



NEWPORT BEACH

City Council Staff Report

July 23, 2024
Agenda Item No. 16

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: Seimone Jurjis, Assistant City Manager/Community Development Director - 949-644-3232, sjurjis@newportbeachca.gov

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TITLE: Amendment to Lease Agreement with Pacifica Christian High School - Orange County, Inc. for the City-Owned West Newport Community Center Property Located at 883 W. 15th Street

ABSTRACT:

The City of Newport Beach owns property in West Newport known as the West Newport Community Center (WNCC). In 2014, the property was ground leased to Pacifica Christian High School – Orange County (Pacifica) to open and operate a new private high school. Given Pacifica’s significant investment in the property and its interest in continuing the school’s successful operation, the tenant has requested an extension beyond the initial term of the lease expiring in October 2024 and beyond the option terms currently available. For the City Council’s consideration is an amendment to the current lease agreement to extend the initial term by 15 years (Attachment A).

RECOMMENDATIONS:

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly; and
- b) Authorize the City Manager and City Clerk to execute the Amendment to Lease Agreement between the City of Newport Beach and Pacifica Christian High School - Orange County, Inc. (Amendment), extending the term of the lease for the property located at 883 W. 15th Street, in a form substantially similar to the Amendment prepared by the City Attorney.

DISCUSSION:

Background

WNCC is located at 883 W. 15th Street in West Newport Beach (Property) and contains approximately 35,548 square feet or 0.82 acres of land and is improved with an approximately 26,952-square-foot building and gymnasium. Initially constructed as part of a private high school in 1978, the Property was acquired by the City in 1988 and repurposed and primarily operated as a public community center.

With newer community center facilities like Marina Park on the west side of town, the City's use of WNCC began declining. Additionally, the ongoing costs to maintain WNCC were not offset by programming revenues and in 2014, the City Council approved a 10-year ground lease of the Property to Pacifica (Attachment B). The City retained the right to program classes and run youth and adult sports in the gymnasium under the terms of the ground lease. A limited number of classes were still offered at the Property after the ground lease commenced, however, there was not sufficient interest to continue offering the programs at the facility. The gymnasium at WNCC is still programmed for public use in a very limited capacity for adult basketball leagues.

Additionally, the City temporarily operated programs in classrooms at a leased property at 868 W. 16th Street, but that lease was not renewed due to insufficient interest and participation in the programs at that location.

Pacifica Christian High School – Orange County

Pacifica has operated at the Property since 2014 and has continued to grow its academic programs and student enrollment. The school has also expanded its campus to include owning the building at 1499 Monrovia Avenue, and leasing of off-site parking lots. Due to Pacifica's development and growth, a request has been submitted to extend the term of its lease to meet the needs of the school and to preserve and maintain Pacifica's investment into the Property. The existing lease provides an initial term of ten years with the option for Pacifica to extend the term of the Agreement for two additional successive terms of five years.

Amendment

The proposed terms of the Amendment are summarized below:

1. The initial term of the lease shall be 25 years from the commencement date, unless terminated sooner or extended, as provided in the lease agreement. The expiration date of the initial term will be October 2039. Pacifica retains the option to extend the term of the Agreement for two additional successive terms of five years in accordance with the terms of the lease.
2. Notwithstanding the annual market rate adjustments to the rent, the City may elect to adjust the rent under the lease to reflect fair market value based on an appraisal at the commencement of the of the 15th year of the term, which will now be in the year 2029.
3. A right to rescind the Amendment has been reserved to the City and may be exercised upon the City's receipt of notice of a potentially legitimate violation of any provision of law.
4. An amendment to the memorandum of lease will be recorded against title to reflect the change to the term of the lease.

This Amendment has been reviewed by the City Attorney's Office and has been approved as to form. Pacifica has reviewed and approved the terms of the Amendment.

California Surplus Land Act

Assembly Bill 1486 was signed into law in 2019, went into effect in 2020, and made significant changes to the *California Surplus Land Act* (Gov. Code §54220, et seq.), (SLA). In compliance with the updated SLA, the Amendment is not subject to the SLA as its terms do not provide for a "disposition of surplus land" as Pacifica is limited to tenant improvements and no demolition or development shall occur.

FISCAL IMPACT:

Revenues collected pursuant to the proposed Amendment (currently \$305,774.02 per year) shall be increased annually by the Consumer Price Index (CPI) as prescribed in the lease and will be posted to the Community Development Block Grant Fund accounts in the Community Development Department, 120-12050502-551120. The revenues are included in the budget for Fiscal Year 2024-25.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly. Declaring the Property exempt will not result in a physical change to the environment.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENTS:

- Attachment A – Amendment to Lease Agreement
- Attachment B – Ground Lease Agreement