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**Title:** Actions pertaining to a lease agreement between the City of Fresno and 747 R Street, LLC, a California limited liability company, for the lease of office space located at 747 R Street (Council District 3):

1. Adopt a finding of Categorical Exemption per staff determination, pursuant to Section 15301/Class 1 (Existing Facilities) of the California Environmental Quality Act (CEQA) Guidelines
2. Approve a seven-year lease agreement between the City of Fresno and 747 R Street, LLC, a California limited liability company with three optional one-year extensions in the amount of \$800,301.60 annually, with annual increases of 3%, plus the proportionate CAM (Common Area Maintenance) charges at \$297,890.04 annually

**Sponsors:** General Services Department, Capital Projects Department

**Indexes:**

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**Attachments:**

Date	Ver.	Action By	Action	Result
11/16/2023	1	City Council	TABLED	

**REPORT TO THE CITY COUNCIL**

**FROM:** BRIAN BARR, Director  
General Services Department

RANDALL W. MORRISON, PE, Director  
Capital Projects Department

**BY:** JORDAN CONARD, Property Specialist I  
General Services Department

**SUBJECT**

Actions pertaining to a lease agreement between the City of Fresno and 747 R Street, LLC, a California limited liability company, for the lease of office space located at 747 R Street (Council District 3):

1. Adopt a finding of Categorical Exemption per staff determination, pursuant to Section 15301/Class 1 (Existing Facilities) of the California Environmental Quality Act (CEQA) Guidelines
2. Approve a seven-year lease agreement between the City of Fresno and 747 R Street, LLC, a California limited liability company with three optional one-year extensions in the amount of \$800,301.60 annually, with annual increases of 3%, plus the proportionate CAM (Common Area Maintenance) charges at \$297,890.04 annually

## **RECOMMENDATION**

Staff recommends Council (1) adopt a finding of Categorical Exemption per staff determination, pursuant to Section 15301/Class 1 (Existing Facilities) of the CEQA Guidelines and (2) approve a seven-year lease agreement between the City of Fresno and 747 R Street, LLC, a California limited liability company with three optional one-year extensions. The lease agreement is for office space at 747 R Street, in Downtown Fresno. The lease amount is \$800,301.60 annually, the rate will increase by 3%, plus the proportionate CAM (Common Area Maintenance) charges at \$297,890.04 annually.

## **EXECUTIVE SUMMARY**

The newly formed Capital Projects Department anticipates housing 140 staff positions tasked with overseeing major infrastructure projects funded by more than \$330 million in recent grant awards headed for the City of Fresno. The Capital Projects Department is rapidly expanding its workforce to fill the newly approved positions, but the current office spaces at City Hall and the Construction Management Division office do not have enough room. For that reason, the Department needs to move to an alternative location in order to accommodate its workforce adequately.

The General Services Department and Capital Projects Department have negotiated a seven-year lease with 747 R Street, LLC, for 37,051 square feet of office space on the second floor located at 747 R Street, in Downtown Fresno. The term of the proposed lease shall be seven years ending December 31, 2030, with the option to extend the term of the Lease for three one-year periods. The proposed negotiated lease rate in the first year is \$1.80 per square foot (\$66,691.80 per month), increasing by 3% per year in subsequent years. In addition to the monthly rent due, the City shall also pay \$0.67 per square foot of building operating costs estimated at \$297,890.04 annually. The City will be permitted access to the building 15 days prior to the commencement date for the purposes of installing furniture, fixtures, equipment, and leasehold improvements.

A non-appropriation clause is included in the lease agreement should the City desire to cancel the lease.

## **BACKGROUND**

The Capital Projects Department serves other City departments such as Public Works, Public Utilities, Police, Fire, and PARCS to deliver the departments' capital programs. The Capital Projects Department is actively managing hundreds of capital projects through the design, environmental, right-of-way, and construction phases for parks, public safety facilities, street infrastructure, active transportation, wastewater, and water systems.

As approved by the Council on July 31, 2023, the Capital Projects Department anticipates adding 46 new positions, transferring 74 positions from the Department of Public Works and 20 positions from the Department of Public Utilities for a total of 140 positions to address a significant increase in the City's capital project workload. While increasing capacity to address the City's infrastructure needs, the Capital Projects Department has outgrown the available space at City Hall and the department must relocate off-site to accommodate added staffing. The staff has identified a suitable office space at 747 R Street. Due to the size of the Department, there are limited office spaces available downtown that satisfy all the needs of the department. The subject property met all the criteria, featuring a lease rate in line with the current market, convenient access to parking in the adjacent City of Fresno Promenade parking lot, recently completed renovations, immediate readiness for occupancy, and ample space to accommodate the entire staff of 140 department positions.

The building was previously leased to Bitwise Industries and renovated to support their operations. However, Bitwise Industries filed Chapter 7 Bankruptcy in June 2023, prior to moving into the building and never occupied the site. As the renovations were focused on a large workforce occupying the second floor and includes furniture, it allows the Capital Projects Department to immediately move-in to this site. There is no alternative office space in downtown Fresno which can support 140 positions in a single facility without significant renovations or across multiple office floors. Moreover, as the City of Fresno owns the Promenade parking lot, the city is not being charged for parking as part of the lease agreement.

The building, known as the State Center Warehouse, is designated a historic property by resolution to the Local Register of Historic Resources (HP#242), adopted by the Fresno City Council on May 11, 2004. Renovations previously completed by the owner have been heard and approved by the Historic Preservation Commission. However, this lease agreement requires no renovations of the property, and therefore does not change previous Historic Preservation Commission approvals.

The Capital Projects Department is seeking to lease 37,051 square feet of second-floor office space at 747 R Street, with an effective term of January 1, 2024, through December 31, 2030. The proposed negotiated lease rate is \$1.80 per square foot (\$66,691.80 per month) for rent which shall increase by 3% annually. In addition to the monthly rent due, the City shall also pay \$0.67 per square foot of building operating costs estimated at \$297,890.04 annually. The City's share of building operating costs is proportionate to the square footage of the leased office space to the total rentable square footage of the building.

The lease agreement has been reviewed and approved by the City Attorney's Office as to form.

## **ENVIRONMENTAL FINDINGS**

Staff has performed preliminary environmental assessments of this project and has determined this project is exempt under Section 15301/Class 1 (Existing Facilities) of CEQA Guidelines as it involves no alteration of existing facilities, with no expansion of use. Furthermore, none of the exceptions to Categorical Exemptions set forth in CEQA Guidelines, Section 15300.2, apply to this project.

## **LOCAL PREFERENCE**

Local preference was not considered because this action does not include a bid or award of a City construction contract.

## **FISCAL IMPACT**

The lease payments, the City's share of the buildings operating costs, and all other indirect costs associated with the subject lease space will be paid for through the operating fund of the Capital Projects Department as appropriated by the Council adopted 6<sup>th</sup> Amendment to the Annual Appropriations Resolution (AAR) No. 2023-185 on July 20, 2023, and through the City's annual fiscal year budget process for subsequent years of the lease term.

Attachment: Lease Agreement