



DATE: March 31, 2015

CATEGORY: Consent

DEPT.: Public Works

TITLE: **Mountain View Chamber of Commerce Ground Lease**

RECOMMENDATION

Authorize the City Manager to execute a new ground lease with the Mountain View Chamber of Commerce (Chamber) with the following terms and conditions:

1. Basic lease term of 10 years, with two 5-year renewal options, subject to approval by the City Council.
2. Maintain a nominal rent of \$1.00 per year in exchange for the Chamber providing those services and benefits to the City each year as listed in Attachment 1 to the Council report.
3. On or before September 1 of each year of the lease term, the Chamber submit an annual report to the City detailing its activities and accomplishments in support of business advocacy, economic development, and visitor services.

BACKGROUND

In 1963, the City and the Chamber entered into a 20-year ground lease, with an option for an additional 20 years, for approximately 6,000 square feet of land adjacent to Pioneer Park. The Chamber then raised funds to construct the approximately 1,700 square foot building it now occupies on the site.

In 1994, a new and restated ground lease was signed by the City and the Chamber. A succession of lease amendments have placed additional requirements on the Chamber and extended the term of the lease to its current expiration date of April 30, 2015. A 2003 amendment to the lease required the Chamber to provide specific services to the City in lieu of rent and to submit an annual report of its activities and accomplishments. A copy of the Chamber's most recent Annual Report, dated March 3, 2015, is included

as Attachment 2. Staff has no record of having received annual reports for the period 2010-2014.

Rather than entering into another amendment extending the term of the lease or adding additional provisions/requirements, staff is recommending a new lease be executed.

ANALYSIS

A new basic lease term of 10 years, with two 5-year renewal options, subject to the approval of future City Councils and subject to the Chamber fulfilling its leasehold obligations, is proposed.

Although the 1960s-era Chamber building is in generally good condition, some capital upgrades are required to have it conform to a modern office environment. Additionally, the Chamber has in recent years incurred approximately \$5,000 in remedial repair expenses to address recurring problems with the sewer lateral connecting the building to the City's sewer main in Church Street. Based on the recommendation provided by a plumbing contractor, the Chamber has determined the sewer lateral needs to be replaced. Under the current and proposed lease terms, the Chamber is responsible for all capital upgrades and maintenance of utility services to the building. The Chamber has not, as yet, developed formal plans or a cost estimate for the necessary capital upgrades to the building and replacement of the sewer lateral, but will move forward to do so if it can amortize the costs over a sufficient period of time (i.e., the proposed 10-year term of the new lease agreement).

The Chamber Board has endorsed the deal terms outlined in this report.

Estimated Value of Leased City Property

Staff calculated the probable market-rate rental value of its ground lease with the Chamber. Based on the size of the parcel, the relatively short-term nature of the lease, and the fact the parcel does not have street frontage, staff estimates the probable market rental value of the property to be \$30,000 to \$40,000 per year (land rent only).

If the Chamber were to lease 1,700 square feet of comparable (i.e., Class B) office floor space elsewhere in downtown Mountain View, its rent payment would likely range from \$3.75 to \$4.50 per square foot per month, or \$75,000 to \$90,000 per year.

Services to the City in Lieu of Increased Rent

Since the inception of the lease in 1963, the Chamber has provided a number of services to the City, such as visitor services, production and distribution of City maps, establishing the “I Love Mountain View” campaign, etc., in lieu of paying more than a nominal rent (i.e., \$1.00 per year). Staff recommends this practice continue, but with some additional requirements placed on the Chamber. The proposed new scope of services and requirements are listed in Attachment 1. Upon Council’s approval of the revised scope of services and requirements, including any additional changes, Attachment 1 will become an exhibit of the lease.

City Benefits In Lieu of Increased Rent

Until this current year, the City was required to pay an annual fee of approximately \$4,600 for its participation in the Chamber’s Art and Wine Festival event for space used by the Police and Fire Departments. Additionally, City officials and/or employees have been charged the standard public rate to attend Chamber functions, such as the Celebration of Leaders dinner.

As a new lease requirement, staff recommends that a limited number of City officials and employees be able to attend select Chamber events at no cost and that two spaces be reserved, at no cost, at the Art and Wine Festival for City displays (the normal cost of vendor space at the Festival is \$3,000 to \$5,000).

Comparison with Neighboring Cities

In preparing this report, staff examined the business relationships between neighboring cities and their respective Chambers of Commerce.

- Los Altos Chamber of Commerce—Leases a parcel of land within the Foothill Expressway right-of-way from the County for \$1.00 per year. The Chamber receives less than \$2,000 in financial support from the City each year.
- Palo Alto Chamber of Commerce—Leases a building from a private property owner who is required to rent out a portion of the building to a Palo Alto nonprofit as a required community benefit. The City of Palo Alto contributes sponsorship total of \$30,000 per year to sponsorships of Chamber events and programs.
- Sunnyvale Chamber of Commerce—Leases a building from a private property owner. At one time the City did lease a building to the Chamber, but that lease was eventually terminated. There is no City financial support of the Chamber.

- Menlo Park Chamber of Commerce—Leases a historic train depot building from the Peninsula Joint Powers Board for \$3,225 per month. The City provides no financial support.

FISCAL IMPACT

If the recommendations are adopted, the City will receive additional benefits from the Chamber at no cost as a result of entering into a new ground lease with the Chamber. This will save the City a nominal amount of money.

ALTERNATIVES

1. Approve a modified lease term.
2. Direct staff to charge rent for the ground lease based on the appraised value of the property (will require an appraisal and additional Council discussion/action).
3. Require additional services from the Chamber of Commerce not currently identified in Attachment 1.
4. Provide other direction to staff.

PUBLIC NOTICING

Agenda posting, and a copy of report to Oscar Garcia, President and CEO, Mountain View Chamber of Commerce.

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Attachments: 1. Scope of Chamber of Commerce Services
2. Annual Report