



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 11/7/2023

To: Sonoma County Board of Supervisors

Department or Agency Name(s): Public Infrastructure, Health Services

Staff Name and Phone Number: Johannes J. Hoevertsz, Public Infrastructure: 707-565-2550; Tina Rivera, Health Services: 707-565-4774

Vote Requirement: Majority

Supervisory District(s): Countywide

Title:

Lease for Department of Health Services at 463 Aviation Boulevard, Santa Rosa

Recommended Action:

Authorize the Director of Sonoma County Public Infrastructure to execute a lease with SR Office Properties DE, LLC and Redbird SR Office Properties DE, LLC as Landlord, for office space at 463 Aviation Boulevard, Santa Rosa, for a term of twelve years commencing approximately June 1, 2024, at an initial monthly rent of Seventy Seven Thousand Four Hundred Seventeen and 40/100 (\$77,417.40), with annual rent escalations of three percent (3%), and with one option to extend the lease term an additional five (5) years.

Executive Summary:

The Sonoma County Public Infrastructure (SPI) Department, in consultation with the Department of Health Services (DHS), requests Board consideration of a proposed lease of 463 Aviation Boulevard, for 40,746 rentable square feet to be occupied by the Department of Health Services' Public Health Division. If approved this location would house approximately 162 employees consisting of 114 employees relocating from 625 5th Street (Downtown Santa Rosa), 15 employees relocating from 1450 Guerneville Road (Coddington Mall area), and 8 employees relocating from 195 Concourse Boulevard (Airport area), plus vacancies. The proposed lease will increase operational efficiency for the Department of Health Services Public Health Division by enabling them to occupy a premises that offers an attractive, efficient layout incorporating landlord-provided high-quality improvements customized to Department of Health Services' needs that are well suited for consolidating operations and meet their growing need for office space. On-site parking is free and abundant (4:1 parking ratio), and the building is located close to many other County operations, walking paths, retail amenities, and a SMART station.

Discussion:

In February 2023, the Department of Health Services, supported by Sonoma County Public Infrastructure, initiated a search for new office space for Department of Health Services Public Health Division due to their upcoming lease expiration and operational needs.

In March 2023, a market survey was completed and a tour was conducted of all available space in the 30,000-40,000 sf range from Rohnert Park to the Sonoma County Airport area. 463 Aviation Boulevard was identified as the only building in Santa Rosa with 30,000-40,000 sf of available, contiguous Class A office space that was

move-in ready, subject to any custom tenant improvements that the Department of Health Services Public Health Division may want for their operations, organizational structure, and planned consolidation of locations.

463 Aviation had the additional appeal of an open, efficient, modern layout that will allow the Department of Health Services Public Health Division to consolidate its operations from its current 3 locations: Downtown Santa Rosa, Coddington Mall, and the Airport area, where it leases a total of 50,000 square feet, into a smaller 40,000 square foot space (entire building) at 463 Aviation Blvd. This consolidation at 463 Aviation will result in improved communication across previously separated operational groups, \$284,000 per year in reduced leasing costs, and the elimination of travel time between the current 3 locations. 463 Aviation's common spaces, lobbies and outdoor seating areas look to further foster collaboration and communication among operating groups through encouraging impromptu meetings and casual get togethers.

In August-September 2023 Sonoma County Public Infrastructure Department conducted another search in downtown Santa Rosa for 30,000-40,000 square feet of Class A, contiguous office space. Efforts included contacting Keegan & Coppin (its broker representative on the Department's space search); searching LoopNet; contacting the real estate manager for the City of Santa Rosa, contacting State GSD and Federal GSA. No contiguous Class A office space in the 30,000-40,000sf range was found in downtown Santa Rosa.

If the proposed lease is approved, the Department of Health Services Public Health Division will be relocating from their current site at 625 5th Street in Downtown Santa Rosa (lease expires 12/31/24); along with Public Health Division programs Woman Infants and Children (WIC) program from 1450 Guerneville Road (lease expires 11/30/24), and Emergency Medical Services (EMS) from 195 Concourse Boulevard (lease can be terminated for any reason with 120 days notice), all in Santa Rosa. An estimated total of 162 County staff will be relocating from existing County leased space into the Premises. There is no lease termination fee anticipated in the consolidation.

In March 2023, the Sonoma County Public Infrastructure Department, on behalf of the Department of Health Services, initiated discussions with the listing agent for 463 Aviation Boulevard, Santa Rosa. Negotiations continued through September 2023, when lease terms were agreed to. The initial lease term will be twelve (12) years, commencing around June 1, 2024. The County will have one (1) option to extend the lease term five (5) years, to 2041. The Premises would consist of 40,746 rentable square feet, comprising the entire building. The initial monthly rent will be \$77,417.40 (\$1.90 per square foot of Rentable Area per month) Full Service, with annual rent escalations of three percent (3%). The County will receive 16 months of free rent, consisting of 13 months of free rent during the initial 13 months of the lease term, and 6 months of half rent, in February and August, in the final 3 years of the lease term. The lease may be terminated by the County under certain circumstances with 270 days prior written notice, subject to payment of the termination fee at the formula stated in the Lease. Prior to lease commencement the landlord will provide at landlord sole expense an estimated \$809,448 in tenant improvements to customize the premises to the Department's Public Health Division's specific operational needs, organization structure, and planned consolidation from 3 locations.

The proposed Lease will allow the Department of Health Services' Public Health Division to occupy a Premises that offers an efficient, open layout and existing, high-quality improvements well suited for consolidating operations and meet their growing need for office space. On-site parking is free and abundant (4:1 parking ratio), and the building is located close to other County operations, walking paths, and a SMART station. The

Lease will enable the Health Services Department's Public Health Division to increase their ability to effectively run their operations and serve the public.

Lease Agreement. The proposed Lease Agreement between SR Office Properties DE, LLC and Redbird SR Office Properties DE, LLC, as Landlord, and the County of Sonoma, as Tenant, contains the following key provisions:

1. Twelve (12) year initial lease term. Term will commence upon completion of certain space improvements, estimated to be around June 1, 2024.
2. One (1) option that will extend the term an additional five (5) years at a rental rate set at 3% above the previous year's rent, enabling the County to maintain control of the Premises through late 2041.
3. Premises totals 40,746 rentable square feet.
4. 16 months free rent, consisting of 13 months free rent during the initial 13 months of the lease term, and 6 months of half rent, in February and August, in the last 3 years of the initial lease term.
5. Initial rent is Seventy-Seven Thousand Four Hundred Seventeen and 40/100 (\$77,417.40), (\$1.90 per square foot of Rentable Area per month) Full Service, with first month of rent payable around July 1, 2025.
6. Annual rent escalations of three percent (3%).
7. On-site parking (4:1 parking ratio) provided free of charge.
8. Landlord shall provide an estimated \$809,448 in tenant improvements at landlord's sole cost to customize the premises to the Department of Health Services' Public Health Division's specific operational needs, and conduct an airflow assessment prior to occupancy.
9. The lease can be terminated by the County with 270 days prior written notice for any of the following events: (a) the County Board of Supervisors fails to appropriate sufficient funds for the rental of the property covered by this Lease; (b) the County Board of Supervisors discontinues, in whole or in part, the program or agency for which the Premises were leased; or (c) the funding, whether County, State or Federal, for the program or agency for which the Premises were leased is reduced or withdrawn (d) Tenant has approved and funded a new County Administration Center, whether on County owned or leased land, the construction of which shall be substantially completed no later than three hundred sixty five (365) days after the date of the termination notice. Termination fee shall equal unamortized tenant improvement and closing costs.

County staff determined that the negotiated rent, lease terms and Landlord's Tenant Improvements contribution represent an acceptable fair market rental rate for the location and is consistent with rates and lease terms of other office tenants in the area.

Project Costs and Construction Schedule. The total relocation cost to the Department of Health Services is estimated to be One Million Two Hundred Fifty Thousand Dollars (\$1,250,000), consisting of Eight Hundred Forty Thousand (\$840,000) for new furniture, Two Hundred Eight Thousand (\$280,000) for cabling, ISD support, and for Proximity Card installation, and One Hundred Twenty Thousand (\$130,000) for relocation of the Tuberculosis Lab.

Procedural Authority. Government Code Section 25350 requires publication of notice of the Board's intent to enter into a lease for three successive weeks prior to execution of the lease agreement where it is valued at more than \$50,000. Publication occurred pursuant to the Board's October 3 action authorizing the publication of the notice of intent to enter into the proposed lease.

Strategic Plan:

N/A

Racial Equity:**Was this item identified as an opportunity to apply the Racial Equity Toolkit?**

No

Prior Board Actions:

10/3/23 – Declare intent to enter into lease

FISCAL SUMMARY

Expenditures	FY 23-24 Adopted	FY 24-25 Projected	FY 25-26 Projected
Budgeted Expenses	\$0		\$931,331.32
Additional Appropriation Requested		\$1,250,000.00	
Total Expenditures	\$0	\$1,250,000.00	\$931,331.32
Funding Sources			
General Fund/WA GF			
State/Federal	\$0	\$1,250,000.00	\$931,331.32
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources	\$0	\$1,250,000.00	\$931,331.32

Narrative Explanation of Fiscal Impacts:

The Department of Health Services will include the relocation expenditures in the amount of \$1,250,000 in its FY24/25 recommended budget. Funding will be from 1991 Health Realignment with an estimated fund balance after this obligation will be \$30 million as of 6/30/24.

New lease cost will be funded via state and federal revenues. Total new annual office lease cost, inclusive of Year 1 relocations costs, are estimated to be \$0 for FY 23-24, \$1,250,000.00 for FY 24-25, \$931,331.32 for FY 25-26, \$959,271.26 for FY 26-27, \$988,049.40 for FY 27-28, \$1,017,690.88 for FY 28-29, \$1,048,221.61 for FY 29-30, \$1,079,668.26 for FY 30-31, \$1,112,058.30 for FY 31-32, \$1,145,420.05 for FY 32-33, \$1,081,712.61 for FY 33-34, \$1,114,163.99 for FY 34-35, and \$1,040,425.12 for FY 35-36.

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

- 1 – Lease Agreement between SR Office Properties DE, LLC; Redbird SR Office Properties DE, LLC as Landlord and the County of Sonoma as Tenant
- 2 – Leasehold Improvement Agreement
- 3 – Relocation and Leasing Cost Estimate
- 4 – 463 Aviation Rent Savings versus Current Leases

Related Items “On File” with the Clerk of the Board:

None