



**TRUCKEE TAHOE AIRPORT DISTRICT
BOARD OF DIRECTOR STAFF REPORT**

AGENDA TITLE: Review and Consideration to Construct Additional Executive Hangars

MEETING DATE: May 24, 2017

PREPARED BY: Kevin Smith, General Manager

RECOMMENDED ACTION: Review construction bids and information provided regarding the possibility of constructing an additional 6 to 12 executive hangars. Review and take action on financing offer and terms for the construction of executive hangars.

DISCUSSION: The Board of Directors directed staff to solicit bids for additional executive hangars. In addition the Board asked staff to provide financial proformas, financing options for the project, as well as study the leasing feasibility (take rate) to assure the new hangars will be leased by prospective tenants. The Board indicated that they would like to see this information before they make a decision to build hangars and/or how many would be appropriate to construct. Over the past 6 months staff has prepared the following, which will be reviewed and presented at the May 24, 2017 Board of Directors meeting:

- Bid results for 6 to 12 new executive hangars.
- Financial proformas for various different project options.
- Financing options available to the District.
- Operational impact of new hangars.
- Leasing feasibility research and options to pre-lease hangars prior to construction.
- California Environmental Quality Act (CEQA), National Environmental Policy Act (NEPA), Permitting, and Entitlement processing with Town of Truckee.
- Construction timeline.

Each of these will be reviewed in this report.

BACKGROUND: The District currently has 220 hangars which are leased to the flying public. 200 of these hangars are T-hangars which accommodate small single engine and light twin engine aircraft. Currently these T-hangars are 100% leased with 24 individuals on the wait list. The average time on the T-hangar wait list is 6 months. The District also has 20 Executive box hangars which accommodate small to medium sized turboprop and light jet aircraft. The District charges \$1750 per month for these hangars. There are 37 individuals on the waitlist with an average wait time of 10 years. The District has discussed the addition of executive hangars for some time. It was last addressed in our 2015 Update of the District Master Plan. The Master Plan calls out for 24 additional executive hangars to be constructed between 2015 and 2025 to meet the aviation needs of the District.

PROJECT ANALYSIS AND DETAILS: Staff has prepared the following Appendices to assist the Board in their discussion, review, and deliberation. Staff will provide a formal presentation on these materials at the Board meeting and is prepared to answer any questions. Staff has also provided a recommendation at the end of this section of the report. Below is a brief summary of the contents of each Appendix and Key Takeaways:

Appendix A - Executive Hangar Bid Results: Bids were opened on May 24th. The site work and hangar structures were bid in separate bids due to the specialty of each type of work. We are currently in a very competitive bidding environment with the advantage going to the contractors and the construction industry. There is currently significant competition for the services of contractors and steel. Nevertheless our project did have multiple bidders for both site work as well as hangar construction. We received 3 bids for site work and 4 bids for the hangar structure construction. The low bidder for site work is Sierra Nevada Construction. The low bidder for hangar structure construction was Ranger Construction. For a full review of bidders and bid results see Appendix A.

Key Takeaway: Competition for contractors is significant right now adding to the cost of public works projects. We did have multiple bidders and received solid pricing on the cost of the project. Staff is confident in the integrity of the bid results received.

Appendix B - Financial Proformas and Analysis: Staff has prepared proformas for various different project options including a 6, 10, and 12 unit project. These can be found in Appendix B. The District's Internal Rate of Return over the 40 year cycle ranges from 2.8% for 6 hangars to 4% for 12 hangars. While some of the debt service costs can be recovered from tenants, the District will have some capital outlay each year from District revenues to service the debt based on the assumptions and proformas provided. The current proforma assumptions have new hangar rents at \$2,500. Raising this rate to \$2,600 to \$2,800 (\$2,500 to \$2,800 was surveyed on waitlist) will alleviate some of the debt service requirement but not all. A Hangar Rent Analysis for Cost Recovery is included in this Appendix. Monthly rents need to be \$4,500 per month for the project to cash flow on year one with no capital outlay by the District. With the addition of 6, 10 or 12 hangars, over the term of the Bond, the District will remain comfortably cash positive

on overall hangar revenues vs. expenses. Annual revenues from the current 220 hangars in FY2017 is \$1,398,000.

Key Takeaway: 100% of construction costs and a portion of the annual debt service can be recovered from new tenants but not all debt service expenses. Over the long term, new hangars will provide significant income to the District, but current hangar revenues will need to be used during the term of the loan to cover a portion of the debt service if the proforma assumption is used. Due to the demand for these hangars and the significant hangar revenue the District receives each year, staff is not concerned about the District's ability to service the debt from revenue received by hangar tenants.

Appendix C - Financing Options: Staff has been working with various public finance firms as well as the State of California regarding financing options. Presented in this Staff Report is a Term Sheet from the California Special District Association (CSDA) via Muni Financial, that staff feels is the most favorable set of terms we will receive. Their proposal requires the District pledge general District enterprise revenues without restricting or encumbering District assets or property tax. We also pursued options with the State of California through Cal Aeronautics for their Airport Revenue Loan Program. Due to the size and complexity of our request, it is unlikely they will fund the project. Their average loan is between \$500,000 and \$1,000,000 with a max term of 17 years. Their program is not favorable for our request. Muni Financial has put forward a 3.5% tax exempt bond for 20 years. The current term sheet has a \$7,000,000 loan offer. The loan amount is negotiable based on the will of the Board. The terms in the provided Term Sheet were the assumptions used in the proformas in Appendix B. Mr. Bill Morton with Muni Financial will be at the meeting to answer questions. See Appendix C for Term Sheet.

Key Takeaway: Staff reviewed various funding mechanisms including the bond market and the State of California Airport Loan Programs. CSDA Finance Corporation provided the most competitive terms. They work with numerous public agencies and Special Districts and are intimately familiar with how public agencies operate. Staff recommends CSDA Finance Corp/Muni Financial for Bond services should the Board decide to move forward with the project.

Appendix D - Aircraft Operational Impact: As part of the original 2016 Executive Hangar Study completed last year, the operational impact of executive hangars was considered. (See Section 1.2 of attached Study) While it is difficult to exactly quantify this impact, Appendix D of this report attempts to take a critical look at what staff and consultants understand as the impact of new executive hangars. Staff agrees with the conclusion in the Study which indicates that the new executive hangars would not generate a significant or noticeable increase in operations. 10 of the first 12 aircraft on the wait list are already operating aircraft at TRK. However, staff does not deny that there could be increases in traffic as a result of these hangars as the 2016 Study also concludes. Please review Appendix D for more information regarding the aircraft operational impacts.

Key Takeaway: Staff is confident in saying that the operational impact of the new hangars will not be significant or noticeable and that many of the aircraft which will occupy these hangars are

already operating at the Airport. Additional overnight hangars could also reduce some repositioning flights, primarily during winter, which could reduce operations. While staff does not anticipate a noticeable change in aircraft operations, overall traffic impacts are difficult to quantify with precision and as such, staff acknowledges that additional hangars could result in an increase in traffic, however we feel it will be minimal.

Appendix E - Leasing Feasibility Study and Rental Rate Analysis: District staff has spent considerable time reviewing our existing executive hangar tenant list and the executive hangar waitlist. We have conducted a survey of these tenants and found significant interest in new hangars. Staff is confident all new hangars can be pre-leased with deposits prior to construction of these new hangars at the stated rates in the proformas. Appendix E attached outlines staff's analysis of the hangar waitlist survey as well as the Hangar Rent Studies conducted in 2016. Based on these studies and our survey, staff is not confident we can secure 6 to 12 pre-lease agreements beyond the \$2,500 to \$2,800 monthly rents outlined in our tenant survey.

Key Takeaways: While much discussion could ensue regarding leasing feasibility, staff recommends that the District require pre-lease agreements prior to financing and beginning construction. Staff needs a decision as to whether or not hangars will be constructed as well as final terms and conditions from the Board of Directors before pre-lease agreements can be secured.

Appendix F - CEQA, NEPA, and Entitlement Process: Staff has received a Categorical Exclusion under NEPA from the FAA. The Board approved the Notice of Determination under CEQA at the April, 2017 Board meeting. This information has been sent to Placer and Nevada County and submitted with our application to the Town of Truckee. Staff has submitted a Use Permit application to the Town of Truckee pending the final results of this meeting.

Key Takeaways: Pending the decision by the Board of Directors, staff will meet with the Town to provide the final details regarding this project.

Appendix G - Construction Timeline: District Engineer Bill Quesnel has provided a timeline outlining key steps necessary to begin construction late summer or early fall should the Board decide to move forward.

Key Takeaways: Our goal would be to have footings in the ground to be able to erect steel this Fall. There are still variables that could effect this timeline but staff considers this timeline feasible.

Appendix H – Plans and Elevations: This appendix provides building plans and elevations for the proposed project.

Key Takeaways: For the 10 Unit concept, the south unit on each row would be removed.

STAFF RECOMMENDATION: After working on this project for the past 12 months and reviewing and analyzing all the information provided, staff makes the following findings and recommendations:

1. The District has significant demand for executive hangars primarily for individuals already operating at the Airport. Staff receives constant requests for these types of hangars. The demand is substantial.
2. Staff feels additional Executive Hangars for overnight use, one of which is heated, will help reduce repositioning flights particularly in the winter.
3. Staff recommends constructing 10 Executive Hangars. While we will support the Board's decision to build 0, 6, 10, or 12, we feel 10 optimizes the utilization of space and enhances the District's ability to maintain the facility in the long term. There are maintenance and snow removal advantages of 10 vs. 12 hangars which was learned during the bidding process.
4. Staff recommends seeking 100% financing through CSDA Finance Corp.
5. Staff recommends pre-leasing 8 hangars for new tenants and holding 2 for overnight rentals with one as a heated hangar. One heated hangar is included in the bid.
6. Staff recommends charging \$2,500 per month. Staff will support higher rates if it is the Board's desire, however \$2,500 per month will be on the high end of the regional market surveyed. Appendix E includes the Hangar Rate Survey and Study.
7. Rents charged for immediate full cost recovery are likely not feasible but Staff can seek pre-lease agreements with individuals on the waitlist if that is the desire of the Board.
8. Staff recommends using hangar rent revenues (\$1,400,000 annually) generated from hangar tenants to pay the debt service shortfall expected to be between \$150,000 and \$260,000 per year on average dependent on the number of units constructed.

WHAT'S NEXT: Should the Board decide to move forward with new executive hangars, staff will provide the necessary details to the Town of Truckee and move forward with the required Use Permit. Staff will also finalize financing through the CSDA Finance Corp. to fund the project construction. Staff will bring contract documents back to the Board for final approval at the June 2017 Board Meeting.

FISCAL IMPACT: If the Board chooses to finance 100% of the construction costs, there will be no initial capital outlay by the District to fund this project. Based on our proformas and assumptions, the District will need to allocate some funding from our current hangar revenue surplus to fund debt services. The average annual contribution will be \$150,000 to \$260,000 per year on average dependent on the number of hangars the Board decides to construct and the monthly lease rate.

PUBLIC COMMUNICATIONS: Executive Hangars have been discussed in various public meetings and throughout the Master Plan process. Staff has noticed this discussion on the District Website, sent an e-blast to everyone in the system, and notified individuals on the hangar waitlist.

SAMPLE MOTION(S): I move to (approve, continue, deny) the proposal to construct (insert number of hangars) Executive Hangars and direct staff to do the following:

1. Confirm final bids and bring construction contracts back to the Board at the June 28, 2017 Board Meeting.
2. Secure pre-lease agreements with future hangar tenants with deposits at the lease rate of \$_____.
3. Secure final financing documents from CSDA Finance Corporation for approval at the June 28, 2017 Board Meeting.
4. Finalize use permit applications with the Town of Truckee.
5. - Other conditions as determined by the Board -

ATTACHMENTS:

Appendix A - Executive Hangar Bid Results

Appendix B - Financial Proformas and Analysis

Appendix C - Financing Options

Appendix D - Aircraft Operational Impact (see attached Executive Hangar Study)

Appendix E - Leasing Feasibility Study (Includes Hangar Rents and Rate Study)

Appendix F - CEQA, NEPA, and Entitlement Process

Appendix G - Construction Timeline

Appendix H – Plans and Elevations