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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

October 1, 1991

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Transportation and
Community Development Committee
Sacramento, California

Honorable Members:

**SUBJECT: OVERVIEW OF ISSUE: DATA ON STATE OWNED AND LEASED
PROPERTY IN THE DOWNTOWN AND CENTRAL BUSINESS DISTRICT**

SUMMARY

The State of California is the largest tenant and owner of office space in the Downtown area occupying 5.2 million square feet. This is equivalent to approximately eight buildings the size of the new Wells Fargo building on Capitol Mall.

During the next five years 1.2 million square feet of State office leases will be up for renewal. During this same period the State will require approximately 800,000 square feet of new office space to meet increases in numbers of employees. Recently, the State has started to relocate offices to outlying suburbs. If this trend continues, public investment of \$200 million (over the past seven years) in the Downtown area may be in jeopardy.

Leasing policies currently under development by the State Department of General Services will determine how to provide for State office space needs. Preliminary estimates indicate that these State leasing policies could have an impact of up to \$20 to \$40 Million (5%-10%) on annual Downtown retail activity. In addition, Light Rail system ridership could be impacted by a loss of up to 6,700 to 10,800 daily commute trips. This is equal to 20%-45% of total projected ridership into the Downtown area in the year 2001.

LOCATION

Council District 1, Downtown Area and Central Business District .

RECOMMENDATION

This report is for information only.

BACKGROUND

Data on State Leases

The State of California is the largest tenant and owner of office space in the Downtown area. The State currently leases 3.2 Million square feet of office space. This represents approximately 30% of all office space in the Downtown area.

Below is a listing of the ten State Departments with the most leased space in the Downtown area.

TABLE 1
Existing State Department Office Leases
(Downtown Area Only)

Rank	Department	Square Footage
1	Social Services	345,000
2	Corrections	324,000
3	General Services	240,000
4	Health Services	220,000
5	Justice (Attorney General)	180,000
6	Controller	165,000
7	Education	150,000
8	Air Resources	143,000
9	Transportation	136,000
10	Equalization	123,000
TOTAL		2,026,000

Many of these Downtown State leases are coming up for renewal in the next few years. Attachment 1 provides a listing, by year and Department, of leases that are due for renewal in the next 5 years. Approximately 1.2 million square feet of existing leases will be up for renewal. During this period, Attorney General, Controller, Social Services, and Education are the State Departments with the largest leases up for renewal.

The State also leases a significant amount of space in outlying areas. Currently the State leases almost 2.0 million square feet outside the Downtown area. Below is a listing of the six State Departments with the most leased space outside the Downtown area. There may be opportunities in the future to attract some of these Departments to Downtown office space.

TABLE 2
Existing State Department Office Leases
(Outlying Areas Only)

Rank	Department	Square Footage
1	Franchise Tax Board	300,000
2	Transportation	250,000
3	Economic Development	250,000
4	Data Center	150,000
5	Consumer Affairs	150,000
6	Health Services	150,000
TOTAL		1,250,000

Overview of Public Investment in the Downtown Area

During the past 7 years the City, Sacramento Housing and Redevelopment Agency, and Regional Transit have made significant investments in infrastructure to support growth of the Downtown area. Three key areas of investments have been the Light Rail System, Retail Development and Parking Facilities.

Light Rail System

In 1985 the City and SHRA invested approximately \$30 million in the start of a Light Rail System to serve Downtown commuters. Regional Transit also invested \$127 Million at this time. Current plans are for Regional Transit to invest another \$450 million over the next ten years to further expand light rail services into the Downtown area.

Retail Development

SHRA has been instrumental in leveraging private investment in Downtown retail stores. The Downtown Plaza is ready to start an \$80 million dollar expansion project that will

increase retail space by 20% in the Downtown area. SHRA has invested an additional \$14 million of public funds to assist with this expansion.

Parking Facilities

The City also recently invested \$27 million to add 1,100 public parking spaces in the east end of the Central Business District. The Civic Center Plaza Parking Garage was built primarily to support retail shoppers using the K Street Mall.

State Office Tenancy Downtown - Support of Public Investment

Public investment to expand Light Rail and retail services was predicated on continued growth of office development in the Downtown area. Recent discussions by some of the largest State departments to leave downtown could have serious impacts on these investments. Below are some preliminary projections on impacts of State leasing activities on various public investments (These projections are based on several different sources of data and must be refined in cooperation with the State as discussions continue on future leasing policies).

Over the next ten years, the Light Rail System and Downtown retail stores will expand dramatically. The table below provides a preliminary forecast of retail and transit use by State Employees in the year 2001. This forecast assumes 100% retention of all existing leased office space in the Downtown area, and a 100% capture rate for all future office space demand. Given the recent trends in State leasing, these assumptions seem extremely optimistic. Nevertheless, even with full retention of existing State tenants, and capture of all new State office leases, the transit and retail services will easily accommodate demands created by State employees Downtown.

Approximately 10,900 State Employees could be using Light Rail in the year 2001. In addition State Employees could spend \$91 million in Downtown retail stores. It is projected that the relative share of State Employee transit and retail activity will decline slightly over the next ten years as private employers will comprise a larger share of the Downtown office market.

TABLE 3
Preliminary Forecast of
Retail and Transit use by State Employees

Downtown Retail Activity (Dollars in 000s)	Current Estimate	%	Year 2001	%
State Employees	\$68,000	31%	\$91,000	25%
Other Employees	65,000	30%	100,000	27%
Non-employees	87,000	39	178,000	48%
TOTALS	\$222,000		\$370,000	

Transit Use by Downtown Employees
(Daily round trips)

State Employees	4,100	51%	10,900	47%
Other Employees	4,000	49%	12,100	53%
TOTALS	8,100		23,000	

The failure to capture new State office leases could result in the following:

- o Almost half of the increased Light Rail capacity will be unused (approximately 6,700 daily trips).
- o Over \$20 million in annual retail spending activity will be lost from the Downtown area.

These projections does not include loss of any existing State office leases in the Downtown area. If the State does not renew any of its current Downtown office leases, retail activity could drop another \$20 million and daily transit ridership could drop another 4,100 trips.

POLICY CONSIDERATIONS

The information in this report illustrates the importance of State office space policies to the City of Sacramento.

Below is a recap of various policy documents that have been reviewed or approved by various public agencies relating to State office space policies:

Capitol Area Plan (1977)

Policies regarding State office location, leasing, and development are part of the Capitol

Area Plan adopted in 1987. This plan originally envisioned all State Offices to be located in the Downtown area. The original goal was to:

"Provide office buildings, including related service facilities, near the State Capitol and the Downtown area to meet future office space requirements of the State of California. The design shall produce a safe and healthy environment for employees and other citizens, consistent with the overall intent of the downtown area plan."

In addition, as part of the Capitol Area Plan, the State established a guideline that all lease space used by the State would be north of L street within a ten minute walking distance of the Capitol.

The State has not met the office space goals and guidelines contained in the Capitol Area Plan.

State General Services "Interim Paper" (May 1991)

In May 1991 the State Department of General Services issued an "Interim Paper" outlining some the office space issues of various State Departments. In this paper the staff of General Services provided several policy options for meeting space demands:

1. Continue Leasing Space
2. Increase Capitol Area Plan Density
3. Purchase and/or develop State-owned Land within Central Sacramento, but outside the Capitol Area, and
4. House Executive Offices in the Capitol Area, Develop State-owned Satellite Offices in the Metropolitan Area.

General Services has requested direction from the Legislature and the Administration on which alternatives should be pursued.

Sacramento Housing and Redevelopment Agency Resolution (August 1991)

The City Council adopted a resolution to officially opposed plans by the State of California to purchase existing buildings within the Downtown Redevelopment area. If the State purchases buildings the property tax revenue to the Redevelopment District would be eliminated. SHRA has issued bonds based on the property tax revenue from existing office buildings in the Redevelopment area.

City Council Resolution (September 1991)

On September 3, 1991 the City Council passed a resolution in "Support of Retaining State Offices Downtown Revitalizing the Capitol Area Plan." The resolution contained the following requests:

1. Respectfully request that the State Controller, the Governor and the

California State Legislature reconsider its emerging policy of locating State agencies out of Downtown Sacramento, and that we request assistance in this matter from our Legislative Delegation: and

2. That the City's Transportation and Community Development Committee commence hearings to regain the State's commitment to the CAP and to enlist the State's help in planning for a mutually agreeable apportionment for State leases and construction in the Central City.

City Asset Management Program Goals and Objectives (September 1991)

On September 24, 1991 the City Council reviewed goals and objectives for a City Asset Management Program. One of the goals and accompanying objective was as follows:

Goal: To utilize the advantageous market position of the City's Downtown properties in order to further City Land use, transportation, and economic development policies for the Downtown area.

Objective: To retain the State of California as a major user of office space in the Central City, by focussing asset management efforts on accommodating future State tenancy requirements.

FINANCIAL DATA

This report identified a potential loss of annual downtown retail activity in the range of \$20-\$40 million depending on future State office space policy decision. Loss of retail activity in this range would translate into a loss of \$200,000 to \$400,000 in sales tax revenue to the City from the Downtown area.

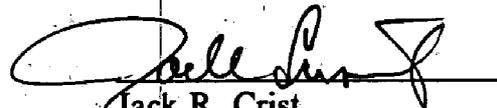
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None.

Respectfully Submitted,

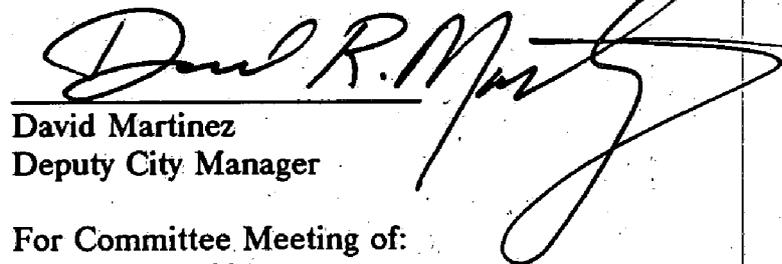


Bill Farley
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Jack R. Crist
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Approved for Committee Information:



David Martinez
Deputy City Manager

For Committee Meeting of:
October 10, 1991

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State Office Leases Subject to Renewal

Square footage by Calendar Year

State Department	1991	1992	1993	1994	1995	TOTAL
Justice (Attorney General)	0	0	133,000	0	36,000	169,000
Controller	167,000	0	0	0	0	167,000
Social Services	0	64,000	102,000	0	0	166,000
Education	38,000	33,000	64,000	0	0	135,000
Transportation	20,000	0	0	0	52,000	72,000
Corrections	0	0	0	69,000	0	69,000
Secretary of State	0	0	0	0	64,000	64,000
Rehabilitation	55,000	0	0	0	0	55,000
Community Colleges	0	0	0	55,000	0	55,000
Air Resources Board	24,000	0	24,000	0	0	48,000
General Services	0	27,000	21,000	0	0	48,000
Board of Equalization	0	31,000	0	0	0	31,000
Water Resources Board	0	0	30,000	0	0	30,000
Criminal Justice Planning	0	0	0	0	25,000	25,000
Fair Political Practices Comm.	0	0	0	25,000	0	25,000
TOTAL	304,000	155,000	374,000	149,000	177,000	1,159,000