



# City of Stockton

## Legislation Text

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**File #:** 17-3966, **Version:** 1

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### **AUTHORIZE ACQUISITION OF REAL PROPERTY LOCATED AT 501 AND 509 WEST WEBER AVENUE**

#### RECOMMENDATION

It is recommended that the City Council adopt a resolution:

1. Authorizing the acquisition of real property located at 501 and 509 West Weber Avenue (Waterfront Office Towers) from 501 W. Weber LLC, (owner of 501 W. Weber), Dockside One LLC (owner of the 5<sup>th</sup> floor of 509 W. Weber), and MSK Ventures LLC/Sierra Vista Apartments II LLC (owner of 1<sup>st</sup> - 4<sup>th</sup> floors of 509 W. Weber) in the amount of \$13.6 million;
2. Authorizing the appropriation \$14.2 million from General Capital Fund Balance and General Fund Known Contingency and transferring these funds to the Waterfront Towers Relocation capital improvement project for property acquisition, initial design, and project management costs; and
3. Authorizing the City Manager to execute a purchase and sale agreement substantially in the form of the exhibits attached to the resolution, as well as any lease assumptions associated with this transaction, and take actions necessary and appropriate to carry out the purpose and intent of the resolution.

#### Summary

Even with the drastic staffing reductions from the financial crisis, our historic City Hall is too small to house most City operations. As a result of one of the City's compromises during the bankruptcy process, City Hall operations are in the process of relocating to 400 E. Main Street as a temporary solution which can accommodate more but still not all, of the City's traditional office space needs. The temporary lease is intended to provide a short-term City Hall site while the City transitions from historic City Hall to a permanent site that can more adequately meet the City's space needs and our citizens' access needs. No permanent site has been identified. This item proposes the identification and purchase of a permanent City Hall site.

City staff have negotiated the terms to purchase the Waterfront Office Towers for \$13.6 million. The proposed purchase would eliminate the current uncertainties associated with limited-term tenancy, escalating lease costs, and restrictive lease terms. The two towers meet the City's office space needs (approximately 100,000 square feet), improve customer accessibility compared to both historic City Hall and 400 E. Main (specifically the availability of approximately 400 parking spaces and the ability to design a more functional counter space and customer experience for high volume

transactions like paying utility bills or processing building permits), and saves the City approximately \$4 million over 20 years as compared to moving into 400 E. Main Street, with even more savings as time goes on. This cost savings is due, in part, to the prudent fiscal planning of the Mayor and Council who have been setting aside funds for a permanent City Hall.

For the first phase of the project, staff is requesting the appropriation of the purchase price of \$13.6 million, plus \$100,000 in closing costs, and initial design and project management costs of \$500,000, for a total of \$14.2 million. Phase two of the project will include final design and buildout of the tenant improvements to accommodate City operations, including construction of a Council Chamber, at a cost of approximately \$11.3 million for a total project cost of \$25.5 million over six years. No debt service is required because of the prudent post-bankruptcy financial practices of the Mayor and Council.

## DISCUSSION

### Background

The City of Stockton purchased the building at 400 E. Main Street in 2007 with the intent of relocating City Hall to provide a safe, modern and efficient work environment for City operations. Renovating historic City Hall (425 N. El Dorado Street) was estimated to be nearly \$30 million at the time and did not provide sufficient space to consolidate City operations; departments would continue to operate at different locations throughout downtown. In 2008-09, the City began the process by moving the City's Information Technology Department to the fourth floor of the property.

Prior to the filing of bankruptcy in 2012 and during the AB506 neutral evaluation process, the City lost possession of the building. As a result of the bankruptcy settlement, control of the building was transferred to the creditor until it is sold or the new City debt has been paid in full. The City negotiated a lease that was executed on February 25, 2015, that allows the City to occupy the building for eight years with options to extend for an additional four years; less than six years remain of the initial eight-year term. To date, the City's Information Technology, Fire Administration, Economic Development, Administrative Services, and Human Resources departments have been relocated to the third and fourth floors of the building.

In January 2017, the City received bids for the construction of tenant improvements on the first and seventh floors of 400 E. Main Street to house the Council Chamber, Mayor and City Council, Revenue Services, City Attorney, City Clerk, and City Manager offices. Only one bid was submitted for \$4.96 million, which was over the \$3.9 million budgeted for the improvements. Given that 400 E. Main Street is a leased building and no longer controlled by the City, it was decided not to move forward until a more permanent City Hall solution was considered.

### Present Situation

Rather than continuing to lease space and to spend resources on tenant improvements to leased property, the City began to explore options for a future, more permanent City Hall. Approximately 100,000 s.f. of office space is needed to centralize most City operations into one location for better efficiency. Purchasing an existing building for this purpose is more cost effective than constructing a new building. Thus, several options were reviewed and discussed, including:

- Renovating Historic City Hall and constructing a new annex
- Remaining at 400 E. Main Street and completing the tenant improvements
- Acquiring other downtown buildings
- Acquiring the Waterfront Office Towers (501 and 509 W. Weber Avenue)

### Historic City Hall

Historic City Hall was constructed in 1926 and the materials used at the time are now known to be hazardous. In addition to triggering ADA accessibility and seismic retrofit requirements, repairing the building would disrupt the dormant condition of those materials, requiring extensive and costly mitigation efforts. Remodeling the building to continue to serve as City Hall would not only be very expensive but would also be too small to meet the City's current needs. Renovating historic City Hall and constructing a new annex behind it to accommodate current space needs would be cost prohibitive with an estimated expense of \$50-60 million to design and construct the improvements. This would result in the need for debt issuance which would have a negative impact to the City's Long-Range Financial Plan.

In addition to addressing the City's long-term City Hall needs, the City is simultaneously evaluating options for the future use of historic City Hall. The Mayor and Council have expressed a strong appreciation for the historical significance of the existing City Hall and have directed staff to seek viable, cost-effective options to preserve the building. The City is interested in hearing suggestions from the community, which may include continued public uses such as a library or community space, a private venture such as a museum or housing, or some other economic development use such as a business incubator. It should be noted that there are no plans to demolish historic City Hall and potential uses of the facility will be discussed with the Council at a future date. An email address has been created so that the public can share their ideas with the City via [OurCityHall@stocktonca.gov](mailto:OurCityHall@stocktonca.gov).

### 400 E. Main Street Lease

Since 2015, the City has spent approximately \$500,000 in construction costs relative to the City's lease of 400 E. Main Street. These modest improvements enabled several City departments to move into the portions of the building that required the least construction. The remaining portions, the first and seventh floors, require substantially more tenant improvements at a considerably higher cost. In addition to cost concerns with the 400 E. Main Street option, the City has concerns about accessibility and customer service. For example, the terms of the City's lease don't allow members of the public to park in the parking structure below the building. Instead, customers seeking quick transactions such as paying a utility bill would have to seek on-street parking or park in the parking garage across the street. Another example is the requirement in the current lease for the City to delay the long-standing start time for the public portion of City Council meetings. Rather than the normal 5:30 p.m. start, the lease requires the start time to be delayed to 6:30 p.m. This impacts access for residents and prolongs the work day for staff. The current lease even prevents the City from using the lobby for overflow of citizens attending the City Council meeting at busy times.

### 400 E. Main Street Purchase

Consideration was also given to acquiring 400 E. Main Street and finish previous plans for tenant improvements. The cost to purchase and improve the property for use as a permanent City Hall could range anywhere from \$40-50 million, depending on the negotiated purchase price. The City did make efforts to negotiate the acquisition of the property at 400 E. Main Street but was not successful in coming to terms. The City's space needs are approximately 100,000 square feet. At 250,000 square feet, the 400 E. Main Street building is much larger than the City needs and, in addition to requiring debt to finance the purchase, would require that the additional space be leased to other tenants. In the event suitable tenants could not be identified and secured, the City would forego the anticipated revenue stream. This provides some financial uncertainty to the City which is contrary to the City's post-bankruptcy stance on financial planning.

Several other downtown properties were also discussed; however, none provided sufficient space to accommodate City operations. In many of the properties considered, a single City department would be required to be spread out over multiple floors, and public access would be a challenge.

### Waterfront Office Towers

The Waterfront Office Towers located at 501 and 509 W. Weber Avenue consists of two Class "A" office buildings each 55,000 s.f. in size for a total of 110,000 s.f. and includes approximately 400 onsite parking spaces (Attachment A - Vicinity Map and Attachment B - Aerial Map). The buildings are adjacent to existing civic amenities and public uses, including an outdoor plaza, the Children's Museum, Joan Darrah Promenade, and Downtown Marina, as well as San Joaquin WorkNet and the Department of Motor Vehicles. It is envisioned that the Council Chamber would be located on the ground floor, as would customer service counters, providing convenient public access.

A purchase price of \$13.6 million for both buildings has been negotiated and agreed upon by the current owners, 501 W. Weber LLC, Dockside One LLC, and MSK Ventures LLC/Sierra Vista Apartments II LLC, subject to City Council approval of a purchase and sale agreement (attached as Exhibits 1, 2 and 3 to the Resolution). The major deal points of the acquisition include:

- Price: \$13.6 million
- Deposit: \$500,000 approximately
- Due Diligence: The City will have 75 days after the purchase agreement has been executed to perform due diligence inspections and investigation.
- Closing Date: Escrow will close 30 days after the Due Diligence period, or 105 days.
- Condition: The property is being sold in "as-is" condition, and the City will have the right to conduct additional inspections during the escrow period.
- Existing Tenants: Portions of the buildings are presently occupied by other tenants, and the City acknowledges that it may need to make accommodations for any such existing leases.

Staff believes that acquiring the Waterfront Office Towers provides a unique opportunity for the City in consolidating its operations and would provide the following benefits to the City:

- Investment in the waterfront will help bring critical mass to an underutilized asset and serve as a catalyst to private investment interest in the adjacent City-owned properties, as well as surrounding businesses.
- City Hall would remain downtown as part of the Downtown Stockton Alliance footprint and revitalization efforts.
- Acquisition of the Waterfront Office Towers will provide financial security and certainty as it eliminates the unknown future of City Hall costs and allows for long-term investment.
- It presents a rare opportunity to find 110,000 s.f. of existing office space available for purchase in the downtown area.

Should Council approve the acquisition, it is anticipated that escrow will close sometime in January 2018. Following the acquisition, staff will begin space planning for City operations, design, and preparation of tenant improvements. It is expected that the first phase of City departments relocating to the Waterfront Office Towers will occur in 2019 and phase two of the City's relocation would be completed towards the end of its current lease at 400 E. Main Street.

### Environmental

The Community Development Department has determined that this action/project is exempt from the requirements of the California Environmental Quality Act (CEQA) and has been granted a "Categorical Exemption" under Article 19, and specifically Section 15301 (Existing Facilities) of the State CEQA Guidelines. In accordance with Section 65402 of the Government Code, the Community Development Department further determined that this action/project conforms to the City's General Plan designation for the site and with the General Plan Policy Document, as amended.

### FINANCIAL SUMMARY

It's important to note that the City has been saving for both tenant improvements at 400 E. Main Street and a permanent City Hall for quite some time. The tenant improvement costs of the first and seventh floors of 400 E. Main Street for a short-term use amount to approximately 37% of the cost to purchase the Waterfront Office Towers. Acquiring the Waterfront Office Towers is a far cheaper alternative. Further, with the City's current lease at 400 E. Main Street being below market-rate, there's the potential to offset ongoing costs by subletting the available space under the existing lease to market-rate tenants.

The purchase price of the properties is \$13.6 million, plus approximately \$100,000 in closing costs. Design, tenant improvements, and moving costs are projected to be \$11.8 million over the next six years for a total project cost of \$25.5 million. A funding plan has been developed that would fully fund these one-time project costs. Funding sources previously set aside for a permanent City Hall project include the General Fund Known Contingency Reserve of \$8.8 million, insurance proceeds from the Earle Hotel of \$6.1 million, and \$6.0 million in funded capital projects that can be redirected. The remaining \$4.6 million is anticipated to come from Public Facility Fees for City facilities, rent from existing tenants in the Waterfront Office Towers, and proceeds from the sale of vacated real property. A table outlining the project costs and funding plan is included on the following page.

<b>Project Cost</b>		
Property Acquisition	\$13.7 million	
Design, improvements & relocation	\$11.8 million	
<b>Total Uses</b>	<b>\$25.5 million</b>	
<b>Funding Plan</b>		
General Fund Known Contingency	\$8.8 million	Currently Available
Earle Hotel insurance proceeds	\$6.1 million	Currently Available
Capital Project funding redirected	\$6.0 million	Currently Available
City Office Space Public Facility Fees	\$1.0 million	Estimated Funding
Lease revenue and sale of real property	\$3.6 million	Estimated Future Revenues
<b>Total Sources</b>	<b>\$25.5 million</b>	

Cost projections show the City will achieve long-term benefits from the purchase of these buildings as ongoing lease payments for City office space are eliminated. The purchase scenario has been run through the City’s Long-Range Financial Plan (L-RFP) and is expected to have a positive impact starting in FY 2021-22 and continuing annually. Increased operating costs are anticipated during the transition period until City departments currently housed in multiple buildings are consolidated. In the L-RFP General Fund Ending Balance Chart with the FY 2017-18 Adopted Budget (Chart 1), the ending balance declined to the 5% minimum warning level in FY 2028-29 with \$19.3 million in reserves represented by the green bars. With the purchase of the Waterfront Office Towers, the General Fund ending balance remains \$3.6 million above the 5% minimum warning level. The reserves represented by the green bars are reduced with the use of Known Contingency funds for the building purchase. The long-term impact of the Waterfront Office Towers purchase can be seen in the combined General Fund ending balance and reserve funds at the end of the 20-year period shown in the charts below:

Chart 1 - General Fund Ending Balance Chart with FY 2017-18 Adopted Budget

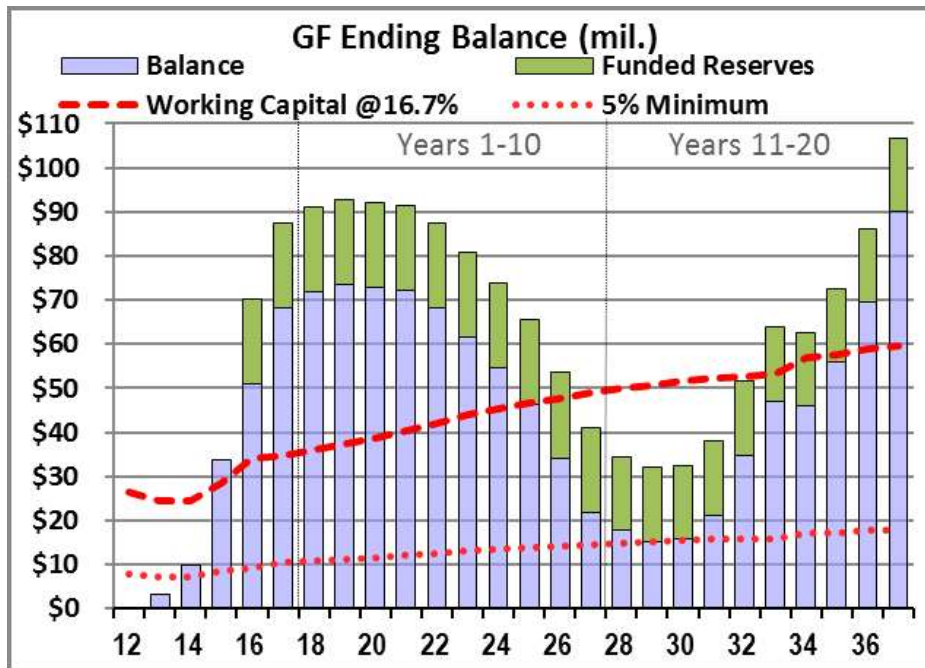
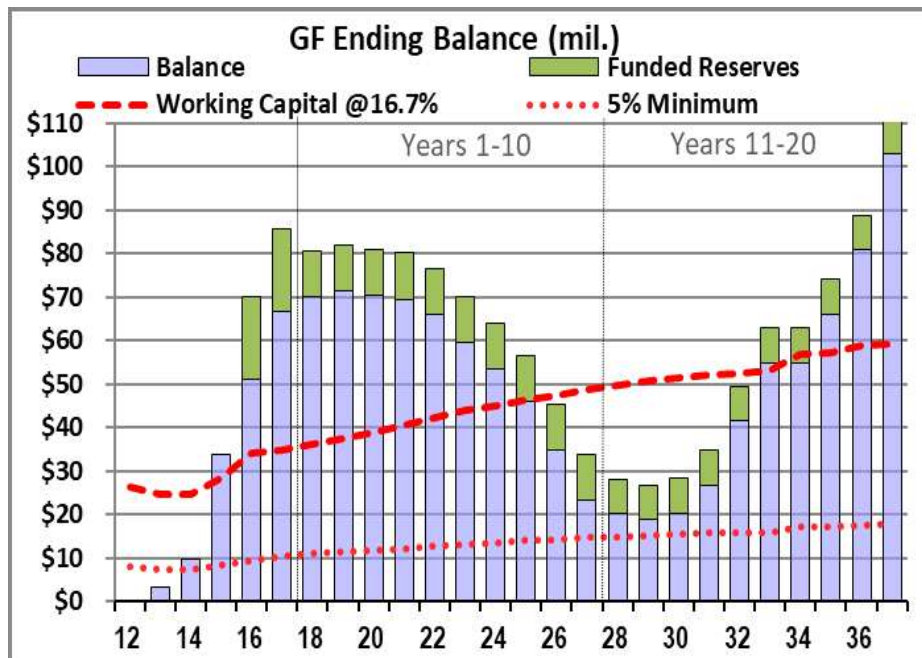


Chart 2 - General Fund Ending Balance Chart with purchase of Waterfront Office Towers



For the first phase of the project, the purchase costs of \$13.6 million, plus approximately \$100,000 in closing costs, and initial design and project management costs of \$500,000 need to be appropriated. Insurance proceeds from the Earle Hotel and General Fund dollars in the Known Contingency reserve are sufficient to fund the purchase. The following appropriations and associated transfers from these funding sources are needed:

From:

General Capital Fund Balance	301-0000-288	\$5,450,000
General Fund Known Contingency	010-0000-288	\$8,750,000

To:

Waterfront Towers Relocation Project	301-1750-610	\$14,200,000
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Attachment A - Vicinity Map

Attachment B - Aerial Map