



● **Board of Directors**  
***Real Property and Asset Management Committee***

March 10, 2009 Board Meeting

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7-1

**Subject**

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Authorize entering into a second lease amendment to extend the existing Sacramento office lease term for an additional 96 months with Senator Building Holdings, LLC, a Delaware limited liability company.

**Description**

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Metropolitan maintains an office and staff in Sacramento primarily to facilitate its involvement in the state legislative process and to work on Bay-Delta issues. Metropolitan's presence in Sacramento helps to protect its interests, those of its member agencies, and more generally, the reliability of Metropolitan's water supply. Since 1995, Metropolitan has rented 7,092 square feet on the ninth floor of The Senator Office Building, located at 1121 "L" Street, Sacramento, California, immediately adjacent to the State Capitol (**Attachment 1**). The original lease had a 10-year term which was extended for another five years by a first amendment. The lease term, as amended, expires August 31, 2010. This action requests authority to enter into a second lease amendment providing for extensive tenant improvements at the landlord's expense with an additional 96-month term commencing April 1, 2009.

Over the past few years, Sacramento staff identified a need to reconfigure the office space to better accommodate a growing number of staff and increased temporary use by visiting employees, member agency staff, and directors. In anticipation of the expiration of the lease and the beneficial market for tenants, staff commenced negotiations with the building owner for additional tenant improvements and a lease extension earlier this year. These negotiations were successful. Staff has been able to secure the landlord's commitment to pay for all the necessary tenant improvements, at an estimated cost of \$130,000. Based on a market survey conducted in May 2008, staff also secured a favorable rental rate (**Attachment 2**). For the year beginning May 2009, the annual rent will be \$238,291, with annual operating expenses of \$21,060, for a total of \$259,351. In the unlikely event that Metropolitan should desire to move its offices or cease using this space in the future, the lease terms provide that it may be subleased. Because of its location, quality, and reasonable rent, it is likely that the space could be easily subleased, although staff does not expect this will be necessary. To the contrary, staff anticipates increased use of the space over the lease period. Staff recommends approval of this lease amendment because the landlord-funded tenant improvements will help to accommodate the increased use and the extended lease will allow Metropolitan to continue its active involvement in the state legislative and Bay-Delta processes.

**Policy**

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Metropolitan Water District Administrative Code Section 8121: General Authority of the General Manager to Enter Contracts

**California Environmental Quality Act (CEQA)**

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CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Options #2 and #3:

None required

**Board Options**

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**Option #1**

Adopt the CEQA determination and authorize the General Manager to execute a second lease amendment with Senator Building Holdings, LLC extending the term of the existing lease through August 31, 2018, in a form to be approved by the General Counsel.

**Fiscal Impact:** Current annual rent and operating expenses are \$255,096. Proposed second amendment provides for a \$0.05 per square foot monthly increase beginning May 1, 2009 with subsequent \$0.05 per square foot annual increases for the duration of the lease term. Effective May 1, 2009, the annual rent and operating expenses will be \$259,351.

**Business Analysis:** This lease should be extended now to lock in the favorable terms and tenant improvements to be constructed at landlord’s cost, as offered in the proposed lease amendment. This office in the Senator Building facilitates Metropolitan’s work in the state legislative process and Bay-Delta issues in Sacramento. Our market survey disclosed four other available office spaces within one block of the State Capitol with rental rates between \$2.75 and \$3.00 per square foot. The proposed rent is at the bottom of this range. The proposed yearly increases of \$0.05 per square foot per year is much less (1.8% and decreasing each year) than the 3% yearly increases that are typical in this market. In addition, the landlord is offering \$130,000 worth of free tenant improvements to reconfigure the office to better accommodate Metropolitan’s business requirements in Sacramento. The proposed lease extension is a good value for Metropolitan.

**Option #2**

Direct staff to renegotiate the lease or locate alternative office space which could result in paying a higher rate at an inconvenient location with increased costs associated with relocating Sacramento-based staff.

**Fiscal Impact:** Currently unknown

**Business Analysis:** It is possible that staff would need to be relocated from currently occupied Sacramento office space.

**Option #3**

Do nothing and let the lease expire.

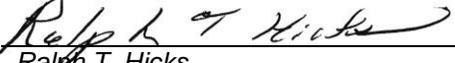
**Fiscal Impact:** Relocation costs

**Business Analysis:** Staff would need to move out of the currently occupied Sacramento office space.

**Staff Recommendation**

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Option #1

  
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Ralph T. Hicks  
Manager, Real Property Development and  
Management Group

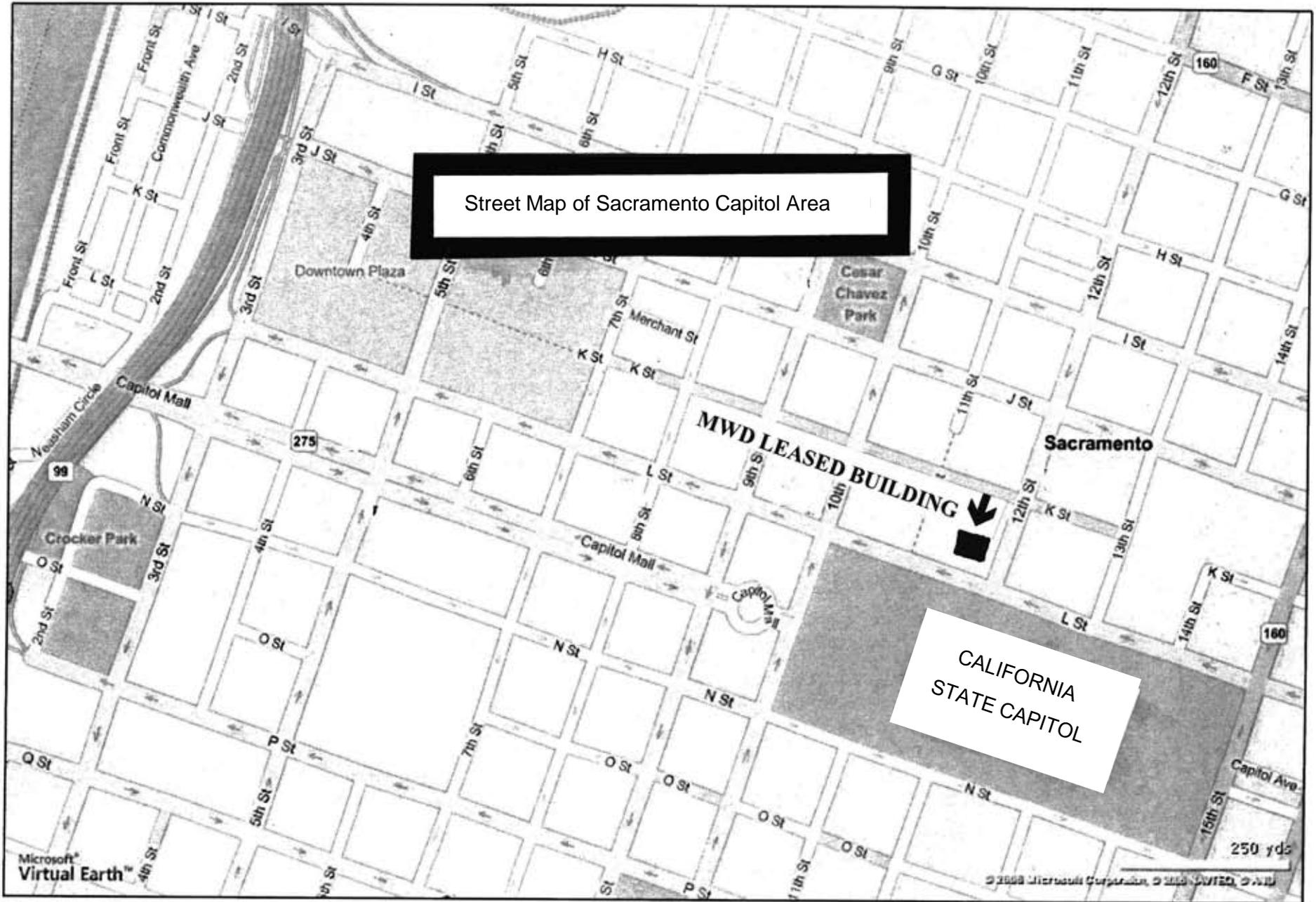
2/18/2009

Date

  
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Jeffrey Kightlinger  
General Manager

2/18/2009

Date



CresaPartners

### Subject Location Map

### Lease Proposal Abstract

Type: Full Service Gross Lease

Lease Name/Location: **The Senator Building** LLC, Sacramento, CA

Size of Space: 7,092 rentable square feet  
(no change from existing lease as amended)

Background Lease History: The original lease was for 10 years beginning 8-29-95; first amendment extend the current term through 8-31-10

Current Rent Per Square Foot Per Month: \$2.75 from 4-1-09 through 4-30-09 per the current lease and proposed second amendment;  
\$2.80 from 5-1-09 through 8-31-10 per the current lease and the proposed second amendment

Proposed Rent Schedule:

<i>Years</i>	<i>Dates</i>	<i>Rent Per Square Foot Per Month</i>
Year 2	9/1/10 to 8/31/11	\$2.80
Year 3	9/1/11 to 8/31/12	\$2.85
Year 4	9/1/12 to 8/31/13	\$2.90
Year 5	9/1/13 to 8/31/14	\$2.95
Year 6	9/1/14 to 8/31/15	\$3.00
Year 7	9/1/15 to 8/31/16	\$3.05
Year 8	9/1/16 to 8/31/17	\$3.10
Year 9	9/1/17 to 8/31/18	\$3.15

The rent increases \$0.05 per square foot monthly as shown above.  
(No change, existing lease had the same increases).

Proposed Term: 9 ½ years (113 months)

Amendment Commencement: April 1, 2009

Reserved Parking Space: None available (no change from existing lease)

Meeting Room Requests: Landlord shall provide a common area conference room within the building for a nominal charge

HVAC: 7 a.m. to 6 p.m. Monday through Friday per the current lease.  
After hours are available at Landlord’s cost per the current lease.

Operating Expenses: Tenant to pay its pro rata share of “Operating Expenses” in excess of the “Base Year” expenses as additional rent. The current lease has a base year of 2004. The proposed amendment would establish 2010 as the new base year.

Tenant Improvements:	Landlord shall provide “Turnkey” construction build-out at Landlord’s expense subject to Metropolitan’s approval. Improvements shall include, but not be limited to, new paint, carpet and reconfigurations of office space per Lessee’s specification and approved plans.
Metropolitan’s Additional Space Option:	Landlord is granting Lessee a “First Right of Refusal” for 9 <sup>th</sup> Floor contiguous space only; subject to other tenants’ existing rights with a seven-business-day response from Lessee.
Termination Rights:	None per existing.
Security Deposit:	None. Subject to Landlord’s review of tenant’s financial statements.
Subleasing:	Tenant shall have the right to sublease or assign any portion of the premises to any related entity, with notice to Landlord.