

Mr. Eric S. Peterson
Director of Aviation
Santa Clara County Airports
2500 Cunningham Ave.
San Jose, CA 95148

June 11, 2018

Dear Mr. Peterson

Re: County Airport Business Plan

My comments applicable to the County Airport Business Plan are limited to the following areas:

- **Reid-Hillview Airport Fixed Base Operator (FBO) /Specialized Aviation Service Operators (SASO) Leaseholds.**
- **San Martin Airport Fixed Base Operator (FBO) Leasehold.**
 - Option I
 - Option II
- **Federal Aviation Administration (FAA) - Airport Improvement Program (AIP).**
- **Alternative use for generating revenue on vacant county owned aircraft storage hangars at San Martin Airport.**

Reid-Hillview Airport FBO & SASO Leaseholds

The proposal to redevelop and reduce the current FBO/SASO leasehold properties from the current nine to two, would be a BOLD undertaking and a far too drastic and an unnecessary change. There is merit to reducing the number of FBO/SASO leaseholds, but three leaseholds would be the optimum number to include two full-service FBO leaseholds (including fueling) and one SASO leasehold

Additionally, the proposal to convert a substantial portion of existing FBO/SASO leasehold properties to non-aviation use should be abandoned. The Business Plan assumes that there is insufficient demand for continued aviation use of the current FBO/SASO leasehold properties in total and in the foreseeable future / planning horizon.

The aviation demand is currently present for full use of the existing Reid-Hillview Airport (RHV) FBO-SASO leasehold properties and any assumption that the demand will not continue to be there in the foreseeable future and planning horizon is without merit.

There is more than adequate available airport property for non-aviation uses to enhance the Airport Enterprise Fund (AEF), without reducing the existing RHV General Aviation leasehold property area.

San Martin Airport Fixed Base Operator (FBO) leasehold property

The existing lease land associated with FBO leasehold should as a minimum be modified/reconfigured to include some assignment of existing aircraft storage hangar facilities with future FBO leasehold in order to enhance the financial viability of a full-service FBO leasehold.

San Martin Airport is a semi-rural airport and does not have the demographics in the south county region to sustain a major FBO leasehold without revenue enhancements i.e., Aircraft Hangar Storage facilities.

The current San Martin Airport FBO leasehold requires the leaseholder to provide fueling and flight training. Currently these two cost centers are not meaningfully profit centers due to low demand.

The current demand for Flight Training is insufficient to make this cost center a meaningful profit center. The demographics in the South County region are just not there to support substantial flight training. The same applies to fueling. The demand for these two support activities will eventually increase, but with many uncertainties for the foreseeable years.

Option I San Martin Airport FBO leasehold:

Permit the FBO leasehold Request For Proposal (RFP) to include some aircraft storage facilities currently under the control of the existing FBO leasehold. This will enhance the financial viability of the next full-service FBO leasehold over the duration of a long term land lease.

Option II San Martin Airport FBO leasehold:

Permit the FBO leasehold Request For Proposal (RFP) to include the existing FBO hangar storage facilities in total. Under this option the county would establish a formula for revenue sharing between the FBO leasehold and the county. Under this option, the FBO would assume full responsibility for the control (tenant assignment), operation and maintenance of the existing hangar facilities. This option would relieve the county obligation to manage and incur the personnel and overhead costs to operate and maintain these facilities. Many of the hangars are substantially very old and in need of repairs. This option would provide the FBO leasehold with long term financial stability. It also would avoid major tenant disruptions that will occur with the transfer of these facilities to full county management and control. Additionally, this option would enhance goodwill with the existing FBO leasehold hangar tenants, many who have been long term hangar tenants in these facilities for years.

Additionally, it is highly questionable if the County Airport Administration can ramp up (increase) its personnel staffing in sufficient time to meet the timeline to fully assume full responsibility for management and operation of these hangars. The responsibility for the operation, maintenance, and assignment of hangar tenants has the potential to substantially overload the County Airport staff and cause major disruption in tenant / airport relations.

With regards to hangar rate structure, differential and fair pricing of these aircraft hangar storage facilities, will be essential to maintain goodwill with the current hangar tenants / users. These hangars vary substantially in size, condition and age. All of which will require substantial pricing analysis to establish differential fair rental pricing associated with the hangars.

In conclusion, any future FBO leasehold at the San Martin Airport must be reasonable to ensure airport and tenant goodwill.

An adequate return on investment (ROI) for the FBO leasehold, is essential in order to limit financial risk and ensure financial stability over the life of the lease..

Federal Aviation Administration (FAA) - Airport Improvement Program (AIP).

The county consideration to not pursue and accept future FAA AIP funds is **ill advised**. To profess that the county gives up too much control by accepting AIP funds is **without merit**. Santa Clara County continually accepts Federal and State grant funds for a variety of county programs. Such grant funds all come with some level of grant assurances which the county willingly accepts. In fact, it would be financially irresponsible for the County to not

pursue and accept FAA-AIP funds. To single out County Airports, to not apply for and accept FAA-AIP funds, appears on the surface to nothing less than a political ploy. It places undue financial pressure on the Airport Enterprise Fund (AEF).

The argument that FAA AIP grant obligations are too constraining for the County to accept has false pretenses. The FAA has always been flexible and reasonable in assisting airports with grant compliance.

Not to pursue and accept FAA AIP grant funds is foolish.

Alternative use for generating revenue on vacant county owned aircraft storage hangars at San Martin Airport.

In 2005, the county over-built the number of aircraft storage hangars at San Martin Airport. Unfortunately, only approximately 50% are occupied, the remainder is empty. Many airports have been faced with supply exceeding demand with respect to aircraft storage hangars, and have developed alternative use of aircraft storage hangar facilities. One of the more popular alternative uses of empty airport storage hangars is to rent them out for large and small Recreational Vehicles (RV) storage. This alternative use can be easily managed and has the potential to generate substantial airport revenue. As aircraft storage hangar demand increases, the alternative uses would be decreased.

Conclusion:

As a professional Airport Management Executive (Retired), I have over 42 years of airport operations and management experience, both at San Jose International Airport as Deputy Director of Aviation and as Director of Aviation with Santa Clara County. I have been involved in all aspects of airport management and operations. As the County Director of Airports (1996-2003), I worked tirelessly to restore RHV infrastructure which had deteriorated after many years of forced neglect during the County threat of airport closure between 1985 and 1996. My knowledge and experience with County Airports dates back to the 1960's.

Although I'm retired from airport management, I continue to be a user of both County Airports as a pilot and a FAA Certified Flight Instructor.

Regards,


Jerome T. "Jerry" Bennett

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Copy: Board of Supervisors
Airports Commission
Director of Roads and Airports
Reid-Hillview Airport -CAAPSO
San Martin Airport-SCAPA

Tom Purtell 06-15-18

Peterson, Eric

From: tom@borelli.com
Sent: Friday, June 15, 2018 1:39 PM
To: Peterson, Eric
Subject: RE: Business Plan Update

Eric,

My only concern is the item in the Business Plan that allocates money to extend the runway at San Martin to allow increased jet traffic. The last thing this community needs is the noise from jets in the traffic pattern. It seems like the money being allocated to acquire the land won't even cover the cost of the EIR and all of the challenges there will be to it. The noise of a business jet at pattern altitude (<https://www.nbaa.org/ops/environment/quiet-flying/NoiseLevelsforBusinessJets.pdf>) is still almost 50 db on the ground which is higher than the current County code for noise between neighboring parcels (https://www.sccgov.org/sites/cpd/programs/NP/Documents/NP_Noise_Ordinance.pdf).

In addition, it looks like the runway extension would require deconstruction of some of the solar panels that were just installed on the sw end.

I realize the initial funding is just for feasibility, but I certainly don't support it and will encourage the community to do the same.

I appreciate the updates you have been sending out.

Thanks,

Tom Purtell
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From: Peterson, Eric <Eric.Peterson@rda.sccgov.org>
Sent: Thursday, June 14, 2018 11:13 AM
To: tom@borelli.com
Subject: Business Plan Update

Thomas Purtell;

Business Plan Update

The hearing schedule for the Santa Clara County Airports Business Plan will be delayed. Staff received significant public input on the Preliminary Business Plan at the two community meetings held in May. In addition, we have received comments from the Airports Commission as well as written correspondence. The County has a legislative recess during the month of July. Consequently, staff is now planning to present the Airports Business Plan and a supplemental staff report to Housing, Land Use and Environment Committee (HLUET) on August 16th 2018. Based on the outcome of the HULET Committee meeting the report may be

heard by the Board of Supervisors in September 2018. We will keep you informed of the schedule via email. You are welcome to submit additional comments through July 2018 to be included in the public record. Please send them to me at this email address.

Eric Peterson
Director County Airports
Santa Clara County
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SANTA CLARA COUNTY AIRPORTS COMMISSION

Board of Supervisors
County of Santa Clara
70 West Hedding Street
San Jose, California 95110

Ref: Business Plan Review and Recommendation

This letter is to recommend that the Board of Supervisors reject the Santa Clara County Director of Roads and Airports Business Plan proposal as written.

Background for Business Plan Update:

Santa Clara County's Airport Master Plan and Business Plan were last updated in 2006. Both plans presumed and recommended applying for and accepting FAA Airport Improvement Program (AIP) grants to supplement Airport Enterprise Funds (AEF) to cover capital expenditures associated with maintenance of the airfield facilities.

In 2012 a promoter hoping to establish a skydiving business near the runway at San Martin airport complained to the FAA about the County's refusal to authorize his operation. The dispute led to the FAA suspending AIP Grant approvals from 2012 through 2016, at which time the dispute was resolved. In 2016, then Director of Roads and Airports Michael Murdter ceased applying for and accepting new FAA AIP grants, and elected instead to borrow \$3M from the County General Fund to pay for necessary repaving work at the two airports. FAA and California state grants would have paid 95% of those costs. Mr. Murdter also proposed that property within the Reid Hillview airport boundary be developed for commercial non-aviation use. That proposal required FAA approval, which was denied.

On December 12, 2017, the Board of Supervisors directed the Airports staff to update the Airports Business Plan and to analyze revenue and costs and funding models in light of current real estate values and other Bay Area airport pricing. Former Director of Roads and Airports, Mr. Murdter, was rehired by the County staff to write the report, with a limited budget of \$100,000 to include consultant assistance on airport operations, real estate values and legal strategies. The draft of that report was issued May 9, 2018. The Airport Commission reviewed the report on May 15, and found it to be flawed in a number of areas. The Airport Commission recommends the Board of Supervisors reject the Business Plan and its recommendations as written.

Reasons for recommending rejection of the Business Plan:

1. **Failure to address and provide alternatives around Federal AIP Grant funding and obligations**
Acceptance of FAA AIP Grants obligates airport sponsors to abide by a set of "Grant Obligations." Examples include operating the airport in a non-discriminatory manner, as well as maintenance and safety criteria. More importantly, AIP Grants include an obligation for the airport sponsor to maintain and operate the airport(s) for a period of at least 20 years from date of receipt of the grant. Since the last AIP grants were accepted in 2011, the County's grant obligations expire in 2031.

In addition, the County also accepted FAA grants to acquire land for the airports, which require the recipient to operate the airport "in perpetuity" per FAA Manual 5190.6B, section 22.3. This issue was addressed in 2008 by then County Counsel Ann Ravel who concluded in a written report to the Board that "if the county wished to pursue closing or sale or lease of the Reid Hillview airport, the legal procedures would be extremely complex and lengthy and likely expensive." We note that the law firm of *Kaplan, Kirsch and Rockwell* was retained as part of the 2018 Business Plan. The nature of their work has been withheld on the grounds of attorney-client privilege. The Commission surmises that they are updating Ms. Ravel's memo.

Despite the Policy in the 2006 Airports Master Plan to apply for and accept FAA grants, the draft Business Plan recommends against this through 2031. This critical policy decision was apparently made with the rationale of "preserving the county's flexibility with respect to the use of the property." Prior justifications of grant refusals were also linked to "operational flexibility." However, this term is not defined. The refusal to incorporate FAA grant funding into the business plan revenues can only be interpreted as a plan to close the Reid Hillview airport (and possibly San Martin) in 2031 and re-purpose the property. Such a decision would negatively impact San Jose Mineta airport as well as emergency operations and services/safety in the event of a natural disaster. Moreover, it should not be accomplished through a funding decision embedded in an updated Business Plan. Finally, it is contrary to long-standing policy and good business sense to decline external funding of 95% of airport improvements and capital costs while borrowing the funds from the county general fund, thus putting the AEF further in debt without a strategy to reimburse the funds.

2. Alternative Revenue streams from reduction in Reid Hillview leaseholders from nine to two

In addition to aircraft space rentals at the airports (tie-downs, shelters and enclosed hangars) each airport leases blocks of land with buildings on them to Fixed Base Operators (FBO's) or Specialized Aviation Services Operators (SASO's). FBO's typically offer aircraft sales, rentals, flight training, maintenance and a place for transient pilots to access airport services. SASO's typically provide specialized maintenance, or avionics installations and service, or specialize in flight training only.

The Business Plan draft proposes that the nine leaseholders at Reid Hillview could be reduced to two on larger footprints, and the remaining land near Capitol Expressway redeveloped for commercial non-aviation use. The rationale appears to be that there is declining demand for services. The facts establish otherwise. The businesses are successful and are seeking to renew and extend their leases beyond 2021. The Plan further presumes that consolidating the FBO sites would generate the same amount of income as the nine existing leases. This proposal is logistically flawed, as no details are provided for consolidation. The Director of Roads and Airports has said it would likely take several years to get approvals, issue RFP's and manage the consolidation. If the county declines to commit operating the airports beyond 2031, it is unrealistic to believe that a business would commit to a large investment in facilities/building and equipment for such a short period. The consequence of the current proposal would likely result in the closure of existing successful businesses without any realistic prospects of replacing them at the airport.

Further, Mr. Freitas affirmed at the Community Outreach meeting in San Jose on May 23rd, 2018 that no attempt has been made to apply to the FAA for permission to develop Reid Hillview airport land for non-aviation use. It should be noted that two prior applications within the past five years were not approved, and the FAA has consistently indicated that non-aviation commercial development on airport aviation-use land will not be permitted. According to FAA manual 5190.6Bn section 22.4, "Once designated for aeronautical use, the property may not be used for non-aeronautical purposes without FAA approval."

3. Additional Non-aviation businesses and development at Reid Hillview airport

The Business Plan draft presumes several other large parcels of land owned by the airport could be developed into commercial non-aviation uses, as airports like Concord and Livermore and San Carlos have done. It is doubtful that these properties would be approved for development by the FAA, City of San Jose zoning and the development completed in less than five to seven years. During this period, the Airport Enterprise Fund would likely continue to run a deficit, requiring a subsidy from county general funds. Again, such a subsidy would be in violation of County policies. In addition, some of the proposed development is within designated "Safety Zones" provided for safe operations within the airport traffic patterns. The FAA is not likely to approve this.

There are opportunities for non-aviation-related businesses to develop at the airports without displacing aviation commercial businesses consistent with FAA policies (FAA manual 5190.6B sect. 22.5), including restaurants, hotels or alternative rental car facilities. These would support aviation activity at the airport, and contribute to the diversity of revenue sources supporting the Airport Enterprise fund. But again, one would assume these businesses would need long-term leases to justify investment.

Further, there are three Little League Fields within the airport boundary. FAA policy 5190.6B, 22.25 d requires that the airport sponsor ensures that the Airport Enterprise Fund is compensated for their use as a sports complex at fair market value. This has not occurred. Freitas stated on May 23rd that the county will begin to transfer funds to the AEF reflecting fair market rental rates for these fields, but no further specifics are included in the plan.

4. Business Plan has potentially major negative impact on San Jose State Aviation programs

San Jose State University transferred its entire Aviation Program in its entirety from San Jose Mineta Airport to Reid Hillview Airport, and has recently signed a lease for a classroom building on the frontage road along Capitol Expressway. In addition to the classrooms, several of the existing FBO's at Reid Hillview airport are providing increasing levels of FAA Part 141 accelerated flight training to San Jose State students, as the school is the only Cal State College in California offering a complete suite of aviation industry majors. Redevelopment of the Swift avenue properties or termination of the leases for existing FBO's/SASO's will negatively impact the ability of San Jose State to meet the increased demands for aviation industry graduates (most of whom have high-paid jobs waiting for them upon graduation) and potentially force the university to shut down its entire program.

Conclusion and Recommendations:

The draft Business Plan as written makes a number of unsupportable presumptions, and also pre-empts significant policy decisions by recommending refusal to build FAA grant funding into the Airport Enterprise Fund revenue stream. The presumptions about alternative revenue streams associated with reducing the number of FBO's and commercial non-aviation development are optimistic at best, and would obligate the county to continue unnecessary long-term subsidies of the Fund until such time as commercial revenue began to flow, which flow is uncertain. Finally, the recommendation to avoid federal grant funding strongly implies a strategy based on lack of commitment to continue operating one or more of the County airports, and without the option of long-term secure leaseholds, it is very unlikely that any business would make the investments contemplated in the Business Plan.

Accordingly, the County Airport Commission recommends to the Board of Supervisors that:

1. The Business Plan as drafted not be approved; and
2. The County accept FAA Grant funding to retire the re-paving loan from the County.

3. The Airport Staff be directed to consult with the FAA and prepare alternate revenue models based on realistic assumptions around FAA grant funding (with associated long-term commitments) and AIP Grant funding (assuming short term operating life until 2031)
4. That the Staff be directed to immediately negotiate lease renewals at least through 2031, to enable existing businesses to have planning stability while policy issues are being addressed
5. That the Board address the issue of whether the County intends to continue operating its two airports past 2031, after full and open discussions with other stakeholders, including the City of San Jose (including the management of SJC Mineta Airport) and emergency services providers.
6. If the County intends to continue operating the airports, then FAA AIP grants should immediately be applied for and accepted, as these grants may be used to repay the loans made for current repaving and help defray airport maintenance costs as identified in the Aries consulting report.

For the Commission,

John B. Carr, Commissioner
Santa Clara County Airports Commission

June 15, 2018