

CITY OF NAPA CITY COUNCIL
AGENDA REPORT

ADMIN CALENDAR
AGENDA ITEM 24.A.
Date: April 07, 2015

To: Honorable Mayor and Members of City Council

From: Jacques R. LaRochelle, Public Works Director

Prepared by: Julie Lucido, Senior Civil Engineer

Subject: City Hall Consolidation Project Update and Amendment to Agreement

ISSUE STATEMENT:

Receive a presentation on the update for the City Hall Consolidation Project including the financial analysis and authorize the City Manager to execute Amendment No. 1 to Agreement No. C2015 033 with Jones Lang LaSalle Americas, Inc., for additional project development services in the amount of \$295,000 for a total contract amount not to exceed \$420,000, and determine that the amendment is not subject to CEQA.

DISCUSSION:

The City has completed several studies over the past decade to examine the feasibility of consolidating City facilities. The current efforts are centered on developing a practical plan that meets the City's operational requirements into the future and is consistent with the City's Long Term Financial Plan.

Within the past studies, a number of operational deficiencies were documented including:

- Public access is confusing or City services are difficult to obtain; due to the number of locations of administrative staff, the customer can be confused and may be required to go to multiple locations for service.
- Redundancy of support spaces exists due to separation of offices; these include copy rooms, restrooms, reception areas, break rooms, storage and conference rooms.
- Expansion is needed; several departments have outgrown the available office space resulting in overcrowding and reduced productivity.
- Uneven standards exist; many of the structures were modified to offices from other uses which has led to less effective work areas, inefficient use of space, and non-standard furniture systems.

- Service areas are inappropriate, lacking or redundant; in some buildings the space dedicated to document storage is subject to flooding or other water damage and some janitorial/maintenance spaces are either redundant or lacking.

- Sustainability objectives could be better obtained; well-planned, consolidated facilities could reduce operation and maintenance costs, reduce Green House Gas emissions, and be a catalyst for downtown housing and private reinvestment on existing City properties or adjacent sites.

The City completed an evaluation of alternatives for the consolidation of City facilities in 2014 and the recommendation was to pursue a new joint facility with public safety departments on the block containing the Community Services Building (CSB). The work evaluated current operational costs of the existing facilities, opportunities for consolidation, tentative options for phasing, and potential financing strategies. Several other alternatives were also analyzed, including continue City services in their current locations, requiring interior remodeling of existing City buildings and expanding the existing Police Department facility, and renovate an existing office building and expand the Police Department facility.

The evaluation concluded that making the City Hall and Police Department properties available for private development would be the best alternative financially. This option would leverage the City's property assets in order to help offset the new facility's construction costs. In all alternatives analyzed, Fire Station No. 1 remains in the current location because of the recent investment to complete the seismic retrofit of the structure. Additional architectural and functional improvements will be planned for Fire Station No. 1 in the future.

Subsequent to the alternatives analysis, additional work was performed to advance the project by confirming programming requirements, analyzing real estate values, developing more refined cost estimates, documenting financing options, and developing the framework for a Request for Qualifications (RFQ) to begin the process to select a design/build project team.

Design objectives were developed centered on the following goals: create welcoming, service-oriented facilities that engage the public, provide easy access to government services, facilitate collaboration with the public and reflect the City's image of a world-class destination with a unique character. The City facilities would integrate services based on convenient locations, departmental adjacencies, common clientele and interdepartmental collaboration. Technology would be leveraged to support efficiency and collaboration. Offices and workstations would be standardized and space assigned based on function. Additional meeting rooms and community/multipurpose spaces would be provided. Building space would be flexible and support cost effective adaptation for growth and reorganization over time.

Space utilization benchmarks were reviewed for both private and governmental office facilities. Newer facilities have trended towards an efficient design resulting in utilization rates around 230 usable square feet or less per office employee. A test fit of the preferred site was conducted using 230 usable square feet per office employee. The goal of the test fit is to verify that consolidated facilities that meet the project objectives

and functional needs can be accommodated on the preferred site bounded by First, Washington, Clay and Seminary Streets.

Based on the work completed to date, the estimated size of the joint facilities is approximately 97,000 square feet with a public plaza fronting First Street. Washington Street could be modified to accommodate more parking and reconstructed to continue design elements from the plaza fronting First Street around to the parking area west of facility. The public safety portion of the facility will be approximately 49,000 square feet. Approximately 60% of the public safety portion, including a new Emergency Operations Center, would be constructed to comply with the essential services building code.

Market analysis verified that the Napa market remains strong and the current climate is favorable for private development of the excess downtown property. Specifically, the analysis determined that the highest value for the City Hall and Police Department property was for the development of a hotel with some retail. The thorough evaluation concluded that a 200-room hotel with 9,500 square feet of retail space and supporting restaurants in the upper scale market would fit on the site and complement the current market.

Although the property would require revising the General Plan and zoning from “Downtown Public” to “Downtown Mixed-Use”, this would be a logical extension of the land uses allowed in the core of the downtown and the feathering of commercial activities outward to the adjacent Downtown Neighborhood district located to the west-southwest of the City Hall property. The proposed hotel also would be within the overall level of development analyzed within the Downtown Napa Specific Plan when considering the range of non-residential uses such as retail, service, offices and hotel uses. Although there are other hotels in preliminary consideration in the downtown, the anticipated level of some commercial uses has not been as robust as envisioned when the Downtown Specific Plan was adopted in May 2012, such as for office space. This condition would provide for other uses to fill that land use gap such as for additional hotel rooms beyond the 300 analyzed in the Downtown Specific Plan EIR; albeit an evaluation of the project’s consistency with the Downtown Specific Plan and the Specific Plan EIR will be required in the future during the entitlement process.

The estimated market value of the property is approximately \$15,750,000. By the third year after opening, the Transient Occupancy Tax (TOT), Property Tax, and Retail Sales Tax from the new development on the existing City Hall site is expected to generate more than \$2,100,000 annually with annual growth. Current operational expenses were also evaluated; estimated annual savings in leases and operating newer, more efficient consolidated facilities was included into the financial modeling.

A preliminary cost estimate of the refined program described above was prepared resulting in a total facilities cost of approximate \$54,500,000. Additionally, construction of structured parking spaces for City employees and the public visiting the new facilities is needed. A larger parking structure is envisioned on the City Hall block to accommodate both needed downtown public parking and to support the new relocated consolidated City Hall facilities. The estimated cost-share related to the new City Hall facilities is \$6,250,000.

As part of the project costs, it is assumed that all employees within the CSB will be relocated during construction of the new City Hall/Public Safety Facilities. Cost estimates for office rental space and moving have been included.

The financial analysis assumes bonds are issued for the project financing. Part of the RFP will request additional financing strategies. Other financial structures through a public/private partnership are possible and may be more beneficial to the City. The current analysis for the bond issuance estimates the annual bond obligation expenditure, the operational savings, and new revenues generated from the excess City Hall property sale and its development over a thirty year period. Over the first few years after the bond payments begin, the hotel is completed and the occupancy and associated TOT revenue stabilizes.

It is anticipated that around the eleventh year of the bond payments, the new revenues (TOT, retail, and property taxes) and operational offsets become larger than the debt payment, resulting in a net positive annual operating position for the project based on an interest rate of 5%. During the first eleven years, the City would make bond payments greater than the offsetting revenues and savings. The average annual cost over the first eleven years is approximately \$920,000 after accounting for the new revenues and operational efficiency cost offsets. During those first eleven years, a total of approximately \$10,100,000 is required for the debt payments. After the twelfth year of the payments, when the revenues and operating efficiencies are larger than the debt payment, positive income is generated. From the twelfth through the last year of the debt payments, the sum of the net positive income is more than \$20,000,000.

The projected operational surpluses from the Long Term Financial Plan for FY 14/15 through FY 20/21 exceed the estimated expenditures for the City Hall project. Based on the estimated cost and the projections from the Long Term Financial Plan, the project would not affect the City's ability to fund existing programs, services, and costs already included in the Long Term Financial Plan. The financial modeling will be presented during the presentation of this report.

The financial analysis was prepared utilizing a 5% interest rate. However, the rates are near all-time lows and currently below 4%. The more conservative rate of 5% was used because the future rate is uncertain and may increase over time. There is a greater likelihood of the rate increasing the longer the period that passes prior to securing financing. Therefore timing is critical. If a rate of 4% is secured, the overall cost to the City decreases and alternatively increases if a higher rate is obtained, potentially making the project less feasible.

The time period in which the debt payment exceeds the new revenues and operational offsets drops to six years with the 4% interest rate (from eleven years at 5%) and the sum of the net annual costs during those six years is reduced by approximately \$3,400,000. Alternatively, if interest rates climb to 6%, the costs would increase and it would take approximately sixteen years until the revenues and operational offsets are greater than the annual debt payment. The sum of the annual net costs during those sixteen years is approximately \$4,700,000 higher at 6% compared to 5%.

Work to date has concluded with the preparation of a framework for an RFQ, draft evaluation criteria, and the process for evaluating submittals. Subsequent steps for the project are beyond the scope of the existing contract. However, the proposed amendment would include completing and issuing the RFQ by August 2015, evaluating submitted Statements of Qualifications (SOQ) to select a short list of the most qualified teams by November 2015, and proceeding with a RFP that would be issued by the end of 2015 to select a design/build team from the pre-qualified list. Project performance specifications will be developed as part of the RFP to clearly communicate required standards, quality, and performance of the building and its components. The RFP will articulate the City's overall project goals while allowing some flexibility to foster creativity from the teams in order to give the City options to select from.

It is anticipated that the final steps of the process to evaluate the proposals and final contract negotiations would require assistance from additional legal and financial advisors working for the City. The design/build team selection is scheduled for June 2016 with contract execution scheduled for October 2016. Final contract negotiations are estimated to take four months after team selection.

FINANCIAL IMPACTS:

The overall project financing model was discussed above and will be presented in detail during the meeting. Current project development budget and expenditures are as follows:

BUDGET:

\$ 500,000 Existing Appropriations in JL FC15PW02

USES:

\$ 125,000 Agreement C2015 033 (Programming refinement, test fit, cost estimate, financing model, etc.)

\$ 5,000 Staff time to date

\$ 295,000 Proposed Amendment No. 1 (Project development, RFQ development and evaluation, RFP development with performance specifications)

\$ 425,000 Total contract with proposed amendment and staff time to date

In addition to the \$500,000 budgeted in the current fiscal year (FY 14/15) for project development, an additional appropriation of \$275,000 was requested in the FY 15/16 budget for a total of \$775,000. The effort to advance the project to the point in which a design/build partner is selected to complete the City Hall/Public Safety consolidation project is estimated to total \$775,000. Future efforts for the project development include proposal evaluations, project management, legal and financial support, public outreach, and contract negotiations.

CEQA:

The Public Works Director has determined that the Recommended Action described in this Agenda Report is not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:

1. Attachment 1: Amendment No. 1 to Agreement No. C2015 033 between the City of Napa and Jones Lang LaSalle Americas, Inc.

NOTIFICATION:

None.

RECOMMENDED ACTION:

Staff recommends that the City Council move, second and approve each of the actions set forth below, in the form of the following motion. Move to:

Approve Amendment No. 1 to Agreement No. C2015 033 with Jones Lang LaSalle Americas, Inc., for additional project development services in the amount of \$295,000 for a total contract amount not to exceed \$420,000, and authorize the City Manager to execute the amendment.