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### **REPORT TO COUNCIL**

#### **SUBJECT**

Consideration of Land Use Alternatives and Financing Options for the Civic Center Modernization Project and Approval of Budget Modification No. 21 in the Amount of \$125,000, with Funding from the Future Projects Set Aside in the Infrastructure Fund, to Continue Public Outreach and Planning Activities for the Project

#### **REPORT IN BRIEF**

Through a series of community outreach efforts and workshops, site planning prototype designs have been developed to illustrate how different Civic Center alternatives would affect the 25-acre Civic Center campus. Preliminary costs estimates have been prepared to better understand project costs including new vs. remodeled buildings and a variety of parking types. Given the preliminary nature of project development, costs are expressed as a range. The lowest cost project alternative (Prototype B) has cost range of \$203 million to \$277 million and the highest cost alternative (Prototype G) ranges from \$241 million to \$313 million (in 2015 dollars).

Staff has also further developed financing alternatives for the project including an evaluation of existing City assets and revenues that could be used for the Civic Center Project (see Attachment 1). Using a defined set of assumptions staff also looked at the potential to generate new revenues through a general obligation bond. This would require voter approval and the level of voter support for a bond is currently unknown.

Next steps include polling voters to evaluate support for a potential bond measure in 2016 and further community outreach to help narrow project alternatives.

#### **BACKGROUND**

On February 24, 2015, Council approved a Community Engagement Plan for the Civic Center Project (RTC 15-0111). The Engagement Plan outlines a series of engagement activities including interviews, focus groups, community workshops, online surveys and City Council meetings that will be used to gather input before making decisions on land use alternatives and a financing strategy for the project. The activities outlined in the Community Engagement Plan have now been completed. This report will outline key decisions that need to be made and discuss next steps for the Civic Center Project.

Engagement activities for the project were used to help develop the draft Vision Statement, Success Criteria and Needs Assessment. Council adopted a final version of these documents in September 2015 (RTC 15-0776).

The Community Engagement Plan also called for two workshops to be held to evaluate and develop a variety of site usage alternatives. A workshop was held in August for all of the City's appointed board and commission members and in October for the community at-large. Through these

workshops, 24 different site planning scenarios were developed by participants. Important concepts were tested through this process to see how they would affect the overall Civic Center site, which included: new vs. renovated buildings; parking locations for surface, structured and underground parking; locations for buildings and open space; consideration of acquiring or selling/leasing a portion of the site; and overall site circulation.

Output from the site planning workshops was used by the project architect to develop a set of eight prototype site plans that were presented to City Council in a study session on November 17, 2015. It should be noted that the prototype site plans are still at a very conceptual level but provide a good basis to compare how different planning alternatives, such as parking type and building placement, will affect the overall Civic Center site.

### **EXISTING POLICY**

The **Council Fiscal Policy** contains several policies related to infrastructure in section 7.1C, *Capital Improvement Policies*:

C.1.3 High priority should be given to replacing capital improvements prior to the time that they have deteriorated to the point where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purposes.

C.1.5 Priority will be given to the repair and replacement of existing infrastructure as compared to the provision of new or expanded facilities

C. 1. The decision on whether to repair or to replace an existing capital asset will be based on which alternative is most cost-effective or provides the best value to the City.

### **ENVIRONMENTAL REVIEW**

Environmental review is not required of feasibility or planning studies for possible future actions which the agency, board, or commission has not approved, adopted, or funded, and which do not have a legally binding effect on future activities (CEQA Guidelines Section 15262). Appropriate CEQA review will be conducted prior to approval of any design or construction of any facilities under the Civic Center Modernization Project.

### **DISCUSSION**

Since the site planning prototypes were presented to Council in November, additional information has been developed to assist Council in decision making regarding land use and financing alternatives for the Civic Center site. Preliminary cost estimates have been developed for each of the prototypes and more information on financing alternatives including a market analysis of land values has been completed.

### **Financing Alternatives**

Sources of financing for the Civic Center Modernization Project are broken into two major categories: 1) existing City assets and revenues, and 2) new revenues through the sale of bonds. Staff also briefly evaluated using a lease back strategy as had been used for a previous library expansion. This option is no longer available to cities due to a change in tax laws. Using a public private partnership could also be pursued if City land were sold or leased. The potential revenue from the sale of City land is discussed further below. For the Civic Center Project to be implemented, these sources of financing must be greater than or equal to the total project cost. Currently all of the funding sources

discussed in this report are considered potential sources and should not be considered a staff recommendation. Council is not being asked at this time to make commitments to specific funding sources (other than funding the proposed budget modification for further Civic Center planning work).

### Existing City Assets and Revenues

This category includes a wide variety of existing revenues, fund balances, and the potential sale of City-owned properties. In some cases ongoing revenue streams are assumed to be capitalized into a lump sum using debt instruments so that all of the funding would be available at the time of construction.

Table 1 – Existing City Assets and Revenues (See Attachment 1 for additional details)

<b>Existing General Fund Revenue and Reserves</b>	<b>Revenue Potential (in \$Millions)</b>
Infrastructure Fund, Facilities Fund, and NOVA Space Rental	\$35 M
Land Sales - City-owned properties not used for City services	\$36 M
Current Reserves including unallocated Capital Project Reserve and Infrastructure Fund Reserve	\$17 M
<b>Non-General Fund Sources</b>	
Park Dedication Fees, Enterprise Funds, and PEG	\$28 M
<b>Approximate Potential City Assets and Revenues</b>	<b>\$116 M</b>

### New Revenues through the Sale of Bonds

For a project like the Civic Center, general obligation bonds are one of the most widely used financing methods by local governments. Applied to the Civic Center, this method would require two-thirds voter approval in a general election. If approved, property taxes would be increased for a specified period of time based on the assessed valuation of each parcel in the City. This new tax revenue would be collected by the County Assessor, and remitted to the City to pay debt service on bonds issued.

This financing method is popular for a number of reasons. The collection of property taxes is a very stable and predictable source of revenue for bond repayment resulting in favorable interest rates. Sunnyvale's property tax base is particularly solid and growing. Using assessed valuation as the basis for the tax seems like an equitable way to spread costs among the entire community, both commercial and residential. Larger commercial properties for example would pay much more than a single family homeowner. Due to California's Proposition 13 requirements, changes in assessed valuation are capped limiting changes from year to year. This helps to protect seniors from increasing costs.

The revenue potential from a general obligation bond is determined by four key factors:

- Total assessed valuation of the tax base. Sunnyvale's total assessed valuation is currently \$33.5 billion and projected to increase to \$35 billion in Fiscal Year 16/17 when bonds could potentially be sold.
- Interest Rate. Interest rates are set by the market at the time of a bond issue. Sunnyvale's

AAA credit rating and solid property tax base (even during the economic downturn) should help reduce interest rates and lower the cost of borrowing. Should Council choose this financing method more work is needed to estimate interest rates.

- **Tax Rate.** The tax rate would be established by City Council and explained to voters prior to an election. For general obligation bonds, tax rates are expressed as a rate per \$100,000 of assessed valuation. For example, a tax rate of \$20/ \$100,000 of assessed valuation would result in a tax of \$160 per year for a property with an assessed valuation of \$800,000. Since the total assessed valuation changes each year, a maximum and minimum tax rate is established and the tax rate is adjusted to result in a level revenue stream each year to meet bond payment obligations.
- **Term.** The term will be set by City Council but is typically 30 years. A shorter term can be established but would produce less revenue or require an increase to the tax rate to produce the same amount of revenue.

The last general obligation bond proposed by the City was for a library expansion in 2007. This measure was not approved by voters but is worth looking at as an example to better understand the revenue potential of a bond. That bond measure would have raised \$108 million based on the following parameters:

Total Assessed Valuation - \$21.7 billion.  
Interest Rate - 5.5%  
Tax Rate - \$19.52/\$100,000 in assessed value  
Term - 30 years

Since 2007, total assessed valuation has increased and is projected to be \$35 billion by FY 16/17. Interest rates have also declined since 2007 which would result in higher bond proceeds if other factors did not change. As an example - leaving the above tax rate and term unchanged, but applying an updated assessed valuation of \$35 billion and an interest rate of 4.5% would result in bond revenues of approximately \$195 million.

The largest variable in determining the potential proceeds from a bond measure is the tax rate. This rate would be set by City Council and will strongly influence whether voters would support a bond measure. Voters will consider a variety of factors including their perception of value of a modernized Civic Center, its benefits to the community and their ability to pay for tax increases. For a given set of improvements a lower tax rate is more likely to receive voter support. To assist Council in assessing the viability of a bond measure, staff is proposing polling to better understand likely levels of voter support at different tax rates and with different features of the Civic Center Project.

### **Project Costs**

Part of the current project scope was to develop preliminary costs estimates for all of the prototype site plans that were developed. The cost figures are preliminary given the conceptual nature of the prototypes. These estimates are helpful in better understanding the magnitude of costs involved and the relative differences between different site alternatives and key project features such as new or remodeled buildings and different parking types. Given the number of unknowns at this stage of project development estimated costs are expressed as a range.

The following table shows the range of costs for each of the eight prototypes. These project costs

include construction costs plus a 35% allowance for other “soft costs” that would be needed to complete the project. Soft costs include design fees, environmental review, construction management costs, and other project costs that are not paid to the construction contractor. All costs are in 2015 dollars, are approximate, and are subject to additional decision making to refine them.

Table 2 – Preliminary Cost Estimates

Prototype*	Project Costs (with 35% Soft Costs)	
	Low	High
A	\$222 M	\$300 M
B	\$203 M	\$277 M
C	\$237 M	\$311 M
D	\$246 M	\$320 M
E.1	\$240 M	\$305 M
E.2	\$232 M	\$293 M
F	\$231 M**	\$302 M**
G	\$241 M***	\$313 M***

Footnotes: \*See Attachment 2 for a definition of prototypes and a cost summary

\*\*Does not include offsets for the sale/lease of land

\*\*\*Does not include the cost of purchased land

### Narrowing Project Alternatives

With both the prototypes and preliminary cost estimates now available, additional public outreach could be beneficial to help narrow the alternatives and learn about stakeholder interests. At the November 2015 study session, staff had indicated that Council should try to narrow the number of prototypes down to three. This was because the current architect’s scope includes developing further refinements to three of the selected prototypes. Upon further consideration, staff feels it is unnecessary to narrow the alternatives to three prior to polling residents to learn about voter priorities and areas of interest. For example, and as a standard municipal practice, if polling results indicate limited support for the more expensive alternatives, the City should focus on refinements to a set of the lower cost alternatives. The City would be better informed while narrowing the number of prototypes if it is accompanied by polling data.

Two of the prototype site plans tested the option of either acquiring additional property (Prototype G) or selling/leasing part of the Civic Center (Prototype F).

- Courthouse Property. Prototype G looked at buying the existing courthouse property on El Camino Real that is currently surrounded by the Civic Center property. The County Courthouse is still in active use, but staff understands its use may change in the next few years. Given the property is currently not for sale, it’s uncertain whether it could ever become part of the Civic Center property. Based on the preliminary cost estimates, Prototype G ended up being the most expensive, without even considering the cost of land acquisition. Given the uncertainty of whether it could be acquired and high cost, further consideration should be given to dropping Prototype G for further consideration.
- Selling or leasing Civic Center property was evaluated as a way to generate revenue that could help pay for the project. A market analysis was conducted to evaluate different potential land uses and how that would affect land values. Three different land uses were analyzed

which resulted in the following valuations:

- Office - \$6.5 M/acre
- Residential \$6.5 - \$7M/acre
- Hotel - \$3.5M/acre

Prototype F considered selling two acres of the Civic Center, which based on the market analysis, could generate up to \$14 million in revenue for the project. This is only 4.6% of the estimated cost of Prototype G. Throughout the public outreach process for the Civic Center, selling land at the Civic Center was mostly opposed by the public. Nevertheless, staff felt it was important to complete the market analysis and results of the site planning process before any decision was made about whether to sell land at the Civic Center. With the clear lack of public support for selling land at the Civic Center, the community's desire for more open space, and limited revenue potential based on the market analysis staff feels pursuing a sale or public-private partnership with Civic Center land is not in the City's best interests.

### **Next Steps**

Should Council wish to move forward with a general obligation bond, the November 2016 General Election is the next opportunity. In comparing the potential revenue sources with total project costs outlined in this report, the revenue potential is adequate to support most of the prototypes shown above. However, voter sentiment to support a bond measure is untested, as are residents' preferences for which Civic Center alternatives are best now that cost estimates are available. Immediate next steps would be to conduct a poll of voters to see how receptive Sunnyvale voters are to a bond measure.

Polling results would be helpful to understand what level of funding voters would be likely to support and their opinions about key project features like whether we should renovate or replace the Main Library. Based on the polling results, Council would be asked whether to proceed further with planning for a bond election in 2016. If polling results were unfavorable, other alternatives could be developed such as project phasing where costs were limited to current City revenues and assets.

Further work on the Civic Center will be needed to keep the City in a position to consider a bond measure in 2016. These steps along with funding requirements are outlined further below:

- Polling is an immediate next step and would be essential to better understand the sentiment of likely voters towards the Civic Center Project. This step should be completed in early 2016. Estimated cost for polling and developing ballot language to test is \$100,000.
- Continued community outreach would help to narrow and then refine project alternatives. Given the wide variety of alternatives still under consideration, a series of focus groups would be a good way to get more feedback on the project. Once alternatives have been narrowed further, conducting surveys using Open City Hall could help to select a final alternative. Estimated costs for this would be \$25,000. This work would only proceed if polling results are positive.
- If the Council chose to pursue the ballot measure a final alternative needs to be selected to provide voters a clear definition of the project and its tax implications. Once a final alternative is selected, architectural concepts should be developed to better define how open space would be utilized and what future buildings would look like. This work could also include a better definition of green building features of both the buildings and the site. The City has an adopted standard for new buildings of LEED Gold or better, but specific details of what

features should be included has not been completed yet. Estimated cost of this work is \$75,000 and would only progress if polling results were positive and Council indicated the City should move forward with a bond measure.

Beyond the steps outlined above, should the Council decide to place a bond measure on the ballot, additional and public education would be required at an additional cost. An education program would be outlined after the ballot measure became better defined.

### **FISCAL IMPACT**

Since FY 2012/13, the City's General Fund reflects an annual transfer of \$1.5 million for investment in the City's administrative infrastructure. Through FY 2014/15, the Infrastructure Fund accumulated \$6 million for future infrastructure projects; \$400,000 was appropriated in FY 2014/15 for the Civic Center Modernization Project. In FY 2015/16 another \$1.5 million was added and Budget Modification No. 8 was approved to appropriate an additional \$25,000 to the Civic Center Modernization Project to fund the additional appraisals and augment the community outreach efforts.

The funding source for this additional appropriation would be the same source used in the initial appropriation. To date, \$7,075,000 is set aside and available.

### **Budget Modification No. 21 FY 2015/16**

	Current	Increase/ Decrease	Revised
<b>Infrastructure Fund Expenditures</b>			
831340 - Civic Center Modernization	\$425,000	\$125,000	\$550,000
FY 2016/17 - Future Infrastructure Projects	\$7,075,000	(\$125,000)	\$6,950,000

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

### **ALTERNATIVES**

1. Approve Budget Modification No. 21 in the amount of \$125,000, with Funding from the Future Infrastructure Projects Set Aside in the Infrastructure Fund, to Continue Public Outreach and Planning Activities for the Civic Center Project.
2. Eliminate Prototype G from further consideration.
3. Modify Prototype F to eliminate the sale of land at the Civic Center.
4. Other direction as provided by Council.

### **STAFF RECOMMENDATION**

Alternatives 1, 2 and 3: 1) Approve Budget Modification No. 21 in the amount of \$125,000, with Funding from the Future Infrastructure Projects Set Aside in the Infrastructure Fund, to Continue Public Outreach and Planning Activities for the Civic Center Project; 2) Eliminate Prototype G from further consideration; and 3) Modify Prototype F to eliminate the sale of land at the Civic Center.

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Reviewed by: Grace K. Leung, Director, Finance

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Summary of Existing City Assets and Potential Revenues
2. Summary of Preliminary Costs