Proposed Response to Grand Jury Report Titled "A New City Hall: To be, or not to be? That is the question…."

Meeting of the City Council

October 4, 2011

Item 330

City Council Response to New City Hall Grand Jury Report

- The Grand Jury filed this report on May, 23, 2011.
- Includes 5 findings and 6 recommendations - to which the City Council is required to respond.
- Superior Court granted an extension to November 1, 2011 due to demands of the legislative calendar.

City Council Response to New City Hall Grand Jury Report

- Responses for each finding:
  - Agree or
  - Disagree wholly or partially
- Responses for each recommendation:
  - Has been implemented;
  - Has not yet been implemented, but will be in the future;
  - Requires further analysis; or
  - Will not be implemented

General Process for Responses to Grand Jury Reports

- Past Grand Jury requests have been directed to the Mayor alone or the Mayor and City Council jointly.
- For joint responses, the Mayor's Office prepares responses, which the IBA reviews.
- The IBA recommends supporting the Mayor's Office responses or modifying them if necessary.

Process for Responding to New City Hall Grand Jury Report

- For this report, only the City Council is required to respond.
- Because of complexity of issues and staff's in-depth knowledge of the subject matter, CCDC drafted responses and the IBA worked cooperatively with the Mayor's Office to make adjustments.
- The City Attorney's Office reviewed the responses as well.

Process for Responding to New City Hall Grand Jury Report

- Additionally, the Mayor's Office and IBA agree that the response to the Grand Jury report should include a "Clarification of Facts" section, due to a number of inaccurate statements made in the Grand Jury report.
- This type of additional information has not generally been included in past Grand Jury responses from the Council.

Clarification of Facts

- The City's reliance on leased office space, combined with the exposure to fluctuations in the leasing market, is not a prudent facilities strategy.
- Consideration has been given to extending existing leases, as well as soliciting additional lease proposals.

Clarification of Facts

- The City's significant leasing requirement is not a typical "market" transaction:
  - an estimated 472,000 SF of contiguous leased space;
  - Minimum increments of 50,000 SF;
  - dispersion of City workers creates inefficiencies, greater costs to taxpayers, challenges and inconvenience to the public.

Clarification of Facts

- The proposed new City Hall would provide 40% greater space efficiency than at the existing owned and leased facilities.
- The proposed City Hall construction would free one or two City blocks for future development.
- The proposed City Hall building's lifespan is anticipated to be significantly longer than that of an older existing building.

Clarification of Facts

- The location of City Hall downtown provides City workers and the public with access to affordable public transit.
- An estimated 30 percent of downtown City workers commute via public transit, walking, or cycling.

Clarification of Facts

- City conducted a three-year study, concluding in June 2010:
  - 9 alternatives were initially evaluated (2 development proposals and 7 non-development solutions).
  - “Hold Steady” was found the least costly of the 7 non-development solutions.
  - The June 2010 analysis compared the lowest cost new development alternative with the “Hold Steady” alternative.

Clarification of Facts

- Numerous leaders in the real estate industry contributed to the study, including DMJM H&N/AECOM, Gensler Architects, Jones Lang LaSalle, Ernst & Young and others.
- The analyses were updated to consider changes in economic and market conditions, lease rates, construction costs, and down-sizing of City staff and space needs.

Clarification of Facts

- Chronology (Documents not mentioned by Grand Jury in red)

○ RFQ seeking developers issued	July 2007
○ Physical condition assessment report issued by AECOM	April 2008
○ Facilities Needs Assessment report issued by Gensler	April 2008
○ Finalist developer responses submitted	July 2008
○ Financial analysis prepared by JLL of seven non-development alternatives and two developer alternatives	Dec 2008
○ Peer review of JLL analysis prepared by Ernst & Young	Mar 2009
○ Supplemental condition assessment report issued by AECOM	May 2009
○ Revised JLL financial analysis of development proposal vs. "Hold Steady"	May 2009
○ City Council approved Exclusive Negotiation Agreement with developer	Oct 2009
○ Final financial analysis issued based on down-sizing, economic conditions and negotiations	June 2010

Finding #01

Finding #01: *The existing city hall is in disrepair.*

<u>Response</u>: The City agrees with the finding.

Finding #01

- "Disrepair" does not reveal the extent and cost of the physical and functional deficiencies.
- Finding applies not just to City Hall, but also to the City Operations Building, City Concourse and Evan V. Jones Parkade.
- Many of the buildings' mechanical, electrical, plumbing, and life-safety systems are at or beyond their useful lives.

Finding #01

- The April 2008 AECOM report indicates the serious deteriorated physical condition of City-owned buildings.
- The cost of rehabilitation was estimated at $124.3-$138.3 million.
- Renovation and repairs of the buildings could add 30 years to their lifespan.

Finding #01

- AECOM's supplemental physical condition assessment, released May 2009, estimates cost of short-term renovations
  - $19.5 million for 5 years
  - $40.1 million for 10 years

Finding #01

- Examples of City Administration Building (CAB) issues:
  - The majority the mechanical systems have reached or significantly passed the end of their life, and the roof is beyond its useful life.
  - The CAB does not comply with current seismic codes and is only partially ADA compliant (Americans with Disabilities Act).
  - The building contains a great deal of asbestos.

Finding #02

Finding #02: *The City has granted itself exemptions from established safety and habitability standards.*

<u>Response</u>: The City agrees with the finding.

Finding #02

- Ordinance Number O-17172 passed in 1988 required fire sprinkler retrofitting for high-rise buildings.
- The deadline for the City's compliance was extended on March 1, 2011, by three years, to January 31, 2014.

Finding #02

- AON Fire Protection Engineering is preparing design and construction specifications for installation of a fire sprinkler system and asbestos abatement.
  - Anticipated to be complete in Fall 2011.
- City staff to issue RFP, and later present recommended proposal to the City Council for award of contract.
- Expected construction duration: two years.

Finding #03

Finding #03: *The published estimated city hall rehabilitation costs appear to be more than required to ensure public and employee safety.*

Response: The City agrees with the finding.

Finding #03

- Public and employee safety is *not* the only factor to consider when assessing the buildings' condition and required rehabilitation.
  - Also important are deficiencies that if left uncorrected, could cause extensive, unnecessary taxpayer expense as a result of probable failures in building systems.
  - It is the City's responsibility to protect the taxpayer by mitigating risks associated with such deficiencies.

Finding #04

Finding #04: *Third-party building owners/leasing agents confirm a continued downturn in lease rates.*

<u>Response</u>: The City partially agrees with the finding.

Finding #04

- "The leasing environment continues to benefit tenants as free rent and other concessions are still prevalent. Rental rates…are poised to level out or even start to gradually increase during the second half of the year." – Colliers International

Finding #04

- "Lease rates appear to have bottomed out…" and we anticipate an "…overall positive growth in office workers through year-end 2012." – CB Richard Ellis
- "…demand for office space is expected to improve slowly throughout 2011 and accelerate further into 2012…" – Cassidy Turley/BRE Commercial

Finding #04

- City will require an estimated 472,000 square feet of leased space in 2013/2014
- City seeks minimum of 50,000 square feet of contiguous leased space – few opportunities are projected to exist for such space.

Finding #04

- “Best and final offers” received from three landlords yielded an average lease rate of $2.17 per square foot.
- The City has no evidence to support Grand Jury claim of rents available at $1.70-$1.90 per square foot based on the City’s space requirements (472,000 total SF in minimum increments of 50,000 SF).

Finding #05

Finding #05: *The $500/square foot estimated construction cost for the new building is inconsistent with the $200/square foot rate currently available for the purchase of existing buildings of sufficient size to accommodate City needs.*

Response: The City disagrees with the finding.

Finding #05

- In addition to building acquisition costs, an accurate comparison of alternatives must consider:
  - rehabilitation costs; age and condition of buildings; remaining useful life
  - potential higher costs of operation
  - space efficiency; efficiency of floor plates; functionality of work spaces
  - worker productivity
  - quality of security; and information and communications infrastructure

Finding #05

- $200/SF appears to be based on letter received from J.P. Morgan dated July 13, 2010.
  - Proposal includes 39-year-old Civic Center Plaza *plus* adjacent College Building, which the City has not evaluated.
  - Occupying CCP would require millions in renovation.
  - To buy CCP, City would have to deal with a First Right of Refusal available to its master lessee.

Finding #05

- Acquiring CCP does nothing to address the significant costs of renovating and rehabilitating the existing City-owned buildings.

Recommendation 11-38

11-38: *Obtain cost information from current lessors for extending lease agreements beyond existing termination dates.*

<u>Response</u>: The recommendation has been implemented.

Recommendation 11-38

- “Best and Final Offers” for extending the existing leases were requested in December 2009.
- Average lease renewal rate of $2.17 per square foot for 5-years.
- The City will explore all options prior to lease expirations.

Recommendation 11-39

11-39: *Determine if departmental downsizing will allow for a long-term reduction in leased space requirements.*

Response: The recommendation has been implemented.

Recommendation 11-39

- City has reduced staff during past few years.
- There has been departmental consolidation and realignment.
- The June 2010 City Hall analysis included reduced City staff and space requirements.

Recommendation 11-40

11-40: *Re-evaluate and report the costs associated with retrofitting the existing city hall, considering minimum/maximum expenses along with public safety.*

Response: The recommendation will not be implemented because it is not warranted and is not reasonable.

Recommendation 11-40

- AECOM performed an extensive review of building deficiencies in 2008 and 2009.
- No significant improvements have been made.
- Incurring the cost of a new estimate is not warranted until the work is being contemplated for completion or as part of a comprehensive analysis on the future of City Hall.

Recommendation 11-41

11-41: *Re-examine purchase options for temporary and permanent solutions.*

<u>Response</u>: The recommendation has not yet been implemented, but will be implemented in the future.

Recommendation 11-41

- The City will consider all viable solutions including leasing, purchase of existing buildings, and possibly, new construction.
- These actions will be implemented by December 2012.

Recommendation 11-42

11-42: *Re-examine and report current construction costs and cost savings vs. those used in 2008 and 2009.*

Response: The recommendation has been implemented.

- The occupancy cost analysis was most recently updated in June 2010, which is not referenced in the Grand Jury report.

Recommendation 11-43

11-43: *Inform voters and other interested parties about the future of San Diego city hall.*

<u>Response</u>: The recommendation has been implemented.

Recommendation 11-43

- Nine advertised public meetings held in 2008 throughout the City.
- Public's questions and comments posted online.
- Presentations provided to a least 39 different community and stakeholder groups.
- Additional public meetings held in May 2009 and July 2010.

City Council Response to New City Hall Grand Jury Report

Questions?