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Title: Actions related to Granite Park (Council District 4)

1. Adopt a finding of Categorical Exemption pursuant to Section 15301/Class 1 of the California Environmental Quality Act (CEQA) Guidelines
2. Approve a ground lease with Central Valley Community Sports Foundation
3. RESOLUTION -Finding Central Valley Community Sports Foundation is uniquely qualified to provide recreational programming at Granite Park under the sole source competitive bidding exception
4. Approve a service contract with Central Valley Community Sports Foundation to provide recreational programming at Granite Park

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Attachments: 1. Feasibility & Econ Impact Study Regional Sports Complex 062415.pdf, 2. FY 2015 Granite Park Costs 091515.pdf, 3. Park Cost Analysis FY2015.pdf, 4. Granite Park Appraisal Report 083115.pdf, 5. 69051ns Service Agreement_GP_9 17 15.pdf, 6. 69063ns CVCSF_ground lease 091715.pdf, 7. Resolution.pdf

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9/24/2015	1	City Council	adopted as amended	Pass

REPORT TO THE CITY COUNCIL

September 24, 2015

FROM: BRUCE RUDD, City Manager
City Manager's Office

SUBJECT

Actions related to Granite Park (Council District 4)

1. Adopt a finding of Categorical Exemption pursuant to Section 15301/Class 1 of the California Environmental Quality Act (CEQA) Guidelines
2. Approve a ground lease with Central Valley Community Sports Foundation
3. RESOLUTION -Finding Central Valley Community Sports Foundation is uniquely qualified to provide recreational programming at Granite Park under the sole source competitive bidding exception
4. Approve a service contract with Central Valley Community Sports Foundation to provide

recreational programming at Granite Park

RECOMMENDATION

It is recommended that the City Council approve a Twenty Five Year Ground Lease and supporting Ten Year Service Contract under the sole source competitive bidding exception with Central Valley Community Sports Foundation to provide recreational programming at Granite Park and authorize the City Manager to execute both agreements, subject to approval by the City Attorney, on behalf of the City.

EXECUTIVE SUMMARY

Over the last several months the City of Fresno (City) has been working with Central Valley Community Sports Foundation (CVCSF), a local nonprofit, in developing an agreement in which CVCSF would invest more than \$2.7 million in capital improvements needed to renovate and improve the vacant Granite Park Sports Complex. The recommended agreements between the City and CVCSF are consistent with the terms and conditions originally discussed with Council on March 5, 2015, whereas CVCSF will fund the needed capital improvements in exchange for a multi-year service agreement. In consideration, the City will pay CVCSF \$150,000 per year for the next 10 years to provide various recreational programs and opportunities to the community. The financing of the various capital improvements will be borne exclusively by CVCSF.

BACKGROUND

Earlier this year, Mr. Terance Frazier and Mr. TJ Cox met with the City Manager to discuss the possibility of structuring an agreement that would allow the property, commonly known as Granite Park, could be renovated. Granite Park actually consists of a commercial/retail component, which is owned by Omni Financial, and a sports complex that is owned by the City. The City acquired the sports complex approximately five years ago after the original developer defaulted on a loan that the City had guaranteed. While the loan was repaid, the sports complex has not been used since that time and continues to deteriorate, which is creating an eyesore for both the surrounding neighborhood and adjacent commercial retail center.

Out of these discussions a conceptual agreement was developed in which CVCSF would fund the restoration of three existing baseball fields, as well as add a fourth baseball field, volleyball courts and construct a small restaurant. CVCSF would fund the necessary capital improvements in exchange for a long term ground lease provided that the City would continue to contribute an amount equivalent to what the City currently spends to simply hold and maintain the property. The payment to CVCSF by the City would end after 10 years. At the time it was estimated that the cost of security, code compliance and other related holding costs ranged from \$120,000 to \$150,000 per year. It was also made clear during these discussions that the City would not be liable for the repayment of the loan in the event that CVCSF was to default.

The framework of the possible agreement with CVCSF was subsequently presented to the Fresno City Council on March 5, 2015. Based on these discussions, a negotiating team consisting of Mayor Swearingin, Councilmembers Brand and Caprioglio, as well as the City Manager and City Attorney, was formed in order to continue working with CVCSF on a possible agreement. The City entered into an Exclusive Negotiating Agreement (ENA) on March 20, 2015, in order to allow the parties to attain additional information related to cost of renovations and to conduct a market analysis to determine if

the projected revenues could support the financing of the capital improvements as well as ongoing operating expenses, debt service, and a capital replacement fund.

Construction Estimates and Feasibility/Economic Impact Study

Over the course of the next following months CVCSF retained the services of David Taussig and Associates, Incorporated, who conducted a Feasibility and Economic Impact Study as well as Legacy Construction who inspected the facility and developed a cost estimate for the renovations and other related capital improvements. The construction estimates were needed to determine the amount that CVCSF would need to finance in order to construct the proposed capital improvements.

Based on the updated construction estimates it was determine that approximately \$2.7 million would be needed to fund the proposed renovations and other related improvements, including the addition of the fourth ball field, volleyball courts, and restaurant. This information, and underlying financing costs, was subsequently used in the Feasibility and Economic Impact Study (**Exhibit A**) to determine if the project could generate sufficient revenues to support the ongoing costs of operations, including debt service and a capital reserve.

The study, which was completed on June 24, 2015, concluded that there were sufficient revenues to cover ongoing expenses provided that the City continued to provide \$150,000 over the next 10 years. Part of the revenue assumptions also included \$60,000 per year that would be generated through a revenue sharing and/or the ability to sublease a portion of the property with an outdoor advertising firm who would be allowed to install a digital billboard on the eastern side of the property adjacent to State Route 168. The opportunity to generate the additional income revenue is possible due to the fact that digital billboards are permitted on City owned property. The study also estimated that the facility would generate \$27,000 in new Transient Occupancy Tax for the City.

City Cost Analysis

The next step in the process was for the City to confirm the current expenses associated with security, code compliance and other related costs (e.g., common area maintenance fees) as well as obtain an updated appraisal in order to determine the value of a market based lease. The City Manager also directed staff to conduct an analysis of comparable City owned facilities in order to compare the cost of holding the Granite Park property versus the cost of operating and maintaining existing park facilities.

According to Budget Management and Studies Department (BMSD), the General Fund expended more than \$126,238 in Fiscal Year 2015 to cover various expenses associated with the cost of securing and maintaining Granite Park of which \$22,739 was associated with common area maintenance (CAM) charges (**Exhibit B**). The remaining balance of \$103,499 was spent on security, vandalism, and code compliance. The cost of previous years was probably higher due in prior years due to the level of vandalism, graffiti, and the amount of time and resources associated with removing the homeless from the site.

BMSD also worked with PARCS and Public Works to determine the cost of maintaining and operating park facilities that are comparable in that they include lighted ball fields and a small building. This analysis determined that the average cost of simply operating and maintaining these facilities (e.g., turf maintenance, janitorial, utilities) averaged \$12,530 per acre (**Exhibit C**). It should be noted that these costs did not include the staff needed to actually provide programming nor did it include life-

cycle/future capital replacement costs for various assets such as lights, backstops, roofs, etc.

Based on this analysis, the annual cost of operating and maintaining a 15 acre sports facility similar to Granite Park would be approximately \$188,000. Again, this estimate does not include other operating expenses such as staffing needed to support organized games, tournaments, etc., or the funding of a capital reserve that is needed to fund future capital replacement costs. Therefore, the proposed annual contribution of up to \$150,000 for the next ten (10) years was more than reasonable.

Property Appraisal

Finally, an updated appraisal was conducted by Zengel and Associates to determine if a market based ground lease was consistent with the estimated \$61,000 contained in the Feasibility and Economic Impact Study. Based on the appraisal, which was received on August 31, 2015, the estimated value of the property is \$3,060,000, but was discounted by 60% due to limited access to the property. The appraisal also estimated the value of a market based lease at \$61,200 (**Exhibit D**). Upon receipt of the appraisal a request was made for Mr. Zengel to reevaluate his appraisal based on information that may not have been available to him at the time. Even after a review of this additional information, the estimated market value of a ground lease did not change and remained at \$61,200 annually, which was consistent with the estimate used in Feasibility and Economic Impact Study.

Recommended Ground Lease and Service Agreements

With the due diligence portion of negotiations completed, the parties met to discuss how a proposed agreement(s) could be structured that was consistent with initial deal points agreed to in March. Based on further negotiations with CVCSF it is recommended that the City enter into two separate agreements consisting of a 25 year Ground Lease and a 10 year Service Agreement

Twenty-Five Year Ground Lease

The Twenty-Five Year Ground Lease is a market based ground lease which includes, but is not limited to the following conditions:

Term

The Initial Term of this Lease shall be twenty-five years (the "Initial Term") commencing on the Effective Date. This Lease shall automatically renew for five additional ten-year Terms thereafter, unless either party gives notice to the other at least three months prior to the end of the current term of that party's desire to modify or terminate all or any portion of this Lease at the end of the current Term.

Rent

Rent shall be accrued at \$62,500 annually and credited against the value of the Capital Improvements constructed on the Premises by Tenant, estimated at \$2.7 million. Rent shall be increased annually at a rate of 2.75%. At the conclusion of the Initial Term, rent shall be renegotiated, taking into account the value of (i) any capital improvements made during the Initial Term in addition to the \$2.7 million in Capital Improvements contemplated in this Lease, and (ii) any capital improvements contemplated over the next extension term. Tenant shall be given rent credit for the value/anticipated value of those improvements.

Common Area Restrictions

Tenant shall be subject to and responsible for compliance with any Granite Park Common Area regulations. City shall pay Granite Park Common Area Maintenance (CAM) charges applicable to the Premises.

Billboard and Signage Rights

Tenant shall own the exclusive right to, sublease or operate limited areas on the Premises for digital or other billboard signage. The exact location and dimensions of digital billboard signage is to be mutually agreed upon by Landlord and Tenant. The number and location of other billboards and signs shall be approved by City at its discretion. Tenant may, at its election, participate in the City's RFP process for selection of an electronic billboard contractor.

For each year the digital billboard is in operation, Tenant shall retain \$60,000 in revenue generated by the billboard, which shall be used to partially fund a capital reserve account. Any revenue in excess of \$60,000 annually shall be split equally between Landlord and Tenant. All revenue generated from the sublease or operation of billboards and signs shall be reinvested into the Premises, for uses including but not limited to, payment of debt service, operating expenses, funding capital improvements, and community and municipal recreational programming.

Concessions

All concessions shall be subject to the prior approval of Landlord, and such approval shall not be unreasonably withheld.

Title to Buildings and Improvements.

Title to all buildings, structures and improvements that now, or may from time to time constitute a part of the Premises, shall be and remain in Tenant until the termination of this Lease. Upon the termination of this Lease, title to all such property, buildings, structures and improvements shall pass to and vest in Landlord without cost or charge to it, free and clear of all liens, and in good condition, reasonable wear and tear excepted.

Maintenance, Repairs, Governmental Regulations and Waste.

Tenant shall, during the Term, at its own cost and expense and without any cost or expense to Landlord and assume all maintenance, security, repair, landscaping, and associated costs for the Premises. This includes, but is not limited to, keeping and maintaining all buildings and improvements now or hereafter located on the Premises and all appurtenances thereto in good and neat order and repair and shall allow no nuisances to exist or be maintained therein.

Improvements/Alterations

Following the Effective Date, Tenant shall proceed with due diligence and dispatch to complete the construction on the Premises of the following: (i) Completely refurbish three baseball fields, with irrigation, fencing, turf, and lighting; (ii) new construction of basketball/volleyball and sand volleyball courts, with ; (iii) construction of a new restaurant, shop and sundry facility, including dining patio; (iv) site electrical and plumbing for all requisite fire, storm water, and sanitary sewer lines; (v) walking/jogging paths; and (vi) signage, fencing, and site clean-up, (collectively, the "Capital Improvements"). Capital Improvements shall be valued at least at \$2.7 million, and Tenant shall complete construction of such improvements not later than two years from the Effective Date.

Ten Year Service Agreement

The recommended Service Agreement calls for the City to pay CVCSF \$150,000 per year for the next 10 years to provide a variety of sports and recreational programming consisting of, but not limited to:

- Spring softball league from 6:00 p.m. to 11:00 p.m. on ten Wednesday nights that the City selects, which the City shall select dates and notify Service Provider by November 15th of each year.
- Winter softball league from 6:00 p.m. to 11:00 p.m. on ten Wednesday nights that the City selects, which the City shall select dates and notify Service Provider by November 15th of each year
- Spring sand volleyball league from 6:00 p.m. to 11:00 p.m. on ten weekday (excluding Friday) nights that the City selects, which the City shall select dates and notify Service Provider by November 15th of each year.
- Four weekend youth sand volleyball clinics, which the City shall select dates and notify Service Provider by November 15th of each year.
- Four weekend youth baseball clinics per year, which the City shall select dates and notify Service Provider by November 15th of each year.
- Four weekend youth basketball clinics, which the City shall select dates and notify Service Provider by November 15th of each year.
- A minimum of 400 (four-hundred) hours of After-School Programming hosted at the Facility per year, with activities to be coordinated with City's Parks, After-School, Recreational and Community Services Department.
- The following portions of the Facility shall be open to the public at no cost on weekdays from at least 9:00 a.m. to dusk, national holidays excluded: basketball/volleyball courts, sand volleyball courts, walking paths/trails.

ENVIRONMENTAL FINDINGS

Staff has performed a preliminary environmental assessment of this project and has determined that it falls within the Categorical Exemption set forth in 15301/Class 1 (no change or expansion of existing use), because this facility will continue to be a recreational sports complex. Furthermore, staff has determined that none of the exceptions to Categorical Exemptions set forth in the CEQA Guidelines, section 15300.2 apply to the project.

LOCAL PREFERENCE

While no local preference is required for service agreements of this type, CVCSF is nonetheless a local business.

FISCAL IMPACT

In Fiscal Year 2015 the City spent approximately \$104,000 to just secure and maintain the Granite Park property. Approval of the both agreements will result in a net annual increase to the General Fund of \$46,000 for the next 10 years. There is no further impact on the General Fund at the end of 10 year period. Furthermore, the City is not responsible for the loan and/or payments in the event that CVCSF was to default on their obligations. In exchange, the City has the ability to add 15 acres

of renovated and improved green space in an area of the community that is lacking in these kinds of amenities.

Attachments:

Feasibility & Economic Impact Study

FY 2015 Granite Park Costs

Park Cost Analysis FY 2015

Granite Park Appraisal Report

Service Agreement

Ground Lease

Resolution - Sole Source