



Staff Reports

File #: 1596-2018, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Steve Potter, Interim City Manager

Prepared By: Nancy Weiss, Executive Project Manager

TITLE:

Civic Center Project to Develop a City Hall Building (including Public Safety and City Administration) at 1600 First Street, a Fire Station No. 1 at 1115 Seminary Street, and a parking garage at 1511 Clay Street.

RECOMMENDED ACTION:

Receive a Report Regarding the Status of Planning, Design, and Financing for the Civic Center Project (JL FC15PW02); and Provide Direction to Staff Regarding Next Steps Under the Exclusive Negotiations Agreement for the Project.

DISCUSSION:

Background

The proposed Civic Center project is an ambitious project to replace aging City facilities and consolidate City functions. Proposed facilities include a new consolidated City Administration and Public Safety Building, a new Fire Station No. 1, and a new Clay Street Parking structure. In September 2017, City Council approved an Exclusive Negotiation Agreement (“ENA”) with Plenary Property Napa LLC (“PPN” or “Developer”) which defines the terms by which PPN and the City will develop the design and financing for the proposed Civic Center. Several changes have occurred in the past year since the ENA was approved including cost increases due to escalation of construction costs, design changes based on community input, and modifications to the City’s long term financial forecast (LTFF).

It is important to note that the proposed project or any similar project the City decides to undertake to replace, repair, consolidate, improve, expand our current facilities will require significant financial commitment by the City as well as support from the community and employees. The City faces significant deferred maintenance and aging facilities that require modernization and improved performance. Since 2014, the City has deferred all facility reserve expenditures to maintain or upgrade City Hall, Community Services Building (CSB) and Public Safety buildings in anticipation of building a new facility in the near future. Decisions will need to be made in the short-term and long-term for financing the improvement of City buildings whether new or rehabilitated.

This report outlines several options available to the City to respond to these changes, and City staff requests feedback and direction from City Council on how and when to move forward.

Project Need

The overarching goal of the project is to create a safe, consolidated and accessible City facilities for the community and employees. As documented in previous studies, there is a recognized need to improve and expand the City facilities from which City services are provided, since current facilities are undersized for the City's current demands.

The City-owned facilities (City Hall, Police Department Building, Fire Station No. 1, Community Services Building, and Housing Authority Building) are aged beyond their useful life (and in need of substantial and costly ongoing repairs, maintenance, and capital replacements), energy inefficient, and technologically outdated.

Further, the City-owned facilities, particularly including the fire station and police station (which includes an Emergency Operations Center (EOC) and 9-1-1 dispatch center), do not meet seismic safety requirements for an essential services building under State law. Although the Police Department building survived the 2014 earthquake, the building did sustain damage and may not be fully functional in the event of another quake. Therefore, in order to continue to provide essential public safety services, including EOC functions during disasters, the current Police Department building needs to be improved and expanded. Also, additional upgrades are required for the efficient operation and modernization of Fire Station No.1.

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.

In addition to the City-owned facilities, the City leases space for office and meeting rooms in three buildings (for Human Resources Department, Water Administration, and Parks and Recreation Department) at a current cost of approximately \$300,000 per year. However, after combining all City facilities (owned and leased), they remain undersized to meet current demands for office and meeting spaces; and they are spread over a one-mile radius area that makes it cumbersome for residents and business owners seeking services from the City in multiple office locations, and that creates internal inefficiencies for City operations.

Project Goals and Priorities

In order to provide City services to residents and business owners in a manner that is cost effective, customer friendly, reflective of community values, and resilient in the face of natural disasters, the City Council directed staff to develop a consolidation project with the following project goals:

- Improve the City's ability to provide quality services to the public in a consolidated modern, efficient building
- Consolidate City offices to be more accessible to public, collocate departments that interact frequently
- Improve technology services in the building and for the public
- Include a State of the Art council chambers and public space for community groups

- Meet sustainability goals of the City by reducing energy costs and greenhouse gas emissions
- Reduce costs associated with leased space and need to retrofit/remodel/maintain aging City buildings
- Keep the project downtown to free up property to further downtown revitalization efforts
- Free up valuable public land to be sold at fair market value, and to facilitate revitalization of private development

Project History

Since 2004, the City has been investigating options to address its facilities (including consolidating City functions into a Public Facilities complex) and commissioned several studies to analyze these options. Each of these studies concluded that the City should find new facility solutions for both Public Safety and City Administration due to the existing site constraints and costs associated with upgrading existing and maintaining dispersed facilities. To address these conclusions, the City has been evaluating alternative methods of providing City services through a consolidated Civic Center, and these alternatives have been discussed at public City Council meetings over the course of many years (since as early as 2004).

- In 2004, a City Hall study projected an increase in City staff to significantly outgrow its existing facilities and projected a need for space to consolidate leased and City owned facilities. As a result, the study recommended consolidation of existing owned and leased facilities should be explored.
- In 2008, the City Council requested that a study be undertaken prior to the Downtown Specific Plan preparation regarding the scattered location of City services in the downtown area and the desire to study a consolidated facility in the Downtown Napa Specific Plan.
- In 2009, City Council received a presentation on the Napa Consolidated City Hall and asset analysis study and provided direction to incorporate the study into the downtown specific plan process and to bring back consolidation recommendations as opportunities presented themselves.
- In 2011, the City Council and County Board of Supervisors held a joint meeting whereby Council authorized staff to explore opportunities for co-locating County and City services.
- In 2013, Council appropriated initial funds for an evaluation study of City Hall consolidation alternatives.
- On April 7, 2015, the City Council received a report evaluating alternatives to consolidate City facilities. The report evaluated current operational costs of the existing facilities, opportunities for consolidation, tentative options for phasing, and potential financing strategies. A range of alternatives was studied including continuing City services in their current locations, with interior remodeling of existing City building and expansion of the existing Police Department facility, as well as renovating an existing private office building in conjunction with the expansion of the Police Department facility. The recommendation was to pursue a new joint facility with public safety departments on the block containing the Community Services Building (CSB), using a Design/Build Process to most cost effectively deliver the project.
- On August 18, 2015, Council authorized issuing a request for qualifications to seek developers to design, build, finance, operate, and maintain a new consolidated Civic Center to achieve the City's goals of cost effectively providing safe and convenient services to the public (see "Project Goals and Priorities" section above for list of project goals).

- On May 10, 2016, Council approved a short list of qualified developers, and authorized staff to issue a request for proposals.
- On May 30, 2017, Council selected Plenary Properties Napa, LLC (“Plenary”) as the preferred developer.
- On September 5, 2017, Council approved an Exclusive Negotiation Agreement (“ENA”) between the City and Plenary which defines the terms by which Plenary and the City will develop the design and financing for the Civic Center.

The ENA defines a series of Performance Milestones leading to the preparation of final Project Agreements and financing documents which are subject to review and approval by the City Council prior to authorizing construction of the Civic Center.

It was initially anticipated that the final Project Agreements would be presented to Council for consideration in early 2019; however, the term of the ENA contemplates potential extensions to completion through March 2020.

As described in the ENA, after the Project Agreements are approved by the City Council, Plenary and its subcontractors would design and construct a Civic Center Project including; (1) a City Hall on the site of the current Community Services Building at 1600 First Street (CSB Site), (2) Fire Station No. 1 on the site of the offices of the Housing Authority of the City of Napa at 1115 Seminary Street (Housing Authority Site), and (3) a Parking Garage on the site of the existing surface parking lot at 1511 Clay Street (Clary Street Surface Lot Site). The construction of the new Civic Center Project would result in the City vacating the existing City facilities (City Hall, Police Building, and Fire Station No. 1) located on the property bounded by First Street, School Street, Second Street, and Seminary Street (Superblock Site). Following the City vacating the Superblock Site, the City would sell it at fair market value to Plenary, and Plenary would privately fund construction of a development project on the Superblock Site.

Please refer to the City’s web page (<https://www.Cityofnapa.org/424/Napa-Civic-Center> <<https://www.cityofnapa.org/424/Napa-Civic-Center>>) for additional background information and documents that were presented to City Council.

Currently Budgeted Civic Center Project Costs

At the time the ENA was approved, the City Council had approved a total Project budget over a five-year budget period (from fiscal year 2014/15 forward) in the amount of \$9,062,924. This Project budget covered the costs for the past technical analyses of alternative approaches for addressing the inadequate City facilities, as well as the estimated costs of services anticipated for the additional technical, financial, and legal consulting services needed to prepare the final Project Agreements and financing documents to be brought back to Council for consideration. To date, of those total budget amounts (from FY 2014/15 forward), the City has spent approximately \$3.4M, with a remaining Project balance of approximately \$5.7M including current project contract obligations.

As a separate component of the budgeting for approval of the ENA, the City Council approved an appropriation of up to \$2.6M to cover a potential “Termination Payment” from the City to Plenary, if the City exercises its right to terminate the ENA and not pursue construction of the Project. As of the date of this report, Plenary has completed services that would warrant a Termination Payment of

\$1M.

Civic Center Project Cost Updates and Changes

At the City Council meeting of May 21, 2018, a comprehensive update was provided for the Civic Center Project, including a summary of various proposed changes that were at an early stage of development. As a part of the discussion during that meeting, Council requested staff to assemble and return with additional financial information to support further decision making. Among the identified changes were: moving secured parking from inside the building to secured street parking, expanding the footprint of the parking structure to reduce its height, and using a portion of the City's Corporation Yard at Jackson Street for "swing space" for Police Department offices. ("Swing space" refers to office space that is temporarily used by City staff during the construction of the Civic Center, for the City offices that are demolished prior to completion of the Civic Center).

Under the current ENA, the total project cost was \$110.3M. Staff has identified a number of possible options for consideration; estimated costs for each option are provided in the section below. Total estimated financed project costs are currently estimated to be \$143.6M

It is clear that the estimated costs have increased beyond what was contemplated in the ENA. The increased costs are largely due to escalation of costs based on construction costs and market forces, the need to acquire additional real property to accommodate City-directed changes to the parking design, and additional costs for Corporation Yard improvements that are contemplated to provide a temporary home for public safety and a permanent improved facility that will provide ongoing value beyond the Civic Center Project for the City's ongoing maintenance operations.

Long Term Financial Forecast (LTFF)

The City annually produces a 6-year General Fund forecast. This forecast is used as a planning tool by staff and the City Council to look at long-term trends and implications of budget decisions over time. It is an assumption-driven, most-likely forecast that changes based on the latest financial and economic data as well as modifications to the assumptions.

Basic Revenue Growth Assumptions:

- Property Tax Growth: 4% per year
- Sales Tax Growth: 2.9% per year
- Transient Occupancy Tax Growth: 4% per year (existing hotels)
- New Development TOT: each potential hotel project is individually analyzed and assigned a probability assumption, room rate assumption, and opening date assumption

Basic Expenditure Growth Assumptions

- Salaries: 3.9% per year (cost of living adjustment + step / merit increases)
- Benefits: 4% - 7% per year, depending on type of benefit
- CalPERS: 7.7% per year, updated based on PERS annual actuarial reports
- Services: 3% per year
- Materials and Supplies: 2.7% per year
- 5 new General Fund staff positions per year

When all assumptions are combined into the baseline forecast (ignoring any assumptions for a City Hall project or alternate facilities projects), it shows that the General Fund will continue to have a budget surplus for the 6-year time horizon. The surplus generally fluctuates between \$1.5 million and \$2.0 million per year. At the December 11, 2018 City Council meeting, staff will present additional detailed forecast data, as well as how each of the Civic Center project options discussed below will impact the long-term forecast.

While the forecast is typically limited to the 6-year time window, because of the 30-year-plus nature of potential commitments for the Civic Center project, staff also constructed a very basic 10-year version that extends the original forecast out by an additional four years. This longer-term forecast shows a different conclusion than mentioned above for the 6-year. Long-term revenue growth (absent any new hotel projects that we are not currently anticipating beyond year 6) is outpaced by long-term expenditure growth. This causes an erosion in out-year budget surpluses and eventually shows budget deficits in year 9 and beyond. This structural imbalance between revenues and expenditures will likely need to be addressed in future forecasts / budgets by modifying assumptions. As above, staff will provide more detail at the December 11, 2018 meeting.

Civic Center Options Analysis

Based on updated LTFF assumptions, any of the following options can be affordable. However, adjustments to future budgets and forecasts will be necessary in any option. Decisions hinge on the amount of risk the City wants to undertake, e.g., development of the Superblock, as well as “qualitative” factors such as disruption of staff to transitional or swing space. Council will need to consider the financial as well as qualitative impacts of how to best achieve and prioritize the City’s goals for improving City facilities whether all at once or phased over a longer period of time as analyzed under various alternative approaches described below.

Staff has identified 3 basic options and alternative approaches Council could take (see Table 1 below), to reduce project costs that would help to minimize the forecasted budget deficit.

Table 1. Summary Scope Descriptions of Project Cost Reduction Options

Option 1 - Current Project	Option 2 - Negotiate Amendments to the ENA	Option 3 - Alternative Facility Project
<ul style="list-style-type: none"> • Current project= City Hall, FS No. 1, parking structure • Swing CH, PD, CSB, Housing, & Fire Station No. 1 • Sale of Superblock for private development • Continue to explore value engineering options 	<ul style="list-style-type: none"> • 2A: No Super Block Swing; Delay Superblock sale • 2B: No Superblock Swing; No Superblock Sale; no parking garage or new Fire station; surface parking on Superblock 	<ul style="list-style-type: none"> • Direct staff to bring back an alternative facilities consolidation/expansion plan • Terminate the ENA

A summary table comparing Options (1, 2A and 2B) and the estimated costs is provided in Exhibit A.

Option 1- Current project - Pursue the Civic Center and Private Development Project as described in the ENA

This involves the current project including City Hall, Fire Station No. 1 and a parking structure; swing space requirements would include City Hall, Police, Housing and Fire Station No. 1

- Cost reductions have been recommended through value engineering \$2M and would need to be explored further.
- Option #1 would include financing the Corp Yard CIP project to temporarily relocate Police facilities, currently estimated at \$17M.
- Involves sale of Superblock for fair market value, for privately funded development
- Reduced total financed cost from \$143.6M to \$130.5M;
 - Reductions include total of \$13.1M over base case of 143.6M (\$2.0M for value engineering; \$2.7M for lower swing space; \$6.1 M through elimination of debt service reserve, etc.)
- Debt service = \$7.9M first full year

If City Council directs staff to continue proceeding with the Civic Center Project and the Private Development Project as described in the ENA, staff will bring back to City Council more specific adjustments to the budget to cover the estimated project costs.

In the short term, the City would need to proceed with acquiring the real property needed for the Civic Center Project, swing space and to finance the costs of constructing improvements at the Corporation Yard. While these costs will be included in the Civic Center financing, these more immediate project costs will need to be financed with a short-term credit facility prior to the issuance of permanent financing at Civic Center financial close. Therefore, to cover these costs, staff would bring back a short-term debt financing instrument in the amount of approximately \$25,000,000 for Council consideration. Portions of the Project costs that are financed by the short-term debt instrument would be repaid from a portion of the proceeds of the “long-term” construction financing for the Project. If Council directs staff to pursue this option, the City’s Project Team would continue to evaluate and refine the Project costs, and the City Council would retain the right to terminate the ENA prior to committing to the full costs of constructing the Project.

Option 2: Negotiate Amendments to the ENA to Reduce Costs of the Civic Center

This option focuses on building the Civic Center on the CSB site, the Housing Authority office site, and the Clay Street surface parking lot (for the new: City Hall, Fire Station No. 1, parking structure). Substantial cost reductions could be realized by not temporarily moving City offices off of the Superblock site and it will eliminate the cost of improvements at the Corporation Yard. However, this option also delays sale of Superblock and possibly phasing construction of various project elements. There are two categories of sub-options, Option 2A implementing the entire project program but not swinging City uses on the Superblock and Option 2B, not swinging and reducing scope. More specifically:

Option 2A: No Super Block Swing; Delay Superblock sale

- Revised project scope and phasing of City Hall, Fire Station No. 1, parking structure;
- No Superblock swing; delay sale of Superblock;
- Reduced total financed cost: \$143.6M to \$127M (\$112M after applying the proceeds from the sale of the Superblock)
 - \$18M cost reductions in addition to Option 1 cost savings;
- Debt service = \$7.1M first full year.

The estimated schedule for Options #1 and 2A is that construction would occur over 2 years with financial close in 2019 and projected Civic Center move in by January 2022. The Superblock private development is projected to be entitled, built, and occupied by 2022 (for Option 1) and in 2024 (for Option 2A).

Option 2B: No Superblock Swing; No Superblock Sale; no parking garage or new Fire station; surface parking on Superblock

- Reduces project scope: includes City Hall; but excludes Fire Station No. 1, and parking structure;
- Long-term Delay of Superblock sale; Swing CSB only;
- Superblock temporarily used for surface parking; no parking garage or Fire Station until eventual development of the Superblock. Costs to explore options for future development of Superblock
- Reduce total financed costs: \$143.6M to \$104.7M
 - \$53M cost reductions since multiple facilities are not constructed; project phased over longer period of time
- Debt service = \$6.7M first full year

Option 3. Pursue Alternative Solutions and Terminate the ENA

If Council wants to pursue alternative solutions for improved public facilities for City offices that differ from the current proposed project with PPN, Council would need to take the following actions:

- Direct staff to bring an alternative facilities/consolidation plan back for further evaluation and analysis. This would include an evaluation of how to address immediate and priority City facility needs, phasing plan, affordability/financial analysis, financing option. Options could include additional look at remodeling existing facilities, remodel and new building phased approach. All new facilities might be phased over a longer period of time.
- Terminate the ENA with PPN. This would include providing a notice to PPN; ENA milestone documentation; and a termination payment in the amount of \$1M based on the completion of the Performance Milestone for Schematic Design Approval for the Civic Center Project
- Wind down of services performed by respective project teams for City and developer. This could take 6 months or more including gathering up/assembling all work products generated for the project. Estimated costs could range from \$200,000 to \$500,000. As stated above, the City has expended \$3.4M to date on various design, legal, financial and technical work. Much of the project work completed to date will be retained by the City and can be used in future project evaluations including but not limited to: design program and space needs information,

technical performance requirements and specifications, Operations & Maintenance estimates; technical studies such as surveys, and preliminary engineering.

Option 3 provides flexibility to look at more options including phasing of existing and new construction; however, there are a variety of tradeoffs to consider in this option:

- Phasing over a longer period might pose lower immediate risks; however, completing the project over a longer period of time and/or building separate facilities could increase costs over the life of a project.
- There are more unknowns and exposure due to delays (such as deferred maintenance of current buildings and cost escalation).
- Alternative project costs would not necessarily be less expensive as economic drivers would still be present such as cost escalations, swing space and mobilization costs.
- If an alternative site is not City owned, additional costs will be incurred but tradeoffs could also be explored.
- The City will still need to make budget and forecast adjustments to make any project(s) work for rehabilitation or new construction.

Next steps:

Each option outlined above would require items for future City Council consideration, direction and/or authorization. Examples of future items are listed below for each option:

Options 1 & 2A

- Updated project and design development timeline
- Public outreach plan
- Updated staff engagement plan
- Short-term financing
- Real property purchases (ex. for parking)
- Swing space plan with leases and tenant improvement plans
- Joint Powers Authority (JPA) formation

Option 2B

- CIP plan for Fire Station No. 1 renovations
- Parking plans

Option 3

- Direction to explore project alternatives
- Direction to proceed with termination process per the ENA with Plenary Properties Napa (PPN)

Conclusion

Each option discussed presents trade-offs to be considered. A summary of some of the pros and cons to consider are provided below for each option (and a summary table provided in Exhibit B):

Option 1: Current Project

Pros

- Project goals accomplished
- Highest probability on capturing Superblock revenues in strong market
- PD moves to essential service rated facility during swing period
- New Corp Yard facility helps achieve needed renovation of that property

Cons

- Largest Upfront Cost
- Corp Yard project expensive
- Most staff swing to temporary accommodations
- Requires downward adjustments to expenditure growth assumptions
- If revenue from Superblock hotel doesn't materialize, budget deficit is largest

Option 2A: Negotiate Amendments to the ENA (No Superblock Swing and Delay Superblock Land Sale)

Pros

- Project goals accomplished
- Avoids the need to swing PD, Fire Station No. 1 & City Hall
- No Corp Yard project cost
- Lowers total financed cost and annual payment
- Less exposure than Option 1 to risk of Superblock hotel not being built in near term

Cons

- 2-year delay of Superblock land sale, high risk of "missing" hotel market and not generating revenue from Superblock for [many] years
- Larger budget deficit in early years, some surpluses in early years could be carried to offset this
- Requires downward adjustments to expenditure growth assumptions

Option 2B: Negotiate Amendments to the ENA (No Superblock Swing; No Superblock Sale; no parking garage or new Fire station; surface parking on Superblock)

Pros

- Lowest construction costs
- Least exposed to risk of Superblock hotel not being built in near term

Cons

- Not all Project goals accomplished
- No revenues from Superblock
- Sub-optimal usage of Superblock property (surface parking)
- No Fire Station No. 1 or Parking Structure
- Requires budget assumption adjustments to balance budget

Option 3: Alternate Facilities Project (Provide direction on alternate project and terminate the ENA with PPN)

Pros

- Most flexibility to deliver project in any way

Cons

- Risk exposure due to delays (ex. deferred maintenance and old buildings)
- Costs are unknown (but may be higher than Options 1, 2A or 2B)
- Most unknown factors
- Phasing can be explored
- Economic drivers still present (ex. cost escalation etc.)
- Requires budget assumption adjustments to balance budget

FINANCIAL IMPACTS:

A variety of City facilities project options were prepared for Council discussion and direction. Each of the options' discussion above includes a summary financial impact. Depending on the option(s) selected, staff would plan to present (at a future date) a more detailed financial analysis and discuss financing options.

A Capital Project budget (JL FC15PW02) currently covers project management, legal and technical advisory services related to the project. To date (from FY 2014/15 forward), the City has spent approximately \$3.4M, with a remaining Project balance of approximately \$5.7M including current project contract obligations.

CEQA:

The Public Works Director has determined that the Recommended Action described in this Staff Report is not in-and-of-itself a "project" (pursuant to CEQA Guidelines Section 15378) since it does not result in a physical change in the environment.

However, the Recommended Action is a part of a larger "project" that will be subject to environmental review in accordance with CEQA at the "earliest feasible time" prior to "approval" consistent with CEQA Guidelines Sections 15004 and 15352. The larger "project" is "to Design and Build a New Public Safety and City Administration Building as well as to Develop Excess City Land with Private Uses," and staff plans to bring back a CEQA analysis of that project to Council prior to approval of the Project Agreements that commit the City to construction of the Project

DOCUMENTS ATTACHED:

EX A - Comparison Summary of Options 1, 2A, 2B
EX B - Options Pros & Cons Table

NOTIFICATION:

Stuart Marks, Plenary Properties Napa, LLC (PPN) development team