

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(b) - South San Francisco District Office Lease Extension

Agreement

ISSUE

Should the California State Lottery Commission (Commission) approve a three-year lease extension expiring June 30, 2011 for the South San Francisco District Office?

RECOMMENDATION

Staff recommends that the Commission approve the lease extension for the South San Francisco District Office.

BACKGROUND

The California State Lottery (Lottery) has occupied its current facility at 815-820 Dubuque Ave., South San Francisco, California, since 2003. The current lease is scheduled to expire July 31 2008. The Lottery and the owner have experienced a good working relationship over the past five 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

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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 three-year lease (with option to terminate after two years) 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 three years.

The Dubuque Ave. site continues to meet the needs of the South San Francisco 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 South San Francisco District Office staff and continued operational needs of the Lottery.

The lease extension is for a three-year term at a cost not to exceed \$493,043. The cost is \$2.19 per square foot which is typical for the area. Leasing authority is pursuant to Lottery Regulations S.13.