



DEPARTMENT OF
PLANNING AND DEVELOPMENT

CITY OF SACRAMENTO
CALIFORNIA

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October 10, 1991

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Transportation and Community Development Committee
Sacramento, California

ECONOMIC DEVELOPMENT
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Honorable Members in Session:

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**SUBJECT: PLANNING POLICIES SUPPORTING STATE OFFICE
DEVELOPMENT**

LOCATION: Council District 1

SUMMARY

This staff report outlines the goals, objectives and policies of several City Planning documents which affect or support State office development in downtown Sacramento. These plans include the General Plan, Capitol Area Plan, and the Central City Community Plan, as well as other recently completed studies addressing land use and development in the Central City, and State office space needs in Sacramento. This report also addresses a number of issues related to State office needs and leasing activity within the past few years, most notably the fact that most of the State's new office needs have been met through leasing of privately-owned and developed space, due to the fact that the State has not developed any of its own space for several years. Other significant factors are discussed below.

COMMITTEE ACTION

Receive Information

STAFF RECOMMENDATION

For Committee Information

BACKGROUND INFORMATION

The various adopted plans for the City, Central City, and Capitol Area contain a number of goals, objectives and policies aimed at promoting and encouraging downtown office

development, in support of downtown revitalization, job growth, and accommodating State office needs. Before describing these policies and their implications on State office needs, it is useful to consider the following observations:

- In recent years, the State has met most of its new office space needs through leasing available privately-owned and developed space, primarily because funding for planning and development of state-owned facilities was not a priority with the State during the previous Administration.
- A significant portion of this leased space is located in the Central City, including the Richards Boulevard area.
- The City has diligently supported implementation of the Capitol Area Plan through support of light rail, office development within the CBD, the Urban Design Plan, and the Cultural and Entertainment District.
- Downtown Sacramento has achieved a substantial increase in private office space over the last 10 years; since 1986, more than 2 million square feet of office space has been constructed in the CBD alone.
- Approximately 3.9 million square feet of private office space is currently pending or under discussion in the Central City, indicating that there is a large potential supply within close proximity to the State Capitol.
- Other sites are available in the Richards Boulevard and Folsom Boulevard areas for back offices.
- Planning has maintained a liaison role between the City and State Department of General Services through active membership in the Capitol Area Plan Technical Advisory Committee, and regular attendance at Capitol Area Plan Committee meetings.
- Under the current Capitol Area Plan, approximately 950,000 additional square feet of office space could be constructed. The State Department of General Services indicates that this space would not meet all of the State's needs. There is a substantial amount of land within the Capitol Area currently devoted to surface parking, thus it would appear that this parking could be consolidated into structures in order to free up land for office development. Unfortunately, some of this parking is controlled by other autonomous State agencies over which CADA or General Services have no control. Also, some of the parking is committed for use by collective bargaining agreements between the State and some of its employees.

GENERAL PLAN

Goal A - Maintain and strengthen Downtown's role as a major regional office, retail commercial, governmental, and cultural/entertainment center.

Policy 1 - Provide incentives for regional commercial and office development projects locating within the downtown area.

The City, through support of SHRA activities, light rail transit, and the Urban Design Plan Incentive Zone programs, has encouraged development of new office space in the downtown area.

Goal C - Maintain and strengthen Downtown's role as a center for governmental office activity.

Policy 1 - Encourage continued construction and leasing of public office space in downtown Sacramento.

CENTRAL CITY COMMUNITY PLAN

Goals

- 1. Encourage coordinated development of various governmental complexes in the Central City to ensure their future growth needs are compatible with the Central City Plan (p. 3).*
- 2. Encourage public and private office development, where compatible with the adjacent land uses and circulation system, in the CBD (p. 5).*

The City has encouraged public and private office development in the CBD for several years. Indeed, over the past five years, more than 2 million square feet of private office space has been constructed in the CBD, while another 1.3 million square feet has been constructed elsewhere in the Central City. In addition, approximately 3.9 million square feet of private office space is currently pending or under discussion, although none of this space is likely to come on line until 1993 at the earliest.

With regard to State office development, no new space has been constructed in the Central City since 1983 (other than PERS' Lincoln Plaza). More recently, however, the 370,000 square foot PERS Garage Site project is being developed, and construction is to begin within the next year on two other projects, the 115,000 square foot State Library and Courts Annex at 9th and N Streets, and the 440,000 square foot Secretary of State/Archives building at 10th and O. CADA is also overseeing the private development of 38,000 square feet of office space at 16th and P.

CAPITOL AREA PLAN

The Capitol Area Plan was adopted by the Legislature in 1977 as the official master plan for the development and use of State-owned land in downtown Sacramento. The Plan was developed in partnership with the City in order to formulate an overall approach for land use development within the Capitol Area that would be most beneficial to both the State and City. The State Department of General Services is responsible for formulating and implementing the Plan's long range development plans, developing state office space, and annually reporting on the progress of development to the Legislature. The Plan envisions the development of a mixed-use

community in the Capitol Area that includes State office buildings, housing, support retail commercial, parking garages, and other improvements.

The following Plan Concept is applicable to State office space needs:

State Office Space Consolidation: The Plan proposes to consolidate State offices which are currently scattered throughout metropolitan Sacramento by relocating those agencies that need to be downtown within a radius convenient to the Capitol. This radius makes it logical to locate State-owned office space north of "L" Street, and about one-third of the new space will be located there. This consolidation will permit an improvement of the efficiency of operation of the agencies now dispersed. (p. 6)

One of the constraints to consolidation of dispersed agency functions is the lack of buildings with large floor plates within the downtown core. Although several new high-rise office buildings have been constructed in recent years, the space within these buildings does not meet the functional needs of certain agencies (e.g. Franchise Tax Board, Lottery Commission, State Printing Plant). In addition, being Class A office space, the rents in these new high-rises are often too high for most agency budgets, other than for executive office functions. For a number of agencies, there simply are no office facilities available downtown to meet their needs at the time their existing leases expire, at rents they are willing or able to pay. Consequently, they must look outside the Central City for space.

It should be pointed out that some agencies, or certain agency functions or field offices, do not need to be located downtown or close to the Capitol, and will likely continue to be housed in outlying facilities.

Policies and Objectives

1. State Offices (p. 10)

***Objective:** To provide offices and related services to meet present and future space requirements for the State of California near the State Capitol and in the context of metropolitan Sacramento, in the most cost effective manner.*

The State office building program in the Sacramento region has been slowed over the past ten years by economic, financial and political conditions. Since 1983, the only State office space constructed has been the 391,000 square foot Franchise Tax Board Phase II building at Folsom and Mayhew in the County. No new State-owned office space has been developed within the Capitol Area, although projects totalling approximately 950,000 square feet have been approved and are close to construction. (Department of General Services, Office of Project Development and Management; "Supplying the Demand for State Office Space in Sacramento", May 1991)

In the absence of an aggressive State office building program, State office space demand has been met through leasing of privately-owned space at increasingly higher rates. Between 1977 and 1990, space leased by the State increased 171 percent, from 2.1 million to 5.7 million net

square feet. As a portion of total space occupied by the State, the amount of leased space increased from 37 percent to 52 percent since 1977. Annual costs for leased space have increased from \$10.1 million to \$81.5 million during the same period. (Department of General Services, p. 10)

The State has traditionally been a major office space tenant in downtown Sacramento. In 1989, for example, State agencies leased 393,000 square feet of private office space, 77 percent of all available space taken, and 248,000 square feet in 1990, 63 percent of all available space. As with any tenant, it is generally less costly for the State to own rather than lease space over the long term. When comparing the cost of leasing to ownership over the economic life of an office facility, the advantages of ownership are not realized in the first few years, thus it is less costly to lease space for the first five to ten years. However, it is appropriate to lease space under the following circumstances: (Department of General Services, "Capitol Area Progress Report", December 1990, p.27)

- if an agency requires frequent changes in its location to be close to its client population;
- if an agency serves clients within a specific geographic area that does not contain State-owned space;
- when an agency experiences sudden increases in staffing due to new programs or increased program loads;
- when a State-owned facility is undergoing remodeling, agencies normally housed in that facility would move to leased space until the remodeling is complete.

The Progress Report recommends that a Space Allocation Plan be prepared to determine which agencies should appropriately be housed in State-owned space, and which can be housed in leased space.

Policies:

1. *Locate State office space in the metropolitan Sacramento area so as to meet the State's needs while minimizing the disruptive effects of that space on the city.*
2. *Locate State offices in the Core Area within a walking radius of the Capitol according to function and relationships to other offices.*

It must be recognized that under the 1977 Capitol Area Plan development guidelines, the property the State owns in the Capitol Area could not accommodate the entire demand for State office space near the Capitol. The Capitol Area is designed to create a mixed-use community including residential and commercial activities as well as State office space. (Dept. of General Services, p. 12)

3. *Locate State offices in the downtown area north of L Street to permit more*

balanced office locations within the 10-minute walking radius, providing sites with supporting services already in place and serving as a positive effort to revitalize and reinforce the downtown economy.

The Capitol Area Plan Progress Report contains findings and recommendations from the Auditor General's report, "A Study of the State's Office Space Facilities Planning Goals, Policies, and Recommendations" (August 1990). One of the findings was that the policy of siting State-owned offices north of L Street in the downtown core area has not been realized. No specific site was ever selected and no State-owned property suitable for office development exists in the core area north of L Street. In 1977, one of the reasons for developing State-owned office space north of L Street was to provide an anchor land use to attract private development to the area and help revitalize the CBD. Since that time, the area between G and L Streets has undergone substantial private development.

Most of the area north of L Street within a 10-minute walking radius of the Capitol is within the Merged Downtown Sacramento Redevelopment Plan. Purchase of sites or new buildings within a redevelopment area would remove the tax increments upon which SHRA depends for financing City housing and redevelopment goals. For the above reasons, it is appropriate to consider removing this policy from the Capitol Area Plan or revise it to reflect actual conditions. (Progress Report, pp. 22-23)

4. *Develop a program to meet projected needs for State office space in the Core Area in a cost-efficient manner, including new construction of State-owned offices and rehabilitation of existing structures for office use.*
5. *Develop a mechanism for continually evaluating State office space needs projections and for coordinating the updating of the Capitol Area Plan to reflect these needs.*

The Department of General Services, as the agency responsible for developing State office space and for implementing, maintaining and updating the Capitol Area Plan, will, over the next few years, be reviewing the Capitol Area Plan in relation to state office demand and changing conditions in land use and planning in the Sacramento region. The Department has identified four different options for supplying State office space to meet demands over the next 10 years or so. These options are:

1. Continue leasing privately-owned space.
2. Centralize and consolidate State office space in the Capitol Area by increasing the office densities of the Plan. This would also require increasing the housing densities as well.
3. Build out the Capitol Area according to the current Plan (approximately 750,000 additional net sq. ft.), then purchase land and develop office space and/or purchase existing office buildings within the Central City, but outside the Capitol Area.
4. House executive and legislative offices and staff within the Capitol Area, and

purchase additional land elsewhere in the metropolitan area, hopefully in locations adjacent to light rail stations, and develop State-owned satellite campus offices for support staff and processing functions.

No preferred option has been identified, but it is recognized that the ultimate preferred alternative would most likely consist of elements of each of the four options. At this time, staff believes that option #2 is the most compatible with City interests, and should be a component of whatever program the State eventually adopts.

Over the next year, the Office of Project Development and Management (within the Department of General Services) will gather additional detail on State office demand, including information on which agencies need to be located in the core area (CBD-Capitol Area), which can be located elsewhere, and how special space needs affect project location. This information will then be used to develop more specific recommendations to the Governor and Legislature on how to provide State office space in the coming years. City staff, through involvement with the Technical Advisory and Capitol Area Plan Committees, will continue to work closely with the Department of General Services and Capitol Area Development Authority in the formulation of a preferred alternative and future update of the Capitol Area Plan.

OTHER STUDIES

Central City Housing Strategy

The Central City Housing Strategy, currently being considered by the City Planning Commission and Housing & Redevelopment Commission, recommends a number of programs and policies aimed at housing and neighborhood preservation, new housing production, and strengthening of neighborhood identity and amenity. The Strategy's programs and policies would benefit the State over the long term by providing more close-in housing for State employees, thereby allowing the State to reduce some of its parking demand and work toward attainment of trip reduction and air quality goals.

One of the more important recommended measures of the Strategy is the rezoning of certain general commercial (C-2) areas to a residential or mixed use designation, for the purpose of achieving the three goals listed above. None of the Capitol Area is being proposed (per staff recommended modifications) for rezoning, nor is any of the CBD. Most of the land recommended for rezoning is within the "Midtown" portion of the Central City, where few sites exist which could accommodate buildings with the large floor plates required by many State agencies, as noted earlier in this report.

Staff will be carefully evaluating the sites recommended for rezoning, and will return to the Planning Commission and City Council later with specific recommendations. Staff does not believe that rezoning these areas will impact the ability of the State to meet its future office space needs.

Capitol View Protection Ordinance

In October 1990, the City Council adopted an Interim Capitol View Protection Ordinance which limits building heights for two blocks around the State Capitol and Capitol Park. The City is currently undertaking a study to consider the adoption of a permanent ordinance that may result in the limitation of building heights surrounding the Capitol. City staff are working closely with the Department of General Services and CADA to ensure that the City's ordinance will take into account State and Capitol Area Plan needs, and that the ordinance will be supported by the State. In any case, if such an ordinance is adopted by the Council, the State would be exempt unless the Legislature enacts similar restrictions on State-owned property in the Capitol Area.

R Street Corridor Plan

On January 9, 1991, the City Council selected a preferred alternative development concept for the R Street Corridor for purposes of preparing an EIR and housing economic feasibility analysis. The preferred alternative calls for the redesignation of most of the land within the Corridor from a heavy commercial/warehouse land use and zoning to new land use categories which include various mixes of housing and commercial office. The EIR will also evaluate other alternatives, one of which would allow more intensive office development within a 660 foot radius of light rail stations.

The R Street Corridor plan area closest to the State Capitol is known as the "Capitol Area Neighborhood", which is designated for residential mixed use and general commercial. The preferred concept is consistent with the Capitol Area Plan in terms of development intensity and land use mix. Any revision to the Capitol Area Plan which substantially increases office density will need to consider compatibility with whatever R Street Corridor Plan is ultimately adopted. (Department of General Services, p. 13)

Richards Boulevard/Southern Pacific Railyards Plan

This master plan proposes a mix of office, commercial and residential development, anchored by an intermodal transportation hub at the northern end of the Southern Pacific property. This hub would connect light rail with commuter and interregional passenger trains, and would also be served by bus lines and taxis. High density office space is proposed immediately surrounding the intermodal hub, and on the southern boundary of the S.P. property adjacent to City and County administrative offices.

Seventeen acres of State-owned property at the corner of N. 7th Street and Richards Boulevard currently contains the State Printing Plant and greenhouses and nursery space for the Office of Buildings and Grounds. If circulation improvements are implemented as proposed with roads and easements passing through State property, these operations may no longer be viable or appropriate at their current locations. On the other hand, the net remainder of the 17 acres (after completion of street improvements) could be developed with back office space.

FINANCIAL CONSIDERATIONS

None

POLICY CONSIDERATIONS

The continued State presence is crucial to the long-term economic health and revitalization of the Central Business District due to the retail spending of State employees; financial support, generated by commercial office development through tax increment and other fees, for affordable housing and other redevelopment objectives; and support for the Cultural and Entertainment District activities. Additionally, the loss of state employees downtown could jeopardize planned light rail systems expansion because federal funding for this expansion is based on a significant increase in the number of employees anticipated for downtown over the next 20 years. This could in turn hamper the City's efforts to improve air quality by expanding light rail and reducing automobile commute trips.

City policies currently support and encourage the development of public and private office space downtown, and the City does maintain a close working relationship with the Department of General Services and CADA, as noted above. The primary reasons for the State considering locations outside the CBD for future leases are market-related (see attached Business Journal article), as well as a result of the previous State Administration's lack of a development plan for office space to meet the State's needs. The City must continue to work closely with the State to ensure the provision of a sufficient amount of office space to meet the needs of State agencies that must be located downtown as well as meet private office space needs, but the City must not compromise its other important goals of improving downtown retail, increasing housing opportunities, and strengthening neighborhoods.

MBE/WBE

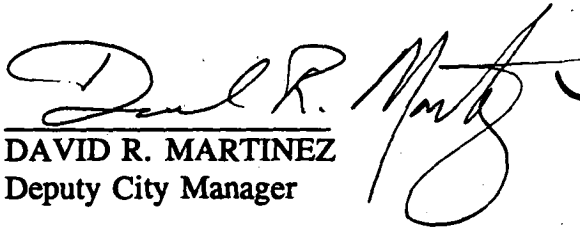
There are no opportunities for MBE/WBE efforts related to this item.


Respectfully submitted,



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APPROVED:


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For Transportation and Community Development
Committee Meeting of October 10, 1991

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Attachment

State to leave posh tower?

Mum's word on controller's CapitolBank lease

By MIKE McCARTHY

Downtown Sacramento's biggest high-rise office building tenant, the state controller's office, is expected to make a decision this week on whether it will stay in CapitolBank Center or accept offers from two major contenders — Marvin "Buzz" Oates and Peter McCuen.

At stake for developers is a yearly rent that will probably range somewhere between \$2.6 million and \$3.6 million, depending on whether the agency moves to the suburbs or stays closer in.

At stake for the city of Sacramento is whether the huge agency, with approximately 1,000 employees in the building, will migrate from the downtown area. A worried City Council recently passed a resolution asking the state to keep its agencies in town, away from the boon-docks.

The developers of the huge Wells Fargo Tower and Plaza Park Tower, with both high-rises near completion, are also watching with bated breath. Should the controller leave, the huge vacancy in downtown's "Emerald Tower" would compete with their empty space, which is already leasing slower than they had expected.

The controller's continuation of its 170,590-square-foot lease at its quarters at 300 Capitol Mall has been in doubt since June of last year. At that time, state officials declared that negotiations to renew the lease with the building's owner, Chicago-based Heitman Properties Ltd., broke down because Heitman wanted too much rent.

The controller moved into the building in September 1986, signing a deal to stay for five years, with an option to cancel or stay on for another five. The monthly rates for the first five years averaged \$1.65 a square foot, but would rise to \$2.30 a square foot during the second five years.

The controller moved in amid charges that the \$1.65 per square foot rent, probably the highest in state history back then, was exorbitant. Many wondered what a

state agency was doing in one of the premier, top-rent buildings on Sacramento's "professional row" — Capitol Mall.

Since then, rents on Capitol Mall have generally risen past the \$2-a-square-foot mark. So last spring Heitman refused the state's request to lower its rates for the second five years.

Until recently, it seemed that Heitman was sticking to its guns. But observers believe the big developer has reconsidered its rent rate because the recession has dimmed its prospects for finding a new tenant. Heitman is believed to have made a better offer, and the state is now taking a hard look at remaining in the building.

Moreover, the state also examined the cost of moving the agency and decided money could be saved by staying put, said industry sources.

Nonetheless, the state's General Services Department, which arranges state leases, is still dealing with Oates for space in Country Club Centre and with McCuen for his planned Raley's Landing project in West Sacramento.

Oates said he's bent over backward to strike a deal with the state. He and partner Tom Manz offered to house the state in the former Liberty House department store building, converted last year into an office building. The partners offered rates as low as \$1.20 per square foot, plus a \$1.25 million "gift" to pay for moving expenses, plus no charge for use of the building's 300 parking spaces, Oates said.

Overall, the deal would have saved the state \$6 million over the current rent on Capitol Mall, Manz added.

"Heitman can't beat that," Oates declared.

Last week another source knowledgeable about the Raley's Landing project said that General Services had backed away from negotiations for space there, and that he had been told by state officials that the controller intends to stay put at CapitolBank.

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