

REPORT TO COUNCIL

SUBJECT

Approve the Purchase and Sale Agreement for 1050 Innovation Way and 1060 Innovation Way, Sunnyvale (A Portion of Former Onizuka Air Force Station) and Approve Budget Modification No. 22

BACKGROUND

On February 7, 2017, Council considered RTC No.16-0664, which provided background, history and possible options for the sale of 1050 and 1060 Innovation Way property (the "Onizuka Property"). Council authorized staff to proceed with a Request for Proposal (RFP) for real estate broker services for the sale of the property on the open market. The services also included determining the benefits and risks associated with increasing the density, which requires going through a planning process, and the possible concerns with extending the timeline of the sale in order to increase the density.

On April 25, 2017, Council authorized the City Manager to execute an agreement with Kimley, Horn and Associates not to exceed \$200,000 to complete the environmental document to amend the Moffett Park Specific Plan (MPSP) and rezone 1050 & 1060 Innovation Way. The purpose of the amendment to the Moffett Park Specific Plan was to look at removing the restriction on the use of the development reserve with the current zoning of Moffett Park Industrial zoning district (MP-I) and examine amending the land use designation and zoning to Moffett Park-Transit Oriented Development zoning district (MP-TOD). MP-I has a base zoning of 35% Floor Area Ratio (FAR) with potential for 50% and 60% FAR, based on green building achievements. MP-TOD has a base zoning of 50% FAR with potential for 70% and 80% FAR, based on green building levels. (RTC No. 17-0365).

On May 9, 2017, Council authorized the City Manager to execute an agreement for real estate brokerage services with Cushman & Wakefield. Cushman & Wakefield completed an analysis to maximize the City's benefit from the sale and provide answers as to whether the Onizuka Property should be sold with FAR 35%, or the City should initiate an amendment to the MPSP to increase density. After conducting a comparative analysis of 66 land sales considering density verses sales price, Cushman and Wakefield recommended that it was in the City's best interest to sell the property with its current FAR in an as-is condition. This is because higher density triggers higher construction costs, thus making the increase in the sales price of higher density properties insignificant considering the time it takes to go through the planning process to increase density. Therefore, the environmental work by Kimley, Horn and Associates was ceased.

EXISTING POLICY

Council Policy 1.2.7 Acquisition, Leasing and Disposition of City-Owned Real Property Section 3: Disposing of surplus property shall be done in a manner to maximize the benefit to the community and should be done whenever real estate market conditions are favorable to the City.

Section 3.D: The City may use any of the following methods or combination thereof to maximize the benefit to the community. Methods of disposition should be determined on a case-by-case basis and may include:

- Auction
- Negotiated Sale
- Exchange
- Lease
- Request for Proposal

Discounts will not be negotiated unless an extraordinary need or circumstance is recognized by the City Council prior to negotiation, setting forth the amount of the discount and the justification for it. The purpose of this requirement is to demonstrate to the community that the City is not making a gift of public assets.

Section 3.E: Costs associated with the disposition of property shall come from proceeds of the sale or charged to the fund which owns the property. Unless otherwise directed by the City Council, net proceeds from disposition of surplus property owned by the General Fund shall be placed into the General Fund Reserve for Capital Improvements. Proceeds from the sale of land or facilities originally purchased with monies from a specific fund shall be returned to that fund, except when a fund no longer exists, it will be at the direction of City Council.

Council Policy 7.1E Reserve Policies, Policy E.1.2: The sale of surplus property owned by the General Fund and any other one-time revenues shall be placed in a Reserve for Capital Improvement Projects to be used for capital improvement or expansion.

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members so as to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

ENVIRONMENTAL REVIEW

Approving a Purchase and Sale Agreement for the disposition of City-owned real property does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Any future development shall be subject to the CEQA requirements.

DISCUSSION

The Onizuka Property totals about 5.01 acres. As per the MPSP, the Onizuka Property is zoned as MP-I with a maximum FAR of 35%. An appraisal report completed in March 2017 estimated the value at \$20,000,000 assuming the FAR can be increased to the range of 50% to 60%. The Onizuka Property was offered on the open market for sale as-is by an Offering Memorandum completed by Cushman & Wakefield on September 5, 2017. The Offering Memorandum was advertised in the Co-star from September 14 until September 21. Also a list of 68 targeted potential buyers, including some of the large developers that are currently active in the local market, were contacted by the broker as well as Foothill De Anza College. The City received 4 offers from 4 different proposers which included (listed in random order):

1. Google LLC
2. Four Corner Properties
3. Grupo SEB DBA Concept Silicon Valley LLC
4. An entity to be formed by the Jay Paul Company

All proposals were similar in terms with purchase prices ranging from \$17,000,000 to \$20,000,000. On September 26 during closed session, staff was directed to go back to all four proposers and ask them to submit final offers. All four proposers submitted updated offers with purchase prices ranging from \$19,050,000 to \$21,000,000. In Closed Session on October 3, 2017, staff was directed to commence negotiations with the highest bidder, Google LLC. A Purchase and Sale Agreement between the City of Sunnyvale and Google LLC has been drafted for Council consideration (Attachment 1).

Summary of Terms and conditions:

- Purchase price is \$21,000,000 and will be sold in “as is” condition.
- A deposit of \$600,000 will be received five days after the signing of the Purchase and Sale agreement by both parties.
- An additional deposit of \$600,000 will be paid following the expiry of the due diligence period on December 5, 2017.
- Closing and final payment of \$19,800,000 will be delivered to the City within 15 to 60 days following the expiry of the due diligence period.

FISCAL IMPACT

Completing the sale will eliminate expenses associated with security and maintenance for the property. Longer term redevelopment of the property by the buyer will result in higher property tax and business tax revenues to the City.

Proceeds from the sale was assumed in the FY2016/17 Adopted Budget at an estimate of \$20,000,000 to be allocated to the General Fund Capital Improvements Project Reserve. Since this sale is recommended to occur in FY 2017/18, Budget Modification No. 22 is recommended to reflect the sale proposed in this memorandum in the current fiscal year. Funding in the General Fund - Capital Improvements Projects Reserve is allocated for use on future capital projects consistent with Council Policy. It is important to note that as part of the funding discussions for the Civic Center Modernization Project, the Onizuka sale was included as a potential funding source for Civic Center improvements.

Budget Modification No. 22 FY 2017/18

	Current	Increase/ (Decrease)	Revised
General Fund			
<u>Reserves</u>			
Fund Balance, July 1	\$139,707,033	(\$20,000,000)	\$119,707,033
<u>Revenue</u>			
Sale of Property	\$0	\$21,000,000	\$21,000,000

Reserves

Capital Improvement Projects	\$41,039,649	\$1,000,000	\$42,039,649
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PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

ALTERNATIVES

1. Authorize the City Manager to execute the Purchase and Sale Agreement between the City of Sunnyvale and Google LLC, in substantially the same form as Attachment 1, for the sale of the Onizuka Property and approve Budget Modification No. 22 in the amount of \$1,000,000.
2. Do not authorize the City Manager to execute the Purchase and Sale Agreement between the City of Sunnyvale and Google LLC and authorize staff to market the property for sale again and do not approve Budget Modification No. 22 in the amount of \$1,000,000.
3. Direct Staff to resume negotiations with Google LLC regarding different terms in the Purchase and Sale Agreement as determined by Council and do not approve Budget Modification No. 22 in the amount of \$1,000,000.

STAFF RECOMMENDATION

Alternative 1: Authorize the City Manager to execute the Purchase and Sale Agreement between the City of Sunnyvale and Google LLC, in substantially the same form as Attachment 1 to the report, for the sale of the Onizuka Property and approve Budget Modification No. 22 in the amount of \$1,000,000.

Prepared by: Sherine Nafie, City Property Administrator
Reviewed by: Craig Mobeck, Interim Director, Public Works
Reviewed by: Timothy J. Kirby, Director of Finance
Reviewed by: John Nagel, City Attorney
Reviewed by: Teri Silva, Interim Assistant City Manager
Approved by: Kent Steffens, Interim City Manager

ATTACHMENT

1. Purchase and Sale Agreement with Google LLC for 1050 and 1060 Innovation Way, Sunnyvale California