



DATE: October 22, 2019
TO: Mayor and Members of the City Council
FROM: Will Morat, Assistant to the City Manager
SUBJECT: NORTH MARE ISLAND TERM SHEET

RECOMMENDATION

Approve the Term Sheet for the North Mare Island Ground Lease and Purchase Option Agreement with The Nimitz Group, LLC.

REASONS FOR RECOMMENDATION

Approval of the key business terms (Attachment 1) will provide both the Nimitz Group and the City the necessary direction, milestones, and framework to incorporate into the Option Agreement for the purchase and sale of North Mare Island (NMI). The Term Sheet outlines a plan that will simultaneously advance the development of both NMI and South Mare Island, reduce the City's \$450,000+ annual holding costs associated with NMI, and create the first opportunity for the public to benefit from the utilization of NMI.

As detailed in the Term Sheet, the Option Agreement includes an initial ground lease period that would allow Nimitz to assume full site control, but require a minimum threshold of improvements (infrastructure and vertical development) are constructed on NMI to warrant a title transfer of the City's 157 acres.

The Term Sheet provides clear deliverables and extension milestones at 3-year increments that ensure key development requirements are met, resulting in a minimum of 100,000 square feet of historic restoration, renovation, adaptive re-use, new construction, or a combination is completed every three years on Mare Island (north or south). This creates the first real incentives for significant development on Mare Island, with the potential of NMI's 157-acres leveraged to ensure that Nimitz, as the new Master Developer of over 450 acres on South Mare Island, undertakes significant infrastructure and vertical improvements at regular intervals.

Key milestones include:

- Minimum 100,000 square feet of development every three years on North or South (building permits pulled at years 3, 6, 9; construction substantially completed by years 5, 8, 11)
- Interim Beautification and Security Plan for NMI (implemented within the first 18 months) that will correspond with the City-led demolition of all vacant buildings on NMI, as well as align with Nimitz's plans to undertake soil surcharging and site preparation on NMI that will resolve significant soil stability issues ahead of any vertical development
- Backbone Infrastructure Plan for both North & South
- Historic Building Inventory (North & South)

- Quarterly community/public meetings

In exchange for the right to purchase the 157 acres, Nimitz will be required to pay annual rent that would relieve the City of more than \$450,000 in annual City costs. Nimitz would be responsible for all utility expenses, property taxes, Community Facility District (CFD) taxes (assuming taxed at current “undeveloped property” rate), all maintenance and security costs, as well as any City principal and interest payments due on its HUD 108 Demolition loan.

Nimitz will need to develop creative solutions to this any many other site specific challenges, such as the potential loss of land on the north and east side of NMI attributed to sea level rise. The Term Sheet will allow Nimitz the opportunity to address these challenges and incorporate the North Island development plan into the larger South Island development plan in a cohesive and meaningful way.

BACKGROUND AND DISCUSSION

Exclusive Negotiating Agreement (ENA)

In early 2018, the City of Vallejo issued a Request for Qualifications for the development of the City’s 157-acres on NMI, and received nine responses. On May 15, 2018, City Council directed staff to negotiate an Exclusive Negotiating Agreement (ENA) with The Nimitz Group. On July 24, 2018, Council authorized the City Manager to execute the ENA for the City’s 157 acres on NMI.

In addition to the NMI transaction with the City, Nimitz is also working with Lennar Mare Island, LLC (LMI) on the proposed Purchase and Sale Agreement for LMI’s holdings on Mare Island, referred to as “South Island.” On July 31, 2019, Council approved the Consent Agreement to the Transfer of LMI’s holdings to the Nimitz Group, governed by the Development Agreement and Acquisition Agreement between the City and the Master Developer.

To facilitate Nimitz’s planning and development on Mare Island with an island-wide approach, on July 31, 2019, City Council also approved the execution of the Fourth Amended and Restated ENA, in which Exhibit B incorporated the first five seven business terms for the future Option Agreement:

1. Allow Nimitz to ground lease NMI in order to expedite infrastructure improvements
2. Provide a term and extensions aligned not only with progress on NMI, but also with development progress on South Mare Island, allowing for an island-wide development approach
3. Allow for a phased approach on NMI under the current, approved Specific Plan
4. Allow Nimitz to undertake any new planning and environmental review process for Specific Plan Amendments or new Master Plan
5. Establish “as-is” fair market value methodology and appraisal instructions, as identified in Exhibit D of the ENA, for the acquisition of NMI
6. Limit the transfer of rights in the Option Agreement
7. Include the long-term lease of Public Trust II to Nimitz, which includes the North Pier and conservation areas.

At the July 31, 2019 Council meeting, City staff also recommended returning to City Council by October 31 with additional key business terms, with the goal of finalizing an Option Agreement for Council consideration by December 2019. The attached Key Business Terms provide the framework for the Option Agreement, and while staff and Nimitz continue to work diligently toward finalizing the associated legal agreement to accompany the key terms, it is anticipated that the final agreement will not be completed for Council consideration until February 2020.

Term Sheet Summary

Between August 1 and October 1, 2019, City staff and the Nimitz Group diligently worked on negotiating the key terms for the Option Agreement. Below is a summary of the terms (full term sheet in Attachment 1). Items ***in bold italics*** are those already agreed to by Council in the Fourth Amended & Restated ENA on July 31, 2019.

Item	Terms
Property Acquisition	<i>Ground lease with option to purchase</i>
Initial Lease Term	3 years
Lease Extensions	1 st Extension – 3 years 2 nd Extension – 3 years 3 rd Extension – 10 years
Required Milestones for Lease Extension <i>(must be met prior to trigger extension)</i>	<u>1st Extension (completed by year 3)</u> <ul style="list-style-type: none"> • Hold at least 4 public meetings per year • Complete Historic Inventory of all building on Mare Island (North & South) • Implement beautification & maintenance plan, including site security, that aligns with soil surcharge/preparation (North) • Phase I Development <ul style="list-style-type: none"> ○ Tentative Map/Unit Plan and approved Building Permits <ul style="list-style-type: none"> ○ 100,000 square feet of mixed use on North and/or South (renovation, historical restoration, adaptive re-use, new construction, or combination) • <i>Specific Plan Amendment and/or Master Plan approval (North & South)</i> • Backbone infrastructure plan approval (North & South) <p>Note: All Backbone Infrastructure construction completed by Year 12</p> <ul style="list-style-type: none"> • Phase I Development – Construction substantially completed (year 5) • Phase II Development <ul style="list-style-type: none"> ○ Tentative Map/Unit Plan and approved Building Permits <ul style="list-style-type: none"> ○ 100,000 square feet of mixed use on North and/or South (renovation, historical restoration, adaptive re-use, new construction, or combination) • <u>2nd Extension (completed by year 6)</u> • <u>3rd Extension (completed by year 9)</u> • Phase II Development – Construction substantially completed (year 8)

	<ul style="list-style-type: none"> Phase III Development Tentative Map/Unit Plan and approved Building Permits 100,000 square feet of mixed use on North and/or South (renovation, historical restoration, adaptive re-use, new construction, or combination) <p>Note: Phase III Development Construction substantially completed by Year 11</p>	
Annual Lease Rent	All costs associated with:	Current City Costs:
	Utilities	--
	Property Tax	--
	Maintenance	\$ 65,000
	Security	\$ 50,000
	CFD (negotiated at current "undeveloped property" rate)	\$ 100,000+
	HUD 108 Demolition Loan Payments	\$ 236,000+
	Total estimated annual City expenses shifted to Nimitz:	\$ 451,000+
Site Transfer Condition <i>(purchase trigger)</i>	<i>Space to be developed may be allocated to just a portion of the 157-acre NMI, with the balance of the 157 acres transferred and developed with a mix of open space and/or recreational uses.</i>	
Purchase Price	<i>Fair Market Value ("As-is" appraisal methodology) = FMV less public improvement costs</i>	
Demolition	City shall complete demolition of all non-utilized buildings on NMI; Nimitz obligated to pay all principal and interest payments on City's HUD 108 loan.	

The Term Sheet (Attachment 1), specifically Exhibit B, includes both "Extension Milestones" and "Deliverables." Extension Milestones are items that must be completed prior to the 3-year term's expiration in order for Nimitz to trigger an extension. Only City Council action may modify, change, or postpone an Extension Milestone. Deliverables have more frequent deadlines, and may be modified by mutual agreement of the City Manager and the developer. Failure to complete a deliverable by the date specified may constitute a default subject to a cure period; one of the conditions of any term extension is that the developer not be in a state of default.

City Obligations

The Term Sheet includes the following City obligations, which are also necessary for Nimitz to achieve their required Extension Milestones:

- City to provide completeness letter review of the Interim Beautification Plan within 30 days of submission.
- City to complete the demolition of all non-utilized buildings remaining on NMI within 18 months. If the Navy parcel has not transferred by then, City to complete the demolitions within three years.

To date, the City has completed the demolition of six buildings on Mare Island under the Phase I Demolition project. Staff anticipates implementing the Phase II demolition project, including buildings 571, 641, 1001 and

the submarine buildings 793 and 791, before December 31, 2019. There will be four remaining buildings to be demolished including 499, 503, 601 and 673, three of which are on the Navy retained parcel, as part of the final Phase III Demolition. During the term of any ground lease, Nimitz is obligated to cover all City principal and interest payments on the HUD loan.

Future Items for Negotiation

Before any Option Agreement is brought before City Council for consideration (anticipated in February 2020), the City and Nimitz Group will continue to negotiate the following items:

- Site Transfer Conditions – Minimum Threshold of vertical development on NMI required to transfer title to 157 acres (i.e., infrastructure and minimum square feet of new development specifically on NMI)
- Local Economic Benefits (job fairs, local/minority/women-owned hiring/contracts, job training, apprenticeships, etc.)
- City right of re-entry
- Property tax threshold
- Lease terms for Public Trust II (including North Pier)

Next Steps

The South and North Island proposed transactions and transfers provide Nimitz the unique opportunity to undertake an updated, integrated and island-wide approach to the development of Mare Island. The integration of the NMI Term Sheet will allow Nimitz to contemplate how best to design and plan the entire island through the work of Nimitz's master planner, HOK, rather than only considering the 157 acres on NMI in isolation. Additionally, leveraging the City's 157 acres on NMI by incentivizing and requiring development on either North or South Mare Island will ensure the City can achieve its ultimate goal of new development, employment, and growth while preparing geo-technically challenged lands on NMI for long-term, sustainable development.

City Staff will continue negotiations with the Nimitz Group, incorporating any new key terms, in anticipation of bringing a complete Option Agreement to City Council for its consideration by February 2020.

FISCAL IMPACT

The costs the City incurred by outside legal for the negotiations of this term sheet have been borne entirely by Nimitz through a Developer Deposit Agreement and their deposit of funds. Nimitz will cover additional City costs required to negotiate the Purchase Option Agreement for NMI, with no impact to the General Fund.

Should the Term Sheet (Attachment 1) be incorporated into an Option Agreement approved by Council, the City's General Fund will be relieved of a minimum of \$451,000 of annual costs for maintenance, security, CFD taxes, and HUD 108 debt servicing.

ENVIRONMENTAL REVIEW

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

ATTACHMENTS

1.	Proposed Key Business Terms 10.4.19 SE stamp
2.	Ex B Schedule of Performance 10.4.19

CONTACT

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