



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 10, 2016

IBA Report Number: 16-40

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Item Number: 150

Plaza de Panama Project and Proposed Cooperation Agreement

OVERVIEW

In July 2012, City staff presented the Plaza de Panama Project (Project) and a supporting financing plan to the City Council for consideration. The Project was to be a joint venture between the City and the Plaza de Panama Committee (Committee)¹. The goals of the project were to remove parking from the center of Balboa Park returning this area to pedestrian use, reduce traffic circulation within the core of the park, and reclaim 6.3 acres of parkland from parking and traffic usage.

The Project consisted of several components² including:

- Plaza de Panama
- Plaza de California
- Centennial Bridge and Centennial Road
- Alcazar Parking Lot
- The Esplanade and Pan American Promenade
- Organ Pavilion Parking Structure, Roof-top park, tram, and Arizona Street Landfill

The City Council voted to approve the Project in July 2012. At the time of approval, the total project cost was estimated at \$45.3 million, with the City contributing a fixed amount of \$14 million toward the Project for the Organ Pavilion Parking Structure (Parking Structure). However, subsequent to the approval of the Project, the Project was subject to litigation causing the project to be deferred until resolution of the litigation was reached. In May 2015, the Court of Appeals upheld the City Council approval of the Project and the California Supreme Court denied review of the item in September 2015, allowing the Project to move forward.

¹ The Plaza de Panama Improvement Agreement (2012 Agreement) between the City and the Committee was presented to the City Council on July 9, 2012 and executed on July 12, 2012.

² Description of the individual components provided in Report to City Council No. 12-080, dated June 19, 2012.

OFFICE OF THE INDEPENDENT BUDGET ANALYST

202 C STREET MS 3A SAN DIEGO, CA 92101

TEL (619) 236-6555 FAX (619)-236-6556

Due to the length of time since the original approval of the Project, on September 19, 2016, the Mayor requested City Council approval for a \$1 million allocation to update cost estimates for the Project; finalize the Project design; and establish the Project as a City capital improvement project.

On October 27, 2016, Mayoral staff presented the updated cost estimates, a draft 2016 Cooperation Agreement (2016 Agreement) for the Project, and a proposed financing plan for the Project to the City Council Infrastructure Committee³. Based upon updated cost estimates and the proposed 2016 Agreement, the total Project costs are projected to be \$78.1 million, with a City contribution of \$49 million toward the Project. This funding commitment from the City is a result of negotiations between the Mayor and the Committee over the past several months.

At the November 14, 2016 Council meeting, Mayoral staff will be presenting the updated cost information, the proposed financing plan, and several requested actions of the City Council. The requested actions include, but are not limited to:

- Entering into the 2016 Agreement with the Committee;
- Negotiating an agreement to accept donations for the Project from the Committee in a cumulative amount estimated to be \$30 million⁴;
- Appropriating an additional \$48 million (\$1 million appropriated in July 2016) for the Project, with up to \$39 million to come from bond proceeds; and
- Authorizing the Mayor or his designee to award a construction contract in an amount not to exceed \$75 million.

This report discusses Project costs, proposed contributions to the Project from the City, key components of the proposed 2016 Agreement with the Committee; and also identifies issues for consideration and several recommendations. The financing plan and actions related to the financing plan are discussed in a separate report, IBA Report No. 16-41, titled “Proposed Financing Plan for Plaza de Panama Project in Balboa Park”, dated November 10, 2016.

FISCAL/POLICY DISCUSSION

Project Overview

The Project approved by the City Council in 2012 consisted of multiple components, notably the Organ Pavilion Parking Structure, the Centennial Bridge, and Centennial Road. No material changes are anticipated from the Project approved by the City Council in 2012. Project design updates were necessary in order to accommodate changes in the California Building Code since 2012.

Based upon updated cost estimates completed by the KCM Group (consultant originally engaged by the Committee to design the Project), the total Project cost is \$78.1 million. The City contribution, negotiated with the Committee, is to be \$49 million toward the Project with \$4 million toward design work (includes City staff time for design work and project management) and \$45 million toward the construction of the project. The updated Project cost is an increase of \$32.8 million or 73% from the 2012 Project cost, and an increase of \$35 million in the City

³ Report to City Council No. 16-089 (Revised) details the project cost updates and provides information on the proposed 2016 Agreement. Report to City Council No. 16-087 details the proposed supporting financing plan.

⁴ Per the proposed 2016 Agreement, this amount could increase in the case of Project construction cost overruns.

contribution from the 2012 commitment. The table below provides a snapshot of the changes in the project cost and the City/Committee contributions between 2012 and 2016.

Snapshot of Project costs

Project Cost (millions)			
Party	2012	2016	Difference
City	\$14.0	\$49.0	\$35.0
Committee	\$31.3	\$29.1	(\$2.2)
Total	\$45.3	\$78.1	\$32.8
Party Percentage of Project Cost			
Party	2012	2016	Difference
City	30.9%	62.7%	31.8%
Committee	69.1%	37.3%	(31.8%)
Total	100.0%	100.0%	0.0%

Project Costs

Total Project costs incorporate the estimates for the major project components. In discussions with City staff, they noted that the 2016 Project designs and cost estimates have been developed using a different format as compared to 2012. As a result, comparing component costs from 2012 to 2016 is difficult. However, in working with City staff, we have developed the following table to provide some context of these changes in costs from 2012 for various components of the Project.

The largest component of the Project is the proposed \$33.3 million Parking Structure. The Parking Structure will be a 797 space parking garage and will supplant the Organ Pavilion parking lot, which has 357 parking spaces. In addition to replacing the Organ Pavilion parking spaces, several other parking lots are to be reconfigured, resulting in a net increase of 260 parking spaces upon completion of all the components of the Project. It should be noted that the goal of the Project is not solely to increase the parking supply within the core of Balboa Park, but also provides for the reclamation of 6.3 acres from parking/traffic use to pedestrian use.

Plaza de Panama Project Project Components	Costs (millions)		
	2012	2016	Difference
Organ Pavilion Parking Structure	\$17.0	\$33.3	\$16.3
Roof-top Park	2.8	3.8	1.0
Centennial Bridge	3.5	7.6	4.1
Alacazar Parking Lot and Centennial Road	4.7	8.8	4.1
Plazas ⁽¹⁾	2.9	8.5	5.6
Other Improvements ⁽²⁾	2.7	4.1	1.4
Design Costs/Consultant Fees ⁽³⁾	11.7	12.0	0.3
Total Project Costs	\$45.3	\$78.1	\$32.8

(1) Plaza de Panama and Plaza de California.

(2) Promenade, Palm Canyon, and the Esplanade.

(3) Does not include approximately \$14 million expended to date by the Committee for fees such as entitlement fees, consultant fees, and Environmental Impact Review.

City staff has identified the following items as contributing factors to the \$32.8 million increase in total project costs as compared to 2012:

- Differences in preparing estimates from 2012 to 2016 - The 2012 Project costs were based upon more preliminary designs and cost estimates, such as basing them on square footage. The 2016 Project design provides for cost estimates based upon detailed project phasing.
- Inclusion of prevailing wage requirements for all contracts – The 2012 Project cost estimate did not incorporate prevailing wage expenses. The 2016 Project cost estimates comply with the State’s prevailing wage requirements. Staff has estimated this could add 10 – 15% to the project cost depending upon the nature of labor requirements.
- Inflation – Based upon the regional construction cost index, inflation has increased between 3 – 5% annually since 2012. Staff has estimated the cumulative impact of inflation on the Project costs could range from 10 – 15% of the Project cost.
- Updated building code requirements - Since 2012, multiple building code requirements have changed, most notably in the area of storm water requirements. The 2016 Project designs have incorporated the necessary changes. Staff estimates that the required adjustments have increased the Project costs by approximately \$ 3 million from 2012.

While these items explain a significant portion of the cost increases from 2012, due to the different approach used between the two projects, staff is not able to fully identify all cost increases.

City Contributions

In the negotiated proposed 2016 Agreement with the Committee, the Mayor has agreed to contribute \$49 million toward the cost of the Project⁵. This is an increase of \$35 million from the City’s fixed contribution amount of \$14.0 million in the 2012 Agreement with the Committee. Based upon the proposed financing plan, the Mayor is proposing to fulfill the contribution of \$49 million with \$39 million in bond proceeds and \$10 million in Capital Outlay funds.

The City contribution for the Project will be used to support the design work and construction of various Project components. In 2012, the City contribution of \$14 million was restricted to paying for parking structure construction costs only. The table to the right shows the projected usage of funds provided by the City and the Committee based upon expense categories identified in Exhibit A of the proposed 2016 Cooperation Agreement.

Engineering expenses include design work and project management, construction expenses include construction costs for all the components of the Project, and

Expense Category	Funding Source	Project Cost
Engineering		\$11,975,317
City	\$4,000,000	
Committee	\$7,975,317	
	\$11,975,317	\$11,975,317
Construction		\$60,038,145
City	\$45,000,000	
Committee	\$15,038,145	
	\$60,038,145	\$60,038,145
Contingencies		\$6,095,152
City	\$0	
Committee	\$6,095,152	
	\$6,095,152	\$6,095,152
Total Project Cost	\$78,108,614	\$78,108,614
City Contribution	\$49,000,000	
Committee Contribution	\$29,108,614	

*Contribution would total \$23.0 million if contingencies not required.

⁵ The actual City cost for the Project is slightly higher due to the financing costs related to the \$39 million contribution of bond proceeds. Additional information on the City cost of the financing is provided in IBA Report 16-41.

contingency funding will address any cost overruns during the construction phase of the Project.

It should be noted that the City contribution will be fixed at \$49 million for the Project and while the Committee's contribution is anticipated to be \$29.1 million this amount may vary due to several factors related to the Project. Factors include, but are not limited to, vendor participation in the City's bidding process, a robust construction market, and uncertainty related to the proposed work site could all impact the final cost of the Project. *If the actual construction costs are less than the Project budget (\$78.1 million), the City's contribution will remain fixed at \$49 million per the Cooperation Agreement; however, the required contribution from the Committee would be reduced. If construction costs exceed the Project budget, once the construction contract is awarded and construction has begun, the Committee will be responsible for addressing these costs, potentially increasing their total contribution beyond the anticipated \$29.1 million.*

Operating Costs and Proposed Funding

Beyond the one-time capital costs of the Project, there will be additional ongoing operating costs. As part of the overall financing plan, some of the additional operating costs are expected to be covered from new revenue generated from the proposed parking fees from the Parking Structure. According to staff, the following new operating costs are to be addressed as the first priority from parking fees.

Initial Operating Costs Included in Staff Estimates⁶ (\$682,500)

Garage Repairs and Maintenance (\$61,000) – These costs cover everyday maintenance for the parking structure including, but not limited to, steam cleaning, trash removal, graffiti removal, painting, and elevator maintenance.

Administrative costs for the parking structure (\$212,000) – This expense is to address administrative costs such as insurance, supplies, professional services, and utilities.

Parking Operator Management Fees and Staffing Personnel (\$365,500) – These costs include management fees for the parking operator for the structure, and engagement of 8.5 parking FTEs from the Parking Operator to support customers using the automated parking machines and provide parking code enforcement within the Parking Structure.

Garage Capital Reserve Fund (\$44,000) – This Reserve Fund will be established to address any necessary maintenance and repairs to the parking structure. These repairs are more complex and larger in nature than normal day-to-day maintenance, and are usually capital in nature. Annual cost estimated at \$55 per parking space.

The remaining parking fee revenue, less the above operating costs, is to be used to pay for the annual debt service payments from the proposed bond issuance and to establish a reserve fund to mitigate the risk of the General Fund being impacted by the Project.

Projected Operating Costs Not Included in Current Projections

The following items are not included in the costs to be offset by parking fee revenue. According to staff, these costs are considered new General Fund responsibilities and will be included in future Park and Recreation Department (Department) General Fund budget requests. We note these costs

⁶ Cost estimate reflect projected costs in first year of operation.

have not been included in the Mayor's recently released FY2018 – FY2022 Five Year Fiscal Outlook.

Costs for additional park acreage (\$366,000 annually) - The rooftop park will add a new 2.2-acre park on top of the Parking Structure. The new park would include an open lawn, a central elevator courtyard, two new public restrooms, a visitor center and new tram stops. City staff estimates the annual operation and maintenance for this new park to be approximately \$366,000 annually. Based upon the Project construction schedule, the new park is anticipated to open in FY 2020.

Temporary parking management plan (\$160,000 annually for two years) – As part of the construction phase of the Project, the City plans to implement a temporary parking management plan to support employees and patrons of the park institutions. It is anticipated that due to the construction and removal of parking near the Prado area, employees and park patrons will be required to use the peripheral parking lots (Federal lots and Inspiration Point), which are farther away from the Prado area. The temporary parking management plan would include expanding the tram service schedule to accommodate early arriving park employees and patrons/employees leaving the park late in the evening. Staff anticipates expanding the operational hours to 6:00 am to midnight from their current seasonal schedules. The expanded operational hours are projected to cost approximately \$160,000 annually for two years (length of parking structure construction schedule). Per the 2012 Operating Agreement, the Committee was to cover this cost, however, the proposed 2016 Agreement now commits the City to address the cost. These costs are not considered in the operating costs in the parking revenue projections.

Trams (TBD) - As part of the Project in 2012, new trams were purchased, at a cost of \$1 million, to replace existing trolley cars which were providing free transportation from park lots to the core of the park. In the 2012 parking fee revenue projections, the costs for providing the tram service (approximately \$582,000) was included in the operating costs addressed by the parking structure revenues. The 2016 parking fee revenue projections assume these costs to be addressed through the Department's annual budget. The Department has been expending an average of \$325,000 annually since 2014 on tram service. However, this amount may increase as the trams will no longer be operating under the manufacturer's warranty and additional maintenance costs may be necessary.

Security (TBD) - Projected operating costs do not include any additional security for the parking structure. Department staff has indicated that the eight (8) park rangers assigned to Balboa Park will provide security for the parking structure during their scheduled hours of operation (8:00 am to sunset). Additionally, the San Diego Police Department and the Retired Volunteer Police Service will provide routine checks in the structure. The parking structure design will include gates to prohibit entrance into the parking structure after the normal parking structure hours of operation (6:00 am to 2:00 am). The Department also intends to extend the duties of the current security services within the Department facilities in Balboa Park to support security of the parking structure in the evenings. Based upon these considerations, the Department is not planning for additional security for the parking structure. This issue of security was raised as a potential concern by our office in our 2012 report (IBA Report No. 12-080) on the Project.

The following table compares the projected operating costs and parking fee revenue from 2012 and 2016. Additional information and various demand impact scenarios to the parking fee revenue projections are discussed in IBA Report No. 16-41.

Operating Costs and Supporting Revenue (Annually)		
	2012	2016
General Visitor Parking	\$2,107,950	\$3,792,725
Special Events	\$204,000	\$0
Monthly Permits/User	\$60,000	\$45,000
Valet Parking	\$70,800	\$175,200
Total Revenue	\$2,442,750	\$4,012,925
Operating Cost*	\$1,188,268	\$682,530
Net Parking Revenues	\$1,254,482	\$3,330,395**

*The reduction in operating costs of approximately \$506,000 in 2016 as compared to 2012 is primarily due to the exclusion of the expenses related to the new tram service (discussed in the following operating cost section).

**Funds to address projected annual debt service payment of \$2.7 million.

Projected Parking Fee Revenue

The City engaged Parking Concepts Inc. (PCI) in 2011 to conduct a parking and transportation analysis to determine the potential demand and revenues to be generated from the proposed Parking Structure. In addition to PCI, the City engaged Keyser Marston in 2012 to review the projections developed by PCI. In September 2016, the Department undertook a parking lot survey for several days and various times to determine parking demand. Using this survey data, PCI updated their 2011 analysis and determined that parking demand has not changed materially over the past several years⁷.

The updated analysis also proposes increases to the general parking fee structure, adjusts rates to monthly and valet parking, and excludes revenue generated from special events which had been included in the 2012 projections. The most significant change in the projected parking fee revenues, an increase of approximately \$1.5 million, is due to the increased general parking rates over those proposed in 2012. In 2012, the parking fees for the Parking Structure were proposed at a flat fee of \$5.00 for up to five hours, with no fixed maximum daily rate. The maximum daily rate would depend upon the total length of stay. For each five hour period, a fee of \$5.00 would be charged.

In 2016, the Parking Structure is proposed to have three tiers⁸ of parking fees based upon length of stay and different rates for weekdays and weekends/holidays. The table to the right illustrates the proposed parking fee schedule. Any stay over two hours would trigger the maximum daily rate of \$8.00 on weekdays and \$12.00 on weekends.

2016 Parking Fee Schedule

Length of Stay	Weekdays	Weekends & Holidays
Tier 1 - Up to one hour	\$2.00	\$3.00
Tier 2 - Between one and two hours	\$4.00	\$6.00
Tier 3 - Over two hours - daily maximum rate	\$8.00	\$12.00

⁷ PCI projects the general parking occupancy of the Parking Structure (does not include valet or monthly) to be at 50% during the weekday daytime and 36% during the weekday evenings. General parking occupancy is projected to increase to 61% during the weekend daytime and 49% for the weekend evenings.

⁸ The tiers for the length of stay are: Tier 1 is for a stay of up to one hour, Tier 2 is for a stay of up to two hours, and Tier 3 is for a stay longer than two hours which triggers the maximum daily rate.

Mayoral staff has indicated that the tiered rate structure is proposed to benefit short term visitors (visitors staying less than two hours) to the park. Based on 2016 revenue projections, only 3% of the park visitors are estimated to fall into Tier 1 with 7% of visitors falling into Tier 2, and 90% of visitors falling into Tier 3 which triggers the maximum daily amount. Based on the average length of stay of 2.7 hours⁹ for park visitors, the average park patron will pay more (\$5.00 for up to five hours in 2012 vs daily maximum rates of \$6.00/\$8.00 in 2016) for usage of the Parking Structure than in 2012.

Based upon the revised pricing, the Parking Structure is projected to generate approximately \$4 million in operating income to cover financing costs for the proposed bond issuance, some operating costs, and reserves. Challenges the Parking Structure may face, particularly in the first year of operation, include patrons not knowing about the new parking; a new fee being introduced to a previously free amenity (free parking will still be available within the Park); and the new tram providing increased accessibility to free parking in the outer parking lots. We recommend these parking rate structures be evaluated after one year of operation.

The new parking structure will be the only area charging for parking (with the exception of valet parking) within Balboa Park.

Proposed 2016 Agreement

The proposed 2016 Agreement between the City and the Committee identifies responsibilities and commitments for each party for the Project. While similar in many respects to the 2012 Agreement, there are important distinctions between the two documents as shown in the matrix provided as Attachment 1. Discussed below are the key differences our office has identified. In some cases we present recommendations for potential revisions to the language.

Section 1.3 Project Construction: *“The City shall construct the Project as part of the City Capital Improvement Program in accordance with the Project design, and will furnish and/or contract for any and all labor, materials, equipment, transportation, utilities, security, services and facilities required to construct the Project.”*

In the 2012 Agreement, the Committee was to be the lead party in the design and construction of the Project. The 2016 Agreement provides for the Committee to finalize the design of the Project with the City taking the lead on the construction portion of the Project. During the construction phase, the Committee will provide support with design changes and project management. This change will require that the procurement of contracts follow the City process of being competitively bid and prevailing wage be applied.

Section 1.8 Project Cost and Funding: *“The City Contribution to the Project Cost is \$45 million, to be used for the construction of the parking garage and other Project elements and expenses. The City is also separately responsible for \$4 million in the City staff charges, City permits, City inspections, and other City costs. The Committee shall be responsible for any and all other Project Costs over the City Contribution of \$45 million whether or not those costs were anticipated or*

⁹ November 2004 Jones and Jones/Civitas Balboa Park Land Use, Circulation, and Parking Study.

incurred as a result of differing site conditions, delays (except those caused by the City's negligence), design errors or omissions, change orders, contractor claims (except those caused by the City's negligence), and fees by public agencies (not including City fees)."

This is a significant change from the 2012 Agreement in that the City was previously committed to a fix contribution of \$14 million for the parking structure and bond proceeds were to only be used for the parking structure. In the 2016 Agreement, the Committee does continue to commit to pay for cost overruns during the construction of the Project.

Section 1.10.5 (Payment of Committee Contribution): *"The Committee shall provide Quarterly Reports to the City (in a format approved by the City) with appropriate documentation and level of detail required concerning Committee Project Costs and direct payments made by the Committee to cover those Project Costs."*

Section 1.10.6 (Payment of Committee Contribution): *"The City shall provide the Committee with quarterly reports on the balances of the Committee Contingency Fund and all payments made out of that fund for the previous quarter."*

The 2016 Agreement requires quarterly reporting from the Committee to the City for Committee project costs, and the City to provide quarterly reports to the Committee on the balances of the Contingency Fund. However, we note the Agreement does not provide for project updates to the City Council or Council committees.

As this Project is a unique public/private partnership with a significant City investment, our Office recommends the Agreement require Committee and City representatives to jointly provide the City Council or a City Council Committee with quarterly updates on project status. We also recommend Principal Contacts for both the parties be identified within the 2016 Agreement.

Section 1.18 Temporary Parking Management Plan: *"The City will implement and pay for a temporary parking management plan. The Committee will not be financially responsible for the temporary parking management plan and the cost of implementing this plan will not be part of the Project Costs."*

The 2012 Agreement committed the Committee to paying for the tram service during the construction phase of the Project with the City assuming responsibility for the tram service upon the completion of the Project.

Section 1.19 Donor Recognition: *"The City agrees that the Committee shall be entitled to naming rights for the Centennial Bridge, Centennial Road, the Rooftop Park, and the new physical feature included on the Rooftop Park (e.g. visitor center, comfort center, trellis pavilion, etc.), subject to Mayoral approval, which shall not be unreasonably withheld."*

The November 2016 Plaza de Panama Cooperation Agreement includes a new clause-1.19 Donor Recognition- which was not in the 2012 Agreement. This clause entitles the Committee to naming rights for the Centennial Bridge, Centennial Road, the Rooftop Park, and physical features within the Rooftop Park. Per this section the naming rights would be subject to Mayoral approval ("which

shall not be unreasonably withheld”) and “the design and location of donor recognition features shall be subject to City approval”. No other guidelines, criteria, processes, community input, Park and Recreation Board or City Council role are discussed in the Agreement.

We recently learned that Mayoral staff, through the Office of Corporate Partnerships and Development, are in the process of drafting a citywide policy for the naming of City parks as well as City-wide facilities which will incorporate roles of the Park and Recreation Board as well as the Library Commission and City Council. It is anticipated that a draft policy will be completed by February and presented to Council for approval. We recommend that this new policy- which is expected to address procedures for community notification, contribution thresholds, other qualifying criteria, review and approval levels, and City Council’s role, among other items, apply to the Plaza de Panama project. Additional information on the subject of City naming rights is provided in Attachment 2.

Other Issues for Consideration

Implementation of Permanent Parking Management Plan and Improved Signage

The goal of a parking management plan is to efficiently utilize the available parking supply by relocating park employees and long-term visitors to peripheral parking lots and to use a shuttle/tram system to provide connectivity between the distance parking lots and close-in destinations. Implementation of this type of plan may require additional resources to provide a reliable shuttle/tram service, and improving directional and wayfinding signage to inform patrons of parking options, but can be beneficial for achieving long-term parking and circulation goals. A parking management plan for the core of Balboa Park was identified in the Balboa Park Master Plan, the Central Mesa Precise Plan, and multiple parking demand studies¹⁰.

The 2004 Jones Study, funded by a State grant to study parking within Balboa Park, provides multiple options to address parking and circulation issues starting with the implementation of a parking management plan. They noted that such a plan “responds to the Park’s most pressing parking and circulation problems, looking to increase efficiency of the Park’s existing resources with minimal capital investment.”

The benefits of a parking management plan are also mentioned in the 2012 PCI Study. This study states that: “Almost any type of employee parking management plan would produce positive results toward improving the visitor parking situation. The goal of such a program would be to have more control over the designated location for employee parking. In the case of Balboa Park, this would result in more convenient parking available for later-arriving visitors”.

A parking plan could also consider the availability of other parking structures in the area such as the San Diego Zoo parking garage; opportunities for technology to inform drivers of parking spaces available in the area; and the impact of new driver services such as Uber and Lyft, which

¹⁰ Demand studies include the November 2004 Jones and Jones/Civitas Balboa Park Land Use, Circulation, and Parking Study (2004 Jones Study), the July 2006 Tilghman Group/Civitas Parking Management Action Plan for Balboa Park (2006 Tilghman Study), and the April 2012 PCI Parking and Transportation Analysis Balboa Park Plaza de Panama Project (2012 PCI Study).

have become mainstream over the past several years.

Developing City Guidelines for Embarking on Public/Private Infrastructure Projects

The City does not have a clear set of guidelines for the execution and oversight of public-private partnership projects such as the Plaza de Panama project. Recently, during the FY 2017 budget development process, the Balboa Park Conservancy requested funding from the City to undertake a public-private partnership project for the Botanical Garden Restoration Project. During discussions we learned that there was a misunderstanding between the parties as to how such a public-private partnership would be executed. While this request was not funded for FY 2017, it is likely this and possibly others, will be before the Council for consideration in the future. Currently, these requests are dealt with on a case by case such as with Plaza de Panama.

Having guidelines for such projects will allow for consistent application of City policies and procedures and increase transparency. Issues that should be addressed include conformance with the City's CIP process; City management of project when City funding is involved; fundraising thresholds and criteria for receiving City funding; consideration of the City's prioritization policies and processes; evaluation of staff capacity required to carry out the project; project status reporting requirements; clear identification of related operating and maintenance costs and funding sources; requirements for community input; incorporation of City donor recognition/naming rights policies; and consideration of City cash management policies.

While public-private partnerships can provide great opportunities to combine private and public resources to address needed or desired public infrastructure projects, they also can create pressure to alter planned public funding for other priority community needs. The City's project prioritization policies, which include weighing numerous factors, are particularly important given the City's infrastructure needs far exceed available resources. At the same time it is important to recognize the benefit of public/private partnerships which can bring considerable resources to the table. If approved, the Council will be initiating one of the largest public-private partnerships for the construction of public infrastructure the City has ever undertaken.

CONCLUSION AND RECOMMENDATIONS

Our Office proposes the following recommendations for consideration prior to Council approval of the Plaza de Panama Cooperation Agreement:

Recommendation #1-Identify All Operating Costs for FY 2018

All operating costs associated with the Project need to be finally determined. Operating costs, not assumed to be funded through parking garage revenue, will need to be considered during future budget processes. As discussed earlier in our report, they include costs for maintaining the new rooftop park, two-year costs for a temporary parking management plan during construction; potential increases in tram costs, and additional security if determined necessary. These costs have also not been included in the Mayor's recently released FY 2018-FY 2022 Five Year Fiscal Outlook. Allocation of General Funds for these items will need to be prioritized along with many other unfunded needs.

Recommendation #2- Evaluate Parking Rate Structure at the Parking Garage Following One Year of Operation

Charging for public parking at Balboa Park even in a single area is a significant policy change. Because this concept is new to the park, we recommend the parking rate structure and parking garage usage be evaluated following one year of operation. As the revenue generated from the garage is vital to the project financing plan and to protecting the General Fund, the rate structure should be reviewed to determine if the rates are usage are generating the revenue as projected. Public acceptance of introducing paid parking at the park, the specific parking rates being charge and possible impacts on usage and parking patterns should also be assessed.

Recommendation #3-Develop City-wide Naming Rights Policy for City Parks and Facilities

We recommend that a City policy be developed for naming rights/donor recognition for City parks as well as City-wide facilities to include, but not limited to, contribution thresholds; community input; qualifying criteria for naming; review and approval processes; clear roles of appropriate Boards and Commissions; and roles of the Mayor and City Council. We recommend adding language to Section 1.19 Donor Recognition of the Cooperation Agreement requiring this new policy, once adopted, apply to the Plaza de Panama Project.

Recommendation #4-Communication/Transparency-Related Revisions to 2016 Cooperation Agreement

This Project will be one of largest public-private partnerships undertaken by City. It is high profile and funded through a significant City investment. Therefore, we recommend adding language to the Cooperation Agreement which requires the Council or appropriate Council Committee be updated quarterly on project status by appropriate City staff and Plaza de Panama Committee representatives. We also recommend adding language up front in the Agreement which clearly identifies a Principal Contact for this project from the City and the Committee.

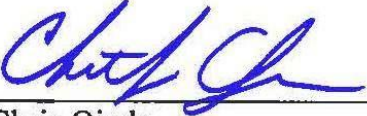
Recommendation #5-Consider Permanent Implementation of a Balboa Park Parking Management Plan and Improved Signage

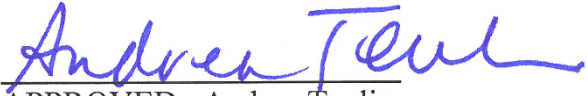
A temporary parking management plan will be implemented during construction of the Project providing an opportunity for such a plan to be evaluated for potential permanent implementation. Parking management plans and improved signage have been recommended for the Park over the course of several years in the Balboa Park Master Plan, the Central Mesa Precise Plan, the PCI 2012 Balboa Park Parking and Transportation Analysis Study, among others. While the new Parking Structure will provide some parking relief, a parking management plan can serve to further maximize the use of available parking supply and help achieve long-term parking and circulation goals.

Recommendation #6-Develop City Guidelines for Embarking on Public-Private Infrastructure Projects

The City does not have a set of guidelines for executing and overseeing public-private partnership

projects such as Plaza de Panama. Having guidelines for Public-Private Partnerships will allow for consistent application of City policies and procedures, assist in prioritizing these funding requests and increase project transparency. Currently these projects are dealt with on case by case basis. While Public-Private partnerships can provide great opportunities to combine private and public resources to address needed or desired public infrastructure projects, they also can create pressure to alter planned public funding for other priority community needs.


Chris Ojeda
Fiscal & Policy Analyst


APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachments: Attachment 1 – Components of Proposed Cooperation Agreement
Attachment 2 – Supplemental Discussion on Section 1.9 – Donor Recognition

ATTACHMENT 1

Noted Sections from the Proposed 2016 Cooperation Agreement			
Section	Section Title	Summary	Noted change from 2012 / Impact
1.3	Project Construction	The City will take the lead of the construction of the Project and will construct the Project as a City capital improvement project (CIP).	As the Project will be a City CIP, contracts will competitively bid and include prevailing wage, and City will be responsible for bid and award of construction contract.
1.7	Invoice Review	The City will submit quarterly Project expenditures reports to the Committee for review.	2016 Agreement provides reporting to City and Committee but not to the City Council
1.8	Project Cost and Funding	The City will contribute \$45 million toward the Project construction cost and an additional \$4 million toward design and project management	2012 Agreement identified maximum City contribution to the Project at \$14 million and limited usage of City contribution to Parking Structure.
1.10	Payment of Committee Contribution	The City and Committee will provide each other quarterly reports on payments made for Project costs	2016 Agreement requires quarterly reporting from Committee to City on payment of Project costs and reporting from City to Committee on usage of Committee Contingency Fund. Does not require reporting to City Council or Council committee.
1.18	Temporary Parking Management Plan	The City and Committee will create a temporary parking management plan during the construction phase of the Project. The City will be responsible for cost of plan.	2012 Agreement identified cost of plan (additional tram service) to be responsibility of the Committee.
1.19	Donor Recognition	The City agrees that the Committee will shall be entitled to naming rights for multiple Project elements.	2012 Agreement did not grant the Committee naming rights for completed Project elements.
3.4.2	Cost Overruns	Prior to the award of the construction contract, the Committee may terminate the Agreement at its sole discretion if the Committee's share of anticipated Project costs exceed the costs shown in Exhibit A by more than 5%.	2012 Agreement set termination threshold at costs exceeding 3% of projected construction cost.
3.6	Joint Right to Terminate	Upon selection of the low bid for the construction contract, if bid exceeds amount shown in Exhibit A (\$60 million), the City and the Committee shall confer how to proceed with the Project. If either party opts not to proceed, Agreement will be terminated prior to award of construction contract.	2012 Agreement did not include this clause.

Plaza De Panama Cooperation Agreement 2016

Supplemental Information Related to Section 1.19- Donor Recognition

As discussed in the body of our report, the November 2016 Plaza de Panama Cooperation Agreement includes a new clause-1.19 Donor Recognition- which was not in the 2012 Agreement. This clause entitles the Committee to naming rights for the Centennial Bridge, Centennial Road, the Rooftop Park, and physical features within the Rooftop Park. Per this section the naming rights would be subject to Mayoral approval (“which shall not be unreasonably withheld”) and “the design and location of donor recognition features shall be subject to City approval”. No other guidelines, criteria, processes, Park and Recreation Board or City Council role are discussed in the agreement.

Naming and renaming of Parks and Recreation Facilities are currently guided by Park and Recreation Board Policy No. 1001 which was last updated November 15, 2001. This policy calls for the Recreation Council representing the geographic area to opine on the historical or fiscal significance of the proposed naming request. The procedure requires the relevant Recreation Council to hold a public hearing to review the request and further requires the Recreation Council to make a recommendation to the Area Committee and the Park and Recreation Board.

In a May 19, 2011 Memorandum of Law, the City Attorney addressed the issue of City facilities naming rights and existing restrictions or provisions in response to a request from the Chief Financial Officer relative to Corporate sponsorship requests for such rights. The memo states:

“The City has used the naming of a public building or facility in the past to recognize a general donor (e.g. the Hervey Point Loma Library) and to bridge funding gaps (e.g. Qualcomm Stadium). The City does not have a policy addressing the naming of its buildings or facilities and has handled each instance separately, generally with the approval of the City Council.

The memorandum states that the City should establish and implement a naming rights policy, and provides as an example the City of Portland, Oregon which has both a naming rights policy and a sponsorship policy in order to address the distinctions. To name a park and/or recreational facility for a major donation in the City of Portland, policy guidelines require the threshold to consist of one or more of the following:

- Land for the majority of the park was deeded to the City
- Contribution of a minimum of 60% of the capital constructions costs associated with developing the park/recreational facility
- Provision of a minimum 20-year endowment for the continued maintenance and programming of the park/recreational facility.

A review of the City of Denver’s naming rights policy for park and recreation facilities for a major donation showed similar guidelines with the financial contribution threshold set at 50% or more of the capital costs of construction. Both Portland’s and Denver’s policies also call for relevant neighborhood groups to be notified of naming/renaming requests and their input requested prior

to further consideration by appropriate officials and before the matter is taken to City Council for a final decision.

We recently learned that Mayoral staff, through the Office of Corporate Partnerships and Development, are in the process of drafting a citywide policy for the naming of City parks as well as City-wide facilities which will incorporate roles of the Park and Recreation Board as well as the Library Commission. It is anticipated that a draft policy will be completed by February and presented to Council for approval. We recommend that this new policy- which is expected to address procedures for community notification, contribution thresholds, other qualifying criteria, review and approval levels, and City Council's role- among other items- apply to the Plaza de Panama project.