Attachment A

ORDINANCE NO.

Ordinance Of The Council Of The City Of Palo Alto Amending The Budget For Fiscal Year 2009 To Provide An Additional Appropriation Of $80,000 To Capital Improvement Program (CIP) Project AS-09000, City Of Palo Alto Municipal Airport Transition Project

The Council of the City of Palo Alto does ordain as follows:

SECTION 1. The Council of the City of Palo Alto finds and determines as follows:

A. Pursuant to the provisions of Section 12 of Article III of the Charter of the City of Palo Alto, the Council on June 9, 2008 did adopt a budget for fiscal year 2009; and

B. In fiscal year 2009, the City Council appropriated $50,000 for CIP Project AS-09000, City of Palo Alto Municipal Airport Transition Project (Project). The planned budget was for the Airport Business Plan and the Hazardous Materials Analysis, $25,000 each; and

C. The adopted budget for fiscal year 2009 was based on estimates obtained from two local firms familiar with airport business plan preparation; and

D. On November 13, 2007 (CMR: 418:07), the Council directed staff to begin negotiations with the Santa Clara County (County) on an early termination of the lease between the City and the County for the Palo Alto Airport and to commence work on the items set forth in the staff report (CMR: 418:07), including an independent 20 year Airport Business Plan; and

E. Two proposals were submitted for the Airport Business Plan, and upon review and evaluation of the proposals, staff recommends the Council accept the proposal of R.A. Wiedemann & Associates, and enter into a contract totaling $105,000 for the preparation of the Airport Business Plan and the Community Value Analysis; and

F. City Council authorization is needed to amend the 2009 Budget to make additional appropriations of $80,000 for increased funding to CIP Project AS-09000, City of Palo Alto Municipal Airport Transition Project bringing total appropriation to $130,000; and
G. The City Council Contingency account will provide the necessary funds for the Project.

SECTION 2. The sum of Eighty Thousand Dollars ($80,000) is hereby appropriated to CIP Project AS-09000, City of Palo Alto Municipal Airport Transition Project.

SECTION 3. The sum of Eighty Thousand Dollars ($80,000) is hereby transferred from the City Council Contingency account to the Capital Project Fund. The balance of the City Council Contingency account is reduced to Forty Four Thousand Forty Dollars ($44,040) after the transfer.

SECTION 4. As specified in Section 2.28.080(a) of the Palo Alto Municipal Code, a two-thirds vote of the City Council is required to adopt this ordinance.

SECTION 5. As provided in Section 2.04.330 of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption.

SECTION 6. An environmental impact assessment (EIA) may be required by the California Environmental Quality Act (CEQA) and will be performed in connection with future Council decisions regarding the Palo Alto Airport.

INTRODUCED AND PASSED:

AYES: 
NOES: 
ABSTENTIONS: 
ABSENT: 
ATTEST: 

APPROVED:

City Clerk

Mayor

APPROVED AS TO FORM:

City Manager

Senior Asst. City Attorney

Director of Administrative Services
**Description:** This project will develop a transition plan to expeditiously regain operational authority and management control of the City's municipal airport from the County of Santa Clara. The County's current lease agreement with the City expires in 2017. The County has offered to terminate its lease agreement with the City of Palo Alto earlier than 2017. Council has directed the city manager to begin negotiations with the County on an earlier termination of the lease.

**Justification:** This project is a Council directed initiative. Council directed that the City assume control of airport operations and management by 2010.

**Supplemental Information:** Staff will issue an RFP for Consultant Services to prepare an airport business plan and an Hazardous Materials Report.

### CIP FACTS:
- New
- Project Status: Pre-Design
- Timeline: FY 2008-2010
- Managing Department: Administrative Services
- Comprehensive Plan: Policy C-24
- Board/Commission Review: PTC

### IMPACT ANALYSIS:
- Environmental: This project is categorically exempt from CEQA under Section 15301.
- Design Elements: This project may be subject to ARB review. This project may require Site and Design Review.
- Operating: None
- Telecommunications: None

### FUTURE FINANCIAL REQUIREMENTS

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**Revenues:**

**Source of Funds:** Infrastructure Reserve ($50,000); City Council Contingency Account ($80,000)
Excerpt from the November 18, 2008 Policy and Services Committee Meeting.

POLICY AND SERVICES COMMITTEE

Special Meeting
November 18, 2008

3. City Oversight of the Palo Alto Airport: Biannual Progress Report on Negotiations with Santa Clara County and Other Steps Including Consideration of Recommendations to Council on: Approval of Airport Mission Statement; Acceptance of the Proposal from R.A. Wiedemann & Assoc. for Airport Business Plan and Airport/Community Value Analysis; Authorization of a $105,000 Contract Based on the Proposal; and Approval of a Budget Amendment Ordinance to transfer $80,000 from the City Council Contingency account to the Capital Project Fund to provide funding for the Business Plan & Airport/Community Value Analysis (CIP Project AS-09000, City of Palo Alto Municipal Airport Transition Project).

Bill Fellman, Real Property Manager with the Administrative Services Department noted that the report is basically the second bi-annual report for the Palo Alto Airport and it also contains a mission statement which is why they are before the Policy and Services Committee. Staff is also looking for additional funding for the business plan. He gave a brief history: In 1967, the City entered into a fifty cent per year lease with the County to manage the Palo Alto Airport along with the County’s two other airports. In 1987, the City and the County created the Palo Alto Joint Community Relations Committee which was set up to deal with a noise issue, and the committee has broadened its scope to where it covers just about everything that happens at the airport. He introduced David Cremer, current chair of the Palo Alto Joint Community Relations Committee. In November 2005, the County airport plan was proposed to raise tie-down rates and fuel fees at the Palo Alto Airport to pay for an outstanding advance, and the rates would be higher than the other two county airports. This is what spurred the City’s interest in what was going on. In June

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2006 the City Auditor reviewed the Palo Alto Airport financial situation and declared that the County was unable to document the outstanding advance and a fee increase was not warranted. In December 2006 the County Board of Supervisors adopted the county staff recommendations to: not manage the airport beyond 2017; offer the City the opportunity to take back the airport prior to 2017; not spend any money at the Palo Alto Airport on repairs or improvements that were not safety related or do not increase revenue; and increase tie-down and fuel fees to pay back the outstanding advance. In December 2006 the City Council appointed the Palo Alto Airport Working Group (PAAWG), and Chuck Byer and Ralph Britton are here and they are the co-authors of that report. In 2007 the City retained the services of R. Austin Wiswell as an advisor to staff on airport matters. In November 2007 Council accepted the PAAWG report declaring the Palo Alto Airport as an important economic asset and Council directed staff to begin negotiations to terminate the lease with the County prior to 2017 and report back to Council on a bi-annual basis. In June 2008 the first bi-annual report and budget for 2009 established a CIP of $50k to hire contractors to prepare a business plan and a hazardous materials investigation.

Chairperson Kishimoto asked what is being asked of Council for action.

Mr. Fellman stated to approve and adopt the mission statement and a recommendation for approval to the full Council on the Budget Amendment Ordinance.

Council Member Espinosa asked what the timeline over the next year would be for this process.

Mr. Fellman said that if Council approved the budget for the report, it would take 6-7 months to prepare. Staff would probably be back November 2009 with recommendations on the report.

Council Member Espinosa asked whether staff recommendations would be whether the business model made sense for Palo Alto.

Mr. Fellman said the report would include a lot of things, and that’s were they ran into trouble and underestimated what the cost of the report would be. The scope changed to include recommendations on whether it should be run by City staff or by a third party to look into the County’s claim about the outstanding balance, make a recommendation on that, to compare Palo Alto Airport with airports in general. The person who responded to the bid,
Weidemann, was just dead-on with everything they were looking for. He’s done forty of these reports, and this will be an outstanding report that we can use not just to decide whether we want to take the airport on now or in 2017, but also to guide us beyond that and to make recommendations on ways the airport may be able to generate more income.

Lalo Perez, Director of Administrative Services said the other concern was that in that timeline, there is activity that is going to cease or slow down in terms of maintenance for work. The hope is that we get some information back that alerts us to what potential areas we need to be concerned about that the County may not address, that we will take on as a liability once we take possession.

Council Member Espinosa said that what he read was that by next year the City needs to make these tough decisions. We need to make sure we have all the information needed to make these decisions and it’s going to cost us more to get that information.

Mr. Fellman said yes.

Council Member Barton said that he has no idea why we would want to operate the airport, or have anything to do with it. He has left his mind open and that is why he voted to send out the Request for Proposal (RFP). He said he would support a Motion to do this, because we need to see the business plan, and he could be proven wrong. He didn’t think anything the Council has done has locked them into doing anything. If this business plan comes back and it says the margin is too narrow and there is potential risk to the general fund, we still have the ability to do something else.

Vice Mayor Drekmeier said that he is also torn. He has tremendous admiration for Ralph Britton. He said he is a big believer in local self reliance and one of our challenges is money and the other even bigger challenge is land. When he thinks of what we can do with these 104 acres for zero waste, with resource recovery and composting all of our food waste, and still have land for generating renewable energy locally and revenue generation, it seemed to him from the report we would be looking at a million dollars profit annually.

Mr. Fellman said that was approximately what the County is generating now.

Vice Mayor Drekmeier said there are people who feel very passionately
about it and the arguments about the importance of it for the Stanford Hospital and other things. He feels that if we want to give future generations a fighting chance, we have to be the role model in Palo Alto and it may mean making some tough decisions, and he didn’t see the airport as being the best use of the land.

Council Member Barton said this is going to give us some numbers to have that discussion. It’s a reasonable amount of money, and he thinks it is worth doing. He thinks that going ahead with this makes a lot of sense and encouraged Council to support a Motion.

Chairperson Kishimoto said that one thing it does not do is compare it with alternatives to an airport.

Council Member Espinosa said that is correct. The question is here is an important part of Palo Alto in terms of a resource, and it is very visible and will garner a lot of attention. What they are really talking about is getting the Council to a point where a study can be done so they are able to get all the information they need on the table.

Council Member Barton said the report would tell them a lot, from a business point of view of an airport. It’s not fair to ask staff to also say, compare that to flight fields or compare that to composting at this point. The Council’s direction as much as he might disagree with it, is that this is going to be an airport, and to figure out the best way to keep it an airport. If the business plan comes back and the majority of the Council is convinced that this isn’t a good use of this land, then we should have that conversation about what else it should be.

Chairperson Kishimoto stated that Council did adopt a policy to move in this direction.

Mr. Fellman confirmed that direction from Council was to start negotiations to take back the airport before 2017.

Mr. Perez stated that was why they didn’t present any alternatives, because they were going based on that policy direction.

Vice Mayor Drekmeier said the direction was to take control of the airport and that could be interpreted that we want to run it ourselves or maybe we want to use it for something else.
Mr. Fellman read the Motion from the original staff report.

Chairperson Kishimoto said that if Council would get the report by November and there are a serious number of people on the Council who are interested in alternatives, that would set staff back another six months on this project.

Mr. Fellman said that from a staff level they tentatively talked about June, 2011 as the transfer time, so in his opinion, there is still plenty of time once the report gets back to do whatever Council wants to do.

Council Member Barton said they need to be respectful of the Council’s approach, in that this being an airport, they were going to cover all the bases, and it would be unwise of them to change that without going back to the full Council.

Chairperson Kishimoto asked that in looking at the revenue side of the equation, would they also look at costs.

Mr. Perez said they would have to review the existing agreements that are in place between the County and the Fixed Base Operators (FBOs), and that is part of the analysis.

Chairperson Kishimoto said that she was talking about the potential rents.

Mr. Perez said that the people we would charge the rent to would be the FBOs and because they have an existing contract with the County, we would have to take a look at the contract wording.

Chairperson Kishimoto asked about going to a third party manager of the airport.

Mr. Perez stated that, post 2017, when the contracts expire it would all be fair game. Staff would be able to put in place any agreement or rent that Council approved.

Chairperson Kishimoto said she had a suggestion on adopting a mission to add some wording about compatibility with the mission of the Baylands Master Plan (BMP).

Council Member Espinosa asked what they thought that does, and what did they think was in the BMP that might run afoul of the airport plan.

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Chairperson Kishimoto said that, for instance, the BMP talks about no new runway, no increase in the intensity of the lighting, and it's really telling those who are on our airport advisory groups that they should read the BMP and be aware of the sensitive environment they operate within.

Vice Mayor Drekmeier agreed that it should be compatible and not conflict with the BMP. He asked if that was the understanding going into the study, because obviously densifying the airport could bring in more revenue. In a way we want to increase revenue, but we really don't want to change anything.

Mr. Fellman said the simple way to increase revenue is to provide hangar space, and that would actually cut down on the number of planes that can be stored at the airport, because a hanger takes up more space than using a tie-down.

Vice Mayor Drekmeier asked if the BMP restricted hangars.

Mr. Fellman said it didn't restrict hangars, but where they got into issues with the County was the development of the eight acres, the vacant spot on Embarcadero. There are things that can be done that can create more hangar space without developing the eight acres.

Council Member Barton said he had no problem with the mission statement and appreciated Chairperson Kishimoto's addition to it, and asked why we need the mission statement now.

Mr. Fellman said it could be modified later on, but by adopting the mission statement early on is setting the goal of what we think the airport should be and how it should be run.

Council Member Barton said that it was if they were putting bounds or limits on this economic study.

Council Member Espinosa noted that he feels strongly about the BMP. In doing research about business modeling and revenue generation, he just wanted to make sure we are allowing for creativity and getting all options on the table. The intention is to ensure the airport is conforming to the framework of a plan that values the Baylands.

Mr. Perez said that it was staff's obligation to report that to Council if that's
the findings in the business plan.

Mr. Fellman said that the scope of the business plan also counts for the inconsistencies between the current master plan and the current County airport plan.

Mr. Keene said that a concern that he wanted to put on the table was an honest assessment of staff’s ability to absorb the running of an airport is really important. We have so many things on our plate, so many commitments we have already made in areas we are hard pressed to fulfill. Staff needs to be realistic on the impact of this on all the other initiatives and obligations we have as an organization.

Chairperson Kishimoto referenced Page eight of ten, and the County keeping the excess funds every year rather than using it for local matching, and were we able to do anything about that.

Mr. Fellman said that we can’t do anything now, but that it would be part of the negotiations with the County.

**MOTION:** Council Member Barton moved, seconded by Council Member Espinosa to accept staff recommendation that the Council 1) review and approve the Airport mission statement proposed by the Palo Alto Airport Joint Community Relations Committee (PAAJCRC); 2) accept the attached proposal from R. A. Wiedemann & Associates for preparation of a Palo Alto Airport Business Plan and Community Value Analysis (Airport Business Plan); 3) direct staff to negotiate and authorize the City Manager or designee to execute a $105,000 contract with R. A. Wiedemann based on its proposal; and 4) adopt the attached Budget Amendment Ordinance (BAO) in the amount of $80,000 transferring funds from the City Council contingency to the capital project for increased funding for the preparation for the Airport Business Plan.

**MOTION PASSED:** 3-1 Drekmeler no.

3. Discussion of Upcoming Meeting Dates and Topics

   December 9th—Prevailing Wage

**ADJOURNMENT:** Meeting adjourned at 8:10 p.m.
In compliance with the Americans with Disabilities Act of 1990, listening assistive devices are available in the Council Chambers and Council Conference Room. Sign language interpreters will be provided upon request with 72 hours advance notice.
ATTACHMENT C

City of Palo Alto
City Manager's Report

TO: HONORABLE CITY COUNCIL

ATTN: POLICY AND SERVICES COMMITTEE

FROM: CITY MANAGER  DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: NOVEMBER 18, 2008  CMR: 440:08

SUBJECT: City Oversight of the Palo Alto Airport: Biannual Progress Report on Negotiations with Santa Clara County and Other Steps Including Consideration of Recommendations to Council on: Approval of Airport Mission Statement; Acceptance of the Proposal from R.A. Wiedemann & Assoc. for Airport Business Plan and Airport/Community Value Analysis; Authorization of a $105,000 Contract Based on the Proposal; and Approval of a Budget Amendment Ordinance to transfer $80,000 from the City Council Contingency account to the Capital Project Fund to provide funding for the Business Plan & Airport/Community Value Analysis (CIP Project AS-09000, City of Palo Alto Municipal Airport Transition Project)

EXECUTIVE SUMMARY
This second biannual progress report on City oversight of the Palo Alto Airport updates the action and information items presented to Council in the June 9, 2008 first progress report. The City’s 50-year lease with the County of Santa Clara terminates in 2017, and the County wishes to end its involvement with the Airport in 2017 or earlier. The action items and progress reports are directed by Council to plan for an orderly transition to City oversight and take a more active, immediate role in the Airport operation. Staff also recommends Council action in reference to two of the action items covered in the report, development of an Airport-mission statement and preparation of an independent 20-year Airport business plan. Concerning the mission statement, staff recommends that Council review and approve the Airport mission statement proposed by the Palo Alto Airport Joint Community Relations Committee. Regarding the business plan, staff presents and evaluates the two proposals received in response to the City’s Request for Proposals for an Airport business plan and recommends that Council: 1) accept the proposal from R.A.
Wiedemann & Associates for preparation of a Palo Alto Airport Business Plan and Community Value Analysis (Airport Business Plan); 2) direct staff to negotiate and authorize the City Manager to execute a $105,000 contract with R.A. Wiedemann based on its proposal; and 3) adopt a Budget Amendment Ordinance in the amount of $80,000 for increased funding for the preparation of the Airport Business Plan.

RECOMMENDATION
As directed by the Council, this second biannual progress report updates the action and information items presented to the Council in the June 9, 2008 first progress report (CMR:247:08). Staff also recommends that the Policy and Services Committee recommend that the Council: 1) review and approve the Airport mission statement proposed by the Palo Alto Airport Joint Community Relations Committee (PAAJCRC); 2) accept the attached proposal from R.A. Wiedemann & Associates for preparation of a Palo Alto Airport Business Plan and Community Value Analysis (Airport Business Plan); 3) direct staff to negotiate and authorize the City Manager or designee to execute a $105,000 contract with R.A. Wiedemann based on its proposal; and 4) adopt the attached Budget Amendment Ordinance (BAO) in the amount of $80,000 transferring funds from the City Council contingency to the capital project for increased funding for the preparation of the Airport Business Plan. (Attachment A BAO and Attachment A-1 Capital Improvement Project (CIP) Report)

BACKGROUND
The 50-year lease between the City of Palo Alto and the County of Santa Clara for the Palo Alto Airport (PAO) terminates in 2017. On December 12, 2006, County staff presented to the Board of Supervisors a business plan (Plan) for PAO that recommended the County:

1) Terminate its involvement in PAO in 2017 or earlier if desired by the City;
2) Limit future County capital investment in PAO to the local matching funds necessary for essential, non-deferrable, Airport Improvement Project (AIP)-eligible maintenance projects or security-related projects mandated by Federal agencies;
3) Require the City to submit all future AIP grant applications; and
4) Raise tie-down rates and fuel flowage fees to help make PAO financially self-sustaining and recover as much of the County’s original investment in PAO (Outstanding Advance) as possible prior to the lease expiration.

The Board of Supervisors approved the Plan, but it delayed action on the disposition of PAO for six months in order to provide the City with an opportunity to present the County with viable development options for PAO and time to negotiate those options.

On December 18, 2006, the Council authorized the creation of the Palo Alto Working Group (PAAWG) to analyze PAO operations and develop one or more viable business models for PAO. On June 4, 2007, the PAAWG presented its report to the City Council. Based on its findings, the PAAWG concluded:

- PAO is an important transportation, business, economic, recreational and emergency preparedness asset for the City and its residents;
- PAO can be operated on a self-sustaining, economical basis and be cash-flow positive without requiring any financial support from the City; and
The continued operation of PAO by the County will both diminish the resource value
of the airport and threaten its long-term economic viability.

These conclusions led the PAAWG to recommend that the City Council:

1) Direct the City Manager to negotiate an early termination of the existing PAO lease
with the County;
2) Appoint an interim manager for PAO; and
3) Issue an RFP for the long-term management of PAO, which will ensure its asset value to
the community is maintained and will preserve its economic value into the future.

On September 18, 2007 (CMR 361:07), the Finance Committee discussed staff’s response to the
PAAWG recommendations and three options related to the future of PAO: 1) do nothing and
wait until the lease expires in 2017; 2) assume responsibility for PAO immediately; or 3) plan for
an orderly transition to City oversight and take a more active, immediate role in PAO operation.
The Committee split on the recommendation and agreed to forward the report to the full Council
for its review along with staff’s response to a list of questions to be researched. On November
13, 2007 (CMR 418:07), the Council directed staff to begin negotiations with the County on an
eyarly termination of the lease and to commence work on the items set forth in the November 13,
2007 staff report. Council also directed staff to provide progress reports to the City Council
every six months beginning in May 2008.

The Palo Alto Airport Joint Community Relations Committee (PAAJCRC) is a joint County/City
committee that was formed in 1987 initially to deal with noise concerns but over the last several
years, the committee has broadened its interest to cover and coordinate all airport activities. The
Committee consists of 5 appointees from each agency plus County, City staff and Airport Tower
liaison. PAAJCRC has received national recognition for its ability to deal with airport issues.

On June 2, 2008 (CMR:247:08), staff presented to Council the first biannual progress report
(Attachment B). CMR: 418:07 (Attachment C) and CMR:361:07 (Attachment D) are also
attached. CMR: 361:07 includes the City Audit Report and the Palo Alto Airport Working
Group Report.

**DISCUSSION**

In the June 2008 report, staff anticipated returning to Council in this 2nd report with: 1) the Palo
Alto Airport Joint Community Relations Committee proposed Mission Statement; 2) an
independent 20-year airport business plan; 3) updates on the 12-action items assigned by the
Council in its deliberation on November 17, 2007; and 4) other information updates.

Council consideration and development of the Airport mission statement (item 11 in the June
2nd report):

In his July 6, 2007 observation and recommendations on the County and PAAWG reports,
consultant R. Austin Wiswell advised that the most penetrating and insightful question for the
City to consider is “what does the City want the airport to be.” In other words, a clear vision of
the municipal airport’s role is needed before assuming operations. Such a vision would guide the
timing of City control of the airport and how it will be managed.
The PAAJCRC drafted the following proposed preamble and mission statement to be considered and approved by the Council:

The Functions and Value of the Palo Alto Airport

The Palo Alto Airport is an important civic asset for the nearby communities of Palo Alto, East Palo Alto, Menlo Park, Mountain View, Los Altos, and Los Altos Hills, as well as other communities. As part of the National Air Transportation System, it functions to meet the air transport needs for a range of constituents and agencies; these include business, recreational, medical patient and transplant organ delivery, and critical emergency services during a disaster or serious incident. It is also a designated reliever airport, accommodating general aviation operations incompatible with local large air-carrier airports.

The Mission of the Palo Alto Airport is:

- To operate a safe, efficient and cost-effective airport providing for general aviation operations within limits imposed by its size and location.
- To operate in conformity with all applicable laws and FAA requirements.
- To be self-supporting and operate without cost to the City’s General Fund.

The mission statement sets the tone to assure the community that the City will protect the PAO and will not utilize scarce resources in the City’s General Fund. Attachment E is a sampling of Mission Statements from other public agencies.

Airport Business Plan and Airport/Community Value Analysis

In early August, staff sent out an RFP for the preparation of an Airport Business Plan to analyze all the significant risks and obligations. The plan would also evaluate the benefits associated with running the Palo Alto Airport prior to entering into any formal contract negotiations to terminate the lease with the County. The RFP Scope of Services is attached (Attachment F). The RFP was sent to nine contractors and posted on the internet. In response, two proposals were submitted. Other contractors did not respond either due to current workloads or potential conflicts of interest arising from current business with the County.

Proposals were submitted by: 1) Charles B. Warren, ASA-Urban Real Property (Warren); and 2) R.A. Wiedemann and Associates (Wiedemann). Warren is a San Francisco real estate valuation firm with experience in the valuation of commercial properties, particularly waterfront properties, acquisition and management of rights-of-ways and lands for numerous public agencies. Wiedemann is a Kentucky company specializing in airport business planning, marketing, economic impact analyses and other aviation planning. The proposals differ significantly in terms of both quality and cost. The proposals are summarized in Attachment G. The proposed costs are $30,000 for Warren and $105,000 for Wiedemann ($87,500 for the basic plan and $17,500 for an optional element).

The proposals were reviewed and evaluated by a committee consisting of City staff from the Administrative Services Department, one of the co-authors of the PAAWG report and the City’s consultant, R. Austin Wiswell. The Wiedemann proposal was strongly preferred by the committee based on the proposer’s experience, responsiveness to the RFP, quality of product, originality and innovation. Wiedemann has prepared 40 airport business plans, at least three of
which are very close to what the City has asked for in the RFP (refer to proposal summary for details Attachment G.). Warren has yet to prepare any similar airport business plan. The Wiedemann proposal was very responsive to the RFP with much detail regarding how its proposed business plan would conform to the unique requirements and needs of the City and the PAO. In conformance with the RFP, the proposed plan is intended to: provide an overview analysis of the PAO; provide an assessment of business/economic development opportunities; give feasibility guidance for the transition, management, and development of the PAO as a City-managed and sponsored facility; and recommend a strategic source of action to pursue development and address issues. Strategic planning includes planning for market-niche fit, development of unused airport property, management structure changes and other innovative methods for examining the potential for enhanced revenues at the airport.

An innovation proposed in the Wiedemann response is the Airport/Community Value-Economic Impact Analysis which is offered as an optional element at an additional cost ($17,500, in addition to the $87,500 cost of the basic plan). This optional element involves a metric developed by Wiedemann that would examine both the economic contribution of the PAO and the asset value of the PAO. This option would identify jobs, taxes, and airport revenue generated in the community. It would also identify the amount of significant business use. This analysis allows the City and other interested parties to evaluate the overall airport value to the community against the operational cost of the PAO. It would also quantify the replacement value and existing value of airport facilities. This analysis would permit the City to estimate return on investment ratios relative to the asset base at the PAO. This process may be important for quantifying the value of PAO to the City and its residents, and the Committee agreed that its benefits to the City justify its additional cost.

Staff had originally budgeted $25,000 for the business plan based on prior work done by the County. Staff was initially surprised at the $120,000 cost of the Wiedemann proposal until the proposal was closely reviewed in terms of detail and how closely it matched the City’s proposed scope of work. The City’s consultant, Mr. Wiswell, was not surprised at the cost and had expected it to be even higher. The RFP process also made apparent the limited number of experts in the preparation of airport business plans. It should be noted that Wiedemann has demonstrated a degree of commitment to the City by agreeing in negotiations with staff to reduce the original cost of its proposed plan to $105,000, a 12.5% reduction. Also, a comparison of the proposed time and cost spent by each proposer shows that Wiedemann’s hours total 1,220 (including the optional task) at an average of $100 per hour; Warren’s total hours are 150 at an average rate of $200.

Based on the committee’s and Mr. Wiswell’s evaluation, staff recommends the Council accept the attached proposal from R.A. Wiedemann & Associates and direct staff to negotiate and authorize the City Manager or designee to execute a $105,000 contract with R.A. Wiedemann based on its proposal for the preparation of a Palo Alto Airport Business Plan and Community Value Analysis.

Second biannual update on the action and informational items presented to Council on June 8, 2008:

1. City/County negotiations regarding the “outstanding advance”
The outstanding advance is the difference between the County’s total capital investment, including grant matching fees, and the net revenue generated over the term of the PAO lease. The outstanding advance as of June 30, 2008 was $757,285. The City Auditor’s June 6, 2006 report to the Council indicates the possibility that there would be no outstanding advance if County overhead cost had been proportioned correctly and historic costs had been properly attributed to the County General Fund and not the airport. City staff’s position is that the airport and the City do not have a legal obligation to repay.

Since the June 2, 2008 update, staff has met and discussed the issue of the outstanding advance with the County. County staff has indicated that it will request approval to negotiate an early termination of the lease from the Board of Supervisors, and the outstanding advance will be a negotiation item. A major concern in taking back PAO is that it does not become a burden on the City’s General Fund. If the City is required to reimburse the County for the outstanding advance, staff believes it will severely impede improvements to the PAO by increasing the time the City would need to generate matching funds for FAA Grants. Proceeding with improvements at the PAO in the first few years would require seeking funding from other sources including the City’s General Fund. Advanced funding could be reimbursed from future airport revenue but it would put the City in the same position as the County when it established its “Outstanding Advance”. The City proposes to begin negotiations with the County following completion of the Airport Business Plan. The disposition of the outstanding advance will be a major factor in the success or failure of the negotiations and transfer of the management for PAO.

2. Federal Aviation Administration (FAA) Grant Proposal Review
FAA grant funding is based on a five-year airport improvement plan (AIP). Eligible projects include those improvements related to enhancing airport safety, capacity, security, and environmental concerns. AIP funds are not eligible for terminal buildings and non-airaviation development. The County AIP projects, their costs, and the year for which FAA grant funds are requested for PAO for the next five years are listed and described in the attached June 8, 2008 staff report. Although it is not guaranteed, ideally, the FAA funds 95% of the cost and the State funds 2.5%, making the local match 2.5%. Based on this calculation, the total local match for these project would be $82,000.

There are many variables in the grant process and the proposed PAO Business Plan will help the City better understand the associated risks.

The County is going ahead with its proposal to apply for grant funding in 2009 to purchase a Sweeper and Portable Runway Closure Lighting estimated to cost $60,000. A condition of receiving FAA grant funding is a requirement that the airport remain in existence for 20 years beyond the latest grant date. If the funds are granted, the FAA grant condition would require the PAO to remain an airport open until at least 2029, or the City would have to pay the depreciated value of the FAA grant.

3. Current agreement and grant review
Compared to more contemporary agreements, the current Fixed Base Operator (FBO) agreements (in effect until 2017) favor the FBO and do not adequately serve the revenue/growth needs of the airport. Both FBO’s made significant financial investments during the initial terms of their long-term leases with the County but now, with only 8 years remaining on their leases,
there is no incentive for any investment. It is estimated that the two FBO's generate over 1.5 million dollars in revenue each year. If the tenants of the FBO's remain beyond 2017, the revenue would provide a significant contribution to the future success of the airport. Current FAA grants will be reviewed by staff from the Public Works Department and the City Attorney's office. However, due to workload issues, neither department has undertaken the review process to date.

4. **Airport comparisons**
Possibilities for the most viable management arrangement for the PAO are varied and include operation by the City as well as different types of third party management. It is important to note that the City's legal responsibility cannot be reassigned even if a third party manages the airport. As a sponsor, the City is ultimately responsible for airport operations regardless of who manages the PAO.

A complete Airport Business Plan will include data that will help in comparing the PAO with other airports and to assess the most viable management arrangement.

5. **Staffing needs assessment**
Currently, the PAO on-site staffing consists of two full-time airport operations workers and a part-time supervisor. Regardless of whether the City assumes management of the PAO or if it is run by a third party, there will always be a need for City staff to write grants and manage/monitor airport operations. The FAA is clear that, as an "airport sponsor," the City will have full liability for operations regardless of who oversees management operations. The airport business plan will provide various management options and the pros and cons of each.

6. **USGS topographical maps and global warming**
Based on a San Francisco Bay Conservation and Development Commission (BCDC) map using USGS information, in 2100, the water level in San Francisco Bay is predicted to rise by one meter, high enough to submerge all the land within the Palo Alto city limits east of 101, with the exception of portions of Bixby Park. This would include all of the airport, golf course, water treatment plant and the businesses along Embarcadero Road. The Army Corps of Engineers and the Santa Clara Valley Water District are taking this information into account as part of their levee analysis due in 2011 (see below).

7. **Hazardous Materials Analysis**
Due to workload issues, staff is proposing to postpone the hazardous materials analysis for a minimum of one year.

8. **Metropolitan Transportation Commission (MTC) general aviation review**
The MTC is looking at ways to improve "on-time" performances of airlines at international Bay Area airports, and proposes to reduce the number of small privately-owned planes at these airports. Because its runway is too short and there is very little space to accept additional aircraft, the PAO will not be able to contribute much in this regard. Staff will continue to monitor these meetings and discussions for potential impacts on the PAO. A discussion regarding Bay Area aviation will be addressed in the business plan.

9. **US Army Corp. of Engineers levee report**
The San Francisquito Creek feasibility study being conducted jointly by the Army Corp of Engineers and the San Francisquito Creek Joint Powers Authority should take into account the future impacts of predicted sea level rise caused by global warming and other factors. Improvements to the levees may also have a physical impact on the airport. At this point, the best estimate of the levee study completion is 2011 but it is staff understanding that the Joint Powers Authority may undertake an earlier smaller project within the next two years that may have some effect on airport lands. Staff will have more information on an earlier project in its next report.

10. Review of County Financial Statements
   Based on the City Auditor’s June 2006 report on the Airport’s financial condition, staff recommends that a periodic review of PAO financials should be conducted on an on-going basis. Copies of the County’s 2007 and 2008 annual reports are attached as attachments J and K. Note that surplus revenues of $45,000 in 2007 and $16,123 are being applied to the Outstanding Advance instead of being used for matching grants for future improvements to the airport. Staff is concerned that the County is more interested with recouping the outstanding advance in-lieu of making improvements to the airport. In a meeting on December 16, 2006, the County Board of Supervisors approved limiting future capital investment in the PAO to revenue-generating projects and the local match necessary for essential, non-deferrable, grant-eligible maintenance projects or security-related projects mandated by the FAA. Non-revenue projects ineligible for grant funding should not be undertaken. The County is proposing to recoup the entire outstanding advance of $757,285 by 2017. With only 9 years left the County would have to generate $84,00 per year to pay of the outstanding advance.

11. Mission Statement-See discussion above.

12. Outline of City obligations and responsibilities for PAO
   As previously noted, the City is well aware that it will be responsible for the PAO even if a third party manages it. An outline of the City’s obligations and responsibilities for the PAO, whether it operates the PAO or “contracts out” the management, will be part of the Airport Business Plan.

Other Information Updates:

1. Transition Timing
   On November 2, 2007, City Council directed staff to begin negotiations with County on an early termination of the lease with the County. In the next few months, County staff will be requesting Supervisorial approval to enter into formal negotiations with the City. Based on the complexity of the transition of the PAO operations from the County to the City’s oversight and the current workload demand, the County and City staff’s have tentatively set June 30, 2011, as a target date to work to for transferring management of PAO to the City.

2. Tie-Down fee increase
   The County increased tie-down fees by 8% per month on July 1, 2008, which increased the cost of the average plane at the PAO to $150 per month. The $150 fee is $10 per month higher than that charged at the two other County run airports, is $32 higher than that charged at the San Carlos airport, and is $90 higher than the Hayward airport charge. Initially, City staff felt that owners of planes that used the tie-down facilities would move to other airports, but the County surmised that tie-down users at the PAO would pay a higher monthly fee for the convenience of
having their planes close by. The County assumption appears to be validated by the County’s July-Aug. 2008 bi-monthly report. The report shows 355 spaces, 9 new accounts and only 35 vacancies for PAO, a far better vacancy rate than the other two County airports. The County is proposing to increase the tie-down fees again in June 2009 and each year through 2017 to pay off the outstanding advance. It is unclear whether airport users will tolerate additional fee increases. West Valley Flying Club, with 25 planes at PAO, has already suggested that its members may have to move some of its planes to other airports if the tie-down fees continue to increase.

**RESOURCE IMPACT**
The amount budgeted in the Fiscal Year 2008-09 for both the Airport Business Plan and the Hazardous Materials Analysis is $25,000 for each and are included in CIP Project AS-09000, the City of Palo Alto Municipal Airport Transition Project. The budget of $25,000 for the plan was based on estimates obtained from two local firms familiar with such reports. Because the cost of the recommended contract (including the $17,500 optional task) is $80,000 more than the $25,000, staff is recommending the Council is adoption of the attached Budget Amendment Ordinance which will result in the transfer of $80,000 from the City Council Contingency account to the Capital Project Fund to provide funding for the Business Plan & Airport/Community Value Analysis of the Project. The balance of the contingency amount after the transfer will be $42,040.

**POLICY IMPLICATIONS**
This progress report is consistent with previous Council direction.

**ENVIRONMENTAL REVIEW**
An environmental impact assessment (EIA) may be required by the California Environmental Quality Act (CEQA) and will be performed in connection with future Council decisions regarding the PAO.

**ATTACHMENTS**
Attachment A: Budget Amendment Ordinance
Attachment A-1: Capital Improvement Project Report
Attachment B: June 8, 2008 informational report (CMR:247:08)
Attachment C: November 13, 2007 (CMR:418:07)
Attachment D: September 18, 2007 (CMR: 361:07)
Attachment E: Mission Statements from other Airports
Attachment F: Business Plan RFP Scope of Services
Attachment G: Summary of Proposals
Attachment H: Warren Proposal
Attachment I: Wiedemann Proposal
Attachment K: 2008 County Financial Report
PREPARED BY: WILLIAM W. FELLMAN & JOYCE WHITE
Manager, Real Property Senior Financial Analyst

DEPARTMENT HEAD APPROVAL: LALO PEREZ
Director, Administrative Services

CITY MANAGER APPROVAL: JAMES KEENE
City Manager

cc: County of Santa Clara
   JCRC
   Co-Chairs of the PAAWG
ORDINANCE NO.

Ordinance Of The Council Of The City Of Palo Alto
Amending The Budget For Fiscal Year 2009 To Provide An
Additional Appropriation Of $80,000 To Capital
Improvement Program (CIP) Project AS-09000, City Of Palo
Alto Municipal Airport Transition Project

The Council of the City of Palo Alto does ordain as follows:

SECTION 1. The Council of the City of Palo Alto finds
and determines as follows:

A. Pursuant to the provisions of Section 12 of Article III of
the Charter of the City of Palo Alto, the Council on June 9, 2008
did adopt a budget for fiscal year 2009; and

B. In fiscal year 2009, the City Council appropriated $50,000
for CIP Project AS-09000, City of Palo Alto Municipal Airport
Transition Project (Project). The planned budget was for the
Airport Business Plan and the Hazardous Materials Analysis,
$25,000 each; and

C. The adopted budget for fiscal year 2009 was based on
estimates obtained from two local firms familiar with airport
business plan preparation; and

D. On November 13, 2007 (CMR: 418:07), the Council directed
staff to begin negotiations with the Santa Clara County (County)
on an early termination of the lease between the City and the
County for the Palo Alto Airport and to commence work on the items
set forth in the staff report (CMR: 418:07), including an
independent 20 year Airport Business Plan; and

E. Two proposals were submitted for the Airport Business
Plan, and upon review and evaluation of the proposals, staff
recommends the Council accept the proposal of R.A. Wiedemann &
Associates, and enter into a contract totaling $105,000 for the
preparation of the Airport Business Plan and the Community Value
Analysis; and

F. City Council authorization is needed to amend the 2009
Budget to make additional appropriations of $80,000 for increased
funding to CIP Project AS-09000, City of Palo Alto Municipal
Airport Transition Project bringing total appropriation to
$130,000; and
G. The City Council Contingency account will provide the necessary funds for the Project.

SECTION 2. The sum of Eighty Thousand Dollars ($80,000) is hereby appropriated to CIP Project AS-09000, City of Palo Alto Municipal Airport Transition Project.

SECTION 3. The sum of Eighty Thousand Dollars ($80,000) is hereby transferred from the City Council Contingency account to the Capital Project Fund. The balance of the City Council Contingency account is reduced to Forty Four Thousand Forty Dollars ($44,040) after the transfer.

SECTION 4. As specified in Section 2.28.080(a) of the Palo Alto Municipal Code, a two-thirds vote of the City Council is required to adopt this ordinance.

SECTION 5. As provided in Section 2.04.330 of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption.

SECTION 6. An environmental impact assessment (EIA) may be required by the California Environmental Quality Act (CEQA) and will be performed in connection with future Council decisions regarding the Palo Alto Airport.

INTRODUCED AND PASSED:

AYES:
NOES:
ABSTENTIONS:
ABSENT:
ATTEST: APPROVED:

City Clerk Mayor

APPROVED AS TO FORM:

City Manager

Senior Asst. City Attorney Director of Administrative Services
**Description:** This project will develop a transition plan to expeditiously regain operational authority and management control of the City's municipal airport from the County of Santa Clara. The County's current lease agreement with the City expires in 2017. The County has offered to terminate its lease agreement with the City of Palo Alto earlier than 2017. Council has directed the city manager to begin negotiations with the County on an earlier termination of the lease.

**Justification:** This project is a Council directed initiative. Council directed that the City assume control of airport operations and management by 2010.

**Supplemental Information:** Staff will issue an RFP for Consultant Services to prepare an airport business plan and an Hazardous Materials Report

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**CIP FACTS:**
- New
- Project Status: Pre-Design
- Timeline: FY 2008-2010
- Managing Department: Administrative Services
- Comprehensive Plan: Policy C-24
- Board/Commission Review: PTC

**IMPACT ANALYSIS:**
- Environmental: This project is categorically exempt from CEQA under Section 15301.
- Design Elements: This project may be subject to ARB review, this project may require Site and Design Review.
- Operating: None
- Telecommunications: None

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### FUTURE FINANCIAL REQUIREMENTS

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**Revenues:**
- Infrastructure Reserve ($50,000); City Council Contingency Account ($50,000)
ATTACHMENT B

June 8, 2008 Informational Report (CMR: 247:08)
TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: JUNE 2, 2008

DEPARTMENT: ADMINISTRATIVE SERVICES

CMR: 247: 08

SUBJECT: PROGRESS REPORT ON NEGOTIATIONS WITH SANTA CLARA COUNTY AND OTHER STEPS TO FACILITATE CITY OVERSIGHT OF THE PALO ALTO AIRPORT

This is an informational report and no Council action is required.

BACKGROUND
The 50-year lease between the City and the County of Santa Clara for the Palo Alto Airport (PAO) terminates in 2017. On December 12, 2006, County staff presented to the County Board of Supervisors a business plan (Plan) for PAO, including an analysis of the lease; an overview of the County Airport Enterprise Fund; an analysis of PAO’s finances; identification of future capital investment needs; and recommended County action in anticipation of the lease expiration in 2017.

The Plan noted that the County has assumed all of the business risk associated with operating PAO; that PAO has historically operated at a deficit; and that opportunities to generate additional revenue were extremely limited due to physical, environmental, and policy constraints. The Plan recommended that the County:

1) Terminate its involvement in PAO in 2017 or earlier if desired by the City,
2) Limit future County capital investment in PAO to the local matching funds necessary for essential, non-deferrable, Airport Improvement Project (AIP)-eligible maintenance projects or security related projects mandated by Federal agencies;
3) Require the City to submit all future AIP grant applications; and
4) Raise tie-down rates and fuel flowage fees to help make PAO financially self-sustaining and recover as much of the County’s original investment in PAO (Outstanding Advance) as possible prior to the lease expiration.

The County Board of Supervisors approved the Plan, but delayed action on the disposition of PAO for six months in order to provide the City an opportunity to present the County with viable development options for PAO and time to negotiate those options.

On December 18, 2006, Council authorized the creation of the Palo Alto Working Group (PAAWG) to analyze PAO operations and develop one or more viable business models for
PAO. The PAAWG included representatives from the City Council, City staff, the Palo Alto Airport Association, Stanford Hospital, the Joint Community Relations Committee for the Palo Alto Airport and representatives of stakeholder groups with an interest in PAO use and operations. On June 4, 2007, the PAAWG presented its report to the City Council.

Principal findings from the PAAWG report included:
1) that airport operations were profitable;
2) that, based on PAAWG’s own financial analysis and the City Auditor’s review, the PAO has the economic potential to be self-sustaining, fund necessary improvements, and cover the cost of City administrative overhead;
3) that the airport was an essential community asset; and
4) that the County ignored numerous economic and social benefits the airport provided. These benefits included: tax revenues generated by the airport that support local jurisdictions; transportation for businesses and their employees; transport for hospital patients and transplant organs; pilot training and certification; recreation space for the local community; emergency support activities; and PAO’s part in the Bay Area airport and transportation system.

The PAAWG concluded:
- PAO is an important transportation, business, economic, recreational and emergency preparedness asset for the City and its residents;
- PAO can be operated on a self-sustaining, economical basis and be cash positive without requiring any financial support from the City; and
- The continued operation of PAO by the County will both diminish the resource value of the airport and threaten its long-term economic viability.

These conclusions led the PAAWG to recommend that the City Council:
1) Direct the City Manager to negotiate an early termination of the existing PAO lease with the County;
2) Appoint an interim manager for PAO; and
3) Issue an RFP for the long-term management of PAO, which will ensure its asset value to the community is maintained and will preserve its economic value into the future.

On September 18, 2007 (CMR 361:07), the Finance Committee discussed staff’s response to the PAAWG recommendations and three options related to the future of PAO: 1) do nothing and wait until the lease expires in 2017; 2) assume responsibility for PAO immediately; or 3) plan for an orderly transition to City oversight and take a more active, immediate role in PAO operation. The Committee split on the recommendation and agreed to forward the report to the full Council for its review along with staff’s response to a list of questions to be researched. On November 13, 2007 (CMR 418:07), Council directed staff to begin negotiations with the County on an early termination of the lease and to commence work on the items set forth in the November 13, 2007 staff report. Council also directed staff to provide progress reports to the City Council every six months beginning in May 2008.
DISCUSSION
As directed by Council on November 13, 2007, this is the first biannual progress report. Included in this first report is an update on staff’s progress towards completing PAO action items as well as other information updates. The action items are a combination of two lists of progressive steps taken from prior staff reports (Attached C – CMR 418:07 and 361:07)

Progress on Steps

1. City/County negotiations regarding the “outstanding advance”
The outstanding advance is the difference between the County’s total capital investment, including grant matching fees, and the net revenue generated over the term of the PAO lease. The offer by the Director of the Santa Clara County Roads and Airports Department to waive any remaining “outstanding advance” when the City takes over PAO will require the approval of the County Board of Supervisors. This offer has been made during the course of several public meetings including during a presentation to the County Airports Commission. The outstanding advance as of June 30, 2007 was $773,408. In a City Auditor’s report to the Council on June 6, 2006, the auditor disputed the County’s claim that PAO was losing money and needed to increase fees to recoup the outstanding advance. The audit claimed PAO was paying for more than its fair share of overhead cost and questioned historic costs that were paid by a County General Fund loan. In fact, the auditor felt that it was a grant not a loan since it was not documented or paid back to the General Fund. The audit leads to the possible conclusion that if pooled overhead cost had been proportioned correctly and historic costs had been properly attributed to the County General Fund and not the airport, there would not be an outstanding advance. It is staff’s position that the airport and the City do not have a legal obligation to repay the advance unless a written agreement or contract can be produced by the County.

2. Federal Aviation Administration (FAA) Grant Proposal Review
FAA grant funding is based on a five-year airport improvement plan (AIP). Eligible projects include those improvements related to enhancing airport safety, capacity, security, and environmental concerns. AIP funds are not eligible for terminal buildings and non-aviation development. Each year, the airport manager submits a five-year airport improvement plan to the local branch of the FAA. The County AIP projects, their costs, and the year for which FAA grant funds are requested for PAO are, as follows, for the next five years:

<table>
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<tr>
<th>PROJECT</th>
<th>COST</th>
<th>YEAR</th>
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<tr>
<td>1) Signage, Runway/Taxiway Marking Changes IAW FAA RSAT Recommendations</td>
<td>$150,000</td>
<td>2009</td>
</tr>
<tr>
<td>2) Purchase FOD Sweeper and Portable Runway Closure Lighting</td>
<td>$60,000</td>
<td>2009</td>
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</table>
3) Reconfigure Taxiways G and Z to comply with FAA Standards | $400,000 | 2010
4) Construct Helicopter Landing Pad and Parking | $250,000 | 2010
5) Construct Exit Taxiway D | $120,000 | 2010
6) Pavement Maintenance for Existing Runway, Taxiways and Aircraft parking | $300,000 | 2011
7) Overlay Existing Runway and Taxiways | $2,000,000 | 2012

Ideally, the FAA funds 95% of the cost, the State funds 2.5% and the local match is 2.5%. Based on this calculation, the local match for the next five years of projects would be $82,000.

Federal and State funds are never guaranteed, however. An example is the last major paving overlay project completed by the County in 2000. The local match was initially estimated to be $50,000 but by the time the project was completed the County local match was $620,000. The County gave staff three reasons for the cost over-run: 1) bids were higher than the estimate; 2) the lack of State funding available at the time the project was ready to be funded; and 3) the unanticipated time and cost to obtain permit approval from the City. These costs added $479,929 to the County’s outstanding advance in the 1999-2000 fiscal year report. Federal Funding for 2008-09 Airport Improvement Grants has not been authorized by Congress and it has been suggested that due to budget constraints Congress will reduce the grant match from 95% to 90% of the project cost.

A major concern in taking back PAO is that it does not become a burden on the City’s General Fund. The County claims that PAO is losing money, and without additional hangars, there is no opportunity to generate more income. The 2007 PAAWG Report included a Projected Pro-Forma Income Statement for 2007. When the PAAWG Income Statement is compared to the County annual report for fiscal year 2006-07 (Exhibit B), it shows approximately the same amount of net revenue ($42,100) but the PAAWG report includes a $100,000 Maintenance Reserve. The County applied the $43,533 net revenue to the outstanding advance leaving no funding for the projected AIP, FAA grant matching funds.

There are many variables in the grant process and a business plan would help the City better understand the associated risks.

Staff is preparing a scope of services for the contractor providing the business plan response that would include the following:
- Determine the long-range (20 year) financial strength of PAO
- How to maximize current income potential and the income potential beginning in 2017 when the current contracts expire.
- The time required to amortize the cost of constructing new hangars
- Future viability of airports and aviation in general
- Identify the airport’s future capital investment needs

Staff anticipates that the business plan will be available for the next 6 month update in November, 2008.

3. Current agreement and grant review
Staff has reviewed the current Fixed Base Operator (FBO) agreements and compared them to more contemporary agreements. In today’s environment, airport managers negotiate leases based on the capital the lessee is willing to invest in the airport. Lessee’s who simply rent space, with little or no capital investment, have shorter term leases than those who risk a capital investment. The two current FBO leases at PAO are long-term, and have no incentives for capital investment. The leases do not include CPI, adjustments and do not remit a percent of gross revenue with the exception of the north half of Roy Aree’s lease where the County receives 6% of the hangar rental. These leases, which are in effect until 2017, favor the FBO and do not adequately serve the revenue/growth needs of the airport. Current FAA grants will be reviewed by staff from the Public Works Department and the City Attorney’s office. However, due to workload issues, neither department has undertaken the review process to date.

4. Airport comparisons
Staff is in the process of collecting data from several airports on operations, management, the number of tie-downs, hangars and based aircraft, runway length, type of airport, and other pertinent information in order to assess the most viable management arrangement for PAO. Data so far indicates that most California municipal airports are operated by the respective city public works departments as an enterprise fund. However, City operation and management may not be the best solution for PAO. Staff has been cautioned that no two airports are alike and that to determine the best management for PAO, its unique features must be considered. Given that PAO is going to need an infusion of funds from the beginning to either provide for matching grant funds, or to provide funding for non-grant applicable projects, staff is considering a third party operator for the airport. A third party would be required to have access to revenue to meet matching funds for federal and state grants, or to make improvements in the situation where grant funding is not available. The downside of having a third party manage the airport is that the City would lose direct control. Staff research has also revealed that there are several different types of third party management, which will be described and discussed in future reports. It is also clear that someone within the City will have to oversee the third party manager and prepare the grant requests. In the next few months, staff will concentrate on finding out more information on airports operated by third parties.

It is important to note that City responsibility cannot be reassigned. As a sponsor, the City is ultimately responsible for airport operations regardless of who manages PAO.
5. Staffing needs assessment
Currently, PAO on-site staffing consists of two full-time airport operations workers and a part-time supervisor. Future staffing needs may change based on PAO’s hours of operation. In addition, regardless of whether the City assumes management of PAO or if it is run by a third party, there will always be a need for City staff to write grants and manage/monitor airport operations. The FAA is clear that, as an “airport sponsor,” the City will have full liability for operations regardless of who oversees management operations.

6. USGS topographical maps and global warming
The San Francisco Bay Conservation and Development Commission (BCDC) has produced a map using USGS information that depicts a potential global warming inundation scenario. In 2100, the water level in San Francisco Bay would rise by one meter should current trends continue. If this were to happen, all the land within the Palo Alto city limits east of 101, with the exception of portions of Bixby Park, would be underwater. This would include all of the airport, golf course, water treatment plant and the businesses along Embarcadero Road. The Army Corp of Engineers and the Santa Clara Valley Water District are taking this information into account as part of their levee analysis due in 2010. The actual USGS topographical map is anticipated to be completed in September of this year.

7. Comprehensive economic study & hazardous materials analysis
Staff is proposing to have outside contractors prepare a Comprehensive Economic Study (CES) and a Hazardous Materials Analysis (HMA). The CES will include an analysis to determine the long-term viability of PAO, providing assurance that sufficient funds can be generated to offset annual expenses and capital work. The combined estimated cost of both the CES and HMA is about $50,000, which is being proposed in the Fiscal Year 2008-09 ASD budget.

8. Metropolitan Transportation Commission general aviation review
The MTC has been holding meetings to see if there is some way the “on-time” performances can be improved at all three International Bay Area airports. One thought is to remove or reduce the non-commercial traffic from the three airports. This would have little effect on PAO, because its runway is too short to accept jet traffic, and there is very little space to accept additional aircraft. It may, however, help focus on opening Moffett Field to general aviation. Staff will continue to monitor these meetings and discussions for potential impacts on PAO.

9. US Army Corp. of Engineers levee report
In an effort to expedite the levee report, the Santa Clara Valley Water District announced recently that they will contribute $3.5 million to the study. The announcement claimed the Army Corp of Engineers money was due to run out in July of 2008. The report is currently scheduled to be completed in 2010, and it will respond to the USGS 2100 global warming prediction.
10. Review of County Financial Statements
The City Auditor’s June 2006 report on the Airport’s financial condition was discussed in the September 18, 2007 staff report (CMR 361:07). Staff recommends that a periodic review of PAO financials should be an on-going activity. Therefore, the Comprehensive Economic Study discussed above will include an update on the projected PAO financial position.

11. Council consideration and development of the Airport mission statement
The Palo Alto Airport Joint Community Relations Committee is assisting staff in drafting a proposed mission statement to be considered by the Council. Staff anticipates that the Mission Statement draft will be available for Council review and approval in the November 2008 Airport update.

12. Outline of City obligations and responsibilities for PAO
An outline of City obligations and responsibilities for PAO, whether it operates PAO or contracts out, the management, will be done as part of the Comprehensive Economic Study referred to above.

Information Updates

In addition to the 12 action item updates above, there are three information updates:

1. Transition Timing
Previous staff reports estimated that the transition of PAO from County to City oversight could occur in approximately 3 years; however, this time-line now appears too short. As staff comes to understand more about the parameters of PAO’s project, the scope increases in size and complexity. In addition, the PAO project and its various components must be integrated into an already heavy staff workload.

2. Tie-Down fee increase
The County will increase tie-down fees by 8% per month on July 1, 2008, which would increase the cost of the average plane at PAO to $150 per month. There are currently 361 tie-down spaces with 30 vacancies. Staff is concerned that if the County continues to raise the tie-down fee, pilots will seek other local airports, which; in turn, will decrease PAO’s revenue stream. The County claims only one pilot has stated he was moving due to the upcoming fee increase, that the vacancy rate is similar to the other two County airports and is not unusual given the current economy. In July, the tie-down rates for Reid Hillview will be increased to $140 per month and for South County to $100 per month for the same type of aircraft used in PAO quote above. San Carlos does not have any tie down vacancy at the moment due to a hangar construction project but their tie down rate is only $115 per month and they are only 10 miles from PAO. Additionally, West Valley Flying club is a tenant of both airports and they currently have 25 planes in the County tie-down area of PAO. West Valley has indicated that they would move their planes from PAO if the rates continue to increase.
3. County reasons for terminating the lease
In the first monthly meeting in January between City and County staff, the County outlined the following three main reasons for terminating its lease for PAO:

A. Inability to generate additional revenue to keep up with expenses.
   PAO generates its income from 3 main sources of revenue: fuel fees, tie-downs and Fixed Base Operator (FBO) rentals. These sources are limited by the amount of fuel pumped, the number of tie down spaces available and terms of the FBO lease agreements. PAO is the only airport not generating revenue from public agency-provided hangars. At all other Bay Area airports, hangar rentals are another major source of revenue. It is the County’s position that constructing hangars is not feasible because there is insufficient time remaining on its lease to amortize the cost of construction. The County also contends that the City would not approve construction of hangars because of the potential conflict with the City’s Baylands Master Plan which does not anticipate expansion of the airport.

   As an FAA designated “Reliever Airport,” PAO is eligible for FAA grant each year in an amount of $150,000. However, the use of the funds is limited, and must be thoroughly justified as not being diverted from basic airport payment maintenance needs. These FAA grant funds also require local matching funds. (A “Reliever Airport” is a high capacity general aviation airport in a major metropolitan area which provides pilots with an attractive alternative to using congested commercial service airports.)

B. FEMA flood control requirements.

   The County’s position is that the Federal Emergency Management Agency (FEMA) will require all the buildings at PAO to be elevated to eight feet above sea-level, cresting significant cost implications. The majority of the airport is currently at about four feet above sea-level. Staff’s investigation has determined that only new buildings occupied by personnel would have to be elevated. Existing buildings and new hangars would not require elevation.

C. Strong likelihood that Moffett Field may open to relieve the three major Bay Area airports.

   The San Francisco Bay Conservation and Development Commission (BCDC) is looking at ways to relieve the Bay Area’s 3 international airports from congestion. One option being considered is to move all non-commercial carrier airplanes to the various reliever airports. BCDC may look to Moffett Field as a reliever airport because, unlike PAO, it can accommodate a much greater level of traffic, or number of aircraft operations, including jet aircraft. However, a number of people in the industry feel any proposed additional use of Moffett Field is a long way off. Also, staff has been assured by the State Division of Aeronautics that even if Moffett Field were to reopen, the State and the FAA would prefer that PAO remain open as a Reliever Airport.
RESOURCE IMPACT
The resource impacts of the transition of PAO operations and management from the County to the City will be considered as part of the Comprehensive Economic Study (CES) discussed above. The estimated cost ($50,000) of the CES and the Hazardous Materials Analysis will be considered by Council during the Fiscal Year 2008-09 budget process.

POLICY IMPLICATIONS
This progress report is consistent with previous Council direction.

ENVIRONMENTAL REVIEW
An environmental impact assessment (EIA) may be required by the California Environmental Quality Act (CEQA) and will be performed in connection with future Council decisions regarding PAO.

ATTACHMENTS
Attachment A: Progress Report Items
Attachment B: PAO Revenue and Expense Comparison
Attachment C: CMR 418:07 and 361:07

PREPARED BY: William W. Fellman
Manager, Real Property

DEPARTMENT HEAD APPROVAL: Lalo Perez
Director, Administrative Services

CITY MANAGER APPROVAL: Steve Emslie and Kelly Morariu
Deputy City Managers

cc: County of Santa Clara
JCRC
Chair of the PAAWG
ATTACHMENT A

PROGRESS REPORT ITEMS

From November 13, 2007 staff report (CMR 418:07):

1. City/County Negotiations
2. FAA Grant Proposal Review
3. Current Agreement and Grant Reviews
4. Airport Comparisons
5. Staffing Needs Assessment
6. USGS Topographical Maps
7. Comprehensive Economic Study
8. Metropolitan Transportation commission General Aviation Review
9. U.S. Army Corp. of Engineers Levee Report
10. Review of County Financial Statements

From September 18, 2007 staff report (CMR 361:07):

11. Council consideration and development of the airport’s mission.

12. An outline of all City obligations and responsibilities for PAO whether it operates the PAO or contracts it out.
## ATTACHMENT B

### PAO REVENUE AND EXPENSE COMPARISON

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Projected Income &amp; Expense Statement</td>
<td></td>
<td>Actual Revenue &amp; Expense Statement</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
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<tr>
<td>Lease Revenue</td>
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<td>Aircraft Tie Down</td>
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<td>Fuel Flowage</td>
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<td>Transient &amp; Other</td>
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<td><strong>Total Revenue</strong></td>
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<td><strong>Operating Expenses</strong></td>
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<td>General &amp; Admin.</td>
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<td>Maintenance/City Reserve</td>
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<td>PAO Capital Expense</td>
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<td>$ -0-</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$ -0-</td>
<td><strong>$214,001</strong></td>
</tr>
<tr>
<td>Levee Maintenance</td>
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<td>$ 20,788</td>
</tr>
<tr>
<td>Contract Services</td>
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<td>$ 2,636</td>
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<td><strong>Total Expenses</strong></td>
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<td><strong>Net Gain or Loss</strong></td>
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<td><strong>Non-Operating Revenue Expense</strong></td>
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</tr>
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<td>Master Plan Development</td>
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<tr>
<td>Airport Calif. Monitoring Group</td>
<td>($1,975)</td>
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<tr>
<td>State Water Permit Fee</td>
<td>($ 830)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-Operating Expenses</strong></td>
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<td>Net Income before Adjustment</td>
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<tr>
<td>Add Back Depreciation on Capital Improvements</td>
<td><strong>$214,001</strong></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 43,533</td>
<td></td>
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</table>
* The $214,001 is highlighted to show the County depreciates Grant Funding. It does not affect the calculation but it can mischaracterize the Airport’s current cash flow position.
TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: NOVEMBER 13, 2007

DEPARTMENT: ADMINISTRATIVE SERVICES

CMR: 418:07

SUBJECT: FROM FINANCE COMMITTEE: REQUEST FOR COUNCIL DIRECTION CONCERNING RESPONSE TO THE PALO ALTO AIRPORT WORKING GROUP REPORT AND OPTIONS REGARDING THE FUTURE OF THE PALO ALTO AIRPORT

RECOMMENDATION
Staff requests Council direction regarding options for the future of the Palo Alto airport.

COMMITTEE REVIEW AND RECOMMENDATIONS
At the September 18, 2007 Finance Committee meeting, the Committee discussed staff’s response to the Palo Alto Airport Working Group Report (PAAWG) and also discussed options related to the future of the Palo Alto Airport. The Committee was split on the recommendation and agreed to forward the report to the full Council for its review. The Committee also had a list of questions that required additional research by staff and directed that responses to these questions be forwarded to Council with the report. See Attachment A.

PREPARED BY: WILLIAM W. FELLMAN
Manager, Real Property

DEPARTMENT HEAD: CARL YEATS
Director, Administrative Services

CITY MANAGER APPROVAL: EMILY HARRISON
Assistant City Manager

ATTACHMENTS
Attachment A: Questions from the 9/18/07 Finance Committee Meeting
Attachment B: CMR:361:07
ATTACHMENT A

Questions from the Finance Committee Meeting:

1) What is the current status of establishing Safety Zones at Palo Alto Airport "PAO" and do the safety zones have any bearing on future development in San Mateo County and East Palo Alto?

The safety zones at PAO are currently being created to recent FAA requirements. Walter Windus, a County of Santa Clara Airport Land Use Commissioner is working with the City Surveyor to establish the safety zones for the PAO. Once the safety zones have been created, they will be shared with surrounding jurisdictions. The north safety zone will be submitted to San Mateo County and East Palo Alto for adoption. The south safety zone will be adopted by the Santa Clara Airport Land Commission and the City of Palo Alto. The safety zones at both ends of the airport are over property owned by the City of Palo Alto. Staff believes that the proposed safety zones will not restrict development in San Mateo County, but this will be verified.

2) Will the Army Corps of Engineers levee report recommend a realignment of San Francisquito Creek? Will the Army Corps buy any required right of way? Is the Army Corps considering the effects of global warming in its report? If the location of the creek is changed, would the County boundary line change?

The Army Corps of Engineers Levee Report is under way but will not be available for review until the year 2010. One proposal that is still being considered is to return San Francisquito Creek to its original location. Another alternative would create a ponding area on the golf course. Staff was reminded by the Army Corps of Engineers that, at this point, these are suggested proposals still under review. Typically, the Army Corps leaves the purchase of any required right of way up to the lead agency. In this case that would be the San Francisquito Creek Joint Powers Authority, of which the City is a member. The Army Corps is taking into consideration the effects of Global Warming as part of its study. Staff does not believe that the boundary line between the two counties would change as a result of any realignment of the creek.

3) What did Mr. Wiswell mean when he indicated that PAO should be run as a "business node" and not a recreational facility?

Staff asked Mr. Wiswell to explain the concept of running the airport as a business node. His response was that "all airports are "business node" airports to a varying degree. Businesses locate in the community and operate into and out of the community because the community has an airport. Having a local airport is a
factor in a business deciding to locate in that community. Central to a public agency owning a business-use airport are community employment and the resulting tax base. An airport that is supportive of business provides good accommodations and services such as a pilot lounge, small meeting rooms, rental car access, timely fueling etc.

A business node airport should also be run like a business. PAO is a desirable location in the heart of Silicon Valley since it is close to Stanford and several large corporations. Given this fact, PAO is desirable for local airport access and it is reasonable if fees are higher than at other local airports. Mr. Wiswell recommends that a comprehensive economic impact survey and assessment of PAO be conducted to help develop a long-term revenue model that will not only meet Federal and State requirements but also provide the revenue for infrastructure requirements not funded by the Federal or State grants. He strongly recommends that the construction of additional hangars be considered to create a new revenue source.

4) Will the new light jets and the short single runway make PAO obsolete?

No, it is estimated that 95% of the current general aviation aircraft can land at PAO and, given the rapid pace of technological advancements being made in aircraft engines, the need for a 3,500 foot runway could likely change. The State claims that what will make PAO obsolete or unattractive to a business flyer is a lack of services. Business aviation is the fastest growing segment of air travel at local airports because of convenient access and the travel and congestion difficulties at commercial airports. Easy access to Silicon Valley and Stanford makes PAO an extremely attractive location for businesses.

5) If the City were to take back PAO, what does staff estimate the time line to be?

Staff believes that before there is change in management, including potential third party management of PAO, a closer relationship with the County and a full understanding of airport operations is necessary. This includes staff thoroughly investigating how other public agency airports are managed. Staff believes that it will take at least three years to transfer management responsibilities from the County to the City.
<table>
<thead>
<tr>
<th>Estimated Timelines for Eventual Airport Transfer to City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Time to complete</td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>Current Agreement &amp; Grant Reviews</td>
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<tr>
<td>Airport Comparisons</td>
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<td>Metropolitan Transportation Commission General Aviation Review</td>
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<tr>
<td>US Army Corp. of Engineers Levee Report</td>
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<tr>
<td>MTC General Aviation Review</td>
</tr>
<tr>
<td>City/County Negotiations</td>
</tr>
<tr>
<td>FAA Grant Proposal review</td>
</tr>
<tr>
<td>Review of County Financial Statements</td>
</tr>
</tbody>
</table>

6) What would happen to PAO if Moffett Field became a general aviation airfield?

The State is unaware of any plans for NASA to transfer ownership or to run a general aviation airport. Moreover, both the Cities of Sunnyvale and Santa Clara are opposed to Moffett being used for general aviation. PAO remained open when Moffett was an operating military airport, so there would be no reason for the FAA to close PAO if Moffett Field became a general aviation airport. Staff was also told that if local authorities were to close PAO, the FAA would require prorated payment of any outstanding FAA grant monies.

7) What is the State’s vision for PAO?

The State believes that PAO is an important reliever airport. Due to its central location to the Silicon Valley businesses, Stanford University, and the Stanford hospitals, it will continue to be vital asset for many years to come.

8) Who will be responsible for the County levee?

The Board of Supervisors voted to discontinue maintenance of the current airport levee. The City of Palo Alto will now be responsible for the levee. This levee is included in the Army Corps of Engineers levee evaluation due in 2010.
9) PAO has a 10% tie down vacancy rate. Is that a trend or spike and does it have any relationship to the County’s increase in tie down fees?

At the Finance Committee meeting on September 18th, staff responded that it was too early to tell if increased rates have caused an increase in the vacancy rate for tie downs. Mr. Wiswell suggests that due to PAO’s desirable location, higher fees can be charged. This appears to be true given the higher tie down vacancy rate at other Bay Area airports as shown in the table below. The County does plan to increase the rate again in the summer of 2008. If the County continues to increase the rate annually until the end of its lease in 2017, it is possible that the vacancy rate could increase to the point where revenue generation would be affected. Fee increases will need to be evaluated carefully.

When staff polled other Bay Area airports, it was interesting to note the extremely high demand for hangar space (shown in the following table). One of the PAO FBO’s asserts that if one of their hangars became vacant, it could be rented again in an hour.

The following is a sample of other public-run Bay Area Airports tie down vacancy rates and hangar wait lists:

<table>
<thead>
<tr>
<th>Location</th>
<th>Tie-Down Vacancy Rate</th>
<th>Hangar Wait List</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Palo Alto</td>
<td>10%</td>
<td>No Hangars Available</td>
</tr>
<tr>
<td>2) Nut Tree</td>
<td>15%</td>
<td>38</td>
</tr>
<tr>
<td>3) Hayward</td>
<td>30%</td>
<td>333</td>
</tr>
<tr>
<td>4) Livermore</td>
<td>43%</td>
<td>270</td>
</tr>
<tr>
<td>5) Reidhillview</td>
<td>50%</td>
<td>167</td>
</tr>
<tr>
<td>6) South County</td>
<td>79%</td>
<td>63</td>
</tr>
<tr>
<td>7) Livermore</td>
<td>60%</td>
<td>200</td>
</tr>
</tbody>
</table>

10) How are the master plans for the Baylands and the Airport in conflict? And the lease?

The County would like to construct hangars at PAO in order to generate more revenue. The 1990 Baylands Master Plan states “In general, make no changes in the airport activities that will increase the intensity of the airport use or will significantly intrude into open space”. The word “intensity” is a key term, but it is not defined. The County’s proposal to add hangars in the open space adjacent to Embarcadero Road could be considered a visual intrusion into open space and an intensification of use. The vacant acreage the County has selected, space adjacent to Embarcadero Road, is considered the entrance to the Baylands.

Adding hangar space in place of tie down space, however, could reduce the number of planes at PAO since an individual hangar would take up more square footage than a single tie down space. It has been suggested that hangar space can
be located in existing tie-down areas closer to the FAA tower, reducing the total number of airplanes and not being in potential conflict with the Baylands Master Plan. An analysis of the revenue consequences of such a plan would have to be conducted.

11) Why did staff feel that the County use of depreciation was misleading?

The City Auditor stated in her report that “Although depreciation expense does not affect the County’s annual calculation of the outstanding advance, it has sometimes been included in public discussion in a way that can mischaracterize the Airport’s current cash flow position. The County’s depreciation schedules amortize capital improvements and other projects completed at the Airport between 1966 and 2001. The schedules list improvements costing over $4,965,000, of which $3,383,000 was funded by Federal and State grants. Federal and State grants covered as much as 81% of the cost of some projects, and averaged over 68% of the total cost of all the projects. Depreciation expense (including depreciation on projects funded by Federal and State grants) fluctuated from $417,321 to $184,426 to $312,974 in FY 2002-03, 2003-04, and 2004-05, respectively. This can dramatically impact the appearance of profit or loss at the Airport in any given year. However, depreciation is not a flow of cash, and is irrelevant to the calculation of the outstanding advance.”

12) What was the actual wording by the Board of Supervisors on December 16, 2006 with regard to its interest in the PAO?

The Board of Supervisors voted to:

1. Approve the continuing fulfillment of the County’s obligations under the lease with the City of Palo Alto for the airport property until expiration of the lease in 2017 provided the City does the same, including allowing the County to develop the airport as agreed upon in the lease.

2. In 6 months, reconsider termination of involvement in the airport upon expiration of the lease with the City of Palo Alto, or earlier if desired by the City. In addition, direct the Administration to collaborate with the City of Palo Alto in an effort to resolve developmental issues relating to the Palo Alto Airport for report to the Board in June 2007. In June, the Board postponed the reconsideration of termination of the lease until the Palo Alto City Council determined if it was going to take back the airport early.

3. Approve limitation on future County capital investment in the airport to the following: 1) revenue-generating projects that will produce an acceptable rate-of-return prior to expiration of the lease; 2) the local match necessary for essential, non-deferrable, grant-eligible maintenance projects or security-related projects mandated by the Federal Aviation Administration (FAA) or Transportation Security Administration (TSA).
Non-revenue projects ineligible for grant funding should not be undertaken.

4. Direct Administration to forward all future Airport Improvement Program (AIP) grant applications to the City of Palo Alto for signature and submission to the FAA.

5. Approve increase in tie-down rates by 7.6% and increase in the fuel flowage fee from 10 cents per gallon to 20 cents per gallon effective January 1, 2007 to help ensure the airport is financially self-sustaining on a full-cost basis.

6. Direct Administration to pursue revenue-generating uses of the Embarcadero Road parcel in accordance with the development plan currently in force under the County’s lease with the City of Palo Alto.

7. Approve termination of involvement in the levee maintenance agreement with the City of Palo Alto and the Santa Clara Valley Water District (SCVWD) and pursue an amendment to the lease between the County and the City of Palo Alto to remove from the leasehold the levee parallel to the runway.

13) If the City decided to close the PAO how much money would be due to pay off the outstanding FAA Grants?

Staff estimates that the total amount due if PAO were to close in 3 years would be $1,251,322. If PAO were to close in 2017, the amount due the FAA would be $448,367. The County is proposing to apply for future grants.

14) If the City took back PAO, how would the rental rate be established? Would there be any compensation to the General Fund?

Airports that receive FAA grant funds are required to be self-funding with any money generated at airports to be used by the airport. Staff has not determined the rental rate but the transition process would include a study of other airports’ rental rates. The few General Aviation Airports run by public agencies that staff has spoken with have established an enterprise account in lieu of charging rent.
TO: HONORABLE CITY COUNCIL
ATTN: FINANCE COMMITTEE
FROM: CITY MANAGER
DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: SEPTEMBER 18, 2007
CMR: 361:07

SUBJECT: STAFF RESPONSE TO THE PALO ALTO AIRPORT WORKING GROUP REPORT AND OPTIONS REGARDING THE FUTURE OF THE PALO ALTO AIRPORT

RECOMMENDATION
This report responds to the June 4, 2007 Palo Alto Airport Working Group Report; presents options regarding the future of the Palo Alto Airport; and requests Council direction on which option to explore.

BACKGROUND
The 50-year lease between the City and the County of Santa Clara for the Palo Alto Airport (PAO) terminates in 2017. On December 12, 2006, County staff presented to the County Board of Supervisors a business plan (Plan) for the PAO, which included an analysis of the lease; an overview of the County Airport Enterprise Fund; an analysis of the PAO’s finances; identified future capital investment needs; and recommended County action in anticipation of the lease expiration in 2017.

The Plan noted that the County has assumed all of the business risk associated with operating the PAO; that the PAO has historically operated at a deficit; and that opportunities to generate additional revenue were extremely limited due to physical, environmental, and policy constraints. The Plan recommended that the County:

1) terminate its involvement in the PAO in 2017 or earlier if desired by the City
2) limit future County capital investment in the PAO to the local match necessary for essential, non-deferrable, Airport Improvement Project (AIP)-eligible maintenance projects or security related projects mandated by Federal agencies
3) require the City to submit all future AIP grant applications
4) raise tie-down rates and fuel flowage fees to help make the PAO financially self-sustaining and recover as much of the County’s original investment in the PAO (Outstanding Advance) as possible prior to the lease expiration.
The County Board of Supervisors approved the Plan, but delayed action on the disposition of the PAO for six months in order to provide the City an opportunity to present the County with viable development options for the PAO and time for the County staff to negotiate those options.

PAAWG Report
On December 18, 2006, Council authorized the creation of the Palo Alto Working Group (PAAWG) to analyze PAO operations and develop one or more viable business models for the PAO. The PAAWG was appointed by then-Mayor Kleinberg and included representatives from the City Council, City staff, the Palo Alto Airport Association, Stanford Hospital, the Joint Community Relations Committee for the Palo Alto Airport and representatives of stakeholder groups with an interest in PAO use and operations. On June 4, 2007, the PAAWG presented its report to the City Council.

One of the principal conclusions from the PAAWG report (Attachment A) was that airport operations were profitable. Citing the City Auditor’s review (Attachment B) of the County’s Plan and its own financial analysis, the PAAWG reported that the “PAO has the economic potential to be self-sustaining, fund necessary improvements, and cover the City management overhead associated with the required functions such as Federal grant management.” The Auditor found that airport operations generated $400,000 in adjusted net income over 37 years and the PAAWG report stated the airport had the capacity to generate a positive bottom line plus a $100,000 “set-aside” for capital improvements.

Another principal PAAWG finding was that the airport was an essential community asset and that the County ignored numerous economic and social benefits the airport provided. These included: tax revenues generated by the airport that support local jurisdictions; transportation for businesses and their employees; transport for hospital patients and transplant organs; pilot training and certification; recreation space for the local community; emergency support activities; and the PAO’s part in the Bay Area airport and transportation system. To prove these benefits, the PAAWG cites a variety of statistics on airport employment, sales and property taxes, fees generated, and business activity.

The PAAWG concluded:
- The PAO is an important transportation, business, economic, recreational and emergency preparedness asset for the City and its residents;
- The PAO can be operated on a self-sustaining economical basis and be cash positive without requiring any financial support from the City;
- The continued operation of the PAO by the County will both diminish the resource value of the airport and threaten its long-term economic viability.

These conclusions led the PAAWG to recommend that the City Council:
1. Direct the City Manager to negotiate an early termination of the existing PAO lease with the County;
2. Appoint an interim manager for the PAO; and
3. Issue an RFP for the long-term management of the PAO, which will ensure its asset value to the community is maintained and will preserve its economic value into the future.
County Action
Following the PAAWG report, County staff reported to the Board of Supervisors on June 19, 2007 that the City had agreed to consider, as long as the County followed the City’s development application process, a County proposal to develop 30 hangars on the vacant parcel along Embarcadero Road (this parcel is part of the PAO lease). The County indicated it would proceed with the preliminary work necessary to prepare such an application, but would most likely not proceed to final design because of project costs and until the City Council made a decision on recommendations contained in the PAAWG report. A formal request from the County has not yet been received.

DISCUSSION

City Consultant Analysis and Comments
To assess the County’s findings, the PAAWG’s recommendations, and the significant responsibilities of running a municipal airport, the City retained the services of an experienced airport manager. The consultant, R. Austin Wiswell, is the former Chief of the Division of Aeronautics for the State of California Department of Transportation, where he was responsible for administering the state’s airport grant and loan programs; permitting and safety compliance inspections of 243 public use airports and 140 hospital heliports; evaluating environmental issues; and conducting statewide aviation system planning to ensure integration of a regional, state, and national air transportation system. Prior to working for the State, Mr. Wiswell was the general manager of an airport management company that operated a county-owned airport in Sedona, Arizona; managed the Yolo County Airport for 4 years; worked for Allied-Signal Aerospace Company; and served for 23 years in the U.S. Air Force as a fighter pilot and headquarters staff officer.

Mr. Wiswell prepared two reports: one focusing on Federal and State requirements for operating an airport (Attachment C); and the second commenting on the County and PAAWG reports (Attachment D). In the June 14, 2007 report, Mr. Wiswell outlines the obligations and responsibilities of the City as owner of the PAO. These commitments apply to the City whether the airport is leased to the County or run by the City. Citing Federal and State circulars and regulations, the consultant states, “It is a Federal obligation to have revenues exceed expenses such that the airport is financially self-sufficient and ... self-sustaining.” This requirement is a direct consequence of accepting Federal and State grants for airport improvements. In addition, the use of grant money obligates the owner/lessee to maintain airport pavements, runways, taxiways, parking aprons and ramps. It should be noted that the City has already formally accepted the obligation to continue the airport usage to the year 2025 or reimburse the FAA for the unamortized portion of the two previous grants submitted and accepted by the County. Mr. Wiswell’s first report ends with a fundamental observation, “...being the owner-sponsor of an airport is a business matter; a property management business task. ...the safe use of the ‘property’ is task number one.” The theme of running the airport as a business that is financially solvent and capable of meeting operating and capital requirements is basic and runs throughout Mr. Wiswell’s recommendations.

On July 6, 2007, the consultant submitted his observations and recommendations on the County and PAAWG reports. His most penetrating and insightful question for the City to consider is “what does the City want the airport to be.” In other words, what mission or purpose does the
City want the airport to serve in light of Federal and State mandates. A clear vision of a municipal airport’s role is needed before assuming operations. Such a vision would guide the timing of City control of the airport and how it will manage it. In Mr. Wiswell’s view, the airport’s primary value and overall purpose is as a “transportation node,” a departure and arrival point. He compares this to the predominant, current use of the airport as a recreational and training facility despite its use by Stanford hospital and business travelers and its potential use for emergencies. While the airport has constraints, physical and master plan-wise, that prohibit it from becoming a commercial facility, there are opportunities to consider that will ensure long-term financial solvency.

After making the essential point on a City vision or business plan for the airport, the Consultant commented on PAAWG recommendations and statements:

1. Early termination: The consultant supports exploring direct operational control by the City and to begin negotiating earlier termination of the lease. In his view, City operation of its airport as a public-entity responsibility will better serve its users and the community. Management of a City-owned transportation and economic asset can produce value.

Before assuming control of the PAO, however, the report strongly recommends that the City needs to thoroughly educate itself on Federal and State obligations, risk exposures, and the liabilities it would assume with oversight. The City must notify both the State of California Aeronautics Division and the FAA of its intent to assume control from the County and to ensure that all past financial obligations and compliance requirements incurred by the County are known, resolved, and properly transferred.

2. Interim Manager: It is important to distinguish between a “Manager,” who has policy setting or contracting authority, and an “Operations Supervisor,” who does not determine policy or enter into contracts, but who has authority to negotiate lease/rental agreements, collect payments, and authorize disbursements. Mr. Wiswell recommends initially hiring an Operations Supervisor who can eventually be promoted to an Airport Manager after the City evaluates their progress and success.

3. Request for Proposal: Prior to issuing an RFP for a contractor for management of the PAO, the City should acquire more information from other airports concerning contractor operation of a publicly-owned general aviation airport, whether it be a for-profit or not-for-profit operator, an airport FBO, or a City-chartered entity. Specifically, the consultant recommends contacting representatives of three other airport operations. One is the City of Oceanside, which has struggled for years as to how its airport, currently run by the City’s Public Works Department, should be managed. Although the County of San Diego has offered to take over Oceanside’s airport given its regional importance, the City of Oceanside has decided to send out an RFP.

The other airports are county-owned airports: one that is run by a for-profit organization and one that is not. The latter believes a not-for-profit entity, run by itself, provides more control over personnel issues. It is interesting to note that of the 243 state-inspected airports, only 20 are operated by an entity other than a County or City.
The consultant does not delve deeply into the points made by the County, Auditor, or PAAWG on the financial performance of the PAO. He does note, however, that the increases in tie-down and fuel flowage fees by the County are its only options to enhance revenue and recoup its investment even though attempts to increase revenue could have been implemented earlier. In his view, the fees may be somewhat high, but this is offset by what he regards as a seller's rather than a buyer's market for local airport facilities. He notes that currently interpreted restrictions placed on hangar expansion by the Baylands Master Plan and the non-indexed, long-term leases provided to the FBO operators severely restrict additional revenue opportunities. Specifically, the consultant states PAO has a revenue generation base which favors the tenants rather than PAO needs. He advocates creating a revenue generation system of many sources equitably applied across all PAO tenants, users, and uses. While recognizing PAAWG's model for determining the broad economic benefits the airport bestows, the report recommends engaging an experienced professional entity to conduct a comprehensive economic impact survey and assessment of the PAO's value to the community and its businesses. It is essential that the City develop a long-term revenue model that keeps the airport solvent and is able to meet Federal and State matching requirements for capital projects as well as infrastructure improvements not funded by Federal or State jurisdictions.

As stated, the Baylands Master Plan prohibits an increase in the intensity of use of the PAO. Mr. Wiswell argues that building additional hangars does not necessarily translate into more intense use. A short, single runway and demographic and economic factors may affect the number of future airplane flights, and it is not certain that use will intensify. Moreover, he states that there have been architectural modifications to hangars that make them aesthetically less intrusive. He recommends the City re-examine its Baylands Master Plan to determine if an accommodation can be made for additional hangars and relocation of the terminal facility. Additional hangars represent an enhanced and steady revenue base. One FBO operator has noted that hangers are in strong demand by airplane owners.

Additional Issues
One issue not considered in the PAAWG or consultant reports that will have a significant bearing on the future of PAO is the anticipated improvements to San Francisquito Creek. The Army Corp of Engineers will complete its report in 2010. One of the alternatives being considered is to return the creek to its former location, which would cut across the golf course and run down Embarcadero Road to the Bay. At the very least, staff anticipates that the recommendations will include extensive repairs to the current levees, including the levee the County built on the easterly edge of the airport and for which it now wants to terminate any maintenance responsibility.

Another issue is hazardous materials. In anticipation of a return to City control of the PAO in 2017 or earlier, City staff from Planning, Public Works, Administrative Services and the Attorney's office performed a cursory inspection of the PAO including the FBO buildings. In addition, the Fire Department regularly inspects the airport. Overall, the PAO is in good condition, especially with the improvements on the Roy Aero FBO property. The hangars are in remarkable condition considering their age. Due to the age of the buildings, however, and prior use of the PAO by the military in World War II, staff is concerned about the presence of
hazardous materials. Staff is recommending a hazardous materials investigation be undertaken as one of the steps in determining the future of the PAO.

**Staff Response to the County and PAAWG Reports and Consideration of Options**

The County staff’s proposal to terminate the lease in 2017 and offer to terminate even earlier places the City in a perplexing situation. By belatedly trying to recapture the Outstanding Advance (a term the County coined for the difference between the County’s total capital investment, including grant matching fees, and the net revenue generated over the life of the lease) and building cash for future grant funding matches, the County has alienated its customers with higher fees than surrounding airports and is forcing the City to make some untimely and difficult decisions. City staff does not have the County’s expertise in overseeing or running an airport and it will take time to build a viable knowledge base.

Staff acknowledges the PAAWG’s concerns about the County’s steep increases in fees and the potential for deterioration in airport infrastructure. To ensure the latter does not occur, City staff believes it necessary to work more closely and cooperatively with the County on Federal and State grants. This would enhance staff’s knowledge, fulfill a basic City obligation to understand the implications and terms of receiving a grant, and provide a realistic transition into eventual oversight of the airport. Based on government requirements and the County’s work to (e.g., a complete repaving of the airport in 2001, repaving a portion of the access road, installing perimeter fencing gates, and implementing a noise implementation program), it is unlikely the County will ignore basic improvements. The County has a good record with the State on correcting safety issues, and the users of the PAO appear to approve of current on-site staffing levels. In addition, the County has been cooperative in meeting fire and storm water run-off regulations. Although the County is focused on recapturing its Outstanding Advance, it is likely to meet its minimal operating and capital commitments.

The City has three options:

- do nothing and wait until the lease expires in 2017;
- assume responsibility for the PAO immediately; or,
- plan for an orderly transition to City oversight and taking a more active, immediate role in the PAO operation.

Doing nothing exposes the City to short and long-term uncertainties. Deterioration of the facility is a possibility that could increase future capital costs and impose further burdens on users and the City. Moreover, the review of Federal requirements indicates the City should assume a more knowledgeable role as owner of the airport. In staff’s view, the PAAWG’s recommendation to take over the airport immediately is far too aggressive and ignores the City’s lack of expertise in overseeing airport and the necessary due diligence in preparing to run a business operation. Mr. Wiswell does not recommend an immediate takeover and staff believes the City is not in a position to assume the responsibilities this action engenders.

Staff agrees with Mr. Wiswell’s suggestion, that before undertaking the responsibilities of the PAO, the City must have a clear mission for the PAO and a clear picture of the tasks it faces. He notes, for example, that the number of active pilots is reaching a plateau; that the Federal Aviation Administration is considering imposing fees on general aviation activity; and that the
costs of insuring and maintaining airplanes may have a substantial dampening effect on the number of plane owners and their flights. Before the City enters into the airport business, the financial impact of these trends requires evaluation. As stated, due diligence is required in any new business venture.

Being self-sustaining is not only a Federal and State requirement, but a necessity given the financial challenges the General Fund faces. To assure the financial viability of the airport, the City will need to explore future financial relationships with the two FBO’s, carefully weigh the Baylands Master Plan guidelines, and seek a better balance between the current recreational model, the FBO role, and any additional business potential the airport may have. For example, the PAAWG’s revenue analysis for the past 4 years (page 5 of its report) indicates that the County is receiving a relatively low 22.6 percent of airport total net earnings with the remainder going to the two FBOs. This relationship, while understandable from an historical perspective, requires realignment to more adequately reimburse the City for its risks.

The County is realizing a modest profit ($11,000 per year over 37 years), but staff believes that the long-term operational and capital needs require a stronger revenue base. By including depreciation in its public statements about the airport’s financial condition, the County does bend the picture of its cash position. Nevertheless, staff agrees it is necessary to set aside monies, as the PAAWG notes, for capital matching requirements and projects that are not funded by the Federal or State government.

Staff finds option 3 the most viable. It would provide for a gradual, “open-eyed” transition to City airport oversight. The transition could occur in approximately 3 years. This will allow time for:

1. Council consideration and development of the airport’s mission.
2. Staff work with the County to master basic information and requirements.
3. An outline of all City obligations and responsibilities for the PAO whether it operates the PAO or contracts it out.
4. An economic analysis to determine the long-term viability of the PAO and providing assurance that sufficient funds can be generated to offset annual expenses and capital work.
6. Obtaining written confirmation from the County on a waiver of re-payment of the “Outstanding Advance.”
7. Assessing and seeking the most viable management arrangement for the airport.
8. Consideration of the Army Corp of Engineer’s recommendation on San Francisquito Creek
9. A complete legal analysis of the County/City PAO lease and examination of all the airport contractual agreements.

In conclusion, staff recognizes the many benefits the airport currently provides and can provide to the greater community. Staff does not support the PAAWG recommendations to appoint an interim manager or to issue an RFP for the long-term management of the PAO at this time. Running the airport is a major responsibility and must be approached with careful planning. A gradual transition period that addresses the issues identified in this report is recommended.
RESOURCE IMPACT
Staff will return to Council with estimates and a budget request for the option chosen by Council.

POLICY IMPLICATIONS
Staff’s recommendations are consistent with City policy and based on information included in the reports by the City Auditor, the PAAWG, and the Consultant.

ENVIRONMENTAL REVIEW
An environmental impact assessment (EIA) as may be required by the California Environmental Quality Act (CEQA) will be performed in connection with future Council decisions regarding the PAO.

PREPARED BY:  
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CARL YEATS
Director, Administrative Services

CITY MANAGER APPROVAL:  
EMILY HARRISON
Assistant City Manager

ATTACHMENTS
Attachment A: PAAWG report
Attachment B: Auditor’s Report
Attachment C: June 14, 2007 Consultant Report
Attachment D: July 6, 2007 Consultant Report

cc: County of Santa Clara
    JCRC
    Chair of the PAAWG
Palo Alto Airport Working Group (PAAWG)

Report to Palo Alto City Council:

The Community Value, Economic Viability and Future Management of Palo Alto Airport

May 2007
Palo Alto Airport Working Group (PAAWG)  
Concluding Report and Recommendations to  
Palo Alto City Council

PAAWG Resolution:

The PAAWG, having carefully reviewed the operation of the Palo Alto Airport resolves:

1 – The Palo Alto Airport is an important transportation, business, economic, recreational and emergency preparedness asset and resource for the City of Palo Alto and its residents.

2 – The Palo Alto Airport can be operated on a self-sustaining economical basis and be cash positive without requiring any financial support from the City.

3 – The continued operation of the Palo Alto Airport by the County will both diminish the resource value of the Airport and will threaten its long-term economic viability.

The PAAWG hereby recommends that the City Council direct the City Manager to negotiate an early termination of the existing Palo Alto Airport lease with the County, appoint an interim manager for the Airport, and issue an RFP for the long-term management of the Airport, which will ensure its asset value to the community is maintained and will preserve its economic value into the future.

>>> Passed unanimously by PAAWG (with Larry Klein, City of Palo Alto, Vice Mayor, Bill Fellman, and Chris Mogensen not voting).
Executive Summary

In late 2006, the City Council authorized the creation of the Palo Alto Airport Working Group (PAAWG) to advise the Council on two basic questions:

- Is the Palo Alto airport an important community asset?
- Can the Palo Alto airport be run on a profitable basis?

The PAAWG was tasked with providing this assessment to the City Council within 6 months.

The information contained in these pages represents the output from the PAAWG efforts and hopefully provides the Palo Alto City Council with an independent assessment of the Palo Alto Airport as an important community asset, to both the city and the region, as well as a perspective on the economic value and other benefits of the airport to the City of Palo Alto and its residents.

Purpose: This report is the PAAWG response to the City Council’s request for information and a recommendation to the City Council about Palo Airport management vis-à-vis Santa Clara County (the current lessee), regarding the impact and timing of a structural change in the operations lease.

This report addresses:
- The airport’s value as an essential community asset
- The airport’s actual and derived economic contribution
- The airport’s operations and management
- The airport’s future alternatives and management recommendations.

Notwithstanding its very interesting and profitable history, the Palo Alto Airport has recently been judged by the Santa Clara County Airports Division as a target for divestiture due to County reported negative financial performance. This inaccurate judgment appears to be more representative of a political decision than a carefully considered economic analysis. The County has ignored the Palo Alto City Auditor’s audit of County finances, which proved the economic viability of the Palo Alto Airport (which earned more than $400,000 over the past several years), and it also ignores the value of many other economic benefits such as tax revenue and the economic value of emergency support activities at the airport, many of which have enormous value to the City of Palo Alto as well as the entire Bay Area.

Herein lies the principal issue and the reason for this report – the Palo Alto City Council wishes to have a concise and independent evaluation of the airport’s economic value to the community in order to make a judicious decision on the future of this essential resource.
Palo Alto Airport Working Group Findings

Palo Alto Airport (PAO is the FAA airport identifier code) is a vital component of the local transportation network and has many important community benefits:

1. Support for local business travel requirements
2. Transportation of patients and transplant organs to Stanford Hospital
3. Initial pilot training, certification, and bi-annual reviews
4. Recreation space for the local community
5. Serves as an important link to vital services and supplies in the event of an earthquake or other major emergency incident
6. Part of the overall Bay Area airport system and transportation infrastructure

See Appendix 1-A: *Palo Alto Airport -- Essential Community Asset*

Palo Alto Airport is a significant part of the local economy, directly employing some 275 full and part-time flight instructors, maintenance technicians, administrators, and various other workers. The total annual revenue is $12.5 million dollars and total payroll is approximately $5.3M. Property and sales taxes amount to over $2 Million annually, supporting the local schools and community colleges as well as the City and County general funds.

The Palo Alto Airport is an essential community asset, addressing many community needs and interests, as well as, providing an array of important economic benefits to the City of Palo Alto. PAO has the economic potential to be self-sustaining, fund necessary improvements, and cover the City management overhead associated with the required City oversight for functions such as Federal grant management.

Palo Alto has had an airport since 1928 and now boasts the busiest single runway airport of its size in the country with around 200,000 operations annually. It also is host to the country’s largest flying club, West Valley Flying Club (a non-profit organization), and to four smaller flying clubs.

In addition, the Palo Alto Airport is a pilot training resource for a broad variety of people, from celebrities such as Joe Montana and several US astronauts to ordinary people like you, me, and many of our neighbors.
Summary Economic Overview of Palo Alto Airport (PAO) today –

- Actual airport revenues total about $1.75M, of which 94% are sourced from rental and lease income, with the remaining income from fees received for transient parking and airport fuel flowage (a common source of revenue for an airport operator). The total direct expenses are for personnel, totaling $442,000 at the County, and an additional amount, totaling $438,000 for employees of the two Fixed Base Operators (FBOs) at PAO. An FBO is an independent (non-governmental) entity associated with airport services, operations or maintenance. This provides a gross margin of nearly 50% – a positive cash flow from current airport operations.

- Most of the major infrastructure expenses (i.e., runway and taxiway resurfacing, automated weather reporting, runway lighting, security fencing, etc.) for airports throughout the country are applied for and covered under the FAA Federal grant system.

- Staffing and operational costs for the FAA Tower at PAO are not paid by Santa Clara County or the City of Palo Alto, but are separate and also covered by the Federal Budget. The PAO tower facility and the professionalism of its ATC (Air Traffic Control) staff are what make the number of annual flight operations at this airport possible.

- PAO is part of the regional and national transportation system. It is simply the "on-ramp" to the vast network of airports and airways leading throughout the nation and the world. As such, it supports the business, medical, emergency, and personal transportation needs for the community. But, there are direct local benefits as well, such as pilot training and providing jobs doing the essential work of the airport. Airport businesses have a combined payroll of $5.3 Million, a significant percentage of which is spent in the local community. The PAAWG notes that the scale of flight operations at PAO is a direct indicator of this regional value.
Palo Alto Airport (PAO)

Estimated Average Annual Composite
Pro-Forma Income Statement
(In current dollars, averaged over the period 2000-2004)

<table>
<thead>
<tr>
<th></th>
<th>SC County</th>
<th>FBO-1</th>
<th>FBO-2</th>
<th>PAO Total</th>
<th>% Rev.</th>
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<tr>
<td><strong>Revenue (Income)</strong></td>
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<tr>
<td>Lease Income</td>
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<td>(Salaries, Benefits,</td>
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<td>$338,048</td>
<td>$100,000</td>
<td>$880,303</td>
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<tr>
<td>And Maintenance)</td>
<td></td>
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<tr>
<td><strong>Net Earnings (Loss)</strong></td>
<td>$228,241</td>
<td>$608,120</td>
<td>$174,500</td>
<td>$1,010,861</td>
<td>53.5%</td>
</tr>
</tbody>
</table>
Current State of the City/County relationship

The County of Santa Clara Roads and Airports Department operates the Palo Alto Airport (PAO) under a lease agreement with the City of Palo Alto which expires in 2017. Moneys collected by the County at the airport flow into an enterprise fund which is independent of the tax-supported general fund. The County has clearly stated that it does not want to continue operating the airport after 2017. The County asserts that it loses money at PAO, but the City auditor’s report disputes this view and also notes that County overhead charges amount to 40% of revenues collected by the County at the airport (this does not include tax revenue).

A bulk of the total revenue at PAO is collected by the two FBO sub-lessees who have long-term lease agreements with the County, which also expire in 2017. After 2017, these sub-leases will also expire and all property at PAO will revert to the City. Also after 2017, the combined revenue for all facilities at PAO should be expected to be much larger than what the County collects today.

All of the hangars at PAO were built by and are further sub-leased by the FBOs to aircraft owners, as agreed under the County to FBO sub-leases. Hangars are rented at market rates and produce a very large profit because there is a strong demand and a shortage of available units. Reid-Hillview (RHV) Airport, which the County owns and operates, shows a very satisfactory profit due to its hangar rentals, which the County rents directly to aircraft owners and operators. At PAO, the County’s lease agreement with the two FBO’s generates only modest revenue for the County with most of the cash flow from the rental of hangar space flowing to the FBO sub-lease holders. Recognize that the lease agreement between the County and the FBO’s was completed many years ago and the terms were made attractive to encourage the private investment necessary to fund hanger construction. Current FBOs, like most local real estate investors of the period, are now simply reaping the reward from their earlier private investment.
Some Sources of Conflict –

Split Ownership and Management with Conflicting Decision Making

In 1978, the City adopted a Baylands Plan which stated, relative to the airport, that “no changes are planned which would take over a significant amount of the airport, and that a second runway would not be built. The Airport will have two Fixed-Base Operators, but a third will not be built.” There is no included definition of “Fixed Base Operator,” thus the exact meaning and intent of this last statement is unclear. The lease with the County was amended so that a second runway could not be added and no expansion of tie-down space beyond 510 spaces could occur without the concurrence of the City.

In October of 2005, the County produced a Master Plan for PAO. It included some changes required to the airport layout to bring the taxiways more into line with FAA guidelines and move the heliport to comply with FAA Heliport guidelines. It also proposed a Baylands Welcoming Center and a new terminal, moving the terminal beyond the FAA defined “runway safety zone.” Recognizing the need for more hangars to provide protection for some (typically more valuable) aircraft and their associated income generating potential, the plan also calls for adding 18 hangars adjacent the taxiway North of Embarcadero Road. It also raised the possibility of additional hangars closer to Embarcadero Road, but made no recommendation in this regard. If these hangars were built, it would raise the total number of new hangars to 29. Significantly, the plan did not call for any increase in runway length or width. The design and location of the terminal are thought to be highly negotiable. The current terminal is in an old “temporary” building and cannot be significantly modified in its present location as it lies within the runway protection zone and is a non-conforming use.

During the development of the PAO Master Plan, the County’s consultants were aware of the City Baylands Plan and as a result showed only modest changes to the Airport. However, one particularly important point for the County was the construction of additional hangars, as these would have generated additional income to further increase the County Airport Enterprise Fund. The County’s PAO Master Plan was in conflict with the City Baylands Plan, which would have required some modification to permit the improvements envisioned by the County plan. Ostensibly, the County improvements would have been done with FAA funding, but hangars are not eligible for Federal Airport Improvement (AIP) Program grants. It was at this point in time that the County Roads and Airports Director decided that the County should abandon the airport at the end of the lease.

Clearly the Roads and Airports Department is frustrated by constraints placed on PAO, which are not under County control.

Without the potential income from the new hangars and due to the perceived constraints, the County argues that the Airport will likely lose money in the future and cited various
other “business risks” in continuing to operate PAO. The County’s Business Plan states: “The airport is severely constrained from physical, environmental and policy standpoints; existing City policies specifically prohibit physical expansion of the airport into open space areas [on the airport property], significantly increasing the intensity of operations, or adding a third FBO. In light of these constraints, only minor changes to the Airport’s airfield area were identified in the Master Plan.”

Oddly, the Roads and Airports Department paints a much rosier picture for South County Airport (E16), which has always required a subsidy from the Enterprise Fund and has been far more costly to manage in terms of land acquisition and facility improvement expense – South County revenues have not covered these costs to this day. Without the constraints posed by the PAO location, the County hopes the South County Airport may prosper sometime in the future.

Once the County decision for non-renewal was taken, the Roads and Airports Department decided to try to maximize its revenue and minimize expenses as it says in the business plan: “The loss of PAO would not present any operational impacts to the County airport system because each airport’s aeronautical activities are independent.” With this view, the Roads and Airports Department is imposing a 7.5% increase per year, compounded in tie-down rates paid only at PAO and doubling PAO fuel flowage fees (again, not at other County airports). These rates are thus higher than surrounding airports and the gap will widen further over time, but the long-term effects on PAO can only be speculated upon at this point. The County’s PAO Business Plan also states that it seeks to “Limit future County capital investment in the airport to the local match necessary for essential, non-deferrable, (emphasis added) AIP eligible maintenance projects or security related projects...” The plan further predicts that the tie-down rate and fuel flowage increases will recover an additional $1 Million during the remaining period of the lease. Without other action, these policies will severely impact the quality of Paló Alto Airport facilities the County returns to City control in 2017.

The County Board of Supervisors will, in the next few months, be asked to make a policy determination allowing the Roads and Airports Department to abandon its involvement in PAO in 2017 or sooner by agreement with the City. Absent a Board of Supervisors decision compelling the Roads and Airports Department to operate its three airports as a Countywide system and spread the cost burden in a balanced manner, the Board of Supervisors will likely vote to uphold the Roads & Airports Department program for exiting in 2017. In the meantime, the Roads & Airports Department is proposing a temporary hangar project to generate additional revenue during the remaining period of the lease. If this new construction is not approved by the City, it is possible that the Roads and Airports Department will consider this “cause” for early termination of the lease and exit sooner than 2017.
Action Scenarios Contemplated and Transition Control:

There are three reasonable courses of action which have been contemplated for the City:

1. **Do nothing.** The lease will expire between Santa Clara County and the City of Palo Alto in 2017. The two major FBO leases would likely continue until term in 2017. The County would likely continue its demonstrated reduction of staff commitment and shift funding to support South County Airport (E16) and Reid Hillview Airport (RHV), at the 'expense' of Palo Alto Airport (PAO) via ignored grants and deferred maintenance. The Palo Alto Airport would likely revert to The City of Palo Alto in a condition further deteriorated than it is at present.

   - **Implications of continuing the lease with the County until 2017.**

     Under this scenario, the County will collect an additional $1 Million in excess of expenses due to increased tie-down and fuel flowage fees. Fuel flowage dropped precipitously with the County increase in flowage rates, and it is not clear that this will produce any extra revenue. Planned tie-down rates at PAO will have increased by a factor of 2.06 by 2017, with the smallest (and typical) rate then being $248/month. Other County airports will be at an estimated $154/month by that date.

     Only "non-deferrable" maintenance will be performed which will likely result in a maintenance backlog and a further deterioration of PAO airport facilities. The increased tie-down rates, coupled with the disinvestment in the airport, will probably cause some reduction in flight training and flying club activity and the consequent loss of some jobs at the airport. Personal property taxes collected at the airport could also be somewhat reduced, due to aircraft leaving PAO. Past experience with County errors confirms this price elasticity.

     If the County constructs the proposed temporary hangars it will derive additional income, but there will be no corresponding benefit to the City.

     In any event, in 2017, the City must be prepared to take over airport operations. Although income potential will be much greater in 2017, if the City inherits and assumes responsibility for the operation of considerably depreciated PAO facilities, it could be many years before profitable rental and service activities are realized.

     An alternative is for the City to request the County Board of Supervisors to reject its Roads and Airports Department recommendation to terminate the lease in 2017 and force renegotiation of terms acceptable to both parties.
2. Act now – grant the County wish to end their management responsibility for the Palo Alto Airport. Negotiate terms favorable for a balanced reversion back to City control. Manage the financial transition well, including capital accounts and claimed accruals. Manage the transition pursuant to a specific City designated Palo Alto Airport management authority which would receive policy guidance from Palo Alto City Council. Under this scenario, there are two alternative paths, either at the option of the City or because the County feels it has legal grounds for early termination:

- Implications of ending the lease with the County early where the City of Palo Alto operates the airport.

Under this option, PAO airport revenues would flow to the City. The City would need to establish an Enterprise Fund in order to accurately account for revenues and expenditures. This would be in accordance with the FAA requirements for airports accepting Federal AIP funds. The City could determine what tie-down rates should be charged on the basis of what is the best balance for the City and the airport in the long-run. The City could schedule maintenance and apply for the corresponding FAA grants at its option, thus insuring timely repairs. The County FBO sub-leases are obligations running until 2017 and would accrue intact to the City. (If the sub-leases were to be cancelled, the FBOs would likely expect compensation corresponding to the benefit they derive from their business through 2017.) An analysis (see Appendix 1-D) shows that the airport could be run profitably by the City until 2017, while honoring the existing County FBO sub-leases and yielding income of $100,000 which could defray City management costs and/or create a maintenance reserve needed for deferred maintenance and code upgrades when the leaseholds revert to the City. After 2017, the airport would generate sufficient cash to provide for any contingency.

- Implications of ending the lease with the County early where the City of Palo Alto contracts operation to an outside airport management firm or entity.

The City could, at its option, contract PAO operation to an independent airport management organization. There are alternatives under this option which are more fully described below. Basically, PAO would be run independently and the City would have minimal responsibility for it. Nevertheless, the City would have oversight responsibility as it does with any independent contractor working for the City. The City would also have responsibility for signing off on and complying with Federal grants which fund most of the capital projects at the airport. The work of preparing grant requests, filing documentation, and required reports would be done by PAO airport staff with minimal City involvement. This option speaks to stated concerns as to whether the City has the “bandwidth” to operate the airport directly.

It may prove antithetical to the community service oriented facility as the profit expectations of an FBO may not allow for adequate reinvestment in the airport.
3. **Wait, study, deliberate for 3 to 5 years.** The costs of transition will continue to increase over time. Uncertainty of operating expense management will continue (i.e., fuel flowage, tenant charges, collections). A Sinking Fund or other allowances for capital improvements are difficult to arrange, so they remain deferred. Quality of service and property will continue to deteriorate during this period.

There are other management considerations necessary for effective control assuming a transition from County to City control.

Should the County act in a way to force a City decision, the City could consider asking one of the present Fixed Base Operators at the airport or the West Valley Flying Club to manage short-term operations at the airport. These organizations have the capability and computer power to facilitate such an interim transition. They have been approached and are willing to support the transition from County to City in whatever way the City deems desirable. This approach may present a conflict of interest condition were the City to use a FBO. While choosing a FBO may represent a management expedient, it may contrast the community-service aspect of the airport with the inherent profit motive of a FBO. Consequently, in the event of aggressive behavior being exhibited by the County, the PAAWG recommends contracting with the West Valley Flying Club and using their facilities, equipment, and personnel to facilitate transition to City control.

A second alternative would be for the Palo Alto City Council to form a special district, although this may create additional, complex control issues for the City of Palo Alto.

Finally, there are a few external, independent airport management companies, but their work is often linked to an adjacent or significant real estate development mission and their profit expectations lead to a problem similar to using a FBO to run the airport.

The Palo Alto Airport Working Group does not recommend forming a special district, or assigning management responsibility to one of the FBO’s, or hiring an outside commercial airport (i.e., real estate development) management company.

The Palo Alto Airport Working Group recommends the Palo Alto City Council:

**Form a non-profit management company to manage PAO airport.** Staff requirement is small (5-6), would live locally, and there are many skilled people to consider. They are paid from airport operations. A local non-profit management company would be best to keep employment and direct costs low in keeping with the size of the airport. This serves as the focal point to prepare grant requests to the Federal government.
Or, a non-profit corporation could be contracted to run PAO airport. The airport community includes many people with the interest, commitment, and ability to form and operate a non-profit organization which could respond to a City RFP to make this happen. The organization would be responsive to City requirements, take care of all administrative tasks, and do all the grant administration with City oversight. Airport finances would be essentially run as an enterprise fund with all money needed for airport operation collected from users with no burden on Palo Alto taxpayers. Taxes collected at the airport would flow to the City, County, and schools as they do now, with none of these funds used to support the airport. The City would be paid for management functions required and reimbursed for expenses incurred by the City Attorney, Auditor, City Clerk, etc.

The PAAWG did note that a local non-profit management company eliminates the need to add direct City staff at Palo Alto beyond what they would currently do in conjunction with managing via the County to sustain the federal grant application process.

This decision will determine the future of our airport.
Glossary

- **Tie-down** – A place on a paved or other designated spot on the airport property with secure attachment points where airplanes are secured by ropes or chains to prevent movement.

- **Hangar** – An enclosed building for storage of aircraft, with a roof, walls and a door. Sizes vary depending on the aircraft stored. Larger hangars are typically also used for the commercial service of aircraft, from mechanical to electronics work, including partial tear-down for annual inspections and sometimes for major repairs.

- **Shelter** – An open-sided, covered structure for aircraft storage which provides shade for parked aircraft. Generally considered inferior to hangars, yet preferable to tie-downs, since it does provide some protection from the elements. There are currently no shelters at PAO Airport.

- **Sub-lessors** – At an airport, these are usually aircraft owners who rent or lease tie-downs or hangar spaces. They include any business on airport property that does not own its property, this includes FBO’s (below).

- **FBO** – Fixed Base Operator – These are businesses critical to airport operations with responsibilities defined under FAA regulations. At a minimum, these are fuel service operators and primary maintenance facilities. The term does not include eateries, car rental businesses, service companies who only clean airplanes, or airplane rental organizations.

- **Part 135 Operator** – This term refers to a part of the Federal Aviation Regulations (FARs), under which they operate. Most “air taxi” and other “for hire” operations (except for flight instruction) fall under these rules, which are generally more restrictive than Part 91 (see below). They must meet the highest level of preventive maintenance inspections.

- **Part 91 Operator** – This term also refers to a part of the FARs, under which these organizations operate. Most not-for-compensation, personal, and business flying are governed by the rules stipulated here. Flight instruction is included under Part 91. This class of operations is typically non-scheduled flying.

- **General Aviation** – All flying other than commercial airlines and military aviation operations is considered General Aviation, which represents 75% of all US flying.

- **Terminal** – A place, often a building, through which passengers pass to access aircraft. Palo Alto has a terminal on the San Francisco Bay side of the airport.

- **Flying Club** – A group of people who organize to share the usage and operations cost of aircraft. A club can be a few individuals sharing ownership of a single aircraft, or like several of the larger clubs at PAO, can provide professional full-time management, scheduling, maintenance, and other ancillary services such as flight instruction.

- **Tower** – Palo Alto’s Federal Air Traffic Control Tower (ATCT) is staffed by Federal employees from 7 AM until 9 PM, providing radio communications, assisted by radar, to aircraft flying in the 5 mile vicinity and on the ground. The ATCT staff interacts constantly and intensely with flight operations at nearby airports from San Francisco to San Jose to provide safe and timely aircraft flight control and advisory services.
City of Palo Alto
Office of the City Auditor

June 6, 2006

Honorable City Council
Palo Alto, California

cc: Joint Community Relations Commission

Review of Palo Alto Airport's Financial Condition and Comments on Santa Clara County's Proposed Business Plan for the Airport

SUMMARY
Santa Clara County's proposed business plan for the Palo Alto Airport (Airport) highlights Airport deficits and proposes to dramatically increase tie-down fees\(^1\) to recoup the outstanding advance used by the County to construct, maintain, and support the airport. Our analysis of the financial statements, County documents, and City records indicates that Palo Alto Airport operations have generated more than $400,000 in adjusted net income\(^2\) over the last 37 years that has been used to offset the County's original investment of $1,085,134 ($681,349 as of 6/30/05). In recent years, the Airport has remained profitable although County pooled and overhead costs total over 40% of the Airport's operating expenses. Because the Palo Alto Airport is bearing more than 30% of the County's pooled airport costs for its three airports, the operating income for the remaining two County airports would be adversely affected if the Palo Alto Airport lease were to be terminated. However, County staff indicates that significant budget reductions would offset the loss of Palo Alto revenue.

The proposed tie-down fees would be higher than nearby airports. We question whether current Airport users should bear the burden of historical deficits from the 1960's and 1970's (especially since recent years have been profitable), and specifically whether current Airport users should bear the full cost of 1973 Embarcadero Road improvements and 2005 Baylands levee repairs. Our analysis also indicates depreciation calculations should be cited with caution because depreciation expense does not affect the County's annual calculation of the outstanding advance. In addition, we suggest that the allocation of County overhead to the Airport be tied-up at the end of each year. Given the recent profitability of the Airport, we estimate the County's remaining outstanding advance of $681,349 may be settled before the lease expires in 2017, even without the proposed 30% increase in tie-down fees. Before 2017, the viability of the Airport may be impacted by: developments in the San Francisquito Creek project; implementation of some of the more feasible aspects of the County's proposed

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\(^1\) Tie-down fees are charged to aircraft tenants for outdoor storage of their aircraft. The County operates 362 of the 468 tie-down spaces at the Palo Alto Airport. The other tie-downs and all of the hangars at the Palo Alto Airport are owned and operated by the FEOs.

\(^2\) We are using the term "adjusted net income" to mean operating revenues (not including federal and state grants), less operating expenses (not including depreciation), plus net non-operating revenue/expense (including capital expenditures net of federal and state reimbursements).
master plan; and/or the advent of new very light jet aircraft. After 2017, opportunities exist to increase revenue after the County’s subleases with the two fixed based operators (FBOs) expire.

**RECOMMENDATION:** Authorize the City Manager to notify the Santa Clara County Board of Supervisors that:

1) The City of Palo Alto supports moderate increases in tie-down fees at the Palo Alto Airport, but the fees should be competitive with fees at nearby airports.

2) Because it is a regional resource, the City expects and encourages the County to continue operating the Airport per the terms of the lease through at least 2017.

3) The County has benefited from operating the Palo Alto Airport, and should continue to maintain and improve Airport facilities per Federal Aviation Administration (FAA) regulations. The City has agreed to provide grant assurances when necessary.

**BACKGROUND**

*Lease agreement:* The City of Palo Alto (City) owns the land where the Airport is located. In April 1967, the County of Santa Clara (County) and the City entered into an agreement under which the County leased the Palo Alto Airport property from the City for a term of 50 years (through 2017) for a payment of $25 for the entire term of the lease. Under the terms of the lease, all revenue from the Airport was to be used to reimburse the County for expenditures made to construct and maintain the Palo Alto Airport, and for continuing operations, maintenance, and capital improvements on the airport premises. The County also agreed to pay the expense of relocating Embarcadero Road. Operating deficits in the first years of operations were added to the outstanding advance that was used to fund the initial construction at the Airport, and were expected to be repaid by future revenue.

*Deloitte & Touche audit:* In 1997, the City and County jointly funded a Deloitte & Touche audit of the County’s financial statements for the Palo Alto Airport to settle questions about the appropriate accounting for Palo Alto Airport and the outstanding advance.

*Proposed Airport business plan (Attachment 3):* In FY 2005-06, the Airports Division hired a consultant to update the 1982 Master Plan for the County’s three airports, and prepare business plans for the three airports. The proposed Palo Alto Airport business plan recommends that the County terminate its involvement in the Airport after the lease expires in 2017. The recommendation is based on the premise that the Airport has historically operated at a deficit and that costs will continue to exceed revenues; that the loss of the Airport would not have any operational impact on the County system or its other two airports; and that future opportunities to generate additional revenues are extremely limited. The business plan further recommends that future capital investments be limited to those projects mandated and/or funded by the federal or state governments, and that the City should be required to provide any assurances that exceed the 2017 expiration date on the lease (i.e., the 20-year assurances needed for future airport improvement project grants). Finally, the proposed business plan recommends that the County raise tie-down fees to help make the Airport financially self-sustaining, and to help recover as much of the outstanding advance as possible prior to the lease expiration in 2017.

*Proposed Airport Master Plan:* The proposed Airport Master Plan identifies minor changes to the Airport’s airfield area, and raises substantive questions about the extent to which the vacant 8-acre parcel fronting Embarcadero Road should be developed. City Planning staff

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3 The Airports Division is part of Santa Clara County’s Roads and Airports Department.
indicates that improvements consistent with current Airport operations are within the scope of the City’s Comprehensive Plan and the Baylands Master Plan. However, parts of the plan intensifying use or intruding into open space areas would not be consistent. A response letter from the Planning Director is attached (Attachment 2).

Purpose, Scope and Methodology: Because of Santa Clara County’s recent release of a proposed business plan for the Airport, the Palo Alto City Auditor’s Office was asked to review the Palo Alto Airport’s financial statements, and evaluate the County’s allocation of expenses and overhead to the Palo Alto Airport and the financial viability of the airport operations. We conducted our review in March and April 2006 in compliance with government auditing standards.¹

DISCUSSION OF AUDIT RESULTS

The Palo Alto Airport has generated more than $400,000 in adjusted net income over the last 37 years. Table 1 summarizes the financial history of the Airport since 1969, including the County’s more recent investments in the Airport’s infrastructure (net of federal reimbursements). The County has used the Airport’s adjusted net income to offset its original $1 million investment in start-up and capital costs at the Airport (the outstanding advance).

¹For our review, we compiled the history of profits, losses and outstanding advances; reviewed the financial statements and accounting data provided by the County and City from 1969 to 2005; analyzed the method for assigning County costs and overhead to the three County airports; and compared the operating revenues, expenses, and income for the three County airports. We analyzed the depreciation schedules used by the County; performed a detailed review of the accounting records provided by the County for FY 2002-03, 2003-04, and 2004-05; reviewed the Airport and FBO leases and the joint agreement for the levee repaired by the County. We recalculated the direct and pooled charges assigned to the Palo Alto Airport and to the two other County airports; reviewed the proposed master and business plans for the Airport; and examined previous consultant reports and County-City agreements. We compared the proposed rate increases with the rates charged by other airports, and physically observed the operations at all the County airports. We interviewed County airport staff and executives, an Airport FBO executive, and representatives from the County Airport Land Use Commission, the County Airports Commission, and the Joint Community Relations Committee for the Palo Alto Airport (JCRC).
|--------|---------------------|---------------------------------------------|---------------------------------------------------|---------------------------|---------------------------|-------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|

Source: Compiled by Palo Alto City Auditor's Office from various County reports

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5 Does not include federal or state reimbursements for capital projects.
6 Data not available prior to 1989
7 $2,186,793 in improvements, less $1,101,659 federal and state reimbursements
8 Deloitte & Touche LLP audited the financial statements for the year ended June 30, 1997
9 Includes $2.5 million improvements, less $2 million federal reimbursement
10 Includes $204,539 prior year construction in progress reclassified to maintenance expense
County pooled and overhead charges now average more than 40% of Palo Alto Airport expense. The County charges some costs directly to the Airport, and allocates its pooled costs based on a formula. Over the last three years, the County’s direct costs at the Palo Alto Airport averaged $391,791 per year. As shown in Table 2, the County’s pooled and overhead costs at the Palo Alto Airport averaged $280,561 per year – or about 41.7% of Palo Alto Airport operating expenses.

Table 2: Percent County pooled and overhead expenses allocated to Palo Alto Airport

<table>
<thead>
<tr>
<th></th>
<th>FY 2002-03</th>
<th>FY 2003-04</th>
<th>FY 2004-05</th>
<th>FY 2005-06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct County costs to operate Palo Alto Airport</td>
<td>$378,345</td>
<td>$360,744</td>
<td>$436,285</td>
<td>$391,791</td>
</tr>
<tr>
<td>Pooled County operating costs and overhead charged to the Palo Alto Airport</td>
<td>$284,761</td>
<td>$257,759</td>
<td>$299,163</td>
<td>$280,561</td>
</tr>
<tr>
<td>Total (not including depreciation)</td>
<td>$663,106</td>
<td>$618,503</td>
<td>$735,448</td>
<td>$672,352</td>
</tr>
<tr>
<td>Percent County pooled and overhead costs</td>
<td>42.9%</td>
<td>41.7%</td>
<td>40.7%</td>
<td>41.7%</td>
</tr>
</tbody>
</table>

Pooled County expenses for salaries, benefits, and general administration overhead have increased in recent years, reducing Palo Alto Airport operating income. For example, general and administrative County expenses increased 85.6%, from $94,031 in FY 1997-1998 to $174,533 in FY 2004-2005, and averaged $153,761 per year between FY 1997-98 to 2004-05. In contrast, direct Airport expenses for aviation services increased 45% from $81,766 in FY 1997-98 to $118,667 in FY 2004-05, for an average of $103,466 during the same period.

The County allocates pooled operating costs and overhead through a formula. The County allocates pooled costs to each airport according to a formula that uses four factors: (1) the number of operations staff, (2) aircraft operations (take-offs and landings), (3) aircraft based at the airport, and (4) number of principal tenants (or FBOs). The percentages change each year as shown below:

Table 3: Percent of pooled County costs allocated to each airport

<table>
<thead>
<tr>
<th>Airport</th>
<th>FY 2002-03</th>
<th>FY 2003-04</th>
<th>FY 2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palo Alto</td>
<td>32.5%</td>
<td>31.3%</td>
<td>31.3%</td>
</tr>
<tr>
<td>Reid-Hillview</td>
<td>58.6%</td>
<td>56.6%</td>
<td>56.6%</td>
</tr>
<tr>
<td>South County</td>
<td>8.9%</td>
<td>12.1%</td>
<td>12.1%</td>
</tr>
</tbody>
</table>

Allocated costs should be trended up at the end of each year. The County allocates pooled and overhead costs based on estimates. Actual percentages may vary. Using actual figures, we estimate Palo Alto paid almost $16,000 more than its share of allocated costs as follows:

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11 Direct Airport costs included about $299,500 in salaries and benefits for 4.2 full-time equivalent employees at the Airport, and $136,000 in other direct costs. These employees staff the terminal at the airport. This does not include airport tower expenses which are borne entirely by the FAA.

12 The Palo Alto Airport’s share of pooled County costs and overhead included $125,500 in salaries and benefits, and $174,500 in insurance, professional services, internal departmental charges (e.g. legal expense), tools and instruments, transportation, and other general administration costs.

13 The percentage of each factor for each airport is combined in an overall percentage that is used to allocate the pooled County expenses to each airport.

14 In addition, County staff reports a credit of $53,728 will be issued in FY 2005-06 to reflect Palo Alto Airport’s share of a $171,655 credit to adjust overhead rates applied to intra-departmental charges at all three County airports.
Table 4: Estimated versus actual pooled and overhead cost allocation percentages

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated percentage</th>
<th>Actual percentage</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2002-03</td>
<td>33%</td>
<td>32.5%</td>
<td>$2,588</td>
</tr>
<tr>
<td>FY 2003-04</td>
<td>33%</td>
<td>31.3%</td>
<td>$13,278</td>
</tr>
<tr>
<td>FY 2004-05</td>
<td>31.3%</td>
<td>31.3%</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-</td>
<td>-</td>
<td>$15,866</td>
</tr>
</tbody>
</table>

If the Palo Alto Airport lease were terminated, the operating income for the remaining two County airports would be adversely affected. In FY 2004-05, Palo Alto paid $299,163, or 31.3%, of the County’s pooled Airports Division operating costs and overhead. This included $125,000 in salaries and benefit for Airports Division employees, and about $174,500 in other general administration costs. Unless County expenses were reduced, the two remaining County airports would have to absorb some portion of Palo Alto’s share of Airports Division expenses if the Palo Alto Airport lease were terminated. To illustrate, the Reid-Hillview and South County Airports would have had to absorb $245,000 and $55,000 in pooled and allocated costs, respectively, if the Palo Alto Airport had not contributed toward Airports Division expenses in FY 2004-05. County staff has indicated that County expenses would be dramatically reduced if the lease were terminated, offsetting the loss of revenue from Palo Alto.

Depreciation expense does not affect the outstanding advance. Although depreciation expense does not affect the County’s annual calculation of the outstanding advance, it has sometimes been included in public discussion in a way that can mischaracterize the Airport’s current cash flow position. The County’s depreciation schedules amortize capital improvements and other projects completed at the Airport between 1966 and 2001. The schedules list improvements costing over $4,965,000, of which $3,383,000 was funded by Federal and State grants. Federal and State grants covered as much as 81% of the cost of some projects, and averaged over 68% of the total cost of all the projects. Depreciation expense (including depreciation on projects funded by Federal and State grants) fluctuated from $417,321 to $184,426 to $312,974 in FY 2002-03, 2003-04, and 2004-05, respectively. This can dramatically impact the appearance of profitability (or loss) at the Airport in any given year.

However, depreciation is not a flow of cash, and is irrelevant to the calculation of the outstanding advance. The County (correctly, in our opinion) does not include depreciation in its annual calculation of the outstanding advance. The outstanding advance is important because, in accordance with the lease, the County is to be repaid for its investment in the Airport, but must use any additional revenue to improve and maintain the Airport.

While the lease requires Airport revenues be reinvested in the Airport or applied against the outstanding advance, there is no formal loan agreement requiring repayment of the advance. The capital improvements and start-up costs for the Airport totaled over $2,187,000 in Federal, State and County funds. The County share of the start up costs, which totaled $1,085,134, was advanced by the General Fund to the Airport Enterprise

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15 County staff reports that the actual number of aircraft based at South County was significantly less than had been projected. If the County also makes that correction, it would increase Palo Alto and Reid-Hillview’s share of costs, and reduce South County’s share of costs. We agree that using the actual number of aircraft from the annual assessment roll is appropriate.

16 As of June 30, 2005, the depreciation schedules listed $1,582,085 in County-funded facility improvements, with a book value of $377,601 net of accumulated depreciation.

17 At that rate, the remaining $1,883,000 book value could be fully depreciated in 6 years.
However, if the lease were to be terminated, there is, to our knowledge, no formal loan agreement for repaying the amount, and the City is not required to repay the outstanding advance to the County. As of June 30, 2005, the Outstanding Advance balance was $681,349, and the $403,785 in adjusted net income (shown in Table 1) remains in the Airport Enterprise Fund.

The outstanding advance amount is increased or decreased according to whether the Airport generates a profit or loss each year. No interest accrues on the balance. As shown earlier (in Table 1), after incurring losses in its start-up years, the Airport generated positive adjusted net income in 21 of the last 24 years (1982-2005). The Airport has reduced the outstanding advance by over $403,000. Losses in 1998-2000, which increased the outstanding advance after years of declines, were the result of $2.8 million in capital improvement projects.  

- **Embarcadero Road improvements in 1973 were charged to Airport users.** Our analysis of the outstanding advance indicated the County charged the Airport $194,500 for realigning Embarcadero Road and moving its related utilities. The Airport lease specifically states these were to be County expenses. It should be noted that the Embarcadero Road improvements benefited both the County-run yacht harbor and the County-run airport.

- **Levee repairs were charged to Airport users.** In FY 2005-06, levee maintenance and repairs totaling $125,454 (for construction contracts, consultant payments, and reimbursements for work done by the Roads Division) was charged to the Palo Alto Airport. According to the 1979 agreement for maintenance of levees in the Baylands, the obligation to repair the levees appears to be an obligation of the County. The agreement does not mention the Palo Alto Airport. Therefore, the allocation of levee repair costs to Palo Alto Airport users may be questionable.

Proposed tie-down fees would be significantly higher than nearby general aviation airports. The business plan proposes 30% tie-down fee increases at Palo Alto—compared to proposed 3% fee increases proposed at the other two County airports, Reid-Hilview and South County. This would put Palo Alto fees significantly above other nearby general aviation airports, and could jeopardize Palo Alto revenues if users chose to move their aircraft to other airports. Table 5 compares the present and proposed fees for aircraft tie-downs.

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18 Under generally accepted governmental accounting standards, the advance would technically be considered a transfer, not a loan, since it has not been reported as an interfund receivable or payable.

19 The county share of the $2.8 million in capital improvement projects was $550,900. Federal and State grants covered the remaining $2.3 million used for electrical rehabilitation and upgrades, slurry sealing the pavement, adding safety fencing, rehabilitated the apron, and repaving the runway.

20 Up to $50,000 in additional expense incurred by the Santa Clara Valley Water District for the project is still pending.

21 An agreement between the County of Santa Clara, the City of Palo Alto, and the Santa Clara Valley Water District.

22 Apparently pedestrians have had access to the levee for many years, and the levee appears as part of the regional Bay Trail on the Bay Conservation and Development Commission’s current maps. However, there does not appear to be any written agreement on the part of the City or the County for that access.
Table 5: Current versus proposed tie-down fees at nearby airports

<table>
<thead>
<tr>
<th>Airport</th>
<th>Current Monthly tie-down fee</th>
<th>Proposed Monthly tie-down fee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Santa Clara County Airports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Palo Alto</td>
<td>$111.50</td>
<td>$144.95 (+30%)</td>
</tr>
<tr>
<td>Reid-Hillview</td>
<td>$111.50</td>
<td>$114.85 (+3%)</td>
</tr>
<tr>
<td>South County</td>
<td>$79.50</td>
<td>$81.89 (+3%)</td>
</tr>
<tr>
<td><strong>Nearby Airports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Carlos</td>
<td>$115.00</td>
<td></td>
</tr>
<tr>
<td>Half Moon Bay</td>
<td>$59.00</td>
<td></td>
</tr>
<tr>
<td>Hayward</td>
<td>$60.00</td>
<td></td>
</tr>
</tbody>
</table>

Justification for increases: The business plan justifies the proposed fee increases by stating that the Palo Alto Airport has historically operated at a financial loss and that the deficits arising from operations at the Palo Alto Airport are being subsidized by surplus revenues generated by Reid-Hillview Airport. In our opinion, these statements mischaracterize the operating results of the Palo Alto Airport. As shown above, the Palo Alto Airport generated more than $400,000 in adjusted net income over the last 37 years, while covering a sizable share of countywide airport operations.25 We estimate that if various adjustments to the outstanding advance were implemented (as discussed above), moderate fee increases were proposed, and operating and pooled costs were reviewed, the County's entire outstanding advance may be settled before the end of the lease without need for such dramatic increases in tie-down fees.26

Future viability of the Palo Alto Airport. Between now and 2017, the Airport should be able to continue to generate revenue sufficient to cover expenses and reduce the outstanding advance to zero (assuming that only modest capital improvements are needed in the next few years). In the recent past, the Airport has generated sufficient revenue to cover the required match for federal grants so that some of the modest improvements to taxi-ways and runway that are suggested in the master plan could be implemented. Moderate increases to user fees would help the cash flow picture without the need for the dramatic increase in the tie-down fee.

Increasing the number of hangar and tie-down spaces would generate additional revenues for the Palo Alto Airport in the near term. However, it is unlikely that major capital investments would happen prior to lease negotiations/expiration in 2017. Meanwhile, in the next 5-7

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23 Tie-down fees for comparable aircraft at the San Jose International Airport are $185.00 a month. However, San Jose is primarily a commercial airport and in a different category from the general aviation airports. Fees at Oakland (in the same category as San Jose) are $75.00 per month for comparable aircraft. San Jose is reducing space dedicated to general aviation. However, Oakland currently has space available.

24 Tie-down fees for aircraft weighing 0 - 3,500 lbs.

25 It should be noted that County staff expect the Palo Alto Airport to end FY 2005-06 at a loss, due to $125,500 in liene repair related expenses.

26 Over the term of the lease, operating expenses have grown faster (an average of 7.9% per year) than operating revenues (an average of 7.6% per year). Airport expenses may be less than predicted for FY 2005-06 due to an unfilled vacancy, and staff is assessing the feasibility of curtailing terminal operating hours for FY 2006-07. Additional cost savings could result from reducing operating costs such as overtime ($22,600 in FY 2004-05), or contracting with one of the FBOs to provide terminal services (now performed by County staff at the County terminal). On the revenue side, a 3% tie-down fee increase would generate about $15,000 per year, compared to a moderate 10% fee increase generating about $48,000 per year, or about $145,000 per year generated from a 30% tie-down fee increase.)
years, the advent of air taxi services and the introduction of very light jets (VLJ) capable of operating on short runways, could change the general aviation marketplace. Furthermore, actions by the San Francisquito Creek Joint Powers Authority, working with the Army Corps of Engineers to address flooding from the creek, could impact the Palo Alto Airport.

After 2017, FBO leases could generate higher revenues. Palo Alto Airport has two fixed base operators who have 30-year ground leases with the County. These leases allow the lessors to extend the original leases for additional 5-year periods until the County-City lease expires in 2017. These leases did not contain clauses that based rent on inflation indexes such as the consumer price index, or require set dollar amounts for rent increases; and only one lease included a percentage of gross revenues generated from other sources. As a result, the lease revenues, which totaled $123,000 in FY 2003-04 and $131,000 in FY 2004-05, totaled only 17 to 18% of the total Airport revenues. Once the leases expire in 2017, these types of clauses could be incorporated into the lease terms to ensure higher revenues from lease rents.

Palo Alto is a regional resource: Our analysis indicates the Palo Alto Airport is truly a regional resource. Palo Alto residents compose only 23.3% (78 tenants) of the airport’s 335 aircraft tenants. Regional Civil Air Patrol and Stanford Life Flight operations use the Airport, along with flying clubs and other aviation-related tenants. According to the General Aviation Element of the Regional Airport System Plan, Palo Alto is one of 20 publicly owned and operated general aviation airports that provide services to personal and business aircraft owners and users. Palo Alto is designated by the FAA as a "reliever" airport, providing an important "safety valve" for activity that would otherwise consume runway and airspace needed by the airlines using the three major commercial airports.

The mission of the County’s Airports Division is to "promote the economic and social vitality of the County by meeting the needs of the General Aviation community and the traveling public." Thirty-seven years ago, the City agreed to lease the Airport to the County for a nominal sum; the County agreed to operate the Airport and to maintain and invest in Airport facilities. During our review, City staff indicated that they expect and encourage the County to continue operating and maintaining the Airport until at least 2017.

Our recommendation is shown on page 2. I would like to express my appreciation to County and City staff for their cooperation and assistance during our review. A response from Santa Clara County’s Director of Roads and Airports is attached (Attachment 1).

Respectfully submitted,

Sharon W. Erickson, City Auditor

Audit staff: Edwin Young

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77 The lease for one FBO (AMG) was signed in 1973 and assigned to another lessee in 1985. The original lease rent was $3,384 a year and, from the 11th year onwards, was set at 8.5% of the fair market value of the premises, excluding the buildings and improvements made by the FBO. The lease for the second FBO (Roy-Aero) was signed in 1969 and assigned to a replacement lessee in 1970. The original lease rent was $910 per month ($10,920 per year) and was also set at 8.5% of the fair market value of the premises from the 11th year forward, plus additional rent of 6% of the gross revenues derived from individual tenants who rented aircraft storage spaces known as "tie-downs".

78 Statistics on transient and day-user aircraft are not readily available, and would require a manual count of County records.
June 6, 2006

Ms. Sharon Winslow Erickson, City Auditor
City of Palo Alto
250 Hamilton Ave.
Palo Alto, CA 94301

Subj: Review of the Palo Alto Airport’s Financial Condition

Dear Ms. Erickson,

Thank you for the opportunity to review the draft report regarding your analysis of the financial condition of Palo Alto Airport (PAO). The following comments are provided:

1) Operating income

The data presented support the County’s conclusion stated in the draft Business Plan that since inception of the airport lease, the County’s investment in the airport has exceeded net revenue by $687,000 despite the fact that the great majority of capital project costs have been funded by others and the fact that the County’s unrecovered investment (the “Outstanding Advance”) does not accrue interest. These facts are compelling indications of the financial subsidies required to operate the airport.

Nearly half of the meager $400,000 in total net operating income generated over the last 37 years will be wiped out by the projected FY 2006 operating loss, due in large part to the levee project. An operating loss is also projected for FY 2007. The record clearly demonstrates that operating profits generated in years when no additional capital investments were made are inevitably offset by the infusion of additional capital required to maintain and improve the airport. Because these additional investments do not occur every year, they tend to be overlooked by some even though they have the same effect, dollar for dollar, as an operating loss. The Outstanding Advance (OA) is quite handy in this regard as a metric of the airport’s long-term financial performance because it represents the difference between the County’s investment in the airport and the total net operating income.
2) **Overhead**

The overhead costs allocated to PAO are the overhead costs generated by PAO. These costs would not be incurred by the County if the County did not operate the airport and will be eliminated when the County ceases to operate the airport. Some costs, such as intra-departmental charges, County Counsel charges, insurance, etc. will shrink immediately upon expiration of the lease. Management staff costs will be reduced as the management structure is adjusted to reflect the reduced scope of responsibility. Any allocated overhead not eliminated as a result of the lease expiration would be small and offset many times over by the elimination of the business risk associated with running the airport.

It is important to note that no adjustment is made in the overhead allocation to reflect the additional administrative burden imposed on staff due to the lease arrangement with the City of Palo Alto, a burden which is not present with respect to the two airports owned and operated by the County.

3) **Depreciation**

We agree with the report's conclusion that the County is correctly excluding depreciation from the calculation of the Outstanding Advance, but not for the reason suggested i.e. because depreciation is not a cash transaction. Depreciation related to the grant-funded portion of capital projects is not included in the calculation of the OA because the OA is a benchmark of the County's financial exposure resulting from its involvement in the airport; the pass-through of outside grant funding does not impact the County's financial stake in the airport. The AEF-funded portion of capital projects is appropriately included in the calculation of the OA. In other words, the relevant issue is the source of capital that was used to fund the improvements being depreciated.

Depreciation is the mechanism by which costs for long-life assets are allocated over time and, of course, are entirely relevant to any discussion about the airport's financial position and performance. The fact that the County's investment in the airport has exceeded net revenue by $681,000 over 37 years (not including interest) despite the fact that the great majority of capital project costs were funded by others highlights the airport's reliance on subsidies to fund maintenance and improvements.

4) **Embarcadero Road improvements and levee repairs**

There seems to be continuing confusion over references to "County" expenses in the airport lease, with the implication that these expenses should somehow be
funded by some County fund source other than the AEF. As we have discussed a number of times, the Airport Enterprise Fund is not a legal entity in and of itself and therefore cannot be a party to an agreement. The County of Santa Clara is the legal entity that is the party to agreements regardless of which County department or fund source is involved. The fact that the County – and not the Airport Enterprise Fund – is specified in the lease and the levee maintenance agreement as the responsible party for funding the Embarcadero Road improvements and the levee repairs, respectively, simply reflects this basic legal concept.

The report states that the Embarcadero Road improvements benefited both the Yacht Harbor and the airport but does not establish the basis to support this claim. The Yacht Harbor was accessed from Embarcadero Road prior to the improvements, so the improvements were not essential to provide access to the Yacht Harbor. The salient issue is that the Embarcadero Road improvements were made because they were required to be made by the airport lease. Since the improvements were performed to fulfill a requirement of the airport lease, it is entirely reasonable to conclude that the improvements would not have been made had the County not been a party to the lease. Therefore, even if the improvements provided some secondary benefit to the Yacht Harbor, it is appropriate that the full cost of the improvements be charged to the AEF.

Finally, the 1998 Deloitte-Touche audit included the cost of the Embarcadero Road improvements in the calculation of the OA that both the City and the County agreed to use on a go-forward basis.

The same reasoning applies to the levee repairs. Because the County is a party to the levee maintenance agreement due solely to its involvement in the airport, it is appropriate that the County's costs of complying with the agreement be charged to the Airport Enterprise Fund. No case can be made to charge those costs to any other County fund source. Issues related to whether it is appropriate for the County to be a party to the levee maintenance agreement in the first place and how part of the leasehold came to be used for other purposes without the County's consent as required by the lease will be addressed under separate cover.

5) **Tiedown rates and the future viability of PAO**

The report does not provide any calculations to support the conclusion that the airport can generate sufficient revenue to cover expenses (including modest capital improvements) and reduce the OA to zero prior to expiration of the lease by implementing only small increases in tiedown fees.
No accounting adjustments to reduce the existing OA are warranted as discussed above, nor is there evidence presented that overhead costs are unreasonable, unnecessary or misallocated. As mentioned earlier, the OA is projected to increase substantially in FY 06 and FY 07 as escalation in operating costs outstrips growth in revenue. An increase in tiedown fees is the only viable opportunity to generate additional revenue.

The draft letter from the Director of Planning and Community Development attached to the report indicates that no increase in aircraft basing capacity or intensity of airport use will be allowed. The letter is troubling because Exhibit C to the lease sets forth the plan for development of the airport and shows hangars and a FBO on the parcel fronting Embarcadero Road. The adopted City policies referenced in the letter appear to unilaterally restrict the County's ability to develop the airport as agreed upon in the lease.

Thank you again for the opportunity to review and comment on your draft report.

Sincerely,

Michael Murdter
Director
April 24, 2006

Michael J. Murdter
Director, Roads & Airports
County of Santa Clara
101 Skyport Drive
San Jose, California 95110-1302

Dear Mr. Murdter:

This is in response to the County’s Airport Master Plan for the Palo Alto Airport. The Master Plan provides long-range policies relative to the County’s continued operation of the Palo Alto Airport. Physical or operational changes are governed by the City’s Baylands Master Plan, which is attached for your future reference.

In general the City’s Baylands Master Plan supports the continued operation of the airport in its current configuration. All aspects of the County’s Master Plan related to the maintenance of the existing facilities as well as some of the proposed new construction activities are compatible with the City’s plan. These include the additional aircraft wash rack, the replacement of the existing helipad with a new heliport, a new Taxiway D and reconfiguration of Taxiway G. The Baylands Master Plan, however, does not allow changes in airport activities that will increase the intensity of airport use or will significantly intrude into open space. Specifically, the expansion of permanent aircraft is in conflict with the Baylands Master Plan.

I hope this clarifies the application of existing City land use policies applicable to the Airport. Please feel free to contact me if you have any additional questions. I can be reached at steve.emslie@cityofpaloalto.org or 329-2354.

Very Truly Yours,

Steve Emslie
Director of Planning & Community Environment
City of Palo Alto

cc: Frank Benest, City Manager
    City Council
    JCRC
INTRODUCTION

The Palo Alto Airport (PAO) Master Plan is part of an update to the 1982 Master Plan for the three general aviation airports in the County of Santa Clara. However, unlike the other two airports - Reid Hillview Airport and South County Airport - which are owned and operated by the County, PAO is owned by the City of Palo Alto but operated by the County pursuant to a 50-year lease executed in 1967 and expiring in 2017.

As the property owner, the City has sole discretion over the future of the airport. The Master Plan is an objective, stand-alone document that recognizes the City's sovereignty with respect to the airport regardless of whether the County is involved in its operation after 2017.

A companion document to the Palo Alto Airport Master Plan is this Business Plan, which addresses the County's future involvement in the operation of the airport. The Business Plan is a separate document because, unlike the Master Plan, it will be acted upon by the County Board of Supervisors.
This document:

> Presents an overview and analysis of the airport lease between the County and the City;
> Presents an overview of the Airport Enterprise Fund (AEF);
> Presents an overview and analysis of the airport’s finances;
> Identifies the airport’s future capital investment needs;
> Recommends County actions in anticipation of the City/County lease expiration in 2017.

**CITY/COUNTY LEASE OVERVIEW**

**TERM & RENT**

The lease specifies a term of 50 years and expires on June 11, 2017 according to City documents. The rent is $25 for the entire term of the lease.

**USE AND DEVELOPMENT OF AIRPORT REAL PROPERTY**

The County's use of the leased premises is limited to constructing, operating and maintaining an airport and airport facilities; non-aviation industrial or manufacturing uses are prohibited. All improvements must conform to the City’s building codes and are subject to City plan approval. A development plan was included as an exhibit to the original lease; execution of the development plan was contingent upon availability of funds and whether “the aviation needs and economic justification warrant such development.” The development plan was subsequently modified twice and incorporated into the lease by lease amendment number one in October 1968 and amendment number two in December 1969. The City is required to support the County in all applications to financial assistance agencies concerning the development and operation of the airport.

The County is required to operate the airport in accordance with Federal Aviation Administration (FAA) regulations and has full power, authority and responsibility in regard to the operation, management and maintenance of the airport “as though it were the sole owner thereof.”

The City is prohibited from entering into agreements, executing any leases or licenses, or granting any rights to the airport premises without the express written consent of the County. The City is re-
guised to prevent off-airport development from interfering with the airport safety zones.

In addition to the two lease amendments discussed above that incorporated the revised development plans into the lease, lease amendment number three in May 1980 established a requirement for the County to obtain City concurrence to apply to the FAA for approval of a second runway or expansion of permanent aircraft bedowns above 510 spaces. The fourth and final amendment to the lease in 1985 clarified the County’s responsibility with respect to utility charges related to the stormwater pumping plant.

USE OF REVENUE

Net operating revenue generated at the airport, if any, is first applied against the running balance of the County’s unrecouped investment in the airport, which is termed the “Outstanding Advance.” All remaining revenue, if any, is to be used for maintenance, operation or capital improvement of the airport premises. In other words, once sufficient net revenue has been generated to recoup the County’s investment in the airport, any additional net revenue must be reinvested in the airport and cannot be used to fund operations or improvements at the other airports. The lease is silent with respect to whether the Outstanding Advance accrues interest.

ASSIGNMENT AND SUBLTETING

The lease may not be assigned without the City’s written consent but the County may sublet the premises without the City’s consent.

TERMINATION

The lease may be terminated by either party in the event of breach by the other party. The party in default has 30 days to remedy the breach from the date of notice by the other party. There is no provision for unilateral termination of the lease in the absence of a breach by the other party.

SUMMARY

The lease clearly places all business risk related to operation of the airport on the County. The City has no financial obligation or risk with respect to the airport’s operation. Moreover, if the County were to generate positive net operating revenue at the airport after
recouping its initial investment, it must be reinvested in the airport and could not be exported to the other County airports.

**Airport Enterprise Fund Overview**

The Board adopted the following policy regarding the AEF:

"The Airport Enterprise Fund should be self-sustaining without subsidy from the General Fund. Revenue from fees and charges, state and federal grants and other sources should be sufficient to fund operating and maintenance costs, capital improvements and an appropriate level of reserves."  

Pursuant to Board policy, the AEF must pay for all costs—direct and indirect—associated with operating the airports, including costs for services received from other County departments. Some of these services are billed directly—for example, legal services are billed directly to the department based on County Counsel’s established hourly rate. Other services such as Clerk of the Board costs for processing Board transmittals and providing staff support to the Airports Commission are distributed through the County Cost Plan. The AEF therefore provides full cost visibility for the myriad costs—some obvious and some not-so-obvious—incurred across the County to support the airports.

Although the AEF captures all airport finances in a single budget unit, the revenue and expenses associated with each of the three airports are tabulated for financial reporting and internal management accounting purposes. Revenue and expenses directly attributable to each airport such as FBO lease revenue, aircraft storage space rental revenue, operations staff salaries, etc. are easily identified. General and administrative expenses not attributable directly to an individual airport (insurance, management staff salaries, Cost Plan charges, etc.) are captured in an expense pool and prorated to each airport based on a weighted formula that uses cost drivers such as the number of based aircraft, number of aircraft operations and number of major facilities at each airport.

Total annual projected AEF revenue is approximately $3.2 million¹; 76% of which is generated from County-owned aircraft storage spaces (i.e. hangars, shelters and tiedowns). Rental rates for County-owned aircraft storage spaces (hangars, tiedowns and shelters), fuel flowage fees and other airport-related fees are

¹ Including projected revenue from the 100 hangars nearing completion at South County Airport.
established through a Schedule of Fees and Charges approved by
the Board of Supervisors by resolution.

The next largest revenue component (11%) is lease revenue from
the 12 Fixed Base Operators (FBO). Most of the FBO leases
specify an annual ground rent equal to 8.5% of the fee simple value
of the leasehold premises (not including improvements), and pro-
vide for adjustments every five years pursuant to a reappraisal of
the premises. Given the long-term nature of the FBO leases, the
revenue from this source is essentially fixed aside from the occa-
sional minor adjustment to the lease rate (the reappraisal com-
pleted in December 2004 resulted in no rate increase). All other
revenue categories including property rental, fuel flowage fees,
transient aircraft fees and interest income collectively generate only
13% of ABF revenues.

Reid Hillview Airport (RHV) generates approximately 56% of the
total ABF revenue primarily due to the income from the 145
County-owned hangars. Prior to the South County Airport (E16)
hangar project currently nearing completion, it was the only one of
the three airports to have County-owned hangars. Historically,
RHV revenue has exceeded expenditures and the surplus has been
used to subsidize operations at PAO and E16. Upon completion
of the hangar project at E16, that airport will be financially self-
sustaining.

**PAO Revenue and Expenditures**

In November 1997, the City contracted with Deloitte & Touche
(D&T), an independent auditing firm, to audit the County’s finan-
cial data related to the airport and prepare a set of financial state-
ments in response to concerns expressed by the Palo Alto Airport
Association (PAAA) and the airport’s Joint Community Relations
Committee (JCRC) regarding the County’s accounting for costs
and revenues associated with PAO.3

The D&T audit, which was funded jointly by the City and the
County at a total cost of $39,000, produced a set of baseline finan-
cial statements and alleviated the concerns raised by the PAAA and
JCRC. Subsequently, County staff and City staff agreed on a for-
mat for the annual financial statements to be provided by the

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3There are nine FBOs at RHV, two at PAO and one at E16.

2 City Manager’s Report CMR:371:97 to the Palo Alto City Council dated Sep-
tember 8, 1997.

DRAFT January 2006
County to the City. The attached draft financial statements for FY 2005 are typical of the data provided each year to the City.

Perhaps the best measure of the airport's long-term financial performance is the "Outstanding Advance", which is the difference between the County's total capital investment in the airport and the net revenue generated over the life of the lease. Additional County capital investment and/or net operating losses increase the Outstanding Advance; net operating profits decrease the Outstanding Advance. Since only the local (i.e. County-funded) component of capital projects adds to the Outstanding Advance, the Outstanding Advance serves as a benchmark of the County's financial exposure resulting from its involvement with the airport.

In the 38 years since inception of the lease, the County's investment in the airport has exceeded net revenue by $668,000. Fiscal Year 2006 revenue and expenditure figures indicate a projected net loss of $348,000, nearly half of which is due to a one-time expenditure for a levee maintenance project. Therefore, the Outstanding Advance is projected to grow to slightly over $1 million by the end of Fiscal Year 2006.

As mentioned earlier, the lease is silent as to whether the Outstanding Advance should accrue interest for accounting purposes given the lease requirement that any net revenue generated at the airport must stay at the airport once the County recoups its capital investment. As part of the D&T audit review, the County and City agreed that the Outstanding Advance (and any surplus, should one occur) would not accrue interest due to the lack of any language in the lease specifically addressing this issue. Therefore, the value of the Outstanding Advance does not reflect current dollars.

The fact that the Outstanding Advance does not accrue interest makes it all the more significant that the County's investments in the airport have not been recovered. At RHV and B16, capital investments financed by loans from the County General Fund or by revenue bonds accrue interest that must be paid for as part of the operating budget. If a similar scenario applied at PAO, the Outstanding Advance would be much higher.

The airport's projected FY 2006 revenue is $704,000 (approximately 22% of total AEF revenue) assuming that the airport remains near full capacity. Each revenue component and its dollar amount and percentage of total PAO revenue is as follows:
• Tiedowns - $480,000 (68%). The County operates 362 of the 468 tiedown spaces at PAO. Although demand for aircraft storage is projected to remain strong in the foreseeable future, the AEF’s reliance on this revenue source makes it vulnerable to downturns in the general aviation market.

• FBO lease revenue - $131,000 (19%). The ground rent paid by the two FBOs at the airport, Roy-Aero Enterprises LLC and Aviation Management Group, Inc. (AMG), is adjusted periodically pursuant to a reappraisal of the underlying land value as specified in the master leases. In 1994 Roy-Aero disputed the County’s reappraisal and the matter was brought to binding arbitration. The arbitrator ruled that the FMV of the Roy-Aero leasehold should be discounted from the appraisal for the AMG and RHV FBOs due primarily to its flooding potential and soil conditions.

At current annual rates of $0.19/square foot (SF) (approximately $8300/acre), the Roy-Aero lease generates ground rent of $80,000 annually. The Roy-Aero lease also entitles the County to 6% of the FBO’s revenue from certain hangars, which totals an additional $25,000 per year. The current annual ground rent for the smaller AMG leasehold is $0.2025/SF (approximately $8800/acre), which generates $26,000.

• Fuel flowage fees - $50,000 (7%). The County collects a $0.10 per gallon fuel flowage fee for all fuel dispensed at the County airports.

• Transient Aircraft Revenue - $28,000 (4%). Transient aircraft (i.e. aircraft not based at PAO) are required to pay a fee when occupying a County tiedown. Certain tiedowns are designated for transient use.

• Miscellaneous - $15,000 (2%). This category captures all revenue not attributable to one of the above categories, such as auto parking charges, etc.

Revenue generated at the airport from sales taxes and personal property taxes does not accrue to the AEF. City documents estimate these amounts as $150,000 and $200,000, respectively.

Projected FY 2006 expenditures total $1,052,000, including $170,000 for the aforementioned levee maintenance project. The AEF is experiencing a structural problem with respect to the airport’s finances in that costs are rising while revenue is stagnant.

* All hangars at PAO are owned and operated by the FBOs.
FUTURE CAPITAL INVESTMENT NEEDS

This section briefly examines both grant-funded and locally-funded capital improvements identified in the Airfield Area and Building Area chapters of the Master Plan.

Currently, eligible projects selected for funding under the FAA Airport Improvement Program (AIP) receive 95% federal funding and qualify for an additional 4.5% state match from Caltrans Aeronautics, subject to availability of funds. Therefore, the local match required for AIP projects can be as low as 0.5%. However, the federal percentage is subject to change whenever the AIP is periodically reauthorized. Previously, the AIP provided 90% funding and there is the possibility that the program may revert to this funding level when the next reauthorization occurs.

The airport sponsor is responsible for 100% of the costs related to 1) the required match funding; 2) any element of the project ineligible for AIP funding; and 3) the difference between actual costs and estimated costs, which together can total a significant share of the overall project costs. For example, the total AIP funding component approached 20% of the $2.8 million capital project completed at PAO in 2001.

Airport Improvement Program grants are accompanied by a lengthy list of conditions ("grant assurances") that remain in force for 20 years. Some of the grant assurances relate to project implementation (consultant selection, prevailing wages, inspection, record keeping, etc.) while others are broader in scope, such as the requirement to keep the airport open for 20 years and the prohibition on diverting airport revenue to non-airport purposes.

The following projects identified in the Master Plan are eligible for AIP funding:

- New Taxiway D
- Reconfiguration of Taxiway G
- Heliport
- Aircraft washrack
- Physical security enhancements
- Airfield-related repair projects

The following development options identified in Chapter 4, Building Area, will require local funding:
* General Aviation Terminal Building replacement and parking lot
* Replacement tiedowns
* New hangars

**FUTURE COUNTY INVOLVEMENT IN PALO ALTO AIRPORT**

Staff cannot identify a compelling reason for the County to assume the business risk of operating the airport beyond the expiration of its lease with the City in 2017 regardless of the changes to the lease that the City may be willing to make. Staff recommends terminating its involvement in the airport at the expiration of the County lease in 2017 to eliminate the possibility that the County will need to subsidize PAO in the future and to allow staff to concentrate on executing the Master Plans for RHV and E16.

As noted earlier, the airport has historically operated at a deficit. However, future opportunities to generate additional revenue will be extremely limited. The airport is severely constrained from physical, environmental and policy standpoints; existing City policies specifically prohibit physical expansion of the airport into open space areas, significantly increasing the intensity of operations or adding a third PBO. In light of these constraints, only minor changes to the airport’s airfield area were identified in the Master Plan. No change to the airport’s role with respect to the type of aircraft to be accommodated is contemplated due to runway limitations. If a runway extension were feasible, it would have the potential to increase revenue by attracting corporate aircraft.

With respect to the airport’s building area, the only possible area for additional revenue-generating development is on a portion of the vacant eight-acre parcel fronting Embarcadero Road. The City has the final say regarding the extent to which this parcel is developed, if at all. The only development option having revenue-generating potential that is identified in the draft Master Plan is the addition of 29 new hangars. However, skyrocketing construction costs, rising interest rates and the high cost of the likely mitigations required diminish the economic attractiveness of the project. Moreover, extremely stiff opposition to any development at the airport is virtually guaranteed and the approval process is anticipated to be lengthy, arduous and expensive.

Due to the nonstandard clearances between taxilanes and parked aircraft, any conversion of existing tiedown rows to T-hangars would result in a significant reduction of available aircraft busing.
capacity. Moreover, the economics of building hangars over tie-downs are inherently poor because the tie-downs that would be eliminated currently generate about one-quarter the revenue of hangars with no additional capital investment required.

As discussed in the Master Plan, the airport has an elevation of only 4 feet above mean sea level (MSL) and is located in a FEMA-designated Special Flood Hazard Area. Therefore, as the existing airport building infrastructure reaches the end of its useful life and needs replacement, any new or substantially rebuilt airport structure such as a new Terminal Building must have its first floor raised above the 8-foot Base Flood Elevation (BFE) or be dry-floodproofed, which will add substantially to construction costs. The BFE for the airport is anticipated to rise upon conclusion of a FEMA study of the San Francisco Bay levee system. The higher the BFE, the higher the additional construction costs.

In addition, a large-scale project to improve flood protection to the City by raising the elevation of the existing levees surrounding the airport is inevitable and it is likely that the airport, as a beneficiary of the improvements, will be expected to pay a share of the project’s construction and maintenance costs.

The basic business risk that costs could continue to exceed revenue over the long term could manifest itself in myriad ways. The airport could experience reduced demand from aircraft owners due to a downturn in general aviation caused by high fuel prices or some other factor. Although the Master Plan assumes that Moffett Federal Airfield will not become available for civilian general aviation use, the possibility exists that it could become available for such use, which would have a severe negative impact on the demand for PAO. Other possibilities include reduced federal grant revenue, unanticipated expenses or an event or natural disaster such as a flood or earthquake.

The loss of PAO would not present any operational impacts to the County airport system because each airport’s aeronautical activities are independent. Financially, eliminating PAO from the AEF would result in the loss of the airport’s revenue, which would be more than offset by the reduction in direct operating costs, capital project expenditures and overhead costs. This would eliminate the possibility that RHF will need to subsidize PAO in the future and allow County airports staff to focus on executing the master plans for RHF and B16.

Regardless of whether the City operates the airport itself with City employees, hires a contractor to operate the airport on a day-to-day basis or leases the airport to a new lessee after 2017, the airport’s structural financial problem and business risk must be addressed. Reallocation of some of the business risk from the lessee to the City
would help attract potential lessees but would not address the underlying problem. For example, if the City were to assume some risk by limiting the lessee’s responsibility for certain costs such as capital investments, it may be possible to attract a lessee willing to pay less but the overall risk would not change – it would merely be reallocated along with some of the compensation associated with said risk.

Operating costs could be lowered by hiring a contractor having lower labor and overhead costs than the County or the City to operate the airport on a day-to-day basis.

The City or a new lessee could take over the FBO facilities upon expiration of the FBO leases in order to generate revenue, particularly from the hangars. Both FBO leases expire simultaneously with the expiration of the City/County lease, and ownership of improvements constructed by the FBOs reverts to the airport sponsor upon expiration of the FBO leases. However, the revenue will be offset to some extent by the reinvestment required in the FBO facilities for maintenance, major repairs and code upgrades.

**Recommended Actions**

The County should:

- Continue to fulfill its lease obligations until expiration of the lease with the City in 2017 but terminate its involvement in the airport at that time, or earlier if desired by the City.

- Limit future County capital investment in the airport to the local match necessary for essential, non-deferrable, AIP-eligible maintenance projects or security-related projects mandated by the FAA or Transportation Security Administration (TSA). Projects ineligible for AIP funding should not be undertaken.

- Require the City to submit all future AIP grant applications. Since the 20-year grant assurances will remain in force well beyond the expiration of the lease in 2017, the City must determine whether to apply for and accept the grants and thereby assume responsibility for the grant assurances after expiration of the lease.

The County would retain full responsibility for compliance with the FAA grant assurances until expiration of the lease. The grant assurances relating to project implementation (consultant selection, construction contracts, wage rates, inspection, record keeping, environmental compliance, etc.)
will have been met by the County prior to expiration of the lease. Other assurances, such as the requirement to keep the airport open and the prohibition on exporting airport revenue, will remain operative for the entire 20-year life of the grant assurances.

- Raise tie-down rates to 1) help make the airport financially self-sustaining; and 2) help recover as much of the Outstanding Advance as possible prior to the lease expiration in 2017.
ATTACHMENT C

William W. Fellman
Manager, Real Property
Real Property Division
City of Palo Alto
P.O. Box 10250
Palo Alto, CA 94303

June 14, 2007

Dear Mr. Fellman:

As you requested, this constitutes my report to you on the obligations and responsibilities the City of Palo Alto (hereinafter “City”) incurs as the owner (also known as the “sponsor”) of the Palo Alto Municipal Airport (hereinafter “Airport”).

There are two fundamental “obligations” incurred by the City as the airport’s owner-sponsor: to the federal government, specifically the Federal Aviation Administration (FAA), and to the State of California, specifically the Aeronautics Division of the Department of Transportation (Caltrans). As long as the City is “federally obligated”, by virtue of having, within the past twenty years, accepted Federal Aviation Administration Airport Improvement Program (AIP) grant assistance funds for projects, the City will have to comply with the Grant Assurances that are made part of any FAA AIP grant acceptance. This obtains even though, in the past, the County of Santa Clara (County) sought the FAA AIP grants, with the concurrence of the City. The Grant Assurances (copy attached hereto) are part of the compliance requirements (with federal rules and regulations). There is another more expansive document, the FAA’s Order 5190.6A, Airport Compliance Requirements, not attached here due to its size) which details more obligations a public entity airport sponsor incurs by accepting AIP funding grants.

Additionally, as examples of other compliance requirements, there is a wide range of subjects covered by FAA Advisory Circulars which impart owner-sponsor obligations for compliance. Examples are: 150/5190-6, Exclusive Rights At Federally-Obligated Airports; 150/5190-7, Minimum Standards for Commercial Aeronautical Activities; 150/5200-18C, Airport Safety Self-Inspection; 150/5370-2D, Operational Safety On Airports During Construction; 150/5050-7, Establishment of Airport Action Groups; 150/5050-4, Citizen Participation in Airport Planning; and there are many, many more. Copies of these few are attached hereto. The above covers a variety of owner-sponsor obligations that, while “advisory”, often turn into “non-compliance” issues unless a good faith effort has been exerted by the airport owner-sponsor to comply.
Airport pavements, runways, taxiways, and parking aprons/ramps are a major owner-sponsor and federal investment, and are, literally, the heart and soul of an airport. Maintaining or repairing pavement is a compliance requirement for federally obligated airports where AIP funds have been used to lay-down runway, taxiway, and parking apron/ramp pavements.

As an example of the FAA interest in, and expectation of owner-sponsor compliance, and accountability that can't be assigned away, there is a library of Advisory Circulars to be followed: 150/5380-6B, Guidelines and Procedures for Maintenance of Airport Pavements; 150/5380-7A, Airport Pavement Management Program; 150/5380-7B, Pavement Management System; and 150/5335-5A, Standard Method of Reporting Airport Pavement Strength. These detail the key elements of a Pavement Management & Maintenance Program as is required by the FAA for having accepted AIP grant funds for pavement projects. A Pavement Management & Maintenance Program starts with a simple daily observation and documenting of pavement condition and quality across the airport. The Program requires a plan for periodic maintenance, from crack sealing, to widespread rejuvenating slurry sealing, to full pavement overlay. In conjunction with pavement condition & quality observation is the requirement to look for and remove "foreign object debris" that could damage airplane tires, damage propellers, or be ingested into jet engines. Fundamentally, the airport owner-sponsor is obligated to, and responsible for the safe use of the runway and taxiways, and parking apron/ramp.

The above is intended to demonstrate a major area of owner-sponsor obligation that can not be dismissed as perpetual owner-sponsor involvement.

Then there are State obligations that accrue to the City due to 1) being a State “permitted” airport (focused on the safe ingress and egress, and use of the runway by aircraft), and 2) stemming from accepting State grant assistance funds. While the State does not, at this time, have “grant assurances” per se, like the FAA does, nor does the State have its own, or has supplemented or augmented FAA “advisory circulars”, there are State obligations. The California Public Utilities Code, Sections 21001 et seq, the State Aeronautics Act, and the California Code of Regulations, Title 21, Sections 3525 through 3560, Airports and Heliports, serve as State “advisory circulars” (copies of both attached hereto). Additionally, the California Code of Regulations, Title 21, Division 2.5, Chapters 4 & 5, California Aid to Airports Program and Airport Loan Program, provide “compliance requirements” for applying for and for accepting State grant funding assistance (copy attached hereto).
There are two FAA requirements that the State has adopted as airport owner-sponsor obligations, both bearing on holding a State operating permit.

One is the Advisory Circular 150/5300-13, Airport Design, and Federal Aviation Regulations Part 77, Objects Affecting Navigable Airspace. The State expects compliance with the guidelines of each of these, and can suspend, or even revoke, a previously issued State operating permit – thus shutting down an airport. FYI: There is a Heliport Design FAA Advisory Circular adopted by the State pertaining to establishing and operating a heliport, whether on- or off-airport that could come to bear on the Palo Alto Airport if an on-airport heliport is eventually constructed.

The bottom line here is that no matter who “runs” the airport, the airport owner-sponsor is ultimately and always obligated to comply with federal and state requirements. An entity contracted by the airport owner-sponsor to conduct day-to-day operation of the airport can be made accountable to the owner-sponsor by the form of contract for compliance with federal and state requirements, but the owner-sponsor is obligated, thus responsible, thus accountable in the final analysis.

There is an area that combines owner-sponsor obligation and responsibility: liability insurance. The owner-sponsor obligation is to have adequate coverage, as a responsibility to the rest of the City. An entity contracted to operate the airport on behalf of the owner-sponsor City can be required to obtain adequate liability insurance coverage, naming the City as an additional insured. The city, as a public entity probably can acquire liability insurance at a cheaper rate than can a private entity contracted to operate the airport. The City has a risk exposure as a “deep pocket”, even if the airport is operated by a contracted entity. This is clearly an area where the City has to make a “business decision” as to how to handle its risk exposure and liability coverage.

Another area that combines obligation and responsibility is airport financial solvency. It is a federal obligation to have revenues exceed expenses such that the airport is financially “self-sufficient” and financially “self-sustaining.” It is a requirement at the time of applying for an FAA Airport Improvement Program funding grant, or a State financial assistance grant that the “local match” funds be on-hand, or that there is a plan to acquire them before accepting a grant offer, which may come a year or two after initial application, for example. This requires a revenue generation program that covers basic operating expenses, and then also builds, over time, funds in a specific budget line item to be used as local match funds, and additionally build over time a “contingency reserve” to cover emergency repairs or acquisitions/purchases necessitated by accident or natural disaster.
As a central part of achieving financial solvency, in the near-term as well as for the longer-term, is to set the airport’s “rates, fees, and charges” scheme. Everything that is rented, leased, or used should have some charge or fee assigned to it. Property should be leased/rented on a cents-per-square foot basis (whole buildings or spaces inside buildings; tie-down spaces; raw dirt; even large paved apron/ramp areas leased to an FBO). Common areas (such as grass/open space that needs maintenance by the airport; motor vehicle parking lots with dedicated/reserved spaces; etc.) should have proportionate charges assessed to those fronting or using them. Rental/lease agreements should have stated “escalation” paragraphs so rents can be increased periodically without major tenant or user upheaval. The FAA strongly suggests escalators of some type. Most common and defensible is to review the Consumer Price Index annually and decide at the City’s option to increase rents and leases by that percent, or not. And if not escalated annually it should be policy to at least escalate biennially.

While the FAA does not conduct regular, periodic safety inspections of the runway environment, as does the State through its own permitting process, a further owner-sponsor obligation is to expeditiously correct discrepancies the State identifies in its inspections. Failure to do so can result in permit “suspension”, or even permit revocation — essentially shutting the airport down. State permit safety requirements are easily met if the airport conducts its own daily self-inspections, which will cover State requirements in addition to FAA suggestions.

Finally, the airport owner-sponsor has the responsibility to ensure compliance, by itself and its tenants and users, with environmental protection requirements stemming from the National Environmental Protection Act (NEPA) and the California Environmental Quality Act (CEQA) for projects and activities on the property. Contaminated storm water runoff; tenant disposal of lubricants and fuels; and leakage containment of fuel storage tanks are a few of the major environmental protection issues airport owners-sponsors have to deal with on a daily basis.

The preceding not an exhaustive “primer” of what to do, and how to do it. This paper is intended to give a mere glimpse at the myriad, varied obligations and responsibilities that accrue to an airport owner-sponsor no matter whom, or what type of entity, under what type of contract/agreement operates the airport. The responsibilities of airport ownership are to meet the obligations, and institute good business practices.

In closing, being the owner-sponsor of an airport is a business matter; a property management business task. Certainly the safe use of the “property” by tenants and visitors is task Number One. Beyond that, maintaining financial solvency is imperative to allow for emergency and contingency recovery; repairs and maintenance of pavements
and facilities necessitated by normal wear and tear; and improvements and replacements, and additions of facilities and pavements prompted by increased use, or changes in use of the airport. Third, environmental protection and compliance with laws to that effect must be an everyday practice.

Should you desire more explanation, please feel free to contact me.

Sincerely,

[Signature]
R. Austin Wiswell

Attachments:
1. Federal Aviation Administration Airport Improvement Program Grant Assurances for Airport Sponsors, 03/2005.
2. Advisory Circular 150/5190-6, 01/04/07, Exclusive Rights At Federally Obligated Airports.
5. Advisory Circular 150/5370-2D, 05/31/02, Operational Safety On airports During Construction.
7. Advisory Circular 150/5050-4, 09/26/75, Citizen Participation In airport Planning.
10. California Code of Regulations, Title 21, Division 2.5, Chapters 4 & 9, California Air to airports Program and airport Loan Program, 07/2005.

Cc: Chris Mogensen, Assistant to the City Manager w/o attachments
Carolyn Bissett, City of Palo Alto Purchasing Department
ATTACHMENT D

Bill Fellman
Manager, Real Property
Real Property Division
City of Palo Alto
P.O. Box 10250
Palo Alto, CA 94303

July 6, 2007

Dear Mr. Fellman:

As requested by you, I’ve reviewed the Palo Alto Airport Working Group’s (PAAWG) May 2007 report to the Palo Alto City Council that purports to advocate the City expeditiously regain operational authority, responsibility, and control of the City-owned airport.

My specific task relative to the PAAWG’s report was to comment on their recommendation(s) that:

1. The City Council direct the City Manager to negotiate the early termination of the existing Palo Alto Airport lease with the County of Santa Clara;
2. The City Council appoint an interim manager for the airport; and
3. The City Council issue an RFP (Request for Proposal) for the long-term management of the Airport, which will ensure its asset value to the community is maintained and will preserve its economic value into the future.

The PAAWG report is long on optimism and naiveté, but that is not condemning of the effort. It may be an indication of thoughtful and confident consideration of the responsibilities for the variety of operating tasks. Or it may reflect a lack of understanding of the business aspects of running an airport of any size. Most of the 292 page report is attachments without substantive comment of their respective importance, purpose, and utility in reaching any conclusions, or in making any recommendations. I will later comment on specific statements, assertions, allegations, and suggestions made by the PAAWG. First, I will address the three elements of the operative PAAWG recommendations, as I was tasked to do.

As regards the first PAAWG recommendation that the City of Palo Alto negotiate an early termination of the current lease with the County of Santa Clara (earlier than the present 2017 lease termination year), which now has the County operating the City’s airport. I believe that course of action should be fully explored as soon as possible. It may well take a few years to settle all of the “minor” details, such as the disposition of the County’s Outstanding Advance of, now, some $681,000+; past and future levee maintenance; future shared responsibilities for maintenance of Embarcadero Road; and other issues of probable disagreement between the County and the City. It does seem that the County is desirous of extricating itself from operating the Palo Alto Municipal Airport, especially, it may be, since the County’s South County Airport is growing in use and tenancy, and County management workload. The PAAWG report offers little in the way of enumerating the benefits to the City, and the airport, of City operational control; nor any informative discussion of the authorities, obligations, and responsibilities incumbent on the City for assuming operational control of the airport; or any meaningful discussion of any “downside” to the City assuming operational control of their airport. I do believe, even at this early time, that direct operational control by the City of Palo Alto of its own airport has merit. The proposition has merit from the standpoint of operational control of
its own airport being considered a public-entity responsibility; to directly better serving City constituents, both airport supporters and detractors; and having direct hands-on management of a City-owned transportation and economic engine asset. Further, both the State of California’s Aeronautics Division and the Federal Aviation Administration should be apprised of the mutually agreed to intent of the County to relinquish, and the City to assume operational authority and responsibilities for the Palo Alto Municipal Airport. This would ensure that past financial obligations and compliance requirements (e.g. FAA Grant Assurances; accounting records of past State and federal grants; etc.) incurred by the County on behalf of the airport, and the City, are known, resolved, and properly transferred.

Finally, the City should expeditiously apprise itself of the full breadth and depth state and federal obligations, and risk exposure and liability obligations and responsibilities it would assume when operational authority is obtained by the City. In a previous submission to you, I discussed the many and varied obligations and responsibilities the City now has as owner of the Palo Alto Municipal Airport regardless of County operating the airport or a contractor operating the airport, and the additional obligations and responsibilities the City would assume if it chooses to be the actual operator of the airport.

As to the second of the three PAAWG recommendations, that of appointing an interim airport manager, the City must make the distinction between having a “manager” with the fullest of responsibilities, obligations, and authorities that being a “manager” of anything confers and requires; or having an “operations supervisor”, who merely monitors what is happening at the airport, primarily from a safety and maintenance perspective, but has no policy-setting or contracting authority, as examples; or a “business and property administrator”, who has authority to negotiate lease/rental agreements, collect payments, authorize disbursements, answer inquiries about airport policies and activities, as example. The term “airport manager” is too often tossed out as the title, but the reality is that each of these levels and types of operational control of airport management, or supervision, or administration is markedly different. The City needs to decide what it wants, in light of what it can afford (financially, as well as benefits burden) and staff assignment, whether new hire from off-the-street or additional duty within current City staffing, and with regard to desired expertise. Assuming operational control of the City’s airport is a “start-up business” proposition that must be well thought-out, taken seriously, and entered into cautiously. **I believe that initially an Operations Supervisor is the objective, with future job enrichment and expansion to Airport Manager after the City evaluates progress and success.** There are mature, educable, and somewhat knowledgeable individuals available from the ranks of retired military or recent college graduates (e.g. Embry-Riddle; San Jose State University; California State University at Los Angeles are examples of university-level airport management programs that I have been associated with, and there are others) who could be hired-on to staff the City’s initial operational control foray. There are other options to using a City-employee, which leads to the third PAAWG recommendation, which I will next discuss.

The third PAAWG recommendation is for the City to, in short, issue a Request For Proposal (RFP) to seek a contractor for long-term management of the airport. I have personal experience in this arena, having been General Manager of an airport management entity that *leased* a small 200+ acre General Aviation airport from the County owner. This was not a hired operator, but a lessee operator. The lessee corporation was a “not-for-profit” entity with a seven-member volunteer Board of Directors overseeing what I, as corporation General Manager (and daily Airport Manager) did. This arrangement of *professional management* by me, and my successor, serves the airport itself, the users and tenants, and the owning County well. The operative term
here is professional management, professional by experience and education/training, and involvement in professional airport management organizations. Being an airport manager, or an operations supervisor for that matter, is much more that watching airplanes drone by the window or having morning coffee with pilot friends each day.

I previously advised you to contact the City of Oceanside, in northern San Diego County, to ask them about their plan, and progress, to seek an airport management entity for their City-owned small General Aviation airport. Oceanside, and the airport users and tenants both have become somewhat disenchanted with operating the airport from within the City’s Public Works Department. Further, I apprised you of the County of Los Angeles’ long-standing single contractor operation of their five County-owned General Aviation airports. I also suggested you contact Riverside County’s aviation office to find out why they cancelled their five airport operating contract with the same contractor as Los Angeles County continues to employ. I strongly recommend contacting all of these to give you a broad flavor of the issue: hiring someone to run your airport for you. Much more needs to be learned by the City before choosing any course of action, whether operating their own airport or contracting for an operator. It should be noted here, and is stated in the PAAWG report, that the City of Turlock entered into an operating agreement with the airport’s pilots association to run the City-owned airport on behalf of the City. The reason for the pilots association proposing this operating agreement was their dissatisfaction with the City’s attention to the airport, especially as regards basic upkeep and maintenance, and applying for federal and State grants-in-aid. Now the pilots association wishes the City would be more involved in what is happening with, and to the airport, and interact more with the pilots association on operational matters. There is no easy solution, and there is no solution clearly better than any other. Before proceeding with an RFP, the City of Palo Alto needs to gain more information, at least State-wide, if not nationally, on contractor operation of a public-owned General Aviation airport, whether a for-profit or not-for-profit operator; whether on-airport FBO or not; whether City-chartered entity or not.

I will now turn my attention to specific comments made by the PAAWG that warrant my viewpoints.

One thing the City must reconcile before proceeding further to regain operational control of its airport, or pursue getting someone other than the County of Santa Clara to run it for the City is this: What does the city want the airport to be? There is a listing in the PAAWG report at Appendix 1A, page 5, of the many, commonly recognized uses of the airport. Hopefully the order shown is not that of importance and value to the City. The airport’s primary value to the City, and overarching purpose and use is as a “transportation node”, as both a departure point and an arrival point for an aviation transportation leg. Thus, purpose #3 for the airport on the PAAWG listing – “...convenient transport for business and personal needs.” is what the City owns, wishes to operate themselves, and will commit to maintain in a safe and effective condition. The airport’s primary value is as a contributor to the local economy in allowing local businesses to fly out of it in pursuit of business activities; allows businesses outside the local area to fly in to it to conduct locally beneficial business; and allows tourists and other personal purpose visitors to have a convenient local aviation transportation facility for arrival and departure use. Of course, the airport benefits the City’s citizens as a valuable location for emergency medical evacuation (air ambulance and “life flight” operations) and disaster response use. It also supports local law enforcement and fire fighting purposes as either a base of operations or a staging and refueling location. The City is not obligated to assume the responsibilities and obligations as airport operator for the purposes of flight training and local
pilot "recreational" and hobby flying. Those, as examples, are tangential purposes and values to the City. Once the airport’s value is understood, and its overarching purpose accepted, and, then, the commitment to the airport’s long-term welfare is made, the negotiations with the County can commence in earnest and the search for a private-public partnership to operate the airport can be initiated. First things first: What does the City want the airport to be, as regards clear value and benefit to the City? I offer that the airport is a transportation facility first and foremost.

The PAAWG report, and the City Auditor’s report both seem to feel the increase in monthly tie-down fees and the fuel flowage fee are excessive and without adequate justification. The monthly tie-down fee is a matter of it being a “seller’s market”, not a “buyer’s market”.

Comparing tie-down fees across several airports is little more than interesting. Each airport is very fundamentally different. Palo Alto has a revenue generation base now that favors the tenants. It seems not to be driven by revenue generation for airport needs, and equitably applied across all airport tenants and users. Past revenue generation decisions, as reflected in airport income constraining leases, and decisions to restrict expansion of revenue producing facilities and areas forces the airport (the County of Santa Clara in this case) to significantly increase what few revenue sources are available, namely monthly tie-down fees and fuel flowage fee. The harsh reality of tie-down fees is that the tie-down occupants have made a personal convenience decision to locate their aircraft at the Palo Alto Airport. They, not the airport, have to make a further decision as to which of the cost versus convenience lines crosses into the negative area. That’s not to say the airport can raise fees in an unconstrained manner. Those paying tie-down fees are, in essence, investors in the upkeep, maintenance, and repair of the airport, and as such they need to be treated fairly – and fully informed as to what their fees are going to, just like any business investor. Don’t let fear of comparables, and relatively idle threats of moving to another airport discourage charging what is needed to support the airport. General Aviation airports are rarely in competition with other General Aviation airports, unlike commercial service airports more often are.

As for the dramatic increase in fuel flowage fees from ten cents per gallon to twenty cents per gallon, that is noteworthy. Even ten cents per gallon is nudging toward the high side of fuel flowage fees. The airport has little choice in the matter since fuel flowage is one of the two available sources of revenue to support airport needs. I gather that when airport operation reverts from the County to the City all leases and rental agreements are subject to renegotiation – on better terms for the airport and, probably for the tenants and users also. There are better, more commonly applied methods to fix fees for tie-down spaces; land leases, lease or rent of airport owned facilities/spaces; percent of gross FBO (and other business tenants) revenues; fuel flowage fees; transient aircraft parking; meeting room rental; etc.; etc. that create a revenue generation system of many sources equitably applied across all airport tenants, users, and uses. I suggest this be more fully explored by the City before committing to assuming responsibility for setting revenue generation policy. The airport must be made financially self-sufficient, and financially self-sustaining in short order after the City would assume operational control.

Another area of comment here that is related to financial solvency of the airport, and revenue generation opportunities, is the City policy, expressed in the City’s Baylands Plan, which seems to be severely constraining the airport as regards, specifically, building revenue producing hangars. There is always a demand for hangars, and hangars are always revenue producers. There are several ways to fund construction of revenue producing hangars: State loan; revenue
bond; private financing for private owned & operated, but with ground lease and percent of gross coming to City for airport support. The City does not have to accommodate every aircraft wishing to be based at the Palo Alto Municipal Airport, nor does it have to accommodate every entrepreneur who wishes to place their aviation business on the airport. Again, it is a “seller’s market”, not a “buyer’s.” Having said that, however, I recommend an in-depth, no holds barred re-think of the City’s Baylands Master Plan relative to allowing construction of hangars (some 29 are proposed in the recent Airport Master Plan, and some number of that might be possible), and the relocation of the Terminal Facility, both on the 5.6 acre site fronting Embarcadero and Harbor Roads. I recognize, and appreciate the City’s desire to not have airport operations significantly increase in “intensity” (which I doubt they will, for a number of reasons) or “intrude” on open space areas (if it is airport property in the first place, I don’t see an intrusion occurring it its truest sense). There is a lot of architectural design work that can go into unobtrusive siting and character of hangars and a new Terminal building that should be explored. Further, there should be considerable investigation of construction requirements to satisfy flood hazard concerns. Again, architectural design work could mitigate most concerns – except increased cost of flood hazard mitigation.

The relatively short single runway, of 2, 433 feet long that can’t be appreciably lengthened, will always be a limiting factor in how much bigger the airport can get as regards basing of aircraft in hangars and on tie-downs; and how much more daily traffic the airport can accommodate; and how much larger the aircraft that routinely operate at the airport can be. Even the much touted four, six, or maybe eight passenger Very Light Jets, or Microjets, desire a 3,500 foot long runway. Other factors that will combine in some fashion to limit future “intensity” increase is the increasing cost of aircraft fuels; the relatively stagnant number of active pilots (lots of hangared and tied-down aircraft don’t fly regularly); and the general cost of insuring and operating an aircraft (especially if some type of “user fee” structure is implemented by the Federal Aviation Administration). Hangared aircraft don’t necessarily increase “intensity” of activity, but they do enhance airport revenue.

The PAAWG takes great exception to the County’s accounting procedures, and philosophy. The PAAWG seems to feel the County is overcharging the Palo Alto Airport part of the overall County Airport Enterprise Fund. The City Auditor’s report seems to have minor differences of opinion with the County’s procedures and philosophy. I can’t definitively support either accounting approach, or adamantly disagree with either either. One issue is how to account for depreciation of assets, the basic wearing out of buildings and pavements. For Federal Aviation Administration projects funded by Airport Improvement Program grants (with the exception of “paper projects” like Master Plans) the depreciation schedule is usually a straight line twenty year amortization. To me this means: set aside money, enhanced by projecting inflation, each year to cover replacement in twenty years. In the public sector depreciation doesn’t mean much more than that since there are no tax implications in play. An accelerated depreciation schedule can be employed with the same funds set-aside commitment to fund replacement at the end of useable life – which still may be based on a twenty-year life span.

My present inclination is to embrace the City Auditor’s report as regards its conclusions, criticisms, and revenue and expense history and projections. When the City assumes operational control of its airport, the City’s auditor will be THE responsible audit agency, and the June 6, 2006, City auditor’s report can serve as a baseline and departure point for subsequent audits.
A second area of PAAWG criticism of the County has to do with the County’s staffing of the Palo Alto Municipal Airport, and associated personnel costs. The issue may be systemic, rather than scurrilous. The County of Santa Clara has its own personnel policies, rates of pay and benefits, unionization to deal with, all in the context of a three airport, rather homogenous staffing regime. Should the City of Palo Alto assume operational control of their airport, staffing can be tailored to the situation: hire staff as “independent contractors”, not City employees; use City employees in the context of “additional duties”; or pay a named person, or persons of the not-for-profit corporation recommended by the PAAWG a base monthly rate but without pension contribution and health benefits (i.e. medical, dental, and vision). In either of the above options, the employee “tail” is absent (e.g. Social Security; workmen’s compensation; state and federal tax withholding; post-employment pension; and long-term post-employment health care).

In a related matter, in charging the airport for “services”, the City can treat those differently than has the County, which would reduce operating costs. The City can use its own administrative and operating agencies and charge for just time-and-materials; or for time-and-materials and staff/personnel time. The City’s “overhead” for legal, accounting, human resources, grounds maintenance, etc. is likely to be somewhat less than the County’s has been. City agencies can be used for basic maintenance and repairs at the airport and do a charge-back for them.

Finally, the staffing for the airport is a matter of, first, answering the previous two options: how to staff (and for what purposes), and how to cover overhead and services. Then, second, pursuing a well thought out course of action. My initial suggestion, based on my earlier discussion of hiring an airport manager, whether interim or long term, is to start with two persons to oversee the airport: one to deal with operational matters, such as safety and maintenance, and one to deal with administrative matters, such as grants and collections and disbursements. There is no requirement to staff the airport 12 to 16 hours per day, or seven days a week, at least not initially. The City can add to staffing as it becomes more aware of the full range of its obligations and responsibilities, and what type of staffing (numbers of persons and experience required) it takes to effectively meet them, and, of course, what the airport can afford.

I notice the PAAWG has attempted to accomplish an economic impact survey, or assessment, using a model developed by the Aircraft Owners and Pilots Association. It is a good tool for airport supporters to use to get a flavor of the airport’s economic engine role in its community. I suggest engaging a more experienced professional entity to conduct a comprehensive economic impact survey and assessment of the airport’s value to the Palo Alto area business and commerce community. It is mildly impressive to define the direct economic impacts of salaries and services at the airport proper. It is more impressive and more important to define the indirect economic impacts of services and products acquired off-airport because of the airport’s existence and use. Most impressive and most important, in my mind, are the induced positive economic impacts off-airport due to airport users, especially visitors (tourism and business) in terms of new businesses started or expanded, commerce expansion in general, and additional off-airport staff/personnel hires due to increased off-airport business and commerce fostered by airport use. The City needs to know much more about the value of the airport off-airport.

In closing, I’ll address the validity, and optimism, of the PAAWG financial projections. One thing that must always be remembered when making hopeful economic predictions, especially those that portray revenues barely exceeding expenses: something can go wrong – and it
probably will. I am not optimistic that growth in revenue at the Palo Alto Municipal Airport will mirror any traffic (i.e., use) increases projected by the Federal Aviation Administration, the State of California’s Department of Transportation’s Division of Aeronautics, or any affinity or trade group. The future of General Aviation activity, when compared to what it was in the 1970s and 1980s, is very much open to question, and some doubt. As I stated earlier in this report, increased, and increasing, fuel costs; increased liability and hull damage insurance costs; increased costs to acquire and maintain the basic aircraft (acquisition plus life-cycle costs for required periodic inspections and replacement parts); a relatively stagnant active pilot population (new starts do not exceed “retirements” from active flying); and the specter of “user fees” imposed on General Aviation aircraft operators in any combination will slow traffic growth, if not degrade current traffic levels. The fixed runway length, the limited space for which to place hangars, and the limitation on the number of apron tie-down spaces add to the prospect that increasing revenue projections out through 2017, and beyond to 2022, need to be tempered. The objective remains for the airport to be financially self-sufficient as soon as possible, and over the longer term be financially self-sustaining. It is nibbling around the edges of expenses combined with justified revenue generation, in balance, that is the business approach required, at least initially.

I remain readily available to further clarify and elaborate on my critique of the Palo Alto Airport Working Group’s three recommendations, and my additional comments.

Sincerely,

[Signature]
R. Austin Wiswell

CC: Chris Mogensen, Assistant to the City Manager
Carolynn Bissett, Contract Administrator
ATTACHMENT E

MISSION STATEMENTS FROM OTHER AIRPORTS
## Sample Municipal Airport Mission Statements

<table>
<thead>
<tr>
<th></th>
<th>Airport Name</th>
<th>Mission Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>San Diego County Airport</td>
<td>To operate and maintain safely, efficiently, and cost effectively, the eight County airports, airstrips, and airpark; as part of the National Air Transportation System, in conformance with Federal, State and local rules, regulations and ordinances and without cost to the County General Fund.</td>
</tr>
<tr>
<td>2.</td>
<td>Monterey Peninsula Airport</td>
<td>A special airport district created by an Act of the California Legislature in 1941. The mission of the Monterey Peninsula Airport is to provide access to the air transportation system by developing and managing facilities and services that contribute to the economy of the region.</td>
</tr>
<tr>
<td>3.</td>
<td>San Carlos and Half Moon Bay Airports</td>
<td>The Airports Program operates and maintains the San Carlos and Half Moon Bay Airports in order to provide airport users, tenants, pilots, visitors, outside agencies, employees and the community with the highest level of airport services and benefits in a safe, responsive, economical and cooperative manner.</td>
</tr>
<tr>
<td>4.</td>
<td>Yuma County Airport Authority</td>
<td>The Yuma County Airport Authority’s mission is to provide a safe, efficient and customer focused airport to serve Greater Yuma.</td>
</tr>
<tr>
<td>5.</td>
<td>Oxnard Airport</td>
<td>Oxnard Airport shall:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Be a publicly owned, operated, and managed general aviation airport with a strong emphasis on safety, cooperation with its neighbors, and responsible flight operations. Maintain a viable center for air commerce, which enhances trade and business for the economic development and transportation needs of the City of Oxnard and Ventura County.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Make every reasonable effort to limit the hours of air operations through a curfew, and to reduce noise and air pollution nuisances caused by airport users and operations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide the region with safe and efficient access to the national air transportation system and general aviation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Continue to search for a regional airport to serve the air carrier and commercial needs of the City of Oxnard and Ventura County.</td>
</tr>
<tr>
<td>6.</td>
<td>Stockton Metropolitan Airport</td>
<td>The Stockton Metropolitan Airport serves the current and future commercial, corporate business, and general aviation needs of San Joaquin County; plans, operates, and maintains the safety and appearance of the Airport to meet the highest standards; manages numerous tenant agreements and facilities located on Airport land; and promotes the development of Airport land and facilities for future aviation and commercial related services.</td>
</tr>
<tr>
<td>7.</td>
<td>John Wayne Airport</td>
<td>The mission of John Wayne Airport is to plan, direct and provide high quality aviation services and facilities for Orange County in a safe, secure and efficient manner.</td>
</tr>
<tr>
<td>8.</td>
<td>Santa Clara Co. Reid-Hillview, South County, and Palo Alto Airports</td>
<td>The mission of the Roads and Airports Department is to operate, maintain, and enhance the County's expressways, unincorporated roads, and the three general aviation airports in a safe, timely, and cost effective manner to meet the needs of the traveling public.</td>
</tr>
</tbody>
</table>

10/29/2008
1. Background:

The County of Santa Clara has proposed to terminate the lease early prior to its expiration in 2017, citing the inability to generate enough revenue to match expenses as a rationale for seeking early termination of the lease. The Palo Alto City Council has directed staff to begin negotiations with the County to take back the airport by 2010. The City desires an analysis of all the significant risks and obligations, as well as the benefits associated with running the Palo Alto Airport prior to entering into any formal contract negotiations to terminate the lease with the County.

2. Scope of Work:

The comprehensive Business Plan shall include the following:

- Provide an overview of the current County Airport Enterprise Fund (AEF) and examine the ability of the airport to economically stand alone without subsidy from the City’s General Fund (GF).
- Provide an overview and analysis of the airport’s current finances, to include existing, projected cash flow (income statement and balance sheet) until 2017, and potential cash flow including revenue generation opportunities, thereafter.
- Review and analysis of current and future aircraft operations including aircraft basing numbers, traffic levels, types of aircraft using the airport and purpose.
- Examine operational costs, both revenue and expenses, and prepare a 7-year detailed financial forecast starting in 2010 and a subsequent 15-year budget projection through 2037.
- Identify the airport’s future capital investment needs, how to maximize current income potentials, the opportunities for increasing revenue and reducing cost, and resources for all available federal/state/other grants.
- Identify and address potential adverse and constraining impacts of future studies such as the Army Corp of Engineers Levee Report, including USGS typographical maps and climate change effects, inconsistencies between the current Baylands Master Plan and the current County Airport Master Plan and improvements at other airports near the San Francisco bay, and any other potential impacts of neighboring areas or potential or likely future developments.
- Provide a brief analysis of the future viability of airports and aviation in general and where the Palo Alto Airport is positioned.
- List pros and cons of airport management by the City contrasted to non-government Third Party management.
- Make a recommendation whether or not to terminate the current lease before 2017 and a recommendation what should be done with the two Fixed Based Operator's.

3. Attachments Included:

Lease agreement between City of Palo Alto and County of Santa Clara (Attachment A-1)
- CMR:247:08 Palo Alto Airport Working Group (PAAWG) report (CD of complete report available) and City of Palo Alto Auditor's report (Attachment A-2)

4. Deliverables:

- One unbound copy of the comprehensive Business Plan (pages shall be no larger than 8-1/2x11 inches or 11x17 inches, if folded to that dimension).
- Must be available, as required, to attend City Staff meeting(s) and/or City Council meeting(s).
ATTACHMENT G

SUMMARY OF PROPOSALS FOR AIRPORT BUSINESS PLAN

R.A. Wiedemann & Associates

Company Information:
Kentucky company consisting of four full time professionals and a part time economic impact assessment specialist. In business for 20 years, the company specializes in airport business planning, marketing, economic impact analyses and other aviation planning.

Experience:
Company has provided its services in 33 states, including California and has developed more than 40 airport business plans and hundreds of airport economic impact assessments.

Examples of Qualifying Experience:
Many qualifying project are listed in the proposal. Three in particular show Wiedemann's fit to the City's RFP in terms of capabilities and experience.

- Determined the value of the airport to Camden County, NJ, its ability to be self supporting and what physical expansion that could be done;
- Presented a feasibility analysis with alternatives for Endicott, NY, a city wanting to take back its airport from a Fixed Base Operator;
- Assessed an airport for a Missouri city to determine the value of the airport to the community.

Proposed Innovations:
- Development of multiple pro-forma's to present two or more options for potential operation of the PAO, such as City management, third party management or FBO management;
- Assisting the City's marketing and public information program for the PAO;
- Formulating innovative development/funding methods such as involving private investment; and
- An optional task at additional cost which is a new metric designed to examine both the economic contribution of the PAO (through the economic impact analysis) and the asset value of the PAO (Airport/community Value). This would identify jobs, taxes, and airport revenue generated to the community. It would also identify the amount of significant business use. Allows the City and other interested parties to evaluate the overall airport value to the community against the operation cost of the PAO.

Elements of Scope of Work/Product
The proposed plan is intended to provide
- an overview analysis of the PAO;
- an assessment of business/economic development opportunities;
- feasibility guidance for the transition, management, and development of the PAO as a city-managed and sponsored facility and recommend a strategic source of action to pursue development and address issues.
- an analysis of all the significant risk and obligations, as well as the benefits associated with running the PAO prior to entering into formal contract negotiations to terminate the lease with the County.
The proposed scope of work for the plan consists of the following six elements which are described in detail in Section 4 of the proposal: 1) Initial meetings and Visioning Effort; 2) Data Collection; 3) Market Analysis; 4) Financial Outlook; 5) Management Structure; 6) Recommendations. The proposer will also conduct a final meeting and/or presentation on findings for the City.

**Time Line to completion of report:**
June 2009

Cost:
$105,000 ($87,500 for basic plan; $17,500 for optional task (Airport/Community Value- Economic Impact Analysis))

**Charles B. Warren, ASA - Urban Real Property**

**Company Information:**
San Francisco real estate valuation firm consisting of the owner and his consultant:

**Experience:**
Owner and consultant have 30 and 20 years respectively in valuation of commercial properties, especially waterfront properties, acquisition and management of rights of ways and lands for numerous public agencies.

**Examples of Qualifying Experience:**
- Managed Redwood Shores assessment project for the Redwood City Finance Dept. from 1992 to 2006 including annual appraisal of market value of over 4,000 parcels with varied uses;
- Valuation of the impact of an oil spill on a shopping center;
- Testimony in a case involving the valuation of a leasehold
- Appraisal of vacant march acreage on the Peninsula.

**Proposed Innovations:**
None demonstrated

**Elements of Scope of Work/Product**
1) a review of the County airport enterprise fund;
2) a review of probable airport operations;
3) review of the consistency with various plans with climate change;
4) projecting existing cash flows to 2017;
5) identifying probable costs, revenue enhancements, grants, economies; and
6) preparation of budgets for 7 + 15 years additional years

**Time Line to completion of report:**
3 months

**Cost:**
$30,000
ATTACHMENT H

WARREN PROPOSAL
Attachment H:

Valuation & Consultation

8 September, 2008

Kathy Bradley  
City of Palo Alto  
Purchasing and Contract Administration  
250 Hamilton Ave  
Palo Alto, CA 94301

Re: RFP 128288

Thank you for the opportunity to introduce myself and my subconsultant. The “firm” is basically myself, and subcontractor relationship with Wayne Lusvardi.

We have extensive prior public agency real property acquisition and management experience. Collectively our team has on the order of 50 years of combined experience in the valuation, acquisition, and management of rights of ways and lands for CalTrans, the MWD of Southern California, Alameda Corridor and numerous other public agencies.

Wayne Lusvardi is a nationally-recognized partial acquisition and utility corridor appraiser who has particular expertise in the valuation of flood control channels, channel crossings, well sites, and “chains of lakes”. He was formerly the senior appraiser and property manager for the MWD of Southern California.

In addition to quotidian problems, such as the Federal Reserve Building, my special areas of expertise is in water front property valuations, oblique aerial photography, GIS mapping, computer assisted valuation, and valuation of unusual situations. Published in Real Estate Review on the use of three approaches to leasehold valuation. I have successfully presented expert testimony in litigation clients such as Liability Insurance Underwriters, Chevron and Cushman and Wakefield. Also had an opportunity to value Pacific Shores in March, 2000, correctly identifying the risks of a tech bubble.

The objective of our service is to help you determine a plan of action regarding the Palo Alto Airport.

Looking forward to working with you.

Charles B. Warren, ASA

URBAN REAL PROPERTY

Web www.charlesbwarren.com  
email - cbw@apo.com
Company Profile.

Charles B. Warren (ASA-Urban Real Property) is a real estate valuation firm in San Francisco with, beyond quotidien commercial properties like the Federal Reserve Building, particular expertise in the valuation of waterfront properties, oblique aerial photography, GIS mapping, and remote image and cartographic research. See full firm profile at: http://www.charlesbwarren.com/.

Experience.

Wayne Lusvardi has 20 years experience in the valuation, acquisition, and management of fee, easement and license interests in urban and agricultural lands for the MWD of Southern California, including pipeline rights of ways, secondary use leases and licenses of rights of ways and lands, user fee schedules, crossing easements, well sites and associated water rights, pipeline route and feasibility studies, and the valuation of the "chain of reservoirs" connecting the Colorado River Aqueduct. Mr. Lusvardi has authored relevant professional articles on flood channel valuation and corridor valuation. Additionally, Mr. Lusvardi has successfully negotiated the acquisition of over 300 interests in water pipeline and aqueduct rights of ways without the necessity of eminent domain (San Diego Aqueduct Expansion Phases I & II, Etiwanda Pipeline, Inland Feeder, Allan McCullough Pipeline, Diamond Valley Reservoir, etc.). He was also responsible for managing MWD properties, particularly negotiating leases.

Charles B. Warren, ASA, has over thirty years of consultation, valuation and project management, litigation support, value for estate management, property tax assessment, assessment appeal, and lending; extensive independent consultation, project management nationwide for American Appraisal; appraisal office management for Wells Fargo Bank; Assessment appeal defense: Alameda and San Francisco Counties; Computer Assisted Mass Assessment: City of Redwood City; Qualified expert witness: Superior Court, Federal District Court, Bankruptcy Court. He is a Senior member, American Society of Appraisers, urban real property; Visiting professor Istanbul Technical University; member of International Right of Way Association, the American Real Estate Society, International Association of Assessment Officers, Real Estate Analysts Microcomputer Users Group, Urban Land Institute, Bay Area Automated Mapping Association He has successfully defended Chevron and Shell in alleged loss in value due to contamination suits; successfully defended Liability Insurance Underwriters and Cushman & Wakefield in appraisal standards cases.

While valuation may seem a long way from business planning, it is less so in real estate. A large portion of real estate management is in recognizing and taking advantage markets, valuation. Feasibility is a large portion of both valuation and management. Business plans are an element of feasibility analysis. Mr. Warren also brings a pilot's perspective to this project.
RELEVANT EXPERIENCE - NARRATIVE

The Redwood Shores General Improvement District was a client from 1993 until they paid off their bonds in 2006. The project involved annual appraisal of the market value of over 4,000 parcels ranging from wetlands to software campus with thousands of houses and condominiums in between. Reportage was restricted format, and valuation was consistent with USPAP Rule 6 and the California Revenue and Taxation Code. Automated valuation modeling and computer assisted mass assessment augmented feet on the ground and made the project feasible at a fee to the client of about $10 per parcel.

One oil company client was sued for totally destroying the value of a shopping center with leaking underground storage tanks (LUSTs). While it was pretty undeniable that the center was at a serious competitive disadvantage, the causative factor was less clear. In fact, a study of aerial photography showed that the property had an empty parking lot before the date of discovery of the pollution. In fact, an image was found of the center breaking ground at the same time that the arterial which served it was being re-aligned by Caltrans. The research was not inexpensive, but neither was it as expensive as a fully-prepared-for-trial appraisal report and resulted in a settlement.

An opportunity presented itself some years ago to testify in a case involving valuation of a leasehold. Fortunately there were depositions available in which the lessees discussed their metrics for the purchase of such things. Differential rent had nothing to do with it. A reprint of the article on the subject may still be available from Real Estate Review.

An interesting assignment was the appraisal of vacant marsh acreage on the Peninsula. Unusually, it was developable beyond its use as a slurry pond. That development entailed relocating dredging spoils from a nearby shipping channel which had formed an ad hoc island in order to raise the parcel above sea level. The really interesting part of the assignment, however, was highest and best use. The proposed highest and best use for a few hundred thousand square feet of new office building was related to housing dot-com firms. Many had signed letters of intent, but the date of value was March, 2000. Successfully made the connection between the success of the development and the continuation of speculation in dot-com stocks. The development constituted a large proportion of the vacant office space on the Peninsula for years.

Projects have ranged from the thousands of dollars to the hundreds of thousands of dollars. Managed the Redwood Shores assessment project, on the order of $50,000 each year, 1993 to 2006 for the Finance Department of the City of Redwood City.

Effectively Palo Alto is a busy local field. Its runway length is marginal for the new generation of Very Light Jets (VLJs). That might be remediable. There is a large area of open tie downs. Mid-day, 2-27-04, the transient area was basically fully occupied. Full occupancy, economically, argues for higher fees. A possible way to make that more palatable would be construction of hangars. The presence of flying clubs is a definite plus to airport operations. If VLJs represent the upper end of the General Aviation future, light sport and ultralight, usually associated with clubs, represents the bottom.
Neither myself nor Mr. Lusvardi has any formal or informal arrangements that would impair our ability to perform independent and unbiased services for the City of Palo Alto.

Neither myself nor Mr. Lusvardi are or have been involved in any litigation or administrative proceeding that would impair our ability to perform services for the City of Palo Alto.

General compliance with City contracting, labor, and insurance requirements will be maintained and proof submitted in event that any services are contracted with the City of Palo Alto.

Non-collusion: This submittal is genuine and made only in the interest of the parties named herein, nor is it intended to induce any behavior of any other parties who might offer their services pursuant to this RFP.

Charles B. Warren, ASA (urban real property)
2033 Powell Street
San Francisco, CA 94133
www.charlesbwarren.com
415.433.0959 vox
415.433.0959 fax
cwarren@batnet.com
References.

Daniel T. Clewley, Supervisor, Property Management, The Metropolitan Water District of Southern California. Tel: (213) 217-7576; dclewley@mwcdh2o.com.

Sherman Hom, Supervisor, Acquisitions, The Metropolitan Water District of Southern California. Tel: (213) 217-7576; shom@mwcdh2o.com

Allan Phillips, Esq. 100 Verde Road, Box 996, Half Moon Bay, CA 94019, Tel. 650.366.8231 mailto:alansmudson@yahoo.com

Philip Soderquist, Esq., 351 California Street, Suite 550, San Francisco, CA, Tel. 415.374.8500 mailto: philquist@aol.com

Alison Freeman, Department of Finance, City of Redwood City, Box 391, Redwood City, Ca Tel. 650 780 7071 mailto:afreeman@redwoodcity.org

Names and Resumes of personnel including any subconsultant staff.

Principal:
Charles. B. Warren, ASA (Urban-Real Property) – Appraisal/negotiations - Qualifications attached

Subconsultants:
Wayne Lusvardi - Appraisal/negotiations – Qualifications attached
EXPERIENCE

1993–2008: Principal, real property consultation service. Valuation and consultation related to estate management, litigation, and property taxation. Extensive and diverse property appraisal for consultation and litigation purposes. Project manager multi-disciplinary teams evaluating real property issues. Qualified expert witness in Federal District Court, Bankruptcy and Superior Court as well as assessment appeals. Extensive work in property rights, as well as environmental issues, land economic research and feasibility analysis. Present major clients include a 4,350 parcel assessment district with an aggregate value on the order of $5 billion. Knowledge of GIS, remote sensing, automated valuation models (AVM), CAMA, Mac and Windows OS.


EDUCATION

Bachelor of Arts, UC Berkeley, 1968

PROFESSIONALLY RELATED EDUCATION

Basic, intermediate and advanced appraisal • Income property analysis • Land economics
• Statistics • Applied regression analysis • Real estate law • Challenged and passed Appraisal Institute courses 101, 102, and 201 • Education principles • Public sector labor relations

LICENSES AND CREDENTIALS

Visiting professor, School of Architecture, Istanbul Technical University
General Certification as an appraiser in California: AG003171
California teaching credential in real estate
American Society of Appraisers Real Property Committee
USCG Master (100 ton)
FAA Private Pilot

MEMBERSHIPS

Past President, American Society of Appraisers San Francisco Chapter
Senior member, urban real property, American Society of Appraisers, recertified to 2011;
Urban Land Institute, International Association of Assessment Officers, International Right of Way Association, Real Estate Analysts Microcomputer Users Group, American Real Estate Society, Bay Area Automated Mapping Association

PUBLICATIONS

Real Estate Review • Real Estate Issues • USC Law Journal • Environmental Claims Journal • Assessment Journal

VOLUNTARY ACTIVITIES

Director, Bastiat Institute for the Study of Land Economics, Webmaster, Tahiti Cup YC;
Director, El Nino Project, U.S. Coast Guard Auxiliary

LANGUAGES

Fluent in French, some Spanish, Turkish, German, Russian and Japanese
Statement of Qualifications
Wayne C. Lusvardi
Independent Real Estate Appraiser and Consultant
P.O. Box 629
Pasadena, CA 91102
(626) 792-1033 or (626) 524-1069 cell; E-Mail: waynelus@yahoo.com

Certificates: Certificates in Real Estate Appraisal, UCLA School of Engineering, Business and Management, 1990.

Professional Education: Completed course sequence pursuant to MAI designation, Appraisal Institute.

Education: B.A., Aurora University, M.S.Admin., University of Southern California

Experience:
Senior Real Estate Appraiser – Metropolitan Water District of Southern California, 1985 to 2004
Development Analyst/Review Appraiser – Los Angeles County Community Development Commission 1980-1985

Professional Publications (partial list):
“Appraising Linear Subordinate Easements in Utility Corridors,” Appraisal Journal (July 2000)
“Market Value vs. Public Interest Value,” Right of Way (June 1998)
“A Case of Floodway Robbery?,” Right of Way (Sept. 1999)
“Mitigating Factors in the Appraisal and Valuation of Contaminated Property,” Real Estate Issues (Summer 2000)


Professional Awards:
Mark Green Journalism Award – International Right of Way Association 1986 and 1999
Distinguished Speaker Award – Appraisal Institute National Forum on Public Interest Value – Sacramento Chapter, 1999.
Distinguished Speaker Award – Appraisal Institute National Symposium on Telecommunications Real Estate Valuation, Sacramento Chapter, Appraisal Institute, 2001.

Specializations:
Land, Easements, Special Purpose Properties, Telecom Sites, Water Rights, Contaminated Land, Part Takings, Preservation Land, Rail & Transport Corridors, Pipeline corridors, water reservoir sites and facilities.

Relevant Experience
- Appraisal & review appraisal of agricultural ground rents and water transfers, Palo Verde Irrigation District for the Metropolitan Water District of Southern California, 2004
Appraisal of Phase 1, Fort Irwin Expansion Project, Western Mojave Desert (Superior Dry Lake, Coyote Dry Lake and Paradise Range areas), San Bernardino County, with W.H.Neville, MAI, 2006.

20-years experience in appraising and managing desert lands along the MWD Colorado River Aqueduct, Parker Dam to Lake Mathews.

Route feasibility studies and appraisal of water pipeline rights of ways for Metropolitan Water District of Southern California (Etinanda Pipeline, San Diego Canal Expansion I & Ii, Inland Feeder, Allen McCullough Pipeline, etc.).

Litigation/Arbitration Experience:


Redevelopment Agency of Bell Gardens vs. Caditz and Grant Trust. Condemnation of 5,000 square foot office building for Phase 2 of redevelopment project. Appraiser for property owner. Expert witness. Depositions only. $500,000 out of court settlement. Harvey Grant, attorney, Beverly Hills.


MWD – Rancon Realty arbitration for acquisition of 750-acre McSweeney Ranch in Hemet, California as part of Diamond Valley Reservoir. $13 million appraised arbitration. Review appraiser and arbitrator.

In the Matter of: The Metropolitan Government of Nashville and Davidson County, Tennessee, Acting by and through the Electric Power Board of said government (DBA Nashville Electric Service) vs. CSX Transportation, a Virginia Corporation, and owner of rail corridor property in Davidson County, Tennessee. Filed Declaration of Value on behalf of client Nashville Electric Service, in condemnation of electric pole line easement with CSX rail corridor. NES prevailed in out-of-court settlement. $1 million valuation. No depositions or testimony. Attorneys: Neal & Harwell, attorneys-at-law, Nashville, Tennessee.
Price and payment proposal

Fees are hourly with a maximum for each element

1. Review county airport enterprise fund $200/hour v. $5,000 cap - element deliverable in one month
2. Review probable airport operations $200/hour v. $2,000 cap - element deliverable in one month
3. Review consistency with various plans and estimated climatic change $200/hour v $5,000 cap - element deliverable in second month
4. Project existing cash flows to 2017 $200/hour v. $3,000 cap - element deliverable in second month
5. Identify probable costs, possible revenue enhancements, possible grants, possible economies $200/hour v $8,000 cap - element deliverable in third month
6. Prepare budgets for 7 + 15 additional years, considering possible revenue enhancements and related costs $200/hour v $7,000 cap - element deliverable in third month

Maximum cap - $30,000

Elements will be billed when complete
There will be no overhead or expense charges
Insurance endorsements will be provided upon award of contract
ATTACHMENT I

WIEDEMANN & ASSOCIATES PROPOSAL
Attachment I:

Proposal to Prepare a Business Plan for
Palo Alto Airport of Santa Clara County

Prepared for:
The City of Palo Alto, California

Prepared by:
R.A. Wiedemann & Associates, Inc.
AVIATION CONSULTANTS
P.O. Box 621 • Georgetown, KY 40324 • (502) 535-6570 FAX (502) 535-5314
www.rawiedemann.com
Chapter 1
Proposal Summary
CHAPTER 1
Proposal Summary

THE FIRM OF R.A. WIEDEMANN & ASSOCIATES, INC., is pleased to submit this proposal to prepare a Business Plan for Palo Alto Airport of Santa Clara County, CA. As you will note from our proposal, R.A. Wiedemann & Associates, Inc., is one of the most experienced airport business planning and airport economic impact assessment consultants in the nation. We have developed more than 40 airport business plans and literally hundreds of airport economic impact assessments. We believe that your review of our proposal will lead you to conclude that we are best qualified to undertake the proposed assignment.

There are numerous projects listed in the qualifications section of this proposal that are directly applicable to the project under consideration. When we reviewed your R.F.P., we commented among ourselves that your request was a remarkable fit to our capabilities and experience. In particular, the following three examples stand out:

- Camden County Airport Acquisition Feasibility Study - The Camden County Improvement Authority retained R.A. Wiedemann & Associates in 2008 as part of team to determine the feasibility of purchasing a privately owned airport. The purpose of the study was to determine the value of the airport to the County, its ability to support itself without subsidy, and any physical expansion that could be accomplished.

- Business Plan and Airport Community Value Study - Lee’s Summit Airport, MO: R.A. Wiedemann & Associates, Inc. has pioneered a new economic impact metric called “Airport/Community Value.” After completing a business plan for Lee’s Summit Airport, MO in 2008, the City has requested an assessment of the Airport to help determine the value of the airport to the community. This request has been prompted by the community’s reluctance to implement expansion items in its master plan. Included in the analysis is the economic impact (IMPLAN analysis) along with a valuation of the airport facilities and property.

- Tri-Cities Airport (Endicott, NY) Business Plan (2007) - This business plan focused on the City’s desire to “take back” their Airport which had been operated under an agreement with an FBO. The feasibility analysis presented pro formas for each alternative, giving the City significant decision making information.

Our proposed work scope is tailored to your situation and reflects our cumulative experience in preparing airport business plans. We have added innovative steps that supplement your request and directly address the questions surrounding the feasibility of taking the Airport back from the County. We believe that our low overhead and competitive cost structure allows us to put more “labor” hours into your project, relative to our competition.

We appreciate the opportunity to submit this proposal to perform a Business Plan for Palo Alto Airport of Santa Clara County. We look forward to the possibility of working with you on this challenging project.
Contacts for Key Staff Members

R.A. Wiedemann & Associates, Inc., is a national firm with a significant resume of aviation planning expertise. Its founder, Randal Wiedemann, has over 33 years of aviation and economic impact planning experience.

Key staff members include the following (see full resumes in Chapter 6):

- Randal Wiedemann - Project Director.
  Contact Information: Phone - 502-535-6570
  Internet - randal@rawiedemann.com

- Rob Barber - Project Manager.
  Contact Information: Phone - 502-535-6570
  Internet - rob@rawiedemann.com

- Geoffrey Hewings, Ph.D. - Lead Economist. Dr. Hewings has worked with R.A. Wiedemann & Associates since the firm’s inception in 1989. He is an internationally respected economist with a long list of airport and aviation economic impact assessment experience.
  Contact Information: Phone - 312-320-3460
  Internet - Hewings@illinois.edu

- Other Staff - The remaining project team will consist of the other two staff members of R.A. Wiedemann & Associates
  Contact Information: Phone - 502-535-6570
Chapter 2
Profile of R.A. Wiedemann
& Associates, Inc.
CHAPTER 2
Profile of R.A. Wiedemann & Associates, Inc.

R. A. Wiedemann & Associates, Inc. is considered a leading edge, high quality, specialized firm devoted to airport business planning, marketing, economic impact analyses, and other aviation planning. Its principal, Randal A. Wiedemann has been involved in aviation planning and air service work beginning with Landrum & Brown, Inc. in 1975. Later, as Vice President of another national aviation planning firm serving a wide spectrum of clients, Mr. Wiedemann continued developing a reputation for high quality, insightful, and objective work.

The concept behind the foundation of R.A. Wiedemann & Associates in 1989 was to employ national and international experts who specialize in airport business planning, video production, economic development, and economic impact analyses. This specialized expertise can be brought to bear on projects ranging from small general aviation airports to national aviation system plans. The focus of all work is real world results. In this manner, objective solutions to complex problems can be reached, maximizing a client's ability to deal with these challenges.

R.A. Wiedemann & Associates, Inc., is a specialist in the development of airport business plans. Airport business plans are designed to improve an airport's financial performance, economic development, and operation. Airport sponsors are continually exploring revenue producing opportunities including development of airport real property reserves and concession development. While the overall airport master plan guides the general direction and scope of airport development, there is frequently a need to see how the airport fits into its economic environment, its competitive environment, and its market niche. Airport Business Plans are designed to identify alternative sources of revenue and new marketing opportunities. In addition, business planning can be used to explore alternative management structures, FBO usage, and other management issues. Many Airport Business Plans completed by Wiedemann & Associates have been federally funded. To date, Wiedemann & Associates has participated in over 40 of these studies in eleven states.

R.A. Wiedemann & Associates employs four full time professionals and one part-time economic impact assessment specialist. The average length of experience for the employees is over 20 years. Resumes of these professionals are presented later in this proposal.

R.A. Wiedemann & Associates is preparing to celebrate its 20th year in business (February, 2009). This longevity has been made possible by the provision of sound consulting services and work that has generated return business. Our clients are our best advertising. From a financial standpoint, our company is well positioned, with a large backlog and good financial resources. Our offices are located in Georgetown, Kentucky. From that location, we provide services across the nation. In this regard, we have performed work in 33 states, including California.

R.A. Wiedemann & Associates has the capacity and resources to begin the Palo Alto project in November and to bring the job to a successful conclusion in April, 2009. R.A. Wiedemann & Associates does not and has never been involved in a lawsuit or litigation.
Chapter 3
Qualifications of the Firm
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Qualifications of the Firm

R.A. Wiedemann & Associates staff has extensive experience in the area of financial management and business planning studies. Airport business plan studies are intended to provide an overview analysis the airport. This includes financial planning analysis, assessment of business/economic development opportunities, and recommend a strategic course of action to pursue development and address issues. Most business plans examine a short history of revenue and expense performance and then project financials for a 5 year forecast period. Others take a longer term look at financial performance. Strategic planning for market niche fit, development of unused airport property, management structure changes and other innovative methods are used to examine the potential for enhanced revenues at the airport. The economic impact of the airport with and without recommended changes is also estimated.

A portion of the numerous airport business planning projects completed by R.A. Wiedemann & Associates, Inc., is listed below. Our experience in developing airport business plans is extensive and has given us good insight into airport issues such as those facing the Palo Alto Airport. We invite you to contact the study sponsors to determine the quality of our work, our timeliness, and our adherence to budgets.
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<th>Job</th>
<th>Reference</th>
<th>Percentage of Work Responsible For</th>
<th>Project Cost</th>
<th>Completi on Date</th>
<th>Adherence to Schedule and Budget</th>
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</table>
| Camden County Airport Acquisition Feasibility Study | Camden County Improvement Authority  
Andrew Levecchia  
Senior Planner  
1909 Route 70 East, Suite 300  
Cherry Hill, NJ 08003  
Tel:(856) 751-2242 | 50% | $75,000 | 7/08 | Yes |
| Summary of work done: | The Camden County Improvement Authority retained R.A. Wiedemann & Associates as part of team to determine the feasibility of purchasing a privately owned airport. This airport is the last of seven facilities remaining in the County. The purpose of the study was to determine the value of the airport to the County, its ability to support itself without subsidy, and any physical expansion that could be accomplished. Our study determined that it was impractical to expand the airport due to environmentally sensitive areas (wetlands) and other existing transportation infrastructure (railroad right of way and highway). Options were presented to the County that showed potential feasibility, if the local share of capital improvement grants could be covered either by the County or State. The airport was not being used extensively by businesses. In essence, the argument was not compelling and we stated that as part of the recommendations. |
| Lee’s Summit Airport Business Plan | City of Lee’s Summit, MO  
John Barker, Senior Staff Engineer  
816-969-1850 | 60% | $139,000 | 7/08 | Yes |
| Summary of work done: | The City of Lee’s Summit has had pressure from various interest groups to determine the future direction and development of their airport. A master plan was developed that laid out significant expansion. Some have suggested that the community would be better served if the airport were closed and turned into industrial property. Thus, prior to any expansion, a business plan was requested to determine the value of the airport to the community and to ascertain the airport’s future role. The first portion of that effort was completed in the summer of 2008. Additional work was requested concerning the Airport/Community Value and the commercial value of non-aviation property. Those efforts will be addressed in the coming months. |
| Morehead-Rowan County Airport Business Plan | Morehead-Rowan County Airport Board  
Morehead, KY  
Jim Fluty, Chairman  
Morehead-Rowan County Airport Board | 100% | $62,000 | 12/07 | Yes |
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<td>Sussex County Business Plan</td>
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<td>State of Delaware Department of Transportation, Dover, DE</td>
<td>100%</td>
<td>$50,000</td>
<td>2006</td>
<td>Yes</td>
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</table>
| Michael Kirkpatrick, Aeronautics Administrator 302-760-2153  
Bobbie Geier, DelDOT Aeronautics 302-760-2119 |                                    |              |                |                                  |
<p>| Summary of work done:                    |                                    |              |                |                                  |
| R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Sussex County Airport in Georgetown, Delaware. The recommended plan of action from this plan rests on three primary strategic initiatives: 1) Retain Existing Clientele: The Airport’s largest employer, PATS/DeCrane, has made a commitment to move their corporate offices to Georgetown, DE. Increasing competition from domestic and foreign airports for Boeing Business Jet refurbishing and retrofitting should be countered with local incentives to expand at Sussex County Airport. Other corporate tenants, state police, FBOs, etc., are all important to the Airport’s bottom line. 2) Hangar Development: Hangar development, both T-hangar and conventional, are significant contributors to the Airport’s revenue stream. One method of increasing revenues is to construct more hangar space. This involves marketing and financing, but the economic development returns are large. For this business plan, it was assumed that 20 T-hangar units and 5 large conventional hangars could be developed over the next 5 years. Growth of the corporate aviation market segment will depend, in part, on the availability of adequate hangar facilities. 3) Staffing: The current staff is stretched to the limit in handling day-to-day management issues at the Airport. When the planning, marketing, and other functions are added to the mix, span of control issues are unavoidable. There is an immediate need for at least one more full time employee in the Economic Development Department who could focus solely on aviation matters, dealing with tenants, and activity associated with the growth of the Airport. |</p>
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<td>Finn Neilsen, CEO Phone 302-834-5400</td>
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<td>Summary of work done:</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Summit Aviation, the private owner of Summit Airport in Middletown, Delaware. The business plan focused on Summit Aviation’s core business practice - avionics and airframe modification - along with several new strategic market directions. The Airport employs more than 80 people and plays a vital role in the rehabilitation of the U.S. Army’s CH-47 Chinook Helicopters. The business plan recommended improvements to several areas of the operation, along with new land use recommendations. Also included in this project were videos and full-color brochures.</td>
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<td>New Castle Airport Business Plan</td>
<td>Delaware River &amp; Bay Authority Stephen Williams, Airports Director 302-561-4190</td>
<td>100%</td>
<td>$50,000</td>
<td>2006</td>
<td>Yes</td>
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<td>Summary of work done:</td>
<td>When commissioned to perform a business plan for New Castle Airport (Wilmington, DE), the airport served general aviation and the military. Airport management, the Delaware River &amp; Bay Authority (DRBA) desired to see what could be done to position the airport for airline service. Four months after release of the plan, Delta Airlines began serving the airport with non-stop service to Atlanta. The recommended plan of action from this business plan rested on three primary strategic initiatives: 1) Attraction of Low Fare Airline: The attraction of a low fare airline to ILG is a major component of this business plan. Low fare service at ILG can compete with other low fare carriers at PHL and BWI. In addition, the development of airline service at ILG is projected to serve more than 275,000 air travelers each year. An added benefit to DRBA is that revenues from airline operations at ILG would more than double the current revenues within five years. Overall employment and economic development will increase as a result of airline service. 2) Attraction of More Corporate Aviation: The current vacancies in corporate hangar facilities requires marketing attention. By filling the existing vacant hangars, an additional $150,000 could be added to the Airport’s revenues. As a Part 139 certified airport, ILG is ideal for any corporate aviation operator that desires all-weather capability. Expanded marketing is a key to promoting ILG to corporate aviation interests. 3) Clientele Diversification:</td>
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<td>Ft. Smith Regional Airport Business Plan</td>
<td>Ft. Smith Regional Airport Commission Ft. Smith, AR Kent Penney, Airport Manager</td>
<td>100%</td>
<td>$67,000</td>
<td>5/06</td>
<td>Yes</td>
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<td>(Now at Ft. Worth, TX) 817-392-5400</td>
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<td><strong>Summary of work done:</strong></td>
<td>As a non-hub commercial service airport, Fort Smith Regional Airport serves the Fort Smith Metropolitan Service Area including the military mission of Fort Chaffee, Arkansas. In the latest BRAC (2005), Fort Smith Regional Airport was realigned to support training and operation of eighteen A-10 “Warthog” aircraft. R.A. Wiedemann &amp; Associates performed a business plan in support of the Airport Master Plan, including the development of a video and airport brochures. The recommended plan of action from the business plan included five primary strategic initiatives: Retention of Airline Passenger Market Share, Long-Term Pricing Policy, Attraction of Corporate and Other General Aviation, Direct Airport Access, Non-Aviation Property Development.</td>
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<td><strong>Millington Regional Airport Business Plan</strong></td>
<td>City Millington, TN Russ Noble (Retired)</td>
<td>100%</td>
<td>$50,000</td>
<td>02/06</td>
<td>Yes</td>
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<td><strong>Summary of work done:</strong></td>
<td>The Memphis Naval Air Station was realigned in the mid-1990s, losing their flight training mission. As a result, the airfield was transferred to ownership of the City of Millington, TN. Millington has one of the longest general aviation airport runways in the state - 8,000 feet. The airport has other impressive facilities - a full Instrument Landing System, Air Traffic Tower, and Fire Station. The business plan assessed the strategic position of the airport and its market niche. It was concluded that the airport needed a branding campaign that could promote the relatively new public-use status of the facility, and change the historical Naval identity associated with the city and its airport. The airport is within 20 miles of Memphis and can serve significant corporate aviation traffic without the delays or costs of Memphis International. The business plan produced marketing recommendations, a video, and full-color brochures.</td>
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<td><strong>Maury County Airport Business Plan</strong></td>
<td>Maury County Regional Airport Authority Columbia, TN Butch West, Airport Board Chairman 931) 388-1536 ex 524</td>
<td>100%</td>
<td>$33,000</td>
<td>01/05</td>
<td>Yes</td>
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<td><strong>Summary of work done:</strong></td>
<td>The Maury County Airport Board has undertaken a business plan and economic impact study for the Maury County Airport. The purpose of the plan was to examine potential development and optimal operations that may provide increased benefits to aviation users and the Airport Sponsors. Issues that were examined included the FBO financial</td>
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<td>New York State Airport Business Plan Studies (16)</td>
<td>New York State Department of Transportation Albany, NY Joe Testo, NYSDOT Project Manager 518-485-7691</td>
<td>50%</td>
<td>$100,000 Each</td>
<td>2000-2007</td>
<td>Yes</td>
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<td>Summary of work done: Canandaigua Airport</td>
<td>The Sponsor, the Ontario County Industrial Development Agency (OCIDA), desired to examine alternate airport management structures, attract corporate aviation, develop new hangars, expand FBO services, restructure leases, and improve the Airport facilities by expanding the runway to 5,500 feet. The recommended plan of action included four primary strategic initiatives: 1) Renegotiate FBO Lease: The FBO was operating on a month-to-month basis on an expired lease. If the OCIDA is to position the Airport to become a corporate-capable facility, it will need the services of a competent FBO. Renegotiating the lease should present incentives to the FBO to perform better and to seek corporate clients. The elimination of the old percent-of-gross revenue lease in favor of a base rate plus fuel flowage fee agreement was recommended. 2) Attraction of Corporate Aviation: Physical improvements to the Airport and a strategic shift toward the attraction of corporate aviation will bolster revenues and on-airport employment. It is assumed that the runway will be extended to 5,500 feet by the year 2009. OCIDA is in a position to lease land for hangar development to interested corporate aviation clients. 3) Non-Aviation Property Development: A portion of the 55 acres controlled by the FBO can be subdivided non-aviation land uses, if it could be controlled by the OCIDA through a renegotiated lease or sublease arrangement. Roughly 20 to 25 acres of the Airport property could be released from aviation use since it is located behind the flight line with limited access to the airfield. This property, if developed for industrial purposes could generate lease revenue for the OCIDA in support of its Airport operations. 4) Management Structure: The “exit” strategy for OCIDA is to maintain ownership of the property but to use surrogate management for the Airport’s operation. The use of a part-time airport manager and the establishment of an independent Airport Board are recommended as methods of buffering.</td>
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### Table 3-1 - R.A. Wiedemann & Associates Airport Business Planning Experience

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<td>OCIDA staff from day-to-day Airport operations. It is unlikely that the Airport will be sold or transferred to County or Village ownership in the near term.</td>
<td>R.A. Wiedemann developed a business plan for Tri-Cities Airport, in Endicott, New York. The Sponsor desired to examine alternate airport management structures, to construct new hangars, to expand FBO services, to possibly restructure the lease agreement, and to examine a number of other facility-related issues. These items were covered in the business plan along with three primary strategic initiatives: 1) Management Structure: The best option for the Village was to renegotiate a lease with an FBO to operate the Airport. The negotiation terms would reduce the management fees to the FBO and increase the Village's percentage of revenues derived from hangar rents. If an FBO cannot be found under these terms, the second best option was for the Village to undertake the operation and management of Airport. The third ranked option was to continue the existing lease agreement unchanged. 2) Hangar Development: The primary source of increased revenues to the Village will come from the development of aircraft hangars. Given the market rates for hangar storage, new construction cannot be supported unless grants are used. The Village plans to construct a new T-hangar building in the summer of 2007 which will add immediate revenue to the Airport's budget. A second round of construction should be undertaken as soon as grant money is available. It was estimated that an additional 10 T-hangar units would be developed by 2010. 3) Market Local Companies: To enhance the utility of the Airport and increase activity, the Village should market the facility to local companies including: Lockheed Martin Systems, BAE SYSTEMS Controls, IBM, United Health Services, the Lourdes Hospital, and any other significant user of air transportation. While these companies may use Binghamton Regional Airport for their employee transportation, their clients and vendors often use general aviation facilities that are closer to the businesses. These local companies are important to the well-being of the local economy and the Tri-Cities Airport can supplement their air travel needs.</td>
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<td>Summary of work done: Tri-Cities Airport</td>
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<td>Summary of work done: Oswego County Airport</td>
<td>R.A. Wiedemann developed a business plan for Oswego County Airport, in New York State. It was the Sponsor's desire to attract corporate aviation, develop new hangars, expand FBO services, restructure leases, and improve the Airport amenities by standardizing the ILS approach slope so it can be used by corporate aircraft. These items were covered in the business plan along with three primary strategic initiatives: 1) Attraction of Corporate Aviation: Physical improvements to the Airport and a strategic shift toward the attraction of corporate aviation will bolster fuel sales revenues and on-airport employment. Corporate and business aviation represent a large, lucrative segment of the general aviation market. The location of the Airport near Syracuse creates a natural market area for corporate aviation. To attract corporate aviation, the Airport needs to improve its instrumental landing system and its services for corporate clients. 2) Hangar Development: In concert with the marketing of corporate aviation, the County should either develop or</td>
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<td>encourage the private development of aircraft hangars. Growth of the corporate aviation market segment will depend, in part, on the availability of adequate hangar facilities. It is estimated that 15,000 square feet of conventional hangar space will be needed to attract two corporate jets to the airport within the planning period. In addition, it is estimated that at least 20 T-hangar units will be needed over the next 5 years. 3) Flight Training: If SUNY Oswego leadership could be convinced of the feasibility of establishing an aviation management and flight training curriculum, the Airport would benefit from such a program. General aviation activity generated by the flight school will create jobs and revenues for the Airport, as more students take advantage of the college program credits. This activity should be encouraged by the County.</td>
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<td>Summary of work done: Adirondack Airport</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Adirondack Airport in 2002. Issues considered by the plan included airport financial performance, the potential increased use of the airport by athletes and tourists traveling to Lake Placid, the attraction of additional corporate activity, the assessment of the management structure, economic development of an adjacent industrial park, runway extension feasibility, and community relations. The recommended plan of action incorporated four primary strategic initiatives: 1) Stable Airport Management: The out-migration of based aircraft in the past was attributed in some measure to the changing Airport management and perceived lack of support from the Town leadership. The Town changed its past activities and firmly supported the Airport management, however, it was recommended that the previous perceived instability be countered with steady, long-term leadership. 2) Attraction of Aircraft Maintenance FBO: The loss of Adirondack’s maintenance FBO in the mid-1990s signaled the decline in based aircraft and Airport activity. To regain based aircraft and for the long-term viability of the Airport, a significant aircraft maintenance FBO was needed. It was recommended that marketing be directed toward securing this type of on-airport business. 3) Attraction of Corporate Aviation: The bulk of Airport revenues came from the sale of fuel. Corporate aviation represented a large user of fuel and as such, needed to be attracted to use the Airport. The continuing development of the Adirondack Airport Business Park along with direct marketing efforts in Northern New York and Canada would serve to attract this business aviation segment. The long runway length at Adirondack Regional Airport is ideally suited to take advantage of this market niche. 4) Attraction of More Charter Activity: Olympic athlete training facilities in the area attract up to 20,000 athletes, family, and media each year. If as many as one quarter of these visitors used the Adirondack Airport via charter aircraft, the Airport may become eligible to participate in federal entitlement funding of up to $1 million annually on capital improvement projects. The Airport would also benefit from increased aviation fuel sales and rental car usage.</td>
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<td>Summary of work done:</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Brookhaven Airport in 2001. Issues considered by the plan included continued use of the Airport by Dowling College, expanded business use of the Airport, increased general aviation activity, development of Airport property, new and better access to the Airport from William Floyd Parkway, development of an overall Airport use plan, and continued good public relations with the community.</td>
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<tr>
<td>Brookhaven Airport</td>
<td>The recommended plan of action incorporated four primary strategic initiatives: 1) <strong>Attraction of Corporate Aviation:</strong> Physical improvements to the Airport and a strategic shift toward the attraction of corporate aviation was needed to bolster revenues and on-airport employment. Brookhaven Calabro Airport is ideally suited to take advantage of this market niche. 2) <strong>TransTech Park:</strong> As a part of the Brookhaven Center, TransTech Park was anticipated to attract both aviation and non-aviation tenants to the Airport complex. It was recommended that development of this Park be encouraged and supported by the Town. 3) <strong>Non-Aviation Revenues:</strong> It was recommended that the Town attempt to market and develop industrial/commercial property on the Airport to help fund the ongoing operation of the facility. 4) <strong>Continue to Serve Small General Aviation Aircraft:</strong> Brookhaven Calabro Airport serves as an aircraft training facility through the Dowling College Aeronautics program, the local BOCES program, and private industry. The Airport also serves as home to over 200 aircraft. This portion of the business is vital to the future life of general aviation on Long Island.</td>
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<td>Summary of work done:</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for East Hampton Airport in 2002. Issues considered by the plan included maintenance and upgrading of the existing facility, potential development of Airport property, strict interpretation of environmental laws, continued convenience for all users, and development of public service/intangible benefits of the Airport. Other issues include the potential release of property for non-aviation uses, the recent increases in jet and helicopter operations, and economic benefits of the Airport.</td>
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<td>East Hampton Airport</td>
<td>The recommended plan of action incorporated four primary strategic initiatives: 1) <strong>Existing Facility Preservation:</strong> Benefits derived from the Airport are dependent upon the active preservation of existing facilities and services. Therefore, it was recommended that facility preserving actions be taken primarily for existing pavements. 2) <strong>Airport Property Use:</strong> It was recommended that Airport property be used for both aviation and non-aviation purposes to enhance revenues and create economic development opportunities. 3) <strong>Industrial Road Leases:</strong> With the FAA release of this property, lease revenues from non-aviation land uses could be increased through the rent-up of vacant parcels. 4) <strong>Intangible Assets:</strong> It was recommended that the Airport serve as a catalyst for community-benefit development such as recreational fields, an intermodal terminal, or a location for affordable housing.</td>
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<td>Summary of work done: Potsdam Municipal Airport</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Potsdam Municipal Airport in 2002. Issues considered by the plan included the sharing of airport sponsorship with a municipality having a larger tax base, increased Airport financial performance, increased use of the Airport by area universities, attraction of corporate aviation, and &quot;right-sizing&quot; airport facilities to match demand. The recommended plan of action included three primary strategic initiatives: 1) <em>Develop Airport Infrastructure:</em> Provision of fuel facilities and a conventional hangar were needed for the Airport to develop. No appreciable growth in activity or use are expected to occur until these infrastructure items are constructed. 2) <em>Attract FBO:</em> For the Airport to grow, it was recommended that the Village set a goal of attracting a Fixed Base Operator to the facility. The FBO would be the central focal point of all business and economic development activity on the Airport. 3) <em>Attract Flight Training Operation:</em> One method of increasing aviation activity, fuel sales, aircraft maintenance, and overall Airport use is to offer flight training. It was recommended that student pilot training for Clarkson University ROTC, SUNY Potsdam, St. Lawrence University, Canton College, local high schools, and the general public could serve to increase the economic base of the Airport.</td>
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<td>Summary of work done: Randall Airport</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Randall Airport in 2001. Issues considered by the plan included expansion and development of a new ramp area, attraction of a full service FBO, residential access to the runway system, potential commercial/retail development space, compatibility with area land use, rates and charges, and the financial performance of the Airport. The recommended plan of action included four primary strategic initiatives: 1) <em>New Terminal Area:</em> It was recommended that a new terminal area be developed on the north-side terminal area, with easy access for hangars, terminal building, and commercial space. 2) <em>New Fixed Base Operator (FBO):</em> It was recommended that the Airport Sponsor seek a full service FBO. 3) <em>Commercial Development:</em> Development of an Airport and adjacent Airport property for commercial/retail space, hotel, and other professional business space was recommended. 4) <em>Residential Airpark:</em> The unique attributes of this Airport permitted the attraction of permanent resident airpark users with direct taxiway access to the Airport's facilities, goods, and services.</td>
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<td>Summary of work done: Gabreski Airport</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Gabreski Airport in 2002. Issues considered by the plan included the integration of the Airport into the local economy, Airport infrastructure needs, local environmental concerns, jurisdictional Town-County issues, interaction with the Air National Guard, corporate aviation users, excess property release, and the economic benefits of the Airport. The recommended plan of action included six primary strategic initiatives: 1) <em>Airport Appearance/Infrastructure:</em> In order to keep existing clients and attract new business,</td>
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Table 3-1 - R.A. Wiedemann & Associates Airport Business Planning Experience

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<td>the Airport pavements, lighting, and instrumentation systems must be physically maintained to permit all-weather use. It was recommended therefore, that more of the dilapidated former military buildings be removed, and issues such as snow/ice removal, landscaping, terminal building appearance and cleanliness, be addressed by Airport management. 2) Airport Planned Development District: Full development of the Planned Development District has the potential to exceed earnings from all aeronautical activities at the Airport. 3) Attraction of Corporate Aviation: A strategic shift toward the attraction of corporate aviation was needed to bolster revenues and on-airport employment. Gabreski Airport is ideally suited to take advantage of this market niche. 4) Other Non-aeronautical Land Development: The large amount of Airport land area provided adequate space for other non-aeronautical development. Suggested land uses included storage and staging areas for small businesses serving eastern Long Island. 5) Continue to Serve Existing Client Base: Gabreski Airport's existing client base was anticipated to provide up to 46 percent of future revenues. In addition, Airport tenants such as the Air National Guard provide jobs and millions of dollars in local economic impact. 6) Additional Airport Staffing: At the time of the study, the staff was strained to manage, market, and administer both the Airport and APDD. Therefore, it was recommended that the County add staff to the Airport to increase the service levels, response time, and administrative capacity.</td>
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<td>Summary of work done:</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Sullivan County International Airport in 2001. Issues considered by the plan included the potential for expanded business use of the Airport, more general aviation use, the attraction of potential commuter or air cargo carriers, the development of Airport property, the better use of existing facilities, and improved financial performance. The recommended plan of action included three primary strategic initiatives: 1) Window of Opportunity: A window of opportunity was foreseen in the form of relocated based aircraft from potential nearby airport closures. It was imperative that the Airport be ready to accommodate this new, potential demand through marketing and aircraft hangar development or acquisition. 2) Marketing Corporate Aircraft: It was recommended that the County hire a professional airport manager (American Association of Airport Executives accredited) and market corporate aircraft from the New York Metro area. 3) Non-Aviation Revenues: It was also recommended that the County attempt to market and develop industrial/commercial property on the Airport to help fund the ongoing operation of the facility.</td>
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<td>Summary of work done:</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Warren County Airport in 2002. Issues considered by the plan included the attraction of additional corporate aviation, expanded FBO services, additional hangar development, increased use by tourists traveling to Lake George and Saratoga Springs, improved airport financial performance, the feasibility of runway extension, and greater economic development. The recommended plan of action</td>
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### Table 3-1 - R.A. Wiedemann & Associates Airport Business Planning Experience

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<td>included four primary strategic initiatives: 1) <em>Develop Non-aviation Airport Property</em>: A 93-acre parcel of Airport property that was identified as not needed for future aeronautical use. This property was well suited to be developed for industrial/commercial purposes and would provide the Airport with an economic development base. The existing Airport Industrial Park had very little development area left and as such, would not compete with the new site. The development of this property could play a significant role in reducing the deficits at the Airport. 2) <em>Attraction of New/Specialty FBO</em>: The size and quality of Airport facilities at Floyd Bennett Memorial Airport require an FBO of significant investment and quality. To attract based aircraft and corporate aviation for the long-term viability of the Airport, a significant FBO operation was needed. This included the ability to offer high-end maintenance operations, corporate flight services and amenities, as well as executive charter and air taxi services, in addition to the normal FBO functions of fuel sales, flight training, etc. 3) <em>Attraction of Corporate Aviation</em>: Corporate aviation represents a large user of fuel, an employer of on-airport personnel, and an engine for increased utilization of the Airport. It was recommended that corporate aviation be attracted to use the Airport. The development of Airport land for industrial/commercial use along with direct marketing efforts in the Albany area, Northern New York, Vermont, and even Canada would serve to attract this business aviation segment. 4) <em>Development of Hangars</em>: In order to attract more aircraft to the Airport and to provide a location for large aircraft maintenance, both T-hangars and a large conventional hangar needed to be developed. In addition, hangar development would increase the revenue base for the Airport and ensure the long-term income stream. These facilities were recommended by the Airport Master Plan Update and by our business plan as well.</td>
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<td>Summary of work done:</td>
<td>Wellsville Municipal Airport</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Wellsville Municipal Airport in 2002. Issues considered by the plan included the increased use by Alfred State College, the Airport’s final performance, the incorporation of an available 40,000 square foot incubator building, the attraction of additional corporate, the feasibility of runway extension, and the development of economic impacts. The recommended plan of action included four primary strategic initiatives: 1) <em>Attraction of Corporate Aviation</em>: Physical improvements to the Airport, including a runway extension and the development of a new terminal area signaled a strategic shift toward the attraction of more corporate aviation. Marketing for new corporate tenants and encouragement of fractional aircraft ownership by local companies was recommended to bolster revenues and on-airport employment. 2) <em>Development of Aircraft Mechanics School</em>: The development of an aircraft mechanics’ school on the airport as an extension of the current Alfred University mechanics’ program would serve to increase airport usage and provide another Airport tenant. Once in place, such a program could easily be expanded to include a flight school. 3) <em>Non-Aviation Revenues</em>: The Town was working to obtain an FAA release of Airport property to add to the AAEDC’s Air Industrial Park. The goal was to market and develop industrial/commercial property at the Airport. Revenues derived from the Park could be used by the Town in support</td>
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<td><strong>Summary of work done:</strong></td>
<td><strong>Dansville Municipal Airport</strong> R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Dansville Municipal Airport in 2004. Issues considered by the plan included airport runway development, the attraction of corporate aviation, hangar development, economic development, and the assessment of the existing management structure. The recommended plan of action included four primary strategic initiatives: 1) <em>Airfield Improvement:</em> The key element of the transformation of the Dansville Airport into a business-friendly facility will be the closure of Runway 18-36 and the extension of Runway 14-32 to 5,000’ or greater. These physical improvements will enable the airport to serve corporate aviation and will also permit the development of both aviation and non-aviation land uses on the south side of the Airport. 2) <em>Attraction of Corporate Aviation:</em> Physical improvements to the Airport and a strategic shift toward the attraction of corporate aviation will bolster revenues and on-airport employment. 3) <em>Adjustment of Fees:</em> As the Airport becomes busier and more successful in attracting more sophisticated types of aircraft, the economic benefit of doing business on the Airport increases. This increase in value should translate into increased fees and rentals to the FBO, and in turn, to the Airport Sponsor. Thus, when economic conditions permit, it was recommended that lease rates be adjusted upward. This upward adjustment, including the institution of fuel flowage fees, will help to pay for operational expenses and capital improvements on the Airport. 4) <em>Hangar Development:</em> In concert with the marketing of corporate aviation, it was recommended that the Town either encourage the private development of aircraft hangars. In this regard, both corporate conventional hangars and T-hangars will be needed in the future.</td>
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<td><strong>Summary of work done:</strong></td>
<td><strong>Genesee County Airport</strong> R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Genesee County Airport in 2004. Issues considered by the plan included the development of a professional flight school, the attraction of additional corporate aviation, additional hangar development, economic impact assessment, and expanded FBO services. The recommended plan of action included three primary strategic initiatives: 1) <em>Attraction of Corporate Aviation:</em> Physical improvements to the Airport and a strategic shift toward the attraction of corporate aviation are expected to bolster revenues and on-airport employment. The proposed runway extension to 5,500 feet will place Genesee County Airport squarely in the business jet class market. The location of the Airport midway between Rochester and Buffalo helps the Airport serve corporate aviation in both of those metro areas. 2) <em>Flight School:</em> General aviation activity generated by the flight school was expected to create jobs and revenues for the Airport, as more students take advantage of the college program credits offered by Ravenaire. Ravenaire had teamed with Utah Valley State College to offer both 2 and 4 year degree programs</td>
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<td>from the Genesee County Airport location. It was recommended that this activity be encouraged by the County. 3) <strong>Hangar Development</strong>: In concert with the marketing of corporate aviation, it was recommended that the County either develop or encourage the private development of aircraft hangars. Roughly 45 percent of total revenues were derived from hangar and building leases. Growth of the corporate aviation market segment will depend, in part, on the availability of adequate hangar facilities.</td>
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<td>Summary of work done: Hamilton Airport</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Hamilton Airport in 2004. Issues considered by the plan included an assessment of current management structure, attraction of additional corporate aviation, development of hangars, consideration of airport noise, airport maintenance responsibility, municipal tax issues, and economic impact assessment. The recommended plan of action included three primary strategic initiatives: 1) <strong>Renegotiation of the FBO Lease</strong>: The key for improved financial performance at the Airport will be the adjustment of fees through a new FBO lease. In this regard, it was recommended that the Village receive the major share of hangar revenues (90 percent), while paying the FBO a collection fee (10 percent). The new lease would also require an FBO to provide daily Airport management, aircraft maintenance, and fuel service. 2) <strong>Attraction of Corporate Aviation</strong>: A strategic shift toward the attraction of corporate aviation will bolster revenues and on-airport employment. It was recommended that the Village initiate a direct marketing program for corporate aircraft owners within a 100-mile radius of Hamilton. 3) <strong>Hangar Development</strong>: Using FAA grants, it was recommended that the Village construct a 10-unit T-hangar to provide additional revenues for the Airport operation. Both corporate conventional hangars and T-hangars will be needed in the future. In marketing corporate aviation, one of two methods for conventional hangar construction was expected to emerge: a) Corporate interests construct a conventional hangar on leased property, or, b) The Village constructs the hangar with long-term lease agreement guarantees that will repay the Village for construction costs. Additional hangar development will contribute to the growth of the Airport and its aviation activity base.</td>
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<td>Summary of work done: Perry-Warsaw Airport</td>
<td>R.A. Wiedemann &amp; Associates, Inc., performed a business plan for Perry-Warsaw Airport in 2004. Issues considered by the plan included an assessment of current management structure, additional hangar development, economic development, and community relations. The key issue for this airport, however, was the co-sponsorship by two towns, resulting in the lack of communications and substandard management practices. The recommended plan of action included three primary strategic initiatives: 1) <strong>Airport Management Improvements</strong>: If economic development at the Airport is to move forward, the Towns had to come to grips with management and operation of the Airport. This meant establishing real lines of communication, authority, and responsibility. It also implicated the designation of an on-airport manager along with direct involvement in the mowing and snow plowing of the facility. In other words, things needed</td>
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Chapter 4
Proposed Scope of Work
CHAPTER 4
Proposed Scope of Work

The proposed scope of work for this airport business plan conforms to the request for proposal outline of desired services. In this regard, the Palo Alto Airport of Santa Clara County business plan and financial feasibility is intended to: provide an overview analysis of the Airport; provide an assessment of business/economic development opportunities, give feasibility guidance for the transition, management, and development of the Airport as a City-managed and sponsored facility, and recommend a strategic course of action to pursue development and address issues.

As described in your Request for Proposal, the County of Santa Clara has proposed to terminate the lease early prior to its expiration in 2017, citing the inability to generate enough revenue to match expenses as a rationale for seeking early termination of the lease. The targeted date of the take over is 2010. As such, this business plan will provide an analysis of all the significant risks and obligations, as well as the benefits associated with running the Palo Alto Airport prior to entering into any formal contract negotiations to terminate the lease with the County. The analysis will speak for itself in terms of the positive and negative aspects of airport ownership/management.

STUDY COMPONENTS:

The study would be accomplished using six primary work elements. The first element would involve an assessment of strategic business goals and discussions with the City of Palo Alto concerning resources, needs, strengths, weaknesses, opportunities, and threats. Thus, an initial set of discussions with City decision makers and policy analysts will be needed to frame the project in its relative complexity.

1. Initial Meetings and Visioning Effort:

An initial set of meetings should be held in Palo Alto to speak with the following groups:

- City and County and leaders to identify local goals and objectives for the Airport.
- Selected Airport tenants to identify on-Airport improvement desires.
- Economic development agencies in the region to determine the economic structure and target industries.
- Chamber of Commerce to gain perspective of major businesses in region.

During these meetings, the following topics will be discussed:

- Assess capabilities and requirements for City sponsorship and management of the Airport.
- Assess opportunities for revenue including property development, new hangars, and fuel sales.
- Identify and confirm community objectives for operating the Airport facility.
Incorporate existing mission statement or develop one.

- Review: existing levels of service, reasons for those levels, expectations for service, and opportunities for increased activity and economic development.

Prior to this initial meeting, arrangements will be made to collect all pertinent data such as: the most recent financial history, lease agreements, list of tenants, list of business clients, and ALP.

Project Issues

From the material provided by the City, we have identified a number of issues that must be considered in the development of this airport business plan. It is our understanding that in December 2006, the City Council authorized the creation of the Palo Alto Working Group (PAAWG) to analyze PAO operations and develop one or more viable business models for PAO. In June 2007, the PAAWG presented its report to the City Council. List of findings for Palo Alto by the PAAWG included the following:

- The Airport operations were found to be profitable.
- Based on PAAWG's own financial analysis and the City Auditor's review, PAO has the economic potential to be self-sustaining, fund necessary improvements, and cover the cost of City administrative overhead.
- The airport was considered an essential community asset.
- The County has ignored numerous economic and social benefits that the airport has provided. These benefits have included: tax revenues generated by the Airport that support local jurisdictions; transportation for businesses and their employees; transport for hospital patients and transplant organs; pilot training and certification; recreation space for the local community; emergency support activities; and PAO's part in the Bay Area airport and transportation system.

The PAAWG concluded:

- PAO is an important transportation, business, economic, recreational, and emergency preparedness asset for the City and its residents;
- PAO can be operated on a self-sustaining, economical basis and be cash positive without requiring any financial support from the City;
- The continued operation of PAO by the County will both diminish the resource value of the airport and threaten its long-term economic viability

These Conclusions led the PAAWG to recommend that the City Council:

- Direct the City Manager to negotiate an early termination of the existing PAO lease with the County.
- Appoint an interim manager for PAO.
- Issue an RFP for the long-term management of PAO, which will ensure its asset value to the community is maintained and will preserve its economic value into the future.
Project Considerations:

- Outstanding advance of $773,408 - City Auditor report disputed the County's claim that PAO was losing money and needed to increase fees to recoup the outstanding advance. The Audit claimed PAO was paying for more than its fair share of overhead costs and questioned historic costs that were paid by the County. (The County was including Depreciation in the Operating Expenses).
  - The City staff's position is that the Airport and the City do not have a legal obligation to repay the advance unless a written agreement or contract can be produced by the County.
- Current Leases: the two current FBO leases at PAO are long-term and have no incentives for capital investment. The leases do not include CPI adjustments and do not remit a percent of gross revenue with the exception of the north half of Roy Aero's lease where the County receives 6 percent of the hangar rental. These leases are in effect until 2017.
- USGS 2100 global warming prediction. If San Francisco Bay rises one meter (the way current trend predicts) portions of the airport would be under water.
- All new buildings occupied by personnel would have to be elevated to eight feet above sea-level. Existing buildings and new hangars would not require elevation.

2. Data Collection

The collection of data will begin with information contained in the current Master Plan and the Master Plan files. Information not available from those sources will be sought from Airport Management and/or local agencies. Information from the following list will be kept confidential, but is needed for analyses:

- The latest seven (7) years of existing airport expenses and revenues (2001 - 2007).
- The latest budget for the Airport.
- A copy of all lease agreements.
- Airport mission statement, legislative resolutions concerning the airport, airport trusts, or special conditions defined for the Airport.
- Any proposed taxes collected by site, or payments-in-lieu-of-taxes (PILOTS) and/or, taxes to be paid by the Airport.
- List of rates and charges for aircraft storage facilities including: terminal building, conventional hangars, T hangars, and tie-downs paved and non-paved, (if available).
- List of all other rates and charges. For example: percent, or cents, charged per gallon of gas (jet or 100 LL); landing fee; consignment fees; special events, etc.
- Organizational chart, or reporting structure.
- Number of employees by type/function listed for both full and part time.
- Expenditures on payroll and operations.
- Average annual expenditure on capital improvements.
- List of businesses using the airport, e.g., air cargo, pilot training, corporate, medevac, etc.
- Information concerning industrial or commercial property adjacent or near to the Airport.
3. Market Analysis:

A market analysis will be performed for Palo Alto Airport including: a comparison of factors affecting the market service area airports including: facilities, services, aircraft, and operations; and rates and charges for aircraft storage, fuel, and other pertinent factors. This analysis would consider the comparative differences in costs at other airports along with the ability to attract and house aircraft at Palo Alto Airport of Santa Clara County. The results of this analysis will provide an overall idea of the competitive position of Palo Alto Airport.

4. Financial Outlook:

- A baseline financial and economic outlook will be developed, based upon historical data and maintenance of the status quo. Also, the economic factors in the Airport service area that may lead to growth will be examined. The business plan will focus on a short-term and long-term planning horizon. In accordance with the RFP, the first term will consider proformas for the 2010 to 2017 timeframe, with the second phase extending 15 years from 2017.

- Revenue enhancement strategies; options for revenue enhancement will be described. These may include (but are not limited to) evaluations and projections of additional business aviation, possible very light jet activity, increased flight training via high school and college programs, new or improved terminal services or amenities, specialty FBOs, airport property development, marketing programs coupled with local business parks and industrial sites, competitive rates and charges, and efficient use of federal and state grants.

- Expense data will be expanded to include the cost of implementing revenue enhancement strategies. Budget projections will be provided based on known factors and analyses including, but not limited to: City of Palo Alto cost structure for employees, inflation, development expenses, additional or less personnel, expected aircraft growth, leases, contracts, and the local match on grants. These expenses will then be compared with the future revenues in a net revenue analysis.

5. Management Structure:

Based upon the financial analysis of performance concerning what the Airport is capable of producing in the future, a detailed analysis of the potential management structure will be undertaken. This analysis will include the following significant points:
• Pros and cons of airport management by the City contrasted to non-government Third Party management.

• Analysis of whether or not to terminate the current lease before 2017 and a recommendation what should be done with the two Fixed Based Operator’s.

• Resources required to manage and operate the Airport as a stand-alone cost center, independent of City subsidy.

The analysis will present one or more options to the City for consideration, along with the potential impacts of each option. By giving decision makers the information on the costs and benefits of each potential option, they will posses the tools needed to make informed policy decisions about the Airport.

6. **Recommendations:**

A recommended approach for the airport will be provided. As part of the recommendations, action steps will be identified and may include:

• Identify options for the potential take over and management of the Airport by the City by the year 2010.
• Provide pro formas for each management option.
• Present detailed 7-year business plan of action (2010 - 2017) along with more general projections for an additional 15 years.
• Discuss capital investment options.
• Develop financial plan that City and County leadership can support.
• Identify the need for an advertising and/or marketing strategy for the airport.
• New business opportunities including development/use of available airport lands.
• Potential partnering with local businesses, area schools, or other organizations.
• Detail the existing and future economic impact of the airport (potential task).

7. **Presentations & Output**

A final meeting and/or presentation on findings will be held for the airport sponsor. In addition, 1 unbound copy of the final report and executive summary will be prepared. If desired, R.A. Wiedemann & Associates has the in-house capability of producing project videos and web sites or web pages in support of the Airport Business Plan. These services (video and web site) are optional and would be considered additional to this contract. Similarly, we have often developed at least 1,000 copies of a high quality color brochure explaining the features of the Airport and its future plans. Such a brochure could be developed for the Palo Alto Airport as an optional task.

8. **Airport/Community Value - Economic Impact Analysis (Optional Task):**

An Airport/Community Value - Economic impact analyses would be provided to identify
jobs, taxes, and airport revenue generated to the community, if desired. It would also identify the amount of significant business use. This analysis allows the sponsor and interested parties to evaluate the overall airport value to the community against the operating cost of the Airport. In addition, the Airport/Community Value estimation would quantify the replacement value and existing value of airport facilities. This analysis would permit the City to estimate return on investment ratios related to the asset base at the Airport. If desired, the methodology for developing the Airport/Community Value and economic impact assessment will be provided to the City of Palo Alto. This process may be important for quantifying the value of the Airport to the City and its residents.
Chapter 5
Proposed Innovations
CHAPTER 5

Proposed Innovations

BECAUSE OF OUR DEPTH OF EXPERIENCE IN performing airport business plans, we have learned a significant set of innovations from the various client airports. Most airports have slight differences in their operating procedures and each time we perform a study, we learn a little bit more about this intriguing business. With our background we can assist the City of Palo Alto in examining a number of new/innovative methods of operating or managing an airport. For this study, there are four primary innovations that we would offer:

1) Development of Multiple Pro Formas: Instead of recommending one course of action, we have found that decision makers want information on the consequences of a number of different strategies. In this regard, we have proposed to present two or more options in the method of potential ownership or operation of the Airport, along with the pro formas associated with each option. This permits the City to make the policy decisions while we supply the needed information on each potential option. Such options could include City management, third party management, or FBO management. We would be open to discussion with the City about these options.

2) Airport/Community Value: We have included an optional task that may be of interest to the City of Palo Alto. This is a new metric designed to examine both the economic contribution of the Airport (through economic impact analysis) and the asset value of the Airport (Airport/Community Value). Such an approach is a new innovation that we have introduced in the Dallas, Texas region (North Central Texas Regional Aviation System Plan). The approach is analogous to using both the income statement and the balance sheet to determine the economic health of a business. The IMPLAN modeling will reveal the “income” portion of the economic impact, while the asset valuation will reveal the “balance sheet” portion of the analysis.

3) Marketing Program Development: If desired, we can assist with the City’s marketing and public information program concerning the Airport. We have the in-house capability to develop videos, project websites, web pages, or other media marketing or public information programs. Our company website has some of these videos available for viewing (www.rawiedemann.com).

4) Innovative Development/Funding Methods: We have significant experience in formulating innovative development and funding methods. For example, if private investment is desired at the Airport, we have worked through plans with other airports whereby the airport sponsor takes immediate ownership of buildings constructed by private enterprise. The private developer receives a 20-plus year land lease without property tax on the hangars, while the airport sponsor gets desired capital development and a reversion of all development when the lease term is completed. These and other innovative methods can be brought to bear at Palo Alto Airport.
Chapter 6
Project Staffing
CHAPTER 6
Project Staffing

The Airport Business Plan for Palo Alto Airport of Santa Clara County will be staffed by R.A. Wiedemann & Associates project team of professionals. In this regard, Randal Wiedemann will lead the study effort as Project Director. He will guide and direct the efforts of the firm’s staff including the Project Manager, Rob Barber. In addition, both Scott LeCount and Paul Wiedemann will assist in the development of plan. If the optional Airport/Community Value - economic impact assessment is desired by the City, Geoff Hewings, PhD., will be added to the project team. Dr. Hewings works with R.A. Wiedemann & Associates on all economic impact assessment projects. The Project Organization Chart in Figure 6-1 shows the flow of authority from the City of Palo Alto through their representatives to Randal Wiedemann and down through the staff of the firm. We will not need other firms in assisting in this project.

For this project, Randal Wiedemann will serve as a primary resource in the analysis and development of recommendations. In particular, he will participate in all Tasks. Rob Barber will assist in Tasks 1, 4, 5 and 6. Scott LeCount will participate in Tasks 2, 3, 4, and 6. Paul Wiedemann will participate in Tasks 2, 3, and 4. If the optional Task 8 is included, both Randal Wiedemann and Dr. Geoff Hewings will participate. Resumes of our project team are presented on the following pages.

Figure 6-1 - Project Organization Chart
Randal A. Wiedemann

As President of R.A. Wiedemann & Associates, Randal Wiedemann brings over 33 years of airport planning experience to the firm's profile. Mr. Wiedemann concentrates his efforts in physical and economic planning areas with emphasis on airport business plans, airline service and marketing programs, economic impact analysis, military joint use and reuse studies, airport master planning, airport management services, environmental assessments, and aviation systems planning. Mr. Wiedemann has participated in and directed numerous air service studies, airport master plans, airport system plans, management studies, economic impact studies, environmental assessments, financial studies, and airspace utilization evaluations. Mr. Wiedemann's technical areas of expertise include public information program coordination and direction, aviation demand forecasting, airport capacity determination, airport layout and Part 77 planning, economic impact analyses and financial planning, land use and noise analyses, and the identification and evaluation of airport alternatives.

Mr. Wiedemann is one of the most experienced airport business planners in the nation, having developed over 40 airport business plans since 2000. These plans have been for a diverse set of airports. Both general aviation and air carrier airports have been included in the list of successful business planning projects. Examples include Camden County Airport Acquisition Project (NJ), Fort Smith (AR), Adirondack (NY), New Castle (DE), Sussex County (DE), Morehead (KY), Genesee County (NY), Summit Airport (DE), Oswego County (NY), Bennington (VT), East Hampton (NY), Mid-Ohio Valley Regional (WV), Brookhaven, (NY), Montpelier (VT), Millington (TN), Suffolk County (NY), Maury County (TN), Lee's Summit (MO), Middlebury (VT), Canandaigua (NY), Cape May (NJ), Millville (NJ), Somerset (KY), Delaware Airpark (DE), Watertown (NY), Schenectady (NY), Rutland (VT), and many others.

Mr. Wiedemann gained considerable experience in conducting economic impact analysis studies in his project management of the New Jersey System Plan. Mr. Wiedemann measured the economic impacts of development and operation of all 55 public use airports. In another study, Mr. Wiedemann assessed the economic impacts of Port Columbus International and its reliever airports including Rickenbacker Field, Bolton Field, Ohio State University Airport, and South Columbus Airport. Mr. Wiedemann has completed the Economic Impact Analysis for Dover Air Force Base and all public-use airports in the State of Delaware. This study examined the total impacts of civil and military aviation on the state's economy. Other economic impact analyses were conducted for the Niagara Falls International Airport Master Plan Update, the Pennridge Airport Master Plan, the Kenton County (KY) Airport Site Selection Study, the Lancaster Airport Master Plan, and the Whitley County (KY) Economic Impact Study.

Mr. Wiedemann has developed a number of computer applications in the aviation planning field. In this regard, he has developed software that produces facility requirements for entire systems of airports, forecasting models that incorporate both objective (statistical) and subjective (judgmental) criteria in the decision process, an air service model that simulates airline costs over various route structures using different aircraft equipment, and a priority rating process that can be used to rank-order development projects for an entire system of airports.

In prior work as Vice President of another national aviation consulting firm, Mr. Wiedemann
gained considerable experience in master planning and aviation system planning through management roles in studies in New York, Tennessee, Louisiana, Arizona, Texas, Oklahoma, Kentucky, Michigan, South Carolina, Missouri, and South Dakota. In this regard, Mr. Wiedemann has participated in over 50 studies for both air carrier and general aviation airports. Through his extensive experience, Mr. Wiedemann is familiar with the complex procedures associated with airport master planning and site selection. In addition, Mr. Wiedemann has managed environmental assessment studies for the Seneca Depot Army Airfield Joint Use Feasibility Study, the Denver Metro Vertiport Site Selection Study, the Rochester-Monroe County Reliever Airport Needs Study (NY), Watertown International Airport (NY), Monticello-Wayne County Airport (KY), Carlsbad-Cavern City Airport (NM), and Ashland-Boyd County Airport (KY).

Mr. Wiedemann's master planning and site selection study experience is complimented by his experience in aviation system planning and air service studies. Mr. Wiedemann has managed over 20 aviation system planning studies including those for Tennessee, Southern Tier New York, Central New York, Upstate and Downstate New York, the Austin/San Antonio region, and the Waco Metropolitan region of Texas, as well as internationally for the Federated States of Micronesia, the Republic of Palau, and the Republic of the Marshall Islands. His air service experience is based on management and participation in statewide studies for Texas, Kentucky, South Carolina, Arizona, Louisiana, Colorado, Utah, Arizona, New Mexico, and Michigan. In addition, Mr. Wiedemann has participated in air service improvement studies for individual airports including Somerset (KY), Del Rio (TX), Jamestown (NY), Fayetteville (NC), Jonesboro (AR), Manhattan (KS), Parkersburg (WV), and Idaho Falls (ID).

Mr. Wiedemann's work with military/civilian joint-use studies has included the Seneca Depot Army Airfield and Dover Air Force Base's Civil Air Terminal. Other studies that have had extensive interface with military operations areas on airports have included the Niagara Falls International Airport Master Plan, the Watertown International Airport Master Plan (with the influence of Ft. Drum), Killeen (TX) Airport Site Selection Study (with the influence of Ft. Hood), and the Big Spring (TX) Municipal Airport Master Plan (a former Air Force Training Command Base).

Mr. Wiedemann received his Bachelor of Science degree in Marketing from the University of Colorado (1975) and his Masters of Business Administration (M.B.A.) degree from the University of Cincinnati (1979). In addition, Mr. Wiedemann served on the faculty at Northern Kentucky University where he taught evening classes relating to aviation (1980-1992).
P.R. (ROB) BARBER III

Mr. Barber expands the R.A. Wiedemann & Associates, Inc., capabilities in the areas of public participation, airport business planning, graphic production, and high-end marketing products. P.R. (Rob) Barber III has more than 23 years experience in marketing; public/media relations; advertising; motion picture film and video production; script, speech and copy writing; still photography; graphic design; illustration; and business administration.

Rob has written, produced and directed over 1,500 television commercials; 20 music videos; 2,600 radio commercials; 5 television programs and numerous corporate, industrial and marketing videos. He has photographed and designed more than 100 record album covers, 25 book covers, numerous print advertisements and promotional materials.

Rob began his professional career in Nashville, Tennessee, as a photographer and graphic designer, working with some of the top artists in the music industry. In 1983, working as a writer, producer and director, Rob played a key role in the birth of the Country Music Video boom that led ultimately to the creation of CMT, and later the Contemporary Christian Music Video industry.

Rob worked for a time as an art director and writer with Carden & Cherry Advertising in Nashville, during the height of their popular “Ernest & Vern” syndicated advertising campaign. In addition to writing countless “KnoWhutinean Vern” commercials, Rob provided a variety of creative services for a number of national and large regional accounts including Blue Cross & Blue Shield, Coca-Cola, Mello Yello, Sprite and A&W Root Beer.

Now a Senior Associate with R.A. Wiedemann & Associates Inc. Rob provides services for Departments of Transportation in over two dozen states including: New York State, Pennsylvania, Arkansas, Alabama, Tennessee, Kentucky, West Virginia, Delaware, Maryland, Arizona, Texas, New Mexico, New Hampshire, and others. Rob has participated in the development of strategic business plans for airports including Delaware Airpark (DE), Cape May (NJ), Millville (NJ), and Somerset (KY). He is managing the marketing efforts under the Small Community Air Service Development Program for Jamestown, NY and Somerset, KY.

Rob is a graduate of the University of Kentucky with a Bachelors Degree in Fine Arts (1982). Mr. Barber played baseball for the University of Kentucky varsity program. He was elected as the Art Student Representative to the Faculty. While at the University of Kentucky, Mr. Barber received a Lyndhurst Foundation Grant for excellence in art.

Rob brings creative energy and passion for excellence to every project.
SCOTT R. LECOUNT, AICP

Mr. LeCount is an accomplished professional planner, with 11 years of experience serving as a consultant to local, regional, and state government agencies on a wide range of projects for two nationally recognized firms, including: aviation system and airport master plans; comprehensive land use and zoning studies; and, multi-modal transportation plans. As a member of R.A. Wiedemann & Associates, Inc., Mr. LeCount’s primary areas of technical expertise include socioeconomic analysis and forecasting, public participation programs, and geographic information systems. He is certified by the American Institute of Certified Planners.

Mr. LeCount has served as lead planner on a number of aviation/airport planning projects, including: St. Louis Metropolitan Area Aviation System Plan; Maryland Statewide and Metropolitan Washington Helicopter Systems Study; Market Assessment and Conceptual Site Plan, Quonset State Airport (RI); Environmental Assessment, Millinocket Municipal Airport (ME); Regional Economic Impact Study, Columbus Regional Airport Authority (OH); Aviation Demand Projections for The Ohio State University Airport and Lebanon-Warren County Regional Airport (OH); Aviation Demand Projections for Barnstable Municipal Airport and Provincetown Municipal Airport (MA); Continuing Florida Aviation System Planning Process; Airport Managers Manual (MS); Regional Aviation System Plan (AZ); and Statewide Aviation System Plan (NJ).

Prior to Mr. LeCount’s aviation experience, he consulted with communities in Ohio, Kentucky, Indiana, West Virginia on over 20 land use and transportation studies, including: county and regional long range plans; corridor planning studies considering new roadways and reconstructions; parking studies; growth management plans; impact fee studies; and blight studies/urban renewal plans. During the course of Mr. LeCount’s career, he has contributed to nearly 40 unique projects, where he has gained valuable experience in understanding diverse communities and guiding them toward making sound decisions for their future. Mr. LeCount has additional experience in marketing, business development, and branding, ensuring that his contribution to each project is professional advice that responds to the demands of the market, resulting in a plan that can be implemented and effective.

Scott is a graduate of the College of Design, Architecture, Art, and Planning at the University of Cincinnati, where he earned a Bachelor of Urban Planning, and was honored by the American Planning Association and the Ohio Planning Conference with an award for Best Undergraduate Thesis. He was published in PLANNING, The Magazine of the American Planning Association in June 2003, and is pursuing the development of a number of patents through his involvement in the Inventor’s Council of Cincinnati. He is also an active member of the Cincinnati USA Partnership Regional Business Retention Committee, whose primary focus is reaching out to businesses in Greater Cincinnati to maintain a strong and vibrant local economy.

At R.A. Wiedemann & Associates, Mr. LeCount has participated in the New York Aviation System Plan development, and business plans for Schenectady Airport (NY), Watertown Airport (NY), Rutland Airport (VT), Montpelier (VT), Middlebury (VT), Bennington, (VT), Delaware Airpark (DE), and Springfield (VT).
PAUL N. WIEDEMANN

Paul Wiedemann brings fresh ideas and a new outlook to the firm. Paul is experienced in the areas of airport business plans, benefit cost analysis, air service feasibility, aviation system planning, airport demand forecasting, economic impact analyses, airport capacity determination, web design, video production, airport surveys, and research.

Paul Wiedemann has participated on the aviation system plan, inventory, demand capacity, and aviation video for the State of Delaware. He has worked on business plans for Tri-Cities (NY), Oswego County (NY), Canandaigua (NY), Fort Smith (AR), Cape May (NJ), Millville (NJ), Delaware Airpark (DE), Somerset (KY), Watertown (NY), Schenectady (NY), and Morehead (KY). He has also worked on the air service feasibility studies for Anderson (SC), and for the Big Sandy Region (KY). He has worked on the benefit cost analysis for Monroe (NC) and Sussex (DE), and the aviation demand forecasts for Mt. Sterling (KY). Paul heads up the firm’s web site development business and has conducted the web site and video design for Summit, (DE).

Paul Wiedemann received his Bachelor of Science degree in Business Management from the University of Kentucky (2006). Several of the areas studied were business law, human resources, small business management, international business management, computer sciences, decision and information sciences, economics, business ethics, and strategic management.

Paul Wiedemann has been enrolled in the MBA program at Eastern Kentucky University since the fall of 2007 and anticipates a degree from that program in 2009.
GEOFFREY J. D. HEWINGS, Ph.D.

Dr. Geoffrey J.D. Hewings serves as an associate of R.A. Wiedemann & Associates and concentrates his efforts in the firm's economic impact and econometric modeling disciplines. Dr. Hewings is a Professor of Geography and Regional Science and of Urban and Regional Planning at the University of Illinois in Urbana-Champaign. In addition, he serves as Director of the Regional Economics Applications Laboratory (REAL), a joint venture between the Federal Reserve Bank of Chicago and the University of Illinois.

His major research interests lie in the field of urban and regional economic analysis with a focus on the design, implementation and application of regional economic models. He has devoted considerable time to the way in which these models might become useful in policy formation and evaluation. In addition to the continuing development of regional econometric-input-output models for a number of US states and metropolitan areas, Hewings is working on several modeling projects in Brazil, Argentina, Austria, Colombia, Japan and Indonesia. Recent work in the Midwest has focused on the estimation of interstate trade flows as a prelude to the construction of a Midwest impact and forecasting model that is linked with a transportation network model. Additional funded research includes estimation of intra-metropolitan trade flows within the Chicago region (MacArthur Foundation) and an evaluation of the impact of air service on rural and small metropolitan communities (USDOT). Theoretical work remains directed to issues of economic structure and structural change interpreted through input-output, social accounting and general equilibrium models.

Dr. Hewings is responsible for the overall direction of REAL, coordination with funding agencies and clients and supervision of graduate students who work for REAL on the Urbana campus of the University of Illinois. He has published nine books and over 100 articles and supervised over 30 doctoral students, about half of whom are now in the government or private sector in the US and several international countries.

His consultancies include: Northern Territory Government (Australia), State of Queensland, Greece, Korea Research on Human Settlements (Seoul), Midwest Universities Consortium on International Activities, U.S. Department of Energy and several Illinois state agencies. He has been a long term consultant for the U.S. Army Construction Engineering Laboratory for the development of a county-based economic impact forecast system (EIFS). He has worked with R.A. Wiedemann & Associates on the New York Statewide Economic Impact Assessment, DuPage Airport Economic Impact Study (Chicago area), New York State Aviation Activity Forecasts Study, the Niagara Falls International Airport Master Plan Update, the Penndrive Airport Master Plan (PA), the Kenton County (KY) Airport Site Selection Study, the Delaware Airports Economic Impact Study, the Lancaster Airport Master Plan, Kupper Airport Acquisition Study (NJ), the Millville Municipal Master Plan (NJ), and the Whitley County (KY) Economic Impact Study.

Dr. Hewings obtained his B.A. from the University of Birmingham (UK) and his M.A. and Ph.D. from the University of Washington (Seattle). Prior to coming to Illinois in 1974, he was on the faculty of the University of Kent at Canterbury (UK) and the University of Toronto (Canada).
He has served as a visiting professor at the University of Queensland (Australia), Bar Ilan University (Israel), Tianjin University and Renmin University (China), University of Indonesia, Kagawa University (Japan) and Universidad Catolica del Norte (Chile). He has received Fulbright and Woodrow Wilson awards and, in 1995, the Regional Science Association International (for which he served as Executive Director from 1978-1996) recognized him with an award for Service to Regional Science as well as naming the Geoffrey J.D. Hewings Junior Scholar Award, annually awarded to exceptional scholars less than 10 years from completion of his/her Ph.D. For 2001 and 2002, he served as President of the Regional Science Association International. In 2003, he was made one of the inaugural Fellows of the Regional Science Association International. In 1996, he was made a University Scholar by the University of Illinois. In 2003, he was awarded Docteur Honoris Causa by the University of Bourgogne, France.

In Chicago, he has been active in the arts, serving on the Board of the Near North Chapter of the Lyric Opera of Chicago and was a founding Board member for the Chicago Baroque Ensemble. He also served on the Board of the Environmental Law and Policy Center and was a member of the Technical Advisory Committee for the Northeastern Illinois Planning Commission.
Chapter 7
Proposal Exceptions
CHAPTER 7
Proposal Exceptions

R. A. WIEDEMANN & ASSOCIATES, INC. HAS REVIEWED the sample contract associated with this project and does not object to any of the provisions included.
Chapter 8
Proposal Costs Sheet and Rates
CHAPTER 8
Proposal Costs Sheet and Rates

The costs to prepare an Airport Business Plan for Palo Alto Airport of Santa Clara County have been estimated to total $100,000, exclusive of optional tasks. If the optional Task 8 (Airport/Community Value) is undertaken, it would add $20,000 to the total contract. Table 8-1 presents a breakdown of costs by task for the proposed work effort. Information included in the table involves direct labor rates for the proposed staff, overhead rate and breakdown of overhead elements. Subconsultant costs for Dr. Hewings are proposed as lump sum amounts for the optional Airport/Community Value task.

Direct Salary Rates for R.A. Wiedemann & Associates personnel include the following:

- Principal/Officer $68.00/hr.
- Senior Associate $49.50/hr.
- Associate $23.08/hr. to $30.58/hr.

Our CPA-estimated overhead rate is 89 percent of direct labor. This rate conforms with Federal Acquisition Regulations Subpart 31.2 and is accepted by the State Departments of Transportation in New York and Delaware. Our low overhead rate lets us put more of your money into the actual work effort.

Using the direct hourly rates, overhead percentage, and a 12 percent profit, overall billing rates for each category include the following:

- Principal/Officer $143.94/hr.
- Senior Associate $104.78/hr.
- Associate $43.62/hr. to $64.73/hr.
<table>
<thead>
<tr>
<th>Table 8-1 - Consultant Costs</th>
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<tbody>
<tr>
<td><strong>Scope/Task #</strong></td>
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<tr>
<td>Task 1 - Initial Meetings</td>
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<tr>
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</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Subtotal Task 1</td>
</tr>
<tr>
<td>Task 2 - Data Collection &amp; Documentation</td>
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<tr>
<td></td>
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<tr>
<td></td>
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<tr>
<td>Subtotal Task 2</td>
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<tr>
<td>Task 3 - Market Analysis</td>
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<td></td>
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<td>Subtotal Task 3</td>
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<td>Task 4 - Financial Outlook</td>
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<td>Subtotal Task 4</td>
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<td>Task 5 - Management Structure</td>
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<td></td>
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<tr>
<td>Subtotal Task 5</td>
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<tr>
<td>Task 6 - Recommendations</td>
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<td></td>
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<tr>
<td>Subtotal Task 6</td>
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<tr>
<td>Task 7 - Presentations &amp; Final Report</td>
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</tr>
<tr>
<td>Subtotal Task 7</td>
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<tr>
<td>Total Project</td>
</tr>
<tr>
<td>Total Not To Exceed Contract Amount</td>
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<tr>
<td>Optional Task 8</td>
</tr>
<tr>
<td>Task 8 - Airport Community Value</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>Subtotal Optional Task 8</td>
</tr>
<tr>
<td>Total Not To Exceed Task Amount</td>
</tr>
</tbody>
</table>
Appendix A
Attachments & Forms
ATTACHMENT B
Proposer's Information Form

PROPOSER (please print):
Name: R.A. WIEDERMANN & ASSOCIATES, AK.
Address: P.O. Box 621
GEORGETOWN, KY 40324
Telephone: 502-535-6570     Fax: 502-535-5314
Contact person, title, telephone and fax number: Randal Wiedermann
President 502-535-6570 Fax: 502-535-5314
Taxpayer Identification No. (01-1302937)
(or Social Security Number if Sole Proprietorship)

Proposer, if selected, intends to carry on the business as (check one)
☐ Individual     ☐ Joint Venture
☐ Partnership
☒ Corporation
When incorporated? 1996
In what state? KY
When authorized to do business in California?: 9/08
☐ Other (explain): __________________________________________

ADDENDA
To assure that all Proposers have received each addendum, check the appropriate box(es) below. Failure to acknowledge receipt of an addendum/addenda may be considered an irregularity in the Proposal.
Addendum number(s) received: ☐ 1; ☐ 2; ☐ 3; ☐ 4; ☐ 5; ☐ 6;
Or, ☒ NA [Blank] No Addendum/Addenda Were Received (check and initial).

PROPOSER'S SIGNATURE
No proposal shall be accepted which has not been signed in ink in the appropriate space below:

13
By signing below, the submission of a proposal shall be deemed a representation and certification by the Proposer that they have investigated all aspects of the RFP, that they are aware of the applicable facts pertaining to the RFP process, its procedures and requirements, and that they have read and understand the RFP. No request for modification of the proposal shall be considered after its submission on the grounds that the Proposer was not fully informed as to any fact or condition.

1. If Proposer is INDIVIDUAL, sign here

Date: ____________________________

Proposer's Signature

______________________________
Proposer's typed name and title

2. If Proposer is PARTNERSHIP or JOINT VENTURE, at least (2) Partners or each of the Joint Venturers shall sign here:

______________________________
Partnership or Joint Venture Name (type or print)

Date: ____________________________

Member of the Partnership or Joint Venture signature

Date: ____________________________

Member of the Partnership or Joint Venture signature

3. If Proposer is a CORPORATION, the duly authorized officer(s) shall sign as follows:

The undersigned certify that they are respectively:

______________________________ and ____________________________
Title and Title

Of the corporation named below; that they are designated to sign the Proposal Cost Form by resolution (attach a certified copy, with corporate seal, if applicable, notarized as to its authenticity or Secretary's certificate of authorization) for and on behalf of the below named CORPORATION, and that they are authorized to execute same for and on behalf of said CORPORATION.

______________________________
Corporation Name (type or print)

By: ____________________________ Date: ____________________________
Title: ____________________________

By: ____________________________ Date: ____________________________
Title: ____________________________
Attachment C

Certification of Nondiscrimination

As suppliers of goods or services to the City of Palo Alto, the firm and individuals listed below certify that they do not discriminate in employment of any person because of race, skin color, gender, age, religion, disability, national origin, ancestry; sexual orientation, housing status, marital status, familial status, weight or height of such person; that they are in compliance with all Federal, State and local directives and executive orders regarding nondiscrimination in employment.

4. If Proposer is INDIVIDUAL, sign here:

Date: ________________________________

______________________________
Proposer's Signature

______________________________
Proposer's typed name and title

5. If Proposer is PARTNERSHIP or JOINT VENTURE, at least (2) Partners or each of the Joint Venturers shall sign here:

______________________________
Partnership or Joint Venture Name (type or print)

Date: ________________________________

______________________________
Member of the Partnership or Joint Venture signature

Date: ________________________________

______________________________
Member of the Partnership or Joint Venture signature

6. If Proposer is a CORPORATION, the duly authorized officer(s) shall sign as follows:

The undersigned certify that they are respectively:

_________________________ and __________________________

Title and Title

Of the corporation named below; that they are designated to sign the Proposal Cost Form by resolution (attach a certified copy, with corporate seal, if applicable, notarized as to its authenticity or Secretary's certificate of authorization) for and on behalf of the below named CORPORATION, and that they are authorized to execute same for and on behalf of said CORPORATION.

__________________________
P.A. Wernick & Associates, INC.

Corporation Name (type or print)
### Operating Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft Storage</td>
<td>506,122</td>
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<tr>
<td>Lease Revenue</td>
<td>129,953</td>
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<tr>
<td>Fuel Flowage</td>
<td>82,664</td>
</tr>
<tr>
<td>Transient &amp; Other</td>
<td>42,713</td>
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<td><strong>Total Operating Revenues</strong></td>
<td><strong>761,452</strong></td>
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### Operating Expenses

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<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Salaries &amp; Benefits</td>
<td>377,014</td>
</tr>
<tr>
<td>General Administration</td>
<td>159,281</td>
</tr>
<tr>
<td>Aviation Services</td>
<td>148,382</td>
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<tr>
<td>Levee Maintenance Project</td>
<td>20,788</td>
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<tr>
<td>Consulting Services</td>
<td>2,636</td>
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<tr>
<td>Depreciation</td>
<td>214,001</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>922,102</strong></td>
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</table>

### Net Operating Income (Loss)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) - (b)</td>
<td>(160,650)</td>
</tr>
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### Non-Operating Revenues (Expenses)

<table>
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<tr>
<th>Description</th>
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<tr>
<td>Master Plan Development</td>
<td>(7,013)</td>
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<tr>
<td>Airport California Monitoring Group</td>
<td>(1,975)</td>
</tr>
<tr>
<td>State Water Permit Fee</td>
<td>(830)</td>
</tr>
<tr>
<td><strong>Total Non-Operating Revenue (Expenses)</strong></td>
<td><strong>(9,816)</strong></td>
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### Net Income (Loss) before Adjustment

<table>
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<tr>
<th>Description</th>
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<tbody>
<tr>
<td>(a-b+c)</td>
<td>(170,468)</td>
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<tr>
<td>Add back Depreciation on Capital Improvements</td>
<td>214,001</td>
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<tr>
<td><strong>Net Income (Loss)</strong></td>
<td><strong>43,533</strong></td>
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<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Outstanding Advance from County of Santa Clara as of July 1, 2006</td>
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<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Add Fiscal Year Adjustments for:</td>
<td></td>
</tr>
<tr>
<td>Cost of Improvements</td>
<td>77,878</td>
</tr>
<tr>
<td>Less Federal Reimbursement</td>
<td>(69,851)</td>
</tr>
<tr>
<td><strong>Add Operating (Income) Loss for Fiscal Year Ended June 30, 2007</strong></td>
<td><strong>(43,533)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Outstanding Advance from County of Santa Clara as of July 1, 2007</td>
<td>773,408</td>
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</tbody>
</table>
Attachment K:

PALO ALTO AIRPORT
(An Airport Facility Included in the Airport Enterprise Fund
of the County of Santa Clara)

Statement of Revenues and Expenses for Fiscal Year ended June 30, 2008
and Summary of Changes to Funds Advanced by Santa Clara County as of June 30, 2008

<table>
<thead>
<tr>
<th>Operating Revenues</th>
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<tbody>
<tr>
<td>Aircraft Storage</td>
<td>506,728</td>
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<tr>
<td>Lease Revenue</td>
<td>134,905</td>
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<tr>
<td>Fuel Flowage</td>
<td>110,974</td>
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<tr>
<td>Transient &amp; Other</td>
<td>81,560</td>
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<td><strong>Total Operating Revenues</strong></td>
<td><strong>834,167</strong></td>
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<table>
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<th>Operating Expenses</th>
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<tbody>
<tr>
<td>Salaries &amp; Benefits</td>
<td>420,567</td>
</tr>
<tr>
<td>General Administration</td>
<td>179,147</td>
</tr>
<tr>
<td>Aviation Services</td>
<td>114,800</td>
</tr>
<tr>
<td>Depreciation</td>
<td>143,232</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>857,746</strong></td>
</tr>
</tbody>
</table>

| Net Operating Income (Loss) | (a - b) | (23,579) |

<table>
<thead>
<tr>
<th>Non-Operating Revenues (Expenses)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Master Plan Development</td>
<td>(8,735)</td>
</tr>
<tr>
<td>Airport California Monitoring Group</td>
<td>(1,975)</td>
</tr>
<tr>
<td>State Water Permit Fee</td>
<td>(830)</td>
</tr>
<tr>
<td><strong>Total Non-Operating Revenue (Expenses)</strong></td>
<td><strong>(11,540)</strong></td>
</tr>
</tbody>
</table>

| Net Income (Loss) before Adjustment | (a-b+c) | (35,119) |
| Add back Depreciation on Capital Improvements | 143,232 |
| **Net Income (Loss)** | **108,113** |

| Outstanding Advance from County of Santa Clara as of July 1, 2007 | 773,408 |
| Add Fiscal Year Adjustments for: | |
| Cost of Improvements | 491,753 |
| Less Federal Reimbursement | (399,763) | 91,990 |
| **Add Operating (Income) Loss for Fiscal Year Ended June 30, 2008** | **(108,113)** |
| Outstanding Advance from County of Santa Clara as of July 1, 2008 | 757,285 |