
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 333

Proposal for Main Library: Letter of Intent and Status Update

OVERVIEW

For the Rules Committee discussion on June 24, 2009, the IBA issued Report Number 09-58 “San Diego New Main Library- Letter of Intent with SDUSD”. This report is provided in your docket materials for the July 7th Council meeting and is marked as City Clerk reference number 001213. While there are numerous aspects that should be explored and carefully considered by the City Council regarding the proposal for a joint New Main Library and Charter School, our primary focus is on raising issues with respect to whether this is a sound financial proposal for the City. In addition, our office described concerns with projected staffing and operating costs for the new facility. At the Rules Committee meeting, several questions were posed and requests for additional information were made.

Letter of Intent

In our report, we raised two main issues with respect to the letter of intent and the lease terms: 1) should the one-time \$3.7 million payment by SDUSD for their tenant improvements be considered as an investment and therefore credited to the School District in the lease terms; and 2) should the annual \$60,000 parking revenue from SDUSD for the use of thirty parking spaces be credited to SDUSD within the lease terms? The net present value of this income stream is estimated at \$900,000. From a purely financial perspective, and as noted in our previous report, it is our position that the proposal results in a loss to the City of \$4.6 million.

During the Rules Committee discussion, it was noted that school district funding for this project is fixed at \$20 million and an additional \$4.6 million would likely not be considered. Alternatively, the term of the lease agreement could be modified. We have estimated that under the lease terms as described, \$20 million on a net present value basis equates to a 29 year lease rather than a 40 year lease.

Real Estate Assets Director Jim Barwick has responded to our analysis in a memo to the City Council, dated June 29, 2009, which is included in your backup materials. In it he notes that the proposed structure is extremely unique and virtually without precedent. We agree that it is creative; and as we discussed in our previous report there are a number of advantages for the City to enter into such a lease.

Nevertheless, we believe that a 30-year lease would be a more equitable financial proposal as well as provide the Main Library with the opportunity to grow into the space at an earlier date as was originally envisioned.

Staffing of New Main Library

Library Director Deborah Barrow provided a response, dated July 2, 2009, regarding staffing concerns for the New Main Library also raised in our previous report. The response describes that the Plan of Service that was submitted as part of the 2003 State application reflected enhanced services, and an increase in the number of operating hours, both requiring additional staff beyond the core level now planned. The core level of service has consistently been estimated to require 82 full-time equivalents (FTEs).

Requests for Additional Project Details

In order to respond to questions and requests posed by the Rules Committee, Engineering and Capital Projects Director Patti Boekamp issued a memorandum dated July 2, 2009, which provides expenditure detail of the project's costs to date; an update on estimated construction costs; the status of the Police Vehicle Maintenance Facility; and, the status of site remediation work.

CONCLUSION

Our primary focus has been to raise issues with respect to whether the proposed Letter of Intent with the San Diego Unified School District is a sound financial proposal for the City. The structure of the proposed LOI is unique, as there are a number of advantages for the City to enter into such a lease. However, we believe that a 30-year lease would be a more equitable financial proposal.

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