



CITY OF LONG BEACH

R-27

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

March 13, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the Second Amendment to Lease No. 7013 between the City of Long Beach and Long Beach Yacht Club, a non-profit public benefit corporation, and all documents necessary to extend the term of the lease for 30 years for City-owned land and improvements at 6201 Appian Way. (District 3)

DISCUSSION

The Long Beach Yacht Club (LBYC) was established in 1929 and initially met at the Pacific Coast Club. LBYC acquired its first clubhouse in 1937, midway along a pier, westerly of the Los Angeles River, in what is now the Port of Long Beach. In 1941, this facility was donated to the Long Beach Sea Scouts and the LBYC focused its vision on Alamitos Bay as the preferred location for a new clubhouse. For a subsequent number of years, LBYC initiated and sustained political and financial support for a plan to create the Alamitos Bay Marina. After the completion of the first basin in 1957, LBYC began negotiations with the City of Long Beach (City) to lease land to accommodate its new clubhouse.

On January 20, 1960, the City executed Lease No. 7013 (Lease) with LBYC for approximately 70,577 square feet of City-owned property (Premises) at 6201 Appian Way (see Exhibit "A"). The Premises are zoned "P", a park zone designation that allows private clubs as an allowed use with a Conditional Use Permit. However, the existing private club use pre-dates the zoning and is considered a legal non-conforming use. The original term of the Lease was for 25 years, expiring January 19, 1985, at a rental rate of \$1,800 per year. The Premises were to be used for activities associated with the operation of a yacht club for the benefit and enjoyment of its members and guests. Under the Lease, LBYC was obligated to construct a new clubhouse and related improvements at a cost of not less than \$100,000. With fixtures and equipment, the clubhouse ultimately cost over \$250,000. Upon completion, ownership of the clubhouse and related improvements were transferred to the City.

In January 1970, the City Council authorized the execution of the First Amendment to Lease No. 7013 extending the term of the Lease for 50 years, expiring January 19,

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2020, and increasing the rent to \$2,400 per year, with Consumer Price Index (CPI) increases every five years during the term. The First Amendment also required a further investment of \$50,000 for capital improvements to the clubhouse. The current annual base rent is \$11,007.

The LBYC funds and hosts a number of charity events that provide a public benefit component to its occupancy of the Premises. LBYC provides a number of water-related activities that benefit the community and are provided at no cost to the City and at little or no cost to the community. These activities include, but are not limited to:

- Annual Regattas, including Congressional Cup, Race Week, and Women's One-Design Regattas
- Coastal Water Protection Program
- Charity Functions
- Olympic Trials
- Free Meeting Space for Civic Groups
- Honorary Memberships

The LBYC Foundation initiated and maintains a working relationship with the National Association for the Advancement of Colored People in providing a Community Outreach Program allowing disadvantaged youths an opportunity to learn to sail and compete on Foundation boats during the weekly Wet Wednesday races. Additionally, LBYC members sponsor the annual Team Spirit Breast and Ovarian Cancer 10K Walk/Run events, raising approximately \$75,000 per year.

LBYC members have initiated, or are leading, cooperative programs with leaders of other aquatic-based businesses and organizations to establish Long Beach as the Aquatic Capital of America. These broad based programs focus on:

- Enhancing the City's reputation as a tourist destination
- Providing increased and stable employment opportunities
- Expanding water related education and recreational opportunities
- Integrating education and training programs for young people in inland areas

While the clubhouse continues to be maintained in a first class manner, certain capital improvements are necessary to extend the useful life of the building. These improvements include electrical and plumbing upgrades to the kitchen and ADA bathroom remodeling, totaling \$430,000. Elevator improvements totaling \$180,000 have already been completed. Similar to the terms of the original Lease and First Amendment, LBYC seeks to secure occupancy consistent with the useful life of the capital improvements and has requested a lease extension to January 2050.

In September 2006, at staff's request, R. P. Laurain & Associates produced a Rental Value Study for the LBYC leasehold. Comparing this facility with fourteen yacht clubs

from Chula Vista to Ventura, particularly as it relates to land versus water area and base versus percentage rent, the appraiser concluded that the annual ground rent applicable to the LBYC leasehold as of September 2006 is \$1.30 per square foot of land, or approximately \$91,700 per year. It is important to understand, however, that the current lease and related rent structure extends to January 2020, and rent adjustments prior to that date are limited to CPI increases every five years.

After considerable negotiation and analysis with representatives of LBYC, staff has prepared a spreadsheet of alternative income streams as shown on Exhibit "B". There are three columns to consider as follows:

- The Standard Extension column indicates an income stream that assumes the existing rent structure through 2019, increasing to fair market rent in 2020. The adjusted annual fair market rent in 2020 would be \$123,237. Rent was then projected through the term of the proposed extension to 2050, increasing every five years as stated above, resulting in a final annual rent of \$299,129. Over the extended term, lease payments would total \$6,519,251. Bringing this income stream back to Present Value at 8 percent, the indicated lump sum value would be \$818,759. This is the lump sum that, if invested at 8 percent interest, would yield an income stream equivalent to the rental income stream.
- The Fair Market Rent column indicates an income stream that assumes that rent is immediately adjusted to fair market, or \$91,700 annually, increasing every five years as stated above. Over the extended term, lease payments would total \$7,708,206. Bringing this income stream back to Present Value, the indicated lump sum value would be \$1,520,150.
- The Proposed Rent column is a combination of two income streams. The first is the Scheduled Rent. This income stream assumes that the rent structure under the existing lease continues through the end of the extended term to 2050, resulting in a final annual rent of \$41,623. Over the extended term, lease payments would total \$980,719 and the Present Value would be \$192,651. The second income stream is Additional Rent that includes extension fees, and both re-investment and reimbursement funds. The re-investment and reimbursement funds relate to capital improvements to both the City's clubhouse and the City's long dock. As indicated in this column, LBYC will contribute \$1,680,000 over the term of the existing lease, with \$1,530,000 paid within the next 5 years. The Present Value of the Additional Rent is \$1,443,728. Bringing the combined income stream back to Present Value, the indicated lump sum value would be \$1,520,563.

Comparing Present Values (\$818,759, \$1,520,150 and \$1,520,563) is a traditional tool to assist in decision-making. The City would be motivated to select the highest Present Value between the alternative income streams. Utilizing this approach, the Proposed Rent income stream offers the highest Present Value. Additionally, the City receives an

investment in its clubhouse and its long dock, both of which will extend the useful life of these City-owned assets for the citizens of Long Beach.

Funds generated from this Lease are deposited into the Tidelands Fund and must be reinvested into Tidelands assets. Therefore, it is staff's opinion that the City would be better served by ensuring that its assets, the clubhouse and the long dock, are refurbished and improved by requiring LBYC to fund these capital improvements, ensuring the future enjoyment of these assets by the local community.

In that regard, staff has negotiated a 30-year lease extension based on the rent structure in the proposed Rent column above, containing the following major provisions:

- Lessor: City of Long Beach.
- Lessee: Long Beach Yacht Club, a non-profit, public benefit corporation.
- Premises: Approximately 70,557 square feet of city-owned land and improvements at 6201 Appian Way.
- Term: The term of the Lease shall be extended 30 years and shall expire on January 20, 2050.
- Rent: Scheduled rent shall remain as set forth in the current lease. Additional rent shall be in the form of a) \$250,000 in extension fees; b) \$430,000 in investment into capital improvements to the clubhouse; and c) \$1,000,000 in investment into refurbishment of the long dock or reimbursement to the City in lieu of investment; all as set forth in the Proposed Rent shown on the attached Exhibit "B".
- Termination: The Lease may be terminated at the City's sole discretion if any payments, investments or improvements are not made or completed within the timeframes shown on the attached Exhibit "B".

All remaining terms and conditions of Lease No. 7013 shall remain in full force and effect.

This letter was reviewed by Deputy City Attorney Richard F. Anthony on February 27, 2007 and Budget and Performance Management Bureau Manager David Wodynski on March 5, 2007.

TIMING CONSIDERATIONS

City Council action is requested on March 13, 2007 in order to properly begin the capital improvement program.

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FISCAL IMPACT

Annual rental income of \$11,007 shall continue to accrue to the Tidelands Fund (TF) in the Department of Community Development (CD) through 2009 and shall continue to increase according to the Consumer Price Index every five years. The next scheduled increase is in 2010.

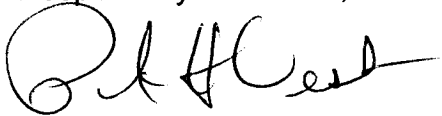
In 2007, an investment of \$430,000 will be made to the clubhouse in order to extend its useful life. An extension fee payment of \$100,000 and a refurbishment payment for the long-dock of \$250,000 will accrue to the Tidelands Fund (TF) in the Department of Community Development (CD).

A refurbishment payment in 2008 of \$250,000 for the long-dock, a refurbishment payment in 2011 of \$500,000 for the long-dock and an extension fee payment in 2020 of \$150,000 will accrue to the Tidelands Fund (TF) in the Department of Community Development (CD).

SUGGESTED ACTION:

Approved recommendation.

Respectfully submitted,



PATRICK H. WEST
DIRECTOR OF
COMMUNITY DEVELOPMENT

PHW:MPC:lel

Attachments: Exhibit "A"
Exhibit "B"

APPROVED:



GERALD R. MILLER
CITY MANAGER

EXHIBIT A

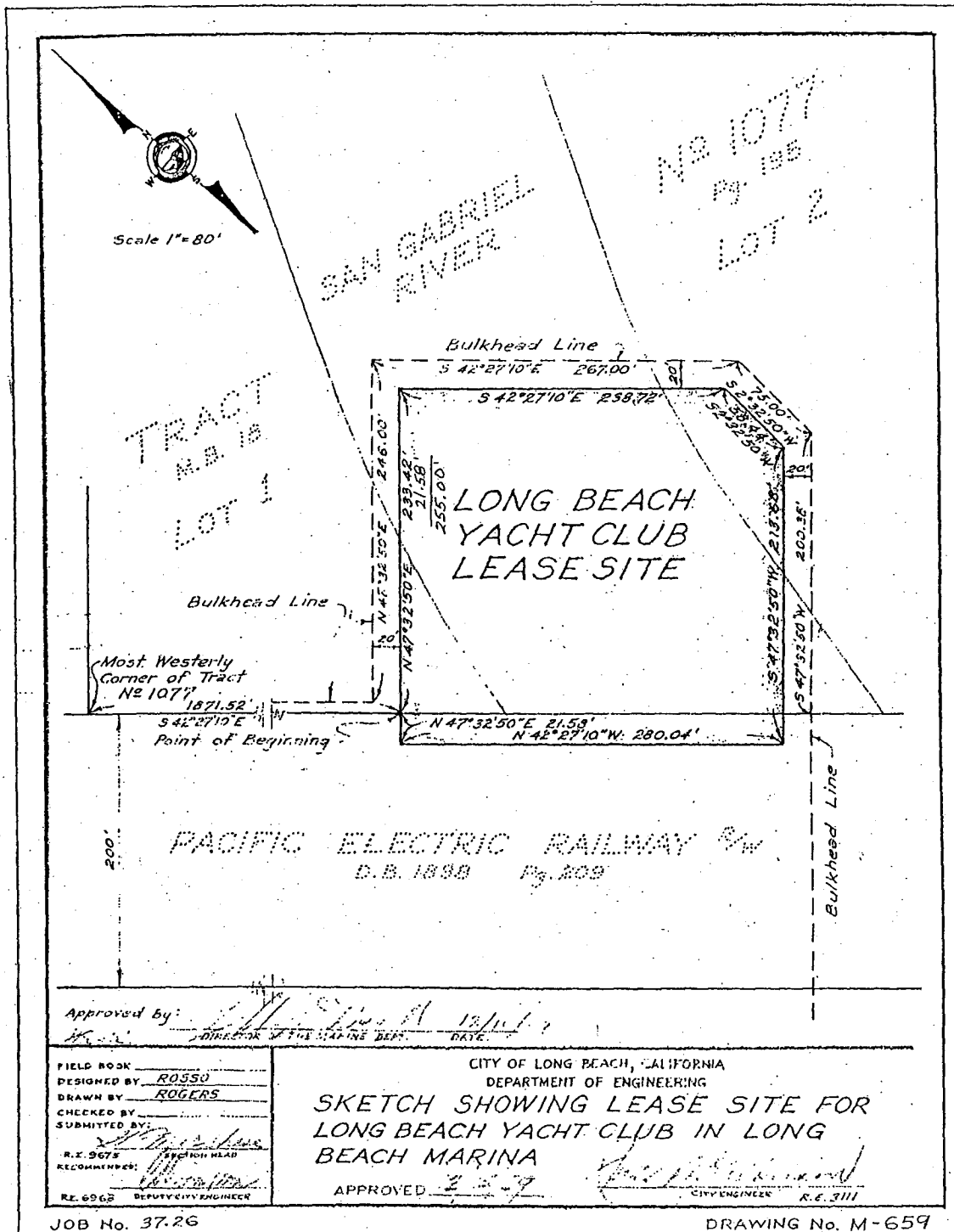


EXHIBIT B

Lease Term	Year	Standard Extension	Fair Market Rent	Proposed Rent		
				Rent	Additional	Total
1	2007	\$ 11,007	\$ 91,700	\$ 11,007	\$ 780,000	\$ 791,007
2	2008	\$ 11,007	\$ 91,700	\$ 11,007	\$ 250,000	\$ 261,007
3	2009	\$ 11,007	\$ 91,700	\$ 11,007		\$ 11,007
4	2010	\$ 12,760	\$ 91,700	\$ 12,760		\$ 12,760
5	2011	\$ 12,760	\$ 91,700	\$ 12,760	\$ 500,000	\$ 512,760
6	2012	\$ 12,760	\$ 106,305	\$ 12,760		\$ 12,760
7	2013	\$ 12,760	\$ 106,305	\$ 12,760		\$ 12,760
8	2014	\$ 12,760	\$ 106,305	\$ 12,760		\$ 12,760
9	2015	\$ 14,792	\$ 106,305	\$ 14,792		\$ 14,792
10	2016	\$ 14,792	\$ 106,305	\$ 14,792		\$ 14,792
11	2017	\$ 14,792	\$ 123,237	\$ 14,792		\$ 14,792
12	2018	\$ 14,792	\$ 123,237	\$ 14,792		\$ 14,792
13	2019	\$ 14,792	\$ 123,237	\$ 14,792		\$ 14,792
14	2020	\$ 123,237	\$ 123,237	\$ 17,148	\$ 150,000	\$ 167,148
1	2021	\$ 123,237	\$ 123,237	\$ 17,148		\$ 17,148
2	2022	\$ 142,866	\$ 142,866	\$ 17,148		\$ 17,148
3	2023	\$ 142,866	\$ 142,866	\$ 17,148		\$ 17,148
4	2024	\$ 142,866	\$ 142,866	\$ 17,148		\$ 17,148
5	2025	\$ 142,866	\$ 142,866	\$ 19,879		\$ 19,879
6	2026	\$ 142,866	\$ 142,866	\$ 19,879		\$ 19,879
7	2027	\$ 165,620	\$ 165,620	\$ 19,879		\$ 19,879
8	2028	\$ 165,620	\$ 165,620	\$ 19,879		\$ 19,879
9	2029	\$ 165,620	\$ 165,620	\$ 19,879		\$ 19,879
10	2030	\$ 165,620	\$ 165,620	\$ 23,045		\$ 23,045
11	2031	\$ 165,620	\$ 165,620	\$ 23,045		\$ 23,045
12	2032	\$ 191,999	\$ 191,999	\$ 23,045		\$ 23,045
13	2033	\$ 191,999	\$ 191,999	\$ 23,045		\$ 23,045
14	2034	\$ 191,999	\$ 191,999	\$ 23,045		\$ 23,045
15	2035	\$ 191,999	\$ 191,999	\$ 26,716		\$ 26,716
16	2036	\$ 191,999	\$ 191,999	\$ 26,716		\$ 26,716
17	2037	\$ 222,580	\$ 222,580	\$ 26,716		\$ 26,716
18	2038	\$ 222,580	\$ 222,580	\$ 26,716		\$ 26,716
19	2039	\$ 222,580	\$ 222,580	\$ 26,716		\$ 26,716
20	2040	\$ 222,580	\$ 222,580	\$ 30,971		\$ 30,971
21	2041	\$ 222,580	\$ 222,580	\$ 30,971		\$ 30,971
22	2042	\$ 258,031	\$ 258,031	\$ 30,971		\$ 30,971
23	2043	\$ 258,031	\$ 258,031	\$ 30,971		\$ 30,971
24	2044	\$ 258,031	\$ 258,031	\$ 30,971		\$ 30,971
25	2045	\$ 258,031	\$ 258,031	\$ 35,904		\$ 35,904
26	2046	\$ 258,031	\$ 258,031	\$ 35,904		\$ 35,904
27	2047	\$ 299,129	\$ 299,129	\$ 35,904		\$ 35,904
28	2048	\$ 299,129	\$ 299,129	\$ 35,904		\$ 35,904
29	2049	\$ 299,129	\$ 299,129	\$ 35,904		\$ 35,904
30	2050	\$ 299,129	\$ 299,129	\$ 41,623		\$ 41,623
Total						
		\$ 6,519,251	\$ 7,708,206	\$ 980,719	\$ 1,680,000	\$ 2,660,719
PV @ 8%						
		\$ 818,759	\$ 1,520,150	\$ 192,651	\$ 1,443,728	\$ 1,520,569