

(Attachment A) will secure USPS as the lessee for an additional five-year term and provide a steady revenue stream that will generate a total of \$1,356,310 in revenue for the County over the term of the lease. USPS requires execution of the Lease Agreement and Memorandum by the Board of Supervisors prior to execution by USPS. The Commission Agreement (Attachment B) with Jones Lang LaSalle representing USPS for \$20,345 for brokerage fees, is part of the negotiated lease terms.

FINANCIAL IMPACT:

Approval of the proposed lease will first affect the FY2020/21 budget as the lease will commence April 1, 2021. Revenues and the related commission expense will be respectively deposited and expensed to/from the Real Estate Services Division budget unit 1642.

Previously, USPS submitted an appraisal report by Colliers International, dated April 30, 2019, which estimated the market rent for 600 Kentucky Street at \$1.53 per square foot per month. The negotiated proposed lease rate for the first year is \$1.60 per square foot per month. Staff research has determined that this rate is at the upper end of the market range for this property class and size under current market conditions. The proposed lease will generate \$1,356,310 in revenue over the five-year term beginning April 1, 2021: USPS will pay monthly rent of \$22,605 in arrears (\$271,262 annually) for the 5 (five) year term. Escalations at the beginning of each of the term options are 12% and subject to an independent broker price opinion.

USPS will be responsible for all recurring utility costs, including electric, gas, water, sewer and trash removal. USPS will also be responsible for minor repairs and any repairs resulting from USPS negligence. The County will be responsible for all other costs associated with the maintenance of the property and will paint the interior and exterior of the building as needed. The cost to the County for this routine maintenance and repair is included in the FY2020/21 Facilities Operations Division budget units 1652, 1655 and 1658.

The commission agreement with Jones Lang LaSalle for \$20,345, or 1.5% of the \$1,356,310 in revenues over the initial term of the lease, negotiated from the original \$51,669, or 4% fee, proposed by USPS on term revenue of \$1,291,730. The department has enough appropriation in the current year budget to pay the commission.

The costs associated with preparing the agenda item are nominal and absorbed by the department's FY2020/21 Recommended Budget.

ALTERNATIVES:

1. The Board could choose to not approve the lease with the United States Postal Service. This alternative is not recommended because the lease provides a stable revenue stream for the County through March 31, 2026.
2. The Board could choose to approve the lease with any changes or modifications desired by the Board. This alternative is not recommended because any changes will require approval by USPS and General Services has already negotiated favorable terms for the County that USPS is willing to accept.

OTHER AGENCY INVOLVEMENT:

County Counsel has reviewed the lease for legal sufficiency.

CAO RECOMMENDATION:

APPROVE DEPARTMENTAL RECOMMENDATION