



MONO COUNTY DEPARTMENT OF PUBLIC WORKS

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Jeff Walters, Public Works Director

Garrett Higerd, PE; County Engineer

Date: April 18, 2017
To: Honorable Board of Supervisors
From: Tony Dublino, Environmental Services Manager
Subject: South County Facility Workshop and Update

Recommended Action(s):

1. Conclude negotiations with Sierra Center Mall (SCM) owners, recognize the current negotiated proposal as the final proposal, and direct staff to prepare final cost comparisons based on this proposal.
2. Direct staff to draft preliminary agreement with Town of Mammoth Lakes relating to the Development of a Civic Center on the McFlex property.
3. Draft preliminary procurement documents for planning, environmental analysis and engineering of a Civic Center on the McFlex property.
4. Prepare an analysis of County-owned space availability and potential strategies for utilizing available space, in an effort to further reduce the space needs and associated cost of a South County Facility.
5. Prepare final cost comparisons and staff recommendations for Board consideration at the May 16th Board meeting.

Fiscal Impact: None at this time.

Discussion:

At the March 21 Board meeting, the Board directed staff to work towards concluding lease negotiations with Sierra Center Mall, to begin researching other alternatives for County facilities, and to maintain progress on the Civic Center concept.

Today's item will provide an update on issues relevant to each of these items.

Lease Negotiations at Sierra Center Mall

Staff negotiators have been clear to SCM that the County will not continue to pay above market rate for leased office space, the County expects significant concessions from the

current offer due to the County's leasing of approximately 40% of the plaza, and expects consideration for the fact that the County is a highly desirable tenant that provides excellent revenue stability.

After the Board's direction on March 21, staff met with SCM owners and made it clear that the offered price, as well as the rejection of certain CAMs (Common Area Maintenance) provisions, were not acceptable to the Board. SCM owners did not offer to reduce the price per square foot, nor did they concede any substantive changes to CAMs issues. SCM has since suggested to Board members that they may consider additional concessions that would lower the effective lease rate over the term of the lease, and the County is currently discussing those options with them.

Aside from continuing discussions on these concessions, staff believes the remaining points of disagreement have been discussed and negotiated to a point of impasse. Among them are the lease rate per square foot, specific CAMs provisions such as the inclusion of ongoing building maintenance and repairs to the roof, exterior shell and HVAC, parking improvements, as well as other capital expenses. Suffice it to say that the County believes certain costs rightfully lie with the landlord, and SCM believes they lie with the tenant.

Despite the efforts made by both parties at reaching a mutually acceptable agreement, it seems apparent that such an agreement will not be reached. Nonetheless, the negotiations have arrived at a point where analysis of the current proposal, regardless of whether it is acceptable to the County, is necessary and appropriate.

What is market rate?

The impasse in this negotiation is largely due to a significant difference of opinion relating to market rental rates, and CAMs conditions, in the Old Mammoth area. SCM maintains \$1.75 per square foot, and their proposed CAMs conditions reflect market. The County maintains that the price should be \$1.35 based on the building condition, size of the tenant and comparable space in the Old Mammoth area.

SCM recently provided the Board with information regarding commercial properties in Mammoth, with associated asking price and terms. This information is largely consistent with information the County staff obtained when investigating commercial properties in Mammoth, and had provided to the Board.

Despite the relative consistency in market research, the resulting opinions about the value of the third floor of the SCM are still inconsistent between the County and SCM. County staff maintains that the current proposal (unless significantly impacted by concessions), for 30,444 square feet of office space, with no tenant improvements, and the pass-through of all building costs, is unacceptable.

For the County's part, the development of an opinion of the market value of office space in Sierra Center Mall has been informed by the following information:

1. Currently available, or likely to be available, office space and retail space in Old Mammoth, and the associated asking price and terms.

2. Currently available, or likely to be available, retail space in the Main Street corridor of Mammoth, and associated asking price and terms.
3. Existing commercial leases for office space in the Old Mammoth area, including:
 - a. The Town's lease of office space at the Minaret Mall
 - b. The Town's lease for the Police Station
 - c. The County's current lease of office space at the Sierra Center Mall.
 - d. Anecdotal information regarding lease price and terms of other tenants in the Sierra Center Mall.

In consideration of the above information, the County has determined an opinion of market value. This opinion of market value was then reduced to reflect the concessions the County believes are due, for the reasons listed above (anchor, stability).

The simple reality is that there remains a significant difference between the SCM opinion of the market value of their property, and the County's opinion.

“Bridge Strategy” if Civic Center is not complete by October 2019

As directed by the Board, staff has begun to look into potential options for the County, should the lease at SCM expire in October 2019, and a new location is not complete.

The necessity for a “Bridge Strategy” is not apparent to people who are not familiar with the County's current lease at SCM. Within that lease, there is a holdover provision that addresses what may happen should the County not vacate the premises at the conclusion of the lease term:

22.5 Expiration of Term. This Lease shall terminate and shall become null and void without further notice upon the expiration of the term (or any extension thereof) herein

specified, and any holding over by Tenant after such expiration shall not constitute a renewal hereof or give Tenant any rights under this Lease. If Tenant shall hold over for any period after the expiration of said term, Landlord may, at its option, exercised by written notice to Tenant, treat Tenant as a tenant from month to month commencing on the first day following the expiration of this Lease, subject to the terms and conditions herein contained except that the Base Minimum Rent, which shall be payable in advance monthly, shall be (a) one hundred and twenty five percent (125%) of said Base Minimum Rent applicable at the date of expiration for the first three months of the holdover; (b) one hundred and fifty percent (150%) of said Base Minimum Rent applicable at the date of expiration for the second three months of the holdover and (c) two hundred percent (200%) of said Base Minimum Rent applicable at the date of expiration for every month thereafter. If Tenant fails to surrender the Leased Premises upon the expiration of this Lease, Tenant shall indemnify and hold Landlord harmless from all loss or liability, including without limitation, any claims made by any succeeding Tenant founded on or resulting from such failure to surrender.

Upon understanding the above, it is clear why the County should ensure there are alternatives in place. Some of the options that have been discussed in order to avoid this potential outcome are:

1. Negotiate a lease extension at SCM. It should be noted that this is the most logical and obvious solution, but may not be agreeable to owners of the SCM.
2. Lease other commercial space in Mammoth that would be available for move in October 2019.
3. As part of Civic Center project, include plans for temporary office space to be located until move-in to a completed facility becomes possible.

Of course, these alternatives assume the County is not ready to move in by October 2019, and every week the decision is delayed, is another week that the County may find itself having to take up temporary residency in an interim location.

Because this outcome is more than two years away, implementing a plan, or even initiating a plan for it at this time is not possible, or desirable. For that reason, staff believes the best approach is to schedule regular updates with the Board to discuss project timeframe, progress, and likelihood of completion prior to October of 2019. In the event that timely completion becomes unlikely, initiate planning for alternatives accordingly.

County Facility as part of a Civic Center at McFlex.

Over the last several weeks, the County has joined in with the Town's analysis of its own facility needs with consultants HMC. The primary benefits of participating in the HMC analysis is to further refine the County's estimated space needs, and to corroborate the work done by Collaborative Design Studio with another third-party cost estimate. The preliminary site plans for a Civic Center also provide the benefit of addressing questions that have been raised about available space for buildings, landscaping/snow storage, and parking.

The result of this work has been very informative to the process, and has resulted in a significant reduction of County space needs, and a correlating reduction in construction cost.

The County's cost estimate of \$24.9m was considered to be conservative, and probably high, because the County's space needs had not been optimized, and the 'grossing factor' utilized in the Collaborative Report created a ratio between usable and total square footage that could be trimmed. This issue was discussed during past presentations to the Board.

Through the additional analysis of County space needs, identification of specific shared spaces such as conference rooms and printing rooms, and 'right-sizing' office spaces, it was determined that the space needs could be reduced considerably.

Collaborative Design Studio estimated the County facility size to be 43,000 sf at a cost of \$22.9m (revised by County to \$24.9m), but through the above effort and working with HMC, the estimated size is now 33,000. The resulting cost estimate, developed by another third party cost estimator, is just over \$20m.

Exactly how this cost would impact the County over time, and how it compares to the best available deal at SCM, is a matter that will be presented on May 16.

Reducing Costs of Leasing and of Construction

Every square foot of Mammoth office space costs money. This is true whether the intent is to lease, or to build. The costs apply as construction costs, monthly rent, and maintenance and utilities.

Throughout the analysis of space needs, it has been recognized that many Departments are requesting (and already have) office space in Mammoth even though they have conditioned, furnished, and available office space in Bridgeport, or elsewhere. As such, at any given time, one or both of these offices are vacant.

Approximately 3,100 sf of the office space included in the revised space estimates for a Mammoth project has a duplicate office in Bridgeport. At a cost of \$600 per square feet, that amounts to nearly \$1,860,000 in construction costs for these duplicate offices. At a theoretical \$3.25 per square foot (rent+CAMs), this reflects \$10,000 per month in potential leasing costs, or \$120,000 per year.

It is acknowledged and understood that many County staff want to work in Mammoth, and many services and the associated jobs are necessarily provided in Mammoth. Nonetheless, there may be opportunities to tighten up Mammoth space needs, and achieve costs savings, by identifying and implementing creative strategies to make the most of the County's available space.

It is not known at this time whether such strategies would save money and maintain service levels, or whether the strategies would be acceptable to staff, but it is advised that the County engage in an analysis of Countywide space availability and initiate discussions of strategies for utilizing all County space, prior to committing to formal designs or lease of square footage in Mammoth.

If you have any questions regarding this item, please contact me at (760) 932-5453.

Respectfully submitted,



Tony Dublino
Environmental Services Manager