



Agenda Report

25-53

Agenda Date: 2/11/2025

REPORT TO COUNCIL

SUBJECT

Action on (1) Delegation of Authority to the City Manager to Negotiate and Execute a Lease Agreement with Gahrahmat Family Limited Partnership I, LP, A California Limited Partnership for the Commercial Space Located at 831 - 851 Martin Avenue, Santa Clara, for SVP Staff, (2) Authorize the City Manager to Negotiate and Execute Amendment(s) to the Lease Agreement at 881 Martin Avenue to Extend the Term, If Needed, and (3) Increase Current Authorization for City Manager to Issue Purchase Orders with Pivot Interiors, Inc. and Other Suppliers/Authorized Dealers for the Purchase of and Installation of Cubicles, Office Furniture and Related Products and Services at City Facilities.

COUNCIL PILLAR

Deliver and Enhance High Quality Efficient Services and Infrastructure..

BACKGROUND

The City of Santa Clara's Electric Department, Silicon Valley Power (SVP), continues to experience significant electric load growth driven by increased demand from customers. SVP has a long-term capital improvement strategy to expand and modernize its electric infrastructure to meet this growth and will need ongoing resources to maintain the expanded system. As previously discussed with the City Council, SVP's customer demand for electric power is expected to nearly double over the next decade.

On October 27, 2015, the City Council authorized a five-year standard industrial/commercial multi-tenant lease net agreement with the Gahrahmat Family Limited Partnership II, LP for commercial space at 881 Martin Avenue in Santa Clara (881 Martin Lease) for SVP's Customer Services Division and its Resources, Power Trading and Marketing Division (RTC 16B.10). Around 2019, staff from other divisions including engineering also relocated to 881 Martin Avenue. On September 1, 2020, the City Council authorized the City Manager to execute an amendment extending the term 5 years until September 30, 2025 (RTC 20-715). The 881 Martin Lease expires on October 1, 2025.

To successfully implement projects and manage growth, SVP has added positions (not all located at Martin Avenue). In FY 21/22 SVP added 16 positions and, in FY 22/23, it added 8 new positions. Two additional positions were added in FY 23/24 and, on August 20, 2024, 12 additional positions were added. Even with a 23% vacancy rate, SVP already has space constraints at 881 Martin Avenue, as some staff share cubicles and there is insufficient space for planned new hires.

DISCUSSION

To address these challenges, SVP identified a nearby space within the same office complex. This space at 831 - 851 Martin Avenue (851 Martin) has significantly greater square footage than the existing location at 881 Martin Avenue (50,000 square feet versus 32,500 square feet).

Lease Terms

The proposed lease is a triple-net agreement with the City responsible for paying taxes, maintenance, repairs, utilities, and insurance. Key terms include:

- Base Rent: Approximately \$90,000 per month in the first year (abated for first 3 months).
- Initial Term: 36 months
- Annual Rent Escalation: 3%, reaching approximately \$95,181 monthly in year 3.

The base rent rate may change depending on the start date of the lease and other pending negotiations. It is anticipated that the City will pay property taxes, insurance, utilities, and maintenance costs as reimbursement to the property owner. The owner is also undertaking a number of tenant improvements primarily associated with meeting the technology needs of SVP. SVP will be responsible for some of those costs. Staff recommends authorization of up to \$6 million in payments to the property owner over the three-year lease term, including:

- Estimated lease payments \$3.3 million over three years. In comparison at the current 881 Martin location, lease cost is estimated to be \$2.2 million over 3 years assuming a 3% annual escalation.
- Estimated tenant improvements \$700,000 (primarily technology, security, and backup systems)
- Estimated other costs (property taxes, insurance, utilities, and maintenance costs) \$2,000,000. In comparison at the current 881 Martin location, additional costs are estimated to be \$1.3 million over 3 years assuming a 3% annual escalation.

Staff will manage and allocate expenses among these categories to ensure the maximum authorization of \$6 million is not exceeded. SVP is currently paying over \$1 million per year for the lease including additional costs at the 881 Martin site. When accounting for potential annual escalation, the anticipated increase in cost for the new office space is approximately \$600,000 per year.

Extension of Current Lease at 881 Martin

Staff hopes to be moved to the new office building before the expiration of the current lease but there are a number of improvements needed at 851 Martin which may require additional time. Therefore, staff recommends that the City Council authorize the City Manager be to negotiate and execute further amendments to the 881 Martin Lease if needed to extend the term for any transitional period.

Pivot Interiors

On August 27, 2024 (RTC# 24-683), the City Council authorized the City Manager or designee to execute purchase orders with Pivot Interiors, Inc., other suppliers, and/or their authorized dealers for the purchase and installation of office cubicles and furniture under cooperative purchasing agreements. This authorization included a total aggregate maximum compensation of \$600,000, subject to Purchasing Division Manager's determination of compliance with Section 2.105.270(c) of the Santa Clara City Code.

Section 2.105.270(c) allows the City to use cooperative purchasing agreements. This section states that the City may, without observing formal bidding requirements, "contract with a vendor under a

contract awarded using preestablished cooperative purchasing agreements, when such agreement resulted from a competitive bid process that meets or exceeds the City's competitive bid process."

As part of the relocation and expansion, SVP negotiated for the previous tenant to leave behind cubicles and any other furniture that they were willing to leave for use by SVP. The previous tenant has vacated the facility and left all cubicles in open areas but removed all furniture in offices. As a result, SVP needs to purchase and install furniture for the offices at 851 Martin. Where feasible, SVP will reuse existing furniture from 881 Martin to minimize costs. However, additional purchases will be required to address the needs of the new facility.

To address the current and future needs, staff is requesting an increase to the total aggregate maximum compensation for furniture procurement and installation by \$600,000 from \$600,000 to \$1,200,000. Of the additional \$600,000, \$400,000 is designated for SVP, and \$200,000 is to address expected needs for other City departments. This increase will allow the City to procure and install necessary furniture for SVP offices and provide flexibility for future furniture needs across the City facilities.

ENVIRONMENTAL REVIEW

Staff recommends that the City Council determine that the actions being considered are exempt from the California Environmental Quality Act ("CEQA") pursuant to section 15301 (Class 1 - Existing Facilities) of Title 14 of the California Code of Regulations as the proposed purchases involve interior alterations to existing structures.

FISCAL IMPACT

The annual cost of the property is anticipated to be approximately \$2 million (including lease costs and additional costs such as taxes, insurance, maintenance, repair, and utilities). Sufficient funding is available in the Electric Utility Fund for FY 2024/25 if needed for cost of improvements, and the additional cost for the difference between the proposed lease at 851 Martin and the current lease at 881 Martin will be incorporated into the Fiscal Year 2025/26 and 2026/27 Proposed Operating Budget.

For future years, the annual cost will be incorporated into the annual operating budget through the regular process.

COORDINATION

This report has been coordinated with the Finance Department and City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov.

RECOMMENDATION

1. Determine that the proposed actions are exempt from CEQA pursuant to Section 15301 of Title 14 of the California Code of Regulations;

2. Delegate Authority to the City Manager to Negotiate and Execute a Lease Agreement with Gahrahmat Family Limited Partnership I, LP, A California Limited Partnership for the commercial space located at 831 - 851 Martin Avenue, Santa Clara, for SVP staff for an amount not to exceed \$6 million over a 36-month term beginning on or around September 1, 2025, subject to the appropriation of funds and the review and approval as to form by the City Attorney;
3. Authorize the City Manager to negotiate and execute amendment(s) to the lease agreement with Gahrahmat Family Limited Partnership I, LP, A California Limited Partnership for the property at 881 Martin Avenue to extend the term, if needed to facilitate the transition to new premises;
4. Authorize the City Manager to take any actions as necessary to implement and administer the lease agreements;
5. Authorize the City Manager or designee to execute additional Purchase Orders and related documents with Pivot Interiors, Inc., other suppliers, and/or their authorized dealers for the purchase and installation of office cubicles and furniture under cooperative purchasing agreements with a total aggregate maximum compensation of \$1,200,000 (increasing previous authorization of \$600,000), subject to (1) Purchasing Division Manager's determination pursuant to Section 2.105.270(c) of the Santa Clara City Code, (2) the appropriation of funds, and (3) the review and approval as to form by the City Attorney; and
6. Authorize the City Manager or designee to take any actions as necessary to implement and administer the Purchase Orders in alignment with the associated cooperative purchase agreements.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer

Approved by: Jovan D. Grogan, City Manager