TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PUBLIC WORKS

DATE: AUGUST 8, 2005

SUBJECT: RESPONSE TO COUNCIL DIRECTION TO ASSESS FEASIBILITY OF CONSTRUCTING A POLICE BUILDING ON A SITE ADJACENT TO THE CIVIC CENTER; AND RECOMMENDATION TO ISSUE A REQUEST FOR STATEMENT OF INTEREST TO BUILD A “TURN-KEY” FACILITY

RECOMMENDATION

Staff recommends that the City Council direct staff to issue a Request for Statement of Interest (SOI) for a “turn-key” police building project and return with a comparison of the “turn-key” proposal to the previously approved plan to renovate and expand the existing police building.

BACKGROUND

The existing Police building was constructed in 1967. Over the years, with minor expansion and remodeling, this facility now totals approximately 25,000 square feet (sf). Due to changes in code and regulatory requirements, the existing police building does not meet current seismic, accessibility and regulatory codes. Three space needs assessments from 1985 to 1998 were conducted and each study concluded expansion of the police building was necessary. Current and future needs ranged from a total of 50,000 sf to 70,000 sf. Differences in these assessments were due to assumptions made with each study on cost, demographics, population growth, technological and regulatory trends, central and accessible locations, inclusion of other City department functions to gain efficiencies, potential environmental impacts, parking and emergency operations. The most current space needs study identified a need for approximately 63,000 sf for a new police building that will be appropriately sized for the next 15 to 20 years.

From 1999 to 2000, extensive site assessment studies were performed for sites at Park Boulevard, California Avenue, Page Mill/El Camino, the downtown Library, and the existing downtown Civic Center. Renovating and expanding the existing facility and the cost of relocating the Police Department for up to 2 years while demolishing and reconstructing a new facility at the same location resulted in the project costs at the Civic Center being slightly higher than other sites. However, the Civic Center site was made a top candidate in order to minimize potential environmental impacts and public opposition since the Police Department is already located there. In 2001, Council directed staff to pursue design on the current Civic Center site and to identify potential options for reducing the cost and space requirements.
On February 14, 2005 Mayor Burch and Council Members Beecham and Cordell presented a colleagues memo (see Attachment A) to the City Council that suggested that significant savings from the previously approved plan to reconstruct the current police wing of the Civic Center could be achieved by re-looking at the City-owned parking lots on California Avenue that were considered in the 1999 site options study. The colleagues memo pointed out that the savings would result from eliminating the need to provide temporary facilities during construction and additional costs of leasing off-site property and evidence storage space; that building a new building would likely be 25% less expensive to build than retrofitting the current building; and finally that an additional $5 million might be needed to pay the University Avenue Parking District for the new square footage created and to replace existing parking associated with the police wing. The City Council directed staff to bring back more information on the California Avenue site including:

- Comparison of the pros and cons of the California Avenue site compared to the Civic Center site, including temporary and ongoing costs.

- Analysis of issues raised by California Avenue merchants regarding surface parking and disruption to businesses during construction.

On May 9, 2005 Mayor Burch and Council Members Beecham and Cordell presented a second colleagues memo (see Attachment B) to the City Council that informed the Council that the California Avenue Area Development Association (CAADA) continues its strong opposition to the location of a police building on California Avenue and that a local developer had come forward with a proposal for locating the police building in Downtown Palo Alto. The developer has offered to build the police building to City requirements at a significant cost savings to the City, and to sell the land and building to the City. A 60,000 square foot building could be constructed, allowing the Police Department to meet its actual space needs, thereby saving the additional cost needed to lease additional warehouse space for property and evidence storage. This option also would eliminate the need to relocate the Police Department during construction, and avoid the cost of constructing a temporary communications center and relocating emergency dispatch twice. Based on this second colleagues memo, the City Council directed staff to take the following steps in the development of the police building project:

- Temporarily halt staff work on the renovation and expansion of the existing police building and on the California Avenue alternative.

- Evaluate the plan for the construction of the new police building at the proposed Downtown site.

- Evaluate parking options for the new police building and the adjacent commercial property, including utilization of the City-owned parking lot behind the Post Office; and

- Return before Council vacation in August 2005 with a feasibility analysis of this option with recommendation(s), which will include a funding plan.

- City Auditor to review this project and provide comments and her assessment to the Council.
DISCUSSION
As Council directed, staff has evaluated the developer’s plan for constructing a new police building at the Downtown location on a “turn-key” basis (see Map Attachment C) and compared the proposal to the renovation and expansion of the existing police building. Following are the results of this review.

Comparison of Police Building Alternatives
The pros and cons associated with the renovation and expansion of the existing police building compared to the proposed “turn-key” development are as follows:

Alternative #1 – Renovation and expansion of Civic Center

<table>
<thead>
<tr>
<th><strong>Pros</strong></th>
<th><strong>Cons</strong></th>
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</thead>
<tbody>
<tr>
<td>• City owns property</td>
<td>• Temporary lease space and land for the Police Department is approximately $6 million</td>
</tr>
<tr>
<td>• Staff stays centralized and police presence in City Hall adds to level of security</td>
<td>• Lease of additional required warehouse space for property and evidence storage at an added cost of over $3.5 million</td>
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<tr>
<td></td>
<td>• The building square footage would be barely adequate for current and future Police Department needs</td>
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<td>• The building would exceed the 50’ height limit</td>
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Alternative #2 – Build a “turn-key” police building at a Downtown site

<table>
<thead>
<tr>
<th><strong>Pros</strong></th>
<th><strong>Cons</strong></th>
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<tbody>
<tr>
<td>• No temporary relocation necessary</td>
<td>• Land purchase estimated cost is $3.3 million</td>
</tr>
<tr>
<td>• Current police wing at Civic Center can be occupied by Utilities and the Development Center with a lease cost savings of $466,000/year</td>
<td>• Need to relocate Farmers Market</td>
</tr>
<tr>
<td>• City owns a portion of the land needed to build the new Police building.</td>
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<tr>
<td>• The developer estimates the project could be built about $5 to $10 million less than Alternate #1.</td>
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</table>
In comparing the developer’s proposal to the City’s previous plan to renovate and expand the existing police building staff inflated the previous renovation and expansion project cost to 2005 dollars with that correction, the developer estimates that the cost of developing an equivalently sized police building at the proposed downtown location would save the City $5 to $10 million over the cost of renovation and expansion of the current police building. Staff has not negotiated with the developer. The project cost may decrease or increase dependent on the ultimate project configuration and terms and conditions of any agreements. The square footage of the new police building would be up to 60,000 square feet and would include space for property and evidence storage and additional circulation space not accommodated in the renovation and expansion project. Due to the cost savings identified by this comparison a “turn-key” approach for the police building appears to be worth further evaluation.

Relocation and Leased Space Costs
The renovation and expansion of the Civic Center police wing would be extensive and would include removing the council chambers roof and enlarging the structure’s columns in the civic center parking garage in order to meet “essential service” standards (ensuring an operational facility during and after a significant earthquake). The costs to temporarily relocate the entire Police Department, Emergency Operations Center and Communications Center for three years would be almost $6.0 million. In addition the City Council would need to relocate into another City facility during construction. Also, because the renovation and expansion project is not large enough to include property and evidence storage, a 5000 square foot warehouse space would need to be leased at an additional cost of over $3.5 million.

If a new police building were to be located at another site, the existing police building space totaling 25,000 sf could be occupied by other City departments such as the Utilities Engineering Division, currently located at Elwell Court and the City’s Development Center currently located on Hamilton Avenue. The savings the City would realize from eliminating these leases is estimated at $466,000 per year. Also, moving Utilities Engineering back to City Hall would create an additional ongoing General Fund rental revenue stream.

Parking and Land
The proposed development at the downtown site on Gilman Street would require additional spaces to be replaced and relocated to the parking lot behind the Post Office. The developer’s proposal includes building a four level parking structure on this lot with 234 parking spaces. The developer is proposing that approximately 100 of the parking spaces be for private use associated with the 300 Hamilton Building which he owns with the rest for public and secure police parking to replace the spaces in the parking lots impacted by the development. In addition, 71 spaces at the Civic Center garage where police vehicles are currently located would become available for other uses. The City owns a portion of the land under the proposed police building and the developer is proposing to sell the remaining land to the City as part of the project. These issues will be further evaluated in connection with this proposal and other proposals if Council directs staff to issue SOI’s for the project.

Planning Issues
A police building located at the downtown site would be located on its own parcel and would require a PC (Planned Community) rezoning process to achieve the proposed police building
project. It would exceed the existing PF (Public Facility) and CD (Commercial Downtown) zone districts' height and floor area ratio (FAR). The development would provide its own secure parking on-site for the Police Department. The building located at 650 Gilman would be demolished as part of the project development; (see Attachment C).

The PC process would address issues that arise on that site related to the new development, including parking impacts. Some of the other key issues to be analyzed further are:

- Impacts from the potential closure of Gilman Street to through vehicular traffic
- Relocation of the Farmer's Market.
- Design and logistics of a shared parking structure with the 300 Hamilton Avenue property replacing lost spaces due to the new police building, for both private and public use

The PC zoning process requires Planning and Transportation Commission, Architectural Review Board review and City Council approval. This review process would include review of land use policies, environmental impacts and design development. It is anticipated that an Initial Study and Mitigated Negative Declaration would be prepared for this project. The environmental review would address traffic and circulation, impacts to protected and significant trees, and shadow impacts of the new building. Additional environmental issues could be identified during the review process. The design review process would include the implementation of the City's Green Building Policy.

Farmers Market and Public Outreach
Staff has met with the representatives of the Farmer's Market to discuss the proposed police building site at Gilman and the potential relocation of the Farmer's Market. They have indicated that they have outgrown the Gilman site and are receptive to relocating to another downtown location. Staff has met with a representative of the 365 Forest Avenue Homeowners Association and has attempted to contact the residential and commercial property owners directly affected by the police building and garage to gain input on the proposed project, and would continue to meet and work with these stakeholders if Council directs staff to proceed.

Request for Statements of Interest
The solicitation of Statements of Interest (SOI) would be the next step to open the opportunity to other developers controlling private property that may suit the Police Department needs. Using the SOI process will ensure that the City becomes aware of any other potential alternative opportunities and is getting the best economic terms available. In that effort and upon Council direction to proceed with issuing the SOI, staff would return this Fall with a report to Council documenting and summarizing the results of the SOI process, and making a recommendation on how to move forward.

The solicitation of SOI will allow interested developers or business entities to submit proposals on the entire project from design through construction while also identifying other potential available land for the project. The City’s design criteria for the police building project will be included in the SOI and would be consistent with the current design and programming requirements for the new building.
The SOI will require interested developers to provide proof of relevant experience and qualifications related to construction of a project of this size along with acceptable evidence of ability to deliver title to the site. Developers would be evaluated based on the site proposed for the project and their experience and capacity to provide a “turn-key”, move-in condition, police building.

Responses to an SOI would then be evaluated based on the following criteria:

- Developer has control or ability to deliver fee-title to land, preferably in a downtown location
- The proposed site would need to accommodate a police building of up to 60,000 square feet
- The developer has the ability to construct a building of up to 60,000 sf with associated parking
- Developer or developer’s team’s experience and qualifications building comparably sized projects with “essential” and “green” building elements
- Cost of the proposed project
- Proposed construction financing terms and willingness to commit to a guaranteed maximum price
- Developer’s control of needed land for the project and its suitability for a police building
- Timeline for proposed construction and police occupancy

The City would be under no obligation to enter negotiations with any developer that responds to the SOI. Before entering into a “turn-key” agreement with any developer, a number of legal, planning and logistical issues would need to be resolved.

**RESOURCE IMPACT**

Staff has reviewed the proposed project and has developed two potential financing methods. The numbers listed below are preliminary and are subject to interest rate and cost changes and other factors.

1. Certificates of Participation (COPs): A form of lease revenue bond that permits the investor to participate in a stream of lease payments, installment payments or loan payments relating to the acquisition or construction of specific equipment, land or facilities. COPs have been a very popular financing device in California since Proposition 13, because a COP issuance does not require voter approval. COPs are not viewed legally as "debt" because payment is tied to an annual appropriation by the government body. As a result, COPs are seen by investors as providing weaker security and often carry ratings that are a notch or two below an agency's General Obligation rating.

2. General Obligation Bonds (GO Bonds): A bond secured by a pledge of the issuer's taxing powers (limited or unlimited). More commonly the General Obligation bonds of local governments are paid from ad valorem property taxes and other general revenues. Considered the most secure of all municipal debt. Limited in California by Proposition 13 to debt authorized by a vote of two thirds of voters in the case of local governments.
The table below contains a comparison of the costs related to issuance of each financing method based on a proposed project cost of $45.0 million including contingencies and a 30 year amortization period. Due to higher issuance and interest expense, COPs require approximately $11.3 million in total debt service than GO Bonds. Annual debt service expense is between $2.7 and $2.9 million.

<table>
<thead>
<tr>
<th>Sources:</th>
<th>COPS</th>
<th>GO Bonds</th>
<th>Difference</th>
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<tbody>
<tr>
<td>Bond Proceeds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Par Amount</td>
<td>49,818,000</td>
<td>45,168,000</td>
<td>4,650,000</td>
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<tr>
<td>Premium</td>
<td>1,144</td>
<td>711,884</td>
<td>(710,740)</td>
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<td></td>
<td>49,819,144</td>
<td>45,879,884</td>
<td>3,939,260</td>
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<tr>
<td>Uses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Fund</td>
<td>45,000,000</td>
<td>45,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Capitalized Interest (21 months)</td>
<td>3,690,908</td>
<td>-</td>
<td>3,690,908</td>
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<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Issuance</td>
<td>240,000</td>
<td>180,000</td>
<td>60,000</td>
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<tr>
<td>Underwriter's Discount</td>
<td>498,180</td>
<td>451,680</td>
<td>46,500</td>
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<tr>
<td>Bond Insurance</td>
<td>284,945</td>
<td>248,204</td>
<td>36,741</td>
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<tr>
<td>Reserve Fund Surety</td>
<td>105,112</td>
<td>-</td>
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</tr>
<tr>
<td>Total Interest</td>
<td>43,861,499</td>
<td>37,174,697</td>
<td>6,686,801</td>
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<tr>
<td>Net Interest</td>
<td>44,358,534</td>
<td>36,914,493</td>
<td>7,444,041</td>
</tr>
<tr>
<td>Total Debt Service</td>
<td>93,679,499</td>
<td>82,342,697</td>
<td>11,336,801</td>
</tr>
<tr>
<td>Maximum Annual Debt Service</td>
<td>3,003,204</td>
<td>2,771,085</td>
<td>232,119</td>
</tr>
<tr>
<td>Average Annual Debt Service</td>
<td>2,950,535</td>
<td>2,767,822</td>
<td>182,714</td>
</tr>
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</table>

Funds are available in the Capital Improvement Project PE-98020 budget to cover the costs associated with the SOI. Funding methods for the proposed construction of the Police Building have not been fully developed, but may require the General Fund to pay the proposed debt service if COPs are issued. Those funds could be generated by new General Fund revenue sources such as a Business License Tax or rents paid by the City's Enterprise Funds for use of
vacated City Hall areas. General Obligation Bonds would increase property taxes to fund the proposed facility.

**POLICY IMPLICATIONS**
The following policy issues are associated with issuance of a request for SOI and a “turn-key” developer led project. These issues include:

- The “turn-key” approach deviates from current and past methods of designing and constructing a City-owned building
- This project, if debt (bond) financed, will divert resources from other new capital projects

**TIMELINE**
Following is a timeline of next steps if Council approves the staff recommendation to issue an SOI for a new police building:

- By end August staff issue the SOI
- By end September SOI’s are submitted to City by interested parties
- By November staff returns to Council with an evaluation of the SOI’s received and recommendations

**ENVIRONMENTAL REVIEW**
The issuance of Statements of Interest and further evaluation of the project is not subject to California Environmental Quality Act (CEQA) requirements as it in of itself is not a project under CEQA. The future Police building project, whether a developer “turn-key” project or a City managed renovation and expansion project will be subject to CEQA requirements.

**ATTACHMENTS**
Attachment A: February 14, 2005 Colleagues memo
Attachment B: May 9, 2005 Colleagues memo
Attachment C: Site Map

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