

Memorandum

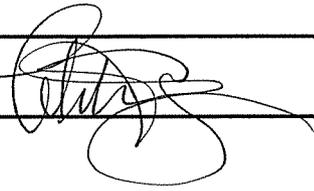
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Peter Jensen
Paul Krutko
Larry Lisenbee

**SUBJECT: USE OF THE CITY HALL AND
EMPLOYEE GARAGE RETAIL
SPACES**

DATE: September 25, 2007

Approved



Date

10/5/07

COUNCIL DISTRICT: 3
SNI AREA: N/A

RECOMMENDATION

1. Approve the conversion of the City Hall retail space to municipal use for the Office of Cultural Affairs and training/community meeting rooms, and to convert the current Office of Cultural Affairs space in the San José McEnery Convention Center to other uses.
2. Approve the conversion of the Fourth and St. John (Employee) garage retail space to municipal use for the Transportation incident Management Center and a technology training center.
3. Adopt the following 2007-2008 Appropriation Ordinance amendments in the General Fund:
 - a. Eliminate the City Hall Retail Space appropriation of \$800,000;
 - b. Decrease the Reserve for City Hall Build-out, which is proposed for establishment earlier on the October 16 Council agenda, by \$1,045,000; and
 - c. Establish an appropriation for City Hall Build-Out in the amount of \$1,845,000.
4. Adopt the following 2007-2008 Appropriation Ordinance amendments in the Convention and Cultural Affairs Fund:
 - a. Establish an appropriation for Convention Center Retail Space Conversion in the amount of \$380,000; and
 - b. Reduce the Ending Fund Balance by \$380,000.
5. Direct staff to work with the City Attorney's Office to return with a report on potential retail or government uses of the Convention Center space recommended to be vacated by the Office of Cultural Affairs, in light of IRS restrictions on the amount of space allowed to be used for private uses.

OUTCOME

If approved, these recommendations would direct staff to begin the design and construction of these spaces for municipal uses rather than the retail uses that were pursued previously, as well as provide research to inform the decision of potential uses of the Convention Center space that would be vacated.

BACKGROUND

Included in the San Jose City Hall complex is 6,200 square feet of proposed retail space along the 4th Street side of the Wing at street level. The space was intended to complete the retail frontage along Fourth Street from Santa Clara Street to San Fernando Street and to provide food service to City Hall employees/visitors and area businesses and residents. Two separate efforts to contract for retail service providers have not been successful.

First Request for Proposals

In April 2005, the City of San Jose released a Request for Proposals (RFP) for the City Hall Retail space. The RFP was widely distributed to over 300 restaurants, retail brokers, retail developers, and operators of retail food courts. The RFP indicated that the City Hall retail space was in a “cold shell” condition and would require the successful proposer to make a substantial investment to improve the space. In approving the RFP, the Council waived living wage¹ requirements for tenants in the project, but directed staff to require that a labor peace provision² be included in any final agreement with the successful proposer. The RFP process concluded with three responses including one from a local developer and two from individual tenants who did not propose to build out the entire retail space.

On June 28, 2005, the City Council approved the selection of Donald F. Inwalle, Inwalle-City Hall, LLC, as the preferred proposer for the role of master tenant for the development of the restaurant space in the City Hall retail space and approved proposed business terms to be included in the lease agreement. Council further directed that the City Attorney’s Office meet

¹ **Living Wage Definition:** It is the policy of the City of San Jose that persons doing work on, for or on behalf of the City should be paid a living wage, be provided with or able to afford health insurance, have reasonable time off, not be subject to lay off merely because the City changes contractors and should work in an environment of labor peace. For certain service contracts over \$20k (custodial/janitorial services, shuttle services, laundry services, moving services, towing services, security services), contractors are required to pay their employees the City’s established living wage rate.

² **Labor Peace Definition:** The City’s Living Wage Policy places responsibility to determine vulnerability of a proposed contract to service or labor disputes with the Director of the Office of Equality Assurance. Determination is based on considerations including but not limited to the following factors: 1. Whether the service or labor is provided on a City site or a site that is important to the proprietary interests of the City; 2. Whether the service provider relies on a significant amount of public patronage; 3. The economic effect of any disruption of City expenditures or revenues is significant; and 4. The effect of any disruption on the citizens, tourists and businesses in the community is significant.

For those instances where vulnerability exists, proposers are required to include in their proposals how they will take adequate steps to prevent labor disputes or unrest from occurring during the term of the City contract. The City requests this information in order to provide the City with adequate assurance against possible disruption of service due to employee disputes during the term of the agreement. Additionally labor peace provisions are designed to ensure that firms conducting business with the City are good employers, provide a good work environment without encroaching on the firm’s ability to conduct business and comply with federal, state and City employment policies. Proposers are free to submit any plan or program which it currently implements or which it proposes to implement which demonstrate a good work environment and adequate plans or programs to prevent disruption in services due to disputes with its employees.

with the appropriate stakeholders to include provisions regarding labor peace before the signing of contracts with the Master Tenant and the subtenants.

On June 27, 2006 the City Council approved revised business terms and conditions of the proposed lease, which included a \$300,000 City contribution to the build out of the shell space. The City Council approval of the business terms also included direction to staff to include a specific Labor Peace provision in the Master Tenant lease.

In July 2006, Imwalle-City Hall, LLC advised the City that it was no longer interested in pursuing the City Hall retail space opportunity. At the City's request, the Redevelopment Agency began providing assistance to the City in its efforts to initiate a new RFP effort to solicit proposals, negotiate a lease agreement and manage the construction process of the City Hall retail space.

Second Request for Proposals

In November 2006, City Council approved the new RFP developed in coordination with the Redevelopment Agency. As part of the approval, Council committed an additional \$500,000 from the General Fund for tenant improvements to "warm the shell," increasing the City funds committed for this purpose from the June 2006 approved amount of \$300,000 to \$800,000. The rest of the key terms of the RFP were similar to those of the April 2005 RFP, including the labor peace requirement.

On November 22, 2006, the Agency released an RFP to the retail and development community. More than 100 development groups and companies were contacted electronically, the RFP was posted on the websites of the Agency and the California Redevelopment Association, and the Agency did additional targeted outreach through postcards and direct phone calls to solicit interest. A pre-submittal meeting was held on December 14, 2006 to outline potential opportunities for prospective tenants. Proposals were due January 31, 2007. Only one proposal was received and staff and the City Attorney's Office determined that the proposal was non-responsive. On February 26, 2007, City Council received an Information Memorandum advising of this result and that staff were evaluating next steps for City Council consideration.

Employee Garage Proposed Retail Space

Each of these efforts focused solely on the City Hall retail space. The Employee Garage, which includes 3,400 sq. ft. of retail/office space on the 5th Street side of the building at street level, has not yet been the subject of any efforts to solicit space use proposals from retail service providers. The space, similar to that at City Hall, is in a "cold shell" condition, and would require substantial tenant improvements before any retail or office use could be housed there.

The inclusion of ground level retail space in the garage was the result of a joint recommendation by the Civic Plaza Redevelopment Project Area Committee (PAC) and the Civic Plaza Parking & Traffic Committee (PTC). The PAC was a citizen group formed by the Redevelopment Board to advise them on matters relating to the development of the City Hall Redevelopment Project Area. The PTC was formed by the City Council to make recommendations on parking and traffic issues and other neighborhood concerns related to the City Hall construction project. The joint recommendation addressed the preferred location of the garage, the placement of exits and entrances, and other design considerations aimed at reducing the garage's impacts on the

neighborhood, such as including below-grade parking levels, an upgraded architectural façade, and ground floor retail or office functions. The Council approved all of these recommendations April 17, 2001.

ANALYSIS

In developing recommendations for the use of the retail spaces, staff considered continuing to pursue retail uses, as well as the potential build out of both spaces to accommodate City office operations not currently housed at City Hall. There remain a few city operations in City-owned or leased space that could realize improved operations through direct adjacencies to City Hall and provide new revenue through alternate uses, or ongoing savings through lease avoidance.

Our analysis indicates that the City uses are the best overall option. This analysis is detailed below and in the Policy Alternatives section of this memo.

City Uses

After the second RFP for the City Hall retail space was unsuccessful, the City Manager invited all City Departments and Council Appointees to propose uses for the retail spaces. These proposals were reviewed and compared based on the following factors:

- Initial and ongoing General Fund impact
- Beneficial adjacencies
- Interaction with pedestrians and street traffic
- Service delivery needs

We believe that the same factors are relevant in comparing the proposed City uses to retail uses.

The rough estimate for design and construction costs for City uses of the City Hall space ranges from \$1.5 to \$1.7 million and from \$1.4 to \$1.5 million for the Employee Garage space. While costs vary depending on the use, all uses proposed would be expected to fall within these ranges. Staff reviewed the requests received and has identified the following preferred uses.

City Hall Retail Space Use

- Office of Cultural Affairs (OCA)/Training and Community Room – This option would relocate OCA from its current City-owned space in the Convention Center. OCA requires 4,000 square feet for their relocated operations. This would leave 2,200 square feet available, which would be converted to conference spaces that could be used for training during the day and a community room in the evening and weekends. These uses are consistent with the original Strategic Operational Plan for City Hall, which identified six key statements about what City Hall “should serve to be.” Three of the six statements were, “a place for greater civic involvement,” “a place to meet,” and “an excellent work environment.”

Implementation of this use would also provide the opportunity to improve the Convention Center space. Potential uses for the space include private retail or a City use such as a City store or visitor center. As contemplated in Recommendation #5 above, staff needs to work

with the City Attorney’s Office to research the possible effect of IRS restrictions on the amount of space that can be devoted to private uses before the future use of this space can be finalized. The characteristics of this recommendation are based on the key factors listed above and include:

- **General Fund Impact:** The chart below shows the proposed funding plan for this option. A comparison of funding plans for the recommended options and policy alternatives is included as Attachment A.

Use	General Fund Cost	Convention & Cultural Affairs Fund Cost
OCA space (4,000 sf)	\$1,150,000	
OCA relocation costs	25,000	
Meeting/training space (2,200 sf)	500,000	
Improvement of Convention Center space		\$380,000
TOTAL	\$1,675,000	\$380,000

The total General Fund cost of \$1,675,000 would be funded by using the existing \$800,000 appropriation for City Hall Retail Space, and increasing it by using \$875,000 of the \$1,045,000 Reserve for City Hall Build-out proposed as part of the Annual Report item on the October 16 agenda. The remaining \$170,000 in the reserve would be used as part of the Employee Garage uses proposed below.

The Convention Center improvements are necessary to upgrade the condition of the current space to a level needed for the options mentioned above. If the space can be converted to retail or other private uses, the City would earn lease income and sales tax revenue. The combined ongoing General Fund impact of these two sources of revenue is difficult to project, but the most likely range is \$100,000 to \$200,000 per year. The estimated revenue effects of other potential uses, should private uses be restricted, will be analyzed and provided in the staff report which would be provided in response to Recommendation #5 of this memo.

- **Adjacencies:** Staff efficiencies are improved significantly by relocating the OCA operations onto the City Hall campus near the rest of the Office of Economic Development, partner departments for public art and special event program activities, and City support services. The key efficiency is a reduction in travel times for meetings and other interaction with functions located at City Hall; another efficiency is integration into the City’s phone and routing systems. In addition, OCA holds numerous meetings with clients and community members, and City Hall is a much more accessible location.
- **Interaction with Pedestrian/Street Traffic:** OCA would work with Public Works and General Services on a design for the space that would create visual interest in the storefront space along Fourth Street while ensuring an efficient workspace for employees and accessible meeting/training space for employees and the public.

There is clear opportunity to use the storefront space to showcase San José’s arts and cultural offerings.

- **Service Delivery Needs:** The addition of space for training and meetings would expand City Hall’s effectiveness as a meeting location. Currently, the heaviest users of the committee rooms are Council committee meetings and City training sessions. These uses make it difficult for community uses and other City uses to find available times for their meetings. The conversion of this space would allow it to be used primarily for training needs during weekdays, and would create another, easily accessible space for community meetings during weeknights and weekends.

Employee Garage Retail Space Use

- Transportation incident Management Center (TiMC)/Technology Training Center – This proposal would relocate the TiMC from leased office space at the 4 N. 2nd Street Horizon Center Tower. The TiMC requires 2,800 square feet for its relocated operations. This would leave approximately 600 square feet available, which is proposed to be used for a technology training center for City staff. Of the TiMC’s 2,800 square feet, approximately 500 square feet would be devoted to shared space between the two uses (restrooms, storage, break area, etc.). The characteristics of this recommendation are based on the key factors listed above and include:
 - **General Fund Impact:** The chart below shows the proposed funding plan for this option. A comparison of funding plans for the recommended options and policy alternatives is included as Attachment A.

Use	General Fund Cost	Traffic Capital Fund Cost
TiMC space (2,800 sf)		\$1,280,000
TiMC relocation costs		15,000
Technology training center space (600 sf)	170,000	
TOTAL	\$170,000	\$1,295,000

Traffic capital funds, which are already appropriated, include grant funding secured by the Department of Transportation for the purpose of further development and support of the TiMC operation. The General Fund cost would be covered by the remaining portion of the proposed Reserve for City Hall Build-out, which is further described above as part of the plan for the City Hall space.

The TiMC is currently in leased space, so this move would produce ongoing annual lease savings in the General Fund totaling \$65,000, based on current lease costs, which are expected to increase approximately 3% per year beginning in 2009.

- **Adjacencies:** Staff efficiencies are improved by relocating the TiMC operations closer to City Hall and near other DOT functions that are already located in the Employee Garage and Police Department event management and security functions

located downtown. The key efficiency is a reduction in travel times for meetings and other functions located at City Hall.

- **Interaction with Pedestrian/Street Traffic:** Staff will explore options for more visual interest in the Fifth Street storefront space, although this block attracts less pedestrian and vehicle traffic, and does already feature the Parade of Floats public art.
- **Service Delivery Needs:** A small conference room in the City Hall Wing is currently being used for technology training classes. Dedicating a portion of the Employee Garage space for technology training purposes would fill a growing need, as the City introduces new software packages and other applications, and would be designed to provide much greater flexibility so that training could accommodate more staff, thus allowing major training initiatives to be accomplished more quickly.

Other City Use Proposals Considered

- Independent Police Auditor relocation - The Independent Police Auditor is currently in leased space (slightly less than 3,000 square feet) at 75 East Santa Clara Street. Moving this operation would provide improved visibility and access to the IPA offices, which depend on accessibility. It would also provide increased accessibility to City Hall for IPA staff. This option, which would provide \$56,000 in ongoing lease savings to the General Fund, was not recommended because it does not provide the opportunity for the City to use the vacated space for an alternate downtown retail location, as the OCA move may do, and it cannot make use of non-General Fund sources, as the TiMC move does.
- City Clerk's Office expansion at City Hall - This proposal would expand the City Clerk's Office to add a street level reception and records counter and additional meeting space. The recommended option does include additional meeting space, however the specific City Clerk uses were not recommended because they do not provide an alternate downtown retail opportunity while improving staff efficiencies, as the OCA move does, and they cannot make use of non-General Fund sources, as the TiMC move does.

EVALUATION AND FOLLOW-UP

There are no performance measures directly impacted by this recommendation. However, there are significant operational efficiencies that will be realized by moving these operations closer to City Hall.

As a follow-up, staff will semi-annually submit an information memo to Council in order to provide an update on the progress of the construction projects until they have been completed.

POLICY ALTERNATIVES

Alternative 1: Continue to Pursue Retail Uses for City Hall space – This alternative would continue the original building program at City Hall while converting the Employee Garage space to the TiMC/technology training center use proposed above. The City Hall building program provided for retail spaces at the ground level, with the goals of completing the retail frontage

along Fourth Street from Santa Clara Street to San Fernando Street, and providing food service to City Hall employees and visitors as well as businesses and residents in the area. As detailed in the Background section of this memo, there have been two unsuccessful RFP's for retail uses of the space. The key reasons cited for the lack of success in those instances was the condition of the space, creating the need for a Master Tenant to invest more than \$1 million (in addition to the City's \$800,000 contribution) to bring it to an attractive condition for potential tenants, and the requirement for a labor peace provision in the master agreement.

Because of these reasons, Council would need to consider making changes to one or both of those issues if it were to pursue this alternative. On the issue of "warming the space," Council could choose to direct that all or a portion of the proposed \$1,045,000 Reserve for City Hall Build-out be used to prepare the space for possible retail tenants. It is assumed that Council would preserve the split of this reserve described in the recommended options: \$875,000 for the City Hall space, and \$170,000 for the Employee Garage space. If so, this would bring the total amount available for the City Hall space to \$1,675,000.

The estimated build-out costs for food service uses for the City Hall space are in excess of \$1.8 million. In addition, staff has been told in the course of the previous efforts to lease the space that conversion of the north facing-wall of the space to a storefront would be highly desirable. The cost of this conversion is estimated at \$100,000 to \$150,000. All or a portion of this amount would represent an addition to the original \$1.8 million estimate. So depending on the preferences of a Master Tenant, this alternative, as shown in the chart below, would reduce the costs for a potential Master Tenant to something between \$125,000 and \$275,000.

Additionally, the Council could choose to revise or remove the requirement for a labor peace provision in the master agreement. This is a policy decision for the Council.

Making either or both of these changes to the RFP would be likely to increase interest in the space from potential proposers, but it is difficult to predict whether it would result in a proposed agreement that would allow the original goals to be achieved. Below is a brief discussion of analysis of this alternative, based on the four factors cited above.

- **General Fund Impact:** The chart below shows the proposed funding plan for this alternative. A comparison of funding plans for the recommended options and policy alternatives is included as Attachment A.

Use	General Fund Cost	Costs to be Funded by Master Tenant
Build-out of retail space (6,200 sf)	\$1,675,000	\$125,000
Conversion of north-facing wall to storefront (optional)		\$100,000 - \$150,000
TOTAL	\$1,675,000	\$225,000 - \$275,000

Use of the space for retail would result in lease income to the City, along with sales tax revenue. The combined ongoing General Fund impact of these two sources of revenue is difficult to project, but the most likely range is \$150,000 to \$250,000 per year. While this estimate is somewhat higher than that projected for the recommended option if retail uses can be implemented in the Convention Center space, it is dependent on the agreement that could be negotiated for the City Hall space. It should be noted that the proposed Imwalle master agreement would have provided \$90,000 in lease revenues during the first ten years of the agreement, which would represent significantly less return than the \$150,000 to \$250,000 range mentioned above.

- **Adjacencies:** No adjacencies would be improved by this option.
- **Interaction with Pedestrian/Street Traffic:** Retail space would create significant interaction with pedestrian and vehicle traffic.
- **Service Delivery Needs:** Food service uses would provide additional options for City Hall employees and visitors, and businesses and residents in the area. It should be noted that several restaurants and coffee shops have opened in the area since City Hall opened, along with the addition of a coffee cart on the plaza, and retail opportunities still exist in the ground floor of the Fourth Street Garage. In addition, a Starbucks will open soon at Third & Santa Clara.

Reason for not recommending

There are three key reasons staff has not recommended this alternative:

- The recommended use is fully funded (pending Council approval of the recommended Annual Report action items on this agenda), while this alternative would still require an investment from a Master Tenant, one that would become more significant in the likely event that the Master Tenant would desire to convert the north-facing wall of the space into a storefront.
- The recommended use provides improved efficiencies and services that cannot be achieved in this alternative.
- The recommended use provides a reliable, timely resolution to the issue of the use of the space. As part of this alternative, the Council may choose to change the terms of the RFP from the previous two unsuccessful RFP's, either by changing the level of City investment, changing labor peace requirements, or both. However, it is unknown whether these changes would produce enough interest to result in a Master Tenant agreement that the Council could support. There is a possibility that a third RFP would also be unsuccessful, at which point construction costs for the recommended uses would likely have escalated.

Alternative 2: Pursue Retail Uses for Employee Garage space – This alternative would continue the original building program at the Employee Garage while converting the City Hall

space to the OCA/meeting-training space use proposed above. The Employee Garage building program provided for retail spaces at the ground level, with the goal of increasing retail options in the eastern area of downtown. There has been no attempt to offer the space for retail opportunities to date.

If the Council were to choose to pursue this option, the proposed \$1,045,000 Reserve for City Hall Build-out could be used to prepare the space for possible retail tenants. If the proposed division of funds between the two sites were to be preserved, \$170,000 would be available for this purpose. This would still leave a funding need of \$1,280,000.

Staff has done preliminary review of this site’s viability for retail, and has concluded that it is considerably less attractive as a retail location than the City Hall space. The recommended option would still conform with the 2001 recommendation of the Project Area and Parking & Traffic Committees, which was to place retail or office uses on the ground floor of the garage. Because of the combination of a lack of funding and low prospects as a retail location, staff has not provided more detailed analysis of the four key factors described above.

Reason for not recommending

This alternative would require a potential tenant to invest more than would have been required for the City Hall space in either of the two unsuccessful RFP’s, and yet receive 45% less space in a less desirable location. Interest in such an offering seems very unlikely. Further, this alternative will not achieve \$65,000 in ongoing lease savings for the General Fund.

Alternative 3: Pursue Retail Uses for both the City Hall and Employee Garage spaces – This alternative would continue the original building program at both locations. For the reasons described under Alternative 2, this option is not recommended.

Alternative 4: Build out the City Hall retail space for a combination of OCA offices and a retail use - In this alternative, the City Hall retail space would be designed to support the OCA operations in 4,000 square feet, and retail operations in the remaining 2,200 square feet, with the option of reverting to meeting and training space at a later point if necessary.

This option, as in Alternative 1, would present the Council with the option of changing the City’s contribution amount and/or the requirement for labor peace. Another option for this space is to create a San José store or visitor center, possibly in partnership with one or more non-profit organizations. The financial effects of this alternative are detailed below.

- **General Fund Impact:** The chart below shows the proposed funding plan for this alternative. A comparison of funding plans for the recommended options and policy alternatives is included as Attachment A.

Use	General Fund Cost	Convention & Cultural Affairs Fund Cost	Costs to be Funded by Master Tenant
OCA space (4,000 sf)	\$1,150,000		

OCA relocation costs	25,000		
Retail space (2,200 sf)	500,000		\$50,000
Conversion of north-facing wall to storefront (optional)			100,000 - 150,000
Improvement of Convention Center space		\$380,000	
TOTAL	\$1,675,000	\$380,000	\$150,000 - \$200,000

Use of the City Hall space and, potentially, the Convention Center space, for retail would result in lease income to the City, along with sales tax revenue. The combined ongoing General Fund impact of these two sources of revenue is difficult to project, but the most likely range is \$150,000 to \$250,000 per year. The estimated revenue effects of other potential uses of the Convention Center space, should private uses be restricted, will be analyzed and provided in the staff report which would be provided in response to Recommendation #5 of this memo.

This alternative requires only a small investment by the retail tenant if the north-facing wall remains in place. However, it is likely that a tenant would have a strong desire to replace the wall with storefront space, which would require a more significant additional investment for a relatively small space.

- **Adjacencies:** This alternative provides the same adjacency and efficiency improvements provided by the recommended option.
- **Interaction with Pedestrian/Street Traffic:** The combination of OCA and retail space is expected to create a visually lively storefront for pedestrian and vehicle traffic.
- **Service Delivery Needs:** A food service use in the remaining space would provide additional options in the City Hall area. However, this option would not provide additional meeting and training space to meet the current high demand for such space.

Reason for not recommending

This alternative seems likely to generate less retailer interest than Alternative 1, given that the key element of cost which would need to be borne by the tenant (the conversion of the north-facing wall to a storefront) remains a part of the cost scenario, even though there is 4,000 fewer square feet of space that could be used to recoup that initial investment. This option does offer efficiency improvements associated with relocating OCA, and offers the possibility of a more interactive space than the meeting and training use, however, it does eliminate the service improvements offered by the meeting/training space use.

Finally, the uncertainty of the results of the RFP process cited as a reason for not recommending Alternative 1 would apply to this alternative as well, although a smaller portion of the space

would be affected. Ultimately, staff believes the economics of this alternative are not sufficient to attract interest from retailers.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1 and this memorandum will be posted on the City's website for the October 16, 2007 Council Agenda. Because of potential interest from the downtown community, staff will explore the possibility of conducting outreach to inform the community about new uses, should the Council approve the staff recommendation.

COORDINATION

This report has been coordinated with the City Manager's Office, City Attorney's Office, Redevelopment Agency, Office of Economic Development, Office of Cultural Affairs, Department of Transportation, City Clerk, Independent Police Auditor and the Human Resources Department.

FISCAL/POLICY ALIGNMENT

This recommendation supports the Mayor's directive to eliminate the City's structural budget deficit by providing ongoing savings and revenue to the General Fund.

COST IMPLICATIONS

See Attachment A for a summary of the costs and funding sources for the recommended option and for Policy Alternatives 1, 2, and 4.

BUDGET REFERENCE

The table on the following page identifies the fund and appropriations proposed to fund the actions recommended as part of this memo.

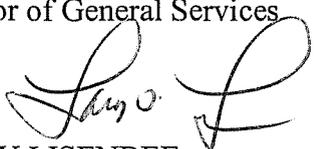
Fund #	Appn #	Appn. Name	R C #	Total Appn	Amt. for Contract	2007-2008 Adopted Capital Budget (Page)	Last Budget Action (Date, Ord. No.)
Remaining Project Costs				3,520,000			
Remaining Funding Available							
429	4407	Transportation Incident Mgmt Center		1,295,000		V - 1091	
001	3444	City Hall Retail Space		800,000*			
001	New	Reserve for City Hall Build-Out		1,045,000**			
536	8999	Ending Fund Balance		380,000***			
Total Current Funding Available				3,520,000			

* The 2007-2008 Proposed Operating Budget was approved by City Council on June 19, 2007.
 ** \$1,045,000 is proposed for establishment earlier on this same agenda (Item #3.4).
 *** \$380,000 in the Ending Fund Balance appropriation is recommended to fully fund this project.

CEQA

City Hall Retail Space Use: Resolution No. 68905
 Employee Garage Retail Space Use: Resolution No. 72230


 PETER JENSEN
 Director of General Services


 LARRY LISENBEE
 Budget Director


 PAUL KRUTKO
 Chief Development Officer

For questions, please contact Peter Jensen, Director of General Services at 938-2025

Retail Space Funding

Attachment A

CITY HALL

COSTS		Recommended City Uses	Alt #1 - Retail	Alt #4 - Combination
Design & Construction Costs - City Hall (4,000 sf portion)		\$ 1,150,000	\$ 1,250,000	\$ 1,150,000
Design & Construction Costs - City Hall (2,200 sf portion)		500,000	550,000	550,000
Conversion of Wall to Storefront (optional)			450,000	450,000
Relocation Costs - OCA		25,000		25,000
Design & Construction Costs - Current OCA Space		380,000		380,000
		\$ 2,055,000	\$ 2,250,000	\$ 2,555,000
FUNDING SOURCES				
	Fund			
City Hall Retail Space Appropriation	General Fund	\$ 800,000	\$ 800,000	\$ 800,000
Proposed Reserve for City Hall Build-out	General Fund	875,000	875,000	875,000
Ending Fund Balance	Conv/Cultural Affairs Fd	380,000		380,000
Tenant Funding			575,000	500,000
		\$ 2,055,000	\$ 2,250,000	\$ 2,555,000
Estimated Ongoing Revenue Effects (lease/sales tax)		\$100,000-\$200,000	\$150,000-\$250,000	\$150,000-\$250,000

EMPLOYEE GARAGE

COSTS		Recommended City Uses	Alt #2 - Retail
Design & Construction Costs - Employee Garage		\$ 1,450,000	\$ 1,450,000
Relocation Costs - TiMC		15,000	
		\$ 1,465,000	\$ 1,450,000
FUNDING SOURCES			
	Fund		
ITS:Transportation Incident Management Center appropriation	Traffic Capital Fd	\$ 1,295,000	
Proposed Reserve for City Hall Build-out	General Fund	170,000	\$ 170,000
Tenant Funding			1,280,000
		\$ 1,465,000	\$ 1,450,000
Estimated Ongoing Lease Savings		\$65,000	\$0