



**APPROVED**  
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CITY CLERK

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OFFICE OF THE  
CITY MANAGER

CITY OF SACRAMENTO  
CALIFORNIA

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City Council  
Sacramento, CA

Honorable Members in Session:

**SUBJECT:** Approval of Assignment of Lease from Packard Bell  
NEC, Inc to US National Leasing, LLC

**LOCATION:** District 6. Former Sacramento Army Depot

**RECOMMENDATION:** Authorize the City Manager to execute all documents  
necessary to consummate the assignment of the  
"Industrial Development Lease and Option To  
Purchase" from Packard Bell NEC, INC to US National  
Leasing LLC.

**CONTACT PERSONS:** **BETTY MASUOKA, Deputy City Manager..... 264-5704**  
**TOM FRIERY, City Treasurer..... 264-5168**

**FOR COUNCIL MEETING OF:** December 14, 1999 (Afternoon)

**SUMMARY**

Packard Bell, NEC (PB) has requested City consent to assign the "Industrial Development Lease and Option to Purchase" to US National Leasing, LLC (USNL). City consent of any assignment is required. It is recommended that City consent be conditioned on a number of items that PB and USNL have agreed to. The most critical condition is that the Improvement Loan from the City to PB must be paid in full at the time escrow on the assignment is closed.

## BACKGROUND

In 1994, the City Council was in the midst of an economic downturn, the General Fund budget was struggling with significant reductions in Property Tax reductions due to the downturn as well as the state take away of city revenue. The FY94 budget had just eliminated 500 positions on top of the 90 positions eliminated in FY 92.

With this sober economic backdrop, the Sacramento Army Depot Reuse Commission completed a Reuse Plan for the site which focused on what was needed in order to mitigate impacts of this base closure on our local economy. The Reuse Plan identified the myriad of infrastructure challenges of the site and envisioned it would take a 30 year period for complete privatization of the depot.

In the summer of that year, Packard Bell approached a number of cities regarding relocation of their headquarters and operations due to damage to its southern California plant resulting from the Northridge earthquake. In order to effectively compete, the City Council and other local elected officials aggressively sought and received designation of the depot as a State Enterprise Zone and the City acquired from the Army all available land at the depot under an Economic Development Conveyance (EDC).

In December 1994, the City Council approved the "Industrial Development Lease and Option to Purchase between the City of Sacramento and Packard Bell Electronics, Inc." (Lease) and the "Combined Loan Agreement by and between the City of Sacramento and Packard Bell Electronics, Inc." (Loan).

Terms in the Lease Agreement which have been key to the current round of discussions have included:

- ✓ Option to purchase all or a portion of the site at \$0.75/square foot. Option must be exercised by 2004.
- ✓ City required to use best efforts to acquire the parcel originally slated for conveyance to CSUS.
- ✓ Restrictions on the City as to any rezoning, off-site and on-site improvement requirements or assessments.
- ✓ Annual Purchase Option Payments of \$50,000 per year (to 2004) and Purchase Price Payments in excess of \$5 million can be offset for specified costs paid by Tenant (PB) which are the responsibility of the Landlord (City). The offset to the Purchase Price not to exceed \$1.9 million.

Terms in the Loan agreement which have been key to the current round of discussions have included:

- ✓ Approximately \$27 million was loaned to Packard Bell to finance site improvements to be repaid, with interest by FY2008
- ✓ \$9 million moving loan to be repaid, with interest, by FY2001.

- ✓ Repayment of moving loan to be required if, amongst other things, the employment level falls below 1500.

Current Proposal. Packard Bell, NEC has requested City consent to assign the "Industrial Development Lease and Option to Purchase" to US National Leasing, LLC. The following is a summary of the points that will be required for consent by the City:

- ✓ Full payoff of the Improvement Loan must be made in order to close escrow.
- ✓ Employee hiring provisions will be added to the lease.
- ✓ Packard Bell is released from liability under the lease except for losses occurring during the period it held the lease, and any contamination it may have caused
- ✓ Requirement for minimum employment level of 1500 is deleted and keeping tenant's headquarters at the site are deleted.
- ✓ The requirements (covenants) on the City related to zoning limitations, restrictions on traffic mitigations, restrictions on off-site/on-site mitigations, tax protections, and assessment protections are deleted.
- ✓ By close of escrow, the amount of any offsets to Purchase Option Payments and Purchase Price Payments must be quantified and liquidated based upon actual costs paid by PB and verified by the City. No further offsets will be allowed after the lease is assigned.

## **FINANCIAL CONSIDERATIONS**

Moving Loan Fully Repaid. The balance of the moving loan (approximately \$1.8 million) was fully paid off by Packard Bell NEC on December 1, 1999.

Improvement Loan. One of the conditions for close of escrow is the full payoff of the balance on the Improvement Loan (approximately \$16 million). It is anticipated that this will occur during the first quarter of 2000, which is about eight years earlier than originally anticipated.

Offsets to Purchase Option and Purchase Price. The Lease approved by Council in 1994 contained certain offset provisions. To date, the City has reviewed and approved offsets to the Purchase Option payments through January 2004 (total of \$450,000). Packard Bell NEC has submitted a request to offset the Purchase Price by \$1,330,600. The City will review the submittal and a determination of the validity of the offset request will be made by the close of escrow. The requested offset is \$570,000 below the maximum offset established in the original lease. Any offset to the Purchase Price will be applied to amounts paid in excess of \$5 million.

## **ENVIRONMENTAL CONSIDERATIONS**

City consent to the assignment of the lease is not a project within the meaning of the California Environmental Quality Act, as it can have no conceivable adverse effect upon the environment.

## POLICY CONSIDERATIONS

Economic Development. All of the City's actions dealing with the Army Depot since the point it was determined that it would be closed have been focused on City's goals to promote economic development and to reuse the former military installation. During the tenure of PB at the site, as many as 5,000 jobs were generated. Payroll at the site since PB relocated there was about \$450 million, which translates to an economic benefit of \$2.2 billion. Over \$40 million was invested in physical plant improvements at the site which generated additional tax increment.

Repayment of Financial Investment. As stated above, the \$9 million moving loan has been fully paid off and the \$27 million improvement loan will be fully paid off at close of escrow. Early repayment of the moving loan was required by the terms of the loan agreement due to the downsizing of the workforce. The full repayment of the improvement loan is being made about 8 years early based on the current agreement.

Re-employment of Displaced Workers. Packard Bell has been a cooperative employer with respect to working with SETA, EDD and others in finding new job placements for their workers. Given the current state of the local job market, SETA staff is optimistic that there will be a high rate of re-employment. In addition, language will be added to the Lease (amendment) which will promote the use of local human resources and will assist sublessees in hiring qualified persons from the pool of local candidates.

## ESBD

The approvals being recommended in the attached resolution do not have any direct ESBD implications.

Respectfully Submitted,



BETTY MASUOKA  
Deputy City Manager

Recommendation Approved:



Robert P. Thomas  
City Manager

RESOLUTION NO. 99-735

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_



RESOLUTION AUTHORIZING THE CITY MANAGER TO FINALIZE AND EXECUTE ALL DOCUMENTS NECESSARY TO CONSUMMATE THE ASSIGNMENT OF THE "INDUSTRIAL DEVELOPMENT LEASE AND OPTION TO PURCHASE BETWEEN THE CITY OF SACRAMENTO AND PACKARD BELL ELECTRONICS" FROM PACKARD BELL NEC, INC TO US NATIONAL LEASING, LLC

WHEREAS Packard Bell NEC has significantly downsized its workforce at the former Army Depot site, and

WHEREAS Packard Bell NEC has requested the City's approval to assign its lease to US National Leasing, LLC; and

WHEREAS it is in the best interest of the City to support tenancy that will provide jobs;

THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO THAT:

- 1. The City Manager is hereby authorized to finalize and execute all documents required to consummate the assignment of the Industrial Development Lease and Option to Purchase from Packard Bell NEC, Inc to US National Leasing, LLC, including but not limited to the Consent to Assignment and the Second Amendment to the said lease.
2. City consent to such an assignment will require, without limitation, full payment of all loans from the City to Packard Bell NEC, Inc. prior to close of escrow, employee hiring provisions, deletions of certain landlord covenants, and deletion of minimum employment requirements.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_