DATE ISSUED:	January 19, 2005	REPORT NO.: 05-013
ATTENTION:	Honorable Mayor and Members of the City Council Docket of January 25, 2005	
SUBJECT:	College Grove Shopping Center Lease Agreement	
REFERENCE:	Manager's Report No. 98-143, Dated July 13, 1998	

SUMMARY

Issues – Should the City Council authorize the City Manager or designee to execute Amendment No. 1 to the Lease Agreement with Wal-Mart Real Estate Business Trust?

City Manager's Recommendation –
1) Authorize execution of Amendment No. 1 to the Lease Agreement.

Other Recommendations -- The Planning Commission is scheduled to meet in early 2005 to consider entitlements for the proposed gas station installation associated with the proposed Lease Agreement amendment. The Eastern Area Planning Committee voted on September 14, 2004 to recommend approval of the proposed gas station installation, subject to modifications in driveway configuration.

Fiscal Impact – The current Lease Agreement (provided as Attachment 2) obligates the City to repay a $2,392,000 loan to the College Grove Shopping Center owners over a fifteen year period. The loan pays for the use of 350 spaces within the shopping center parking lot for a public park and ride facility. A formula related to incremental sales tax generated by the shopping center determines how much will be paid in each given year.

Attachment 3 provides comparative debt service schedules for the existing Lease Agreement and the proposed Amendment. The attachment includes an estimated fifteen year schedule that was prepared by fiscal consultant Keyser Marston Associates and included in the 1998 Manager's Report for the original Lease Agreement action. The debt service obligation under the existing agreement is based on annual sales tax generation from the center, so the actual debt service payment amounts are not known in

advance. The 1998 table assumed a flat level of sales tax generation. Although final sales tax numbers have not been received, partial sales information from several of the stores indicates that sales tax revenues being generated by the center have been growing and exceed the estimates used at the time the Lease Agreement was approved.
As the tables illustrate, the Amendment is projected to result in a lower loan principal amount ($1,722,240), lower annual payments and a two year delay in initiation of both interest accrual and debt service payment. There is $560,175 currently budgeted for FY 2005 for the debt service payment. This payment would not be required with the agreement amendment, and the new set annual payment of $257,166 would begin in FY 2006.

BACKGROUND

This original Lease Agreement was approved by the City Council in 1998 in conjunction with separate actions by the Redevelopment Agency to approve a Disposition and Development Agreement and a Purchase Agreement. Collectively these actions assisted the project, which resulted in a major overhaul of the College Grove Shopping Center and the recruitment of several major new tenants, including a Home Base (since replaced by a Target), Wal-Mart, Sam's Club, Staples, Big Lots and multiple restaurants and banks. Prior to the reconfiguration the center was experiencing a high vacancy rate, deferred maintenance and severely diminished revenues. Since completion of the project, the center has experienced full occupancy, improved maintenance and significant increases in jobs and sales tax revenue.

In early 2004 Wal-Mart/Sam's Club submitted a permit application for installation of a new gas station at the corner of College Grove Way and College Grove Drive, adjacent to the Sam's Club store in the College Grove Shopping Center. Since the proposed project would remove spaces from the existing park and ride lot, the City began negotiations with Wal-Mart/Sam's Club to amend the lease agreement.

DISCUSSION

The existing lease agreement loan pays for the use of 350 spaces within the shopping center parking lot for a ride share/public transit park and ride facility. According to the existing Lease Agreement formula, the first year debt service payment will be 75% of the total sales tax generated by the shopping center in excess of $550,000. In the following years the payment is 75% of the sales tax revenues in excess of $600,000. The interest rate on this loan is 10%. The loan could be paid off sooner than fifteen years, but if the sales tax revenues from the center were insufficient to pay off the loan within fifteen years, any remaining balance would be forgiven. The original agreement stated that the initial City payment was to be made in the fall of 2003. However, the City has had difficulty in obtaining sales tax generation data from the center and has been unable to calculate the amount owed. The Redevelopment Agency retained a financial consultant to gather this data, but several of the businesses in the center have not provided the sales data needed to make the calculation. Subsequent to the 1998 Lease Agreement, portions of the shopping center have been sold to new owners and the new owners and tenants are not obligated by the Agreement to provide the needed data. Wal-Mart has expressed a willingness to delay the first payment in accordance with the terms of the proposed Amendment to the Lease Agreement.

The proposed new agreement would allow the park and ride facility to continue to function, but at a somewhat reduced capacity. The total number of spaces in the designated area would change from 350 to 251. To date the park and ride facility has not come close to reaching capacity and the reduction in spaces is not expected to have a significant impact on either the operation of the shopping center or the transit service serving the area.

With the first amendment initial payments on the loan are scheduled to begin in August, 2005. Interest on the loan would be calculated as beginning in July, 2004. This represents a two year delay in both the interest accrual and initial payment obligation. In order to relieve the problem of having to gather sales data from numerous sources, some of whom are potentially unwilling to provide it, the proposed amendment has a fixed payment schedule of $257,175 per year for fourteen years of payments. The principal on the loan has been reduced by 29% to $1,722,240. This reduction equates to the 29% reduction in parking spaces resulting from installation of the gas station. The interest rate on the loan would remain the same at 10%.

The amendment would benefit the City by reducing the debt principal and by delaying and lowering annual debt service payments. However, the amendment's new loan provisions will not take effect unless the gas station project is implemented. The amendment also stipulates that if either the Wal-Mart or Sam's Club store closes before full payoff of the debt, the remainder of the debt would be reduced by half. If both of the stores closed, the entire remainder of the debt would be forgiven.

The City's Fiscal Year 2005 Budget includes $560,175 to fund the estimated payment required under the current Lease Agreement. With the proposed amendment, these funds will not be needed for this payment during this fiscal year. It is recommended that these funds be re-allocated to contribute to the reserves required under the public use leases for two other redevelopment projects – the Las Americas project in San Ysidro, and the Imperial Marketplace project. Unlike the lease agreement with Wal-Mart, these public use leases require reserves to be maintained and funded from actual sales tax revenues generated from the project in excess of the annual lease payments.

ALTERNATIVE

Do not approve the First Amendment to the Lease Agreement. This action is not recommended because it would result in higher debt and larger annual debt service obligations by the City.

Respectfully submitted,

____________________	____________________
Hank Cunningham	Approved: Bruce Herring
Director Community and	Deputy City Manager
Economic Development	

CUNNINGHAM/JJL

Note: Attachments are not available in electronic format. A copy for review is available in the Office of the City Clerk.

Attachments:
1. Proposed First Amendment to the Lease Agreement
2. Existing Lease Agreement
3. Existing and Proposed New Debt Service Schedules