

CTC chief could derail SLT Whole Foods deal

By Kathryn Reed

It's true – a Whole Foods is looking at coming to South Lake Tahoe. But the deal has not been consummated.

It wouldn't be the big grocery stores, but instead one of the chain's new concepts called 365 by Whole Foods Market.

Some have compared them to a Trader Joe's. Besides being smaller, more in the 30,000-square-foot ballpark, they have a large grab-and-go section, pricing is different so the moniker "whole paycheck" isn't quite as true, and there is a rewards program.

Two of these stores opened this year – one in Southern California, the other Oregon. Eighteen others are in the development phase in eight states.

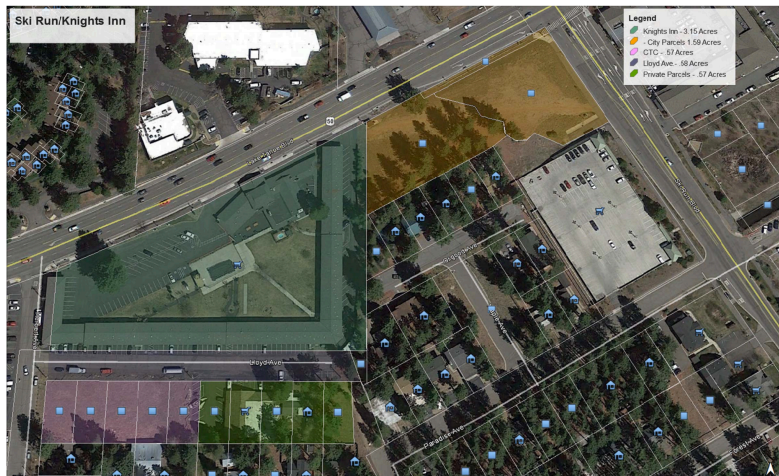
The South Lake Tahoe store would go where the Knights Inn is on Highway 50 near Ski Run Boulevard.

"We are not at the point where we can talk about the project we are doing with city just yet," Chris Peto, COO with Halferty Development, told *Lake Tahoe News*.

He did say Whole Foods is one of the possible tenants, but would not commit. However, others close to the project have told *LTN* Whole Foods will be the anchor.

Halferty Development of Pasadena is purchasing the developable portion of that site for \$4 million from South Lake Tahoe. The city is paying \$6 million for the property that is owned by Pradip Patel. Halferty is also buying the adjacent parcel dubbed the "southwest corner" for \$1.1 million from the city. The city will retain ownership of the non-developable acreage

of the Knights parcel, the conference center on Lloyd Avenue and the current owner's residence.



The area in green represents the Knights Inn, while the gold are is the “southwest corner” property at Ski Run and Highway 50. Map/South Lake Tahoe

The combined retail complex will be four buildings that could open in fall 2018. The Whole Foods would be the largest building. A T-shape building is proposed to go in at Ski Run that will be about 12,000-square feet, with a 5,000-square-foot building at Herbert Avenue and another one that size that may be a restaurant in the middle of the complex.

This is likely to be a \$10 million investment from Halferty.

While the other tenants have not been disclosed, a wine bar has been discussed.

The 110 hotel units can be converted into commercial floor area – two commodities the Tahoe Regional Planning Agency created as a way to curb development. (The rooms bring in about \$100,000 a year in transit occupancy tax.)

At the end of the day, the city anticipates having excess commodities that can be used elsewhere or sold. The increase in property and sales taxes is estimated to bring in much more

than the hotel tax ever did.

City officials have been working for nearly four years with Halferty on the southwest corner, and more recently on the Knights site. The development company originally wanted to put a drive-through pharmacy there. The city intervened in an attempt to get something better – in terms of adding variety to the commercial offerings in town, a project with a stronger tax base and buildings that would be more pleasing – especially at a key intersection.

For much of this year the negotiations have been touch-and-go. It has to do with environmental groups in the basin trying to dictate what should happen. TRPA – the bi-state regulatory agency, California Tahoe Conservancy – which has neighboring properties, and the League to Save Lake Tahoe – the basin's environmental watchdog, have all been at meetings between the city and developer.

“In regard to potential redevelopment of the Knights Inn site, there was some early thought that California Tahoe Conservancy Prop. 1 funding might be available to help pay for environmental improvements as part of a project,” TRPA Executive Director Joanne Marchetta told *Lake Tahoe News*. “That Prop. 1 funding may not be available, so the parties are all working to negotiate the best possible redevelopment project. The city of South Lake Tahoe is still negotiating and fine-tuning the parameters of this potential redevelopment project with other partners. Those talks include incorporating things such as water quality improvements.”

(The city has jurisdiction over permits for the project. The TRPA would get involved with tourist bonus units.)

The city in March spoke to the CTC board about obtaining a multi-million dollar grant for stream environmental zone restoration and water quality improvements. This is a routine allocation of CTC money. The board is expected to vote on the

grant in September.

CTC Executive Director Patrick Wright has indicated that now he will ask his board to not allocate the money. Publicly he has not said why. However, those close to the talks say it is because he isn't getting the project he wants so he is being an obstructionist. Wright did not respond to inquiries from *LTN*.

Larry Sevison, who is chair of that board, was unaware of any issue with allocating funding to the city until *LTN* called and therefore wasn't able to talk about the subject matter.

"... projects like the Knights Inn, which is already located in a designated town center, must maximize environmental benefits. We hope we do not lose the opportunity to restore the section of stream through the parcel, which would help reduce stormwater pollution that currently flows from neighborhoods and developed areas above the parcel and into the lake via pipes at Ski Run Marina," Darcie Goodman Collins, executive director of the League, told *Lake Tahoe News*. "The currently existing infrastructure under the inn is failing and polluting the lake. Any new development on the site should repair and replace that infrastructure and daylight the creek."

City Manager Nancy Kerry told *Lake Tahoe News*, "This project achieves those things. It achieves both economic and environmental goals."

What it won't achieve is all of the potential environmental goals without the state – aka CTC – helping.

City officials estimate 8,000 pounds of sediment could be prevented from reaching the lake with the proper erosion control measures put into place. This in turn would meet more than 20 percent of the city's sediment reduction goals that Lahontan Water Quality Control Board has mandated for the five-year period starting this year.

Not having the CTC on board is forcing the developer to rethink what the project will ultimately look like and what it is willing to spend. Build-to-suit agreements with tenants are also in jeopardy.

If the CTC says no, the city is prepared to scale back the environmental improvement aspect of the project while at the same time seeking grant funding elsewhere, including from the state Department of Water Resources.

Kerry said this project shows why it is near impossible to get rid of old hotels and redevelop them. With hotel rooms (aka tourist accommodation units) and commercial space being commodities, it inflates the price of a building – in terms of purchasing it or constructing it from scratch – to the point it's easier to do business outside the basin. There is little or no incentive for developers to go the extra step with the environmental fixes because there is no return on investment. It takes public dollars to get the big gains. That is why grants from the CTC and others help bring the biggest environmental benefits to a project.