

FISCAL NOTE FOR NON-CAPITAL PROJECTS

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Legislation Title:

AN ORDINANCE relating to a lease agreement for office space; authorizing the Director of Finance and Administrative Services to enter into a lease agreement, for and on behalf of the City, with Columbia Center Property LLC for office space in the Columbia Center at 701 Fifth Avenue, Seattle, Washington, for use by the Law Department; and ratifying and confirming certain prior acts.

Summary of the Legislation:

This legislation authorizes the Director of Finance and Administrative Services (FAS) to enter into a lease agreement with Columbia Center Property LLC (“Landlord”) for approximately 63,563 square feet of office space in Columbia Center located at 701 Fifth Avenue in Seattle. This office space will be used by the Law Department. Legislation is required because the amount of leased space and length of the term exceeds FAS’s leasing authority under Seattle Municipal Code 3.127 020.C. This legislation will allow the Director to enter into an agreement for an initial term of 12 years, with two additional five-year extensions; commencing upon substantial completion of the tenant improvements.

Background:

The Law Department currently resides on at least four floors located in two separate buildings. The City Attorney, Chief of Staff, Director of Administration, the Civil Division and some administrative staff are spread out on portions of floors 3 and 5, plus all of floor 4 of City Hall. The Criminal Division and additional administrative staff are housed on the 53rd floor of the Seattle Municipal Tower (SMT) in approximately 21,000 square feet of space. In addition, four employees working on the Duwamish Allocation Project are housed on the 27th floor of SMT, and other employees may be moving to SMT16 in the fall, placing the Civil Division in 3-5 different locations.

It is important that the entire office be in one location to provide the necessary leadership, efficiency and collaboration the office requires. Due to the nature and confidentiality of the work, private offices for lawyers and most support staff are required. Repeated attempts over the past four years have yielded no viable options to co-locate the Law Department in other parts of SMT, City Hall, or into other City-owned or presently leased office space. Nor is there enough room at City Hall to accommodate the Civil Division without requiring additional leased private space.

In addition, the Law Department cannot fill urgently-needed vacant positions because it does not have sufficient office or cubicle space.

Additional conference rooms are required in order to conduct mediations, hearings, depositions, arbitrations, client meetings, and other staff meetings. Due to the lack of meeting space, attorneys and City clients are often forced to attend hearings at the office of opposing counsel which creates a disadvantage for the City and its clients. According to a space comparison between the Law Department's existing office space and the proposed space in Columbia Center, the department is requesting to increase its rentable space from 58,354 sf to 63,563 sf, an increase of 5,209 sf. or less than 10% growth. The reality, however, is that the department needs about 15,000 square feet more because City Hall space is not as usable.

Before selecting Columbia Center, FAS and the Law Department also considered a lease option at Bank of America Plaza. We looked at two options: relocating part of the Civil Division or the whole division. But staffing and operational impacts prevented such options. As such, Columbia Center was determined to be the best option because of its closer proximity to City Hall, SPD, Seattle Municipal Court, King County Superior Court, as well as the lease rate and tenant improvement and moving allowances. The ability to lease an entire floor for the Criminal Division meets required security standards and allows the department to limit keycard access to approved staff and designated building contractors.

The negotiated lease agreement provides several concessions from the landlord that are financially advantageous to the City. These include the landlord paying up to \$80.15 per square foot for tenant improvement in the space (approximately \$5.1 million), a moving allowance up to \$5.00 per square foot, (approximately \$318,000) and free rent for the first eight months of occupancy. This means that the Law Department will not need any new appropriation to pay rent in 2014, and minimal rent in 2015 (see Table 1 below).

It is estimated that the total build out for this new space will be within the landlord's allowance.

Should FAS be able to fill the office space vacated by the Law Department in City Hall and SMT, additional appropriations will not be necessary as their Schedule 2 rent appropriations left over from 2014 and 2015 will be sufficient for the items identified above. FAS is currently working with departments that are leasing office space outside of City-owned facilities to understand those departments' office space needs and the viability of moving them into the vacated Law Department space. Rent saved by the Law Department in 2015 can be used to pay rent in City Hall.

The full cost of this lease is estimated to be \$300,198 for 2015 and approximately \$1,859,227 in 2016. Months 1-24 of the lease include a 10% space pocket, meaning the City is not obligated to pay rent associated with 6,356 square feet of the total rentable square feet. Rent for this space commences in month 25 of the lease. Funding for the lease will not be required in 2014 as lease payments will not begin until 2015. To delay any further may cost the City \$1.5 million in 2015.

Table 1:

Years 1-12	Yearly Rent/SF	Annual Rent*
2015	\$31.50/sf	\$300,335
2016	\$32.50/sf	\$1,860,152
2017	\$33.50/sf	\$2,098,295
2018	\$34.50/sf	\$2,196,805
2019	\$35.50/sf	\$2,260,657
2020	\$36.50/sf	\$2,324,515
2021	\$37.50/sf	\$2,388,380
2022	\$38.50/sf	\$2,452,250
2023	\$39.50/sf	\$2,516,126
2024	\$40.50/sf	\$2,580,009
2025	\$41.50/sf	\$2,643,898
2026	\$42.50/sf	\$2,707,793
2027 (Jan/Feb)		\$ 453,074

*The 2015 amount is calculated assuming the City takes occupancy in March, plus eight months of rent savings in 2015. Year 2 (2016) is calculated with a 10% "space pocket" savings. Year 3 (starting in March 2017) and beyond are calculated on the full annual rent. These amounts assume the minimum contractual obligation plus an average \$.24/sf for future operating expense increases per year.

X This legislation has financial implications in 2015-2016.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2014 Appropriation	2015 Anticipated Appropriation
General Subfund - 00100	LAW	Law Department BCL – J1100	\$0	TBD
General Subfund - 00100	Finance General	Reserves BCL - 2QD00	\$0	\$0
TOTAL			\$0	\$0

The 2015 Law Department appropriation for lease payments (that will begin eight months after the start of the lease) will be determined during the 2015-16 budget process. At this time, it is not anticipated Law will require any additional appropriation authority or a transfer of existing appropriation within its baseline budget for 2014.

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2014 Expenditures	2015 Anticipated Expenditures
General Subfund - 00100	Finance General	Reserves BCL - 2QD00	\$0	\$0
TOTAL			\$0	\$0

Other Implications:

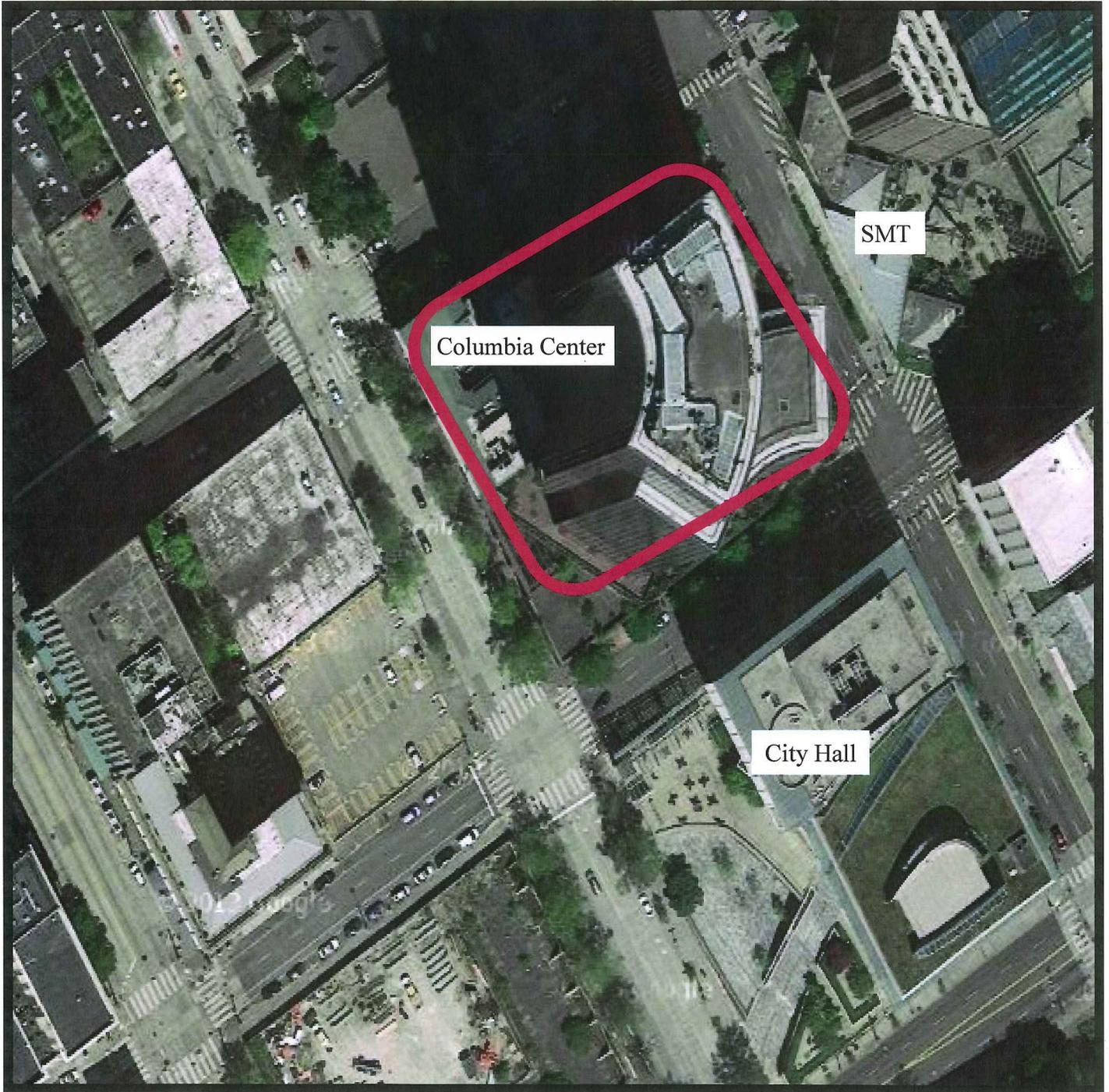
- a) **Does the legislation have indirect financial implications, or long-term implications?**
 This legislation will obligate the City to pay to the Landlord the monthly rental amount as described in Table 1 for the duration of the lease agreement.
- b) **What is the financial cost of not implementing the legislation?**
 The need for additional office space still remains in the event that this legislation is not approved. Additional office space will need to be secured for the Law Department, whether it is in Columbia Center or another similar office building.
- c) **Does this legislation affect any departments besides the originating department?**
 Yes, this legislation affects all City departments if the Law Department is unable to provide adequate staff to meet the legal needs of the City. FAS administers and manages the lease agreement and passes through any charges, including rent, and operating costs.
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?**
 The only viable alternative would be to secure similar office space at another property. That space would likely be inferior to this office space and lack the financial advantages that have been negotiated.
- e) **Is a public hearing required for this legislation?**
 No.
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**
 No.
- g) **Does this legislation affect a piece of property?**
 Yes, this legislation authorizes the Director of Finance and Administrative Services to execute a lease agreement on a portion of property located at 701 Fifth Avenue. Please see Attachment 2, proximity map of the leased office space.
- h) **Other Issues:**

List attachments to the fiscal note below:

- Attachment 1: Basic Lease Terms
- Attachment 2: Proximity map of leased property

Basic Lease Terms
Columbia Center
701 Fifth Avenue

Landlord	Columbia Center Property, LLC, a Delaware limited liability company
Premises:	Floor 18, approximately 23,372 rentable square feet Floor 19, approximately 23,372 rentable square feet Floor 20, approximately 16,819 rentable square feet
Term:	12 years (144 months), plus two 5-year options to extend. City has the right to terminate the lease at the end of the 93 rd month of occupancy.
Rental Rate:	Rate begins at \$31.50 per square foot per year, with \$1.00 per square foot annual increases.
Anticipated Commencement	March 1, 2015
Abated Rent	The rent is abated for the first 8 months (anticipated March – October 2015). In 2015, the City will pay rent to Columbia Center in November and December only.
Tenant Improvements	\$85.15/rsf. Landlord will provide up to \$80.15/sf for tenant improvement allowance (\$5.1 million) plus \$5.00/sf moving allowance (\$317,815). Any unused portion of the T.I. allowance can be used to offset the rent, up to \$15.00/sf (approximately \$900K).
Parking	Right, but no obligation to rent from landlord, on a monthly basis, up to one unreserved parking pass per 2,000/rsf of lease space (approximately 31 stalls).



City of Seattle

Columbia Center
701 5th Ave, Seattle
Law Department



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