

DATE ISSUED: April 7, 2005

REPORT NO. 05-089

ATTENTION: Public Safety & Neighborhood Services Committee
Agenda of April 13, 2005

SUBJECT: LONG TERM DEVELOPMENT OF MONTGOMERY FIELD AIRPORT
(M-05-03-06)

REFERENCE: City Manager's Report No. 04-179 dated July 29, 2004
City Manager's Report No. 03-087 dated April 30, 2003
City Manager's Report No. 02-176 dated July 24, 2002

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS SOUGHT ON THE PART OF THE PUBLIC SAFETY AND NEIGHBORHOOD SERVICES COMMITTEE OR THE CITY COUNCIL.

The purpose of this report to Public Safety and Neighborhood Services is to respond to Councilmember Jim Madaffer's request (M-05-03-06) to have staff present the City's plans for the long-term development of Montgomery Field Airport. This report addresses those and other related issues. Subsequent to M-05-03-06, Councilmen Madaffer also requested an update of the Montgomery Field Master Plan, the Gibbs Flying Service Leasehold history and the FAA's leasing policy. Staff appreciates this opportunity to address these concerns in this report.

BACKGROUND

There are 12 civil airports in the San Diego County area. Two of them, Montgomery (MYF) and Brown (SDM) Fields, are owned by the City of San Diego (City), and operated by the Airports Division of the Real Estate Assets Department. These two airports are an important part of the National Air Transportation System and are designated as reliever airports for San Diego International Airport – Lindbergh Field. Reliever airports serve the general aviation community that might otherwise be forced to use congested air carrier airports.

In terms of annual aircraft operations, MYF, located in the Kearny Mesa area, ranks the busiest in the County, and SDM, located in the Otay Mesa Area, ranks the sixth busiest. MYF is home

to 567 based aircraft along with a variety of aviation business such as fixed base operators (FBOs) and non-aviation businesses such as a hotel, several restaurants, and an office retail complex. These businesses have leases or other agreements with the City ranging from month-to-month to multi-year leases, depending on the amount of capital invested and other benefits to the City.

Both of the City's airports are supported by the Airport Enterprise Fund which was established in 1981. Revenues generated by the previously mentioned leaseholds, along with other rents, charges and fees, are placed in the Airport Enterprise Fund. The revenues are used solely to fund MYF & SDM capital and operating costs. Federal Statutory Provision 49 U.S.C. Title IV requires airports to maintain a fee and rental structure for airport facilities to make the airport as self-sustaining as possible.

Staff is committed to sound management, prudent business practices, and ongoing long-term planning efforts. As a result the Airport Enterprise Fund has been self-sustaining to date. In furtherance of those commitments, on September 25, 2000, the City entered into a Consulting Services Agreement with Shutt Moen Associates to prepare the Airport Master Plan Update. The consultant assisted the City with establishing a Technical Advisory Committee (TAC) to assist in the formulation of the Plan. The TAC was comprised of the Airport Advisory Committee (AAC), which represents users and surrounding community groups including the Clairemont Mesa Planning Committee, Otay Mesa Community Planning Group, Serra Mesa Community Planning Group, and the Tierra Santa Community Planning Group. The role of the TAC was to review and comment upon policy and layout alternatives, drafts of master plan chapters, and drafts of airport layout plan drawings. The City considered the TAC's comments, together with input from various City departments, FAA, State, SANDAG, airport tenants, local pilots and the public, and provided direction to the Consultant on revisions to the draft documents.

An Airport Master Plan documents the long-term development concept proposed for an airport. Simply stated, the Master Plan Update will serve as a "roadmap" for the development of the airport over the next twenty years. It differs from a community plan in that an Airport Master Plan is specific to the subject airport under FAA guidelines rather than the community as a whole. However, the Montgomery Field Draft Airport Master Plan Update takes into consideration the Community Plans of Clairemont Mesa, Kearny Mesa and Serra Mesa. The Master Plan displays the concept graphically in the form of an Airport Layout Plan (ALP) and provides supporting documentation in an accompanying written report. The FAA recommends that the master plan be updated every seven to ten years, contingent on changes or new issues at the airport. Montgomery Field's Master Plan is over twenty years old, and requires an update due to changes required by FAA airport design criteria, and the airport layout. The current Master Plan and ALP for Montgomery Field was adopted by the City in 1980. Since then, the airport has undergone the following changes: Runway 10L/28R was lengthened, Taxiways "H" and "A" were created, and 163 acres of airport land were incorporated into the Multiple Habitat Protection Area (MHPA). In addition, the airport experienced an increase in based turbine powered aircraft, an increase in based rotorcraft, the addition of over 200 hangars, a 36% decrease in total annual operations (1976-2001), the addition of an aircraft noise monitoring system, a commercial business complex, and a hotel. Also since the 1980 Master Plan, the FAA Airport Design Standards have been revised six times. The major Airport Design differences included changes to the Building Restriction Line (BRL), Runway and

Taxiway Object Free Area (OFA), Runway Safety Area (RSA), Runway and Taxiway Object Free Zone (OFZ) and the Runway Protection Zone (RPZ). The Draft Master Plan Update and ALP document these developments.

The goal of the Draft Airport Master Plan Update is to provide guidelines for the future development of Montgomery Field that will satisfy projected aviation demand in a financially feasible manner, while at the same time resolving key aviation, community, environmental, and socioeconomic issues. To meet its goal, the Master Plan utilizes a formula promulgated by the FAA, which includes objectives, elements, and issues. Once the environmental review process is completed, the Draft Master Plan will be presented for City Council approval.

In 2002, the Airports Division hired Airport Business Solutions (ABS), an independent consultant to assess the airports needs and forecast future aviation demand in order to accommodate growth and enhance revenue. In developing the business plan many sectors of the local and regional general aviation markets were researched. Input was solicited from City staff, airport tenants and interested users such as the Airport Advisory Committee. The result is a business plan that enables the City to have efficiently managed and financially secure airports.

Although the Airport Enterprise Fund is financially solvent now, both airports require needed capital improvements and, as a result, the fund may face financial difficulties in the near future. Staff has and continues to identify opportunities to enhance the Airport Enterprise Fund in order to avoid a potential deficit of the fund. To avoid such a deficit, a sustained revenue stream is needed to sustain the daily operation costs, and to implement the required capital improvements, at both MYF and SDM.

The continued stability of the Airport Enterprise Fund could be compromised if the City does not pursue new revenue-generating business opportunities, such as those identified in this report. This report includes information on the status of how staff proposes to implement these opportunities. As requested, this report provides information on the long-term development of Montgomery Field, beginning with the short-term and intermediate-term. The new revenues which would be generated by these new business opportunities offset the costs for some of the long-term development and capital improvements projects. Airport development is typically funded by a combination of airport, private, and grant sources.

DISCUSSION

Councilmember Madaffer requested that staff provide information on the “FAA Leasing Policy”. The FAA does not have its own leasing policies, nor does it establish specific leasing policies or require the City to implement any specific leasing policies. The FAA does not want to be involved with the City’s leases and, as a result, will not interfere with the City’s leasing policies as long as they are not in violation of FAA rules, regulations or Assurances. The City’s leasing policies are established by Council Policies which are in compliance with all FAA rules, regulations and Assurances.

There are several basic concepts contained within the Council Policies which apply to all City-owned property including airport property. The City has a fiduciary responsibility to obtain a fair market return on all property; to limit the length of leases to the shortest time possible to

amortize the improvements made to the leasehold and require that all improvements are either removed or revert back to the City at the expiration of the lease. When significant investment is not contemplated, short-term or month-to-month leases are appropriate. The Council Policies also require competitive bidding via an RFP process to ensure that the City obtains the best return possible.

With respect to airports, this last point also implicates the grants assurances, which prohibit the airport sponsor from granting exclusive rights. While the grant assurances do not absolutely prohibit exclusive negotiations, the airport sponsor cannot have negotiations to the exclusion of others when the sponsor is aware of specific interest by multiple parties. It is always in the City's and the public's best interest to solicit bids to ensure the best return on City assets.

It has been a number of years since a new long-term aviation lease has been entered into at MYF. However, it is the intent of Staff to present a new long-term aviation lease for MYF to the Mayor and Council by or before late summer for an area on the south-western boundary of the airport. This lease will be the result of a Request for Proposal (RFP) which closed on December 17, 2004. (See "Short Term" discussion below).

Simultaneously, staff will continue reviewing all other options for airport development focusing on those areas identified in the Business Plan, including the Gibbs leasehold area. If and when a future RFP is issued for significant investment in long-term improvements for all or a portion of the Gibbs leasehold area, Mr. Gibbs and all other interested parties will be encouraged to respond. In the interim, we continue to plan so that the existing airport users will experience little to no loss of aviation services. Proper investigation and planning is vital to the success of the City Airports, as with any successful business. In fact, in response to a user's written communication to the FAA, the FAA indicated support of airport staff's decision to take the time to adequately study the City's options. Specifically, the FAA stated that "Sometimes an ounce of prevention is worth a pound of cure. Therefore, the City may wish to spend some time studying its options before picking one."

SHORT TERM

In August 2004, the Land Use and Housing Committee authorized the City Manager to issue a RFP at MYF. The purpose of the RFP was to solicit proposals to develop and lease a 13-acre site located on the southwest boundary of the airport along Kearny Villa Drive, for aviation related purposes. The RFP drew significant interest from the aviation community. The response is indicative of the very strong interest that exists for development opportunities on City airports.

Recently, a bidder was selected from those that submitted proposals. This bidder will now work out the details for a long-term lease with City staff. The length of the lease term will be contingent upon capital investment required to fully develop the site and overall contribution to the City's obligation to develop, operate, maintain, and promote MYF for the public benefit of the airport users and the community it serves. Staff expects to submit terms and conditions for this new lease to the Mayor and Council for approval by late summer 2005. It is anticipated that this development will improve the appearance of MYF, thus improving the local community; provide additional services to the users of MYF; potentially provide jobs; and bring additional

revenue to the Airport Enterprises Fund. This will be an example of how private funding is used to develop and improve the Airport System.

INTERMEDIATE TERM

The lease expiration of the Gibbs Flying Service Fixed Base Operation (FBO) leasehold at MYF has also created another business opportunity for the City of San Diego. The Gibbs' lease will expire on its own terms on May 31, 2005, after 35 years. The lease had an initial term of 20 years plus three five-year options which were exercised. In a letter dated February 3, 2005, Mr. Gibbs, of Gibbs Flying Service, was informed that in accordance with the lease terms, the City would take possession of the leasehold premises at the expiration of the lease. Pursuant to the terms of the lease, all hangars, the fuel farms, and any other improvements will revert to the City. Although most of the improvements are old and have outlived their useful lives, they can continue to be utilized until further development is approved.

Staff has had several meetings with Mr. Gibbs to discuss how to ensure a smooth transition and, as much as possible, avoid interruption of the subtenants on the leasehold area. Staff also invited Mr. Gibbs to stay on at the airport and suggested that he submit a proposal setting forth what aviation-related activities he would be interested in continuing to provide. Mr. Gibbs has since submitted a letter indicating his desire to continue providing certain services (providing fuel and aircraft positioning services) at MYF and has indicated that he will submit a proposal. Staff anticipates receiving his proposal during the week of April 4, 2005. Staff continues to work with Mr. Gibbs to ensure a smooth transition and avoid interruption for the users of the airport.

Other than having a new landlord (the City), it is anticipated that Mr. Gibbs' subtenants will continue to enjoy the same or better level of services that they are accustomed to having. Additionally, because it is not the City's intent to terminate any of the existing approved subleases, it is not anticipated that any of the service providers will lose their jobs. All rents anticipated to be received from these new City tenants will be placed in the Airport Enterprise Fund and will be used solely for airport purposes. This will be an example of how airport funds are used to develop and improve the Airport System.

Although staff has tried to assure users at MYF that the changeover will, for the most part, merely result in the tenants having a new landlord, a number of interested parties, including pilots, users, and the Airport Advisory Committee (AAC), have inquired about the future of the subleases and the aeronautical services currently provided on the leasehold. Because of their concerns, Staff would like to further elaborate on this issue. Most of these subleases have been on month-to-month agreements with Gibbs for 15 or more years. It is not the intent of the City to immediately change their month-to-month status. However, the City will request that all of Gibbs' approved subtenants enter into direct agreements with the City in order to assure that, like all other City tenants, these subtenants comply with City rules and regulations. These subtenant users include the hangar tenants, tiedown tenants, and flying club tenants. Most of the services provided on the leasehold such as flight training, aircraft cleaning services, and the avionics and maintenance repair businesses, operate on subleases with Gibbs, and, as stated above, they will also be offered the opportunity to remain on the leasehold under direct leases with the City.

The March 15, 2005, Airports Advisory Committee (AAC) special meeting was held to discuss the Gibbs' lease and to hear user concerns. The primary concerns voiced by the users were their concerns regarding the level of aviation services after the expiration of the Gibbs lease and their anticipation of rent increases. Based on the unsolicited interest in providing services at the airport, if an arrangement with Mr. Gibbs to provide services cannot be reached, there will not be a problem in finding substitute service providers. And, even if Mr. Gibbs does not manage the current service providers, they could enter into their own contracts/leases with the City. Further, while it is City Airports' obligation under the federal rules to charge fair market value rents, it is not anticipated that the City will have to raise the rents for the Gibbs subtenants unless those rents are currently below market. The flying clubs have already presented a proposal suggesting a manner in which they would like to operate and under which they would be completely accommodated. The ACC passed a motion requesting the City to keep Gibbs on holdover status for a period of one year. City staff does not feel this is in the City's best interests as it will result in a significant loss of revenue to the Airport Enterprise Fund during this period. The CIP cannot be fully implemented without this anticipated revenue stream.

LONG TERM DEVELOPMENT

Long-term development is more fully addressed in the draft Airport Master Plan Update for Montgomery Field. The technical report has been completed, and is currently with the City's Development Services for review and presentation to the Mayor and Council for adoption. It is anticipated that this will be done before the end of the year. Until such time as it is adopted, the currently approved Airport Master Plan adopted in 1982 is the guiding document. The short and medium range development plans previously presented in this report are consistent with both documents. The primary changes in the draft Airport Master Plan Update deal primarily with airport capital improvement program projects. The AAC served as the Technical Advisory Committee for the draft Update and were involved in its development. In June 2002, a presentation on the project was made to Land Use and Housing Committee. Each of the City Council Offices has been previously provided a copy of the draft document.

CAPITAL IMPROVEMENT PROJECTS

In the City of San Diego 2005 Annual Budget, the City approved a Capital Improvement Plan to relocate the existing City designated helipad from its current location to the northwest corner of the airport. At the time of preparation of this report, the project design is 95% complete and has been approved by all the applicable Federal and State agencies. The City's Environmental Analysis Section has also reviewed the project.

The new heliport will increase safety and operational efficiency. The San Diego Fire Department supports this action, as they are the current tenant on the existing substandard helipad, operating out of temporary trailers. The City Fire-Rescue Helicopter Operations will be immediately relocated to the new site with permanent facilities. The SDPD Air Support Unit and other operators, such as DEA are also welcome to relocate. Initial funding for this project will be from the Airport Enterprise Fund.

In a letter dated February 24, 2005, the Federal Aviation Administration (FAA) provided notice

to the City of San Diego of a Tentative Allocation in the amount of \$1,051,200 to reimburse the City for construction of the project (this is an example of how grant funds are used to support development and improvements to the Airport System). However, without new revenue sources, the Airport Enterprise Fund will be unable to support relocation of the San Diego Fire Rescue Helicopter Program to the more suitable location on the northwest portion of the airport because the Airport Enterprise Fund does not have the funds necessary to front all costs associated with the construction of the project and still be able to support all the other capital improvement projects that will be required to ensure continued safety at both City airports.

Other airport capital improvement projects required for the long-term development and safe use of City airports for the time period of 2005 through 2017 are shown below. Without continued sources of revenue, these projects may also be at risk. More information regarding these projects can be found in the draft Airport Master Plan Update for Montgomery Field.

No.	Fiscal Year	Description	Project Total	FAA	State	Local
1	2005	Construct Northwest Helipad	\$1,166,000	\$1,107,700	\$55,385	\$2,915
2	2005	Design Taxiway "I" conversion to taxilane, Runway 28L blastpad, and seven runup aprons	\$157,875	\$150,000	\$7,500	\$375
3	2006	Convert Taxiway "I" to taxilane	\$370,000	\$351,500	\$17,575	\$925
4	2006	Construct Runway 28L blastpad and seven runup aprons	\$374,000	\$355,300	\$17,765	\$935
5	2006	Design southwest hangar area, aircraft parking apron and wash rack	\$157,875	\$150,000	\$7,500	\$375
6	2007	Design Pavement rehabilitation for runways, taxiways, and aprons (Including slurry seal, patching, and crack sealing)	\$157,875	\$150,000	\$7,500	\$375
7	2007	Develop southwest hangar area infrastructure and pavement	\$2,800,000	\$2,660,000	\$133,000	\$7,000
8	2007	Construct aircraft wash rack	\$150,000	\$142,500	\$7,125	\$375
9	2008	Develop southwest hangar area	\$2,500,000	\$0	\$0	\$2,500,000*
10	2008	Pavement rehabilitation (Phase I)	\$900,000	\$855,000	\$42,750	\$2,250
11	2009	Pavement rehabilitation (Phase II)	\$900,000	\$855,000	\$42,750	\$2,250
12	2009	Overlay (repave) portion of Runway 10L-28R	\$1,000,000	\$950,000	\$47,500	\$2,500
13	2009	Design Runway 5-23 Lighting and Signage	\$157,875	\$150,000	\$7,500	\$375
14	2010	Light Runway 5-23, replace signs	\$540,000	\$513,000	\$25,650	\$1,350
15	2010	Design new parallel taxiway	\$157,875	\$150,000	\$7,500	\$375
16	2011	Construct new parallel taxiway	\$1,500,000	\$1,425,000	\$71,250	\$3,750
17	2011	Design drainage improvements	\$157,875	\$150,000	\$7,500	\$375
18	2012	Construct drainage improvements	\$2,500,000	\$2,375,000	\$118,750	\$6,250
19	2013	Design (conceptual) new airport administration building and operations facility	\$150,000	\$0	\$0	\$150,000

20	2014	Prepare construction drawings for new administration building / operations facility	\$150,000	\$0	\$0	\$150,000
21	2015	Construct new airport administration building / operations facility	\$1,750,000	\$350,000	\$17,500	\$1,382,500
22	2016	Design Runway 28R landing threshold, glideslope, MALSR, and VASI relocation	\$157,875	\$150,000	\$7,500	\$375
23	2017	Relocate Runway 28 R landing threshold, glideslope, MALSR, and VASI	\$750,000	\$712,500	\$35,625	\$1,875
<i>Totals</i>			<i>\$18,605,125</i>	<i>\$13,702,500</i>	<i>\$685,125</i>	<i>\$4,217,500</i>

*Private developer. City will lease land to developer for hangar construction.

CONCLUSION

The City of San Diego has a number of business opportunities available to it now which are required to sustain and improve its Airport System. Staff has a responsibility to identify plans to accept these opportunities and has begun an implementation process. Although some resistance to change is always expected and has been expressed, it is in the best interests of the City and its citizens as a whole to move forward with these changes. Long-term development and improvements to the City's airports are necessary and the City is federally obligated to provide them. Accordingly, Staff continues to identify and implement plans requiring no General Fund taxpayer subsidy, and appreciates the opportunity to update the Public Safety and Neighborhood Services Committee on our progress.

Respectfully submitted,

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Approved: Bruce Herring
Deputy City Manager

GRIFFITH/MT