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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** June 24, 2010

**IBA Report Number:** 10-56

**City Council Meeting Date:** June 28, 2010

**Item Number:** 151

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# San Diego New Central Library

## OVERVIEW

On June 28, 2010 the City Council will consider actions to approve the construction of a New Central Library, estimated at a total cost of approximately \$185 million, to be located in the East Village neighborhood in downtown San Diego.

The City Council first approved actions relating to architectural design in August 1996. Over the past 14 years, the project has moved forward in an incremental fashion, with various actions approved by the Council and the Redevelopment Agency related to funding, planning, design and construction.

Obstacles that have been encountered have been tackled and creative solutions identified to continue the momentum towards the construction of a New Central Library. The California State Library has pledged \$20 million to the project, and the San Diego Public Library Foundation has and continues to campaign to secure private donations. In April 2010, the Council approved a Lease Agreement with the San Diego Unified School District (SDUSD) for the inclusion of a charter school on the 6<sup>th</sup> and 7<sup>th</sup> floors of the library building in exchange for \$20 million.

This project was last considered on June 16, 2010 by the Rules, Open Government, and Intergovernmental Relations (Rules) Committee. Committee members provided comments and feedback to the Mayor's staff and voted to refer this item to the Council for consideration.

This report provides additional information related to the proposed actions, highlights some of the previous concerns raised by the IBA, and suggests areas that the Council may want to consider for future policy discussion.

## FISCAL/POLICY DISCUSSION

### School District Lease

The Lease Agreement with SDUSD approved by the City Council in April 2010 specified that \$30 million in City property would be pledged as collateral. In approving the lease, the City Council requested that identification of the particular parcel(s) of City property to be pledged should return to the City Council, and authority to identify specific property should not rest solely with the Mayor.

At the June 16, 2010 Rules Committee meeting, two parcels were identified, located at 10280 and 10820 North Torrey Pines Road, for collateral purposes. These locations were described at the Rules Committee meeting as the Scripps Shiley Sports Center, estimated value of \$14.5 million, and the UC Regents Office Building, with an estimated value of \$16.3 million.

The actions now proposed for Council reflect a substitution of the identified property, now 10950 North Torrey Pines Road, which is a change since the time of the Rules Committee meeting. This change is not discussed or explained in the materials or report provided for consideration by the City Council. It is our understanding that the original properties identified did not appraise at the necessary levels. While not noted in the report, we have confirmed that the new property site is the site of the Hilton Torrey Pines Hotel. In the future, a change such as this, subsequent to Council Committee actions, should be clearly identified and explained in the City Council materials.

### Past IBA Concerns

The IBA has previously expressed concerns related to the New Central Library project specifically related to the determination of the value and term of the lease with SDUSD, and the plan for the future operations and related costs, following construction completion. In a time where fiscal constraints have required a reduction in the library system hours of operation and serious consideration has been given for the closure of specific library branches, it is important to contemplate the ability of the City to appropriately operate a new and expanded facility.

The Mayor's staff and the Library Director have responded to concerns raised by the IBA related to operations. Technological advancements, and increased efficiencies, including recently added book conveyor equipment, are planned. \$10 million in donations and \$800,000 in new annual parking income has been identified to fund increased operating costs for the first five years of operations and is expected to mitigate or eliminate any additional General Fund cost impacts. Hours of operation are expected to be maintained at the current level of 44 hours per week, though this reflects a reduction in expectations since the City applied for grant funding from the State. Given the City's current

structural budget deficit, there can be no assurances that the current level of 44 hours per week can be maintained for library operations in the years ahead.

### Fundraising

Donations of \$30 million have been pledged to date, and are intended to be secured by an irrevocable agreement. Without Phase II improvements, the library itself will not be operational and could not open for use by the public. It is our understanding that there is a guarantor to secure the \$30 million should some pledges not materialize, which allows the construction contract to be awarded and Phase I construction to begin. An additional \$32 million will need to be raised for the project to be completed, including Phase II, which is scheduled to begin in January 2012.

At the June 16, 2010 Rules Committee meeting, Councilmember Gloria requested quarterly progress reports from the Library Foundation on its fundraising efforts. While the Foundation seemed to agree, the City Council may want to formally request this as part of its action and include it in its motion at Monday's meeting. In addition, it may be prudent to expand this request, and ask the Mayor to provide periodic progress reports about alternative funding sources that may be identified before Phase II is initiated, and that may be necessary as a contingency plan to supplement fundraising.

The staff report indicates that State grant funding would need to be repaid if the New Main Library does not become operational by August 2014. This deadline seems achievable and extends beyond the City's current plans for fundraising, and completion of Phase II. However, the City Council should ensure a mechanism is put in place that allows it to be kept informed of potential project risks.

### Future Library Funding for Operations and Projects

The City's Municipal Code continues to reflect the requirements of the Library Ordinance which calls for 6% of the City's General Fund to be allocated to Library purposes. This was one component of a multi-faceted library capital expansion plan dating back to 2002, which included the New Central Library project. The 6% budget level has not been achieved since 2004. It is hoped that a revised library capital program can eventually be developed and could address stagnant plans for branch library enhancements or replacements. This revised plan should address the Library Ordinance, and the appropriate long-term funding for the Library Department should also be evaluated relative to other General Fund needs.

Concerns are often voiced that the focus and attention on the New Central Library project will negatively impact the ability for branch library projects to move forward and progress. In addition, it has been said that operational impacts may be experienced by the branches once the New Central Library opens its doors.

The City Council may want to consider developing a policy that demonstrates a commitment to a certain level of service or funding to both the branches and the New Central Library. Such a policy could ensure that enhanced hours or operations at one location would not come at the expense of reductions at another location, and the library system should be evaluated as a whole.

## CONCLUSION

On June 28, 2010 the City Council will consider actions to approve the construction of a New Central Library, estimated at a total cost of approximately \$185 million, to be located in the East Village neighborhood in downtown San Diego.

This report provides additional information related to the proposed actions, highlights some of the previous concerns raised by the IBA, and suggests areas that the Council may want to consider for future policy discussion.

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