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City Manager's Office

# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** William F. Sherry A.A.E.

**SUBJECT:** AIRPORT TAXI STAGING  
BUILDING RENT

**DATE:** August 5, 2013

Approved

Date

8/5/13

## INFORMATION

There have been several discussions over the past months and recently at the Transportation and Environment Committee meeting regarding rent for the newly constructed taxi staging building at the Airport. This memo provides a history and current status of these charges.

On September 18, 2012, Airport staff came to Council with a recommendation for approval of an agreement with Taxi San José for Airport On-Demand Dispatch Management Services. The monthly rental rate for the taxi staging lot building was included in the agreement. Following discussion related to the level of rent, Staff was authorized to negotiate and execute the agreement that day with the direction "to explore options for lowering the amount of monthly rent."

Rate Resolution #76587, Section 3.A.c. sets the fee structure for buildings on the Airport. It states "The fees and charges for use of any structure shall be determined by an initial appraisal of the structure together with the land (if applicable). The appraisal shall establish the Fair Market Value of the structure on a per square foot per year basis. A rate of return of 10% shall be applied to the Fair Market Value to arrive at the Fair Market Value Fee (rental fee)." The Annual Fair Market Fee (rental fee) may be adjusted each fiscal year in accordance with either the CPI or a reappraisal of the structure, as determined by the Director of Aviation. The FAA requires Fair Market Value be used in rent calculations for Airport property and this formula has been used to determine rental rates for multiple structures and tenants on the Airport. The 10% rate is within the aviation industry standard. A decision to use other methods for rental calculations for this facility will likely create fairness and equity issues with the existing tenants and potentially legal issues with the FAA.

An appraiser was engaged to determine the Fair Market Value of the taxi staging area. The appraiser explored several methods to determine the Fair Market Value of the site, including the cost approach. Airport staff worked with the appraiser to identify those costs specific to the site, specific to the building, and indirect costs. Those costs were reduced by 4% to account for

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building around an existing operation, and reduced to account for multiple redesigns. In order to remain competitive and to use equitable processes to all users of the Airport, the cost approach was recommended to be used for the building only. An alternate methodology using an existing unimproved ground rental rate was used to determine the value of the ground underneath the building. The cost for the remaining area used by the taxi's for the vehicle staging area was determined to be recoverable through the Airport's trip fee already charged to ground transportation providers and was therefore not included in the rent.

The fair market rental value was established and the rental rate for the taxi staging building and the ground beneath it was reduced by approximately 13% to \$6,571 per month or \$78,852 per year. The revised rate was included in the final, signed agreement with Taxi San Jose. The date for commencement of rent was set at July 1, 2013, or the date of occupancy, whichever was later. The building was occupied in March 2013, but as agreed, the collection of rent was delayed until July 1, 2013. Taxi San José passed the cost of the facility rent and utilities on to the drivers with a net impact to the drivers of \$25 per month. The rental fee and/or effective date in the Taxi San José agreement cannot be changed without Council approval of an amendment to the agreement.

At their June 2013 meeting, the Transportation and Environment Committee requested additional information on the methodology used to determine the rental rates and whether further reductions are feasible. This memo provides the explanation on the methodology used to determine the current reduced rates. The need to remain competitive and to use equitable processes to all users of the Airport along with the steps taken to reduce the cost impact to the users to date will be considered in the analysis of whether further reductions are feasible. This analysis will be undertaken as part of the comprehensive ground transportation system review also requested by T&E. The results of the comprehensive review are expected to return to Council in the late Fall. In the interim, per the approved Agreement, as of July 1, 2013, Taxi San José began charging users the additional \$25 per month to cover rent and utilities.

Should direction be subsequently approved by Council to adjust the rental rate downward even further, we can discuss the possibility of making the lower rate retroactive.

/s/

William F. Sherry, A.A.E

Director of Aviation

For questions please contact Robert Lockhart, Acting Deputy Director, Airport Operations, at (408) 392-3514.