TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES/UTILITIES
DATE: SEPTEMBER 19, 2005 CMR: 362:05
SUBJECT: AMENDMENT NO. 3 TO THE CITY’S LEASE AGREEMENT WITH McCANDLESS LIMITED FOR SPACE AT 1003 AND 1007 ELWELL COURT TO EXTEND TERM FOR ONE ADDITIONAL YEAR

RECOMMENDATION
Staff recommends that the City Council authorize the City Manager to execute the attached Amendment No. 3 to the lease for 1003 and 1007 Elwell Court. The amendment will extend the two and half-year term of the 1003 Elwell Court lease for one additional year at the current rental rate.

BACKGROUND
On July 31, 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 the Utilities Engineering staff to address the over-crowded conditions in the Civic Center as described in CMR:204:98.  On March 10, 2003 (CMR:165:03), Council approved Amendment No. 1 to the lease, authorizing a two- year lease of an additional 5,692 square feet of space at 1003 Elwell Court to house the 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 to the lease which extended the term for the space at 1003 Elwell Court for an additional six months.

DISCUSSION
The space needs presented in the March 2003 staff report still exist.  Although the FTTH project has been discontinued, the telecommunications staffing remains at the same level due to increased dark fiber business activity.  Also, the 1003 Elwell Court space continues to be shared with Utilities staff from 1007 Elwell Court.  Specifically, it provides office space for field inspectors and their equipment, a library for Utilities system documentation and plan review, engineering training stations, and conference rooms.  The monthly rent ($7,328) and common area charges ($2,142) will remain at their current level of $9,470.  The cost for the additional year is included in the current Utilities budget, shared between Telecommunications, Electrical and Water/Gas/Wastewater.

Staff is requesting only a one-year lease extension at this time because ultimately staff is proposing that the Utilities Engineering staff return to City Hall if a new police facility is
constructed. Staff estimates that if a new facility is constructed, it will take at least two years to construct and another two years to remodel the old police facility before Utilities Engineering staff can return to City Hall. If this proves to be the case, staff will return to Council for approval to extend the lease to 2012 for both the 1003 and the 1007 Elwell Court. This one-year lease extension should allow enough time to determine if the City will proceed with the construction of a new police facility. If the City does not proceed with a new police facility, staff will return to Council for approval of either an extension to the lease at 1003 Elwell Court, a new lease for Utilities Engineering office space at a different location, or the possible purchase of a utility building.

**RESOURCE IMPACT**
The total annual estimated cost of the extended lease term and related common area expense is $113,700. The fiscal year 2005/06 adopted Electric, Gas, Water and Waste Water Fund budgets include full funding for this amount.

**POLICY IMPLICATIONS**
This recommendation is consistent with existing City policies and supports the Utilities Strategic Plan.

**ENVIRONMENTAL REVIEW**
Extending the lease for office space is exempt from the requirements of the California Environmental Quality Act.

**PREPARED BY:**

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**ATTACHMENT**
Attachment A: Third Amendment to Lease for 1003 Elwell Court