

**MEMORANDUM
DEPARTMENT OF FACILITY SERVICES
COUNTY OF PLACER**

To: Honorable Board of Supervisors

Date: December 9, 2014

From: ^{MD} Mary Dietrich, Facility Services Director
By: Laurie Morse, Property Manager

Subject: Placer County Government Center – Existing Tenant Occupancy Timeline

ACTION REQUESTED:

1. Affirm staff's determination of June 30, 2015, as the last date of occupancy for any of the current tenants located within the proposed Costco Project Area located at the Placer County Government Center in North Auburn.
2. Authorize the Department of Facility Services to grant 49 Fitness, Inc., a California Corporation, dba Courthouse Athletic Club a graduated reduction of rent as contemplated in Lease Agreement No. PCGC 12-004.

BACKGROUND:

On March 11, 2014, your Board authorized staff to proceed with negotiations for an Option to Ground Lease (Option) and Ground Lease for approximately 16 acres at the Placer County Government Center (PCGC) with Costco Wholesale Corporation based on key business terms and Costco's Conceptual Site Plan 5.4d (Project Area - Exhibit A). County staff and Costco representatives have negotiated numerous agreement terms since March, and staff is recommending approval of the Option and other related actions in a subsequent agenda item today.

Impacted County Occupancies and Tenants

As reported to your Board on March 11, 2014, the proposed Costco project will impact several County Departments and existing tenants that are within the footprint of the 16-acre Project Area. This area also includes other vacant buildings and interior road and parking surfaces. In order to deliver the Project Area to Costco, the Option specifies a Possession Date when the County must deliver the premises with buildings and interior road surfaces removed and any hazardous materials remediation performed. If the work is not performed by this date, then Costco has the option to: 1) terminate the Option; 2) perform the work and bill the County for its costs to perform; or 3) extend the Option term. The Possession Date cannot be sooner than March 1, 2016 unless agreed to by both Parties. Staff anticipates that six to nine months will be required to demolish the existing buildings and improvements. For the County to complete the demolition work and be in a position to meet the earliest possible Possession Date, staff has projected that all buildings must be vacated by June 30, 2015.

In June 2013, Property Management issued its first notification to impacted tenants updating them of the status of the Costco project and informing them that their occupancy could be ending as early as December 2014. Staff has continued to inform tenants of the negotiation status and possible occupancy timelines with letters and individual meetings. All current leases are set to expire by February 2015 or are on month-to-month status. Staff recognized the challenges associated with finding alternative locations and supported these tenants by making suggestions of possible locations and introductions to local brokers or other entities that could support their transition. As previously reported to your Board, Property Management has communicated to tenants that it will allow leases to terminate early and will waive last month's rent to help offset moving costs. Since the June 2013 notification to 12 tenants, 4 tenants have relocated to new offsite locations, 4 tenants plan to vacate by December 31, 2014, the Senior Center will move in spring 2015, and 3 tenants

have not provided definitive plans to relocate. Given the need to commence demolition projects in July 2015, staff requests your Board's approval of staff's recommendation to establish June 30, 2015 as the lease termination date for these remaining tenants. By establishing this date, the remaining tenants will have greater certainty as to their timeline for identifying and securing alternative locations for their businesses.

The following provides the status of the tenants who have moved:

1. Jeanie Gamboa, dba All in One Upholstery: Through introductions with the County's real estate consultant and a local real estate broker, this tenant moved to its new facility on Kemper Road on May 1, 2014.
2. Placer Union High School District/Independent Living Program: The Placer Union High School (PUHSD) was able to relocate to Placer High School and moved on July 31, 2014.
3. Seniors First: Working with Supervisor Holmes, Seniors First staff was introduced to the Property Manager for Western Care Construction who owns a profession office building on Locksley Lane. Seniors First moved to this location on September 15, 2014. Staff understands that this tenant was able to secure a lease at rates comparable what they paid at PCGC. Staff also introduced Seniors First to the County's Food Service Manager which resulted in a contract with the Probation Department to provide meals at a reasonable cost for both congregate sites and home delivery.
4. Sierra Economic Development Corporation (Free Community Storage): This organization moved its documents to Secure Record Management on Shale Ridge Lane in fall 2013.

The following tenants have plans to move:

1. Motherlode Special Olympics (Free Community Storage): This tenant anticipates that its supplies and materials will be removed and the storage area will be vacated by December 31, 2014.
2. Auburn Area Christmas Basket and Toys for Tots Program (Free Community Storage): This tenant's 2014 distribution of toys will occur December 20, 2014 and the storage area will be vacated by December 31, 2014.
3. Placer Union High School District/Adult School: Since receipt of notifications by staff, PUHSD has made operational decisions to vacate Building 321B but remains in Building 324 with the intent to vacate entirely by December 31, 2014. Some of the Adult School programs will be offered at the District facilities on New Airport Road and others programs may be phased out due to funding constraints.
4. Dragon Tiger, Inc., dba O'Brien Child Development Center: This tenant has secured a new lease on Dry Creek Road and has notified staff that it will move by December 31, 2014.
5. Volunteers for the Multipurpose Senior Center, Inc.: As reported to your Board in March 2014, staff successfully negotiated terms with Costco to fund \$530,000 towards tenant improvements and rent for a new Senior Center location. The Senior Center representatives have identified an office building proximate to the PCGC and are in final negotiations with the building owner and finalizing tenant improvement plans. The Senior Center intends to move during the spring of 2015.

The following tenants have not provided Property Management with definitive plans to relocate:

1. Andreas T. Hoffman, dba Blattler's Fine Foods & Desserts: Staff has met and discussed the status of this tenant's occupancy on numerous occasions. Mr. Hoffman has expressed that the cost to move its kitchen equipment and to find comparably priced facilities are barriers to relocation. He has also indicated that a move prior to or during the Christmas/New Year's holidays would be problematic, and staff has since informed Mr. Hoffman that his occupancy would not end prior to February 28, 2015. Staff believes that this tenant will benefit from the

proposed June 30, 2015 timeline allowing time to secure a new location after the holidays. Additionally, the waiver of last month's rent will help offset this tenant's moving costs.

2. 49 Fitness, Inc., dba Courthouse Athletic Club: Staff has met with this business owner, Art Chappell, on numerous occasions and has issued correspondence that the County will not authorize the first one-year option that would begin March 1, 2015. Mr. Chappell reportedly has pursued many alternatives for relocation and has narrowed his options for relocation. Mr. Chappell has submitted a written request for a 100% rent reduction (\$9,039.36/month) until relocation to a new facility, stating that a reduction in memberships and new subscriptions has significantly reduced his current revenues. Staff has responded that it could support a stepped rent reduction as the current lease agreement provided for this "end of lease term" rent structure in the form of a 25% rent reduction during the first six months of the last year of occupancy with a 50% reduction during the last six months of occupancy.
3. Michael A. Coder and Kay L. Coder, dba Music and More Arts Academy: Music and More Arts Academy (Music and More) has leased the theater building at the intersection of D Avenue and First Street since March 1, 1998. Since notifications were sent to tenants in June 2013, the Coders have voiced the importance of retaining the theater, citing its significance due to its past use, particularly while the PCGC was a military hospital. To accomplish this, the Coders proposed that Costco carve out 42 spaces at the northeast corner of the Costco Project Area. This request was presented to Costco representatives who prepared another alternative to the original Project Area that would allow the building to remain, presuming an un-occupied status. Exhibit B depicts this Alternate Project Area.

Based upon further discussions with the Coders, staff came to understand that they desired to maintain their occupancy as an operational theater. As a result, staff contracted with an architectural firm to perform an evaluation of the theater building. The building evaluation reviewed life safety, building accessibility, deferred maintenance, structural and electrical issues, and provided a rough order of magnitude cost estimate of \$350,000 to address these deficiencies. County staff estimates that an additional \$300,000 to \$500,000 could be required to upgrade existing restrooms for ADA compliance, ADA parking reconfiguration, frontage improvements, utilities installations and hook ups, and retaining walls.

To review the opportunities for retention of the theater, the County hosted a meeting with Music and More representatives. The Coders were informed that if the theater were to remain, Music and More would be responsible for all associated costs for building deficiencies, code issues and construction improvements and would need to close down during Costco's approximate 9-12 month construction period. Given the magnitude of these requirements, staff requested that the Coders provide information regarding their intent for the building and site operations, and specific steps and timelines that would be taken to develop a sustainable business operations plan, capital fundraising, performance bonds, and improvements construction schedule.

A letter from the Coders communicated their intention to respond to the County's request, but the Coders requested a six-month or longer lease extension to provide this information and to maintain sustainability. Staff understands a six-month or longer lease extension would allow time to establish a Board of Directors associated with the recently reactivated non-profit Music and More Performing and Visual Arts Inc. and perform planning efforts related to business operations and fundraising. Following this communication, Music and More representatives confirmed that the concept of a non-operational theater does not meet its vision and have since determined that the 42-spaces previously identified are not sufficient or feasible for their continued operations. Instead, they now require considerably more area from the Costco Project Area for their business model.

Costco clarified its position that their willingness to carve out the 42 spaces was to accommodate the preservation of the theater in response to input requesting that the building be saved. Costco has stated that it is not able to reduce or reconfigure the proposed Project Area any further and that all parking spaces are needed for its operations. Additionally, Costco indicates it will not pay

for or accept any additional costs or liabilities associated with keeping the building. In response to Music and More's desire to continue operation in the theater, Costco has expressed additional concerns regarding any impacts this business would have on Costco's store and fueling station. These concerns relate to incompatibility between Costco's operations and the theater's activities that could present safety issues. They have reiterated that if the Board were to allow Music and More to remain operational on the site identified in Exhibit B, Costco would request a continuation of the Board item associated with the Option and Ground Lease until they receive contractual assurance that financial and safety concerns regarding an operating theater are addressed.

CONCLUSIONS / RECOMMENDATIONS:

In 2011, your Board received a presentation on studies evaluating the holding capacity of County-owned properties including the PCGC. This evaluation identified that the PCGC has sufficient capacity for continued development of County facilities as well as availability for private projects. With this understanding, Property Management has managed the private leases on the PCGC to maintain flexibility to respond to opportunities for economic development at the campus. This has been accomplished by structuring lease expiration dates to avoid conflicts with potential development horizons and by maintaining open and consistent communication with tenants regarding plans for the campus.

With the Board's direction to pursue an Option and Ground Lease with Costco on 16 acres at the PCGC, staff has carefully projected timeframes for performance including delivery of the premises. If your Board should choose to enter into an agreement with Costco, all leases on the Project Area are either in a month-to-month status or will expire in early 2015. Staff has worked and communicated diligently with effected tenants to provide adequate time for their transition to new facilities. Per the discussion above, two tenants that have not definitively identified their plans to relocate, and one tenant desires to remain.

Music and More has championed retention of the theater building based their opinion of historic significance and the benefits of having a venue for performing arts. However, the Environmental Impact Report prepared in 2003 included determinations from the Army Corps of Engineers and the California State Historical Officer that the buildings originally constructed in the DeWitt Center were not eligible for inclusion on the National Register of Historic Places, thus allowing the redevelopment of the PCGC that has occurred since that time. Acknowledging the important role of the Center to the local community, the Board of Supervisors has approved funding to establish a museum at the PCGC to preserve the history of the DeWitt Center and planning is underway by the Museums Division. Archival photographic documentation in accordance with Historic American Building Survey standards has also been prepared and is available to the public at the County Archives. In addition, the Board of Supervisors has long supported the arts in Placer County including funding in support of the Placer Arts Council and recently in May, when the Board approved match funding in the amount of \$125,000 to the Auburn Placer Performing Arts Center to assist with restoration and renovation of the State Theater.

Given Costco's concerns related to an operating theater and their inability to provide additional area to accommodate Music and More's operations that will require more than the 42 spaces originally requested, staff does not recommend your Board extend Music and More's lease agreement to continue their feasibility studies. However, staff has determined that Music and More's occupancy through June 30, 2015 will not adversely affect anticipated performance requirements of the County related to the Costco Option and Ground Lease. This time frame will also provide Music and More with certainty on their occupancy for holiday and spring performances and provide 7 months to relocate. As with other tenants that have moved, staff recommends waiver of the last month's rent and the flexibility to end the lease prior to June 30, 2015 if requested by the tenant.

With regard to the Courthouse Athletic Club, Lease Agreement No. 12-004 has a provision for rent reduction at the end of the term. The lease was developed by staff with the understanding that there would be a significant reduction in membership revenue during the final year of tenant occupancy at

PCGC. It was anticipated that the final year of occupancy would be during an option term and therefore the rent reduction was included for the option term. Due to the proposed Costco project, the tenant will not be allowed to exercise the option term and will be on a month to month holdover when the lease term ends. Staff recommends that your Board authorize the Director of Facility Services to amend this lease to provide for the rent reduction that was provided for in the option term to the current lease term. The rent reduction would be subject to receipt by the County from the business owner of a written acknowledgement and commitment to end its occupancy on or before June 30, 2015.

Consistent with the other actions, staff recommends that the Lease Agreement with Blattler's Fine Foods & Desserts be allowed to continue to a date not later than June 30, 2015 subject to the business owner's written acknowledgement and commitment to relocate, and be granted a waiver of the last month's rent.

ENVIRONMENTAL CLEARANCE:

The actions requested of your Board are exempt from environmental review under the California Environmental Quality Act (CEQA) pursuant to Public Resources Code Section 20165(c) because there is no new activity being undertaken by the County and the decisions by County staff are simply to allow pre-existing approved lease agreements to expire by their terms.

FISCAL IMPACT:

Diminishing rent revenues generated from tenants at the PCGC were anticipated in the preparation of the FY 14-15 PCGC Campus Budget. By allowing the three occupancies discussed above to continue through June 30, 2015, approximately \$46,000 in rent will be received.

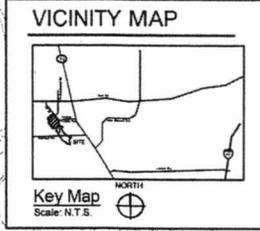
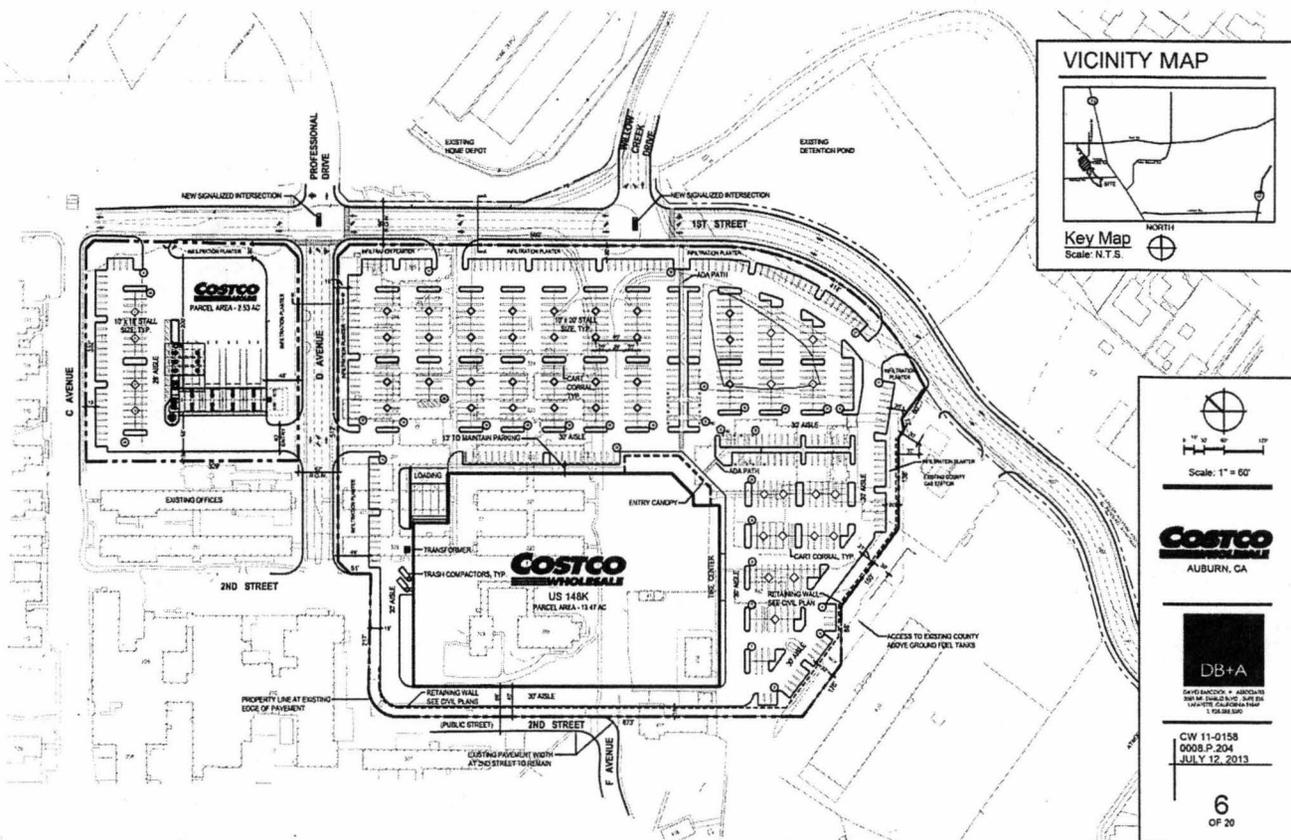
Attachments: Exhibit A – Project Area
Exhibit B – Alternate Project Area with Theater Carve Out

CC: County Executive Office
County Counsel

MD/LM/EF

T:/F/BSMEMO/COSTCO TENANT MEMO.DOC

EXHIBIT A PROJECT AREA



Scale: 1" = 60'

Costco
WHOLESALE
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JULY 12, 2013

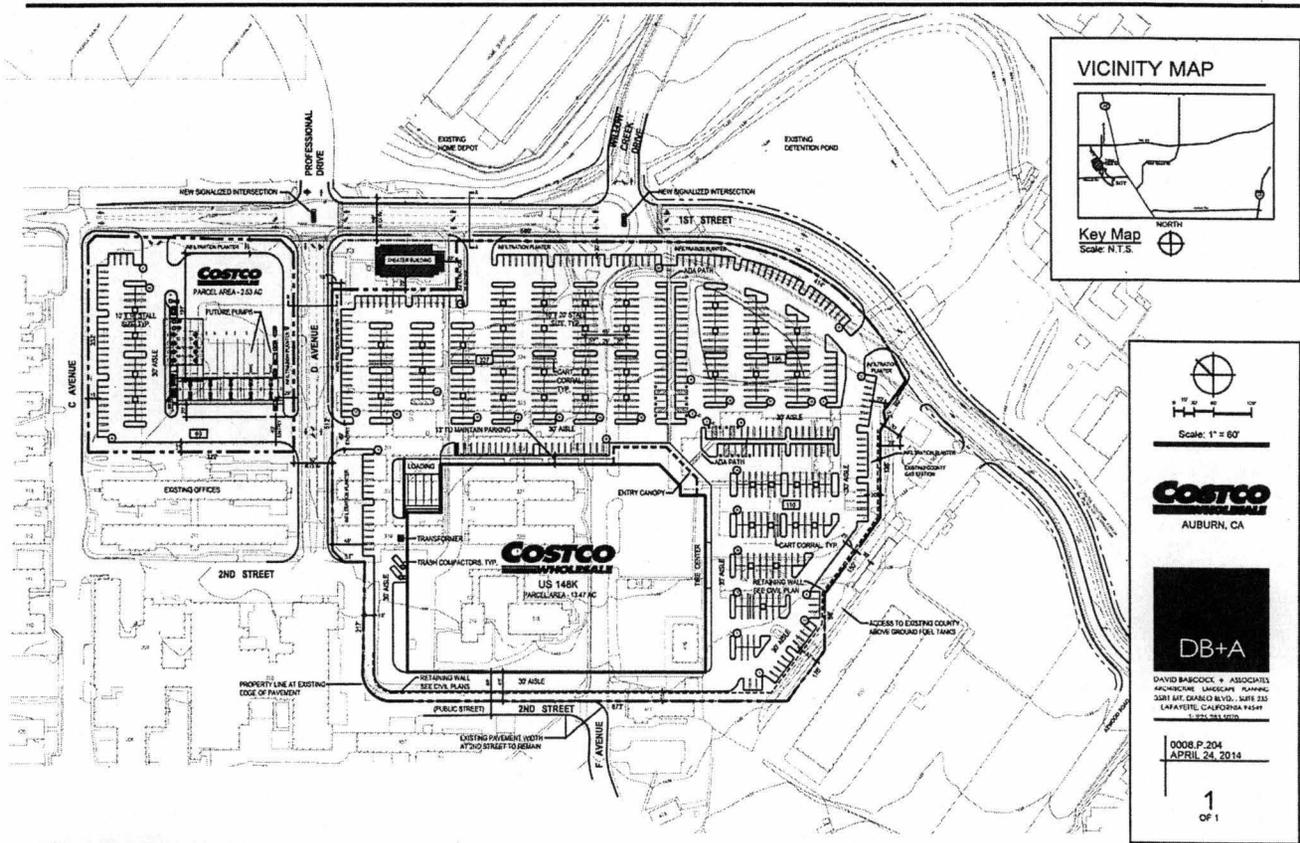
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COSTCO
WHOLESALE
AUBURN, CALIFORNIA

Auburn Concept Site Plan 5.4d

EXHIBIT B

ALTERNATE PROJECT AREA WITH THEATER CARVE OUT



COSTCO
WHOLESALE
AUBURN, CALIFORNIA

Auburn Concept Site Plan 5.4f

