main tax revenue sources for local recipients are personal property tax (\$515,000) and sales tax (\$121,000), followed by possessory interest tax (\$95,000) and business property tax (\$42,000).

At the local level, tax revenue from the three airports includes approximately \$250,000 to the Santa Clara County General Fund, \$27,000 to the Santa Clara County Transit District and \$13,000 to the Santa Clara County Transportation Fund. In addition, the airports generate tax revenue of \$107,000 to the City of San Jose General Fund and \$117,000 to San Jose and Morgan Hill school districts. The City of Palo Alto General Fund receives an estimated \$129,000 and the Palo Alto school district receives an estimated \$125,000 in tax revenue generated by the airports.



2.2 General economic benefits

General aviation is an integral part of the County's business infrastructure because it provides a transportation alternative for company and personal business travel.

CALIFORNIA

- There are 221 General Aviation Airports in California
- In 2002 the State of California collected:
 - \$ 2.4 million (Excise Tax Revenue from GA Jet Fuel)
 - \$ 7.0 million (Sales & Use Tax from GA Jet Fuel)
 - \$ 65.7 million (Personal Property Taxes) "The locally assessed value of aircraft in counties throughout California was slightly over \$6.2 billion for 22,338 aircraft. Based upon an average tax rate of 1.07 percent, ERA estimates that property tax revenue for aircraft in California was \$65.7 million."

"Aviation in California: Benefits to Our Economy and Way of Life," California Division of Aeronautics, by ERA and J.D. Franz, June 2003

- Civil aviation generated \$338.3 million in annual tax revenue in 2002 to the State of California. In 2001 aviation contributed nearly nine percent of both total state employment (1.7 million jobs) and total state output (\$110.7 billion).

Meeting California's Aviation Needs, California Department of Transportation, Division of Aeronautics

NATIONAL

- Civil aviation contributed more than \$900 billion and 11.3 million jobs to the U.S. economy in the year 2000, at least 9 percent of the total U.S. GDP of \$9.9 trillion; of this, one dollar in nine is contributed by general aviation.

2004 National Business Aviation Association Factbook

3. FBO LEASE REVENUE

(a) Existing Leases

BAE reviewed the Airport Rent Survey that was included in the appraisal document and concluded that the rent comparables are still valid. In addition, BAE contacted several GA airports in the Bay Area and found that comparable rents remain at the level shown in the Hulberg appraisal rent survey.

(b) Future Leases

We recommended that the nine existing FBO leaseholds at RHV be consolidated into a smaller number in the future when they expire because the existing ratio of based aircraft per FBO is much lower at RHV than other Bay Area airports of similar size. As you noted in your comments to the Board of Supervisors on October 18, the consolidation of the number of leaseholds will not, in and of itself, have a material effect on the future per-square-foot lease rates. Although the future value of the parcels (and hence the market lease rates) is difficult to determine today

because it will depend in large part on the future market conditions for general aviation , we point out that the existing FBO leases specify that ownership of all improvements reverts to the County upon expiration of the leases. Therefore, the County will be able to derive revenue from both the land and the improvements.

The component of the future lease revenue derived from the improvements depends on a number of factors in addition to the general market conditions mentioned above, such as the condition of the facilities at lease expiration (which affects the amount of repair and improvement that will be required) and the future demand for the types of services currently provided by the FBOs. If the structures are in good repair and have high utility to the prospective FBOs, then lease income will be higher (all other factors being equal) than if the structures are in poor condition and/or are not useful to the FBO for its intended operations.

4. POTENTIAL BALLFIELD RELOCATION SITE

The relative value of the existing 5.3-acre ballfield site at the Capitol Expressway/Cunningham Avenue intersection and the potential ballfield relocation site on the west side of the runways was also raised at the October 18 meeting. This issue is related to the FAA regulations regarding the use of airport property at less than FMV.

The high FMV appraisal of the current ballfield site is based on a highest and best use of mixed-use commercial development, potentially including a variety of uses such as lodging, retail and other service commercial uses. Since this type of commercial development is so highly dependent on customer throughput, access to the site from Capitol Expressway contributes greatly to the parcel's appraised value.

In contrast, the types of commercial uses feasible on the proposed relocation site would be extremely limited due to access limitations and other development constraints. Residential use would not be compatible, and since the County has elected to essentially freeze aircraft basing capacity at RHV, there are no aeronautical uses for the site such as construction of additional hangars. Therefore, the site is projected to have a highest and best use that has much lower revenue-generating potential compared to the existing site and its FMV can be expected to be a small fraction of the FMV of the existing ballfield location.

Although the FMV of the potential relocation site is lower than the current site, use of the property for recreational purposes at less than FMV still poses a potential revenue diversion issue. However, we believe that if relocation of the ballfields proves feasible and ultimately takes place - thereby freeing up the existing site for revenue-generating purposes - it is unlikely that the FAA would pursue a revenue diversion case against the County for the lease of the new site at less than FMV.