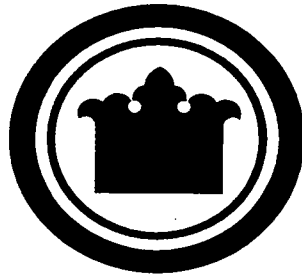


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2004-073

ATTACHMENT A



***NEW COUNTY
OFFICE BUILDING
PROJECT PLAN***

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Executive Summary

On December 9, 2003, the Metropolitan King County Council adopted Ordinance 14812, appropriating \$1.2 million to allow the executive to proceed with the second phase of a proposed plan to construct a new King County office building to accommodate 261,000 square feet of office space. This initiative provides for conversion of leased office space in privately owned buildings into a King County lease-to-own building. The proposal will result in significant future cost savings, improved operational efficiency, and better public service.

When the Metropolitan King County Council approved Ordinance 14812, there were a number of provisos included in the ordinance requiring further analysis and reports as part of Phase II. This report responds to the first proviso in the ordinance, requiring a project plan report. Of the \$1.2 appropriated in the ordinance, \$400,000 may not be expended or encumbered until the executive submits, and council approves by motion, a project plan report containing the following elements:

- **A scope of work** as defined by individual tasks. A summary level scope of work is contained in Section 2 of this report.
- **A project schedule** indicating start dates and duration for all scope tasks, as well as specific deliverables.
- **A project budget** integrated with project scope tasks and indicating the breakdown of budgets by King County staff and consultants.
- **An evaluation of land liquidity options.** The evaluation shall include advantages and disadvantages of options for liquidating equity in the county-owned land to be developed for the new office building.

This report responds to each of the proviso elements described above.

Scope of Work

The major components of the project scope include site selection, contractual agreements, design and construction, space allocation and building occupation.

Site Selection

Three sites are under consideration:

- **Goat Hill Site:** between Jefferson Street and Terrace Street and east of 5th Avenue (south of the King County Corrections Facility).

- **King County Parking Garage Site:** between Jefferson Street and Terrace Street and west of 5th Avenue.
- **North parking Lot Site:** north of the Seahawks Stadium

Evaluation criteria will include cost, schedule impacts, ability to meet program and operational needs, business continuity, designability/constructability, and ability to meet other King County objectives. According to the plan, a site selection report will be completed and transmitted to council by March 3, 2004.

Contractual Agreements

As described below, there are a number of contractual agreements that will need to be prepared for this project. The scope of work for each of these contracts is described below. (The scope of work and schedule assume a 63-20 financing structure.)

- **Selection of a Non-profit Entity:** Using the 63-20 financing strategy, King County would select a non-profit conduit that would set up a single entity non-profit corporation ("Non-Profit"). The Non-Profit would issue 63-20 bonded debt and contract with Wright Runstad to develop and construct the project improvements, including the building, parking, and other site improvements on the ground-lease property.
- **Ground Lease Negotiations:** Under the 63-20 finance structure, the county would long-term ground lease county-owned property to the Non-Profit. (Options related to liquidation of land are discussed in Section 5.2 of this report.)
- **Development Agreement:** A development agreement between Wright Runstad and the Non-Profit will be attached to the lease agreement between King County and the Non-Profit
- **Lease Agreement:** As described above, the Non-Profit would issue 63-20 bonded debt and contract with Wright Runstad to develop and construct the project improvements. The county would then lease back ("lease-back") the project improvements from the Non-Profit only after Wright Runstad has completed construction to the county's satisfaction.
- **Subcontractor Agreements:** The FMD team will be included in the agreements with subcontractors/subconsultants to Wright Runstad, including agreements with the architect and the general contractor for construction.

Design and Construction

The scope of work for the design and construction of the project includes the following major components:

- Master Use Permit (MUP) Process & schematic drawings
- Environmental review and permitting
- Alley vacation (if required)
- Design Commission review
- Finalization of guaranteed maximum price (GMP)
- Design development & construction drawings
- Obtaining building permit
- Construction

Space Allocation and Move-in

Specific office needs for each group programmed to move into the new building will be addressed during this phase of the work plan. Exact locations in the new building will be programmed, and final furniture, fixtures, and equipment (FF&E) will be installed. Actual phasing of moves and move management work will be major work program item for FMD and affected departments.

Project Schedule

A detailed project schedule is contained in Section 3 of the report. Key 2004 milestones on the critical path for the project and are described below:

- **Site selection** is the first critical path milestone. The schedule requires council approval by April 1, 2004. Site selection studies are well underway. A formal report and recommendation will be transmitted to council by March 3, 2004.
- **Steam plant Re-evaluation.** In accordance with the proviso, FMD staff will work closely with Seattle Steam to resolve questions/issues raised in the report prepared by Seattle Steam titled *Analysis of King County Steam Plan Reports*. FMD staff will also begin working with the developer Wright Runstad and their team of architects/engineers to evaluate the design/constructability of the steam plant, given building design requirements and site constrictions. Preliminary concept design evaluation of the Goat Hill and King County garage sites have presented significant challenges with regard to the siting, design, and construction of the steam plan. A report on the steam plant re-evaluation will be transmitted to council by the proviso due date of March 31, 2004.
- **Final conceptual design** is scheduled for completion in mid-April. These drawings will generate a clear visual representation of the project, in addition to allowing the developer and its general contractor to identify its final guaranteed maximum price (GMP).

- **Lease Agreements**, as described in Section 2.2 above, are scheduled for completion and transmittal to council in early August 2004. The Finance Plan will also be included in the legislative package.

Two schedules have been prepared due to the potential site-specific scheduling requirements. It is anticipated that the schedules for the Goat Hill site and the King County Parking Garage site would be similar; however, due to complex easements and development agreements associated with the North Kingdome Parking Lot site, a longer pre-development timeline would be required for that site. Figures A and B on pages 20 and 21 of the report depict the two schedule options. Figure C on page 22 is the planned schedule of council transmittals and required council approval dates.

Project Budget

The current estimate of total project costs range from \$86.1 million to \$96.0 million. These preliminary estimates compare to the original estimate of \$89 million included in the report titled *An Approach to Reducing Office Space Costs*. The estimated range of costs includes the \$1.2 million appropriated to Phase II of the project. The estimate also includes an estimated \$457,000 in King County staff costs. These estimates are extremely preliminary, based on an overview of the Goat Hill and King County Garage site conditions and early design concept discussions. There has not been enough progress made to date on the evaluation of the North Kingdome Parking Lot to produce even extremely rough cost projections for that site.

Land Liquidity Options

King County has an opportunity to liquidate its value in the land used in the project either through the structure of the 63-20 transaction or through the county's central overhead. The use of central overhead to "cash out" the land is recommended. Accordingly, the Current Expense Fund would receive rent each year from Non-Current Expense tenant agencies that would be in excess of the regular 63-20 lease obligation. The FMD is also promoting the concept of charging both Non-Current Expense and Current Expense agencies rent through central overhead, thereby enhancing accountability for use of space. This enhancement could be implemented during the year of occupancy for the new building currently planned for 2007.

Next Steps

The next steps in the program are particularly critical to the overall project schedule, and will largely influence overall project costs. The project schedule for Phase II, particularly for the first half of 2004, includes extensive council involvement. This level of council involvement and deliberation early in the process will ensure that council is kept thoroughly apprised as the project moves forward, and will allow for council direction as the project progresses.

The schedule is ambitious. Moving forward with the schedule as proposed will require focused attention and discipline on the part of FMD staff, the developer, and the executive branch. The proviso requirements, together with logical council check-back points in the process, result in the need for numerous council committee briefings and council actions. FMD staff will work closely with council staff to provide any support necessary to enhance council's ability to maintain this challenging schedule. If council staff are available, FMD will include them in meetings and discussions with the FMD team and the developer.

Figures A and B, on pages 21 and 22 of the report depict potential project schedules, depending upon the selected site. Figure C, on page 22 of the report is a summary of anticipated council briefings and requested actions.

The project team (FMD staff and the developer) will move forward according to the schedules contained in Figures A through C (pages 20-22). It will be important for the legislative branch to articulate to the executive any specific items of concern regarding the scheduled work items. In the absence of specific legislative action disapproving any of the executive proposals, and in the absence of any specific concerns articulated by the council to the executive, the project team will proceed with all work items according to the project plan. Any executive-initiated changes in the plan will be made known to the council in the quarterly reports and/or in any of the legislative packages.

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Section 1 Background

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The King County Executive and Metropolitan King County Council have long recognized that there are potentially significant savings associated with moving from leased office space to county-owned space. Several expert panels and numerous studies have concluded that it is in the county's best financial interest to transition from leased to owned office space to the greatest extent possible. Not only are the direct costs of space in county-owned buildings less than those in leased space, but also county-owned buildings provide for an excellent long-term capital investment.

As a public entity, the county is in a unique position to capture the advantage of attractive tax exempt financing. Furthermore, the county has an identified need for the space and can benefit from a very positive construction environment. These circumstances led to the executive recommendation to build a building now to achieve significant savings in the future.

On December 9, 2003, the Metropolitan King County Council adopted Ordinance 14812, providing funding to for the executive to move forward with an initiative to convert leased office space to county-owned office space. The ordinance appropriated \$1.2 million to fund the second phase of an executive proposed plan to construct a new King County office building to accommodate 261,000 square feet of office space.

King County currently occupies about 1.26 million square feet of space in the downtown Seattle area. Of this total office space, about 350,000 square feet (about 27 percent) is leased in buildings not owned by King County. This initiative will allow for conversion of 261,000 leased office space in privately owned buildings into a King County lease-to-own building, with the following results:

- Creating the ability to achieve liquidity on an estimated \$10,000,000 in capital, currently tied up in King County-owned land¹,
- Providing the ability to accommodate anticipated 10-year growth in health, law safety and justice, finance, and like central service functions,
- Consolidating county operations and services to the public into single, easy-to-locate office spaces, and,

¹ \$10,000,000 is a rough estimate for the Goat Hill site. The exact amount will depend on final site selected.

- Accommodating anticipated 10-year growth in health, law safety and justice, finance, and like central service functions,
- Creating a valuable asset for the county with a newly constructed office building at the end of the 25-year lease financing term.

Under this plan approximately 70,000 square feet of leased space will remain in the downtown area. The leased space will be retained to provide the county with some flexibility, and to meet specific program needs of King County departments. The Seattle-King County Department of Public Health, for example, will continue to lease a relatively small amount of office/clinic space in privately owned buildings to meet unique operational requirements in terms of office/clinic space requirements and geographic service location.

1.1 Phased Approach

The executive is taking a phased approach to the New County Office Building initiative. This phased approach will allow council to review progress, and consider appropriation requests for each phase. (Some phases will overlap, as depicted in Figures A, B and C on pages 20 through 22.)

Following is a brief description of each phase:

- **Phase I (complete): Evaluation of Options for Reducing Office Space Costs.** This phase was completed with submittal of a report to the council titled *An Approach to Reducing King County Office Space Costs*. Ordinance 14182 was adopted based upon the executive's recommendations in that report.
- **Phase II (underway): Site Selection and Predevelopment.** Activities will include evaluation of site alternatives, site selection, preliminary conceptual design work for the new building, and permitting. Funding for Phase II was appropriated via Ordinance 14812.
- **Phase III: Final Design and Construction.** Activities will include finalizing the MUP process, obtaining required design approvals, commencing design development and construction drawings, obtaining the building permit(s), and commencing construction.
- **Phase IV: Space Allocation and Occupancy.** Final decisions regarding occupancy of the new building, space allocations, moving, and startup of business operations will occur in this phase.

1.2 Site Selection

Phase I of the plan did not include a final recommendation for a site for the new King County Office Building. Three county-owned sites are currently being considered under Phase II:

- **Goat Hill Site:** between Jefferson Street and Terrace Street and east of 5th Avenue (south of the King County Correctional Facility).
- **King County Parking Garage Site:** between Jefferson Street and Terrace Street and west of 5th Avenue.
- **North Kingdome Parking Lot Site:** north of the stadium.

The project plan for Phases III and IV will depend on the ultimate site selection. Final site selection is scheduled for March 3, 2004. Due to the impact the final site selection will have on the project plan, two potential project schedules are included in this report; one for either the Goat Hill or King County Parking Garage site, and one for the North Kingdome Parking Lot site.

1.3 Project Plan Report

When the Metropolitan King County Council approved Ordinance 14812, there were a number of provisos included in the ordinance requiring further analysis and reports as part of Phase I. This report responds to the first proviso in the ordinance, requiring a project plan report. Of the \$1.2 appropriated in the ordinance, \$400,000 may not be expended or encumbered until the executive submits, and council approves by motion, a project plan report containing the following elements:

- **A scope of work** as defined by individual tasks. A summary level scope of work is included in Section 2 of this report.
- **A project schedule** indicating start dates and duration for all scope tasks. Project milestone points shall be included, indicating quarterly council review points and all council approval points, including site selection. The schedule shall identify all scheduled deliverables.
- **A project budget** integrated with project scope tasks and indicating the breakdown of budgets by King County staff and consultants. Key project staff shall be identified.
- **An evaluation of land liquidity options.** This section of the report reviews various options available to King County for possible use of land liquidity revenues discussed in the executive report entitled An Approach to Reducing King County Office Space Costs.

1.3 Executive Response

In preparation of this report, in response to provisos described above, the King County Department of Executive Services (DES) Facilities Management Division (FMD), has been working closely with the development firm selected for New County Office Building as part of Phase I of this initiative. Section 2 below addresses the summary scope of work. Section 3 below shows two potential project schedules, prepared by Wright Runstad together with the FMD team. The final schedule will be dependent upon the final selection of the development site. Section 4 contains the project budget; and Section 5 discusses land liquidity alternatives.

Section 2

Scope of Work

The summary scope of work for this project is identified in the outline below, broken into its major component tasks. The time frames associated with these tasks are illustrated by the schedules in Section 3.

2.1 Site Selection

As described in Section 1.2 above, three sites are under consideration: 1) Goat Hill, 2) the existing King County Garage site, and 3) the North Kingdome Parking Lot. Funding for this portion of the scope of work was included in the appropriation in Ordinance 14812. Evaluation criteria will include cost, schedule, ability to meet program and operational needs, business continuity, designability/constructability, and ability to meet other King County objectives. According to the plan, a site selection report will be completed and transmitted to council by March 3, 2004. The major subcomponents of the site selection process are listed below:

- **Block studies:** Block studies for the Goat Hill and King County Garage sites have been completed by the developer. The studies were based upon preliminary concept design options for each site. These studies have been reviewed by the FMD team and then updated and refined by Wright Runstad. Preliminary cost estimates have been prepared based upon the block studies to provide order-of-magnitude cost comparisons for the sites.

Some preliminary design concepts have been discussed for the North Kingdome Parking Lot; however, numerous restrictions on the King County-owned portion of the parking lot have caused potential design schemes to require usage of portions of the lot owned by the Public Stadium Authority (PSA). Block studies for this site will be dependent upon discussions with the PSA regarding the legalities and operational impacts of any such encroachment. This discussion has yet to take place.

Work yet to be done on the block studies includes final review and cost estimating for the Goat Hill and King County Garage sites, as well as design, review, and cost estimating of block studies for the North Kingdome Parking Lot.

Specific items on the schedule (Figures A, B, and C, pages 20-22) related to this portion of the scope of work are as follows:

Site Selection

- a. Block studies completed
- b. Block studies reviewed by King County staff.
- c. Block studies updated and priced
- d. Final King County staff review and approve.
- e. Final site selection approved by King County Council.

2.2 Central Steam Plant Re-evaluation

In accordance with the proviso, FMD staff will work closely with Seattle Steam to resolve questions/issues raised in the report prepared by Seattle Steam titled *Analysis of King County Steam Plan Reports*. FMD staff will also begin working with the developer Wright Runstad and their team of architects/engineers to evaluate the design/constructability of the steam plant, given building design requirements and site constrictions. Preliminary concept design evaluation of the Goat Hill and King County garage sites have presented significant challenges with regard to the siting, design, and construction of the steam plan. A report on the steam plant re-evaluation will be transmitted to council by the proviso due date of March 31, 2004. Council approval of the steam plant report will be required by April 19, 2004.

It should be noted that, due to the need to re-evaluate steam plant savings projections, and due to the challenges emerging with respect to impacts to the office building design, current project budgeting and financing strategies do not include costs or savings associated with the steam plant.

2.3 Contractual Agreements

As described below, there are numerous contractual agreements that will need to be prepared for this project. The scope of work and schedule assume a 63-20 financing structure.

- **Selection of a Non-profit Entity:** Using the 63-20 financing strategy, King County would select a non-profit conduit that would set up a single entity non-profit corporation ("Non-Profit"). The Non-Profit would issue 63-20 bonded debt and contract with Wright Runstad to develop and construct the project improvements, including the building, parking, and other site improvements. The county would then lease back the project improvements only after Wright Runstad has completed construction to the county's satisfaction. The Non-Profit will be selected through a competitive bid process.
- **Ground Lease Negotiations:** Under the 63-20 finance structure, the county would long-term ground lease county-owned property to the Non-Profit. (Options related to liquidation of land are discussed in

Section 5.2 of this report.)

- **Development Agreement:** A development agreement between Wright Runstad and the Non-Profit will be attached to the lease agreement between King County and the Non-Profit. The FMD team, as well as the King County Prosecuting Attorney's Office will play a role in the review of the development agreement, and will ensure that the development agreement is appropriately referenced in the lease ("lease-back").
- **Lease Agreement:** As described above, the Non-Profit would issue 63-20 bonded debt and contract with Wright Runstad to develop and construct the project improvements. The county would then lease back ("lease-back") the project improvements from the Non-Profit only after Wright Runstad has completed construction to the county's satisfaction.

The lease-back payments amortize the 63-20 bonded debt. The Non-Profit owns the Project Improvements during the lease-back term. When the 63-20 bonds are paid off, the Non-Profit conveys the title of the Project Improvements to King County. Simultaneously, the ground-lease terminates, which allows the fee simple title interest and leasehold interest to merge in King County as titleholder and owner. Under the terms of the lease-back document, the county would operate the building during the term of the lease-back.

- **Subcontractor Agreements:** The FMD team will be included in the agreements with subcontractors/subconsultants to Wright Runstad, including agreements with the architect and the general contractor for construction.

Specific items on the schedule (Figures A, B, and C) related to this portion of the scope of work are as follows:

Contractual Agreements

- a. Selection of non-profit entity
- b. Negotiation and drafting of ground lease
- c. Negotiation and drafting of office lease
- d. Negotiation and drafting of development agreement
- e. Negotiation and drafting of architect's agreement
- d. Negotiation and drafting of general contractor's agreement
- e. Selection of underwriter
- f. Negotiation and drafting of financial documentation
- g. Issuance of bonds

2.4 Design and Construction

Although ambitious, the scope of work for the design and construction of the project are fairly self-explanatory. The specific steps in the schedule related

to this portion of the scope of work are listed below:

Design and Construction

- a. Preparation of building design specifications.
- b. Preparation of master use permit (MUP) & schematic drawings
- c. Begin formal MUP process with City of Seattle
- d. Design Review
- e. SEPA (State Environmental Protection Act)
- f. Alley vacation (if required)
- g. Design Commission review
- h. Finalize guaranteed maximum price (GMP)
- i. Prepare design development & construction drawings
- j. Obtain building permit
- k. Construction

2.4 Space Allocations and Move-in

Specific office needs for each group programmed to move into the new building will be addressed during this phase of the work plan. Exact locations in the new building will be programmed, and final furniture, fixtures, and equipment (FF&E) will be installed. Actual phasing of moves and move management work will be major work program item for FMD and affected departments.

Section 3

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Project Schedule

This discussion regarding key milestones will focus on critical path decisions and deadlines required to keep the project moving forward to meet its completion date goal. While most of these milestones specifically relate to development decisions and deadlines, certain critical path milestones must be approved by the King County Council in order for the project to proceed on schedule.

Project schedules are contained at the end of this section. Figure A on page 20 depicts the project schedule, assuming either the Goat Hill site or the King County Garage site is selected. Figure B on page 21 is a schedule assuming the North Kingdome Parking Lot is selected. King County Council milestones are called out in Figure C on page 22.

Key milestones on the critical path for the project and are described below:

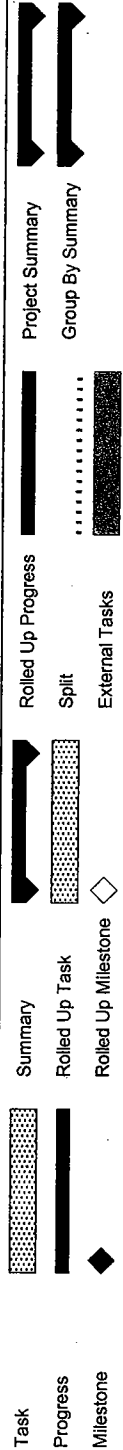
- **Site selection** is the first critical path milestone. The schedule requires council approval by April 1, 2004. Site selection studies are well underway. The FMD team, working in conjunction with the developer, is actively analyzing the alternatives. A formal report and recommendation will be transmitted to council by March 3, 2004.
- **Central Steam Plant.** The re-evaluation of the central steam plan is due to council on March 31, 2004. Council approval of the report is required by April 19, 2004, to maintain the project schedule.
- **Final conceptual design** is scheduled for completion in mid-April. The schematic drawings, which are a requisite part of the MUP process, are anticipated to take twelve weeks. These drawings will generate a clear visual representation of the project, in addition to allowing the developer and its general contractor to identify its final guaranteed maximum price (GMP).
- **Lease Agreements,** as described in Section 2.2 above, are scheduled for completion and transmittal to council in early August 2004. The Finance Plan will also be included in the legislative package.

Two schedules have been prepared due to the potential site-specific scheduling requirements. It is anticipated that the schedules for the Goat Hill site and the King County Parking Garage site would be similar; however, due to complex easements and development agreements associated with the North Kingdome Parking Lot site, a longer pre-development timeline would be required for that site. Figures A and B on pages 20 and 21 depict the two project schedule scenarios. Figure C on page 22 is the planned schedule of council transmittals and anticipated council approval dates.

Proposed Schedule for King County Council's Review of New Office Building

ID	Task Name	Duration	Start	Finish	2004	2005		
					Qtr 1	Qtr 2	Qtr 3	Qtr 4
1	FMD transmits New Office Building Project Plan to Council	0 days	Fri 1/30/04	Fri 1/30/04	1/30			
2	Full Council Review and Approval of Project Plan	0 days	Mon 3/1/04	Mon 3/1/04	3/1			
3	FMD transmits Office Building Site Selection	0 days	Wed 3/3/04	Wed 3/3/04	3/3			
4	Full Council Review and Approval of Site Selection	0 days	Mon 3/29/04	Mon 3/29/04	3/29			
5	FMD's Quarterly Report with Office Bldg Concepts and Steam Plant Recommendations	0 days	Wed 3/31/04	Wed 3/31/04	3/31			
6	Full Council Review and Approval of Steam Plant Recommendations	0 days	Mon 4/19/04	Mon 4/19/04	4/19			
7	FMD transmits Work Release Report	0 days	Mon 5/3/04	Mon 5/3/04	5/3			
8	Full Council Review and Approval of Work Release Report	0 days	Mon 5/24/04	Mon 5/24/04	5/24			
9	FMD's Quarterly Report to Council	0 days	Wed 6/30/04	Wed 6/30/04	6/30			
10	FMD transmits Lease/Development Documents	0 days	Wed 8/4/04	Wed 8/4/04	8/4			
11	Full Council Review and Approval of Lease/Development Documents	0 days	Mon 9/13/04	Mon 9/13/04	9/13			
12	FMD's Quarterly Report to Council	0 days	Thu 9/30/04	Thu 9/30/04	9/30			
13	FMD's Quarterly Report to Council	0 days	Mon 12/13/04	Mon 12/13/04	12/13			

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Project: Council Milestones
Date: Fri 1/30/04

Figure C

Section 4

Project Budget

The current estimate of total project costs ranges from \$86.1 million to \$96.0 million. These preliminary estimates compare to the original estimate of \$89 million included in the report titled *An Approach to Reducing Office Space Costs*. The estimated range of costs includes the \$1.2 million appropriated to Phase II of the project. The estimate also includes an estimated \$457,000 in King County staff costs.

Table A on page 25 contains the cost estimates for Phase II (funded in Ordinance 14812). Table B on page 26 is a spreadsheet comparing cost breakdown for the original proforma estimate to a cost breakdown for the Goat Hill Site and the King County Garage Site. These estimates are extremely preliminary, based on an overview of site conditions and early design concept discussions. There has not been enough progress made to date on the evaluation of the North Kingdome Parking Lot to produce even extremely rough cost projections for that site.

2.4 Total Project Cost Estimates

Table B on page 26 provides a comparison of the most recent cost estimates for the project to the original project cost estimate. Column F is the budget that was prepared and transmitted to the King County Council in December of 2003 as part of proposed ordinance 2003-0427.2. Soft costs and the developer's fee total a guaranteed maximum price of \$15,249,000. Construction costs were estimated at \$43,446,500. Tenant Improvement costs were estimated at \$14,331,500. The land value was included at \$10,000,000. Total land and development costs were projected at \$80,165,710. Including projected financing costs raised that total to \$88,978,697.

Column G is the budget that was prepared in conjunction with Wright Runstad for a building and parking garage to be constructed on the Goat Hill Site. Soft costs and the developer's fee continued at a guaranteed maximum price of \$15,249,000. Projected construction costs dropped to \$40,437,710. Tenant Improvement costs remained the same at \$14,331,500. The land was included at \$10,000,000. Total land and development costs were projected at \$77,126,832. Including projected financing costs resulted in a total of \$86,100,509. This projected total is \$2,878,187 less than the original projected budget transmitted to the council in December (see cell J91).

Column H and Column I are the budgets prepared in conjunction with Wright Runstad for a project to be constructed on the King County Parking

Garage site. Here, a new garage would be constructed on the Goat Hill site, and when that was completed, the County's parking garage would be demolished, and a new office building with additional parking will be constructed in its place. Column H assumes that one of the budgets includes the \$10,000,000 in land costs; while Column I subtracts that \$10,000,000, assuming the land value would be used to fund garage demolition/construction. The rationale underlying deleting the land costs is dealt with in greater detail in Section 5 of this report.

In Column I soft costs and developer's fees increase \$2,870,000 to \$18,119,000. Projected construction costs are \$45,844,810. Tenant Improvement costs remained at the same \$14,331,500. Projected construction costs are \$45,844,810. FMD staff has added an additional contingency line item of \$2,000,000 (row 81) for this proposal, resulting in a projected total cost of \$85,230,305. This \$85,230,305 figures is \$3,748,391 less than the original projected budget transmitted to the council in December 2003 (see cell K91).

The projected \$96,017,797 if the \$10,000,000 land value is included is \$7,039,100 higher than the original projected budget transmitted to the council in December 2003.

These figures are preliminary and based upon the block studies that have been completed to this point in time. The projected figures received from Wright Runstad are consistent with FMD experience.

Table A
Approved Phase II Budget

Supplemental Request
Phase II

GOAT HILL
SCHEMATIC/MUP DESIGN BUDGET
September 4, 2003

	<u>Two Sites</u>
Architect	297,000
Structural Engineer	70,000
Civil Engineer	22,000
Electrical Engineer	10,000
Mechanical Engineer	20,000
Minimum Signage for MUP	2,000
Elevators	10,000
Lighting (exterior for MUP)	2,000
Traffic Engineer	30,000
Green Consultant	30,000
Reimbursables	7,000
Survey	42,000
Soil Testing	85,000
Mup Permit Estimate	40,000
	<hr/>
Subtotal	667,000
Contingency	20,000
	<hr/>
PROPOSED BUDGET	687,000
King County Staff/Advisors	225,000
Steam Plant Design	300,000
	<hr/>
TOTAL PROPOSED BUDGET	1,212,000

Table "B"

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	E	F	G	H	I	J	K
7		Proforma	Option A	Option B	Option B (no land)		
8	Line Item Category	Estimated					
9		Totals					
10	Assumption: # of Rentable Square Feet - BOMA						
11	261,000						
12	PARKING STALLS	898	898	909	909		
13							
14	ENTITLEMENTS & UTILITY HOOK-UPS	\$865,000	\$865,000	\$963,000	\$963,000		
15							
16	SHELL & CORE ARCHITECTURAL						
17	Architectural - Programming						
18	Architectural - Schematic Drawings						
19	Architectural - Design Development					A Variance	B Variance
20	Architectural - Construction Drawings					(No Land)	
21	Architectural - Construction Oversight					Col. G less Col. F	Col. I less Col. F
22	Architectural - As Built Plans						
23	Architectural - LEEDS Silver						
24	Architectural - Misc.						
25	SHELL & CORE ARCHITECTURAL TOTAL	\$1,331,000	\$1,331,000	\$1,720,000	\$1,720,000	\$0	\$389,000
26							
27	SHELL & CORE ENGINEERING						
28	Engineering - Civil						
29	Engineering - Structural						
30	Engineering - Mechanical						
31	Engineering - Geotechnical						
32	Engineering - Fire Systems						
33	Engineering - Electrical / Telecommunications						
34	Engineering - Testing / Inspection(s)						
35	Engineering - LEEDS Silver						
36	Engineering - Misc.						
37	SHELL & CORE ENGINEERING TOTAL	\$898,000	\$898,000	\$1,197,000	\$1,197,000	\$0	\$299,000
38							
39	CONSTRUCTION - SHELL & CORE						
40	Contractor's Fee		\$785,000	\$1,000,000	\$1,000,000		
41	Contractor's General Conditions		\$2,150,000	\$2,800,000	\$2,800,000		
42	Estimated Construction Costs Including Sales Tax		\$36,171,000	\$40,381,000	\$40,381,000		
43	Contractor's Contingency		\$970,000	\$1,260,000	\$1,260,000		
44	Payment & Performance Bond		\$361,710	\$403,810	\$403,810		
45	CONSTRUCTION - SHELL & CORE TOTALS	\$43,446,500	\$40,437,710	\$45,844,810	\$45,844,810	(\$3,008,790)	\$2,398,310
46							
47	TENANT IMPROVEMENTS - ALLOWANCE						
48	Architectural & Engineering Fees	\$481,000	\$481,000	\$481,000	\$481,000		
49	Contractor's Fee	\$300,000	\$300,000	\$300,000	\$300,000		
50	Contractor's General Conditions	\$260,000	\$260,000	\$260,000	\$260,000		
51	Estimated Construction Costs Including Sales Tax at \$50/sf	\$13,050,000	\$13,050,000	\$13,050,000	\$13,050,000		
52	Contractor's Contingency	\$110,000	\$110,000	\$110,000	\$110,000		
53	Payment & Performance Bond	\$130,500	\$130,500	\$130,500	\$130,500		
54	TENANT IMPROVEMENTS ALLOWANCE TOTAL	\$14,331,500	\$14,331,500	\$14,331,500	\$14,331,500	\$0	\$0
55							
56	MISC. DEVELOPMENT COSTS						
57	Developer's Legal						
58	Developer's Accounting						
59	Owner's & Lender's Title Insurance						
60	Casualty Insurance, Including Earthquake						
61	Building Commissioning						
62	Other Consultant Fees						
63	Misc.						
64	MISC. DEVELOPMENT COSTS TOTAL	\$989,000	\$989,000	\$1,118,000	\$1,118,000	\$0	\$129,000
65							
66	DEVELOPER FEE INCLUDING SALES TAX	\$2,440,000	\$2,440,000	\$2,740,000	\$2,740,000	\$0	\$300,000
67							
68	DEVELOPER OVERHEAD INCLUDING SALES TAX	\$1,470,000	\$1,470,000	\$1,470,000	\$1,470,000	\$0	\$0
69							
70	DEVELOPER'S CONTINGENCY	\$2,200,000	\$2,200,000	\$2,700,000	\$2,700,000	\$0	\$500,000
71							
73	OWNER'S CONTINGENCY - 100% Residual to Owner	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$0	\$0
74							
75	1% FOR THE ARTS	\$694,710	\$664,622	\$735,843	\$735,843	(\$30,088)	\$41,133
77							
78	TOTAL DEVELOPMENT COSTS BEFORE FINANCING	\$70,165,710	\$67,126,832	\$74,320,153	\$74,320,153	(\$3,038,878)	\$4,154,443
79							
80	LAND	\$10,000,000	\$10,000,000	\$10,000,000	\$0	\$0	(\$10,000,000)
81	Added Contingency For Option "B" unknowns			\$2,000,000	\$2,000,000		
82							
83	TOTAL LAND & DEVELOPMENT COSTS BEFORE FINANCING	\$80,165,710	\$77,126,832	\$86,320,153	\$76,320,153	(\$3,038,878)	(\$3,845,557)
85							
86	Estimated Costs of Issuance	\$2,500,000	\$2,900,000	\$2,900,000	\$2,900,000	\$400,000	\$400,000
87	Estimated Financing Costs						
88	Net Capitalized Interest During Construction - Estimated	\$6,312,987	\$6,073,677	\$6,797,644	\$6,010,152	(\$239,309)	(\$302,835)
89	Reserves - Net Cost of - Estimated						
90							
91	Total	\$88,978,697	\$86,100,509	\$96,017,797	\$85,230,305	(\$2,878,187)	(\$3,748,391)
92							
93	Debt Service - 25 years @ 5.25% interest on Principal Amount / A	\$6,472,369	\$6,263,008	\$6,984,398	\$6,199,708	(\$209,361)	(\$272,660)
94							
95	Total Variance	\$0	(\$2,878,187)	\$7,039,101	(\$3,748,391)	(\$2,878,187)	(\$3,748,391)
96	Annual Variance	\$0	(\$209,361)	\$512,029	(\$272,660)	(\$209,361)	(\$272,660)
98	Rental Price Per RSF Differential		(\$0.80)	\$1.96	(\$1.04)		
99							
100	Developer's GMP for Option "A" and for Option "B"	\$15,249,000	\$15,249,000	\$18,119,000	\$18,119,000		\$2,870,000

Table C
NEW COUNTY OFFICE BUILDING PROJECT
FMD TEAM

Team Members	Project Hours		Site Evaluation and Project Development	Construction	Project Total
	Phase III 2006	Phase III 2007			
Napolitano					790
Williams					435
Angle					1,020
Easton					2,818
Booth					993
Total Hours					
	Estimated Cost				
Napolitano					\$75,533
Williams					\$38,504
Angle					\$68,394
Easton					\$217,801
Booth					\$56,722
TOTAL COST					\$456,954

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Section 5

Land Liquidity Options

The financial framework related to the conversion of leased to county-owned space has remained the same throughout the preliminary phases of this project with the recommended solution to meet the county's downtown space needs. First and foremost, the construction and financing costs of a new building must, over the mid-term, be covered by rent savings associated with no longer leasing outside space. Furthermore, the economic benefits associated with owning, rather than leasing, must exceed the cost of the capital investment over a reasonably short period of time. The evaluation of the economic benefit must factor in the accumulation of equity in the new building. Finally, the positive cash flow from accruing lease savings and other financial benefits associated with this project should at least cover debt service on the original capital investment in a new building plus other capital costs associated with occupying and maintaining the county's new building.

As a public entity, the county is in a unique position to capture the advantage of attractive tax exempt financing. Furthermore, the county has an identified need for the space and can benefit from a very positive construction environment. These circumstances lead to a recommendation to build a building now that will meet all financial framework and economic tests. The consequences of delay will include:

- The loss of immediate savings;
- Loss of a favorable construction environment; and
- Added market risk that lease rates will increase.

The FMD recommendation to develop a new building includes a project packaging that virtually eliminates the construction risk associated with the project. Accordingly, the FMD is assuming a 63-20 lease/lease back approach, not dissimilar from the King Street Center and Patricia Bracelin Steel Memorial Building projects, will be used to finance this project. If other, more advantageous financing strategies emerge during the course of Phase II, these strategies will be evaluated, and, if viable, will be discussed in quarterly reports to the council.

5.1 Review of the Project Financing

Assuming the financing strategy moves forward as planned, the financing structure for the project will be a build-to-suit, lease-to-own office building on King County-owned property.

King County's net lease payments will be a function of the total capitalized cost of the Project, amortized over the term of the 63-20 bonds at the market interest rate on the date the bonds are underwritten and sold. Operation expenses, repairs, and capital improvements will be in addition to the lease payments. King County will be responsible for all costs under the lease.

It should be noted that, although the current plan anticipates a 63-20 financing structure, the executive has not foreclosed other options, should a more advantageous, lower risk, and more cost-effective approach arise. Only options in which the developer accepts the project/construction risk will be considered. The final financing package will be transmitted to the council in early August. Any consideration of other financing options will be discussed in the quarterly reports, and other council briefings.

The county will work directly with Wright Runstad through the programming, space planning, design development, and construction phases. The intent is to provide greatest input through the early phases so that the building is well defined for King County use. Once construction begins, the county will work hand in hand with the Non-Profit to ensure the building is being constructed per specifications.

As reported previously, this project presents an opportunity to liquidate county land.

5.2 Land Liquidation Opportunities

The proviso language in Ordinance 14812 calls for a review of the various options available to King County for **possible use** of the land liquidity revenues proposed by the executive in the report entitled An Approach to Reducing King County Office Space Costs. Possible uses of land liquidity are dependent on the method used to liquidate the value of the land. Below is a discussion of the various options available for dealing with the land liquidation issue. Also outlined below is a strategy for determining appropriate uses for the revenues generated, if one of the revenue-generating options is approved.

5.2.1 Land Liquidation Strategies

The use of county owned land for this project gives the county an opportunity to liquidate its fixed asset, the land, by either leasing the land to the Non-Profit intermediary owner and converting those lease payments into debt or leasing the land to the Non-Profit intermediary as a market land lease, or by internally charging tenant agencies a factor for land through the county's central overhead rates. The value of land for options other than the North Kingdome Parking Lot is estimated at \$10 million. The North Kingdome Parking Lot's value is yet to be established. A final option is to not liquidate the land. To recap, the following opportunities are potentially available along with the "do not liquidate" option:

1. **63-20 immediate recovery of cash.** Charge the Non-profit intermediary a market land lease rate and capitalize that rate as prepaid rent thereby recovering one-time cash for the value of the property. Cash would be received in early 2005.
2. **63-20 recovery of cash over term of lease (term of bonds).** Charge the Non-profit intermediary a market land lease rate thereby recovering an ongoing stream of cash over the term of the lease. Cash flow would begin in early 2005.
3. **Central Overhead and recovery of land value over specified time Non-CX funds.** Charge Non-CX tenants rent through Central Overhead at market rental rates (current practice) with one component of rental rates designed to recover the value of the land over time. Cash flow would begin with building occupancy some time during 2007.
4. **Central Overhead and recovery of land value over specified time all funds.** Charge all tenants rent through Central Overhead and either issue bonds for the value of the land with the rent covering debt service or follow current practice of recovering rent each year as a CX revenue. Cash flow would begin with building occupancy sometime during 2007.
5. **No Liquidation.** Charge the Non-profit intermediary a nominal lease amount for the land lease and charge tenants only for the required 63-20 rent thereby not receiving any cash for the value of the land.

Following discussions with the Prosecuting Attorney's Office, it appears that the ability of the county to recover the value of land through a 63-20 lease/lease back transaction is not clear, a position always subject to some transaction risk. However, the same financial objectives of liquidating the value of county owned land can be achieved through Central Overhead without this transactional risk. Bonding using a revenue stream for debt service is always an option. Accordingly, pursuit of either one of Options 1 or 2 is not warranted. The 63-20 option requires additional legal research for the purpose of perhaps using this approach on future 63-20 transactions.

Option 5, the no liquidation option, does not accomplish the financial objectives and is not recommended.

The central overhead options present the best financial opportunity for the county's Current Expense Fund at the least amount of legal risk.

Options 3 and 4 can be implemented with no change to the current Central Overhead rate methodology and would provide the Current Expense Fund a

steady revenue stream once netted against the required lease payments in the 63-20 transaction. Market risk can be mostly eliminated because these are internally created lease rates. Over time the Current Expense fund would recover the value of the land and market increases in rental rates above the debt service requirements of the transaction. Once again, total liquidation could be accomplished at any time with the issuance of limited general obligation bonds backed by these revenue streams.

At this point in time, it appears that Option 4 is the best option, and could be implemented once the new building is occupied. Further exploration and deliberation, including a thorough legal review, will be required prior to a final executive recommendation.

5.2.2 Options for Use of Land Liquidation Revenues

Clearly the use of any revenues will depend largely on the amount of anticipated revenues and the timing of revenue streams. The King County Council could continue to budget use of these funds during the annual budget process or the County Council, by policy, could dedicate a specific use for these funds. The FMD recommends that consideration be given to dedicating the real estate liquidation portion of these payments as part of the CX Fund assessment to the Major Maintenance Reserve Fund.

The FMD is an advocate of charging both Non-CX and CX agencies rent above and beyond base operating costs. As reported in the Division's recent Reorganization Report, this then provides an incentive for all agencies to consider the full value of space when making choices about how much space they will be occupying. Accordingly, the FMD believes that Option 4 is the best opportunity for the county. That option captures all the advantages of Option 3 and enhances accountability for space usage.

The Office of Management and Budget will integrate a process into the 2005 budget development to address the potential uses of the land liquidation revenues. Preliminary discussions regarding the liquidation options and strategies will be included in future transmittals to council related to the New County Office Building.

Next Steps

The next steps in the program are particularly critical to the overall project schedule, and will largely influence overall project costs. The project schedule for Phase II, particularly for the first half of 2004, includes extensive council involvement. This level of council involvement and deliberation early in the process will ensure that council is kept thoroughly apprised as the project moves forward, and will allow for council direction as the project progresses.

The schedule is ambitious. Moving forward with the schedule as proposed will require focused attention and discipline on the part of FMD staff, the developer, and the executive branch. The proviso requirements, together with logical council check-back points in the process, result in the need for numerous council committee briefings and council actions. Success of this project will depend not only on the ability of the FMD team and the developer to stay on schedule, but also on council's attention to the many executive transmittals related to this project, while balancing consideration of this proposal with a wide variety and large volume of other policy items and legislative actions. FMD staff will work closely with council staff to provide any support necessary to enhance council's ability to maintain this challenging schedule. If council staff are available, FMD will include them in meetings and discussions with the FMD team and the developer.

Delays to the schedule of this plan could have serious consequences:

- The loss of immediate savings,
- Potential loss of a favorable construction environment,
- Added market risk that lease rates will increase.

As depicted in the schedules (Figures A through C on pages 20 through 22), there are a number of steps in the process involving King County Council review or action. Some of these steps are an outgrowth of the provisos included in Ordinance 14812; some are executive initiated review points for council, or requests for authority to move forward. Careful planning and close cooperation between the executive and legislative branches will be necessary to keep to the schedules as laid out in this report.

6.1 Required Council Action

Figure C on page 22 is a summary of anticipated council briefings and requested actions. Although ambitious, the schedule in Figure C allows for early dialogue and thorough discussion between the executive and council prior to moving forward with each major step in the proposed project plan.

6.1.1 First Quarter, 2004

During the first quarter of 2004, the FMD will provide responses to three of the four provisos included in Ordinance 14812:

- **Project Plan Report** (this report). In accordance with the proviso language, \$400,000 of the \$1.2 million appropriated in Ordinance 14812 may not be expended or encumbered until council has approved this report by motion. It is hoped that the executive will receive council approval on the project plan by the first week in March. Approval past that timeframe will make it extremely difficult to maintain the program plan.
- **Site Selection Report.** This report will provide a thorough evaluation of the three sites under consideration for the new county office building. Evaluation criteria will include cost, schedule, ability to meet program and operational needs, business continuity, designability/constructability, and ability to meet other King County objectives. This report will be transmitted to council no later than March 3, 2004. Council approval of the site selection is required by April 1, 2004, in order to stay on schedule.
- **Steam Plant Re-evaluation Report,** which will re-evaluate the proposal to construct a central steam plant. FMD staff will work closely with Seattle Steam to resolve questions/issues raised in the report prepared by Seattle Steam titled *Analysis of King County Steam Plan Reports*. FMD staff will also begin working with the developer Wright Runstad and their team of architects to evaluate the design/constructability of the steam plant, given building design requirements and site constrictions. A final recommendation on whether or not to construct a steam plant will be based on the following criteria:
 - **Cost,** including any refinement on rate projections as an outgrowth of the collaborative review effort between Seattle Steam and FMD.
 - **Design/Constructability,** taking into consideration zoning requirements and design/construction constraints.
 - **Business continuity,** (particularly risk to Harborview).
 - **Impact on Financing/insurance,** evaluating whether or not construction of an on-site steam plant could create a disadvantage in terms of financing or insurance.

The steam plant reevaluation report will be transmitted to council on or before the due date of March 31, 2004.

- **The First Quarterly Report**, which will include a project status of tasks and project activities and project budget status. The report will be transmitted to council on March 31, 2004.
- **Conceptual Design**. Once a site is selected, FMD and the developer will prepare and evaluate various design options. The design concept will be finalized by the end of March. Although not required by proviso, allowing council to review and comment on the design concept appeared appropriate to the executive.

It should be noted that the site selection decision in the first quarter determines the schedule for all remaining steps in the process. For planning purposes, the schedule outlined below assumes the most aggressive timeline option. If the North Kingdome Parking Lot is ultimately selected it will push the schedule for remaining items back according to the timelines in Figure B (page 21).

6.1.2 Second Quarter, 2004

The second quarter will be the time for decisions regarding the office building design concept. Based on conceptual design and other considerations, council will also need to act upon the executive's recommendation regarding the steam plant. The schedule calls for council deliberations regarding the evaluation of work release, as required in the proviso.

- **Work Release Report**. The proviso requires the executive to prepare a feasibility report evaluating the concept of convert the current work release space in the King County Courthouse to office space or other compatible courthouse functions. A decision regarding work release is not on the critical path in terms of the New County Office Building construction timing; however, the proviso prohibits expenditure or encumbrance of \$150,000 of the \$1.2 appropriated to Phase II of the New County Office Building plan until council approves by motion the work release report.

FMD will transmit the Work Release Report to council by May 3, 2004. Decisions regarding work release could conceivably influence the overall need for office space in the new building. Because the final decision regarding work release could affect the programming of the new building, final council approval of the report (as required by proviso) is needed by May 24, 2004. This approach will allow council to consider any impacts the work release recommendation might have on the new office building prior to final design

- **The Second Quarterly Report**, which will include a project status of tasks and project activities and project budget status. The report will be transmitted to council on June 30, 2004.

6.1.3 Third Quarter 2004

The only item required by proviso in the third quarter is the third quarterly report. The third quarter is, however, a pivotal point in the New County Office Building Plan. In the third quarter of 2004, the executive will submit legislation allowing the program to move into Phase III. Legislation submitted in this package will include the following, assuming a 63-20 approach:

- An ordinance authorizing a lease of the new building
- Long-term lease.
- Development agreement
- Estimate of necessary costs.
- Final estimate of building price.
- Other documents required by bond underwriting.

The decision package for Phase III will be transmitted to council by early August to allow for council action prior to the 2005 budget deliberations. Gaining approval to begin Phase III work prior to the start of budget deliberations is absolutely critical to maintaining the project schedule.

6.1.4 Fourth Quarter, 2004

The only item planned for transmittal from the executive to the council in the fourth quarter is the fourth quarterly report.

6.2 Project Team Plan of Action

The project team (FMD staff and the developer) will move forward according to the schedules contained in Figures A through C (pages 20-22). It will be important for the legislative branch to articulate to the executive any specific items of concern regarding the scheduled work items. In the absence of specific legislative action disapproving any of the executive proposals, and in the absence of any specific concerns articulated by the council to the executive, the project team will proceed with all work items according to the project plan. Any executive-initiated changes in the plan will be made known to the council in the quarterly reports and/or in any of the legislative packages described in Section 6.1 above.