



**COUNTY OF SAN MATEO**  
Inter-Departmental Correspondence  
County Manager



**Date:** October 4, 2013  
**Board Meeting Date:** November 5, 2013  
**Special Notice / Hearing:** None  
**Vote Required:** Majority

**To:** Honorable Board of Supervisors  
**From:** John L. Maltbie, County Manager  
**Subject:** Second Amendment to Property Management Agreement with Orchard Commercial, Inc.

**RECOMMENDATION:**

Adopt a Resolution authorizing the County Manager or his designee to execute an amendment to the Property Management Services Agreement with Orchard Commercial, Inc., for Circle Star Plaza, authorizing additional services, clarifying the calculation of fees and increasing the annual not to exceed amount by \$1,970,000 to \$2,500,000.

**BACKGROUND:**

The County owns two office buildings located at 1 and 2 Circle Star Way in San Carlos, known as Circle Star Plaza (the "Property"). In 2012, it was determined that the County would lease out all or a portion of the Property to private tenants. It was also determined that the County would hire a private firm to oversee the management of the Property and pay for utilities, maintenance and other operating costs on behalf of the County. On September 11, 2012, after a competitive process, the Board authorized a Property Management Agreement ("Agreement") with Orchard Commercial, Inc. ("Orchard") to manage the Property. On February 26, 2013, the Board authorized an amendment to the Agreement that increased the not-to-exceed amount of the contract to cover increased operating expenses prior to occupancy and capital improvement costs related to preparing the Property for tenancy.

The Property has been leased to a single tenant. One building is now occupied and the second will be occupied on or around January 1, 2014. It is anticipated that the fully occupied Property will incur significantly higher operating expenses than when it was unoccupied, including higher utility, maintenance and janitorial costs. As the building's infrastructure and systems are used under normal conditions, additional capital improvements have become necessary. These capital improvements are a normal cost of property ownership.

Prior to the tenant's occupancy, the County paid \$40,000 per month for operating expenses as well as approximately \$200,000 for capital improvements. Now that the Property is occupied, Orchard has prepared a revised budget reflecting the increased costs of operating and maintaining a fully occupied property.

Orchard estimates that the operating expenses will increase to approximately \$1,800,000 annually, which may be higher or lower depending upon actual use. As the property manager, Orchard will pay these costs on behalf of the County. Pursuant to the lease, in addition to paying rent, the tenant will reimburse County each month for the actual operating expenses.

Orchard estimates that necessary capital improvements costs will be approximately \$400,000 per year. These costs are born by the County and not reimbursed by the Tenant.

The Agreement authorizes the County to make funds available to Orchard to manage the property and pay the above described costs on the County's behalf. The current annual not-to-exceed amount in the Agreement is \$530,000. It is recommended that we increase that amount by \$1,970,000 to \$2,500,000 in order to cover the estimated operating expenses (\$1,800,000 annually) and estimated capital improvement costs (\$200,000 annually), as well as an additional amount (\$500,000 annually) to cover unanticipated variances and expenses.

The leases include significant tenant improvements, and the County desires to amend the Agreement to authorize Orchard to provide tenant improvement coordination services, including meeting attendance, technical review and commentary, project management, and other related services. Under the terms of the leases, these services would be paid for by the tenant, either directly or reimbursed following payment by the County.

When the County and Orchard originally entered into the Agreement, it was anticipated that the County would occupy at least a portion of the Property, and Exhibit B (Calculation of Fees) was drafted to reflect the limited management oversight necessary for County occupied space. The Property is occupied entirely by a lease tenant, and Exhibit B should be revised to describe the calculation of fees for vacant, tenant occupied and County occupied space, regardless of where that space is located on the Property. Based on the current leases at the Property, the property management fees paid to Orchard would increase approximately \$1,800 per month, which fees are reimbursed by the tenant as an operating expense.

#### **DISCUSSION:**

Real Property Services has negotiated a Second Amendment to the Agreement that increases the not-to-exceed amount from \$530,000 to \$2,500,000 per year, authorizes Orchard to provide tenant improvement coordination services and clarifies the calculation of Orchard's fees. The terms and conditions of the Agreement are otherwise unchanged.

County Counsel has reviewed and approved the Second Amendment and Resolution as to form.

Approval of this Resolution contributes to a Prosperous Community by maintaining office buildings that provide economic benefits in San Mateo County while generating revenue for the County General Fund.

#### **FISCAL IMPACT:**

The \$2,500,000 annual allowance for operating expenses, capital improvements and any tenant coordination fee not paid directly by tenant is included in the approved Fiscal Year 2013-14 budget and the actual amount paid will be mostly offset by operating expense reimbursements and tenant coordination fee reimbursements from the tenant.