



MEMORANDUM

To: California State Lottery Commission **Date:** August 9, 2006

From: Joan M. Borucki
Acting Director

Prepared by: Patricia Eberhart, Director
Finance and Administration Division

Subject: Item 9(a) – Approval of Lease Agreement for the Santa Fe Springs District Office

ISSUE

Should the California State Lottery Commission (Commission) approve a seven-year lease for the Santa Fe Springs District Office, with an option to cancel after five years, with AMB Property Corporation?

RECOMMENDATION

Staff recommends that the Commission approve the lease with AMB Property Corporation for the Santa Fe Springs District Office, which is located at 9746 Norwalk Boulevard, Unit B, Santa Fe Springs. The seven-year lease term would begin November 1, 2006 and end October 31, 2013, with rights to terminate after five years.

The total cost for the fixed term lease of five years will not exceed \$939,886.

BACKGROUND

The California State Lottery (Lottery) has occupied its current 4,700 square-foot Santa Fe Springs facility since 1995. Due to changes in Lottery operations over

the past 11 years, these facilities no longer meet the needs of the Sales Division. The Santa Fe Springs area has experienced heavy growth and additional space is needed for customer and public relations, warehousing, office, and storage.

DISCUSSION

In June 2005, the Commission approved a two-year lease extension while staff reviewed available properties. That extension will expire on June 30, 2007, but can now be terminated with a 120-day notice. While long-term leases (such as 15 years) are generally more advantageous when negotiating terms, the Lottery is exploring options that may include purchasing space, rather than leasing, to meet our needs. A seven-year lease with the option to terminate after five years will allow us the necessary time to assess and pursue our purchase options without being encumbered by a long-term lease.

A typical district office needs approximately 8,000 square feet to provide adequate space for a reception area, a warehouse, offices for both sales and security staff, a media area, and storage. Additionally, a district office needs to be located in a central location for easy public access and a warehouse with at least one roll-up door. Lottery staff reviewed more than 20 properties in the Santa Fe Springs area. A site that meets the Lottery's needs has recently become available and is located on the same block as the current district office. Staff has negotiated a lease with the AMB Property Corporation.

The lease term is five years firm at a maximum cost of \$939,886. The Lottery will pay \$245,000 of the \$400,000 in estimated tenant improvements which will be amortized over the five-year term. The cost per square foot is \$1.65 and within prevailing market rate for the area.

The new site is centrally located, contains sufficient space, with one roll-up door to the warehouse area, parking in front, and is ADA and Title 24 compliant. Although the space is larger than other district offices, it is desirable because the property is vacant and can be occupied immediately once tenant improvements are made. Staff confirms that space 10-5% larger than requested is not uncommon, especially for sites with a combination of office and warehouse space such as the Lottery needs. Additionally, the space recommended is sufficient to allow for future growth as a result of an increase in retailers for the area.

Both the Sales Division and the Security Division have approved this location for the Santa Fe Springs District Office.