



MEMORANDUM

To: California State Lottery Commission **Date:** August 15, 2007

From: Joan M. Borucki, Director
California State Lottery

Prepared By: Patricia Eberhart, Deputy Director
Finance and Administration Division

Subject: Item 9(j) - Approval to Purchase Real Property in Sacramento for the Sacramento District Office

ISSUE

Should the California State Lottery Commission (Commission) approve the purchase of real property in Sacramento for the Sacramento District Office?

RECOMMENDATION

Staff recommends the approval to purchase real property at 4106 East Commerce, Sacramento, for the Sacramento District Office, at a cost of \$2.37 million.

BACKGROUND

The Sacramento District Office has occupied space at California State Lottery (Lottery) Headquarters for the last twelve years. This location is only 5500 square feet and has a very small warehouse that cannot accommodate the number of Scratchers® games offered or the number of point-of-sale items that the district office needs to maintain. This overcrowded condition reduces efficiency and increases the potential for safety issues of the Sacramento District Office's operations.

DISCUSSION

An appropriately sized and priced building has been located on East Commerce Way in North Natomas, minutes away from the Headquarters site. The site is well located for visibility and in an easily accessible portion of Sacramento within a short

distance of Arco Arena. The property has prominent visibility from Interstate 5 and Arco Arena, and it can be accessed by several different routes including Del Paso Road, Arena Boulevard, and Truxel Road.

Staff developed a district office template that has been used in the recent relocation of the district offices. This template established approximately 9,000 square feet as an appropriate amount of space for a district office, which includes both office and warehouse space. This proposed field office property is a 9,489 square foot Class A office building, with an acquisition price of \$2.37 million. This is a new facility and the building will require approximately \$450,000 in tenant improvements (TIs). The TIs include a new security system, telecom cabling, and modular furniture. All improvements can be accomplished relatively quickly and the operation can be in place in the new facility within 150 days after acquisition.

The purchase of the property and the TIs will be depreciated over a thirty-nine year period. If this transaction is completed by the end of the calendar year, approximately \$36,000 will be expensed this fiscal year. The annual capitalized expenses for this property will be approximately \$72,000 per year.

The Lottery's broker working on this transition has indicated that this property is within market values for this area. As part of the Lottery's financial due diligence, staff have requested an appraisal, a survey report and a phase 1 environmental impact report. The Legal Office has retained outside counsel with real estate expertise to review the real property purchase transactions, and the cost associated with these services are included in the Legal Office's current budget. Additionally, a security review will be completed by the Security and Law Enforcement Division (SLED) as required by the Lottery's regulations. The Sales Division and SLED have approved this site as meeting their needs