## STAFF REPORT

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| **Agenda Item:** | 5 | **Name:** | Leah Krekel-Zoppi |
| **Proposed No.:** | 2019-0445 | **Date:** | February 12, 2020 |

**SUBJECT**

An ordinance authorizing a lease agreement for privately owned land and facilities, called the Eagle lease, to support Metro Transit operations in South King County.

**SUMMARY**

Proposed Ordinance 2019-0445 would authorize the Executive to enter into a ten-year lease agreement for the Eagle property adjacent to Metro Transit’s South Base campus. The proposed lease would replace an existing short term lease Metro has for the property, and would allow Metro to continue using the property to free up space on the South Base campus, enabling Metro to build a new South Annex Base to increase bus storage capacity.

The fiscal impacts of the proposed Eagle lease for the 2019-2020 biennium, including rent, operating costs, tenant improvement, and transaction costs, would be approximately $1 million. The Council provided budget appropriation authority for this transaction through the 2019 2nd Omnibus (Ordinance 19021).

**BACKGROUND**

**Metro Transit Operation Growth Capacity and Base Expansion Plans**

Metro Transit currently has seven transit bases on four campuses spread throughout King County, which are operating above optimal capacity. According to Metro, in order to keep up with growth in the current system and meet business goals such as expanding the system as envisioned in METRO CONNECTS, Metro’s long range plan, and transitioning to a zero-emissions fleet, Metro needs to expand base capacity. In March 2019, Metro released an Operational Capacity Growth Report,[[1]](#footnote-1) outlining Metro’s strategy for meeting facility capacity needs over the next 20 years. That strategy involves relocating some of the existing office, training, and facility functions from the current South Base, South Facilities, and South Annex properties, all part of a large South campus in Tukwila, to free up space for a new South Annex Base, scheduled to be operational in 2025. This new expansion would provide near term capacity while Metro plans and constructs a completely new, ninth bus base in South King County. This Eagle property, the subject of this proposed ordinance, would house some of the administrative and training functions that are being relocated from the South campus to free up space for the new South Annex Base. The Eagle property located near the South Base, according to Metro, is well-suited for relocating some of the functions from nearby existing Metro-owned facilities. Metro entered into a short term lease for the Eagle property when it became available in 2018, and has now negotiated a long-term lease for Council consideration.

**ANALYSIS**

Proposed Ordinance 2019-0445 was transmitted to Council pursuant to King County Code 4A.100.070, which requires Council approval of leases with terms lasting longer than five years. The proposed lease includes a ten-year term with an option to extend for an additional five-year term.

A lease alternative analysis was conducted; however, as indicated in the transmitted lease property summary, the market for this type of property in the area was extremely limited and acquiring land to build the needed facilities did not fit within Metro’s timeframe for completing the South Base expansions.

Table 1 provides a summary of the lease terms.

**Table 1. Summary of Eagle Lease Terms**

| **Category** | **Terms** |
| --- | --- |
| **Square Footage** | 93,248 square feet of improved land and 12,500 square feet of warehouse and office space. |
| **Base Rent** | $28,000/month until 11/1/23. 3% annual increases thereafter. |
| **Operating Costs (Additional Rent)[[2]](#footnote-2)** | $8,888.21/month – 2019 rate, variable based on actual operating costs. |
| **Term** | Ten years for the initial term with an option to extend for an additional five-year term. |
| **Other Considerations** | * Monthly rent remains the same as in the existing short-term lease
* Requires the landlord to complete specified tenant improvements within 90 days of the lease commencement.
* Holdover: Rent would be 150% of base rent
* Extension: Base rent would be reassessed for extended terms and based on fair market value agreed by both parties.
* Includes a right of first offer for Metro should the landlord decide to sell the property during the term of the lease.
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| **Commencement Date** | November 1, 2019[[3]](#footnote-3) |

Table 2 below estimates the financial impacts, including rent, operating costs, tenant improvement, and transaction costs, of the proposed Eagle lease for the 2019-2020 biennium and future biennia. Note that 2019-2020 biennial costs would be subject to the lease commencement date (Table 2 uses a November 1, 2019 start date). The cost of the proposed lease was included in the 2019 2nd Omnibus[[4]](#footnote-4).

**Table 2. Fiscal Impacts of Proposed Ordinance 2019-0445**

|  |  |  |  |
| --- | --- | --- | --- |
| **2019-2020*****(Subject to lease commencement date)*** | **2021-2022** | **2023-2024** | **Out Years** |
| $1,016,421 | $885,293 | $903,065 | $2,414,922 |

The proposed lease agreement has had Council legal review. The lease needs to be updated because the lease and rent commencement dates have passed, and the existing short term lease needs to be terminated.

**AMENDMENT**

Amendment 1 would require the parties of the proposed lease to negotiate an amendment to the lease with new lease and rent commencement dates and terminating the existing short-term lease, prior to executing the proposed lease.

**INVITED**

* Tom Paine, Acting Supervisor, Transit Real Estate and Environmental, King County Metro Transit Department

**ATTACHMENTS**

1. Proposed Ordinance 2019-0445 (and its attachments)
2. Amendment 1
3. Attachment B to Amendment 1: Lease amendment 1
4. Transmittal Letter
5. Fiscal Note
6. Transmitted Lease Property Summary
1. https://www.kingcounty.gov/~/media/depts/transportation/metro/accountability/pdf/2019/metro-facilities-master-plan-operational-capacity-report.pdf [↑](#footnote-ref-1)
2. The transmitted agreement is a NNN (‘triple net’) lease, meaning that the tenant pays for its share of property taxes, insurance and common area maintenance in addition to the base rent. [↑](#footnote-ref-2)
3. The commencement date for the lease would need to be amended, since the commencement date in the lease as transmitted has passed. [↑](#footnote-ref-3)
4. Ordinance 19021 [↑](#footnote-ref-4)