



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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File #: 19-0881, Version: 1

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### REPORT TO COUNCIL

#### SUBJECT

Approve the Purchase and Sale Agreement between the City of Sunnyvale and Sunnyvale Community Services for the Purchase of 725 Kifer Road, and approve Budget Modification No. 10 in the amount of \$5,830,000

#### BACKGROUND

Sunnyvale Community Services (“SCS”) is an independent, nonprofit emergency assistance agency, founded in 1970. Their mission is to prevent homelessness and hunger in our local community. The City and SCS have a long history of collaboration and partnership to provide these services. SCS currently owns a building in the City at 725 Kifer Road. SCS would like to expand their services while still operating in Sunnyvale; however, their current site is not large enough to achieve this goal. SCS is currently in contract to buy another property on Kern Avenue in Sunnyvale (“Kern Property”), with a building that is large enough to accommodate their planned expansion. In order to purchase the new property, SCS is looking to sell their current property at 725 Kifer Road and use the funds towards the purchase of the new site.

#### EXISTING POLICY

##### **Council Policy 1.2.7 Acquisition, Leasing and Disposition of City-Owned Real Property**

##### **Section 1: Acquisition of Real Property for Municipal Purposes**

Real property shall be acquired for current or future municipal purposes, and/or to benefit the community. The City shall acquire real property in accordance with Sunnyvale Municipal Code Chapter 2.07.

**Council Policy 5.1G:** Enhance the provision of health and social services to Sunnyvale residents by providing opportunities for the private marketplace to meet the health and social service needs of City residents.

**Council Policy 5.1G:** Encourage the co-location of health and social service providers in Sunnyvale to facilitate the availability of such services.

**Council Policy 5.1G:** Provide incentives, such as co-location privileges or rent subsidies, to attract private agencies to provide needed health and social services.

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 purchase of 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 CEQA requirements.

## **DISCUSSION**

The City is looking to purchase 725 Kifer Road and lease it back to SCS at a nominal rate for a period of about one year, to ensure continuity of services, while SCS completes the purchase and finalizes tenant improvements at their new Kern Property.

725 Kifer Road is a 0.73-acre site, improved with an industrial/flex building of 11,755 square feet. It was built in 1969 with 36 parking spaces. The property is located on the corner of Kifer Road and San Gabriel Court, and has a land use of M-S. It is not part of the Lawrence Station Area Plan.

The City completed due diligence on the property by obtaining an appraisal report, an environmental phase I report and a title report. Nothing of concern was identified.

The funds SCS are using to purchase the Kern Property will come from a combination of the net proceeds of the Kifer Road sale, community donations, a commercial lender loan and a Community Development Block Grant from the City (“CDBG loan”) in the amount of \$900,000. The CDBG loan will be presented to Council for approval on December 10. The close of escrow for the Kern Property is scheduled for December 16, after approval of the CDBG loan. If the CDBG loan is not approved, there is a chance that SCS will not be able to close on the Kern Property. The funds the City will use for the CDBG loan will come from the reversion of assets (ROA) from the Kifer transaction. Because the CDBG loan is needed to close the Kern Property, a simultaneous close of escrow is not possible. The close of escrow for Kifer will take place on November 26 in order to accommodate the timelines explained above.

Once SCS moves out of 725 Kifer Road and into their new location on Kern Avenue, the City plans to rent 725 Kifer Road to a commercial tenant at market rate, unless a municipal need is identified. The current monthly rental rate of similar properties in Sunnyvale is around \$1.95 per square foot.

## **Fundamental Terms and Conditions:**

- Purchase price: \$5,800,000.
- Property sold in “as-is” condition.
- Initial deposit: \$100,000 payable within 5 days of a fully executed agreement.
- Close of Escrow: November 26, 2019.
- Lease back for one year with the option to extend on a month to month basis for up to 18 months.
- SCS can terminate the lease after 9 months of the term with 30 days’ notice.
- Rental rate is \$1.00 for the entire term of the lease.
- SCS shall be responsible for maintenance and repair including structural issues.
- SCS shall pay for all utilities associated with the property.

### **FISCAL IMPACT**

The purchase price is \$5.80 million and the estimated closing costs are around \$30,000. Staff is recommending Budget Modification No. 10 to create a new project to appropriate \$5,830,000 to fund this acquisition. Funding is from the General Fund, Capital Improvement Reserve. The current CIP reserve balance is \$6 million. The City has been notified by the County that an additional \$5.5 million (actual receipt occurs towards the end of the Fiscal year) is planned for this year in Excess Educational Revenue Augmentation Funds (ERAF) from the County, which is deposited into the General Fund Capital Improvement Reserve. These estimates have been conservative in the past and staff anticipates receiving the full amount as identified in the FY 2019/20 Budget. After the end of lease with SCS, the City is responsible for the maintenance and utilities at the property. The estimated annual cost is around \$50,000. This cost will be included in the FY 2020/21 budget. This project is funded by the General Fund.

#### **Budget Modification No. 10 FY 2019/20**

	<b>Current</b>	<b>Increase/ (Decrease)</b>	<b>Revised</b>
<b>General Fund</b>			
<u>Expenditures</u>			
New Project - Acquisition of 725 Kifer Road (SCS)	\$0	\$5,830,000	\$5,830,000
<u>Reserves</u>			
Capital Improvement Projects	\$11,723,023	(\$5,830,000)	\$5,893,023

### **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, including the lease attached as Exhibit D to the Agreement, in substantially the same form as Attachment 1 to the report, between the City of Sunnyvale and Sunnyvale Community Services for the purchase of real property located at 725 Kifer Road for \$5,830,000, and approve Budget Modification No. 10 in the amount of \$5,830,000
2. Direct staff to negotiate different terms with Sunnyvale Community Services as determined by Council.
3. Do not approve the Purchase and Sales Agreement between the City of Sunnyvale and Sunnyvale Community Services.

### **STAFF RECOMMENDATION**

Alternative 1: Authorize the City Manager to execute the Purchase and Sale Agreement, including the lease attached as in Exhibit D to the Agreement, in substantially the same form as Attachment 1 of

the report, between the City of Sunnyvale and Sunnyvale Community Services for the purchase of real property located at 725 Kifer Road for \$5,830,000, and approve Budget Modification No. 10 in the amount of \$5,830,000

Prepared by: Sherine Nafie, Property Administrator

Reviewed by: Chip Taylor, Director, Public Works

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

### **ATTACHMENTS**

1. Purchase and Sale Agreement