TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PUBLIC WORKS

DATE: JULY 8, 2002

CMR:324:02

SUBJECT: PALO ALTO COMMUNITY FACILITIES BOND PACKAGE AND COST ADVISORY COMMITTEE REPORT

This is an informational report and no Council action is required.

BACKGROUND
In July 2001, Council directed staff to prepare by June 2002 conceptual designs, associated cost estimates, and to complete environmental review of the five community facility projects being considered for inclusion in a bond measure on the November 2002 ballot. The five projects are expansions and renovation of existing facilities at the Main Library, the Children’s Library, the Mitchell Park Library, the Mitchell Park Community Center, and the Art Center.

To achieve the Council’s goal, staff entered into contracts with architects to prepare spatial programs, feasibility studies and conceptual designs of all five facilities. The feasibility study of the Main Library and Art Center was presented to and approved by Council in February 2002. The feasibility study of the Mitchell Park Library and Community Center was presented to and approved by Council in March 2002. The Children’s Library feasibility study had already been completed in 2000. Conceptual designs of all the projects have been completed and were presented to and approved by Council in June 2002.

Environmental review, per the California Environmental Quality Act, has also been completed on all five of the projects. The draft environmental review documents were reviewed by the community, boards and commissions, and the Council. Staff responded to all comments and issued final environmental review documents, which were certified by Council in June 2002.

The conceptual design-level cost estimates for each of the five projects were prepared by professional cost estimators acting as consultants to the various project architects. These estimates were detailed construction cost estimates. Even though the final architectural materials and systems will not be decided upon until the next phases of design, the estimators made certain assumptions, based upon direction from staff, about the materials
and systems for inclusion in their estimates. Staff then added the other project costs to arrive at total capital project cost estimates. Capital costs are those that can be reimbursed with bond proceeds. The capital cost estimates of the five projects, as presented to Council in June 2002, are:

- Main Library Replacement Scheme (full program): $43,400,000
- Main Library Replacement Scheme (reduced program): $42,200,000
- Main Library Retention Scheme (full program): $52,200,000
- Main Library Retention Scheme (reduced program): $50,600,000
- Children’s Library Expansion: $ 6,500,000
- Mitchell Park Library (full program): $30,200,000
- Mitchell Park Library (reduced program): $27,200,000
- Mitchell Park Community Center: $10,100,000
- Art Center Expansion and Renovation: $15,500,000

These costs include design, construction, construction management, contingencies, escalation, and financing costs. They do not include furnishings, staffing, operation or maintenance costs, as these costs are not reimbursable with bond proceeds.

On June 17, 2002, Council, responding to a colleagues memo, passed a motion that directed staff to develop a bond package that included the Children’s Library Expansion, the Mitchell Park Library (full program), and the Mitchell Park Community Center projects, in the following amounts:

- Children’s Library Expansion: $ 6,500,000
- Mitchell Park Library (full program) and Community Center: $40,500,000
- Bond financing: $ 800,000

**TOTAL: $47,800,000**

**DISCUSSION**

Staff has developed the bond package as directed by Council. The dollar amounts for each of the components have been reviewed. Following is a brief discussion of each component of the bond package.

**Children’s Library Expansion**

The conceptual design estimate for the Children’s Library Expansion project has confirmed the amount recommended by Council for that project: $6.5 million. This amount includes the renovation of the 3,400 square foot (sf) existing library, the construction of north and south additions totaling 7,225 sf, and a considerable amount of site work. The site work includes renovation of the Secret Garden, landscaping, reconfiguring the Lucie Stern parking lot, relocation of electrical transformers, and completing the fire sprinklers in the Children’s Theater.
Mitchell Park Library and Community Center

Council used the conceptual design estimates as its guide in determining the bond amount. Instead of listing these projects separately, Council combined them as the conceptual designs show them as one combined facility. Council assigned $40.5 million to this project, which includes the full program library, the community center, under-building and surface parking, landscaping, site work, elimination of a traffic signal on Middlefield Road, and relocation of the tennis and paddle tennis courts. Staff has preliminarily reviewed the question of potential relocation of the courts to structure(s) above the parking areas at the Mitchell complex. Assuming that all of the proposed parking would remain and that the new court areas could be added on new structure(s) above either the easterly or northerly parking areas, such structure(s) could be physically accommodated within the site plan, although design review and interface issues which would need to be reviewed further. Such structures would, however, cost from 3 to 4 times as much to construct as surface courts – i.e., an order of magnitude cost of $1,500,000 versus the $400,000 cost for surface courts.

Consequently, the Mitchell Park Library and Community Center total of $40,500,000 is $400,000 more than the conceptual estimates, to accommodate for relocation of the tennis courts.

Bond Financing
Council used the staff estimated amount of $800,000 for the bond financing costs. That amount is now been reviewed in detail by staff and its financial advisor, and staff will provide final dollar requirements at the Council meeting on July 15, 2002.

Public Works Staffing
As staff has kept the Council apprised from early in this project, current staffing levels are inadequate to proceed into final design and construction of all of the projects if a bond measure were to pass in November. The 2002-03 Proposed Budget document includes the following additions to the Table of Organization: an Engineering Technician III, a Senior Project Manager, and an Office Specialist. These additions to the Public Works Department have an annual ongoing cost of $246,640 in salary and benefits expense. The funding of these positions will be requested by a Budget Amendment Ordinance only after a successful November 2002 bond measure vote. These positions are not permanent and should be either terminated upon project completion, absorbed through attrition of similar positions or alternatively retained to implement the full Infrastructure Management Program which was has only been staffed to the 75% level.

The cost of three Public Works positions can be capitalized and therefore financed as part of the bond as long as they are directly related to design and construction activities. Even though the Main Library is not included in the bond measure, staff still feels that all three of the Public Works positions are necessary because the Main Library was scheduled to be the last over a 7 year period of the five projects to be designed and constructed.
Accordingly, staff recommends adding $1.3 million to the bond package to finance the three new Public Works positions for a period of five years. If the Main Library had been included in the bond package, staff would have requested the three Public Works positions for a longer period of time.

In summary, staff has prepared a bond package as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s Library</td>
<td>$ 6,500,000</td>
</tr>
<tr>
<td>Mitchell Park Library &amp; Community Center</td>
<td>$40,500,000</td>
</tr>
<tr>
<td>Public Works staffing</td>
<td>$ 1,300,000</td>
</tr>
<tr>
<td>Financing costs</td>
<td>$ 800,000  (estimate)</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>$49,100,000</strong></td>
</tr>
</tbody>
</table>

**Palo Alto Community Facilities Cost Advisory Committee**

The City Manager convened the Palo Alto Community Facilities Cost Advisory Committee (Committee) to provide an independent third-party review of the project cost estimates for all five of the community facilities that are being considered for a November 2002 bond measure. The specific charge to the Committee was:

- To provide an independent third-party review of the overall project level cost estimates for the proposed Palo Alto Community Facilities improvements;
- To enable the City Council to properly size the proposed November 2002 bond measure as to the expected magnitude of the cost of the proposed projects;
- To review the overall magnitude of the costs within the given parameters of the scope of the improvements as proposed by the New Library Plan, the associated programmatic needs studies, and the conceptual designs;
- To make recommendations on how the estimates can be revised and improved to be more complete and accurate;
- To offer the City Council any ideas and suggestions as to cost effectiveness and efficiency of the proposed improvements and project delivery; and
- To produce a report on the Committee’s finding and recommendations by June 27, 2002. This report will be included in a packet to City Council for July 8, 2002, Council meeting scheduled to discuss and decide which projects, and for how much money, will be included in the bond measure.

The scope and level of detail of the Committee’s review was governed in large measure by the schedule for the Library Program design activities themselves. Given the
accelerated 6-month timeline for the conceptual design activities and the July deadline for a decision on the bond measure, the Committee had only a narrow window of time to review the products of that conceptual design effort and associated cost estimates during May and June. Many of the design details and site issues were being finalized during that timeframe; consequently, it was not possible to engage the Committee in a review of all of the issues and questions which arose. Its work provides a macro level review of the adequacy of the cost estimates and proposed funding to enable delivery of the proposed program.

The Committee consisted of local representatives from various building design, construction and management professions. The Committee members are:

Rob Steinberg, Chair, Palo Alto, architect, principal of The Steinberg Group, a large San Jose architecture firm

Loren Brown, Palo Alto, contractor, partner of Vance Brown Construction

John Barton, Palo Alto, architect, Palo Alto Unified School District Board President

Craig Jones and Bob Diaz, members of Turner Construction Company, a nationwide general contractor and construction management firm

Gordon Siebert, Deputy Director of Public Works, City of San Jose

Steve Yoshino, Director of Public Works, City of Santa Clara

The City of San Jose recently passed a bond measure for improvement of the City’s library system, including design and construction of 20 renovated and new libraries over the next ten years. San Jose’s Public Works Department has managed the master planning and design of these libraries, and is now managing the construction of various libraries.

The City of Santa Clara has started construction of an all new 85,000 square foot, 2-story library with under-building parking. Santa Clara’s Public Works Department is managing the design and construction of this project.

The Committee was staffed by representatives from the City Manager’s Office and the Public Works Department. Staff provided each Committee member with a binder that contained general information regarding each of the projects, including: the synopsis of the New Library Plan; summaries of the programs; conceptual plans; and the feasibility-level itemized construction cost estimates. A spreadsheet was also provided that summarized the estimates for all five projects. Conceptual-level cost estimates were
finished after the Committee had completed most of their work were therefore not reviewed by the Committee. The Committee was asked, at the conclusion of its work, to prepare a report that would summarize its commendations and findings.

The Committee met four times from May 30 to June 19, 2002. The Committee reviewed the materials provided by the City, both at the meetings and on its own. One of the first suggestions the Committee made was that staff should research the costs of recently designed and/or constructed Bay Area libraries. Consequently, staff obtained cost estimates and/or bid prices from seven local library projects. Five of those estimates were felt to be complete enough to be added to the summary spreadsheet so that the Committee could compare the costs for the Palo Alto community facilities side-by-side against those from nearby cities.

Upon review of the costs of libraries in other cities, the Committee was able to determine that the construction costs of the Palo Alto community facilities is higher on a per square foot basis than those of nearby cities. This is due both to the inherent site improvement costs incurred in redeveloping within the existing site constraints and, in part, to staff’s direction to the architects during conceptual design to design 50-year facilities with high-quality, durable and low-maintenance materials and to incorporate as many sustainable features and systems as practical. Consequently, the Committee has recommended a number of approaches the City should consider in order to lower the construction costs to be more in line with those of the other city’s library projects.

The Committee reviewed the itemized construction cost estimates from some of the community facility projects. In general, the Committee feels that the estimates for specific building materials and labor are accurate and in line with its expectations. However, the Committee noted that the Palo Alto facilities generally include more expensive building materials and systems than those in other cities.

The cost estimates prepared for the Palo Alto facilities and included in each of the specific project staff reports to Council were done in a similar manner. Cost estimating professionals, as consultants to the architects, prepared detailed construction cost estimates. City staff then added all of the other project costs. Most of these “other costs” were calculated as a percentage of the construction costs.

The Committee reviewed all of the “other costs” and commented on the percentage mark-ups the City has used. In general, the Committee feels that certain City mark-up percentages are low, particularly the contingency. The City has included a 17.5% contingency for all of the projects, but the Committee recommends 25%. The Committee feels that higher contingencies are appropriate at the conceptual design phase of a project. In sum, the Committee recommends about a 10% higher mark-up of construction costs than what the City has used.
The Committee has reviewed and discussed ideas to lower project costs. One of the recommendations is not to expand Children’s Library as it is expensive per square foot to do so, compared to other facilities, particularly due to the substantial amount of site improvements necessary. The Committee recommends increasing the amount of programmed space at the Main Library or the Mitchell Park Library to accommodate the children’s program needs at those facilities instead of Children’s Library. Staff feels that since the Main Library project is not going ahead at this time, it cannot accommodate any of the Children’s Library program space. The Mitchell Park Library project already includes complete children’s program space and additional space would create an imbalance of Children’s program space between north and south Palo Alto. Furthermore, staff feels that the building cost for the Children’s Library expansion is in line with those of other projects. It is the relatively substantial amount of site work at Children’s Library that causes the costs per square foot to be high. Making a decision to relocate the Children’s Library program areas to Main Library, Mitchell Park Library or any other site without having analyzed the site impacts at these other locations caused by adding program space makes it is impossible to know what the costs would be or whether, in fact, there would be any cost savings.

Other Committee cost-savings ideas include alternative methods of project delivery instead of the standard design-bid-build model the City normally uses. Staff concurs that there are some project delivery methods that may be appropriate for the projects. Staff will research these between now and the bond measure, so that if a particular method seems appropriate, staff will be ready to make a recommendation to Council after the bond measure passes.

All of the Committee’s findings and recommendations are detailed in its report, which is included as Attachment A.

The Committee’s findings can be generally summarized as follows:

- There are no “fatal flaws” in the cost estimates which have been prepared for the Program, and the Program can be delivered for the anticipated amount of bond issue.

- The City should pursue potential cost reduction measures during subsequent design phases, including:
  - Value engineering reviews,
  - Cost monitoring and control,
  - Investigation of alternative project delivery and contracting relationships.

- Any major opportunities for cost reductions in the Program, would require:
- Revisiting the Library Master Plan, reevaluation of the programmatic needs, and reallocation of space among the facilities,

- Reduction in the quality and durability and sustainability measures of the selected materials and finishes,

- Revisions to the site designs and improvements, which would be different than recommended during the accelerated review process to date.

**RESOURCE IMPACT**

The Committee has recommended that the City increase its cost estimates for each of the community facility projects by about 10% to primarily allow for a larger contingency. Conversely, the Committee has recommended the City explore a number of cost-saving measures to lower the overall costs of all the projects.

Staff believes that the cost estimates provided Council with the staff reports for the conceptual designs of each of the community facility projects are still suitable for use in sizing the bond measure. This is because staff agrees with the Committee in that higher percentage mark-ups of construction costs, particularly the contingency, are appropriate. Staff also agrees with the Committee that during the next phases of design, there will be a number of cost-effectiveness and cost-savings measures that will lower the overall project costs. Staff believes that the net result of these recommendations, therefore, is that the current conceptual-level estimates will be close to estimates produced at later stages of design. Furthermore, once Council has established project costs for inclusion in the bond measure, staff will direct the architects to prepare designs that are within these budgets.

**ATTACHMENT**

Attachment A: Palo Alto Community Facilities Cost Advisory Committee Report

PREPARED BY: Bob Morris, Senior Project Manager

DEPARTMENT HEAD: ______________________________
GLENN S. ROBERTS
Director of Public Works

CITY MANAGER APPROVAL: ______________________________
EMILY HARRISON
Assistant City Manager