



20

REPORT TO COUNCIL City of Sacramento

915 I Street, Sacramento, CA 95814-2671
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STAFF REPORT
November 21, 2006

Honorable Mayor and
Members of the City Council

**Title: Agreements: Option to Purchase and Agreement of Purchase and Sale for
300 Richards Boulevard**

Location/Council District: South side of Richards Boulevard at North 3rd Street,
District 1

Recommendation: Adopt a **Resolution:** 1) Authorizing the City Manager to exercise the Option to Purchase with Richards Boulevard Partners and The Second Richards Boulevard Partnership for real property commonly known as the Discovery Centre located at 300 Richards Boulevard; 2) authorizing the City Manager to execute the Agreement of Purchase and Sale and Joint Escrow Instructions for 300 Richards Boulevard; and 3) authorizing the City Manager to execute such additional documents and to take such additional actions as necessary to implement the Resolution.

Contacts: Marty Hanneman, Assistant City Manager, 808-7508; Cynthia Kranc, Facilities Manager, 808-2258

Presenters: Marty Hanneman, Assistant City Manager, 808-7508; Cynthia Kranc, Facilities Manager, 808-2258

Department: General Services

Division: Facilities and Real Property Management

Organization No: 3285

Description/Analysis

Issue: During the last few years, the demand for City services has increased significantly. This has resulted in the need for additional space in the downtown area to house staff and support operations. Existing City facilities downtown do not have the capacity to support this additional demand. Some of the facilities are built-out with no room for expansion; others are either functionally obsolete or poorly configured to provide flexibility to meet changing demands or enhance operational efficiencies.

Based on current space needs, acquisition of the Discovery Centre located at 300 Richards Boulevard will provide a significant amount of office space, both for servicing the needs of the public and for the operation and function of City departments, including space for required equipment and parking.

Policy Considerations: Authorizing the City Manager to exercise the Option to Purchase and execute the Agreement of Purchase and Sale and Joint Escrow Instructions for 300 Richards Boulevard is consistent with the following Downtown Space Planning Guiding Principles adopted by City Council on September 19, 2006:

- Adequate facilities will be provided for all employees and authorized growth.
- First consideration will be given to locating City functions in City-owned rather than leased facilities.
- Priority will be given to locating City functions downtown that rely on direct contact or interact with elected officials and executive management and/or provide citywide support and administration.

Rationale of Recommendation: The proposed acquisition is aligned with the Downtown Space Planning Guiding Principles for the following reasons:

- 300 Richards Boulevard is improved with a 3-story office building that contains more than 150,000 gross square feet of office space or approximately 146,132 net rentable square feet, served by more than 540 parking spaces. The large floorplates, approximately 50,000 gross square feet per floor, will provide flexibility within a City-owned facility to adjust resources and operations to meet changing demands.
- The purchase includes approximately 5.44 acres of vacant "excess" land. As the demand for City services continues to rise, this land will provide valuable options for future use.
- Direct access from the site to the downtown area is available via the 7th Street extension. This provides a time-saving connection to City Hall and other City functions located in the Central Business District (CBD).

In addition, this property is located within the Richards Boulevard Redevelopment Area, an area established by the City to facilitate revitalization and redevelopment. The City's investment in this area may spur further redevelopment in support of the Mayor and Council focus on expanding economic development throughout the City.

Environmental Considerations: Acquisition of the subject property is exempt from the California Environmental Quality Act (CEQA) under Section 15301 wherein the project involves the purchase of an existing structure with no expansion of use. Any future plan to develop the vacant land would be subject to

additional environmental review at such time as a project is identified for the property.

Phase I Environmental Site Assessments were prepared by ADR Environmental Group, Inc. in December 2005 for the building and its improved site and in January 2006 for the undeveloped vacant parcels. Both reports concluded that no additional investigation was warranted.

Financial Considerations: To secure 300 Richards Boulevard for City use, two alternatives were negotiated for Council consideration:

➤ Lease: On November 14, 2006, City Council approved a ten (10) year lease of Discovery Centre Phase I which is comprised of the 3-story office building and related on-site parking. In addition, Council approved an Option to Purchase Agreement for the entire Discovery Centre project. Effectively, the lease secured the office building in the event that agreement could not be reached on terms and conditions to purchase the larger project or if Council chose not to purchase the property. Under the lease, base rent started at \$1.45 per rentable square foot or \$211,891 monthly in year 1; adjusting to \$2.04 in year 10 or \$298,109 per month. The lease rate represented a high level Tenant Improvement ("TI") allowance of \$44.48 per rentable square foot or \$6.5 million. In addition, all expenses for the operation and/or maintenance of the property during the lease term would be paid by the City. First year expenses were estimated at \$1,062,380 or \$7.27 per rentable square foot. Over the 10-year term, the cost to service the lease payments and project expenses was estimated at \$44.6 million.


➤ Option to Purchase: The larger Discovery Centre project is comprised of the Discovery Centre Phase I office building situated on approximately 6.02 acres as well as 5.44 acres of adjacent vacant land. The purchase price negotiated for the project is \$29.85 million, which includes a Tenant Improvement ("TI") allowance of \$6.5 million negotiated in the lease. Currently, the building lobby and core areas are completed, but the office space is in "warm shell" condition, not ready for occupancy. In this "as-is" condition, an independent appraiser valued the building and excess land at \$23.5 million; however, assuming the TI allowance would be used to make the building ready for occupancy and office use, the appraiser placed the "turn-key" value of the property at \$30 million. In contrast to the lease, the City's investment to purchase the property will not only provide much needed office space and related parking, but will yield ownership and control of additional land for future use.

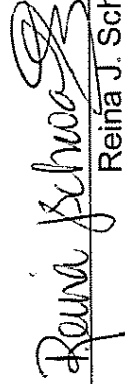
Funding for the acquisition will be made available by issuance of the 2006 Capital Improvement Revenue Bonds (CIRBs), Series C & D, which is being brought forward by the City Treasurer's Office in a separate report.

The source of repayment of the 2006 CIRBs, series C & D, for this purchase will be the reallocation of funds originally budgeted for costs associated with jail booking fees, which as a result of the State's budget process are no longer needed, the reallocation of

lease payments for space vacated when the building is occupied, and the reallocation of other service and supply savings.

Emerging Small Business Development (ESBD): No goods or services are being purchased as a result of this report.

Respectfully Submitted by: 
Cynthia Kranc
Facilities Manager

Approved by: 
Reina J. Schwartz
Director, Department of General Services

Recommendation Approved:


Ray Kerridge
City Manager

Table of Contents:
Report Pgs 1-4

Attachments
1 Background Pgs 5-8
2 Resolution Pgs 9-10
3 Exhibit A – GIS Map Pg 11

BACKGROUND INFORMATION

The City of Sacramento needs and occupies a significant amount of physical space, both for servicing the needs of the citizens of Sacramento and for the operation and function of City departments.

To assist in developing a strategic plan for space planning, General Services facilitated discussion with the City Manager's office and Department leadership on citywide space needs, opportunities to improve operational efficiencies, and effective use of public assets. The following themes were identified as part of the discussion:

- **Authorized Growth:** Several key City facilities are characterized as overcrowded and beyond capacity to house new authorized staff and support operations, including required equipment and parking.

In some cases, space originally designed for storage has been converted to workspace. In others, workspace has been converted to overflow locker rooms; yet, there are not enough lockers. As a result, staff without lockers are unable to possess a full complement of equipment.

Other facilities like City Hall are fully occupied with no room for growth. In the event of a decision to locate strategic departments in close proximity to the Mayor, Council and City Manager, the only alternative would be to create room by relocating existing staff to another facility of which the City has none available at this time.
- **Operations and Efficiency:** There is a desire to centralize functional units from the same department to improve operational efficiency. In addition, there is a strong desire to consolidate similar functions currently handled by multiple departments, such as public counters, to capitalize on shared space while reducing costs and improving public access.
- **Use of Public Assets:** Some facilities have reached the end of their useful life, are functionally obsolete, or are not configured to provide flexibility to meet changing demands. Even with significant re-investment to update these facilities to current standards, capacity for future growth is unchanged.

The desired outcomes and current space needs of various departments, as shown below, is based on preliminary input from department leadership. The acquisition of 300 Richards Boulevard will provide a significant amount of office space to offset the City's most immediate needs. The Department of General Services is continuing to assess and validate space needs and will return to Council with recommendations on additional consolidation and efficiency opportunities; particularly with respect to City facilities that are no longer suitable for City operations.

Desired Outcomes

Department / Office(s)	Outcome
Police	Eliminate overcrowding at substations; address required equipment needs; support projected future staffing and growth
Development Services	Implement Matrix citywide; consolidate similar functions of other departments to enhance public access and improve efficiency
Organizational Development	Shared training facilities and student parking
Code Enforcement	Consolidate functional units from department; provide vehicle parking
Parking	Secured parking for scooters; relocate meter repair shop
Economic Development	Adjacent to Mayor, Council and City Manager's office
eCAPS	Implement new Human Resources/Finance system
Neighborhood Services	More easily accessible

Current Space Needs: Based on authorized growth and desired consolidation(s)

Department / Office(s)	Estimated Staff	Estimated Square Feet (SF)	Special Requirements			
			Parking	Public Counter	Training	Lockers
Police	160	50,000	x	x	x	x
Development Services	150	50,000	x	x	x	
Code Enforcement	90	15,000	x			
Parking	50	15,000	x			x
Expansion Opportunities	50	15,000				
eCAPS Project Team	50	12,500				
Economic Development	30	7,500				
Organizational Development	10	7,000	x		x	
Neighborhood Services	4	1,000				
	594	173,000				

City Owned/Occupied Office Space Downtown

Occupied Building(s)	Building SF	Available SF	Comments
City Hall Complex	234,000	0	
921 10 th Street	30,000	8,000	Significant re-investment to update Council policy states preference for retail over office uses
Waterfall Garage (office)	22,000	0	Building is functionally obsolete; underutilized site
625 H Street	20,000	0	Vacant due to move to new 911 center
111 Bercut	5,000	5,000	Council policy states preference for retail over office uses
312 K Street	3,500	3,500	
1030 15 th Street, 2 nd Floor	3,000	0	
	317,500	16,500	

On September 19, 2006, the information above was presented to City Council and Council adopted the following Downtown Space Planning Guiding Principles:

- Adequate facilities will be provided for all employees and authorized growth.
- First consideration will be given to locating City functions in City-owned rather than leased facilities.
- Priority will be given to locating City functions downtown that rely on direct contact or interact with elected officials and executive management and/or provide citywide support and administration.
- Leased facilities will be considered as an interim solution for time-critical, short-term or geographic-specific projects or programs, if City-owned space is not available.
- First consideration will be given to program space over office space in community facilities.
- Opportunities for public/private shared facilities will be considered.
- Support principles that establish energy efficiency and sustainable design practices.
- Space planning strategies related to future growth will be brought back to Council.

On November 14, 2006, City Council approved a ten (10) year lease of Discovery Centre Phase I which is comprised of a 3-story office building situated on approximately 6.02 acres, served by more than 540 surface parking spaces. The building contains more than 150,000 gross square feet or approximately 146,132 net rentable square feet. In addition to the Lease, Council approved an Option to Purchase Agreement for the entire Discovery Centre project. The larger project is comprised of the Discovery Centre Phase I office building and related parking area already described as well as an additional 5.44 acres of adjacent vacant land. The purchase price negotiated for the land and building is \$29.850 million, which includes a Tenant Improvement allowance of \$6.5 million. The purchase price is supported by an independent fee appraisal.

On November 21, 2006, the City Treasurer's Office will recommend that Council authorize the issuance of approximately \$36.4 million in 2006 Capital Improvement Revenue Bonds (CIRBs), Series C & D, to finance the acquisition of 300 Richards Boulevard and other actions related to the Downtown Space Planning Guiding Principles.

RESOLUTION NO. 2006-XXXX

Adopted by the Sacramento City Council

November 21, 2006

**AUTHORIZING THE CITY MANAGER TO EXERCISE THE OPTION TO PURCHASE
AGREEMENT AND EXECUTE THE AGREEMENT FOR
PURCHASE AND SALE WITH RICHARDS BOULEVARD
PARTNERS AND THE SECOND RICHARDS BOULEVARD PARTNERSHIP
FOR REAL PROPERTY COMMONLY KNOWN AS
THE DISCOVERY CENTRE LOCATED AT 300 RICHARDS BOULEVARD**

BACKGROUND

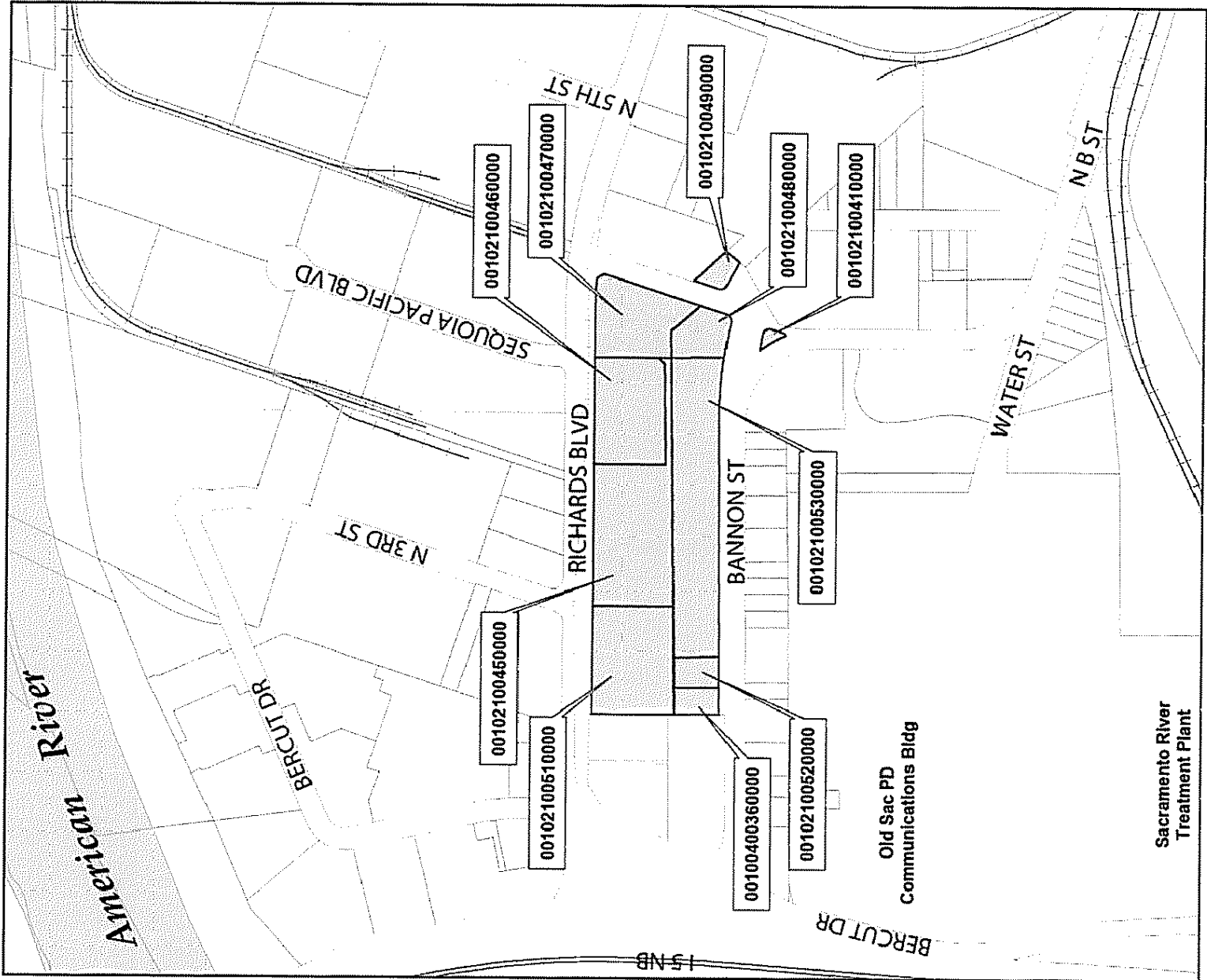
- A. The City needs and occupies a significant amount of physical space, both for servicing the needs of the citizens of Sacramento and for the operation and function of City departments.
- B. During the last few years, the demand for City services has increased significantly. As a result, the City needs additional space in the downtown area to house staff and support operations.
- C. Existing downtown City facilities do not have the capacity to support this additional demand.
- E. Authorizing the City Manager to exercise the Option to Purchase Agreement and execute the Agreement for Purchase and Sale and Joint Escrow Instructions for 300 Richards Boulevard is consistent with the following Downtown Space Planning Guiding Principles adopted by City Council on September 19, 2006:
 - Adequate facilities will be provided for all employees and for authorized growth.
 - First consideration will be given to locating City functions in City-owned rather than leased facilities.
 - Priority will be given to locating City functions downtown that rely on direct contact or interact with elected officials and executive management and/or provide citywide support and administration.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The City Manager is authorized to exercise the Option to Purchase Agreement with Richards Boulevard Partners and The Second Richards Boulevard Partnership for real property commonly known as the Discovery Centre located at 300 Richards Boulevard.
- Section 2. The City Manager is authorized to execute the Agreement of Sale and Purchase and Joint Escrow Instructions with Richards Boulevard Partnership and The Second Richards Boulevard Partnership for 300 Richards Boulevard, further identified as Assessor Parcel Numbers: 001-0040-036, 001-0210-041, 045, 046, 047, 048, 051, 052, and 053.
- Section 3. The City Manager is authorized to execute such additional documents and to take such additional actions as necessary to implement the Resolution.

Table of Contents
Exhibit A – GIS Map

EXHIBIT A



**300 Richards Blvd Properties
Location Map**



City of Sacramento/ IT Dept
Map Contact: D. Wilcox

Map Date: November 2006