



To: Mayor & City Council

From: Kevin Phelps, City Manager

Re: Downtown Campus Re-investment Project (DCRP) - Follow-up Item

Date: August 23, 2022

At the August 9th Council Workshop, Council requested additional information regarding City Hall possibly being relocated to the Westgate area. Staff was further directed to continue with the DCRP project as currently planned in a parallel effort such that work is progressing; the ongoing work is programming which is relevant in any future location. This memo is to provide a recap of the approved DCRP (Option A), a high-level evaluation of the possible relocation to the Westgate area (Option B) and staff recommendation.

Background

As presented at the December 14, 2021, Council Workshop, an extensive remodel of the existing City Hall was proposed, at a cost of \$69.9 million, referred to as the Downtown Campus Reinvestment Project (DCRP). The project includes addressing known infrastructure deficiencies including life safety, ADA, inadequate restrooms, roofing, piping/plumbing, elevators, electrical systems, and building finishes, fixtures, and equipment. It also includes a cost for continuity of operations to ensure departments can continue providing services without interruption. This will be discussed later in the memo. The financing sources were further discussed at the January 11, 2022, Council Workshop where staff was given consensus to proceed.

Phasing of City Hall Component of DCRP

During the prior planning phase of the DCRP, staff and consultants evaluated remodeling of city hall in multiple phases. The phasing plan option was not recommended as it added approximately 18 months to the construction schedule; added approximately 15% to the construction cost; created a risk to the public and employees in close proximity to construction; would require more than several weeks of full building closure to address the vertical pipes that require replacement; and would not provide for a roof replacement. Although technically the roof could be replaced in an occupied structure, the costs and risk associated with the construction activities make it untenable. The current roof requires extensive repairs, but because it

is not maintainable in the current configuration, it is recommended to replace it with a maintainable surface.

Continuity of Operations Spaces

Related to the phasing section above was the creation of a “*Continuity of Operations Plan*”; several city assets were identified which could be improved and provide for uninterrupted city services during the DCRP. Some of the locations were to provide for permanent workspace for staff, these include the Sine Building for the City Attorney’s Office and Code Compliance staff, Glendale Regional Public Safety Training Center for Building Safety inspection staff. Other locations such as the Adult Center provided temporary workspace during construction of the DCRP as well as also providing permanent workspace for PFRSE staff post-construction. All the spaces included scope to address deferred maintenance and/or known capital needs such as HVAC repairs in the Civic Center Campus. All the spaces will be upgraded and will either be in a better position for relocating city services or sale of the asset in the future. If Council decided to pursue Option B, the residual savings by reducing the cost of the continuity of operations investments could be approximately \$3M.

Option A: Reinvest in the DCRP as approved

Staff is currently engaged in delivering the DCRP under the Option A effort. Most recently, Council took formal action at the June 28, 2022 Voting Meeting, approving contracts with both Holly Street Studio and Okland Construction.

As a point of information, in developing the current DCRP, staff evaluated the cost to fully demolish the existing City Hall, amphitheater and Council Chambers to determine if that had financial merit. Staff believed that that cost was ~\$110M. In preparation of this report, staff worked with Okland to evaluate those numbers; Okland believes that that number is approximately \$103.5M.

Other considerations not monetized:

- A committed reinvestment in the Downtown Campus encourages and stimulates private capital investment in the downtown area.
- The DCRP maintains a significant number of city employees in the downtown area as sustainable short-term and long-term patrons which directly benefits the business district.
- A significant investment in downtown demonstrates that we are committed to ALL parts of our city being a community of choice - not just select areas.

- The DCRP allows us to activate our hyper local central business district/redevelopment area through increased programming - many communities are seeking to create a thriving, hyper local, active city center because it adds value to the overall reputation and collective assets that a community offers - a community's quality of life and asset offerings are major driving factors in business attraction.
- Construction in the downtown area will bring temporary construction workers as patrons to the local businesses.
- Abandoning the existing City Hall complex represents a loss of opportunity to create an open, view-through, innovative office and gathering space in the heart of downtown; uniquely designed for Glendale showcasing the City's commitment to sustainability and stewardship of existing resources all paid for by Glendale taxpayers both past and present.
- The building represents a valuable architectural resource **with excellent structural integrity**, unparalleled views, readily available infrastructure, a vertical presence along a major roadway and a key gateway element to the historic downtown fabric - a rare asset, in high demand, as cities look to attract young talent, new residents and visitors back to the heart of their urban cores.
(Figure 1-4)
- Murphy Park is well served by an adjacent good neighbor use with core work of public engagement and interaction. The skeletal bones of the existing City Hall is a resource that creates tremendous value added opportunities.
- The City will have to address credibility concerns related to changing strategy well into the DCRP program. This will include some monetary amounts to unwind the current contracts with Holly Street Studio, and Okland Construction.
- The construction will be disruptive to the downtown area and will require a communication/marketing plan to acknowledge that downtown Glendale is still Open For Business while under construction.

Option A: Continue the DCRP as approved

• DCRP Program	\$63.2M
• Potential cost escalation with current market conditions ~12%	\$ 8.4M
• Continuity of Operations Spaces	<u>\$ 6.8M</u>
Estimated Total Cost	\$ 78.4M

Option B: New City Hall in Westgate Area

A high-level evaluation of construction of a new city hall in the Westgate area and sale of the existing property required several specific assumptions including:

- City owned property in the Westgate area of approximately 5-acres would be considered such that land purchase is not needed. The 5-acres would accommodate the current City Hall, Council Chambers, parking structure, and a modest area of green space and/or civic plaza. Potential properties are listed in Attachment 1 below.
- If an existing city-owned parking lot in the Westgate area is used, the parking may need to be offset to meet the requirements of the agreements currently in place. For this high-level evaluation, it was assumed that parking spaces used by a new City Hall could fulfill the parking requirements and additional parking construction was not needed. This has not been studied in detail and may not be accurate.
- The sale of City Hall could take two forms which will be described as : B.1 – Sale in an “as is” condition, or B.2 – Make systems improvements to the building such that the City could recover those over time through rents. Okland has a business unit Okland Capital Group, that evaluates potential capital investment investments and their quick analysis indicates that based on CoStar comps and rough market assumptions that under Option B.1 the valuation ranges from \$8M - \$10.4M.
 - Option B2: \$10.4M (\$87/SF)
 - This scenario is a snapshot in time assuming city hall operations have moved out, have improved the asset (\$15M), and leased it out to maximize the value of the asset.
 - Requires some capital improvements to attract Class B tenants (not included)
 - Could take 3-5 years to stabilize
 - NNN rents of \$13/SF, with 30% vacancy factor upon stabilization yields \$1,095,500 Net Operating Income
 - Assumes 10.5% Cap Rate (assumed 200 basis points higher than nearest comp which is Bank of America building)
- Infrastructure deficiencies in existing City Hall range from \$15M to \$25M have been summarized in the background section above.
- Current market estimate for the existing City Hall sale “as is” \$ 4.4 million using 80,000 ft² as a leasable space estimate. Further information on the development of this estimate is in Attachment 2.

- Under each of the two options, the pricing assumes a building with the same square footage of City Hall to create a reasonable comparison.
- Utilities are close but not into the Westgate site and the option assumes, Water, Sewer, Storm Drainage and access roadway will need to be constructed.

Other considerations not monetized:

- Locating the city attorney’s offices over 4 miles from City Hall would not be acceptable, and space would need to be included for this function in the new City Hall.
- The selling of the Bank of America (B of A) Building was in recognition that, strategically, the city did not need the additional square footage for city services and, behaving as a landlord, long-term, is not our core business. This recognition is not consistent with pursuing Option B.2.
- Benefits of demonstrating a proof of concept for new office development in the Westgate area which could potentially prompt other office developers, and the addition of more employees to the area to patronize the Westgate business community were recognized, however these were not monetized.
- Concerns of a potential revenue loss and traffic congestion were also identified as possibilities but were not monetized. These are:
- The identified city-owned parcels are prime real estate for revenue generating uses which would be negated by acres being utilized for the development of a city hall complex including parking, green space (Opportunity Cost from sale and ongoing tax revenue).
- The Sports and Entertainment District plays host to several mega events and many major activities that congest the area on days and evenings which could cause accessibility issues for citizens, clients, and employees due to the public service nature of our operations (compared to other office end users). This would also add to the congestion/traffic flows for these events.

Option B: New construction at a Westgate site	\$111.2M
• Credit residual sale value of City Hall	+\$ 4.4M
• Opportunity loss for developable city property ¹	- \$ 4.8M
• Potential Continuity of Operations residual credit	+\$ 3.0M
Estimated Total Cost B.1	\$108.6M

¹ 10/15/2020 appraised value for 10 ac northern portion: \$4,792,000 (\$11.00/sq ft)

Staff Recommendation

Based on the monetary difference between Options A and B of ~\$30M coupled with the non-monetized considerations and lost opportunity costs, it is recommended to proceed with the DCRP as the most fiscally viable option and the most responsible investment in our downtown.

Attachment 1

- CITY PROPERTIES IN WESTGATE AREA (understood that there may be other city parking lots to be considered)
 - **SW corner 91st Ave & Cardinals Way**
 - +/- 19 acres
 - 10/15/2020 appraised value for 10 ac northern portion: \$4,792,000 (\$11.00/sq ft)
 - **"Black Lot" parking lot**
 - +/- 44 acres
 - Parking agreements with Cardinals and VAI

Attachment 2

Based on current market conditions and our recent B of A comparable, we believe the value of the City Hall Buildings, (less Murphy Park, the amphitheater, and the Velma Teague Library) is \$4.4M "as is".

"Bank of America Office Building"

- BLDG rentable sq ft: 58,134
- LAND sq ft: 51,555 (1.1835 acres)
- SALE DATE: January 3, 2020
- SALE PRICE: \$4,670,000
- Property type: Commercial office building with existing income producing tenants
- Adjacent parking garage not sold; City allocated 61 spaces through parking agreement.