



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Roger Gray, General Manager, Steve Newcomb, Environmental and Real
Property Manager and Kevin Biersdorff, Principal Project Manager
DATE: May 24, 2013
SUBJECT: Headquarters Building Lease Interest
OBJECTIVE: Providing information and seeking consent to proceed with contract

At the April 16 Board meeting the Commissioners authorized Management to proceed with possible leasing of underutilized headquarters space.

Issue

In response to an advertised Request for Information, a local technology firm, Electrical Geodesics, Inc. (EGI) expressed interest in leasing most of the North Building and most of the second floor of the South Building (main EWEB HQ). EGI's response sufficiently addressed issues such as compatibility that are considered necessary to make shared space arrangement work for the utility. Management is now in discussion with EGI to craft an MOU (memorandum of understanding) that could form the basis of a formal lease agreement.

EGI also expressed interest in investigating possible future use of the Warehouse/Office Building for all their business functions. We are amenable to having those investigations proceed with the understanding that EWEB is entertaining an unrelated and somewhat speculative expression of interest in the same building from other parties to lease with a possible option to buy. Management will keep the Commissioners updated about any progress on that front.

Background

EGI performs advanced research, product design and assembly, and has outgrown its current facilities leased in the Riverfront Research Park and on Chad Drive. A new hiring push is necessitating more space for all functions. The EWEB site allows them to consolidate at one location and offers proximity to the University of Oregon which is of high value to the company.

EGI is able to accommodate shared use of the Training and Community rooms in the North Building, and the Network/Security offices in the northwest corner of the South second floor. They do, however, have an interest in the current Board Room and adjacent storage areas which will require restaging Board meetings in the larger Training Room.

Compatibility between the two organizations appears to be strong, and both are committed to creating a flexible and mutually beneficial relationship that might allow for further expansion of EGI into the future. EGI is anxious to begin with tenant improvements and the relocation of some staff as soon as possible.

Discussion

Many high level issues have been resolved but we anticipate some challenging and expensive IT and security enhancements because the buildings have infrastructure limitations and were not designed with distinct office suites. In general, if the changes are required by EWEB – such as access controls -- then EWEB will bear the cost; if required by EGI, then it will be part of their tenant improvement (TI) costs. Some costs will be shared as well, but specifics will be left to a yet-hired broker to negotiate. Rates are expected to comport with current market rates for similar class office space, full service lease.

1. EWEB is expected to show a net positive return in the first year after all costs. Management believes that the EGI lease will generate at least the forecasted revenue assumed in the early 2014 financial forecast presented to the Board earlier this year.
2. EWEB will need to relocate Board meetings, likely to the Training Room.
3. EWEB may need to curtail public after-hours use of the Community and Training rooms due to security issues and the fact that this space is now committed to a tenant.
4. It is expected that EWEB Facilities Maintenance will continue to maintain the buildings and building systems.
5. EGI will require access to approximately 100 parking spaces.
6. EWEB and EGI may negotiate alternative housekeeping services that would be mutually beneficial.
7. EWEB personnel (unless specifically authorized) will not access EGI designated space and EGI personnel will not access EWEB-designated space. Management believes that the security needs and interests of each organization are very compatible.
8. EWEB will need to assess property tax and other issues as part of the final arrangement.

TBL Assessment

- Improves EWEB asset and resource utilization both at HQ and ROC
- Supports clean technology and market-wage jobs in the downtown core
- Supports a growth industry that advances the local economy
- Brings more people to our site which in turn attracts developers to other portions of the site
- Increases net revenue while retaining future flexibility
- Ability to share costs reduces EWEB operating expenses and helps reduce future rate increases.

Recommendation

Management recommends proceeding to enlist the services of a commercial real estate broker or commercial property manager to formalize the terms of a five-year full-service lease with EGI. Management believes this arrangement with a broker will not be a traditional commission-based arrangement.. Rather, Management believes it will be more appropriate to request time and materials type support given the fact that a tenant has been found by EWEB.

Requested Board Action

Consent to proceed with engagement of services to formalize a lease agreement with EGI.