

DATE ISSUED: May 3, 2002

REPORT NO. 02-105

ATTENTION: Rules Committee
Agenda of May 8, 2002

SUBJECT: Civic Center Master Plan - City Administration Building
(Ref. Report No. 99-158 and Report No. 00-03)

SUMMARY

The Mayor and City Council directed City staff to respond back with the following items regarding the Civic Center Master Plan (CCMP) and the City Administration Building (CAB):

- 1.) Civic Center Master Plan Phase II Update (Attachment A)
- 2.) City Downtown Administrative Occupancy (Attachment B)
- 3.) City Council District Office Space Alternatives (Attachment C)
- 4.) CAB Facility Assessment (Attachment D)
- 5.) CAB Fire Protection and Life Safety Improvements (Attachment E)

BACKGROUND

Over the past several years, the City has considered various long-term administrative office space alternatives including the relocation or redevelopment of the existing Civic Center complex (Civic Center). In 1991, Gruen & Gruen Associates produced a report entitled "Asset Management Strategies for the City of San Diego Concourse Properties and Obtaining Municipal Space." The report recommended a short term strategy of leasing or purchasing existing space to capitalize on favorable market conditions. This strategy was intended to mitigate costs during the period necessary to develop a long-term strategy for a permanent civic center. The City adopted and implemented this strategy by negotiating very favorable lease terms for the downtown occupancy through 2014. In addition, where the City has relocated field staff outside of downtown, efficient new facilities have been built or are under construction on City-owned land.

DISCUSSION

In 1996, Gruen & Gruen completed a "Phase II - Master Plan Report: Alternatives and Occupancy Costs". This report recommended that the City build a new City Hall to replace CAB and acquire an existing building to house City staff in the future. Since 1996, market conditions have changed dramatically necessitating an updated analysis. The Civic Center Master Plan Phase II Update completed in 2000, and revised in 2001 incorporated current market

conditions, space requirements, growth projections, and occupancy costs into an analysis of six alternatives. An economic model has been created analyzes the relationship between total occupancy costs for the next 25 years for the six alternatives identified. Based upon market conditions, the cost relationship between leasing space, buying an existing building and building a new building or buildings will determine the most cost efficient alternative. Over the past several years the cost of leasing has stayed below the cost of either purchasing an existing building or constructing a new building.

The assumptions developed for the model involved studying several departments space use and projected growth. The growth rate assumed was that of projected overall population growth in the City. All six of the alternatives assume that the COB will remain occupied as-is and not redesigned or improved.

CIVIC CENTER MASTER PLAN ALTERNATIVES

- Alternative 1. Rehabilitate CAB and continue to lease the existing downtown space and lease an additional 261,800 square feet by 2027 to accommodate projected growth.
- Alternative 2. Rehabilitate CAB and purchase approximately 580,300 square feet of office space to accommodate an estimated 2,095 employees in year 2014 after the leases expire in the Civic Center Plaza, the Executive Complex, and the Comerica Bank Building.
- Alternative 3. Demolish CAB and the Convention and Performing Arts Center (CPAC), build a new 590,000 square foot building in 2014 and lease approximately 198,300 square feet of office space to house 720 employees by 2027. The new city hall building would include 15,000 square feet for the council chambers and 35,000 square feet for public meeting rooms.
- Alternative 4. Demolish CAB and CPAC, build a new 590,000 square foot building, and purchase approximately 198,300 square feet to house 720 employees by 2027.
- Alternative 5. Demolish CAB and CPAC, build two new buildings: one 341,680 square foot building to include 50,000 square feet of space for the council chambers and public meetings in 2010; the second building totaling 248,320 square feet in 2014 (for a total of 590,000 square feet); lease approximately 198,300 square feet to accommodate projected growth by 2027.
- Alternative 6. Demolish CAB and CPAC, build two new buildings totaling 590,000; and purchase approximately 198,300 square feet to house the projected employee growth by 2027.

The model determined that based upon existing and projected market conditions, Alternative 1, rehabilitating and continuing to lease large amounts of space, is not the most cost-effective option for the City having a net cost of \$234,800,000. Although the City's lease rates will

continue to be below market for the next 13 years under the existing leases, it is anticipated that the rental rates will continue to escalate over time. Alternative 2, rehabilitating and purchasing a large building indicates the lowest up-front cost alternative over the 25-year analysis plan having a net cost of \$182,900,000. Alternatives 3 through 6, new construction plus a building purchase or leasing option over a 10 to 15-year period, exhibits an average net cost of \$207,400,000 to \$214,000,000. Consideration should be given to Alternatives 2 and 6 when comparing the long-term financial impact and ensuring maximum space efficiencies. As market conditions and occupancy costs change, the economic model can be easily modified to determine the relationship between these options.

* The above costs reflect 2001 dollars and may need to be updated based upon future economic conditions.

FINANCING ALTERNATIVES

The planning process to implement the Master Plan will need to include financing alternatives. The relative importance of a number of policy issues including but not limited to overall cost, bonding capacity, credit rating impact, urban design and redevelopment objectives will determine which options are pursued. Some form of municipal tax exempt bond financing could be explored, with the source of debt service including existing payments for occupancy costs such as lease payments. A second alternative would involve partnering with a private developer in a potential lease/leaseback transaction. This would utilize private financing with debt service funded by lease payments to the developer with ultimate ownership by the City at the end of the lease. This alternative, although potentially more expensive would have the advantage of limiting the impact to the City's bonding capacity or credit rating.

A third alternative may be to partner with the state and/or federal government on a larger government complex. Senate Bill 353 (Alpert) recently enacted by the legislature authorized the state to enter into a joint powers agreement with the City to build a 241,000 square foot office building in downtown San Diego to replace the existing state offices. The cost is not to exceed \$81,000,000 and the funds would be borrowed by a joint powers authority from the Pooled Money Investment Account. Governmental Relations Department is currently investigating the possibility of an amendment to SB 353 to explore the feasibility to including City occupancy in a government complex. The federal government has undertaken similar efforts to consolidate occupancy through the construction of new buildings, for example the proposed new Federal Building in San Francisco located at Mission and 7th Streets.

RECOMMENDATIONS

1. With respect to the Civic Center Master Plan, staff recommends developing a planning process to explore the preferred alternatives identified in the Civic Center Master Plan Phase II Update. This would consist of developing a project scope, time line, financing alternatives, entitlement process, public input process, and funding for the process. Staff recommends establishing this as a *special project* for consideration as part of the Fiscal Year 2003 budget process.
2. In response to the request for additional space in CAB for Council District staff, staff is moving forward with the short term option for CAB 3. The other alternatives may be

considered through the budget process.

3. With respect to the implementation of the CAB sprinkler retrofit project, staff recommends submitting a request for Council action as outlined in Attachment E.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: Bruce Herring
Deputy City Manager

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Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

- Attachments:
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