

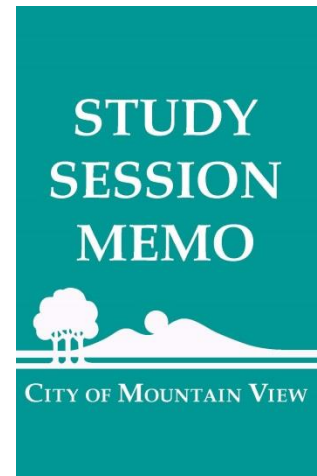
DATE: January 23, 2018

TO: Honorable Mayor and City Council

FROM: Dennis P. Drennan, Real Property Program
Administrator
Dawn S. Cameron, Assistant Public Works
Director
Michael A. Fuller, Public Works Director

VIA: Daniel H. Rich, City Manager

TITLE: Shoreline Sailing Lake/Boathouse Lease



PURPOSE

The purpose of this Study Session is to seek Council direction on the future leasing of the Shoreline Sailing Lake and Boathouse currently leased to Silicon Shores, Inc.

BACKGROUND

On March 25, 1993, the City entered into a lease with Silicon Shores, Inc., for the lease and operation of the Shoreline Sailing Lake and boating facility that included collection of launch fees, teaching sailing and boating-related classes, rental of boats and equipment, sales of boating equipment, supplies and clothing, and operation of a food service café. The initial term of the lease had an expiration date of December 31, 1997. Additionally, there were three renewal periods of seven years each at the discretion of the City. The current lease, including all renewal periods, expires on December 31, 2018.

The current lease is a percentage lease (as opposed to a fixed monthly rental), with the tenant paying 7 percent of gross receipts collected on all food service and 10 percent on all other gross revenue. The tenant is required to submit a monthly summary of all gross receipts for food service, rentals, lessons, launch fees, and any other revenues. The total annual net rent paid (net of 50% of shared utilities) to the City was \$232,158 and \$245,000 for Fiscal Years 2015-16 and 2016-17, respectively.

Under the terms of the lease, the City is responsible for the maintenance and repair of the structural elements of the buildings and facilities, and the tenant is responsible for the maintenance, repair, and replacement of interior improvements and all fixtures and equipment.

The lease was amended on April 16, 1993 to clarify some provisions of the original lease, to reduce the rent related to food service revenue from 10 percent of gross receipts to 7 percent of gross receipts, and to memorialize the City's contribution of \$60,000 toward tenant improvements to the Boathouse. The City has not contributed any capital funds for improvements since that time, except for routine maintenance and repairs of the structures. The current tenant has expressed interest in continuing to lease the facilities, but has also expressed a desire to have the City contribute to making some improvements to the facility.

Over the past 8 fiscal years, coming out of the recession, the current tenant has increased the net rent to the City from an annual amount of \$117,000 to over double that with revenue of \$245,000 in 2016-17.

DISCUSSION

With the pending expiration of the lease on December 31, 2018, staff seeks Council direction on two matters:

1. **Should the City enter into exclusive negotiations to renew the lease with the current tenant, or should the City market the property through a competitive Request for Proposals (RFP) process?**

During their 25-year tenancy, the current tenant has been a responsible and responsive tenant, paying rent to the City in a timely manner, maintaining the property and programs, and satisfying all required lease obligations. As noted above, the tenant paid \$244,999.67 in net rent for Fiscal Year 2016-17. Staff is unaware of any similar facility in the region with which to make a comparison of "market rent."

Marketing the retail space through a competitive RFP process would provide other potential tenants, as well as the current tenant, an opportunity to offer lease terms for the facility that may potentially be more advantageous to the City (e.g., increased lease revenues, enhanced services to residents and other users of the facility, etc.). Preparing an RFP and evaluating proposals would require a moderate amount of staff time over a period of 6 to 8 weeks and the retention of a retail brokerage to reach out to a potential tenant base.

2. **Is the City Council willing to consider a capital investment to upgrade the facility in conjunction with signing a new lease; or, would Council consider**

requiring the tenant to pay for any upgrades, but agree to a longer-term lease to allow the tenant to amortize those costs?

The facility was constructed approximately 25 years ago and the usage of the facility has increased to the point it is exceeding its current capacity. Some of the capital improvements suggested by the current tenant, and endorsed in principle by staff include:

- Kitchen expansion to bring the facility out closer to the parking lot. The space is currently too small for their operations and they have requested more space for food preparation and additional equipment. This investment could result in higher food sales with attendant higher rent to the City.
- Dock replacement has been requested by the current tenant, along with reconfiguring the layout and expanding the amenities. These would include a separate kayak launch dock and separating the paddle sports and wind sports onto two different docks.

Updating and upgrading this 25-year-old facility will ensure it remains a feature attraction of the Shoreline Regional Park for the foreseeable future. Expanding and improving the facilities may also increase the revenue stream from the operation and increase rents to the City. Staff has not yet developed plans or cost estimates for the improvements, but the total expected cost, if all identified improvements were made, would be in the range of \$500,000 to \$750,000.

If the City were to invest the capital to upgrade the facility, such costs could be included in the Fiscal Year 2018-19 Capital Improvement Program and could be recaptured over time through rents. Staff has not yet developed a schedule for design and construction of such improvements. As an alternative, the City could enter into a longer-term lease and require the tenant to pay for some or all of the improvements. The longer-term lease would allow the tenant to then amortize the costs of the improvements over the term of the lease. Under either alternative, the tenant should be required to maintain the space and the equipment.

RECOMMENDATION

Staff seeks input and direction from the City Council regarding future leasing of the Shoreline Sailing Lake/Boathouse currently leased by Silicon Shores, Inc. Specific questions include:

1. Should the City enter into exclusive negotiations to renew the lease with the current tenant, or should the City market the property through a competitive RFP

process to seek business terms that could be potentially more advantageous to the City?

2. Is the City Council willing to consider a capital investment to upgrade the facility in conjunction with signing a new lease, or would Council consider requiring the tenant to pay for upgrades, but agree to a longer-term lease to allow the tenant to amortize those costs?

While the current tenant has performed well and has not created issues or concerns for the City, staff believes that after 25 years it would be appropriate to issue an RFP and “test the market.” An RFP could also explore the options for capital improvements.

NEXT STEPS

Based on Council’s comments and direction, staff will return to Council in Closed Session in early spring for direction on price and terms for a new lease.

PUBLIC NOTICING – Agenda posting.

DPD-DSC-MAF/7/CAM
930-01-23-18SS-E

cc: Ms. Christina Ferrari

RM – Marchant, RS – Achabal, APWD – Cameron