THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: TBD

Consultant Review of 101 Ash and Civic Center Plaza Building Options

Earlier this year, the Office of the Independent Budget Analyst engaged Kosmont Companies (Kosmont)[1] to perform a high-level review and evaluation of options for the 101 Ash and Civic Center Plaza buildings (buildings), to help inform the City Council during its deliberations surrounding litigation regarding those buildings. That review is attached to this report.[2]

Kosmont's analysis *did not* focus on City's legal case, but instead focused on current and future needs for City office space, and the costs for that office space under a scenario where the City settled litigation around the buildings and took outright ownership of them[3], or under a scenario where the City continued its litigation and ultimately proved successful in having the leases voided (this latter scenario included an approximate range of costs for remediation of the buildings for which the City potentially could still be liable).

After an intense review of relevant materials and multiple meetings with various offices and departments, Kosmont prepared the attached report and presented it to the City Council. The Kosmont analysis relies on several assumptions which are detailed in their report, including an assumption that the City needs 610,000 to 710,000 square feet of downtown office space, and that if the City ultimately acquired the 101 Ash building, it could remediate that building and use it as office space.

Kosmont found costs associated with the City's office-space and building needs over a 30-year time horizon range from $228 million to $302 million in a scenario where the City settles litigation around the buildings, and $190 million to $483 million in a scenario where the City continues

[1] Kosmont is a real estate and economic development firm that has provided public and private sector services for over 35 years.

[2] Some small portions that analysis have been redacted to protect information that remains attorney-client privileged or that contain privileged mediation information.

[3] Some terms of the settlement proposal evaluated by Kosmont are different than terms currently pending before Council; overall, however, the total potential fiscal impacts are substantially similar.

litigation around the buildings and successfully has the building leases declared void. Ultimately, Kosmont found the decision to settle or continue in litigation was heavily dependent on the City's desire to own the buildings and its risk tolerance, and Kosmont noted that any potential downtown real estate programs of the City could be suspended absent resolution of litigation, as it may not be prudent to make significant real estate decisions until the fate of the 101 Ash and CCP buildings is known.

Additional detail can be read in the attached report. Our office notes that because Kosmont's analysis did make a tacit assumption that 101 Ash could be used as office space if the City acquired it outright, and that the City has a need for a substantial amount of office space downtown, it is *critical* that the Mayor's Office and the Department of Real Estate and Airport Management bring forward a clear and detailed plan for the City's future downtown real estate needs and how the 101 Ash and CCP properties fit into that plan.

Charles Modica
Independent Budget Analyst

City of San Diego – 101 Ash & CCP Settlement Analysis

February 22, 2022

The analyses, projections, assumptions, rates of return, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Project pro forma and tax analyses are projections only. Actual results may differ materially from those expressed in this analysis.

OUTLINE

- Background
- Overview of Settlement Decision
- Accept Settlement Scenario
- Reject Settlement Scenario
- Additional Considerations Under Either Scenario
- Summary - Accept Versus Reject Settlement
- City Office Space Inventory & Need
- Findings
- Sources

BACKGROUND

- City of San Diego ("City") is considering a settlement offer pertaining to lease to own agreements it entered into for "101 Ash" and Civic Center Plaza "CCP" buildings (collectively "Buildings")
- City, through the Office of Independent Budget Analyst, retained Kosmont Companies ("Kosmont") to perform a high level / abbreviated review of relevant documentation and evaluate the potential settlement offer and alternatives
- Kosmont is a real estate and economic development advisory firm. Kosmont affiliates are licensed by the State of California to perform brokerage services and licensed by the SEC and MRSB to provide municipal financial advisory services. Kosmont has served public sector and private sector entities for over 35 years.
- Kosmont has conducted a high level review of documentation provided. Given the abbreviated timing and limited budget for Kosmont's engagement, not all documents were reviewed in their entirety.
- Perspective of this analysis is on a *go forward basis* and considers options available *today* given current conditions and currently available information. Generally, a 30 year time horizon was assumed in the analysis. Inflation, the City's discount rate, and the City's cost of capital are all assumed to be approximately 3.0%.
- Figures herein are generally rounded to the nearest $100,000. Precise figures may be found in the Appendix. Square footage references are in rentable square feet which was estimated based on usable square footage in noted instances.
- Sources for assumptions herein are provided in the Appendix; assumptions should be reviewed by knowledgeable parties to ensure their accuracy, appropriateness, and absence of relevant alternative information and/or conclusions.

BACKGROUND: PERTINENT CITY BUILDINGS

101 Ash

~315,000 SF

City Operations Building ("COB")

~146,000 SF

Civic Admin Building ("CAB")

~139,000 SF

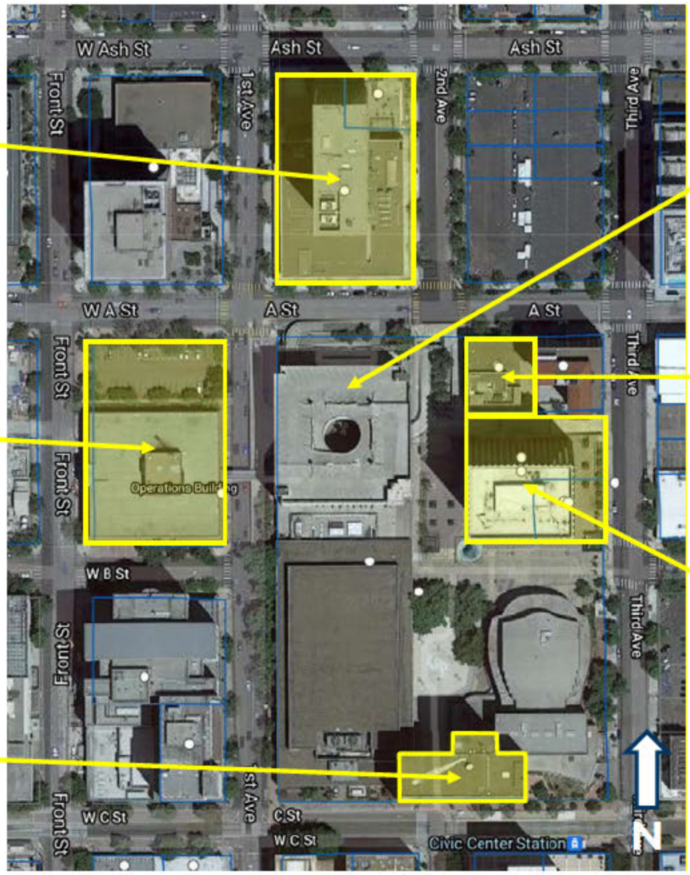

Image Source: CoStar 2022

Evan Jones Parkade

King Chavez Community High School

(Part of CCP acquisition, leased to school)

~35,000 SF

Civic Center Plaza ("CCP")

~295,000 SF

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OVERVIEW OF SETTLEMENT DECISION

- Decision currently before the City is whether to accept a settlement offer related to the acquisition of 101 Ash and the CCP buildings
- At a high level, the decision provides the following potential outcomes:

Accept Settlement

1. City would receive some financial compensation from the litigants
2. City would be responsible for paying the balance of outstanding principal under the leases (and interest if it borrows to fund such payment)
3. City would maintain its ownership rights to the Buildings and control the future use or disposition of the Buildings
4. City would be responsible for the cost to support occupancy of the Buildings or other disposition

Reject Settlement

1. City would continue to litigate claims
2. Potential for City to receive more (or potentially less) financial compensation from litigants than proposed under settlement
3. Potential for leases for Buildings to be declared void / City could (may have to) *walk away* from Buildings
4. City would likely have to find alternative space to support staff office requirements if ongoing lease or purchase agreement for Buildings not secured

ACCEPT SETTLEMENT – 1. & 2.

	Lower	Base Case	Higher
1. Financial Compensation			
▪ City would recover profit paid to Cisterra Partners, LLC ("Cisterra", owner of the Buildings) from 101 Ash	←	$(7.4) MM	→
▪ City would need to acquire a Quitclaim Deed title insurance policy		To be determined	
2. Principal Balance for Buildings			
▪ 101 Ash principal balance	←	$74.4 MM	→
▪ CCP principal balance (Including King-Chavez building)	←	$47.2 MM	→
▪ Interest – The City would also owe interest on the principal balance if it financed the payment or kept the existing financing in place. The existing taxable interest rate is 3.503% for 101 Ash, and 3.400% for CCP. The estimated interest rate through a tax exempt financing is approximately 2.125% for 101 Ash, and 2.112% for CCP. Kosmont expects that the City would pursue the best financing option available to it. Given interest rates near or below the 3.0% discount rate Kosmont ascribed to this analysis, the present value of financing the principal was assumed to be equal to the principal amount, and no interest cost was ascribed.		Excluded	
Subtotal (Net Estimated City Costs)	$115.5 MM	$115.6 MM	$115.7 MM

Mediation Privilege

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ACCEPT SETTLEMENT – 3.

3. Building Ownership

- City could elect to occupy the Buildings, lease all or portions thereof to private parties (given taxable financing), or sell one or both buildings. The City currently only occupies CCP. For this analysis and scenario, Kosmont assumed that the City would seek to occupy both Buildings, and ultimately exit COB & CAB, and eliminate third party leases which currently total 130,000 square feet.
- The City would own ~895,000 square feet of office space in a central location, and adjacent to substantial City controlled parking. The City currently occupies ~710,000 square feet of office space, and could utilize the excess space on an interim basis to facilitate the staged modernization of desired buildings.
- In comparison to a traditional lease, the City would own the Buildings and underlying land, and as applicable, benefit from the residual value at the conclusion of its occupancy. Note: Zero residual value was ascribed to all City property evaluated in this scenario, and this is considered a conservative assumption that likely overestimates the City's effective costs.
- As the owner of the Buildings, the City would be responsible for ongoing / regular maintenance, and this is estimated to cost \$5.00 - \$7.00 per square foot per year (excluding capital improvements). For comparison and simplicity purposes, this cost was not added under either scenario for City owned buildings, however is addressed when appropriate for comparison purposes.

ACCEPT SETTLEMENT – 4.

4. Modernization Costs

- If the City elected to occupy 101 Ash, the building is expected to need a substantial modernization. Various estimates of different scope elements have been prepared, but for this analysis Kosmont relied on the Kitchell analysis which provided an estimate of $115.2 MM ($366 / square foot). Lower and higher cases are for scenario analysis only with greater weight in dollars given to overestimated rather than underestimated for given scope. It was assumed that the modernization program would provide systems with a 30 year useful life. It is common for some building systems to be functional and serviceable for 50 years or more.
- CCP appears to have some deferred maintenance, however limited information was available. The information reviewed suggests limited investment may be required on one hand - $12 million ($41 / square foot, lower case) based on a prior assessment adjusted for inflation, or potentially $61 million ($207 / square foot, higher case) to complete a scope similar to that contemplated on 101 Ash. The base case is estimated given an allowance of $125 per square foot.

(Previous Subtotal in First Row)

Lower	Base Case	Higher
$115.5 MM	$115.6 MM	$115.7 MM
$100.0 MM	$115.2 MM	$125.0 MM
$12.0 MM	$36.9 MM	$61.0 MM

Note: The total provided below does not include all likely and/or potential costs, but instead includes costs considered unique to this scenario and should only be used to compare scenarios.

$228 MM	$268 MM	$302 MM

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ACCEPT SETTLEMENT – OTHER

- As part of the settlement, the City would agree to abandon its efforts "to obtain reimbursement from Cisterra [except 101 Ash profits], and to allocate future costs to Cisterra, for environmental remediation costs at the 101 Ash building".
- Under this scenario, should the City elect to finance the cost of modernizing the Buildings, Kosmont assumed that its interest rate for such financing would be near or below 3.0%. Given interest rates near or below the 3.0% discount rate ascribed in this analysis, the present value of financing the cost of modernization is assumed to be equal to the principal amount, and no interest cost is ascribed.
- 101 Ash could be programmed in a manner to facilitate greater remote working. This could potentially facilitate a reduction in total required office square footage, and a reduction or elimination of the need for office space leased in other buildings.
- It has been estimated that the City's cost to maintain 101 Ash as vacant is ~$1.4 MM per year. This cost is not ascribed to either the accept settlement or reject settlement scenario. In theory, the City would not incur this cost during a modernization effort under the accept settlement scenario.
- As will be discussed, the CAB and COB are in need of substantial modernization. Accepting the settlement would ensure the City could, if it elected, modernize and occupy 101 Ash in lieu of the CAB and/or COB. This would allow the City consider reuse of the CAB and/or COB sites. As a likely more costly, but potentially transformative option, the City could construct a new building on the COB site, and make the CAB and CCP sites available for reuse.

REJECT SETTLEMENT – 1. & 2.

1. City would continue to litigate claims

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2. Potential Financial Compensation

- Should the City succeed in it's claim, the leases for the Buildings could be declared void, Cisterra may seek to declare bankruptcy, and it may be difficult to recover compensation from CGA. However, some paths may exist for the City to recover damages, potentially including (i) City litigation costs, (ii) Cisterra profits associated with the leases for the Buildings, and/or (iii) rent paid to date to CGA.

	Lower	Base Case	Higher
2. Potential Financial Compensation	$(99.3) MM	$0.0 MM	$0.0 MM
Subtotal (Net Estimated City Costs)	$(96.8) MM	$3.0 MM	$4.0 MM

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REJECT SETTLEMENT – 3.

3. Leases for Buildings Void

Kosmont assumed that the City would be successful in having the lease voided. Under this scenario Cisterra/CGA may offer the City the opportunity to purchase the Buildings and/or lease one or both Buildings (potentially through a third party buyer), but such offer is not certain. Potential hypothetical scenarios considered follow.

- Cisterra/CGA offers to sell Buildings to City - Kosmont assumed that any offer to sell to the City would be at or near the current principal balance, plus any unpaid interest during the litigation period. As the interest rate of the leases are near or below the discount rate assumed in this analysis of 3.0%, no present value cost was assigned to paying unpaid interest at a future date and it was assumed that the City would be in a similar position with respect to the cost of the Buildings as if it had accepted the settlement. However, the City (i) would not have use of 101 Ash during the litigation period, (ii) Cisterra may declare bankruptcy, eliminating the recovery of its $7.4 million in profits on 101 Ash, and (iii) the City may not have to pay CGA's litigation costs. In this hypothetical, CGA may seek to recover additional litigation costs through an increase in the purchase price of the Buildings offered to the City. In theory, the City could also seek to purchase only one building, though this hypothetical was not evaluated.
- Cisterra/CGA offers to lease Buildings to City – Kosmont's review of the economics suggests that Cisterra/CGA could viably seek to lease the Buildings to the City (post modernization of 101 Ash, and if owned by CGA, potentially through a third party intermediary). Under this hypothetical, it was assumed that any such lease would generally be in line with current market lease rates, and similar to a scenario wherein the City would need to find alternative office space as subsequently discussed.

REJECT SETTLEMENT – 3. (CONTINUED)

3. Leases for Buildings Void

	(Previous Subtotal in First Row)		
	Lower	Base Case	Higher
	$(96.8) MM	$3.0 MM	$4.0 MM
▪ If the City had to *walk away* from the Buildings, it could have some financial responsibility for some remediation scope (asbestos), and/or some refurbishment scope to restore the building to the condition it received it in, and potentially better.	$0.0 MM	$10.0 MM	$30.0 MM
	Subtotal (Net Estimated City Costs)		
	$(96.8) MM	$13.0 MM	$34.0 MM

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REJECT SETTLEMENT – 4.

4. Need for City Office Space

- Interim Office Space – It is assumed that:
  - The City would not pursue a long term lease or alternative acquisition until the litigation were concluded.
  - The City would continue to make lease payments on the CCP, (~$3.8 MM / year) as well as the other leases totaling approximately 130,000 square feet that the City currently occupies (~$5.4 MM / year).
  - Lease payments are assumed to be made for six years under the lower case, eight years under the base case, and ten years under the higher case. This effectively assumes that the City would be immediately able to shift to a long term space solution at the conclusion of litigation (e.g., not have to wait for replacement space to be secured), and thus likely underestimates actual interim leasing costs. The City could also reduce these costs if it reduced its leased footprint during litigation.

(Previous Subtotal in First Row)

Lower	Base Case	Higher
$(96.8) MM	$13.0 MM	$34.0 MM
$55.1 MM	$73.5 MM	$91.9 MM

Subtotal
(Net Estimated City Costs)

Lower	Base Case	Higher
$(41.6) MM	$86.5 MM	$125.9 MM

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REJECT SETTLEMENT – 4. (CONTINUED)

4. Need for City Office Space

- Long Term Need – For comparison purposes, it was assumed that at the conclusion of litigation the City would:
  - Seek to modernize the CAB. Lower case is $350 per square foot, base is $500 per square foot, higher is $685 per square foot based on a prior assessment.
  - Seek to modernize the COB. Lower case is $250 per square foot, base is $309 per square foot based on a prior assessment, higher is $350 per square foot.
  - Purchase one or more existing buildings totaling ~325,000 square feet, and as necessary, modernize it / them. Lower case assumes the total building cost is $450 per square foot, base is $550 per square foot, and higher is $650 per square foot.

(Previous Subtotal in First Row)

Lower	Base Case	Higher
$(41.6) MM	$86.5 MM	$125.9 MM
$48.5 MM	$69.3 MM	$94.9 MM
$36.5 MM	$45.2 MM	$51.2 MM
$146.2 MM	$178.7 MM	$211.2 MM
$190 MM	$380 MM	$483 MM

Note: The total provided below does not include all likely and/or potential costs, but instead includes costs considered unique to this scenario and should only be used to compare scenarios.

REJECT SETTLEMENT – OTHER

- The City currently continues to make lease payments for the CCP building (including King-Chavez building). To the extent litigation took six years to reach conclusion there would be approximately seven years remaining on the CCP building lease. If litigation took ten years to reach conclusion there would be approximately four years remaining on the CCP building lease. The City would own the CCP at the end of the lease as currently in effect.

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- This reject settlement scenario assumes that the City occupies approximately ~710,000 square feet until litigation were concluded, and ~610,000 square feet upon the conclusion of litigation. This is based on the assumption that the City would not invest in the reconfiguration of office space to support a reduction in space needs (potentially through remote working) until there was certainty about the outcome of litigation.
- It has been estimated that the cost to the City to maintain 101 Ash as vacant is $1.4 MM. This cost is not ascribed to either the accept settlement or reject settlement scenario. In theory the City could incur this cost until litigation were concluded under the reject settlement scenario.
- If the leases were voided, and the City could not reach agreement with Cisterra/CGA to purchase the Buildings (if it so desired), the City could need to lease additional space to accommodate staff during any substantial modernization activity on City owned buildings (e.g. CAB and COB).

ADDITIONAL CONSIDERATIONS UNDER EITHER SCENARIO

The following elements were not considered scenario dependent and their value is assumed to apply to both scenarios. As such they were not included in either scenario to simplify the analysis. These additional considerations include:

- The City may recover costs association with environmental remediation (asbestos) for 101 Ash from its insurers and/or the contractor's insurers.
- The City can continue to pursue recovery of $9.5 million in profits from the broker Hughes Marino. The District Attorney can pursue criminal charges.
- The King-Chavez lease currently provides approximately $550,000 per year in gross rent. The City has some obligations / costs associated with the lease.
- The City would likely need to continue to lease the approximately 130,000 square feet it currently leases during the modernization of 101 Ash under the accept settlement scenario. Under the reject settlement scenario, the City would likely have interim leasing costs during any modernization activity and/or while alternative permanent space was identified.

SUMMARY – ACCEPT VERSUS REJECT SETTLEMENT

- The scenario analysis provides an estimated City *cost* of:
  - Accept Settlement: ~$228 – $302 million, with $268 million as a base case
  - Reject Settlement: ~$190 - $483 million, with $380 million as a base case

Accept Settlement			Reject Settlement		
Lower	Base Case	Higher	Lower	Base Case	Higher
$228 MM	$268 MM	$302 MM	$190 MM	$380 MM	$483 MM

- The results essentially measure the potential relative costs of procuring City office space under the two scenarios evaluated over the long term.
- These hypothetical estimates do not include all likely and/or potential costs, but instead includes costs considered unique to each scenario and should only be used to compare scenarios.
- The reject settlement scenario relies on a greater number of general estimates and assumptions than the accept settlement scenario.

CITY OFFICE SPACE - INVENTORY & NEED

- The City currently has ~1.0 MM square feet of office space under its control (~130,000 SF through third-party leases), and currently occupies ~710,000 square feet
- Like 101 Ash, the CAB & COB also have substantial deferred maintenance
- The effective cost of the Buildings, including substantial modernization programs, is estimated to be approximately $450 per square foot
  - Kosmont considers a cost of $450 per square foot to be in line or less than comparative alternatives given current market conditions.
  - It is difficult to predict when and if large quantities of office space in a single or a few locations might be available at a desired price point.
- The City may be able to marginally reduce requirements for office space through remote working
  - Reducing square footage requirements through a shift to varying levels of remote working typically requires varying levels of modification to existing / remaining office configurations.
- The following analysis evaluates the effective cost of the Buildings versus the CAB and COB, and leasing and purchase alternatives

CITY OFFICE SPACE – CURRENT INVENTORY & USE

Building	101 Ash	CCP	CAB	COB	Leases	Total (w/o 101 Ash)
Year Built	1967	1973	1965	1970	Varies	
Square Feet	315,000	295,000	*139,000**	*146,000**	130,000	710,000
Seats	1,100	982	356	696	Excluded	2,034
Staff	-0-	871	447	450	655	2,423
Principal Balance	$74.4 MM	$47.2 MM	-0-	-0-		
Modernization Cost (Base Case)	$115.2 MM	$36.9 MM**	$69.3 MM***	$45.2 MM		
Total Cost	$189.6 MM	$84.9 MM**	$69.3 MM***	$45.2 MM	$5.4 MM / Year	
$ / Square Foot	$603	$285**	$500***	$309	$41 / Year	

**Denotes estimated square footage, please see sources for additional details.*

***Please see slide 7 for additional cost information. Cost would be $367 / SF given a $61 MM modernization program*

**** Please see slide 14 for additional cost information. Cost would be $685 / SF given a $94.9 MM modernization program*

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CITY OFFICE SPACE – FUTURE NEED & LEASE ALTERNATIVE

- City currently utilizes ~710,000 square feet, and has ~293 square feet of office space per staff member
  - If reduced to 250 square feet per staff member (potentially through remote working), City would need ~605,000 square feet
  - If reduced to 225 square feet per staff member (potentially through remote working), City would need ~545,000 square feet
- 101 Ash & CCP Buildings may be able to accommodate entire City need (~610,000 SF in total)
- Without CCP, absent drastic reduction in space needs, CAB & COB (~285,000 SF in total) would have to be augmented by additional leased or owned space
  - Would need to lease or own ~415,000 square feet given current space allocation, ~320,000 square feet at 250 square feet per staff member, and ~260,000 square feet at 225 square feet per staff member
- For lease versus current ownership comparison purposes (results illustrated on next slide):
  - Kosmont converted upfront building costs to potential equivalent lease rates by dividing current building cost by 30 (assumes a 30 year useful life of modernization improvements), and adding a $6.00 per square foot allowance for maintenance, or $180 per square foot over 30 years. Note: This implicitly assumes buildings and land have no residual value.
  - Kosmont assumed a market lease rate of $36 per square foot per year, and no allocation for maintenance as the City would not have to maintain a leased building. The assumed $36 per square foot rate is considered conservative (low). The current cost of leasing for 30 years is estimated by multiplying $36 by 30 (assumes City discount rate is equal to lease escalation rate).

CITY OFFICE SPACE – "BUILDINGS" VERSUS CAB & COB + LEASE

Buildings	101 Ash & CCP "Buildings"	CAB & COB	Space Leased at 225 SF	Space Leased at 250 SF	Total (CAB, COB & Lease)
Rentable SF	610,000	*285,000**	260,000	320,000	*545,000 – 605,000 SF*
Total Cost	$273.7 MM	$114.5 MM	$280.8 MM	$345.6 MM	$395.3 MM - $460.1 MM
$ / SF	$449**	$402***			
$ / SF with Maintenance for 30 Years	$629**	$582***	$1,080	$1,080	$820 - $846 / SF
$ / SF / Year	$21**	$19***	$36	$36	$27 - $28 / SF / Year

**Denotes estimated square footage, please see sources for additional details.*

***Please see slide 8 for additional CCP cost information. Cost would be $488 / SF given a $61 MM CCP modernization program; cost with maintenance would be $668 / SF with the maintenance allocation, and equivalent to $22 / SF / Year*

**** Please see slide 14 for additional CAB cost information. Cost would be $491 / SF given a $94.9 MM CAB modernization program; cost with maintenance would be $671 / SF, and equivalent to $22 / SF / Year*

CITY OFFICE SPACE – LEASE VERSUS PURCHASE

- The City's effective cost per square foot for a long term lease is high in the prior example ($1,080 / SF over a 30 year period) in present value due to the City's low cost of capital / discount rate.
- In lieu of leasing space, the City could seek to purchase one or more buildings.
  - Purchase(s) would be subject to market availability and location
  - City may have to purchase a building and wait for any existing leases to expire before fully occupying
- Buildings in the market appear to be selling at approximately $350 per square foot on average and are generally older, Class B properties at this price point. The City could easily expect to pay several hundred dollars or more per square foot in required and/or desired improvements post acquisition.
  - All in costs could easily be in the $500 to $650+ range per square foot (before the cost of ongoing maintenance); more than the estimated cost for existing City assets of $402 – $449 per square foot
  - Adding in a maintenance allowance of $180 per square foot over 30 years brings the total to $680 – $830+ per square foot, still less than the leasing scenario at $1,080 per square foot.
- The City would likely have to make improvements to any building it purchased. Even higher quality and priced properties would likely require investment to configure. Total costs per square foot may be similar.

CITY OFFICE SPACE – BUILD TO SUIT

- The City could also seek to construct a new building to meet its need for office space.
- If this path were desired, the City would have to purchase property, or utilize existing property such as the COB site.
- New building construction can be costly. Similar efforts by other public entities suggest pricing in the range of $600 to $800+ per square foot as a reasonable conceptual estimate (excluding any allowance for ongoing maintenance).
- Benefits of new construction include a having a building programmed to specific City needs, control over building system design and quality, potential for high energy efficiency / lower long term operating costs, and having a building with a full useful life at the commencement of occupancy.
- Downsides of new construction include required time, construction risk, cost escalation, and accommodating interim space needs during construction.

FINDINGS

- Based on Kosmont's review, the City's decision to accept or reject the settlement is heavily dependent on whether (i) the City desires to own the Buildings and (ii) risk tolerance.
- Determination of the City's desire for the Buildings may be based on:
  - Current and future space needs for City staff
  - Whether the City desires to maintain a presence at its current location
  - Whether the City desires to have most staff in proximity to each other
  - Whether the City desires to lease versus own office space
  - Potential constituent concerns about the acquisition process and modernization costs
- Accepting the settlement provides certainty about the City's real estate program
- Rejecting the settlement could serve to suspend the City's real estate program until litigation were concluded, as it may be prudent not to make any significant real estate decisions until the fate of the Buildings is known.

FINDINGS (CONTINUED)

- Evan Jones Parkade is a significant parking resource and asset located proximate to the Buildings and other City property
- Given the City's cost of capital, owning may be a better long term solution than leasing, but ultimately it may be a policy decision

SOURCES

SOURCES: SLIDES 6 - 10

Slide 6: Accept Settlement – 1. & 2.

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- CGA legal cost: $1.4 MM to $1.6 MM – City staff 2/2022
- Principal balances: 101 Ash = $74,372,216, CCP = $47,161,062, each as of January 2022 – KNN memorandum to COO dated 1/13/2022
- Interest rates: Current lease rates and estimated tax exempt refinancing rate - KNN memorandum to COO dated 1/13/2022

Slide 7: Accept Settlement – 3.

- Building square footage: Please see slide 19 sources
- Maintenance costs: $5.00 is currently considered a reasonable estimate, $7.00 under higher case provided assuming higher costs for City - Kosmont

Slide 8: Accept Settlement – 4.

- 101 Ash costs: $115,244,254 – Kitchell 101 Ash Street Building Condition Assessment dated 7/28/2020; lower ($100 MM) and higher ($125 MM) cases – Kosmont, with greater weight in dollars given to overestimated rather than underestimated for given scope
- CCP costs: $12.0 MM based on $7.2 MM escalated at 4% per year for 13 years = $11,988,529; 14 years = $12,468,070. $7.2 MM from 2008 CDRP report cited in JLL Civic Center Portfolio Analysis file name suggests dated 12/2021; $36.9 million based on $125 / SF and 295,101 rentable square feet (Please see Slide 19 sources) – Kosmont; $61 million based on reference in Jones, Roach & Caringella, Inc. CCP appraisal dated 2/7/2022 and attributed to Patrick Early of Allgire General Contractors
- Totals: $227,507,778, $267,739,657, $301,707,778

Slide 9: Accept Settlement – Other

- 101 Ash vacancy cost: $1,393,910 – JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021

Slide 10: Reject Settlement – 1. & 2.

Attorney-Client Privileged

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SOURCES: SLIDES 11 - 14

Slide 11: Reject Settlement – 3.

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Slide 12: Reject Settlement – 3. (Continued)

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Slide 13: Reject Settlement – 4.

- CCP lease payments: $3.8 MM per year for six to ten years – Kosmont, and CCP lease dated 3/13/2015
- Current third party leases: 130,291 SF; $5,385,281 per year for six to ten years – JLL Civic Center Lease Portfolio Summary (possibly an extract), undated
- Total of $9,185,281 per year, $55,111,686 given six years, $73,482,248 given eight years, $91,852,810 given ten years

Slide 14: Reject Settlement – 4. (Continued)

- CAB costs: $48,499,080 based on $350 / SF allowance and 138,569 rentable SF (please see slide 19 sources) - Kosmont; $69,284,400 based on $500 / SF allowance and 138,569 SF – Kosmont, $94,855,985 ($685 / SF given 138,569 SF) - JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021
- COB costs: $36,538,200 based on $250 / SF allowance and 146,153 rentable SF (please see slide 19 sources) – Kosmont; $45,168,510 ($309 / SF given 146,153 SF) from JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021; $51,153,480 based on $350 / SF allowance and 146,153 SF – Kosmont
- City cost for purchase of 325,000 SF: $146,215,980 based on $450 / SF allowance and 324,924 rentable SF – Kosmont; 178,708,420 based on $550 / SF allowance and 324,924 rentable SF - Kosmont; $211,200,860 based on $650 SF allowance and $324,924 SF – Kosmont
- Total: $189,612,360, $379,643,578, $483,063,135

SOURCES: SLIDES 15 - 19

Slide 15: Reject Settlement – Other

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- 101 Ash vacancy cost: $1,393,910 MM – JLL Civic Center Portfolio Analysis, file name suggests dated 12/2021

Slide 16: Additional Considerations Under Either Scenario

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- King-Chavez Rent: $550,000 based on approximate amount of current gross lease payment – King-Chavez sublease dated June 2017, and Kosmont

Slide 18: City Office Space - Inventory & Need

- Estimated cost of $450 / SF: Please see slide 21 sources

Slide 19: City Office Space – Current Inventory & Use

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- CCP: 1973 – CoStar, 295,101 rentable SF – CoStar; 987 seats and 871 staff - JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021; Principal balance and modernization cost – please see slide 6 and slide 8 sources; $285 / SF = $84,048,687 / 295,101 SF
- CAB: 1965 – 2015 CAB Condition Assessment;138,569 SF based on a 20% core factor applied to 115,474 usable SF from JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021; 356 seats and 447 staff - JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021; modernization cost and $ / SF – please see slide 14 sources; $500 / SF = $69,284,400 / 138,569 SF
- COB: 1970 – 2015 COB Condition Assessment; 146,153 SF based on a 20% core factor applied to 121,794 usable SF from JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021; 696 seats and 450 staff - JLL Civic Center Portfolio Analysis, file data suggests dated 12/2021; modernization cost and $ / SF – please see slide 14 sources; $309 / SF - $45,168,510 / 146,153 SF
- Leases: Please see slide 13 sources - JLL Civic Center Lease Portfolio Summary (possibly an extract), undated

SOURCES: SLIDES 20 - 21

Slide 20: City Office Space – Future Need & Lease Alternative

- 293 SF / staff member: 710,114 SF / 2,423 staff
- 250 SF / staff member x 2,423 = 605,750 SF
- 225 SF / staff member x 2,423 = 545,175 SF
- Please see slide 19 sources for square footage information
- Maintenance cost: please see slide 7 sources – Kosmont
- Market lease rate: $36 / SF / Year – Kosmont

Slide 21: City Office Space – "Buildings" Versus CAB & COB + Lease

- Please see slide 19 sources
- 101 Ash & CCP: 609,646 SF; $273,665,157 total cost; $449 / SF = $273,665,157 / 609,646; $629 = $449 + $180 – please see slide 20; $20.96 per SF per Year = $629 per SF / 30 years
- CAB & COB: 284,722 SF; $114,452,910 total cost; $402 / SF = $114,452,910 / 284,722; $582 = $402 + $180 – please see slide 20; $19.40 per SF per year = $582 per SF / 30 years
- Space leased: Please see slide 20; 260,000 SF = 545,000 SF – 285,000 SF (CAB & COB); 320,000 SF = 605,000 SF – 285,000 SF (CAB & COB); $280.8 MM = 260,000 SF x $36 per SF per year x 30 years; $345.6 MM = 320,000 x $36 per SF per year x 30 years; $36 / SF / year – Kosmont
- Total: $395,252,910 = sum of CAB & COB and Space Leased at 225 SF; $460,052,910 = sum of CAB & COB and Space Leased at 250 SF; $820 = $395,252,910 / 284,722 SF; $846 = $460,052,910 / 284,722 SF; $27.32 per SF per year = $820 per / 30 years; $28.18 per SF per year = $846 per SF / 30 years

SOURCES: SLIDES 22 - 23

- Slide 22: City Office Space – Lease Versus Purchase
  - $350 per square foot: CoStar, Kosmont
  - $500 to $650+: CoStar, Kosmont
  - Maintenance allowance: please see slide 20
- Slide 23: City Office Space – Build to Suit
  - $600 to $800+: Kosmont