



CITY OF SALINAS

CITY COUNCIL STAFF REPORT

DATE: MARCH 19, 2024

DEPARTMENT: PUBLIC WORKS, AIRPORT DIVISION

FROM: DAVID JACOBS, PE, LS

TITLE: SALINAS BUSINESS PARK, LLC, GROUND LEASE AGREEMENT FOR 1341 MERCER WAY IDENTIFIED AS APN: 003-862-001 AT THE SALINAS MUNICIPAL AIRPORT

RECOMMENDED MOTION:

It is recommended that the City Council approve a resolution approving and authorizing the execution of the Ground Lease between the City and Salinas Business Park, LLC, for the property located at 1341 Mercer Way identified as APN 003-862-001-000, at the Salinas Municipal Airport.

EXECUTIVE SUMMARY:

The Ground Lease Agreement would allow Salinas Business Park, LLC (the “Tenant”) to develop 13.25 acres of undeveloped land in front of the Salinas Airport at 1341 Mercer Way identified as APN 003-862-001-000 (the “Premise”). The Developer’s proposed project would accommodate light industrial, and warehouse uses, with a maximum building square footage of approximately 229,000 square feet.

BACKGROUND:

The City of Salinas owns multiple properties throughout the City. Specifically, the Airport Property is approximately 13.25 acres located in the area surrounded by Airport Boulevard, Skyway Boulevard, Mortenson Avenue, and Mercer Way (see attached map). Aside from some unmaintained paved roads and small structures, the site has been vacant for many years, with the last serious development proposal being reviewed by the City in 2008.

The proposed tenant and developer is Salinas Business Park, LLC, a California limited liability company, of which Ralph Borelli and Case Swenson are Co-Managers (the “Developer”). Both of these managers specialize in real estate development and investment within the Bay Area and locally within the City of Salinas.

Discussions for this property has been ongoing for several years. The City and the Developer originally entered into an Exclusive Negotiating Rights Agreement (ENRA) to develop the Premise in February 2018. After continued discussions and analysis, a previous project was defined to combine the relocation of the Public Works Corporation Yard to the Premise, which lead to the First Restated and amended ENRA to explore this modified structure to include the Public Works Corporation Yard. This

was agreed to between the City and Developer in August 2019. The project was approved by Resolution on May 12, 2020. Between 2020 and 2022, changes to the project resulted in no need for a Public Works Corporation Yard within the 13.25 acres for the City. In 2022, the City and the Developer entered into a Ninth additional ENRA with ongoing Ground Lease revisions to include the 13.25 acres to be used for the Developer for future development. The ENRA is in its twelfth cycle and expires on June 30, 2024.

The Developer will enter into a Ground Lease for the Premise. Lease Payments would go to the Airport Enterprise Fund. The Ground Lease would have a 50-year term. Additional details pertaining to the project for development is detailed within the Project Description.

Project Description

The Developer would lease the project site from the City. The entirety of the project site would be developed with warehouse uses. The project would accommodate light industrial, and warehouse uses, with a maximum building square footage of approximately 229,000 square feet with the option for phased development. The warehouse would generate approximately 29 total jobs. Allowable uses for the site would include general light industrial and warehousing operations. The site would be developed in accordance with the Development Regulations and Design Standards of the City's Industrial – Business Park (IBP) Zoning District. The modified project would maintain the same General Plan land use designation (Public/Semi-public) and Zoning designation (IBP) as the original project for the project site (similar to the existing development found nearby on Moffett and La Guardia Streets). Surface parking, landscaping, lighting, and other site improvements would be provided as mandated by the City. The project would remove the small storage shed, seven existing trees, one tree stump, and any other existing facilities on site. A landscaping plan, required by the City of Salinas, would satisfy required replanting on site.

Proposed Warehouse

The project includes the development of up to 229,000 square feet of distribution warehouses on the project site in phases. The total warehouse square footage may be developed in one building or with multiple buildings. On-site buildings would not exceed the 36-foot height described in the adopted IS-MND for the original project.

Circulation

The project would include the removal of Jeffery Avenue, Anderson Avenue, and an unnamed roadway between Jeffery Avenue and Anderson Avenue. In addition, the project would widen Mercer Way at the northern intersection with Airport Boulevard to allow for wider turns being made by trucks entering and existing the project site. Cul-de-sacs would be added to the southern ends of Mercer Way and Skyway Boulevard. The Project includes 261 parking spaces, including electric vehicle parking pursuant to code requirements. A total of 30 truck loading bays would be constructed at the warehouse building, with internal circulation providing adequate turning radiuses for trucks to access the loading bays.

LEASE TERMS & CONDITIONS:

Proposed transaction terms:

- Premise: Up to 229,000 SF building within the potential for phased
- Original Term: 50 years

- Total Lease Duration: 50 years
- Rental Escalation: see below
- Rental Schedule: see below

Lease Year	Annual Rent		Lease Year	Annual Rent		Lease Year	Annual Rent		Lease Year	Annual Rent
1	207,781.20		20	214,014.64		30	287,617.77		40	386,534.24
2	207,781.20		21	220,435.08		31	296,246.31		41	398,130.27
3	207,781.20		22	227,048.13		32	305,133.70		42	410,074.17
4	207,781.20		23	233,859.57		33	314,287.71		43	422,376.40
5	207,781.20		24	240,875.36		34	323,716.34		44	435,047.69
6	207,781.20		25	248,101.62		35	333,427.83		45	448,099.12
7	207,781.20		26	255,544.67		36	343,430.66		46	461,542.10
8	207,781.20		27	263,211.01		37	353,733.58		47	475,388.36
9	207,781.20		28	271,107.34		38	364,345.59		48	489,650.01
10	207,781.20		29	279,240.56		39	375,275.96		49	504,339.51
11	207,781.20									
12	207,781.20									
13	207,781.20									
14	207,781.20									
15	207,781.20									
16	207,781.20									
17	207,781.20									
18	207,781.20									
19	207,781.20									

CEQA CONSIDERATION:

The environmental impacts of the project have been analyzed in accordance with the California Environmental Quality Act (CEQA) (California Public Resources Code [PRC] § 21000 et seq.) and the State CEQA Guidelines (California Code of Regulations [CCR], Title 14, §15000 et seq.).

An Initial Study was prepared to evaluate the potential impacts associated with the adoption of the Ground Lease. Based on the environmental analysis, the project would have no impact or a less than significant impact on the following environmental issues: Aesthetics, Agriculture and Forestry Resources, Air Quality, Energy, Greenhouse Gases, Hydrology and Water Quality, Land Use and Planning, Mineral Resources, Noise, Population and Housing, Public Services, Recreation, Utilities and Service Systems, and Wildfires. The project's impacts on the following environmental issues would be less than significant with the incorporation of mitigation: Biological Resources, Cultural Resources, Geology and Soils, Hazards and Hazardous Materials, Transportation, and Tribal Cultural Resources. Based upon review of the Initial Study, the proposed project will not have a significant effect on the environment because the Mitigation Measures outlined in the proposed Mitigation Monitoring and Reporting Program (MMRP) have been included in the project.

The MND was circulated to the State Clearinghouse on October 21, 2019, for a 30-day review period (SCH #2019109058). This 30-day review period ended on November 20, 2019, at 5:00 pm. The Planning Commission held a public hearing on December 18, 2019, where it considered the IS/MND and MMRP. After making some revisions to the proposed MMRP, the Planning Commission recommended by a 6-1 vote that the City Council adopt the IS/MND and MMRP.

An addendum to the approved IS/MND was completed in February 2024. This addendum has been prepared by the City to evaluate the potential environmental impacts of the proposed modified project in accordance with the relevant provisions of CEQA and Section 15164 of the *CEQA Guidelines*.

Pursuant to Section 15164(b) of the *CEQA Guidelines*, an addendum to an adopted negative declaration may be prepared by the Lead Agency that prepared the original negative declaration if only minor technical changes or additions are necessary or none of the conditions described in Section 15162 have occurred that require preparation of a Subsequent IS-MND. Based upon review of the Addendum, the proposed project will not have a significant effect on the environment because the Mitigation Measures outlined in the proposed Mitigation Monitoring and Reporting Program (MMRP) have been included in the project.

STRATEGIC PLAN INITIATIVE:

The Ground Lease Agreement would promote the Council's Strategic Plan goals of Economic Development.

DEPARTMENTAL COORDINATION:

The Public Works Department Airport Division, Community Development District, City Attorney's office participated in the negotiation of terms for the Ground Lease. The Public Works Department Airport Division prepared updates of the Airport Master Plan to allow for the proposed uses at the Airport Property and coordinated with the FAA to meet requirements imposed by that agency. The Public Works Department Traffic & Transportation Division coordinated the preparation of the project's traffic study for the subsequent addendum CEQA study.

FISCAL AND SUSTAINABILITY IMPACT:

The Airport Property Ground Lease would have a 50-year term. The Developer would pay a fixed \$0.03 per square foot of land area; these funds would be provided to the Airport Enterprise Fund. The Base Rent shall remain fixed for the first twenty years of the Lease with an annual rent of \$207,781. This amount is consistent with market rates given the amount of work necessary to make the Airport Property "development ready." The Developer would be responsible for the financing and constructing "Site Improvements" that are necessary to make the site developable, including the relocation of existing utilities, grading, curb/gutter, and sidewalk. By the conclusion of the Agreement, the City would have a projected net profit.

ATTACHMENTS:

Resolution
Ground Lease Agreement
Aerial Map of Property
Conceptual Site Plan