TO:       HONORABLE CITY COUNCIL
FROM:     CITY MANAGER       DEPARTMENT: ADMINISTRATIVE SERVICES
DATE:     MAY 14, 2007       CMR: 226:07
SUBJECT:  LEASE AMENDMENT TO RELOCATE FROM 1003 ELWELL COURT TO 1005 ELWELL COURT AND TO EXTEND THE TERM FOR 1005 AND 1007 ELWELL COURT TO 2013

RECOMMENDATION
Staff recommends that Council authorize the City Manager to execute the attached Amendment No. 5 to the lease with McCandless Limited for 1005 and 1007 Elwell Court. The amendment will relocate from the 1003 Elwell Court premises to 1005 Elwell Court and extend the term for both the 1005 and 1007 premises until August 31, 2013, with two consecutive options to extend the term, for two years each.

BACKGROUND
On July 13, 1998, the City entered into a 10-year lease with McCandless Limited for 9,202 square feet of office space at 1007 Elwell Court. The purpose of the lease was to provide space for the relocation of Utilities Engineering staff to address over-crowded conditions in the Civic Center. On March 10, 2003, Council approved Amendment No. 1 to the lease, authorizing a 2.5-year lease of an additional 5,692 square feet of space at 1003 Elwell Court to house additional staff required for the fiber to the home (FTTH), the dark fiber, and base map updating projects. On March 16, 2005, the City Manager executed Amendment No. 2, which extended the term for the space at 1003 for an additional six months. On September 19, 2005, Council approved Amendment No. 3 extending the term for 1003 Elwell Court for an additional year. On June 5, 2006, Council approved Amendment No. 4 to extend the term of the lease for 1003 Elwell Court for 23 months to coincide with the term of the lease for 1007 Elwell Court. Terms for both 1003 and 1007 Elwell Court are set to expire on August 31, 2008.

DISCUSSION
The lease term for 1003 Elwell Court was originally limited to 2.5 years to coincide with the decision on whether to proceed with the FTTH project. Although the FTTH project was discontinued, the telecommunications staff remained at the same level due to increased dark fiber business activity, and therefore the lease was extended several times. The extensions were limited in duration because staff proposed to return the Utilities Engineering staff to a City-owned facility, if and when the City constructed a new police facility. The space needs for the Utilities staff continue. The 1003 Elwell Court space now includes the customer service staff
formerly located at 285 Hamilton in addition to office space for field inspectors and their equipment, a library for Utilities system documentation and plan review, engineering training stations, and conference rooms.

Staff is now recommending vacating the 1003 premises and relocating staff to the 1005 premises. The 1005 premises contains 1,300 additional square feet to accommodate the relocation and it will give the owner the ability to lease 1001 and 1003 Elwell Court to the same client. The owner will connect the two spaces internally and provide all of the cubicles and office furniture at no cost to the City. Staff is recommending the additional 5-year term and two 2-year options to provide time to assess the feasibility of building an additional building at the Municipal Service Center to house Utilities staff. Except for the extended term, the relocated space and a provision for construction of two new wall openings at the landlord’s cost, all other terms and conditions of the original lease remain the same.

**RESOURCE IMPACT**

The current monthly rent and common area charges will increase by $1,727 due to the increase in square footage for 1005 Elwell Court. The annual cost for the first year of the extended lease will be $498,995, an annual increase of $20,724 over current costs. The cost for the lease and any costs associated with the move from 1003 to 1005 premises will be paid from the existing Electric, Gas, Water and Waste Water Fund budgets.

**POLICY IMPLICATIONS**

The recommendation is consistent with existing City policies and supports the Utilities Strategic Plan.

**ENVIRONMENTAL REVIEW**

The leasing of existing office space involving no expansion of use is exempt from California Environmental Quality Act review pursuant to CEQA Guideline Section 15301.

**PREPARED BY:**

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**CITY MANAGER APPROVAL:**

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City Manager

**ATTACHMENTS**

Attachment A: Fifth Amendment to Standard Industrial Lease