



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: S401

City Lease of 525 B Street Office Space

OVERVIEW

On May 7, 2013, in a memorandum to the City Council, Mayor Filner announced he had entered into a Letter of Intent on behalf of the City with the Houston-based Hines Corporation, which proposed terms and conditions of leasing office space at 525 B Street, San Diego, California, to relocate City offices and employees currently located at 600 B Street, San Diego, California. The City entered into the original lease for the 600 B Street building in November 1991, with multiple amendments over the years to expand the amount of leased space and extend the lease term.

The preliminary lease terms for the 525 B Street office space described in the Mayor's memorandum included leasing 77,621 square feet of office space for a six-year term, a reduction in the City's existing lease payment from \$2.62 per square foot to \$1.25 per square foot of lease space, the availability of ground floor space to accommodate an accessible location for those wishing to pay their water bills in person, the availability of on-site parking for City or City employee vehicles, the availability of storage space in the basement of the new location, and the inclusion of \$10.00 per leased square foot in tenant improvements. The memorandum cited savings in excess of \$3 million annually resulting from the proposed relocation.

This proposal was negotiated by Jason Hughes who was appointed as the Mayor's volunteer Special Assistant for Real Estate Services April 10, 2013. The City's Municipal Code and Council Policies provide guidelines for leasing of City-owned property; however, there are no codified guidelines or procedures for when the City desires to lease office space from a private party and no request for proposal process is required. Due to the amount of space that was needed by the City and the soon to be expired lease at 600 B Street, Mr. Hughes identified the 525 B Street location as a possible relocation site.

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In addition to discussions with the property owners of the 525 B Street office building, Mr. Hughes negotiated with the existing lessor for the 600 B Street location. The 600 B Street building was purchased in December 2012 by Dallas-based Lincoln Property Company and the Los Angeles office of Angelo, Gordon & Company. Our office confirmed that the owners of the 600 B Street building proposed to Mr. Hughes a reduced lease rate from \$2.62 per square foot of lease space to \$1.85 per square foot per lease space and the reduction in the amount of space leased from 138,964 square feet to 116,000 square feet, effective 7/1/13. The final amount of space to be leased from the renegotiated agreement was still being determined as the actual space was being re-measured. A tenant improvement allowance (TIA) of \$10.00 per square foot of lease space was also offered for refurbishments at the existing 600 B Street location.

A third proposal for leasing space at 777 Front Street, was submitted by Mr. Charles Black but was rejected. These are the only proposals for new office space our office is aware of. The Mayor's Office has indicated they reviewed several others but did not find them to be as favorable to the City as the proposed 525 B Street lease.

Since two viable options exist, i.e. remaining at 600 B Street or relocating to 525 B Street, it is useful to compare the 525 B Street costs to the renegotiated rate for 600 B Street, recently proposed by the owners as a last, best and final offer. We have used these comparisons throughout our report as well as a comparison to the current 600 B Street rate of \$2.62 per month per square foot of lease space.

Over the course of the past several weeks, the City Attorney's Office conducted a review of the draft lease and negotiated several items to potentially mitigate future costs and further insulate the City from future liabilities. These items included but are not limited to:

- The Landlord is now responsible for the possible removal of all asbestos-containing materials (otherwise the City may have had to pay for such activities).
- The City is now allowed to utilize qualified City staff for such activities as auditing/reviewing the Landlord's books; and installing/maintaining communication and computer lines.
- The expenses defined as Operating Expenses have been refined to exclude all charitable contributions made by the Landlord.
- The Landlord provided Heating, Ventilation, and Air Conditioning (HVAC) hours have been extended and the After Hours HVAC rate has been set at an estimate of the Landlord's actual cost, without mark-up for profit.
- The potentially open-ended liability for Hazardous Material in the leased office space after the City vacates the office space has been replaced with a provision that calls for a Final Inspection, after which liability to the City will cease.
- An additional \$100,000 was included in proposed lease for the tenant improvement allowance to be used to address ADA compliance.
- The tenant improvement construction work will now be put out for a competitive bid to ensure that the City receives a competitive cost proposal.

- Deadlines for completion of the tenant improvement work have been established to ensure the completion of the work in an expedited manner.

While the majority of the terms described in the proposed lease agreement are standard terms for a commercial real estate lease, our office reviewed the terms that could impact the projected savings related to the relocation of the office space. Our office also identified costs related to the proposed relocation including moving services, furniture, and IT costs – which are not addressed in the Mayor’s memorandum. This allows for a more accurate analysis of costs savings related to the proposed relocation.

FISCAL/POLICY DISCUSSION

The existing lease for the 600 B Street location is for 138,964 square feet of space which includes a 14,200 square feet sublease for “Kiddie Hall”; office space for approximately 400 city employees; and the option of one parking space for every 1,000 square feet leased for the City and City employee vehicles. The employees currently housed at 600 B Street are from the Public Works Department (General Fund) and the Public Utilities Department (Enterprise Fund); each department pays a pro-rata share of the lease based upon the amount of square footage the department occupies (the Public Works Department is anticipated to pay approximately 53% of the lease payments and the Public Utilities Department will pay approximately 47% of the lease payments).

The lease agreement was initiated in 1991; the current lease payment is \$2.62 per month per square foot of lease space, and the agreement was set to expire on May 31, 2013. The lease provides for up to three month-to-month extensions at the current rate. The City has initiated the first of the three month-to-month extensions and is currently in a holdover status. Full execution of these extensions would extend the lease agreement through August 31, 2013. The current annual lease amount is approximately \$4.4 million (approximately \$2.3 million related to the Public Works Department and \$2.1 million related to the Public Utilities Department). With a renegotiated rate of \$1.85 per month per square foot of lease space and a reduction in lease space, the annual lease amount would be reduced to \$2.6 million (\$1.4 million related to the Public Works Department and \$1.2 million related to the Public Utilities Department).

The proposed 525 B Street lease is for approximately 90,778 square feet of lease space (90,301 square feet spanning four full floors and a part of a fifth floor; and 477 square feet on the ground floor) to accommodate the relocation of all of the employees from 600 B Street. The lease also provides 25 parking passes for City employee vehicles that the City can lease any time during the term of the lease per revised conditions. Based upon the estimated amount of lease space to be occupied by each department, the Public Works Department is anticipated to pay approximately 48% of the lease amount and the Public Utilities Department will pay approximately 52% of the lease amount. The lease now incorporates a “soft” commencement date, ensuring the City will not begin payments prior to the facility being ready for occupancy. The lease describes the commencement date as the earlier to occur of (i) the date upon which the City first commences to conduct

business in the new location, and (ii) the later to occur of (a) September 1, 2013, and (b) the date upon which the office space is ready for occupancy.

As previously mentioned, while the proposed 525 B Street lease contains multiple terms and conditions, the following items were evaluated for potential cost impacts.

Proposed lease space

The 90,778 square feet of office space proposed in the 525 B Street lease is 48,186 square feet less than the current 138,964 square feet being leased at 600 B Street and 25,222 square feet less than the renegotiated offer for 600 B Street. The reduction in necessary square footage is due to the evaluation of departmental needs, the anticipated implementation of the new workspace designs, and larger floor plates in the new facility.

Base Rent

Per the proposed lease, the proposed monthly base rent rate per rentable square foot at the 525 B Street location is \$1.25 per month per square foot for the first year of the agreement, and is set to increase by \$0.06 per square foot annually for the remainder of the initial term of the agreement. The base rent rate of \$1.25 per month per square foot of lease space includes an allocation of \$10.00 per square foot in tenant improvement allowance (\$10.00 TIA option) plus \$100,000 for ADA compliance in several restrooms.

The proposed lease also includes an alternative base rent rate. This alternative would provide up to an additional \$15.00 per square foot in tenant improvement allowance for a total of up to \$25.00 per square foot in tenant improvement allowance. The square foot base rent rate per month would increase by \$0.0175 for each additional \$1.00 per square foot of tenant improvement allowance in excess of \$10.00.

It is difficult to estimate the costs associated with the tenant improvements since they are driven by the City's specific space needs. In an article (dated 2/06/2012), *Tenant Improvements: A Practical Guide for Estimating Project Cost*, by Kirt Gilliland of Hughes Marino Construction Management, Mr. Gilliland provides a basic tenant improvement cost guideline for typical space, including costs to design, permit and construct the improvements. Mr. Gilliland cites a cost estimate of \$15.00 to \$25.00 per square foot for a "minor remodel" of an existing unoccupied space. Mr. Hughes has indicated to our office that he considers the 525 B Street space to be a minor remodel.

The following table compares the base rent for the current 600 B Street lease, the renegotiated offer for 600 B Street, the proposed 525 B Street lease \$10.00 TIA option, and the 525 B Street alternative \$25.00 TIA option if it were to be needed. The \$25.00 TIA option shown assumes the City would use the maximum amount of tenant improvement allowance. The total base rent for 525 B Street would vary depending on the TIA ultimately required by the City. The projected base rent expenses in the table are for the first year of the potential agreements. This does not include other expenses which we discuss later in this report.

Year 1 of Lease Agreement				
	600 B STREET ⁽¹⁾		525 B STREET ⁽²⁾	
	Current lease agreement	Renegotiated lease agreement Effective 7/1/13	Proposed lease (\$10.00 in TIA)	Proposed lease (\$25.00 in TIA)
Lease Terms				
Square footage	138,964	116,000	90,778	90,778
Monthly cost per sq ft	\$2.62	\$1.85	\$1.25	\$1.51
Monthly lease payment	\$364,086	\$214,600	\$113,473	\$137,302
Annual Base Rent payment	\$4,369,028	\$2,575,200	\$1,361,670	\$1,647,621
Public Works - General Fund	\$2,316,022	\$1,365,114	\$648,972	\$785,256
Public Utilities - Enterprise Fund	\$2,053,006	\$1,210,086	\$712,698	\$862,365

(1) For 600 B Street leases, payment split 53% Public Works and 47% Public Utilities based upon square footage occupied at location.

(2) For 525 B Street leases, payment split 48% Public Works and 52% Public Utilities based upon projected square footage occupied at location.

All options result in a reduction in the City's lease costs in comparison to the current lease agreement for 600 B Street for the base rent. The reduced expenses are driven by the lower base rent rate per rentable square foot as well as a reduction in the amount of leased space. While the base rate portion of the proposed agreements would create savings, as compared to the current 600 B Street lease, other cost factors beyond the base rent could impact the overall net savings related to the proposed lease.

Tenant Improvement Allowance

The Tenant Improvement Allowance is the amount of money that the landlord provides for tenant improvements. The proposed lease \$10.00 TIA option provides for \$10.00 per square foot of lease space in one-time tenant improvements allowance. Based upon leasing 90,778 rentable square feet, the tenant improvement allowance for the \$10.00 TIA option is \$907,780. Additionally, the landlord of the 525 B Street property has committed an additional \$100,000 to the TIA to address ADA compliance for the men's restrooms on several of the leased floors. The additional funding generates a total of \$1,007,780 in TIA for the \$10.00 TIA options.

The proposed lease provides a list of items that are eligible to be funded through the TIA including but not limited to: design plans and construction of the tenant's improvements, plan checks and permitting fees, moving expenses; network cabling; security systems; and telecommunications costs. Furniture that is incorporated into the design plans can be considered eligible TIA expenditures. While the proposed lease indicates that all permanent tenant improvements shall be deemed the Landlord's property, any trade fixtures or removable equipment will remain the property of the City.

The option to increase the tenant improvement allowance up to an additional \$15.00 per square foot of leased space would increase the tenant allowance from \$1,007,780 to approximately \$2.4 million if fully utilized. This option would increase the monthly base rent payable by \$0.0175 per rentable square foot per month for each \$1.00 per square foot increase in the tenant improvement allowance. As shown in the table, if the full amount of tenant improvement allowance is used, the adjusted base rental rates would range from

\$1.51 per month per square foot of lease space in Year 1 to \$1.81 per month per square foot of lease space in Year 6.

Base Rental Rates for Proposed Lease (525 B Street)
(Based on TIA options of \$10.00 and \$25.00)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
\$10.00 TIA option	\$1.25	\$1.31	\$1.37	\$1.43	\$1.49	\$1.55
\$25.00 TIA option	\$1.51	\$1.57	\$1.63	\$1.69	\$1.75	\$1.81

Both options are shown as the cost associated with the build out of the new space, remains the largest unknown cost and the greatest potential impact to projected savings from the base rent portion of the proposed lease. The tenant improvement allowance is a starting point for generating a rough budget, but more information is needed to make an accurate comparison of alternatives.

Several other items could impact build out costs. The first is the current condition and design of the space that the City will occupy at 525 B Street. Based upon a description of the floor spaces in the proposed lease and the Letter of Intent, the spaces appear to be open floor plans, requiring work that the Landlord has agreed to address including installing new ceiling grid and lighting on the 6th floor and a portion of the 4th floor. While the open floor space may be beneficial as less demolition may be required, an open floor plan may lack other elements such as electrical outlets and doors, which are common in built out space. Workspace drawings and completed floor plans are needed to develop final cost estimates.

On June 17, 2013, the City Council will be presented an amendment to the Agreement between M. Arthur Gensler Jr. and Associates, Inc. and the City of San Diego for \$75,100 to provide space planning and design consultant services for the new office space at 525 B Street. Working with City staff, the consultant will develop the floor plans and construction drawings to be reviewed and approved by the Landlord. While the consultant services are an eligible TIA expense, due to the immediate need for these services, the Public Works and Public Utilities Departments are proposing to fund these services on an equal basis through their respective FY 2013 operating budgets. Per the proposed amendment, the consultant services are to be begin in June 2013 and be completed by the end of August 2013. James Nagelvoort, Deputy Director of Public Works, has been identified as lead contact for the City related to these services. Upon the development of the workspace and floor plans, the IT Department will also be providing input on specific IT requirements in order to develop a cost estimate and work plan.

Based on the proposed lease, upon review and approval of the construction drawings by the Landlord, the Landlord would competitively bid/negotiate the necessary improvements construction from a list of mutually approved contractors. The competitive bid process will enable the City to receive a competitive cost proposal for the construction work and allow the City to address as many eligible costs as possible.

Moving Costs

In addition to the build out costs, there are costs associated with moving the employees and related equipment to the new lease space. This requires an evaluation of what furniture and IT items will be relocated and what new items are needed. While the tenant improvement allowance can be used for moving and furniture costs, it is uncertain that there will be sufficient TIA funds remaining after building out the space.

Based upon preliminary cost estimates provided by MEK, the City vendor for moving needs, relocating approximately 400 City employees from 600 B Street to 525 B Street will cost approximately \$300,000. The cost estimate is anticipated to be approximately \$150,000 for the Public Utilities Department and \$150,000 for the Public Works Department. Estimates are provided to the specific departments based upon separate evaluations. While the Public Works Department has more employees housed at the 600 B Street location than the Public Utilities Department, the Public Utilities Department has more files that need to be relocated. The preliminary cost estimate is based upon the number of movers and the number of hours each worker is anticipated to be needed. The move is not based upon the number of employees relocated. A more refined cost estimate will be provided to the departments in the following weeks as the vendor is able to evaluate the items that need to be moved with the individual departments.

Furniture, Fixtures, and Equipment Costs

The Facilities Strategies Plan, a workspace efficiency study commissioned by the Real Estate Assets Department last year, provides recommendations for efficient and effective workspace allowances for City staff. The plan proposes standardization of workspaces and furniture to allow for more efficient use and flexibility of square footage. Application of the Plan's revised workspace standards is a significant contributor to the reduction of workspace in the new location.

However, the reconfiguration of workspaces will require an initial capital outlay for new cubicles and systems furniture. While some existing furniture will be moved from 600 B Street to 525 B Street, according to Mr. Hughes it is anticipated that 200 cubicles will be purchased and installed. The projected cost per cubicle is approximately \$1,500, resulting in a total cost of approximately \$300,000 for all the furniture and materials, to implement the new workspace plan.

Storage Costs

The proposed lease includes the availability of storage space within the basement of the facility at 525 B Street for an additional charge beyond the Base Rent. The proposed lease includes 5,239 square feet of storage space at a rate of \$0.60 per square foot per month. The rate per square foot will increase beginning in Year 3 by \$0.05 each year for the remaining term of the agreement. The charge will become effective with the beginning of the new lease.

Per the original lease for 600 B Street, the storage costs were based upon 600 square feet of storage being available at a rate of \$0.25 per square foot. It is anticipated that the

additional storage space will be needed by staff due to the reduced office space at 525 B Street. The following table compares the storage costs for the 600 B Street leases (current and renegotiated) and the 525 B Street leases (\$10.00 TIA option and the \$25.00 TIA option) for the first year of the proposed lease.

	Year 1 of Lease Agreement	
	600 B STREET Current and Renegotiated	525 B STREET \$10.00 TIA option and \$25.00 TIA option
Storage Space (Sq. Ft.)	600	5,239
Storage Expense (Sq. Ft.)	\$0.25	\$0.60
Monthly storage expense	\$150	\$3,143
Annual storage expense	\$1,800	\$37,721

For this portion of the agreement, the proposed lease would increase the storage costs by approximately \$36,000 in the first year of the lease. Based upon scheduled rate increases, the annual storage costs range from \$37,721 to \$52,294 over the term of the proposed lease.

Operating and Tax Expenses

The proposed lease is a full-service lease, with the Landlord paying for all costs of ownership, management, maintenance, security, and any other costs associated with operating the facility, unless specifically excluded in the agreement. Costs will then be charged on a pro-rata basis to tenants of the facility to recover the costs. These charges are in addition to the Base Rent; and are termed Operating Expenses. There is no additional charge for the Operating Expenses the first year or the Base Year of the proposed lease. For Year 2 and beyond, the Operating Expenses will be reviewed and any increase in the facility’s overall operating expenses will be allocated to the City based upon the City’s pro-rata share of approximately 20% (based upon leasing 90,778 square feet of the available 449,180 square feet within the facility), with a cap on a potential annual increase of five percent over the prior year.

Based upon preliminary information, the maximum increase in the Operating Expenses for the proposed 525 B Street lease for Years 2 – 6 would range from \$0.60 per square foot to \$0.73 per square foot (based upon an estimated \$12.00 per year operating cost), creating additional charges ranging from approximately \$54,000 in Year 2 to approximately \$66,000 in Year 6. The Operating Expense charge for the current 600 B Street lease is approximately \$0.35 per square foot and based on an approximate 41% pro-rata share of the buildings operating expenses (pro-rata share determined in same fashion as 525 B Street lease). It is assumed the Operating Expenses would remain the same for the renegotiated 600 B Street lease (applied to a lower total square footage of leased space that the current 600 B Street lease) and would be based upon an approximate 34% pro-rata share.

		Operating Expenses					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
600 B Street Lease (Current) (Renegotiated)	Increase in Operating exp*	\$0.35	\$0.37	\$0.39	\$0.41	\$0.43	\$0.45
	Annual Operating Expense	\$48,637	\$51,069	\$53,623	\$56,304	\$59,119	\$62,075
	Annual Operating Expense	\$40,600	\$42,630	\$44,762	\$47,000	\$49,350	\$51,817
525 B Street Lease (\$10.00 TIA option and \$25.00 TIA option)	Increase in Operating exp	\$0.00	\$0.60	\$0.63	\$0.66	\$0.69	\$0.73
	Annual Operating Expense	\$0	\$54,467	\$57,190	\$60,050	\$63,052	\$66,205

*Assumes 5% annual increase over previous year.

Similar to the Operating Expenses, Tax Expenses are in addition to the Base Rent. Simplistically, Tax Expenses are those related to any general, special, ordinary, or extraordinary tax that the Landlord may need to pay, unless specifically excluded in the agreement. Similar to the Operating Expenses there is no charge for the Tax Expenses in the first year or Base Year of the proposed lease. The proposed lease establishes Calendar Year 2014 as the Base Year. Any increases in Tax Expenses over the prior year will be allocated to the City based upon the City's pro-rata share of approximately 20% (determined in the same manner as the pro-rata share of the Operating Expenses). Improvements made by the City beyond the Base Year, that increases the value of the facility/property, will result in a special assessment tax that would be borne specifically by the City. The lease for 600 B Street charges the Tax Expense in a similar fashion, with the pro-rata share being considerable higher (approximately 41%) due to the higher amount of leased space.

On-site Parking

The proposed lease provides for 25 unreserved parking passes. The City will be charged market rates for the parking passes; estimated at \$190 per month. Within two months of the commencement of the proposed lease, the City will confirm the number of parking passes the City wishes to utilize. The City will not be charged for the parking passes not utilized.

The City's parking policy provides assistance for parking expenses for City employees. City employees are able to be reimbursed for 50% of their monthly parking expenses up to \$80 per month. However, the parking reimbursement is only for parking within the Evan Jones Parkade (Parkade), and does not apply to the underground parking at 600 B Street or the proposed 525 B Street location. As the parking assistance only applies to the parking within the Parkade, it is anticipated that the employees at the 600 B Street location are utilizing this assistance and currently use the Parkade for their parking needs.

The Public Works Department has expressed desire to utilize several of the parking passes for close access to city vehicles as staff often has large amounts of materials to be transferred between several locations. The number of parking passes to be utilized and the cost associated with these passes is still to be determined, however the potential financial impact is anticipated to be minimal. Should the City not utilize all the parking

passes initially, the City does retain the right to lease up to 25 parking passes throughout the term of the proposed leased, based upon future availability.

Options to renew

The proposed lease is for a term of six years with two one-year options to renew. The lease is scheduled to commence as the earlier to occur of (i) the date upon which the City first commences to conduct business in the new location, and (ii) the later to occur of (a) September 1, 2013, and (b) the date upon which the office space is ready for occupancy. The rent for the additional renewal periods would be determined by the market rates described in the proposed lease. The renegotiated lease term at the 600 B Street location was for 6 years with no option to renew. The proposed lease does not have any language providing for a possible early termination or any potential contraction rights.

Summary

The following table provides a comparison of the current 600 B Street lease, the renegotiated 600 B Street lease, the proposed 525 B Street \$10.00 TIA option lease, and the proposed 525 B Street \$25.00 TIA option lease for the first year of the respective leases. The table incorporates the annual base rent payment; estimated annual operating expenses (not charged for the proposed 525 B Street leases); tax expense (shown but not estimated); and the annual storage costs based upon the available square footage. It also anticipates that the moving expenses and furniture expenses are in excess of the TIA, increasing the cost of the first year.

	Comparison of Year 1 of Lease Agreements			
	600 B STREET		525 B STREET	
Lease Terms	Current lease agreement	Renegotiated lease agreement Effective 7/1/13	Proposed lease - \$10.00 TIA	Alternative Proposed lease - \$25.00 in TIA
Annual Base Rent payment	\$4,369,028	\$2,575,200	\$1,361,670	\$1,647,621
Annual Operating Expense	\$48,637	\$40,600	N/A in Yr 1	N/A in Yr 1
Annual Tax Expenses	TBD	TBD	N/A in Yr 1	N/A in Yr 1
Annual Storage Expense	\$1,800	\$1,800	\$37,721	\$37,721
Projected Annual Expenses	\$4,419,466	\$2,617,600	\$1,399,391	\$1,685,342
Projected Moving Expenses	N/A	N/A	\$300,000	\$300,000
Projected Furniture Expenses ⁽¹⁾	N/A	N/A	\$300,000	\$300,000
Net Cost	\$4,419,466	\$2,617,600	\$1,999,391	\$2,285,342
Public Works - General Fund	\$2,342,759	\$1,387,590	\$959,930	\$1,096,214
Public Utilities - Enterprise Fund	\$2,076,707	\$1,230,010	\$1,039,461	\$1,189,128

⁽¹⁾ Estimated costs for new cubicles associated with phasing in of new workspace plan only, does not include any additional furniture costs.

Assumptions:

1. For 600 B Street leases, payment allocated approx. 53% to Public Works and approx. 47% to Public Utilities.
2. For 525 B Street leases, payment allocated approx. 48% to Public Works and approx. 52% to Public Utilities.
3. Moving expenses based upon preliminary estimates from City's moving vendor for each separate department.
4. Furniture expense allocation assumed to match allocations for Projected Annual Expenses for 525 B Street leases.

Both 525 B Street scenarios provide savings over the renegotiated 600 B Street lease. However, savings could be less than expected in the first year depending on final TIA estimates and moving and furniture costs.

FY 2014 Budget

In discussion with the Real Estate Assets Department, as the lease status for 600 B Street was uncertain, the Real Estate Assets Department conservatively included the current annual lease payment of approximately \$4.4 million for the 600 B Street lease in the proposed FY 2014 Budget. From the scenarios for the first year of the proposed lease (FY 2014), the new lease will provide savings to the base rent portion of the annual lease payment. However, the total actual savings of this relocation will not be known until cost estimates have been developed for the build out of the 525 B Street space and the relocation of City employees has been completed.

Six year comparison of the lease agreements

The following table provides a projected comparison of the current 600 B Street lease, the renegotiated 600 B Street lease, and the proposed 525 B Street lease with the two options (\$10.00 TIA and \$25.00 TIA) for the entire term of the lease agreement (six years). The figures include the annual base rent payment; estimated annual operating expenses; storage expenses, and the one-time moving and furniture expenses of \$600,000 in Year 1 for the proposed 525 B Street lease options.

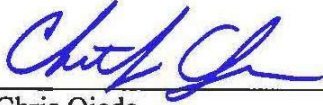
Six Year Comparison of 600 B Street and 525 B Street Lease Agreements

600 B Street (Current Lease)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Grand Total
Projected Annual Expenses	\$4,419,466	\$4,574,813	\$4,735,635	\$4,902,123	\$5,074,479	\$5,252,910	\$28,959,427
600 B Street (Renegotiated Lease)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Grand Total
Projected Annual Expenses	\$2,617,600	\$2,717,070	\$2,816,642	\$2,916,320	\$3,016,110	\$3,116,017	\$17,199,758
525 B Street (\$10.00 TIA Option)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Grand Total
Projected Annual Expenses	\$1,999,391	\$1,519,218	\$1,590,445	\$1,661,808	\$1,733,314	\$1,804,970	\$10,309,145
525 B Street (\$25.00 TIA Option)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Grand Total
Projected Annual Expenses	\$2,285,342	\$1,805,168	\$1,876,395	\$1,947,758	\$2,019,264	\$2,090,921	\$12,024,849

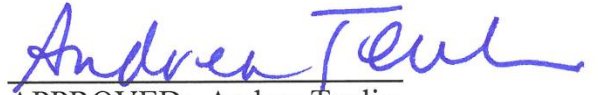
CONCLUSION

From our review, while the relocation of City employees will provide savings on the base rent portion of the annual lease payments, there are several other factors such as the build out costs, moving costs, and furniture costs that could potentially impact the projected savings, particularly in the first year of the proposed lease (FY 2014), as the majority of these additional cost factors are one-time expenses.

Upon development of the floor design plans and receipt of cost proposals for the tenant improvements, a more reliable savings estimate should be able to be determined.



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APPROVED: Andrea Tevlin
Independent Budget Analyst