



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: February 28, 2017
Board Meeting Date: March 14, 2017
Special Notice / Hearing: Once a Week for Three Weeks
Vote Required: 4/5th

To: Honorable Board of Supervisors
From: John L. Maltbie, County Manager
Subject: Authorization to acquire real property known as 225 Cabrillo Highway South, Building A, in the City of Half Moon Bay (APN 056-150-260)

RECOMMENDATION:

Adopt resolutions authorizing:

- A) The County Manager, or his designee, to consummate the purchase of real property known as 225 Cabrillo Highway South, Building A, in the City of Half Moon Bay (APN 056-150-260) for an amount not to exceed \$8,190,821.12 by executing all required notices, amendments, consents, approvals, deeds, certificates of acceptance and other documents; and
- B) The approval of an Appropriation Transfer Request ("ATR") transferring \$200,000 from Fixed Assets – Lands to Fixed Assets – Structures for the completion of identified capital improvement projects, and making corresponding appropriations for operating transfers

BACKGROUND:

The property located at 225 Cabrillo Highway South, Building A, in the City of Half Moon Bay, also known as San Mateo County Assessor's Parcel Number 056-150-260 ("Property"), was originally constructed in 1980 as part of the Shoreline Station commercial complex. The Property includes a two story, 15,335 square foot, wood framed medical office building ("Building") and 40 dedicated parking stalls.

Between 1997 and 2009, the County leased a portion of the Building for use as a satellite clinic to provide a limited scope of medical services. In 2010, after the Coastside Family Medical Center filed for bankruptcy, the County received approximately \$1,800,000 in federal grant funding to remodel and retrofit the bottom floor of the Building. The remodel included the construction of a dental clinic, medical exam rooms, and specialty clinics on the first floor of the building. At the same time, the landlord invested in HVAC improvements on the second floor. Today, the San Mateo

County Coastside Clinic (“Clinic”), which occupies the entire Building, is the most comprehensive provider of health services on the Coastside. It offers primary care for adults and children, family planning, women’s health, OB/GYN, nutrition, mental health and behavioral health rehabilitation services, sexually transmitted disease screening and therapy, and WIC.

The County currently pays approximately \$4.39 per square foot per month in rent, operating expenses, and custodial services, totaling \$808,307 this year. According to Cushman & Wakefield, the market rate for a full service commercial lease in Half Moon Bay is \$2.37 per square foot. Therefore, the County is paying 85% over market rate.

DISCUSSION:

In April of 2016, the Board of Supervisors authorized Real Property to enter into negotiations to acquire the Property and conduct the necessary due diligence. The County’s due diligence included a Property Condition Assessment, Probable Maximum Loss Report (“PML”), Phase 1 Environmental Site Assessment (“Phase 1”), Hazardous Material Survey, ALTA Survey, and appraisal.

The Property Condition Assessment, which reviewed the physical conditions of the Property; architectural, structural, mechanical, and electrical components; and the quality of construction, determined that the Building is in “good condition with minor weather and age related deficiencies.” While the Building is almost 40 years old, it has been remodeled and retrofitted in recent years. Most notably, the County in 2010 constructed new clinic space and exam rooms, retrofitted several building systems, and installed modern seismic clip hardware and anchor bolts to the structure and foundation.

The Property Condition Assessment also identified approximately \$300,000 in improvements, in addition to routine maintenance and repairs, to be contemplated over the next ten years. Within the next two years, there are approximately \$200,000 worth of improvements that the Department of Public Works would like to complete. These projects include repairing the drive lane, replacing a sewer lateral, slurry coat and restriping of the parking area, repairing cracks on the sidewalks, replacing the flooring near the first floor bathroom, installing an earthquake shutoff valve on the natural gas service, and enhancing accessibility.

A PML report, which analyzes the seismic risk of the building and replacement cost under a 475-year earthquake event, was also completed. While a PML value of 20% or higher is considered the point in which a building would likely require mitigating measures by lenders, the PML for the Building calculated a value of 6%.

The County hired ACC Environmental (“ACC”) to prepare a Phase 1 and Hazardous Material Survey. Based on their historical research of the Property and a site inspection, they did not identify evidence that any environmental contamination is likely present on the Property. ACC also tested suspect materials that may contain asbestos or lead-based paint. Based on the 44 samples tested by an Environmental Protection Agency-licensed laboratory, no asbestos or lead-based paint was detected.

An ALTA Survey was produced to identify all easements encumbering the Property, possible encroachments, flood zones, and Property boundaries among other features. The ALTA Survey determined that approximately two feet of the backside of the Building is encroaching onto a 15 foot-wide PG&E easement. The easement was dedicated to support the installation, maintenance, and operation of electrical utilities. Real Property is working with PG&E to execute an agreement to confirm that PG&E will not seek to require the County to relocate or demolish the Building. The ALTA Survey also determined that the Property is located outside of the 100-year floodplain.

Based on the due diligence findings, the Property is in overall good condition. By acquiring the Property, the County can recognize long-term financial savings while avoiding the possible need to relocate the Clinic in the future. Therefore, Real Property recommends that the County acquire the Property for \$8,150,000 provided that a satisfactory agreement is executed with PG&E regarding the encroachment on PG&E's easement. The purchase price is supported by a property appraisal prepared by Valbridge Property Advisors.

It is anticipated that the acquisition of the Property, including reimbursement to County Reserves for the cost of acquisition and related costs, will be financed by the future issuance of debt.

The Chief of the Health System concurs in this recommendation. County Counsel has reviewed and approved the resolution as to form. On February 28, the Half Moon Bay Planning Commission determined that the acquisition conforms to their General Plan. The acquisition of the clinic is contemplated to involve merely a change in the ownership of the property. The action has no potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Thus, no environmental review is necessary for the proposed action since it will have neither a direct nor a foreseeably indirect physical change in the environment. A Notice of Intent to Purchase Real Property has been published once a week for three weeks in compliance with the Government Code.

FISCAL IMPACT:

The Net County Cost of the acquisition will be \$8,190,821.12. While the acquisition price is \$8,150,000; there are additional charges of \$1,437.50 in Escrow Fees, \$815.00 for an ALTA Owners Policy, \$100.00 in First American Title Fees, and a \$27.00 recording fee. Further, the County will pay \$38,441.62 for the second installment of the annual property tax bill. At closing, Seller will provide a credit for the portion of the year it owned the Property. Once the change in ownership and exemption have been recorded by the Assessor's Office, the Controller's Office will refund the remaining taxes to the County. The funds for the acquisition were originally budgeted in the Fiscal Year 2015-16 Adopted Budget. Approval of the ATR will transfer \$200,000 from the acquisition budget to Fixed Assets-Structures to allow Public Works to complete identified capital improvement projects at the Property.