



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: June 23, 2005 REPORT NO. 05-152

ATTENTION: Honorable Mayor and City Council
Docket of June 27, 2005

SUBJECT: Wave House Belmont Park, LLC – Consent to Additional Encumbrance of
the Leasehold

SUMMARY

Issue – Should the City Manager be authorized to approve an encumbrance of the leasehold at Belmont Park in amount not to exceed \$1.4 million in addition to a \$9 million loan that was previously authorized by the City Council on August 2, 2004? The proceeds of the additional \$1.4 million encumbrance will be invested into the property and added to \$4.4 million already committed by the lessee for completion of the improvements on the property. The subordination of the annual rent in excess of minimum cash payment of \$140,000 per year to debt service as approved by City Council on August 2, 2004, will remain as part of financing through the 20-year term of the loan. The lessee has provided personal and corporate guarantees securing the payment of all rent to the City in event subordination comes into effect.

Manager's Recommendation – Approve the additional encumbrance of the leasehold.

Other Recommendations – None.

Fiscal Impact – None with this action. If the Manager's recommendation is adopted, up to \$5.8 million will be invested back into the leased property to renovate the Plunge swimming pool building and to complete the construction of new water features as required by the development plan of the lease. The minimum cash payments of \$140,000 per year currently received by the City will not be affected by this action. If the future net operating income of the lessee decreases, the subordination could come into effect. Should this happen, the City will be protected by personal and corporate guarantees by the lessee to assure the rent payments.

BACKGROUND

The City leases its property at Belmont Park to Wave House Belmont Park, LLC under a lease authorized by the City Council that expires in 2038. The leasehold includes the historic Plunge swimming pool and 70,000 square feet of commercial space to house specialty retail shops, restaurants, game rooms, miscellaneous attractions, and water features in the common areas. Tom Lochtefeld, principal of Wave House Belmont Park, has over 20 years experience in designing and operating water parks in United States and overseas.

Since commencement of the lease in 1987, the Belmont Park has been an under performing asset. Mr. Lochtefeld is in the process of improving the property by creating a water-themed recreational and visitor oriented commercial complex at Belmont Park. The first permanent water feature at Belmont Park, an artificial wave called the "Flow Rider," opened on June 3, 2004. The main water feature called the "Bruticus Maximus" will be open on June 16, 2005. Completion of all phases of the development on the leasehold will occur by 2010. It is envisioned that upon completion of the development of Belmont Park, it will become a popular destination for San Diegans and tourists, provide new employment opportunities, increase economic activity, and enhance lease revenue to the City.

DISCUSSION

On April 15, 2005, Wave House Belmont Park, LLC, received a \$9 million loan from Stanford Capital, LLC. The loan with Imperial Capital Bank was approved by the City Council on August 2, 2005 (City Council Resolution R-299522 is attached as Exhibit "A"). Stanford Capital LLC replaced Imperial Capital Bank due to an impasse between the lessee and lender regarding the terms of the financing. The terms of the loan with Stanford Capital LLC remain substantially the same as with Imperial Capital Bank; however, the lessee has an option to seek the City's approval for an increase in the loan amount not to exceed \$1.4 million. The additional \$1.4 million will be used to finance the renovation of Plunge swimming pool building, install, landscaping, and construct the water-themed attractions described in the Fifth Operating Memorandum to the lease approved by the City Council in 2000 (attached as Exhibit "B").

The City has received both a personal guarantee from Mr. Tom Lochtefeld and a corporate guarantee from Wave Loch, Inc., as additional security ensuring the payment of all rent in the event of loan subordination. The lessee has also committed to investing in excess of \$1.9 million of personal equity in the project along with \$3.9 million from the loan which will result in \$5.8 million being invested in the property.

The lease between the City and Wave House San Diego, LLC allows the City Manager to approve the encumbrances of the leasehold under the following circumstances:

1. The next proceeds of the loan are devoted to developing the leased premises according to the development plan;

2. That the loan does not exceed 80% of the appraised value of the leasehold estate;
3. The operating income is adequate to cover the loan payments and the rent due under the lease; and,
4. The encumbrance must be subject to all terms of the lease.

The increase of the encumbrance of the leasehold sought by Wave House Belmont Park meets these required criteria as follows:

1. Loan Proceeds. \$1.4 million loan proceeds will be invested to implement the development plan.
2. Loan to Value Ratio. Based upon an independent appraisal dated march 29, 2005, the value of the leasehold is \$19.4 million. The new \$10.4 million loan balance is equal to 55% of the appraised value of the leasehold and does not exceed 80% of the appraised value as stipulated in the lease.
3. Debt Coverage. \$1.38 million annual net operating income from the leasehold is sufficient to pay the \$140,000 annual rent to the City and service the \$1.32 million annual debt service.
4. Consistency with Lease Provisions. The encumbrance is consistent with all terms of the lease. The subordination of a portion of the rent to the loan payment was approved by the City Council on August 2, 2004.

The City Manager recommends that the City Council authorize the proposed \$1.4 million increase in the loan amount to encumber the leasehold.

ALTERNATIVE

Do not approve increase of the loan amount. If the increase of the loan amount is not authorized, the additional \$1.4 million will not be used to improve the property.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: Bruce Herring
Deputy City Manager

GRIFFITH/VEB

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

Attachments: 1. Exhibit A/City Council Resolution R-299522
2. Exhibit B/Fifth Operating Memorandum to the Lease Agreement