



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 20, 2006 REPORT NO: 06-156

ATTENTION: Committee on Land Use and Housing
Agenda of October 25, 2006

SUBJECT: Development at Montgomery Field Airport & Related Leasing Policy
Issues

REFERENCE: RTC 06-132
CMR 04-179

REQUESTED ACTION:

Authorize staff to exclusively negotiate with Square One Development for a development lease for the Southwest Area of Montgomery Field Airport.

STAFF RECOMMENDATION:

Staff recommends to exclusively negotiate with Square One Development.

COMMUNITY PLANNING GROUP RECOMMENDATION:

The Airports Advisory Committee passed a motion in favor of this project, with 3 contingencies: (1) The tiedown area and all revenue revert to the City (2) that some form of minimum standards is applied to the project (3) negotiations are completed within 120 days.

SUMMARY:

On September 27, 2006, staff submitted a requested to the Committee on Land Use and Housing to authorize exclusive negotiations with Square One Development for the redevelopment of the Southwest Area of Montgomery Field Airport. During this meeting the committee submitted requests for additional information to staff on legal, policy and planning issues.

BACKGROUND

On August 4, 2004, the Committee on Land Use and Housing unanimously approved the City Manager to issue a Request for Proposals (RFP) for the Southwest Area of Montgomery Field Airport. On October 13, 2004, staff issued the RFP for the redevelopment of this 13.77 acre site, of which, approximately six acres are unconstrained and enjoy access from Kearny Villa Road. The area contains several older hangars and the pavement in this vicinity has deteriorated beyond repair and must be completely replaced.

The terms of the RFP specifically required the potential developer to submit a proposal for aviation related development at the airport in accordance with the City's objectives and Federal Aviation Administration requirements. The deadline for submittal of proposals was December 17, 2004. Three proposals were received prior to the submittal deadline. Each of the proposals contemplated aviation related development with an emphasis on hangar construction, ranging between 15 and 40 hangars. The proposals had differing degrees of detail and professional analysis.

A selection committee of three was formed to review the proposals, interview the respondents and to recommend the optimum proposal. After a thorough review process, the selection committee recommended Square One Development. Immediately following the recommendation, the winning proposer was requested to make a presentation to the Airports Advisory Committee (AAC) to summarize the proposal and solicit input on the development.

At the AAC meeting, the airport users made clear their desire to maintain low cost tiedowns in the Southwest Area of the airport. Based on the recommendation, Square One Development reconfigured the development to include low cost tiedowns. However, the site identified by Square One Development for the tiedowns was not acceptable to the FAA because it was located in the Runway Protection Zone (RPZ) and is therefore unsuitable for long term aircraft parking. Another site was identified adjacent to the RFP area that could accommodate tiedowns. That area would be developed by Square One, but would be relinquished to the City, since it is outside the original RFP development area.

To date, Square One Development has made four presentations to the AAC regarding the development, and has solicited input from various airport users and tenants. After the each of the presentations, the developer made several modifications to the proposed development at the request of the AAC and other airport users. At an earlier meeting there were two motions made by the AAC, one in support of the development and the other not to support the development. Both motions failed. At the fourth meeting, a motion in opposition to this project failed and a motion in favor passed, with 3 contingencies: (1) The tiedown area and all revenue revert to the City (2) that some form of minimum standards are applied to the project (3) negotiations are completed within 120 days. Staff will make every effort to comply with the recommendation.

DISCUSSION

During the September 27, 2006 LU&H Committee hearing, the following questions were raised by the committee members. The requests for additional information concerned legal, policy and planning issues. The Committee requested staff return to this hearing to discuss the requests for additional information, including the City's leasing policies, the development plans for Brown and Montgomery Field and Square One Development at Montgomery Field.

Real Estate Assets Department Update

The Real Estate Assets Department (READ) is charged with managing the City's real estate portfolio which consists of over 3,400 parcels of land with approximately 680 ground leases. The department is currently in the process of improving its organizational structure, management

practices and business operations. The goal is to provide best in class real estate services for the City with the highest level of transparency and professionalism.

To achieve this goal, the following plan is being implemented:

- An inventory of City owned properties has been completed by an outside consultant verifying that the City has a complete record of all its real estate holdings.
- A consultant was hired to advise the City on best practice methodology with the goal of improving the policies and practices by which the Department operates. This work is currently in progress with the consultant's report due on December 1, 2006.
- READ is analyzing the City's properties to determine which are core holdings and which are surplus. The surplus properties will then be further analyzed to determine how to maximize their value to the City whether by lease or sale.
- The City's ground leases are being analyzed to determine if existing leases are at fair market rates.
- New revenue streams are being pursued: Telcom leases

Brown Field Airport

Brown Field Airport possesses the longest civilian runway in San Diego County, outside of Lindbergh Field, allowing it to accommodate virtually any aircraft. Additionally, Brown Field is designated as one of a select few Port of Entries in the region. Additionally, corporate aircraft flying long-haul routes to Asia or South America cannot take off fully loaded from Carlsbad and must stop at Brown Field to fully fuel.

Due to its proximity to the border crossing the Otay Mesa area has become California's largest commercial land border port and one of the busiest commercial land border crossings in the United States. Otay Mesa, which is home to Brown Field Airport, has large parcels of value priced industrial land and numerous economic development incentives programs such as the State Enterprise Zone and the Foreign Trade Zone, all designed to induce companies to locate in the region.

More recently, development has begun in East Otay Mesa, located in the unincorporated area of the County of San Diego. Plans are already underway in East Otay Mesa to establish a high technology business park.

With three major freeways, a higher education center and over 11,000 homes under development in the area, Brown Field is set to become a regional economic engine for both commerce and industrial development.

- Short Term Plans (3 to 6 months)
 - Issue RFQ for a signature Fixed Base Operator
 - Address the auto storage yards on the North side
 - Electrical upgrade project
 - Demolish antiquated structures

- Long Term Plans (Beyond 6 months)
 - Update Master Plan
 - Attract industrial tenants
 - Attract corporate aviation

Montgomery Field Airport

Montgomery Field Airport is in the final stages of updating its Master Plan. This Master Plan Update provides an accounting of the airport’s current position in relation to the changing demands of the aviation community. It includes forecasts of the trends of the aviation market over the next ten years. This information will continue to assist the City in creating a plan for the highest and best uses of the airport. The consultants have prepared a revised Airport Layout Plan (ALP) as part of the Master Plan update, which includes proposed sites available for future development.

There are several components in the development and re-configuration of the aviation and commercial uses on the airport. Some of these components have already been implemented, such as the relocation of the SDPD Air Support Unit to the West end of the airport and the design of the Northport heliport. Other development areas or relocation sites on the airport are going through the review process to adjust the environmental boundaries. After the review, it is anticipated that all of the rotary aircraft will be localized in one area of the airport, separating them from the fixed wing, thus creating a safer more efficient airport. Additionally, it is expected that the Fire helicopter will be located adjacent to the existing Air Support Unit, forming a public safety area on the airport.

- Short Term Plans (3 to 6 months)
 - Negotiate development lease in SW Area
 - Finalize Master Plan Update
 - Adjust the environmental boundaries
- Long Term Plans (Beyond 6 months)
 - Relocate Fire helicopter
 - Issue RFP for Gibbs leasehold
 - Develop a heliport FBO at Northport
 - Issue RFP for National Air College leasehold

Square One Development

It is the goal of the Airports Division to provide business opportunities for private development that are in the best interest of each City airport and the surrounding communities. Such development will help to meet the demand for newer, modern aviation facilities at the airports. Additionally, revenues generated from these opportunities will assist the airports in remaining fiscally self-sufficient and improve the infrastructure. These new businesses will increase the economic opportunities for neighboring communities. Any new development will be required to be consistent with the goals of the airport and approved by both City Council and the Federal Aviation Administration.

The proposed development balances the needs of the smaller, single engine aircraft with the growing demands of the larger business aircraft. The developer has committed to offering all of the existing users first right of refusal in the new development. Additionally, the developer will construct a public wash rack which is a significant improvement to the airport which currently has none. Square One Development has agreed to construct:

- 32 low cost tiedowns
- 9 small to medium hangars
- 20 larger hangars
- Public aircraft wash rack
- 35,700 square feet of aviation related office space

Legal Considerations

Committee members submitted two questions for City Attorney review:

1. Confirm that proper procedure was followed during the RFP process for the Southwest Area.
2. Can LU&H authorize staff to enter into an exclusive negotiating agreement.

FISCAL CONSIDERATIONS:

The Airports Division is an enterprise fund that is supported largely by revenue collected from lease rent. This development would significantly increase rent revenue from this area of the airport. The costs for development, including any required infrastructure, will be the sole responsibility of the developer.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The Committee on Land Use and Housing unanimously approved the issuance of the RFP on August 4, 2004.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

City staff and Square One Development have made four presentations to the AAC regarding the proposed development. In each meeting, input was solicited from various airport users and tenants. After each of the presentations, the developer made several modifications to the proposed development at the request of the AAC and other airport users. The number of small aircraft hangars and tiedowns were substantially increased. At an earlier meeting there were two motions made by the AAC, one in support of the development and the other not to support the development. Both motions failed. At the fourth meeting, a motion in opposition to this project failed and a motion in favor passed, with 3 contingencies: (1) The tiedown area and all revenue revert to the City (2) that some form of minimum standards are applied to the project (3) negotiations are completed within 120 days. Staff will make every effort to comply with the recommendation.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

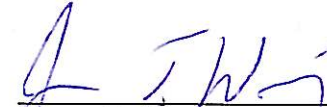
The stakeholders and likely group to be impacted are the airport users and existing tenants in the Southwest Area. These include an aircraft repair facility, a flight school, an aircraft repair classroom and various aircraft owners that use tiedowns and hangars in the area.

The developer has committed to offering all of the existing users first right of refusal in the new development. Additionally, the developer will construct a public wash rack as well as tiedowns in an location outside the RFP area, which will revert to City management after completion. Additionally, any potential agreement will include an early termination clause that will allow for flexibility in future land use for this area.

Respectfully Submitted,



James F. Barwick
Real Estate Assets Director



James T. Waring
Deputy Chief Operating Officer of
Land Use and Economic Development

BARWICK/MCT/CA