



# MEMORANDUM

**To:** California State Lottery Commission      **Date:** November 1, 2006

**From:** Joan M. Borucki  
Acting Director

**Prepared by:** Patricia Eberhart, Director  
Finance and Administration Division

**Subject:** Item 9(b) – Approval of Lease Extension for the San Diego District Office

## **ISSUE**

Should the California State Lottery Commission (Commission) approve an eight-year lease for the San Diego District Office, with an option to cancel after five years, with Schonlaw Property Management, Ted Schonlaw, principal?

## **RECOMMENDATION**

Staff recommends that the Commission approve the lease with Schonlaw Property Management for the San Diego District Office located at 5656 Ruffin Road, San Diego, 92123. The eight-year lease term would begin March 1, 2007 and end February 28, 2015, with rights to terminate after five years.

The total cost for the fixed term lease of five years will not exceed \$888,880.

## **BACKGROUND**

The California State Lottery (Lottery) has occupied its current 6,574 square foot facility on Ruffin Road since 1987. The Lottery and the owner have experienced a good working relationship over the past 19 years and it is agreeable to all parties that the Lottery continue to occupy said space.

## **DISCUSSION**

In February 2006, the Commission approved a one-year lease extension for the space currently occupied by the San Diego District Office in order to provide time for Lottery staff to negotiate a new long term lease for the current space. That extension will expire on March 1, 2007. While long term leases (such as 15 years) are generally more advantageous, the Lottery is exploring options that may include purchasing space, rather than leasing, to meet future needs. An eight-year lease with the option to terminate after five years will allow the necessary time to assess and pursue purchasing options without being encumbered by a long term lease, at the same time securing favorable terms over the next eight years.

The Ruffin Road site continues to meet the needs of the San Diego District Office, providing adequate space for a reception area, offices, a media area, a warehouse, and storage. Additionally, it is located in a central location with easy public access. Lottery staff have negotiated a favorable lease with Schonlaw Property Management that is competitive in the market place and satisfies the needs of the San Diego District Office staff and continued operational needs of the Lottery.

The lease term is five-year firm at a cost not to exceed \$888,880, and options for an additional three years. The cost per square foot is \$1.90 and within prevailing market rates for the area. The Lottery will pay no more than \$200,000 of the estimated \$400,000 in tenant improvements which will be paid as the improvements are finished. The tenant improvements include expansion of the warehouse to provide adequate space for new racking requirements and shared costs for ADA and Title 24 requirements.

The current site will be ADA and Title 24 compliant, and Sales and Security are satisfied with the site.