



Agenda Report

21-1214

Agenda Date: 9/28/2021

REPORT TO COUNCIL

SUBJECT

Action on Resolution Authorizing an Agreement with Eugene Burger Management Corporation for Property Management Services of City-Owned Commercial Properties Located at 900 and 1000 Lafayette Street, and Authority for the City Manager to Negotiate and Execute Leases at 900 and 1000 Lafayette Street; and Associated Budget Amendment

COUNCIL PILLARS

Promote and Enhance Economic, Housing and Transportation Development
Deliver and Enhance High Quality Efficient Services and Infrastructure

BACKGROUND

The City of Santa Clara ("City") is the landowner of two downtown properties located at 1000 Lafayette Street, known as Peddler's Plaza, and 900 Lafayette Street, known as Commerce Plaza. In 1971, the City entered long-term ground leases which are set to expire in the coming months.

Peddler's Plaza is approximately a 1.3-acre site with a one-story retail commercial building. The retail commercial building has 10,300 square feet of leasable space with seven (7) units. The Peddler's Plaza Ground Lease will expire on September 30, 2021.

Commerce Plaza is approximately a 3.7-acre site with a seven-story office building. The office building has 90,000 square feet of leasable space with 60 units. The Commerce Plaza Ground Lease will expire on April 11, 2022.

These two properties have been long discussed as integral components of a long-term vision for rebuilding downtown. The planning process on a specific plan for downtown is not complete and it will be several more years before any redevelopment of the properties could begin to occur. The two buildings are occupied, and it would be beneficial to the City if there is ongoing occupancy of the structures.

As the Ground Leases are set to terminate, the current tenants will have no rights to remain in their spaces. Staff has reached out to tenants to determine their interest in continuing to operate in their existing space and indicated that the City is interested in possibly extending their respective current leases under generally the same terms for a limited period (up to two years) to allow time for the City and its new management company to transition into their new roles.

DISCUSSION

Pursuant to City Code Section 2.105.330, a formal Request for Proposal (RFP) was conducted as the solicitation method for this procurement, with the award recommendation based on "best value". The factors considered in the award were qualifications and experience of firm, qualifications and

experience of key personnel, demonstrated capability and cost.

In May 2021, a competitive Request for Proposal (RFP) was advertised on the City's bid notification system for a Contractor to provide property management services necessary to rent, lease, operate, and manage Commerce Plaza and Peddler's Plaza.

Forty vendors viewed the RFP, and two proposals were received from Eugene Burger Management Corporation and Orchard Commercial. Proposals were independently evaluated by three representatives from the Housing Division and one representative from the City Manager's Office. In addition to scoring against the criteria set forth above, the City elected to conduct a Best and Final Offer (BAFO) to clarify certain aspects of the City's requirements, and provide proposers a final opportunity to revise their cost proposals in light of this new information.

References were checked with the City of Santa Clara Department of Parks and Recreation, County of Sonoma, and King Family Trust. All references checked positive.

Eugene Burger Management Corporation (EBMC) is recommended for award of contract as having submitted the best value proposal. They demonstrated experience in managing multiple property types, specifically commercial retail spaces and government assisted programs. EBMC provided a thorough and comprehensive response that met or exceeded the City's requirements and will ensure a high level of service that is needed to ensure ongoing occupancy of the structures.

EBMC currently manages one other City-owned property, Morse Mansion, located at 981 Fremont Street.

Under the proposed Agreement, EBMC will provide professional property management services to rent, lease, operate and manage Peddler's Plaza and Commerce Plaza. The initial term of the agreement will be two years and costs are fixed for the initial term as described in Table 1 below. The City may extend the Agreement for three additional one-year options.

Table 1. Costs Associated with Performing Property Management Services

Management Services Fee				
Description	Monthly Rate Initial Term Year 1 of 2	Initial Term Year 1 of 2	Monthly Rate Initial Term Year 2 of 2	Initial Term Year 2 of 2
Commerce Plaza*	\$8,000	\$40,000	\$8,150	\$97,800
Peddler's Plaza	\$1,500	\$18,000	\$1,525	\$18,300
Total for Annual Management Services		\$58,000		\$116,100
TOTAL FOR ANNUAL MANAGEMENT SERVICES FOR INITIAL TERM				\$174,100
Other Service Fees				
Description	Initial Term Year 1 of 2 Fees		Initial Term Year 2 of 2 Fees	
Accounting Services				
Commerce Plaza*	\$700/Month		\$715/Month	

Peddler's Plaza	\$300/Month	\$305/Month
TOTAL FOR ACCOUNTING SERVICES FOR INITIAL TERM		\$19,340
Construction Management Fees		10% of Improvement Costs
Leasing Services		
For vacant space new tenants: - 6% of the fixed annual minimum rent payable under the terms of the years of the lease - 5% of the fixed annual minimum rent payable during the next two years (2) of the thereafter during the sixth and subsequent years of the original lease For existing tenants: - Renew 50% of the leasing fee for new tenants identified above.		
TOTAL ESTIMATE FOR LEASING SERVICES FOR INITIAL TERM		\$140,000
CONTINGENCY (10%)		\$33,344
MAXIMUM COMPENSATION NOT-TO-EXCEED FOR INITIAL TERM		\$366,784

*Property Management and Accounting Services for Commerce Plaza will not begin until April 2022, the amount noted for the management services fees and accounting fees for this location is for only five months for year 1 of 2.

The RFP included a protest process. On September 3, 2021, the City received a letter of protest from Orchard Commercial requesting that the City conduct oral presentations with the proposers for the purpose of considering additional information that Orchard Commercial wanted to introduce.

The protest was reviewed by the City's Purchasing Division Manager who concluded that the RFP process was conducted fairly, and the evaluation team concluded that oral presentations were not necessary in order to make a decision. The process provided other avenues for Orchard Commercial to raise their issues, and an oral presentation after the recommendation is published and after Orchard Commercial's debriefing where the strengths and weaknesses of their proposal were discussed, would not be appropriate.

Orchard Commercial's letter of protest and the City's response are attached.

Tenant Leases

With the expiration of the ground leases, the existing building tenants will have no rights to continue to occupy the retail/office space. In order for their occupancy to continue, the City will need to enter into new lease agreements with each of the existing tenants at both 900 and 1000 Lafayette Street.

Staff proposes that the City authorize leases for a term not to exceed two years to maintain occupancy of the buildings and allow for a transition to a new property manager while the City continues its work on the specific plan for the downtown. Staff is seeking authority from the City Council for the City Manager to negotiate and execute assignment and assumption agreements, lease agreements, and related amendments for a term not to exceed two years on a form that is subject to approval by the City Attorney.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably

foreseeable indirect physical change in the environment.

FISCAL IMPACT

The City has not received complete rent roll information for the current building tenants. The estimated monthly revenues are \$25,000 per month for Peddler's Plaza and \$170,000 per month for Commerce Plaza. The total estimated revenue over the initial two-year term is \$3.3 million, while the total management fees over the initial term are not expected to exceed \$366,784.

In FY 2021/22, the management services, accounting services, and leasing services costs are estimated at \$182,300 and represent activity through June 2022. A FY 2021/22 General Fund budget action is recommended to add funding of \$182,300 to the City Manager's Office, offset by rent revenue. The rent revenue is projected to total over \$700,000 in FY 2021/22, which is more than sufficient to cover the costs. The recommended budget action only recognizes rent revenue to offset costs as the City has not yet received complete rent roll information. An additional budget action may be brought forward later in the fiscal year to recognize additional revenue and to adjust the expenditure budget, if necessary, based on actual experience. Funding in future years, along with the associated revenue adjustments, will be incorporated into the budget development process for those years.

	Budget Amendment FY 2021/22		
	Current	Increase/ (Decrease)	Revised
General Fund (001)			
<u>Revenue</u>			
Rents	\$9,833,222	\$182,300	\$10,015,522
<u>Expenditure</u>			
City Manager's Office	\$5,442,069	\$182,300	\$5,624,369

COORDINATION

This report was 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 <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

1. Adopt a Resolution to authorize the City Manager to do the following:

A. Negotiate and execute an Agreement with Eugene Burger Management Corporation (EBMC)

- to provide property management services for an initial two-year term beginning on or about September 28, 2021 and ending on or about September 30, 2023 with maximum compensation not-to-exceed \$366,784 and subject to the appropriation of funds;
- B. Execute amendments to the Agreement with EBMC, not to exceed \$33,344, for contingencies in the event there are unanticipated changes during the initial term of the Agreement, subject to the appropriation of funds;
 - C. Execute three one-year options to extend the term of the Agreement with EBMC after the initial term ending on September 30, 2026 if all options are exercised, subject to the appropriation of funds;
 - D. Execute amendments to each of the agreements to add funds as required in the event revenues collected exceed staff's estimates, subject to the appropriation of funds;
 - E. Negotiate and execute assignment and assumption agreements, commercial leases and related amendments for the commercial spaces at 900 and 1000 Lafayette Street for a term not to exceed 2 years on a form agreement subject to the approval of the City Attorney; and
2. Consistent with City Charter Section 1305, "At any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative votes of at least five members so as to authorize the transfer of unused balances appropriated for one purpose to another purpose, or to appropriate available revenue not included in the budget," approve a FY 2021/22 budget amendment in the General Fund to recognize rent revenue in the amount of \$182,300 and increase the City Manager's Office appropriation by \$182,300 **(five affirmative Council votes required to appropriate additional revenue)**.

Reviewed by: Ruth Mizobe Shikada, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

- 1. Resolution
- 2. Draft Agreement with Eugene Burger Management Corporation
- 3. Protest Letter from Orchard Commercial, Inc.
- 4. Purchasing Division Manager's Response to Protest Letter from Orchard Commercial, Inc.