ITEM NO. 23

STAFF REPORT

CITY OF OCEANSIDE

DATE: November 1, 2006

TO: Honorable Mayor and City Councilmembers

FROM: Public Works Department

SUBJECT: **REVIEW OF THE AIRPORT-RELATED ECONOMIC STUDY, IMPACT OF REGIONAL AIRPORT STUDY AND LEGAL ISSUES WITH CONVERSION OF LAND TO ALTERNATE USES AND PROVIDE DIRECTION TO STAFF**

SYNOPSIS

Staff recommends that the City Council review the City sponsored airport-related economic study conducted by Keyser Marston Associates of San Diego, the impact of the Regional Airport Authority's land use planning requirements and the legal issues associated with alternate land uses of airport property and provide direction to staff.

BACKGROUND

Since 1962 the City of Oceanside has operated a municipal airport at 480 Airport Road. The airport property consists of a 3,000-foot general aviation runway, 47 aircraft tie downs, 34 hangars, an administration building and parking lot together with related airport equipment. The airport is approximately 50 acres in size and is zoned LI (light industrial). In 1994, the City Council approved the Airport Master Plan, which addressed among other items, use of Federal Aviation Administration (FAA) grants and State aviation low interest loans for improvements to the airport and future buildout.

In October 2005, the City Council approved the issuance of a Request for Proposals (RFP) for a study to analyze existing and alternative uses for the Oceanside Municipal Airport property with primary emphasis on four areas: 1. The examination of the economic impact to the City and surrounding airport properties of the continued operation of the airport and the analysis of the re-use potential of the airport itself and the effect that closing the airport and removal of airport-related development restrictions would have on the surrounding real estate. 2. Assess the impact of pending local, regional and state imposed land use regulations that affect any future development within the airport area. 3. A legal opinion on the conditions required by any FAA grants applicable to the airport. 4. Conversion of airport property to alternate use constraints.

Responses to the comprehensive RFP proved to be too expensive to implement. However, the economic study was considered the critical component for any discussions concerning the existing and alternative uses for the airport property and funds were included in the Fiscal Year 2006/07 budget to fund the economic study.

ANALYSIS

The report addresses four primary issues as directed by Council:

1) Economic considerations related to retaining and/or improving the airport and potential land value if alternate uses are developed;
2) Impact to surrounding property with respect to the Regional Airport Authority's proposed land use regulations;
3) Legal issues associated with conversion of the property to alternate uses; and
4) Constraints on Conversion to Alternate Uses.

1. Economic Considerations.

The economic study, conducted by Keyser Marston and Associates focused on two potential development paths. First, three scenarios for the continued operations of the airport were developed that include a financial analysis of the estimated net operating income, debt service, and future cash flows the airport can be expected to generate if: 1) the airport remains as is; 2) the Southside only is built-out per the Master Plan; and 3) the airport is completely built out per the Master Plan. The second development path was to determine the potential development possibilities and associated land value of the airport property if converted to alternate uses.

Airport Scenarios

Scenario 1: Existing Conditions Remain. The first scenario developed is one where no improvements are made at the airport and it continues to operate as is. The Airport Enterprise Fund has a net balance of ($486,000) that would need to be repaid to the General Fund (GF Loan). The GF Loan would earn 5 percent interest. All positive cash flow would be applied to the GF Loan debt service payment until a yearly payment of $41,000 is reached. The GF Loan would be paid in full by year 19. The State hangar loan would be paid in full by year 12.

Table 1

	YEAR 1	YEAR 10	YEAR 20
Gross Income	$473,000	$590,000	$756,000
Operating Expenses	(376,000)	(465,000)	(621,000)
GF Loan	(18,000)	(41,000)	--
Existing State Loan	(79,000)	(79,000)	--
Cash Flow	$0	$5,000	$135,000

Based on a 25 year model, the total potential revenue generated by scenario 1 in present value terms (2006 dollars) is $597,000.

Scenario 2: Southside Buildout. This scenario contemplates demolishing the existing old hangars and building 40 new hangars (for a total of 51 hangars), a maintenance hangar and administrative building with retail space in accordance with the

Master Plan and the settlement agreement with the Citizens for a Better Oceanside (CBO). The buildout would be funded through a new State hangar loan of $5,100,000. The GF Loan of $486,000 plus interest would be paid back over a 15 year period. The existing State hangar loan would be paid in full by year 12. The assumptions are that the construction would be completed by year 5. The new State hangar loan payback would start on the second anniversary of loan acceptance and the GF Loan payback would start at completion of construction.

Table 2

	YEAR 6	YEAR 10	YEAR 20
Gross Income	$1,178,000	$1,301,000	$1,666,000
Operating Expenses	(526,000)	(588,000)	(780,000)
GF Loan	(55,000)	(55,000)	--
Existing State Loan	(79,000)	(79,000)	--
New State Loan	(492,000)	(492,000)	(164,000)
Cash Flow	$26,000	$87,000	$722,000

Based on a 25 year model, the total potential revenue generated by scenario 2 in present value terms (2006 dollars) is $3,984,000.

Scenario 3: Complete Buildout Per Master Plan. The Southside buildout (Scenario 2), plus the Master Plan buildout includes an additional 100 hangars on the 14.7 acres on the northside of the airport. The total buildout would be funded through a new State hangar loan of $11,600,000. The GF Loan of $486,000 plus interest would be paid back over a 15-year period. The existing State hangar loan would be paid in full by year 12. The assumptions are that the construction would be completed by year 8. The new state hangar loan payback would start on the second anniversary of acceptance and the GF Loan payback would start at completion of construction. Additionally, any airport-related improvements on the northside would require a comprehensive environmental review as required as part of the settlement with the CBO.

Table 3

	YEAR 9	YEAR 10	YEAR 20
Gross Income	$2,952,000	$3,026,000	$3,874,000
Operating Expenses	(1,103,000)	(1,133,000)	(1,477,000)
GF Loan	(63,000)	(63,000)	(63,000)
Existing State Loan	(79,000)	(79,000)	--
New State Loan	(1,116,000)	(1,116,000)	(744,000)
Cash Flow	$591,000	$635,000	$1,590,000

Based on a 25 year model, the total potential revenue generated by scenario 3 in present value terms (2006 dollars) is $12,006,000.

Alternate Use Scenarios

The economic study includes detailed analysis of the value of the property if converted to alternate uses.

For any alternative uses, if you apply standard land development criteria, 15 percent of the 50 acres of airport property would be needed for circulation and open space. This leaves a net site area of 42.5 acres available to build on. It is also assumed that the City's estimated cost to close the airport would include the repayment of State and City grants and loans, EIR and closure approval cost and demolition and clearance of the site, for a total City cost of $3,249,000.

The development of three potential alternate uses of the airport property was considered; residential, commercial and industrial (Table 4). An estimate of low-high ranges of achievable square-footage and/or units that could be developed and comparable land sale values in the area was used for comparison to develop an average price per square foot (SF) for each scenario.

Table 4

	Residential	**Commercial**	**Industrial**
Per SF Value	$14.00	$8.00	$7.00
Raw Land Value	$25,918,200	$14,810,400	$12,959,100
City Cost	$3,249,000	$3,249,000	$3,249,000
Gross Land Proceeds	$22,669,200	$11,561,400	$9,710,100

Of the 50 acres of airport property, approximately 22 acres was purchased with FAA grant funds providing 90 percent of the purchase price. The FAA requires payback, at a proportionate share of fair market value for any portion of those 22 acres not developed with airport-related uses. Table 5 illustrates the net land proceeds the City could expect to garner after the FAA's proportionate share of fair market value is subtracted from the gross land proceeds.

Table 5

	Residential	**Commercial**	**Industrial**
Gross Land Proceeds	$22,669,200	$11,561,400	$9,710,100
FAA's 90% Share	$12,074,832	$6,899,904	$6,037,416
Net Land Proceeds	$10,594,368	$4,661,496	$3,672,684

Note. Annual sales/property tax is expected to be in the $1.4 to $1.8 million dollar range annually if the property is converted to alternate uses.

Additional Development Option

One additional development option should be considered, a hybrid of the Alternate Uses and Airport Development scenarios. 22 acres of City and airport property north of the airport has the potential to be developed commercially. Developing the 22 acres and completing the South Side buildout (Scenario 2) may have the most potential to produce sustainable airport and City revenue streams while allowing time for anticipated events, Highway 76 completion, Drive-in site development, FAA grant expirations, etc. to transpire and improve the development potential of the entire area.

The assumptions are the City would develop the site to finish grade. The site will support 215,000 square feet of retail space and the construction period would be three years. Table 6 illustrates the land and site improvement cost, debt service, lease revenue and sales tax revenue for the site. 12 of the 22 acres were purchased with FAA grant funds and will require a payback to the FAA at a proportionate share of fair market value. Total land acquisition costs are estimated to be $6,717,000 with site development cost estimated to be $5,031,000 for a total cost of $11,748,000. The annual debt service interest rate is 7% with a term of 15 years.

Table 6

	YEAR 4	YEAR 15	YEAR 20
Ground Lease Payments	$1,383,000	$1,915,000	$2,220,000
(Less) Debt Service	(1,290,000)	(1,290,000)	--
Net Cash Flow	93,000	625,000	2,220,000
Sales Tax Revenue	1,118,000	1,466,000	1,659,000
Total Revenue	$1,211,000	$2,091,000	$3,879,000

Based on a 25 year model, the total potential revenue generated by this scenario in present value terms (2006 dollars) is $18,530,000.

Table 7 compares the three airport scenarios and the additional development option of the South Side buildout and development of 22 acres north of the airport.

Table 7

Scenario	Estimated Revenue (1)
Existing Conditions,	$597,000
South Side Build-out Only	$3,984,000
Build-out to Master Plan	$12,006,000
South Side Buildout and North Side Development by City	$22,514,000

(1) Reflects present value of estimated revenue in 2006 dollars.

2. Impact to Surrounding Property With Respect To the Regional Airport Authority's Proposed Land Use Regulations.

The Regional Airport Authority is in the process of developing updated planning guidelines to address land use compatibility regulations for the properties surrounding airports. The Authority has the responsibility to provide for the orderly development of airports and to prevent the creation of new noise and safety problems. The draft plan identifies a number of policies that will limit or restrict certain types of development as a means of protecting the airport from encroachment of incompatible land uses. The Oceanside Airport is considered an Urban Airport as defined in the draft plan. The draft

Airport Authority Plan poses a potential impact on the development of the vacant properties surrounding the airport. The primary properties affected include the Drive-In site and the City-owned property north of the airport.

As it relates to the Drive-In site, the regulations proposed under the draft plan would significantly impact the developability of the property as compared to the existing planning and land use compatibility regulations. The developer of the Drive-in site has submitted a development application to the City. The current development plan would not be compatible with the Airport Authority's proposed rules, but appears to be compatible with the current rules. Should the development have to be redesigned to comply with the proposed rules, the overall developability of the site would be significantly impacted.

3. Legal Issues Associated With Conversion Of The Property To Alternate Uses.

A. <u>City Obligations under Grant Assurances</u>

The City has received approximately $4.1 million in Federal and State funds for the airport (approximately $3.993 million in Federal grants and $897,000 from the State). The majority of the grants were used to purchase property adjacent to the airport for airport-related uses. The grant assurances given by the City when applying for the Federal grants prohibit the City from disposing of the property without the FAA's prior consent and approval, even if the City determines the property is no longer needed for airport purposes. Additionally, the grant assurances impose on the City a continuing obligation to operate and maintain the airport and facilities.

With respect to grant funds used for airport improvements, the City's obligations under the grant assurances continue for the useful life of the facilities developed or acquired, but no more than 20 years from the date the grant offer was accepted. For grant funds used to acquire real property for airport purposes, there is no time limit on the City's obligations under the grant assurances, and those properties may not be sold, leased, or encumbered without prior approval from the FAA. Further, as noted, the City has an affirmative obligation to suitably operate and maintain the airport and facilities unless and until the FAA releases the City from the grant assurances.

B. <u>Process for Release of the City's Obligations to Operate the Airport</u>

(i) Federal Law

Federal regulations allow the release of the City's obligations under the grant assurances, pursuant to procedures established by the FAA. Specifically, the FAA may, "when requested, act to release, modify, reform, or amend any airport agreement to the extent that such action will protect, advance, or benefit the public interest in civil aviation." FAA Order 5190.6A, Section 7-2(a). The FAA's release may apply to specific facilities and parcels of land acquired with Federal assistance, and requests for releases of airport obligations are considered on a case-by-case basis, in the sole discretion of the FAA.

In considering a request to release obligations under an airport agreement, the FAA will consider factors such as (1) the past and present owner's compliance record under all its airport agreements and its actions to make available a safe and usable airport for maximum aeronautical use by the public; (2) evidence that the owner has taken or agreed to take all actions possible to correct noncompliance situations at the airport, if applicable; (3) the reasonableness and practicality of the owner's request in terms of aeronautical facilities that are needed and the priority of need; (4) the net benefit to be derived by civil aviation and the compatibility of the proposal with the needs of civil aviation; and (5) consistency with the guidelines for specific types of releases. FAA Order 5190.6A, Section 7-37(a).

In order to grant a request for release from obligations under an airport agreement, the FAA must make one of several policy determinations: (1) the public purpose that a term, condition, or covenant of an agreement, or the agreement itself, was intended to serve is no longer applicable; or (2) the release, modification, reformation, or amendment of an applicable agreement will not prevent accomplishment of the public purposes for which the airport or its facilities were obligated, and such action is necessary to protect or advance the interest of the United States in civil aviation; or (3) the release, modification, reformation or amendment will conform the rights and obligations of the owner to the statutes of the United States and the intent of Congress consistent with applicable law. FAA Order 5190.6A, Section 7-37(b).

(ii) State Law

California Public Utilities Code section 21605 requires that, before closing or suspending operations at an airport that is financed partially with State funds, the Department of Transportation ("Caltrans") Division of Aeronautics must be given 60 days' written notice. Caltrans may then conduct a public hearing to determine the impact of the intended closure or suspension of operations, both economically and on the entire State air transportation system. Section 21605 also allows Caltrans to "take appropriate action to assist the proprietor in keeping the airport operational and open for public use."

C. <u>Repayment of Grants and Loans</u>

(i) Federal Grants

If the City were able to obtain a release from its obligations under the grant assurances, the funds granted to the City for airport purposes would have to be repaid. Importantly, the amount required to be repaid would be not merely the original amount of the Federal grants (approximately $3.99 million), but the Federal government's proportional share of the *current fair market value* of the land. This repayment obligation applies whether the City chooses to dispose of the property purchased with Federal funds, maintain it for a public purpose other than aviation, or use it for non-public purposes.

(ii) State Grant and Hangar Loan

In addition to the Federal grants, a $47,000 grant and $850,000 hangar loan, made under the California Aid to Airports Program, would have to be repaid to the State Aeronautics Account under formulas set forth in the Public Utilities Code (for grants) and the California Code of Regulations (for loans).

The amount required to repay the State grant would be computed as follows: "an amount equal to the total of all payments made for the airport from the Aeronautics Account during the preceding 20 years, less 5 percent of the amount of a particular payment multiplied by the number of years since the payment was made, or the unused balance, whichever is greater." Cal. Pub. Util. Code Section 21687(a)(2)(A). As to the hangar loan, absent any contrary provisions in the loan documents themselves, early payoff of the remaining balance of the hangar loan would be permissible under State law.

4. Conversation to Alternate Uses Constraints.

Any potential reuse of the airport properties would have to comply with the FAA restrictions and grant assurances as previously discussed. In addition, there are several deed restrictions that have been imposed on portions of the airport property that would have to be addressed and satisfied. None of the deed restrictions appear to expressly require the parcels to be used exclusively for airport purposes and therefore do not appear to prevent deactivation.

In addition to the land value, we must consider the City's ability to absorb the various types of potential development of 50 acres of airport property.

Residential development could potentially produce the highest net land value today, 50 acres of residential units surrounded by industrial and commercial development on three sides plus the Highway 76 frontage may prove in the long run not to be the highest and best use of the property.

The development of the Quarry Creek Center at College and Highway 78 leaves the City with two major commercial areas awaiting buildout, the 90 acre Drive-in site east of the airport and 60 acres at El Corazon. The timeframe to build and absorb the over 1,200,000 square feet of commercial space planned for these two sites will take 10-15 years.

The Oceanside Boulevard corridor industrial/office land is being developed at a fast pace with large development programs in the Ocean Ranch Corporate Center, the Rancho Del Oro area, the Collins property, etc., all in the process of building or entitling major projects. If the airport site's highest and best use is industrial/office the areas of the City currently under development will need to reach buildout prior to the airport becoming a viable development option. As with the commercial development potential, the industrial/office market development potential is a minimum of 10-15 years away.

Realistically, the market forces necessary to drive development of the entire 50 acre airport site, whether residential, commercial, industrial or multi-use are probably a minimum of 15-20 years away. However, if the property north of the airport currently under airport control were combined with City owned property adjacent to it and made available for development, it is anticipated that an area that size could be developed commercially as a compliment to the Drive-in site development.

FISCAL IMPACT

The Oceanside Municipal Airport has the potential to generate revenue. Based on the information in this report, the airport would need to be improved beyond its current condition to be self-sufficient and marginally successful. Developing the south-side of the airport in accordance with the current Master Plan (51 hangars total) would provide sufficient revenues for the airport to be self supporting. Developing the entire airport property in accordance with the Master Plan would add an additional 100 hangars on the north side of the airport, and would provide further revenues to the airport. However, as an enterprise fund, revenues derived from the airport have to stay with the airport. The City currently receives 2 percent of the revenues generated by the airport as an administrative payment for services provided. The revenues generated by the airport in excess of the airport expenditures would remain with the airport and cannot be used to support General Fund programs.

The recommendation to develop a portion of the property for commercial uses would allow the General Fund to realize significant revenues in the form of lease and sales tax revenues. In addition, forwarding the development of the south side of the airport to its Master Plan condition will also allow the airport to become an improved and self-sufficient operation. The combination of commercial development on the north side of the airport with the Master Plan development of the south side of the airport provides the largest benefit to both the City's General Fund and the Airport Enterprise Fund.

INSURANCE REQUIREMENTS

Does not apply.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

See "Legal Issues Associated with Conversion of the Property to Alternate Uses", section of staff analysis, above.

RECOMMENDATION

Based on the City's current FAA obligations, converting the existing developed portion of the airport to some alternate use would likely be a lengthy process. Additionally, market factors would likely restrict the regions ability to absorb significant commercial/industrial uses on the entire airport property for a number of years. Considering these factors, Staff would recommend the following strategy:

1) Continue to operate the airport for a minimum of 15-20 years;
2) Authorize buildout of the Southside of the airport;
3) Consider developing the property on the northside of the airport including the airport property and the City property adjacent to Foussat Road;
4) Establish a plan to satisfy FAA and State grants and loan obligations over a 15 to 20 year period and;
5) Provide alternative direction to staff.

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