

DATE ISSUED: May 16, 2001

REPORT NO. 01-100

ATTENTION: Honorable Mayor and City Council
Docket of May 22, 2001

SUBJECT: Office Space Lease Amendment - Comerica Bank Building - 600 B Street

SUMMARY

Issues - Should the City Manager be authorized to amend the Lease Agreement with 400 West Broadway, LLC, a California limited liability company for expansion space needed for City departments, and to house the City's downtown child care facility at 600 B Street?

Manager's Recommendation - Authorize the City Manager to amend the Lease.

Other Recommendations - None.

Fiscal Impact - 1) The FY 2001 impact will be \$5,600.00 paid from Development Services Fund 41300, Dept. 1300 for the June 2001 rent. Additional space costs and data line costs in the amount of \$271,150.00 will be paid from Fund 100, Dept. 601 during FY 2001. The remaining departments currently located at 600 B Street have sufficient rent funds already budgeted for FY 2001. 2) The expansion space for floors 4 and 5 will be ready for occupancy by the end of July 2001. The additional FY 2002 impact will be \$250,624.00 paid from the Water/Engineering Fund 50050, Dept. 850, \$250,624.00 paid from Fund 100, Dept. 601 for Community and Economic Development, and \$67,200 paid from the Development Services' Fund 41300, Dept. 1300.

BACKGROUND

During the June 22, 2000 Budget deliberations, the City Manager was directed to pursue options for leasing space for a downtown child care facility for City employees that would be in close proximity to the City Administration Building. The City presently has a child care facility in Kearny Mesa, serving just 60 children, but no facility in the downtown area. Employee child care has proven to be an important benefit that helps retain staff and get them back on the job faster. The tuition rate ranges from \$90 per week for preschool to \$140 per week for infants. Many employees find that quality infant care is prohibitively expensive and that subsidies are needed. Staff explored a number of locations in downtown and identified preliminary costs. On November 20, 2000, staff presented the preliminary costs and funding to Council for a downtown location. The Mayor and Council authorized the City Manager's

staff to negotiate a lease with the following funds appropriated: Monies to pay for improvements in the amount of \$660,000.00 paid out of Fund 100 (CY) and Fund 100 (PY); \$126,000.00 for rent paid from the General Fund 100, Citywide office space Job No. 060143; \$21,000.00 paid from the General Fund to subsidize the first year. With the inclusion of the tenant improvements allowance provided by the 600 B Street Landlord, these funds are adequate to build the child care facility. The budget for the build-out of the child care facility is estimated to be \$1,300,000.00. Staff requested proposals to select a licensed operator for the child care facility. A selection will be made by June 30, 2001. The child care facility will occupy approximately 8,800 square feet on the 3rd floor serving 120 children.

The City has been leasing office space in the Comerica Bank Building, located at 600 B Street, since June 1, 1993 with a lease termination date of May 31, 2003. Currently, City departments occupy approximately 118,094 square feet. These departments include: Development Services occupying a portion of the 3rd floor, Water CIP on floors 6 and 7, Water Engineering on floors 8 and 9, and the Water Department on floors 10 through 13. The proposed plan is to have the child care facility occupying a portion of the 3rd floor, Community and Economic Development occupying the 4th floor with future plans to co-locate the entire department to floors 11, 12 and 13 once the Water Department vacates in January 2004, and Water Engineering expanding into the 5th floor. Due to the increasing expansion needs of various departments and the need for a downtown child care facility for City employees, the City has negotiated with the Landlord to take advantage of an early lease renewal and occupy additional space at below market rental rates. This will also accommodate the City's need to install an employee child care facility downtown and extend Development Services short term lease ending May 31, 2001. The City is proposing to renew and expand its premises under the following basic terms:

TERM - Approximately 10 years with a lease expiration date of May 31, 2013. The expansion floors, being 3, 4 and 5 will be available for occupancy once improvements are completed at the end of July 2001. Floor 3, the child care space, is scheduled for completion during year 2002.

RENT - The existing leased floors (6 through 13) will remain at \$1.45 per square foot or \$166,161.00 per month. The expansion space floors (3 through 5) will be \$1.60 per square foot or \$68,352.00 per month commencing upon completion of each floor's improvements. The rent is scheduled to increase annually by approximately 4%. The rental rate is below market for office space in the downtown area.

SIZE - 157,314 square feet plus approximately 6,500 square feet of outdoor child care play space and use of a portion of the fenced park area bordering the building. The 6,500 square feet of outdoor child care space and the use of the park is rent- free.

TENANT IMPROVEMENT ALLOWANCE - Landlord will provide the City with \$50.00 per rentable square foot to improve the 3rd floor, and \$15.00 per rentable square foot to improve the 4th and 5th floors. Total allowance provided by the Landlord is \$1,139,200.00.

REFURBISHMENT ALLOWANCE - Commencing June 1, 2003, Landlord will

provide the City with a \$5.00 per rentable square foot allowance for all occupied space. The refurbishment allowance will be provided on an as-needed basis for improvements installed on various floors.

ALTERNATIVE

1. Renew the lease when the existing Lease terminates in 2003 and be subjected to the payment of higher rental rates. The additional space is imperative to continue efficient operations of numerous City departments.
2. An alternative location for the child care facility is not available. Space downtown is limited and building owners are reluctant to accommodate this use in their buildings.

Respectfully submitted,

William T. Griffith Approved: Bruce A. Herring
Real Estate Assets Director Deputy City Manager

GRIFFITH/DLM