



COUNTY OF SAN DIEGO

LAND USE AGENDA ITEM

BOARD OF SUPERVISORS

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DATE: June 25, 2025

02

TO: Board of Supervisors

SUBJECT

GILLESPIE FIELD – THIRD AMENDMENT TO INDUSTRIAL LEASE WITH THE ARC OF SAN DIEGO AND RELATED CEQA EXEMPTION (DISTRICTS: 2)

OVERVIEW

The County of San Diego (County) operates Gillespie Field, a general aviation airport in the City of El Cajon. This approximately 700-acre property is designated for aviation use and includes a 400-acre general aviation airport, serving as a gateway to and from San Diego's East County. It provides infrastructure, facilities, and services to both corporate and general aviation. The remaining 300 acres are leased for non-aeronautical uses. The 700 acres of land is leased for a combination of uses to provide revenues to the County's Airport Enterprise Fund (AEF), which must be used exclusively for development, improvement, operation, and maintenance of the County's seven-airport system. The Federal Aviation Administration (FAA) requires that the County receive market rate rent for leases of airport land, and that the lease revenue must be used for the operation and maintenance of the County Airport system. The non-aviation portion of Gillespie Field includes three industrial parks occupied by a variety of industrial tenants such as light industrial and manufacturing development, warehouses, mixed-use, and direct service facilities compatible with airport uses.

The Gillespie Field Industrial Park (GFIP) is one of these three industrial parks. The approximately 51-acre industrial park contains 33 individual ground leases that house numerous light industrial businesses. The industrial lease with The Arc of San Diego (The Arc) is one of these 33 leases. On April 13, 1982 (70), the Board approved a 55-year "Industrial Lease" with The Arc, a nonprofit corporation that provides services for people with developmental disabilities, for an 0.89-acre parcel. On June 18, 2003 (13), the Board approved the First Amendment to this lease for The Arc to provide maintenance, landscaping and other services as consideration in lieu of their monthly rental payments. The FAA reviewed the terms of this amendment and agreed it complies with its requirements. On February 25, 2009 (7), the Board of Supervisors (Board) approved the Second Amendment to this lease to implement a tiered rental increase over the subsequent five-year period of the lease. These lease amendments ensure The Arc pays fair market value rent in accordance with FAA requirements, but authorized payment of rent through services that the County would otherwise have to procure.

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The current Arc lease includes rental adjustments every five years based on the Industrial Land Value (ILV) Index. The application of the ILV, which was set to adjust on January 1, 2024, resulted in a rent increase that appeared to be excessive when compared to rent values in the area. As a result, County Airports obtained a third-party appraisal report in July 2023 which resulted in a rental rate that is more reasonable than the designated index. As an alternative to implementing an immediate ILV index-based increase, the County and the lessee negotiated a phased increase based on the appraisal, as allowed by the current lease and FAA guidelines. Obtaining an appraisal is common practice in determining fair market rent. In 2019, the rental rate was adjusted to \$4,854 per net acre per month based on the application of the ILV index, a 0.78% increase over the 2014 rate, reflecting minor growth due to post-recession market conditions.

This phased-rate increase strategy not only ensures compliance with federal regulations but also demonstrates the County's commitment to retaining valued tenants like The Arc and other GFIP businesses. By easing the transition, the County helps reduce financial strain, fosters economic stability, and supports services that benefit the broader community.

As is typical with many leases, the current lease allows The Arc to assign or transfer its interest in the premises, or a portion of it, to another entity with the County's prior written consent. The Arc intends to assign its leasehold interest to James A. Renner Jr. 401(k) Profit Sharing Plan & Trust, MYRE Angel LLC, and Denton Road LLC, and part of this Amendment will adjust the language in the lease to allow it to do so. This assignment will occur after the execution of this Third Amendment to the lease. The new entity will not provide services in lieu of rent but will make monthly cash payments toward rent which is outlined in the lease agreement.

This is a request to approve the "Third Amendment to Industrial Lease" to:

- (i) remove language in the lease that allows The Arc to provide services in lieu of cash payments for rent;
- (ii) remove Exhibit "G" of the lease which identifies the services The Arc can provide;
- (iii) revise the permitted use to reflect only those uses permitted and described in the lease's Exhibit "B" (such as research and development, industrial and manufacturing, warehousing, storage, offices, services, and others), and remove the allowable uses that are specific to The Arc (such as for training and jobs for people with developmental disabilities) as The Arc intends to assign or transfer its interest in the premises to another entity;
- (iv) implement a tiered rental increase over the five-year period, from January 1, 2024 to December 31, 2028; and
- (v) add the Working Families Ordinance (WFO) provision to bring the lease into compliance with the ordinance adopted in 2022. The previous lease amendment was approved in 2009 prior to the adoption of the WFO.

The proposed amendment would eliminate service for rent and other provisions in the County's lease that were negotiated to allow The Arc to remain in the Gillespie Field Industrial Park in a manner consistent with FAA sustainability requirements. Since The Arc has decided to assign its parcel to an entity that will not be engaged in the same activities, these provisions are no longer

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necessary. To fully comply with FAA requirements in light of the change of use, these unique provisions are proposed to be removed and replaced with standard lease language and other lease requirements that will ensure fair market value rent is collected in accordance with the FAA's sustainability requirements.

RECOMMENDATION(S)

CHIEF ADMINISTRATIVE OFFICER

1. Find, in accordance with Section 15301 of the California Environmental Quality Act (CEQA) Guidelines, that the proposed lease amendment is categorically exempt from CEQA review as it consists of leasing of existing facilities, involving negligible or no expansion of existing or former use.
2. Approve and authorize the Director of Airports, upon receipt, to execute three copies of each of the proposed "Third Amendment to Industrial Lease". (County Contract No. 17946R)
(4 VOTES)

EQUITY IMPACT STATEMENT

The County of San Diego (County) owns and operates seven airports that serve as essential air transportation hubs, emergency response facilities, and regional economic engines. The County strives to deliver services in a fair and equitable manner, actively working to remove barriers by providing general airport information in the County's threshold languages, encouraging participation, and offering competitive opportunities for small businesses – those with traditionally less working capital – and business owners and managers who may be socially and economically underserved.

SUSTAINABILITY IMPACT STATEMENT

The proposed amendment would eliminate service for rent and other provisions in a lease on County land and shift to requiring standard monthly cash payments based on a variety of factors. This approach is consistent with FAA sustainability requirements and supports the fiscal sustainability of the County's Airport Enterprise Fund. Payment increases are also phased to allow tenants time to plan for increases which helps support successful leases over time.

FISCAL IMPACT

Funds for this request are included in the Fiscal Year (FY) 2025-26 Operational Plan in the Department of Public Works, Airport Enterprise Fund. If approved, this request will result in total revenue of \$65,569 in FY 2025-26, and \$72,126 in FY 2026-27. The funding source is revenue from the industrial lease agreement with Arc of San Diego. There would be no change in net General Fund cost and no additional staff years.

BUSINESS IMPACT STATEMENT

Leases at airports benefit the local business community by creating jobs, increasing economic activity, providing business opportunities, and supporting infrastructure development. Leasing Airport property attracts visitors, generates revenue, and helps small businesses grow, thereby stimulating the local economy and improving the quality of life for residents. San Diego County

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Airports connect individuals to jobs and link local communities to the world. Revenue from airport leases enables the Department of Public Works to operate and maintain the eight County airports safely, efficiently, and cost-effectively. Today's action, implementing scheduled rent adjustments to the industrial lease with The Arc of San Diego, promotes self-sufficiency of Gillespie Field and enhances the economic viability of the County Airport system.

ADVISORY BOARD STATEMENT

On May 21, 2025, Gillespie Field Development Council recommended, by a vote of 5 in favor, 0 against, 0 abstained, with 0 members absent and 0 vacant seats, that the Board approve the proposed amendment to industrial lease with The Arc of San Diego (County Contract No. 17946R).

BACKGROUND

The County of San Diego (County) operates Gillespie Field, a general aviation airport in the City of El Cajon. This approximately 700-acre property is designated for aviation use and includes a 400-acre general aviation airport, serving as a gateway to and from San Diego's East County. It provides infrastructure, facilities, and services to both corporate and general aviation. The remaining 300 acres are leased for non-aeronautical uses. The combination of uses on the 700 acres of land is leased to provide revenues to the County's Airport Enterprise Fund (AEF), which must be used exclusively for development, improvement, operation, and maintenance of the County's seven-airport system. The Federal Aviation Administration (FAA) requires that the County receive market rate rent for leases of airport land, and that the lease revenue must be used for the operation and maintenance of the County Airport system. The non-aviation portion of Gillespie Field includes three industrial parks occupied by a variety of industrial tenants such as light industrial and manufacturing development, warehouses, mixed-use, and direct service facilities compatible with airport uses.

The Gillespie Field Industrial Park (GFIP) is one of these three industrial parks. The approximately 51-acre industrial park contains 33 individual ground leases that house numerous light industrial businesses. The "Industrial Lease" with The Arc of San Diego (The Arc) is one of these 33 leases. On April 13, 1982 (70), the Board approved a fifty-five-year "Industrial Lease" with The Arc, a nonprofit corporation that provides services for people with developmental disabilities, for an 0.89-acre parcel. The lease commenced on April 1, 1982 and terminates on March 31, 2037. The lease has been amended twice: (i) on June 18, 2003 (13) to revise language and add new provisions, including the provision allowing The Arc to provide maintenance, landscaping, and other services as consideration in lieu of its monthly payment of fair market rent; and on February 25, 2009 (7) to implement a tiered rental increase over the subsequent five-year period of the lease. These lease amendments allowed The Arc to retain its leasehold and ensure the County collected fair market value rent in accordance with FAA sustainability requirements by allowing The Arc to pay market rent through the delivery of necessary services.

The current lease contains a formula for calculating rental adjustments every five years and was set to adjust on January 1, 2024. This formula is based on average per acre land value indicated by sales of parcels within the Industrial Land Value (ILV) Index list, over the preceding five-year

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period. Because adjustments are based on a formula contained in a Board-approved lease, additional Board approval is not required if the adjustment is implemented in accordance with the formula.

In 2019, the rental rate was adjusted to \$4,854 per net acre per month, a 0.78% increase over the 2014 rate, reflecting minor growth due to post-recession market conditions. The application of the ILV-driven formula for the 2024 adjustment resulted in \$8,757 per net acre per month rate, an 80.41% increase over 2019. This substantial difference reflects factors included in the ILV that may only be temporary such as increasing market values driven by low interest rates, unusually accelerated economic growth, and recent rampant inflation. Concerns over the accuracy of the market rates predicted by the ILV caused County Airport staff to obtain a third-party appraisal report to verify the value produced by the formula. The appraisal, conducted by a qualified independent appraiser in accordance with Federal Aviation Administration (FAA) guidelines, estimated the market rental rate for a typical lot within GFIP in July 2023 at \$7,773 per net acre per month. This rate is lower than the ILV index calculation and represents a 60.14% increase over the current rate. County staff believe this methodology more accurately reflects market rental rates at the Gillespie Field Industrial Park.

In an effort to support local businesses and provide stability while continuing to meet FAA requirements, County staff proactively worked to develop a thoughtful alternative to the automatic ILV formula-based rent adjustment. Rather than implementing a significant increase all at once, the County offered, and the lessees agreed to, a lease amendment that gradually phases in the updated appraised rental rate. This approach limits increases to approximately 10% annually over a five-year period, ultimately reaching the market rate of about \$7,773 per acre per month by the beginning of year five.

This glide slope strategy not only ensures compliance with federal regulations but also demonstrates the County's commitment to retaining valued tenants like The Arc and other GFIP businesses. By easing the transition, the County helps reduce financial strain, fosters economic stability, and supports services that benefit the broader community.

If the proposed action is approved, The Arc's current rent of \$4,320.39 for their 0.89-acre leasehold will be increased over a five-year period, starting on January 1, 2024, in accordance with the following schedule:

| Effective Date | Base Monthly Rent | Difference | Percentage Increase |
|----------------|-------------------|------------|---------------------|
| 1/1/2024 | \$4,730.83 | 410.44 | 9.5% |
| 1/1/2025 | \$5,203.91 | 473.08 | 10% |
| 1/1/2026 | \$5,724.30 | 520.39 | 10% |
| 1/1/2027 | \$6,296.73 | 572.43 | 10% |
| 1/1/2028 | \$6,918.22 | 621.59 | 9.9% |

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If the lease amendment is approved, The Arc's rent will increase to \$5,203.91 and the lessee will be responsible to retroactively pay for the difference in rent due from January 1, 2024. Thereafter, the rent will increase each year as shown above.

The next scheduled rent adjustment in 2029 will revert back to using the ILV to determine market rent value as defined in the GFIP lease. The County can, if necessary, take action to amend the leases to allow for an alternative methodology should application of the ILV ever again appear to be unreasonable. The ILV has generally proven reliable and because it functions as a formula can be implemented without the administrative cost of an appraisal.

As is typical with many leases, the current lease allows The Arc to assign or transfer its interest in the premises, or any part or portion thereof, to another entity only with the prior written consent of the County and payment of a processing fee payment. The Arc intends to assign its leasehold interest to James A. Renner Jr. 401(k) Profit Sharing Plan & Trust, MYRE Angel LLC, and Denton Road LLC. This assignment will occur after the execution of the "Third Amendment to Industrial Lease" is executed. The new entity will not provide services in lieu of rent; instead, they will make monthly cash payments toward rent.

Accordingly, the proposed amendment will remove the services in lieu of rent provisions contained in The Arc lease and replace them with the standard rental language used throughout the Gillespie Industrial Park. These additional changes include amendments to (i) remove language in the lease that allows The Arc to provide services in lieu of cash payments for market rent; (ii) remove the lease's Exhibit "G" which identifies the services The Arc can provide; (iii) revise the permitted use to reflect only those uses permitted and described in the lease's Exhibit "B" (such as research and development, industrial and manufacturing, warehousing, storage, offices, services, and others), and removes the allowable uses that are specific to The Arc (such as for training and jobs for people with developmental disabilities) as The Arc intends to assign or transfer its interest in the premises to another entity; and (iv) add the Working Families Ordinance provision to the lease.

ENVIRONMENTAL STATEMENT

Section 15301, of the California Environmental Quality Act (CEQA) Guidelines exempts from CEQA review actions consisting of the "operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features involving negligible or no expansion of existing or former use." The key consideration in applying this exemption is whether the proposed action involves expansion of an existing use. The proposed action involves approval of a Third Amendment to a current industrial lease with The Arc of San Diego to (i) remove certain language from the lease; (ii) revise the permitted use to reflect only those uses as permitted in the lease (such as research and development, industrial and manufacturing, warehousing, storage, offices, services, and others), and remove the allowable uses that are specific to The Arc (such as for training and jobs for people with developmental disabilities); (iii) implement a tiered rental increase over the five-year period; and (iv) add the Working Families Ordinance provision. No other changes in the use are proposed from what currently exists, and is, accordingly, exempt from CEQA review pursuant to Section 15301 of the CEQA Guidelines.

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LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN

Today's proposed action supports the Economic Sustainability Strategic Initiative in the County of San Diego's (County) 2025-2030 Strategic Plan. Revenue derived from airport leases is placed in the County's Airport Enterprise Fund, which aligns services to available resources, maintaining fiscal stability, and ensuring long-term solvency by using lease revenue for ongoing maintenance and operation of County Airports. Airports in San Diego County are an important part of the County's physical infrastructure and the federal transportation system and provide superior service delivery to the local aviation customers and the public which they serve.

Respectfully submitted,



DAHVIA LYNCH
Deputy Chief Administrative Officer

ATTACHMENT(S)

A: Vicinity Map