

BACKGROUND: The Virginia Department of Health (VDH) currently leases City-owned office and clinical space at 4480 King Street and 1200 N. Howard Street (Casey Clinic) from the City of Alexandria. The City realizes approximately \$386,000 in lease revenue annually, including an expiring \$1 per year lease for a portion of the space. The facility at 4480 King Street requires significant capital reinvestment and will no longer be available for VDH.

Therefore, as part of the consolidation of the Department of Community and Human Services (DCHS) and Health Department operations from 4480 King Street and other City-owned and leased locations to the building at 4850 Mark Center Drive, VDH will be relocating its operations from 4480 King Street to 4850 Mark Center Drive. To formalize the relocation to 4850 Mark Center Drive, a Lease Agreement between the City and VDH is proposed that will provide the space needed for VDH to continue to provide health services in the new facility at 4850 Mark Center Drive.

DISCUSSION: The City of Alexandria extended an offer to the Virginia Department of Health (VDH) to enter into a lease for office and clinical space at 4850 Mark Center Drive, Alexandria, Virginia 22311, a building with approximately 270,000 square feet of rentable space. The City already has executed a lease for this building as lessee and is also the contract-purchaser of the building with settlement expected in the first quarter of calendar year 2023.

The Lease Agreement between the City and VDH will provide a total of 44,461 square feet of rentable space which will include VDH's projected Program Space Need (PSN) of 34,536 square feet, along with 10,125 square feet of facility shared program area for a term of ten (10) years. The lease includes one five (5) year renewal option exercisable by VDH unless terminated by either party. Following the five-year renewal period, if not terminated, the lease will convert to a year-over-year lease with an annual rent escalation of three percent.

The initial annual rent is \$1.8 million. If the agreement remains in place for the full, 10-year term (which includes the five-year extension), the annual lease will be \$2.3 million. The lease is scheduled to commence March 2023. In addition to annual rent, VDH will be responsible for a portion of other operating costs including telecommunications, computer services, medical equipment supplies, and utilities based on a tenant pro-rata share.

This lease will allow VDH to consolidate clinical and administrative functions into one physical location, and the building at 4850 Mark Center Drive will be shared with the City of Alexandria's Department of Community and Human Services (DCHS) and Neighborhood Health, along with other City of Alexandria offices and functions.

Since this lease is to another public body, there is no legal requirement for a public hearing prior to Council making its decision to either authorize the City Manager to execute a lease agreement with the Commonwealth of Virginia or not. In addition, since the lessor is the Virginia Department of Health (through the Commonwealth of Virginia's Department of General Services) and the leased area will be used for a public purpose by the general public, the City Attorney's Office determined that, unlike most leases presented to the Council for approval, the requirements of §15.2-2100 of the Code of Virginia, et seq. (the "Franchise Act") do not apply and this lease term can exceed five years without advertising and bidding as required by the Franchise Act.

FISCAL IMPACT: The Lease Agreement between the City and VDH has an initial term of ten (10) years with one (1) five-year renewal option. Annual rent from VDH to the City in the first year of the lease will be \$1.8 million and will escalate by three percent each year thereafter plus a pro-rata share of the operating costs. Per the Agreement, the City will be responsible for 45% of the rent and the State will be responsible for 55% of the

rent. The City will provide its 45% share of the rent as part of its annual contribution to the State. This will result in annual net revenue to the City of 55% of the rent, or approximately \$994,000 from the State.

Based on original estimated project and move in schedules, the City and State allocated funding in their respective FY 2023 budgets to cover both the City's match (45%) and the State's share (55%). This amount was initially estimated to total approximately \$800,000 to cover six (6) months of rent in the FY 2023. However, with move-in now projected to occur in March 2023, only four (4) months of rent will be required, or approximately \$600,000 total. Approximately \$800,000 in lease revenue is included in the Approved FY 2023 non-departmental budget.

ATTACHMENT: Lease Agreement Between the City and the Commonwealth of Virginia

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