

# CITY, PILOTS ARGUE OVER \$5 MILLION LOAN



DAN COYRO — SANTA CRUZ SENTINEL

Watsonville Pilots Association and the city of Watsonville are locked in a squabble over a \$5 million loan.

## Airports Conflict centers on rental income and dates back decades

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**WATSONVILLE »** A plan to loan the Watsonville Municipal Airport up to \$5 million has landed city officials in a quarrel with pilots.

Watsonville leaders say the loan from a city investment fund would give formal structure to the practice of covering the airport's long-standing defi-

cit and, eventually, clear it from the books.

The Watsonville Pilots Association counters that the airport is only in the red because for years the city has siphoned off revenue to pay for other municipal services.

It's an argument that goes back decades, and, regardless of whether it can be resolved, a new wrinkle related to federal aviation rules could limit how much the city can recoup from

the airport.

Airport Manager Rayvon Williams urged the City Council on Tuesday to approve the loan to balance finances in the second year of a two-year budget cycle. But mostly he wants the issues resolved so he can focus on efforts toward making the airport a profitable venture.

With an increase in hangar fees, close management of fuel sales, and increased airport

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— Rayvon Williams, airport manager

# Airport

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activity, Williams said he is confident the airport's on track, to pay back the loan within 15 years.

"There is a history, and it's not about sweeping it under the rug. Questions need to be asked, answered, researched," Williams said. "If we want to find another solution, let's do that. Regardless, I want to execute on this second year budget."

The tale is tangled, dating back to the 1960s.

Here's the background. In the 1980s and 1990s, the airport racked up debt as it expanded its six hangars and built nine more. Paying off the construction loans proved difficult, especially during years when the economy soured and airport revenue declined. That eventually led to a \$4.7 million deficit.

But pilots say the airport generated enough income to stay in the black. The problem was a diversion of at least \$5 million in airport rental income to the general fund.

The airport is one of several city enterprise funds. In contrast to the city's general fund, which pays for departments such as police and fire that generate little or no revenue, enterprise funds, such as

the airport and utility department, are supported by fees for service and income from leases and concessions.

"If there had been no diversion, there would be no present debt," said retired pilot Dan Chauvet.

So why did the rental income from an office building on airport property at 240 Airport Blvd. go to the general fund? That comes down to a question of ownership.

The building was constructed in the 1960s by a private company on land it leased from the airport. When the company went bankrupt in 1978, the city bought the building for \$925,000.

City officials acknowledge the airport's claim to the income from the land lease, and according to city documents, since at least 1992, the general fund paid the airport \$42,000 annually to cover it.

In 2009, when Federal Aviation Administration officials questioned the arrangement, the city also began allocating the building rent to the airport.

The land and building now provide annual income of \$84,282 to the airport.

"The city didn't think they were doing anything wrong," said Administrative Services Director Ezequiel Vega. "The decision



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A pilot pumps gas into his plane Thursday at Watsonville Municipal Airport where the city and the Watsonville Pilots Association are squabbling about finances.

to start paying directly to the airport was just to resolve the issue with the FAA."

Pilots say the city was clearly in the wrong, and should credit the airport \$5 million and wipe out the debt.

City officials say at most what they describe as the "alleged diversion" amounted to \$1.6 million.

In any case, Tuesday the pilots raised a new issue that could limit both claims.

According to FAA rules, the statute of limitations for collecting on old claims is six years. The city is researching to see if it applies in this case, and expects to have an answer in two weeks.

If it does, the impact

## WATSONVILLE MUNICIPAL AIRPORT

**What:** Regional general aviation airport owned by city of Watsonville.

**Airplanes:** 300, including four business jets.

**Hangar space:** 218 filled with 130 on wait list.

**Businesses:** 10 aviation service companies, restaurant for lease.

**2014-15 budget:** \$3.9 million, includes operations and construction projects funded by grants.

would be "substantial," Vega said. "About half would not be able to be recovered."

Tuesday, the City Council gave provisional approval to the loan, pending the outcome of the legal question.