REPORT TO COUNCIL
City of Sacramento

915 I Street, Sacramento, CA 95814-2671
www.CityofSacramento.org

STAFF REPORT
November 14, 2006

Honorable Mayor and
Members of the City Council

Title: Agreements: Lease and Option to Purchase Agreements 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 execute the Lease Agreement and 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; and 2) 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: Due to population growth and residential and commercial development 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, including required equipment and parking. Existing City facilities downtown do not have the capacity to support this additional demand. Some of the facilities are either at maximum capacity with no room for expansion or are functionally obsolete and poorly configured to provide flexibility to meet changing demands or enhance operational efficiencies.

Based on current space needs, 300 Richards Boulevard will provide a significant amount of office space close to other City functions downtown, as well as much needed space for vehicle parking and equipment storage.

Policy Considerations: Authorizing the City Manager to execute the Lease Agreement and Option to Purchase Agreement 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.
- 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.

Rationale of Recommendation: The proposed lease for 300 Richards Boulevard is for real property commonly known as Discovery Centre Phase I located in the River District of the City. Discovery Centre Phase I is comprised of a 3-story Class A office building situated on approximately 6.02 acres, served by more than 540 surface parking spaces. The building was constructed in 2002 and has not been occupied. It contains more than 150,000 gross square feet or approximately 146,132 net rentable square feet.

Approving the Lease Agreement and Option to Purchase Agreement for 300 Richards Boulevard is recommended for the following reasons:

- 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.
- Population growth and residential and commercial development in the City of Sacramento during the last few years has resulted in significant increased demand for services and the need to adjust resources to meet the demand.
- This growth has resulted in the need for additional space in the downtown area to house staff and support operations, including required equipment and parking.
- Existing downtown City facilities do not have the capacity to support this additional demand.

Environmental Considerations: This project is exempt from the California Environmental Quality Act (CEQA) under Section 15301(a) of the CEQA guidelines. This section addresses the lease of space within an existing private structure involving no expansion in use, except for interior alterations.

Financial Considerations: The lease term will be 10 years, commencing August 1, 2007, with base rent starting at $1.45 per rentable square foot in year 1 or $211,891 monthly. Rent will adjust annually, ending at $2.04 in year 10 or $298,109 per month. In addition to base rent, the City will pay all expenses related to the operation and/or maintenance of the subject property during the lease term. The proposed lease rate is based on a high level Tenant Improvement ("TI") allowance of $44.48 per rentable square foot or $6.5 million. The "TI" allowance will be used toward the installation of interior improvements for City use.

The source of funding for this lease 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.

In addition to the Lease, an Option to Purchase Agreement has been negotiated to acquire 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 "TI" allowance of $6.5 million. This price is supported by an independent fee appraisal. A separate Council action would be needed to exercise the Option and approve a Purchase and Sale Agreement.

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:

for Ray Kerridge
City Manager

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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, far exceeds the amount of space available downtown in City-owned/occupied facilities:

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

RESOLUTION NO. 2006-XXXX

Adopted by the Sacramento City Council

November 14, 2006

AUTHORIZING THE CITY MANAGER TO EXECUTE THE LEASE AGREEMENT AND 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

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. Population growth and residential and commercial development in the City of Sacramento during the last few years has resulted in significant increased demand for services and the need to adjust resources to meet the demand.

C. This growth has resulted in the need for additional space in the downtown area to house staff and support operations, including required equipment and parking.

D. Existing downtown City facilities do not have the capacity to support this additional demand.

E. Authorizing the City Manager to execute the Lease Agreement and Option to Purchase Agreement 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.
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- 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.

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

Section 1. The City Manager is authorized to execute the Lease Agreement and 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 such additional documents and to take such additional actions as necessary to implement the Resolution.

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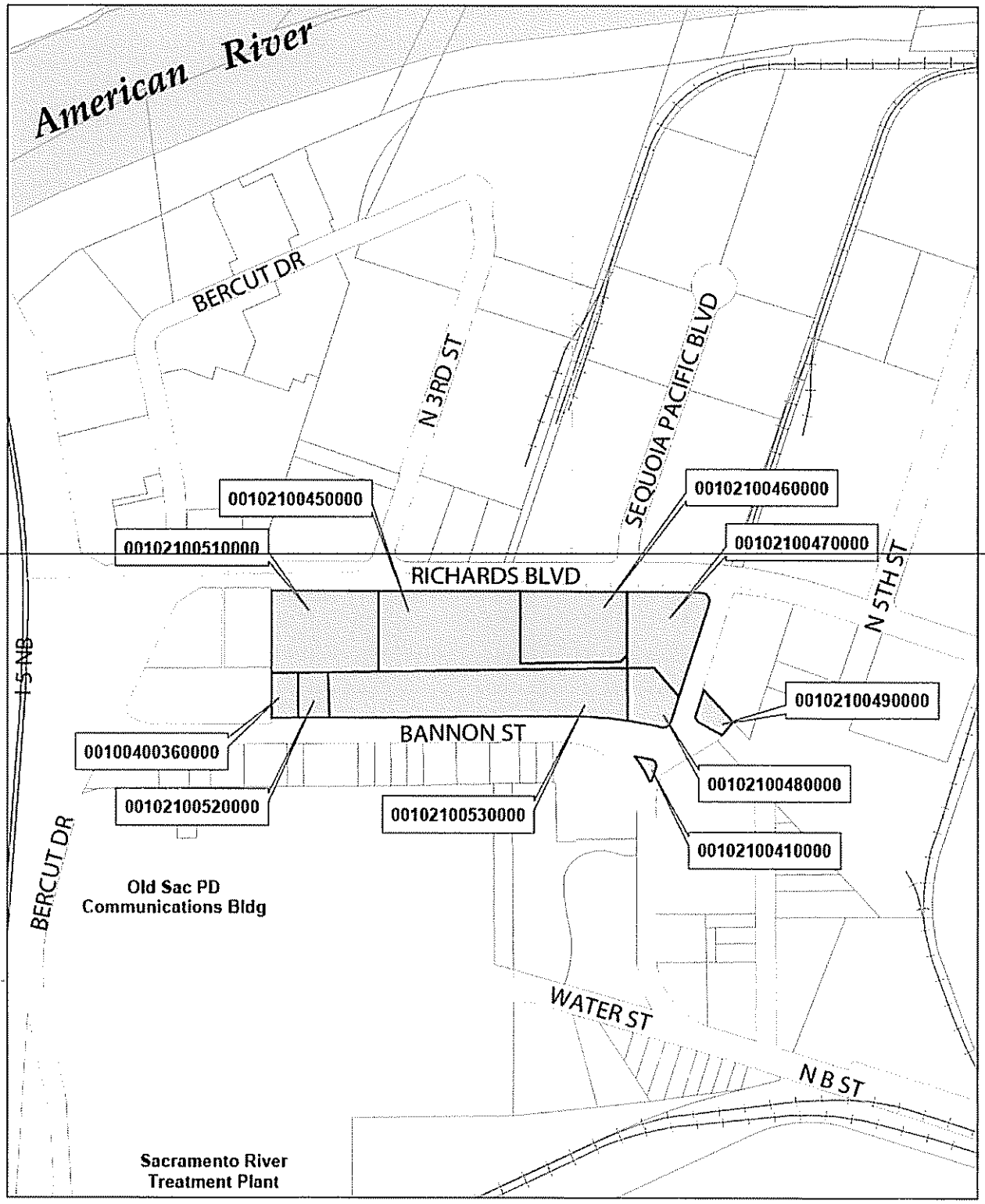
Exhibit A – GIS Map

EXHIBIT A



1,000 500 0 1,000 Feet

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

300 Richards BLVD Properties
Location Map

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Map Date: November 2006