



Item Number: 21

City Council / Board of Directors

Written Communications

Meeting of: August 16, 2022

Submitted By:

John Mendiola, Finance Director / City Treasurer

Subject:

Macerich Assistance Payment #8 - Mall of Victor Valley Development Agreement

Recommendation:

That Your Honorable City Council:

- (1) authorizes assistance payment as provided for in the Development Agreement with Macerich Victor Valley LLC in the amount of \$466,859 for Calendar Year (CY) 2021, and
- (2) approves Resolution No. 22-095 authorizing an additional appropriation for the Fiscal Year 2021-2022 budget in the amount of \$366,859.

Fiscal Impact:

This item has a fiscal impact of \$466,859 out of the General Fund. This item is in the approved budget for Fiscal Year (FY) 2021-2022; however, higher than expected sales resulted in increased sales tax revenue thus it requires an additional appropriation of \$366,859. It will be paid out of the budget account of 1000010-52300-97029 which is the coding for General Fund Contract Services for Macerich Sales Tax Distribution.

Background:

At the City Council meeting of July 17, 2012, the City Council adopted Ordinance 2291 approving a Development Agreement with Macerich Victor Valley LLC, owners of the Mall of Victor Valley (the Mall). The Development Agreement was approved resulting from Council's recognition that the Mall has experienced declining gross sales since 2007 which directly correlated with a reduction in sales tax generated to the City and available to fund its essential public services, including police and fire. The analysis at that time had shown that gross sales at the Mall have reduced from \$175 million in 2006 to \$106 million in 2010.

Pursuant to the Development Agreement, the Mall is permitted to receive the tier one maximum amount until the \$18.89 million threshold is reached. Upon approving the

subject Development Agreement, the City required, as a condition to its assistance, that the Mall would perform redevelopment that would reposition the Mall to becoming a destination for the diverse shopping demographics of the valley and keeping it fresh and attractive for future tenants of the Mall. Among the required performance measures, the Mall was required, pursuant to Article 5 of the Development Agreement to: 1. Successfully relocate into expanded space and cause for the public opening of a reformatted JC Penney. 2. Successfully cause for the opening of a new Macy's as a fashion retail anchor. 3. Complete the remodel of all exterior entry ways. 4. Sign leases for up to 25,000 square feet of space (that was the former JC Penney anchor pad) with planned occupancy within 9 months from the date of the signed lease.

To assist in off-setting certain costs to achieve the aforementioned performance measures, once those performance measures were achieved, the City agreed to provide assistance payments in annual amounts equal to the sales tax received by the City that is in excess of a baseline to be retained by the City of \$1 million. The agreement allows an aggregate collection of up to \$18,886,644 in payment assistance or for a period of 28 years, whichever occurs first. If the maximum of \$18,886,644 is not reached by the end of the 28 years, the City of Victorville has reached the conclusion of the assistance agreement and no additional payments will be made. The performance measures were satisfied by the Mall in calendar year 2013, therefore, 2013 became the measurement year where City assistance was to be commenced. Notably, the Mall added Dick's Sporting Goods to satisfy performance measure #4 and has exceeded the space requirement of the Development Agreement.

Discussion:

City staff employs HDL Companies to conduct sales tax analysis for all tenants at the Mall, including its anchor tenants. In the aggregate, that analysis is represented with the following:

Calendar Year 2021	
Sales Tax Generated at Mall of Victor Valley	\$1,470,859
Sales Tax Threshold	(\$1,000,000)
Assistance Payments Due (Gross)	\$ 470,859
Ex C-10 Contract Maintenance Fee	(\$ 2,000)
Ex C-11 Sales Tax Analysis Fee	(\$ 2,000)
Due to Mall of Victor Valley	\$ 466,859

Attachment A shows the charts provided for in the original agreement which reflects a predicted erosion of Sales Tax as well as Sales Tax Increment Sharing proposal by Macerich Victor Valley LLC. Attachment B shows actual sales tax payments since the start of this development agreement.

Calendar year 2020 shows no payment as with the issued stay at home orders resulting in the shutdown of the mall for a large portion of the year, the sales tax generated at the mall did not exceed the threshold deduction. During calendar year 2021 there was a

surprising turn around in spending, which resulted in much larger than previous generation of sales tax and an increased payment to Macerich. Calendar year 2022 has still shown higher than predicted sales tax returns although they are decreasing from prior year starting in the second half of 2022 coinciding with the rise in inflation.

Staff remains available for any questions council may have.

Attachments: A. Macerich Development Agreement original charts
 B. Macerich payments disbursed to date
 C. Resolution No. 22-095