

A NEW CITY HALL: To be, or not to be? That is the question...

INTRODUCTION

City of San Diego (City) officials have been debating the issue of what to do about the City's aging city hall complex for decades. Complying with current safety standards and providing adequate space for the City's workers makes this task a daunting one in light of the City's financial condition. While the issue is not currently at the forefront of daily civic discussions, the City is faced with making a decision on this controversial subject in the near future.

INVESTIGATION

The 2010/2011 San Diego County Grand Jury (Grand Jury) investigated a citizen complaint concerning the need for and the process required to construct a new San Diego city hall which has been proposed by some City leaders. The need and process included issues such as creative financing, future growth, available options, existing leases, rehabilitation costs, contractors and a myriad of additional issues. The Grand Jury's investigation produced a wide range of information based on interviews with political officials, representatives of administrative agencies involved in the enhancement and revitalization of the downtown business district, experts in commercial leasing and construction, and citizens concerned with the expenditure of hundreds of millions of dollars when the city can least afford it. The Grand Jury analyzed the data provided in support of the new city hall proposal and contradictory evidence that may prove the entire process is built on incorrect or contrived assumptions.

DISCUSSION

In 2008, the City's redevelopment agency commissioned a study on the future of city hall. The study was intended to evaluate current construction costs, building lease costs and potential alternatives to construction of a new city hall; also considered were site location, moving costs, increased employee effectiveness, operational cost savings, reduced occupancy costs and reduction of environmental hazards. All these factors were to be evaluated with a pivotal emphasis on saving future lease payments and including those savings in the cost/benefit analysis of new construction.

The consultant examined numerous options. They included the continued use of leased space (and a projection of future lease costs), continued utilization of existing city-owned office space and consolidation of existing city operations to reduce the future need for leased space. The study also examined several possible levels of rehabilitation and upgrades for the current city hall that would include hazardous material remediation, elevating safety features to current standards and an evaluation of the overall safety of citizens utilizing the building and its services.

However, the Grand Jury learned the City apparently evaluated only two options:

1. Retrofitting and continued interim use of the existing city hall.
2. Construction of a new city hall.

The second option was clearly the choice of the downtown business community. Support for this position cited the chronic lack of proper maintenance of the existing city hall. Other options such as purchasing existing buildings or renegotiating and extending current leases to reflect today's economic circumstances were apparently not seriously considered. This seems like a very good time to lock in savings for the city, but no action has been taken by the current administration.

One of the most curious issues to arise out of the Grand Jury's investigation is the cost of leased space in 2008 compared to projected future lease rates. The future lease escalation rate used in the consultant's study is unrealistically high, resulting in exaggeration of the cost savings the City would accrue by building a new city hall. The figures used were not in line with the rapidly changing economic reality and do not reflect the commercial space lease environment in 2011. For example, downtown lease rates noted in the consultant's study ranged from \$2.50-\$2.75/square foot in 2008; in 2011, the Grand Jury learned that lease rates ranged from \$1.70-\$1.90/square foot. For the rehabilitation option, the City used the maximum rehabilitation cost instead of the minimum cost to ensure public and employee health and safety. The Grand Jury found the 2008 figures continue to be used in public discussions, reflecting favorably on the new-construction city hall option.

The question of making needed safety improvements to the existing city hall is an appropriate discussion for our elected officials. However, the numbers produced in 2008 for these improvements provide an ambitious plan for upgrading the space instead of a modest approach that would reflect the state of the City's financial condition.

The City can have a safe city hall that will be functional for many years without borrowing hundreds of millions of dollars that provide no new services.

FACTS AND FINDINGS

Fact: Structural maintenance has been routinely neglected at city hall over many years.

Fact: The financial report on the existing city hall covering leasing, retrofitting and new construction was completed in 2008.

Fact: Lease and construction conditions have changed significantly since 2008.

Fact: With the changes in the economy since 2008, the rehabilitation, construction and lease costs noted in the commissioned study are seriously outdated.

Fact: Construction of a new city hall is projected to cost nearly \$300 million.

Fact: The City's ability to finance large capital projects is questionable.

Finding 01: The existing city hall is in disrepair.

Finding 02: The City has granted itself exemptions from established safety and habitability standards.

Finding 03: The published estimated city hall rehabilitation costs appear to be more than required to ensure public and employee safety.

Finding 04: Third-party building owners/leasing agents confirm a continued downturn in lease rates.

Finding 05: The \$500/square foot estimated construction cost for the new building is inconsistent with the \$200/square foot rate currently available for the purchase of existing buildings of sufficient size to accommodate the City's needs.

RECOMMENDATIONS

The 2010/2011 San Diego County Grand Jury recommends the San Diego City Council take the following actions prior to reopening discussions for a new city hall complex in any form:

- 11-38: Obtain cost information from current lessors for extending lease agreements beyond existing termination dates.**
- 11-39: Determine if departmental downsizing will allow for a long-term reduction in leased space requirements.**
- 11-40: Re-evaluate and report the costs associated with retrofitting the existing city hall, considering minimum/maximum expenses along with public safety.**
- 11-41: Re-examine purchase options for temporary and permanent solutions.**
- 11-42: Re-examine and report current construction costs and cost savings vs. those used in 2008 and 2009.**
- 11-43: Inform voters and other interested parties about the future of San Diego city hall.**

REQUIREMENTS AND INSTRUCTIONS

The California Penal Code §933(c) requires any public agency which the Grand Jury has reviewed, and about which it has issued a final report, to comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the agency. Such comment shall be made *no later than 90 days* after the Grand Jury publishes its report (filed with the Clerk of the Court); except that in the case of a report containing findings and recommendations pertaining to a department or agency headed by an elected County official (e.g. District Attorney, Sheriff, etc.), such comment shall be made *within 60 days* to the Presiding Judge with an information copy sent to the Board of Supervisors.

Furthermore, California Penal Code §933.05(a), (b), (c), details, as follows, the manner in which such comment(s) are to be made:

- (a) As to each grand jury finding, the responding person or entity shall indicate one of the following:
 - (1) The respondent agrees with the finding
 - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.
- (b) As to each grand jury recommendation, the responding person or entity shall report one of the following actions:
 - (1) The recommendation has been implemented, with a summary regarding the implemented action.
 - (2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
 - (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the grand jury report.
 - (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.
- (c) If a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the Board of Supervisors shall respond if requested by the grand jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Comments to the Presiding Judge of the Superior Court in compliance with the Penal Code §933.05 are required from the:

<u>Responding Agency</u>	<u>Recommendations</u>	<u>Date</u>
San Diego City Council	11-38 through 11-43	8/22/11