

Monterey County

Schilling Facility Acquisition Due Diligence Report

August 2014

Executive Summary

The County of Monterey (County) manages a large portfolio of properties that are both owned and leased in order to accomplish its mission and provide operating facilities for its 4,890 employees. The County owns 2.1 million square feet and leases a total of 552,000 square feet throughout the County. The annual lease cost County-wide is \$8.9 million.

In the Salinas Area, the County owns 1.8 million square feet and leases 409,000 square feet. The annual lease cost for the County in the Salinas Area is \$7.4 million.

The County has immediate space needs for the District Attorney's office, Public Defender, Law Library, and the Human Resources training center. In addition, it has long been recognized that parking for the County Government Center is inadequate and that a parking structure is needed.

In order to accommodate these and other major facility needs, the Board of Supervisors adopted a revised Five-Year Capital Improvement Financing Plan in April 2014. This Plan calls for the expenditure of \$198 million of which \$196 million would be for facilities in the Salinas Area. This Plan includes the need to finance \$47.9 million of the total cost.

In March 2014, the sale of the Schilling facility became known to County staff. The Schilling facility is located in south Salinas on Schilling Place between Highway 101 and Abbott Street. It includes approximately 24.47 acres, three buildings, and approximately 1,200 parking spaces. The buildings include a two-story office building with approximately 202,358 square feet that is considered Class A and is LEED Gold Certified. There is a warehouse that is approximately 87,207 square feet and a 4,500 square foot day-care facility.

The County entered into discussions and then negotiations with the facility owners, Schilling Place Property LLC and Schilling Place QC LLC ("Seller"), both wholly owned subsidiaries of a Los Angeles based nonprofit. As part of the negotiating process, the County conducted an assessment of the Schilling facility, an appraisal, and an analysis of the financial impacts through what is termed a Due Diligence Process. Through this Process, the County has learned the following:

- Seller purchased the facility in 2008 for an amount excess of \$60 million

- There is an existing lease with Capital One that will extend for another 5+ years and that Capital One will buy out the remaining years of the lease for \$23 million
- The buildings and land appraised at a range between \$8.75 million and \$12.5 million
- The negotiated purchase price with Seller is \$36 million. With the \$23 million from Capital One, the net cost to the County would be \$13 million
- The facility assessment noted it was in good condition but did need \$2.8 million in deferred maintenance
- Occupancy by the County will require approximately \$16 million in tenant improvements
- The proposed occupancy plan calls for 394 County employees to be relocated from both owned and leased facilities. Of this amount, 147 would come from the County Government Center.
- The proposed move of 141 employees from the Government Center would allow the District Attorney to move into the County Administration Building several years ahead of the existing Plan and would require \$4.1 million in tenant improvements
- The traffic impacts to the road network adjacent to the Schilling facility will be minor, less than previous occupancy, and can be mitigated.
- Purchase of the Schilling facility will save the County between \$14 million and \$33 million over the next 30 years depending on the option chosen.

Monterey County Space Needs

The County maintains a facilities portfolio of approximately 2,678,604 square feet of owned and leased space for essential County services and operations. Approximately 21%, or 551,990 square feet is leased county wide.

In the Salinas Area, the County currently leases 409,469 square feet of space at an annual cost of \$7.4 million. A map and list of leased space in the Salinas Area are included as [Exhibit 1](#) and [Exhibit 1A](#), respectively. As an ongoing entity, long range planning for space needs is essential to the County's fiscal health. Any long range analysis needs to include the option of owning versus leasing properties for County operations.

Given the large presence that the County has in the Salinas Area and the amount of space leased in the Salinas Area, it is prudent to examine the option of consolidating leases into owned space. This has the potential to save tens of millions of dollars in tax payer funds over the coming decades.

The County has a number of immediate space needs that include approximately 60,000 square feet for the District Attorney, 20,000 square feet for the Public Defender, 1400 square feet for the Law Library, and 6,000 square feet for the Human Resources training center. All of these uses are currently housed in temporary modular office space.

The Courts have also expressed the need for additional courtrooms adjacent to their current facility in the North Wing. However, all space in the vicinity of the North Wing is occupied or is planned to be occupied.

In addition, parking in the vicinity of the County Government Center is inadequate. County employees, Court employees, and visitors struggle to find parking and overflow into surrounding neighborhoods.

Finally, County departments, records storage, and material storage are dispersed around the Salinas Area in both owned and leased space. Consolidation of Departments and storage has the potential to improve efficiency and reduce costs.

Current Facility Plan

In January 2013, the Board of Supervisors approved a Five-Year Capital Improvement Financing Plan (Plan) for major facilities that would help address some of the issues noted above. This Plan was updated in April 2014 (Exhibit 2) and included a number of projects such as the renovation of 20 E. Alisal Street, remediation of 312 E. Alisal Street, participation in the Salinas Vibrancy Plan, removal of the modular office space located near the Government Center, the renovation of the East-West Wing, a Jail Housing Addition, a New Juvenile Hall, an Old Jail reuse study, a Public Defender Office Building near the Court facility, and a Joint City/County Downtown Parking Structure.

This Plan committed to spending \$198 million of which \$196 million would be for facilities in the Salinas Area. The Plan also detailed how these expenditures would be funded using a combination of grants, available County funds, and borrowing a total of \$47.9 million.

In order to borrow \$47.9 million, the County will need to issue Certificates of Participation and pledge County facilities as security. In addition, there would be the need to budget for debt payments that could approach \$3 million per year for the next 30 years.

Schilling Property Opportunity

Description

In March 2014, County staff became aware that the former Capital One facility was on the market. This property consists of 8 parcels, comprising approximately 24.47 acres. It is located on Schilling Place, approximately 0.7 miles from the intersection of Highway 101 and Airport Blvd. As previously noted, the property is owned by a Los Angeles based non-profit. There are three buildings on the property:

- **1441 Schilling Place** is a two-story office building consisting of approximately 202,358 square feet, on 13.82 Acres. The building has two parts, the South Wing and the North Wing. The South wing of the building is considered Class A and is LEED Gold Certified. The North Wing is a combination of Class A office space and flex space.

- **1488 Schilling Place** is a warehouse building, consisting of approximately 87,207 square feet, on 4.4 acres.
- **1492 Schilling Place** is a 4,500 square foot day-care building.

In addition to the buildings, the site includes approximately 1200 parking spaces along with an approximately 3 acre undeveloped parcel.

The building was formerly occupied by Household Credit Services through the early 2000s. In 2002, the company was acquired by HSBC. In turn, HSBC sold the call center and credit card business to Capital One in 2012. Capital One shuttered the building shortly thereafter and it has remained vacant despite efforts to market the property. Capital One leases the property from QueensCare and has approximately 5.5 years left on the lease.

At its peak, the Schilling facility housed approximately 1,800 employees, according to an article in the Monterey Herald. County occupancy would be approximately 400 employees.

The proposed lease buyout includes all its contents, which consists of system cubicles, desks, chairs, conference tables, file cabinets, warehouse file racking, and warehouse operating equipment.

As a condition of entering into negotiations with the property owner, the County was required to sign a Due Diligence Agreement (Exhibit 3) that, in part, precluded the County from disclosing information about the negotiations or the results of the analysis that was conducted as part of the Due Diligence process.

Property Condition

Monterey County retained RIM Architects (RIM) to evaluate the building condition. The analysis consisted of a full review, including structural, electrical, mechanical and plumbing systems, exterior and interior assessments, seismic review, and phase one environmental analysis. The overall conclusion is that, while some deficiencies exist, the property is generally in fair to very good condition. The table below summarizes the findings of the study. The full analysis is detailed in the RIM Schilling Facility Assessment Report, attached as Exhibit 4.

FACILITY CONDITION ASSESSMENT

Repairs = \$2.8M

- Accessibility - *Fair*
- Roofing Systems - *Fair*
- Parking Lot - *Fair*
- Building Exterior - *Good*
- Building Interior - *Good*
- Electrical - *Good*
- Environmental - *Good*

- Fire Protection Systems - *Good*
- Landscaping - *Good*
- Mechanical - *Good*
- Security Surveillance - *Good*
- Seismic & Structural - *Good*

Proposed Occupancy Plan for the Schilling Facility

The proposed occupancy plan will relocate 394 County employees to this facility. Of this total, 147 will come from the County Government Center (141 from the Resource Management Agency plus 6 from the H.R. training center). The remainder will come from County operations that are located in the Salinas Area as well as the Monterey Peninsula. The proposed occupancy for each building at the Schilling facility would be as follows:

1441 Schilling Place (202,358 ft²)

- Resource Management Agency (141)
- Water Resources Agency (51)
- Health Department (52)
 - Call Center
 - Quality Improvement
 - Clinic Services Admin
 - Public Guardian
- HR Learning & Organizational Dev. (6)
- Elections (12)
- Information Technology (103)
- Grand Jury (19)

1448 Schilling Place (87,207 ft²)

- Information Technology (5)
 - Records Retention Center
 - Equipment Staging/Storage
- Contracts-Purchasing (1)
 - Furniture Surplus
- Department of Social Services (3)
 - Records
 - Supplies & Furniture Surplus
- Health Department (1)
 - Records
 - Furniture Surplus

1494 Schilling Place (4,500 ft²)

Daycare Facility or Parks Admin

Layouts of the which functions will go where in the Schilling facility are included in Exhibit 9. It should be noted that the County and State Courts currently have a total of 865 employees located in the downtown area of Salinas. This includes the recent addition of 117 Probation Department employees that occupy the renovated 20 E. Alisal Street building.

The proposed occupancy would relocate 17% of this total. As a percentage of the total downtown employment, this percentage would drop to less than 10%. While this relocation will have an impact, it will be minor and would be more than offset by the additional employees that will be located in the new Taylor Farms building in the near future.

With the relocation of the Grand Jury and the Public Guardian from offices in Marina, the proposed move would result in an increase in the total number of County jobs in the Salinas Area.

Space Needs Addressed

Based on the proposed occupancy for the Schilling facility, the District Attorney's Office can be relocated to the space vacated by the Resource Management Agency on the second floor of the County Administration Building. The schedule for making this move would be years ahead of the current plan that calls for the remodel of the East-West Wing.

In addition, the Human Resources training center will be relocated out of temporary modular space to a permanent space in the Schilling facility.

Space needs remaining

The space needs that remain will include office space for the Public Defender, a location for the Law Library, a Parking Structure, and additional courtroom space. All of these needs, except for parking, could be met by revising the occupancy plan for the East-West Wing with the Courts taking ownership of the West Wing and the County retaining the East Wing for the Public Defender and the Law Library. Other options for the Public Defender that include a new facility or acquiring and renovating an existing facility located in close proximity to the Courts.

With the relocation of the District Attorney and the H.R. training center, the associated modular office space, which is located north of the North Wing, could be removed and replaced with temporary parking. This location could then be included as a possible site for the City/County Parking Structure.

COSTS

Schilling Property

Acquisition:

The County retained a qualified appraiser to determine the value of the Schilling facility. The value is significant not only from a cost standpoint but it also dictates the capacity of the facility to support the issuance of debt. The appraiser used three different approaches to value the property (see Exhibits 5 and 6):

- 1) value of land and buildings plus existing lease = \$37 million
- 2) replacement value, less depreciation = \$56 million
- 3) rental value =- \$39 million

For the first approach, the appraisal valued the land and buildings at a range between \$8.75 million to \$12.5 million. This range was reconciled to an average value of \$10 million. The appraisal also valued the existing Capital One lease at \$27 million for a total combined value of \$37 million.

The County negotiated a purchase price of \$36 million for the property. The existing lease between the current owner and Capital One has 5.5 years remaining and the negotiated buy out of the lease is \$23 million. Under the terms of the deal, the County will pay the current owner \$13 million, reflecting the agreed upon price, plus the lease buyout. The Purchase and Sale Agreement is included as Exhibit 7. The Capital One Lease Buyout Agreement is included as Exhibit 8

Repairs

The report prepared by RIM identified a variety of conditions requiring repair due to deterioration and deferred maintenance. The items in need of repair included parking lots, landscaping, curbs and sidewalks, roofing, a number of interior improvements, and repairs to electrical and mechanical equipment. The estimated cost of deferred maintenance and repairs is \$2.8 million. These repairs are not urgent and could be scheduled to be done over time. However, this analysis assumes the full cost of deferred maintenance at \$2.8 million. The list of needed repairs is detailed in Exhibit 4

Refurbishing:

Considerable refurbishing of the facility will be required to create functional space for the various County operations proposed to be relocated to the Schilling facility. The office building at 1441 Schilling Place is currently set up to accommodate a call-center type operation with only a few offices around the perimeter of the large work areas and hundreds of cubicles of various sizes concentrated in the center of each large area. The anticipated use by the County would require the construction of additional offices and the reconfiguration of the individual

cubicles. The warehouse at 1488 Schilling Place will require less refurbishing, since it is proposed to be used primarily as warehousing and storage.

A preliminary space plan has been developed, however, this plan will need to be finalized once a final determination is reached about which departments will be relocated and additional input is obtained from the various future occupants.

The analysis by RIM assumed the occupancy described in this report and estimated costs based on typical construction factors, assuming a mix of office and cubicle space similar to what exists in current County facilities. The RIM analysis assumed that the existing cubicles are replaced or undergo considerable refurbishing. It may be possible to reuse and reconfigure many of the existing cubicles as an economy measure. This will require further evaluation. For the purposes of this analysis, the RIM assumptions are used.

RIM provided the following cost estimates for getting the facility ready for County use:

Construction:

Main Building:	\$7,615,872
Warehouse:	\$1,245,518
Total for construction:	\$8,861,390
System Furniture:	\$1,182,000 (394 work stations at \$3,000 ea)

The RIM estimate includes contingencies and other costs. Contingencies were calculated at 28% of construction costs. By any measure, this is a very conservative assumption which was incorporated into this Due Diligence Report. The contingent costs assumed are summarized below:

Contingencies:

Contingency for conceptual level:	\$1,329,208 (estimated at 15% of construction costs)
Construction contingency:	\$886,139 (estimated at 10% of construction costs)
Escalation:	\$265,842 (estimated at 3%)
Total for contingencies:	\$2,481,189

Other Cost:

Other costs include General conditions, fees, permits, architectural and engineering allowances, County project and construction management, moving costs, and an allowance for telephone and data cabling.

Total for Other costs: \$3,505,416

Total Schillings Property Refurbishing Cost Estimate: \$16,029,995

The costs of refurbishing the facilities is detailed in the RIM Conceptual Space Plan included as Exhibit 9

The final cost (acquisition and refurbishing) of the fully functional facility will be \$31,829,995 or \$108 per square foot. This amount compares favorably to other options for meeting the County's space needs. The County's cost for refurbishing the East-West Wing or constructing functional office space is estimated at \$500 per square foot. Acquisition and improvement of existing Class-A space would cost in the range of \$150 to \$200 per square foot, under very conservative assumptions. It is likely that to meet each County department specialized space needs, the cost of acquiring office space would be considerably higher than these conservative estimates

District Attorney Offices:

The District Attorney's Office has occupied temporary modular office space for approximately 10 years and this facility is nearing the end of its useful life. This temporary space is located directly north of the Courthouse. The current facility plan will renovate the East-West Wing at a cost of \$36 million. The renovated East-West Wing would house several functions including the District Attorney. It is anticipated that the renovation of the East-West Wing will take 3 to 5 years.

The purchase of the Schilling facility would create the opportunity to relocate the District Attorney to the second floor of the Government Center. The District Attorney would occupy the space vacated by the Resource Management Agency. Doing so would require redesign and refurbishing of the existing space. County architectural staff has estimated the cost of relocating the District Attorney to this space at \$4.1 million.

Schilling Facility Operating Costs

The Schilling facility is owned by QueensCare and is leased by Capital One. Capital One never fully operated the facility and has been unable to provide historical operating cost data. Operating costs were determined on the basis of reasonably conservative cost factors derived by County staff. The per square foot cost of operating the office building was estimated at 65 cents per month, or \$7.80 per year. The cost of operating the warehouse was estimated at 33 cents per square foot per month, or \$3.96 per square foot per year. The total estimated annual cost of operating the Schilling facility is estimated at \$1,958,000. Details of the factors used to arrive at per square foot maintenance and operation estimates are found in Exhibit 10 "Estimated Annual Operational Costs (Warehouse Only)" and Exhibit 11 "Class A Space Estimated Annual Operational Costs." The figures above include costs for maintenance, utilities, janitorial, security, insurance, assessments, administration, and future capital improvements.

Traffic Impacts

To determine the impact to traffic that would result if the County moved some of its operations to the Schilling facility, a Traffic Impact Analysis was conducted by Hatch Mott MacDonald. This analysis is attached as Exhibit 12. Because this analysis was developed prior to occupancy being determined, trip generation was estimated based on trip generation rates published in the Institute of Transportation Engineers Trip Generation handbook. Using these rates is equivalent to assuming an occupancy of approximately 700 employees. Since the planned occupancy by the County is only 394, the traffic analysis provides very conservative results and, in some cases, impacts that will never be realized.

The Traffic Analysis included three scenarios: (1) Existing Condition where the Schilling facility is vacant; (2) Existing Conditions plus occupancy by the County; (3) General Plan Buildout Condition. For each of these scenarios, the impacts to five intersections were studied. The following table summarizes the results of the Existing Condition plus County occupancy:

Abbot Street/Harkins Road	no impacts
Abbot Street/S. Sanborn Road	no impacts
Harkins Road/Hansen Street	AM peak hour Level of Service (LOS) will remain C PM peak hour LOS will decrease from D to E
Airport Blvd/Hansen Street	AM peak hour LOS will remain A PM peak hour LOS will decrease from B to D Northbound PM peak hour LOS will decrease from E to F
Airport Blvd/Terven Ave	AM peak hour LOS will remain E PM peak hour LOS will remain D

It should be noted that the proposed occupancy by the County is considerably less than that by HSBC and Capital One when they operated from this same facility. Although an analysis was not conducted to determine the difference in impacts between the County's proposal and past occupancy, the County's occupancy would certainly result in reduced traffic impacts.

In order to mitigate the anticipated traffic impacts, the County will promote the use of flex schedules by County staff and continue its active program of van and car pools. Both of these actions will help reduce the peak hour impacts noted above. In addition, the County will work with MST to re-establish the bus stop that is located at the Schilling facility.

Finally, the County will work with the City of Salinas and the Union Pacific Railroad to establish an at-grade railroad crossing so that access to Abbott Street can be provided on the south side of the Schilling property. If this effort is successful, obtaining the required approvals will take at least five years.

Parking and Travel Time Study

To determine the impacts on travel time and parking to County employees and visitors, a Schilling Place Parking and Travel Time Study was conducted. This study is included as Exhibit 13. This study examined the difference in travel times for those individuals traveling to the County Government Center, which is located at 168 W. Alisal Street, versus traveling to the Schilling facility. Travel times were recorded to each destination from Highway 68, and Highway 101 coming from both the north and south. The study shows that travel times are essentially the same whether the destination is the Government Center or the Schilling facility. However, once you get to each facility, the parking situation is much different. The Schilling facility has 1,175 parking spaces for employees and visitors while the Government Center has only 407. Therefore, the time to get to each facility is the same but the delays associated with finding parking at the Government Center will be much greater.

This study also looked at the travel time between the Schilling facility and the Government Center. A number of timed runs between the facilities were conducted using various routes during different times of the day. The worst case scenario was traveling between the two facilities during the peak hour where it took approximately 10.5 minutes.

The Traffic Analysis, Parking, and Travel Time Study results can be summarized as follows:

- County staff and the public will experience the same level of traffic congestion and delays whether coming to the Government Center or the Schilling facility
- The Schilling facility provides more than adequate parking for employees and customers
- The Government Center does not have adequate parking
- The County will work with its Schilling neighbors to reduce traffic impacts

If the County occupies the Schilling facility, there will be County employees that will need to travel to the Government Center. However, the number of new trips will be minor considering that the Schilling facility will include 250 of the approximately 394 employees that currently occupy space in outlying locations. In addition, the vast majority of the 147 employees that would move from the Government Center to the Schilling facility will not need to travel to the Government Center as part of their job duties. However, to mitigate any potential impacts, the County will study the benefits of providing a shuttle service between the Government Center and the Schilling facility.

FINANCING

The County does not have the necessary cash to accomplish the purchase of the Schilling facility or enough cash to meet its other space needs. It is common practice for public agencies to finance purchases of this nature over time. One option is to finance the purchase and some additional improvements of existing space at the Government Center up-front based on the

RIM and staff cost projections. The second alternative is to borrow the cost of acquisition, design, and upkeep for a period of time, via a short-term loan from an internal service fund, and finance the purchase and repayment of the short-term loan once the actual amount needed is known more accurately. This second option has the advantage of financing only the actual cost based on more specific cost details, rather than based on a conservative cost estimate, with high contingency factors built in. The internal borrowing, followed by permanent financing option, is the preferred financing alternative.

Upon the execution of the Purchase and Sale Agreement (PSA), the County would borrow the amount needed from an internal service fund at the appropriate interest rate, as determined by the County Treasurer, and would deposit the funds into escrow. Subsequently, the Board of Supervisors would be asked to approve funding for architectural design and interim maintenance of the facility. The architectural design services would include developing construction cost estimates. Once those costs are known, the County would pursue financing via Certificates of Participation (COPs), a tool commonly used for financing facilities of this nature.

Financing costs were estimated earlier during the due diligence period using conservative assumptions. The fiscal analysis was done on the basis of financing \$37 million, over 30 years. The average annual cost of financing (principal + interest) under these assumptions is estimated at \$2,225,000.

In addition to the costs of financing the purchase of the facility over 30 years and depreciating it over 50 years at an annual cost of \$740,000, the County will incur operating costs of \$1,958,000 during the first full year of operations. The cost of financing and operating the facility will be partially offset by rents charged to several of the proposed occupants in the estimated amount of \$1,431,000, resulting in a net annual cost of \$3.492 million [$\$2,225,000 + \$1,958,000 + (\$37M/50 \text{ yrs}) - \$1,431,000 = \$3.492M$]. The analysis supporting this conclusion is found in Exhibit 14, "MONTEREY COUNTY REQUIRED SPACE COST NET WITH RENTAL INCOME"

The following table shows the long-term costs of financing and operating the facility. These costs are shown in present value format, using a 3% discount rate. Year 31 present value shows the annual present value cost to the County after the amount financed is paid off (30 years). Present value analysis allows looking at costs over a long period of time in today's dollars. The 30-year cost analysis is reflected in Exhibit 15, "MONTEREY COUNTY REQUIRED SPACE: ALTERNATIVES 30-YEAR COSTS"

Schillings & DA Cost Analysis

Year One net Cost	Average Annual Net Cost	Average Annual Net Cost PV	Year 31 Net Cost PV	Total 30-Year Net Cost PV
\$3,498,720	\$3,083,312	\$2,681,394	\$944,331	\$51,980,000

Annual costs include fixed costs and variable costs. Fixed costs include debt service and depreciation. Depreciation is based on a 50-year straight depreciation schedule. Variable costs include maintenance. To analyze the long-term impact of acquiring and operating the facility, variable costs were inflated by 3% per year.

Several departments were chosen as possible occupants for the purposes of doing the financial analysis. Several of these departments are currently paying rent for leased facilities throughout the Salinas Area. It was assumed that these departments would continue to pay rent to the County and the rent was applied as an offset to annual operating costs. Rents applied as offsets totaled \$1,431,000 in the first full year of operations, resulting in a net new cost to the County of \$3.5 million.

Alternatives Considered

Four alternatives were analyzed. These alternatives are:

Scenario 1: Continue with Major Facilities Plan for Fund 404 that was adopted by the Board of Supervisors in April 2014. This includes renovation of the East-West Wing for the District Attorney; Build and/or acquire a facility for the Public Defender; Contribute \$3 million to a joint parking facility with the City. The total cost of this option is \$46,026,237. In this scenario, the County will continue to maintain its existing leases.

Scenario 2: Purchase and remodel the Schilling facility; Renovate the Government Center Second Floor for District Attorney; Joint Parking Structure and the Public Defender facility are not funded. The total cost of this option is \$37 million. This scenario relocates some existing operations from leased space to the Schilling facility.

Scenario 3: Acquire and remodel the Schilling facility. Renovate portion of East/West Wing for Public Defender; renovate the second floor of Government Center for District Attorney; Build a parking structure. The total cost of this option is \$47 million. This scenario relocates some existing operations from leased space to the Schilling facility.

Scenario 4: Lease 87,500 sq. ft. for District Attorney, Public Defender, Law Library, and Human Resources training center. The Parking Structure will not be funded. This option does not require an up-front capital investment. This alternative presumes that, in addition to the new leased space, the County continues its existing leases.

A fifth alternative, not analyzed, involves current discussions with the City of Salinas about building the needed space in the Salinas Downtown area. While the discussions are ongoing, it is recognized that this alternative would cost, at least \$15 million more than the most expensive alternative analyzed because it would include the relocation of the Elections Department facility to the Salinas downtown area.

The following matrix evaluates each of the four alternative scenarios in terms of meeting County space needs. As can be seen, only Scenarios 2 and 3 meet most or all of the County objectives.

EVALUATION MATRIX

Objective	404 Plan	Schilling & DA	Schilling, DA, PD, PS	Lease Space
Provides offsetting revenue		X	X	
Allows consolidation and centralization of County Records		X	X	
Allows consolidation of County departments		X	X	
Meets District Attorney space needs	X	X	X	X
Meets Public Defender space needs	X		X	X
Provides funds for Downtown parking structure	X		X	
Meets other department's current space needs		X	X	
Provides Continuity of Operations Oportunity		X	X	
Creates oportunity for "One Stop" permit center		X	X	
Long-term ownership of building	X	X	X	
Allows consolidation of IT		X	X	
Eliminates modulars	X	X	X	

Costs associated with each of the four Alternative Scenarios were also analyzed. The following Table describes the findings. The abbreviation "PV" stands for Present Value:

COST ANALYSIS

Scenario	Year 1 Net Cost	Average Net Annual Cost	Average Net Annual Cost (PV)	Year 31 Net Cost (PV)	Total 30-year Net Cost (PV)
Fund 404 Plan	\$5,587,057	\$6,700,455	\$4,381,360	\$2,290,890	\$85,300,000
Schilling & DA	\$3,498,720	\$3,083,312	\$2,681,394	\$944,331	\$51,980,000
Schilling, DA, PD, Parking Structure	\$4,405,055	\$5,051,161	\$3,325,651	\$1,199,506	\$64,300,000
Lease Space	\$3,895,491	\$6,177,654	\$3,895,491	\$3,895,491	\$78,644,000

Scenario 2 is the least costly and meets most of the County’s space needs. The net new cost to the County in the first year of operations is nearly \$400,000 less than the leasing alternative (Scenario 4), \$900,000 less than the Schilling + District Attorney (DA) + Public Defender (PD) + Parking Structure alternative (Scenario 3), and over \$2 million less than the current adopted Major Facilities Plan for Fund 404 (Scenario 1).

Over the long term, the financial advantages of Scenario 2 are even more pronounced, saving the County more than \$33 million over the currently adopted Plan. The detailed spreadsheet showing the calculations used to arrive at the numbers shown on this summary table is attached as Exhibit 15, “MONTEREY COUNTY REQUIRED SPACE: ALTERNATIVES 30-YEAR COSTS.” It should be noted that the numbers used to estimate the costs of this alternative were purposely conservative and yield a worst case scenario. For example, the entire lost tax revenue, resulting from converting the building to non-taxable status, is shown as a cost to the County, even though the County’s share of that cost is less than 20% of lost property tax revenue.

Conclusion

When considering the cost and impacts of acquiring the Schilling facility, it was the intent of staff to develop a conservative analysis across the board. The purpose of this type of analysis was to insure that all costs and impacts would be clearly stated and that the likelihood of

realizing higher costs and impacts were minimal, if not nonexistent. This report satisfies staff's intent.

From a cost standpoint, the option to purchase and renovate the Schilling facility is the least costly and will expedite relocation of County operations out of temporary modular facilities. It will also provide the following benefits:

- Meets most current space needs
- County owns the building after 30 years
- Provides space for a One Stop Permit Center that includes the Resource Management Agency (Building, Planning, Public Works), and the Water Resources Agency
- Consolidates records storage and the IT Department
- Adequate parking for employees and customers
- Facilitates a Continuity of Operations
- Reduces the demand on parking at the Government Center
- Provides space for a future parking structure
- Provides space for the addition of courts

In the long term, this purchase has the potential to save significant tax payer funds and those freed up dollars can be used to strengthen the funding for much needed services and programs for our geographically dispersed citizens.

However, these benefits will not come without the cost of 147 fewer County employees in the Salinas downtown, the increase in traffic in the vicinity of the Schilling facility, and the lost opportunity of a private employer purchasing the facility.