MOUNTLAKE TERRACE CIVIC CENTER PROJECT

FINANCIAL ANALYSIS OF CIVIC CENTER DEVELOPMENT OPTIONS

MARCH 2008

INTRODUCTION

In 2006, the City Council identified as part of their goals for 2006-2008 the need to evaluate options and alternatives (including financing) for the City Hall, Library, Senior/Community Center, Public Safety, Fire Station #18, Parks Maintenance and Public Works.

The City is interested in evaluating options for such projects, including potential partnerships and development options. This report, which focuses on **City Hall, Senior/Community Center and Public Safety** facility needs documents an analysis of the net present value cost of four alternatives: a traditional public works approach on the existing site (Tree house and Cornerstone options); an alternative public works contracting approach to developing a stand-alone facility elsewhere in the town center, possibly as part of a horizontal mixed use facility; and a lease purchase alternative as part of a more integrated mixed use development. The report also focuses on keeping these specific civic facilities centrally located as an anchor in the Town Center area.

This report does not address Parks Maintenance or Public Works (decant station) needs since the City has initiated discussions with the City of Lynnwood about the use of additional space at the jointly owned Public Works Shops.

The analysis and report have been prepared by Property Counselors, a real estate economic consulting firm. The report is organized in five sections.

Introduction

Examples of Other New City Halls

Alternative Public Works Contracting and Acquisition Approaches

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EXAMPLES OF OTHER CITY HALLS

There are several city hall projects in the Puget Sound area that are relevant to Mountlake Terrace in terms of their role in stimulating downtown development, and their use of innovative means to accomplish their goals. Table 1 summarizes the characteristics of five recent or current city hall development projects.

Table 1

Comparison of Selected City Hall Development Projects

	Bremerton	Burien	Puyallup	Olympia	Shoreline
Square Feet	16,424	15,000	30,000	88,000	60,000
Completion Date	2004	2009	2008	2009	2009
Estimated Cost (millions)	$6.5	$10.0	$12.5	$27.0	$24.8
Project Elements	City Hall Other Gov. Office Retail (private)	City Hall King County Library Retail (private)	City Hall Parking (shared) Retail (private) Retail (private)	City Hall	City Hall
Procurement Method	General Contractor/ Construction Manager	General Contractor/ Construction Manager	General Contractor/ Construction Manager	Lease Purchase	Lease Purchase
Development Manager	Kitsap Housing Housing Authority	King County Library System	City	City	City

Source: Property Counselors

There are several interesting comparisons to be made:

1. The projects differ in size, usually related to the functions and staff levels to be accommodated. In the case of Olympia, there are 530 full time equivalent employees, over three times as many as in Mountlake Terrace.

2. The jurisdictions all are developing facilities under some form of alternative public works contracting procedures, essentially involving the contractor early in the design process.

3. Three of the five projects are mixed use projects to some degree. In the case of Bremerton, the other project elements include other government agencies. In the case of Burien, there will be a public library and retail development. In the case of Puyallup, there will be 100 to 180 residential condominiums.

4. While the public uses are combined in a single structure in the case of Bremerton and Burien, the private uses are all in separate structures, effectively creating horizontal mixed use rather than vertical. Such an approach is less complicated and may have cost efficiencies.

5. Other public agencies have taken the lead role in the Burien and Bremerton projects. Both the King County Library System and Kitsap County Housing Authority have extensive experience in overseeing development projects. These agencies also have the authority to use alternative methods of procurement that the cities aren't eligible for.

6. The cost of projects is similar, at about $400 per square foot.

ALTERNATIVE PUBLIC WORKS CONTRACTING AND ACQUISITION APPROACHES

There are several alternatives to the traditional design-bid-build method of acquiring public facilities. State statutes identify two alternative public works contracting procedures as well as a lease-purchase method.

TRADITIONAL PUBLIC WORKS APPROACH

The traditional public works approach involves a three-step process:

- An architect is hired to design the building, based on professional qualifications.
- A construction contract is put out to bid.
- The qualifying contractor with the lowest bid is awarded the construction contract.

This approach is available to all cities for projects of any size.

ALTERNATIVE CONTRACTING APPROACHES

The two alternative contracting approaches are Design-Build and General Contractor/Construction Manager (GC/CM). Both methods allow for involvement of a construction manager early, if not at the very start of the design process. The differences between the two approaches are shown in Table 2.

As noted in the table, the use of Design-Build is restricted to projects where the design is incidental to the construction, and interaction with users during the design process is not necessary. Conversely, the GC/CM method assumes that there will be extensive interaction and revisions during the design process. Cost trade-offs are made throughout the process to refine the design, while remaining within the Maximum Allowable Construction Cost (MACC).

Prior to the 2007 legislative session, the GC/CM was restricted to cities with population greater than 70,000. Puyallup initiated their project under a special provision of the RCW that allowed cities with 25,000 to 40,000 to use the method for demonstration projects initiated before March 2006. Puyallup is the only city that availed itself of this provision. Burien and Bremerton both accessed this method through their public development partners. With the new legislation, all cities can use this approach subject to approval by a State review committee.

Table 2

Comparison of Alternative Public Works Contracting Methods

	Design-Build	GC/CM
Authority:	RCW 39.10.051	RCW 39.10.061
Eligible Projects	Over $10 million. Specialized technologies. Design incidental to construction. User feedback not required during construction.	Over $10 million. Complex scheduling or existing facility continues to operate. Early involvement is important.
Eligible Cities	Population over 70,000.	All Cities Subject to approval by Review committee.
Selection Process	Competitive process with best and final proposals	Competitive process with best and final proposals
Price	Negotiated Final Price	Negotiated Maximum Allowable Construction Cost (MACC)

LEASE-PURCHASE

Lease Purchase is a related acquisition and financing method authorized by state statute. Cities may lease buildings erected on city-owned land, with an option to purchase the property. (RCW 35.42) All sums paid toward the lease are credited against the purchase price. The purchase option can be exercised prior to the end of the lease. The City of Olympia is planning to use this method to acquire their new building. They intend to exercise the option as soon after completion of construction as is legally permissible. There are no precedents, and the State Auditors Office intends to review the transaction, but hasn't provided any guidance in advance. If the purchase transaction would result in indebtedness in excess of one and one-half percent of taxable property, a proposition must be placed before the voters for approval in the same manner as bond issues.

There is a special provision in the federal tax code regarding lease-purchase transactions for public facilities. Under section 63-20, a non-profit corporation may issue tax-exempt debt to finance activities that are public in nature. The non-profit corporation can lease a facility to a public agency, with the public agency owning the facility at the end of the lease. Such arrangements provide an opportunity to lease facilities while still accessing tax exempt funding.

However this approach is considered impractical for small projects given the legal work required.

FINANCIAL ANALYSIS OF OPTIONS

The City has several options for a new civic center based on potential partnerships, acquisition methods, and physical configurations. Four options are considered in the analysis.

1. Stand-alone Civic center on Current Site, Tree House concept. The Tree House concept was identified in the Civic Campus Master Plan in 2004. (The main advantages of this option over the Cornerstone concept are: (1) that the building would be closer to the trees and have a view of a naturalized setting; and (2) the pushed-back location incorporates a slope that would fairly easily allow some under structure parking.) Such a facility would logically be developed under the traditional Design-Bid-Build approach.

2. Stand-alone Civic center on Current Site, Cornerstone concept. The Cornerstone concept was also identified in the Civic Campus Master Plan. (The main advantages of this option over the Tree House option are: (1) the structure would be closer to the Town Square and be more likely to complement and attract downtown business; (2) parking would be behind or on the side, not consist of a large lot in front of the building; and (3) the building would not encroach on the woods and, being closer to the street and downtown, would probably seem "friendlier," rather than set apart from people's acitivites.) Such a facility would also logically be developed under the traditional Design-Bid-Build approach.

3. Horizontal Mixed Use Development on Alternative Site. Such an option could also be a stand-alone facility. An alternative acquisition approach is appropriate for such an option. (However, the alternative site could not be in the Town Square superblock under the current Town Center zoning, since at least 60% of the ground floor must be retail or restaurant use.) GC/CM would be ideal, although the City could use the Lease-Purchase approach.

4. Integrated Mixed Use Option with Civic center part of a Public-Private Mixed Use project. (This could occur on an alternative site purchased by the City—or on the existing campus site if the zoning is changed to allow other appropriate uses.) The City could use the Lease-Purchase method to acquire the facility sometime after completion. The land would remain owned by the City.

The four options are compared in terms of a present value equivalent net cost. In many cases, costs are already expressed in present value equivalents. Where the payments or cost offsets occur at different points in time, the figures are adjusted using a six percent discount rate to a baseline point in time.

For each option, three physical alternatives are considered:

	30,000 Sq. Ft.	20,000 Sq. Ft.	15,000 Sq. Ft.
Building Construction			
Gross Area	30,000	20,000	15,000
Cost per Sq. Ft.	400.00	400.00	400.00
Parking*	100	85	77

* Parking for Cornerstone provided on surface spaces.
* Parking for Tree House includes 47 surface spaces.
* Parking for Horizontal Mixed Use and Integrated Mix Use are all in parking structures.

The additional assumptions used in the analysis are summarized in Table 3.

Table 3

Financial Analysis of Civic Center Options

Summary of Assumptions (2007 dollars)

	Stand-alone Current Site Tree House Concept	Stand-alone Current Site Cornerstone Concept	Horizontal Mixed Use	Integrated Mixed Use
Acquisition Method	Design-Bid-Build	Design-Bid-Build	GC/CM	Lease-Purchase
Land Purchased				
Site Area (acres)			1.0	1.0
Price per Sq. Ft.			35.00	35.00
Date			Baseline	Baseline
Opportunity Value of Surplus Land				
Site Area (acres)			3.0	3.0
Price per Sq. Ft.			30.0	30.0
Date			Baseline+1.5 years	Baseline+1.5 years
Interim Occupancy				
Duration	18 Months	18 Months		
Interim Space	15,000	15,000		
Annual Cost per Sq. Ft.	22.00	22.00		
Other Development Costs	30%	30%	30%	30%
Lease Assumptions				
Payment % of Cost				10.5%
Present Value Factor				5.5%

Several of the assumptions may require explanation.

- The three size alternatives address different possible combination of City functions.

1. 15,000 square feet alternative: Includes existing services provided at current civic facility including city council, city manager, city clerk, customer service, financial services, human resources, information systems, property management, planning, development services, and engineering services.

2. 20,000 square feet alternative: Alternative 1 plus space for a community and/or senior center.

3. 30,000 square feet alternative: Alternative 2 plus police to include police community programs, investigation, patrol, and support services.

Additional planning and programming is necessary to determine the appropriate size and characteristics of a new civic center. Other amenities and uses the City could consider as part of a Civic Center include: 1) arts center for music, theater, and other special events; 2) plaza to serve as outdoor community "living room;" 3) landmark feature such as a clock tower; or 4) farmers market.

- A new site would be purchased under the second (horizontal mixed-use) and third (integrated mixed-use) options.

- The existing Civic Center site is assumed to become surplus at the end of an 18 month construction period for the second (horizontal mixed-use) and third (integrated mixed-use) options. Whether thissite is sold or reused, the opportunity value is recognized in the analysis.

- An interim facility would be required in the first two options (stand alone current site) for the construction period.

- A smaller site is required in options three (horizontal mixed-use) and four (integrated mixed-use), but parking would be provided in a structure. Parking for the Cornerstone option (stand alone current site) is assumed to be provided in a surface configuration. Provision of some or all of the parking in a structure would increase the cost of parking but also the opportunity value of unused site area.

- The lease payment in the Lease-Purchase option is calculated as an annual percentage of the development cost (excluding land). The 10.5% rate is equivalent to a 7.5% capitalization rate for perpetuity with annual escalation.

The results of the analysis are summarized in Table 4 (2007 dollar estimates).

Table 4
Financial Analysis of Civic Center Options
Comparison of Net Development Cost (2007 dollars)

30,000 Square Feet

	Stand-alone Current Site Tree House Concept	Stand-alone Current Site Cornerstone Concept	Horizontal Mixed Use	Integrated Mixed Use
Land Purchase	-	-	1,524,600	1,524,600
Opportunity Value of Surplus Land	-	-	(3,591,086)	(3,591,086)
Interim Occupancy Cost	495,000	495,000	-	
Construction				
Building	12,000,000	12,000,000	12,000,000	
Parking	850,000	250,000	2,250,000	
Subtotal	12,850,000	12,250,000	14,250,000	
Other Development Costs	3,855,000	3,675,000	4,275,000	
Total Development Cost	16,705,000	15,925,000	18,525,000	
Building Lease Payments				23,244,988
Net Cost	17,200,000	16,420,000	16,458,514	21,178,501
Net Cost Annualized (20 years, 5.5%)	1,439,284	1,374,015	1,377,237	1,772,203

20,000 Square Feet

	Stand-alone Current Site Tree House Concept	Stand-alone Current Site Cornerstone Concept	Horizontal Mixed Use	Integrated Mixed Use
Land Purchase	-	-	1,524,600	1,524,600
Opportunity Value of Surplus Land	-	-	(3,591,086)	(3,591,086)
Interim Occupancy Cost	495,000	495,000	-	
Construction				
Building	8,000,000	8,000,000	8,000,000	
Parking	812,500	212,500	1,912,500	
Subtotal	8,812,500	8,212,500	9,912,500	
Other Development Costs	2,643,750	2,463,750	2,973,750	
Total Development Cost	11,456,250	10,676,250	12,886,250	
Building Lease Payments				16,169,540
Net Cost	11,951,250	11,171,250	10,819,764	14,103,053
Net Cost Annualized (20 years, 5.5%)	1,000,073	934,803	905,391	1,180,134

15,000 Square Feet

	Stand-alone Current Site Tree House Concept	Stand-alone Current Site Cornerstone Concept	Horizontal Mixed Use	Integrated Mixed Use
Land Purchase	-	-	1,524,600	1,524,600
Opportunity Value of Surplus Land	-	-	(3,591,086)	(3,591,086)
Interim Occupancy Cost	495,000	495,000	-	
Construction				
Building	6,000,000	6,000,000	6,000,000	
Parking	792,500	192,500	1,732,500	
Subtotal	6,792,500	6,192,500	7,732,500	
Other Development Costs	2,037,750	1,857,750	2,319,750	
Total Development Cost	8,830,250	8,050,250	10,052,250	
Building Lease Payments				12,613,464
Net Cost	9,325,250	8,545,250	7,985,764	10,546,978
Net Cost Annualized (20 years, 5.5%)	780,331	715,061	668,243	882,564

The results can be interpreted as follows.

- Looking at the project in isolation, the Cornerstone Concept on the Current Site option is the lowest cost of any of the 30,000 square foot facility size options. The lower cost of parking offsets the opportunity cost of the surplus land under other options. In the case of the smaller size options, the Horizontal Mixed Use option is the lowest cost. The lower cost of parking for the Cornerstone concept is not great enough to offset the opportunity cost of the surplus land.

- As noted above, the Horizontal Mixed Use option is more or less costly than the Current Site option depending on the size. However, this project would have the additional benefit of stimulating redevelopment in the area. (A vertical mixed use, though more complex, could have an even greater stimulative effect because, unlike horizontal mixed use, it could occur in the Town Square, where it would include retail or restaurant use on the ground floor.) Ideally, the City could pursue development under the GC/CM approach, subject to approval by the State review committee.

- The Lease-Purchase approach would facilitate an integrated mixed use development on the site. There would be some premium paid if the City leases the facility for the full term. However, if the City could structure the payment for an early pay-off, the premium could be reduced.

CONCLUSIONS AND NEXT STEPS

1. A civic center on either an alternative site in the town center or directly adjacent to the town center on the exsiting Civic Center campus could have stimulative effects as a part of a mixed use project.

2. A civic center developed as part of a fully integrated vertical mixed use development would be more complex and the associated costs may not justify the potentially greater stimulative effects.

3. Use of an alternative public works contracting method can eliminate some of the surprise in the construction process. The GC/CM method is now available to the City.

4. Next Steps - the City should:

    a. complete a space needs assessment to determine the appropriate size and characteristics of a new civic center;

    b. identify site alternatives and conceptual design options for the new civic center;

    c. identify financing options to pay for a new civic center; and

    d. appoint a Civic Center Advisory Task Force to facilitate the review and development of options and a recommendation to the City Council.