Performance Audit of the Real Estate Assets Department, Airports Division

OPPORTUNITIES EXIST TO IMPROVE THE CITY'S AIRPORTS DEVELOPMENT AND BUSINESS OPERATIONS

Office of the City Auditor

City of San Diego

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May 2015

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THE CITY OF SAN DIEGO

May 26, 2015

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on the City of San Diego's Airports Division, Real Estate Assets Department. This report was conducted in accordance with the City Auditor's Fiscal Year 2015 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations can be found after page 35 of the report.

During the course of our audit, we also identified both general and site-specific cash handling control issues. Pursuant to Government Auditing Standards, Section 7.41, we omitted that information from this report and provided a confidential limited use memorandum to management and those charged with governance, which described the issues and contained a recommendation to address those issues.

We would like to thank staff from the City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information are greatly appreciated. The audit staff responsible for this audit report are Shawneé Pickney, Shoshana Aguilar, Matthew Helm, and Kyle Elser.

Respectfully submitted,

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Results in Brief

The City of San Diego (City) operates two general aviation airports: Montgomery Field and Brown Field. General aviation airports serve as economic engines that facilitate the provision of vital air transportation and emergency services, and serve as a gateway to the community. At most public-use general aviation airports, airport managers and policymakers work to foster aviation development, encourage aviation activities, and generate revenue for the airports to be financially self-sustaining. While the City's general aviation airports have significant potential for development, we found that the City has not maximized opportunities to generate additional revenue, improve facilities, and articulate a long-term plan for the City's general aviation airports.

Over time, insufficient planning and oversight by Real Estate Assets Department (READ) and its Airports Division management teams resulted in missed opportunities for development and revenue generation at Brown Field and Montgomery Field airports. Insufficient planning and oversight have also had an adverse effect on the Airports Division's ability to clearly and consistently communicate its vision and maximize the development opportunities that current and potential leaseholders have proposed.

Additionally, we found that Airports Division's internal operations could be improved. Specific problems that we identified include:

- The Airports Division has not maintained one comprehensive list of renters;
- Many airport leases have been in holdover status for long periods of time;
- The Airports Division has not maximized lease revenue through market rate valuations;
- Rent adjustments have been completed, but with some errors;
- Maintenance and inspections of leaseholds are not consistently completed; and
- Aircraft and vehicle parking fees, aircraft landing fees, and aircraft storage rental fees have not been reviewed and adjusted, as required by Council Policy and Administrative Regulation.

We made three recommendations to address the Airport Division's planning and operational issues. Management agreed to all three recommendations.

Background

The Real Estate Assets Department's (READ) Airports Division manages the City of San Diego's (City) two general aviation airports, Brown Field and Montgomery Field. General aviation includes all aviation activities except scheduled airline and military flights. The two airports support a significant portion of the San Diego region's total annual flight operations and can accommodate a variety of general aviation aircraft. The City also leases land to a variety of aviation and non-aviation operations. Aviation lessees include Fixed Base Operators (FBOs) that provide fuel, aircraft maintenance and storage facilities; flight schools; San Diego Fire-Rescue helicopter operations; San Diego Police Air Support Unit; and several hundred individual aircraft owners. The majority of the airports' revenues are derived from non-aviation lessees that include: a hotel, business park, restaurants, Fire Station 43, City Field Engineering, U.S. Border Patrol, office space tenants and other individual lessees. City staff is responsible for maintaining the airports in conformance with Federal Aviation Administration (FAA) regulations and guidelines, and administering the various revenue-producing leases. **Exhibit 1** shows the location of both airports.

Exhibit 1

San Diego Municipal Airport Locations

Source: OCA, based on SanGIS data.

The types of general aviation aircraft that operate at Brown Field and Montgomery Field include: private, corporate, charter, air ambulance, law enforcement, fire-rescue, flight training, and cargo. Brown Field additionally offers services for skydiving, banner towing, and airships. The FAA has classified both airports as reliever airports for San Diego

International Airport, Lindbergh Field, which is operated by the San Diego Regional Airport Authority.

Brown Field is located 1.5 miles north of the US/Mexico border in the Otay Mesa Community in San Diego City Council District Eight. Notable features at Brown Field include a 7,972 foot primary runway, which provides 381 feet more landing distance than Lindbergh Field's 9,401 foot runway due to displaced thresholds which reduce the landing area available; and United States Customs and Border Protection inspection services.

Montgomery Field is located in Kearny Mesa in City Council District Six. Montgomery Field rents 108 spaces for aircraft tie-downs and aviation storage hangars and serves as Airports Division headquarters.

To measure airport activity, the FAA counts each arrival and departure as a flight operation. **Exhibit 2** shows flight operations for both airports for calendar years (CY) 2012-2014.

Exhibit 2

Flight Operations, CY 2012 - 2014

	Brown Field	Montgomery Field
Flight Operations 2012	92,043	182,455
Flight Operations 2013	89,707	186,192
Flight Operations 2014	90,266	215,114

Source: OCA, based on Airports Division operations data.

Revenue and Expenditures

The Airports Division operates as an enterprise fund.[1] **Exhibit 3** summarizes the Airports Divisions' budget for the past three fiscal years (FY).

Exhibit 3

Airports Division Budget Summary, FY 2012 - 2014

Airport Enterprise Fund	Expenditures	Revenue	Positions
FY 2012 Actual	$3,023,180	$4,603,804	18
FY 2013 Actual	$4,097,922	$4,713,049	18
FY 2014 Actual	$3,109,347	$4,821,531	18

Source: OCA, based on FY 2014 and FY 2015 Adopted Budgets and FY 2016 Proposed Budget.

Aviation leasing, commercial leasing, and federal grants (capital and revenue) are the top revenue sources for both airports. **Exhibit 4** shows the revenue sources for each airport for FY 2014.

Exhibit 4

Brown Field and Montgomery Field Revenue Sources, FY 2014

FY 2014 Revenue Sources	Brown Field	Montgomery Field	Total
Aviation Leasing	$374,087	$1,025,881	$1,399,968
City Engineering Lease	-	$235,250	$235,250
City Fire #43 Lease	$53,719	-	$53,719
City Police Lease	-	$498,037	$498,037
Commercial Leasing	$265,153	$1,567,797	$1,832,950
Fuel Flowage Fees*	$208,079	$92,851	$300,930
Landing Fees	$21,362	$29,438	$50,800
Monthly Airport Parking	-	$166,781	$166,781
Other	$14,233	$113,686	$127,919
Total	**$936,632**	**$3,729,721**	**$4,666,354**

* Note: Fuel Flowage Fees: Any transaction of fuels pumped into an aircraft refueler, aircraft, ground support equipment, and/or approved fuel storage containers.

Source: OCA analysis, based on City's SAP database. FY 2014 revenue totals from SAP do not match FY 2014 revenue actuals reported in the budget (see Exhibit 3) because figures exclude Department Management Cost Center revenues of $155,177.

[1] Enterprise Funds account for specific services funded directly by fees and charges to users such as water and sewer services. These funds are intended to be self-supporting.

In addition, both airports receive state and federal funding for projects such as runway rehabilitation and airport security. As shown in **Exhibit 5**, FY 2014 grants totaled approximately $953,000.

Exhibit 5

Brown Field and Montgomery Field State and Federal Grant Totals, FY 2014

FY 2014 Grants	Brown Field	Montgomery Field	Total
Federal Grants	$355,178	$513,249	$868,428
State Grant	$84,086	-	$84,086
Total	**$439,264**	**$513,249**	**$952,514**

Source: OCA analysis, based on City's SAP database.

Airport Tenants

The Airports Division currently maintains 29 leases: 20 at Montgomery Field and nine at Brown Field.[2] Tenants include aviation and non-aviation entities. Aviation tenants rent space to provide flight training, aircraft parking and long-term storage, aircraft maintenance, charter flights, private jet services, police air support, United States Customs and Border Protection, skydiving training, and medical helicopter services. Non-aviation tenants include offices, restaurants, automobile business, and San Diego Fire-Rescue. The Airports Division administers three main lease types: master leases, subleases, and rental agreements for aircraft parking and storage. There are 29 master leases and many of these tenants sublease space to individual aircraft owners or other businesses. At Montgomery Field, rental asphalt space is available for individuals to park their aircraft, and to build hangars for longer term aircraft storage.

San Diego's General Aviation Airport History

Exhibit 6 presents a timeline of major events in San Diego's general aviation airports history. Notably, there have been significant recent changes in READ and Airports Division management. Specifically, the City hired a new READ Director in 2014; a new Airports Deputy Director in 2015; and the current Airports Division Supervising Property Agent took the position in 2012.

[2] These leases include Memorandums of Understanding between the Real Estate Assets Department and other City departments. For purposes of this report and ease of discussion, we are referring to agreements between the Airports Division and City departments as leases even though they are internal agreements between City departments as opposed to a legally enforceable lease between two separate legal entities.

Exhibit 6

San Diego General Aviation Airports Timeline

1947: City purchased Montgomery Field from pilot William Gibbs

1962: Navy transfers Brown Field ownership to City

1981: City Council approves Brown Field Master Plan

1984: City Council approves Montgomery Field Master Plan

2001: City Council terminates proposed Brown Field air cargo project

2003: City agrees to pay Brown Field air cargo developer $1.3 million

2004: Montgomery Field Master Plan Draft completed but not approved

2004: City Council approves $5 million settlement to Brown Field tenant, Paladin Aviation

2005: Airports Division Deputy Director vacates position

2005: FAA places Brown Field on national list of non-compliant airports. To meet FAA standards, the City is required to remove some non-aviation tenants.

2012: Brown Field Airport Master Plan Draft submitted to FAA but not approved

2013: City agrees to lease portions of Brown Field to Brown Field International Park LLC to lease, develop, expand and renovate Airport facilities

2014: City hires a new Real Estate Assets Department Director

2015: City hires a new Airports Division Deputy Director

Source: OCA analysis, based on review of Airports Division website, 1980 Airport Master Plan documents for Brown Field and Montgomery Field airports, City of San Diego Report to the Planning Commission, news reports, and SAP personnel data.

Past Reviews of READ and the Airports Division

The City has had access to a number of reports reviewing READ and Airports Division management, though past leadership did not implement many of the report recommendations. **Exhibit 7** summarizes the relevant report findings.

Exhibit 7

Assessments of READ and the Airports Division

Report Release Year	Report Author	Report Subject	Key Findings & Recommendations
2006	Leigh-Fisher Associates	Airports Division	Airports should: • Define the business planning process • Standardize a lease framework and charging methodology consistent with the Division's business objectives • Prepare a strategic business plan
2007	Grubb & Ellis	READ	• Real estate decisions made no economic sense • Mismatches between short-term responsibility and long-term asset holds
2009	San Diego Grand Jury	Brown Field	• Brown Field not in compliance with its deed and FAA regulations by leasing to non-aeronautical entities without FAA approval
2012	Office of the City Auditor	READ	READ should: • Update its Portfolio Management Plan • Improve its performance measures

Source: OCA analysis, based on documents referenced within.

Airport Regulations and Guidelines

The City's airports must maintain compliance with multiple levels of regulations, most significantly FAA guidelines, the San Diego Municipal Code, and Council Policies. The FAA sponsors the Airport Cooperative Research Program (ACRP), which has published a number of helpful guidebooks providing recommendations for airport business plans, strategic planning, and airport leasing. **Exhibit 8** summarizes the most relevant criteria.

Exhibit 8

Airport Regulations and Guidelines

Criteria Source	Description
Federal Aviation Administration Airport Compliance Program	Airports that receive Federal grants must adhere to FAA regulations including, but not limited to: • Use of airport revenue • Proper maintenance and operation of airport facilities • Compatible land use • Adhering to the approved airport layout plan • Self-sustainability • Using acceptable accounting and recordkeeping systems
Airport Cooperative Research Program Guidebook for Developing and Leasing Airport Property	FAA-sponsored guidebook for airport leasing includes guidance on the following topic areas: • Anatomy of a lease • Airport owner/sponsor role • Project development considerations • Finance overview • Best practices
Airport Cooperative Research Program Guidebook for Developing General Aviation Airport Business Plans	• Guidebook helps general aviation airport managers and policymakers develop and implement an airport business plan to maximize financial self-sufficiency • Describes the planning, management, communication, and economic benefits of developing an Airport Business Plan
Airport Cooperative Research Program Report Strategic Planning in the Airport Industry	This report provides information on how to develop or understand strategic plans that guide airport-related decisions and actions
Municipal Code §22.0901 – Leases of Real Property	City Council executes leases, although the City Manager may execute leases lasting three years or less
Council Policy 700-10 – Disposition of City-Owned Real Property	• Policies for the leasing of City-owned real property • City to optimize lease revenue and seek market value • Guidelines on percentage leases, subleasing, tenant maintenance, and lease extensions
Council Policy 100-05 – User Fee Policy	• City charges range of fees for service provided to residents and businesses (e.g. aircraft parking rental spaces) • User fees shall be updated annually as a part of the budget process based on Consumer Price Index (CPI) inflation estimates or other annually adjusted inflators until the next comprehensive user fee study is undertaken

Source: OCA analysis, based on documents referenced within.

Audit Results

Finding: *Insufficient Planning and Oversight Resulted in Missed Opportunities for Development and Revenue Generation at Brown Field and Montgomery Field Airports*

General aviation airports serve as economic engines that facilitate the provision of vital air transportation and emergency services, and serve as a gateway to the community. At most public-use general aviation airports, airport managers and policymakers work to foster aviation development, encourage aviation activities, and generate revenue for the airports to be financially self-sustaining. However, we found that over time, insufficient planning and oversight by Real Estate Assets Department (READ) and Airports Division management teams resulted in missed opportunities for development and revenue generation at Brown Field and Montgomery Field airports. Insufficient planning and oversight have also had an adverse effect on the Airports Division's ability to clearly and consistently communicate its vision and maximize the development opportunities that current and potential leaseholders have proposed.

Specifically, the Airports Division has not developed a centralized planning document that articulates a high-level strategy for achieving goals that are consistent with the division's mission. While the Airports Division has developed some planning documents, the documents are not comprehensive enough to use as substitutes for a comprehensive planning process.

Additionally, the Airports Division has not formalized internal policies that guide day-to-day operations to ensure staff is working uniformly towards achieving desired goals. We observed that:

- The Airports Division has not maintained one comprehensive list of renters;
- Leases have been in holdover status for long periods of time;
- The Airports Division has not maximized lease revenue through market rate valuations;
- Rent adjustments have been completed, but with some errors;
- Maintenance and inspections of leaseholds are not consistently completed; and
- Aircraft and vehicle parking fees, aircraft landing fees, and aircraft storage rental fees have not been reviewed and adjusted, as required by Council Policy and Administrative Regulation.

The Airports Division needs to develop an annual planning document in order to ensure that Montgomery Field and Brown Field are self-sufficient, are meeting the needs of the general aviation community, and that facilities and infrastructure are safe, appealing, and modernized. The document should define short- and long-term goals for development and revenue generation at both airports. The document should also identify the manner and frequency by which the information will be communicated to stakeholders. The Airports Division should also review, update, and develop, as necessary, standard operating procedures that formalize airport practices and encourage better oversight of its operations.

The Airports Division Needs Improved Business Planning

Over the last 15 years, the Airports Division has made attempts to develop Brown Field and Montgomery Field. However, these efforts have not materialized into maximized revenue enterprises and modernized infrastructures that meet the needs of the general aviation community and maximize economic opportunities. During the 15-year span:

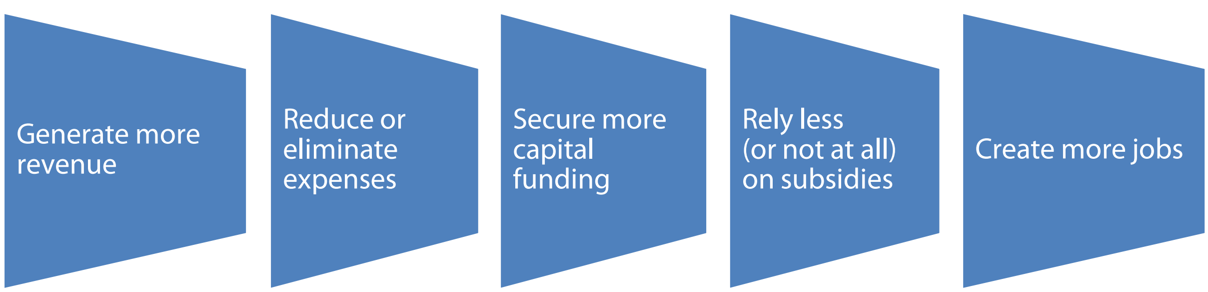
- Airport development proposals and plans have been drafted, but not approved;
- The Airports Division has experienced turnover in key positions due to management impropriety and attrition;
- Airport leaseholders have been frustrated by the Airports Division's inability to articulate a clear development vision for airports; and
- The community at large has been in opposition to airport development citing noise abatement concerns.

An airport planning document such as a strategic plan or business plan would address the issues listed above. According to the Airport Cooperative Research Program (ACRP), which the Federal Aviation Administration (FAA) sponsors, an airport business plan can serve as an important planning, management, and communication tool.

ACRP states that airports with business plans are more likely than airports without them to have a greater economic impact on the community and provide a stronger platform for aviation development. **Exhibit 9** lists the positive effects of airport business plans.

Exhibit 9

The Positive Effects of Airport Business Plans



Source: OCA, based on *Airport Cooperative Research Program Report 77.*

As shown in **Exhibit 10**, when used as a planning tool, business plans help to articulate the vision, objectives, and action plans for reaching desired goals.

Exhibit 10

Value of an Airports Business Plan as a Planning Tool

Source: OCA, based on *Airport Cooperative Research Program Report 77*.

There are three primary planning documents used in aviation planning:

- **Airport Business Plan** – Typically a one year plan that defines the day-to-day operation and management of the airport;
- **Airport Strategic Plan** – Typically a 10 to20-year plan that identifies the vision and long-term strategic goals for the airport; and
- **Airport Master Plan** – Typically a 20 year plan that assesses the current capacity of the airport's infrastructure, evaluates current and projected demand, and outlines short-and long-term development goals.

Notably, not every airport will have all three documents. The business plan and strategic plan can individually drive a master plan. Moreover, it is not necessary to have a strategic plan or master plan to have a business plan.

However, we found the Airports Division has not developed a formalized business plan or strategic plan. The City's Fiscal Year (FY) 2015 Adopted Budget provides the Airports Division mission:

> To operate, maintain, and develop Montgomery and Brown Field Airports to meet the general aviation needs of the San Diego region in a safe, efficient, economically self-sufficient, environmentally sensitive, and professional manner in accordance with federal, State, and local regulations to ensure

that the Airports provide access to the National Air Transportation System while respecting the concerns of the community and stakeholders.

The budget also lists the division's goals and objectives. However, the budget does not provide enough detail to serve as a guide for Airports Division decision-making and to communicate the development vision for each airport to leaseholders and other stakeholders.

We also found that the Airports Division has developed other documents for specific purposes. However, the documents are not comprehensive enough to use as substitutes for a more thorough planning process. For example, in November 2014 the Airports Division submitted a FY 2016 - FY 2020 Airports Capital Improvement Plan (ACIP) for FAA grant funding. The ACIP outlines a description of capital project proposals and estimated start and completion dates. The FAA uses the ACIP to determine high priority projects to fund nationally. However, the ACIP does not include the principal elements of a business plan, including: a vision, goals and the accompanying SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, and economic and aviation forecasts.

The lack of a comprehensive planning process prohibits the Airports Division from aligning and adjusting development and budgetary priorities. It also threatens their access to federal funding. Specifically, the FAA has previously expressed concerns about the amount of non-aviation uses for areas considered aviation only per Brown Field's Airport Layout Plan (ALP). As of April 2015, the FAA stated that it would be cautious about funding future projects at Brown Field and Montgomery Field due to concerns regarding project scope change and timely grant spending.

Moreover, we found that while recent master plans exist in draft form, the current approved master plans for Brown Field and Montgomery Field expired in 2001 and 2004, respectively. Conversely, the County's planning process consistently assesses its current and future development needs and operational capacity. The County has current master plans at key airports, is updating expiring master plans, or has developed comprehensive alternative plans for its airports. For example:

- The master plan at Fallbrook Airpark is current;
- The County has begun the development process for the expiring McClellan-Palomar master plan; and

- The master plan at Gillespie Field is expired; however, the County has completed an Airport Layout Plan Update Narrative Report containing similar information presented in the master plan.

Exhibit 11 provides a summary of the status of the Airports Division's planning and related documents.

Exhibit 11

Status of Airport Planning and Similar Documents within Airports Division

Budget	Business Plan	ACIP	Strategic Plan	Master Plan	Airport Layout Plan
• Lists Mission, Goals, and Objectives • ***No actionable plan to guide development*** • Key Performance Indicators do not measure the full extent of compliance with Airports Division objectives	• 1 year • Day-to-day operations and management • ***No formal plan exists***	• 3-5 years • Used by FAA to reward funds for airport planning and development projects • ***Does not describe how projects contribute to overall vision for development*** • Updated and completed for FY 2016 - 2020	• 10 years • Vision and long- term strategic goals • ***No formal plan exists***	• 20 years • Current capacity of infrastructure • Current and projected demand • Short-, medium-, and long term development goals • Brown Field plan approved 1981 and Montgomery Field plan approved 1984 • ***Plans were ineffective after 20 years*** • Brown Field draft submitted in 2012 but not approved • Montgomery Field draft submitted in 2004, but not approved	• Should be kept current • Graphic of exisiting and proposed land and facilities • ***Does not describe how projects contribute to overall vision for development*** • Brown Field last completed in 2012 • Montgomery Field last completed in 2014

Source: OCA.

Weak planning efforts have resulted in missed opportunities for development and have placed the Airports Division at an increased risk of repeating past failures. A 2006 Leigh-Fisher report[3] summarized weaknesses and threats at Brown Field and Montgomery Field and for the division as a whole.[4] The highlights are described in **Exhibit 12**.

Exhibit 12

Weakness and Threats at Airports as Described in 2006 Leigh-Fisher Report

Brown Field Airport	Montgomery Field Airport	Airport System and Administration
• Poor facility appearance and surrounding environment • Absence of a recent land use development plan • Lack of aeronautical and other development making Airport prey to commercial and residential developers	• A lack of key facilities including a quality fixed base operator (FBO) terminal and hangar space • Airfield constraints with 3,400 ft effective runway landing length (approximately 1,200 ft) displaced threshold and 20,000 lbs landed weight limitation • Commercial business and residential encroachment • Significant portion of airport land assigned for environmental issues, particularly vernal pools	• Leasing process and City interaction • Business Development • Communication • Litigation • Insufficient airport planning • Central mission of the division is unclear • City indecision prevents meaningful change

Source: OCA, based on Leigh-Fisher Associates, *Management and Operations Assessment, Montgomery Field and Brown Field Airport*, Final Report, May 2006.

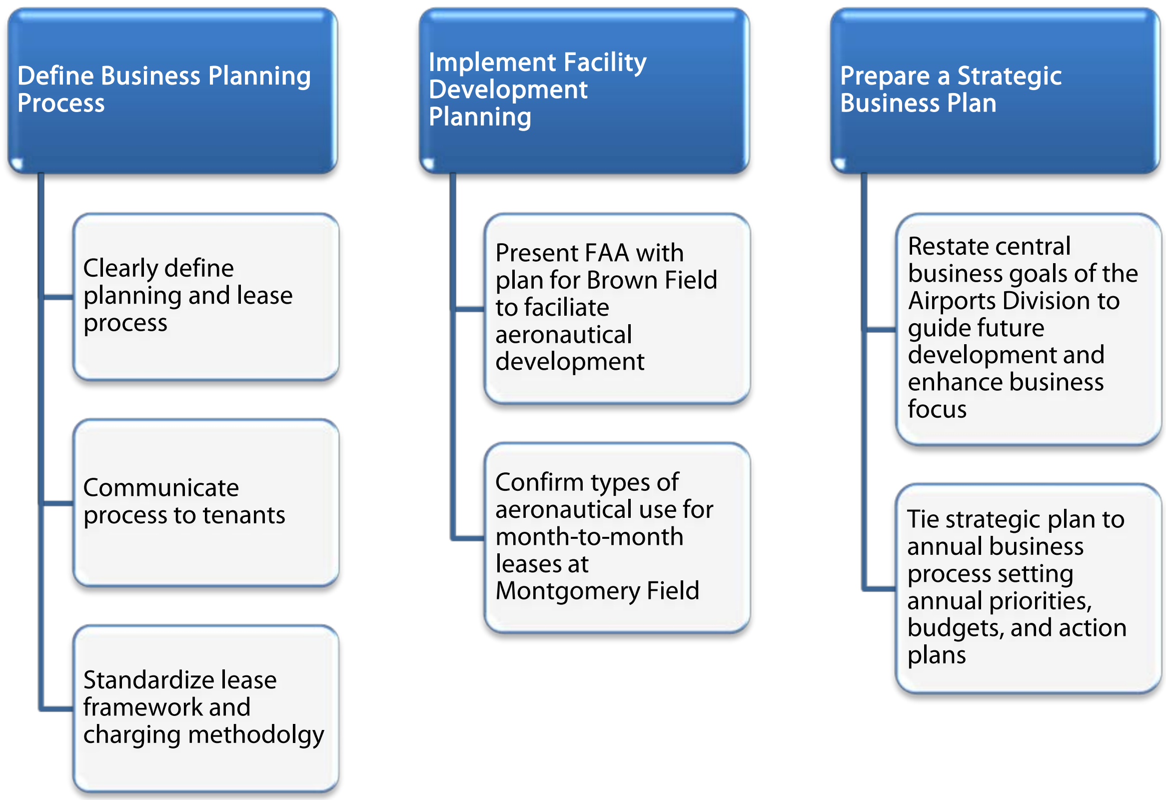
As shown in **Exhibit 13**, the 2006 report recommended that Airports management define a business process and prepare a business plan to improve the management and operational efficiency of both airports.

[3] Leigh-Fisher Associates, *Management and Operations Assessment, Montgomery Field and Brown Field Airport*, Final Report, May 2006.

[4] The City of San Diego commissioned Leigh-Fisher Associates to undertake a management and operations assessment of the Airports Division.

Exhibit 13

Recommended Management Actions for Improved Operations



Source: OCA, based on Leigh-Fisher Associates, *Management and Operations Assessment, Montgomery Field and Brown Field Airport*, Final Report, May 2006.

The Airports Division Has Not Developed a Comprehensive Business Plan despite Past Advisement

The Airports Division has not implemented the Leigh-Fisher report recommendation to develop a strategic business plan. To that end, the City is at risk of encountering similar obstacles that have led to stalled airport development in the past.

For example, in 1996, the City entered into a long-term agreement with Brown Field Aviation Partners (BFAP). BFAP agreed to provide cargo facilities, infrastructure jobs, revenue, and economic development well into the 21st century. As part of the agreement, the City would lease to BFAP the Brown Field property for redevelopment and expansion of the airport consistent with the Brown Field master plan and environmental impact analysis. However, the Brown Field master plan was approaching expiration and the Airports Division did not have an airports business plan that provided a framework for development at Brown Field.

The business planning process would have allowed the Airports Division to articulate a clear development vision for aeronautical projects and develop a communication strategy for soliciting stakeholder and community support. Instead, the BFAP project never materialized. In summary:

- Over a five year period (1996-2001), no new development occurred at Brown Field;
- Community opposition existed with residents and businesses expressing concerns regarding flight paths, noise, and declining property values;
- In 2003, the Airport Enterprise Fund balance was reduced by $1.2 million due to unbudgeted costs associated with a breach of contract settlement filed by BFAP; and
- In 2005, both the Airports Deputy Director and a City Councilman who were pivotal in aviation-related discussions left their positions.

In 2013, the City entered into another long-term agreement for a development project at Brown Field without a current comprehensive airport plan. The agreement is with Brown Field International Business Park, LLC, (Developer).

Developer agrees to expand and renovate the existing airport facilities and add numerous aviation, commercial, renewable energy, and industrial facilities. The agreement states that the project will satisfy the immediate and long-term aviation needs of Brown Field, which include a new corporate fixed based operator (FBO), and jet hangars, jet maintenance, fueling services, general aviation facilities, helicopter FBO, avionics maintenance, a pilot lounge, and a restaurant.

The Brown Field project has already experienced delays related to an environmental survey and a traffic impact analysis. In 2011, Developer's ability to advance the project was delayed for a period of approximately 18 months due to a federal court injunction that prohibited the City from processing any applications for development of properties within the City's jurisdiction which contained vernal pools. The 2011 action also indicates that Developer suffered delays in receiving needed traffic modeling information from the City and, as a result, was unable to complete its Traffic Impact Analysis. Developer requested that the City add 18 months to the initial term in order to avoid penalizing Developer for delays.

If there had been a current Brown Field Airport master plan, the City could have had more information about the development limitations of the vernal pools, allowing for a more realistic timeline for completion. A master plan would have also obligated the City to complete an access, circulation and parking analysis which outlines the quantity and type of ground access and commercial areas that serve the airport. The analysis also would allow the Airports Division to compile data related to proposed highway and transit plans and traffic density statistics. Without a master plan, the Brown Field development project has been delayed, which does not allow the City, the developer, or the general aviation community to advance.

The Airports Division Is Currently Developing Requests for Proposals for Montgomery Field Development without Having a Comprehensive Planning Document

According to the Airports Division, the division is in the process of developing Requests for Proposals (RFPs) for four properties that encompass twelve acres of leased property currently in hold over status at Montgomery Field Airport. Although development of the RFPs is proceeding prior to formalizing an airports planning document, Airports Division management noted reasons for proceeding with RFPs for certain leaseholds. For example, Airports Division management indicated that at least two properties at Montgomery Field are in disrepair, and need immediate redevelopment.

Notwithstanding management's expressed reasons for proceeding with certain RFPs, we maintain that it would be prudent to formalize the Airports Division's agenda. Without a comprehensive plan for Montgomery Field, the Airports Division risks making decisions that do not address previously identified problems, and potentially do not comply with City policies. The 2006 Leigh-Fisher report indicated that the Airports Division should develop a business plan to objectively evaluate bids in a competitive RFP lease process.

Furthermore, according to Council Policy 700-10, the Airports Division should evaluate RFPs based on the degree to which the proposed use is in compliance with the City's strategic plan for the property. As the Airports Division moves forward with development in the absence of a master plan, strategic plan, and business plan, it risks repeating the missteps described above: project delays, financial settlements, and unrealized developments. Development without planning may not meet the actual needs of the general aviation community, maximize Airports revenue, or allow the Division to reach its stated goals.

Airports Does Not Have Written Internal Policies that Guide Day-to-Day Operations

In addition to the planning issues discussed above, we found that although pertinent federal regulations, City Council policies, and Municipal Code provisions exist, the Airports Division does not have written internal policies that guide day-to-day operations and ensure staff is working uniformly towards achieving desired goals. As a result, airports operations have been impaired. We reviewed 29 leases at Brown Field and Montgomery Field with estimated yearly lease revenue of $4 million. We completed a detailed lease analysis for ten of these leaseholds with yearly lease revenue of approximately $1.8 million. We assessed the status, administration, and compliance of leases pertaining to lease tracking, holdover status, market rate terms, rental adjustments, maintenance requirements, and review of parking, landing, and hangar fees.

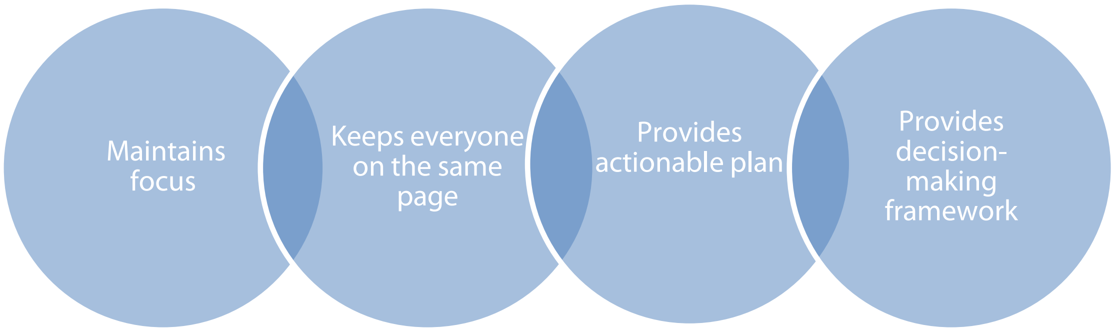
Specifically we observed that:

- The Airports Division has not maintained one comprehensive list of renters;
- Leases have been in holdover status for a long period of time;
- The Airports Division has not maximized lease revenue through market rate valuations;
- Rent adjustments have been completed, but with some errors;
- Maintenance and inspections of leaseholds are not consistently completed; and
- Aircraft and vehicle parking fees, aircraft landing fees, and aircraft storage rental fees have not been reviewed and adjusted.

The business plan is a management tool that keeps airport managers, policymakers, and stakeholders focused on achieving goals and realizing the mission and vision for the airport. As depicted in **Exhibit 14**, a business plan provides the framework that the Airports Division is lacking for making informed, prudent, and defensible decisions concerning the operation and management of the City's airports.

Exhibit 14

Value of an Airports Business Plan-As a Management Tool



Source: OCA, based on *Airport Cooperative Research Program Report 77.*

The Airports Division Does Not Have a Comprehensive List of Leases

There is no centralized list of all tenants renting airport space from the City. The Airports Division administers three different types of leases: master leases, subleases, and rental agreements for aircraft parking and storage. While the Airports Division appeared to have complete records on master leases in their lease management database, the Airports Division relies on tenants to inform them when they sign a new sublease. This process is dependent on the sublease provision in each tenant's lease. There is no systematic way that the City maintains a list of all subleases. The list of rental agreements for individual aircraft parking and storage, exclusively available at Montgomery Field, is not maintained in the READ database. The Airports Division currently uses an Excel spreadsheet and a photographic map of the rental space to track those leases.

According to Airports Division staff, they have not entered rental information for aircraft parking and storage into the database used to track other lease agreements. The process to input lease data is not formalized in a written policy.

The FAA-sponsored *Guidebook for Developing General Aviation Airport Business Plans* notes that all organizations need systems to facilitate the recording, storage, and retrieval of information, data, and documentation. This is especially true for general aviation airports because safety is paramount, accountability is required, and transparency is expected. Without a centralized, comprehensive, and current list of tenants and renters, the Airports Division staff may not be able to collect the full revenue owed the City. Also, the City may not be able to react to an emergency as quickly as possible when tenant and renter records are not comprehensive.

Many Airport Leases Have Been in Holdover Status for Long Periods of Time

According to the ACRP, holdover provisions of an airport lease simply allow airport management to extend the terms of an existing airport lease, in the event both the airport and the tenant desire to continue the relationship as it exists, without execution of a new lease. Holdover provisions are useful in bridging gaps and meeting short-term needs of the parties involved, but should be used sparingly.

However, we found that of the 29 leases at both Brown Field and Montgomery Field, 11 of the leases (approximately 38 percent) were in holdover status. The 11 held over leases accounted for approximately $1 million of the total $4 million estimated yearly revenue for all 29 leases. As shown in **Exhibit 15**, the average length of time the 11 leases were in holdover status was almost 10 years.

Exhibit 15

Average Length of Time Leases in Holdover Status as of January 2015 and Estimated Yearly Revenue

Lease		Airport	Time in Holdover Status (in years)	Estimated Yearly Revenue
1	ABRE Enterprises	Brown	1	$225,000
2	Brown-Sciliano	Brown	10	$21,048
3	Gibbs Flying Service/03	Montgomery	10	$360,504
4	National Air College/01	Montgomery	8	$171,252
5	Otay Terminal-Calle Fortunada, LLC	Brown	Less than 1	$136,608
6	Coast Aircraft Sales & Salvage Inc	Montgomery	4	$67,200
7	Corona, Brady & Brady	Montgomery	27	$31,200
8	SD Community College Dist/06	Montgomery	28	$13,740
9	Daniels Aviation Inc	Montgomery	3	$6,108
10	International Aero Clubs, LLC	Montgomery	7	$5,280
11	Gibbs Flying Service	Montgomery	10	$3,504
Total Yearly Revenue				**$1,041,444**
Average Years in Holdover			**10**	

Source: OCA analysis, based on lease documents provided by Airports Division.

Leases that remain in holdover status for an extended period of time at the end of a long-term lease increase the risk that revenue associated with a lease may be below market value. Council Policy 700-10 requires that READ seek market value for its properties and optimize lease rent for City-owned real estate. Long-term holdovers may result in a reduced revenue stream to the Airports Division.

Without a periodic review of lease terms, Airports Division management cannot:

1. Develop an actionable plan that would allow it to capitalize on opportunities to renegotiate lease terms in its best interest;
2. Make the highest and best use of airports assets; and/or
3. Maximize revenues and minimize expenses.

The Airports Division Has Not Maximized Lease Revenue through Market Rate Valuations

Based on our review, the Airports Division completed required market rate studies for three of four leaseholds in our sample. However, the Airports Division has missed opportunities to maximize rent revenue due to management decisions and a legal settlement with a Brown Field airport tenant. According to the Supervising Property Agent, many of the leases are in holdover as a result of previous Airports Division management and staffing decisions. She notes that there was a period of time with no property agent dedicated to the airports.

According to the Supervising Property Agent, the rent has not increased for Gibbs Flying Services because the leaseholder is unable to pay market rate. The Airports Division plans to release an RFP for this property. While an RFP is anticipated, the outstanding market rate study was due in 2000. As a result, the Airports Division has lost 15 years of potential increased lease revenue.

Additionally, a legal settlement impacted the Airports Division's ability to increase leaseholder rent for the Brown Field Aviation Ventures (BFAV) lease and other tenants. The settlement with BFAV[5] capped rent increases at 20 percent. A required market rate study was completed in 2006 appraising the land at $825/acre per month. The appraisal represented an increase of approximately $350 over the rate in effect prior to the market study. However, as a result of the 20 percent cap on rent in the settlement, the Airports Division was not able to raise the rent above $582/acre per month. FAA Grant Assurances prohibit economic discrimination which would occur if the Airports Division charged the other two leaseholds more than BFAV. As a result, leasing to the other leaseholds at Brown Field at the full 2006 appraisal amount was not possible.

Valuation of airport property can vary widely from one airport to the next and is often influenced by both the valuations that are placed on property at other airports and by local influence of the aviation

[5] The City's settlement with Brown Field Aviation Ventures (BFAV) was completed in October 2005.

community. In cases where airport development has not been done at the airport for some time – which is the case at Brown Field and Montgomery Field – the risk of undervaluation exists if the airport has not negotiated appropriate escalation language in the existing leases.

Airport revenue maximization should be a key goal of Airports Division management given its mission to be economically self-sufficient, and the Council Policy 700-10 imperative for the City to maximize rent revenue. Economic viability must be a primary consideration when entering or reviewing a lease agreement. An airports business plan can assist the Airports Division with maximizing revenue. A properly executed business plan will provide a comparative analysis of the airport's lease rates, charges, and fees in relation to other airports, as well as an analysis of the airport's lease policy. This would provide airport management with the basis to adjust rates, and charge true market rates if the findings of the analysis dictate.

Rent Adjustments Were Completed, but with Some Errors

In addition to the risk of undervaluation of market rates, we found that the Airports Division needs better oversight of its rent adjustment process. While leases explicitly state CPI calculation methods and the frequency by which the calculations should occur, there is no written internal policy that outlines the rent adjustment review process. According to the ACRP, a standard comprehensive leasing policy includes a process for adjusting rents and fees. Better oversight by Airports Division management would ensure that systems are in place for correct and timely calculations, with mistakes as the anomaly and not the norm.

According to ACRP, financial controls should be considered during the development and implementation of an airport business plan. Financial controls usually include the establishment of policies and procedures that protect assets. However, the Airports Division has not established policies and procedures related to the rent calculation process.

Based on our review, three of the five leaseholds in our sample with completed rental adjustments prior to 2015 were completed with errors.

The errors consisted of incorrect CPI calculations or delayed CPI notification which resulted in either credits due to overpayments or retroactive invoices for underpayments. While the adjustments were ultimately corrected, leaseholders were inconvenienced by having to retroactively account for the calculation mistakes. In addition, leaseholders have expressed frustration with airports management and operations.

Maintenance and Inspections of Leaseholds Are Not Completed Consistently

We found that the Airports Division does not have a leasing policy that outlines the leasehold maintenance inspection process and the frequency by which these inspections should occur. According to the ACRP, a standard, comprehensive leasing policy includes routine inspection provisions for safety and compliance of airport tenants and uses.

Exhibit 16 shows that the Airports Division has completed a formal, written inspection of only two of the 10 leases within our sample in recent years. The inspections for National Air College and Brown Field Aviation Ventures were completed in March 2013 and March 2014 respectively.

Exhibit 16

Completed Maintenance Inspections for 10 Leasehold Sample

Leaseholder	Formal Written Inspection	Visual or No Documented Inspection
Gibbs		x
Montgomery Field Associates		x
CrownAir		x
National Air College	x	
Brown Field Aviation Ventures	x	
Fuentes & Farias		x
ABRE		x
US Border Patrol		x
Brown-Sciliano		x
Experimental Aircraft		x
Totals	2	8

Source: OCA analysis, based on lease documentation in the Real Estate Assets Electronic Document Retrieval System (EDRS) and information provided by the Airports Division.

According to the Supervising Property Agent, inspections were likely not conducted regularly before her arrival in 2012. Moreover, after her arrival, the priority was to eliminate the squatting, dumping and fencing theft that was occurring at Brown Field.

Auditors toured both airports, and, as shown in **Exhibits 17 and 18**, we observed that leasehold structures, inclusive of those not in our 10 leasehold sample, appeared dilapidated.

Exhibit 17

Dilapidated Hangar with Missing Wooden Plank and Chipped Paint at Montgomery Field Airport

Source: OCA, based on field observations.

Exhibit 18

Leasehold at Brown Field Airport with Hole in Hangar Ceiling

Source: OCA, based on field observations.

According to the FAA-sponsored Airport Cooperative Research Program, airport management is obligated to:

- Inspect the airfield, report unsafe conditions to the pilot community, and take corrective action when such conditions are identified;
- Provide a safe and secure operating environment; and
- Maintain and repair airport infrastructure.

To accomplish these tasks, inspection reports need to be completed and staffing requirements may need to be revised. Airports Division management is aware of the maintenance concerns and is in discussions to make necessary adjustments. According to the Airports Supervising Property Agent, Airports Operations staff conduct daily visual inspections of the runways and perimeter, and utilize a nighttime security guard as well. Pending approval, the Supervising Property Agent intends to coordinate with Operations Staff to conduct formal and comprehensive inspections of the leaseholds annually.

Furthermore, according to the Airports Deputy Director, the process to conduct meet and confer to approve a City staff person at each airport on the weekends has begun. Currently, there is no City staffer stationed on the airports' two busiest days. To address the obligation to provide a safe and secure operating environment, Airports Division staff should be present on the weekends to conduct runway inspections and provide oversight.

The Airports Division needs to memorialize these efforts by developing a business plan that includes policies and procedures related to inspections and reporting, safety and security, and maintenance and repair. Management should consider a preventative maintenance program for the property that the Airports Division oversees directly – such as the terminals – to address the aging infrastructure. In addition to conducting regular inspections, preventative maintenance programs can lessen the financial burden by ensuring that routine maintenance and repair is performed at regular intervals.

The Airports Division Needs to Improve Its Communication with Leaseholders

Without defined messaging that articulates the vision for development, the Airports Division has turned away multiple proposals from current leaseholders who submitted unsolicited proposals for improvements to their leaseholds. These proposals would have upgraded airport facilities, generated revenue for the airports, and maintained amicable long-term relationships with the leaseholders.

Based on our review, six of the 10 leaseholders within our sample submitted proposals for negotiating long-term leases and/or leasehold development. Airports Division management declined all six proposals. The leaseholder proposals included increasing the number of available hangars, constructing a new executive hangar center, updating building façades and landscaping, and developing new or existing leaseholds and lease extensions. The leaseholders submitted proposals that ranged in price from $250,000 to $7,000,000. Leaseholders with declined proposals accounted for approximately 74 percent ($1.3 million) of the yearly rent revenue within our ten lease sample ($1.8 million).

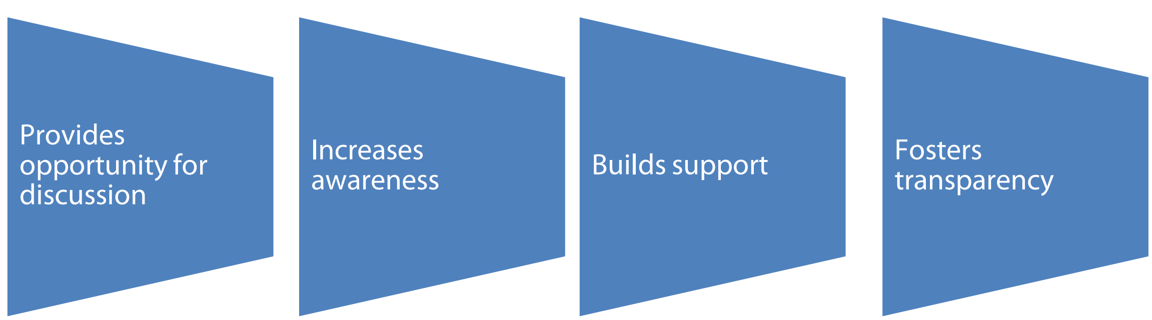
Previous Airports Division management declined leaseholder proposals for reasons that included:

- Airports Division management's uncertainty of development at the airports; and
- Proposals not containing information necessary to finalize terms. Management did not fully express the requirements prior to submittal or added additional requirements after the review process had begun.

The business planning process provides an opportunity for airport managers, policymakers, and stakeholders to engage in discussions about the current and future direction of the City's airports. The value of a business plan as an effective communications tool is shown in **Exhibit 19**.

Exhibit 19

Value of an Airports Business Plan-as a Communications Tool



Source: OCA, based on *Airport Cooperative Research Program Report 77.*

The difficulty leaseholders experienced negotiating with the City and attempting to develop their businesses led to missed development opportunities and leaseholder frustration. Based on our sample, six of 10 leaseholders expressed frustration regarding Airports Division's leadership, professionalism, and business practices. Five of these leaseholders had their development or lease extension proposals denied. For example, leaseholders conveyed that:

- Good faith efforts to renegotiate were rebuffed;
- Decisions were not based on professional analysis;
- Management requests for submitting development proposals were unreasonable; and
- Management lacked communication in resolving operations issues and complaints.

Frustrated leaseholders accounted for approximately 66 percent ($1.2 million) of the yearly rent revenue for the 10 leaseholders ($1.8 million) in our sample. Without a formalized business plan, the Airports Division has been unable to clearly articulate its vision for development to leaseholders and other airport stakeholders. It has also been unable to define expectations for when interested parties submit project proposals. The new Airports Division Management Team has an opportunity to renew leaseholder confidence and support if a communication plan is included as a priority.

Airport Fees and Charges Have Not Been Reviewed and Adjusted, Contrary to Council Policy and Administrative Regulation

Airports Division assesses a variety of fees including landing fees, monthly aircraft parking, transient aircraft parking, and automobile parking. Revenues generated from selected airport fees are shown in **Exhibit 20**, and comprised approximately 7 percent and 17 percent of total FY 2014 revenues at Brown Field and Montgomery Field airports, respectively.

Exhibit 20

Selected Airport Fee Revenues, FY 2014

Fee Description	Montgomery Field	Brown Field
Landing Fees	$29,438	$21,362
Transient Aircraft Parking	$17,810	$5,455
Vehicle Parking	$7,504	$3,394
Fuel Flowage Fees	$92,851	$208,079
Monthly Aircraft Parking / Hangar Rental	$166,780	n/a
Subtotal Selected Fees	**$314,384**	**$238,290**
Percentage of Total Revenue	**7.4%**	**17.3%**

Source: OCA analysis, based on Airports Division SAP financial data.

San Diego Municipal Code Section 68.0119 established the authority to set and assess the fees, but Citywide user fee policies and procedures are set forth in Council Policy (CP) 100-05 and Administrative Regulation (AR) 95.25. CP 100-05 establishes the City's guidelines for user fees, and it requires annual fee review. The policy also outlines that fees should be based on the full cost – including direct and indirect costs – of the service provided in order to avoid inadvertent subsidization of government services. AR 95.25 confirms the Council Policy; it states the City's policy is to annually review fees to determine if new fees are appropriate, and if current fees reasonably recover the costs of providing services.

Despite these requirements to annually review fees, the Airports Division has not reviewed or adjusted user fees charged at airport property since 2003. While the Council Policy and AR are clear in the annual fee review requirement, acceptable rationales for not adjusting fees, such as remaining competitive with other regional airports, are contemplated by the Council Policy. While the Airports Division should comply with Council Policy 100-05 as well as all other applicable regulations, legal requirements regarding linking fees to costs may apply. According to the Office of the City Attorney, most airport usage fees assessed by the Airports Division do not likely have to be tied to reasonable costs in order to comply with Proposition 26 due to an exemption within Proposition 26 for the use, rental, or leases of government property which do not have to be tied to costs.

Proposition 26 requires that all levies, fees, and charges that are imposed or increased on or after November 3, 2010 must fall within one of seven enumerated exceptions in order to not be a tax, which would require a public vote to enact. The Office of the City Attorney further noted that if the Airports Division seeks to increase any fee or impose any new fees, any such proposals should be reviewed by the Office of the City Attorney to ensure compliance with applicable laws and regulations.

Conclusion

The City of San Diego's (City's) general aviation airports have significant potential for development. Additionally, improved Airports Division operations will benefit both current and future airport tenants. Insufficient planning has inhibited the City from maximizing airport revenue and articulating and executing a long-term strategy. While the Airports Division has developed some planning documents, the documents are not comprehensive enough to use as substitutes for a comprehensive planning process.

In order to ensure that Montgomery Field and Brown Field are self-sufficient, the airports are meeting the needs of the general aviation community, and that facilities and infrastructure are safe, appealing, and modernized, the Airports Division needs to develop an annual planning document. The document should define short- and long-term goals for development and revenue generation at both airports. The document should also identify the manner and frequency by which the information will be communicated to stakeholders. The Airports Division should also review, update, and develop, as necessary, standard operating procedures that formalize airport practices and encourage better oversight of its operations.

Recommendations

Recommendation #1 The Airports Division should determine and document the cost, timeline, and elements required for completion of Airport Layout Plan Update Narrative Reports or new Master Plans for Brown Field and Montgomery Field airports to supplement and/or update the existing Master Plans written in 1980. (Priority 2)

Recommendation #2 The Airports Division should develop an annual planning document that defines short-and long-term goals for development and revenue generation for Brown Field and Montgomery Field airports. The Airports Division should present the plan to the Airports Advisory Committee and the Economic Development and Intergovernmental Relations Committee annually. Specifically, the plan should include:

a. Vision, Mission, Value, Objectives;
b. Updated inventory of leasing agreements and City assets;
c. A plan for completing regular market rate studies for all relevant leaseholds;
d. Identification of aviation and non-aviation leaseholds; and
e. A review of the status of the long-term airports planning documents, specifically the Master Plans or Airport Layout Plan Update Narrative Reports for Brown Field Airport and Montgomery Field airports. (Priority 2)

Recommendation #3 The Airports Division should review, update and develop as necessary written policies and procedures that govern the day-to-day airport operations including, but not limited to:

a. The process and frequency for updating and tracking leaseholds;
b. The process and frequency for reviewing and implementing rent adjustments;
c. The process and frequency for completing leasehold inspections;
d. The process and frequency for updating airport fees, such as commercial landing fees, vehicle parking fees, transient aircraft parking fees, fuel flowage fees, and monthly tie-down and hangar rental fees, in order to ensure adherence to Council Policies, Administrative Regulation, and any applicable laws and regulations. The Airports Division should consult with the City Attorney's Office regarding any adjustments to airport fees. (Priority 3)

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3

AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class[6]	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

[6] The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

Appendix B: Objectives, Scope and Methodology

Objectives

The Office of the City Auditor's approved Fiscal Year 2015 Audit Work Plan included an audit of the City of San Diego Real Estate Assets Department (READ), Airports Division. Our audit focused on the fiscal period from FY 2012 to FY 2014, and FY 2015 through February 2015. Our review of the Airports Divisions' development planning, leasing practices, and stakeholder relationships was subject to lease terms and, when applicable, based on the life of the relationship. The objective of this audit was to assess the efficiency and effectiveness of the City's management of municipal airports including the leasing of airport property and airport development. To achieve this objective, we:

1. Determined whether the City has adequate plans for utilization and development of municipal airport properties;
2. Identified the policies and procedures and guiding documents that govern the Airports Division's leasing practices and development planning;
3. Assessed the status, administration, and compliance of leases at the City's municipal airports; and
4. Determined whether the Airports Division has adequate internal controls to mitigate fraud risks associated with cash handling.

Scope and Methodology

To determine whether the City has adequate plans for utilizing and developing municipal airport properties, we identified internal documents that outline the Airport Division's strategic planning goals for Brown Field and Montgomery Field airports. We determined whether the Airport Master Plan and other airport planning documents, such as the Airport Layout Plan and the Airports Capital Improvement Plan, were updated. We explored industry standards for airport development planning by conducting benchmarking with other airports. Lastly, we interviewed current airport leaseholders, a Federal Aviation Authority representative, and airport managers from other general aviation airports in the Southern California region including the County of San Diego Director of Airports.

To identify policies and procedures and guiding documents that govern the Airports Division's leasing practices and development planning, we reviewed internal policies and procedures, lease agreements, the City Municipal Code and Council Policies, and industry guidance including the Airport Cooperative Research Program (ACRP) *Report 47 Guidebook for Developing and Leasing Airport Property* and the ACRP *Report 77 Guidebook for Developing General Aviation Airport Business Plans*.

To assess the status, administration, and compliance of leases at the City's municipal airports, we interviewed Airports Division management and staff to obtain an understanding of airport operations, which included conducting site visits. Also, we identified all leaseholds at Brown Field and Montgomery Field to determine if the leaseholder list was complete. We evaluated a sample of ten current airport leases out of 29 total current leases to test lease status, terms, and pricing. Areas of review included aviation and non-aviation leasehold usage, holdover status, rent adjustments, market rate study completion, the Airports Division's relationship with leaseholders, and maintenance. The ten leases comprised 46 percent of total lease revenue and represented a cross-section of aviation and non-aviation use at both airports.

To determine whether the Airports Division has adequate internal controls to mitigate fraud risks associated with cash handling, we examined the cash handling process at both City airports, which included physical observations of the process, review of Citywide cash handling policies, and review of applicable Airports Division policies and Municipal Code.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management Response from Real Estate Assets Department, Airports Division

RECOMMENDATIONS

1. The Airports Division should determine and document the cost, timeline, and elements required for completion of Airport Layout Plan Update Narrative Reports or new Master Plans for Brown Field Airport and Montgomery Field airports to supplement and/or update the existing Master Plans written in 1980.

   Management Response – Agree

   The Airports Division will request funding for new ***Airport Master Plans*** for both Brown Field and Montgomery Field via the FAA Aviation Capital Improvement Program (ACIP) for FY 2017. The Airports Division shall prepare for submission by the end of CY 2015. (If not possible or not accepted by the FAA, then new Airport Layout Plans (ALP) will be submitted to the FAA along with new ***ALP Narrative Updates*** by the end of March 2016.) The matching expense for Master Plan Updates should not exceed $75,000. The expense for new Airport Layout Plans and accompanying ALP Narrative Updates should not exceed $50,000. If funding is successfully secured the Airport Master Plan will take approximately 48 months to complete.

2. The Airports Division should develop an annual planning document that defines short- and long-term goals for development and revenue generation for Brown Field and Montgomery Field airports. The Airports Division should present the plan to the Airports Advisory Committee and the Economic Development and Intergovernmental Relations Committee annually. Specifically, the plan should include:

   a. Vision, Mission, Value, Objectives;

   b. Updated inventory of leasing agreements and City assets;

   c. A plan for completing regular market rate studies for all relevant leaseholds;

   d. Identification of aviation and non-aviation leaseholds; and

   e. A review of the status of the long-term airports planning documents, specifically the Master Plans or Airport Layout Plan Update Narrative Reports for Brown Field Airport and Montgomery Field airports.

   Management Response – Agree

   The Airports Division will create an annual planning document to address the Airports Division's Vision, Mission, Values, and Objectives along with tactical and strategic goals, which include airport development and revenue generation. This document will be titled the ***Airports Division Annual Tactical and Strategic Plan***, and will be prepared to be in conformance with the City of San Diego's Strategic Plan. This plan will be prepared, through a combined effort of Airport Administration and Property Management, and will be submitted to the Airports Advisory Committee and the Economic Development and Intergovernmental Relations Committee annually. This plan will be written to address current economic trends and compliment, the yet to be approved ***Airports Division Operations Policy Manual*** and ***Airports Division Minimum Standards*** The Airports Division *Minimum Standards* document is a document that will be prepared by Airport Administration and Airports Property Management that will articulate the minimum required standards that commercial operators will have to meet to be considered eligible for commercial leases or operating agreements at either Montgomery or Brown Fields. The document will comply with all city policies and requirements. The FAA considers the *Minimum Standards* document essential to ensure uniformity in commercial activity at airports receiving federal funding.

3. The Airports Division should review, update and develop as necessary written policies and procedures that govern the day-to-day airport operations including, but not limited to:

    a. The process and frequency for updating and tracking leaseholds;

    b. The process and frequency for reviewing and implementing rent adjustments;

    c. The process and frequency for completing leasehold inspections;

    d. The process and frequency for updating airport fees, such as *commercial* landing fees, vehicle parking fees, transient aircraft parking fees, *fuel flowage fees,* and monthly tie-down and hangar rental fees, in order to ensure adherence to Council Policies, Administrative Regulations, and any applicable laws and regulations. The Airports Division should consult with the City Attorney's Office regarding any adjustments to airport fees.

    Management Response - Agree

    Airports Property Management will develop written policies and procedures, called the ***Airports Division Property Management Manual***, which will address the day-to-day airport property management functions, to include:

a. Updating/tracking of leases.
b. Process to implement rent adjustments.
c. Procedure to complete annual leasehold property inspections.
d. Procedure to ensure that Airport Fees are updated annually IAW Council policies and good business practices. This will be another combined effort of Airport Administration and Property Management.

The ***Airports Division Property Management Manual*** will be completed within the next 12 months.

The Airports Division is currently completing a "survey" of airport fees, from airports in the region, to ascertain what fees should be assessed at the City's Airports for aircraft overnight parking, fuel flowage, and other such fees. Any revised fees will be coordinated with the Financial Management Department to be included in the appropriate budget processes.