

**Open Work Session
September 4, 2018
Health Department Lease Agreement**

Mr. Wayne Strausburg, Director of Administration, Lori Brewster, Health Officer, and Mr. John McClellan with SVN Miller Commercial Real Estate came before Council. Mr. Strausburg said Council will recall that in the budget cycle they talked about the issue they are having in the lower level of the Hurdle Building with hydrostatic pressure that is buckling the slab and creating trip hazards. He said Council will also recall that in the operating budget they embedded money to rent a swing space because they estimate it will take two or maybe three years to investigate the problem. He explained, they will have to demolish the floor in that space, as they have to understand what is causing the hydrostatic pressure, and then determine whether or not there is a way to alleviate and offload that hydrostatic pressure. He said they have located the space. He said one of the things that was a little difficult with locating a swing space like this was the fact they wanted a relatively short-term lease, but they may need a longer-term lease, so they wanted a short-term lease with options, but also with the option to cancel the lease if they resolve the problem at Hurdle. He said, after looking for probably a year, the space they arrived at is in the mail building of the E.S. Adkins Building. He said the space provided is adequate, and it is in near move-in condition. He said they would have to do, virtually, nothing in terms of interior alterations, and they can provide Council with a term sheet that will probably make it easier for them to understand exactly what the business terms of the lease are. Mr. Strausburg then passed out the handout.

Mr. Kilmer said this lease is for 2018 to 2023, to which Mr. Strausburg responded, after three years, they can terminate, but if they terminate, they have to give six months' notice, and have to pay two months' rent as a forfeiture, but it allows them to get out of the space early if they can rectify the issues. Mr. Kilmer asked if the three years applies after 2023 in case it is a real big problem, or is Mr. Strausburg not envisioning that as an issue, to which Mr. Strausburg responded, he thinks after three years they can terminate at any time. Mr. McClellan added, they can stay for eleven years, or they can stay for three years and then pay two months to get out of the lease. Mr. Strausburg clarified, it gives them flexibility, and they think it is a market rent, and is a good space. He said they already have the Dental Clinic there, to which Mrs. Brewster added, and WIC. Mr. Strausburg said it is really a good location for the services that are provided, so they feel it is an appropriate solution, and they are bringing it to Council this evening to see whether or not they have any questions, or any comments they would like to make.

Mr. Cannon said it was noted in the budget that they had allotted for this ahead of time. He then asked if that was the line item for rent of \$75,000, to which Mr. Strausburg responded, yes. He explained, if they move expeditiously, in this fiscal year they will probably spend about \$60,000, so they will be coming in under budget. Mr. Cannon said for this year they will spend a lot less than that, to which Mr. Strausburg responded, they will probably have six months of rent, and moving costs.

Mr. Joe Holloway said, regarding the carpet, it does not state what kind of carpet, and there are so many different kinds quality-wise. He then asked if they have any say in what kind of carpet is going to be used. He said he sees that it says they are going to paint the interior and replace the carpet, to which Mr. Strausburg responded, it will be replaced with the same grade of carpet that is already there. He said it is just stained, and is the same grade of carpet they have in the Executive Office. Mr. McClellan said they are not going to get, for lack of a better term, a Walmart Special carpet. He said they are going to get a commercial grade carpet because the landlord is going to make a substantial investment, and carpeting 12,000 feet is not cheap. He said, if the County does leave in three years, the landlord is not

going to want to go and do it again. He said they will specify in the lease document, but he does not know carpet well enough. Mr. Joe Holloway said he does not either, but he just noticed it was kind of left wide open. Mr. McClellan said it is not meant to be vague, it is meant to be specific, but he will assure Council that if they went there now and looked at the grade of finishes, the landlord is not going to do something cheap to go with those grade of finishes.

Mr. Kilmer asked if the parking space is adequate there. He then asked how much additional parking they may need to add to that facility, to which Mrs. Brewster responded, the parking will be adequate there. She explained, it will be moving approximately 25 to 30 people out of the parking garage downtown into the parking lot over there. Mr. Strausburg added, it is adequate, and it is free.

Mr. Kilmer said it looks like the common area maintenance is a fixed charge, and then it kind of settles up at the end of the year. He then asked what percentage they are using for the common area, to which Mr. Strausburg responded, it is a fixed charge, and it is below what they are spending right now. He said they have to provide them with an accounting of the common area charges for the year, and they know the total square footage of the entire complex, so they would know per square foot how much has been spent, and he suspects that it will be at least as much as they are being charged, if not more. Mr. Kilmer said it says they will either issue a credit, or invoice the tenant for the actual difference. He then asked if there a mechanism for Mr. Strausburg to question if they thought they were being overcharged. He asked if only the landlord, essentially, can determine if they are being overcharged or undercharged, or does the County have any power to dispute that, to which Mr. McClellan responded, these charges are going to be routine operating costs. He said this building is a typical commercial office building where they have a common lobby, two restrooms upstairs, and two restrooms downstairs that are shared and are passcode protected so people cannot just wander in off the street to use them. He said supplies for cleaning and maintaining the common areas, the elevators, the exterior lighting, and all that kind of stuff, is all included in typical common area maintenance. He said the lease will also include what is not included in common area maintenance. He said they cannot go renovate some other tenant's suite in another building and say it was common area charges. He said they cannot pay interest, mortgage, taxes, or management fees, etc. that are a landlord's capital, or other operating expenses, and those will all be defined. He said this number is actually lower than what it is costing them. He said the E.S. Adkins Building has always done what they call a fixed common area maintenance (CAM) charge. He said, as a broker, he has been encouraging them to reconcile this because they could be costing themselves money if they are not collecting all of the operating expenses. He said, over the course of talking with Mr. Strausburg about this, their expenses are probably over \$3.50 per square foot for taxes and insurance, and common area maintenance. He said the County is going to pay \$2.50, and that number is going to go up at 3 percent annually. He said Mr. Strausburg has asked for an accounting, and the lease will call for an accounting. He said if the CAM charges are \$5 per square foot, the County will not pay any more. He said, if they are \$2 per square foot, they will get a credit, but he does not think it will ever be \$2 unless somebody cuts the taxes. Mr. Strausburg added, he thinks if they were \$2 per square foot they would be unhappy with the maintenance of the facility. Mr. McClellan said this is a fairly reasonable number in the broad market. Mr. Hall said this sounds a little low to him, actually, because he assumes it includes snow removal, to which Mr. McClellan responded, snow removal, cutting grass, landscaping, and exterior lighting. Mr. Joe Holloway added, it even includes window washing twice a year. Mr. Hall asked if it includes maintenance of the parking lot, to which Mr. McClellan responded, yes. He said, again, if they overlay new blacktop, that is not maintenance, but if they fix a pothole, that is maintenance. He said the other thing they are dealing with here is the economies of scale. He said this is 73,000 square feet of area maintained, so it spreads the load.

Mr. Joe Holloway asked Mrs. Brewster how many employees will be moving into this area from where they are at now, to which Mrs. Brewster responded, there are about 30 individuals from the basement who will be housed in that area. Mr. Joe Holloway said the County is paying a lot of money in parking fees for the parking garage. He then asked if that is going to be reduced, to which Mrs. Brewster responded, yes, by 30. Mr. Strausburg added, that is charged per employee. Mr. Joe Holloway asked what that is going to save the County per year, to which Mr. Strausburg responded, \$40 per month per employee, so it is some savings.

Mr. Cannon asked if these employees are in the basement area, to which Mrs. Brewster responded, yes. Mr. Cannon asked if that area is going to be empty now, to which Mrs. Brewster responded, that is their goal. Mr. Cannon asked if those 30 people are all in the basement, to which Mrs. Brewster responded, yes. Mr. Cannon asked if this is so they can continue with the renovations, and what exactly are they going to do down there once they move everybody out, to which Mr. Strausburg responded, they have to do demolition because they have to get below grade to determine where the hydrostatic pressure is coming from, and what is causing that hydrostatic pressure. Mr. Cannon asked Mr. Strausburg to explain to the public what that is causing, to which Mr. Strausburg responded, buckling of the floor. He said they have water pressing up on the slab in the basement and it is buckling that slab, so throughout that lower level they have trip hazards, and it is just a situation they cannot continue with. He explained, they have had several engineering studies done, but they have not done an actual demolition of the slab to find out what is going on down there. He said they have a choice, and that is either to find out what is going on down there and figure out how it can be remedied if it can be remedied, or they simply vacate the space and seal it off. He said, in that case, however, if they ever wanted to sell the building at some point in time in the future, they have an infirmity there that they would either have to deal with, or it is really going to devalue the property. He said they really have to determine if the remedy and the restoration are going to increase the building's viability and potential value, and they do not know that until they determine what is going on down there. He said they have a working theory, but they do not know until they open it up.

Mr. Dodd said, about a block away from the Hurdle Building, there is another building he had to go into one time and the basement was flooded, so he had the City look into it, and they said it floods every time it is high tide, to which Mr. Strausburg responded, it may well be tidal. He said, as Council knows, additional floors were added to that building, and that exerted additional load on the foundation and the soil, and he does not know what the construction of the slab was at the time. He said Council knows they have a lot of what are called plastic soils in the County, and when they exert downward load on plastic soils that have hydrostatic pressure, it causes this type of heaving, but they will not know until they open it up. He said it is just theory right now. Mr. Dodd said the City was under water at one time.

Mr. Cannon said, for perspective on the operating budget, his math may be rough, but he came up with about \$118,000 total per year, to which Mr. Strausburg responded, that is for a full year. Mr. Cannon said that is almost a 20 to 25 percent increase in their operating budget from 2017 and 2018, to which Mr. Strausburg responded, it will be an increase. Mr. Cannon repeated, it is a 20 to 25 percent increase of their operating budget, so he is wondering how long they can sustain that, to which Mr. Strausburg responded, he will not know until he opens up the building, and he can then come back before Council and say with some level of certainty the issue they are dealing with, and whether it can be remedied or not remedied. He reported, they are working on other alternatives for permanent space, and they are working with the State, but that is a slow, slow process as Council knows. Mr. Dodd said he was also thinking it was a slow process, but they have been talking about this for a while now. He then asked what the timeline is, what the next step is, and when will they go in and evaluate it, to which Mr.

Strausburg responded, as soon as Mrs. Brewster relocates her people. He said he thinks the number they have in the operating budget this year is \$165,000 to do the internal investigation of just what is going on down there. He said that does not contemplate what the remedy would be, but it does contemplate getting a look at what is going on by doing demolition around the perimeter to determine where the water is coming from. Mr. Dodd said that might affect the whole downtown. Mr. Cannon said Mr. Dodd has made a really good point with not only the leasing, but the work they have to anticipate. He said these are some very serious expenses they are going to be looking at over the next couple of years, and will probably be doubling their operating budget, but there is not much they can do. He said it is there, and it has to be fixed, to which Mr. Strausburg responded, if he thought there was a viable alternative to this, he would have offered it up. He clarified, they do not know what they are dealing with, and until they do, they really cannot make intelligent decisions.

Mr. Dodd asked how long ago that building was renovated, to which Mr. McClellan responded, 25 years ago. Mrs. Brewster said they moved into the building in 1996. Mr. Dodd asked if they discovered anything then, to which Mrs. Brewster responded, she was not part of that discussion, but the story has it that when they added on the other two floors, they had to bail out water, and put in pumps to get the water out at that time. She said they managed 16 years in the building before water intrusion, but they have not seen anything quite like what they have now, and it is a serious risk management issue at this point because it is just a matter of time before somebody falls. Mr. Dodd asked if one of the options is relocating altogether, to which Mr. Strausburg responded, yes. Mr. Dodd said he does not think that has been discussed, to which Mr. Strausburg responded, it has not been discussed until they determine what is going on. He said he thinks there are probably four factors involved, and one is the vertical load from the additional floors. He said, in speaking with some of the engineers they worked with, there is also the thought that when the parking garage was built, the foundation may in fact be impeding flow of the groundwater, and it has no place to go, so they get upward vertical pressure. He said they know they have experienced increasing high tides, and they know they have sea level rise, so they think, with all of those factors combined, they have a basement in what was a dry lakebed, and that is probably not a good idea. He said whether or not they can design something that would mitigate that, he just does not know. He said they have some thoughts on it, but, again, until they open it up, they do not know. Mr. McClellan said, from a real estate perspective, he would say, if they vacated the building today, every buyer in the world is going to want to know the answers to the questions they are about to find out. He said they may find out it is going to cost them some number that does not make any sense, but, if they do not have that number, a buyer is going to come up with a big "what if," and then the County gets a big hit in the head if they decide to sell it, so getting that information is good.


Mr. Strausburg said they need to schedule a Public Hearing, to which Mrs. Hurley responded, they can have that October 2, 2018. There was no further discussion.

Signatures on next page

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John T. Cannon, President



Larry W. Dodd, Vice President, District 3



Ernest F. Davis, District 1



Marc Kilmer, District 2

John B. Hall, District 4



Joe Holloway, District 5



Matt Holloway, At-Large



Laura Hurley, Council Administrator