



MEMORANDUM

TO: City Council

FROM: Bill Robeson, Assistant City Manager/Public Works Director

SUBJECT: Approval of a Six-Month Lease Agreement Between the City of Arroyo Grande and RE/MAX Success for Property Located at 214 East Branch Street

DATE: October 8, 2024

RECOMMENDATION:

1) Adopt a Resolution authorizing the City Manager to execute a six-month lease agreement, in substantially final form, between the City of Arroyo Grande and RE/MAX Success for the City-owned property at 214 East Branch Street, also known as Old City Hall, subject to any minor, technical, or non-substantive changes as approved by the City Manager in consultation with the City Attorney; and

2) Determine that the approval of a short-term lease agreement for 214 East Branch Street is not a project subject to the California Environmental Quality Act ("CEQA") because it has no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (c) (2)-(3), 15378). The lease of the property, where no development or demolition is proposed, constitute an administrative activity of the City. Alternatively, the adoption of resolution to enter a lease agreement is exempt from CEQA on that basis that it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment. (State CEQA Guidelines, § 15061, subd. (b)(3).) The entering into a lease agreement is for the collection of rental fees and does not result in new construction or physical change in the environment.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The subject six-month lease will keep an active lease term at the site, and the monthly rental cost is unchanged from the City's prior lease on the site, so minimal financial impact is projected at this phase. The temporary lease is intended to allow for further specialized evaluations of specific aspects of the building, which will provide accurate cost estimates regarding possible future building repairs and a longer-term disposition.

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BACKGROUND:

Soon after the City Council's February 23, 2010, decision to purchase the property at 300 East Branch Street (the former Farm Credit building) to establish a new City Hall, staff was relocated from the Old City Hall building at 214 East Branch Street.

On October 12, 2010, the City Council approved a lease agreement with RE/MAX Del Oro Property Inc. for the entire 3,200-square-foot Old City Hall building. RE/MAX Del Oro, the tenant for 14 years, is in the process of terminating its lease, which expires on October 8, 2024.

ANALYSIS OF ISSUES:

RE/MAX Success is the new tenant that would utilize the Old City Hall space during a six-month lease period. The former owner of RE/MAX Del Oro has retired, and a new lease needs to be executed with RE/MAX Success.

The new six-month lease rental cost is proposed to remain at \$4,202.84 the ending rental cost for RE/MAX Del Oro. The proposal not to change the rent amount is based on the need for the City to evaluate the building further, the inconvenience of inspectors entering all parts of the building over several weeks, and to evaluate City's options with respect to a longer-term disposition of the City owned site. The City has evaluated the site and the need to conduct further inspections, and find this short-term lease at the negotiated rental rate is not less than the fair market value of the site at its highest and best use in the short-term.

Most of the existing terms of the original lease (except for the lease period and a Repair and Maintenance clause) will be applied to the new lease. Key terms of the proposed lease are as follows:

- A six-month term.
- The tenant will pay possessory interest taxes.
- The tenant will be provided half of the basement at no additional cost, and the City has reserved the right to continue using the other half for storage.
- The tenant will pay operating expenses, including electric, gas, cable, telephone, water, sewer, and garbage.
- RE/MAX Success to carry a \$1,000,000 liability insurance policy naming the City as an additional insured.

As described above, a previous lease provision that has been removed for this temporary six-month lease period is a "Repair and Maintenance" clause, stating, "Tenant shall repair and maintain the roof, structural foundations, exterior walls, Common Areas, the heating, air conditioning, electrical, plumbing and water systems, if any." This term is not applicable during this phase of additional building condition evaluations. This term may be reinstated if a long-term lease or other disposition is pursued.

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The next step is to conduct more detailed inspections of certain facets of the building, such as the electrical system, foundation, heating, ventilation, and air conditioning (HVAC), and compliance with the Americans with Disabilities Act (ADA). After these inspections are completed and accurate costs are formulated, staff can better provide more in-depth information on which the City Council can base future decisions regarding this City-owned property.

The City substantially complied with the notice requirements associated with the “economic opportunity” statutes (Government Code section 55200, et seq.). As articulated in the City’s published notice, the proposed six-month lease allows the City to convert office space into income-producing space over a short-term period while it investigates options for a longer-term property disposition of the real property and represents the highest and best use of the property in the short-term.

The proposed six-month lease does not constitute a “disposition” under the Surplus Land Act. Specifically, the proposed six-month lease is: (A) for a term of 15 years or less; and (B) there will be no development or demolition on the site over the six-month term. (Government Code section 54221(d)(2).).

ALTERNATIVES:

The following alternatives are provided for the Council’s consideration:

1. Authorize the City Manager to execute a six-month lease agreement between the City of Arroyo Grande and RE/MAX Success for the City-owned property at 214 East Branch Street subject to any minor, technical, or non-substantive changes as approved by the City Manager in consultation with the City Attorney;
2. Do not approve a six-month lease agreement with RE/MAX Success, which may result in the building's vacancy due to upcoming inspections and possible future repairs; or
3. Provide other direction to staff.

ADVANTAGES:

A six-month lease will allow for further specialized evaluations of specific aspects of the building while allowing the City to consider longer-term options, including a possible disposition under the Surplus Land Act. These evaluations will provide accurate cost estimates regarding possible repairs and potentially aid in developing long-term lease conditions and/or other options for the property.

DISADVANTAGES:

The six-month lease provides only a short-term solution for the City-owned site.

ENVIRONMENTAL REVIEW:

The approval of a short-term lease agreement for 214 East Branch Street, is not a project subject to the California Environmental Quality Act (“CEQA”) because it has no potential

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to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378). The lease of the property, where no development or demolition is proposed, constitute an administrative activity of the City. Alternatively, the adoption of resolution to enter a lease agreement is exempt from CEQA on that basis that it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment. (State CEQA Guidelines, § 15061, subd. (b)(3).) The entering into a lease agreement is for the collection of rental fees and does not result in new construction or physical change in the environment.

PUBLIC NOTIFICATION AND COMMENTS:

A Public Hearing Notice and Summary of Lease Agreement were published in the newspaper on September 26, 2024, and October 3, 2024, and published on the City's website, in substantial compliance with the "Economic Opportunities" statutes under State law. The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

ATTACHMENTS:

1. Proposed Resolution
2. Lease Agreement in Substantially Final Form