



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Approve and Authorize the City Manager to Execute a Temporary Fire Station No. 2 Lease Agreement for 1126 Yosemite Drive
Category:	Consent Calendar-Community Development
Meeting Date:	8/13/2019
Staff Contact:	Alex Andrade, 408-586-3046
Recommendation:	Approve and authorize the City Manager to execute a Lease Agreement for a temporary fire station located at 1126 Yosemite Drive by and between the City of Milpitas ("Tenant") and Casetronic Engineering Group ("Landlord") for a term of two years plus two six-month options, for a total of three years, commencing on August 13, 2019.

Background:

Fire Station No.2 is located at 1263 Yosemite Drive, at the corner of Yosemite Drive and S. Park Victoria Avenue. Since Fire Station No. 2 was built in 1968 and has reached the end of its service life, it needs to be rebuilt. Design and construction of Fire Station No. 2, Project No. 3447, is in the approved 2019-2024 Capital Improvement Program (CIP). The total project budget for improvements is \$17.2 million, which includes costs associated with the temporary fire station, demolition, new fire station and furniture, fixture and equipment (FF&E). The existing fire station building will be demolished in late Quarter 2 (2020) and the proposed new building will be constructed at the same site in late Quarter 4 (2021).

During the construction, operations of Fire Station No. 2 will need to be relocated to a temporary fire station near the current location at 1263 Yosemite Drive. Staff reviewed over a dozen temporary commercial and industrial project site locations and has identified 1126 Yosemite Drive as the best available location for a temporary Fire Station No. 2 due to its close proximity to the current fire station, and the cost associated with retrofitting the space. The temporary fire station will house three fire fighters and one fire engine. The City's use of 1126 Yosemite Drive as a temporary fire station will require a Lease Agreement as well as a Municipal Code Amendment to allow for a public safety facility use in an industrially zoned area.

Analysis:

The industrial building located at 1126 Yosemite Drive is owned by Casetronic Engineering Group and measures a total of 12,084 square feet. There are currently two tenants occupying 6,084 square feet of the overall building. The proposed Lease Agreement would include the remaining 6,000 square feet of the building for the temporary fire station use. The interior space includes a 2,000 square foot office, 1,200 square foot flex space, 2,800 square foot warehouse with 18' height clearance and an exterior 1,200 square foot enclosed side yard. The temporary fire station includes 15 surface parking spaces and two drive-in bay doors for easy fire engine ingress and egress with ample height clearance. The overall space can accommodate both the fire engine and living space for Fire Department personnel.

At the June 18, 2019 Closed Session, the City Council discussed Price and Terms associated with issuing a Letter of Interest to lease property located at 1126 Yosemite Drive for the purpose of a temporary fire station.

The 1126 Yosemite Drive property is located within an industrial zone and therefore a Municipal Code Zoning Text Amendment is required to allow for public safety uses, such as fire stations and police stations, at this site. At the June 26, 2019 meeting, the Planning Commission recommended approval of the aforementioned zoning text amendment. The Council is scheduled to consider the first reading of the proposed amendment at the August 20, 2019 City Council meeting, with adoption on September 3, 2019.

On August 9, 2019, the City Council discussed Price and Terms associated with the proposed Lease Agreement for renting property located at 1126 Yosemite Drive at the Closed Session for the sole purpose of a temporary fire station while Fire Station No. 2 is reconstructed. Council is expected to consider the draft business terms and conditions along with the proposed Lease Agreement at the August 13, 2019 City Council meeting.

Proposed Business Terms and Conditions

In order to ensure the building is equipped and ready to be utilized as a temporary fire station, tenant improvements (TIs) will need to be completed prior to the relocation. The City contracted with Terracon Consultants, Inc. to conduct a Mechanical, Electrical and Plumbing (MEP) Assessment and Testing Report to produce estimated costs for immediate and future repairs of the MEP equipment and systems at the 1126 Yosemite Drive property (Attachment 3). The TIs are estimated to cost approximately \$600,000 and is anticipated to include, but not limited to, the following:

- Retrofitting existing wall between warehouse and office space to be full height with one-hour fire rating;
- Installation of range/oven and hood in the breakroom (range and oven to be property of Tenant after termination or expiration of the Lease);
- Conversion of one toilet to include an ADA compliant shower;
- Installation of one operable window in the building;
- Minimal addition and removal of walls and doors;
- Installation and/or modification of the existing HVAC system;
- Construction of firefighter sleeping quarters; and
- Repair and/or remediation of existing code violations pursuant to Addendum/Attachment 1.

The City, as the Tenant, shall perform all TIs at its sole cost and expense, except the costs which will be divided equally between the Tenant and Landlord as illustrated in the last bullet point. These TIs include condensate drain from roof top units (RTUs) which were routed to the roof drain, HVAC duct insulation damage and sink and associated plumbing estimated at \$3,000.

The Tenant's parking shall include the right to park fire engines on and within the property and shall have unimpeded ingress and egress to and from the premises. The specifications for fire engine ingress and egress to and from the property is set forth in Addendum/Attachment 2. Landlord shall cause all tenants, occupants, guests and invitees to 1126 Yosemite Drive to maintain unimpeded ingress and egress at all times.

The rooms constructed for sleeping quarters will be removed after the City vacates the property, but other improvements may be left in place, if allowed. The design and improvements of the temporary fire station building will take approximately 6 months to complete.

If approved, the Lease Agreement would be by and between the City of Milpitas ("Tenant") and Casetronic Engineering Group ("Landlord") for a term of two years, plus two six-month options (three years total), and would commence on August 13, 2019. The lease price is \$1.40 per square foot, with a 3% annual increase

commencing on the 13th month, plus \$.21 per square foot for property tax and insurance. The security deposit is \$9,660. And, the initial monthly rent will equal \$9,660 as well. Other proposed Lease Agreement provisions are outlined below:

- Tenant will pay for electricity, gas, garbage, cable and internet. Landlord will pay for water.
- Tenant will inform Landlord of its intent to extend the lease 60 days before the end of the applicable term.
- Landlord is allowed to show premises to potential new tenants 60 days before the end of the lease.
- Tenant will be allowed to place signage on the premises at Tenant's expense.
- Tenant will be responsible for routine maintenance and upkeep of the building including drive belt and filter changes for the heating, ventilation, and air conditioning (HVAC) system, and routine maintenance of the electrical, plumbing, and water system including light bulb and ballast changes, and unclogging of drain, etc.
- Landlord will be responsible for HVAC system repairs beyond belt and filter changes and routine maintenance to be completed by Tenant, including the replacement of broken and non-operational HVAC system.

If for some reason the construction of Fire Station No. 2 cannot be completed within the lease term outlined above, staff will return to City Council for consideration of a Lease Agreement extension.

Policy Alternatives:

Alternative 1: Do not proceed with the proposed Lease Agreement at this time.

Pros: Not proceeding with the proposed Lease Agreement would allow staff to continue to research other available property.

Cons: The current real estate market is strong and thus the vacancy rates are low and cost per square foot is high. Staff reviewed over a dozen available commercial and industrial properties, and determined that the 1126 Yosemite Drive property is the best available due to being in close proximity to Fire Station No. 2. This allows for service delivery to not be interrupted.

Reason not recommended: Denial of the recommendation would result in delays to the Fire Station No. 2 replacement project, which is part of the approved 2019-2024 CIP.

Fiscal Impact:

If the proposed Lease Agreement is approved by City Council, the lease is expected to commence on August 13, 2019. The lease price is \$1.40 per square foot, with a 3% annual increase commencing on the 13th month, plus \$.21 per square foot for property tax and insurance. The security deposit is \$9,660 and the initial monthly rent will also equal \$9,660 until the 13th month at which point a 3% annual increase is activated. The lease cost for 24 months is \$234,720 plus \$600,000 for the tenant improvements for a total of \$834,720. The lease and temporary fire station TIs will be funded through the Fire Station #2 Replacement Project (CIP No. 3447). There is \$2.6 million available during the current fiscal year 2019-2020 associated with the effort.

California Environmental Quality Act:

This Lease Agreement is exempt under CEQA Guideline 15301 (Existing Facilities). Section 15301 of the State CEQA Guidelines provides an exemption for “the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of existing or former use.” Given that this is a Lease Agreement between the City of Milpitas and Casetronic Engineering Group for a temporary fire station to occupy an existing industrial building located at 1126 Yosemite Drive, the Lease Agreement and proposed tenant improvements are categorically exempt from CEQA pursuant to Section 15301 of the CEQA Guidelines.

Recommendation:

Approve and authorize the City Manager to execute a Lease Agreement for a temporary fire station located at 1126 Yosemite Drive by and between the City of Milpitas (“Tenant”) and Casetronic Engineering Group (“Landlord”) for a term of two years plus two six-month options, for a total of three years, commencing on August 13, 2019.

Attachments:

- Addendum to Commercial Lease Agreement including:
 - Attachment 1 Remediation of Code Violations; and
 - Attachment 2 Parking Requirements
- Mechanical, Electrical and Plumbing (MEP) Assessment and Testing Report
- Draft Commercial Lease Agreement