

Addendum to Council Memo and Agenda Item: Pavilion Renovation at Alpine-Balsam

Response to questions sent by Councilman Bob Yates to staff via city hotline on August 18, 2019

Date responded: August 27, 2019

1. **Use:** If council decided not to place city offices in the Pavilion Building, would we deconstruct it, or would we sell it to a third party?
 - *Due to the complexity of the interconnections of structure and systems between the hospital and Pavilion building, staff would need to pause and reconsider the approach to the hospital deconstruction and assess what state the Pavilion should be kept in that would return the most value in a sale. Key considerations in assessing the value of the Pavilion building for a sale include:*
 - *Land use and zoning of the parcel (Public is not a preferred zoning by many other parties who may be interested in the building)*
 - *Value of structure only (post hospital deconstruction, the Pavilion building is just a shell with no working mechanical system and lacking two exterior walls)*
 - *Value if renovated core and shell of the Pavilion with entitlements*
 - *Market for office building in this area of town*
 - *Without knowing the value of the building in these various conditions it is difficult to conclude whether deconstructing or selling is preferred.*
2. **Value:** What is the market value of the Pavilion Building, using recent sales comps? Assume for this valuation that the deconstruction of the adjoining hospital buildings is completed in such a way as to make the Pavilion Building useable as office space (as staff is proposing for city office use).
 - *The Area Plan currently identifies that the Pavilion remain as Public land use. During the analysis conducted in May 2019 when considering sell options for the Alpine-Balsam site, real estate experts advised that Public land use and zoning could dissuade most buyers. Furthermore, the market analysis completed in 2018 suggests that there is not a market for office lease space in this area of town. This is likely the most significant factor affecting market value and would need to be revisited in the Area Plan. Based on recent comps of similar office buildings real estate experts advised a wide range that the Pavilion could be valued at \$8-22M, highly dependent on the state of the building, any renovation investment, and the current market.*
3. **Immediate expense:** If the city spends \$2 million on programming and design work on the Pavilion Building over the next two years--as staff proposes--and council then decides not to use it for city offices, would that work be useful to and transferable to the ultimate owner of the building, allowing the city to recoup its \$2 million expenditure through a higher sale price?
 - *The \$2M investment could likely not be fully recouped, however, the city would be creating value to the Pavilion by going through the site review process and*

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obtaining entitlements (approximately \$1M) for the project, which could result in a higher valuation where portions of the investment could be recouped.

- *Beyond the entitlement process, the remaining design work (approximately \$1M) focuses more on the interior of the building and what's needed to obtain a building permit. The design work becomes far more purpose-built to the specific uses and the city as the occupant. This would not be of value to others and these costs would likely be sunk costs.*
4. **Hub:** The memo mentions creating a customer hub in the Pavilion Building. How many customers currently visit the city offices that would be relocated to the Pavilion Building? Has this number trended up or down in recent years?
- *The city has not defined specifically which customer services would be consolidated into the hub at Alpine-Balsam and does not currently have all the data being requested. The city has surveyed services provided directly to customers across 22 buildings. This is precisely the type of analysis that would happen in the initial programming phase, which would be the next step should renovation proceed, the nature, type, duration, trends in customer transactions would be an area of focus and study in developing various ways to consolidate customer desks and maximize the intent to consolidate services at Alpine-Balsam as a customer hub. This could also be influenced by whether the County has a presence with their Health and Human Services on the site in which case the city would prioritize city customer services that have a direct connection and synergy with services being offered by the county.*
5. **Deconstruction:** Does the \$60 million estimated cost of the renovation of the Pavilion Building include the deconstruction costs for the New Britain and Park Central buildings that it would replace. If not, what are the estimates of these costs?
- *It will cost approximately \$2M total to deconstruct the New Britain and Park Central buildings. By rounding up our \$58M estimate to \$60M, this essentially includes the costs to deconstruct these buildings.*
6. **Operating expense:** How does the \$3 million in annual debt service on the costs of renovation of the Pavilion Building compare to the annual costs of renting and maintaining the buildings it will replace? In doing this comparison, please include the cost of maintaining the Pavilion Building, so that we have an apples to apples comparison. The table on page 52 of the preliminary memo and the February 12 staff memo start to address this, but the underlying assumptions about the future (like rent escalation rate) are not fully provided. Rather than digging into those long-term future assumptions, please simply provide the avoided costs (rent and maintenance) and the anticipated new costs (debt service and maintenance) on day one of use of the Pavilion Building.
- *To provide as close to an apples-to-apples comparison as possible, staff have made the following assumptions to answer the question:*

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- *Historic interest rate for debt service*
- *Debt service assumes the addition of the 4th floor of the Pavilion*
- *Assumes consolidation of Park Central, New Britain, Center Green, and the Atrium (in the Civic Area) to arrive at a similar office square footage (75,774sf) for both scenarios*
- *No escalation on lease rates*
- *Assumes renovation of 93,000sf in the Pavilion OR lease 93,000sf (Atrium does not need to be replaced with lease space but for the sake of comparison we've included it)*
- *Assumes previous 3-years of data on existing buildings will continue in a similar expense trend*

"Day 1" Costs		
	Pavilion	Leased Space
Debt Service or Lease Payment*	~ \$ 3 M / year	~ \$ 2.5 M / year
Operations & Maintenance (O&M)	~ \$ 441,750 / year	~ 232,500 / year
Total	~ \$ 3.4 M / year	~ \$ 2.7M / year

- *In either scenario, additional costs are needed "day 1" for the debt service or lease and for the O&M, because the existing budget is not enough to address the needs. While the debt service can be funded through the General Fund, the city will need to further analyze anticipated costs and recommend ways for funding the increased O&M (currently approximately \$219k / year for the 4 existing buildings) as part of the next steps in either scenario.*
 - *The avoided costs that are saved in the Pavilion scenario require a larger up-front investment, and savings are seen over the lifecycle of the building compared to a leased-scenario.*
7. **Capital expense:** How does the \$60 million in renovation costs, plus the value of the Pavilion Building (provided in response to question 2), compare to acquiring or constructing a comparably-sized building in another part of town? Please provide recent comps of actual sales or construction, showing costs per square foot of alternatives. The tables on pages 50-51 of the preliminary memo start to address this question, but don't include the value of the Pavilion Building (or, alternatively, the allocable share of the \$40 million site purchase price). If you want to include parking in the comparison, then factor in the value of the Alpine-Balsam parking garage (or the allocable share of the \$40 million purchase price). Since furniture, fixtures, and equipment would be needed under any scenario, they should be eliminated from the comparison, unless you believe that FF&E would be significantly different under the alternatives (and, if so, explain).

This is a complicated evaluation. Therefore, staff has pulled from previous analyses to best address the question, though further analysis would be necessary to fully understand the

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tradeoff costs and values between renovating the Pavilion and building new somewhere else in the city.

Pavilion Renovation vs. Building Elsewhere				
		Pavilion	Elsewhere	Notes
Potential Income	Value of the Pavilion		???	There has not yet been an analysis of the value of the Pavilion as-is, alone from the rest of the property
	Parking		~ \$ 12 – 15 M as-is	Based on May 2019 analysis
Total			~ \$ 12 – 15 M plus unknown value of Pavilion	
Incurred Expenses	Land Value	~ \$ 4.5 M **		Based on land investment (not building). Does not include debt costs. \$ 40 M / 8.8 acres = \$ 4.5 M
	Parking	~ \$ 4.5 M ***		
	Total		~ \$ 9 M; plus debt costs	
Future Expenses	Land	N/A	~ \$ 9 M	2 acres or more potentially needed (~ \$ 4.5 M / acre) to supply building and parking space; Based on May 2019 analysis
	Parking	N/A	??? *****	There has not yet been an analysis of future parking for the office space as a standalone use
	Construction	~ \$ 60 M		Does not include debt costs
	Total		~ \$ 60 M; plus debt costs	~ \$ 69 M plus unknown cost of parking; plus debt costs
Value Post-Construction	Office building	~ \$ 20 - 33 M		Based on May 2019 analysis
	Parking structure	~ \$ 12 – 15 M	??? *****	There has not yet been an analysis of the potential value of future parking for office space
Total Expenses		~ \$ 69 M; plus debt costs	\$ 75 – 77 M ; plus debt costs	
Total Value (income plus value)		~ \$ 32 – 48 M	~ \$ 52 – 73 M	Heavily dependent on market variables