Real Property Analysis and Strategy
Preliminary Report
Three District Owned Parcels

For

Sacramento City Unified School District

By

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Oakland and Sacramento, CA

TABLE OF CONTENTS

INTRODUCTION

The Sacramento City Unified School District (District) has identified three real property assets owned in fee being considered for either utilization or disposition. These assets are described in detail in Section C of this report.

The District retained Overland, Pacific and Cutler, Inc. (OPC) to assist in analyzing the challenges and opportunities associated with the potential utilization (lease, joint occupancy, or joint use) or disposition of the properties, arrive at an opinion of lease fee and fee simple value, and provide input on a process for the potential utilization or disposition(s) of the real property assets. This analysis is required to assist the District in making sound real estate decisions.

OPC's process to develop this Preliminary Study began with developing a refined scope of work for the District's Chief Operations Officer (COO). OPC's refined scope included:

1. Analyzing the differences in regulatory requirements for utilization of a parcel versus disposition.
2. Collected and reviewing available data on the parcels.
3. Conducted multiple site visits to get a better understanding of the existing conditions of the parcels and their contextual surroundings.
4. Conferred with local real estate professionals to learn more about area market dynamics.
5. Reviewed the existing District real estate disposition policies and research other California local public agency real estate disposition policies, processes and resulting projects.
6. Reviewed applicable regulations to determine regulatory constraints.
7. Reviewed public records such as the Sacramento Zoning Code and Historical and Cultural Resources Survey.
8. Researched sales and listings transactions to derive on opinion of value for each site.

Depending on the actions taken by District's Board of Education and the direction given under those actions, OPC may take a deeper dive into certain areas within this report to develop more robust ideas and create specific steps to move forward and take additional actions. Any additional direction will add content to future iterations of this Study to help guide the District.

This report provides the following information to inform and advise the District's Board of Education (Board), their Executive leadership, and the ad hoc Committee formed to assist in deriving recommendations to the Board.

A. REGULATORY REQUIREMENTS: SCHOOL PROPERTY USE & DISPOSITION

Defining Surplus Real Property

Surplus Real Property defined under the Ed Code is "any real property, together with any personal property located thereon, belonging to the district which is not or will not be needed by the district for school classroom buildings at the time of delivery of title or possession."

AB-2135

AB-2135, effective January 1, 2015, amended the California Government Code 54220-54223. AB-2135 prescribes procedures for the sale or disposition of surplus land by California local agencies including school districts offering the property for the purposes of developing housing affordable to lower income households. Specifically 54222 of the Government Code requires the public agency to send a written offer to sell or lease property to local public entities such as the housing authority within the jurisdiction the parcel is located. Housing Sponsors as defined under Section 50074 of the California Health and Safety Code shall also be sent an offer upon their request. AB-2135 does not require the District to sell or lease property to either a public entity such as a housing authority or a housing sponsor for less than Fair Market Value (FMV).

Naylor Act (17485 - 17500 of the Ed. Code)

Certain methods to either utilize or dispose of surplus property are subject to the Naylor Act. The Naylor Act generally applies to any school site that is either leased or sold. However, the intent of the Naylor Act is to preserve real property for play grounds, fields and recreational uses. The governing board would have to determine the subject site had been utilized for those purposes.

Property Utilization

The Ed. Code provides the District the ability to continue "utilizing" properties that it has determined are not needed by the District for school classroom buildings. Means to utilize the property in a way that better leverages them include Leasing them to other entities, or entering into Joint Occupancy or Joint Use agreements for the properties. Below these three alternative transaction methods are described.

Lease

Per 17455 of the Ed Code, a lease not exceeding 99 years may be entered into. Per 17388 of the Ed Code, prior to the lease of surplus property, the governing body of the school district is required to appoint a District Advisory Committee (sometimes referred to a 7/11 committee) to advise the governing board in the development of district-wide policies and procedures governing the use (or disposition) of school building or space in school buildings which are not needed for school purposes.

Unless the lease agreement contains a purchase option, no public entities are entitled to priority in accordance with 17464 of the Ed. Code. Lease transactions may be subject to the Naylor Act.

Proposed leases of District property may be subject to California Environmental Quality Act (CEQA) requirement. District is advised to confer with legal counsel prior to any actions.

Per 17466 of the Ed Code, the District must declare its intent to lease surplus property. The Board of Education in regular open session must adopt a resolution by a two-thirds vote of all members declaring its intention to lease the surplus property. The resolution must describe the property, the minimum lease amount and the terms upon which the property will be leased. The resolution must also fix a time not less than 3 weeks to receive bids.

Per 17442 of the Ed Code at the time and place fixed in the resolution for the Board of Educations meeting, all sealed proposals received, in public session, shall be opened, examined, and declared. Those proposals submitted which conform to all terms and conditions specified in the resolution of intent to lease and which are made by responsible bidders, after deducting any commissions to be paid the highest bid shall be selected. A higher oral bid may be accepted at the meeting. An oral bid that exceeds the written bid by at least 5% cannot be finally accepted until it is received in writing. All bids may also be rejected (Ed. Code 17476). Final acceptance of a bid may occur at the meeting or at an adjourned session of the same meeting held within 10 days (Ed Code 17475).

It is recommended that a formal resolution accepting the successful bid be adopted that provides the terms, amount of the lease, and authorizations to execute a lease agreement.

Joint Occupancy

Per Ed Code 17515-17526, a district is allowed to enter into a lease with ANY person or entity for a period of 66 years. The agreement must include the following:

1) The contracting party must construct or provide for the construction of building(s) which will be jointly occupied by both parties.
2) Title to that portion of the building to be occupied by the private party remain the exclusive personal property of the private party.
3) Title to that portion of the building to be occupied by the district shall vest in the district upon completion and acceptance by the district.
4) No rental fee or other charges for the use of the building shall be paid by the district. And,
5) Require lessee to either post a performance bond or irrevocable letter of credit.

The governing board must adopt a resolution declaring its intent to consider proposals. The resolution must contain the following:

1) Description of the proposed site.
2) Intended use of that portion to be occupied by the district.
3) 90-days to receive and consider all plans and proposal submitted.

Per 17522 of the Ed. Code the adopted resolution must be published at least once a week for 3 weeks in a newspaper of general circulation. When considering a Joint Occupancy proposal or plan, the District may accept the proposal that best meets the needs of the district and enter into a contract incorporating the approved plan or proposal.

Joint use

Ed. Code 17527-17535 authorizes a district to enter into agreements to make vacant classrooms or other space in operating school buildings available for rent or lease. Any lessee is eligible except for private schools offering K-12 education. First priority must be given to educational agencies conducting special education programs and second priority to other educational agencies.

Conditions of a Joint Use Agreement are as follows:

1) Must comply with competitive leasing provisions of Ed. Code 17455.
2) Will not interfere with educational programs or activities, unduly disrupt the residents in the surrounding neighborhood, or jeopardize safety of child or school.
3) Space limitations provisions in the Ed. Code are not a concern given the three properties in question are vacant and not used as classroom space.
4) Duration may not exceed 5 years, unless capital outlay improvements are made on the school property for park or recreation purposes by public entities and non-profit corporations.
5) The rental or lease rate may not be less than FMV for comparable facilities, except if rented to public entities.

Disposition of Surplus Real Property

Sale

The first challenge to navigate in the real estate asset disposition process is to satisfy the requirements of the Sections 17387-17391 and 17455-17484 of the Ed Code apply to the District. In addition certain sections of the California Government Code also apply.

In order to comply with Ed Code Section 17387 the District must identify surplus property and convene a committee to develop a District wide policy on the use of the surplus real estate. In order to comply with Ed Code 17466 the District must declare its intent to sell the property to the general public and the Board must declare its intent to sell in a resolution.

The primary constraint to the entire disposition process via sale of an asset is Section 17464. The District shall follow the following priorities and procedures when offering a property for sale:

(a) First, any interested Charter School for purposes of providing direct instruction or instructional support. NOTE: The charter school would have 60 days to respond to the offer. This requirement is only in effect until June 30, 2016, which may be extended by legislation.

(b) Second, park or recreational purposes.

(c) Third, offered at Fair Market Value in,

1) Writing to the University of California and California State University systems, City of Sacramento, County of Sacramento, Sacramento Housing Authority, and any public entity that has previously submitted a written request to the District to be notified of the offer to sell or lease the property.
2) By public notice to any public district, public authority, public agency, public corporation, or any other political subdivision of the State of California, the federal government, and to nonprofit charitable corporations. Public notice to run in the Sacramento Bee.

(d) Public notice shall be run for three consecutive weeks. Written notice shall be mailed the parties described in a, b, and c above no later than the date of second public notification.

(e) The entity desiring to purchase or lease the property shall, within 60 days after the third publication date notify the District with its letter of intent to purchase or lease. If the District and the entity do not reach an agreement on price during a 60-day period, the property may be disposed of in accordance with the Ed Code.

Per a summary prepared by Lozano and Smith each group stated above shall have 60 days each to negotiate with the District. The District should seek a legal opinion to determine if all entities stated above are noticed concurrently, and no offers are received, if this approach would satisfy Ed Code Section 17464.

In accordance with Education Code Section 17466, the District may ultimately sell the parcels to the highest bidder. Bids cannot be opened any sooner than three weeks after the Board of Education adopts a resolution of intent to sell or lease the property.

Unless alternatives are decided upon that provide relief, only after these requirements are satisfied can the District negotiate freely with parties that are not another California Public Agency or a party serving a public interest.

Exchange

School districts are authorized to exchange any of their real property for the real property of another person or private entity (Ed. Code 17536-17538).

The exchange may be on the terms and conditions agreed to by the parties. And an exchange may be entered into without complying with any other provisions of the Ed. Code.

However, the governing board must adopt a resolution of intent to exchange the property. The resolution must identify the terms and conditions which the properties will be exchanged excluding the price.

B. UTILIZATION AND DISPOSITION ALTERNATIVES ANALYSIS

As described above there are five alternatives available to the District to engage with other parties to utilize or acquire the District's assets. Each has positive attributes and challenges.

Table 1 below briefly describes the positive attributes and challenges for each alternative as well as the work required to achieve each. This table can be expanded upon and used as a risk matrix to more thoroughly analyze risk associated with each option to provide the more Board with more information prior to making final decisions on each parcel.

Table 1: Alternatives Analysis

Alternative	Opportunities	Challenges	Additional Work Required for Alternative
Lease	Permits District to receive revenue, retains the property for future use at expiration of lease term, and does not require that public entities receive priority if no purchase option is included. Ability to share or transfer some risks associated with structural issues to other user.	The District would be required to undergo a formal bid solicitation process, consider higher oral bids prior to final acceptance of the highest bid, and would have to initiate and complete the CEQA process. Limited to 99 year lease term.	1) Adopt resolution to go out for bid; 2) Prepare solicitation documents; 3) Have properties appraised to determine FMV; and 4) Convene board meeting to select proposal or plan.
Joint Occupancy	Permits District to receive revenue, select the project they prefer, have facilities constructed to meet other District needs, retain property for future use at expiration of lease term, and does not require that public entities receive priority if no purchase option is included. Ability to transfer some risks associated with structural issues to other user. Entitlement risk transferred to lessee.	The District would be required to undergo a formal solicitation process, identify a use for educational or district use purposes achievable within the proposed project. Limited to 66 year lease term. May not find right partnership.	1) Determine the types of use it may want to have jointly occupying a property; 2) Adopt resolution to request proposals; 3) Prepare solicitation documents; 4) Have properties appraised to determine FMV; 5) Convene board meeting to select proposal or plan.
Joint Use	Permits District to receive revenue, opportunity to likely enter into shorter term agreement than lease or Joint Occupancy, and retain property for other types of transactions at expiration of lease term. Ability to share or transfer some risks associated with structural issues to other user.	Limited to recreational or educational users, must give priority to educational agencies. Limited to 5 year term unless improvements constructed by the user. Would need to determine another use. May not find right partnership.	1) Determine the types of use it may want to have jointly using a property; 2) Adopt resolution to request proposals; 3) Prepare solicitation documents; 4) Have properties appraised to determine FMV; 5) Convene board meeting to select proposal or plan.
Sale	Generate cash for other uses, dispose of parcels and associated costs and liabilities inherent with ownership.	Must give organizations not required to pay FMV priority.	1) Adopt resolution to go out for offers; 2) Prepare solicitation documents; 3) Have properties appraised to determine FMV; 4) Convene board meeting to select offer.
Exchange	Acquire parcel better suited for other facility needs. Possibility to receive some cash considerations if parcels received through an exchange are worth less than the parcels District exchanges.	Finding best exchange partner.	1) Adopt resolution to offer for exchange; 2) Prepare solicitation documents; 3) Have properties appraised to determine FMV; 4) Assess suitability of exchanged parcel(s); and 5) Convene board meeting to select offer.

C. REVIEW OF OTHER CURRENT PROJECTS AND DISPOSITIONS

OPC has researched various approaches school districts have utilized to capture the value of surplus and under-utilized parcels and improved properties. Districts across the country have engaged in the sale or lease of obsolete surplus properties. Based on OPC's research the majority of projects are for site redevelopment and or adaptive re-use of properties for housing (both market rate and affordable housing) and commercial uses solely for the use by the development entities. In most transactions the districts have not retained opportunities for joint operations or occupancy or entered into partnerships.

Overview of Examples Outside of California

In some cases such as in Albuquerque, NM a single former school site has been the catalyst to revitalize downtown areas, add new and unique commercial assets to neighborhoods such as what the McMenamins organization has done in Oregon and Washington, and created numerous new development opportunities through a structured program including on-line, auction style bidding, such as what the Kansas City Public School System has done. However, none of these examples were subject to the onerous regulatory climate present in California, which can be viewed as restrictive and difficult to navigate successful transactions through.

Overview of Examples in California

Two large school districts in California have or are in the process of developing Joint Occupancy projects; Los Angeles Unified School District (LAUSD) and San Diego Unified School District (SDUSD). OPC spoke with representative from both districts. Below is a synopsis of those conversations.

LAUSD

In 2008 LAUSD elected to solicit proposals for sites in Gardena, Hollywood and a site near the University of Southern California in Los Angeles County. LAUSD received proposals to develop low-income and work force housing on the sites. The developers were required to acquire all necessary entitlements and financing for the projects. The District received ground lease income and was able to reserve housing units for their teachers and staff and parking as their joint occupancy uses.

LAUSD's advise and lessons learned include the following:

1. Board of Education should adopt a policy to develop specific uses on underutilized parcels under joint occupancy agreements that cannot be developed with bond funds such as administrative space, training facilities, clinic spaces, law enforcement uses, or work force housing.
2. Avoid simply doing long-term leases for purposes not consistent with policy stated above.

Additional ideas gained from the conversation with LAUSD include conducting internal brainstorming sessions with District staff to derive ideas for potential JO opportunities.

LAUSD indicated a desire to form a working group with other school districts to share ideas and collect lessons learned.

SDUSD

The most recent example that presents the best comparable for the District to examine is the San Diego Unified School District (SDUSD) recent ventures into Joint Occupancy. After many years, and much criticism, of the SDUSD selling off assets, SDUSD has elected to go out for proposals for Joint Occupancy versus dispositions. In previous dispositions, although not Joint Occupancy, some assets are being developed as affordable housing with added community benefits such as learning labs. On August 1, 2014 SDUSD published a request for proposal (RFP) for Joint Occupancy proposals for five properties ranging from 4.39 to 15.47 acres including two active elementary schools, bus yards and administrative uses.

Under the solicitation process SDUSD held a mandatory pre-proposal conference, an initial qualification and interest period, a community engagement process, and ultimately final acceptance of proposals. SDUSD developed a list of pre-qualified parties, short listed development teams, and required developers to attend community meetings at the sites they were interested in proposing for. The RFP process spanned approximately seven months.

From the 5 parcels offered, one Joint Occupancy Agreement is known to have been entered into between SDUSD and a private entity. The deal involves a 6.72 acre site that will be developed for over 200 apartment units with some affordable units being targeted for priority occupancy by teachers through affirmative marketing efforts. The agreement would provide the SDUSD with an initial lump sum cash payment, a 66 year lease subject to consumer price index adjustments to set lease payments, and a district facility referred to as a "STEM" lab geared towards science, engineering and other highly valued learning pursuits for the district's students.

Lessons learned by SDUSD include:

1. Pick joint occupancy development programs that will comply with existing zoning and make economic sense.
2. Engage planning groups early and often to vet potential proposals, but be willing to disagree with ideas they may have.
3. Engage the board members where the sites are located to ensure their support.
4. Acquire title reports, environmental site assessments, and other due diligence materials and documents to ensure the site conditions are adequately known, and put the District in a position to advise potential partners of site constraints.

SDUSD was very open about their experiences and has an interest in continuing to share their experiences and learn from other districts.

Other Districts

OPC has spoken with Napa Valley Unified School Districts (NVUSD). Although no joint occupancy pursuits have occurred in recent years, NVUSD is underway with a 7/11 Committee process to identify sites for future school development as well as the development of teacher housing. NVUSD is early in their process and has in interest in sharing and learning from the District.

D. HIGHEST AND BEST USE AND OPINION OF VALUE

In accordance with the Sacramento Unified School District's Project scope, OPC prepared estimated leased fee and fee simple values of the three subject properties.

For the preparation of the estimate, OPC reviewed market values of recent sale and lease transactions and comparable properties currently listed for sale. OPC also reviewed available appraisal reports previously prepared and made various assumptions. These assumptions, along with the methodology applied for estimating the subject parcels are as follows:

Leased Fee

Assumptions

- Assume existing structures are demolished and cleared;
- Assume the lease is for the entire parcel;
- Factors considered and adjustments made in determining unit values were based on: location, accessibility, zoning, development potential, size, and year sold; and
- Reasonable rates of return on ground leases range from 7-10% of land value for long term leases. A 10% rate is assumed for this estimate.

Methodology

The estimated unit costs were derived from a market analysis of comparable sales, current listings and lease data in the surrounding area. Some of the elements of comparability include general location, accessibility, zoning and development potential. Based on the market information compiled, general per square foot values for the different property types and land uses were developed. These values were then adjusted and applied to the estimate for each subject parcel.

Fee Simple

Assumptions

- Highest and best use of the two historical sites (1619 N Street & 2718 G Street) are as vacant for future development. Unit values are based on the potential for development of mixed use commercial/multi-family residential units.
- The commercial parcel (2401 Florin Road) could both be sold as improved or as vacant for future development, estimates for both scenarios are provided.
- Factors considered and adjustments made in determining unit values were based on: location, accessibility, zoning, development potential, size, year sold

Methodology

The estimates were developed using the best information available. Office research and field inspections of the subject properties were conducted for the preparation of this report. Following are details pertaining to the research methodology.

The estimated unit costs were derived from a market analysis of comparable sales and listing data in the surrounding area. Some of the elements of comparability include general location, accessibility, zoning and development potential. Based on the market information compiled, we developed general per square foot values for the different property types and land uses. These values were then adjusted and applied to the estimate for each subject parcel.

Bare land values were used for estimating values of the sites as if vacant for future development. Additionally, demolition costs of the existing improvements were estimated and applied. Developed property values were also used for the commercially improved property (2401 Florin Road) and applied to the building square footage.

Additional Information

The estimate does not account for issues related to the sites' historical status for 1619 N Street & 2718 G Street.

E. SITE SPECIFIC EXISTING CONDITIONS ANALYSIS

Existing conditions analysis is a critical first step in analyzing a property for future development. This section discusses important known site conditions that can be ascertained through site visits, District document review, and a public records search.

To make a final site specific judgement a developer will conduct market analysis, financial feasibility analysis and development due diligence on a site after they have analyzed the existing conditions in order to make a decision to go forward with a project.

OPC has used this section to arrive at its opinion of the preliminary development potential for each site, identify gaps in data that may be needed, and identify challenges of each site.

Each of the three sites has been analyzed in this section to fullest extent possible given time and information constraints. Conditions not analyzed include environmental hazards that could diminish the value of the site (this would be identified through a Phase I Environmental Site Assessment (ESA) and possible further analysis at a Phase II or Site Remediation Plan, if necessary), constructability analysis of the soils (gained from a geotechnical investigation), structural and materials issues with site improvements (gained from a physical needs estimate or structural analysis).

Such information and studies would assist the District to better understand the assets they have, their development potential, and risks associated with them. However, the cost and time associated with obtaining such information outweighs the potential financial gain to the District and would be better suited for a prospective developer to obtain during a due diligence period. If the District were to enter into a complex real estate transaction such as a public private partnership, allowances for a detailed due diligence package would likely be needed in order to retain a private development partner.

1619 N Street (16th and N)

<u>Parcel Size:</u> The parcel is approximately 1.18 acres, or 51,404 square feet. The parcel is relatively small. However, in its urban infill environment, the site has great potential and value.

Present Use: The property is presently leased to Urban Core Integral, LLC for construction staging for the Eviva Apartment project. There is also paid parking at the site. The construction use is temporary. However, the parking lot operator may be entitled to relocation assistance under the California relocation Assistance Law (CRAL) should they be displaced by the project. Their lease does not contain relocation waiver provisions.

Zoning: The parcel is zoned R-5 (Multi-family Residential 70-150 units per acre). The zoning as later discussed lends itself to a range of residential development options. Development potential other than residential is limited without receiving extensive discretionary land use entitlements including a zone change.

Location and Neighboring Uses: 16th and N is in the core of downtown Sacramento. It is within an established mixed use neighborhood with a high amount of infill development and redevelopment occurring including new residential mid-rise construction. The site is also adjacent to State of California Administration buildings. The neighborhood is characterized by a mix of rental residential, neighborhood commercial (dry cleaners, salons), restaurants, bars and cafés.

Site Utilities Present: The site is served by all basic major wet and dry utilities needed for its current and zoned use. A developer would need to investigate whether or not upgrades may be needed. Urban infill sites frequently encounter decayed utility infrastructure. Such issues could diminish the value of the property during negotiations.

Historic Resources: The site is listed on the City of Sacramento's Register of Historic and Cultural Resources. Although the site's highest and best use is as a vacant development parcel, the demolition of the improvements would present significant schedule risks to a project unless the structures were deemed to be a risk to health, life and safety requiring it to be demolished.

Environmental Constraints and Challenges: Potential environmental contamination hazards resulting from the past and current use are not known. The site's building improvement materials are believed to contain asbestos and lead based paint. There are 168 environmental hazards within one mile of the site according homefacts.com including sixteen Brownfields sites, nine registered polluters, six Superfund sites, and 137 tank spills. Impacts of these issues on the site would be noted in a Phase I ESA.

2718 G Street (Old Marshall)

Parcel Size: 1.18 acres, or 51,401 square feet. The parcel is relatively small; however, in its urban infill environment the site has great potential and value.

Present Use: The property is presently vacant and not in use.

Zoning: The site is zoned R-3-A (Multi-family Residential, 36 units per acre/Special Planning District). The zoning as later discussed lends itself to a range of residential development options. Development potential other than residential is limited without receiving extensive discretionary land use entitlements including zone change.

Location and Neighboring Uses: Old Marshall is within an attractive and established residential neighborhood, and is a registered Historical District in the City of Sacramento. The neighborhood has some neighborhood commercial uses, but is primarily a residential area with a mix single and multi-family residential. The neighborhood is attractive and offers a range of housing options to a diverse population.

Site Utilities Present: The site is served by all basic major wet and dry utilities needed for its current use and its zoned use. A developer would need to investigate whether or not upgrades may be needed. Urban infill sites frequently encounter decayed utility infrastructure. Such issues could diminish the value of the property during negotiations.

Historic Resources: The site is listed on the City of Sacramento's Register of Historic and Cultural Resources. Although the site's highest and best use is as a vacant development parcel, the demolition of the improvements would present significant schedule risks to a project unless the structure were deemed to be a risk to health, life and safety requiring it to be demolished.

Environmental Constraints and Challenges: Potential environmental contamination hazards resulting from the past and current use are not known. The sites building improvement materials are believed to contain asbestos and lead based paint. There are 100 environmental hazards within one mile of the site according homefacts.com including two Brownfields sites, nine registered polluters, three Superfund sites, and 86 tank spills. Impacts of these issues on the site would be noted in a Phase I ESA.

2401 Florin Road (Florin Rd)

Parcel Size: The parcel is approximately 6.77 acres, or 294,901 square feet.

Present Use: The property is presently leased and utilized by Destinations Mobility, a division of Paratransit, Inc. (lessee). The lessee utilizes the former automotive dealership site for parking as well as vehicle service. Any redevelopment could potentially displace a portion of the lessee’s operations and may be subject to CRAL. No provisions in the current lease address the lessor’s obligation if their displacement for a District project.

Zoning: The property is zoned C-2 General Commercial and permits a range of uses including retail, residential and office.

Neighboring Uses: The adjacent uses are commercial retail strip centers. There is a high concentration of automotive related businesses including automotive supply retail businesses and automotive repair businesses (Auto Zone, O’Reilly Auto Parts, Macco, and Mineke). There is a high concentration of Hispanic and Asian community themed strip centers and businesses. There are multiple grocery stores within one mile as well as chain retail drug stores (Walgreens and CVS). Within a one mile area there are several single-family residential neighborhoods, and multi-family rental properties and vacant lots. The Sacramento Regional Transit (RT) Florin Road Light Rail Station and Park-n-Ride Facility is within approximately one mile of the Site.

Site Utilities Present: The site is served by all major wet and dry utilities needed for its current use and its zoned use. A developer would need to investigate whether or not upgrades may be needed.

Historic Resource Challenges: The site is not a registered historic site or within a historic district.

Environmental Constraints and Challenges: The area is prone to flooding. Potential environmental contamination hazards resulting from the past and current use are not known. There are 20 environmental hazards within one mile of the site according homefacts.com including four Brownfields sites, one Superfund site, and 15 tank spills. Impacts of these issues on the site would be noted in a Phase I ESA.

F. DEVELOPMENT POTENTIAL AND CONSTRAINTS

In preparation of this section of the report, OPC consulted with local real estate professionals regarding current market conditions, appetites, and opportunities in addition to its own independent analysis. OPC's opinion does not reflect what a potential proposal might be for the property.

16th and N: This parcel is viewed by most as the prize of the three parcels. The Site is approximately one mile from the Sacramento King's new arena, currently under construction and slated to open in the fall of 2016. The completion of the arena could spark an additional wave of demand for downtown commercial retail and hotel product as well as residential development. With a further reduced supply of parcels, the subject parcel would have an even greater market value.

On the opposite corner from the Site, the Eviva Midtown apartment development is under construction and is scheduled to open in 2016. This is an example of the continued trend and appetite in the market for more and higher density residential development.

The zoning permits up to 150 units per acre of multi-family residential product. Single-family residential is also allowed, however, in any other than townhomes, this product would likely not be financially feasible and would significantly under-utilize the site The zoning permits up to 25% of the gross floor area (not to exceed 6,400 square feet) to be used for any combination of retail, office, restaurants, or other non-residential uses. Uses that serve alcoholic beverages require a Conditional Use Permit (CUP) and are limited to the same area limits as retail. Greater intensity of these uses would require a zone change. Hotel development would be permitted on the entire site.

The market in Sacramento, like many parts of the country, is still soft for speculative office and retail development and it's believed by some local real estate professionals that the key/room rates are too low for a substantial hotel project without public subsidy.

The Site is well positioned and zoned for residential high rise construction. However, the historic site improvements makes such a development challenging. The property would need to be cleared for the site to yield its maximum number of units permitted, which could make a rental development infeasible.

The historic structure could be incorporated into a mid or high rise rental flat or loft residential project with residential towers constructed on the vacant parcels on the east and west sides of the Site, with the historic structure serving as a center piece and used as additional residential units, commercial space, or residential site amenities such as a gym or club house. The existing buildings require substantial structural improvements and abatement of hazardous materials such as asbestos and lead based paint.

A similar concept could be applied to a for-sale residential project. Under the zoning a range of products is allowed including mid and high rise flat style condominiums, mid-rise lofts, townhomes or detached residential units. Market demand for ownership units may be low in the area. However, there are few if any for-sale residential projects with the downtown area. This factor coupled with the relatively low number of units this site could yield equates to a small risk for an experienced developer seeking to make a market where they feel there could be demand;

For this site, a savvy developer may be able to obtain Historic Tax Credits for a re-use project.

An analysis of potential residential demand should be performed to evaluate acquisition proposals for residential development. OPC can perform this analysis at an appropriate time which would factor building permit demand and sales velocity against population, income and job growth in the market area.

Old Marshall: The zoning permits up to 36 units residential units per acre of multi-family or single-family residential. The zoning permits a community market, a market garden (market selling produce grown on-site) under an acre, and some urban agriculture uses such as a community garden. A bed and breakfast (not to exceed seven rooms) is permitted with a Zoning Administrators CUP. Child care facilities and other community serving uses require a CUP approved by the Planning and Development Commission (PDC). Hotels, restaurants, bars, retail and office development are not permitted by or permitted with a CUP; these types of uses would require a rezoning of the property.

One concept that has been suggested for the site is to adaptively re-use the property for a mixed use hotel, restaurant, and pub development model that has been successful in Oregon and Washington by McMenamins. A similar concept has also been developed at Union Station in Denver's LoDo District. The primary challenge for such as concept is the necessity to re-zone the property. OPC has reached out to McMenamins to ascertain their interest in entering the California market place; no response has been received. It is believed that this firm is not interested in entering into California. Such a concept could be a candidate for Historic Tax Credits and because of a commercial and jobs producing component, possibly also New Market Tax Credits.

The Site is zoned and is well positioned for multi-family apartments (rental) or for-sale single family attached or detached residential uses. The location of the historic site's improvements, makes rental residential development challenging. The property would need to be cleared to allow the site to yield the maximum number of units realized. The historic structures could be rehabilitated and adaptively re-used as residential units, or residential site amenities such as a gym or club house. Such re-use project could be a candidate for Historic Tax Credits but not New Market Tax Credits.

In addition to market rate housing, the site could also be an attractive candidate for an affordable housing development project. Such a project would likely score well for Low Income Housing Tax Credits.

An analysis of potential residential demand should be performed to evaluate acquisition proposals for residential development. OPC can perform this analysis at an appropriate time.

Florin Rd.: As zoned (General Commercial) the Site has a number of permitted uses including retail, office, restaurant, or multi-family. Automotive uses and businesses that sell alcoholic beverages require a CUP approved by the PDC.

The best potential use of the site would be as a subdivided retail development property or as an anchored retail strip center. There is a Walgreens on the adjacent parcel sited on 1.17 acres at the corner of Florin and 24th Street. A previously un-solicited proposal was made to acquire a portion of the 6.77 acre site for a discount retail store (Family Dollar) on a similar sized parcel as Walgreens. This type of retailer appears to fit the demographic profile of the area and provided something missing in the market.

There is a relative glut of vacant infill parcels ranging from a half acre to over eight acres and potentially functionally obsolete commercial properties that marginalize the development potential of the site. These sites would serve a similar demand in the market place as the subject parcel. However, the site does benefit from being a corner lot.

This site may benefit from the District investing time and money into preparing it for disposition. Such preparations would include demolishing all site improvements to clear the site and subdivide it into four parcels. By only creating four parcels no subdivision map would be required; only a plat, which is a less intensive entitlement process. This would give the District the opportunity to market multiple retail parcels versus one site. All four could be acquired by one developer, or several.

Conceptually a Family Dollar type retailer could be sited adjacent to the Walgreens fronting Florin Rd. leaving five plus acres fronting 24th Street. The remainder could accommodate similar supporting retailers, restaurants, or possible multi-family housing.

The site could present a good opportunity to an affordable housing developer given the commercial amenities proximate to the site, access to bus and light rail transit, and the County facilities on the south side of Florin Road. Five acres could yield well over 100 units of housing. The site would likely score well for Low Income Housing Tax Credits and could possibly receive HUD HOME or CDBG funds from the City of Sacramento.

G. DISPOSITION POLICY AND STRATEGY

Unless it can be found that the District has engaged in a sufficient process through previous committees or its current Adhoc committee work to satisfy the requirements per 17387 of the Education Code as described in Section A, the District must take the steps to satisfy this requirement. A sound policy and approach to transactions is as follows:

1. Districts primary real estate goal is to own, manage and maintain assets that assist them in furthering their core mission i.e. to provide quality public education to the children in the City of Sacramento.
2. District should not speculate on real estate including the acquisition of future real estate and holding existing assets.
3. When it is determined that an asset is to be repositioned through a Joint Operation or disposed of, the District should take all measures to optimize the financial value received for the property, which includes analyzing its highest and best use and marketability. This analysis will aid the District in effective negotiations with an offeror.

4. An alternative to disposition through lease, sale, or exchange are joint operations agreements so long as the subject parcel can accommodate the Districts needs.
5. District should secure its own appraisal to determine the FMV when either a transaction or authorization to sell or lease is presented to the Board for approval.
6. In the case of a disposition, the District should utilize the most effective form of agreements for entering into negotiations with a buyer and transacting the disposition. For transactions where the District seeks to achieve multiple goals (i.e. the highest price and guiding the future use of the asset), is complex such as an exchange, or involves multiple parcels an Exclusive Negotiations Agreement (ENA) that commits both sides to reaching agreement on terms prior to an agreement for disposition should be entered into. Upon reaching agreement on the ENA the District and buyer would then negotiate and enter into Disposition and Development Agreement (DDA) if the District would be a partner in the transaction. The DDA serves to identify the District's and Buyer's roles and responsibility in the deal and a timeline for closing the transaction. In cases where the transaction is not complex, does not require District involvement in a project, and only involves one parcel, a simple Purchase and Sale Agreement (PSA) can be entered into. A term sheet with deal points is recommended to help facilitate the PSA.
7. When the District is to enter into a Joint Occupancy Agreement, the District shall construct a draft agreement prior to release of an RFP that provides for the most favorable terms for the District.

H. RECOMMENDATIONS

The District has to make critical decisions in regards to their goals for the disposition process and the approach it will take including complying with the Education Code where applicable. Part of the decision making process is to determine the level of effort and resources it can commit, its appetite for risk, and alternatives it would consider in lieu of the primary goal it establishes.

The ultimate goal has been expressed to solicit buyers, lessees, or partners for the sites to monetize these assets as they are no longer suitable for the District's purposes. This ultimate goal would be carried out through a Request for Qualifications/Proposal

(RFQ/RFP) process or another form of a competitive bidding process. NOTE: The District should seek legal counsel on risks associated with how the process is classified and if one is more favorable under the District's policies and the Education Code.

The goal to outright dispose of the parcels is sound, permitted by the Education Code once those with certain priorities are offered the property, and is within current best practices for local public agencies seeking capital for other projects. However, the District does need to make well thought out decisions before finalizing the solicitation process and documents.

Entering into a ground lease is a viable option and could provide some relief from the Ed. Code; however, it would not return a sizeable amount of money immediately that could be used for facility real estate acquisition and development unless leveraged with other funds. A joint occupancy agreement may be the best vehicle to achieve both monetization and space needs.

Below are some suggested goals and processes to consider. Each goal has an objective and the objective carries certain risks and additional risks may be identified later in the process that will need to be considered. Each of these discussions assumes that the requirements under the Education Code have been met.

In any case, the District should consult its legal counsel to for an opinion of whether these alternatives will work within the boundaries of the State's Education and Government Codes.

Goal for Utilization or Disposition:

Does the District want to 1) Monetize the assets with limited involvement; or 2) Monetize the assets and maintain some control over the end result, possibly becoming a project partner.

As provided in Section A of this report there are several alternatives available to District that would facilitate the disposition or utilization of the asset. Below are descriptions of the alternatives with the exception of a sale or long-term ground lease.

Joint Occupancy: In cases where a property is suitable to provide the District with space to provide needed facilities or services, a joint occupancy partnership should be considered. The District should have a clear idea what types of uses it could feasibly have accommodated at a particular property. A joint occupancy would be carried out under an RFQ/RFP process. It is possible to utilize both joint occupancy and property exchanges in transactions; doing so may add to the complexity of a transaction, bit may also yield the desired results.

Property Exchange: An alternative to monetizing the assets is seeking a trade of assets. The District has facility needs and goals that may better be achieved through exchanging property versus liquidating parcels and acquiring other property. The District will have to ensure that it receives FMV through the exchange, which could result in the District receiving property and cash considerations if the exchanged parcel is worth less than the Districts parcel.

Ground Lease and Sale and Lease Back: An alternative to liquidating and monetizing the assets is seeking a sale and lease back for the construction of a needed facility that could be accommodated on one of the sites. This approach could be combined with an exchange.

Create Additional Assets: Creating additional assets by sub-diving parcels could present the District with the opportunity to retain a portion under a ground lease and liquidating the other portions. This could be used as a means to retain some level of control over the end product while still quickly monetizing some assets. By sub-dividing and only offering a portion of a site for disposition as a partnership with the District could limit the value to an entity that would have the ability to pay less than FMV. This approach could also be used as a vehicle to make the District a partner in a deal.

Below are some suggested goals, objectives, and opinions of the risks associated with each. It should be noted that risks can have positive elements when fully understood can be exploited for the District's benefit and negative that present threats to the District. The suggestion of risk is meant to raise awareness of potential challenges and not suggest that one goal or objective is superior or will produce a better or worse result than the other.

Goals, Objectives and Risks

1. *Monetize the Assets With Limited Involvement -*

   Goal: Monetize the assets to make additional capital available for the District's core competency of administering public education and managing the facilities required to do so. This goal is simply using the assets the help finance other projects. This is achieved by electing to dispose of the sites following the course required in the Educational Code and seeking the best possible financial outcome with the least amount of timing risk.

   Objective 1: Through a single transaction, dispose of the parcels to capture the highest price with the shortest closing schedule. The developer's project would, in the end, be solely the developer's vision based on their interpretation of what is the highest and best use of the site, the level of financial risk they are willing to take with the development and total control over the decisions that need to be made to achieve their vision.

   Possible Risk(s) Associated With Objective: 1) Limits the potential pool of prospective offers given the unique site issues with each parcel; 2) Limits the price paid for each parcel. Buyer may discount the overall offer to mitigate its risk; 3) Result in no offers; 4) Limits the District's control and input over the development of each site; 5) Increases complexity of the transaction; and 6) Limits creativity in the transaction by negotiating with only one entity for all sites and thus the possible gain for the District.

   Alternate Objective 1: Through multiple transactions, dispose of the parcels to capture the highest price with the shortest closing schedule.

   Possible Risk(s) Associated With Objective: 1) May still limit the potential pool of prospective offers given the unique site issues with each parcel; 2) May limit the price paid for each parcel because there are not multiple properties for the buyer to spread their risks; 3) Limits the opportunities for Joint Venture partnerships i.e. a JV comprised of a residential market rate, residential affordable housing and retail developer may not pursue each parcel individually given the risk of not acquiring multiple or all parcels; 3) Increases District staff and consultant time and costs to evaluate proposals and ultimately close the transactions; 4) Limits the control and input over the development of each site; 5) Could result in no deal being struck on one or all three parcels; and 6) Reduces complexity of the transaction but limits creativity in the transaction.

Process Used to Achieve Goal: Sale, lease, or exchange could be utilized to achieve this goal

2. *Monetize the assets and maintain some control over the end result, possibly becoming a partner in the project.*

   Goal: Maintain control over the assets to ensure that a suitable project is achieved based on the District and their constituent's input.

   Objective: With this goal the District would be deciding that it wants to select a developer that will work with the District and its constituents that helps to achieve a project they approve of.

   Risks Associated With the Objective: 1) The end goal will not necessarily achieve the highest purchase price in the shortest period of time or yield the project desired by the District; 2) The District will have to devote time, money and resources to facilitate a project versus closing a real estate transaction; 3) There will be a smaller pool of potential offers as many Developers will not want to be restricted by the parameters of such a partnership; 4) The developers philosophy regarding participation may be much different than the District's; 5) The District may need to take on some of the development risk in order to realize a premium on the transactions closing price; 6) Could involve the District entering into a ground lease that will require long-term administration of the lease and put the District at risk of having to recover missed payments or possible the land if the development is not successful; and 7) Takes the District out of its core competency.

   Process Used to Achieve Goal: Joint occupancy, lease, sale or exchange would achieve this goal

Recommendation: District should pursue the highest financial return with the least amount of time risks and use of District resources.

Solicitation and Selection Process:

The second decision the District has to make is the process it will undertake for the disposition.

1. The District first has to decide what the solicitation process will be i.e. RFQ or RFP? Two questions are to be considered. OPC's recommendation is provided after the question.
   a. Should the District seek qualified developers to negotiate with and then seek proposals from a qualified list? Or,
   b. Seek proposals and negotiate with the party making the best offer for the parcels?

   Recommendation: Start with an RFQ process to determine if qualified buyers pursue the properties. Statements of Qualifications (SOQ) should include the developer's high level proposal for the site, their estimated offer price, their request for District participation and closing terms, the structure of the entity to acquire and develop the property (Joint Venture, ect.), the entity's level of experience and track record of success for what they are proposing to do, and references for similar projects. If no SOQ's are received then the process could be modified as a competitive bid process with the District selecting the best offer.

2. The District has to decide whether to offer the parcels individually or as a package.
   a. Offering the parcels as a package may increase control over the timeline and quickly monetize the assets. It may also encourage joint ventures to be formed and bring in a more experienced development team. This approach does not guarantee a higher purchase price and could result in a more complex transaction.
   b. Offering the parcels individually may encourage a greater range of proposals. However, a larger pool does not guarantee a higher quality pool of proposers. A glut of inexperienced developers could pursue the properties, pitching unrealistic purchase prices and closing terms. Could serve to limit qualified developers who can spread their risk across

multiple sites as it could not be guaranteed that they acquire all that they need to acquire.

Recommendation: Offer the parcels as a package or as individual transaction to increase opportunities for making a good decision and having a better understanding what the market will bear. The District should reserve the right in the RFP to reject any and all offers at its discretion and choose to enter into negotiations with as many proposers as they deem necessary to achieve its goal. District should seek options or hard money deposits should a lengthy escrow be proposed.

3. How will proposal be evaluated?

   Recommendation: Convene a panel of three to five members to review, evaluate and score each proposal. Each panelist should be required to sign a confidentiality and non-disclosure agreement, sign an acknowledgment that they have no conflict of interest and in no way will gain materially from the transaction. It would be suggested that members of the Board of Education be restricted from the panel because they will ultimately have to adopt a resolution approving the District to enter into negotiations and close on the transaction.

I. NEXT STEPS

1. The District needs to ensure it establishes a course of action that does not violate the Education Code.
2. District needs to determine what its goals are, what process it wants to undertake for soliciting entities to acquire the parcels, alternatives it may elect to explore, risks they are willing to take, and proceed accordingly. This can be done concurrently with taking steps to satisfy the Ed. Code.
3. Once the District satisfies the applicable sections of the Ed. Code, they would proceed with the offering process of the parcels to other potential buyers i.e. the RFQ/RFP process.
4. If seeking to pursue a Joint Occupancy, the District must evaluate its needs and determine they types of uses, or use they would seek at each site, for example if Florin Road is suitable for a central kitchen facility, that will need to be included in the solicitation for proposals for that site.
5. OPC has prepared a sample RFQ that considers the District seeking to dispose of all three parcels as a package or individually, work with a selected developer

on the final development concept, and provide some level of influence to facilitate the best possible project. This RFQ can be revised to match the direction the District chooses to proceed in. Multiple versions of an RFQ or RFP may be necessary depending on the direction proposed by the District.

The District needs to fully understand any ramifications of its actions and consult with its legal counsel before making any final decisions.

J. SCHEDULES FOR FURTHER ANALYSIS AND DISPOSITIONS

Presently OPC is concluding the following work. OPC's original schedule is provided below. The completion dates are all on or ahead of schedule.

Table 4: OPC Real Estate Analysis Project Development Schedule

Activity	Duration - Business Days	Time Line	Status
Kickoff meeting	1	Sept. 29, 2015	Completed
Project Planning	10	Oct. 5 - 16 2015	Completed
Additional Site Visits	1	Oct. 21 2015	Completed
Data Acquisition	25	Oct. 5 - Nov. 6 2015	Completed
Data Analysis	10	Nov. 9 - 13 2015	Completed
Highest and Best Use Analysis	20	Nov. 9 - Dec. 9 2015	Completed
Developer and Project Research	20	Nov. 9 – Jan. 31 2016	In Progress
Develop Strategy Statements	5	Dec. 7 -11 2015	Complete
Develop Strategy for Utilization or Disposition	5	Dec. 14 -18 2015	Guidance Provided in Report, Pending Further Direction
Risk Assessment	5	Dec. 14 –Jan. 31 2016	Complete
Prepare Final Report	3	Jan. 11 – Jan. 31 2016	Completed. Pending Further Action From the Board to Determine Any Additional Analysis
Develop Draft RFQ	3	Dec. 21 - 23 2015	Draft/Shell Complete. RFQ(P) to Be Elaborated Based on Board Direction
OPC QA/QC	5	Dec. 24 - 31 2015	Complete
SUSD Review	10	Jan. 11 -31 2016	In Progress

OPC has developed a preliminary, high level schedule for the conclusion of the analysis process, Board authorization to proceed with the proposal solicitation process and future disposition of the assets. If it can be determined that provisions in the Education Code have been satisfied or are not applicable, this schedule can be expedited.

Table 5: High Schedule for Disposition Process

Activity	Duration in Months	Time Line
Board Resolution Directing Process	1	Feb. 2016
Finalize Form of Offering (RFQ,RFP, RFB, Listing)	1	Feb. 2016
Offer Parcels for Disposition Under Educational Code Requirements	6	Mar. - August 2016
Offer Parcels for Disposition Under RFQ,RFP, RFB, or Listing	2	Sept. - Oct. 2016
Review Proposals/Offers and Interview Short List	1	Nov. 2016
Return to Board of Education With Recommendation for Disposition	1	Dec. 2016
Enter Into Negotiations for Disposition	1-4	Jan. - Apr. 2017
Close Transaction	20	May-17