



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 6362
November 7, 2023
Consent Agenda**

AGENDA BILL INFORMATION

TITLE:	AB 6362: Interlocal Agreement and Lease Agreement with City of Newcastle for Municipal Court Operations	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Authorize the City Manager to execute the interlocal agreement and lease agreement with the City of Newcastle for Municipal Court Operations and appropriate \$163,000 through December 2024 for these expenses.	

DEPARTMENT:	Administrative Services
STAFF:	Ali Spietz, Chief of Administration
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Interlocal Agreement with Newcastle for Use of Council Chambers for Municipal Court Proceedings 2. Lease Agreement with Newcastle for Municipal Court Administrative Offices
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to authorize the City Manager to execute an interlocal agreement with the City of Newcastle for use of their Council Chambers for Mercer Island Municipal Court proceedings and to execute a lease with the City of Newcastle for Mercer Island Municipal Court administrative office space.

- With the permanent closure of Mercer Island City Hall, the Mercer Island Municipal Court has been holding court proceedings at the City of Kirkland Court Facility and administrative offices have been temporarily relocated to the meeting room at Mercer Island Fire Station 91. This split operation is not suitable for long-term needs.
- The City of Newcastle City Hall Council Chambers is available for use by the Mercer Island Municipal Court for court proceedings.
- Newcastle also has office space available to lease for Mercer Island Municipal Court administrative offices on the third floor of their City Hall.
- Staff have negotiated the terms of the interlocal agreement and lease agreement through December 2026.

- The estimated cost for the lease of the office space from November 2023 through December 2024 is \$63,000 and will be funded with ARPA Funds.
- The estimated cost for tenant improvements is \$100,000 and will also be funded using ARPA funds.
- The City Council is requested to appropriate \$163,000 for rent and operating expenses from November 2023 through December 2024, construction costs for tenant improvements, and technology equipment.

BACKGROUND

City Hall was temporarily closed in April due to the discovery of asbestos in the building and the Mercer Island Municipal Court was required to cancel court proceedings until an alternate location could be found.

In May, Court staff relocated their administrative office to the meeting room at Mercer Island Fire Station 91 and the City reached out to the City of Kirkland to inquire about using their court facility to hold court proceedings. The City negotiated an agreement for temporary, emergency use of Kirkland’s court facility for Municipal Court proceedings through September 30, 2023.

Following the July 18, 2023 City Council meeting, where Councilmembers indicated that the costs of abatement of City Hall outweighed the benefits of re-opening the building, staff began to look for alternative locations for the Mercer Island Municipal Court. To bridge the gap between temporary and mid- to long-term solutions, staff negotiated an extension with the City of Kirkland through the end of the year, which the City Council approved on September 19, 2023 ([AB 6344](#)).

Up until now, court staff have been splitting their time between two facilities – court proceedings are held in Kirkland, while the Mercer Island court administrative offices are temporarily housed at Mercer Island Fire Station 91. The split location is not suitable for court operations and the meeting room at Fire Station 91 is woefully undersized and inadequate to meet ongoing court needs.

Mercer Island City staff reached out to the City of Kirkland to inquire about longer term use of their facility. Unfortunately, the Mercer Island Court space needs exceed the space that Kirkland has available for longer term use.

Staff then inquired with the City of Newcastle about available space and willingness to accommodate Mercer Island Court operations. They agreed and the two staff teams have been working on the terms of the agreement for the past several months.

ISSUE/DISCUSSION

The City of Newcastle owns the Newcastle Professional Center, the building in which their City Hall is located. The City of Newcastle utilizes the second floor for City Hall operations and the first and third floors have suites available for lease. Newcastle’s Council Chambers is located on the second floor, which is where Mercer Island will hold court proceedings. Suite 301, located on the third floor of the building, will be leased for Mercer Island Court administrative offices.

INTERLOCAL AGREEMENT FOR USE OF THE CITY OF NEWCASTLE CITY HALL COUNCIL CHAMBERS

The proposed interlocal agreement (Exhibit 1) will enable Mercer Island to use the Newcastle City Hall Council Chambers for court proceedings. Newcastle is not charging a fee to use this space.

Mercer Island will use the Council Chambers at Newcastle City Hall for court proceedings on the following days and times:

- The second Monday of each month from 8:30 am to 3:00 pm (for Newcastle cases).
- Every Tuesday of each month from 8:30 am to 3:00 pm (for Mercer Island cases).
- The third Wednesday and/or Thursday of each month from 8:00 am to 4:30 pm (depending on court calendar/holidays/etc.) for jury trials, when needed.

Under this arrangement, Mercer Island is responsible for:

- Setting up the room for court proceedings, resetting the room for City of Newcastle Council Chambers use, and is responsible for the cleanliness of the Council Chambers after each use.
- Providing the security needed for use of the Council Chambers during court proceedings.
- Any costs related to damages caused to the Council Chambers, restrooms, or other portions of Newcastle City Hall related to Mercer Island's court use.

In addition, Mercer Island IT staff will oversee the installation of technology equipment in the Newcastle Council Chambers for Mercer Island court proceedings.

The interlocal agreement will go into effect upon the signatures of both parties and will terminate December 31, 2026, unless either party gives 180-day written notice to terminate the agreement.

LEASE AGREEMENT FOR SUITE 301

The proposed lease agreement between Newcastle and Mercer Island for Suite 301 on the third floor of the Newcastle Professional Center has an initial term lease of November 8, 2023 to December 31, 2026. Suite 301 includes 1,298 rentable square feet of general office space for municipal and governmental agency purposes.

The base rent for the office space is as follows:

Lease Year	Sq Ft	Per Sq Ft Base Rent	Annual Base Rent	Monthly Base Rent
1	1,298	\$27.01	\$35,058.98	\$2,921.58
2	1,298	\$27.28	\$35,409.44	\$2,950.79
3	1,298	\$27.55	\$35,759.90	\$2,979.99

Since this is a triple net (NNN) lease, Mercer Island will pay its pro-rata share of 8.03% in operating expenses as required by Section 6 of the lease. A NNN lease is a commercial lease where the lessee pays rent and utilities as well as three other types of property expenses: insurance, maintenance, and taxes. The monthly NNN for Suite 301 is estimated at \$1,518.

As a municipal corporation that is exempt from property taxes pursuant to RCW 84.36.010, Mercer Island is exempt from all leasehold excise taxes. Under the lease, Newcastle will not charge or collect any leasehold excise tax or property taxes as additional rent from Mercer Island, unless required by law.

Newcastle has a contract with the garbage company and is exempt from paying this charge, therefore, there is no garbage charge (estimated at \$10,000/year) for this location, but garbage service is provided.

Mercer Island contractors will be installing a secure service window (currently located in Mercer Island City Hall) in the suite wall and adding keyless entry. Mercer Island IT staff and contractors will be installing

required network cabling to connect to Mercer Island's technology. The estimated one-time cost for the tenant improvement and technology costs is \$100,000. The lease allows for these improvements to be removed upon termination. Staff anticipate this work being completed before the end of November, which allows court staff to transition to the new facility during the month of December. Court operations will begin at Newcastle in January 2024.

NEXT STEPS

Following City Council approval, the City Manager will execute the interlocal agreement and lease agreement. The Newcastle City Council is also reviewing the interlocal agreement on November 7. Once the agreements have been executed, staff will coordinate tenant improvements for the office space, moving records and furniture, and information technology connections and upgrades so that court proceedings may begin in January 2024.

The ongoing costs associated with the lease of the Newcastle facilities will be included in the City's 2025-2026 biennial budget and ARPA funds can be used to cover these expenses through 2026 as long as they are obligated for such use by the end of 2024.

RECOMMENDED ACTION

1. Authorize the City Manager to execute the interlocal agreement with the City of Newcastle for use of the Council Chamber for Mercer Island Municipal Court proceedings, substantially in the form attached as Exhibit 1.
2. Authorize the City Manager to execute the three-year lease with the City of Newcastle for Suite 301 in the Newcastle Professional Center located at 12835 Newcastle Way, Newcastle, Washington for Mercer Island Municipal Court administrative offices, substantially in the form attached as Exhibit 2.
3. Appropriate \$163,000 from ARPA funds for the lease costs through December 2024 and associated tenant and technology improvements.