

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DAVID GUHIN,
DIRECTOR OF PLANNING AND ECONOMIC DEVELOPMENT
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DIRECTOR OF TRANSPORTATION AND PUBLIC WORKS

SUBJECT: CITY GOVERNMENT COMPLEX PUBLIC-PRIVATE
PARTNERSHIP FEASIBILITY ANALYSIS

AGENDA ACTION: MOTION

RECOMMENDATION

It is recommended by the Planning and Economic Development and Transportation and Public Works Department that Council, by motion, authorize Staff to initiate phase one of the Public-Private Partnership (P3) procurement process, which includes engaging a professional consultant through a competitive solicitation process to assist in a feasibility analysis of location, financing and Request for Qualifications/Proposals (RFQ/RFP).

EXECUTIVE SUMMARY

Staff is evaluating the viability of a Public-Private Partnership (P3) that could leverage government owned real estate to provide for downtown housing, commercial development and a consolidated government civic complex. Staff is now requesting that City Council authorize staff to move forward with phase one of the procurement process. This phase would include hiring a professional consultant to assist the City in a feasibility analysis to evaluate location, financing and RFQ/RFP.

BACKGROUND

In an effort to address the City Council Goal to bring housing and mixed-use development into the Santa Rosa Downtown core and find a solution to the growing infrastructure and deferred maintenance issues at the City Hall complex, City staff is evaluating the viability of engaging in a type of P3 procurement. The potential P3 could leverage and/or monetize underutilized, strategically bundled City owned real estate assets to assist in financing and building a new government complex onto a consolidated denser footprint. This would, among other things, streamline access to

government services, reduce risk and maintenance for the life of the agreement, and free desirable development space in the downtown area to potentially allow for housing and mixed-use development projects on government owned land.

Currently, the buildings in the Santa Rosa City Hall complex are inefficient for City and staff operations and are in critical (divestment) stage due to deferred maintenance, as outlined in the Facilities Assessment and Maintenance Analysis Report (Facilities Report) presented to City Council on May 22, 2018. Due to this growing deferred maintenance issue, staff has identified that an infrastructure management plan, in addition to substantial public funds totaling approximately \$41 million over the next 10 years, will be necessary to perform corrective maintenance on the structures identified for divestment as part of the P3 proposal. Those P3 identified structures include the entire City Hall complex, Public Safety Building, and Municipal Service Center South. The corrective maintenance for these structures is nearly half of the deferred maintenance for all 114 structures studied in the Facilities Report, which exceeds \$88 million. Alternatively, Council may elect to move forward with further professional consultant analysis to evaluate the feasibility of a P3 project, which may result in a more energy and space efficient office complex.

Based on the findings of a seismic study of the City Hall complex dated December 16, 2018, by Forell/Elsesser Structural Engineers, Santa Rosa City Hall does not currently meet the requirements for basic performance objectives for existing buildings in accordance with ASCE 41-13 standards, which are used to evaluate the seismic performance of the structural system, geotechnical hazards and foundation. A seismic retrofit would be required to remediate the deficient items to bring the building into compliance.

The County of Sonoma finds itself in the same situation and is undertaking similar efforts. County facilities are in critical condition due to deferred maintenance, seismic deficiencies, and a lack of space for expanding operations, resulting in increased costs related to the lease of commercial office space. The County desires consolidation of resources and seeks to develop much needed housing. The County is in need of replacing 500,000 square feet of office facilities as well as the Coroner's Facility (morgue), Public Health Laboratory, Emergency Operations Center and seismic upgrade of the Hall of Justice. City and County staff have worked collaboratively to analyze the benefits of various procurement strategies, potentially including a P3 process, as both a collective and separate undertaking. This offers an opportunity to potentially issue a City/County joint RFQ/RFP which may allow for efficiencies in staff time, and yet still preserve independent decision making by the City Council and Board of Supervisors.

PRIOR CITY COUNCIL REVIEW

May 22, 2018 Study Session - Facilities Assessment and Maintenance Analysis Report

ANALYSIS

In reference to the Facilities Report presented to Council on May 22, 2018, if the City were to make a significant investment in corrective and deferred maintenance of those structures listed for divestment and identified in the P3 strategy as an infrastructure management plan, at 10 years of continuous corrective maintenance estimated at \$41 million, the investment would be equal to over 72% of the replacement value of the structures alone. These maintenance costs do not reflect asbestos removal, employee relocation during removal, or necessary seismic retrofitting (unknown costs at this time), which are likely to add significant costs associated with performing the deferred maintenance work. Additionally, roughly 50% of the full deferred maintenance costs of all City maintained structures reflected in the Facilities Report lies within the recommended P3 bundled parcels. It is not clear, due to several unknown costs, if the current buildings can be renovated and re-used at a reasonable cost.

Additionally, the City Manager in the process of scheduling on-site facilities tours with the City Council Members to provide a visual perspective of the current condition of the facilities.

Currently, the City budgets \$1.2 million annually to provide daily maintenance activities and general staff for the City Hall complex, Public Safety Building, and Municipal Services Center South. If the City were to enter into a P3 contract (to include all the above-mentioned buildings) with maintenance for the life of the agreement (approximately 30-50 years), those funds would no longer be needed for maintenance and could potentially be redirected toward debt management for the new complex, or to address deferred maintenance of the remaining City buildings not included in this P3 effort.

The P3 concept has a wide variety of options. For example, DBFOM (design, build, finance, operate and maintain), the option chosen by the City of Long Beach, is essentially a lease to own agreement wherein the City would receive a new City government complex located on a downtown City owned parcel, with a potential for minimum initial capital outlay, while maintaining ownership. After approximately 40-50 years of specified annual debt service, the City would then own a Class B+ building with no further rent obligations. This concept and variations of this concept (there are a wide range of variations to consider in future phases) are being implemented by many Cities, Counties and Universities all over the United States as an alternative to traditional procurement methods.

Staff has been in active conversations with government agencies currently undertaking P3 projects, most notably the Cities of Long Beach and Napa. A full, detailed summary of initial interviews is shown in Attachment 1. A summary of Attachment 1 and recommendations from follow-up conversations are as follows:

- There was no standard financing option between the two agencies. Napa used bonds issued through a JPA; Long Beach chose P3 and private financing that were able to match the lower cost of government financing. Neither Long Beach nor Napa required a public vote to proceed;
- Both cities expressed general preference in their RFPs for hotels, mixed use, and housing on land they were selling, but neither required it for bid acceptance or were prescriptive in type of development;
- Both cities emphasized the importance of hiring a good project manager and dedicating staff to the project. Upon further conversation, both recommended a team of qualified advisors with expertise in finance, legal structures and real estate to support a dedicated in-house team of the same;
- Both cities retained ownership of government center land;
- Both cities brought in senior management early in the development process to facilitate organization change and to standardize workspaces;
- Both cities incentivized developers to incorporate a low maintenance design into development;
- Both cities used Plenary as the master developer.

Additionally, in an effort to gain current market information, desirability and interest of a P3 project in our area, in August 2018, City and County of Sonoma Staff, working collaboratively, released an informational survey and questionnaire (Survey) on the market viability of government center developments (Attachment 2). This Survey explained that both City and County are interested in replacing aging government facilities that are beyond their useful life, and that the goal would be to transform City and County owned properties into development solutions resulting in the construction of much needed housing. Potential opportunities for development concepts, ranging from co-locating of both agencies in downtown Santa Rosa to developments on separate parcels currently owned by the respective agencies were identified.

The Survey was sent directly to 396 national development-related businesses ranging from architects, builders, developers, consultants and finance experts. 69 survey responses were received, and staff conducted all follow-up interviews requested by 25 of the respondents. Of the respondents, 81% build government buildings, 75% offices, 63% retail, 56% housing and 53% affordable housing.

Survey findings were evaluated considering both the written survey and the results from phone calls where applicable. Survey results are summarized below. The full text of responses is included in Attachment 3, with firm names and contact information removed.

- Given the complexity of large scale development projects, the City and County should contract with an industry respected and experienced technical advisor and have dedicated staff.
- A clear understanding of the City Council and Board of Supervisors goals and objectives is important, and having elected officials serve as project sponsors is helpful.

- A two-phase solicitation approach using first an RFQ to identify a short-list of respondents, followed by an RFP encourages qualified respondents and increases the likelihood of success.
- Be clear about financial resources and define the budget in the RFQ/RFP to provide parameters for building configurations, and to avoid/reduce the likelihood of rework.
- Streamline the entitlement process to reduce bidder risk.
- Leverage developer creativity in RFP phase by describing detailed objectives rather than prescriptive requirements.
- Consider separate bid bundles or separate RFPs targeted to different market segments with differing financing structures, e.g. Government and residential buildings should be bid separately.
- Consider long term land leases such as 50 years if a Public Private Partnership or similar approach is used.
- Consider lease terms of 25 years if a build-to-suit approach is used.

Staff has identified and reached an intersection point in analysis. Two options have been identified as potential next steps moving forward.

Option 1. Invest in deferred maintenance and develop an infrastructure management plan consisting of approximately \$41M over the next 10 years for those structures listed for both divestment and as part of the P3 strategy, plus additional unknown costs for such needs as asbestos removal, staff relocation, and seismic retrofitting.

Option 2. Authorize staff to move forward with Phase 1 of an alternative P3 concept and procurement process, which would include building on staff's analysis by engaging a professional consultant through a competitive solicitation process to assist in location and financial analysis and RFQ/RFP feasibility at an estimated cost of \$350,000 for this phase only. Additional capital outlay would be necessary if Council elects to move forward with future phases after review of Phase 1 results.

FISCAL IMPACT

Phase 1 of the staff recommended P3 alternative process would authorize \$350,000 as a portion of the initial outlay. Additional capital outlay will be necessary if Council elects to move forward with future phases.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

This action is also exempt from the California Environmental Quality Act (CEQA) under statutory exemptions 15262, for Feasibility and Planning Studies for possible future

actions.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

N/A

NOTIFICATION

N/A

ATTACHMENTS

- Attachment 1 - Summary of Interview
- Attachment 2 – Survey
- Attachment 3 – Full Market Responses

CONTACT

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