



## THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: July 16, 2004                      REPORT NO. 04-163

ATTENTION: Rules Committee  
Agenda of July 21, 2004

SUBJECT: San Diego Community Concourse (“Concourse”) Re-Use

REFERENCE: Manager’s Report No. 04-030, dated January 30, 2004  
Manager’s Report No. 02-105, dated May 3, 2002  
Manager’s Report No. 00-03, dated January 4, 2000  
Manager’s Report No. 99-158, dated July 27, 1999

### SUMMARY

Issue - 1) Should the Rules Committee provide recommendations for the implementation of a short-term and long-term strategy for the future use of the Concourse?

#### City Manager’s Staff Recommendations

1. Approve the Civic Center Guiding Principles for the long term use of the Concourse.
2. Develop of an implementation plan to further the goals of the Guiding Principles with the Downtown Partnership and CCDC.
3. Develop the parameters for proposals for the short-term uses of the Concourse that provide the City with opportunities to cover operating costs for the facility through revenue generation and/or provide significant cost avoidance for City departments.
4. Amend the Management Agreement terminating SDCCC’s obligations related to the management and operation of the CPAC facilities, Parking Facilities and the Plaza effective June 30, 2005, and;
5. Negotiate a new agreement with San Diego Theaters, Inc. formalizing its

responsibility for the management and operation of the Civic Theater, supervision of the central plant employees and Concourse security staff.

Fiscal Impact – Unknown at this time.

## BACKGROUND

At the February 4, 2004 Rules Committee meeting a number of issues related to the closure of the Concourse were discussed. The Concourse comprises Golden Hall, Plaza Hall and additional meeting rooms. The Committee recommended approval of the City's and the San Diego Convention Corporation ("SDCCC") intention to no longer use the Concourse as a meeting facility. It further approved amendment of the Second Amended and Restated Management Agreement ("Management Agreement") between the parties to terminate SDCCC's management and operation of the Concourse effective June 30, 2005.

Due to time constraints at the February 4 meeting, the remaining issues before the Committee were not discussed and the item was continued. This memorandum provides a recap of these issues and presents an analysis of possible options for the future use of the Concourse. A copy of the City Manager's Report No. 04-30 issued prior to the February 4 meeting is attached (See Attachment "A").

### Management Agreement

The Management Agreement was amended in November 1993 giving SDCCC the responsibility for the operation and maintenance of the Civic Theater, Golden Hall, Plaza Hall and meeting rooms (collectively known as "CPAC") and the exterior terrace / plaza ("Plaza"). SDCCC was also given responsibility for the contract administration for the Evan Jones parkade and the World Trade Center parking garage ("Parking Facilities").

In addition to an annual subsidy from the City for operation of CPAC, the Management Agreement provides SDCCC an administrative fee of \$48,000 per year for overseeing the contracts for the Parking Facilities, as well as a portion of the parking revenues generated. The City reimburses SDCCC sixty-six percent (66%) of the staffing costs and seventy-five percent (75%) of maintenance costs for the central plant located in the basement below the Concourse. As the City is billed for the water, sewer, gas and electricity used by all buildings in the Charles M. Dail Civic Center Complex, SDCCC reimburses to the City the actual costs associated with CPAC not to exceed forty percent (40%) of the total cost for sewer and water and twenty-seven percent (27%) for gas and electricity. The security costs total approximately \$300,000 per year.

SDCCC plans to hand back responsibility for the Concourse on July 1, 2005. On July 1, 2004, SDCCC transferred responsibility for the supervision of the central plant employees and administration of the Parking Facilities contracts to San Diego Theaters, Inc. Pursuant to the

terms of the Management Agreement this transfer requires the written approval of the City Manager. In order to implement this, the following needs to occur: 1) Amendment of the Management Agreement is required to terminate SDCCC's obligations related to the management and operation of CPAC, Parking Facilities and the Plaza. 2) A new agreement is required with San Diego Theaters, Inc. Operational issues that need to be addressed in this agreement include:

- a. Redetermination of the reimbursements for the cost of utilities and the central plant.
- b. Security at the Parking Facilities.
- c. Deletion of the administration of the contract for the World Trade Center parking garage.
- d. The appropriateness for continued payment of a fee for the administration of the Parking Facilities contract.
- e. Reapportioning of the parking revenues.
- f. San Diego Theaters, Inc.'s periodic use of the Plaza for events.
- g. San Diego Theaters, Inc.'s use and/or relocation of the Concourse ticket office.
- h. San Diego Theaters, Inc.'s use of the Concourse kitchens.

Staff from the City, SDCCC and San Diego Theater, Inc. have met to identify issues, but documents have not been drafted.

#### Long Term Strategy - Redevelopment

In the 1990s, Gruen & Gruen was commissioned by the City to examine asset management strategies for the civic center properties. At the direction of the Rules Committee, a task force was formed comprising of the Downtown Partnership, Center City Development Corporation ("CCDC") and Real Estate Assets to review the Gruen & Gruen reports and to develop guiding principles for a long term strategy for a new civic center complex.

The task force determined the main conclusions from the reports to be:

- a) The condition of the City Administration Building is substandard.
- b) Rates for existing space leased by the City are below market.
- c) In the near term, the cost to provide new City-owned buildings would far exceed present occupancy and leasing costs;
- d) However, this situation will change when favorable leases expire.
- e) Ownership provides the City with the benefits of reversionary rights and the ability to sublease surplus space.

A copy of the Civic Center Guiding Principles drafted by the task force is attached (See Attachment "B"). The task force has explored the concept of a public / private partnership as a possible means to financing the long term development of the civic center complex. In one example of such a partnership, the private partner provides the capital in return for the development potential and the City provides the land in return for a new civic center. The City has been contacted by a number of parties interested in the site. Several developers have been

interviewed and if an acceptable financing and disposition structure can be devised, there will be significant interest in a mixed-used project. With CCDC's involvement, the incorporation of city blocks surrounding the civic center complex into the project area may enable greater revenues to be captured that could also be utilized to fund the civic center portion. Members from the task force will be present at the meeting to discuss redevelopment in further detail.

### Short Term Strategy – Interim Use

Retaining site control is critical. If future redevelopment of the Concourse is to be pursued along the timeline recommended in the Civic Center Guiding Principles, construction could begin as early as 2009. Accordingly, a use of the Concourse that ties up the facility for the long term is not recommended. Based upon extensive analysis by the SDCCC, which formed the basis for the closure, the most cost-effective measure would be to close the Concourse pending determination of future redevelopment. SDCCC has determined that the facility can not continue to function as it has in the past without significant subsidy. If needed, Golden Hall could be used on a limited basis for City functions. Revenue derived from third-party use of the Concourse or cost avoidance through City use could cover all of the costs of keeping the facility open on a limited basis. Despite these fiscal constraints, Real Estate Assets staff has examined a number of options for interim uses of the Concourse.

### **Interim Use Options**

1. Office Space - The firm of Maggetti Elam was hired to investigate options for converting the Concourse into office space. Estimated costs range from \$15.2 million for a complete conversion (including demolition and relocation expenses) down to approximately \$500,000 for file storage and parking. A funding source has not been identified. Attachment "A" contains a detailed discussion regarding the analysis of this alternative.
2. Short Term Leasing - Short term leasing of the Concourse could also be considered as a possible interim use. From SDCCC experience of operation the facility, it is unlikely that revenue derived from such leases will match the annual subsidy of between \$1.1 and \$1.5 million required in previous years. The facility also requires an investment of approximately \$24.7 million deferred maintenance. However, a complete analysis of this alternative cannot be performed unless proposals are sought from interested, qualified parties. A Request for Proposals ("RFP") process is therefore recommended. This process will take approximately six months to complete and cost a minimum of \$25,000 in staff and direct costs. A number of organizations have submitted unsolicited requests to rent space within the Concourse, including amongst others:

#### The San Diego Opera

- Requests use of the Copper and Silver rooms for rehearsal space.
- This will free up space within the Civic Theater

### The North Park Apostolic Church

- Proposes similar use of the Concourse as currently operated.
- Interested in a five-year lease while searching for a new home.
- Not only proposes to absorb current operating deficits, but also to provide a Golden Hall will still be made available for City events.

No substantive financial details have been provided at this preliminary stage for any of the proposals. If this alternative is pursued, a comprehensive disclosure package detailing all costs associated with the operation and management of the facility including deferred and ongoing maintenance, required staffing levels, inventory, equipment, central plant costs, etc will be required. This information will need to be prepared by SDCCC. Staff recommends that any interim use be limited to 3-5 years, with possible annual extensions at the City's sole discretion. If directed, staff will prepare a complete RFP package and return to the City Council for authorization to issue the RFP in the early fall.

3. Meeting Space - Real Estate Assets staff has identified a significant need for additional City meeting space by a number of departments. In particular, if alternative meeting space was available, the Development Services Department would be interested in the conversion of existing meeting rooms located in the Development Services Center into additional office space to house staff. A possible solution to this problem is to make available to City staff the terrace level Concourse meeting rooms; including the Copper and Silver rooms, which could be booked through the City's GroupWise system. In addition, the Personnel Department has expressed an interest in resuming use of the Concourse for city examinations. These interim uses could also allow other departments to avoid current and future costs. The significant costs associated with conversion to office space could be avoided as the meeting rooms would be utilized as-is.
4. Restaurant / Food Service Space – Real Estate Assets staff has also received interest from parties for a portion of the Concourse including the kitchen to be used for restaurant / cafeteria purposes. Staff has received no details, but this use could also be considered as part of a RFP.
5. Police Department Storage – Staff has been working with SDPD to explore the potential use of Plaza Hall for the expansion of its property and evidence storage capabilities. The proposal offers significant cost avoidance for the department and would still allow for the continued use of Golden Hall for City events. The department's two existing facilities at Police Headquarters and Eastern Division are full to capacity. The department has a currently unfunded CIP requirement in FY07 set aside for expansion in the amount of \$5 million. The use of Plaza Hall would delay the need for such funding until redevelopment of the civic center. Plaza Hall provides accessible space that is conveniently located close to the downtown courts. The department could also use the facility for its periodic public auctions thereby accumulating further cost savings. The current venue for such auctions is rented at \$1,500 per day. The flexibility provided by the use of Plaza Hall would allow

for an increased number of auctions throughout the year and correspondingly an increase in the revenues derived from this activity. The cost to secure the facility for police use is estimated at \$50,000.

The prioritization and analysis of the financial feasibility of the five alternatives listed above cannot be finalized until all of the fiscal impacts are known. Based upon the extensive market expertise, operating history and analysis performed by SDCCC, continuing the current uses will most likely require a significant subsidy. However, the private sector may be able to develop solutions that have not been considered. The best opportunity to explore these ideas would be through an RFP process. In order to prepare the RFP package, City staff will require significant input and assistance from SDCCC to establish all costs associated with the continued operation and management of the facility. Respondents to the RFP will need to know exactly what they will be required to cover to submit a complete proposal. The potential uses contemplated by City departments can then be compared to the private uses. Based upon a final fiscal analysis, a combination of uses may end up being the most cost effective alternative.

#### RECOMMENDATIONS

1. Staff recommends approval of the Civic Center Guiding Principles.
2. Direct City staff to continue work on furthering the goals of the Guiding Principles with the Downtown Partnership and CCDC.
3. Staff recommends continuing to develop proposals for uses of the Concourse that provide the City with opportunities to cover operating costs for the facility or provide significant cost avoidance for City departments.
4. Staff recommends amendment of the Management Agreement terminating SDCCC's obligations related to the management and operation of the CPAC facilities, Parking Facilities and the Plaza effective June 30, 2005, and;
5. Execution of a new agreement with San Diego Theaters, Inc. formalizing its responsibility for the management and operation of the Civic Theater, supervision of the central plant employees and Concourse security staff.

Respectfully submitted,

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William T. Griffith  
Real Estate Assets Director

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Approved: Bruce Herring  
Deputy City Manager

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ATTACHMENTS

[A. Manager's Report No. 04-030](#)

## B. Civic Center Guiding Principles