

## Memorandum

**To:** CHAIR AND COMMISSIONERS  
CALIFORNIA TRANSPORTATION COMMISSION

**CTC Meeting:** October 21-22, 2015

**Reference No.:** 2.4c. (1)  
Action Item

**From:** NORMA ORTEGA  
Chief Financial Officer

**Prepared by:** Jennifer S. Lowden, Chief  
Division of Right of Way  
and Land Survey

**Subject:** **AIRSPACE LEASE – REQUEST TO DIRECTLY NEGOTIATE A LONG-TERM LEASE RENEWAL/EXTENSION WITH SUTTER GENERAL HEALTH**

### RECOMMENDATION

The California Department of Transportation (Department) recommends that the California Transportation Commission (Commission) approve a request to extend permission to directly negotiate a 50-year extension to the existing lease with Sutter Health. The lease would include an annual escalation as well as lease rate re-evaluation every 10 years. The initial lease rate will be at fair market value as determined by an appraisal planned to be completed by November 2015.

At the January 2013 Commission meeting, the Commission approved direct negotiations with Sutter Hospital for a 50-year extension of their current lease with the Department - District 3. Over the past two years, the Department has received a contract Member Appraisal Institute appraisal and an in house appraisal. Sutter Health disputes the findings of the appraisals and has completed one of their own. Due to the differing of values, a fourth and binding appraisal, completed by a third party, will be completed by November 2015. Both parties agree that this course of action follows the terms of the lease for resolving such disagreement. Because of the delays in the appraisal process, the Department was unable to complete the leasing process within the Commission approval guidelines of 12 months.

### BACKGROUND

Sutter Health has been providing medical services to the City of Sacramento and outlying areas at their current location, Capitol and 29th Streets since 1925. In 1983, the Department and Sutter Health entered into an airspace lease for parcel numbers 03-FLA-80-2 and 80-3, located between “K”, Capitol, 29th, and 30th Streets in the city of Sacramento. Total ground square footage is 249,945. Per the terms of the lease, Sutter Health built a parking garage to meet the parking needs of the hospital. Sutter Health has maintained the parking garage in excellent condition.

Recently, Sutter Health completed a long term expansion project of their medical facilities. Within this expansion project, Sutter Health sought and received approval from the Department to construct a pedestrian walkway that connects the second floor of the hospital to the second floor of the parking garage structure.

### **BEST INTEREST**

The Department requests approval to pursue direct negotiations with Sutter Health for the following reasons:

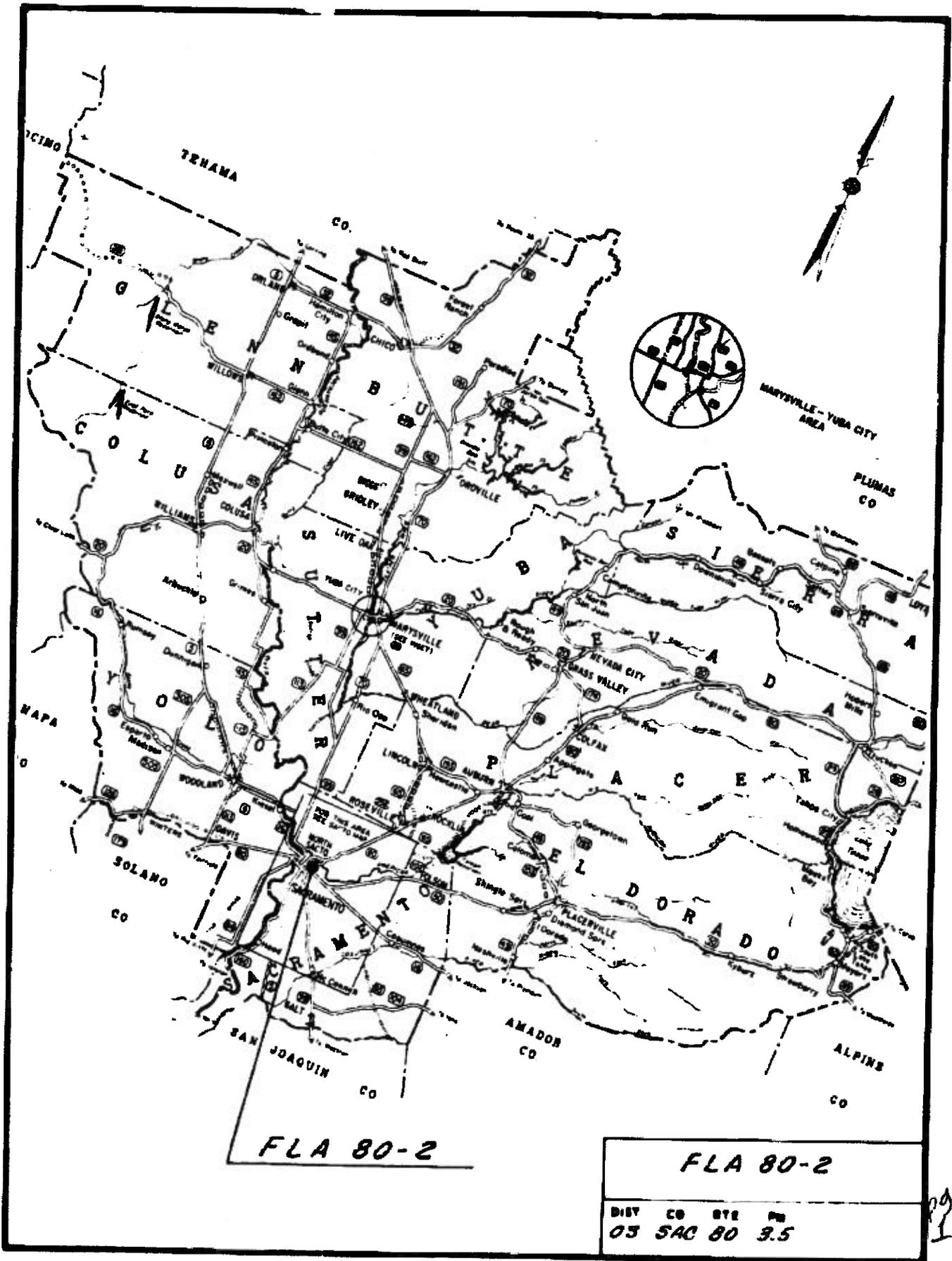
- The former Airspace Advisory Council and the Commission approved an extension of the current lease for 50 years in July 1994. An amicable agreement over the rental rate could not be reached, which delayed the implementation of the extension. When the amendment was completed in 2003 with the new rental rate, the extension of the lease was inadvertently excluded from the amendment.
- Sutter Health is a non-profit organization providing a vital public service to the City of Sacramento, County of Sacramento, and the surrounding area.
- It is in the best interest of the Department to continue to lease this property to Sutter Health. Sutter Health has already improved the property with a parking garage, which increases the value of the Department's asset and with the recent completion of the pedestrian walkway, at the sole expense of Sutter Health; additional increases to value will be recognized.
- The necessary parking for a working hospital complex cannot be fulfilled with only on-street parking.
  - The South lot (between "L" and Capital) is reserved for staff only.
  - The North garage (between "L" and "K") is reserved for visitor parking.
- Prior to negotiation, an appraisal will be completed of the subject airspace parcel valued as adjoining the Sutter Health hospital facilities, which will result in a higher fair market value and increase revenues to the Department.

### **SUMMARY**

It is in the Department's best interest to directly negotiate a lease extension for 50 years with Sutter Health for all the reasons stated above. Sutter Health has been an excellent tenant for many years and has improved the Department's asset at no cost to the Department. The Department requests approval to extend direct negotiations for a 50-year lease extension with Sutter Health for the subject property.

#### Attachments

- Exhibit A: Location Map
- Exhibit B: Airspace Parcel Map



FLA 80-2

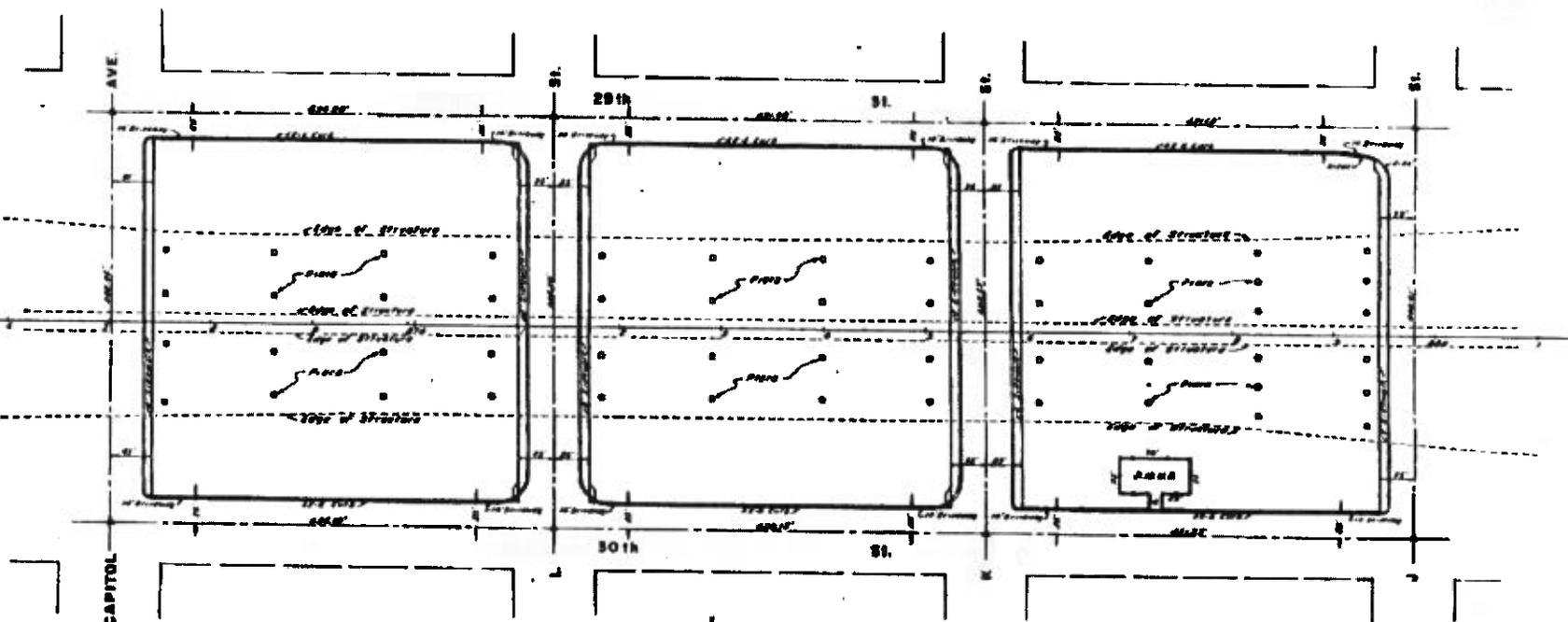
DIST	CO	BYE	PM
05	SAC	80	3.5

EXHIBIT A

1002

# CITY OF SACRAMENTO

Exhibit "A"



**FLA 80-2**  
 Gross Area: 126,140 Sq. Ft.  
 Less Pier Area: 675 Sq. Ft.  
 Net Area: 125,465 Sq. Ft.

**FLA 80-3**  
 Gross Area: 124,080 Sq. Ft.  
 Less Pier Area: 600 Sq. Ft.  
 Net Area: 123,480 Sq. Ft.

**FLA 80-4**  
 Gross Area: 121,776 Sq. Ft.  
 Less Pier Area: 750 Sq. Ft.  
 Net Area: 121,026 Sq. Ft.

• • Pier Designation  
 - - - - Edge of Structure

**EXHIBIT A**  
 FLA 80-2, FLA 80-3 & FLA 80-4  
 Scale: 1" = 50'

EXHIBIT B