



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 334

Assignment and Assumption Agreement Related to the Proposed Phase III Expansion of the San Diego Convention Center

On Tuesday, August 2 the City Council will be requested to authorize the assignment and assumption of certain contracts and agreements from the San Diego Convention Center Corporation (SDCCC) to the City. These contracts and agreements were entered into by the SDCCC for planning and design services related to the Convention Center Phase III Expansion Project. The IBA has reviewed these contracts and agreement, and has discussed a number of issues with Mayoral staff, the City Attorney's Office, and the Phase III Expansion Project Manager, Charles Black. This report provides additional information on the requested action and the expansion process by highlighting some of the key questions posed by our office, and the respective answers.

1. Why are these contracts being assigned to the City?

The assignment of the planning and design contracts from SDCCC to the City was initiated by the Mayor in order to give the City control of the Convention Center Phase III Expansion Project. The contracts and agreements were originally entered into by the SDCCC to explore the feasibility of expansion; however, the project has evolved to the point where the Mayor believes that the City should take the lead in administering the expansion process. This is consistent with the role the City played in the Phase II expansion, and would provide for greater oversight of the planning and design of the proposed Phase III expansion.

2. What is the purpose of these contracts?

The five contracts proposed for assignment to the City are for planning and design services, including project management, conceptual design, engineering, cost estimation, and environmental review. It is anticipated that these contracts will carry the expansion project through the entitlement phase, including approval by both the Port District and the

Coastal Commission. In addition, the Council is requested to authorize the assignment and assumption of a cost sharing agreement between SDCCC and the Port District related to the environmental review costs.

The total not-to-exceed value of these contracts is approximately \$3.5 million.¹ However, according to the staff report, approximately \$2.0 million has already been expended or committed toward these contracts through May 31, 2011, resulting in a total remaining contract value of approximately \$1.5 million. This is reflected in the table below.

Contractor	Services	Total Not To Exceed	Previously Obligated	Remaining Value
CB Urban Development	Project Management	\$ 450,000	\$ 300,311	\$ 149,689
Fentress Architects	Conceptual Design & Validation	2,572,447	1,449,944	1,122,503
Project Design Consultants	Civil Engineering	100,000	81,515	18,845
ICF/Jones & Stokes	Environmental Review/EIR	327,540	170,322	157,218
Rider Levett	Construction Cost Estimation	28,530	15,148	13,382
TOTAL		\$ 3,478,517	\$ 2,017,240	\$ 1,461,637

In February 2011, SDCCC requested a \$3 million loan from the Redevelopment Agency to assist with funding the design and planning services related to the Convention Center Phase III Expansion Project. This loan was approved by the Redevelopment Agency on March 14. Of the \$2 million that has been expended or obligated toward the planning and design contracts through May 31, approximately \$1.3 million has come from Agency loan proceeds, while the remainder has come from SDCCC funds.

3. How will the remaining contract expenditures be funded?

As mentioned above, approximately \$1.3 million in Agency loan proceeds have been expended or obligated toward the design and planning contracts through May 31, 2011. The remaining \$1.7 million in Agency loan proceeds will be transferred to the City in order to pay for the remaining costs on each contract. These funds are sufficient to cover the total remaining contract value, as well as provide a contingency of approximately \$271,000.

4. Will the City be responsible for repayment of the Agency loan?

No. The Assignment and Assumption Agreement between SDCCC and the City does not impact the Loan Agreement between SDCCC and the Redevelopment Agency or the associated Promissory Note. Under the terms of the Loan Agreement and Promissory Note, the Agency loan will be repaid once financing is secured. If no financing is

¹ Only reflects the SDCCC/City share of the ICF/Jones & Stokes contract pursuant to the cost-sharing agreement with the Port District.

secured by July 1, 2018, then SDCCC would repay the loan over a period of 10 years until all accrued interest and principal has been paid.

5. What happens if there are cost increases?

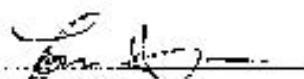
According to the project manager, it is anticipated that the current not-to-exceed amounts for each of the contracts will be sufficient to complete all work through the entitlement phase. However, it is possible that the contract thresholds will be insufficient, and that additional funding will be needed. As previously mentioned, the remaining Agency loan proceeds will provide for a contingency of approximately \$271,000, which could be used to cover any cost increases. However, if additional funding needs exceed this amount, an alternative funding source would need to be identified. While this presents a degree of risk for the City, it should be noted that the risk associated with significant cost overruns would likely exist even if the contracts remain with SDCCC, since Agency loan proceeds are already needed to pay for contract expenses. Mayoral staff has indicated that City General Funds are not intended to be used as a funding source for these contracts.

6. What is the next step in the process?

According to the project manager, the entitlement process under the current contracts is anticipated to take another 10 to 11 months. Port District approval is targeted for sometime in early 2012, with Coastal Commission approval following in mid-2012. Once entitlement is complete (or nearing completion), the next step in the process is to proceed with schematic design, which will further refine the project design and allow for more precise cost estimates. This is followed by design development and construction documents.

While the contract with Fentress Architects includes these additional design phases, they are not provided within the current funding amounts. As a result, the contract will need to be amended to provide additional funding for these services. Costs associated with future design phases may be reimbursed once construction financing is obtained; however, the project manager has indicated that schematic design will need to be completed before construction financing can be secured. As a result, an interim funding source will need to be identified. It is possible that additional Redevelopment Agency funds could be used for this purpose.

Overall, the IBA is satisfied with the answers that have been provided to the questions listed above. While we do not have any significant concerns with the assignment and assumption of the design and planning contracts, we do note that there is some risk that additional funding sources will need to be identified in the case of significant cost overruns. However, it is anticipated that current contract amounts will be sufficient to complete all work through entitlement. In addition, the risk associated with significant cost overruns would likely exist even if the contracts remain with the SDCCC, since Agency loan proceeds are already needed to pay for contract expenses. By assuming control of the planning and design contracts, the City will be able to exercise greater control over contract expenditures and provide enhanced oversight of the proposed Phase III Expansion Project.


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