



FINANCE COMMITTEE AGENDA

Special Meeting of November 29, 2011 – 8:00 a.m. to 10:00 a.m.

A Committee of the Chico City Council:
Councilmembers Sorensen, Goloff and Chair Gruendl
Council Chamber Building, 421 Main Street, Conference Room No. 1

REGULAR AGENDA

- A. **Direction to Staff Regarding Soliciting Interest in Leasing Excess Municipal Office Space.** As a measure to make more efficient use of currently underutilized municipal office space and to generate General Fund revenue, staff is evaluating the potential for leasing excess space in both the Chico Municipal Center (CMC) and the Old Municipal Building (OMB). Various potential users have expressed interest in leasing space and staff is requesting that the Committee consider and provide direction on the near term use of excess City office space. Staff believes it makes sense to gauge the interest and evaluate potential scenarios to determine if it would ultimately be in the City's interest to lease the excess space.

Recommendation: Staff recommends that the Committee direct staff to circulate a simple request for proposals to provide potential users an opportunity to formally express interest in leasing excess space in the Chico Municipal Center and the Old Municipal Building. *(Report –Shawn Tillman, Senior Planner)*

B. **Finance Update – Budget Status**

- C. **Reports and Communication** - The following report and communication items are provided for the Committee's information. No action can be taken on these items unless the Committee agrees to include them on a subsequent posted agenda.

- 1) Monthly report on Q&A from citizens regarding City finances
- 2) Letter from Bob Evans

- D. **Business from the Floor** - Members of the public may address the Committee at this time on any matter not already listed on the agenda, with comments being limited to three minutes. The Committee cannot take any action at this meeting on requests made under this section of the agenda.

- E. **Adjournment and Next Meeting** - The meeting will adjourn no later than 10:00 a.m. The next regular Finance Committee meeting is scheduled for Tuesday, December 27, 2011, at 8:00 a.m. in Conference Rm. No. 1.

Distribution available in the office of the City Clerk

Prepared: 11/23/11

Posted: 11/23/11

Prior to: 5:00 pm

Chico City Clerk's Office
411 Main Street, Chico, CA 95928
(530) 896-7250



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**Finance Committee
Agenda Report**

Meeting Date: November 29, 2011

TO: Finance Committee
 FROM: Shawn Tillman, Senior Planner (896-7204, stillman@ci.chico.ca.us)
 RE: Lease of Excess Municipal Office Space

REPORT IN BRIEF:

As a measure to make more efficient use of currently underutilized municipal office space and to generate General Fund revenue, staff is evaluating the potential for leasing excess space in both the Chico Municipal Center (CMC) and the Old Municipal Building (OMB). Various potential users have expressed interest in leasing space and staff is requesting that the Committee consider and provide direction on the near term use of excess City office space. Staff believes it makes sense to gauge the interest and evaluate potential scenarios to determine if it would ultimately be in the City's interest to lease the excess space. Following the RFP process, staff will return to the Committee with a recommendation.

Recommendation:

Staff recommends that the Committee direct staff to circulate a simple request for proposals to provide potential users an opportunity to formally express interest in leasing excess space in the Chico Municipal Center and the Old Municipal Building.

FISCAL IMPACT:

Currently, comparable office rents in Downtown Chico range from approximately \$0.90/sf to \$1.15/sf per month on a triple net basis (with the tenant paying maintenance, taxes and insurance).

	<u>AREA</u>	<u>EST. RATE</u>	<u>PER MO</u>	<u>PER YR</u>
OMB Downstairs-Front	1,300 sf	\$1.10/sf	\$1,430	\$17,160
OMB Downstairs-Back	1,025 sf	\$0.90/sf	\$ 923	\$11,076
OMB Upstairs	719 sf	\$1.10/sf	\$ 791	\$ 9,492
CMC First Floor, South	3,900 sf	\$1.05/sf	\$4,095	\$49,140
TOTAL POTENTIAL	6,944 sf		\$7,239	\$86,868

For the purpose of this preliminary analysis, staff estimates the City could generate potentially \$85,000-plus in lease revenue annually if the excess space were fully leased at market rates. Because utilities are not metered separately and the City would continue to maintain and insure the buildings, pro rata factors would need to be developed and added to the base lease rate to reimburse the City for those costs. Also, any existing furnishings or new improvements desired by a tenant would need to be capitalized into the lease rate.

BACKGROUND:

As of 2007, the CMC was fully utilized by City operations and staff was evaluating how to accommodate future space needs. The OMB was renovated and the Housing & Neighborhood Services Department (HNSD) relocated there in 2008, along with the Police Department's Downtown Substation. Due to current economic conditions, City staffing levels have contracted considerably and there is now excess capacity on the 3rd floor of CMC. Also, since 1995 and until 2007, the south side of the 1st floor of CMC had been leased to Butte County. Staff anticipated

at the beginning of the economic downturn that the excess space in both the CMC and OMB would be needed for City operations within a relatively short period of time. While staff still anticipates needing additional space in the future, the excess space is not likely to be needed in the next 3-5 years given the pace of economic recovery.

With the current available capacity on the 3rd floor of the CMC, the HNSD could be relocated, which would free up the space in the OMB for lease. The south side of the 1st floor of the CMC has been used as a conference room over the past two years. Leasing that space would require locating those uses elsewhere.

DISCUSSION:

After the CMC was completed in 1995, it was anticipated the City would not have need for the OMB. The City utilized an RFP process to gauge interest and evaluate proposals for the sale and use of the OMB. Various ideas and interest were expressed including using the building for private sector offices, Chamber of Commerce offices, and art gallery/museum space. Ultimately, the City elected to renovate the building and use it for municipal offices and in 2008 the Downtown Substation and the HNSD located there. The upstairs conference and meeting space have been used extensively for staff and public meetings and conferences, and the Big Room currently serves as the City's primary Incident Command Center.

Over the past few months, informal inquiries have been made regarding leasing space in both the OMB and 1st floor of the CMC. With generating new revenue a priority at this time, staff believes it makes sense to circulate an RFP to evaluate potential scenarios to determine if it would ultimately be in the City's interest to lease the excess space. Lease terms could be limited to a 3-5 year initial term with annual 1-year renewals thereafter. For the meeting space upstairs in the OMB, the City could retain priority use and scheduling, allowing tenants the ability to use that space subject to the City's needs.

Staff contacted three commercial real estate brokers on an informal basis for insight on market lease rates in the Downtown. Based on recent leases signed for comparable office space, staff believes the City's excess office space has a market value of between \$.90 - \$1.15/square foot per month, triple net. Costs for utilities and taxes, maintenance and insurance would be pro rated for each tenant based on square footage leased.

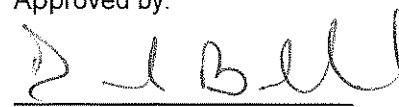
PUBLIC CONTACT:

This Committee meeting is the first public discussion of this matter. Some parties have contacted staff.

Prepared by:


Shawn Tillman, Senior Planner

Approved by:


David Burkland, City Manager

DISTRIBUTION:

City Clerk (17)

ATTACHMENTS:

Proposed RFP Form

FILE: PS-64-11-15

**CITY OF CHICO
REQUEST FOR PROPOSALS**

Lease of Excess Municipal Office Space

The City of Chico is requesting proposals for the lease of space in both the Old Municipal Building at 441 Main Street, and the Chico Municipal Center at 411 Main Street. Details regarding available space follow. Proposals are due by 4:00 PM on _____ . Proposals should be submitted to the City Manager's office at P.O. Box 3420, 411 Main Street, Chico, CA 95927. The City reserves the right to reject all proposals at its sole discretion.

The City of Chico currently has excess office space that is not needed for current municipal operations, but it is expected the space will be needed in the future. The City desires to lease the space to a suitable use that will generate lease revenue and provide a financial benefit to the City of Chico. The space that is currently available consists of:

Old Municipal Building: At total of approximately 3,040 square feet of net leaseable area, 2,320 square feet on the 1st floor and 720 square feet on the 2nd floor. Lease agreement would include use of conference rooms on a shared use basis with the City of Chico, with the City having priority use privilege. The Police Department Downtown Substation would remain in place.

Chico Municipal Center: A total of 3,900 square feet of net leaseable area on the south side of the 1st floor.

Proposals should, at a minimum, include the following:

1. Organization(s) that would occupy the leased space.
2. Qualifications/experience (provide a brief history or summary of your organization(s)).
3. Identify which space(s) your organization proposes to lease.
4. Describe intended use.
5. Identify anticipated lease rate and other salient lease terms.
6. Estimate the date needed for occupancy.

Interested parties may obtain floor plans for the available space from the office of the City Manager, 411 Main Street, 3rd Floor, Chico, CA. Arrangements can be made to inspect the space by contacting Annalisa Dillard at (530) 896-7212.

TO: Dave Burkland

FROM: Chico City Council

SUBJECT: Open letter from the Chico City Council outlining our financial priorities in these tough economic times.

Dave,

As you proceed with the tasks of managing Chico's finances through this difficult economy the Council deemed it appropriate to communicate to you our priorities so that you may better understand what we collectively feel is important to the health and well being of our city governance and to the entire Chico community.

PRIORITY ONE: Ensure Chico is financially prepared against potential future insolvency by beginning to restore the Operational and Emergency Reserves to their safe and proper levels.

PRIORITY TWO: Ensure city services are restored to the levels our citizens have come to expect from Chico's city government by restoring city staffing to their proper levels.

PRIORITY THREE: Within the constraints of the current local economic climate and with consideration for priorities One and Two above, address and negotiate city employee compensation levels fairly and appropriately.