

DATE ISSUED: April 23, 2003

REPORT NO. 03-084

ATTENTION: City Council Natural Resources & Culture Committee
Agenda of April 30, 2003

SUBJECT: Office Space Lease Amendment – MWWD – Complex Street Location

REFERENCE: City Council Docket of March 24, 2003, Item #S-104
Lease Agreement, adopted February 4, 1992 (RR-289697)
Amendment #1 to Lease Agreement, adopted April 10, 2000 (RR-292927)

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE OR THE CITY COUNCIL.

BACKGROUND

In November 2002, the City's Real Estate Assets Department, on behalf of the Metropolitan Wastewater Department (MWWD), negotiated in good faith with Gateway West Properties, Inc., to extend the existing lease for five (5) years, from February 1, 2003 through January 31, 2008, resulting in a rate that is approximately thirteen percent to twenty-one percent (13%-21%) below the current market rates for similar commercial space. The City's cost for the approximately 7,950 square feet would be \$7,240.19 per month or approximately \$86,882 in the first year (ending in January 2004). MWWD's net lease amount for the first full-year lease expense would be approximately \$30,408 to \$43,441; based on the reimbursement to the City of thirty-five percent to fifty percent (35%-50%) of the total lease cost by Emerson Process Management, Inc. (Emerson) under the current agreement.

At the City Council meeting of March 24, 2003, the City Manager was directed to return to the Natural Resources & Culture Committee with additional information about the proposed lease

amendment for office/work space at 5450 Complex Street, Suite 310, and 5466 Complex Street, Suite 203. The Council does not want the City to be in a position of leasing office/work space for outside consultants/contractors.

DISCUSSION

In August 1994, the City entered into a contact with Emerson (formerly Westinghouse Process Controls, Inc.) as the COMNET Control System Provider (CSP) for work to be performed on-site at the City's COMC facility (located at the Metropolitan Operations Center (MOC) Complex) in Kearny Mesa. At that time, MWWD's administrative and engineering staff, along with other on-site consultants, were located in four floors of leased office space at 600 B Street (approximately 56,716 square feet). The COMC Building at the MOC Complex consisted mostly of open area used for warehousing and equipment staging with some office space for MWWD operations staff. This open area offered the necessary space for Emerson to perform hardware setup, system configuration, testing, and maintenance for the Distributed Control System (DCS) equipment to be installed into wastewater facilities.

In an effort to reduce administrative/overhead (office space) costs to the Sewer Fund, MWWD decided to move its staff from leased space at 600 B Street to the Department-owned MOC Complex. This move required the relocation of the CSP staff in February 1998 to leased facilities across the street, into an initial space of approximately 6,310 square feet at 5466 Complex Street, Suite 203, which housed some offices and the necessary open space for DCS hardware configuration and testing. Due to the level of work required to implement, support, and maintain the DCS at newly built wastewater facilities, in March 2000, the lease was amended to include an additional 1,640 square feet. The last year of the lease, ending in January 2003, cost \$6,961.72 per month or approximately \$83,541 for the year, which was approximately fourteen percent (14%) below market rates.

The City has two existing contracts with Emerson. First is the primary, long-term contract for the setup, configuration, installation, on-site testing of DCS equipment (hardware and software) at various wastewater facilities, and follow-up warranty work during start-up periods. This contract was awarded in August 1994 with a cumulative total cost of approximately \$121.2M. The last Amendment (#26) was approved by City Council on December 16, 2002, providing a no-cost extension of the completion date of the contract to July 31, 2004. Over the life of this contract, the City has been able to implement a state-of-the-art DCS for process control automation at the Point Loma Wastewater Treatment Plant, North City Water Reclamation Plant, Metropolitan Biosolids Center, South Bay Water Reclamation Plant, Centralized Operations & Maintenance Center (COMC), and several major wastewater pump stations.

The second contract with Emerson is a three-year Maintenance Service Agreement, approved by City Council on October 2, 2000, ending on September 30, 2003, with a total cost of approximately \$5.7M. The services under this contract include support and maintenance of the DCS beyond the scope and abilities of City staff and technical staff from San Diego Data Processing Corp. (SDDPC). The City will require a continuation of the maintenance contract, anticipated for another three-year duration (October 2003 through September 2006), to provide those technical services not available from City or SDDPC staff. While the existing maintenance

contract was a sole-source procurement, the City will prepare a Request for Proposals to competitively bid a new maintenance contract.

The City has contacted Emerson and informed them of the intent to relinquish the office/work space lease at the Complex Street location, and that Emerson must provide for its own space, as soon as practicable, for the remainder of the two existing contracts. Because of the current lease terms and the time required for transition to a new agreement with Emerson, it is anticipated the City will continue to pay monthly lease costs for approximately three more months. Ideally, Emerson will be able to lease the same space directly from the landlord and avoid relocation and site preparation costs for new space, as well as avoiding delays or cessation in contract services to the City. The City and Emerson will determine the amount of space required and allocated to the work between the two contracts and make necessary adjustments at the expiration of the maintenance contract in September 2003.

As a result of this effort, the City will negotiate any necessary changes to existing contracts and remove any conditions from future contracts which obligate the City to lease office/work space for consultants/contractors.

Respectfully submitted,

Approved By:

SCOTT TULLOCH
Metropolitan Wastewater Director

RICHARD MENDES
Utilities General Manager

TULLOCH / ABW