



SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



7

October 1, 1991

City of Sacramento
Transportation and Community
Development Committee

Honorable Members in Session:

SUBJECT: State Office Impact in Downtown Sacramento

SUMMARY

This report assesses the impacts of various state office space development scenarios on redevelopment activities in downtown Sacramento. Suggested policies and related actions to minimize adverse impacts associated with state actions in this area are also presented. They are:

1. Insist on a comprehensive planning process as a precondition for any state projects involving ownership of office buildings outside Capitol Area Plan boundaries;
2. Encourage the state to revise the Capitol Area Plan to allow higher commercial/office densities;
3. Prohibit the sale of properties developed through the redevelopment process to governmental entities; and
4. Seek legislation requiring the state to compensate for lost property taxes on state-owned properties.

These suggestions are presented for discussion purposes only.

STAFF RECOMMENDATION

Receive and file this report.

BACKGROUND

This report presents an analysis of the impacts of various state office space development scenarios on redevelopment plans for downtown Sacramento. For purposes of comparison, staff has utilized the four alternatives outlined in a draft interim paper entitled "Supplying the Demand for State Office Space in Sacramento" prepared by the State Department of General Services, Office of Project Development and Management. It is important to

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Two

emphasize that this paper is not a policy document nor does it express a preference for a particular course of action. Rather it presents a realistic and balanced comparison between the four generic courses of action available to the state in meeting its office space needs. They are:

Alternative 1. Continue leasing space: Under this alternative state owned land near the capitol would be developed to the densities currently authorized in the Capitol Area Plan. The balance of state office space needs would be met through leasing privately owned space, primarily in the downtown area.

Alternative 2. Increase Capitol Area Plan Density: This alternative involves a major shift from leasing to state ownership in the downtown area. All state owned office space would be developed on state owned land within current Capitol Area Plan boundaries. The plan would have to be revised to allow these higher densities.

Alternative 3. Purchase and/or develop state owned land within Central Sacramento, but outside Capitol Area Plan boundaries: This plan also involves a major shift to state ownership downtown. However, unlike alternative 2, the bulk of state owned office space would be located outside Capitol Area Plan boundaries. Structures would either be constructed by the state or purchased from the private sector.

Alternative 4. House Executive offices in the Capitol Area, Develop State-owned satellite Offices in the Metropolitan Area: This alternative involves a major shift in state office location away from downtown to outlying areas, including current DMV/CHP and Franchise Tax Board locations plus other sites to be purchased. Office space development downtown would be limited to that currently authorized under the Capital Area Plan. State leasing in the downtown area would be virtually eliminated.

A more complete description of these alternatives is contained in Attachment A to this report.

From the point of view of City redevelopment, two aspects of state office facilities planning decisions are important: location and tenure, that is whether state office space is state owned or

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
 Transportation and Community
 Development Committee
 October 1, 1991
 Page Three

leased. The following chart contrasts the four alternatives noted above with respect to these two key variables:

TABLE 1

COMPARISON OF ALTERNATIVE PLANS FOR EXPANSION OF
 STATE OFFICE SPACE IN SACRAMENTO
 (Quantities expressed in thousands of square feet)

ALT.	CENTRAL AREA			METROPOLITAN AREA		
	<u>OWNED</u>	<u>LEASED</u>	<u>TOTAL</u>	<u>OWNED</u>	<u>LEASED</u>	<u>TOTAL</u>
1	950	3,413	4,363	-0-	2,480	2,480
2	3,927	436	4,363	1,172	1,308	2,480
3	3,912	436	4,348	1,397	1,308	2,705
4	950	35	985	4,984	649	5,633

It is important to emphasize that the above totals represent only additions to the current 5.86 million net square foot (mnsf) inventory of existing and funded state owned office space in the Sacramento region. In addition to what it owns, the state also leases approximately 5.0 mnsf of office space in the Sacramento metropolitan area. Thus, total state office space utilization is approximately 11.0 mnsf. The alternatives summarized above would add approximately 1.7 mnsf to the current total plus transition various proportions of space which is currently being leased to state ownership.

An exact breakdown of state owned office space in the downtown area vs. the region generally was not available at this writing. However, based on gross square footage data provided by the state Department of General services, we estimate the approximate net state owned square footage in the downtown area to be at least 4.0 mnsf. Using this assumption, the distribution of total state office under the various alternatives would be as follows:

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
 Transportation and Community
 Development Committee
 October 1, 1991
 Page Four

TABLE 2

COMPARISON OF TOTAL STATE OFFICE SPACE AND
 LOCATION IN THE SACRAMENTO REGION
 UNDER VARIOUS DEVELOPMENT
 (Quantities expressed in thousands of square feet)

ALT.	CENTRAL AREA			METROPOLITAN AREA			<u>GRAND TOTAL</u>
	<u>OWNED</u>	<u>LEASED</u>	<u>SUB.TOT</u>	<u>OWNED</u>	<u>LEASED</u>	<u>SUB.TOT</u>	
1	4,950	3,413	8,363	1,860	2,480	4,340	12,703
2	7,927	436	8,363	3,032	1,308	4,340	12,703
3	7,912	436	8,348	3,257	1,308	4,565	12,913
4	4,950	35	4,985	6,844	649	7,493	12,478

The above alternatives would all add approximately 6.8 mnsf to the existing 5.86 mnsf state owned base; although the total is slightly higher for alternative 3, which involves relocation of the state printing plant, and slightly lower for alternative 4 which envisions a 225,000 square foot reduction in long term office demand due to home telecommuting. However, total state office space demand over the 8 to 20 year period envisioned by the interim paper will increase only about 15% from 11.0 mnsf to 12.7 mnsf as outlined above. It should be noted that the rate of increase anticipated in the interim paper, a maximum of about 200,000 nsf per year is substantially less than the historical state average of about 400,000 nsf per year since 1977. It is beyond the scope of this analysis to speculate about the validity of this lower growth estimate. However, if the estimate does prove to be low, chances are that any unforeseen office space demand will be accommodated by

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Five

increased state leasing which, as further explained below, is considered to be the least disruptive method from the City's point of view. Thus, the alternatives described in the interim paper are considered to represent the worst case scenario with respect to local government impacts.

This section summarizes major impacts of the development alternatives summarized in Table 1 above on redevelopment plans for downtown Sacramento.

ALTERNATIVE 1, CONTINUE LEASING:

This is by far the preferred alternative from a redevelopment point of view. By continuing to concentrate state activities in the capital area, this alternative would maximize the drawing power of state vis a vis other revenue generating land uses, such as hotels, restaurants, shopping, etc., which contribute so much to downtown vitality and livability. At the same time, the loss of property tax revenues due to state ownership would be minimized. The approximately 1.7 mnsf of additional office space required could easily be provided in the CBD, the R Street Corridor, or in the Southern Pacific Redevelopment Area.

Alternative 1 essentially represents continuation of the status quo. As attractive as this alternative may be to the City, it is not likely to materialize, due for one thing, to an absence of sites to accommodate the large structures which state planners envision. The typical building envisioned in the interim paper is 300,000 square feet, about the size of one of the Resources Building towers at the corner of 9th and N Streets. Large building size is important to the state because it would allow more flexibility to accommodate varying space needs of different agencies over time. Another significant drawback to the status quo alternative is its cost. According to the interim paper, the estimated 50-year cost of the other alternatives 2, 3 & 4 is nearly identical at \$3.3 billion, \$3.4 billion and \$3.1 billion respectively. The estimated cost of alternative 1, on the other hand, is \$4.2 billion, or 20% higher than the next highest alternative. Indications are that the state intends to move in the direction of increased property purchases. Most notably, AB 322 would authorize purchase of an existing office building in the R Street corridor. There is every reason to expect that this trend will continue.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Six

ALTERNATIVE 2, INCREASE CAPITOL AREA PLAN DENSITY:

If one accepts the premise that the state will in fact shift its emphasis from leasing to ownership of office space, this is by far the preferred alternative from a redevelopment point of view provided the impacts of more intensive office development on housing and other neighborhood values can be adequately mitigated. All the positive features of a downtown location alluded to above would be retained. While there would still be a substantial reduction in potential property tax and redevelopment tax increment revenue, as further discussed under alternative 3 below, the City would be in a much better position to compensate for this loss because the supply of taxable real estate would not be diminished.

Alternative 2 would result in a substantial slackening of office space demand in the core area, at least in the short run. According to the "Downtown Marketing Audit" recently prepared by the City Department of Planning and Development (Table 9), the state leased 2.6 mnsf of office space in the downtown area in 1988. Under alternative 2, all but 35,000 nsf would be relocated to within Capitol Area Plan boundaries. At current downtown absorption rates, which, according to table 6 of the "Downtown Marketing Audit" are approximately 500,000 nsf per year, it would take about seven years to fill the void created by the state's departure from the rental market; and this does not take into account the fact that the state is itself the major taker of office space in downtown Sacramento. It is impossible to predict with certainty how the private rental market would adjust to such a shift. And certainly the nature and timing of the adjustment would depend on many other factors such as regional economic and growth trends which cannot be accurately predicted. If the state did amend the Capital Area Plan to allow for higher density, it would be advisable to re-evaluate other plans for the downtown area to account for this change.

ALTERNATIVE 3, PURCHASE AND/OR DEVELOP STATE-OWNED LAND WITHIN CENTRAL SACRAMENTO, BUT OUTSIDE CAPITOL AREA PLAN BOUNDARIES:

While similar in its positive land use effects to alternatives 1 and 2 above, this alternative would have the greatest negative fiscal impact on the City because, in addition to the loss of property tax revenues associated with state ownership, it would also reduce the supply of scarce downtown real estate the tax

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Seven

revenues from which would otherwise offset this loss. Using alternative 1 as the base line, any or a combination of the other three alternatives would result in a net addition of approximately 3.0 mnsf of state owned office space in downtown Sacramento or, in the case of alternative 4, the region. Assuming a production cost of \$208 per square foot, the state estimate, this would amount to an annual property tax loss of about \$6.2 million per year in current dollars.

Alternative 3. envisions development of 1.8 mnsf on state owned land through the build out of the Capitol Area Plan, as in Alternative 1, plus construction of additional office space on the approximately 17 acre state printing plant site in the Richards Boulevard area. The printing plant itself would be relocated. The remaining 2.1 mnsf of state owned office space specified in the plan, or the equivalent of 7 Resources Building towers, would either be constructed by the state on newly acquired sites in the downtown area, or be purchased from the private sector.

Due to the proximity of City redevelopment areas to state properties and to the fact that the state is seeking to develop or acquire large buildings with at least 300,000 nsf of office space, a large proportion of state purchase activity is likely to occur in City redevelopment areas, or at least there is a high propensity for the state to attempt to locate there. This poses a very serious problem for redevelopment due to the loss of redevelopment tax increments that would result from state ownership. Annual tax increment revenues for downtown are currently in the neighborhood of \$15.0 million per year. If we assume that only half of the \$6.2 million annual property tax loss estimated above occurs in redevelopment areas, this would amount to a 20% annual loss of funds that would otherwise be used to revitalize the area. In addition to this direct loss, there would be an incalculable adverse effect on other property owners in a redevelopment area, particularly small property owners, whose cooperation is essential for the success of redevelopment. For example, retail and other commercial interests might be less likely to undertake investments areas if they believed that the future revenue stream for upgrading their market area would be reduced. Due to considerations such as these and also the fact that the desirability of sites in redevelopment areas is itself a product of the redevelopment process, eg. the provision

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Eight

of transit service, we believe it should be incumbent on the state to financially support redevelopment when it acquires property in redevelopment areas. This support could either take the form of the provision of parks or other public facilities called for in redevelopment plans or direct payments to local government in lieu of taxes, such as those made by the federal government in the case of public housing.

ALTERNATIVE 4. HOUSE EXECUTIVE OFFICES IN THE CAPITOL AREA, DEVELOP STATE-OWNED SATELLITE OFFICES IN THE METROPOLITAN AREA:

This alternative essentially involves the departure of the state from downtown Sacramento except for existing state owned offices and an additional 950,000 nsf to be developed within Capitol area Plan boundaries. The state's current 2.6 mnsf presence in the downtown office rental market would be virtually eliminated. To the extent that outlying state office locations function as magnets to attract other land uses, there would be a corresponding reduction in demand for such uses in the downtown area. Downtown's share of state office space would shift from 65%, as under alternatives 1 through 3 above, to 40%. In terms of long range impacts on regional plans and development patterns, this alternative can be thought of as a major strategic shift. Alternatives 1 through 3, on the other hand would merely be tactical maneuvers.

A shift to a remote location ownership strategy by the state would necessitate a reevaluation and possibly a readjustment of redevelopment plans and quite probably other City and County land use plans. It is impossible to foresee with any accuracy what the impacts of such a shift might be without knowing the specifics of state relocation plans, and in any event, doing so is far beyond the scope of this analysis. However the potential for significant adverse impacts, not only to downtown redevelopment, but to the City and region as a whole is great. Therefore, we should insist that the state take local planning and land use considerations into account in making its location decisions. Two avenues for doing this are environmental laws and air quality laws which, after all, apply to the state as much as anybody.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Nine

ENVIRONMENTAL REVIEW:

The proposed action does not constitute a project under CEQA per Guidelines Section 15378(b)(3), nor a federal undertaking under NEPA.

POLICY IMPLICATIONS:

This section suggests policies and related actions which the City could pursue in order to minimize the adverse impacts of state office location decisions. The suggestions proceed from the assumption that the state intends to deviate from its current office location plan represented by alternative 1 described above; that is, the build out of the Capitol Area Plan to currently authorized densities and the leasing of any additional required office space in the downtown area. They are presented here for discussion purposes only. Further study would be required prior to pursuing any of the alternatives mentioned.

1. Advanced planning essential: Any decision by the state to acquire, construct or otherwise assume ownership of office space in the Sacramento region beyond the boundaries of the Capitol Area Plan should be reached through a comprehensive public planning process involving at a minimum local government and community input, environmental review and mitigation of adverse economic and regional air quality impacts.

The following actions could be taken to implement this policy:

a. Seek legislation to make such a planning process a requirement for any projects involving state ownership of office space outside Capitol Area Plan Boundaries.

b. Determine if there is a legal basis for requiring environmental impact reports for projects involving the construction or purchase of office space by the state which would not be required if the same project were to be owned by the private sector. In other words, is the very fact of state ownership sufficient to trigger environmental review? There are at least two possible justifications for an affirmative answer to this question. First, the loss of property tax revenues could conceivably invalidate certain measures necessary to alleviate adverse impacts associated with a given project, for example the provision of planned public

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Ten

facilities in a redevelopment area. Secondly, a feasible alternative to location of state owned office space in the Sacramento region already exists; namely within Capitol Area Plan boundaries.

2. Increase Capitol Area Plan densities: The City could officially declare its support for increased office densities in the Capitol Area Plan and seek to have the state commit to updating the Plan. It should be noted that the current plan was adopted prior to completion of light rail in downtown Sacramento. Much has changed since then.

Actions to further this objective include the following:

a. Adopt a resolution of support for higher Capitol Area Plan densities.

b. Seek to obtain a state commitment to update the plan through informal and formal means.

3. Prohibit sale of redevelopment properties to the state: Consideration should be given to adding a condition to development and disposition agreements for redevelopment properties to the effect that such properties may not be sold to a governmental entity. This would eliminate the worst case situation associated with state ownership in redevelopment areas; namely the purchase of developed properties whose tax increments are pledged to the retirement of redevelopment bonds. Such a provision would be applicable only to future projects, however. Implementation may adversely effect private owners' willingness to participate in redevelopment and/or ability to obtain private financing.


4. Seek legislation requiring the state to compensate for lost property taxes on state-owned properties: This would constitute a major departure from the historic practice of categorical property tax exemption for governments. However there is precedent for impact payments, at least at the federal level. Two examples are payments in lieu of taxes for public housing developments and school impact payments for military bases. There would be a variety of means for tying fiscal impact payments to state property purchase decisions.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City of Sacramento
Transportation and Community
Development Committee
October 1, 1991
Page Eleven

They range from simply putting state properties on the tax roles at one extreme to project by project fiscal impact assessments at the other. The major obstacle to overcome would be establishing the principle of impact payments for state property purchases. Here the argument could be made that Sacramento represents a special case because it is the seat of state government.

Respectfully submitted by,


for JOHN E. MOLLOY
Executive Director

TRANSMITTAL APPROVED BY:

WALTER J. SLIPE

Contact Person: Kurt Findeisen 440-1313

P:\share\state.kdf

III LONG-TERM SPACE ALLOCATION ALTERNATIVES

The purpose of this section is to broadly define how and where state office space in the Sacramento region might be housed in the long term (8 to 20 years). The alternatives in this section are designed to highlight generic financing and location differences. The financing parameter will focus on the issue of state-owned vs leased office space, and the location parameter will focus on housing state offices in the Core, Central or Metropolitan areas (refer to Map 1).

A. Summary Description of Alternatives

Four generic alternatives are summarized here, with a more complete description provided later in the chapter. In the first alternative, the State completes the 1977 Capitol Area Plan's approved office space construction, and leases the remainder of space demand. The second alternative would centralize and consolidate office space in the Capitol Area through increasing the density and development of state-owned space there. The third alternative calls for purchasing and/or developing state-owned space outside the Capitol Area, but within the boundaries of the Core and Central planning areas. The fourth alternative would consolidate, but decentralize offices into state-owned space in the Metropolitan area.

The total long-term space demand of 6.8 million additional net square feet (beyond the existing and funded 5.86 mnsf) assumed for each option is an estimate, not a projection. The estimate is used only to allow the analysis to indicate the differences between development and financing methods, and not to identify the actual costs of any alternative. This long-term space demand estimate will be converted into a projection of space demand in the Ninth Supplement to the Sacramento Facilities Plan.

It should be noted that none of the alternatives presented is identified as a "preferred" alternative. As will be seen through the analysis, each has advantages and disadvantages peculiar to that alternative. A "preferred" alternative likely would be a combination of all four alternatives.

B. Factors Considered in Analyzing Alternatives

Factors considered in analyzing each alternative include the following:

1. Cost of Alternative

This is separated into two costs: one is the on-going planning cost of pursuing the alternative, usually identified as an increase in planning staff; the other is the cost of implementing the alternative through leasing or developing state-owned space.

The planning cost estimates the support needed to undertake necessary activities leading to the successful implementation of the alternative. It does not include the architectural, engineering, and construction costs of developing specific capital projects, but simply identifies very generally the cost of planning that would lead to the implementation of such projects, or to leasing state office space. It is important to note that regardless of the alternative or combination of alternatives ultimately selected, planning costs are necessary for effective implementation.

The implementation cost is the long-term cost of leasing vs. owning state office space. This cost is presented in terms of 50-year present net worth: that is, the total cost of developing and operating, or leasing that amount of space over a 50-year period, if the full costs of the alternative were to be paid today. In projecting the cost of providing state-owned space, the economic analysis assumes use of tax-exempt financing through lease-revenue bonds or Certificates of Participation. Two other means of financing state-owned space, direct capital outlay and lease-purchase options financed by private development, were evaluated but excluded from the analysis. Capital outlay was excluded because there are no capital outlay funds available for construction of major office buildings. Lease-purchase options with private developers were excluded because the mechanism is more expensive because of higher interest costs, taxes, and the developer's overhead and profit.

2. Agency Operations

This factor considers the alternative's effect on state government operations in terms of program efficiency, convenience and cost. The ability to consolidate an agency's operations at a single location, generally considered to be desirable, will be addressed in this discussion.

3. Economic Effects

This factor considers the losses or gains in property taxes and area economic support, and also identifies whether or not there may be a short-term destabilizing effect on leasing rates. The direction of that effect (increasing or decreasing lease rates) is not determined. Increased state ownership of office space may have an effect on regional office lease rates. Without the constant high demand from state offices, lease rates could decline. However, it may also be argued that the state, with its predominantly centralized leasing function, has controlled the market and is able to get less expensive lease rates than private commercial enterprises. If that is the case, then lease rates may increase under this alternative, because a lower lease demand would cause the state's control of the leasing market to decline. In either case, it is likely that the lease market would experience a period of readjustment, if the state substantially increases its state-owned office space within a short period of time.

4. Local Land Use Plans

This will be a discussion of the alternative's effect on specific city and county land use planning efforts and vice versa. It is separated from the environmental questions because there are a number of local land use plans currently under consideration which will effect and be affected by decisions on where and how to house state offices. The land use plans of particular concern were discussed earlier in this report.

5. Environmental Effects

An alternative's general effect on air quality, traffic congestion, land use compatibility questions, visual effect, and public utilities and infrastructure will be briefly discussed. The type of additional environmental review required to implement each alternative is identified.

C. Limitations of Discussion

This discussion of alternatives does not plan for facilities where the majority of space is something other than office space. Warehouses and industrial-type space such as the State Printing Plant, or space where the office space cannot be separated from special space, as in the Stephen P. Teale Data Center and the Health and Welfare Agency Data Center, are excluded from this long-term office space allocation discussion. This is not to imply that their current space is necessarily adequate to accommodate future demand. However, facility planning for these functions would be undertaken separately.

This discussion also does not plan for offices that could not be consolidated into office space anywhere in the Sacramento region. District unemployment offices, Department of Rehabilitation offices, and other offices with defined local service areas are excluded from this planning effort. Planning for these facilities is a function of the particular department and the offices are usually housed in leased space to enable them to change location as their service area boundaries change.

D. Alternative 1: Increase Leasing

1. Description

Under this alternative, the state would implement the existing Capitol Area Plan, adding approximately 1.2 million net square feet (mnsf) of office space to the Capitol Area (.250 mnsf funded and .950 mnsf unfunded). The State would also complete currently approved office projects in the Sacramento region (e.g. Franchise Tax Board, Phase II at .335 mnsf). The remaining Core/Central area space demand (approximately 4.363 mnsf) would be satisfied through leasing, as would the Metropolitan area demand of 2.480 mnsf.

Under this alternative, the state would have less control over the location of its office space. It is likely that additional office space for leasing would be developed in all planning areas, but the amount and timing of those office developments would not be under state control.

2. Cost of Alternative

a. Planning Cost

To implement this alternative would require increased advanced planning with private developers, as well as with the City and County of Sacramento planning departments. Discussion with Regional Transit, local public works departments and the Sacramento Metropolitan Air Quality Management District would also be necessary to ensure that transportation facilities and other infrastructure are in place prior to development of generic office space. Detailed information on the amount and type of space needed would have to be developed on an annual basis to allow developers and local government to include state office space demands in a timely manner into proposed land use changes,

infrastructure improvements and commercial developments. In times of economic recession, this advanced planning becomes more important, as developers may require pre-leasing commitments in order to obtain financing for office facilities that will be needed by the state. Although private development would implement the Sacramento Facilities Plan, increased involvement at an early level by state planning staff would be necessary to ensure that necessary design, location, environmental, and operational requirements are considered in the development of leased space.

It is estimated that a minimum addition of three staff, including planners and leasing agents would be needed to implement this alternative. In addition, the individual agencies seeking space will have to provide staff to deal with air quality issues, or additional planning staff will need to be assigned within General Services to address these issues.

b. Implementation Cost

The 50-year present net worth cost of pursuing this alternative is estimated at \$4.1 billion. See tables at the end of this chapter for a comparison with other alternatives.

3. Agency Operations

There is potential for reduction in operational efficiencies, particularly for large agencies, together with potential inability to meet special space needs.

4. Economic Considerations

This alternative offers the best in fiscal benefit to local governments. Lease rates will likely increase, especially in the Core and Central planning areas and around public transit stations.

5. Local Land Use Plans

This option will increase demand for space in the Central Business District and the R Street corridor, potentially affecting implementation of the Capitol View Protection Ordinance and the R Street Corridor plan. Spillover demand is likely in the Richards Boulevard/Southern Pacific Railyards area.

6. Environmental Effects

There is greater potential for continued reduction in air quality and increase in traffic congestion, as it is more difficult for the state to implement trip reduction measures through a decentralized leasing policy than through a centralized state development policy. Other environmental issues would be worked out in environmental documents prepared for specific private development projects.

In addition, developers would be expected to contribute to the costs of increasing infrastructure capacity. These costs in turn would be passed on to the state in the form of higher lease rates.

E. Alternative 2: Centralize and Consolidate State Office Space in the Capitol Area

1. Description

By substantially increasing the density of planned office buildings on undeveloped or underdeveloped State-owned land in the Capitol Area, additional planned office space for that area could be increased to approximately 3.93 mnsf from the original goal (substantiated by environmental documentation) of 1.85 mnsf. This would be adequate to accommodate ninety percent of the ten-year space demand for agencies currently in the Core or Central planning areas. Approximately 1.17 million net square feet would be provided in the Metropolitan area by expansion of existing Franchise Tax Board, Department of Motor Vehicles and California Highway Patrol facilities. The remaining space demand in the Metropolitan area would be met through leasing.

Pursuing this alternative would require major changes in the Capitol Area Plan (CAP), including changing its housing, land use, and community development objectives. The objectives of the 1977 CAP are set in law and include development of a mixed-use community in the Capitol Area. A major increase in office space density of this scope without concomitant support for housing in the plan area would require redirection from the legislature and governor. A major revision of the Capitol Area Plan would also require a new environmental impact report.

2. Cost of Alternative

a. Planning Cost

It is estimated that a major revision to the CAP would take approximately two to three years and require an additional three staff and/or consultants with expertise in transportation/air quality, architecture, engineering, urban and land use planning, and graphics. The original 1977 Capitol Area planning effort had nine staff and five consultants, but it is anticipated that the revision would not require the extensive basic research of the original CAP. However, it is expected that environmental review for a revised CAP would require greater detail than the original 1977 CAP EIR. Outside consultant costs for research and development of a revised plan and EIR could have a one-time cost of between \$500,000 and \$700,000. If consultants were to be used in developing the plan and EIR, additional staffing would be reduced to one planner.

b. Implementation Cost

The cost to develop approximately 3.93 million net square feet of office space on state-owned land in the Capitol Area would vary depending upon the financing mechanism used. Under this alternative, the assumption is made that all land is already state-owned. This is not necessarily the case, but for purposes of comparison with other alternatives, the exceptions are minor. The 50-year present net worth of this alternative using tax exempt lease revenue financing is estimated at \$3.36 billion. See tables at the end of this chapter for a comparison with other alternatives.

3. Agency Operations

This alternative is the best for agencies requiring consolidation and proximity to other agencies or to the State Capitol. It is least appropriate for agencies with large floor plate demands or agencies with special space requirements which cannot be housed in multi-tenant buildings. With the exception of the above-listed expansions, agencies in the Metropolitan area would increase their leased space, with possible inefficiencies resulting from dispersion.

4. Economic Effect

Local government would realize no property tax benefit, unless developer/private financing is used. The City would continue to receive sales tax benefits of concentrated state employee population. This alternative would have a destabilizing effect on lease rates.

5. Land Use

There is potential for reduction in the long-term private office space demand projected in the City's and County's general plans, specific plans and rezonings. The Capitol Area would continue to serve as "anchor" for private development in the Core area. There is potential for conflict with the City's Capitol View Height Restriction ordinance.

6. Environmental Effects

Assuming that transit capacity increases substantially and state policies are implemented to increase carpooling and transit use, the current high participation rate in alternative commute modes should increase. This alternative would then have the least adverse affect on air quality and traffic circulation.

Revision of the Capitol Area Plan would require a new environmental impact report. Potential effects on infrastructure including water, sewer, electrical, phone, transit, road and parking capacities; visual quality; and land use compatibility with other land uses would need to be resolved and mitigated.

F. Alternative 3: Purchase/Develop State-owned Land within the Core and Central Planning Areas, Outside Capitol Area

I. Description

Under this alternative, the Capitol Area would be built out as currently designated on the 1977 Capitol Area Plan with an additional .950 mnsf, and the State would seek development and ownership of additional space in the Core and Central Sacramento Facility Planning Areas. Based upon projected Core and Central area demand, an additional 4.36 million net square feet would need to be developed in the Core and Central planning areas, outside the Capitol Area. Approximately 1.17 million net square feet would be provided in the Metropolitan area by expansion of existing Franchise Tax Board, Department of Motor Vehicles and California Highway Patrol facilities. The remaining space demand in the Metropolitan area would be met through leasing.

The state owns 17 acres on the southwest corner of the Richards Boulevard/North 7th Street intersection in the Central planning area. This property could potentially be developed into office space when the proposed Richards Boulevard Redevelopment Plan is implemented. In addition to the state costs relating to funding, scheduling, planning and design work and environmental review, potential development of the 17-acres is dependent upon:

- o relocating the on-site State Printing Plant and nursery structures to an appropriate site, considering the Plant's close service function to the State Capitol;
- o approval and implementation of the Southern Pacific/Richards Boulevard Redevelopment Plans; and
- o additional testing for hazardous or toxic substances on-site.

Regarding the relocation of the Printing Plant, the Plant must be at a site that is easily accessible to the State Capitol by delivery truck. The State Printer personnel must make frequent trips to the State Capitol during the legislative session.

What is approved and implemented in the combined Southern Pacific/Richards Boulevard Redevelopment Plans will greatly influence the ultimate development of this property. Draft plans indicate that the State's property would be split into two parcels by an east/west road. The remaining property would be immediately adjacent to a proposed intermodal transit hub that would accommodate interregional commuter trains, light rail, commercial buses, local public transit buses, and taxis. Based upon the draft plans, the State property could accommodate up to 1.4 million gross square feet (910,000 nsf) of office space.

After considering development or redevelopment of state-owned land, the remaining 2.5 million nsf core/central space demand of this alternative would need to be met either through purchase of existing or development of new buildings on purchased land in the Core and Central areas. Most of the area proposed for commercial office space in the Core and Central planning areas is within the City's Central Business District, the R Street Corridor and Southern Pacific/Richards Boulevard Redevelopment Areas. Implementation of this alternative could also include purchase of existing developed office facilities in the Core and Central planning areas.

2. Cost of Alternative

a. Planning Costs

Approximately three additional staff with expertise in financial analysis, facility planning and environmental and/or transportation planning would be required to implement this alternative. The alternative would require close coordination with the City and office space property owners or potential developers to work out siting, developing and financing mechanisms and to provide or contribute to necessary infrastructure improvements. For the purposes of this analysis, it is assumed that all state facilities would be consistent with approved the City General Plans, Redevelopment Plans and Zoning. Thus, staff would not need to develop new state land use plans in the proposed areas of development, but would need to revise the Capitol Area Plan and Sacramento Facilities Plan appropriately.

b. Implementation Costs

The cost of implementing this alternative would vary, depending upon the use of the State-owned property in the Richard Blvd. area. Although a wide variety of parameters and funding mechanisms could be analyzed, for the purposes of this report, the following assumptions were made:

- o the State will retain the Printing Plant property and will relocate the Printing Plant to an appropriate site with good access to the Capitol;
- o the State will redevelop the Printing Plant property with .910 mnsf of State office space. The new facility(ies) will conform to final approved City land use designations and zoning;
- o the State will purchase additional developed, undeveloped or underdeveloped property to supply 2.07 million nsf of office space in the Core or Central area.

The 50-Year present net work cost of this alternative is estimated at \$3.43 billion. See Table 13 at the end of this chapter for a comparison with other alternatives.

3. Agency Operations

This alternative is less efficient for most agency operations than Alternative 2, but is more efficient than Alternative 1. Office locations in the Commercial Business District and the R Street Corridor between 5th and 17th Streets would still meet the 1977 CAP standard for being within a 10-minute walking distance of the State Capitol. Other offices in the Central planning area would be within a ten-minute transit ride from the Capitol.

4. Economic Effects

This alternative will have an effect on local government property and sales taxes similar to Alternative 2. Like that alternative, it also will have a destabilizing effect on lease rates.

5. Land Use

By design, this alternative would be consistent with the proposed Southern Pacific/Richards Boulevard Redevelopment Areas. Consistency with other local land use plans is less clear. Purchase of developed office properties in the Core and Central area would remove those properties from the tax roles, but need not necessarily impact implementation of all goals of the affected planning area. However, state purchase and subsequent development of underdeveloped or undeveloped properties, particularly in the R Street corridor outside the Capitol Area Plan, could severely constrain the City's ability to achieve stated housing and community development goals.

6. Environmental Effects

The air quality and circulation effects are similar to Alternative 2. The same support as for Alternative 2 would be required here to achieve desired mode split. Other potential environmental effects related to infrastructure

capacity, housing, visual quality and land use compatibility would need to be resolved. To avoid piecemeal environmental analysis under this alternative, revision of the Sacramento Facilities Plan and amendment of the Capitol Area Plan or development of a new plan for a combined Core/Central planning area is recommended.

G. Alternative 4: House Executive Offices in the Capitol Area, Develop State-owned Satellite Offices in the Metropolitan Area

1. Description

Under this alternative, new office construction envisioned in the 1977 Capitol Area Plan would be used for housing only those offices of state agencies that need to be in the Capitol Area: primarily, the executive and legislative liaison offices and some public information functions. Total office space needs for small agencies that require a Core area location also would be provided in the Capitol Area. As larger agencies expand, their additional space needs would be met through satellite office facilities constructed along public transit corridors in the Metropolitan area, and by home telecommuting. Should larger agencies currently in the Capitol Area desire to consolidate all office functions except the executive and legislative offices into a satellite facility in the Metropolitan area, their Capitol Area vacated space would be backfilled by smaller agencies requiring a Capitol Area location.

To implement this alternative, the ten-year office space demand projections indicate that an additional 4.98 million nsf would need to be constructed in the Metropolitan area. In this alternative, the equivalent of .255 million nsf would be provided through home-based telecommuting. (State agencies projected approximately 1700 telecommuters in ten years. $1700 \text{ telecommuters} \times 150 \text{ nsf/telecommuter} = 255,000 \text{ nsf}$)

Approximately 1.17 million nsf would be provided by expanding the existing Franchise Tax Board and Department of Motor Vehicles and California Highway Patrol complexes. An additional 3.81 million nsf in satellite facilities would be developed along light rail transit lines in existence or proposed for the following areas: Highway 50 corridor, Mather, Folsom, Del Paso Boulevard/North Sacramento Redevelopment Area. State office facility development in the Mather area is largely dependent upon what is ultimately adopted by the County in the Mather Reuse Plan, and how the area would be served by public transit. For the purposes of this analysis, it is assumed that most of the property necessary for developing this space is not currently under state ownership, but would have to be purchased.

2. Cost of Alternative

a. Planning Cost

As in Alternative 3, approximately three additional staff with expertise in financial analysis, facility planning and environmental and/or transportation planning would be required to implement this alternative. The alternative would require close coordination with the City, County and local office space property owners or potential developers to work out siting, developing and financing mechanisms and to provide or contribute to necessary infrastructure improvements. For the purposes of this analysis, it is assumed that all state

facilities would be consistent with approved City and County general plans, redevelopment plans and zoning. Thus, staff would not need to develop new State land use plans in the proposed areas of development, but would need to revise the Capitol Area Plan and Sacramento Facilities Plan appropriately.

b. Implementation Cost

The economic modeling prepared for this alternative (as for all alternatives) is based upon current conditions. Changes to land use planning that may be imposed by the Sacramento Metropolitan Air Quality District could substantially increase the cost of undeveloped land adjacent to proposed light rail transit corridors. Although this parameter affects property costs in the Core and Central planning areas as well, the land to be developed under Alternatives 2 and 3 is either state-owned, or already in existing light rail transit corridors, and thus can be reasonably estimated. Land costs adjacent to light rail stations outside the Core and Central areas can only be estimated under current conditions. Implementation of the SMAQMD's Air Attainment Plan could cause an undetermined increase in land cost that would affect the cost estimated for implementing this alternative.

The projected 50-year net worth cost of this alternative is estimated at \$3.08 billion. See Table 14 at the end of this chapter for a comparison with other alternatives.

3. Agency Operations

This alternative offers the least efficient operation for agencies requiring a Core area location. It is the best alternative for agencies with programs not appropriate for a multi-tenant building, agencies with large floor plate requirements, agencies with special space needs not requiring access to the Capitol area, and telecommuter offices.

Implementation may cause further inefficiencies as large agencies debate the wisdom of continuing a split operational mode between an established Core area facility with new satellite operations vs. consolidation of all office space into a new satellite facility. During this time period, small and moderate-sized agencies that might ultimately fit into vacated state-owned Core area space may end up moving from their current Core area location to Metropolitan area leased space and finally back to Core area State-owned space.

4. Economic Effects

The primary difference between this and Alternatives 2 and 3 is that both economic gains and losses to local government accrue to the County as well as to the City. This alternative will have a destabilizing effect on lease rates.

5. Land Use Plans

This alternative is consistent with conceptual Sacramento County General Plan Revision; however, it may not be consistent with current county zoning.

Lack of increased state office space in the Core and Central areas could affect the ultimate development of proposed private office space in the redevelopment areas of the City, with a concomitant potential loss of housing support.

6. Environmental Effects

Because of its tendency to decentralize office space away from the hub of public transit, this alternative would have greater difficulty achieving air quality and traffic improvement standards than Alternatives 2 and 3. Visual quality may also be adversely affected if the state proposes high density office structures near transit stations adjacent to existing low density residential areas.

Environmental analysis would most likely consist of a program EIR on a revised Sacramento Facilities Plan to address the overall effects of this alternative on regional transportation and air quality issues, and more site-specific environmental documents for each proposed satellite facility location.

TABLE 11 -- ALTERNATIVE 1: LEASING

PROJECTS	CONSOLIDATABLE SPACE DEFICIT	TYPICAL BUILDING SIZE IN CORE/CC OR METRO AREAS	FACTOR ^{1/}	CONSTRUCTION COST OF TYPICAL BUILDING AS OF NOVEMBER 1994	50-YEAR PRESENT WORTH OF TYPICAL BUILDING	50-YEAR PRESENT WORTH OF LEASING SPACE EQUIVALENT TO TYPICAL B.D.O.	ESTIMATED 50-YEAR PRESENT WORTH OF 20-YEAR BOND FINANCING OF PROJECT COSTS TO PARTIALLY ELIMINATE CONSOLIDATABLE SPACE DEFICIT BASED ON 11/94 COST ESTIMATE		ESTIMATED 50-YEAR PRESENT WORTH OF LEASING BALANCE OF SPACE REQUIREMENT ^{2/}
							(col. 7) ^{3/}	(col. 8) ^{4/}	
ALTERNATIVE 1									
Core/Central City ^{5/}									
1 > State-owned Site	950,000	300,000	3.17	\$62,384,800	\$138,247,673	n.a.	\$437,784,298	n.a.	n.a.
2 > Leased	3,413,000	300,000	11.38	n.a.	n.a.	\$202,949,859	n.a.	\$2,308,892,896	
Subtotal Core/Central Demand	4,363,000								
Metropolitan									
1 > Leased	2,480,000	300,000	8.27	n.a.	n.a.	\$164,553,940	n.a.	\$1,360,312,571	
TOTALS	6,843,000						\$437,784,298	\$3,669,205,467	
TOTAL (columns 7 & 8) =	\$4,106,989,764								

- ^{1/} Typical building size of 300,000 nsf divided by consolidatable space deficit = factor.
- ^{2/} Core/CC lease rate = \$1.85 pNSF per month; Metro lease rate = \$1.50 pNSF per month, both as of 1-1-92.
- ^{3/} Col. 7 = Col. 3 * Col. 5
- ^{4/} Col. 8 = Col. 3 * Col. 6
- ^{5/} State-owned development sites to be purchased in CORE/CC are assumed to be 51,200 sf and valued at \$100 psf.

40

TABLE 12 -- ALTERNATIVE 2: INCREASE CAP DENSITY

PROJECTS	CONSOLIDATABLE SPACE DEFICIT	TYPICAL BUILDING SIZE IN CORE/CC OR METRO AREAS	FACTOR _1/	CONSTRUCTION		50-YEAR PRESENT WORTH OF LEASING SPACE EQUIVALENT TO TYPICAL BLDG.	ESTIMATED 50-YEAR PRESENT WORTH OF 20-YEAR BOND FINANCING OF PROJECT	
				COST OF TYPICAL BUILDING AS OF NOVEMBER 1994	50-YEAR PRESENT WORTH OF TYPICAL BUILDING		COSTS TO PARTIALLY ELIMINATE CONSOLIDATABLE SPACE DEFICIT BASED ON 11/94 COST ESTIMATE	ESTIMATED 50-YEAR PRESENT WORTH OF LEASING BALANCE OF SPACE REQUIREMENT _2/
	(col. 1)	(col. 2)	(col. 3)	(col. 4)	(col. 5)	(col. 6)	(col. 7) _3/	(col. 8) _4/
ALTERNATIVE 2								
Core/Central City _5/								
1 > State-owned Site	3,927,000	300,000	13.09	\$62,384,800	\$138,247,673	n.a.	\$1,809,662,040	n.a.
2 > Leased	436,000	300,000	1.45	n.a.	n.a.	\$202,949,859	n.a.	\$294,953,795
Subtotal Core/Central Demand	4,363,000							
Metropolitan _6/								
1 > State-owned --								
DMV/CHP + FTB III	1,172,000	300,000	3.91	\$62,384,800	\$138,247,673	n.a.	\$540,087,576	n.a.
2 > Leased	1,308,000	300,000	4.36	n.a.	n.a.	\$164,553,940	n.a.	\$717,455,178
Subtotal Metropolitan Demand	2,480,000							
TOTALS	6,843,000						\$2,349,749,615	\$1,012,408,973
TOTAL (columns 7 & 8) =							\$3,362,158,589	

_1/ Typical building size of 300,000 nsf divided by consolidatable space deficit = factor.

_2/ Core/CC lease rate = \$1.85 pNSF per month; Metro lease rate = \$1.50 p NSF, both as of 1-1-92.

_3/ Col. 7 = Col. 3 * Col. 5

_4/ Col. 8 = Col. 3 * Col. 6

_5/ State-owned development sites to be purchased in CORE/CC are assumed to be 51,200 sf and valued at \$100 psf.

_6/ Metropolitan State-owned: DMV/CHP = 725,000 sf; FTB III = 447,000 sf.

TABLE 13 -- ALTERNATIVE 3: PURCHASE/DEVELOP IN CENTRAL/CORE AREA

PROJECTS	CONSOLIDATABLE SPACE DEFICIT	TYPICAL BUILDING SIZE IN CORE/CC OR METRO AREAS	FACTOR	CONSTRUCTION COST OF TYPICAL BUILDING	50-YEAR PRESENT WORTH OF TYPICAL BUILDING	50-YEAR PRESENT WORTH OF LEASING SPACE EQUIVALENT TO TYPICAL BLDG.	ESTIMATED 50-YEAR PRESENT WORTH OF 20-YEAR BOND FINANCING OF PROJECT COSTS TO PARTIALLY ELIMINATE CONSOLIDATABLE SPACE DEFICIT		ESTIMATED 50-YEAR PRESENT WORTH OF LEASING BALANCE
							(col. 7) _{4/}	(col. 8) _{5/}	
ALTERNATIVE 3									
Core/Central City _{6/}									
1 > State-owned Site	1,845,000	300,000	6.15	\$62,384,800	\$138,247,673	n.a.	\$850,223,189	n.a.	n.a.
2 > Site to be purchased	2,067,000	300,000	6.89	\$62,384,800	\$138,247,673	n.a.	\$952,526,467	n.a.	n.a.
3 > Leased	436,000	300,000	1.45	n.a.	n.a.	\$202,949,859	n.a.	\$294,953,791	
Subtotal Core/Central Demand	4,348,000						\$1,802,749,656	\$294,953,791	
Metropolitan _{7/}									
1 > State-owned --									
DMV/CHP + FTB III _{8/}	1,172,000	300,000	3.91	\$62,384,800	\$138,247,673		\$540,087,576	n.a.	n.a.
2 > Replace Printing Plant	225,000	225,000	1.00	\$29,768,050	\$61,538,416	n.a.	\$61,538,416	n.a.	n.a.
3 > Leased _{9/}	1,308,000	300,000	4.36	n.a.	n.a.	\$164,553,940	n.a.	\$717,455,171	
Subtotal Metropolitan Demand	2,705,000						\$601,625,992	\$717,455,171	
TOTALS	7,053,000						\$2,404,375,648	\$1,012,408,972	
TOTAL (columns 7 & 8) =							\$3,416,784,621		

42

- _{1/} Typical building size of 300,000 nsf divided by consolidatable space deficit = factor.
- _{2/} Office construction cost estimate as of 11/94; printing plant cost estimate as of 5/95.
- _{3/} Core/CC lease rate = \$1.85 pNSF per month; Metro lease rate = \$1.50 pNSF, both as of 1-1-92
- _{4/} Col. 7 = Col. 3 * Col. 5
- _{5/} Col. 8 = Col. 3 * Col. 6
- _{6/} State-owned development sites to be purchased in CORE/CC are assumed to be 51,200 sf and valued at \$100 psf.
- _{7/} Site to be purchased for a replacement Printing Plant is estimated to be 10 acres and valued at \$3.50 psf as of 2/91.
- _{8/} Metropolitan State-owned: DMV/CHP = 725,000 sf; FTB III = 447,000 sf
- _{9/} Leased space increased to provide for a replacement Printing Plant w/ considered industrial type space and not included in the other alternative.

TABLE 14 -- ALTERNATIVE 4: PURCHASE/DEVELOP IN METROPOLITAN AREA

PROJECTS	CONSOLIDATABLE SPACE DEFICIT (col. 1)	TYPICAL BUILDING SIZE IN CORE/CC OR METRO AREAS (col. 2)	FACTOR _1/ (col. 3)	CONSTRUCTION COST OF TYPICAL BUILDING AS OF NOVEMBER 1994 (col. 4)	30-YEAR PRESENT WORTH OF TYPICAL BUILDING (col. 5)	30-YEAR PRESENT WORTH OF LEASING SPACE EQUIVALENT TO TYPICAL BLDG. (col. 6)	ESTIMATED 30-YEAR PRESENT WORTH OF 20-YEAR BOND FINANCING OF PROJECT	
							ELIMINATE CONSOLIDATABLE SPACE DEFICIT BASED ON 11/94 COST ESTIMATE (col. 7) _3/	ESTIMATED 30-YEAR PRESENT WORTH OF LEASING BALANCE OF SPACE REQUIREMENT _2/ (col. 8) _4/
ALTERNATIVE 4								
Core/Central City _5/								
1 > State-owned Site	950,000	300,000	3.17	\$62,384,800	\$138,247,673	n.a.	\$437,784,298	n.a.
2 > Leased	35,000	300,000	0.12	n.a.	n.a.	\$202,949,859	n.a.	\$23,677,484
Subtotal Core/Central Demand	985,000							
Metropolitan _6/								
1 > State-owned -- DMV/CHP + FTB III _7/	1,172,000	300,000	3.91	\$62,384,800	\$138,247,673	n.a.	\$540,087,576	n.a.
2 > Site to be purchased	3,812,000	300,000	12.71	\$59,370,700	\$135,476,216	n.a.	\$1,721,451,118	n.a.
3 > Leased	649,000	300,000	2.16	n.a.	n.a.	\$164,553,940	n.a.	\$355,985,024
Subtotal Metropolitan Demand	5,633,000							
Home Telecommuting	225,000						0	0
TOTALS	6,843,000						\$2,699,322,992	\$379,662,507
TOTAL (columns 7 & 8) =	\$3,078,985,499							

_1/ Typical building size of 300,000 nsf divided by consolidatable space deficit = factor.

_2/ Core/CC lease rate = \$1.85 pNSF per month; Metro lease rate = \$1.50 pNSF, both as of 1-1-92

_3/ Col. 7 = Col. 3 * Col. 5

_4/ Col. 8 = Col. 3 * Col. 6

_5/ State-owned development sites to be purchased in CORE/CC are assumed to be 51,200 sf and valued at \$100 psf.

_6/ Sites to be purchased in Metropolitan area and valued at \$8 psf as of 2/92 are estimated to be 15 acres for a typical building including on-site parking assuming 1.5 average vehicle occupancy.

_7/ Metropolitan State-owned: DMV/CHP = 725,000 SF; FTB III = 447,000 sf.

43