

DATE ISSUED: September 14, 2005 REPORT NO. 05-172

ATTENTION: Honorable Mayor and City Council
Docket of September 20, 2005

SUBJECT: Lease Agreement - Cloverdale Stables - San Pasqual Valley

Issue - Should the City Manager be authorized to execute the proposed lease with Cloverdale Stables, Inc., for the continuation of the existing operation for horse stables, team penning, a wholesale nursery and other incidental uses?

Manager=s Recommendation - Authorize the execution of the proposed lease.

Other Recommendations - The San Pasqual/Lake Hodges Planning Group supports the City moving forward on this lease renewal in the most expedient manner. On May 19, 2005, the Rancho Bernardo Planning Group voted 15-0-0, unanimously recommending approval of the lease and also determining that the use is consistent with the San Pasqual Vision Plan.

Manager=s Report No. 99-217 recommended Exclusive Lease Negotiations with Cloverdale Stables, Inc. which was approved by the City Council November 3, 1999.

Fiscal Impact - A minimum rent of \$16,200 annually will be deposited in the Water Department Revenue Fund 41500.

BACKGROUND

Since 1984, Cloverdale Stables, located at 2460 Cloverdale Road, San Diego, CA 92027, has leased approximately 130 acres in San Pasqual Valley for the operation of horse stables, including boarding, training, lessons, team penning and a wholesale tree nursery, and other incidental uses. Located in the San Pasqual Valley Agricultural Preserve, Cloverdale Stables provides equine activities for the general public while preserving the agricultural uniqueness of the San Pasqual Valley. The flat rate lease rent is currently \$15,552 annually or \$119 per acre per year.

DISCUSSION

The proposed Cloverdale Stables lease is a 12-year percentage rate lease which contains the City's updated lease provisions including the requirement for a Resource Management Plan and Best Management Practices. These provisions establish approved standards that require the lessee to manage animal waste, set water irrigation standards and address storm water run off from the leasehold to protect surrounding area environmental concerns such as ground water quality. The lease will provide for boarding of horses, riding arena and roping and penning arena for the general public and conforms to the uses described in the San Pasqual Vision Plan for the San Pasqual Valley Agricultural Preserve.

The Lessee has improved the facility with two mobile homes, stables, stable barn, lighted penning arena, fencing, and corrals. As consideration for the new lease, the Lessee will paint and repair the existing barn, add landscaping such as tree, and plant material along roadway and fence and maintain the east lease boundary to protect the sensitive land area at Cloverdale Creek. Improvements on the City property are limited to conform to the uses allowed in the Agricultural Preserve.

The proposed lease reduces the size of the leasehold from 130 acres to approximately 44.8 acres. The area removed from the leasehold includes sensitive land areas included in the Multiple Species Conservation Plan and areas previously taken for the realignment of Cloverdale Road. The lessee will fence and maintain, to the satisfaction of the City, the lease boundaries adjacent to the sensitive land areas for their protection. The lease increases the annual minimum rent by \$648 for a new per acre rate of \$362 per acre per year as compared to the old rate of \$119 per acre per year. The minimum annual rental rate of \$362 per acre is consistent with the \$250 - \$400 per acre agricultural rate as recommended by the American Society of Farm Managers, Rural Appraisers and \$300 - \$400 per acre as recommended by the City Acquisition and Valuation Division. In addition, the lease requires the payment of a percentage of gross receipts to the extent percentage rents exceed minimum rent.

The percentage rate categories included in the lease as listed below are comparable to other agricultural leases with the same uses:

<u>Percentages</u>	<u>Business Activities</u>
7.5%	Of gross income from boarding of horses
10.0%	Of gross income from sale of livestock
4.0%	Of gross income wholesale tree nursery
5.0%	Of net income from penning competitions held on the leasehold
5.0%	Of gross income from training and lessons
20.0%	Of gross income from all unauthorized sources

Appraisal and adjustment of the percentage rate categories will be completed at the commencement of each five year period and minimum rent will be adjusted at the commencement of each four year period.

The lease, at the City's option with one year's notice, allows a charge for water pumped from the ground that is used for the approved leasehold uses. The lessee is responsible for all costs to pump the water from the ground and to maintain the wells servicing the leasehold. The water charge, if imposed, would be a percentage of the interruptible, untreated water rate and will be determined solely by the City Manager. It is estimated the use to be 3 to 5 acre feet of water per year. The Wild Animal Park currently pays \$162 per acre foot.

ALTERNATIVE

Do not approve the lease, and direct City staff to issue a Request for Proposals. This is not recommended as this lessee has been at this location since 1984 and is providing a desired use in a rural setting in the San Pasqual Valley Agricultural Preserve.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: Bruce A. Herring
Deputy City Manager

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