



CITY OF MENIFEE

SUBJECT: Approval of Purchase and Sale Agreement for Acquisition of Real Property

MEETING DATE: February 1, 2023

TO: Mayor and City Council

PREPARED BY: Gina Gonzalez, Economic Development Director

REVIEWED BY: Rochelle Clayton, Assistant City Manager

APPROVED BY: Armando G. Villa, City Manager

RECOMMENDED ACTION

1. Approve and authorize the City Manager to execute a Purchase and Sale Agreement for real property between Bank of America, National Association and the City of Menifee, for property located at 26800 Cherry Hills Blvd, Menifee, CA (APN 337310009) in an amount not-to-exceed of \$1.675M; and
2. Designate the City Manager to execute any agreements or documents required for the acquisition of real property (APN 337310009) including but not limited to escrow, broker fees, title, insurance, and formal bonding appraisal in a not-to-exceed amount of \$40,000; and
3. Approve Phase I Tenant Capital Improvement Project budget of \$500,000 for necessary improvements; and
4. Adopt a Budget Amendment Resolution (BAR) appropriating \$2,215,000 in expenditures and revenues from American Rescue Plan (ARP) funds towards the purchase of the Bank of America property and related tenant improvements.

DISCUSSION

Since the City's incorporation in 2008, Menifee has experienced extraordinary growth and is now considered California's #1 Boomtown and #5 Boomtown in the nation because of it. The City has been working in overdrive to provide expanded services to residents and businesses to meet the needs of the growing population. In its 14th year since incorporation, Menifee still has limited facilities and assets available to build programming and partnerships.

In 2020, City staff began looking for available office space for general services because of its overall expanded growing population and needs. Such uses may include office space for city services, space to expand police department programs and services, community classes and programs, facility rental space for the public to utilize, four-year education partnership space, or a business incubator. With limited inventory of office space available, finding suitable space to meet the demand has proven to be particularly challenging. As a relatively new and still developing community, the space that has been available is either new construction or existing properties that are outdated where the improvements outweigh the benefit of the acquisition. While staff has continued to track properties throughout the City, recently they were made aware of an upcoming opportunity with the vacated Bank of America building located at Cherry Hills Plaza.

Bank of America Corporate has made a conscious effort to permanently close various facilities across the nation, including the Sun City location. The consolidation of Bank of America resources and services is largely due to the pandemic as well as the availability of 24/7 online banking, mobile banking, and ATMs being able to provide banker service. At this time the only physical Bank of America location within Menifee is the Antelope branch located at 30187 Antelope Road, Menifee, CA 92584. The Sun City location is presently vacant, and it is the intent of Bank of America to sell the property. Staff has screened the property to assess if the site could potentially help address some of the existing spacing needs, as well as ensure maximum potential use of the property.

To better serve the Menifee community, the facility is being proposed to house in-part of the building, a larger municipal Police substation for the following uses and divisions, and incorporate a welcome service counter for the public:

- Front Counter Reporting
- Problem Oriented Policing (POP) Team
- Patrol
- Traffic Division

The current Menifee PD substation is located at 28115 Bradley Road in the Cherry Hills Plaza and is a relatively small space consisting of 2,000 sq ft in size. With the increasing need for services and the growing Menifee community, additional space is needed for the substation to adequately provide a full-service community policing department. The current lease for the existing substation site has five years remaining under the term. To maximize use of this leased space, the City's Office of Economic Development would propose that the facility be converted from a Police substation to a start-up business incubator that would focus on industries/companies tied to the Comprehensive Economic Development Strategy (CEDS) and the City's Strategic Plan. The Office of Economic Development is currently working on an Incubator Feasibility Study with an anticipated completion date of fall 2023. Once completed the proposal would include an agreement with a third-party stakeholder to facilitate the incubator. Business incubators provide a much-needed workspace, mentorship, education, and access to investors that allow entrepreneurs and start-up businesses to take formal shape at a lower cost during the early stages of business growth.

At this time, acquiring the Bank of America facility would provide sufficient time to appropriately make improvements that would be needed for a functioning Police substation, and prepare for improvements to the existing substation if the need for a full-functioning incubator is needed.

ASSESSMENT/ANALYSIS OF FACILITY

The current Bank of America facility located at Cherry Hills Plaza was built in 1965. The building itself is 8,898 sq. ft. and the total property size is 44,867 sq. ft. that currently has 30 free surface parking spaces.

Comparables reviewed for this facility ranged from \$441/ sq. ft. (\$3.9M) to \$244.68/sq. ft. (\$2.1M) (poor condition); with the Chase Bank in Sun City being purchased recently for \$488.72/ sq. ft.

SITE VISIT 1

Staff met with the property owner's broker onsite in November 2022, to complete an internal inspection of the facility, and found the facility to be in solid condition, including infrastructure, service counter, air conditioner and heater, etc. The outside façade was also in serviceable condition, with a small section above the ATM that would eventually need to be resurfaced, re-stucco of the ATM enclosure and updating the trash enclosure to current standards.

SITE VISIT 2

The Community Services Department, who oversees management of all City facilities, has completed another walk through of the building on January 17, 2023.

ENVIRONMENTAL SITE ASSESSMENT

Additionally, as part of the City's due diligence, staff received the following important property related reports on the property/facility, which have all come back cleared of any significant issues.

1. Formal survey
2. Complete Interior and Exterior Survey Report
3. Phase I ESA
4. Title Report

The following report came back requiring notifications and training per OSHA:

5. Lead Path of Construction Survey
6. Asbestos Abatement Closeout Report

The beige paint on the exterior walls (only) are considered lead-containing paint (LCP) which was limited to only assessing building components located within the Point of Care (POC). If areas outside the scope of assessment for this survey may be disturbed, additional assessments may be required. In accordance with the OSHA Lead in Construction Regulation (29 CFR, Part 1926.62), contractors who may disturb lead-containing surface coatings will be notified of the lead testing results prior to disturbance and that the contractor must take appropriate actions to comply with the OSHA Lead in Construction Regulation. Workers performing work activities impacting or disturbing lead-containing surface coatings, at a minimum, must have a two-hour lead awareness training in accordance with the OSHA Lead in Construction Regulation.

Additionally, the surface flooring in some areas of the facility have asbestos, which due to the age of the facility is common. Proper monitoring of the flooring removal through a certified contractor would be required during the demolition stage of tenant improvements for the facility.

PURCHASE AND SALE AGREEMENT

The attached Purchase and Sale Agreement was reviewed by the City Attorney's office. The cost for the facility (APN 337310009) located at 26800 Cherry Hills Blvd, Menifee, is \$1,675,000 after negotiations, and includes the escrow, broker fee, appraisal, purchasing costs. Phase I Tenant improvements are estimated at \$500,000 and include, but are not limited to:

- Demolition
- Furniture and fixtures
- ADA restrooms
- Flooring
- Information technology improvements for the facility

The aggregate cost of the acquisition included applicable closing costs, and estimated tenant improvements is \$2,215,000. It is the recommendation of staff to utilize ARP funds for the acquisition and tenant improvements of this property.

American Rescue Plan (ARP) Funds

On March 11, 2021, Congress and the executive branch, passed the ARP which is a \$1.9 trillion economic stimulus bill intended to address the on-going impacts of the unprecedented COVID-19 pandemic. All local governments, including the City of Menifee received direct funding to help bridge budget shortfalls and mitigate the impacts of COVID-19.

The ARP provides that the funds can be used for COVID-19 related expenses incurred between March 3, 2021, and December 31, 2024. Use of funds can be generally categorized into six (6) principal categories:

- 1. Support Public Health Response** - Fund COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff.
- 2. Replace Public Sector Revenue Loss** - Provide government services to the extent of the reduction in revenue experienced due to the pandemic. Revenue Loss is defined by Department of Treasury as a standard allowance of \$10 million, or revenue loss using the established Federal formula.
- 3. Water & Sewer Infrastructure** - Make necessary investments to improve access to clean drinking water and invest in wastewater and stormwater infrastructure.
- 4. Address Negative Economic Impacts** - Respond to economic harm to workers, families, small businesses, impacted industries, and the public sector.
- 5. Premium Pay for Essential Workers** - Offer additional support to those who have and will bear the greatest health risks because of their service in critical sectors.

6. Broadband Infrastructure - Make necessary investments to provide unserved or underserved locations with new or expanded broadband access.

The City of Menifee has been allocated a total of \$13,213,674 in ARP funding. The first half (tranche), \$6,606,837, was received in June 2021, and the second half was received in July 2022. In February 2022, the Department of Treasury issued the corresponding Final Rule, outlining the governing requirements for the use of ARP funds.

Intended Use

The City has wide latitude for use of the funds, with the exception of some purposes such as pension payments that are restricted or not allowable. The City may direct that the funds are used for structural or ongoing uses, such as authorizing staffing, or for one-time uses in recognition that the funding provided under the Act is one-time money, or some combination of purposes.

Structural Use

The typical recommendation for one-time money is not for structural uses. However, the most recent recession experienced included a fairly rapid return of lost revenues and there is a reasonable expectation that the post-pandemic recovery will behave similarly, particularly for revenues such as the transient occupancy tax, i.e., hotel tax.

One-time Use

At the discretion of the City Council, one-time money may be used for discrete projects rather than structural uses. Examples may include updates to facilities to prepare for post-pandemic uses. This option may also be combined with the structural use.

As part of this Staff Report the recommendation is to use ARP funds for acquisition and retrofit of the Bank of America property as follows:

TABLE 1: ARP Use of Bank of America

CATEGORY	PROJECT DESCRIPTION	AMOUNT (\$)
Replace Public Sector Revenue Loss (Government Services)	Purchase of City facility - Provides an opportunity to use funding as one-time use to help address provide spacing for city services, including but not limited to police services.	\$2,215,000
TOTAL		\$2,215,000

Including the purchase of the Bank of America property the remaining balance of ARP funds would be \$2,531,369.

As the City navigates the impacts of Covid-19, short and long-term, the City's plan and strategy for the use of these funds is a phased in approach/plan and to maximize the use of the funding that truly meet the needs of the community. Cognizant of the requirements to expend all funding by December 2024, the City's approach is fiscally conservative. Further, recognizing that these funds cannot be used for pension debt or reserves, but can be used to provide general

government services (replace revenue loss as defined by the Department of Treasury), the City intends to use the funding for high priority projects/program and/or services. As the City develops its' upcoming budget, the use of ARP funds will continue to be reviewed with specific recommendations brought for Council's consideration and approval.

STRATEGIC PLAN OBJECTIVE

Livable and Economically Prosperous Community

FISCAL IMPACT

The fiscal impact of the purchase of the Bank of America property is \$2,215,000, included acquisition/closing costs estimated at \$1,675,000 and tenant improvements of \$500,000. Funding for the acquisition and tenant improvements is recommended as use of ARP funds. A corresponding BAR is included as a recommended action for this item appropriating funds into corresponding expenditure and revenue accounts in Fund 301 (Grant Fund).

On-going maintenance costs, including but not limited to, utilities, janitorial services, burglar/fire alarm service, and building maintenance and repairs, will be incorporated as part of the City's on-going operational costs and included within respective years' budget cycles.

ATTACHMENTS

1. Purchase and Sale Agreement between Bank of America, National Association and the City of Menifee
2. Location Map
3. BAR