



**CITY OF ELK GROVE
CITY COUNCIL STAFF REPORT**

AGENDA TITLE: Consider industrial development opportunities at City-owned property on Grant Line Road in lieu of the Multi-Sport Park Complex

MEETING DATE: May 12, 2021

PREPARED BY: Christopher Jordan, AICP, Director of Strategic Planning and Innovation

DEPARTMENT HEAD: Jason Behrmann, City Manager

RECOMMENDED ACTION:

Staff recommends that the City Council direct staff to pursue business development opportunities and potential sale of City-owned industrial property in lieu of the Multi-Sport Park Complex.

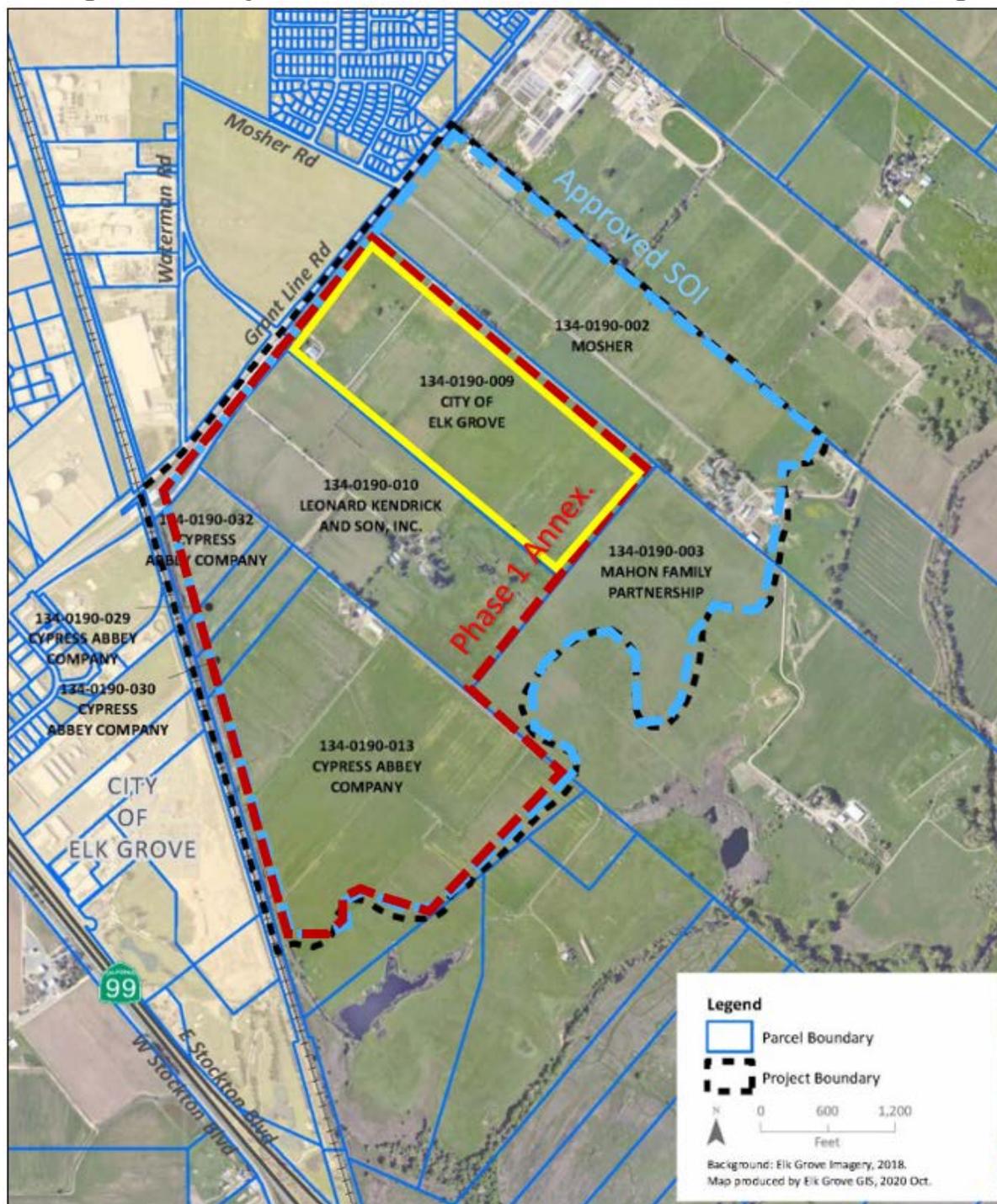
BACKGROUND INFORMATION:

In [August 2014](#), the City acquired a 97.35-acre property at the southeast corner of Grant Line Road and Waterman Road with the intent of pursuing development and operation of a Multi-Sports Park Complex (the “Sports Complex”). The City paid a total of \$4,000,000 for the property, or \$0.94 per square foot. The property location is illustrated in yellow in **Figure 1**.

The property is located outside the existing City limits. For better management of the development process the City initiated annexation efforts in 2015. The first step was the expansion of the City’s Sphere of Influence, or SOI. A SOI is the probable future boundaries of a local agency; a boundary cannot extend beyond the SOI. Approval of SOI amendments, as well as annexations, is the responsibility of the Sacramento Local Agency Formation Commission, or LAFCo. As part of the SOI process LAFCo and adjoining landowners requested that the SOI amendment (and future

annexation) include adjoining properties west to the railroad tracks and east and south one parcel (the blue outline in **Figure 1**). LAFCo approved the SOI amendment in May 2019.

Figure 1: Project Location, SOI Area, and Annexation Phasing



In summer 2019 the City initiated infrastructure master plans, a Specific Plan, and Plan for Service for the entire SOI. These materials were adopted by the City Council in [January 2021](#). The City subsequently filed the application with LAFCo for the Phase 1 annexation (the red outline in **Figure 1**). The LAFCo hearing to consider the Phase 1 request is tentatively scheduled for June 2, 2021.

In December 2014, the City began master planning for the Sports Complex. A concept design, which featured a stadium-oriented facility with a tournament complex, was developed and shared in January 2015. Based upon feedback at the time, the project concept was revised to focus more on the tournament complex and reserving a stadium for a potential phase 2 project. An updated concept plan was presented to Council in September 2015.

The September 2015 concept plan included the following elements:

- 12 long-field play/training fields,
- 4 half-size fields for youth play,
- Restrooms and picnic areas with tot-lots, and
- A 20,000 square foot indoor facility with locker rooms, space for food and beverage service, merchandise sales, as well as classrooms, offices, and laundry, medical, and physical training space.

Based upon the level of amenities (e.g., field lighting, number of restrooms, parking count, play structures) staff identified a total project construction cost of between \$46 million and \$57 million. Staff prepared a project pro-forma that identified that operating expenses for the facility could be funded through user fees and other site revenue, but that funding for construction would need to be provided through bond financing, and that operating revenue was insufficient to cover the costs of both operations and bond debt service. The facility was projected to have an annual operating deficit of between \$2.5 million and \$3 million. The Council raised concerns with this approach and directed staff to pursue other options to reduce the costs and liability obligations. Staff has explored options including:

- Reducing the project elements,
- Reducing the project size, and

- Disposing of a portion of the site to generate income to finance construction.

In its approval of annexation actions, the Council pre-zoned the Sports Complex land Industrial while recognizing that recreation facilities, such as the Sports Complex, can be built on Industrial zoned land with a Conditional Use Permit. The EIR accompanying the annexation action evaluated industrial development as an alternative project to the Sports Complex. The surplus land process (described below) also identified the possibility of industrial development of the Sports Complex land. These actions were taken to allow the City options to either facilitate development of the land as manufacturing/industrial, or as recreation facilities.

In [March 2020](#), the Council declared the site surplus, allowing staff to begin discussions with interested parties in a potential sale of an undetermined portion of the site. Staff has received interest from multiple industrial users and developers and is finalizing negotiations with one such party for Council consideration as soon as June 2021. Should that transaction proceed, approximately 60 of the 97 acres would be used for industrial development, drainage, and roads, leaving an approximately 40-acre remainder property for use as a scaled back Sports Complex or as additional industrial development.

With the annexation process about to conclude, staff is seeking Council direction on next steps for the property.

ANALYSIS/DISCUSSION:

Development Interest

Staff is currently negotiating terms for sale of the front approximately 60 acres of the Sports Complex land to Kubota North America (KNA) Corporation. KNA, and its parent company Kubota Corporation, is a multi-national corporation that designs, builds, and sells tractors and other heavy equipment. KNA intends to relocate their western division operations to Elk Grove. The ±700,000 square foot facility will perform final assembly of equipment produced at overseas facilities and distribute the equipment to dealerships across the western United States and Canada. The project is expandable to ±1 million square feet. The facility will also include offices for

facility and western division executive staff and a training facility for dealers, sales agents, and mechanics.

In March 2021 KNA submitted its development application to the City. A date for Planning Commission review has not been scheduled but is anticipated in the next 60-90 days. Terms of the sale are being finalized for Council consideration. Staff anticipates a purchase price of approximately \$2.50 to \$3.50 per square foot which includes certain development costs required to make the site “shovel ready” and certain land costs to construct public improvements. The project is being pursued as a market-rate transaction with no City subsidy or incentives. For purposes of this report, staff is assuming net sales proceeds of \$5 to \$7 million.

KNA will be responsible for development of an approximately 7-acre detention basin on the south side of their project, and construction of Waterman Road south of Grant Line Road on approximately 8 acres. KNA’s project would be built on the remaining 45 acres of the 60-acre purchase property. The basin will serve both the KNA project and any future development on the remainder property. The road will generally serve the entire annexation area. The remainder property is calculated at approximately 40 acres.

For the Kubota project to proceed, annexation must be finalized, entitlements and building permits must be ready to issue, and the City Council must approve a Purchase and Sale Agreement followed by close of escrow and conveyance of title. These actions are expected to be completed in the next 60 to 90 days. Given that Council previously directed staff to surplus the property and explore sale and development options for a portion of the Sports Complex property for industrial projects, and that these actions are close to being completed, staff is operating under the assumption that Council wishes for staff to bring the Kubota Purchase and Sale Agreement forward for its consideration and, if approved, to consummate the transaction.

Staff has also received interest from PDC Sacramento, LPIV, LLC, an affiliate of Panattoni Development Corporation, for a purchase option on the 40-acre remainder property. Panattoni is a nation-wide builder and operator of industrial and office development. Panattoni proposes to execute an option or other agreement, under terms to be negotiated, allowing it to market

and potentially develop the remainder parcel with an industrial use. No specific use or tenant is currently proposed for the property. Based upon staff research and under the assumptions that the KNA project is approved and constructed, staff believes the market value of this transaction could be between \$4.00 and \$5.00 per square foot, or \$6 million and \$8.7 million. The purchase price is higher on a per square foot basis for the remainder property since KNA will be constructing necessary infrastructure that benefits the remainder property, but that reduces the purchase price on the Kubota property.

Staff further understands that there is current strong interest in additional industrial development on the remaining approximately 300 acres of land in the Phase I annexation area. Given Panattoni's interest in the remainder property and the larger interest in industrial development in the annexation area to create a significant jobs-producing business park, staff recommends finalizing the Kubota sale, and engaging Panattoni in option agreement discussions in lieu of development of the Sports Complex or any other alternative. This recommendation aligns with the Council's goal of increasing employment opportunities in the City.

ALTERNATIVE ACTIONS:

Sports Park

Alternatively, the City may desire to move forward with development of a Sports Park on the remainder property. Understanding the Council's prior concerns with the level of amenities and associated costs from the 2015 Sports Complex design, staff has prepared an updated cost estimate based upon a simplified design that is more in line with other park facilities in the City. To inform this effort, staff had an informal discussion with design staff from Cosumnes Community Services District (CCSD). Based on these discussions, staff believes an appropriate budget range for the facility would be between \$400,000 and \$500,000 per acre, or \$16 to \$20 million.

If only the KNA project were complete and the City applied the proceeds from the transaction to the Sports Park, the remaining funding needed to construct would be between \$9 and \$13 million. Based upon costs at other local park facilities it is likely that annual operations would be between \$800,000 to \$1,000,000 per year. Leasing the facility to sports clubs in the area and for

special events may generate revenue to offset much, but probably not all, of these costs; however, staff has not prepared a formal pro-forma. Lease rates and total lease time would depend upon the characteristics of the facility, including the number of fields, the type of play surface, and level of lighting and other amenities.

Based on the current cost estimates, there remains an inability to construct and operate the facility without an annual subsidy from the City. Given Council's prior concerns over the costs of the facility and the significant interest in developing the property as part of a larger jobs-producing business park, staff does not recommend pursuing this option.

Further, given the sale to KNA and other industrial interest in the area, staff is concerned that the overall character of the area is not ideal for a recreational use. The Planning Commission expressed similar concerns in January 2021 in their review of the annexation materials. Staff intends to continue to work with the CCSD to identify strategies for meeting the City's long-term park and recreation needs for both new growth and infill development areas beyond the use of this property.

County Fair

The City has had numerous discussions over the years with the Sacramento County Fair about relocating Fair operations from Cal Expo to Elk Grove. In 2020, the County Fair initiated a Market Demand Assessment for relocation to a site in the City. For purposes of the analysis the City's Grant Line property was utilized. The analysis recommended a facility that includes:

- A 150,000 square foot multi-purpose building,
- A 50,000 square foot exhibition hall,
- An outdoor arena with seating for up to 5,000 spectators,
- Space for 50-60 recreational vehicles,
- A 2–3-acre carnival area, and
- Additional areas for outdoor staging and entertainment.

Total facility construction costs are estimated between \$88 million and \$100 million. The analysis concludes that sufficient events and activities could be hosted at the site to cover the operating cost for the facility with net revenues of approximately \$650,000. However, the report does not factor acquisition

and facility construction costs into the operating expenses. The County Fair staff has mentioned interest in pursuing a tourism tax as a method to fund a bond issuance. A similar approach was used in Placer County to fund recent improvements at their fair complex. They are also considering a phased approach where the multipurpose building is constructed first, allowing initial operations, with successive building construction occurring through a capital fundraising campaign.

If the Council is interested in pursuing the County Fair project, either at the remainder property or elsewhere in the City, at Council's direction staff can begin discussions with the Fair to determine current plans and identify a role, if any, that the City might play. Given the significant unfunded costs and uncertainty with the development timeline, staff does not recommend pursuing this option.

Summary

Given the logistical and financial challenges present in the alternatives, staff believes that a sale to a private developer for an industrial project is the most efficient and cost effective option for the remainder property and best aligns with the Council goal of economic development and increasing employment opportunities in the City.

FISCAL IMPACT:

The potential financial impacts depend upon the selected next step. Selling the entire property for industrial development would result in net revenue proceeds to the City of between approximately \$11 million and \$15 million. If only a portion is sold and the revenues are applied to a scaled back Sports Complex project on the remainder 40-acre parcel, there will be additional costs to the City in completing design and construction, and likely an annual operating subsidy requirement. A City-operated sports park could cost an additional \$9 to \$13 million in construction with annual operating expenses of nearly \$1 million. If the County Fair is pursued, the City may be asked to help participate in facility funding; these costs are currently undefined.

ATTACHMENTS:

None