



MEMORANDUM

To: California State Lottery Commission Date: July 16, 2008

From: Joan M. Borucki
Director

Prepared By: Terry Murphy, Acting Deputy Director
Operations Division

Subject: Item 8(c) - Van Nuys District Office Lease Extension Agreement

ISSUE

Should the California State Lottery Commission (Commission) approve a two-year lease extension expiring June 30, 2010?

RECOMMENDATION

Although the cost of this lease extension falls below the threshold requiring Commission action, staff recommends that the Commission approve the lease extension for the Van Nuys District Office as an exception to current Lottery regulations.

BACKGROUND

The California State Lottery (Lottery) has occupied its current facility at 16525 Sherman Way, Unit C-10, Van Nuys, California, since 1993. The current lease expired May 31, 2008. The Lottery and the owner have experienced a good working relationship over the past 15 years and it is agreeable to all parties that the Lottery continue to occupy said space.

DISCUSSION

Pursuant to California Government Code Section 8880.64 and the California State Lottery's (Lottery) Omnibus Regulations at Section S.13, the Lottery Director is

authorized to enter into leases as she deems necessary to accomplish the business needs of the Lottery. The regulations require the Commission's consent for leases or lease amendments exceeding \$250,000.

While long-term leases (10-15 years) are generally more advantageous than short-term leases, the Lottery is exploring options that may include purchasing space, rather than leasing. A two-year lease (with option to terminate after 12 months) gives the Lottery the necessary time to assess and pursue purchase options without being encumbered by a long term lease, at the same time securing favorable terms over the next two years.

The Sherman Way site continues to meet the needs of the Van Nuys District Office. Additionally, it is centrally located with easy public access. Lottery staff have negotiated a favorable lease with the owners that is competitive in the marketplace and satisfies the needs of the Van Nuys District Office staff and continued operational needs of the Lottery.

The lease extension is for a two-year term at a cost not to exceed \$239,904. The cost is \$1.60 per square foot which is typical for the area.

Staff has determined that certain tenant improvements should be made to the current office space. Staff has negotiated provisions wherein the Lessor has agreed to cover the costs of the tenant improvements. Leasing authority is pursuant to Lottery Regulations S.13.