



## Legislation Text

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**File #:** 18-537, **Version:** 1

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*Report Prepared by: Frank Quintero, Director of Economic Development*

**SUBJECT:** Authority to Pursue an Exclusive Negotiation Agreement Regarding the Former Police Headquarters Site

### REPORT IN BRIEF

Staff is requesting authority from the City Council to begin discussions with Valley Children's Healthcare for an Exclusive Negotiation Agreement regarding the former Police Headquarters Site.

### RECOMMENDATION

**City Council** - Adopt a motion authorizing staff to pursue an Exclusive Negotiation Agreement with Valley Children's Healthcare for the former Police Headquarters Site; and, directing staff to return the Exclusive Negotiation Agreement to the City Council for consideration.

### ALTERNATIVES

1. Authorize staff to pursue an Exclusive Negotiation Agreement with Valley Children's Hospital as recommended by staff; or,
2. Direct staff to pursue an Exclusive Negotiation Agreement with True North Properties for a hotel and restaurant; or,
3. Direct staff to re-issue a Request for Proposal for the Former Police Headquarters Site; or,
4. Refer to staff for consideration of specific items (specific items to be addressed in the motion); or
5. Continue to a future meeting (date and time to be specified in the motion); or,
6. Deny

### AUTHORITY

Merced City Charter, Section 200

### CITY COUNCIL PRIORITIES

City of Merced Adopted Budget Fiscal Year 2018-2019, Section 10 - Public Safety, Police, Police Headquarters - "In accordance with Council Goals & Priorities concerning Future Planning, the Merced Police Department will continue to work closely with City staff to compose an accurate needs assessment and ideas for possible funding options for the construction of a new Police Headquarters."

### DISCUSSION

On September 10, 2018, staff issued a Request for Proposal soliciting development proposals for the former 4.54-acre Police Headquarters site located on the northwest corner of Yosemite Avenue and Mansionette Drive (ATTACHMENTS 1 and 2). The proposals were due on September 21, 2018. With 15 persons expressing interest in receiving the RFP for the development opportunity, staff

received two proposals. Valley Children's Healthcare proposes to develop a medical center on the subject site, and the True North Properties proposes to develop a hotel and restaurant on the subject site.

### Evaluation Committee

Staff formed an internal Evaluation Committee consisting of Assistant City Manager Stephanie Dietz, Finance Officer Venus Rodriguez, and Director of Economic Development Frank Quintero. The Committee unanimously agreed that the proposal from Valley Children's Healthcare would best suit the City of Merced because of its uniqueness, opportunity to serve as a draw to the community, and the area's need for advanced medical care.

The Evaluation Committee is requesting the City Council authorize staff to pursue an Exclusive Negotiation Agreement with Valley Children's Healthcare.

### The Request for Proposal

Key components of the Request for Proposal (RFP) focused on the developer's ability to deliver a quality, well designed, and planned project. The proposed development should be consistent with the land use designation of neighborhood commercial, and would be unique, or different, for the community, and complement the surrounding land uses. The minimum bid considered for the subject site, \$1,980,000.00.

Other information asked for through the RFP included information about the development team members, relevant project experience, ability to pay for the property, and economic data such as building value and jobs. The RFP calls out that the selected respondent and the City would make best efforts to negotiate an Exclusive Negotiation Agreement (ENA), 60-days from selection. Should the top proposer and City not agree on terms for an ENA, the City retains the right to end discussions with the top respondent, and may pursue an ENA with next best proposer.

### Proposal - Valley Children's Healthcare

To expand services in Merced, Valley Children's Healthcare proposes to develop a pediatric primary and specialty care medical office building on the Former Police Headquarters Site. Valley Children's pediatricians and pediatric specialists would be the occupants of the medical office building. The first phase of the building may consist of 15,000 to 20,000 square feet. They anticipate that demand for pediatric services in Merced could grow to require a 40,000-square-foot medical office at full build-out.

Over the past three years, Valley Children's has envisioned and executed three similar projects around the Valley. In July 2018, VCH opened an 18,716-square-foot medical office building in Clovis. On October 1, 2018, VCH opened a new 51,517-square-foot medical office building in Bakersfield. A 40,243-square-foot medical office building in Modesto is slated to open in February 2019. The Merced medical office building will be similar in design concept to the Clovis location (ATTACHMENT 3).

Other proposed project information (estimated):

**Land Price:** Valley Children's offering price is \$1,980,000 for the site, all cash at close of escrow. In addition, VCH is offering five percent above another third party's bona fide offer in excess of \$1,980,000 for the site.

**Project Value:** \$20 to \$30 million at full build-out.

**Job Creation:** 50 to 60 full-time equivalent employees at full build-out

**Salary and Benefits:** \$4 million to \$5 million at full-build out

**Property Taxes:** VCH is a tax-exempt organization

**Sales Taxes:** Medical services provided by VCH are not subject to sales taxes

Valley Children's Healthcare anticipates that the City of Merced will receive financial benefit from the families who visit the medical offices. At full build-out, VCH estimates serving 12,000 patients from outside Merced.

#### Proposal - True North Properties

True North Properties (TNP) believes there is a need for a new, high quality extended-stay style hotel in the subject area since all the existing hotels are oriented to State Route 99. The proposer feels the subject site is an ideal location for a 3-4 story hotel that will encompass approximately 2.5 acres of the site (ATTACHMENT 4 - Example projects included). The hotel use may require a General Plan Amendment since the proposed land use is not allowed in the neighborhood commercial land use designation.

The 3-story hotel will encompass approximately 2.5-acres leaving approximately 2-acres for a sit down restaurant or multi-tenant retail building. True North Properties has not had time to market the property, but they do have some specific tenant(s) that would be well suited for the remainder of the property.

True North Properties intends to market and design both the former Police HQ Site and the Wathen property into one integrated project. The Wathen family members, who currently own the adjacent 22-acres, will remain partners in both the future 22-acre development, and possibly the former Police HQ Site.

Since the City acquired the subject property from the Wathen Family with the purpose of constructing a Police Headquarters, True North Properties believes there are benefits to combining the two properties into a single integrated development. Benefits for integrating the two sites include supporting architectural styles, landscaping, complimentary uses, marketing efforts, and consistent on-going management.

Other proposed project information (estimated):

**Land Price:** True North Properties proposes a purchase price of \$2,000,000 subject to obtaining a General Plan Amendment and other entitlements.

Project Value:	\$15 to \$18 million at full build-out.
Job Creation:	Subject to the brand of hotel selected and commercial uses
Salary and Benefits:	Subject to the brand of hotel selected and commercial uses
Property Taxes:	Subject to the brand of hotel selected and commercial uses
Sales Taxes:	Subject to the brand of hotel selected and commercial uses

Staff understands that hotel corporations and commercial establishments have different building, machinery, equipment, operation, and employee requirements. With this in mind staff appreciates that some data could not provide as part of the proposal. The hotel developer listed as a partner in True North Properties' proposal is The Hotel Group. The company has relationships with Marriott, Hilton, Hyatt and other national brands. True North Properties re-used a former bank building in Merced at the southwest corner of R Street and W. Olive Avenue, and has connections with major commercial users.

### Property History

The subject site, 4.54-acre Former Police HQ Site, was acquired from the Estate of Spaulding Wathen on March 1, 2010 for \$1,090,135.00. As the Great Recession took its toll on construction in Merced, the City did not collect sufficient development fees to start build on the subject site. The City Council re-considered the Police Headquarters project, and concluded the site was not the optimal location to serve the community as a whole. Council directed staff to find another location for the Police HQ Project.

The former Merced Sun Star site was acquired as the new Police HQ site, and staff started the process to meet the Surplus Land Act offering required public entities the property for affordable housing projects or park purposes. The City did not receive correspondence requesting acquisition of the parcel.

Staff retained the subject site with the thought that the asset could be included as part of a funding or construction transaction such as a Public Private Partnership (P3). Although a P3 remains an option to complete the Police HQ Project, staff concluded that the economic conditions best supported the sale of the subject site and using the proceeds as capital to advance the Police HQ Project.

### **IMPACT ON CITY RESOURCES**

No appropriation of funds is needed.

### **ATTACHMENTS**

1. Subject Site Map
2. Surrounding Land Uses
3. VCH Site Plans and Elevations
4. True North Site Plan, Elevations & Example Projects