

DRAFT

SAN DIEGO UNIFIED PORT DISTRICT

ORDINANCE xxxx

**ORDINANCE GRANTING AN AMENDED,
RESTATE AND COMBINED LEASE WITH
BARTELL HOTELS, A CALIFORNIA LIMITED
PARTNERSHIP, TO COMBINE THE BEST
WESTERN ISLAND PALMS AND ISLAND PALMS
WEST LEASES, UPDATE LEASE PROVISIONS,
AND EFFECTIVELY EXTEND THE TERM OF THE
BEST WESTERN ISLAND PALMS LEASE BY 9
YEARS AND 5 MONTHS FOR AN EXTENSION FEE
OF \$1.4 MILLION**

WHEREAS, the San Diego Unified Port District (District) is a public corporation created by the Legislature in 1962 pursuant to Harbors and Navigation Code Appendix I (Port Act); and

WHEREAS, Section 87(b) of the Port Act grants authority to the District to lease the tidelands or submerged lands, or parts thereof, for limited periods, not exceeding 66 years, for purposes consistent with the trusts upon which those lands are held, by the State of California; and

WHEREAS, Bartell Hotels, a California limited partnership (Bartell Hotels) operates the Best Western Island Palms which has a 50-year lease (BW Lease) with the District at 2051 Shelter Island Drive for a 97-room hotel and marina which expires in 2048; and

WHEREAS, Bartell Hotels also operates the Island Palms West which has a 50-year lease (IP Lease) with the District at 1901 Shelter Island Drive for a 125-guest room hotel which expires in 2058; and

WHEREAS, the two hotels are dependent on each other as they operate as one hotel, and each contain essential facilities for the operations of the other; and

WHEREAS, Bartell Hotels, submitted a request on May 1, 2017 to purchase 9 years and 5 months of lease term for the BW Lease; and

WHEREAS, the BW Lease commenced on December 1, 1998 and terminates on November 30, 2048; and

WHEREAS, Bartell Hotel's intent for purchasing 9 years and 5 months of lease term is to make the BW Lease coterminous with the neighboring leasehold, IP Lease, which expires on April 30, 2058; and

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WHEREAS, staff conducted an analysis to calculate the purchase of term fee based on the District practices outlined in Board of Port Commissioners Policy No. 355 which resulted in a fee of \$1.4 million to extend the BW Lease for an additional 9 years and 5 months; and

WHEREAS, the District has prepared an amended, restated and combined lease (ARC Lease) that combines the BW Lease and the IP Lease since the two leases would now be coterminous and the properties operate as one hotel; and

WHEREAS, the ARC Lease includes updated lease provisions, including 2.5% participation in both refinance and sale proceeds, updated rent with scheduled percentage rental rate increases and increased minimum annual rent, and the purchase of term fee which will be paid as additional rent over 15 years with 6.00% interest; and

WHEREAS, the increases to the percentage rent categories are expected to generate approximately \$1.43 million in net present value as additional rent, and when combined with the additional \$1.40 million in net present value from the purchase of term fee, the District will receive approximately \$2.83 million in additional rent over the term of the ARC Lease.

NOW, THEREFORE, the Board of Port Commissioners of the San Diego Unified Port District does ordain as follows:

Section 1. The Amended, Restated and Combined Lease with Bartell Hotels, a California Limited Partnership, to combine the Best Western Island Palms and Island Palms West Leases, update lease provisions, and effectively extend the term of the Best Western Island Palms Lease by 9 years and 5 months for an extension fee of \$1.4 million is hereby approved.

Section 2. The Executive Director or her designated representative is hereby authorized to execute said Amended, Restated and Combined Lease with Bartell Hotels, a California Limited Partnership.

Section 3. This Ordinance shall take effect on the 31st day from its passage by the Board of Port Commissioners.

APPROVED AS TO FORM AND LEGALITY:
GENERAL COUNSEL

By: Assistant/Deputy

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PASSED AND ADOPTED by the Board of Port Commissioners of the San Diego Unified Port District, this 9th day of October 2018, by the following vote: