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Agenda Item: 1:30 P.M. (File ID#15-955)

Date: 12/10/15

CITY CLERK, FRESNO

FRESNO CITY COUNCIL



Supplemental Information Packet

Agenda Related Items – 1:30 P.M. (File ID#15-955)

Contents of Supplement: CBRE Council Presentation

Item(s)

Attached please find a supplement to the 1:30 P.M. Scheduled Council Matter (File ID#15-955). The title of the item is as follows:

WORKSHOP regarding Asset Management

Supplemental Information:

Any agenda related public documents received and distributed to a majority of the City Council after the Agenda Packet is printed are included in Supplemental Packets. Supplemental Packets are produced as needed. The Supplemental Packet is available for public inspection in the City Clerk's Office, 2600 Fresno Street, during normal business hours (main location pursuant to the Brown Act, G.C. 54957.5(2)). In addition, Supplemental Packets are available for public review at the City Council meeting in the City Council Chambers, 2600 Fresno Street. Supplemental Packets are also available on-line on the City Clerk's website.

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CITY OF FRESNO REAL ESTATE STRATEGIC PLAN CITY COUNCIL PRESENTATION – DECEMBER 10TH, 2015

CBRE

MANAGEMENT CONSULTING

PROJECT SUMMARY

Earlier this year the City of Fresno engaged CBRE, in partnership with Pacific Commercial Realty Advisors as a response to the 2014 Asset Management Act and a subsequent City issued RFQ. To date, CBRE's primary objectives have been the creation of a "high-level" Strategic Plan outlining major cost savings initiatives and basic observations relating to City's utilization of real estate.

Based on information provided the project team conducted an approach involving:

- Several interviews of participating City departments to understand how current space is being utilized and is serving the City's real estate needs.
- Collection of information on approximately +/-8,600 property data files from responding departments to examine and identify potential opportunities for adaptive reuse as well as surplus and/or disposition candidates.
- Initial opinions of value have been established for vacant parcels that contemplate a "highest & best use" from a commercial perspective.
- Recommendations made for assets perceived to be underperforming.
- Evaluated and calculated a total "hidden" cost estimate of (\$189k/yr) on many of the City's under market lease agreements.

PROJECT SUMMARY

Through interviews, working sessions and internal analysis CBRE has identified eight strategies that include:

- Between **\$52.5M - \$63.3M** in potential revenue from disposition/reutilization candidates
- Methods of financing improvements for dilapidated or underfunded buildings
- An opportunity to create ongoing revenue generation by monetizing right-of-way land parcels through use of digital billboards
- An opportunity to create a new, joint Public Safety facility for the Fire and Police Departments

EXECUTIVE SUMMARY

The matrix below highlights potential strategies for the City of Fresno; revenue-generating strategies may yield between \$52.5 million and \$63.3 million.

Strategy	Potential Revenue	Additional Benefits	Risk
1) Develop Maintenance Yard at Woodward Park	\$175k-\$300k annually (\$1.75-\$3.0M 10 yr)	Add new amenities to a major city park	Low
2) Dispose of Additional Excess Parcels	\$21.9M-\$25.9M	Reduce “budget-draining” assets	Low
3) Dispose of Golf Courses	\$27.5-\$33.0M	Significantly reduce the City’s water consumption in the drought	Medium
4) Consolidate Police and Fire HQs	TBD	Eliminate deferred maintenance, excessive TIs and avoid High Speed Rail (HSR) challenges	High
5) Consolidate Construction Management Division Lease (PWD)	\$138k annually (\$1.38M 10 yr)	Establish permanent home for Construction Management Division (CMD)	Low
6) Fund repairs of MSC (PWD)	N/A	Eliminate \$2.6M deferred maintenance and \$8.8M in lifecycle costs	Low
7) Lease Digital Billboards in undeveloped ROW Trails	TBD	Allow the City to display public service announcements with ease	Low
8) Alternative Financing Strategies	N/A	Financing new locations without increasing debt	Low
TOTAL	\$52.5M-\$63.3M		

STRATEGY 1 – DEVELOP MAINTENANCE YARD AT WOODWARD PARK

Overview

- Woodward Park, a popular 300-acre park located in NE Fresno, is one of the most popular “getaway” destinations in Fresno
- The park has a large list of amenities including the Japanese Shinzen Garden (estimated at 2.6 acres)
 - The Shinzen Garden is commonly used for weddings and other events
- There is a city-owned, underutilized maintenance yard adjacent to the Shinzen Garden that has been identified as a development opportunity
- Specifically, discussions were held about the site operating as a restaurant / reception area

Recommendation

- Sign a ground lease for the maintenance yard that allows a developer to operate a restaurant
- Establish a public-private partnership with lessee to ensure
- Build a reception area that could be rented out by wedding / event parties to provide additional, on-going revenue to the city

Benefits

- Ongoing revenue from ground lease of space of \$175k-\$300k/year
- Ongoing revenue from event reservations
- Improved park experience and aesthetic appeal

Maintenance Yard & Shinzen Garden



Image from Google Earth

STRATEGY 2 – DISPOSE OF ADDITIONAL EXCESS PARCELS

Recommendation

- Evaluate vacant parcels for disposition based off of BOVs and Highest & Best Use

Benefits

- Generating capital that can be deployed to mission critical city functions
- Reduced upkeep and insurance costs
- Risk mitigation
- Potentially enhancing tax roll if commercial or residential development is viable

Vacant Parcels

Address	Acres or SF	Property Type	Zoning	Approximate Value	Highest & Best Use
Golden State & Bullard*	51.56	Excess land	O	\$5.1M	Industrial
Herndon & Brawley	20.44	Excess land	R-1	\$6.0M-\$7.0M	Retail / Office
5005 E. Dakota Ave	32.51	Vacant Land	M-2	\$1.1M-\$2.1M	M-2
3000 E. Butler Ave	11.16	Vacant Lot/Land	SPLIT	\$1.1M	Industrial
Behymer & Chestnut	16.21	Excess land	M-1	\$4.9M	Residential
Hendon/Hays/Veterans	16.59	Vacant Property	R-1	\$1.0M-\$3.0M	Residential
887 FULTON MALL	33,750 (SF)	Retail Space - Vacant	M-1	\$1.3M	Retail
Garage 9	20,640 (SF)	Garage / Retail	N/A	TBD	Retail
United Black Men Bldg	0.5	Office	N/A	\$100k-\$200k	Residential
TOTAL				\$21.9M-\$25.9M	

*Note: Currently not available for disposition as the site is designated as a right of way for High Speed Rail.

STRATEGY 3 – DISPOSE OF GOLF COURSES

Overview

- Fresno currently has three municipal golf courses totaling containing over 219 acres of land
- Anecdotal evidence received during the interview process validates that the three golf course are underutilized
- One course in particular, the Palm Lakes Course (pictured on the right), is closed and no longer maintained
- Additionally, the Riverside Golf Course is located in a valuable market and is estimated to be worth between \$27.5M-\$33.0M (\$250,000-\$300,000 per acre)**
- NOTE: The Airways Golf is heavily regulated by the FAA and is not a disposition candidate*

Recommendation

- Evaluate value of golf courses
- Discuss pros/cons of repurposing, disposing of, or privatizing the courses

Benefits

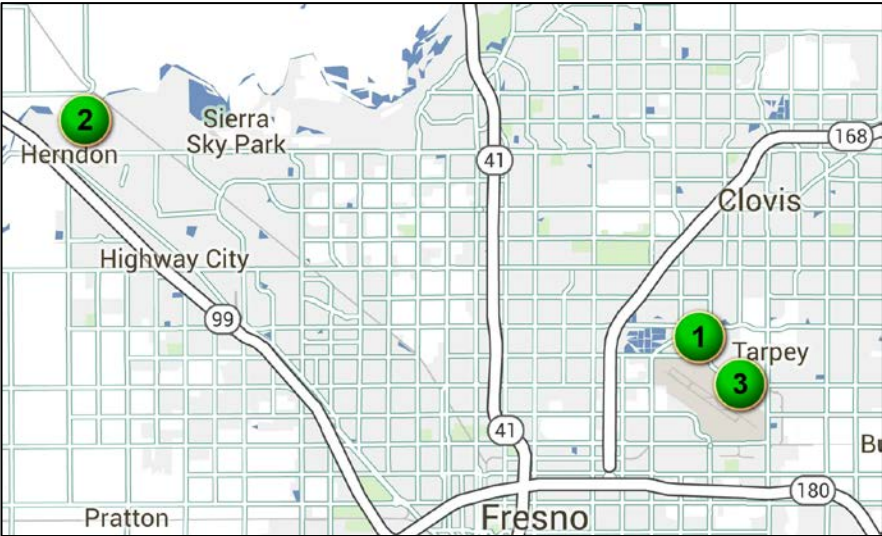
- Significant inflow of capital from disposition of golf course
- Prime real estate development potential
- Large reduction in water consumption required to maintain courses

Address	Acres or SF	Property Type	Estimated Value
1. PALM LAKES (NOTE: LISTED ON STRATEGY 3)	32.51	NATURAL	\$1.1M
2. RIVERSIDE GOLF COURSE	110	GOLF COURSE, PRO SHOP, GOLF COURSE	\$27.5M-\$33.0M

*Note 1: Airways Golf Course is considered a temporary use by the FAA and Airports. The Golf Course is permitted to remain as a revenue producing enterprise until such time an aviation use is needed for that land, as outlined in the airport master plan and FAA approved Airport Layout Plan.

**Note 2: The Riverside Golf Course is collateralized with approximately \$3 million in a debt obligation.

Fresno Golf Courses



Palm Lakes Golf Course (Closed)



Image from Google Earth

STRATEGY 4 – CONSOLIDATE POLICE AND FIRE HQS

Overview

The leased Fire HQ site may be impacted by the HSR

- High Speed Rail (HSR) will be 50-100 yards from the Fresno Fire Department HQ
- The lease is costly – already past expiration, the lease costs currently \$50k a month, including remaining TI costs
- Fire is reluctant to sign a lease due to unknown specifications of the HSR
- With the Fire lease currently in holdover indefinitely, there is adequate time to plan for a relocation
- Additionally, pockets of vacancy exist throughout the facility

The Owned PD HQ has significant deferred maintenance

- The Fresno PD HQ has significant deferred maintenance, health hazards (asbestos), and extremely limited capacity
- The HQ is located at two neighboring sites: 2323 Mariposa Mall (PD HQ) and 2326 Fresno St (PD Annex)
- Both sites were built around World War II and have logistical challenges that prevent it from operating at today's standard (such as historic corridors that prevent retrofitting)
- Currently, the Police HQ is free of any collateral revenue bonds (as of 10/01/2014); the City Hall Annex is securing the city's I-bank loan and is committed until 08/01/2033

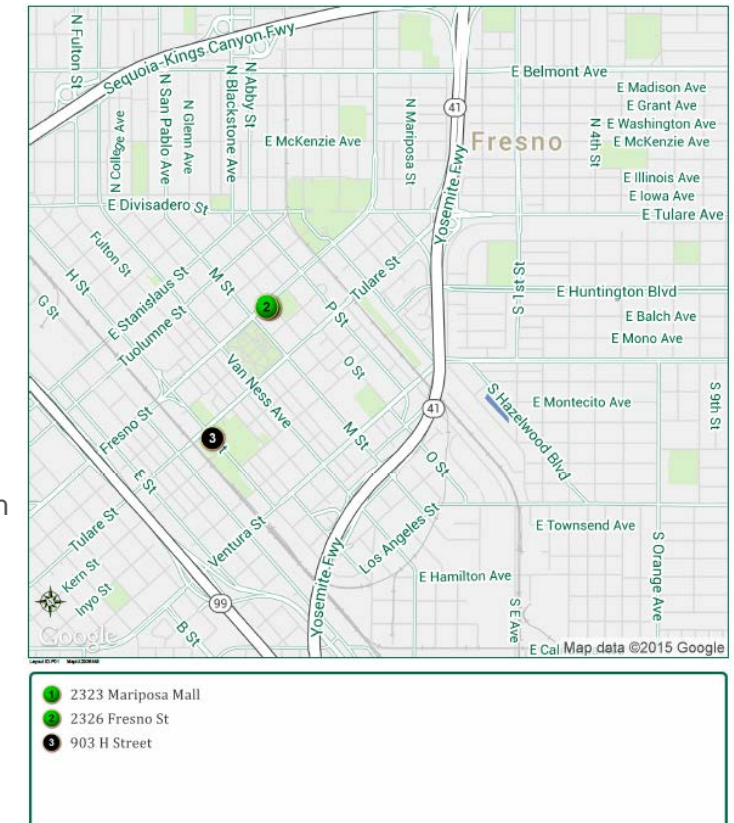
Recommendation

- Consolidate Police and Fire HQ leases into a brand-new facility utilizing CTL Lease financing
- A potential 5.28 acre site has already been identified as a consolidation opportunity at “H St Stanislaus/Merced”

Benefits

- Maintain ownership at interest rate close to the City's bond rate
- Reduce transaction costs that are typically associated with leases and bond issuances
- Allows the city to obtain financing in a quiet and private manner
- Proceeds from sale of Police HQ
- Realize operational synergies from colocation of administrative space while maintaining a separation of operational functions
- Other groups such as Santa Monica, CA; Sunnyvale, CA; and Kalamazoo, MI have also consolidated operations

Police and Fire HQs



STRATEGY 5 – CONSOLIDATE CONSTRUCTION MANAGEMENT DIVISION (CMD) LEASE

Overview

The CMD has never had a “permanent home”

- CMD has remained in leased space; the most recent lease was signed in 2014 at 1721 Van Ness Ave
- 35 employees occupy the building in 10,500 RSF
- The most recent, short-term lease was signed at a monthly rate of \$1.10 / SF (\$138k in annual rent)
- CMD signed a relatively short-term lease and could relocate upon expiration in December 2016

Consolidation can occur if requirements are met

- There are no proximity requirements driving CMD’s site selection; relocating would not impact the mission
- The new site would require:
 - Secure parking for 30+ vehicles
 - Public access
 - Increased capacity for visitor parking

Recommendation

- Consolidate the CMD lease into City Hall upon expiration of lease

Benefits

- Eliminate annual lease expenses and **save \$138k in annual rent (\$1.38M over 10 years)**
- Consolidate operations into less sites

NOTE: See excerpt from CMD lease in the APPENDIX

Construction Management Lease



Image from Google Earth

STRATEGY 6 – FUND REPAIRS OF MSC (PWD)

Overview

The Municipal Service Center (MSC) has \$2.6M in immediate repair needs; \$8.8M in lifecycle replacements

- Street Maintenance, Landscape Maintenance, and Facilities are currently occupying the MSC
- A recent facility conditions assessment report identified repair costs above current funding of PWD
- The site has 19 buildings and 670 parking spots across 24.1 acres
- The site is located adjacent to the planned HSR

The site is currently charging far below market

- The MSC is only charging \$0.98 / SF for the site

Recommendation

- Raise rents on the site to market rates of \$1.40/SF to fund the repairs
- Funding can be used for deferred maintenance
- Evaluate alternative financing scenarios for repairs or future sites

Benefits

- Ameliorate operational challenges
- Improve operational efficiency
- Modernize facility and operations

MSC

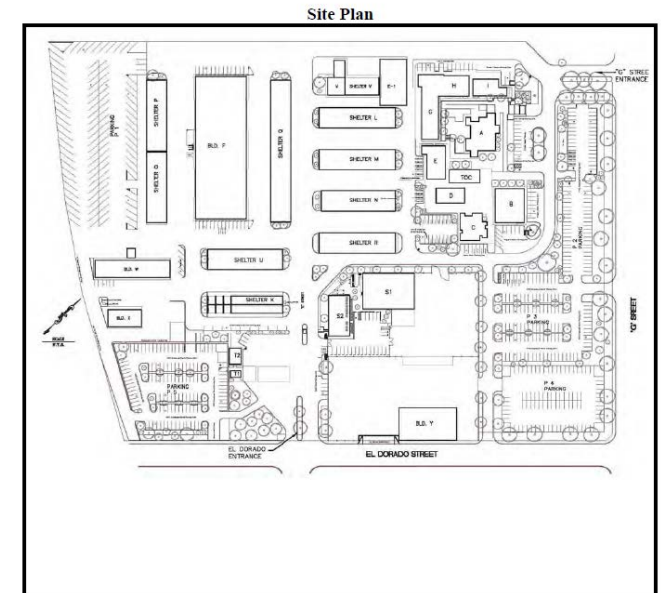


Image from Google Earth

STRATEGY 7 – LEASE DIGITAL BILLBOARDS IN UNDEVELOPED ROW TRAILS

Overview

The City of Fresno has nearly 18 acres of undeveloped “Future ROW Trail” land along Willow Ave

- The trail crosses many intersections including: Shepherd, Perrin & Ryan, Ryan & Pryor, Behymer, and Copper
- The parcels are too narrow to develop and would not have much value if marketed to adjacent landowners

Digital billboards require little space and provide additional revenue streams

- Several Municipalities have begun using digital billboards as an additional revenue generating opportunities
- One recent example: The City of Chicago is expected to receive \$15M upfront, \$10M a year, and at least 30% of advertising revenue for 34 digital billboards*

Recommendation

- Install digital billboards on undeveloped City-owned Future ROW Trail parcels along major intersections
- Evaluate zoning to ensure digital billboard advertising is available

Benefits

- Revenue from public-private partnership (including upfront revenue negotiated)
- Ability to advertise City public-service announcements with little additional cost

*<http://www.chicagobusiness.com/article/20140312/NEWS02/140319922/digital-signs-a-turn-on-for-cash-strapped-city>

Sample ROW Trail Intersection:
Shepherd & Willow

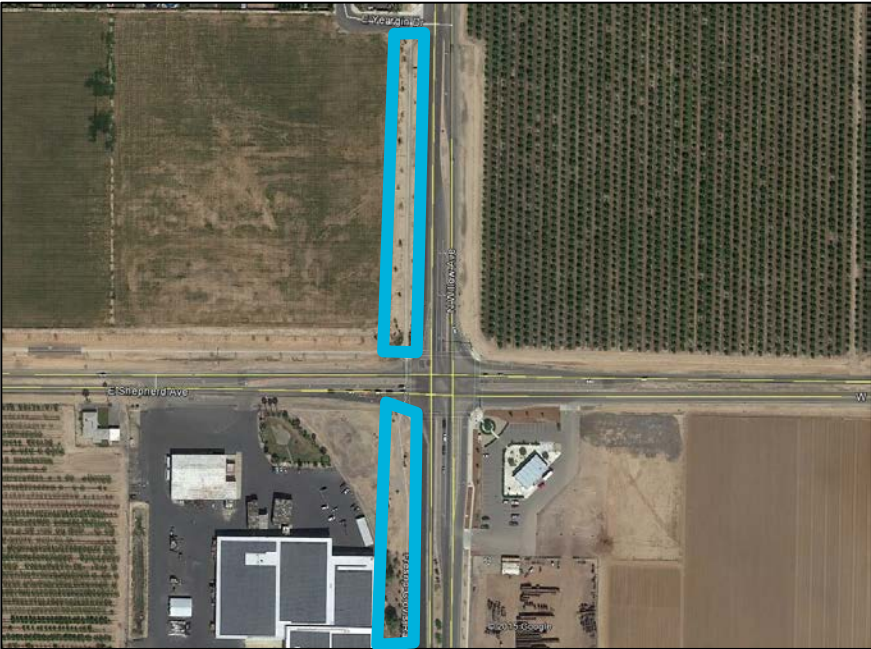


Image from Google Earth

ROW Trail Intersections

Address	Acres or SF	Property Type
Willow n/o Behymer	6.24	Fut. ROW Trail
Willow s/o Copper	4.11	Fut. ROW Trail
Shepherd & Willow	3.03	Fut. ROW Trail
Willow s/o Copper/Inter	1.79	Fut. ROW Trail
Willow & Ryan & Pryor	1.26	Fut. ROW Trail
Willow & Perrin & Ryan	1.14	Fut. ROW Trail

STRATEGY 8 – ALTERNATIVE FINANCING STRATEGIES

Overview

Alternative financing methods can fund repairs, new projects, or even new construction

- Many departments are carrying deferred costs due to budget constraints
- Four out of five Departments referenced deferred maintenance costs as one of the largest challenges with buildings
- However, many of the agencies do not have the budget capacity to repair or maintain facilities
- Additionally, many departments lack the upfront capital required to start new construction projects

Solution 1: Real Estate Sale/Leasebacks

- Traditional form of monetization whereby City of Fresno would sell the properties to an investor subject to a leaseback of defined terms and conditions
- Structured to either solve for rent or to solve for proceeds
- Economics defined by combination of real estate, credit, and lease structure/term

Solution 2: On-Balance Sheet Financing using CTL

- Financing based on City of Fresno investment grade credit and the net nature of the lease which is generally longer in term
- No maximum Loan-to-Cost (can be over 100% of costs) and unconstrained by traditional financial covenants
- On-balance sheet structure would enable City of Fresno to maintain ownership and therefore own the asset free and clear at the end of lease term (Note: Airport leases are structured this way)

Alternative Financing Strategies

CHARACTERISTICS	OWN w/MORTGAGE	OWN W/ CTL	JOINT VENTURE	SYNTHETIC LEASE	REAL ESTATE LEASE	CREDIT LEASE/ w CTL
Ownership Vehicle	Corporate	Corporate	Partnership	Hybrid	Third Party	Third Party
Credit/Cost Considerations	Mortgage Rates/LTV + Corp Funds.	Corporate Rate + Spread	Market Required Returns	Corporate Rate + Spread	Generally ROE above Mortgage Debt	Corporate Rate + Spread
Asset Treatment	On Balance Sheet	On Balance Sheet	On Balance Sheet	Off Balance Sheet	Off Balance Sheet	Off Balance Sheet
Liability Treatment	Debt	Debt	Debt	Footnote Only	Footnote Only	Footnote Only
Income Statement Deductions	Depreciation, Interest Expense	Depreciation, Interest Expense	Depreciation, Interest, Expense	Rent (equal to interest)	Rent	Rent
Tax Benefits Retained A. Depreciation B. Interest or Equivalent C. Rental Expense	Yes Yes No	Yes Yes No	Yes Yes No	Yes Yes No	No No Yes	No No Yes
Ongoing Cash Requirements	Interest and Principal Amortization, Potential Balloon	Interest and principal amortization	Rent as yield on equity, usually after servicing debt	Interest only	Rent as yield on equity, usually after servicing debt	Interest and principal amortization plus ROE not satisfied by tax benefits
Asset Control	High	High	Medium	High	Medium	High
Residual Risk/Reward	100%, Potential Refi Risk	100%	Varies based on structure	Reward-100% Risk-Less than 90%, Refi Risk	0%	0%