

DATE ISSUED: January 30, 2004

REPORT NO. 04-030

ATTENTION: Rules Committee
Agenda of February 4, 2004

SUBJECT: Civic Center Master Plan - Concourse Re-Use Plan Alternatives

REFERENCE: Managers Report No. 02-105, dated May 3, 2002
Managers Report No. 00-03, dated January 4, 2000
Managers Report No. 99-158, dated July 27, 1999

SUMMARY

Issue - On October 1, 2003 the Rules Committee directed the City Manager to prepare a report regarding the phased closure of the San Diego Community Concourse ("Concourse") which also addressed the following issues:

- 1) Evaluation of the Downtown Partnership's recommendations for a new Civic Center Complex;
- 2) Redevelopment opportunities with public/private partnerships;
- 3) Phased closure of the Concourse;
- 4) Office Space Conversion;
- 5) Potential of leasing to Non-profits or For-profits;
- 6) Potential exclusion of Golden Hall.

Manager's Recommendations

1. If funding is identified, staff recommends considering implementing a short term strategy of - Minimal Office Space Conversion of the Concourse to supplement the City's immediate office space needs. Funding has not currently been identified for this alternative.
2. Staff recommends transferring responsibility for the parking facilities and security for the Concourse from SDCCC to READ, effective July 1, 2004 as an immediate cost savings measure. Transferring responsibility for the Central Plant should also be considered.
3. With respect to the Civic Center Master Plan and the Downtown Partnerships recommendations, the City Manager's staff recommends continuing to develop guiding principles for a long-term strategy for a permanent Civic Center. Staff recommends incorporating funding for programming into CCDC's 2005 budget.
4. Once guiding principles are established, staff recommend working with CCDC to develop the specific scope of an RFP or LOI for re-use of the Concourse to ascertain potential interest and possible uses from the private sector.

Fiscal Impact - Unknown at this time.

CONCOURSE BACKGROUND

In April 2003, the Rules Committee, as part of its annual review of the San Diego Convention Center Corporation (“SDCCC”) budget, directed the City Manager to work with SDCCC to review and analyze detailed options for future use of the Concourse. In October, several options were presented to the Committee and of these options, the phased closure of the Concourse excluding Golden Hall was recommended for further review.

In 1994, the City Council approved the third amendment to the operating and maintenance agreement between the City and SDCCC. The primary reason for this amendment was to consolidate operations at the San Diego Concourse with the San Diego Convention Center. The amendment also included provisions for the City to relinquish responsibility of the Parkade and World Trade Center parking operations. As a result of this additional responsibility, SDCCC received as consideration a portion of the revenues generated from the parking operations plus an annual subsidy for the Concourse operations.

CIVIC CENTER MASTER PLAN BACKGROUND

Over the past several years, the City has considered various alternatives for office space requirements including redevelopment of the existing Civic Center Complex. 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 multi-phased strategy including 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 implemented this strategy by negotiating very favorable lease terms for the downtown occupancy through 2014.

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 the City Administration Building (“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 was completed in 2000 and revised in 2001, and incorporated current market conditions, space requirements, growth projections, and occupancy costs into an analysis of six alternatives. Based upon current market conditions, the occupancy costs of leasing space based upon the rates negotiated by the City are the most cost efficient as opposed to purchasing an existing building or constructing a new building. The potential closure of the Concourse and the ability for the City to occupy portions of the vacated space could be considered a natural progression of the City’s current strategy in the mid-term through 2014 to supplement leased space requirements and continue developing a long-term strategy for a permanent Civic Center.

An evaluation of the four items requested by the Rules Committee are addressed as follows:

EVALUATION OF THE DOWNTOWN PARTNERSHIP’S RECOMMENDATIONS

The Downtown Business Partnership, Centre City Development Corporation (“CCDC”) and Real Estate Assets Department (“READ”) formed a task force at the direction of the Rules Committee to review the Gruen & Gruen reports and financial models pertaining to redevelopment options for the Civic Center. The task force also participated in meetings with READ and Facilities Maintenance staff to gather additional information on existing City leases, occupancy costs, and space needs. The task force then updated the financial models to reflect this new information and identified and tested a series of development alternatives under current market conditions.

The review was finalized in July, 2003 and the key conclusions and analysis are as follows:

Conclusion 1

-The condition of the existing 131,247-square-foot (SF) CAB is substandard.
-CAB requires an estimated \$24.7 million in deferred maintenance.
-A key focus of the Gruen & Gruen report was to develop a new office building on the Convention and Performing Arts Center (“CPAC”) site to replace CAB.
-If the Water Department leaves Comerica Plaza at 600 B street for space in Kearny Mesa (see below), that space could be used to relocate staff based in CAB on an interim basis while a new building is constructed.

Conclusion 2

The City holds long-term leases at favorably low rents on major blocks of space in four private office buildings near the Civic Center.
Near-term replacement of existing leased space with new buildings owned by the City is not a viable option.
Existing lease rates are below market
Three of the leases do not expire until 2013-2015
It is unlikely that the City can sublease existing leased space

Conclusion 3

The Gruen & Gruen report also considered purchase of an existing office building to replace existing City leases and secure an expanded ownership position for the City. The updated KMA model assumes purchase of at least 250,000 SF of space within the next 10 to 15 years at a favorable acquisition price.
Annual debt service on purchase of an existing building would likely exceed annual lease rates for comparable space under the City’s existing leases.
Purchasing a building would enable the City to fix occupancy costs at a flat rate, expand into the balance of the building as private tenants are displaced, and enjoy the reversion benefits of ownership.

Conclusion 4

The City is projected to add 1,200 new employees in downtown through 2030. The Water Department is anticipated to relocate 400 employees to Kearny Mesa, resulting in a net increase of 800 staff members in 2030.

If the City were to develop and own a new building, the earliest year that a major new block of space would be needed is 2013. This assumes that: (i) the Water Department relocates to Kearny Mesa; (ii) CAB is demolished after the new building opens; and (iii) the City does not renew two of its four existing leases.

Conclusion 5

Annual debt service for construction and fixturing of new buildings would be substantially higher than either current occupancy costs for City-owned facilities or rent payments for leased facilities.

Annual leasing costs -- even at the most favorable renegotiated lease rates -- are projected to exceed debt service for new construction within 20 years.

On a present value basis, ownership vs. rental alternatives yield similar costs to the City overall, with the key exceptions being that ownership provides the City with: (i) the ability to sublease surplus space; and (ii) reversion benefits resulting from building ownership.

Staff has reviewed these conclusions and determined that the current strategy of leasing office space is still justifiable. In addition, up to 70,000 SF of office space may be available for City use in 2007 in the new main library. The cash flows from the project assume that market rents will be generated from this space. Staff recommends continuing to develop a long-term strategy that incorporates the use of the Concourse and CPAC facilities in a new Civic Center Complex. CCDC should continue to play a lead role in these efforts, focusing on programming and the steps for implementation.

REDEVELOPMENT OPPORTUNITIES FOR PUBLIC/PRIVATE PARTNERSHIPS

Comprehensive redevelopment utilizing a public/private partnerships model may provide opportunities for the long-term development of a new Civic Center Complex. This model would serve primarily as a financing mechanism for a new Civic Center Complex but not as an interim measure. Staff recommends that these opportunities be examined as part of the long-term strategy in developing a new Civic Center.

Gruen & Gruen recommended going out to the marketplace with a Design-Build RFP without making a commitment that a project would proceed on any specific timeline. As a result of this recommendation, the task force in conjunction with KMA met with three developers (Lankford and Associates, Douglas Wilson Companies, Opus West Corporation) with specialized experience in public facilities and public/private partnerships to present our methodology and conclusions and to receive their feedback. The developers provided feedback on: development costs for comparable projects; approaches to public/private partnerships; structuring methods of financing; recommended phasing to respond to City space needs; and possible approaches to soliciting interest from private developers.

These discussions provided the following key feedback:

A primary focus of the Civic Center master plan should be to replace the aging and obsolescent CAB. The developers specifically recommended against further investment in

CAB.

Departure of the Water Department would allow the City to back-fill the space it currently occupies in Comerica Plaza. This surplus capacity is a key opportunity for a temporary relocation of CAB employees while CAB is demolished and a new building is built.

Both the Gruen & Gruen and KMA analysis assume a fairly typical financing rate of 6% annual interest on tax-exempt bond financing. Clearly, if the City were to finance new buildings or acquisitions in an economic cycle comparable to the current environment of historically low interest rates, a substantial cost savings could be realized.

Further evaluation is appropriate.

PHASED CLOSURE OF THE CONCOURSE

Staff has met with SDCCC and discussed numerous options relating to the closure of the Concourse. SDCCC's phased closure plan provides for relinquishment of responsibility for the Concourse Terrace and Plaza levels as of January 1, 2005 and the entire Concourse Facility including parking facilities on July 1, 2005.

The City and SDCCC entered into an amended and restated operating agreement ("Agreement") in 1998 for management and operation of the San Diego Convention Center, CPAC Facilities and Parking Facilities. The Agreement provides for a ninety (90) day period for termination by either party. The Agreement also includes language in Section 4.12 which gives SDCCC the ability to terminate provisions of the Agreement relating to obligations/management and operation of the CPAC facilities without terminating the entire Agreement. Therefore in order to facilitate closure of the Concourse the City will need to negotiate an amendment to the Agreement or receive a written notification from SDCCC of their intention to release management responsibility back to the City.

Central Plant - The Central Plant is located in the Concourse basement and serves CAB, COB, the Concourse and Civic Theatre. The employees that operate the Central Plant are employed by SDCCC. SDCCC's recommendation is to transfer those employee's to Civic Theatre once the Concourse facility is turned over to the City.

Staff has analyzed the current Central Plant operation and the effect of the Concourse closure on the recent energy retrofit project. Since the annual energy savings from the retrofit has far exceeded original estimates, the closure of the Concourse will not materially effect the eight year payback. SDCCC is responsible for a negotiated share of the annual payment to Academic Capital Services of \$60,311.57 which will need to be addressed.

One of the original benefits of the retrofit project included the potential savings on personnel expenses because of the automated building control system. These savings have not been realized to date. Even though some flexibility needs to remain in order to accommodate late-hour events at the Civic Theatre, if portions of the Concourse are closed, staffing levels could be reduced without materially effecting the Central Plant operations. Staff recommends considering transferring responsibility for the operation of the Central Plant to Facilities Maintenance and analyzing the fiscal impact of absorbing the necessary employees within the City. Any

employees non-essential to the ongoing efficient operation of the Central Plant could be absorbed by SDCCC at the Convention Center.

Parking Facilities - In addition to the annual subsidy to SDCCC for operation of the Concourse which is anticipated to be \$1.15 million in FY04, SDCCC also receives a portion of the revenues generated from parking. These revenues are specifically referred to in the agreement with SDCCC as consideration for their administration of the City's contracts for parking operations at the Parkade and World Trade Center. As a result of their management responsibility, SDCCC receives a portion of the revenues generated from parking, a management fee and reimbursements for security services. This would result in additional annual revenue to the General Fund of approximately \$840,000, based upon FY04 projections.

In order to minimize these impacts the City Manager recommends transferring responsibility for overseeing the parking facilities and security services to READ, effective July 1, 2004 and discontinuing SDCCC's consideration for managing those facilities. The current parking management contract with Ace Parking provides for the assumption of security services which could be implemented at any time. This will result in immediate cost savings and increase revenue to the City's general fund. SDCCC has stated that they would absorb all of the current security personnel into their operations at the Convention Center.

OFFICE SPACE CONVERSION OPTIONS

When SDCCC turns over responsibility for the Concourse Terrace and Plaza levels the City could utilize these portions of the facility in the interim as office space, records storage and parking. Staff hired Maggetti Elam to prepare office space planning and cost estimates. The initial plans they prepared were for a complete conversion of the Concourse facility to professional office space including the addition of a second level in Golden Hall. Staff has reviewed the plans prepared by Maggetti Elam and formulated the following options for consideration:

Option 1: Complete Conversion to Office Space - Approximate Cost \$15,200,000

The preliminary space plans prepared by Maggetti Elam included the following:

Golden Hall First Floor - 52,800 SF.

72 Private Offices, 96 Built-in Workstations plus additional required office amenities including, Conference Rooms, Print/Fax Areas, Copy Rooms Etc.

Golden Hall Second Floor – 62,800 SF

106 Private Offices, 121 Built-in Workstations plus amenities

Plaza Hall First Floor – 36,000 SF

10,000 SF to include 19 Private Offices, 32 Built-in Workstations plus amenities

26,000 SF file storage area.

The total cost for demolition and buildout is estimated to be \$10,600,000 plus additional cost for signage, data cabling, furniture allowance and moving expenses would be approximately \$4,600,000.

Option 2: Terrace Level Office Space Build Out - Approximate Cost \$2,270,554

Preliminary space plans have been prepared for relocation of City work units into the Concourse building. The Golden Hall portion of the Concourse is not part of the office space option at this time and would be incorporated into future phases. Areas planned for office space are:

- South Terrace level consisting of 11,922 SF
- North Terrace level consisting of 3,820 SF
- Plaza level/basement consisting of approximately 40,250 SF
 - 6,626 SF for records/file storage
 - 33,624 SF for parking.

The South Terrace has approximately 11,922 SF of office space and can accommodate at least 15 hardwall offices with doors for professional staff and about 49 low-wall offices/cubicles. Some cubicle areas can be replaced with hardwall offices if needed. The South side space plan includes a large conference room, 2 small conference rooms, 1 medium size conference room, 2 file rooms, 2 copy rooms, and an employee breakroom. Depending on the department's space needs, the total offices and cubicles amount to 64 for the South side. The cost to build-out standard City office space for the South side would be approximately \$1,411,922.46 or \$118.43/psf plus data infrastructure costs.

The North Terrace has approximately 3,820 SF of office space and can accommodate at least 14 hardwall offices with doors for professional staff and about 21 low-wall offices/cubicles. The North side space plan includes a large conference room, 2 small conference rooms, 1 medium size conference room, 1 copy room, and 1 breakroom. Depending on the department's space needs, the total offices and cubicles amount to 35 for the North side. The cost to build-out standard City office space for the North side would be approximately \$452,402.60 or \$118.43/psf plus data infrastructure costs.

The construction costs include:

- 1.Replacing the entire HVAC system as the current system is functionally obsolete and cannot handle the additional load factor of an office space environment.
- 2.Installing required fire and life safety equipment per code including fire sprinklers.
- 3.Removing or spot abating asbestos throughout the premises.
- 4.ADA compliance.
- 5.Installation of a drop ceiling beneath the existing banquet high ceiling to accommodate office space lighting, electrical and data infrastructure needs.

The installation of the City's data infrastructure were estimated by San Diego Data Processing Corporation and would cost approximately \$406,229.

The Plaza level/basement area has approximately 40,250 SF of which 6,626 SF could be used for file storage. A hard wall would be constructed to create secure storage area at a cost of approximately \$448,207 for various City departments. The remaining 33,624 SF could be converted to parking and provide approximately 68 new parking spaces. The cost to convert the area to parking is estimated to be \$55,000 which could be amortized by the parking operator over a five year period. The new revenues from the parking will more than offset the conversion costs and generate a net income to the City of approximately \$40,000 to \$60,000 per year.

Option 3: Minimal Office Space Conversion - Approximate Cost \$1,784,435

Relocate various City divisions into the existing Terrace level space layout. The space would be taken in “as is” condition with minimal modifications. The major cost would be the installation of City data infrastructure and necessary changes to the HVAC system. Refurbished systems partitions furniture will be utilized and existing hardwall offices would be used in as is condition. The cost would be approximately \$1,378,206 plus the data infrastructure cost of \$406,229.

The plaza level/basement area would be converted to records/file storage and additional parking as outlined in Option 2 above.

Option 4: File Storage and Parking Only - Approximate Cost \$503,207

The Plaza level/basement would be used for City records/file storage and additional parking with no relocation of City staff. Costs would be as outlined in Option 2 above.

Funding for any of the four options listed above has not been identified at this time.

Option 5: Temporarily Close the Concourse with no Re-Use

If the primary objective is to save money and eliminate the subsidy to SDCCC, then the most cost effective measure would be to close the facility and retain it for future use and/or issue an RFP for interim use. In the alternative, an exception could be made to utilize Golden Hall on an as needed basis for City functions, such as the State of the City address and for inaugurations etc. SDCCC personnel or contract employees could be used to prepare the facility for these limited City functions.

EXCLUSION OF GOLDEN HALL

One approach would be to continue to allow Golden Hall to function while closing or converting the other areas of the Concourse. SDCCC has explained in detail how the facility currently functions and it is clear that those functions and events which utilize the entire facility generate substantially more revenue than those utilizing only Golden Hall alone. Without the other portions of the facility, the daily use rate for Golden Hall would likely be too high to attract users without a significant subsidy from the City. As a result, staff cannot recommend keeping Golden Hall operational except on a very limited basis for City functions.

POTENTIAL OF LEASING TO NON-PROFITS OR FOR-PROFITS

In terms of implementing any future plans for the Concourse, retaining site control is critical. Staff does not recommend considering leasing to non-profit or for-profit entities until the guiding principles for a comprehensive long-term strategy is adopted that addresses the disposition of the Concourse on a mid/long term basis.

In the short term, leasing the facility or portion of the facility as is (not to exceed 3-5 years) could be considered as an alternative. Staff could issue a Request for Proposals (“RFP”) or Letter

of Interest (“LOI”) to ascertain potential interest from the private sector. Any future lease would need to be at market rates and terms in order to be financially viable for the City. Given current fiscal constraints, it is critical that a complete analysis of all costs associated with any proposed short term uses be performed and any subsidies for such uses should be avoided. Staff does not recommend pursuing interim uses until a long term strategy is established.

RECOMMENDATIONS

1. If funding is identified, staff recommends considering implementing a short term strategy of Minimal Office Space Conversion of the Concourse to supplement the City’s immediate office space needs. Funding has not currently been identified for this alternative.
2. Staff recommends transferring responsibility for the parking facilities and security for the Concourse from SDCCC to READ, effective July 1, 2004 as an immediate cost savings measure. Transferring responsibility for the Central Plant should also be considered.
3. With respect to the Civic Center Master Plan and the Downtown Partnerships recommendations, the City Manager’s staff recommends continuing to develop guiding principles for a long-term strategy for a permanent Civic Center. Staff recommends incorporating funding for programming into CCDC’s 2005 budget.
4. Once guiding principles are established, staff recommend working with CCDC to develop the specific scope of an RFP or LOI for re-use of the Concourse to ascertain potential interest and possible uses from the private sector.

Respectfully submitted,

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GRIFFITH/CEH-sb