



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: David Sykes

SUBJECT: SEE BELOW

DATE: August 27, 2012

Approved

Date

9/4/12

SUBJECT: FIRST AMENDMENT TO THE DESIGN-BUILD CONTRACT FOR THE SAN JOSE MCENERY CONVENTION CENTER EXPANSION AND RENOVATION PROJECT

RECOMMENDATION

Approve a first amendment to the design-build contract with Hunt Construction Group for the Convention Center Expansion and Renovation Project to increase the maximum total compensation for agreed-upon additional work by \$10,000,000 for a total not to exceed \$127,000,000.

OUTCOME

Approval of this amendment will allow the contractor to complete additional work on the Heating Ventilation Air Condition (HVAC) system and to renovate the kitchen as part of the Convention Center Expansion and Renovation Project.

BACKGROUND

The Convention Center opened in 1989 and currently offers 425,000 square feet of exhibit, ballroom and meeting space. Since 1989, San José's hotel and tourism industry has grown to an estimated \$200 million hotel revenue industry, generating over \$10 million annually in tax revenue to support city services. The expansion is adding an additional 125,000 square feet of flexible ballroom and meeting room space, increasing San José's Convention Center space to 550,000 square feet of usable space. This Project is a key component of the City's Economic Strategy and is being delivered through a Public Works led design-build approach, similar to the award-winning Norman Y. Mineta San José International Airport's successful billion dollar terminal area improvement program.

In 2009, the Convention Center Facilities District (CCFD) was formed to institute a special, dedicated tax on hotel properties to finance the project. The tax can only be used to support

capital improvements at the Convention Center and includes ongoing revenue for future capital repair and replacement needs.

The Project consists of two major components: the construction of new space to expand the existing Convention Center and the renovation of existing Convention Center facilities. As described in the report to the City Council on February 23, 2010, each of these components consists of the following elements:

1. The expansion elements include:

- A 35,000 square feet column-free ballroom with 30 foot clear ceilings and operable wall divisibility.
- 25,000 square feet of flexible meeting room space.
- Pre-function, food preparation in the back of the house areas and systems to service the expansion space.
- Way finding and signage package connecting the expansion and existing center.
- Construction to a LEED-Silver rating.
- Furniture, fixtures and equipment for the expansion.
- An exterior architectural treatment that enlivens the convention center district and the downtown.
- Demolition of the former Martin Luther King Jr. Library and site preparation for the expansion.
- Restrooms to accommodate the additional space needs.
- Off-site sidewalk improvements as required by the City.

2. The renovation elements include:

- Installation of a new central utility plant. This will support the expansion area and existing Convention Center as well as the adjacent Hilton Hotel that receives utilities under contract with the City. This work includes replacing the heating, ventilation and air conditioning system including related pumps, chillers, exhaust fans, boilers, heat exchangers, cooling towers and related electrical systems.
- Installation of a new fire alarm system for the entire Convention Center.
- Installation of a direct digital controls building management system for the entire Convention Center.
- Construction of necessary ADA improvements needed to integrate the expansion space with the garage and lobby areas of the existing building.

In addition to these elements of the base Project, the report identified other renovation improvements to the existing Convention Center as desirable if budget allowed. These include:

- Cosmetic and functional upgrades in the existing ballroom and exhibit space.
- Upgrades to the existing kitchen, restrooms and employee spaces.

- Additional ADA improvements in the existing space as provided for in the ADA improvement plan for the Convention Center and garage.

On December 14, 2010, City Council authorized the City Manager to negotiate and execute a contract with Hunt Construction for a not-to-exceed amount of \$117 million. Council also approved a City-controlled contingency in the amount of \$3 million. This Project was financed through a bond sale backed by Convention Center Financing District funds and budgeted in the Convention Center Facilities District Project Fund. These funds are derived from a 4% increase in Transient Occupancy Tax voted on by hotel owners in San José.

The various cost elements are shown below.

Summary of Cost Estimate in Millions		
Element	Cost	Notes
Demolition	\$2.6 million	Old King Library
New Construction	\$62.8 million	125,000 new square feet
Central Plant	\$13.7 million	New chillers, boilers, cooling towers, pumps
Systems	\$12.9 million	New fire alarm, building management system
Renovation	\$20.0 million	Cosmetic front of house
Contingency	\$3.0 million	2.5% of \$120 million
Delivery Costs*	\$5.0 million	Project delivery, Public Art
Total	\$120 million	

* The delivery costs are \$3.35 million for project delivery, \$600,000 for special inspection and testing, \$650,000 for public art, and \$400,000 for construction support consultants.

In collaboration with Team San José (TSJ), the Hoteliers, and the Downtown Association, design work was initiated in July 2011, and ran concurrently with the initial construction activity of demolition of the Old Martin Luther King Jr. Library (OMLK). One of the benefits of the design-build project delivery process was quickly realized by this ability to run design and construction activities in parallel. The final design has been completed and the building permit was issued.

During the course of designing the Base Project, Hunt recommended that the City add to the Project the replacement of the 25 year old hot and cool water Heating Ventilation and Air Conditioning (HVAC) loop in existing building. Additionally, a study of the existing main kitchen concluded that the kitchen should be renovated so that it could adequately meet the needs of the expanded Convention Center. The proposed first amendment to the design-build agreement with Hunt would provide for the implementation of these two new Project elements.

ANALYSIS

The first amendment to the design-build agreement with Hunt would allow the City to proceed with implementing additional work involving the Convention Center's HVAC system and kitchen. A description of each of the additional improvements is provided below:

- Additional HVAC Improvements – The base Project is replacing the entire central utility plant, which produces hot and chilled water for heating and cooling the Convention Center and the Hilton Hotel. In addition, the Project will install a new controls system to regulate the HVAC system.

Recent inspections confirmed that parts of the *existing* hot and cold water pipes that loop through the *existing* building are corroded and leaking. In addition, the inspections revealed that most of the valves are frozen and/or leaking. The cost to repair these (and related elements) of the HVAC system is approximately \$5.3 million. These repairs will not only help prevent failure of the existing HVAC system in the future, but will help protect and ensure the proper performance of the new HVAC improvements being installed as part of the base Project.

- Kitchen Improvements – The base Project includes the construction of a plating kitchen adjacent to the new and expanded ballroom. This will allow hot and cold food to be transported from the main kitchen in bulk and be plated for consumption in the plating kitchen.

An evaluation of the existing kitchen performed by the design team identified capacity issues in the main kitchen to serve a fully sold-out expanded Convention Center. The Project already has funded a 35% design effort to gain a better understanding of the cost to improve the kitchen capacity. That effort was completed in early June and confirmed that the additional kitchen renovation work could be completed for under \$4.7 million. It is important to note that the cost estimate for this work is evolving as the design is refined. The City will not approve a guaranteed maximum price task order until it is satisfied with the scope and cost.

Staff recommends addressing the above-described HVAC and kitchen improvements now, as work will be less costly during the course of the expansion/renovation Project than if the improvements were deferred. To pay for this additional work, the City Council on June 19, 2012, adopted a resolution authorizing the issuance of \$10 million in commercial paper to be repaid by the Convention and Cultural Affairs Fund over seven years. The proposed first amendment to the design-build agreement with Hunt will increase the maximum total compensation by \$10 million and make the other related contract changes necessary for the City to proceed with the additional work.

It is important for Council to note that the scope of the base Project was the result of a compromise between stakeholders and the City to achieve the new square footage needed to make the Convention Center larger and more competitive. Although the base Project addresses the most critical known needs of the existing Convention Center, it was never intended to completely address all those needs. Even with the additional HVAC work and the kitchen renovation, deficiencies in the existing building will remain. Staff intends to use any remaining funds from the base Project and/or from the additional \$10 million in funding, to address other

needed work to the existing Convention Center. Moreover, as capacity in the CCFD improves, staff will program further investment in the Convention Center through the budget process.

Council should also be aware that at this time, the redesign of the Convention Center Plaza and Furniture Fixtures and Equipment (FF&E) upgrades are not fully funded and are not planned to be funded through the commercial paper issuance. The base Project is currently funding the reconstruction of about one-third of the plaza as a component of the expansion component of the base Project. In addition, staff has reserved funding for a minimal upgrade to the remainder of the plaza. In order to improve the plaza to a level necessary to allow the plaza to be programmed for events such as receptions and parties, additional funding of approximately \$1 million will be required. Staff is exploring alternatives to funding an enhanced plaza. If funding cannot be identified, the minimal upgrade will be constructed.

FF&E needs, not funded by the project, include podiums, tables, chairs, stages, garbage cans, etc. These items have not been upgraded in over 20 years and impact the customer experience. FF&E is minimally funded in the 2012-2013 Adopted Operating Budget (\$300,000 in the Convention and Cultural Affairs Fund). Additional funding for this purpose may be pursued at a later time to ensure the Convention Center is adequately equipped to grow revenue in the expanded facility.

Construction Activities and Schedule

The Old Martin Luther King Jr. Library has been demolished, the site has been filled, and the pile driving and foundation are complete. The structural steel for the expansion and interior renovation is underway. The Project is on schedule for completion in September 2013.

EVALUATION AND FOLLOW-UP

This Project is currently within budget and on schedule. Staff will monitor the impact of this action and communicate any issues to Council through a staff report.

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)**

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This Project meets Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater. This memo will be posted online for the September 18, 2012 Council agenda.

COORDINATION

This Project and memorandum have been coordinated with the Office of Economic Development, Finance, Planning, Building and Code Enforcement Department, the City Manager’s Budget Office and City Attorney’s Office.

FISCAL/POLICY ALIGNMENT

This Project is consistent with the Council-approved Budget Strategy to continue with capital investments that spur construction spending in our local economy.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION/COST OF PROJECT

Original Design-Build Contract	\$117,000,000
Contingency	\$3,000,000
First Amendment to Design-Build Contract	\$10,000,000
TOTAL PROJECT COST	\$130,000,000

2. SOURCE OF FUNDING: 691 – Convention Center Facilities District Project Fund
 536 – Convention and Cultural Affairs Fund

3. OPERATING COST: Approval of the recommendation will have no significant adverse impact on the General Fund operating budget.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	RC #	Total Appn	Amt. for Contract	2012-2013 Operating Budget (Page)	Last Budget Action (Date, Ord. No.)
536	7480	Convention Center Expansion/Renovation (Kitchen/HVAC)	137385	\$10,000,000		XI-28	06/19/2012 Ord. No. 29102
Total Funding Available				\$10,000,000			

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CEQA

Resolution No. 72767 and Addenda thereto. File No. PP08-002.

/s/

DAVID SYKES

Director of Public Works

For questions please contact Harry Freitas, Assistant Director, at (408) 535-8300.