



Board Report

File #: 2023-0427, **File Type:** Agreement

Agenda Number: 5.

**FINANCE, BUDGET, AND AUDIT COMMITTEE
OCTOBER 18, 2023**

SUBJECT: LEASE AMENDMENTS WITH PINNACLE TOWERS, LLC FOR THREE MICROWAVE RADIO STATION LOCATIONS

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATIONS

AUTHORIZE the Chief Executive Officer (CEO), or designee, to execute ten (10)-year lease amendments commencing retroactive to January 1, 2023 with Pinnacle Towers, LLC, (“Lessor”) for microwave radio stations located at:

- 7625 Black Star Canyon Road in Riverside at a rate of approximately \$10,865.88 per month with 3.5% escalations annually for a total of \$1,482,344.53 over the term.
- Building 12, Mt. Lukens Road in Tujunga at a rate of approximately \$11,431.59 per month with 3.5% escalations annually for a total of \$1,559,519.80 over the term.
- 34 Sunset Ridge in Los Angeles at a rate of approximately \$11,431.59 per month with 3.5% escalations annually for a total of \$1,654,955.13 over the term.

ISSUE

Metro leases radio towers on three properties located at 7625 Black Star Canyon Road in Riverside, Building 12, Mt. Lukens Road in Tujunga, and 34 Sunset Ridge in Los Angeles (the “Towers”) for continuity of bus communications and system security throughout Metro’s transportation systems. The leases expired on December 31, 2022, and have been in a month-to-month holdover since January 1, 2023. Metro continues to need the Towers through December 31, 2032. The leases require Board approval as both the 10-year term and the value of each lease exceed the delegated authority of the Chief Executive Officer which is no more than five years or \$500,000.

BACKGROUND

The Towers house radio communications equipment for the Metro Bus Advanced Transportation Management System (ATMS). The Metro Bus ATMS is the system used to transport voice and data

communications traffic between Metro's fleet of buses and the Bus Operations Center which is required for the delivery of safe and efficient bus transportation services throughout Los Angeles County. The three leases have been in a month-to-month holdover since January 1, 2023 because of the Lessor's delay in providing Metro with amendment documents. The Lessor agreed to maintain the existing rate and not to charge Metro any increased rent during the interim period.

DISCUSSION

Findings

The Landlord has agreed to extend the terms of the three leases for an additional ten (10) years. The Landlord has presented a First Amendment to Lease for Location 305, and a Second Amendment to Lease for each of Locations 308 and 399 (collectively the "Amendments"). Metro Real Estate has negotiated all three Amendments to a discount on the rental rate and a discounted rate of annual increases below their current rates resulting in total savings for the three Lease Amendments of \$746,814 over the term 10-year terms.

Considerations

Without the Towers, Metro would have to lease several other towers to maintain the same coverage which would require relocation costs. These Towers have proven record of 20 years of reliability supporting Metro communications. At the expiration of the term, Metro will evaluate these locations again and determine if further lease renewals are needed and negotiate new terms accordingly.

DETERMINATION OF SAFETY IMPACT

This Board Action will help ensure continued safe and reliable bus transportation throughout the system.

FINANCIAL IMPACT

The rental rates for the Leases do not increase in the Amendments and will not increase over the first two years of the new terms. The ten-year terms (with three and one half (3½ %) percent year-over-year escalation) will result in the payment schedule outlined in the section below.

Metro Real Estate has determined that the rental rates and increases are in line with the fair market for towers at these locations.

Impact to Budget

Funds for these Amendments are budgeted annually in the Real Estate Non-Departmental Cost Center (0651) under Bus Operations (306006) for fiscal year 2024. Future lease obligations will be included in annual budget preparation by Real Estate staff.

The ten-year budget impact will be as follows:

Fiscal Year	Period	Location 305 (7625 Black Star Cyn Rd.)	Location 308 (Mt. Lukens Rd.)	Location 399 (34 Sunset Ridge)	Total
2023	1/1/2023-12/31/2023	\$130,390.56	\$137,179.08	\$138,641.76	\$406,211.40
2024	1/1/2024-12/31/2024	\$130,390.56	\$137,179.08	\$138,641.76	\$406,211.40
2025	1/1/2025-12/31/2025	\$134,954.23	\$141,980.35	\$143,494.22	\$420,428.80
2026	1/1/2026-12/31/2026	\$139,677.63	\$146,949.66	\$148,516.52	\$435,143.81
2027	1/1/2027-12/31/2027	\$144,566.34	\$152,092.90	\$153,714.60	\$450,373.84
2028	1/1/2028-12/31/2028	\$149,626.17	\$157,416.15	\$159,094.61	\$466,136.92
2029	1/1/2029-12/31/2029	\$154,863.08	\$162,925.71	\$164,662.92	\$482,451.72
2030	1/1/2030-12/31/2030	\$160,283.29	\$168,628.11	\$170,426.12	\$499,337.53
2031	1/1/2031-12/31/2031	\$165,893.21	\$174,530.10	\$176,391.04	\$516,814.34
2032	1/1/2032-12/31/2032	\$171,699.47	\$180,638.65	\$182,564.72	\$534,902.84
TOTAL					\$4,618,012.60

EQUITY PLATFORM

The proposed actions would support Metro bus operations and customer experience which is beneficial to all Metro riders and employees.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports strategic plan goal #2: “Deliver outstanding trip experiences for all users of the transportation system.”

ALTERNATIVES CONSIDERED

If the board chooses not to extend these leases, the alternative is to lease several other towers to maintain the same coverage these towers provide. This will increase operating costs substantially and is not recommended.

NEXT STEPS

If the Board approves, Metro will execute the Amendments with Pinnacle Towers, LLC, thereby securing the microwave radio station locations through December 31, 2032.

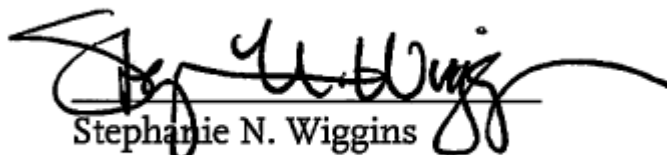
ATTACHMENTS

- Attachment A - Lease Locations
- Attachment B - Deal Points

Prepared by: John Beck, Manager, Countywide Planning & Development, (213) 922-4435

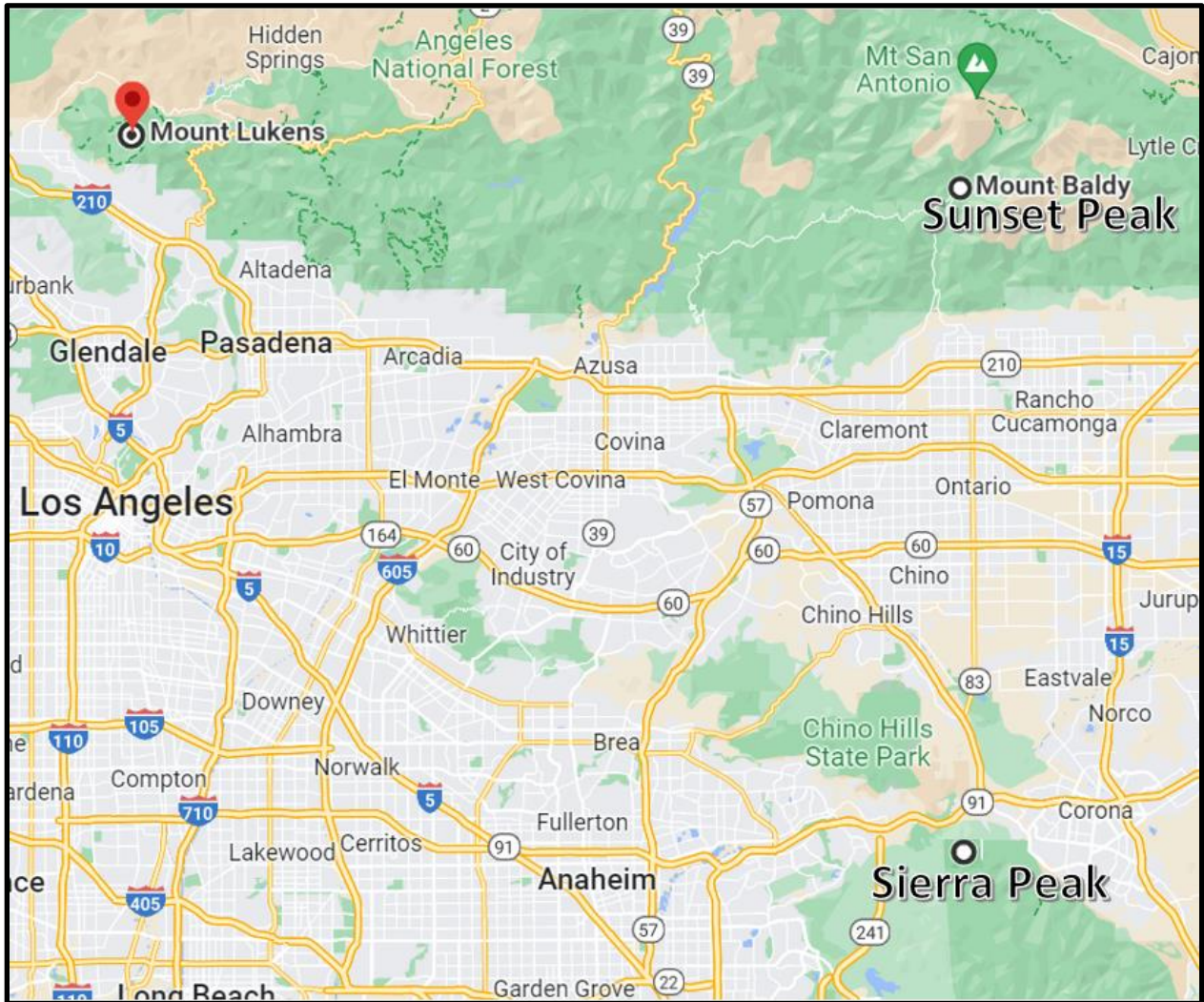
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Stephanie N. Wiggins
Chief Executive Officer

LOCATION MAP



Sierra Peak
Location 305
7625 Black Star
Canyon Road
Riverside, CA
(AL000039)

Mt. Lukens
Location 308
Building 12, Mt.
Lukens Rd.
Tujunga, CA
(AL000040)

Suset Peak
Location 399
34 Sunset Ridge
Mt. Baldy, CA
(AL000041)

Attachment B – Deal Points

New or renewal	Amendment to Lease
Landlord/Owner	Pinnacle Towers, LLC
Location	7625 Black Star Canyon Road in Riverside Building 12, Mt. Lukens Road in Tujunga 34 Sunset Ridge in Los Angeles
Premises	Radio tower locations
Purpose	Radio tower for rail and bus communications.
Commencement and Duration (note any extensions)	10-years commencing January 1, 2023. There are no options to extend the terms.
Total Cost	The total lease value is approximately \$4,618,012.60 over the ten (10)-year terms.
Early Termination Clauses	None.
Determination of Lease Value	Real Estate Appraisal staff.
Background with this Landlord	This will be the second and third transactions with the landlord at these locations.
Special Provisions	None.