THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: June 18, 2009 REPORT NO.: 09-097

ATTENTION: Rules Committee, Agenda of June 24, 2009

ORIGINATING DEPARTMENT(S): Engineering and Capital Projects, Library, and Real Estate Assets

SUBJECT: San Diego New Main Library- Letter of Intent with San Diego Unified School District

COUNCIL DISTRICT(S): 2 (Faulconer)

REQUESTED ACTION:
Authorize the Mayor, or his designee, to enter into a letter of intent that defines the conditions of San Diego Unified School District leasing the sixth and seventh floors of the New Main Library as a Charter school.

STAFF RECOMMENDATION:
Approve the proposed resolution.

SUMMARY:
The New Main Library, or new Central Library, to be located at the intersection of Park Boulevard and J Street was designed to provide two floors (sixth and seventh floors) for leased space, and potential future expansion space. It is San Diego Unified School District's (SDUSD) intent to enter into a 40-year lease of the 71,800 square feet of space to locate a public charter high school for $20,000,000. This amount, to be paid to the City during construction of the building shell, is proposed to supplement the private donations raised by the San Diego Public Library Foundation. Attachment A is the Letter of Intent defining the terms and conditions of the joint use/lease agreement with an analysis of the value over time for the lease. Approval of the letter of intent by Council resolution is required to be submitted to the State Library Office as evidence of the intended joint use of the building and is a condition for the extension of the City's $20 million 2000 Library Bond Act grant.

The New Main Library construction documents are completed and approved by the Office of the State Library the Division of the State Architect for American Disability Act (ADA) compliance, and are approved and permitted by the City of San Diego Development Services Department. The proposed use of two floors for a Charter School will not require revisions to the plans for the Field Act. If the Letter of Intent is approved, and the State Library Grant is extended, the project will return to Centre City Development Corporation (CCDC) and City Council for approval and authorization of the bidding phase and associated costs.

The original deadline of the $20 million State Library Bond Act of 2000 grant was December 31, 2008. On February 11, 2009, the State Librarian approved a grant extension to July 1, 2009 in order to provide the City with adequate time to negotiate an agreement with SDUSD for the joint use project. The City is required to submit documentation to the State Librarian regarding the cost impact to the project to incorporate the joint use; a revised project budget (Attachment B); detailed information regarding local funds (Attachment C); a revised project timetable (Attachment D); and City Council and SDUSD Board actions approving the Letter of Intent (Attachment A). City of San Diego, SDUSD, and California State Library representatives met on June 9th to discuss progress toward entering an agreement for a high school use on the sixth and seventh floors.

BACKGROUND:

Large urban library systems, such as that in San Diego, consist of branch libraries and a main library that work together to serve numerous functions. The role of branch libraries is to provide popular and convenient services to their surrounding neighborhoods. Since 1980, San Diego's branch libraries have grown and changed substantially. In 1980, the library system had 29 branch libraries with an average size of less than 5,000 square feet, along with several bookmobiles. During the last 29 years, 25 branch library projects were completed, and the number of branches grew from 29 to 35 as service was expanded to newly developing communities in the north. Six new libraries have been added, and another 19 expansions and replacements have significantly increased the size of the old branch libraries. These new and newly expanded branch libraries have averaged more than 15,000 square feet in size, allowing the library system to offer a wider variety of materials, programs and services than in the past.

On July 22, 2002, the Mayor and City Council unanimously approved a library building program that included 24 new or improved libraries (New Main Library and 23 branch libraries) throughout San Diego. Among these projects was the New Main Library that would serve as a major civic, cultural, research and recreational center offering a wide variety of services to San Diego residents. As the heart of the San Diego Public Library system, it will also provide support for the entire system, including the 35 branch libraries.

To date, the New Main Library Phases 1 and 2 are completed. Phase 1, Site Demolition of the Police Garage, was completed on July 28, 2006. Phase 2, Site Remediation, was substantially completed on March 29, 2007. Six of the branch library building program projects are completed: new libraries for Point Loma, College-Rolando, Serra Mesa/Kearny Mesa, and North University Community, and the expansion of the La Jolla/Riford Branch and Otay Mesa-Nestor Branch. Also, currently under construction is a new 25,000 square foot library for Logan Heights. The remaining projects are in various planning stages. These branch libraries are being developed to meet the unique needs of the communities they serve based on extensive community participation and input. The ability of the branches to serve their communities depends upon the strength and viability of a main library, which serves a unique purpose as the core of the library system.

A main library is where one finds in-depth subject expertise, and where the staff and resources are provided for specific subject areas such as business, science, art, music and literature. Its specialists are responsible for developing comprehensive collections for the entire library system. San Diego's main library, currently the Central Library, contains more than 500,000 unique

titles, and holds the current and retrospective collections that are too costly to reproduce at each branch library.

The Central Library is the heart, brain and nerve center of the public library system. Built in 1954, it provides the centralized operating system for the 35 diverse branches spread over 331 square miles. More than 500,000 patrons visit the Central Library annually. Over the years, Library collections have outgrown available space, and the current building lacks shelving capacity and room for growth. More than half of the collection has to be stored in two basement levels, closed to the public and available only upon request. As a thriving and growing city, San Diego needs a first-class main library for its diverse population.

This need for a new Main Library has been recognized for a number of years, and various site analyses, hearings and workshops have been conducted to obtain public input. In October 1995, the Mayor and City Council approved development and construction of a New Main Library downtown. Property was acquired at Kettner and B Street, though subsequent opportunities arose and a number of alternative sites were proposed and reviewed. In June 2000, a new site selection was made as the Mayor and City Council reviewed several site alternatives and selected the Park to Bay (Park and J Street) site as the preferred location for a New Main Library. In October 2000, the City Council authorized the relocation of the existing Police Garage from the site and approved a contract with Rob Wellington Quigley, FAIA, for development of a schematic design. Concurrently, Library staff began working with consultants on the program for the proposed New Main Library.

The Park to Bay site plan was further developed and presented to the City Council in July 2001, at which time City Council re-affirmed the site selection and directed the City Manager to continue with the project's development. In May of 2002 the City Council certified the Mitigated Negative Declaration (LDR No. 41-0980) for the development of the New Main Library.

MAIN LIBRARY BENEFITS FOR BRANCHES:

A central library is an essential part of any excellent library system. San Diego's branch libraries rely on the current Central Library and its centralized services for selection, acquisition, cataloging, reference, programming and much more. The Central Library is responsible for administration, book delivery, ordering services, as well as technology services. Over 90,000 books and other materials are delivered annually from the Central Library to branches. Branch library collections usually cater to general interest, focusing on the most popular titles and topics. In contrast, the Central Library has a staff and a collection with in-depth information and a great variety of topics.

The New Main Library, with its increased capacity, would make the current collection more accessible to the public. Also it would allow for improved programming and services to the public throughout the library system. The New Main Library could accommodate major traveling exhibits, a major art gallery, a state-of-the-art technology center, and an auditorium for films and live performances. These are benefits that most branches cannot offer, but would be available to all San Diegans at a central location.

ECONOMIC BENEFIT

The New Main Library will be an engine for economic development. Downtown San Diego is the center of commerce for the San Diego region and the New Main Library, with its computer portals to business databases and its comprehensive collection of patent and trademark information, will be a place where entrepreneurs can research their ideas, workers can augment their skills, and small business people can access information to build their enterprises and dreams. The activity and cultural vitality the Main Library brings will enhance the marketability of the downtown area and nearby neighborhoods as residential and commercial markets. The City of Seattle's new Central Library was responsible for $16 million in new economic activity in its first full year of operation, with nearby businesses reporting increases in foot traffic and spending associated with visitors to the Central Library (see www.berkandassociates.com /spl.html).

INCREASES IN USAGE

Many major cities in the United States have built new main libraries in the past decade or so, including San Francisco, Phoenix, Denver, Salt Lake City, Seattle and San Jose, and a new downtown main library opened in Minneapolis in 2006. After new main libraries open, library systems experience dramatic increases in both patronage and circulation. As an example, circulation at San Jose's main library, which opened in 2003, increased by 75 percent from 2002 to 2004. In Seattle, more that 2.3 million individuals visited the Central Library during its first year of operation, an increase of 250 percent compared to the year before opening. These increases are to be expected since services are upgraded and access to collections is improved. In addition, new facilities simply attract more patrons as they are public spaces and serve as a source of interest and pride for the community. San Diego has seen this each time it opens a new or expanded facility.

OPERATING COSTS AND POTENTIAL FOR REVENUE

Minimizing costs related to staffing and maintenance of the new facility has been a primary concern throughout the design process and was one of the major considerations in selecting building materials, finishes, mechanical systems, furnishings and mechanical equipment. These design considerations include significant energy saving elements that were implemented through the Leadership in Energy and Environmental Design (LEED) program.

Assuming that the operating hours for the new Central Library remain at the current 52 hours per week, it is estimated that staffing in the new facility can be maintained at or near the original number planned - 82 FTE. Currently the staffing level for the Central Library public services for FY 2010 is 74.94 FTE. It is anticipated that a 366,000 square foot facility would require an additional Building Service Technician and that staff may be reorganized/reassigned including from other centralized services to provide the additional staff to total 82 FTE available, as previously confirmed in plans for the new library.

Trends in libraries toward increasing self-directed services, centralizing service points, and finding greater efficiencies in other aspects, such as consolidating operations, continue to evolve and become more prevalent. The New Main Library has been designed to combine work areas for greater efficiency. Technologies exist that will allow the library's existing staff to handle the increased activity levels common in new libraries. A variety of self-service and labor-saving measures are now commonly used in libraries. For example, patrons will be able to use express-

check units for library materials on each floor of the building. Electronic kiosks will provide navigational assistance and answer frequently asked questions. The Library's centralized services, such as collections and processing , continue to evolve and offer advantages in efficiencies that will allow the reconfiguration of staff from centralized services. Staffing and hours in the branch libraries will remain as currently configured branches would not lose staffing or hours as a result of the new Main Library.

The New Main Library will increase the use of volunteers to perform services that are not currently provided by staff. Volunteers may be asked to help conduct tours, staff a 'welcome desk' and assist patrons with more complex way finding in the new building, all of which will mitigate the need for additional staff to accommodate increased visitors.

To provide for an enhanced level of programming, the New Main Library anticipates endowing positions through donations. Also, volunteers, community groups and partner organizations will be used more extensively to assist library staff with programs and special projects. In FY 2008, 2,250 volunteers donated more than 95,000 hours of service to the Library system , an estimated value of more than $2.3 million. In a new library that will attract thousands of visitors, the number of volunteer opportunities is certain to increase.

In addition to minimizing operating costs for the new Main Library, the sixth and seventh floors of the building are proposed to be leased to the SDUSD. The 71,800 square feet of space is proposed to generate a prepayment of $20,000,000 for a 40 year lease. The 400-seat meeting room, 350-seat auditorium and other areas could bring in additional revenue through fees for special events. Other potential revenue sources that may offset increases in operating costs include a café and bookstore. It is anticipated that these revenue opportunities, along with the parking revenue discussed below, would result in an additional $825,000 per year for operational costs.

The New Main Library gallery will provide a focal point for fundraising events and grant opportunities. Judging by feedback from the community and the proven model of the existing program, it is anticipated that revenues from art sales and donations of money and works of art and art-related merchandise will increase substantially with a new Main Library.

Library patrons will be allowed up to two hours of free parking. Revenue generated by the parking structure, based on charges for parking during special events and library closed hours as well as parking by non library users during library open hours, has been estimated at over $600,000 per year.

Private philanthropic support via the San Diego Public Library Foundation has become an increasingly important source of revenue for the Library, with growth in private contributions for both capital and operating needs. Thus far, the Library Foundation has secured $37.5 million in private contributions for the New Main Library. The Foundation has also played a growing role in supporting the full Library system, including the 35 branch libraries. During the last five years, the number of private donors making gifts has grown from 5,000 to more than 14,000. Additionally, the number of families who have joined the Carnegie Planned Giving Society by naming the Library Foundation in their estate plans has increased from a charter membership of 13 in 2005 to 52 Carnegie Society families today. The Library Foundation continues to increase

its annual support of all 36 San Diego Public Libraries, and will provide more than $2 million in private support for library books, computers programs and other resources in FY09.

The difference in operating costs between the current central library and the new Main Library is $2.7 million, attributable to the Non Personnel cost (NPE) required to operate a larger facility. Through a combination of reorganizing/reassigning existing staff at the current Central Library and from centralized services, increasing revenues, and the use of $2 million per year from the Foundation to be provided for operations for the first five years, it is anticipated that there would not be a request for additional operating funds for the new library for at least the first five years of operation. When the City sees better economic times and returns to the goals set in the Library Ordinance to fund the Library system at 6% of the General Fund rather than the current 3%, that level of funding would adequately cover the operating costs of the library system.

ENVIRONMENTAL IMPACT AND PARKING

The Final Master Environmental Impact Report (MEIR) for the Centre City Redevelopment Project Addressing the Centre City Community Plan and Related Documents was certified by the Redevelopment Agency and the City Council on April 28, 1992 by Resolutions Nos. 2081 and 279875, respectively. The Final Subsequent Environmental Impact Report (SEIR) to the Final Master Environmental Impact Report (MEIR) Addressing the Centre City Community Plan and Related Documents for the Proposed Ballpark and Ancillary Development Projects, and Associated Plan Amendments was certified by the Redevelopment Agency (Resolutions Nos. 03058, 03063, and 03066) and City Council (Resolutions Nos. 292363, 292366, and 292371) on October 26, 1999.

On May 28, 2002, the San Diego City Council approved the Main Library Project, certified the original Mitigated Negative Declaration (LDR No. 41-0980), and adopted the Mitigation Monitoring and Reporting Program (Council Resolution R-296576) and the application for round one of the Library Bond Act Grant application process. In order to satisfy the grant application requirements for round two of the Library Bond Act, the original Mitigated Negative Declaration was submitted to the State Clearing House (SCH) in January 2003 for the required 30-day public review. Prior to the close of the SCH review period, the City Council approved a resolution to submit an application for the Main Library in round two of the Library Bond Act process. A subsequent Notice of Determination was filed for this action based on the previously approved Mitigated Negative Declaration (Resolution No. R-297614, dated February 3, 2003.) Because one letter of comment was received from a State agency during the required SCH review period, an Addendum (LDR No. 41-0980A) was prepared to respond to the comment letter and clarify the environmental process that was followed for round two of the Library Bond Act grant application to date. The Mitigation, Monitoring, and Reporting Program incorporated into the Project includes provisions related to geology, human health/public safety/hazardous materials, and historical resources (archaeology).

The project includes 250 off street parking spaces in two levels of underground parking. Of the total parking spaces on site, it is proposed that 220 spaces be dedicated to the library use and up to 30 spaces be dedicated to the school use. It is proposed that the cost of parking will be set at the prevailing rate charged by the City in its other parking structures, and that the City will be responsible for all operating expenses of the parking structure. In addition, the City has a will serve letter with JMI to provide additional offsite parking. Parking was addressed as follows in

the Mitigated Negative Declaration, referring back to the April 1992 Ballpark Master Environmental Impact Report.

> "As a result of the Ballpark EIR analysis, the city of San Diego and CCDC adopted Findings acknowledging that parking impacts would be significant and unmitigable in the vicinity of the ballpark. Consequently, parking shortfalls associated with the library during ballpark events would not be significant unless they would substantially worsen the projected shortfall evaluated in the SEIR.
>
> Although the parking shortfall associated with the proposed library could not be accommodated during ballpark events on weekday afternoons and weekend evenings, the additional shortfall would not create an impact which would be substantially higher than already would occur in the area. The highest increase in parking deficit over that which would occur without the proposed library would be 6.7 percent on weekday afternoons; this is not considered a significant increase in the severity of the anticipated parking shortfall without the NML."

Subsequent to the New Main Library (NML) MND being certified and adopted in 2002, and the addendum to the MND being certified and adopted in 2004, the Centre City Development Corporation (CCDC) Community Plan was updated. The NML project/site is included in the overall analysis that was conducted for the CCDC Community Plan Update EIR. However, with the addition of the school an evaluation of the new scope must be provided by Development Services Department and CCDC staff to determine if the circumstances have changed significantly relative to the original project. This Substantial Conformance Review analysis will determine if the MND is still adequate, or if a new document or tiering of the CCDC Community Plan EIR could be completed, pursuant to CEQA section 15162. It is anticipated that the main environmental issues that may require reconsideration will be transportation, circulation and parking. Archaeology and Paleontology monitoring were previously identified in the certified/adopted MND and would be carried over to whatever environmental process is followed.

FUNDING SOURCES

In March 2003, City Council approved the appropriation of the $20,000,000 in State Proposition 14 grant funds that were authorized by the State in December 2003. In April 2005, the CCDC authorized the use of tax increment bonds to assist with the funding of the construction of the New Main Library up to a total of $80,000,000. Recently, SDUSD proposed to enter into a Letter of Intent with the City of San Diego to lease the sixth and seventh floors of the New Main Library for the purpose of a public charter school, for a 40-year term. The remaining funds needed to complete the facility are currently budgeted from private donations; a total of $37,500,000 has been raised, with $10,000,000 for operations and maintenance costs and $27,500,000 for project construction.

Expenditure of these construction funds would be spread out over the duration of the construction of the building. CCDC has already contributed $16,500,000 toward the project, and will provide the remainder of the $80,000,000 commitment in four installments as shown in Attachment C. A total of $1,617,908 from a variety of City funding sources was previously authorized and spent. SDUSD will contribute $20,000,000 over the duration of the construction

work. Funding from SDUSD will be deposited into the project account, and a prorated share of the construction cost will be billed to the SDUSD on a monthly basis throughout the construction. Private funding of $27,500,000 will be available at the beginning of construction. The balance of the private funding ($35,782,092) will be required after the first18-month construction period to fund the last elements of the library. While the Library cannot be completed until these additional donations are received, the funding now available is expected to provide the building's shell, including the school lease area.

PROJECT SCHEDULE

Due to the time limits associated with the State Grant a defined schedule, (Attachment D) with milestones, has been developed to meet the criteria the State Librarian has identified as necessary to extend the State Grant deadline. The first milestone is approval of the LOI with SDUSD which will be on a City Council Agenda in July. If approved , the process of developing a Gross Maximum Price with Turner Construction Company (Turner) will begin. There is currently enough funding available in the various contracts to move this phase of work forward through September. In September, additional funding and contract amendments will need approval to keep the bidding phase moving forward. The first four months of this effort is a collaboration between the City the architectural team, and Turner to break the plan set and four volumes of specifications into packages that can be bid out by each trade. When this work is complete in November, the packages will be advertised and bidding by the various subcontractors/trades will begin. The anticipated bidding time frame could be as long as five months, which will end with the gross maximum price (GMP) established for the contract with Turner for construction of the New Main Library. The final milestone before starting construction is the approval of the agreement and all the funding necessary for the development. The procurement process being used to construct the New Main Library is a Construction Manager at Risk process which is a collaborative effort between the City, the architectural team, and the contractor. In January 2003, the City issued a Request for Qualifications for pre-construction and construction management services. Seven firms submitted their qualifications, and four firms were selected to participate in a Request for Proposal (RFP) process. At the conclusion of the RFP selection process, Turner was recommended by the City Manager, and in August 2004, the City Council authorized a pre-construction services contract with Turner. Since that time, Turner has participated in design meetings and taken over responsibility for cost estimating, scheduling, constructability review, value engineering and the development of bidding packages that will be used to solicit bids for the work. All of this effort was intended to improve the construction documents and ensure that Turner is familiar with the proposed facility and fully understands what the project entails.

The contract with Turner requires closed bids for all construction work. This process will be supervised by the City to assure compliance with City and State contracting procedures. The development of the GMP is an open book process in which the City will review all the bids, negotiate the estimated cost for the remaining work, and accept a fixed price for the General Conditions. Turner will guarantee to complete the building for not more than the GMP stated in the contract. Once the GMP is set, all potential price changes must be incorporated by Turner within the 3% construction contingency included in the GMP. The only increases to the GMP allowed will be for exclusions such as changes required due to unforeseen conditions or made by the City after the work is bid. Turner was selected in part because their proposal for General Conditions is very competitive, and will be included in the construction contract.

COST ESTIMATES

The cost estimate for the New Main Library was last updated in September 2005. The construction costs were estimated at $145,000,000 based on a proposed start date of July 1, 2006. This cost estimate included a 1% increase for potential design uncertainties, and included $8,998,000 of cost reductions such as the deferment of the sixth and seventh floor tenant improvements. Attachment B provides the total project budget based on the September 2005 construction estimate.

Construction costs rapidly increased from 2005 to 2007 then fell at approximately the same rate from 2007 to 2009. The rapid rise and fall of construction costs for both labor and materials has made it difficult to estimate where the market will be if the project is bid later this year. Engineering News Record publishes an estimate of construction inflation which suggests that inflation in our geographical area has been a total increase in construction costs of 3.4% for the four year between 2005 and 2009. In order to establish the true cost of the project is it recommended that bids be obtained and the project GMP be established. The project is proposed to be phase funded in accordance with Attachment C.

LETTER OF INTENT

The terms of the Letter of Intent provide for SDUSD to lease the sixth and seventh floors of the new Main Library Building for 40 years for a prepaid rent of $20 million dollars. A Net Present Value Analysis was performed based on the following assumptions to determine of the City was receiving fair value under the terms of the transaction.

Lease Analysis Assumptions

Premises: Sixth and seventh floors of the Main Library Building, with approximately 71,800 rentable square feet.
Rent: $17 square foot/year NNN. (This assumes a market rent of $28 per square foot fully serviced. Operating expenses, including utilities and taxes estimated to be $11 per square foot/year were deducted).
Rental Increases: 25% every ten years.
Tenant Improvement Allowance: None, SDUSD pays for its tenant improvements saving the City $3.7 million from its construction budget.
Lease Term: 40 years.
Parking: 30 spaces @ $170 space.
Discount Rate: 5.05%
Lease Commencement: Nine months after completion of building shell to allow tenant to construct its improvements.

Under terms of the Letter of Intent, SDUSD makes a $20 million rent payment which is contributed during the construction of the building shell and provides a saving to the City of $3.7 million by constructing its own tenant improvements. The combined value is $23.7 million. The attached Net Present Value Analysis determines that is is equal to a rental stream for a 40 year lease using the assumptions listed above with a discount factor of 5.05% which approximates both the City's and SDUSD's cost of borrowing based on bond rates.

FISCAL CONSIDERATIONS:
None by this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:
City Council approved Tucker Sadler Architects, Inc. (TSA) and Rob Quigley as Main Library Architects R-287743: August 5, 1996 and authorized executing an agreement with joint venture between Rob Wellington Quigley Inc and Tucker Sadler Nobel Castro Architects Inc. and approval of agreement amendments 1 thru 6, R- 88297: January 27, 1997; R- 288776: October 9, 1997; R-293901: October 7, 2000; R-297351: November 18; 2003; R-298285: August 4, 2003; R-299560: August 10, 2004; R-300359: April 19, 2005. On June 5, 2000, per R-293252, City Council selected the new site at 12th Street and J Street (the Park to Bay site) and directed the City Manager to take the necessary steps to prepare for locating a New Main Library on the selected site. The City Council also authorized the relocation of the existing Police Garage from the site on October 2, 2000 per R-293901. On May 28, 2002, the City Council certified MND (LDR-No. 41-0980) for the development of the Main Library. City Council awarded a Design/Build phased contract to Sundt for the relocation of police garage per R-298416 on September 23, 2003. Council approved an agreement with Steinmann Facility Development Corp. per R-296576 on May 28, 2002 Council authorized executing an agreement with Turner Construction Company for pre-construction services, and first amendment to agreement: R-299560: August 10, 2004; R-300359: April 19, 2005. On April 19, 2005, City Council and the Redevelopment Agency authorized the expenditure of $3,737,202 for a total of $6,500,000 of Agency tax increment funds, for the removal of the underground tanks, demolition of the existing Police Garage, clean up and removal of contamination found on the site, and project and construction management costs associated with the New main Library project development.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
Citizen committees have studied possible sites for the new main library through 45 independent studies done over three decades. Beginning in 1999, six potential downtown sites were analyzed through a process of public hearings and workshops. An extensive series of workshops were held with thousands of citizens providing valuable input. Conceptual designs were created for four preferred sites to determine each site's ability to accommodate the expanded library program and future expansion space. In addition, estimates of the cost to develop a library on each of the sites were thoroughly analyzed to allow presentation of initial costs for library buildings that are as comparable in terms of size, configuration, parking capacity, plazas, and building material quality. The last study conducted by a Citizen's Design Review committee, representing a wide range of community interests and strong political and community support, recommended the Park-to-Bay site to the Mayor and City Council. The Friends of the Library, comprised of 35 separate Friends groups, endorsed the site, as did the Centre City Development Corporation, which has oversight over planning for the downtown region. Based on this overwhelming support, the Mayor and City Council unanimously approved this site.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

City of San Diego Library Department; San Diego Unified School District; Centre City Development Corporation (CCDC) , State Library, Library Foundation.

Patti Boekamp
Director, Engineering & Capital Projects

David Jarrell,
Deputy Chief of Public Works

Deborah Barrow
Director, Library

Jim Barwick
Director, Real Estate Assets

Attachments

Attachment A: Letter of Intent
Attachment B: San Diego Main Library Budget
Attachment C: Schedule for Encumbrance of Fumds
Attachment D: Schedule

CONFIDENTIAL

NON-BINDING LETTER OF INTENT REGARDING THE INCORPORATION OF A CHARTER SCHOOL IN THE SAN DIEGO NEW MAIN LIBRARY

Reference Date: _____, 2009

THIS NON-BINDING LETTER OF INTENT REGARDING THE INCORPORATION OF A CHARTER SCHOOL IN THE SAN DIEGO NEW MAIN LIBRARY ("LOI") is made by and between THE CITY OF SAN DIEGO ("City"), and SAN DIEGO UNIFIED SCHOOL DISTRICT ("District"), collectively be referred to herein as the "Parties," and individually as a "Party," as follows:

RECITALS

A. The City has planned the development of a new main library building ("Building") on City-owned land bounded by 11th Street, Park Boulevard, J Street, and K Street in Downtown San Diego (APN 535-362-16).

B. The District would like to incorporate a public charter school in the Building, requiring the use of two floors of the Building.

C. This LOI is made to express the general willingness of the Parties to negotiate a lease agreement ("School Lease") between the City, as "Landlord," and the District, as "Tenant," whereby the District would lease two floors of the Building from the City for use as a charter school.

D. THE TERMS PRESENTED IN THIS LOI ARE FOR POTENTIAL NEGOTIATION PURPOSES ONLY, AND SHALL NOT CONFER ANY RIGHT OR OBLIGATION UPON EITHER PARTY IN RELATION TO ANY POTENTIAL SCHOOL LEASE.

E. THIS LOI SHALL NOT BE A LEGALLY BINDING LEASE AGREEMENT, NOR SHALL IT MODIFY ANY EXISTING LEASE AGREEMENT. HOWEVER, IT CONTAINS SOME INITIAL PRINCIPLES THAT MAY FORM THE FRAMEWORK FOR NEGOTIATING A SCHOOL LEASE.

F. If the Parties ultimately negotiate a binding lease agreement, they intend to follow any and all adopted laws, regulations, policies and procedures of their respective governing bodies as may be required to finalize a School Lease.

NOW, THEREFORE, IN CONSIDERATION OF THE RECITALS ABOVE, the Parties support the potential for a School Lease, as follows:

1. **Premises:** Two contiguous floors of the Building.

2. **Use:** Operation of a public charter school.

Attachment A

3. **Term:** Forty (40) years, commencing at the earlier of the completion of tenant improvements or nine months after Landlord delivers the space to Tenant to commence construction of tenant improvements to its premises.

4. **Rent:** Twenty Million Dollars ($20,000,000), to be paid to the City during the course of construction of the shell building on a schedule to be mutually agreed to by Landlord and Tenant.

5. **Operating Expenses:** Tenant will be responsible for all operating expenses for its premises and its proportionate share of the common area operating expenses for the Building. [Note: This will be a "net, net, net" lease.]

6. **Maintenance:** Tenant will maintain the space it occupies in good order at its own expense. Likewise, Landlord will maintain the space it occupies in good order at its own expense. Common area maintenance will be the responsibility of Landlord with an allocation of Tenant's share of the cost to be agreed to prior to lease execution.

7. **Modification to Building Shell:** Tenant may propose reasonable modifications to the building's shell to accommodate its tenant improvements. Landlord may accept or reject the proposed modifications at its sole discretion.

8. **Tenant Improvements:** Landlord will deliver space to Tenant in shell condition per the plans. Tenant will be responsible for the cost and construction of its tenant improvements to its premises.

9. **Extension Option:** Tenant will have one option to extend the lease for an additional 10 years at the then prevailing market rent.

10. **Parking:** Tenant may use up to 30 parking spaces (subject to approval by the State Librarian), of which up to six (6) may be reserved for Tenants sole use. The cost of parking will be the prevailing rate charged by the City in its other parking structures. Current City parking rate is $170 per space per month. Landlord will be responsible for all operating expenses of the parking structure.

11. **Subleasing:** Tenant may sublease its space with Landlord's approval of the subtenant and its use. Subleasing will not extend to any extension options. Landlord will share in 50% of any subleasing profit.

12. **Purchase Option:** Tenant will have the option to purchase the Premises (as a condominium unit) at the end of the 10th, 20th, 30th, and 40th years of the lease term. The purchase price will be the greater of: (a) the fair market value; or (b) Tenant's proportionate share (estimated at 23%) of actual building shell construction costs with land value incorporated at $200 per square foot. The method for determining fair market value will be agreed to and contained in the lease document.

13. **Termination Prior to Construction:** Landlord and Tenant will be able to terminate the lease agreement prior to commencement of construction. Reasons for termination could include but are not limited to actual construction costs in excess of budget, the inability of fund raising efforts to achieve the cost of construction, or a delay in the start of construction beyond a date to be determined by the parties.

14. This LOI shall not be construed as a commitment to lease or as an approval of any lease terms by any Party. The Parties represent they have not entered or agreed to enter into any agreement to negotiate a definitive agreement pursuant to this LOI. Any Party may, at any time prior to the execution and delivery of any such definitive agreement, propose different terms from those summarized here, and may unilaterally terminate all negotiations without any liability whatsoever to the other Party. Each Party shall pay its own fees, costs and other expenses incurred in conjunction with the negotiation and preparation of this LOI and the negotiation and preparation of any definitive agreement(s) made following this LOI.

15. The Parties reserve their rights to exercise their discretion as to all matters which they are by law entitled or required. In addition, any agreements, amendments, or approvals processed by a party's governing authority shall be subject to and considered in accordance with all applicable legal requirements.

16. This LOI may be executed in any number of counterparts, each of which shall be deemed an original, and shall collectively constitute one and the same document.

17. This LOI represents the entire understanding of the Parties regarding the subject matter herein. Any modification of this LOI shall be in writing and signed by the Parties.

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CONFIDENTIAL

18. Each individual executing this LOI on behalf of another person or legal entity represents and warrants that they are authorized to execute and deliver this LOI on behalf of such person or entity in accordance with duly adopted resolutions or other authorizing actions which are necessary and proper and under such legal entity's articles, charter, bylaws, or other written rules of conduct or governing agreement. Each person executing this LOI on behalf of another person or legal entity shall, upon request of another Party, provide satisfactory evidence that such authority is valid.

IN WITNESS WHEREOF, this LOI shall be effective as of the Effective Date.

Date: _____

SAN DIEGO UNIFIED SCHOOL DISTRICT

BY: _____
Name: _____
Title: _____

Date: _____

THE CITY OF SAN DIEGO, a California municipal corporation

BY: _____
Name: _____
Title: _____

APPROVED AS TO FORM AND LEGALITY:

Date: _____

JAN I. GOLDSMITH, San Diego City Attorney

BY: _____
Name: _____
Title: _____

Date: _____

_____
BRUCE R. WALLACE, Attorney for District

DRAFT

City of San Diego
Library Project

Square Feet	71809
Lease Rate Years 1- 10	$17
Lease Rate Years 11-20	$21
Lease Rate Years 21-30	$27
Lease Rate Years 31-40	$33
Discount Rate	**5.05%**
NPV	**0**
IRR	**5.05%**

Year	0	1	2	3	4	5	6	7	8	9	10
Total Revenue Years 1-10	(23,700,000)	-	-	1,220,753	1,220,753	1,220,753	1,220,753	1,220,753	1,220,753	1,220,753	1,220,753
Parking revenue				(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Net Income Years 1-10	**(23,700,000)**	-	-	**1,160,753**	**1,160,753**	**1,160,753**	**1,160,753**	**1,160,753**	**1,160,753**	**1,160,753**	**1,160,753**
DCF Years 1-10	(23,700,000)	-	-	1,001,389	953,288	907,497	863,905	822,408	782,904	745,297	709,497

Year	0	11	12	13	14	15	16	17	18	19	20
Total Revenue Years 11-20	-	1,525,941	1,525,941	1,525,941	1,525,941	1,525,941	1,525,941	1,525,941	1,525,941	1,525,941	1,525,941
Parking revenue		(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Net Income Years 11-20	-	**1,465,941**	**1,465,941**	**1,465,941**	**1,465,941**	**1,465,941**	**1,465,941**	**1,465,941**	**1,465,941**	**1,465,941**	**1,465,941**
DCF Years 11-20	-	852,998	812,025	773,019	735,888	700,539	666,889	634,855	604,360	575,330	547,694

Year	0	21	22	23	24	25	26	27	28	29	30
Total Revenue Years 21-30	-	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427
Parking revenue		(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Net Income Years 21-30	-	**1,847,427**	**1,847,427**	**1,847,427**	**1,847,427**	**1,847,427**	**1,847,427**	**1,847,427**	**1,847,427**	**1,847,427**	**1,847,427**
DCF Years 21-30	-	657,067	625,505	595,459	566,856	539,627	513,706	489,030	465,540	443,178	421,890

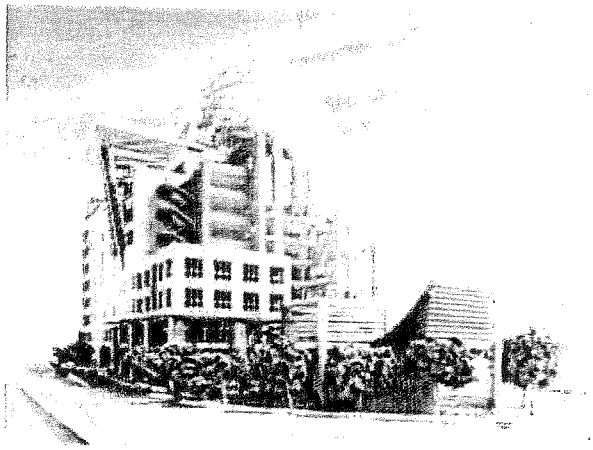
Year	0	31	32	33	34	35	36	37	38	39	40
Total Revenue Years 31-40	-	2,384,283	2,384,283	2,384,283	2,384,283	2,384,283	2,384,283	2,384,283	2,384,283	2,384,283	2,384,283
Parking revenue		(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Net Income Years 31-40	-	**2,324,283**	**2,324,283**	**2,324,283**	**2,324,283**	**2,324,283**	**2,324,283**	**2,324,283**	**2,324,283**	**2,324,283**	**2,324,283**
DCF Years 31-40	-	505,291	481,020	457,914	435,918	414,979	395,046	376,070	358,005	340,809	324,438

Year	0	41	42	0	0	0	0	0	0	0	0
Total Revenue Years 41-42	-	2,384,283	2,384,283		-	-	-	-	-	-	-
Parking revenue		(60,000)	(60,000)								
Net Income Years 41-42	-	**2,324,283**	**2,324,283**		-	-	-	-	-	-	-
DCF Years 41-42	-	308,854	294,018		-	-	-	-	-	-	-

Attachment A

San Diego Main Library

Budget



Item	Total Construction	Phase I Construction	Phase II Construction
Construction	$153,998,000		
Value Engineering[1]	-$8,998,000		
Subtotal for construction	$145,000,000		
Phase II construction[2]			$23,424,522
Adjusted cost of shell construction (Phase I)		$121,575,478	
Additional Insurance	$1,000,000	$1,000,000	
Public Art (Phase II funding)	$700,000		$700,000
Turner Preconstruction Services	$993500	$993,500	
Design and Other Consultants	$15,500,000	$15,500,000	
Permits	$650,000	$650,000	
Special Inspection	$1,200,000	$1,200,000	
FF&E[3]	$8,000,000		$8,000,000
Computers and Phones[3]	$5,000,000		$5,000,000
Sunk Costs	$1,500,000	$1,500,000	
City Contingency	$3,356,500	$3,356,500	
Construction Management	$2,000,000	$1,700,000	$300,000
Subtotal of Phase II funding			**$37,424,522**
Phase I funding		**$147,475,478**	
TOTAL BUDGET	**$184,900,000**		

[1]The 2006 Value Engineering reduces the cost and deletes the Tenant Improvements on the 6th and 7th floors

[2] Elements of Project that will be funded by private donation after construction begins are identified as Phase II
Final Cleaning of Facility,$340,934 - Building Interior Finishes and Partitions $11,966,680
Auditorium $4,497,889 - HVAC : Supply and exhaust registers $365,000
Building Signage Allowance $711,936 - Garage Specialties $42,217
Dome Structure $5,396,866 - Dome Scaffold $103,000

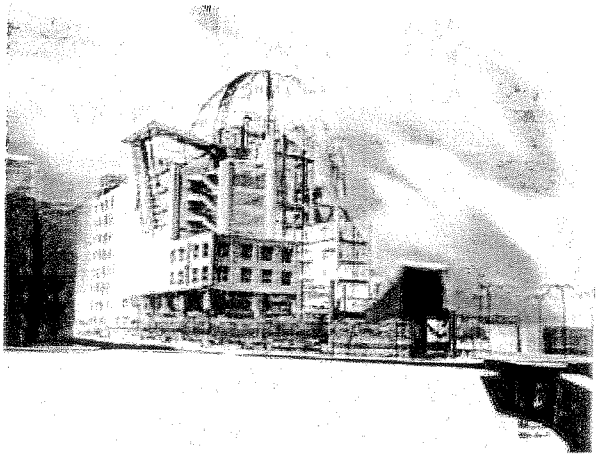
[3] Note: Previously the FF&E combined all furniture with computers and phone systems. Separating the two allows the comparison showing the increased cost in necessary Technology. 2004 and 2005 estimates presume reuse of $1,500,000 worth of furniture.

Attachment B

San Diego Main Library

Schedule for

Encumbrance of Funds

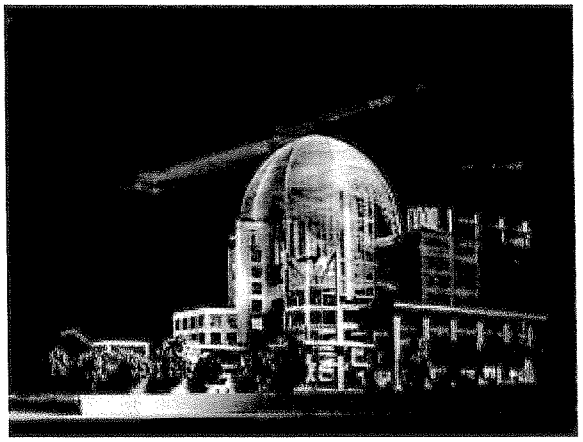


Funding Source	State Grant	CCDC	Private	Other	SDUSD*
Prior year expenditures / encumbrances	0	$16,500,000	0	$1,617,908	
Funds needed July 2009		$500,000			
Funds needed July 2010	$20,000,000	$20,000,000	$27,500,000		$5,000,000
Funds needed December 2010	0	$20,000,000			$5,000,000
Funds needed July 2011		$20,000,000			$5,000,000
Funds needed January 2012	0		$35,782,092 Phase II		$5,000,000
Total	**$20,000,000**	**$80,000,000**	**$63,282,092**	**$1,617,908**	**$20,000,000**

- SDUSD Actual funding schedule will be on a month by month basis and equal to SDUSD's proportional share of building costs as described in the Letter of Interest

San Diego Main Library

Schedule



Element	Completion Date
Authorizing: amendments to TuckerSadler/Rob Quigley Joint Venture, Turner's Pre-Construction Contract, Jim Steinmann's Contract, WRISC's contract for insurance, Bechard and Long's contract for LEED Commissioning; Authorization to use the State Grant, and Authorization to use CCDC's money; Authorization to issue the City underground tank removal contract, and a City demolition and remediation contract.	Council Docket of April 13, 2005 ***Completed***
Police Department Move Out	***Completed***
Demolition and underground tank removal contract	***Completed***
Award Soils Remediation contract	***Completed***
Council Approval of LOI	June/July 2009
Authorize contract Amendments for Designers (TuckerSadler/Rob Quigley Joint Venture, WRISC's contract for insurance, Bechard and Long's for LEED Commissioning, Turner Construction for Bidding Phase, SFDC for CM Services (1 month)* to complete construction bid packages by trade	September 2009
Authorize Turner to advertise for construction and develop Gross Maximum Price {GMP} - 3 months)	Nov 2009
Turner provides compiled bids for project and submits draft "Not to exceed" total GMP (5 months)	April 2010
Council decision point to Authorize Contract with Turner for a fixed GMP and Authorize construction contract Phase I (3months)	July 2010
Authorize Phase II of turner Contract	January 2012
Completion of Shell structure Phase I (24 months)	July 2012
Complete Phase II and receive building occupancy (10 months)	January 2013
Main Library Grand Opening	July 2013