

**COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS - LAND USE
WEDNESDAY, JUNE 25, 2025**

MINUTE ORDER NO. 2

**SUBJECT: GILLESPIE FIELD - THIRD AMENDMENT TO INDUSTRIAL LEASE WITH
THE ARC OF SAN DIEGO AND RELATED CEQA EXEMPTION
(DISTRICT: 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.

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 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 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.

ACTION:

ON MOTION of Supervisor Desmond, seconded by Supervisor Montgomery Steppe, the Board of Supervisors took action as recommended, on Consent.

AYES: Anderson, Lawson-Remer, Montgomery Steppe, Desmond

ABSENT: (District 1 Seat Vacant)

State of California)
County of San Diego)

I hereby certify that the foregoing is a full, true and correct copy of the Original entered in the Minutes of the Board of Supervisors.

ANDREW POTTER
Clerk of the Board of Supervisors



Signed
by Andrew Potter

