

Recreation Center. At the conclusion of that discussion, the City Council approved plans and specifications and authorized the Call for Bids for the Project and directed staff to explore potentially placing a bond measure on the November 5, 2024 Ballot to locally fund the Project.

BACKGROUND

Discussions related to the future of the current Recreation Center began in 2016. Given the age of the Recreation Center and infrastructure improvements needed, at the time it was estimated that up to \$3 million would be required to meet current structural, seismic, and programmatic needs. The City Council considered whether to invest this funding in the existing facility or to create a new, enhanced recreational facility. The Council commissioned an extensive outreach effort in support of preparation of a Recreation Center Master Plan (RCMP). The timeline below presents a series of Council meetings (only) since 2016 that were key decision points leading up to the current status of the Project.

Recreation Center Rebuild Project Timeline -

- **January 25, 2016** – City Infrastructure, including Recreation Center Facilities needs, was identified as a City Council priority.
- **March 28, 2016** – Council considered a report on the Recreation Center’s structural integrity, ongoing maintenance, and relevance to emerging City demographics and trends in recreation facility use.
- **May 9, 2016** – Council approved a \$200,000 budget placeholder for a RCMP Study.
- **July 18, 2016** – Council approved a process for a comprehensive outreach effort to help frame and engage the RCMP public input process.
- **October 17, 2016** – Council approved the outreach plan for the RCMP.
- **November 14, 2016** – Council discussed priorities and next steps for the RCMP.
- **February 21, 2017** – Council considered the Phase I Community Input findings and directed staff to hold a Study Session regarding discussion of the Recreation Center and proceed with the next phase of aligning the Recreation Center with the evolving needs of the community. Staff was further directed to proceed to develop the following deliverables:
 1. Prepare a detailed community needs assessment
 2. Identify possible partnerships;
 3. Identify site location alternatives; and
 4. Identify financing alternatives
- **March 27, 2017** – the Council/EMID Board received a report from the City’s Municipal Financial Advisors on financing alternatives for the \$119.6 million Wastewater Treatment Plan (WWTP), \$75 million Levee Project, and the \$30 million RCMP Projects (collectively referred to as the ‘Big 3’ projects).

- **April 3, 2017** – Council directed staff to continue to make emergency repairs and minimal routine maintenance to the Recreation Center roof pending any future discussion of the RCMP.
- **May 8, 2017** – Council received a report on the FY 2017-2018 Budget Impacts related to the RCMP.
- **October 23, 2017** – Council received a presentation and directed staff to continue working with the RCMP Subcommittee to draft a CIP Project description in the amount of \$300,000 for conceptual design plans for the RCMP (Minute Order No. 1519).
- **December 18, 2017** – Council approved a new Capital Improvement Project (CIP) appropriating \$300,000 from the General Fund (GF) reserves to the City CIP Fund in FY 17-18 for the RCMP and authorized staff to issue a Request for Proposals (RFP) for conceptual design services.
- **January 8, 2018** – RFP issued for Conceptual Design Services.
- **April 16, 2018** – Council authorized an agreement with Burks Toma Architects in an amount not-to-exceed \$296,927 for Conceptual Design Services.
- **September 17, 2018** – Council received a report and confirmed that the RCMP Conceptual Design Project predesign data and information is sufficient to commence the development of the RCMP Conceptual Designs.
- **October 29, 2018** – Council reviewed the preferred conceptual design alternatives for the RCMP.
- **January 22, 2019** – Council accepted the Final RCMP conceptual design plan report from Burks Toma Architects, accepted the preferred building program, park program, and site location as presented in “Concept 3;” and directed staff to include funding for architectural design in the amount of \$7,000,000-\$10,000,000 in the FY 2019-2020 CIP Preliminary Budget (Minute Order No. 1585).
- **April 29, 2019** – Council provided policy direction on the preferred option for the rehabilitation or replacement of the Recreation Center that will provide for a facility that will adequately meet the needs of the community.
- **August 5, 2019** – Council approved an amendment to the agreement with Burks Toma Architects to expand the scope of work to include the development of a RCMP Phase 3 build to budget study.
- **August 5, 2019** – Council considered funding options for the RCMP Project (further discussed below). The item was tabled to a future meeting.
- **June 7, 2021** – Council received a status update on the RCMP and directed staff to continue to patch the Recreation Center roof leaks as needed.
- **August 2, 2021** – Council received and accepted a report on the Parks System Improvement and Recreation Center Replacement Plan and directed staff to incorporate comprehensive outreach to all types of users; consider public-private partnership opportunities; and consider utilization of school board bond measure funds (Minute Order No. 1796).
- **January 31, 2022** – Council directed staff to proceed with the “build-to-budget” option for the Recreation Center Replacement Project in an amount not-to-exceed \$55 million and to proceed with utilizing \$36 million funding from CAAR Fund 326 and \$19 million from General Fund 001 Reserves.

- **March 7, 2022** – Council directed staff to proceed with the RFP process for design services, construction management services, construction inspection services, and materials testing, including the request for additional staffing to support the project among other needs within the Public Works Department (Minute Order No. 1843).
- **March 21, 2022** – Council authorized transfer of the respective funds to City CIP 301 for the Recreation Center Replacement Project (CIP 301-678) for a total of \$55.3 million, including the previously appropriated \$300,000 for this project (Reso No. 2022-26).
- **August 1, 2022** – Council authorized an RFP for Professional Design, Bidding, and Construction Support Services (Reso No. 2022-95).
- **November 21, 2022** – Council awarded the professional design, bidding, and construction support services to Group 4 Architecture, Research + Planning, Inc. (“Group 4”). The project is currently in the program confirmation/schematic design phase. Group 4’s scope of work will continue through the construction of the project, which is anticipated to be completed in 2026.
- **December 5, 2022** – Council authorized an RFP for Construction Management and Support Services (Reso No. 2022-133).
- **December 19, 2022** – Council authorized the City Manager to execute a grant letter agreement with Gilead Sciences Foundation, Inc. and receive grant funding in the amount of \$500,000 (Reso No. 2022-143).
- **March 20, 2023** – Council authorized an agreement with Griffin Structures for Construction Management and Support Services in the amount of \$1,890,000 (Reso No. 2023-28).
- **April 17, 2023** – Council directed staff to include the development of the Waterfront Masterplan as part of the schematic design phase of the project.
- **April 17, 2023** – Council authorized a contract amendment in the amount of \$74,250 with Group 4 Architecture for Boardwalk Master Planning Services (Reso No. 2023-35).
- **May 15, 2023** – Council confirmed the recommendation of the Project Task Force, the Planning Commission, and the Parks and Recreation Committee to proceed with developing Site Option 1, which extends the existing parking lot to the north, and the Gullwing Two-Story building design option (the budget was approximately 5% over the budgeted \$42 million for construction and almost 12% for escalation to the midpoint of construction).
- **September 18, 2023** – Group 4 presented to the City Council a full schematic design presentation, which included an estimate of probable construction costs and a list of bid alternatives with cost information.
- **November 6, 2023** – Council approved the Temporary Facilities and Transition Plan for the Project with a project budget estimate of \$65,943,000.
- **January 16, 2024** – Council received an update on the Project budget and provided policy direction on preferred funding options to address the Project budget shortfall of approximately \$10.5 million.
- **February 20, 2024** – Council approved and authorized staff to issue the Request for Contractor Qualifications (Reso No. 2024-12).

- **February 20, 2024** – Council approved plans and specifications and authorized a call for bids for modular buildings (Reso No. 2024-7).
- **May 20, 2024** – Council authorized the award of a Construction Contract to McGrath RentCorp DBA Mobile Modular Management Corporation (Reso No. 2024-43).
- **June 3, 2024** – Council approved the FY 24-25 Preliminary Budget, which identified the funding sources for the Project budget shortfall of approximately \$9.5 million.
- **June 3, 2024** – Council approved Plans and Specifications and authorized the Call for Bids for the Project.

ANALYSIS

As noted in the Project Timeline in the Background section, many key events led to the decision of the Recreation Center Project funding in 2022. Beginning in 2016, the Council carefully considered several alternatives both for funding and for the future of the Recreation Center. At the March 17, 2017 meeting, the Council considered financing alternatives for the “Big 3” CIP projects, which included the Recreation Center, both at an individual project level as well as in the aggregate/holistic perspective.

Specific to the financing alternatives that were discussed for the Recreation Center, the staff report noted *“financing options such as a citywide Mello Roos Community Facility Special Tax (M-R) or General Obligation (G.O.) bonds can be used for recreation centers. However, both financing vehicles would require 2/3rds voter approval for a project that does not have the public safety benefits or the essentiality such as that of the Levee Protection Planning and Improvements Project. This would suggest a lower likelihood of getting 2/3rds voter approval for either G.O. or M-R bonds. An Assessment District would not be appropriate. This would require a special benefit finding for each property within the assessment district. Developing an assessment formulation impervious to legal challenge would be very difficult for this type of improvement. Further, general benefits must be paid by the City, not by assesseses. As a means of overcoming the difficulties with obtaining voter approval or making a finding special benefit to properties, the City may consider General Fund lease revenue bonds, which do not require voter approval, only majority approval of the City Council. However, the downside is that the City’s General Fund must pay for annual debt service without any dedicated new source of revenue to pay for debt service, unlike the other forms of financing just described above, each of which has both an authority to issue debt and a new source of revenue to pay debt service. Lease payments would put additional pressure on the General Fund to maintain a balanced budget on an annual basis for the duration of the 30-year bond term. Alternatively, the City may consider using Reserves for this project. The City’s General Fund and Capital Preservation Fund Reserve balance is estimated to be \$33.4 million (assumes a transfer of \$7.6 million to the CIP Fund in FY 2016/2017) and \$36.6 million respectively by June 30, 2017. Using Reserves to cash-fund all or a portion of this project would not directly impact the City’s taxpayers as taxes would be unaffected by using cash resources, but using Reserves*

for this purpose would deplete cash resources that might be applied to other or more essential projects.”

On April 29, 2019, the City Council provided policy direction on the preferred option for the rehabilitation or replacement of the current 36,000 square foot (sf) Recreation Center that will provide for a facility that will adequately meet the needs of the community. The three options that were considered at the time were:

1. Reconstruction of the Recreation Center roof - estimated at \$5-10 million;
2. “Concept 3” of the adopted RCMP - estimated at \$71 million; and
3. An option for a Build-to-Budget project - estimated at \$35 million (for a 23,000 square foot building only).

Of the three concepts, the City Council indicated a preference for “Concept 3,” which represented a conceptual “starting point” of a total cost of approximately \$71,000,000, which included \$54,000,000 for a 51,000 square foot structure (50% larger than the current facility) plus \$17,000,000 for proposed outdoor park space improvements. Subsequently, the Council directed staff to move forward with a “Build to Budget” project based on Concept 3, but with a build-to-budget limitation not-to-exceed total project cost (including design) of \$40,000,000 for the construction of a new Recreation Center. The City Council also requested a more comprehensive discussion of funding options for the project.

On August 5, 2019, a comprehensive discussion of the funding options for the project took place. The City Council considered the following funding options for the RCMP project.

1. General Fund Reserve (up to \$12 million) – The General Fund had approximately \$44 million. After setting aside 50% for general reserves and \$10 million for Levee Project cost overrun contingency, there was \$12 million available for the Recreation Center Project.
2. Capital Asset Acquisition and Replacement Fund or CAARF (up to \$32.9 million) - The CAARF has approximately \$39.9 million, of which \$7 million had been earmarked for the Workforce Housing project, leaving \$32.9 million. The Fund was projected to grow approximately \$1.1 million annually from loan payments from Peninsula Jewish Community Center (PJCC) through 2038.
3. Community Benefits Fund (up to \$819,000)
4. Construction and Demolition Fund (up to \$734,000)

The staff report noted that the combined use of CAARF with the General Fund reserves could save the City “real” interest costs (e.g. approximately \$14.6 million of interest costs for a \$20 million lease revenue bond over a 30-year term). A repayment plan from the General Fund could also be added to “restore” the monies back to the CAARF. The staff report also noted that using these funds in lieu of financing a portion of this project would save the City debt issuance and interest costs. The disadvantage is that it reduces the balance(s) in the identified funds and diminishes the level of reserve(s) for other potential

uses (e.g. significant economic downturns, unforeseen emergencies, other capital projects).

After reviewing the comprehensive funding options (existing funding from City controlled sources (e.g., in fund balances), funding available from new revenue sources (e.g., new taxes or fees), and borrowed funding (e.g., debt from bond sales or self-financed alternatives), the City Council decided to table the item to a date uncertain to be reconsidered when additional information is known regarding the cost of the levee project.

Subsequent to tabling the project, the COVID-19 pandemic hit, and the City Council requested staff to revisit the Recreation Center Master Plan in light of a post-COVID19 world and explore both programming and financing options for construction and operation with respect to all the other priorities the City is facing.

On January 31, 2022, staff provided an update on the RCMP. The City Council directed staff to proceed with the “build-to-budget” option for the Project in an amount not-to-exceed \$55 million and to proceed with utilizing \$36 million funding from CAAR Fund 326 and \$19 million from General Fund 001 Reserves.

On March 21, 2022, the City Council adopted Resolution No. 2022-26 authorizing a transfer of \$36 million from the CAAR Fund 326 and \$19 million from the General Fund 001 Reserves to City CIP Fund 301 for the Recreation Center Replacement Project (CIP 301-678) and an appropriation of an additional budget of \$55 million to CIP 301-678, Account No. 301-0910-678-4251.

POLICY CONSIDERATIONS

Use of the Capital Asset Acquisition and Replacement Fund (CAARF) for the Recreation Center Replacement

On September 24, 2012, the City Council, via Resolution No. 2012-75, established the City’s CAAR Fund 326 for the purposes of providing a source of revenue to be utilized for the acquisition of real property or the acquisition, construction, or replacement of major capital assets. The CAARF was funded from the sale of the 11-acre site of the North Peninsula Jewish Campus and subsequent sale of the 15-acre site of the Foster Square project.

The use of CAARF was subject to a 4/5th vote of the City Council and the funds were identified for the following two purposes: 1) acquisition of real property; and/or, 2) major capital asset acquisition, construction, and/or replacement.

Originally, this fund was entitled "Capital Asset Preservation Fund." In light of the direction received on September 10, 2012, the word "Preservation" was replaced with "Acquisition and Replacement" for acquisition of a new asset or replacement of a major capital asset. In the meeting of September 10, 2012, examples cited for the use of funds included

replacement of the recreation center, civic center/city hall, and purple pipe. Councilmember Kiesel, Mayor at the time, made it clear that he did not want to see the CAARF funds being used for operational expenses.

The CAARF had accumulated \$47,598,024 in deposit since 2013-2024. There is currently 3.9 million remaining in the fund with 36 million having been designated for the RCRP in 2022. In conclusion, the determination that the replacement of the Recreation Center was an appropriate and intended use of the CAARF funds was made by the Council in 2022.

Use of the General Fund Reserves for the Recreation Center Replacement Project

On April 5, 2010, the City Council, via Resolution No. 2010-33, established the City's General Fund Reserve Policy establishing a minimum reserve threshold of 33-1/3% of budgeted annual operating expenditures and established a target reserve range of 33-1/3% to 50 (4 to 6 months of operating expenditures) in the annual Five-Year Financial Plan. The Reserve Policy exists to mitigate current and future risks and provide a safety net to respond to unexpected fiscal hardships such as local disasters, economic downturns (revenue shortfalls), external revenue attacks (e.g. California budget takeaways), and unforeseen operating or capital needs.

At the time the Recreation Center funding options were being discussed, the City had accumulated over 100% General Fund reserve levels over the past few years and utilized surpluses above that level for one-time expenditures. After setting aside the amount for the Project, the General Fund reserves were anticipated to be at a 60.9% level.

Recently, the City Council amended its General Fund Reserve Policy and established a minimum reserve threshold of 50%. During the Preliminary Budget Public Hearing on June 3, the City's General Fund Reserves were projected to drop to less than 50% in year 4 and year 5 of the Five-Year Financial Plan (36.3% in FY 27-28 and 21.3% in FY 28-29). This raised significant concerns among the Council and sparked a discussion about the use of the General Fund Reserves for the Project among other things.

While not utilizing the General Fund Reserve funds for the Project could help maintain the General Fund Reserve at healthy levels and alleviate the structural deficit problem, the cost of either a repair, renovation, or replacement of the Recreation Center will still be a significant amount and will only keep increasing if the Project gets delayed (further discussed below).

Delaying the Recreation Center Rebuild Project

The current Recreation Center consists of the original building that was built in 1974 and two expansion wings that were constructed in the 1990s. Because the building was originally three separate structures that were all combined into one building with one roof in 1997, multiple roof penetrations were added to install HVAC equipment and aesthetic screens on the flat deck of the roof. Due to the construction history and the piecemeal

way it was constructed, several structural issues are known or anticipated related to water intrusion. In 2016, diagnostic testing consisting of a non-destructive moisture survey and a roof core test (or Tremco Roof Analysis Core Evaluation, or TRACE) was completed to evaluate the weatherproofing strength of existing roofing materials. The TRACE test results revealed that the tensile strength of the roofing material was approaching minimum acceptable levels. The report concluded that as the roof continues to age, these numbers will continue to decrease and eventually split the roof membrane.

Based on the information gathered from the moisture survey and the TRACE test, coupled with the lengthy leak history, the 2016 assessment report concluded that restoration of the roof would not be advised. Due to the phased construction at the site, poor slope conditions, and the volume of rooftop mechanical equipment and conduit, the estimated costs would range from \$3,000,000 to \$4,000,000 or more not including any dry rot, structural, or aesthetic interior ceiling work. This estimate ballooned to \$5-10 million in 2019 and included an estimate for the replacement of the roof and the additional structural improvements needed to meet current building codes for an essential facility, since the Recreation Center serves as an emergency shelter.

There are inadequacies in the ventilation system, air handling capabilities, heating and cooling systems that manifest in hot spots, cold spots and inefficient air flow and balance within and throughout the building envelope. These problems may not present long-term health risks but do result in inconvenience in terms of comfort of the building spaces and comingling of odors from the pottery studio with airflows in the common areas of the structure.

The \$55 million project is now approximately a \$64 million project given escalation costs and other factors since 2022.

- Delaying the construction cost by one year will increase the cost of construction by an estimated \$3.8 to \$5 million dollars due to a combination of escalation costs, plus increase in cost of materials and labor.
- Delaying the construction cost by 1.5 years will potentially increase the cost of the Project by \$5 to \$7 million dollars.
- A high risk of losing a favorable bidding environment at present with having 4 reputable General Contractors interested in competing and providing bids for the project at current market costs. These same contractors might lose interest or have other projects in the future that will prevent them from submitting bids later or lose interest altogether in bidding projects with Foster City.
- Scarcity of labor forces are impacting the market reducing the options that General Contractors have in pursuing more projects, thus reducing the availability of reputable/experienced contractors on similar projects.
- Availability of mechanical and electrical equipment required for the complete functionality of the Project could become an issue if the Project gets delayed given market conditions.
- Scarcity, unavailability, and high costs of long-lead items such as transformers, generators, switchgears, etc. are at an all-time high, and might only get worse in a tightly competitive market.

Phasing the Recreation Center Rebuild Project

- In addition to the above costs due to delaying the Project, there will be additional design costs, re-permitting, and further delays associated with these actions.
- Redesign the building to allow for a future phase, using the second floor as a place holder ~10,500sf, approximately 9-12 months with a cost to redesign would be roughly ~ \$1.5-2 million.
- Another option is to use existing permitted documents, there is an option to remove landscaping from the General Contractor's contract and complete it when the GC is done, which would allow \$1.75 million to be deferred until building construction is complete. The benefit is minimal in this option.
- The least desirable option would be to complete the demolition, underground work, and foundation/concrete pad, and then wait until we are ready to construct the building. This option would also mean a delay of 6-8 months into the spring in addition to re-permitting. This would require a longer lease of the modular buildings and a significant area of the park that would be unusable and unsightly until the building construction was fully completed.
- Increased costs in splitting the project into phases since a contractor will have to remobilize for each one of the phases, which in turn will extend the duration of construction by a minimum of 7 months.
- Changes in future building code cycles could also have an impact.

Consideration of Other Critical Aging Infrastructure Needs

The City Council, staff, and the community expressed concerns about the recent 24-inch water pipe break and the need to address our aging critical infrastructure needs. At the January 16, 2024, Regular Meeting, when staff discussed options to address the approximately \$9.5 million budget shortfall for the Recreation Center, the City Council asked for a prioritization of the City's CIP Projects. The Public Works Director, in consultation with the Executive Leadership Team and staff, took a close look at the critical infrastructure needs of the City and prioritized the CIP projects based on the City's vulnerability in the event of a disaster and age of the infrastructure.

As part of the March 25 Budget Special Meeting where the Five-Year CIP was presented, staff included Attachment 2, which showed a list of the highest priority projects that the Public Works Department planned to move forward in the upcoming fiscal year. The Water Transmission Pipeline Condition Assessment Study was moved up to FY 24-25 as a result of the prioritization. The list of CIPs will also be available as part of the Proposed Final Budget Hearing on June 17. Note that the study of the water pipe condition assessment or any other critical infrastructure needs typically takes a year or two to evaluate the condition and arrive at the estimated costs for replacement/repair. Any new CIP has to also undergo a feasibility study to evaluate design alternatives and costs. Should such studies indicate a significant ongoing cost related to CIPs (new or existing), Council can consider a bond measure in the future to offset the infrastructure costs and the transfers out of funds (average of \$5.75 million over the next five years) from the General Funds to the City CIP fund.

Replenishing of CAARF and General Fund 001 Reserves

In 2022, staff had noted that while the City Council had identified funding sources for the Project, any unused funds will be refunded back to CAAR Fund 326 and the General Fund 001 Reserves at the time of project closeout. Staff noted that they will proactively seek grant opportunities to help offset the impact on the General Fund, as well as revenue models in general to address the City's anticipated structural deficits over the five-year financial forecast period. With the projected increase in the project costs, it is unlikely that there will be any unused funds. However, staff anticipates revenues from Park Impact Fees from future development that could go back into the General Fund Reserves. Additionally, there is approximately \$2.3 million in the City Facility Replacement Fund that could be used to offset the \$19 million General Fund Reserves. With a combination of using impact fees, capital facility replacement fund, grant funding, private sponsorships, every effort will be made to not use the entirety of the \$19 million General Fund Reserves with the goal of maintaining at least a 50% General Fund Reserve level.

Feasibility of a Bond Measure

At the June 3 Council meeting, the City Council directed staff to explore the feasibility of a bond measure for the recreation center. Given the reasons noted during the early funding discussions for the Recreation Center, the likelihood of a bond measure for a Recreation Center passing with a 2/3rd vote is unlikely. In order to educate the voters about the condition of the current recreation center building and the need to replace it, significant outreach has to be conducted to garner community support. Some residents may not consider the recreation center as a critical infrastructure need. Residents will be likely to raise questions about other critical infrastructure needs and rightfully so. Additionally, there is just not sufficient time for staff to conduct the public outreach and education, public opinion polling, and coordinate all the other efforts for the November 2024 Election in addition to the Business License Tax update effort that staff is currently undertaking. For example, staff started the efforts on releasing the request for proposals for consultants assisting on the business license tax in October 2023. Staff would need to engage with Municipal Finance experts to explore the bond options, assess the financial risks, craft the ballot measure language, decide on the bond amount, and confer with bond legal counsel for assistance with other items leading up to the ballot. Formal City Council action would be needed to place a ballot measure on the November 2024 General Election. The County of San Mateo's deadline for submitting a ballot measure is August 9, 2024 (in approximately 8 weeks).

CONCLUSION

Given the extensive background provided in this report and all the policy considerations, staff believes that having a future holistic discussion (as a work/study session) would allow Council to carefully consider and weigh all the options to bridge the structural deficit gap and to maintain healthy General Fund reserves while ensuring the Recreation Center Project stays on schedule.

California Environmental Quality Act

Not Applicable

FISCAL IMPACT

There is no fiscal impact associated with receiving this report.

CITY COUNCIL VISION, MISSION, AND VALUE/PRIORITY AREA

Facilities and Infrastructure
Smart Planning, Development, and the Local Economy

ATTACHMENTS:

None