



DATE: November 19, 2024

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Adopt a Resolution Authorizing the City Manager to Execute a Lease Agreement with Montecito Development LLC, for Property Located at the Hayward Executive Airport

RECOMMENDATION

That Council adopts the attached Resolution (Attachment II) authorizing the City Manager to negotiate and execute a lease agreement with Montecito Development LLC, for the development of Airport property at the former California Air National Guard (CANG) site.

SUMMARY

The CANG site at the Hayward Executive Airport (Airport) has been vacant since 1980, and it was officially released to the City by the United States Government in 2012. For over ten years, the City has marketed the parcel for aeronautical use, but interest has been minimal due to the Pandemic and current market conditions that favor non-aeronautical use.

Over time, staff has received inquiries about non-aeronautical use of the property, with Montecito Development previously expressing strong interest for a “flex” type of development that included mainly warehouse space, and some retail and office, as well as space for a museum shell building honoring the Tuskegee Airmen. Council declined to consider the proposed development as it did not meet the City’s basic requirements and requested that the property be re-evaluated for the best and highest use. Accordingly, Montecito pivoted away from a warehouse to advanced manufacturing. The City subsequently entered into an Exclusive Negotiating Agreement (ENA) with Montecito Development (Attachment III). The outcome of discussions was a Term Sheet (Attachment IV) outlining basic deal points in a potential lease agreement.

The developer revised the conceptual plans to better align them with the City’s vision for the property and requested to enter into a lease agreement with the following deal points:

- 50-year lease term

- Two phase development plans with Advanced Manufacturing ground lease in Phase 1 (8.776 acres), and a proposed Public Safety Center as Phase 2 (8 acres), if an agreement can be reached.
 - Rent calculation for Phase 1, prior to issuance of a Certificate of Occupancy or Temporary Certificate of Occupancy (TCO).
 - a. $8.776 \text{ acres} \times 43,560 = 382,283 \text{ sq ft.}$
 - b. $382,283 \times \$0.12/\text{sq ft} = \$45,874 \text{ annually.}$
 - c. $\$45,874 \text{ divided by } 12 = \$3,823 \text{ monthly fee.}$
 - Rent Calculation Phase 1, after issuance of a Certificate of Occupancy or TCO:
 - 1. Non-aeronautical rate of \$1.18 per sq ft, per year.
 - a. $8.776 \text{ acres} \times 43,560 = 382,283 \text{ sq ft.}$
 - b. $382,283 \times \$1.18/\text{sq ft} = \$451,094 \text{ annually.}$
 - c. $\$451,094 \text{ divided by } 12 = \$37,591 \text{ monthly fee.}$
 - Rent Calculations Phase 2 before a Certificate of Occupancy or TCO :
 - 1. Non-aeronautical rate of \$0.12 per sq ft, per year.
 - a. $8 \text{ acres} \times 43,560 = 348,480 \text{ sq ft.}$
 - b. $348,480 \text{ sq ft} \times \$0.12/\text{sq ft} = \$41,818 \text{ annually.}$
 - c. $\$41,818 \text{ divided by } 12 = \$3,485 \text{ monthly fee.}$
 - Rent calculations Phase 2, after Certificate of Occupancy or TCO:
 - 1. Non-aeronautical rate of \$1,18 per sq ft, per year.
 - a. $8 \text{ acres} \times 43,560 = 348,480 \text{ sq ft.}$
 - b. $348,480 \text{ sq ft} \times \$1.18/\text{sq ft} = \$411,206 \text{ annually.}$
 - c. $\$411,206 \text{ divided by } 12 = \$34,267 \text{ monthly fee.}$

Subject to further negotiation with Montecito Development, and as described in the ENA they request a dollar for dollar offset to fees owed the Airport for all soils investigations, biological field examinations, engineering analysis and the like with the developer providing the City with copies of all technical reports for its use during the entitlement of each phase.

Montecito plans to submit a development application once the lease is fully executed, making it 'subject to' reclassification of the entire site to non-aeronautical use by the FAA. Development of the parcel will commence once it is reclassified by the FAA and the zoning designation for the site is changed from Airport Terminal – Airport Commercial, to Airport Terminal – Commercial; both requests will be submitted for review in the near future.

BACKGROUND

The Airport and all its facilities were originally transferred from the United States Government to the City in 1947 in the form of a quitclaim deed. The City entered into an agreement with the U.S. Government in 1949 for continued use of approximately 27 acres of the former Military Base known as the California Air National Guard (CANG) site by the California Air National Guard. The CANG site was used by various military units until 1980 when approximately 24-acre was vacated and eventually returned to the City in September 2012. Part of the original CANG site 24-acre property includes 16.776 acres utilized for

development by Montecito Development, 7.2 acres for land leased to the Federal Aviation Administration (FAA), and the development of Tuskegee Airman Drive. A total of 3.12 acres are currently leased by the CANG.

The FAA prefers that owners of public-use airports utilize airport property for aeronautical purposes, and the City has aeronautical tenants for the CANG site. Requests for Proposals (RFP) for redevelopment of the site, preferably with removal of the existing structures, were released in 2001 and 2007. Several responses were received, and one response for the development of corporate aircraft hangars was determined to have merit. However, negotiations were unsuccessful.

A third RFP was released in 2016 in which none of the three respondents met the minimum specified qualifications. Later, staff contacted commercial real estate agents for assistance in identifying prospective tenants, and staff fielded several inquiries. Despite this effort, the CANG parcel could not be leased in whole or in part for aeronautical purposes.

Underground pollution caused by Military operations was mitigated by the Federal Government, resulting in a No Further Action Letter issued by the State Toxic Substance Control Board in 2018. Feedback received from some potential tenants indicated the condition of the CANG site was a factor in their decision to forego the opportunity. The buildings do not meet modern code requirements and are believed to contain some lead paint and asbestos. Potential aeronautical tenants found the estimated cost of demolition to be prohibitive. As a result, efforts are now focused on non-aeronautical development. Since the presence of lead paint and asbestos was caused by the Federal Government, they would presumably have the responsibility for clean-up, subject to further discussion.

In 2018, staff held preliminary discussions with local developer Montecito Development, LLC, for the development of the Hayward Airport Commerce Center, an office and warehouse complex. However, upon further review, that proposal was unsuccessful. Montecito later re-structured their proposal and turned their focus to advanced manufacturing development.

Montecito's experience includes projects in Richmond, Buchanan Field in Concord, and the Livermore Airport and other airports throughout California. Montecito Development and its affiliated companies have completed more than three dozen commercial and industrial projects in the Western United States.

DISCUSSION

Montecito Development is proposing an advanced manufacturing development project. Advanced manufacturing includes the use of innovative technologies to improve products or processes. Such products or processes include drugs and therapeutics, and electronic products, including robotics and battery energy storage modules advanced manufacturing is a burgeoning industry, and they are expanding in the Bay Area.

The preliminary site plan submitted by Montecito Development depicts a single building that totals approximately 165,000 square feet on the 8.8 acres western half of the CANG site. The architectural design of the buildings will be upscale and include flexible spaces that can be adaptable for multiple users.

Commensurate with the ground lease for other substantial multi-million-dollar capital projects at the Airport, a lease term of 50 years is anticipated for Montecito Development with monthly rent amount of approximately \$37,592 once project is fully built on the western side of the CANG parcel.

Over the 50-year life of the project, the developer estimates the generation of \$39 million in ground rent to the Airport Enterprise fund (AEF), \$41 million in sales tax, \$2.1 billion in wages, and \$2.2 billion in direct economic impact as estimated in JLL's 2023 Research Report for advanced manufacturing and by Montecito Development using industry average calculations. Once the Public Safety Center site on the east side of the CANG parcel is ready for development and if Montecito can submit an acceptable proposal, an updated economic impact analysis will be submitted with that staff report.

The annual rental revenue will assist in making the Airport financially self-sustaining in compliance with Council directives and FAA policy guidance, and it will be dedicated to Airport capital projects, equipment needs, and staffing requirements. The existing abandoned buildings on the site will be removed using private resources. The developer has agreed to preserve and restore the Minute Man wooden sign logo on the large, abandoned hangar building and integrate it into the project. Underground environmental remediation of the site by the federal government was concluded in 2013. A No Further Action Letter was issued by the state toxic substance control board in 2018. Any further pollution discovered, whether underground or above ground in the existing buildings, is subject to mitigation by the federal government if it can be determined that it was caused during their occupation of the site.

Prior to development, the FAA must review and approve the leasehold for non-aeronautical use. The reclassification process requires a detailed explanation from the airport owner (City) to justify FAA approval, and it also requires review by several levels of the FAA, including their headquarters in Washington, D.C. The process typically takes six to nine months. City staff is in the process of drafting the written request. In addition, the zoning designation for the site must be changed from Airport Terminal – Airport Commercial (AT-AC) to Airport Terminal – Commercial (AT-C). Initial discussions have started with Development Services Department to effect this change.

According to the City Attorney, under the California Government Code and provisions of the City Charter, the City has the option to either entertain new business proposals from individuals or companies that may be received from time to time, or solicit public interest for development opportunities through a Request for Proposals (RFP). Also, the FAA permits airport sponsors to enter long-term leases by negotiation or solicitation. The City has taken both approaches in the past. For example, Ascend Development contacted the City in 2000 and their proposal for development of aircraft hangars was subsequently

approved by Council, and the City also participated in lease negotiations for development of a so-called Fixed-base Operator (FBO) after being contacted by Meridian Aviation, Inc., Companies. In other instances, the City has issued an RFP, including one for development of the California Air National Guard site and, separately, for the lease of an existing commercial hangar.

ECONOMIC IMPACT

The proposed development would generate work for skilled and unskilled tradespeople during the construction phase, and skilled workers in advanced technology field after the development is completed. It is anticipated the CANG site would become a point of sale for products designed, built and sold from the tenant generating sales tax increments to the City. In addition, advanced manufacturing wages and salaries will create direct economic impacts in the City as well. Montecito Development will work with the eventual tenant to create local priority job fairs for employment opportunities.

FISCAL IMPACT

The City's General Fund would benefit from additional business license fees, and property sales taxes. Once the advanced manufacturing building is completed, the City would receive its share of the possessory interest tax on the improvements.

The Airport is operated as a financially independent enterprise fund. It receives no financial support from the City's General Fund and must solely rely on the revenue it generates to fund its annual operating and capital improvement budgets. FAA regulations require the Airport to be as financially self-sustaining as possible, under the circumstances, and this is an objective of Council. Once fully developed, the CANG parcel will generate an average of \$800,000 annually to the Airport Operating Fund. The revenue can be dedicated to capital improvements, such as millions of dollars in paving needs.

STRATEGIC ROADMAP

This agenda item is a routine operational item and does not relate to one of the Council's six Strategic Priorities.

SUSTAINABILITY FEATURES

The Airport is strongly committed to developing projects that are environmentally responsible. Therefore, staff will ensure that all plans proposed by the developer incorporate features that are in line with the City's sustainability guidelines. Council has the prerogative to require enhanced sustainability features, such as a level of environmental LEED designation for any building construction on the CANG site.

PUBLIC CONTACT

The agenda and staff report for this item have been posted on the City's website and distributed to interested parties. Furthermore, this development has been previously discussed with the Council Airport Committee on April 28, 2022¹, and October 27, 2022², and with Council on June 14, 2022³.

NEXT STEPS

If approved by Council, Airport staff will finalize all lease details prior to execution.

Prepared by: Doug McNeeley, Airport Manager

Recommended by: Alex Ameri, Director of Public Works

Approved by:



Dustin Claussen, Interim City Manager

¹ <https://hayward.legistar.com/LegislationDetail.aspx?ID=5567168&GUID=D2ECBE6C-4308-4EDD-BF13-41F2C0079FDF&Options=&Search=>

² <https://hayward.legistar.com/LegislationDetail.aspx?ID=5895833&GUID=864DE6B1-3315-47BA-83BB-4A4B58ACC669&Options=&Search=>

³ <https://hayward.legistar.com/LegislationDetail.aspx?ID=5690622&GUID=DB29D229-275C-4951-BE12-1420A6F9D8A8&Options=&Search=>