



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 1/28/2025

To: Board of Supervisors

Department or Agency Name(s): Sonoma County Public Infrastructure

Staff Name and Phone Number: Johannes J. Hoevertsz, 707-565-2550

Vote Requirement: 4/5th

Supervisory District(s): Countywide

Title:

Acquisition and Financing of Real Property at 3850 and 3880 Brickway Boulevard, Santa Rosa

Recommended Action:

- A) Authorize the Clerk of the Board to publish a Notice of Intent to Purchase real property located 3850 and 3880 Brickway Boulevard, Santa Rosa, California (Assessor's Parcel Nos. 059-360-008 and 059-360-007).
- B) Authorize the Director of Public Infrastructure to execute a contingent Purchase and Sale Agreement for acquisition of the subject real property, for a purchase price not to exceed \$32,000,000, as well as to take all actions and execute all agreements and instruments to facilitate the contemplated acquisition, including agreements for due diligence services, escrow instructions, and related transactional documents, in form approved by County Counsel.
- C) Direct Staff to initiate the process for issuance of a Certificate of Participation via Public Sale for public hearing, and delegate authority to:
 - i) The Auditor-Controller-Treasurer-Tax Collector to negotiate and execute an agreement with KNN Public Finance, LLC, for municipal advisory services in an amount not to exceed \$120,000, in form approved by County Counsel;
 - ii) The Auditor-Controller-Treasurer-Tax Collector to negotiate and execute agreements with specialized debt issuance and public sale services providers as required for the Certificate of Participation financing, in form approved by County Counsel and subject to availability of funding therefor; and
 - iii) County Counsel to award, negotiate, and execute special bond counsel legal services with Jones Hall, APLC, in an amount not to exceed \$70,000. (4/5ths vote)
- D) Adopt a Budget Resolution approving adjustments to the FY 24-25 Budget in the amount of \$852,400 in the County Center Modernization Fund for the acquisition due diligence costs and earnest deposit.
(4/5th Vote Required)

Executive Summary:

This item seeks Board authorization to proceed with steps to potentially acquire the commercial office property located at 3850 and 3880 Brickway Boulevard, Santa Rosa ("Property"), including approval to execute a contingent property purchase agreement with owner NGCRE INVESTMENT V, LLC, a Delaware limited liability company (Seller), for a purchase price of \$32,000,000, and approve a financing plan to fund the purchase price and related costs. The purchase agreement is contingent on successful completion of due diligence investigations, among other things.

The purchase of these buildings will facilitate relocation of departments currently housed in aging and inadequate facilities and/or rented facilities.

Government Code Section 25350:

- **Approval Requirement:** Before a county or other local government entity can publish a notice of intention to purchase real property, the governing body (e.g., Board of Supervisors or City Council) must approve the action in a public meeting.
- **Public Notice:** The governing body must also ensure that a notice of intention to purchase is published in a newspaper of general circulation within the jurisdiction.

Reasons for the Regulation:

1. **Transparency:** This regulation ensures that the public is informed about potential government real estate transactions, allowing citizens to be aware of how public funds are being spent.
2. **Accountability:** Requiring governing body approval helps prevent unilateral decisions by individuals or small groups within the government, fostering oversight and deliberation.
3. **Public Participation:** By publishing a notice and holding discussions in public meetings, residents have an opportunity to provide input or voice concerns about the transaction.
4. **Fairness and Competition:** The process discourages under-the-table deals or favoritism by requiring clear and public procedures for real estate transactions.

Discussion:

The Property consists of two legal parcels improved with a two-story, concrete tilt-up commercial building approximately 63,720 square feet in size at 3850 Brickway Boulevard, Santa Rosa, California, containing 4.05 acres, and identified as Assessor's Parcel No. 059-360-008; and 3880 Brickway Boulevard, Santa Rosa, California, containing 3.71 acres, improved with a two-story, concrete tilt-up commercial building approximately 62,865 square feet in size and identified as Assessor's Parcel No. 059-360-007. The buildings together total 126,585 square feet, which would potentially accommodate up to 525 employees and related County facility needs and provide a total of 492 surface parking spaces.

The Property, with its current 492 parking spaces, is considered to have sufficient parking for its current use (office and research/industrial) per planning and zoning standards. Many PRMD staff, for example, work remotely; so the demand for daily parking is expected to be significantly reduced due to teleworking. Further, the SMART train station is a mere 10-minute walk, and a portion of the workforce could be expected to take public transit. If parking were ultimately found to be insufficient for staff and visitors, the parking lots could be assessed for restriping to create more compact vehicle spaces. As a last resort, the County could seek permission

from adjacent building users for parking use at a fee, public parking along Brickway could also be assessed and the addition of marked spaces may be feasible or consider acquiring adjacent land for a fee.

The buildings were constructed in 2001 and are of higher-quality concrete tilt-up construction with steel decking. The buildings contain approximately 90,000 square feet of office space and approximately 36,000 square feet of lab/research space which could be used by a variety of County departments, although the space would require tenant improvements depending on the specific County use. The relatively open space in the buildings could be utilized for Registrar of Voters needs that are not adequately met in their current location. The property has permitted uses of office, manufacturing and research and development and is approximately one mile from Highway 101 and in walking distance from the Santa Rosa Airport operations. The Property is located on the Airport Boulevard corridor and situated close to the 400 Aviation Boulevard Property recently leased by the County along with other facilities in the airport area like the Airport SMART station.

The Property features:

1. Secure campus setting within Airport Business Center;
2. Institutional - quality construction;
3. Concrete tilt-up with steel decking;
4. Energy efficient building systems (mechanical and controls);
5. Each building features 2,000-amp power supply, 480/277v, 3 phase electrical service; Two-stop Otis hydraulic elevator rated at 5,000 pounds in each building;
6. Raised floor system houses HVAC, electrical, data and communication systems allowing simple and efficient reconfiguration of space;
7. Many open office workstation areas on all floors of both buildings, prime for reconfiguration for modern departmental use; Three of the four floors have conference rooms and built out offices which will require minimal adjustment for use; large welcoming lobby; large built out kitchen;
8. Key card access security system, motion sensors and surveillance cameras; and
9. Automatic fire sprinkler systems.

Long-Term Need for New Premises for Multiple Departments

On July 23, 2024, the Board supported the approach of seeking opportunities to acquire existing buildings, with a goal of reducing future development costs and to provide greater certainty for securing new premises for existing County needs. The County now leases and may purchase other office space in the Airport Business Park area. Procuring existing office and operational facilities is currently both cheaper than constructing new facilities and serves to reduce the scale, footprint, and complexity of future plans for a County Government Center (CGC) project.

Acquisition of the Property will allow the County to consolidate departments in replacement premises in advance of planned demolition of multiple existing buildings on main county campus to connection with development of a new CGC.

Acquisition of the Property will avoid continued deferred maintenance expenses at the existing county administration buildings and avoid the expenses and time delay of building new space for said departments.

Several county programs require more space and most main campus buildings have significant maintenance needs which are planning to be replaced as part of the new CGC project.

Advantages to Acquisition of the Property:

- Reduced operational costs from energy-efficient systems and new construction.
- Avoidance of construction delays and risks that come with building a new property.
- Flexibility and control over the use of the building, allowing the County to adapt space to meet its needs without the limitations of leasing.
- Proximity to other County agencies located in the Airport office district.
- Operational efficiencies and synergies between multiple departments that will operate from the Property including PRMD, ACTTC and CRA/ROV, through more well-designed adjacent office spaces.
- Long-term investment value in owning a unique, high-quality asset in a desirable location.

Developing a new building of similar quality and specifications in Sonoma County at current prices would cost over \$63 million excluding land acquisition, design, permitting, office furniture, and equipment. The proposed purchase price of \$32 million, even when including expected tenant improvements of \$15 million, represents a significant discount relative to these costs, offering the County substantial savings while obtaining a high-quality, energy-efficient building that meets its needs. SPI supports acquisition of the Property at \$32 million based on an analysis of the replacement cost, lack of comparable Class-A owner/user sales, and the strategic benefits of ownership. The replacement cost approach confirms that the purchase price represents a substantial discount compared to new construction costs, aligning with the County's needs as an owner-user and providing a stable, high-quality asset that mitigates future risks.

County Government Center Impacts

In the event the Property is purchased, the new County Government Center potentially could be reduced from a five-story structure to a three-story structure. County has obtained an outside MAI (Member, Appraisal Institute) appraisal of the Property. The appraisal, which was peer reviewed, supports payment of the \$32 Million purchase price.

Should your Board determine not to acquire the Property, the plan would be to eventually accommodate the subject county departments in a larger, new County Government Center. In order to address deficiencies noted in a report by the Civil Grand Jury, the ROV would require leased space until new space can be built.

Acquisition of the Property provides the County with the opportunity to ensure continuity of service and eliminates much of the uncertainty about the planning, timing, and cost of a county government center that would otherwise need to be larger. By alleviating the need for so much space at a new county government center, more options become available for future plans and uses of the main county campus, which may potentially include housing. The size of the Property and its location in near the Airport, with associated parking and convenient access to public transit, specifically SMART, provides the County a reliable option for programming needed services with confidence in the long-term availability of space.

Proposed Purchase Agreement Terms.

In November 2023, the Brickway Property was listed for sale.

In early 2024, the County retained a commercial real estate broker to assist with identifying and negotiating potential office space opportunities in the area. Prior to that, searches on commercial listing platforms for then-existing commercial property listings and opportunities revealed no adequate contiguous space was on the market (other than property in the Airport area already being pursued by the County). The broker identified the Brickway Property and informed the County about it in March 2024 as a potential opportunity for meeting County facility needs.

A nonbinding letter of intent was signed with the Seller on September 20, 2024, offering \$32,000,000 as a purchase price, to be followed by a Purchase and Sale Agreement (PSA). The PSA provides:

Purchase Price: \$32,000,000

Initial Deposit: \$350,000 (due within 7 days of execution of the PSA)

Additional Deposit: \$350,000 (within 7 days of removal of due diligence contingencies and Board of Supervisors final approval)

Conveyance:

1. Grant deed for fee title to the Property.
2. Seller to transfer title to any personal property, as well as intangible property such as service contracts, warranties, guaranties, etc.
3. Seller to deliver estoppel certificates from existing occupant(s).

County will have 90 days following execution of the PSA to complete due diligence including:

1. Review of Property reports and documents provided by Seller. County will hire engineering and other professionals for testing and inspections of the Property, including but not limited to its building condition assessments, environmental conditions, feasibility for development, marketability, entitlements, existing contracts affecting the Property, easements and encumbrances, governmental requirements, tentative map conditions, the availability of water and other utilities, and such other matters as County in its sole discretion may deem appropriate related to the Property. County will also review financial statements describing common area maintenance expenses, planned activities and reserves, all maps, plans, reports, permits (including, without limitation, use permits and building permits) to understand the full costs associated with owning property in a business park with common area maintenance expenses.
2. Obtain an American Land Title Association (ALTA) survey of the Property and satisfactory ALTA title report and title commitment for the Property prior to close of escrow.

Pending completion of due diligence and the Seller's potential correction of any condition(s) found during the due diligence and as requested by County, staff will report back to your Board in Spring 2025 on investigations to date.

Closing Conditions:

1. Satisfactory completion of due diligence, with a 30-day due diligence extension period upon a further deposit of \$100,0000 if required by County to address any outstanding concerns regarding the Property;
2. Representations and Warranties made by seller remain accurate and true as of the date of closing;

3. Review by the County that the acquisition and use of the Property is in conformance with the General Plan and CEQA;
4. Final approval and authorization to consummate the purchase by your Board, expected to occur in April 2025;
5. That there be no tenants in possession of the premises; and
6. County obtaining financing sufficient to pay the balance of the purchase price and financing issuance costs.

Costs and Funding. The total up-front acquisition-based costs of the Property is estimated \$ at \$32,662,400 as detailed above with the breakdown of due diligence costs described below:

Purchase Price (less deposit):		\$31,650,000
Deposit Due on Execution:	Earnest Money Deposit	\$350,000
Due Diligence Expenses: (inspections, survey, appraisal, etc.)		\$266,000
Closing costs:	Escrow Fees	\$5,000
	ALTA Extended owners title policy	\$15,000
	Estimated Other Closing Costs	\$1,000
	Real Property Taxes Due at Closing**	\$25,400
TOTAL COST UP FRONT ACQUISITION COSTS		\$662,400
TOTAL INCLUSIVE PURCHASE PRICE		\$32,662,400

*Costs include review by Property Condition Assessments, with structural and electrical/HVAC assessments, Phase I Environmental Assessment, Accessibility inspection and SPI FDM review and analysis of reports.

**SPI staff to work with Assessors office to work to cancel taxes upon closing and seek refund commensurate with period of County ownership.

Funding. Staff proposes to fund the purchase price of \$32 million and tenant improvement costs of \$15 million through an issuance of certificates of participation (“COPs”) for a total amount of \$47 million funded by COPs.

Financing alternatives were presented to the Debt Advisory Committee (DAC) on November 15, 2024. The DAC endorsed financing through a Certificate of Participation (COP) via public sale coordinated through the County's

Municipal Advisor, KNN Public Finance, LLC. Scenarios reviewed by the DAC included 20, 25 and 30-year terms (maturities) using both the current indicative market rates, as well as with a 0.25% cushion in the rate. The True Interest Cost (TIC) for when a COP would be issued in April-June 2025 cannot be predicted, although using current market indications as of January 16, 2025, for “AA” rated COPs with a 10-year optional call (early redemption), the rates ranged from 3.96% (20-year term) to 4.37% (30-year term). The DAC recommended an issuance for a 20-year term.

At the current COP rate of 3.96% and with a cushion applied, assuming the recommended 20-year term, the total cost of COP financing is expected to be between approximately \$69-71 million, with average annual payments of approximately \$3.4-3.5 million. Staff is recommending assigning the debt service from the annual general fund contribution to the County Modernization fund.

A COP uses a tax-exempt lease structure to finance public infrastructure. If this funding mechanism is approved, a county-owned facility(ies) would need to be identified and encumbered as an asset, effectively serving as collateral for the COP. Staff will work with the ACTTC to identify properties with sufficient value to serve as collateral for the COP. Given the County’s current portfolio of buildings and the size of the transaction, staff anticipates that a handful of existing County buildings may need to be pledged. The COP would allow for asset substitution, if needed, such that the buildings initially pledged into the financing transaction could be substituted as other collateral becomes available. It is also anticipated that the County will have the option to redeem (pay-off early) the COPs after 10 years, at no penalty.

Due to the highly specialized nature and timing requirements of COP financings, the County Counsel has determined the County has neither the capacity nor the expertise to provide the legal services needed for the recommended project financing plan. Therefore, the services of outside legal counsel are needed.

The cost of issuance of COPs, including bond and disclosure counsel, municipal advisory, credit rating, title insurance, trustee and other costs of issuance, are estimated to be approximately \$320,000, which is expected to be paid using COP proceeds. In addition, county staff costs to handle the COPs process are estimated to be approximately \$25,000.

Operating Expenses. Sellers provided a summary of monthly operating expenses from 2023 and 2024, including insurance, HVAC maintenance, landscaping, janitorial, and refuse collection. Staff used that information as a guide to obtain estimates from Risk Management and Facility Operations to estimate operating expenses for the initial year in the Property, as follows. These expenses will need to be funded through recurring operational appropriations or allocated to departments occupying the Property.

Other recurring operational expenses estimated on annual basis are:

Real Property Insurance Costs (Casualty/Earthquake)	\$241,600
Common Area Maintenance	\$110,000
Common Area Assessments	\$ 20,000

The County would also need to pay regular, recurring sanitation/sewer assessment charges (approximately \$32,800/year). Also, there will be personal property contents insurance cost upon occupancy of \$1,600 per year.

Annual operating costs with be funded by annual appropriations and or allocated to occupying departments.

As a likely condition of COP financing, the County will be required to maintain fire and extended coverage insurance on the County assets used as the COP asset collateral. This requirement likely should be satisfied by existing asset coverages. Also, COP financing may require the County maintain an annual “rental interruption” policy covering repayment amounts due over the subsequent two repayment years. Premiums for this policy are estimated to be around \$5,000 annually, and subject to annual inflationary increases. Property expenses for general building and parking lot maintenance and repair are estimated to be \$100,000/annually. When this item returns to your Board for final approval, staff will present further refined estimates to your board for services specific to anticipated County use, including maintenance, janitorial and utilities costs to operate the Property, as well as moving expenses.

Loss of Property Tax Revenue. Acquisition of the Property will result in the removal of the tax base from the secured tax roll, which would result in an approximate decrease of \$81,000 per year in property tax revenue received by the County.

General Plan and C.E.Q.A: In accordance with Government Code 65402, the acquisition of the Property by County was submitted for review to County Permit & Resource Management (PRMD) for review as to conformance with the County’s existing General Plan. PRMD has concluded that the proposed acquisition and use would be consistent and in conformity with the General Plan 2020 and the County’s zoning goals. Environmental review also indicates that, since the Property contains existing facilities and will continue to be used professional office -type uses, consistent with how the property has been historically used and operated, with no or negligible expansion of use or any other improvements, the proposed acquisition is categorically exempt under the California Environmental Quality Act (CEQA), including but not limited pursuant to 14 CCR 15301 (existing facility). Should any further environmental analysis be warranted as due diligence for escrow proceeds, further report and any required actions will be brought at the later Board hearing to consider whether to consummate the proposed acquisition.

Procedural Authority: Government Code Section 25350 requires the Board to publish a notice of its intention to purchase property valued at more than \$50,000 for three (3) successive weeks before consummation of the purchase. If your Board takes the requested actions, this matter is scheduled to return to the Board in March or April of 2025, for a report from staff regarding the status and cost of issuance of the COPs to pay the purchase price and tenant improvements, the findings from the due diligence investigations, and consideration for final approval and consummation of the proposed acquisition in accordance with the Government Code.

Strategic Plan:

This item directly supports the County’s Five-year Strategic Plan and is aligned with the following pillar, goal, and objective.

Pillar: Resilient Infrastructure

Goal: Goal 1: Invest in County buildings and technology to enhance service delivery and improve employee mobility

Objective: Establish resilient neighborhood/regional and satellite service centers with access to transportation systems in North County, as expressed in the Real Estate Master Plan, by 2023 in order to improve equitable public access to services.

Prior Board Actions:

July 23, 2024 – Approved minutes reflect that the Director was authorized to pursue opportunistic property acquisitions to secure county facilities for long term operations.

FISCAL SUMMARY

	FY 24-25 Adopted	FY25-26 Projected	FY 26-27 Projected
Expenditures			
Budgeted Expenses			
Additional Appropriation Requested	\$852,400		
Total Expenditures	\$852,400		
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance	\$852,400		
Contingencies			
Total Sources	\$852,400		

Narrative Explanation of Fiscal Impacts:

A new capital project has been established for the acquisition of 3850 & 3880 Brickway Blvd. and staff is requesting approval of a Budget Resolution enable the transfer funds from the County Center Modernization Fund to the Brickway Fund. If approved the Budget Resolution would increase FY 24-25 expenditure appropriations in the County Center Modernization Fund Transfers Out (23027-40803600-57012) and 3850 & 3880 Brickway Blvd Fund Construction in Progress (23057-40806600-54405) by \$852,400.

Expenses associated with the requested increase in appropriations includes \$312,400 for SPI staff to perform and/or pay for due diligence investigations (building condition assessment, ALTA survey, property appraisal, and review of documents provided by the Seller) and \$350,000 for an earnest money deposit. In addition, \$190,000 is being requested for contracts with KNN Public Finance, LLC, for municipal financing advisory services and with Jones Hall, APLC for special bond counsel legal services. KNN and Jones Hall will be acting on the County’s behalf in the public sale of Certificates of Participation (COP) which would finance the acquisition and improvement of the Brickway buildings.

After due diligence is completed, staff will return to the Board for final approval and consummation of the proposed acquisition. At that time, the County would undertake the final activities necessary to issue the COP’s

sufficient to pay the remaining balance of the purchase price and financing and advisory fees. County staff currently estimates issuing \$47 million of debt for acquisition and improvements to the Brickway buildings. Based on projected interest rates at the time of close annual debt service is estimated at \$3 - \$3.5 million (to the extent that the initial are excluded from the COP financing transaction, the related annual debt service could decrease slightly from the estimated amounts). The source of funds for the debt service would be redirected from the annual General Fund contribution going into the County Modernization fund.

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

Attachment 1 – Floor Plan of Building; Site Plan

Attachment 2 – Notice of Intent

Attachment 3 – Budget Resolution

Attachment 4 – Debt Issuance Overview Detail

Attachment 5 – Purchase and Sale Agreement

Attachment 6 – List of County Leased/Owned Properties Adjacent to Brickway

Attachment 7 – CGC Sites Searched by Real Estate

Related Items “On File” with the Clerk of the Board:

PRMD General Plan Consistency Determination