



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** MAY 13, 2019

**ITEM NO:** 7

**SUBJECT:** PROPOSED FIVE-YEAR GROUND LEASE AGREEMENT WITH DRIVETIME CAR SALES COMPANY, LLC FOR USE OF PROPERTY LOCATED AT 1388 SOUTH E. STREET, SAN BERNARDINO, CALIFORNIA, FOR A TOTAL REVENUE OF \$832,128 DURING INITIAL FIVE-YEAR TERM

**ISSUE:**

Recommend that the City Council approve the proposed five-year Ground Lease Agreement with DriveTime Car Sales Company, LLC, of Phoenix, Arizona, for the use of the property located at 1388 South E. Street, San Bernardino, California for a total revenue of approximately \$832,128 during the initial five-year term.

**RECOMMENDATIONS:**

That the Board of Public Utilities recommend that the City Council:

1. Approve the five-year ground lease agreement with DriveTime Car Sales Company, LLC, of Phoenix, Arizona, for the use of the property located at 1388 South E. Street, San Bernardino, California for a total revenue of approximately \$832,128 during the initial five-year term with the option of four (4) additional five-year extensions; and
2. Authorize the City Manager, or designee to execute all necessary documents, including making minor non-substantive changes, and the ability to execute the four (4) optional five-year extensions, if necessary.

**BACKGROUND:**

Riverside Public Utilities (RPU) owns a 4.2-acre parcel of vacant land at 1388 South E Street, San Bernardino, located adjacent to the 215 Freeway south of Orange Show Road (Property). The site is shown in the aerial site map on the next page. For approximately 37 years, the Property was leased from RPU as an auto dealership, first to Holiday Oldsmobile and subsequently to Center Chevrolet, which was terminated in 2008 under its own terms. Upon Center Chevrolet's vacancy, the buildings, which were in need of repair, became a magnet for graffiti, vagrancy, and vandalism. In an effort to mitigate the various issues, RPU had the structures demolished in 2010 and the Property has remained vacant.

On February 19, 2016, the Board of Public Utilities reviewed and recommended the approval of a lease with DriveTime Car Sales Company, LLC, (DriveTime) which was subsequently approved by City Council on March 22, 2016. The lease provided a 150-day period for due diligence and permitting with the option for commencement after the City of San Bernardino issued the required construction permits. DriveTime



was unable to obtain their project permits within the timeframe and the lease terminated by its own terms on August 12, 2016.



## **DISCUSSION:**

In July 2018, DriveTime expressed interest in renegotiating the terms and conditions of the Property. DriveTime, a licensed national used car dealership headquartered in Arizona, seeks to enter into a Ground Lease Agreement with the City for use of the Property. DriveTime's proposed use of the Property is for the construction of a retail automobile dealership, including operation, sales, financing, retail sales, repair, and storage. If approved, this location will become DriveTime's 139<sup>th</sup> dealership within 26 states nationwide. DriveTime estimates that over \$2,750,000 will be spent for the building construction and site improvements. All improvements shall be approved by the City and will be constructed in compliance with all applicable laws and codes of the City of San Bernardino Building and Safety Department. The City will retain the site improvements upon the termination of the lease.

The proposed ground lease is for an initial five-year term with four (4) five-year optional extensions. DriveTime shall pay a base rent of \$15,000 per month (Base Rent), which will be adjusted at a rate 2.5% annually for each year thereafter. Commencing on the effective date and continuing through the approval period, DriveTime shall pay a monthly interim rent fee of \$1,500 for the first four (4) months after the effective date of the lease. The \$15,000 Base Rent shall be abated for 240 days after the commencement date.



LEASE TERM	INTERIM RENT	MONTHLY BASE RENT	ANNUAL REVENUE
Interim Rent – Effective Date through Approval Period – 4 Months	\$1,500		\$6,000
Year One- First 8 Months (240 days) Base Rent Abated		\$0	\$0
Year One – last 4 Months		\$15,000	\$60,000
Year Two		\$15,375	\$184,500
Year Three		\$15,759	\$189,108
Year Four		\$16,153	\$193,836
Year Five		\$16,557	\$198,684
<b>Total Base Rent (5 Years)</b>			<b>\$832,128</b>

RPU staff believes the maintenance and revenue provided by DriveTime generates significant value compared to the maintenance cost RPU would incur absent of the proposed lease agreement.

### **FISCAL IMPACT:**

The fiscal impact to RPU by entering into the lease agreement is a minimum of new net revenue of \$832,128 for the initial five-year term, provided DriveTime does not cancel the lease during the approval period, and significantly more if any of the four (4) five-year options to extend are exercised. The rent revenue will be deposited into the Water Fund Land and Building Rental Account No. 0000520-373100.

Prepared by: Todd L. Jorgensen, Utilities Assistant General Manager/Water  
 Approved by: Todd M. Corbin, Utilities General Manager  
 Approved by: Al Zelinka, FAICP, City Manager  
 Approved as to form: Gary G. Geuss, City Attorney

Certifies availability of funds: Brian Seinturier, Utilities Fiscal Manager

Concurs with: David Welch, Community & Economic Development Director

### **Attachments:**

1. Ground Lease Agreement
2. Presentation