

# SUPPLEMENTAL

COUNCIL AGENDA: 09-25-07

ITEM: 8.1



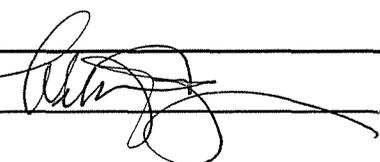
## Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Ed Shikada  
Darryl Von Raesfeld  
Katy Allen

**SUBJECT:** FIRE STATION NO. 2  
COST BENEFIT ANALYSIS

**DATE:** 09-21-07

Approved  Date 9/21/07

**COUNCIL DISTRICT:** 5

### REASON FOR SUPPLEMENTAL

To provide additional information about the Fire Station No. 2 project, including input from stakeholders and an analysis of the potential effect of Redevelopment funding.

### OUTCOME

This memorandum provides additional information to assist the City Council in directing staff on the preferred scope and budget for improvements to Fire Station No. 2.

### BACKGROUND

At Council direction in adopting the 2007-08 Capital Improvement Program, staff prepared an analysis of renovation/reconstruction options for Fire Station No. 2. The results of this analysis are described in a memorandum dated August 6, 2007.

Given the complexity of improvement and funding options for this project, staff has prepared an overview presentation that can be given when this item is discussed with Council. This presentation is provided as Attachment C. This memorandum also provides clarifying information in response to questions received, including the effect that allocating contingency reserve funding to Fire Station No. 2 could have on other bond-funded projects.

Two new considerations are also discussed in this memorandum – a potential partnership with the Eastside Union High School District, and potential funding through the San Jose Redevelopment Agency.

**ANALYSIS**

The following is a summary of inquiries received, and responses to clarify differences among the improvement options for Fire Station No. 2:

1. What are the operational differences among the three options?

While differences among the three improvement options were analyzed in the original memo, below is a summary of the operational differences among the options during construction, under standard operations, and in the event of a major seismic event:

<b>Option</b>	<b>During Construction</b>	<b>Standard Operations</b>	<b>After a Major Seismic Event</b>
Option 1 – Remodel of existing Fire Station	Engine 2 would continue to respond from Fire Station 2	No change in service delivery (response time)	Likelihood of continued operation similar to nearby buildings
Option 2 – Hybrid Demolition and Rebuild of Fire Station	Engine 2 would continue to respond from Fire Station 2	No change in service delivery (response time)	More likely than Option 1 to be able to provide continued response to the service area
Option 3 – Complete Demolition and Rebuild of Fire Station	Temporary site and facilities to house Engine 2 not yet identified	No change in service delivery (response time)	Most likely among all options to be able to provide continued response to the service area

2. What does “essential services facility standards” mean?

The August 6<sup>th</sup> memorandum uses the term “essential services facility standards” as one measure of differentiating the improvement options, with the complete rebuild achieving this measure to the greatest extent. Essential services facilities are defined by the California Building Code and relate to the design and construction standards used for new public safety facilities. This includes structural standards, primarily consisting of increased seismic design criteria for the lateral force resistive elements of the building (such as shear walls) as well as bracing for certain equipment attached to the structure. The net effect is that structural systems and equipment are designed to resist a 50% greater seismic force than typical buildings. There are also increased administrative requirements for design and construction oversight, inspections and verification that the installed work complies with these standards.

In Option 2, only the expanded/new areas would be built to essential services facilities standards. The existing structure would not be structurally upgraded.

3. What impact would the proposed funding options have on other projects?

In the August 6<sup>th</sup> memorandum, staff outlined three funding options with associated appropriation actions for Council consideration. Option 1 would be funded from the Public Safety Bond program and Fire Construction & Conveyance (C&C) Tax funds. Option 2 would require funds from the Public Safety Bond Contingency Reserve and more C&C, in addition to the funds needed for Option 1. Option 3 would require funds from the General Fund Capital (FF&E) Projects Reserve, in addition to the funds needed for Option 2.

As previously reported, contingency reserves have been established in each of the bond programs to address unanticipated costs. By prior Council action, these reserves were originally funded through interest earnings, early project savings, and in the case of the Public Safety program a 10% set-aside from project budgets.

Given that these program contingency reserves are in addition to established project budgets, the primary effect of drawing on reserves would be to limit future options. However, in order to describe the potential effect that drawing on reserves for Fire Station No. 2 would have on future bond projects, Attachment D provides a comparison of estimated costs to current contingency levels for all of the bond projects yet to be awarded for construction. In summary, the three bond programs are currently working with a 1-3% program contingency.

Recent market conditions, however, have indicated that 5% contingency would be desirable to account for the volatility in construction costs. The following table compares current contingency levels to desirable. As indicated, there is a roughly \$6 million difference between current and desirable levels:

<b>Program</b>	<b>Construction Budget</b>	<b>Current Program Contingency</b>	<b>Desirable (5%) Program Contingency</b>
Library Bond	\$61.5 million	\$729,800 (1%)	\$3.1 million
Parks Bond	\$94.5 million	\$2.8 million (3%)	\$4.7 million
Public Safety Bond	\$83.8 million	\$2.8 million (3%)	\$4.2 million
<b>Total</b>	<b>\$240 million</b>	<b>\$6.3 million (2.6%)</b>	<b>\$12 million</b>

The existing General Fund (FF&E) Reserve is one resource to bridge this gap. Currently funded at \$6.8 million, the General Fund Reserve was established to cover bond-ineligible expenses such as furniture, fixtures, and equipment (FF&E), as well as any costs beyond available bond funds in any of the programs. Added to the program-specific reserves above, total reserves stand at 5.3%. Current strategies to cover FF&E costs rely heavily on grants and C&C funds; however, it is anticipated that there will be significant FF&E costs associated with the South Police Substation and other projects that will require funding from this or another General Fund source.

Given these contingency reserve funding levels, the proposed funding options for Fire Station No. 2 would have the following effects:

- Option 1 would not draw on contingency reserves and therefore have no effect on contingency levels.
- Option 2 would require \$1.8 million from the Public Safety Bond Contingency Reserve, reducing the contingency level in this program to 1%. Including the General Fund Reserve, overall reserves would stand at 4.6%.
- Option 3 would require \$1.8 million from the Public Safety Bond Contingency Reserve and \$2.7 million from the General Fund Reserve. This would reduce the Public Safety Contingency level to 1%, and overall reserves would stand at 3.5%.

Please note that the above analysis does not assume RDA funding; this is discussed later in this memorandum. It should also be noted that funding for Options 2 and 3 includes \$500,000 of Fire Construction & Conveyance funds. If not allocated to Fire Station No. 2, these funds would be available for repairs and other unfunded needs at fire stations citywide.

4. What feedback has been received from the Citizen Oversight Committees?

Given that funding for Fire Station No. 2 could be drawn from General Fund capital reserves that could be expended on other bond programs, the August 6<sup>th</sup> staff report was transmitted to the Citizens Oversight Committees for each of the bond programs (public safety, parks, and libraries). The following paragraphs report on their responses to date.

On August 22, 2007, an update on the staff report on Fire Station No. 2 was provided to the Public Safety Bond Citizen Oversight Committee. The Committee recommends proceeding with Option 3 (Complete Demolition and Rebuild of Fire Station No. 2), based largely on the costs already expended on this option. Their recommendation letter is attached.

On September 5, 2007, the staff report on Fire Station No. 2 was provided to the Parks and Recreation Commission, acting as the Park Bond Citizen Oversight Committee. The Commission reviewed the staff report and reiterated their position that completion of the park bond projects is their top priority and thus they will not support any actions that jeopardize the remaining park bond projects. The Commission has not yet taken any formal action.

On September 12, 2007, the staff report on Fire Station No. 2 was provided to the Library Commission, acting as the Library Bond Citizen Oversight Committee. The Commission recommends that the Council not use any of the Public Safety Bond Fund Contingency or any of the General Fund Reserve for Fire Station No. 2. Their recommendation letter is attached.

**Preliminary Assessment of Potential Partnering with Eastside Union High School District and Redevelopment Funding:**

At the request of Councilmember Campos and George Shirakawa, President of the Eastside Union High School District (ESUHSD) Board, staff also initiated discussion with ESUHSD to

explore the potential to partner on an expansion of the facility to support a fire science training program at James Lick High School. ESUHSD is enhancing public service career-related programs at James Lick, and is interested in exploring the establishment of a fire sciences program in conjunction with improvements at Fire Station No. 2. ESUHSD has funding that can be used to support needed facilities.

City staff has met with ESUHSD staff, and believes the potential program has great merit and should be further explored. In order to accommodate the needs of such a program, however, classroom facilities would need to be added at or adjacent to Fire Station No. 2. This scope change will require some time to develop and design, and will increase the overall cost of improvements at the site.

In addition, the Mayor's Budget Message for the 2007-08 Redevelopment Agency Capital Budget proposes amendment of the Redevelopment Plan and potential allocation of \$1.4 million to Fire Station No. 2. RDA staff has estimated that the plan amendment would take 12-18 months to complete.

In combination, these new factors would have the following effects on the options:

- Option 1 (Remodel) – If the Council selects Option 1, staff would pursue the following:
  - Engage in discussions with ESUHSD to quickly assess the viability and scope of work required to accommodate a training program, assuming that incremental costs can be borne by ESUHSD.
  - Review the project schedule dependent on the Redevelopment Plan amendment timeframe. The anticipated timeline may impact the ability to meet the Winter 2009 target completion date.
  
- Option 2 (Hybrid Rebuild) – If the Council selects Option 2, staff would pursue the following:
  - Engage in discussions with ESUHSD
  - Proceed with design based on a \$6.7 million budget. This would leave up to a \$900k funding gap; available funding sources would be evaluated to close this gap.
  - Staff would report to the Council on the resulting scope and funding plan.
  - Review the project schedule dependent on the Redevelopment Plan amendment timeframe, and work to retain the Summer 2010 target completion date.
  
- Option 3 (Rebuild) – If the Council selects Option 3, staff would pursue the following:
  - Engage in discussions with ESUHSD
  - RDA funding would reduce the amount of Public Safety Bond Contingency Reserve or General Fund Capital Reserve funds needed to complete the project.
  - Review the project schedule dependent on the Redevelopment Plan amendment timeframe. The anticipated timeline will likely impact the ability to meet the Spring/Summer 2009 target completion date.

HONORABLE MAYOR AND CITY COUNCIL

09-21-07

**Subject: Supplemental Memo-Fire Station No. 2 – Cost Benefit Analysis**

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**COORDINATION**

This staff report has been coordinated with the Budget Office.



DARRYL VON RAESFELD  
Fire Chief



KATY ALLEN  
Director, Public Works Department



EDWARD K. SHIKADA  
Deputy City Manager

For questions please contact Ed Shikada, Deputy City Manager, at (408) 535-8190.

Attachments

ATTACHMENT C

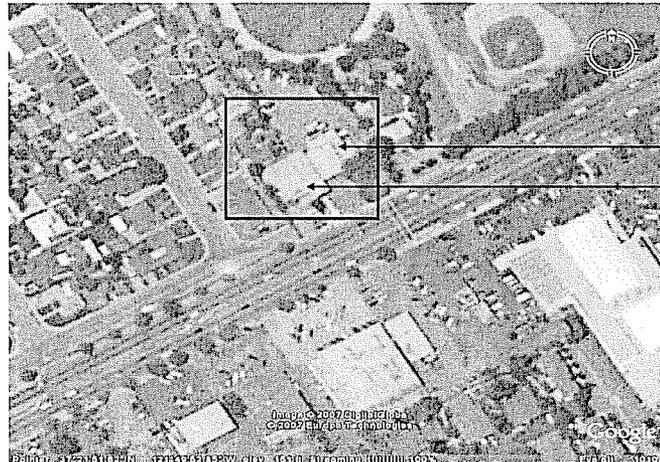


**Fire Station No. 2 Public Safety Bond Project**

*Cost Benefit and Funding Analysis*

*September 25, 2007 City Council Meeting*

*Fire Station No. 2 – Aerial View*



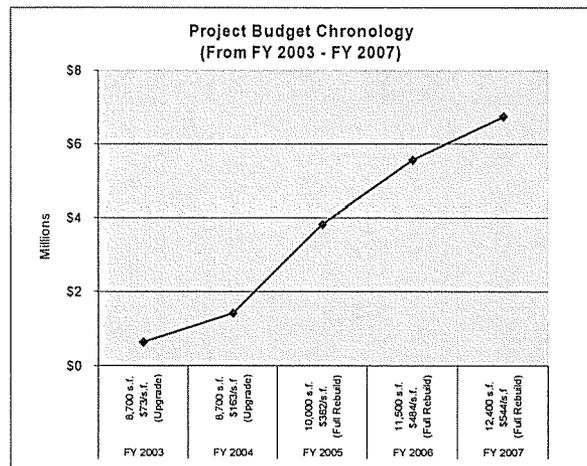
*September 25, 2007 City Council Meeting*

## Fire Station No. 2 – Chronology

- FY 2000-01 – Council adopts Fire Strategic Plan
- March 2002 – Voters approve \$159 M Public Safety Bond Program
- FY 02/03 – Council adopts budget reflecting \$635,000 Station 2 remodel
- FY 03/04 – Council adopts \$1.4 M remodel budget based on scope refinement
- FY 04/05 – Council adopts Eastside Strategy for station locations, including \$3.8 M Station 2 rebuild. Facilities program standards developed
- FY 05/06 – Council adopts \$5.7 M rebuild budget based on program standards and cost escalation
- FY 06/07 – Council adopts \$6.7 M rebuild budget based on cost escalation

September 25, 2007 City Council Meeting

## Project Budget Chronology



September 25, 2007 City Council Meeting

## *Fire Station No. 2 - Chronology*

- January 2007 - Staff presented City Council with a status report on all bond projects, indicating that the Public Safety Bond program could face a funding gap of up to \$6.8 M due to significant construction cost escalation.

Council deferred action to the annual budget process, with discussion of competing priorities and need to prioritize projects based on service level impact.

- June 2007 – In adopting the FY 2007-08 budget, Council directed staff to bring forward a funding and cost benefit analysis of improvement options for the Fire Station No. 2 project.

*September 25, 2007 City Council Meeting*

## *Improvement Options*

### Option 1 – Remodel existing building:

- Provides health/safety improvements and some program-related upgrades
- No upgrade to Essential Services facility standards
- Maintains service delivery during construction
- Requires no funding from reserves
- Approximately \$610,000 in "sunk" costs
- Completion Winter 2009

*September 25, 2007 City Council Meeting*

## *Improvement Options*

### Option 2 – Hybrid demolition/rebuild:

- More than half of Fire Station rebuilt to fire facilities program and Essential Services facility standards
- Maintains service delivery during construction
- Potential \$1,822,000 from Public Safety Bond Contingency Reserve
- Potential additional \$500,000 Fire C&C funding, deferring maintenance projects and repairs at three other stations
- Approximately \$610,000 in “sunk” costs
- Completion Summer 2010

*September 25, 2007 City Council Meeting*

## *Improvement Options*

### Option 3 – Complete Rebuild:

- Rebuilt to fire facility program and Essential Services facilities standards
- Potential \$2,728,000 from General Fund Capital Projects FF&E reserve
- Potential \$1,822,000 from Public Safety Bond Contingency Reserve
- Potential additional \$500,000 Fire C&C funding, deferring maintenance projects and repairs at three other stations
- Requires site and temporary facilities for Engine 2 during construction (tbd)
- Completion Spring/Summer 2009

*September 25, 2007 City Council Meeting*

## *Remaining Bond Projects & Reserves*

<b>Program</b>	<b>Construction Budget</b>	<b>Current Program Contingency</b>	<b>Desirable (5%) Program Contingency</b>
Library	\$61.5 M	\$729,000	\$3.4 M
Parks	\$94.5 M	\$2.8 M	\$4.7 M
Public Safety	\$83.8 M	\$2.8 M	\$4.2 M
Total	\$240 M	\$6.3 M (2.6%)	\$12 M

*September 25, 2007 City Council Meeting*

## *Additional Considerations*

- Feedback from Citizens Oversight Committees
- Potential partnership with ESUHSD
- Potential Redevelopment funding
- Redevelopment plan amendment timeframe effect on project schedule

*September 25, 2007 City Council Meeting*

ATTACHMENT D

**BOND PROJECTS YET TO BE AWARDED  
AND CONTINGENCY LEVELS**

Project	Council District	Estimated Construction Cost	Program Contingency Reserve	Desirable (5%) Market Contingency
<b>Park Bond Projects</b>				
Happy Hollow Phase I	7	\$5,220,000		
Happy Hollow Phase II*	7	\$39,000,000		
Reserve: Soccer Complex (est at 65% of total project costs)	CW	\$5,448,950		
Reserve: Softball Complex (est at 65% of total project costs)	CW	\$10,689,250		
Trail: Coyote Creek Trail (Tully to Los Lagos)**	7	\$1,718,000		
Trail: Guadalupe River Trail (Hwy 280 to Willow St)**	3, 6	\$1,248,000		
Bascom Community Center	6	\$10,625,000		
Solari Community Center	7	\$20,400,000		
<b>Park Bond Total</b>		<b>\$94,349,200</b>	<b>\$2,820,155 (3%)</b>	<b>\$4,717,460</b>
<i>*Bids have been recently received for Phase II. Bids are significantly higher than the estimate. Staff is currently evaluating the bids.</i>				
<i>**Estimates include park bond portion only</i>				
<b>Library Bond Projects</b>				
Bascom Branch Library	6	\$10,625,000		
Calabazas Branch Library	1	\$4,964,000		
East San Jose Carnegie Branch Library	3	\$7,003,000		
Educational Park Branch Library	4	\$10,077,000		
Santa Teresa Branch Library	2	\$11,717,000		
Seventrees Branch Library	7	\$10,200,000		
Southeast Branch	8	\$6,888,000		
<b>Library Bond Total</b>		<b>\$61,474,000</b>	<b>\$729,807 (1%)</b>	<b>\$3,073,700</b>
<b>Public Safety Bond Projects*</b>				
Emergency Communications Dispatch Center	3	\$699,000		
Fire Station No. 19 (Piedmont Rd)	4	\$4,020,000		
Fire Station No. 21 (White Rd)	8	\$5,271,000		
Fire Station No. 36 (Silver Creek/Yerba Buena)	8	\$6,300,000		
Fire Station No. 37 (Willow Glen) (includes Fire C&C)	6, 9	\$5,399,000		
Police Substation	2	\$55,230,000		
Public Safety Driver Training Project	4	\$6,850,000		
Fire Station No. 2 (Alum Rock) - costs not included	5			
<b>Public Safety Bond Total</b>		<b>\$83,769,000</b>	<b>\$2,840,661 (3%)</b>	<b>\$4,188,450</b>
<i>* All Public Safety Bond Projects construction costs carry a 5% construction contingency, reduced from the standard 10% contingency in FY 2004-05 to minimize scope reductions associated with rising construction costs. An additional \$3 million would be needed to restore 10% construction contingency</i>				
<b>All Bond Program Total</b>		<b>\$239,592,200</b>	<b>\$6,390,623 (3%)</b>	<b>\$11,979,610</b>
<b>Contingency Gap</b>			<b>\$6,198,177</b>	

September 18, 2007

Honorable Mayor and City Council  
City of San Jose  
200 E. Santa Clara Street, Tower, 18<sup>th</sup> Floor  
San Jose, CA 95113

Subject:

Dear Honorable Mayor and City Council:

On May 14, 2007 the Citizen Oversight Committee (hereinafter "COC") for the Public Safety Bond program forwarded a letter to Council with the COC's recommendation that funding from outside the bond be prioritized for the Public Safety Bond projects in general and the Fire Station No. 2 – Rebuild project in specific. On June 19<sup>th</sup> 2007, Council adopted the proposed 2007-2008 Capital Budget and the 2008-2012 Capital Improvement Program (hereinafter "CIP") budget. As part of that adoption, Council amended staffs recommendations and directed staff to reinstate the budget for Fire Station No. 2 to its 2006-2007 budget levels of approx. \$6.7 million. Staff was also directed to return to council after 60 days with a cost benefit analysis and funding options for rebuilding vs. remodeling Fire Station No. 2.

On August 22, 2007 the COC met with staff to review the Public Safety Bond 2006-2007 fourth quarterly report as well as the Council adopted 2007-2008 Capital Budget and 2008-2012 CIP. In that meeting, staff also shared its report to council on the Fire Station No. 2 cost-benefit analysis report dated August 06, 2007 that detailed three options for moving ahead with the project ranging from a remodel to a full rebuild along with associated pros, cons, costs and funding options. In the "Hybrid Rebuild" and "Full Rebuild" options (Nos. 2 & 3) staff's report proposes that additional Public Safety Bond reserves and Fire C&C funds will be used. This funding strategy raises concerns regarding the availability of funds for the remaining Public Safety Bond projects not yet built or under construction. By using Fire C&C funds it reduces the available funds for critical infrastructure maintenance and improvements that could not be covered by the bond funds.

A Council decision to implement Option 3 would prevent the approximately \$610,000 in Bond and C&C funds spent to date on the Fire Station No. 2 – Rebuild project from becoming "sunk" costs. Furthermore, the COC understands that the full rebuild is preferable to the "Hybrid Rebuild" as the entire facility could be more readily depended on after a major seismic event. The COC therefore recommends that Council select Option 3 (Complete Demolition and Rebuild of Fire Station No. 2) and appropriate funds outside of the bond and Fire C&C funds.

Faced with the difficult choices that the Fire Station No. 2 project presents, the COC would like to take this opportunity to reiterate and update several of its observations and recommendations that it forwarded to Council back in May 2007.

Honorable Mayor and City Council

Subject: Letter of Recommendations and Comments on the proposed changes to the Fire Station No. 2 budget  
September 18, 2007

Page 2 of 2

- Fundamentally, the COC believes that completion of the bond projects should have priority over all other capital projects. With the passage of the Neighborhood Security Act in 2002 and subsequent related City actions, the City committed itself to much needed improvement of its Public Safety infrastructure and to maintaining its status as one of the safest big cities in the nation. Failure to complete these projects would result in a significant loss of public confidence and could jeopardize future bond elections. Significant downsizing or deferring of projects may have the same impact and could also result in even greater cost increases should these projects be completed at a later date.
- In 2003, the City implemented a program wide contingency reserve of \$12.8 Million by reducing all projects funded after 2003 by approximately 10 percent. In subsequent fiscal years Council allocated \$6.8 Million to various projects as required. In order to address projected budget shortfalls, the adopted 2007-2008 capital budget reduces the remaining reserve from \$6.3 to \$2.8 Million. Even with these conservative fiscal measures, the Public Safety capital program has placed two additional projects in "Reserve" to support the upcoming award of the Police Substation project.
- The Fire Department receives a share of the Construction and Conveyance (C&C) Tax, primarily used to purchase fire engines, apparatus, materials and replacement equipment on an annual basis. Council has already budgeted approximately \$1.6 million of Fire C&C for multiple fire stations. An additional \$768,000 in C&C monies were recently allocated to award the Fire Station Nos. 12 & 17 construction contract. Utilizing additional Fire C&C funds for bond project construction would only shift the funding need from one category to another.
- The City and Redevelopment Agency should consider using redevelopment funding, City general fund reserves, or developing other supplemental funding sources wherever feasible to help ensure sufficient funding for all of the remaining bond projects.

By investing the bond and other capital funds where they will be needed most, the City of San Jose will best meet the expectations of the public that voted for these capital improvements to the Public Safety infrastructure.



PHYLLIS LAZZARINI, Chairperson  
PSB - Citizen Oversight Committee

September 18, 2007

Honorable Mayor Chuck Reed and City Council  
City of San Jose  
200 E. Santa Clara Street, Tower, 18<sup>th</sup> Floor  
San Jose, CA 95113

Regarding Fire Station No. 2 Costs Benefit Analysis

Dear Mayor Reed and Members of the City Council:

As the Library Commission also serves as the Citizens' Oversight for the Library Bond Measure, we have reviewed the staff Cost Benefit Analysis for First Station #2. At our September 12 meeting we discussed and voted on the following:

***We recommend that the Council not use any of the Public Safety Bond Fund Contingency and that it not use any of the General Fund Reserve for Capital Projects for Fire Station 2.***

With increased construction costs including additional LEED Silver Certification expenses, reductions in library projects have already been made. Remaining projects are in design or construction and using the general fund contingency funds could put those seven library projects serving seven council districts in jeopardy.

We understand that making these financial choices is tough, but ask that you honor the promise made to San Jose citizens when they voted approval of these funds in the fall of 2000.

Sincerely,



Caroline Martin, Chair  
Library Commission/Bond Oversight Committee