

Airport Leasing Guidance

Airports serve as more than just transportation hubs; they are powerful economic engines that provide substantial indirect benefits to the communities they serve. These benefits, though sometimes less visible than direct employment or revenue, are critical to long-term regional prosperity and economic diversification. As a regional economic driver, The San Diego County Airport System plays a vital role in Southern California's economic landscape generating over \$2 billion annually in economic activity, supporting thousands of jobs, serving as key infrastructure for tourism and business travel, and providing strategic value for goods movement, and supporting emergency services and disaster readiness needs.

Challenges:

The San Diego County airport system faces widespread development stagnation due to structural barriers in the leasing framework. Aviation lessors hesitate to upgrade their facilities when approaching lease expiration, as the substantial costs of improvements cannot be recovered through the remaining lease period—a critical concern for aviation businesses operating on thin profit margins. The County's equity retention policies also create barriers for developers, deterring investment and reducing demand for aviation properties. While the County has historically offered lease extensions to incentivize major capital investments, these extensions have been selectively withheld in competitive situations, unique development opportunities, or when granting exclusivity might appear inequitable. This conservative approach undermines infrastructure modernization, constrains economic growth, and prevents the airport system from achieving its full development potential.

County of San Diego Airport System Long-Term Lease Justification and Capital Investment Commitment:

There are wide-ranging economic benefits including increased tax base, job creation, and support for regional trade and tourism to the County of San Diego, its airport System, and the partners that develop these areas at no cost to the County for structured 50- year lease terms vs prior shorter-term leases. As an example, in the Pacific Coast Flyers case, the FAA ruled that giving a right of first refusal was acceptable because the lessee invested \$33 million in Palomar Airport, no one else expressed serious interest in the lease, and other developable land was still available. This also brings the County in alignment with The Federal Aviation Administration (FAA) and State guidelines (SB 654). According to the Airport Cooperative Research Program Airport Cooperative Research Program (ACRP) Report 47, airports should offer flexible lease structures to avoid stagnation and promote redevelopment. The FAA recognizes the issue of stagnation and supports tools that foster sustainable development, provided they align with grant assurances and fair market value principles. FAA guidance provides regional airports the direction to align with public and community interests, so lease agreements should require direct land improvements justified under the following criteria:

1. Adds value to the property,
2. Prolongs its useful life, or
3. Adapts it to a new or different use.

San Diego County Airport System Economic Landscape:

The County of San Diego's (County) Airport System is a regional economic driver that plays a vital economic role in surrounding communities. According to County of San Diego and FAA-supported data, the seven County Airports (Gillespie Field, McClellan-Palomar Airport, Ramona Airport, Fallbrook Airpark, Borrego Valley, Jacumba Airport, and Ocotillo Airport) generate over \$2 billion annually in economic activity. They support jobs, serve as key infrastructure for tourism and business travel, and provide strategic value for goods movement, emergency services and facilitating support for disaster assistance.

1. **Business Attraction and Investment Growth:** Airports enhance a region's connectivity to global markets making it more appealing to businesses seeking to establish or expand operations. In San Diego County, aviation infrastructure that supports high-tech clusters, manufacturing, defense, and biotech industries. Proximity to an airport is a key factor in site selection for corporate headquarters and logistics centers, leading to increased foreign and domestic investment.
2. **Tourism Development:** San Diego County's tourism economy benefits greatly by giving regional access to business and international travelers. Visitors contribute to local hotels, restaurants, and cultural attractions, and entertainment venues, indirectly supporting thousands of jobs and businesses that rely on a steady influx of air travelers.
3. **Enhanced Supply Chain and Trade Efficiency:** Airports facilitate faster and more reliable transportation of goods. In San Diego, businesses involved in import/export, aerospace, and defense rely on regional airports to connect with domestic and international suppliers and customers. Timely delivery systems attract logistics and freight companies, further strengthening the county's economic competitiveness.
4. **Real Estate and Infrastructure Development:** The presence of regional airports in San Diego County drives demand for commercial, industrial, and residential real estate. McClellan-Palomar and Gillespie Field have become economic centers for real estate and industrial growth, encouraging the development of airplane hangars, pilot-mechanical training facilities, business parks, and support infrastructure.
5. **Tax Revenue Enhancement:** Indirect economic activities related to airport operations increase local and state tax bases. Business expansions, real estate development, and tourism all contribute to higher sales, income, and property tax revenues. Additionally, the San Diego County Airport System collects economic contributions from FAA grants, aviation land leases, including possessory interest taxes, sales taxes, property taxes, and user fees and fuel taxes, all of which support the County's general fund and/or Airport Enterprise Fund (AEF). The direct capital investment supports airport operations, infrastructure upgrades, and the sustainability of the Airport Enterprise Fund.
6. **Job Creation:** In addition to direct employment, airports create a wide range of professional and support jobs to support travel, supply chain, manufacturing, aircraft maintenance, catering, retail, and construction industries.
7. **Education and Workforce Development:** San Diego's airport system stimulates the growth of aviation-related FAA accreditation education programs via partnerships with Miramar, Palomar community Colleges and through local flight schools that foster workforce development in

aviation, maintenance, and related technical fields.

8. Innovation and Technology Advancement: The development of airport facilities in San Diego encourages innovation in aircraft systems, smart infrastructure, green technology, and sustainable aviation fuel. These advancements position the county as a leader in aviation technology.
9. Emergency and Medical Services: Airports provide crucial access for emergency medical flights, wildfire suppression aircraft, law enforcement, and disaster response. Gillespie field and Ramona Airport, serve as a strategic bases for the San Diego County sheriffs and Cal Fire operations, directly supporting public safety and resilience across the region.

Opportunity:

Re-envisioning leases to include strategic lease incentives can be a powerful tool to stimulate local and regional economic activity. By supporting long-term investments, the airport becomes a hub for innovation, job creation, and sustainable infrastructure.

Incentivizing leaseholder reinvestment also benefits the County through:

- Regular and frequent capital investment in leaseholds.
- Prolonged useful life of infrastructure.
- Continued and increased property tax revenue as property improvements raise assessed values.
- Ongoing job creation in construction, operations, and related industries.
- Strengthened regional economic activity from a more vibrant, modern airport campus.

Policy Solutions to Promote Growth:

While the airport only leases land, it can promote growth by:

- Offering longer lease terms for committed redevelopment.
- Structuring leases to allow amortization of investment.
- Structuring leases to re-invest equity into the property.
- Creating pathways for leaseholders to retain some return on capital improvements.

Equity Payment Considerations:

The County holds equity in leaseholds due to the reversionary nature of improvements made under long-term leases. Upon lease expiration, these leaseholders made improvements may revert to County ownership, creating inherent value for the County. The emphasis on equity payments is to improve the County airport system through private investment. On airport equity investment practices should be aligned with the “off airport” industrial properties. All of the industrial park lease money as well as the “on airport” properties lease payments go to the AEF.

Proposed Capital Investment:

Base value=land lease value X acreage X additional years of lease term

Split into two buckets:

- Allow leaseholders to reinvest 70% of the capital investment on their leasehold with the priority crediting for sustainability and resilience investments
- Require 30% to be contributed into the Airport Enterprise Fund (AEF) of the minimum capital

investment.

The required capital investments must be completed within 5 years of executed lease, and the lessee will be required to demonstrate completion of improvements to County staff by providing records of receipt and/or paid invoices. The remaining 30% cash contribution to the AEF may be financed a maximum of 10 years from the date of the executed lease at a rate of 5% interest with no pre-payment penalty or a lump sum payment at the time of execution of the lease.

The proposed payment approach ensures that improvements benefit both the leasehold property and the broader airport infrastructure and operations. Continued cash contributions into the AEF will enable County Airports to invest in the development and maintenance of all seven airports in the system and support its requirement of financial self-sustainability. This 30% inclusion of AEF contribution will also aid in fulfilling the FAA grant assurances requirement of having a minimum of 6 months operating reserves.

The prospective leaseholder/developer may be given an “option period” before and during construction on the lease with the new lease term or extended term becoming effective when a Certificate of Occupancy is obtained. The purpose of the option is to provide the lessee with a sufficient period of time to amortize substantial investment in an airport.

Eligible capital improvements (list to align with Federal tax code, updated annually):

- Structural upgrades (e.g., steel reinforcement, seismic retrofits)
- New roof installation (complete roof replacement, not just patching)
- New hangar door systems
- Sustainable additions (Solar/PV/Water Quality)
- Major modifications to hangar or office space to offer new uses
- Pavement and concrete (mill and overlay or replacements)
- Elevator installation or replacement
- New high efficiency HVAC systems
- LED Lighting Systems
- Insulations
- Energy Efficient Window Systems
- Plumbing Fixtures meeting CALGREEN Standards
- Irrigation Controls and systems
- Landscaping improvements or fixed structural additions
- Major electrical or plumbing system upgrades
- Fire suppression/sprinkler system installation
- Accessibility improvements (ADA compliance upgrades)
- Lessee improvements (if they meet capitalization criteria)
- Parking lot paving or repaving
- Facade replacement or major exterior renovations
- Security system installation (hardwired)
- Stormwater upgrades
- Fire suppression systems
- Reclaimed water irrigation
- Fuel storage & dispensing facilities
- Coating hangar floors
- Electric vehicle charging station

All capital improvements should meet a useful life of 10-20 years, consistent with FAA Capital Improvement Plan standards. In addition, an approved leaseholder should be required to provide auditable and verified capital improvements, with 70% of investments applied directly into the leased land and 30% allocated to the Airport Enterprise Fund (AEF). This ensures that improvements benefit both the leasehold property and the broader airport infrastructure and operations.

Minimum capital contribution:

To obtain a lease the proposer will need to submit a proposal to modernize the property in question based on a minimum amount of \$5000 per acre, per year of lease.

Other Considerations:

The County may exercise not to accept a proposal for a new 50-year lease if the lessee has not complied with the requirements outlined in the Master Lease agreement.

Example Formula for Required Capital Contribution:

A leaseholder with a 3-acre lease requests an extended 35 additional years on top of an existing 15-year lease, at a rate of \$5,000 per acre per year, would generate a blended Capital Improvement and AEF contribution of:

$3 \text{ acres} \times \$5,000 \times 35 \text{ years} = \$525,000$ total capital contribution.

Of this amount:

- \$367,500 (70%) must be invested in direct land improvements, with auditable records for improvements
- \$157,500 (30%) must be allocated to the AEF.