



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: RES 14-080, **Version:** 1

Receive and consider:

- a. Schilling Facility Acquisition Due Diligence Report;
- b. Adoption of a Resolution approving the Purchase and Sale Agreement, and Lease Termination and Release for acquiring 1441, 1488, and 1494 Schilling Place, and authorizing their execution;
- c. Adoption of a Resolution approving one of three financing options for funding the PSA to acquire 1441, 1488 and 1494 Schilling Place; and
- d. Authorization for the Auditor-Controller to execute the Board approved financing option, including any Loan Agreements, and transfer approved funds to an Escrow account for the purchase of 1441, 1488, and 1494 Schilling Place. (REVISED RESOLUTION SUBMITTED VIA SUPPLEMENTAL)

RECOMMENDATION:

It is recommended that the Board of Supervisors receive and consider:

- a. Schilling Facility Acquisition Due Diligence Report;

- b. Adoption of a Resolution approving the Purchase and Sale Agreement (PSA), and Lease Termination and Release (LTR) for acquiring 1441, 1488, and 1494 Schilling Place, and authorizing their execution;

- c. Adoption of a Resolution approving one of three financing options for funding the PSA to acquire 1441, 1488 and 1494 Schilling Place; and

- d. Authorization for the Auditor-Controller to execute the Board approved financing option, including any Loan Agreements, and transfer approved funds to an Escrow account for the purchase of 1441, 1488, and 1494 Schilling Place.

SUMMARY/DISCUSSION:

In March 2014, County staff became aware that a large office and warehouse complex located on Schilling Place in south Salinas was for sale. This facility, commonly known as Capital One, sat on 24 acres and contained about 300,000 square feet along with about 1,200 parking spaces. It had been sitting vacant for at least a year after Capital One moved its operations.

Given the County space needs, this facility offered the opportunity to satisfy a number of needs and a greatly reduced cost. Therefore, negotiations were started with the facility owners, Schilling Place Property LLC and Schilling Place QC, LLC, both wholly owned subsidiaries of a Los Angeles based non-profit ("Seller"). The negotiations included the provision of a 75 day Due Diligence Period that allowed the County to assess the facility, its value, the financial benefits of acquisition, the possible impacts of consolidating some operations at this location, and an acquisition price.

The Due Diligence Period ends on August 29, 2014 and the County must make a decision on whether to acquire this facility. The attached Due Diligence report provides significant detail on the facility, its financial benefits, and the impacts of acquisition.

If the County agrees to move forward, a PSA must be approved at which point the County will enter a 30 day escrow period. The form of PSA is enclosed as Attachment 1. Once in escrow, the County's initial refundable deposit of \$100,000 will go into escrow and be credited toward the purchase price. In addition, \$250,000 will be required to be deposited by the County into escrow which will also be credit against the purchase price. The County will enter into an LTR that will require Capital One to deposit \$23 million into escrow. A copy of the form of LTR is enclosed as Attachment 2. The remainder between the County's and Capital One deposits, which is \$12,650,000, will have to be deposited into escrow by September 28, 2014.

The total deposits by the County will be \$13,000,000 and will constitute the purchase price. This is in contrast to the purchase of this facility by Seller in 2008 for \$63 million.

The following describes three funding options for consideration by the Board should the Board approve funding the Purchase and Sale Agreement for acquiring 1441, 1488, and 1494 Schilling Place:

1. Approve a thirty-six month loan in the amount of \$13,000,000 between the Worker's Compensation Internal Service Fund (ISF) and the Facilities Master Plan Implementation Projects, Fund 404; or
2. Approve a loan in the amount of \$13,000,000 between the Natividad Medical Center Enterprise Fund to Facilities Master Plan Implementation Projects, Fund 404; or
3. Approve the issuance of debt in the amount of \$13,000,000 and authorize a short-term loan agreement to borrow funds until debt financing is established.

A form of resolution and agreement to implement options 1 or 2 is enclosed as Attachment 3. Should the Board decide to implement either one of those options, it is requested that the Board determine from which fund the funds would be sourced and adopt an appropriate resolution. Should the Board determine to pursue option 3, it is requested that the Board do indicate by Board Order and direct that the financing documents be returned for Board consideration and approval at the earliest possible date.

CALIFORNIA ENVIRONMENTAL QUALITY ACT:

Pursuant to the Guidelines for the California Environmental Quality Act (CEQA), specifically California Code of Regulations section 15004(b)(2)(A), the proposed acquisition is not subject to CEQA at this time. Any final decision on the reuse of the facilities will be subject to CEQA review.

OTHER AGENCY INVOLVEMENT:

The Resource Management Agency has worked with the County Administrator's Office, Risk Management, Auditor-Controller, and County Counsel. In addition, numerous meetings have been held with staff from other County Departments regarding interest in moving to the Schilling facility including ITD, Social Services, Human Resources, and Elections.

FINANCING:

There will be an impact to the General Fund for paying off the debt service for the issuance of Certificates of Participation (COPs) depending upon Board direction to staff. On April 22, 2014 the Board approved debt financing of \$47,916,052 in the Capital Improvement Financing Plan for Major Facilities Fund 404 which is higher than any of the proposed alternative financing scenarios identified in the Schilling Facility Acquisition Due Diligence Report (DDR). It is important to note that the adopted Capital Improvement Financing Plan did not include on-going maintenance and operating expenditures which will eventually have to be considered if the County moves forward with that Plan. However, the DDR financial analysis includes not only the debt service, but also the maintenance and operating expenditures.

Prepared by: Robert K. Murdoch, Director of Public Works

Approved by:

Benny J. Young, RMA Director

Dated: August 15, 2014

Attachments: Resolution approving Agreement to Purchase, Attachment 1 Form of PSA; Attachment 2 Form of Lease Termination Agreement and Release; Attachment 3 Form of Resolution and Agreement; Schilling Facility Due Diligence Report including Exhibits 1-15. (Attachments on file with the Clerk of the Board)