



City of Chula Vista

Staff Report

File#: 15-0198, **Item#:** 7.

RESOLUTION NO. 2015-109 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING A LEASE AGREEMENT WITH SAN YSIDRO HEALTH CENTER FOR A PORTION OF A CITY-OWNED BUILDING AND APPURTENANCES LOCATED AT 1800 MAXWELL ROAD AND AMENDING THE FISCAL YEAR 2014-2015 BUDGET FOR PAYMENT OF THE BROKER COMMISSION, RELOCATION COSTS AND MINOR CONSTRUCTION COSTS (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council adopt the resolution.

SUMMARY

The City currently has office space significantly in excess of the capacity needed to conduct day-to-day business. Staff had specifically identified space at the John Lippitt Public Works Center (JLPWC) located at 1800 Maxwell Road that is not needed for City operations now or in the near future. The City's real estate broker, Voit Real Estate Services has presented the City with an offer from San Ysidro Health Center, Inc. (SYHC) to lease this office space.

ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity qualifies for a Class 1 categorical exemption pursuant to Section 15301 (Existing Facilities) of the State CEQA Guidelines because the activity consists of approval of a lease agreement involving existing city owned property and facilities. Thus, no further environmental review is required.

BOARD/COMMISSION RECOMMENDATION

Not Applicable

DISCUSSION

Over the past several years, the City of Chula Vista has undergone significant downsizing. As a result the City currently has office space in excess of the capacity needed to conduct day-to-day business. Non-safety employee operations have been largely consolidated to the City Hall campus and the west half of the JLPWC. In analyzing the City's remaining space, staff specifically identified the Ken Lee Building located at 430 F Street and approximately 10,000 square feet office space at the JLPWC as sites that are not needed for City operations now or in the near future. While the future need for these facilities is uncertain, the City is still incurring cost for maintenance, upkeep and utilities. In order to offset these costs while still keeping open the option of re-occupying these spaces at a later date, Council authorized retaining a Real Estate Broker to market these sites on May 22, 2012. The Ken Lee building was leased in June of 2012. The Listing for the JLPWC space was renewed by Council in November of 2013. The broker, Voit Real Estate Services has now

presented the City with an offer from SYHC to lease 13,750 square feet of office space at the JLPWC site.

LEASE

SYHC is a non-profit, established in 1969, which provides comprehensive care to 90,000 patients annually through its service delivery network of 26 program sites including: medical clinics, dental clinics, behavioral health centers, HIV/AIDS centers, WIC nutrition centers, mobile units, school-based health centers, pediatric developmental clinic, teen clinic, adult day health center, a Senior Health Center and a program of all inclusive care for the elderly (PACE) Center. Their proposed use of this site would be exclusively for administrative purposes. No health care or patient services would be provided on-site.

The lease proposal presented by SYHC is for \$1.00 per square foot of net usable area per month for five years with one five year option to renew if approved by both parties. The proposed rental rate will be increased two percent annually. The net leasable building area that SYHC is proposing to lease totals about 13,750 square feet. This would give the City a gross rental of \$13,750 per month (\$165,000/year) in the initial year. Additionally, SYHC would pay a prorated portion of the JLPWC electricity cost. This payment constitutes an additional fixed \$1,400/month (\$16,800/year) for the first year and will be adjusted yearly based upon usage. With the decreased maintenance responsibilities the net benefit to the City will be about \$200,000 in the initial year; rising two percent per year for the remainder of the term. Included in the lease is the exclusive use of 80 designated parking places.

REAL ESTATE COMMISSION

If Council approves this lease transaction, the City will be responsible for the Brokers commission due pursuant to our listing agreement. Based upon the square footage leased and the term of the lease the commission due to Voit Real Estate Services is \$42,729.60.

MOVING EXPENSES AND IMPROVEMENTS

In order to lease this area it will be necessary to relocate the Public Works Inspection Branch to another area within the JLPWC. Up until recently we had leased space at the JLPWC to San Diego Metropolitan Transit System for their operations in Chula Vista. They have consolidated their operations at a new location on Main Street and have vacated this space. The relocation of the Inspection Branch personnel to this area will require some minor site preparation and moving and reassembling the existing office furniture and cubicles. Staff estimates that this will cost approximately \$25,000. Additionally the IT and telephone equipment will need to be relocated to the new area. The estimated cost for this work is \$10,000.

TENANT IMPROVEMENTS

Because SYHC is proposing to occupy the entire eastern wing of the JLPWC which is already divisible from the remainder of the site only minimal tenant improvements will be needed prior to move in. These are minor items are re-keying, signage and access/security changes. These will be funded from existing department budgets without additional appropriation. Any additional tenant improvement will be the responsibility of SYHC.

Staff is requesting that, should Council approve this Lease, \$78,000 be appropriated from the FY 2014-2015 budget to the non-departmental capital budget to cover the above described commission,

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construction and relocation cost necessary to complete the transaction.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Staff is not independently aware, and has not been informed by any Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. By entering into this lease the City is utilizing un-used office space to create a revenue stream for the City. At the same time the City is relieved of the burden of utility cost and maintenance for space we cannot use. This furthers the City's goal of maintaining Operational Excellence.

CURRENT YEAR FISCAL IMPACT

In the current fiscal year, the City will incur a cost of \$78,000 to fund the items detailed above. Staff is requesting an appropriation of \$78,000 to the Supplies Services expenditure category of the Non-Departmental budget. This appropriation will be funded through a transfer of \$51,000 from the Public Works fiscal year 2014-15 budget to the Non-Departmental budget. This transfer consists of \$20,000 from the Supplies and Services expenditure category and \$31,000 from the projected savings in the Personnel Services expenditure category from the Public Works Department. The balance will be offset by \$27,000 in associated deposit revenue received from the lease agreement resulting in no net fiscal impact.

ONGOING FISCAL IMPACT

In the next fiscal year (2015-2016) the City will receive \$166,650 of lease revenue and utility reimbursement with no anticipated expenses beyond those normally incurred for this site (exterior building and site maintenance). These revenues have been included in the City Manager proposed budget for fiscal year 2015-2016. In the remaining four fiscal years the City will realize a net benefit of about \$200,000 in the initial year; rising two percent per year for the remainder of the term.

ATTACHMENTS: SYHC Lease Area Plat

Staff Contact: Rick Ryals, Real Property Manager, Public Works Department