



November 22, 2021

To: Members of the Board of Directors

From: Darrell E. Johnson, Chief Executive Officer

Subject: Interstate 405 Customer Service and Operations Center Lease

Overview

The Interstate 405 Improvement Project is well underway and as part of the future operations of the 405 Express Lanes, a customer service and operations center is needed to service 405 Express Lanes customers. For customer convenience and easy access to the express lanes, this facility should be located in the 405 Express Lanes corridor. The proposed space will accommodate the walk-in customer service center, call center, and the traffic management center. Staff has retained the brokerage services of CBRE, Inc., and has done extensive surveys of available space in the 405 Express Lanes corridor. As a result of this search, staff has identified an appropriate location in the City of Costa Mesa.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute a lease agreement with C.J. Segerstrom & Sons, for the 405 Express Lanes Customer Service and Operations Center in the City of Costa Mesa, in an amount not to exceed \$15,423,000.

Background

The Orange County Transportation Authority (OCTA), in cooperation with the California Department of Transportation, the cities of Costa Mesa, Fountain Valley, Huntington Beach, Seal Beach, and Westminster, is implementing the Interstate 405 (I-405) Improvement Project between State Route 73 (SR-73) and Interstate 605 (I-605) (Project). The Project will add one general purpose lane in each direction from Euclid Street to I-605, consistent with Measure M2 Project K, and will add an additional lane in each direction that will combine with the existing high-occupancy vehicle lane to provide dual express lanes in each direction of I-405 from SR-73 to I-605, otherwise known as the 405 Express Lanes. On November 14, 2016, the OCTA

Board of Directors (Board) awarded the design-build contract to OC 405 Partners, a joint venture. OCTA executed the design-build contract with OC 405 Partners and issued Notice to Proceed No. 1 on January 31, 2017.

As part of this project and the operations of the 405 Express Lanes, a customer service and operations center along the corridor of the express lanes is needed. The customer service center is expected to assist approximately 500 customers each month. Additionally, the call center and traffic management operations, such as tow truck dispatch and storage, will also be housed at the location. It is expected that a total of approximately 100 people will be working at the location. To accommodate these needs, OCTA will require approximately 20,000 square feet of usable office space.

Discussion

CBRE, Inc., conducted a property search along the I-405 corridor to determine what was available for lease and for sale that fit within the OCTA's needs. Potential lease and sale properties were identified and requests for proposals were sent out to potential landlords of those properties located within two miles of the 405 Express Lanes corridor, from I-605 to SR-73. Four properties met all the requirements for the customer service and operations center, including the recommended property located at 1535 Scenic Drive in the City of Costa Mesa.

CBRE, Inc., has negotiated the following lease terms which staff recommends for approval. The proposed lease includes an initial 20-year term, as well as two additional ten-year option terms. The landlord may have the option to terminate the lease after 25 years in the event the landlord chooses to redevelop the office park.

The initial monthly base lease rate will commence at \$1.75 per square foot and is subject to annual increases of three percent. The negotiated lease rate includes competitive market lease terms for rental and operating expense abatements in the first two years of the lease term and an allowance for the construction of tenant improvements. The base lease rate is subject to a discount of 50 percent for months two through 21, reducing the monthly lease rate to \$0.875 per square foot during that time.

In addition to the base rent, OCTA is obligated to pay its proportionate share of the building's operating expenses, which are calculated separately. Operating expenses typically include taxes, maintenance, and insurance expenses, which are estimated at \$0.49 per square foot per month. The landlord has also agreed that OCTA will not be obligated to pay any of its share of operating expenses during months one through ten of the lease term.

OCTA will also separately pay for its own utilities and janitorial services. Initial monthly operational expenses for utilities and janitorial services are anticipated to be approximately \$0.28 per square foot.

The cost breakdown for the 20-year lease is \$10,620,000 for lease costs, \$3,127,000 for operating expenses, and \$1,676,000 for utilities and janitorial costs over the initial 20-year term.

In order to build-out the space, tenant improvements will be necessary. This includes space planning, construction of interior space, office furniture, fixtures, and equipment. The landlord has agreed to provide a \$90 per square foot tenant improvement allowance, for a total landlord contribution of \$1,800,000, to be used for constructing the required interior systems for the space. If the costs for tenant improvements exceeds the landlord's allowance, the balance will be funded by OCTA. As mentioned, it is anticipated OCTA will require 20,000 square feet of usable space. The final square footage in the lease will be determined once the space planning is complete and plans are approved. The lease will commence once the landlord has delivered the tenant improvements.

Fiscal Impact

Funds for the tenant improvements and first year of the office lease are included in the Fund 37, fiscal year 2021-22 proposed budget.

Summary

Staff is recommending the Board of Directors authorize the Chief Executive Officer to negotiate and execute a lease agreement with C.J. Segerstrom & Sons, to cover a 20-year lease term for the 405 Express Lanes Customer Service and Operations Center, in an amount not to exceed \$15,423,000.

Attachment

None.

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