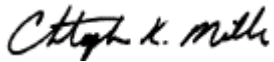


ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: 05/15/2017
Item No.: 7.d

Department Approval



City Manager Approval



Item Description: Consider License Center Proposed Lease Terms and Expansion Option

BACKGROUND

At the April 17, 2017 City Council Meeting, the Council made the decision to discontinue current efforts to secure a new site to address the space needs for the License Center and other city functions. Given this decision, City Staff recommends that the City proceed with renewing a long-term lease for the License Center at its current location along with an option to expand into an adjacent space.

This site remains a preferred location given our customer base, proximity to the general campus area, and overall familiarity with the existing property owner – Gaughan Companies. The decision to remain in our current location features a number of important topics that warrant discussion including:

- ❑ Evaluating Proposed Lease Terms
- ❑ Considering an Expansion Option
- ❑ Identifying Desired Capital Improvements

Each of these topics is discussed in greater detail below.

Proposed Lease Terms

The City is currently paying a lease rate of \$19.14 per square foot including CAM charges (2016 rate). Gaughan Companies originally proposed a new lease rate of \$24.35 which would have represented a 27% increase, although it would have also featured smaller increases thereafter. They noted that the higher amount was based on improved market conditions compared to 2012 when the last lease was renewed, as well as lease terms they've recently secured at similar properties.

Since making their original offer, Gaughan Companies has agreed to accept a counter-offer that is more favorable to the City both for cash-flow purposes as well as the overall sum of payments over the lease term. The terms are summarized in the table below.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Gaughan Proposal	19.14	24.35	24.71	25.06	25.40	25.75
% Incr.	n/a	27.2%	1.5%	1.4%	1.4%	1.4%
City Proposal	19.14	21.05	23.16	25.06	25.40	25.75
% Incr.	n/a	10.0%	10.0%	8.2%	1.4%	1.4%

** Depicts the amount per square foot

31 Based on these terms, the annual lease amount for the existing space will be as follows:

32

Option #1: Existing Space						
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Leased Square Footage: Motor Vehicle	2,315	2,315	2,315	2,315	2,315	2,315
Leased Square Footage: Passports	1,017	1,017	1,017	1,017	1,017	1,017
Leased Square Footage: Addition	-	-	-	-	-	-
Total Square Footage	3,332	3,332	3,332	3,332	3,332	3,332
Lease Rate per SF: Gross	\$ 19.14	\$ 21.05	\$ 23.16	\$ 25.06	\$ 25.40	\$ 25.75
Proposed Lease Rate Increase (Annual)		10.0%	10.0%	8.2%	1.4%	1.4%
Annual Lease Amount	63,774	70,139	77,169	83,500	84,633	85,799

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36 Expansion Option

37 Alternatively, if the City chooses to secure additional adjacent space under the same lease terms, the
 38 annual lease amount will be as follows:

39

Option #2: 1,587 SF Addition						
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Leased Square Footage: Motor Vehicle	2,315	2,315	2,315	2,315	2,315	2,315
Leased Square Footage: Passports	1,017	1,017	1,017	1,017	1,017	1,017
Leased Square Footage: Addition	-	1,587	1,587	1,587	1,587	1,587
Total Square Footage	3,332	4,919	4,919	4,919	4,919	4,919
Lease Rate per SF: Gross	19.14	21.05	23.16	25.06	25.40	25.75
Annual Lease Amount	63,774	103,545	113,924	123,270	124,943	126,664

40

41

42 Because the expansion option potentially involves the relocation of an existing tenant, the City would
 43 likely have to pay for relocation costs that could amount to tens of thousands of dollars.

44

45 Capital Items

46 As identified in the License Center Strategic Plan as well as in recent discussions, the decision to remain
 47 in the current location should be accompanied by a discussion on the types of capital improvements that
 48 will allow the City to expand its passport and auto dealer services, while also improving the customer
 49 service experience.

50

51 The existing space on the motor vehicle side would likely require a new service counter configuration
 52 with more emphasis on separating quicker transactions from lengthier ones, improving customer privacy,
 53 the replacement of customer waiting area chairs, worn workstations and carpeting, and painting of the
 54 walls.

55

56 The new space would likely be reconfigured to accommodate a larger passport service counter and
 57 customer waiting area, along with more work space for the auto-dealer function. This area would also
 58 require new carpeting and painting of the walls, and involve the partial tear-down of existing walls.

59

60

61 At this time, Staff has not sought architectural or design services nor have we requested any formal
62 construction/furnishing estimates. But based on casual conversations and previous experience, it could
63 take an investment of \$250,000 or more to fully take advantage of the space and restore customer service
64 levels to what they used to be. The License Center has approximately \$1 million in available cash reserves
65 that could be used for this purpose.

66
67 Staff will be available at the Council meeting to provide additional information and address any inquiries.

68 **POLICY OBJECTIVE**

69 Not applicable.

70 **FINANCIAL IMPACTS**

71 See above.

72 **STAFF RECOMMENDATION**

73 City Staff recommends that the City enter into a 5-year lease with Gaughan Companies, and secure
74 additional adjacent space.

75 **REQUESTED COUNCIL ACTION**

76 For discussion purposes only. Formal approvals will come at a subsequent date.

77

Prepared by: Chris Miller, Finance Director
Attachments: A: Proposed Lease Addendum #6

Addendum Six

This Addendum Six shall amend the Retail Lease Agreement (“Lease”) dated December 30, 1999 between Roseville Center Limited Partnership (the “Landlord”), and City of Roseville (the “Tenant”).

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree that said Lease shall be and hereby is amended to include the following:

1. Lease Extension. Tenant hereby wishes to renew its lease; the lease termination date shall be extended to May 31st, 2022.
2. Premises Size. Tenant’s Leased Premises consists of approximately 3,332 rentable square feet.
3. Gross Rental Schedule: The Gross Rental Rate shall be amended as follows:

a.	6/1/17 – 5/31/18	\$5,844.88 per month (\$21.05 psf)
b.	6/1/18 – 5/31/19	\$6,430.76 per month (\$23.16 psf)
c.	6/1/19 – 5/31/20	\$6,958.33 per month (\$25.06 psf)
d.	6/1/20 – 5/31/21	\$7,052.73 per month (\$25.40 psf)
e.	6/1/21 – 5/31/22	\$7,149.91 per month (\$25.75 psf)
4. Option to Expand. During the term of this agreement or any renewal thereof, Tenant shall have the right of first refusal to lease suite 2733 consisting of approximately 1,587 which will hereafter be known as (the "Expansion Space"). Upon Tenant exercising its right to expand Landlord and Tenant shall come to mutually agreed upon terms regarding Expansion Space.
5. Expansion Space Delivery Condition. Upon Tenant exercising its Expansion Option Landlord shall deliver Option Space in “as-is” condition.
6. Relocation Costs. In the event the Expansion Space is occupied by an existing occupant Tenant shall be responsible to relocate said occupant within the Shopping Center based on the terms of said occupants lease agreement.
7. Article 4. of Lease Addendum 5 shall be null and void upon full execution of this addendum.

All other terms and conditions set forth in the lease, riders and addendums thereto shall remain as provided herein.

LANDLORD

**Lexington Shoppes Limited
Partnership,
a Minnesota limited partnership**

Its: _____

Agreed: _____

Date: _____

TENANT

City of Roseville

Its: _____

Agreed: _____

Date: _____