

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY
AND RECORD OF ACTION**

February 27, 2024

FROM

TERRY W. THOMPSON, Director, Real Estate Services Department

JEANY ZEPEDA, Director, Children and Family Services

SUBJECT

Amendment to Lease Agreement with 1094 South E Street, LLC a California Limited Liability Corporation for Office Space in San Bernardino

RECOMMENDATION(S)

1. Find that approval of Amendment No. 2 to Lease Agreement No. 13-604 with 1094 South E Street, LLC, a California Limited Liability Corporation, for office space is an exempt project under the California Environmental Quality Act Guidelines, Section 15301 – Existing Facilities (Class I).
2. Approve the Real Estate Services Department's use of an alternative procedure in lieu of a formal Request for Proposals, as allowed per County Policy 12-02 - Leasing Privately Owned Real Property for San Bernardino County Use, to extend the term of the lease for 15 years from April 29, 2024 through April 28, 2039, for an aggregate term of 25 years and a possible term of 35 years if the two existing five-year extension options are exercised, provide for turnkey tenant improvements to be performed by the landlord with the costs to be amortized over the period from November 1, 2024 through April 28, 2039, commence rent payments as of November 1, 2024 for the approximately 6,454 square feet of space that was originally provided at no additional cost to the County, increasing the basis of the rent payment from approximately 42,000 square feet to the entire premises of approximately 48,454 square feet, add exterior safety features costs, adjust the rental rate schedule, and update standard lease agreement language, for office space for Children and Family Services, located at 1094 South E Street in San Bernardino.
3. Approve **Amendment No. 2 to Lease Agreement No. 13-604** with 1094 South E Street, LLC, a California Limited Liability Corporation, to extend the term of the lease for 15 years from April 29, 2024 through April 28, 2039, for an aggregate term of 25 years and a possible term of 35 years, if the two existing five-year extension options are exercised, provide for turnkey tenant improvements to be performed by 1094 South E Street, LLC, a California Limited Liability Corporation, with the costs to be amortized over the period from November 1, 2024 through April 28, 2039, commence rent payments as of November 1, 2024, for the approximately 6,454 square feet of space that was originally provided at no additional cost to the County, increasing the basis of the rent payment from approximately 42,000 square feet to the entire premises of approximately 48,454 square feet, add exterior safety features costs, adjust the rental rate schedule, change the County's Termination Rights to reflect a 180-day notice option beginning April 29, 2033, the 10th year, and update standard lease agreement language, for office space for Children and Family Services, located at 1094 South E Street in San Bernardino, in the total amount of \$30,708,224.

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4. Authorize the Purchasing Agent to issue purchase orders, as necessary, for a total amount not to exceed \$100,000, for approved County change orders that may arise during construction in order to complete the turnkey tenant improvements set forth in Amendment No. 2 to Lease Agreement No. 13-604 (Four votes required).
5. Direct the Real Estate Services Department to file the Notice of Exemption in accordance with the California Environmental Quality Act.
(Presenter: Terry W. Thompson, Director, 387-5000)

COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES

Operate in a Fiscally Responsible and Business-Like Manner.

Provide for the Safety, Health, and Social Service Needs of County Residents

FINANCIAL IMPACT

Approval of this item will not result in additional budgeted Discretionary General Funding (Net County Cost). The total cost of this 15-year lease amendment is \$30,708,224. Lease payments will be made from the Real Estate Services Department (RESD) rent budget (7810001000) and reimbursed from the Human Services budget (5015011000). Sufficient appropriation is included in the 2023-24 budget and will be included in future recommended budgets. Annual lease costs, including the tenant improvement and exterior safety features cost, are as follows:

<u>Year</u>	<u>Lease Cost</u>	<u>Features Cost</u>	<u>Tenant Improvement Cost</u>	<u>Total Cost</u>
April 29, 2024 – October 31, 2024	\$599,480	\$76,440	\$0	\$675,920
November 1, 2024 – April 28, 2025	\$675,610	\$86,248	\$94,873	\$856,731
April 29, 2025 – April 28, 2026	\$1,407,395	\$174,434	\$191,878	\$1,773,707
April 29, 2026 – April 28, 2027	\$1,449,617	\$174,434	\$191,878	\$1,815,929
April 29, 2027 – April 28, 2028	\$1,493,105	\$174,434	\$191,878	\$1,859,417
April 29, 2028 – April 28, 2029	\$1,537,898	\$174,434	\$191,878	\$1,904,210
April 29, 2029 – April 28, 2030	\$1,584,035	\$174,434	\$191,878	\$1,950,347
April 29, 2030 – April 28, 2031	\$1,631,556	\$174,434	\$191,878	\$1,997,868
April 29, 2031 – April 28, 2032	\$1,680,503	\$174,434	\$191,878	\$2,046,815
April 29, 2032 – April 28, 2033	\$1,730,918	\$174,434	\$191,878	\$2,097,230
April 29, 2033 – April 28, 2034	\$1,782,846	\$174,434	\$191,878	\$2,149,158
April 29, 2034 – April 28, 2035	\$1,836,331	\$174,434	\$191,878	\$2,202,643
April 29, 2035 – April 28, 2036	\$1,891,421	\$174,434	\$191,878	\$2,257,733
April 29, 2036 – April 28, 2037	\$1,948,164	\$174,434	\$191,878	\$2,314,476
April 29, 2037 – April 28, 2038	\$2,006,609	\$174,434	\$191,878	\$2,372,921
April 29, 2038 – April 28, 2039	\$2,066,807	\$174,434	\$191,878	\$2,433,119
Total Cost	\$25,322,295	\$2,604,764	\$2,781,165	\$30,708,224

BACKGROUND INFORMATION

The recommended action will amend Lease Agreement No. 13-604 (Lease) with 1094 South E Street, LLC, a California Limited Liability Corporation (Landlord), extending the term of the Lease for 15 years from April 29, 2024, through April 28, 2039. Combined with the original term, this Lease will total an aggregate term of 25 years, and a possible term of 35 years, should both existing five-year extension options be exercised. This new amendment will provide turnkey tenant improvements performed by the Landlord with amortized costs beginning November 1, 2024, through April 28, 2039. Adjusted rental payments will commence November

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1, 2024, for approximately 6,454 square feet of space that was originally provided at no additional cost to the County, which increases the base rent payment from approximately 42,000 square feet to the entire premises of approximately 48,454 square feet. This amendment will also include added exterior safety feature costs, change the County's Termination Rights to reflect a 180-day notice option beginning in the extended term of April 29, 2033, the 10th year, and update standard lease agreement language for office space for Children and Family Services (CFS) due to the continuing need for services located at 1094 South E Street in San Bernardino (Premises).

On July 23, 2013 (Item No. 26), the Board of Supervisors (Board) approved the original Lease for a 10-year period from March 1, 2014 through February 29, 2024. In the 10 years since the Lease was originally approved, the Board approved one amendment on June 3, 2014 (Item No. 56) to amend the initial term of the Lease to April 29, 2014 through April 28, 2024, adjust the rental rate schedule, and update standard lease agreement language.

CFS has requested RESD amend the Lease to extend the term for 15 years from April 29, 2024 through April 28, 2039 and provide for turnkey tenant improvements to be performed by Landlord to add office space to the mezzanine level of the Premises to accommodate CFS's growing needs in the community. While the County leased approximately 48,454 square feet under the original Lease, rent was paid based on approximately 42,000 square feet with the remaining approximately 6,454 square feet provided at no additional cost. As a result of the improvements, the County will start paying rent on the approximately 6,454 square feet of space as of November 1, 2024 (the projected completion date of the improvements). The Landlord will also provide exterior safety features for an additional monthly cost. The County will have the right to terminate the Lease at any time on or after April 28, 2033, by providing not less than 180 days prior written notice. All other terms and conditions of the Lease will remain unchanged.

The project to approve Amendment No. 2 to the Lease was reviewed pursuant to the California Environmental Quality Act (CEQA) and determined to be categorically exempt under CEQA Guidelines Section 15301 – Existing Facilities (Class I) because there is no possibility that the leasing of the subject property will have a significant effect on the environment.

Summary of Lease Terms

Lessor: 1094 South E Street, LLC a California Limited Liability Corporation

Location: 1094 South E. Street, San Bernardino

Size: 48,454 square feet

Term: 15 years, April 29, 2024 – April 28, 2039

Options: Two five-year options to extend

Rent: Base Rent Cost per square foot per month: \$2.42*
Monthly: \$117,283
Annual: \$1,407,395

*Mid-range for comparable facilities in the San Bernardino area per the supporting competitive set analysis on file. Base rent is calculated in year two following the completion of tenant improvements.

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Annual Increases:	3% per year for base rent only
Custodial:	Provided by Lessor
Maintenance:	Provided by Lessor
Utilities:	Provided by Lessor, except that the County pays for electrical costs that exceed a cap that increases by 3% per year
Security:	Provided by Lessor but paid by County through a monthly fee
Insurance:	The Certificate of Liability Insurance, as required by the lease, is on file with RESD
Holdover:	Month-to-month basis upon the same provisions of the Lease
Right to Terminate:	County has the right to terminate at any time on or after April 29, 2033, with 180-Days' Notice
Parking:	Sufficient for County needs

PROCUREMENT

On July 23, 2013 (Item No. 26), the Board approved the Lease which was procured according to County Policy 12-02 – Leasing Privately Owned Real Property for County Use (Policy) via an Alternative Procedure Exception to the Policy. In lieu of exercising either or both of the existing five-year extension options, RESD has negotiated a 15-year extension of the Lease term from April 29, 2024 through April 28, 2039, and is requesting that the Board approve the use of an alternative procedure in lieu of a formal Request for Proposal (RFP) as allowed per the Policy. The Policy provides that the Board may approve the use of an alternative procedure to the use of a RFP process whenever the Board determines that compliance with the RFP requirements would unreasonably interfere with the financial or programmatic needs of the County, or when the use of an alternative procedure would otherwise be in the best interest of the County.

The Policy also requires a thorough and detailed review by the County Administrative Officer or designee, to validate the need for and provide a competitive analysis of any lease with a term of more than 20 years. Approval of Amendment No. 2 to the Lease will result in an aggregate term of 25 years and a possible term of 35 years, if the two existing five-year extension options are exercised by the County. RESD completed a Market Analysis of comparable properties and found the rental rate for the extended term to be competitive. The Premises best meets the needs of CFS in the San Bernardino area, minimizes disruption to services, and saves on relocation costs.

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REVIEW BY OTHERS

This item has been reviewed by County Counsel (John Tubbs II, Agnes Cheng, and Kaleigh Ragon, 387-5455, Deputies County Counsel,) on February 13, 2024; Children and Family Services (Jeany Zepeda, Director, 387-2792) on January 30, 2024; Purchasing (Ariel Gill, Supervising Buyer, 387-2070) on January 29, 2024; Finance (John Hallen, 388-0208, and Garrett Baker, 387-3077, Administrative Analysts) on February 13, 2024; and County Finance and Administration (Valerie Clay, Deputy Executive Officer, 387-5423) on February 13, 2024.

(JF: 269-1984)


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Record of Action of the Board of Supervisors
San Bernardino County

APPROVED (CONSENT CALENDAR)

Moved: Curt Hagman Seconded: Joe Baca, Jr.
Ayes: Col. Paul Cook (Ret.), Jesse Armendarez, Dawn Rowe, Curt Hagman, Joe Baca, Jr.

Lynna Monell, CLERK OF THE BOARD

BY 
DATED: February 27, 2024



cc: RESD - Thompson w/ agree
 Contractor c/o RESD w/ agree
 File w/ agree
JLL 03/1/2024