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**DATE:** May 9, 2017

**TO:** Board of Supervisors

**FROM:** Michael Murdter, Director, Roads & Airports Department

**SUBJECT:** Airport Business Plan Updates

**RECOMMENDED ACTION**

Direct the Administration to update the Business Plans for Reid Hillview Airport and San Martin Airport.

**FISCAL IMPLICATIONS**

The estimated cost of updating the airport Business Plans and the proposed source of funding will be determined in conjunction with development of the work plan and schedule over the next 90 days.

**CONTRACT HISTORY**

None.

**REASONS FOR RECOMMENDATION**

The existing Business Plans for Reid Hillview Airport (RHV) and San Martin Airport (E16), which provide a comprehensive analysis of the airports' finances and outline their respective business strategies going forward, were originally developed in conjunction with the airport Master Plan updates in 2007. In the intervening 10 years, the economy experienced a deep recession and slow recovery, Palo Alto Airport was transferred back to the City of Palo Alto, all nine Fixed Base Operator (FBO) leases at RHV were amended to synchronize their expiration dates to 12/31/21, San Jose State University relocated its aviation program to RHV, Gavilan College relocated its aviation program to E16, and the long-running issue relating to skydiving at E16 (during which the County was precluded from receiving federal airport grants) was resolved.

Although the events mentioned above alone are sufficient to warrant an update to the Business Plans, staff is particularly concerned about the current state of the Airport Enterprise Fund (AEF). The primary challenge facing the AEF is weak demand for aircraft storage and fuel - the source of over 75% of overall AEF revenue. The airports have been slow to recover from the recession and costs are rising faster than revenue; the FY17-18 AEF Recommended Budget requires a transfer of over \$400,000 from Retained Earnings in order

to balance the budget. Absent intervention, this trend is projected to continue and thus it is important to commence an update to the Business Plans to ensure the long-term health of the AEF.

The major tasks involved include:

- Performing a fresh analysis of the AEF overall as well as the individual airports' finances;
- Examining in detail the interrelationship between the AEF operating budget and capital budget;
- Identifying ways to diversify the airports' existing revenue streams as well as identifying potential cost-saving measures;
- Reexamining the airports' Schedule of Fees and Charges and recommend changes accordingly;
- Determining the optimal re-leasing strategy for the airports' FBO leasehold areas;
- Determining the optimal leasing strategy for the areas identified in the RHV Master Plan for non-aviation commercial development;
- Developing long-range maintenance plans for the airports' infrastructure, including associated cost estimates;
- Determining the appropriate role of federal Airport Improvement Program (AIP) grants to fund capital improvements identified in the airports' Master Plans;
- Synthesizing the above work products into comprehensive, updated Business Plans for the airports going forward.

The next step would be for staff to develop over the next 90 days a detailed **work plan, schedule and cost estimate** for completing the Business Plan updates. The work plan will include the major tasks identified above and all related subtasks, outline the respective roles of staff and consultants in performing those tasks, and include a detailed plan to engage the various stakeholders. Staff proposes to agendize the draft work plan for consideration by the Airports Commission at its August 2017 meeting and subsequently by the Housing, Land Use, Environment and Transportation Committee (HLUET) before agendizing it for the Board's consideration.

### **CHILD IMPACT**

The recommended action will have no/neutral impact on children and youth.

### **SENIOR IMPACT**

The recommended action will have no/neutral impact on seniors.

### **SUSTAINABILITY IMPLICATIONS**

The recommended action will have no/neutral sustainability implications.

**CONSEQUENCES OF NEGATIVE ACTION**

The Business Plans for the County Airports will not be updated.

**STEPS FOLLOWING APPROVAL**

Send notification of completed processing to:

1. Pam Rebillot, Roads and Airports Department, Administration
2. Eric Peterson, Roads and Airports Department, Airports Division