REPORT TO MAYOR AND COUNCIL **NO: 12-113**

Council Meeting: May 8, 2012

SUBJECT: Reject Proposals for the Long-Term Lease of Raynor Activity Center, and Approve a Resolution to Declare Raynor Activity Center Surplus Property

REPORT IN BRIEF

On December 16, 2012, in response to a Request for Proposals (RFP), the City received two proposals for the long-term lease of Raynor Activity Center. After due consideration, City Council is being asked to reject all proposals. Additionally, staff has prepared a Resolution Declaring Raynor Activity Center Property Surplus and Authorizing the Sale of the Property Pursuant to Government Code Section 54222 (Attachment A) for City Council approval. Approval of the Resolution will allow commencement of a public notification process as detailed further in the report.

The Raynor Activity Center is part of a larger 14.67 acre parcel that encompasses Raynor Park and the adjacent athletic fields. Only the Activity Center (former school buildings) would be offered for sale. As part of the sale process a parcel map will be created to define the precise boundaries of the parcel for sale. The park, athletic fields, and water well site located on the property will be retained under City ownership. Staff estimates that the Raynor Activity Center buildings, adjacent parking lots, and a buffer around the buildings is approximately 3.7 acres. Easements could also be created over a portion of the parking areas for public access to the park on weekends if desired.

The Raynor Activity Center site is currently zoned as Public Facility. This zoning district is reserved for governmental, public utility, educational buildings and other uses compatible with the public character of the district. For uses other than buildings and facilities used by governmental agencies, use permits are required. This allows the City to maintain considerable discretion over future uses of the property. Based on Council direction, Public Facility zoning would be retained and prospective purchasers of the property would be notified that commercial or residential developments would not be considered compatible uses on the site.

BACKGROUND

The City of Sunnyvale purchased the former Raynor Elementary School from the Santa Clara Unified School District in June of 1979 for $1,792,000 from the General Fund. Under the terms of the Agreement for Sale of Real Property

with the District, the City agreed to use the property solely for park, recreational, or open space purposes while owned by the City or for a period of 21 years. Those areas originally purchased from the District and currently used as open space by the City, will continue to be used in this capacity.

The Community Services Department presented Report to Council 08-238 in August 2008 that recommended sale of the property with the proceeds directed towards developing new open space in the City. City Council directed staff not to sell the property, but to look into lease options with a focus on cost-effectiveness and serving the community while also exploring use of the Center as a branch Library. Initial priority was given to a Library branch option and staff presented a Report to Council on December 9, 2008 (RTC 08-349). Council decided not to pursue the construction of a branch Library at that time.

In early 2009, staff determined it would be prudent to await the results of the City's Parks of the Future Study before determining a long term use for the Raynor Center so that any decision would be consistent with the results of the Study. At its July 14, 2009 meeting, Council considered the completed Parks of the Future Study (RTC 09-183). Raynor Center was not identified in the Study as needed for future open space needs in the City.

On June 29, 2010, City Council declared Raynor Activity Center available for long-term lease and instructed staff to begin a public notification process to affordable housing, park and open space, school, and other public agencies as defined by State law (RTC 10-164). At the end of the 60 day notice period, no public agencies had submitted a proposal. On January 25, 2011, City Council approved a list of community uses to consider as potential tenants of Raynor Activity Center (RTC 11-008).

On May 10, 2011, staff recommended a change in the process of obtaining a long-term lease for Raynor Activity Center from a Request for Proposals to a Bid Process (RTC 11-091). After discussion, City Council directed staff to develop a Request for Proposals document and to return to Council for approval. On October 4, 2011, Council approved a Request for Proposals for a long-term lease for the Raynor Activity Center (RTC 11-223).

On December 16, 2011, the City received two proposals: one from the German International School of Silicon Valley; and, the other from AppleSeed Montessori Incorporated. On February 28, 2012, and again on April 3, 2012, the City Council considered the specific lease terms offered in the two proposals. After due consideration, the City Council directed staff to prepare for its consideration an action to reject all proposals and sell the land rather than lease on a long-term basis. Both parties submitting lease proposals have

expressed an interest in purchasing the property if it were offered for sale by the City.

EXISTING POLICY

Fiscal Policy 7.1 *Land Policies* D.1.9
The net proceeds from the disposition of surplus City property owned by the General Fund shall be placed into the General Fund Reserve for Capital Improvements.

General Plan Chapter 4 Community Character
Goal CC-4 *Accessible and Attractive Public Facilities* - Provide public facilities which are accessible, attractive and add to the enjoyment of the physical environmental.

DISCUSSION

The Raynor Activity Center buildings are currently leased to several tenants and two of the buildings are used by the City's Facility Maintenance Division to store surplus office furniture. Although the City has maintained the Center in a usable condition for its tenants, it has done virtually no building improvements since it acquired the property in 1979. Modernization or replacement of the buildings is sorely needed at this point, which would require a multi-million dollar investment by the City. Continuing to lease the property in its current condition is not considered a viable alternative.

Although the City received two proposals for long-term leases of Raynor Activity Center, because of the poor condition of the existing buildings, prospective tenants faced significant renovation costs. This eroded potential rental income to the City resulting in a reconsideration of the alternative previously considered to sell the Activity Center portion of the property. Although potential buyers of the property face similar renovation or replacement costs, owning the property allows them to retain the value of their investments, which should result in greater interest in the property.

The City of Sunnyvale currently owns and maintains 87 buildings. Periodic renovation or replacement of the City's building stock is an ongoing need that has not been fully funded in the City's long-term financial plan. Proceeds from the sale of Raynor should be used to reinvest in improvements to other City buildings. A specific need at this time is addressing aging buildings at the Civic Center. Staff recommends that revenues from the sale of Raynor Activity Center be placed in the Capital Improvements Project Reserve of the General Fund to be used for major renovation or replacement of City buildings, including those at the Civic Center such as the Library, City Hall or Public Safety Building.

Property Sale Process

In order to sell Raynor Activity Center, a public notification process is first required to offer the property to affordable housing sponsors, park districts and school districts for 60 days before offering the property for sale to other interested parties. If an offeree responds, then the City is required to enter into good-faith negotiations of not less than 60 days concerning mutually satisfactory price and terms of the sale. The City is not required to accept below market offers, but it may do so if the project advances the City's goals. The City Council would retain final decision making authority regarding whether or not to sell the property to a public agency or affordable housing provider. The Council can use its discretion to establish acceptable terms of the sale including the intended use of the property. If the parties reach impasse, the City may then offer the property for sale to other interested parties.

Approval of the Resolution Declaring Raynor Activity Center Property Surplus and Authorizing the Sale of the Property will allow commencement of a public notification process. After complying with the Surplus Land Law as described above, if no public agency submits a letter of interest, then staff will offer the property for sale and solicit proposals for the purchase of Raynor Activity Center on the open market. The services of a real estate professional will be retained through a request for proposal process to assist the City with marketing and property transfer. An appraisal of the property will also be secured prior to sale to guide decision making.

The Raynor Activity Center is currently part of a larger 14.67 acre parcel that includes Raynor Park, athletic fields, and a water well operated by the City. Only the Activity Center (former school buildings) will be offered for sale. A precise boundary of the parcel for sale will need to be created via a parcel map. Staff estimates that the Activity Center, adjacent parking areas, and a buffer around the buildings would be approximately 3.7 acres of the site. In the process of creating a parcel map easements can be established to retain use of the parking areas for park uses on the weekends if desired. Attachment B is an aerial photo of Raynor Activity Center and Park that shows the approximate boundaries of the property for sale.

Public property for sale is frequently sold to the highest bidder through a public auction process. Assuming no public agencies are interested in the property, the City will retain the service of a real estate professional to market the property and assist with the auction. Staff estimates this process will take four to six months. Once a successful bidder is identified a due diligence period would begin to allow the prospective buyer to conduct additional site investigations, obtain financing, and secure City use permits for the desired use. This along with finalizing the terms of a sales contract will take another six to eight months. An estimated date for transferring the property is summer of 2013.

Future Use of the Site

The existing zoning of Raynor Park and Activity Center is Public Facility. Council direction has been to keep this zoning designation in place for the parcel that will be offered for sale. At past meetings, neighbors to the property had expressed concern over allowing additional housing and preferred either additional open space or educational or recreational uses. Keeping the Public Facility zoning in effect will give the City considerable control over future use of the property, even after it is sold. Potential purchasers of the site could be notified that commercial or residential developments are not uses allowable by right within the Public Facility zoning at the Raynor site and do not meet the goals of the City as determined by City Council.

The Public Facility Zoning District is reserved for governmental, public utility, educational buildings and other uses compatible with the public character of the district. For uses other than buildings and facilities used by governmental agencies, use permits are required. The City has discretion to grant or deny use permit applications based on the desirability of uses within the district. The City's use permit process also requires notifications to adjacent property owners and a public hearing that would allow neighbors to give input before any decisions are made.

Current Tenants of Raynor Activity Center

There are several groups currently using the Raynor Activity Center. The largest tenant, My Dream Academy (a private preschool) and the four artist suites currently have lease agreements with the City that will expire on June 30, 2012. The City has offered month-to-month leases through September 30, 2012. Should the City Council declare Raynor as surplus property for sale, staff recommends that existing tenants be offered a one year lease extension through June 2013 at current rental rates.

FISCAL IMPACT

Leases currently generate approximately $140,000 in annual income for the City. However, because of the ongoing uncertainty surrounding the future of the Raynor Activity Center, these revenues were only budgeted one year at a time, as opposed to annually throughout the 20-year plan. Maintenance costs at the Center have averaged approximately $60,000 per year for the last several years. Although the Center currently results in positive cash flow to the City, the condition of the buildings is poor and major upgrades would be required to continue leasing the facility.

Capital Improvement Project 829210 was created in Fiscal Year 2010-2011 in the amount of $100,000 to cover various City expenses associated with the long-term lease of Raynor. At present an unspent balance of approximately $79,000 remains available in the project. These funds are more than sufficient

to pay for appraisals and engineering services to create a parcel map. Additional funds may be needed in the future to pay for marketing and real estate transaction expenses.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's Web site.

A seven day advance notice of tonight's meeting was given to the two respondents to the request for proposals, as well as, tenants at Raynor Activity Center and individuals and groups that have expressed interest in developments at the Center.

ALTERNATIVES

1. Reject all proposals for the long-term lease of Raynor Activity.
2. Approve a resolution declaring Raynor Activity Center surplus and available for sale and direct staff to initiate the public agency notification process.
3. Direct staff to notify prospective purchasers of Raynor Activity Center that commercial or residential developments are not uses allowable by right within the Public Facility zoning at the Raynor site and do not meet the goals of the City as determined by City Council.
4. Direct staff to offer current tenants of the site one year lease extensions until June 2013 at existing rental rates.
5. Direct staff to place proceeds from the sale of Raynor Activity Center into an infrastructure reserve fund to be used specifically for the major renovation or replacement of buildings at the Civic Center including the Library, City Hall, or Public Safety Building.
6. Do not reject lease proposals and reconsider entering negotiations with one of the current long-term lease proposers.

RECOMMENDATION

Staff recommends approval of Alternative Nos. 1, 2, 3, 4 and 5 – Reject all proposals for the long-term lease of Raynor Activity Center; approve a resolution declaring Raynor Activity Center surplus and available for sale and direct staff to initiate the public agency notification process; direct staff to notify prospective purchasers of Raynor Activity Center that commercial or residential developments are not uses allowable by right within the Public

Facility zoning at the Raynor site and do not meet the goals of the City as determined by City Council; direct staff to offer current tenants of the site one year lease extensions until June 2013 at existing rental rates; and, direct staff to place proceeds from the sale of Raynor Activity Center into an infrastructure reserve fund to be used specifically for the major renovation or replacement of buildings at the Civic Center including the Library, City Hall, or Public Safety Building.

Sale of this property will allow similar uses to those being proposed, under private ownership, while relieving the City of its responsibilities as a landlord. The proceeds of the sale will be used to fund investments in major facility upgrades or replacements of aging City buildings at the Civic Center.

Reviewed by:

_____
Kent Steffens, Public Works Director
Prepared by: Kent Steffens

Reviewed by:

_____
Grace Leung, Director of Finance

Approved by:

_____
Gary M. Luebbers
City Manager

Attachments

A. Council Resolution Declaring Raynor Activity Center Property Surplus and Authorizing the Sale of the Property Pursuant to Government Code Section 54222
B. Raynor Activity Center – Approximate Boundaries of Property for Sale

ATTACHMENT A

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SUNNYVALE DECLARING RAYNOR ACTIVITY CENTER PROPERTY SURPLUS AND AVAILABLE FOR SALE PURSUANT TO GOVERNMENT CODE §54222, *et seq.*

WHEREAS, the City of Sunnyvale owns that certain real property commonly known as Raynor Activity Center, located at 1500 Partridge Avenue, Sunnyvale, CA; and

WHEREAS, the Raynor Activity Center property is no longer needed for public purposes and available for sale; and

WHEREAS, staff has recommended that the Raynor Activity Center be offered for sale for a period of sixty (60) days to affordable housing sponsors, park districts and public school districts pursuant to Government Code §54222, *et seq.*

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SUNNYVALE THAT:

1. The real property commonly known as the Raynor Activity Center, located at 1500 Partridge Avenue, Sunnyvale, CA, is no longer required for City use and is hereby declared not necessary for the City's needs; and

2. Staff is authorized to offer the Raynor Activity Center property for sale for a period of sixty (60) days to affordable housing sponsors, park districts and public school districts pursuant to Government Code §54222, *et se*; and

3. The City Manager or his designee is authorized to negotiate in good faith for the 60-day statutory period on price and terms for purchase of the site. If no offer is received, or no sale price and terms are mutually agreed upon, the City may then offer the property for sale in the open market.

4. This Resolution shall take effect immediately upon its adoption.

Adopted by the City Council at a regular meeting held on _____, 2012, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST: APPROVED:

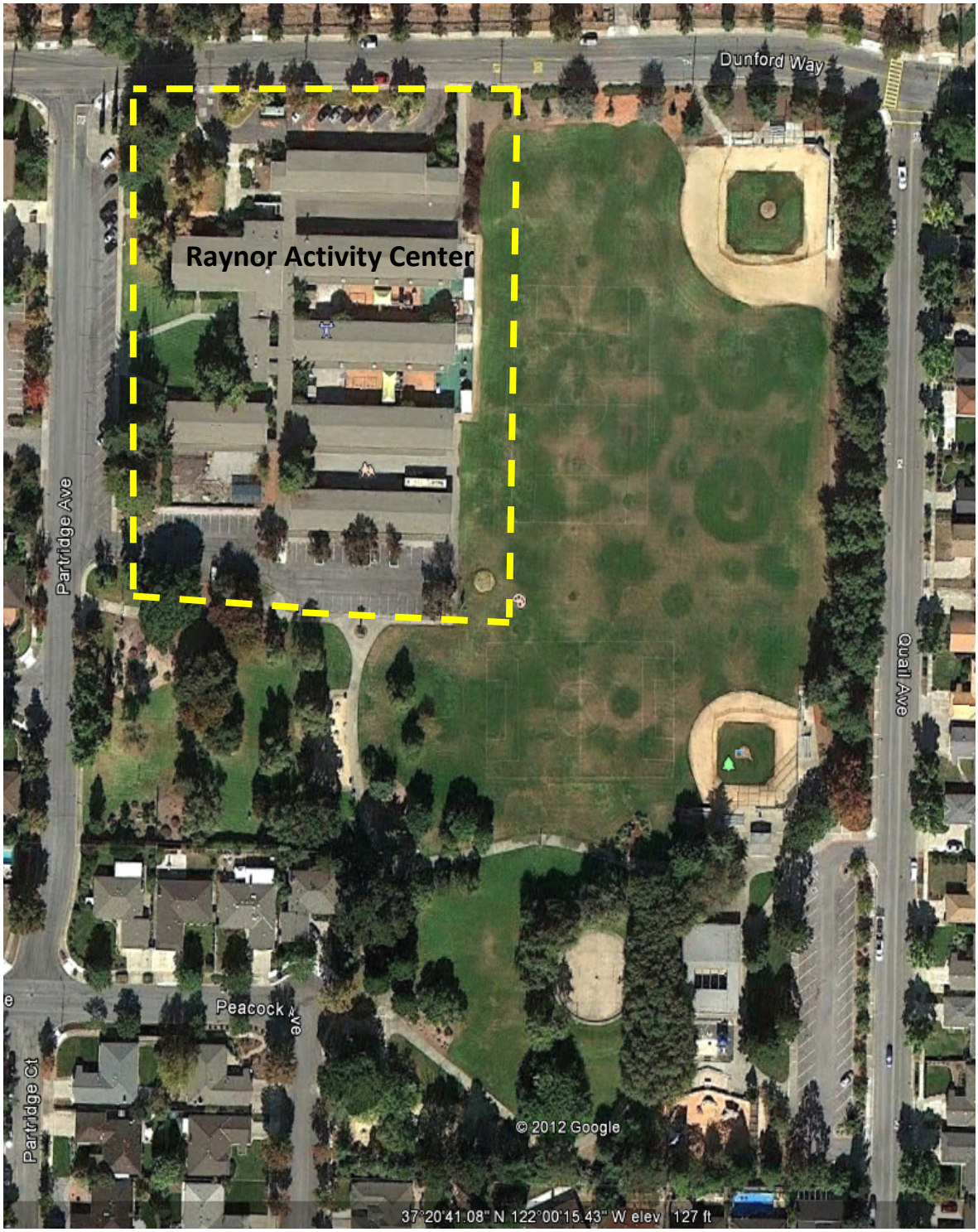
_____ _____

City Clerk Mayor
(SEAL)

APPROVED AS TO FORM AND LEGALITY: _____

David E. Kahn, City Attorney

Attachment B

Raynor Activity Center - Approximate Boundaries of Property for Sale

Raynor Activity Center	3.7 acres
Raynor Park	11.0 acres
Total Property	14.7 acres