

Agenda Report

DATE: September 8, 2003

TO: CITY COUNCIL

FROM: CYNTHIA J. KURTZ, CITY MANAGER

SUBJECT: PROPOSED LEASE AT 117 E. COLORADO BOULEVARD FOR THE TEMPORARY RELOCATION OF CITY HALL EMPLOYEES DURING THE CITY HALL SEISMIC RETROFIT

RECOMMENDATION:

It is recommended that the City Council:

1. Authorize the City Manager to execute a lease for office space at 117 E. Colorado Boulevard and any other documents necessary to carry out this transaction, and
2. Approve the terms and conditions, as generally described below.

SUMMARY:

It is necessary for the City of Pasadena to lease office space beginning June 1, 2004, for employee relocation during the 3-year period projected to complete the City Hall seismic retrofit.

A request for proposals (RFP) process was used to solicit proposals from Pasadena building owners to lease office space to the City. Staff's evaluation of the three proposals submitted, resulted in the staff recommendation that the building at 117 E. Colorado Boulevard (Chamber Building) is the best overall and least expensive in meeting the City's needs.

The proposed full service gross lease is for 3-years with a 2-year option to extend. The average lease rate for all 62,280 rentable square feet is \$1.97 per square foot, yielding a 3-year total of about \$4,415,000. The City would be responsible for increases in building operating expenses over the 2004 base year. Parking is available for \$65 per space per month but the majority of employees would continue to park in existing spaces in the Holly Street Garage. Employees currently assigned to the Plaza Los Fuentes garage would be re-assigned to the City owned Marengo Garage. On site spaces would be

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purchased for the City Council and their office staff. The landlord will provide the City with a \$400,000 tenant improvement allowance. The office space rental rate increases to \$2.10 per rentable square foot after the third year.

Western Asset is the current major tenant in the building and is scheduled to move to their new headquarters at Western Asset Plaza in February or March of 2004. After discussions, they have agreed to donate to the City the in-place systems furniture, miscellaneous furniture, and some communications equipment.

In addition to financial advantages, the Chamber Building offers a schedule advantage over the other alternatives.

BACKGROUND:

It is estimated that it will take 3-years to complete the seismic retrofit of City Hall that is scheduled to commence June 1, 2004. During the retrofit, City Hall employees will have to be relocated.

In June 2003 a request for proposals (RFP) was advertised on the City's web site and in the Pasadena Star News. In addition direct mailings were sent to Pasadena building owners and representatives who had expressed a desire to be notified when the RFP was sent out. A total of 18 RFP's were sent to interested parties.

On the RFP response deadline of June 30, 2003, three responses were received from representatives of the Pasadena buildings that could meet the City's requirements: The Chamber Building at 117 E. Colorado Boulevard; Western Asset Plaza at 385 E. Colorado Boulevard, and Pasadena Towers at 800 E. Colorado Boulevard.

A selection panel comprised of City staff ranked the three proposals with respect to the evaluation criteria and unanimously chose the Chamber Building. The Chamber building is owned by Arroyo Seco Building Ltd., a California Limited Partnership, c/o Crossett, a California Corporation, general partner. Crossett is a wholly owned subsidiary of Parsons Corporation.

This building is undergoing a major renovation with the lobbies, corridors, and exterior of the building being upgraded by the property owner. Additionally, the fire and life safety system is being upgraded to current codes and the elevator controls are being brought into ADA compliance.

A team of City staff conducted a site inspection of the Chamber Building related

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to accessibility and safety issues. No un-manageable ADA issues were uncovered during the site inspection.

Responses to the RFP disclosed that rent for office space at the Chamber Building over the 3-year seismic retrofit period, will cost about \$1,000,000 less than the Western Asset Plaza Building and about \$700,000 less than at Pasadena Towers. The Chamber Building is only 3 blocks from City Hall and 1 block from City employee parking at the Holly Street garage. Western Asset Plaza is one block from City Hall, and three blocks from the Holly Street Garage, but requires that the City be obligated to rent approximately 86 parking spaces at a cost of over \$230,000 for the 3-year period. Pasadena Towers is seven blocks from City Hall and nine blocks from the Holly Street garage and would most likely require shuttle service at substantial cost. If parking were purchased at Pasadena Towers, the cost would be about \$430,000 over the 3-year term.

Since the selection of the Chamber Building, further negotiations have yielded additional benefits and savings. Western Asset is the current major tenant in the building and is scheduled to move to their new headquarters at Western Asset Plaza in February or March of 2004. Their new office space will be outfitted with new systems furniture and equipment. Their lease obligation at the Chamber building runs through the end of 2004, but if the City takes occupancy on June 1, 2004, they will be relieved of several months of rent obligation resulting in the savings of several hundred thousand dollars. After discussions, they have agreed to donate to the City the in-place systems furniture, miscellaneous furniture, and some communications equipment. There are 229 workstations of which 183 will be brought to City Hall after the 3-year retrofit, with 46 stations remaining with Information Technology Services Division (ITSD) at the Chamber Building. Use of these stations assists the project in two ways. First the use of stations allows almost all of the City Hall staff to go into this reduced space making it unnecessary to spend \$2,000,000 to renovate Highland Plastics. Additionally, new furniture was not included in the project budget. Access to this high quality modular furniture will reduce future costs for City Hall offices significantly.

In addition to financial advantages, the Chamber building offers a schedule advantage over the other two building alternatives. Staff's intention is to minimize tenant improvement modifications by using the systems furniture in its existing layout. The tenant improvement design and construction process will be minimized and the shorter furniture setup and staff relocation duration will reduce the disruption of City operations during the transition period.

The rental rate for the 60,875 rentable square feet of office space on floors 1 through 6 is \$1.985 per rentable square foot per month and the 1,333 rentable square foot air-conditioned basement to be used for the mailroom rents for \$1.35

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per square foot. Over the 3-year term, rent will be just under \$4,415,000 for all 62,208 rentable square feet, averaging about \$1.97 per rentable square foot per month. Minimal parking of about 18 spaces may be required at \$65 per month for unreserved spaces yielding a 3-year total of approximately \$42,120.

The landlord will provide the City with a tenant improvement allowance of \$400,000. In accordance with the RFP, if the City decides not to utilize the full build-out, the Landlord will provide the City with a credit equal to the value of the improvement not constructed, to be applied against rents due, provided that the rent credit, if any, shall be taken at a rate not to exceed \$15,000 per month.

The lease is proposed to be full service gross with the City responsible for its proportionate share of pass through of increases in operating expenses over the 2004 base year, which are estimated at approximately \$92,000 total for years two and three. In accordance with the RFP, the increase in operating expenses will be capped at 10% after being subject to the City's substantial list of exclusions.

Further evaluation of the City's needs revealed that ITSD should remain at the building for at least 3-years beyond the initial 3-year term. The proposed lease term is for 3-years with a 2-year option to renew except that the City will lease the 3rd floor for a term of 6-years. After the 3rd year of the lease, the lease rate for floors 1 through 6 will increase to \$2.10 per rentable square foot.

SUBSEQUENT PROPOSAL

On July 21, 2003 the City sent letters to both non-selected building owners thanking them for their RFP participation. On August 26, 2003, a second written unsolicited proposal was received from Maguire Properties, Inc. for the property at 385 Colorado Boulevard.

The major change in the proposal was the inclusion of a base building allowance of \$20 per rentable square foot that would allow the City the right to convert any unused allowance to rental credit not to exceed \$10 per rentable square foot per year. Overall, this allowance would yield an effective rental rate of \$2.02 per rentable square foot for the 3-year term.

The written offer requires that the City purchase at least 86 parking spaces at \$75 per space for a total of \$232,810 over the 3-year period. The building representative verbally indicated that this requirement could be waived but this has not been put in writing.

The building representative also indicated that the \$35 per rentable square foot tenant improvement allowance might be enough to cover the cost of the hard build-out in this core and shell building and the systems furniture leased by the

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owner for City use during tenancy. The written proposal qualifies the adequacy of the \$35 to cover all of these costs until review of City's plans. Whereas, the systems furniture in the Chamber Building will belong to the City and be moved to City Hall when tenancy ends after completion of the retrofit, effectively saving the City approximately \$400,000 to \$450,000.

Staff does not believe Council should consider the unsolicited proposal because:

- Unfavorable economics (higher 3-year effective rent rate, possible added cost for build-out and leased systems furniture, no systems furniture to move back for use at City Hall)
- Unfavorable schedule impact to City Hall Retrofit Construction (additional negotiation and design time, etc.)
- Staff believes a fair process was established. Since the unsolicited proposal for Western Asset Plaza came in after process completion, it would not be fair to consider it without opening the process for additional proposals from all three participants.

The following chart shows the major differences between Western Asset Plaza and Chamber Building proposals:

	Western Asset Plaza 385 E. Colorado Unsolicited Proposal	Chamber Building 117 E. Colorado
3-Year effective rent rate	\$2.02/rsf/mo.	\$1.97/rsf/mo.
Parking Required/Needed	86/18	0/18
3-Year Parking Cost	\$232,120	\$42,120
Systems Furniture	\$0	Saving of \$400,000 TO \$450,000
Schedule Impact to City Hall Seismic Retrofit Construction	3 month delay	0

FISCAL IMPACT

The funds for the first three years of the lease (approximately \$4,550,000) will come from the City Hall Seismic Upgrade and Exterior Restoration Project number 71904, in Capital Projects Fund number 304. The cost of the lease for years four through six for the Information Technology Services Division will come

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from their operating budget.

The staff relocation approach for the City Hall Seismic Retrofit project will be modified by maximizing occupancy in the Chamber Building (majority of staff) while limiting occupancy in the Highland Plastics building to print shop services, records storage management, and City Hall furniture and equipment storage during construction. The financial impacts on the City Hall Seismic Retrofit project budget are as follows:

	<u>Item</u>	<u>Project Budget</u>	<u>Cost Estimate</u>	<u>Budget Overage</u>
1.	Budget/Cost Estimate Differential (8/11/03)	\$93,273,000	\$96,094,000	<u>\$2,821,000</u>
2.	Cost Adjustment (9/8/03)		(\$1,002,000)	
3.	Revised Budget/Cost Estimate (9/8/03)	\$93,273,000	\$95,072,000	<u>\$1,819,000</u>

Respectfully Submitted,




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