

**CITY OF NAPA CITY COUNCIL
AGENDA REPORT**

**ADMIN CALENDAR
AGENDA ITEM 6.B.
Date: October 02, 2012**

To: Honorable Mayor and Members of City Council

From: Cassandra Walker, Community Development Director

Prepared by: Jennifer La Liberte, Economic Development Manager

Subject: Approve Business Terms for Sales Tax Revenue Sharing Agreement for The Shops at Napa Center

ISSUE STATEMENT:

Adopt a resolution to approve business terms for a sales tax revenue sharing agreement with NTC Shops LLC, or its Affiliates ("NTC Shops") for The Shops at Napa Center and delegate authority to the City Manager to negotiate and execute the final agreement in accordance with the business terms

DISCUSSION:

Background:

The Napa Town Center was designed and constructed in the late-1980s by a private development team as part of a redevelopment agency disposition and development agreement, in effort to improve the economic climate in downtown Napa by creating a shopping destination for Napa residents and visitors. Following its opening in 1990, the center enjoyed nearly 100 percent occupancy with a variety of retail and restaurant tenants; a management team that facilitated special events and programmed activities on the property to attract shoppers and visitors; and a paid advertising program for the benefit of the tenants. The property was sold in 2002 and since that time, leasable spaces were consolidated from 32 to the current 20; most or all of the tenants were placed on month-to-month leases; and the occupancy decreased to a 24 percent vacancy. Now more than 25 years old, the project's design is dated and not well-integrated with the surrounding downtown.

In May 2012, Zapolski Real Estate LLC ("Developer") purchased the Napa Town Center through an affiliated limited liability company called NTC Shops, LLC. The shopping center comprises approximately 112,000 square feet of leasable space. In addition, the Developer acquired adjacent properties with a combined total of approximately 30,000 square feet of potential retail space, including the former Merrill's building; the adjacent buildings at 1025 Coombs and 1210 First streets; and the Dunne Building at 1232-48 First Street. The Developer also acquired and located its office in the former California Savings and Loan building at 1300 First Street, which. The combined assemblage has been named The Shops At Napa Center.

Proposed Common Area Improvements:

The Developer has submitted an application to the City to significantly upgrade the former Napa Town Center property, now a part of the assembled properties called "The Shops at Napa Center". The proposed improvements, called the "Common Area Improvements," include new surface treatments and paint on the vertical surfaces of the buildings, extensive landscaping and site improvements, furnishings, lighting, property identification and directional signs, and public art. The Shops at Napa Center will have a new brand identity, and is being marketed to prospective tenants including high-performing national merchandisers as well as best-in-class local and regional restaurateurs and retailers. In addition, the Developer, together with the tenants, will make significant investments in new tenant improvements. All tenants will be encouraged to fully express their brands' identity in their storefronts to create a vibrant mix of innovative and diverse storefronts that engage and entice shoppers. Such improvements will be subject to tenant storefront and signage design guidelines. The Common Area Improvement project application and tenant design guidelines will require design review approval by the Planning Commission, tentatively scheduled for a public hearing this fall. The Developer anticipates beginning construction in early 2013 with new retail businesses likely opening in 2014 once storefront and tenant improvements are complete.

At the October 2nd Council meeting, the Developer will provide an overview of the proposed Common Area Improvements and the overall conceptual plan for the surrounding properties. In addition to the upgrades to the shopping center property, the City anticipates potential future project applications from the Developer that may include:

- Merrill's façade restoration and building renovation, and possible multi-story hotel above
- Bank building removal and replacement with new, expanded retail building
- Clay Street enhancements to activate the northwest end of the center and accommodate special events

Proposed Revenue Sharing Agreement:

The Developer has committed to acquiring and substantially improving and updating a centrally located retail center that has been underperforming for over a decade. This effort is at considerable cost and financial risk to the Developer, whose total budget for the project is estimated at \$60 million. In order to complete the future phases of improvements for the properties surrounding the shopping center and obtain necessary financing, the project requires additional equity to make it economically viable. The Developer has requested City support to close a \$5 million financing gap.

With the recent State-legislated dissolution of the former redevelopment agency and associated property tax increment revenue, the City has very few tools to provide gap financing to assist private development at the front end. Therefore, staff has worked with the Developer to devise a sales tax increment revenue sharing mechanism that will provide assistance to the Developer, but only if the property generates sufficient sales tax revenue. The business terms for the proposed sales tax revenue sharing

agreement are provided on Exhibit A to the attached resolution. The basic terms for the proposed agreement are:

1. The City would receive 100% of sales tax baseline -- the sales tax that is currently generated by the shopping center property – adjusted by 3 percent each year to account for projected normal market growth.
2. The City and Developer would share the incremental sales tax over the baseline, once the Developer satisfies the conditions precedent (#4 below).
3. The Developer's share would be:
 - 85% of the Incremental Sales Tax until whichever occurs first: (a) Developer's share reaches \$4,000,000; or (b) the expiration of the Agreement.
 - When the City has paid the Developer \$4,000,000, the Developer's share would be 75% of the Incremental Sales Tax until the expiration of the Agreement.
 - The Agreement would expire at the end of 12 years or when the quarterly payment total to the Developer reaches \$5 million, whichever occurs first. At the end of the term, the City would receive 100 percent of the sales tax generated by the properties.
4. The City would have no obligation to make any payment of the Developer's share under the Agreement unless all of the conditions precedent are satisfied or waived by the City:
 - Construction of Common Area Improvements is substantially complete.
 - Developer has provided copies of payment records for the construction contract for the Common Area Improvements.
 - The comprehensive design guidelines for future tenants' storefronts have been provided to the City.

Under the Agreement, the Developer would receive quarterly payments from the City based on actual sales tax increment generated by the properties (shopping center and surrounding properties).

Public Benefits

As part of an ongoing downtown retail strategy, City Economic Development staff has had some success making personal contact with targeted retail representatives, inviting them to visit the market and talk to local brokers, and begin negotiating letters of intent. However, one critical missing link has been getting commitments from owners of key properties, such as the Merrill's building, to make the improvements necessary to secure the retail tenants, and the amassing under common ownership a critical mass of updated retail necessary to convince tenants that sufficient consumer demand can be created.. The proposed improvements to this older shopping center property are necessary to attract quality retailers and, combined with the future improvements to surrounding properties, will propel the retail strategy forward.

The Developer's proposed project will create a desirable retail center attractive to a vibrant mix of local, regional and national tenants, thereby expanding shopping choices

for Napa residents. The shopping center will be rebranded to increase downtown Napa's desirability from a retailer and consumer perspective, filling empty spaces in the center, and potentially other vacant spaces nearby. The enhanced and expanded retail will be attractive to visitors and support additional and repeat hotel stays, resulting in increased sales for downtown businesses. The quality of project improvements through use of materials, overall design and updated image will upgrade the downtown environment and complement nearby private development completed in recent years. The project will include public amenities, programming of activities and events, and paid advertising, public relations and marketing which will draw greater pedestrian activity to Downtown and in so doing, will contribute to the feasibility and desirability of other projects in Napa. And the increased property and sales tax revenue to the City will help fund services to the Napa community.

Staff recommends the City Council adopt the resolution approving the business terms, provided as Attachment 1, and delegate authority to prepare and execute the final agreement to the City Manager. The agreement will enable the Developer to complete the improvements to the shopping center and surrounding properties.

FINANCIAL IMPACTS:

The Developer's estimated budget to acquire, upgrade and re-brand and lease the Shops at Napa Center and surrounding properties is \$60 million. Under the proposed sales tax sharing agreement, the City would provide up to \$5 million in future sales tax revenue generated directly by the Developer's improvements to the shopping center and surrounding retail properties, and subsequent tenant improvements and leased spaces. Absent this investment and leasing effort, the sales tax utilized to fund the agreement would not be generated. During the term of the agreement, the City would receive 15-25 percent of the net new sales tax increment generated by the properties for up to 12 years. At the end of the term, the City would receive 100 percent of the sales tax generated by The Shops at Napa Center and surrounding retail properties.

Currently the City receives approximately \$130,000 per year from the retail spaces in the former Napa Town Center and Dunne Building, and no sales tax revenue from the former Merrill's and bank building. At the end of the proposed agreement term, based on the Developer's conservative financial projections, the City will receive in excess of \$500,000 per year in sales tax from these properties. The upgrade to the shopping center and the surrounding properties will also result in increased property tax and potential transient occupancy tax to the City's General Fund. These revenues help pay for vital City services to benefit the citizens of Napa.

CEQA:

The Community Development Director has determined that the Recommended Action described in this Agenda Report is not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:

1) Attachment 1: Resolution to Approve Business Terms for Sales Tax Revenue Sharing Agreement for The Shops at Napa Center and Delegate Authority to the City Manager to Negotiate and Execute the Final Agreement

NOTIFICATION:

Notification has been provided to the General public through required public notice. Notification has been provided to NTC Shops LLC

RECOMMENDED ACTION:

Staff recommends that the City Council move, second and approve each of the actions set forth below, in the form of the following motion. Move to:

Adopt a resolution to approve business terms for a sales tax revenue sharing agreement with Town Center Shops LLC for The Shops at Napa Center and delegate authority to the City Manager to negotiate and execute the final agreement in accordance with the business terms