CITY OF
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CITY COUNCIL INFORMATIONAL MEMORANDUM

Date: September 26, 2024

To: Cupertino City Council
From: Pamela Wu, City Manager

Re: *Cupertino City Hall facility - approach and options*

Purpose

Since the June 18, 2024, Council meeting, there has been some confusion regarding the costs and timeline for renovating the existing City Hall, as well as questions about whether the City should purchase or lease an interim location. This Informational Memorandum is intended to provide clarification on these topics through a summary of the facts that have been available to the public, as well as information about associated work that has been completed to date.

Background

Since 2011, the City has been engaged in various discussions about the future of the current City Hall facility. The existing facility was built in 1965 and underwent renovation in 1986. At the time of the renovation, seismic improvements were not made in accordance with the 1985 Uniform Building Code. Various structural analysis reports performed in 2011, 2012, 2014, and 2021 documented the seismic deficiencies and this topic has been discussed multiple times with Council over the past decade. The 2012 Civic Center Master Plan Structural Analysis Report highlighted that much of the mechanical, electrical, and plumbing equipment is beyond its useful life. Fire safety and technology systems were also noted as needing replacement. Additionally, adequate space and parking for the public and employees at City Hall continue to be areas of concern.

Since 2015, various projects to address the above noted City Hall issues were initiated and subsequently placed on hold. Most recently, on November 15, 2022[1], following the completion of work by a Council Subcommittee on City Hall, the Council instructed

[1] https://records.cupertino.org/WebLink/DocView.aspx?id=990205&dbid=0&repo=CityofCupertino

staff to proceed with a Risk Category IV City Hall Renovation project. The scope included a full seismic retrofit, MEP/IT and a complete interior rehabilitation of the current City Hall, for approximately $27.5 million, in the FY 23-24 Capital Improvement Program.

In March 2021, the City purchased the property at 10455 Torre Avenue (Torre Annex) for $4.45 million, to provide a customer serving facility during a City Hall renovation or reconstruction project and also to potentially address future programmatic needs. A future renovation project to bring the Torre Annex site to a basic level or condition for providing public services is pending completion of design.

On February 21, 2023[2], the Council re-directed staff to suspend all work on the City Hall renovation plan and Torre Annex and to explore options for constructing a new City Hall facility with flexible events programming space and to incorporate other potential city properties in the analysis. The revised direction from the City Council sought to identify ways to deliver a new facility as opposed to renovating the existing facility.

On October 17, 2023[3], the Council once again discussed the City Hall project. Findings and recommendations from a September 2023 report completed by a real estate consultant (The Concord Group), were presented to Council. The Council directed staff to pursue conceptual development with viable financing strategies for City Hall, including a new City Hall and/or renovation of existing City Hall, while excluding development of publicly owned recreational facilities including the Sports Center. Additionally, the Council instructed City staff to research and bring to the public and City Council examples of successful Public Private Partnership projects for reference and to pursue potential development partnerships.

On June 18, 2024, the City Council provided direction to the City Manager to act as the lead negotiator on a property that could potentially service as an Interim City Hall. As noted earlier in this memo, following the June 2024 Council meeting, there has been some misinformation on issues regarding the cost and time it would take to renovate the current City Hall, and whether the City should either purchase or lease an interim City Hall. Understanding the complexity surrounding this matter, in addition to the information being provided in this Information Memo, staff plans to schedule a special Council session in fall 2024 for further direction, without compromising the City's ability to best negotiate any future real estate transaction.

Replacement versus Renovation of Existing City Hall Cost

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[2] https://records.cupertino.org/WebLink/DocView.aspx?id=1013790&dbid=0&repo=CityofCupertino

[3] https://records.cupertino.org/WebLink/DocView.aspx?id=1057524&dbid=0&repo=CityofCupertino

Various project scopes were discussed with the City Hall Sub-Committee in October 2022 and in November 2022, cost estimates for twelve different project scopes were presented to the full City Council (**Attachment A).** Primary scopes considered by the City Council are described below.

Seismic Retrofit Project: A seismic retrofit of the existing building to essential facility standards (Risk Category IV) was estimated at approximately $7.4 million in 2024 dollars. Some members of the Council recently expressed interest in re-exploring this as a stand-alone renovation option, but it is important to note that this seismic retrofit work would trigger other building code required improvements including, but not limited to accessibility (ADA), fire/life safety, HVAC, energy efficiency (Title 24), and electrical. Prior cost estimates for this additional scope of work were estimated at approximately $12.4 million in 2024 dollars, bringing the total cost for this project to approximately $19.8 million in 2024 dollars. Furthermore, this work would not address any of the functional and programmatic needs of City Hall.

Major Renovation Project: A major renovation of the existing 24,140 SF City Hall facility was estimated at approximately $27.5 million in 2024 dollars. This estimated cost was for a seismic retrofit project, any required upgrades of the facility to comply with current codes as an essential facility (Risk Category IV), and a re-working of the interior layout. This option was anticipated to meet the current functional and programmatic needs of City Hall.

Full Replacement Project: Replacement of the current City Hall with a new facility was estimated to range from $25.5 million to $53.6 million in 2024 dollars. The range of costs reflected different building square footage and parking stall options. The option with the largest scope and highest cost included a 70,140 SF City Hall, with an additional floor and 100 parking spaces, built to Risk Category IV standards.

If the City were to pursue any of these option now, the cost estimates would need to be updated to account for escalation. For example, assuming 5% escalation per year, if the Major Renovation Project were to be constructed in 2026, it would cost approximately $30.3 million ($27.5 x 1.05% = $28.9 M; $28.9 x 1.05% = $30.3 M).

Even with a major renovation, the underlying structure would still be that of a 60-year-old facility, with the same footprint. Thus, it will be important for the Council to consider whether an investment of $30.3 million in the existing building as well as potential additional investment in the Torre Annex site will meet the City's future programmatic and sustainability needs, or if a better option may be to pursue replacement of the existing building.

Renovation vs Replacement of the City Hall Estimated Timeline

An important consideration for the Council, given the previously discussed seismic concerns, is the timing of staff re-location. If there is direction to pursue re-location as

soon as possible, an interim City Hall site would need to be identified as an immediate next step. The length of time the interim facility would be needed for would depend on whether the City pursues a Major Renovation or Full Replacement project and could range from three (3) to ten (10) years.

For a full replacement option and with re-location of staff as soon as possible, an interim City Hall site would be required for a period of about 7-10 years. This timeframe is based on the actions outlined below.

Table 1

Action	Estimated Time
Council and community engagement on a new City Hall and scope finalization	24 months
Financing strategy – General Obligation Bond, Public Private Partnership etc.	18 – 24 months
Design consultant selection and contract award	8 months
Design	18 months
Bid and Award	4 months
Construction	24 months
Furniture, fixtures, equipment, and technology	6 months
Total Time	**8.5 – 9.0 years** (102 – 108 months)

If stakeholder engagement, Council direction, and financing strategy move at a faster pace than assumed, the timeframe for an interim facility could be shortened to about 7 years. Alternatively, if the scope or funding take longer than assumed, the timeframe for an interim facility could be increased to 10 plus years.

When the matter is brought to Council for consideration in fall 2024, staff will be seeking clear direction on whether to proceed with a renovation or a full replacement of the existing City Hall, extent of additional community and employee engagement desired, a potential funding strategy, and whether to pursue an interim City Hall option.

Lease versus Own Analysis

Various factors are used by both the public and private sectors to determine whether to lease or buy a facility to meet their organizational needs. A few key factors are described below. A more detailed facility specific evaluation of these and other factors such as replacement value and availability of funds, will need to be conducted if the City chooses to pursue an Interim City Hall facility.

1. **Length of occupancy**
   The number of years the facility is going to be occupied factors into the lease versus buy decision. Leasing is considered more favorable for an occupancy

period of 6 years or less and owning is more favorable for a period of 10 years or more. A timeframe of 7-10 years can be neutral and the lease versus own decision could be more influenced by other factors.
For a full replacement option and with re-location of staff as soon as possible, an interim City Hall site would be required for a period of about 7-10 years. This period would be reduced significantly if Council chooses to pursue a renovation option and to not re-locate staff until construction commences at the existing site.

2. **Certainty of occupancy**
   A lease versus own decision can also be influenced by the certainty of occupancy. Owning is favored if the facility is going to be occupied by the buyer and leasing is favored when there is uncertainty about if and when the facility will be occupied by the tenant.
   The City would only lease or buy an interim City Hall facility for the purpose of occupying it.

3. **Percentage of building occupancy**
   Owning is typically favored over leasing if 100% of a facility is to be occupied by a single entity. If only a portion of a facility is needed, a lease may be more favorable.
   For an interim City Hall facility, a stand-alone facility, with the City occupying 100% of the facility, would be the preferred option.

4. **Capital investment**
   The amount of upfront capital investment is a critical factor in the lease versus own evaluation. Leasing is typically preferred if the cost of upfront capital improvements is 20% or less of the total facility cost. Owning is preferred if the cost is 30% or greater of the total facility cost. In a leasing scenario, the tenant only invests in tenant improvements to meet their specific needs, and the property owner is expected to deliver a facility in working order. In a purchase and sale scenario, the level of investment by the seller and buyer is typically negotiated.
   If the City were to move into an Interim City Hall facility, some level of tenant improvements would be necessary to ensure appropriate public access and functional needs of all departments. The cost of these improvements as a percentage of the total facility costs will need to be factored into a lease versus own decision.

5. **Tax position**
   A lease versus own financial analysis will need to factor in payment of property taxes, if any.

If the City were to pursue an Interim City Hall solution, the City would not be required to pay taxes if it buys the property. However, if leasing, property taxes will be factored into the lease rates.

6. **Residual value**
   Residual value is an important consideration in the lease versus own financial analysis. If a property is to be disposed off, when no longer needed, there is no residual value if leased. If owned, there will be some residual value, with the actual amount dependent on a variety of factors such as market conditions, land value, and potential uses allowed on the site.
   If the City were to pursue an Interim City Hall solution, there could be a residual value associated with a re-sale or lease of the building for the same use or the land itself could be sold or leased for an alternate use.

If the City were to occupy a stand-alone building to serve as an interim City Hall for a period of 7-10 years, a preliminary analysis favors owning. However, this analysis could change based on the anticipated length of occupancy, the extent of upfront capital investments required, availability of funding, and estimated residual value.

Conclusion
Additional Council consideration of next steps to address the long-standing issues related to the current City Hall facility is needed. If Council direction ultimately is to pursue a full replacement of the existing City Hall facility and to look for near-term options for an Interim City Hall facility, staff will bring back an implementation plan and potential Interim City Hall sites for Council consideration.

Sustainability Impact
No sustainability impact.

Fiscal Impact
No fiscal impact.

Prepared by: Pamela Wu, City Manager

Attachments:
A – 2022 Cost Estimates

2022+ Cost Estimates

Element	Area SF	Cost / SF	Total Direct Construction	Soft Costs +25%	2023 Project Total (+25% soft costs)	Cost per stall	2024 Project Total (5% escalation)	2025 Project Total (5% escalation)
City Hall Renovation - Seismic Only, Non-Essential Facility	24,140	$216	$5,205,308	$1,301,327	$6,506,635	N.A.	$6,831,967	$7,173,565
City Hall Renovation - Seismic Only, Essential Facility	24,140	$232	$5,606,032	$1,401,508	$7,007,540	N.A.	$7,357,917	$7,725,813
City Hall Renovation - Seismic, MEP/IT, Interior gut, Non-Essential Facility	24,140	$807	$19,491,360	$4,872,840	$24,364,200	N.A.	$25,582,410	$26,861,531
City Hall Renovation - Seismic, MEP/IT, Interior gut, Essential Facility	24,140	$868	$20,955,693	$5,238,923	$26,194,616	N.A.	$27,504,347	$28,879,564
City Hall Replacement, Non-Essential Facility	24,140	$804	$19,400,111	$4,850,028	$24,250,139	N.A.	$25,462,646	$26,735,778
City Hall Replacement, Essential Facility	24,140	$908	$21,921,534	$5,480,384	$27,401,918	N.A.	$28,772,013	$30,210,614
City Hall Replacement w/ Added Floor, Non-Essential Facility	36,140	$809	$29,237,621	$7,309,405	$36,547,027	N.A.	$38,374,378	$40,293,097
City Hall Replacement w/ Added Floor, Essential Facility	36,140	$914	$33,017,504	$8,254,376	$41,271,880	N.A.	$43,335,474	$45,502,248
City Hall Replacement w/ Added Floor + 100 spaces Underground parking, Non-Essential Facility	70,140	$529	$37,071,561	$9,267,890	$46,339,451	$463,395	$48,656,424	$51,089,245
City Hall Replacement w/ Added Floor + 100 spaces Underground parking, Essential Facility	70,140	$582	$40,851,444	$10,212,861	$51,064,305	$510,643	$53,617,520	$56,298,396
Underground Parking (36 Stalls) below City Hall Replacement, Essential Facility *(parking only)*	12,070	$230	$2,781,049	$695,262	$3,476,311	$96,564	$3,650,126	$3,832,633
City Hall Replacement w/ Added Floor + 100 spaces Underground parking, Essential Facility *(parking only)*	34,000	$230	$7,833,940	$1,958,485	$9,792,425	$97,924	$10,282,046	$10,796,149