

County of Santa Clara
Airports Commission

Tuesday, October 3, 2006
Minutes

Regular Meeting

1. **Call to Order/Roll Call.**

The regular meeting of the Airports Commission is called to order by Chairperson Pathak at 6:07 p.m. in the Isaac Newton Senter Auditorium, County Government Center, 70 West Hedding Street, San Jose. A quorum is present.

Members Present:

Sagar Pathak

Bud Beacham

Ron Blake

John Ford

Michael Leeper

Robert Lenox

Members Absent:

William Carpenter

2. **Public Presentations.**

There are no public presentations.

3. **Approve Minutes of August 1, 2006.**

Commissioner Lenox advises that on page 3, the first sentence should be amended to read "...staff has already been reduced to one supervisor and two airport operations workers."

Commissioner Lenox states that on page 8, the third paragraph should be moved to Item No. 2.

On motion of Commissioner Lenox, seconded by Commissioner Leeper, it is unanimously ordered that the minutes of August 1, 2006 be approved, as amended.

4. **Accept Bi-Monthly Staff Report from the Roads and Airports Department relating to County Airports Operations.**

Carl Honaker, Director of County Airports, states that the report covers the period from July 1, 2006 to August 31, 2006. He reports that the primary item of significance is the opening of the hangars at the South County Airport and notes that as of August 31, 2006 there were 51 tenants.

Commissioner Lenox inquires if fiscal year end financial data is available at this time, and Mr. Honaker responds that it is not available.

On motion of Commissioner Blake, seconded by Commissioner Lenox, it is unanimously ordered that the report be accepted.

5. **Accept County Airports Quarterly Noise Report from the Roads and Airports Department, Airports Division.**

Mr. Honaker states that this Report was reviewed at the last meeting and has not changed. Commissioner Beacham inquires if there is data on airport operations that can be compared with past years. Mr. Honaker responds that there is information available that staff can provide.

On motion of Commissioner Lenox, seconded by Commissioner Leeper, it is unanimously ordered that the report be accepted.

6. **Accept report relating to the draft Palo Alto Airport Business Plan and forward to the Housing, Land Use, Environment and Transportation (HLUET) Committee with a favorable recommendation.**

Michael Murdter, Director of County Roads and Airports, narrates a presentation entitled "Palo Alto Airport (PAO) Business Plan; County Airports Commission; October 3, 2006". He notes that a copy of the presentation is on file with the Office of the Clerk of the Board.

Commissioners and staff discuss the possibility of County ownership of the Airport. Mr.

Murdter asserts that the same barriers will be faced in developing the Airport regardless of ownership. Commissioner Ford states that the Airports should be viewed as a three-airport County system that is sustainable as a whole and not as individual entities. Commissioner Lenox expresses the opinion that PAO is sharing an inordinate burden of expense and is not sharing in profits equally. Commissioners and staff discuss the 1997 audit by Deloitte and Touche, capital projects which are included in the Business Plan projections, and former revenue streams that have been discontinued due to constraints in the types of services that can be provided at the Airport per the City of Palo Alto.

Chairperson Pathak invites members of the public to address the Commission. Sharon Erickson, City Auditor, City of Palo Alto, states that she completed an audit report in response to the January 2006 Draft PAO Business Plan. She reports that three issues were identified as part of the audit, and that the first issue is that PAO generated \$400,000 in net revenue, and has made a profit in 21 of the 24 years of the lease. She notes that the second issue is that 40 percent of the operating expense at PAO is County-pooled and overhead costs, and that PAO is bearing more than 40 percent of the County-pooled costs. Additionally, she advises that PAO is a regional resource and should not become solely the responsibility of the City. She concludes by advising that the City of Palo Alto supports moderate increases to tie-down rates so long as PAO remains competitive with other local airports; the City of Palo Alto expects that the County of Santa Clara will continue to operate the airport per the terms of the lease; and the City of Palo Alto expects that the County of Santa Clara will maintain airport facilities in accordance with the terms of the lease.

Bill Fellman, Real Estate Manager, City of Palo Alto, refers the Commission to the letter dated September 26, 2006 from the City Manager relating to Future of the Palo Alto Airport. He expresses the opinion that the proposed PAO Business Plan violates the spirit of the lease, that it is unjustifiable and discriminatory, and that it includes the levee, which is a non-aviation expense, as an Airport cost.

Larry Shapiro, member of the public and user of PAO, states that he agrees with Mr. Fellman and that the financial figures in the Business Plan are inaccurate. He suggests that PAO be provided with and charged for less management support. He requests that the Commission postpone voting on the Business Plan until new revenue sources can be investigated. Mr. Shapiro concludes by noting that the public can expect an accurate Business Plan and can request assistance from the Federal Aviation Administration (FAA) in looking at the Business Plan.

Pat Roy, Roy Aero Enterprises, Fixed-Base Operator (FBO) at PAO, states that she sent a letter to the Commission for review at the September Airports Commission workshop. She requests that the Commission not support such large increases in fees that may deter business from the Airport. She asserts that doubling the fuel flowage fee will reduce business and she questions the validity of the 1997 audit by Deloitte & Touche. She requests that the Commission postpone approval of the Business Plan and reexamine the options for resolving the issues at PAO.

Joshua Smith, General Manager, West Valley Flying Club (WVFC), requests that the Commission reject the rate increases and the Business Plan. He reports that WVFC has approximately 50 aircraft at PAO. He notes that a Joint Community Relations Committee intern found that there are many new revenue sources that are acceptable to the City of Palo Alto. In addition, he states that the proposed solution lacks balance in the distribution of rate increases and in the amount of those increases. He requests an opportunity to see the spreadsheet mentioned by Mr. Honaker that justifies the business expenses attributed to PAO.

Bill Sanders, tenant of PAO and Board Member of the California Pilots Association, states that the staff are working within constraints and that such a large increase in rates will decrease business and create a larger deficit. He notes that many Airport users believe that PAO is self-sufficient and is being charged by the County for non-aviation charges. He proposes that staff be allowed to expand revenue sources and suggests that property tax revenue from the Airport be attributed to PAO as revenue rather than going to the County

and/or City General Funds. He further suggests that staff should follow the model of the Aeronautics Association in demonstrating the benefit of an Airport in order to determine revenues allocated to PAO. He concludes by indicating that the proposed Business Plan should not go forward and states that he wants to avoid calling the FAA to audit the Airport Enterprise Fund (AEF).

Chuck Byer, tie-down tenant at PAO and pilot, states that the tie-down rate increases would amount to more than a 150 percent increase over the remaining 12 years of the lease. He asks the Commission to reject the Business Plan because it is incomplete, inaccurate, unjustified, and irrational. He expresses the opinion that it is not a business plan and is a political position paper, because it does not include the primary components of a business plan. He notes that it does not explore alternatives for reducing costs and generating revenue and that there has been a shift of focus from the Airport System to focusing on individual airports. He additionally states that the emergency services provided by PAO in conjunction with Stanford Hospital are far too critical to the County to be ignored, neglected or unfunded.

Ralph Britton, President, Palo Alto Airport Association, states that PAO is no less valuable than Reid-Hillview or South County Airports. He notes that he agrees with Commissioner Ford that focusing on the lease expiration date of 2017 is detrimental to the larger picture of the Airport. He expresses the opinion that PAO is now being treated as an independent and unimportant part of County Airports and that the proposed increases will reduce business. He advises that no survey or research has been done on the impact of the proposed rate increases on the volume of business at PAO. Mr. Britton recommends that the levee not be included as an ongoing Airport expense. He notes that the rate increases are discriminatory and could be viewed as an attempt to divert the revenue from PAO to the other County Airports prior to the end of the lease. He further advises that a 6.9 percent or 8.5 percent increase to rates on a one-time basis is not disputed by the Association; however, annual increases over 12 years total nearly a 200 percent increase. He notes that this implies that the County intends to run PAO less efficiently over time, and he reports that the PAO Association has offered to help in determining acceptable new revenue sources. Lastly, he

states that costs must be contained.

John Grigsby, Palo Alto Airport Association, states that over the past five years he estimates that revenue has increased less than 12 percent, and that staff costs have risen more than 30 percent and overhead has increased more than 40 percent. He expresses the opinion that it is unconscionable to run a business in this manner and that the primary solution is to reduce staff. He further notes that the Outstanding Advance (OA) of capital expenditures owed to the County would be forgiven if the City of Palo Alto assumed operation of PAO and recommends that the County forgive the OA now, that there be no increase in fuel flowage fees, and that there be a one-time increase in tie-down rates. He requests that the Commission not approve this plan.

Tim Heyboer, member of the public, advises that the proposed rate increases will not increase revenue if the volume of customers decreases as a result, and that the numbers reflected in the Business Plan do not make sense. He reports that PAO has a better occupancy rate of tie-down tenants than South County Airport and inquires about the rationale for an increase of only three percent in tie-down rates at South County Airport. He recommends that the Commission not accept the proposed Business Plan.

David Deacon, resident of Palo Alto and pilot, states that he is pleased to hear from the City Auditor that PAO has been net positive for 21 of the past 24 years. He expresses the opinion that the County wants to extract dollars from PAO and that the proposed increase in fees will decrease overall revenue. He suggests that the County Roads and Airports Department increase their investment in PAO and attract more customers, which will generate more revenue. He asserts that this is a public policy issue and that PAO is a public transportation entity like the Roads Department or Light Rail, which are subsidized by the County. He suggests that PAO be required to have efficient operations and not be required to repay capital investment. He continues by suggesting that the County periodically invest in the Airports in the same manner that it pays for capital improvements for County roads and Light Rail. He recommends that the Commission not accept the long-term ongoing rate increases and that the Commission develop a report to the Board of Supervisors detailing

the economic position and overall value of PAO.

Commissioner Ford provides a synopsis of the items that staff, the Commission and the public have agreed on. He states that PAO is a good resource that everyone wants to keep in operation; that there are lease constraints and issues with the 2017 lease end date; that the proposed rate increases will create problems, both foreseen and unforeseen; and that past accounting by previous administration was not sufficiently accurate. He notes that all parties need to focus on the future. He recommends that the City and County investigate the potential transfer of PAO to the County prior to 2017; that the County review how the Airport Enterprise Fund is viewed on an individual basis versus a County-wide system; and that the County investigate the possibility of a one-time increase in tie-down rates of approximately six percent, until responses to the first two issues are obtained. He notes that the County staff and the City of Palo Alto are working under constraints and that he would like to see the two groups work together more effectively.

Commissioner Lenox states that the current proposed Business Plan has created a sense of being treated unfairly among the users of PAO. He recommends that the Commission not approve the Business Plan and not forward a recommendation to HLUET. He expresses the opinion that the Business Plan stems from the premise that the County intends to discontinue operating the Airport and has no concern for its business operations in the meantime.

Commissioner Blake states that the initial proposal of a one-time 30 percent increase may have been preferable to the current proposal. He notes that the proposed increases are now reasonable; however, over 10 years they would become unreasonable. He notes that the fuel flowage fee increase proposal, although steep, is a good attempt at distributing costs among all users of the Airport. He advises that he would be in support of the current proposal with the understanding that rate increases will be reevaluated each year, and if there has been an increase in tenant vacancies, no further rate increases will be implemented.

Commissioner Beacham states that he does not agree with the suggestion that the County forgive the OA and that PAO should be able to support itself as a business. He notes that closing the Airport is not being discussed and that emergency services provided through PAO would still be available. He states that the Airport provides approximately \$350,000 per year in local tax revenue. He suggests adding a fourth alternative of increasing the fuel flowage fee annually and a one-time tie-down rate increase and a fifth alternative of spreading costs and revenues of the County Airports System among all three County airports. Chairperson Pathak states that he would like to see more cooperation between the County and the City of Palo Alto.

Mr. Murdter provides responses to many of the issues raised by members of the public. Commissioners and staff discuss the process for applying with the City to develop the eight-acre Embarcadero parcel at PAO.

Commissioner Lenox moves that the following recommendation be forwarded to the HLUET Committee: "The Airports Commission does not agree that the Draft Business Plan should be adopted as policy. The Airports Commission recommends that the HLUET direct County Airports staff to work with City of Palo Alto staff to find development opportunities on the Airport and develop a business plan that is based on the assumption that the Airport will continue as a regional resource, regardless of who manages the facility; reevaluate the cost allocation formula to realistically reflect PAO's cost to the AEF system; and continue to charge rates and fees on par with other County-system airports." Commissioner Ford seconds the motion.

Commissioner Blake expresses the opinion that the Commission should accept the Plan as is with the understanding that other sources of revenue will be investigated and rates will not continue to increase unless necessary. Commissioners, staff and members of the public discuss the benefits and detriments of accepting the Draft Business Plan, issues relating to the impact of overhead and labor costs on PAO, and ideas to increase revenue at PAO.

The motion fails on a vote of 3 to 3, with Commissioners Pathak, Blake and Beacham voting no.

Commissioner Blake moves that the report be accepted relating to the draft Palo Alto Airport Business Plan and be forwarded to the HLUET Committee with a favorable recommendation. Commissioner Beacham seconds the motion.

Commissioner Ford offers a friendly amendment to add to action number 2 in the recommendations portion of the report "unless other alternatives present themselves". Commissioners Blake and Beacham accept the amendment.

Commissioners discuss the possibility of amending the motion to include the Business Plan only and voting on the rate increases under a separate motion. Commissioner Blake withdraws the motion.

On motion of Commissioner Blake, seconded by Commissioner Lenox, it is ordered on a vote of 4 –1, with Chairperson Pathak voting no and Commissioner Beacham abstaining, that the Business Plan be held to a future meeting.

7. **Accept director's verbal reports.**

There are no reports.

8. **Commission Liaison Verbal Reports**

There are no reports.

9. **Correspondence/Announcements.**

There are no announcements.

10. **Adjournment:**

On motion of Commissioner Lenox, seconded by Commissioner Blake, it is unanimously ordered that the meeting be adjourned at 9:27 p.m. to the next workshop meeting on November 7, 2006 at 6:00 p.m. in Room 157, County Government Center, 70 West Hedding Street, San Jose.

Respectfully submitted,

JoLene Mittelsteadt

Deputy Clerk