



Council Agenda Report

From: Ryan Cornell, Administrative Services Director

Subject: Approval of Corporation Yard Lease Extension at 625 Riverside Avenue

CEQA Determination: The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Date: July 16, 2024

Facts

1. The City's Corporation Yard, located at 625 Riverside Avenue, is the headquarters for the City's landscape, facilities, and fleet maintenance divisions. In 2018, the property was sold for approximately \$1.5 million, and the City has been leasing the site back since then.
2. On August 6, 2019, City Council approved a lease agreement for the 625 Riverside Avenue property, expiring on July 31, 2020, with the lease payments of \$9,000 per month. Subsequently, two, six-month extensions were approved on July 9, 2020, and on December 1, 2020, at the same monthly rate.
3. On May 4, 2021, City Council approved the fourth amendment to the lease agreement, with the term of the lease expiring on July 31, 2024, and monthly payments increasing to \$10,000 per month.
4. It was originally intended that the City would assume ownership of the Maintenance Shop and Yard at the Boys School. Unfortunately, a variety of issues prevented the sale of the Boys School property.
5. Considering this, the City has pursued other options for a permanent location, including the 2930 Union Road, the current location of Fire Station No. 3, as it is large enough to accommodate a Corporation Yard facility. The design plans for those facilities are currently being reviewed by the City's Community Development Department. Once approved, construction is expected to last 18 months, thus requiring the need to renew this lease agreement.
6. Following the execution of the last lease amendment the property was sold. Since then, staff has been negotiating with the new owner to finalize the terms and form of a lease extension.
7. The terms of the lease extension have been negotiated and extend the term of the lease for an additional two years, until July 31, 2026, with an optional third year, through July 31, 2027. The additional year was negotiated in case of unforeseen circumstances arising from the construction of the new Corporation Yard. Staff is still finalizing the language and form of extension.

Options

1. Take no action;
2. Authorize the City Manager to execute a two-year lease extension for the 625 Riverside Avenue property with an option for a third year, if needed, with the financial terms provided in this report and in a form acceptable to the City Manager and City Attorney; or
3. Provide alternative direction to staff.

Analysis and Conclusions

In 2018, the City conducted a review and analysis of all real estate holdings, and, at that time, it was determined that the City's Corporation Yard could be relocated allowing the Riverside property to be sold for private use. Unfortunately, the City was unsuccessful in securing the maintenance yard at the Boys School and as a result, explored two additional alternatives: utilizing a segment of the second public safety center on Union Road or utilizing City-owned property at Second Wind Way. Over the past year, staff have been pursuing and designing a new Corporation Yard at the Union Road site, given its more practical location to the City core and services. Once approved, construction will take approximately 18 months, resulting in the need to extend the current lease agreement. Staff did evaluate other options for this interim period, however no other site offered the central location and space necessary to accommodate the various equipment and operations established at the Riverside location.

The property was sold during the term of the Fourth Amendment to the lease and staff is still working with the new owner on the form of the lease extension. Staff anticipates that the extension will be on substantially similar terms as those provided by the previous landlord. Provided that occurs, staff is seeking authority for the City Manager to execute the lease extension. If that cannot occur, staff will return to City Council for alternative direction.

Fiscal Impact

The City has been in negotiations with the current owner of 625 Riverside Avenue over the past several months. Based on those discussions, the City was able to negotiate a monthly lease rate of \$13,000 per month (an increase of \$3,000 per month) for the first year, for a total of \$156,000 per year (August 1, 2024 through July 31, 2025). This is slightly higher than what was assumed in the baseline budget, and budget amendments will be formally requested at a Quarterly Budget Report. Lease amounts escalate to \$15,300 per month for the second year (August 1, 2025 through July 31, 2026), and if necessary, to \$17,000 per month for the third optional year (through July 31, 2027). This is a more cost-effective option for the City than proceeding with required tenant improvements at Second Wind Way, which are estimated to cost more than \$700,000, plus would be considered temporary given that construction of the Corporation Yard is imminent.

CEQA

The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Recommendation

Authorize the City Manager to execute lease extension, in a form reasonably acceptable to the City Manager and City Attorney, with the Iannetta Family Trust for the Corporation Yard located at 625 Riverside Avenue through July 31, 2026, with an option to extend for another year through July 31, 2027, at the \$13,000 per month lease rate for the first year and escalating thereafter, and to make minor, technical, or non-substantive changes to the attached agreement, as necessary, consistent with the Council's overall intent.