

MEMORANDUM

TO: Board of Trustees

FROM: Steven J. Pinkerton
General Manager

SUBJECT: Proposed modification to the 30-year ground lease between the Parasol Tahoe Community Foundation and Incline Village General Improvement District – Response and possible discussion of additional research requests as directed at the May 24, 2017 IVGID Board of Trustees Meeting, possible discussion on potential expenditures related to the proposed lease modification, and discussion on other details related to the proposed lease modification (Requesting Staff Member: District General Manager Steve Pinkerton)

STRATEGIC PLAN: Long Range Principle #2 – Finance, Long Range Principle #3 – Workforce, and Long Range Principle #5 - Assets and Infrastructure

DATE: June 5, 2017

Summary of research requests approved at the May 24, 2017 Board of Trustees Meeting (cost are shown in bold print all of which are within the General Manager's authority):

1. Cost of acquiring independent appraisal or review appraisal of Donald W. Reynolds Non Profit Center (DWR); **Third party cost of \$4,250.**
2. Estimated cost for tenant improvements and moving costs for IVGID move to DWR; **Third party cost of \$8,765—also covers item 3 costs.**
3. Net Present Value of the Rental Discount provided to Parasol Tahoe Community Foundation (PTCF) from 2000 to present under current ground lease terms; **Third party cost of \$750.**
4. What are the potential financial impacts of leasing versus purchasing versus building a new Administration Building on IVGID land. **Third party cost of \$650.**
5. Appraised value of 893 Southwood. **Third party cost - \$2,250.**

As noted above, total estimated third party costs are currently \$16,665. It is likely that about fifty percent of the \$8,765 in architectural costs and one hundred percent of the \$2,250 cost of the Southwood appraisal would have been incurred as part of the future capital planning for replacement of the current Administration Building.

There have been no legal costs to date for reviewing the proposed lease modification. This service is included in the monthly retainer for IVGID legal counsel. Should the Board of Trustees request a third party attorney to review the proposed lease modification, *the estimated cost is approximately \$15,000.*

For ease of reference, attached is the staff report from May 24, 2017 Board of Trustees meeting. Please visit www.yourtahoeplace.com and click on Resources; at the bottom is a page devoted to this topic that contains all the related documents.

MEMORANDUM

TO: Board of Trustees

FROM: Steven J. Pinkerton
General Manager

SUBJECT: Proposed modification to the 30-year ground lease between the Parasol Tahoe Community Foundation and Incline Village General Improvement District – Response to additional research requests as directed at the May 10, 2017 IVGID Board of Trustees Meeting

STRATEGIC PLAN: Long Range Principle #2 - Finance
Long Range Principle #3 - Workforce
Long Range Principle #5 - Assets and Infrastructure

DATE: May 16, 2017

I. RESPONSE TO ADDITIONAL RESEARCH REQUESTS AS DIRECTED AT THE MAY 10, 2017 IVGID BOARD OF TRUSTEES MEETING

Staff is in the process of performing additional due diligence as directed at the May 10, 2017 IVGID Board of Trustees meeting.

PTCF = Parasol Tahoe Community Foundation
DWR = Donald W. Reynolds Non-Profit Center

Information requested by the Board of Trustees includes:

1. Updated proposed lease modification terms based on feedback received at May 10, 2017 Board of Trustees Meeting;
2. Updated Five-Year Capital Improvement Plan cash flow and stress test which contemplates the cost of the lease modification;
3. Cost of acquiring independent appraisal or review appraisal of DWR;
4. Estimated cost for tenant improvements and moving costs for IVGID move to DWR;
5. Proposed Facility Use Policy for Meeting Facilities at DWR;
6. Potential Five-Year District Operating Cash Flow impacts from proposed lease modification;
7. Net Present Value of the Rental Discount provided to PTCF from 2000 to present under current ground lease terms;

8. What would be the proposed use of space by IVGID in the DWR;
9. What existing programming deficiencies could be addressed via the lease modification;
10. What are implications for the Community Services Master Plan if the lease modification is executed;
11. What are the potential financial impacts of leasing versus purchasing versus building an new Administration Building on IVGID land; and
12. Appraised value of 893 Southwood.

Staff has begun to assemble the materials necessary to meet the Board's information requests.

Attachment D is the updated stress test which is attached for your review. In addition, District Legal Counsel has provided an updated draft lease modification for your review and comment (Attachment E). Finally, there are three items which require hiring a third party to perform the due diligence – Attachment A) an independent appraisal of the DWR; Attachment B) consulting services addressing commercial lease rates and property listings; and Attachment C) Tenant improvements and moving costs; attached are the cost estimates for performing those tasks.

The remainder of the items should be completed in time for review at the June 12, 2017 Board of Trustees Meeting.

II. BACKGROUND

On January 12, 2000, IVGID executed a 30-year ground lease with three (3) 23-year options for 1.5 acres of land (later amended to 2.36 acres) with the PTCF within the Incline Park property.

The ground lease was for \$1 per year and contingent upon PTCF operating a non-profit center on the site. Subsequently, PTCF raised approximately \$14 million to construct, furnish and maintain the DWR. The 31,500 +/- square foot building was completed in 2002. Since that time, PTCF has operated the non-profit center consistent with the lease terms.

In a letter dated March 17, 2017, PTCF made a request, to the IVGID Board of Trustees, indicating an interest in possibly modifying the existing Ground Lease.

The letter stated:

...the Parasol Board of Directors has spent the past year taking an in-depth look at our work in the community and brainstorming new opportunities to effectively meet the changing needs of the community in the future.

One of the opportunities identified by our board would require a modification of the Land Lease currently in place between Parasol and the Incline Village General Improvement District (IVGID). Our board believes that this option would not only broadly serve the whole community it would also address pressing issues currently facing the district.

As a follow up to this letter, IVGID approached PTCF and learned more about their interest in modifying the lease. PTCF is interested in focusing more of their energies on their core mission which is functioning as a non-profit public charity dedicated to supporting service agencies in the Lake Tahoe region. They would like to shift both monetary and financial resources, which are dedicated to bricks and mortar functions, and dedicate those resources to their core mission. Freeing up these resources would increase the amount of financial support that PTCF could provide to the region.

Under this scenario, PTCF would no longer serve as the landlord for the DWR. They would financially support their grantees instead of granting them space. Consequently, they would no longer meet the land use requirements of the ground lease.

PTCF has proposed that the leasehold improvements, which include the building and other improvements to the real property, be transferred to the possession and control of the property owner (IVGID) and the lease would be modified to reflect this transfer. PTCF would like to remain as a tenant in the building and has offered to assist IVGID in facilitating service agencies' access to the shared-use facilities in the building. While PTCF would also like a small portion of the building to continue as a non-profit center, the majority of the space in the building could be used by IVGID for District programming and administrative office space needs.

As part of the lease modification, PTCF would like to receive \$5.5 million in consideration for the value of their investment in real property leasehold improvements. Currently, the value of the leasehold improvements made has been

appraised at \$9.6 million, not including furniture, furnishings, and equipment (FF&E) or any other personal property located on the site or in the building.

Stated simply, PTCF would like to receive \$5.5 million and transfer all of its rights and interest in the building known as the DWR to IVGID.

PTCF has emphasized that this request for a lease modification is simply a proposal. While PTCF believes that this change in mission is for the betterment of the community, it is dependent upon the land owner (IVGID) agreeing to mutually beneficial terms and conditions. If IVGID is not amenable to a lease modification, PTCF will continue to operate its non-profit center consistent with the terms of the existing Ground Lease.

IVGID is in the process of assessing its programming and facility needs via the Community Services Master Plan. Both the current plan and the previous plan that was adopted in 2000 identified the need for more programming space and District office space. The PTCF proposal could potentially be a very cost-effective means to address IVGID's current deficiencies for both District programming and office space.

At the April 13, 2017 Board of Trustees Meeting, in response to the request for this lease modification request, the Board of Trustees directed Staff to provide a summary report on the feasibility of the proposed modification. The Feasibility Study, along with a number of source documents as requested by the IVGID Board of Trustees, was provided and discussed at the April 25, 2017 Board Meeting.

At that meeting, the IVGID Board of Trustees directed Staff to conduct additional research and schedule a special public comment period for the May 10, 2017 IVGID Board of Trustees Meeting. Staff also provided additional information regarding the proposed lease modification as part of the staff report for that meeting.

All documents presented at the April 25, 2017 and May 10, 2017 IVGID Board of Trustees meeting are available at the District's website at ivgid.org.

IV. CONCLUSION

Based on the feedback from the Board of Trustees, Staff is compiling the due diligence necessary for a detailed review of the proposed lease modification.

Staff awaits further direction from the Board regarding the next steps in the review process.

V. DISTRICT STRATEGIC PLAN

Long Range Principle #2 – Finance – The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement, and debt management.

- Report results and demonstrate value.
- Develop and maintain a long term plan to sustain financial resources.

Long Range Principle #3 – Workforce – The District will attract, maintain, and retain highly qualified, motivated, and productive workforce to meet the needs of District venues.

- Comply with State and Federal regulations.
- Continue to provide a safe environment and continue to strive for low workers compensation incidents.

Long Range Principle #5 – Assets and Infrastructure – The District will practice perpetual asset renewal, replacement, and improvement to provide safe and superior long term utility services and recreation activities.

- Maintain, renew, expand and enhance District infrastructure to meet the capacity needs and desires of the community for future generations.
- Maintain, procure and construct District assets to ensure safe and accessible operations for the public and the District's workforce.
- Conduct planning and design, in advance of undertaking projects or procurement, to ensure new District assets meet operational requirements and enhance the customer experience.
- Comply with regulatory requirements and industry standards.