



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 than 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 first 18-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 it is 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 if 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 this 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:

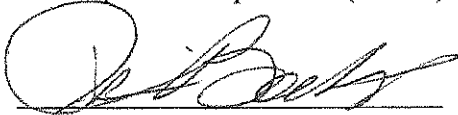
City Council approved Tucker Sadler Architects, Inc. (TSA) and Rob Quigley as Main Library Architects R-287743: August 5, 1996 and authorized executing an agreement with joint venture between Rob Wellington Quigley Inc and Tucker Sadler Nobel Castro Architects Inc. and approval of agreement amendments 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.



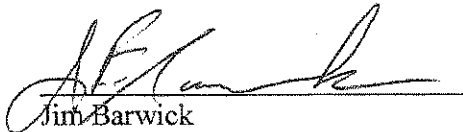
Patti Boekamp
Director, Engineering & Capital Projects



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 Funds
- Attachment D: Schedule

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

Effective 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:** The sixth and seventh floors of the Building.
- 2. **Use:** Operation of a public charter school.

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. Whether Landlord's discretion may be unreasonable, or the standard of reasonableness applied to Landlord's discretion, will be an issue to be resolved through negotiation prior to any final lease agreement.
8. **Tenant Improvements:** Landlord will deliver space to Tenant in shell condition consistent with the proposed plans dated May 8, 2009. 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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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

**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

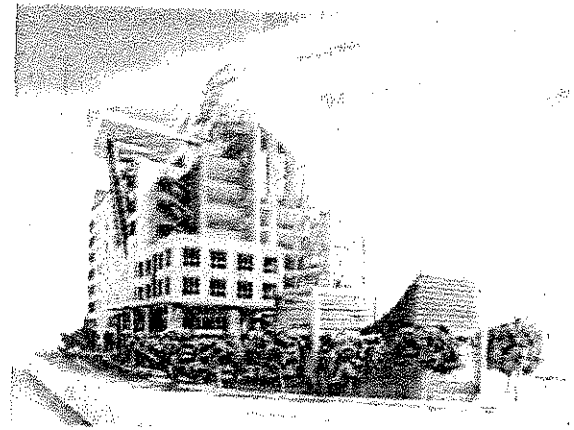
Year	0	21	22	23	24	25	26	27	28	29	30
Total Revenue Years 21-30	-	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427	1,907,427
Parking revenue		(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Net Income Years 21-30	-	1,847,427	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	-	-	-	-	-	-	-	-

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	\$993,500	\$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		

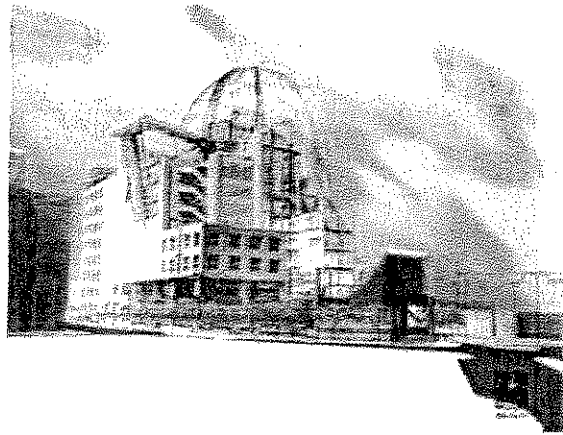
¹ The 2006 Value Engineering reduces the cost and deletes the Tenant Improvements on the 6th and 7th floors

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.

San Diego Main Library

Schedule for Encumbrance of Funds

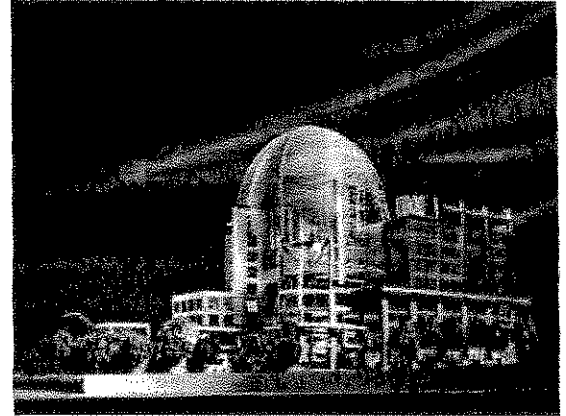


Funding Source	State Grant	CCDC	Private	Other	SDUSD*
Prior year expenditures / encumbrances	0	\$16,500,000	0	\$1,617,908	
Funds needed July 2009		\$500,000			
Funds needed July 2010	\$20,000,000	\$20,000,000	\$27,500,000		\$5,000,000
Funds needed December 2010	0	\$20,000,000			\$5,000,000
Funds needed 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 <i>Completed</i>
Police Department Move Out	<i>Completed</i>
Demolition and underground tank removal contract	<i>Completed</i>
Award Soils Remediation contract	<i>Completed</i>
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

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: June 23, 2009

IBA Report Number: 09-58

Rules Committee Date: June 24, 2009

Item Number: 2

San Diego New Main Library – Letter of Intent with SDUSD

OVERVIEW

At the meeting of June 24, 2009, the Rules Committee will consider whether to recommend to Council entering into a letter of intent between the City and the San Diego Unified School District (SDUSD) to lease two floors of the proposed main library. This letter of intent aims to solidify the City's plans for the main library and to provide justification to the State to extend the period of authorization for a \$20 million grant that is a critical component of the library financing plan. The current deadline is July 1, 2009, but staff believes an extension is possible if this plan can be affirmed.

The City applied for the State Library Bond Funds in March 2003. The application was lengthy and quite detailed, and provided specific information about the capital project and the City's ability to finance the project costs and its subsequent ongoing operations. The IBA has reviewed the information in the State application and other reports, and has relied on this past data as a baseline for comparison as the Main Library project evolves. Clearly the City's financial situation has changed over this period of time, and an economic downturn continues; it is to be expected that these and other plans would need to be revised to reflect current realities. However, it is important to note those instances where major shifts have occurred since previous approvals have been obtained.

This report discusses the components of the lease with the School District as well as other considerations of the overall library plan. Our intent is to provide additional context and information to ensure a robust inspection and discussion of this proposal.

FISCAL/POLICY DISCUSSION

In the original project proposal, the sixth and seventh floors of the proposed New Main Library were included in the design as future expansion space for library uses, and would not be needed for twenty years. In the interim period, the expansion space was to be leased, and would provide a source of revenue to the City. That plan has since evolved to a lease of the space to the SDUSD for school purposes. However, a long-term lease with a possible option to purchase by SDUSD may preclude the City from ever utilizing the expansion space for the library in the future.

LEASE ANALYSIS

The IBA has analyzed the lease assumptions and cash flows presented by the Real Estate Assets Department. This lease analysis appears to have been an unusual challenge, given that the amount of money was fixed at \$20 million and the variable to construct a fair deal became the lease term. The IBA deconstructed the components of the lease analysis and provides the following comments:

Tenant Improvements

The IBA questions the applicability of crediting the \$3.7 million in assumed tenant improvements to the School District. The City's 2006 Value Engineering eliminated the tenant improvements on those floors, therefore the construction budget for this project is not actually reduced by \$3.7 million due to this proposal. It should be noted that the most recent estimates of lease revenues to an alternative outside tenant eliminated the cost of tenant improvements provided by the City. If the tenant improvements are not counted toward the total value of the lease, the City would be losing \$3.7 million through this proposal.

Parking

The IBA disagrees with the department that parking revenues should be included in the lease analysis. Parking is used and paid annually, so there is no reason to discount this revenue back to Net Present Value (NPV). In addition, in the department's analysis, the School District is getting the benefit of counting parking revenue toward the NPV, while the \$23.7 million upfront payment does not include the NPV of the parking revenue each year. Without counting parking, the NPV is \$24.6 million, and the City may be losing approximately \$900,000, in addition to the \$3.7 million in tenant improvements mentioned above, for a total disparity of \$4.6 million. In other words, the School District is getting \$24.6 million in value from the lease, while paying the City \$20 million for it. Our analysis is provided in the attachment to this report. The IBA recognizes that staff disagrees with this assessment and invites further discussion on this topic. We also discuss some options below to address these concerns.

Favorable Lease Factors

While we suggest that the City is losing the value of \$4.5 million in this proposal, there are a number of factors unique to this lease that would create advantages for the City. Certainly, the provision for tenant improvements is one, as well as the elimination of any tenant improvement allowances over the years. Additionally, this long-term lease provides potential cost avoidance for the City, by precluding the necessity for revised and new tenant improvements more frequently on multiple, shorter-term leases. Also, since this proposal has been made directly between the two parties, the City has avoided a broker commission on the lease, which is estimated at around \$1 million per instance.

Other Notes

This proposal also makes a significant shift from the prior proposals for the library. Previously, the lease revenue from the tenant was to be used to fund and mitigate the costs of operations and maintenance in the new building. In this model, all of the lease revenues are used upfront to construct the building. Thus, the City loses potential future cash flows that would provide additional support for the General Fund. A further discussion of the operating costs of the library is provided below.

The IBA also notes, as a point of information, that we reviewed lease rate scenarios using the same assumptions as used by Jones Lang LaSalle in their analysis for the proposed Civic Center redevelopment. Those assumptions include annual escalations in rent of 2.5% and a discount rate of 5.25%. This analysis did add approximately \$1.5 million to the NPV of the proposal (meaning the School District would be getting an even better deal than described above). However, in discussions with staff, it was noted that long-term leases, such as this proposal, are not generally modeled with annual rent escalations. The discount rate makes a nominal adjustment to the balance and is slightly different due to the timing of the development of the two reports and market adjustments.

Further Negotiations

The IBA suggests a few avenues that may be pursued should the City desire to negotiate the terms of this agreement further. One suggestion is to negotiate additional funds to make up the lost value to the City. While \$20 million is the amount the School District has under Proposition S for this project, we suggest that the School District's tax increment from Centre City may contribute as well. It appears that the tax increment may only be used for facilities within the project area and this proposal would qualify. As shown above, \$4.6 million would be required to make the value to the School District equivalent to the payment to the City. Secondly, the City may wish to modify the term of the lease agreement so as to equalize the value. The IBA estimates that, under the terms as described, a lease period of 29 years would equate to approximately \$20.2 million in value, as opposed to the current proposal for 40 years.

FUTURE COSTS

As the IBA has noted previously in various reports, the 2002 Library Facilities Improvement Program (which includes the New Main Library project) has not been comprehensively updated since it was adopted. Projects have not been reevaluated or reprioritized with an eye towards the City's operating budget capacity. Most projects have been delayed due to lack of capital funding and the focus has shifted to projects relying on grants, developer money or other non-City funding. At the same time, the issue related to operating costs has not been reconsidered in light of the City's ongoing budget challenges.

The original plan called for the issuance of three series of bonds over a four year period to fund the New Main Library and branch library projects. Total borrowings were estimated at \$191.4 million. Annual debt service payments for all three series were estimated at \$13.8 million, for thirty years. As the City was unable to issue bonds to fully implement the plan, and significant funding for the New Main Library now comes from the Redevelopment Agency and additional fundraising, the costs of annual debt service payments will be avoided by the City.

When the plan was developed in 2002, operating costs for all new facilities were fully identified. The Library Ordinance, requiring that a set level of General Funds be dedicated to libraries each year, was put into place that same year to secure a source of funding for these newly identified operating costs, and to ensure funding for annual debt service payments. However, as pressure came to bear on the General Fund, the Library Ordinance has been waived since 2004, to free up funds for other priority areas.

The report to Rules indicates that "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." Unfortunately, as we have discussed in prior budget report, the IBA believes that it may be unrealistic to assume the level of funding called for in the Library Ordinance, given the many competing needs within the City's General Fund. Additionally, as no bonds have been issued, funding for debt service requirements is no longer needed, and the 6% funding goal should be reevaluated and made more consistent with current requirements.

The Mayor's Five Year Financial Outlook, last issued in November 2008, did not include costs associated with new facilities planned to open during the five-year period. An update to the Five Year Outlook has been expected, and should address the many priority projects currently contemplated by the City, including the Civic Center Complex, the Convention Center Expansion and the New Main Library. An updated Five Year Outlook would shed light on the City's financial future and help to provide context to these significant decisions.

In preparation of the November Outlook, the Library Department submitted estimates of additional costs related to a FY 2012 opening of the new Main Library reflecting an increase of 16.94 FTEs at an additional cost of \$5.8 million (including non-personnel expenditures.) These costs were not included in the final Outlook. These increases (added to current budget levels) would bring total FTEs to 91.88 and costs to \$13 million for the New Main Library. In the current report to the Rules Committee, the Library Department now projects the need for a total of 81.94 FTEs and annual costs of \$10.5 million. These costs exclude Building Services, Technical Services, Delivery and READ San Diego, in order to make an appropriate comparison with the costs of other central libraries, as shown below. In contrast, the 2003 State application described a staffing plan reflective of 148.00 FTEs and annual operating costs of \$16.1 million.

The San Diego Public Library Foundation has indicated they have secured donations of \$10 million to fund the first five years of operating costs. If increased costs exceed \$2 million annually for the first five-year period, and after the private donations are exhausted, additional cost requirements for operations will fall to the City's General Fund.

Because of the changing plans and cost estimates related to the operations of the New Main Library, the IBA prepared a comparison of the City's current and projected costs with new and expanded city libraries in the cities of Seattle, San Francisco, and Phoenix. This information is summarized in the table below.

Jurisdiction	Size of facility (sq. ft.)	Main Library (FTE)	Sq. Ft. per FTE	Annual Main O&M Cost	Main Library Hours of Operation (per week)	Main Library Door Count	Total Library (FTE)	Total Annual Budget	Main Library Circulation/Collection Size
Seattle Central Library	363,000	104.00 ⁽¹⁾	3,490	\$10.2M	62	2 million	533.00	\$50.8 M	Circulation : 1.6M of 9.3M total Collection size : 1.1M of 2.3M total (FY 2008)
San Francisco Main Library	376,000	187.00 ⁽²⁾	2,011	\$15.4M	60	2 million	649.00	\$84.6M	Circulation : 2.2M of 8.3M total Collection : 1.3M of 2.5M total (FY 2008)
Phoenix, Burton Barr Central Library ⁽³⁾	280,000	88.90 ⁽⁴⁾	3,150	\$9.2M	52	784,000	348.60	\$35.8M	Circulation: 2.4M of 15.4M total Collection : 705,000 of 2M total (FY 2009 estimates)
San Diego Central Library (Current)	144,000	74.94 ⁽⁵⁾	1,922	\$7.2M	52	563,000	375.00	\$37.0M	Circulation: 635,000 of 7.4M total Collection size: 823,000 of 3.6M total (FY 2008)
Projected San Diego New Main Library	366,000	81.94	4,467	\$10.5M	52	tbd	382.00	\$39.7M	Central collection projected to increase to 1.3M (Source: San Diego Public Library Foundation)

(1) Public service staff only. Excludes City Librarian, Administrative Services, and Technology and Collection Services divisions which are located at the central library.

(2) Public service staff only.

(3) Data reflect 20% FY 2009 mid-year budget reduction

(4) Public service staff only. Administrative staff, IT staff budgeted separately

(5) Public service staff and central NPE only.

Using the data in the comparison, the square foot per FTE was calculated, which shows that San Diego's current staffing at the existing library has the lowest ratio (1,922 sq ft per FTE) of the four cities, growing to the highest ratio (4,467 sq ft per FTE) using the projected staffing at the new, larger facility. This ratio may suggest the relative demand being placed on each full-time equivalent staff person, with a lower ratio being more desirable.

The City's Library Director has indicated that operational and technological advances will assist with efficiency gains that will enable the reduction of staffing requirements (on a per square footage basis) in the larger New Main Library facility.

CONCLUSION

This report discusses key elements of the proposed letter of intent with the San Diego Unified School District for the lease of the sixth and seventh floors of the New Main Library project. This information is intended to provide additional context and areas deserving further review to ensure a robust inspection and discussion of this proposal.

The Rules Committee may want to reevaluate the terms of the lease proposal, including the proposed treatment of credits related to tenant improvements and/or reducing the number of years for the lease term to equalize the value among both parties. In addition, information related to future costs has been provided, including a comparison of operating costs for main libraries in other cities.

[SIGNED]

Penni Takade
Deputy Director

[SIGNED]

Elaine DuVal
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment: IBA Analysis of Lease Proposal

IBA ANALYSIS OF LEASE PROPOSAL

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	-	-	-	-	-	-	-	-	-	-	-
Net Income 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
DCF Years 1-10	(23,700,000)	-	-	1,053,027	1,002,406	954,218	908,346	864,680	823,113	783,544	745,877

Year	0	11	12	13	14	15	16	17	18	19	20
Total Revenue Years 11-20	-	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989
Parking Revenue	-	-	-	-	-	-	-	-	-	-	-
Net Income Years 11-20	-	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989	1,507,989
DCF Years 11-20	-	877,085	834,921	794,785	756,577	720,207	685,585	652,627	621,254	591,389	562,959

Year	0	21	22	23	24	25	26	27	28	29	30
Total Revenue Years 21-30	-	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843
Parking Revenue	-	-	-	-	-	-	-	-	-	-	-
Net Income Years 21-30	-	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843	1,938,843
DCF Years 21-30	-	689,010	655,888	624,358	594,343	565,772	538,574	512,683	488,037	464,576	442,243

Year	0	31	32	33	34	35	36	37	38	39	40
Total Revenue Years 31-40	-	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697
Parking Revenue	-	-	-	-	-	-	-	-	-	-	-
Net Income Years 31-40	-	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697	2,369,697
DCF Years 31-40	-	514,535	489,800	466,254	443,840	422,504	402,193	382,859	364,454	346,934	330,256

Year	0	41	42
Total Revenue Years 41-42	-	2,369,697	2,369,697
Parking Revenue	-	-	-
Net Income Years 41-42	-	2,369,697	2,369,697
DCF Years 41-42	-	314,380	299,267

TOTAL NPV \$24,585,360