



11/20/2025

AGENDA REPORT

PROPOSED ACTION: Resolution: Approve and Authorize the Executive Director to Take All Actions Necessary to Increase the Port of Oakland Cost Share in an Amount Not to Exceed \$1,930,000 and Increase the Port of Oakland's Additional Contingency Amount in an Amount Not to Exceed \$400,000 for the Temporary License Agreement with HLT CA Hilton, LLC, for Premises Consisting of Approximately 10 Acres Located at 1 Hegenberger Road, Oakland, for Demolition of Certain Improvements, Increase the Port's Fiscal Year 2026 Non-Operating Expense Budget by \$2,130,000 to Accommodate Increase in Unbudgeted Demolition Costs and Finding that the Proposed Action is Exempt Under the California Environmental Quality Act. **(Commercial Real Estate)**

Submitted By: Jonathan Veach, Chief Real Estate Officer; Kristi McKenney, Executive Director

Parties Involved: HLT CA Hilton, LLC, Tysons, VA

Amount: \$2,330,000 total cost increase not to exceed including contingency
\$2,130,000 additional FY 2026 non-operating expense budget

EXECUTIVE SUMMARY: The former Hilton Oakland Airport site reverted to Port of Oakland's (Port) control on September 1, 2024, following Park Hotels & Resorts' (Park Hotels) lease termination. To facilitate demolition, the Board of Port Commissioners (Board) previously approved a Temporary License Agreement (TLA) with a shared funding structure authorizing a Port contribution up to \$2.4 million.

Since that approval, total project costs have risen from \$2.67 million to \$5.25 million due primarily to (1) expanded asbestos abatement required under California Occupational Safety and Health Program (Cal/OSHA) standards, and (2) extended Pacific Gas and Electric (PG&E) utility shut-off delays due to unanticipated State approvals that necessitated prolonged 24/7 site security.

To complete the demolition an amendment is needed to the TLA to increase the Port's contribution by \$2.33 million, inclusive of contingency, to complete demolition and ready the site for future redevelopment.

BACKGROUND & ANALYSIS

The Hilton Oakland Airport occupied approximately 21 acres at the entrance to Oakland San Francisco Bay Airport under a long-term ground lease that commenced in 1967. On June 21, 2024, Park Hotels, through its single-purpose affiliate HLT CA Hilton, LLC

(Hilton), notified the Port of its intent to cease hotel operations and terminate the lease effective August 31, 2024.

In accordance with the lease, the Port exercised its right to require removal of improvements deemed to be of insufficient value, and the property reverted to Port control on September 1, 2024.

To facilitate demolition and ensure an orderly transition of the site, the Board approved a TLA on July 25, 2024, authorizing demolition and a shared funding structure between the Port and Hilton. Under the original arrangement, the Port contributed up to \$2.4 million and Park Hotels contributed approximately \$920,000, for a total escrow of \$3.32 million. The TLA allowed Hilton to manage the demolition process and site security for an initial term of up to 18 months, with work scheduled for completion by February 2026.

Following execution of the agreement, demolition costs escalated significantly due to a combination of expanded asbestos abatement and prolonged delays in utility cut-offs required for life-safety compliance. Early environmental testing revealed asbestos-containing construction materials throughout the hotel complex, including drywall joint compound and floor tile mastic. While some level of abatement anticipated, under Cal/OSHA standards, these materials required a larger, full-scale abatement, including specialized labor, containment procedures, and certified waste disposal beyond the original scope. As a result, the total cost for asbestos removal increased from approximately \$467,000 to more than \$1.63 million, accounting for nearly one-third of the revised budget.

Utility coordination with PG&E also contributed to substantial delay and added cost. Initial plans to abandon utility service at the upstream gas main and electrical pole required design approval within Caltrans' right-of-way, triggering extensive engineering review and permitting delays. After extended delay, the Port and PG&E subsequently agreed to a property-line cut-off solution to effectuate disconnection, but the revised design still required City of Oakland permits and new contracts. During this extended period, demolition could not safely proceed, and the Port was required to maintain 24/7 site security at an average cost of \$80,000 per month. By August 2025, cumulative security costs had exceeded \$1.3 million, contributing significantly to the project's overall cost growth.

Other cost categories—including project management, fencing, and permitting—also increased with the extended duration of the work. Overall, the project's total estimated cost grew from \$2.67 million to \$5.25 million. The current proposed cost allocation reflects a total Port contribution of \$4.33 million (not including contingency) and a Park Hotels contribution of \$920,000, an approximate eighty-to-twenty percent split between the parties.

During negotiations to address the cost overruns, Park Hotels offered to contribute an additional \$500,000 on the condition that it could immediately terminate the TLA and withdraw from the project. Accepting this proposal would have required the Port to assume all demolition and security responsibilities, which would have introduced new

administrative steps, additional contracts, and likely delays in demolition. Given these factors, staff concluded that retaining Park Hotels in the TLA through completion represented the most efficient and cost-effective approach.

PG&E has now completed all utility design and shut-off work, clearing the way for demolition to begin. The demolition contractor, Silverado Contractors, Inc., anticipates mobilizing and commencing demolition in late November 2025, once the revised project budget is fully funded. The demolition phase is expected to take approximately eight weeks, with full completion anticipated by the end of January 2026.

The proposed amendment therefore maintains Park Hotels' participation, revises the project cost share, and authorizes the additional funding needed to complete demolition safely, efficiently, and in full compliance with regulatory requirements.

OTHER FINDINGS AND PROVISIONS

ENVIRONMENTAL REVIEW

The proposed action was analyzed under the California Environmental Quality Act (CEQA) and was found to be:

- ☒ Categorically exempt under the following CEQA Guidelines Section:
15332 (In-Fill Development Projects)
- ☐ "Common Sense" exemption under CEQA Guidelines Section 15061(b)(3).
- ☒ Other/Notes: Development Permit No. 5382 was approved on December 5, 2024. The demolition was determined to be exempt pursuant to CEQA Guidelines Section 15332 In-Fill Development Projects.

BUDGET

☐ Administrative (No Impact to Operating, Non-Operating, or Capital Budgets); OR

☐ Operating

☒ Non-Operating

☐ Capital

Analysis: The Board adopted FY 2026 Non-Operating Expense Budget includes \$600,000 for demolition of the former Hilton Oakland Airport site. Of the \$2.4 million previously approved by the Board, \$2.0 million has been deposited into an escrow account to fund and pay for demolition costs. Approval of an additional \$2,130,000 in FY 2026 non-operating expense budget is requested to fully fund the Port's contribution to the cost of demolition and allow the process to proceed. The Commercial Real Estate (CRE) Division's future operating and capital expenditures will be adjusted to accommodate these additional FY 2026 unbudgeted expenses and to realign CRE's cash position with the five-year financial projection target of over 365 days cash on hand by end of FY 2028.

<u>Total Demolition Cost</u>	<u>\$5,650,000</u>
<u>(-) Hilton Contribution</u>	<u>(\$920,000)</u>
<u>(-) Prior Port Contribution to Escrow</u>	<u>(\$2,000,000)</u>
<u>(-) FY 2026 Demolition Budget</u>	<u>(\$600,000)</u>
<u>(=) Requested Additional Budget</u>	<u>\$2,130,000</u>

STAFFING

- ☒ No Anticipated Staffing Impact.
- ☐ Anticipated Change to Unbudgeted Headcount.
Reason:
- ☐ Other Anticipated Staffing Impact (e.g., Temp Help).

<u>MARITIME AND AVIATION PROJECT LABOR AGREEMENT (MAPLA):</u> <u>Applies?</u> No (Not Aviation or Maritime CIP Project) – proposed action is not covered work on Port’s Capital Improvement Program in Aviation or Maritime areas above the threshold cost. ☐ <u>Additional Notes:</u>	<u>LIVING WAGE</u> (City Charter § 728): <u>Applies?</u> No (CRE) – proposed action entails tenancy outside of the Maritime or Aviation areas and therefore not subject to Living Wage requirements. ☐ <u>Additional Notes:</u>
<u>SUSTAINABLE OPPORTUNITIES:</u> <u>Applies?</u> No. <u>Reason:</u> Tenant has not proposed any improvements for the leased property.	<u>GENERAL PLAN</u> (City Charter § 727): <u>Conformity Determination:</u> CRE – proposed action is within City of Oakland’s planning jurisdiction and appears to conform to the General Plan. Choose an item.
<u>STRATEGIC PLAN.</u> The proposed action would help the Port achieve the following goal(s) in the Port’s Strategic Plan: ☒ Capture Our Market and Grow the Economic Base ☒ Modernize and Upgrade Infrastructure ☐ Transition to Zero-Emissions and Build Climate Resilience ☒ Maximize Land Use Value and Revenues ☐ Workforce Training and Jobs Development ☒ Create Opportunities for Local Businesses and Community Economic Development	