



MANAGEMENT LETTER

DATE: August 25, 2015

TO: Metropolitan King County Councilmembers

FROM: Kymer Waltmunson, County Auditor 

SUBJECT: King County Courthouse: Costly Revitalization Might Not Meet County Needs

Several mechanical systems in the King County Courthouse are old and failing, which means the County will face a critical decision about whether to spend over \$100 million either to replace these systems or to pursue an alternative that might better meet its needs. The Courthouse Revitalization Project proposed by the Facilities Management Division (FMD) would repair aging mechanical systems and make other priority improvements, which could commit the county to one option without first thoroughly analyzing possible alternatives.

A more thorough analysis of alternatives to the Courthouse Revitalization Project is needed to ensure that the County does not make decisions that could cost hundreds of millions of dollars based on limited information. A County Council proviso directs FMD to conduct an alternatives analysis, which FMD intends to complete by April 2016. The analysis planned by FMD would not take into account the future operational needs of the county or the needs of the downtown campus as a whole. These are necessary for a thorough alternatives analysis, but county space-planning efforts do not provide an understanding of these needs. This lack of space planning means the alternatives analysis will not provide decision-makers with sufficient information to determine a path forward.

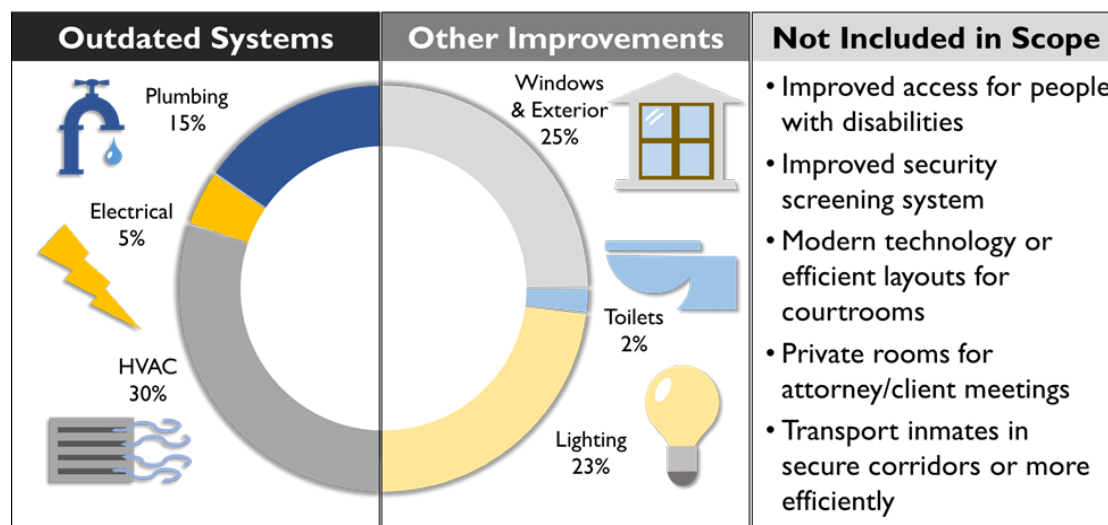
The County needs a plan to manage risks while it is selecting and implementing an alternative, since courthouse systems failures could impact the ability of the county to conduct business. The County needs a clear understanding of the risks facing the courthouse as well as an action plan to mitigate those risks. FMD is planning to use a consultant to gather additional information about these risks, but it does not have a documented plan to avoid, mitigate, or respond to the risks of systems failures.

This management letter focuses on our evaluation of actions taken on the project to date, and our overall observations and recommendations about broader space planning issues for King County facilities.

The Courthouse Revitalization Project is a very large and risky maintenance project supported by the general fund. Constructed in 1916, the King County Courthouse faces a number of issues, including aging mechanical systems and an outdated design that fails to meet the needs of some of its tenants. Contributions to the major maintenance reserve fund have been insufficient to pay for needed repairs and the replacement of courthouse systems, despite stipulation in King County Code that the fund be fully financed.¹ In 2014, FMD proposed a capital project to revitalize several of these major mechanical systems and make other priority improvements to the building. FMD estimates that this project could cost approximately \$150 million if done all at once and more if each system were repaired one by one.² The Courthouse Revitalization Project received the highest capital project risk score in 2015 (twice the average of the other 18 projects considered).³

The proposed scope of the project does not address key operational issues with the courthouse. Even with an investment of over \$100 million, the proposed project would not address fundamental limitations the courthouse places on county operations. Instead, the scope of the project is restricted to repairing outdated systems, windows, toilets, and lighting. See Exhibit A for examples of some of the operational needs identified by courthouse tenants that are not addressed by the proposed scope. FMD is beginning planning-phase work on the revitalization project with a \$1.2 million appropriation from the major maintenance reserve fund, which is largely supported by the county’s general fund revenues.

Exhibit A: Half of Courthouse Revitalization Project would repair systems at risk of failure, but project would not address limitations on county operations.



Source: Auditor’s Office analysis of proposed scope of work. Improvements include removing exterior aluminum panels, restoring historic windows, adding 20 unisex restrooms, and making interior lighting more efficient.

¹ King County Code 4A.200.410(G) requires the major maintenance reserve fund to be fully financed.

² FMD’s current cost estimate for the project is a rough order of magnitude estimate with an accuracy range of –50 to +100 percent. This means actual costs could range from approximately \$75 to \$300 million. FMD stated that it is more likely that actual costs will be higher than the estimate in this case.

³KCC 4A.130.010 requires the Joint Advisory Group to annually score capital projects estimated to cost more than \$10 million to assess the risk that the project will exceed the budget or schedule or negatively impact the county.

FMD is proceeding with the proposed scope for a systems revitalization project without first considering other alternatives that might better meet county needs. FMD is planning to hire a consultant to perform project management services during the current phase of the project and potentially for future phases, if funded. FMD plans to consider prospective consultants' experience in systems revitalization and their approach for managing all phases of a systems revitalization project. However, it is possible that decision-makers could select an alternative other than systems revitalization. Until alternatives are thoroughly analyzed and an alternative selected, hiring a project manager specifically for a systems revitalization project is premature and could waste county resources.

Recommendation I Facilities Management Division should suspend its procurement process to obtain a project manager and seek assistance as needed to manage funded project activities.

When determining a scope for this project's budget request, FMD did not have a thorough analysis of a variety of alternatives to systems revitalization to identify whether an alternative approach might better meet the county's needs. This is in contrast to another recent and similar capital project, which included extensive analysis of alternatives. The Youth Services Center faced a maintenance backlog of \$53 million, which is approximately \$100 million less than the estimates for the courthouse maintenance. After an alternatives analysis, decision-makers opted to replace the facility with the Children and Family Justice Center Project rather than proceed with extensive maintenance investments on the existing buildings.

An insufficient analysis of alternatives could lead to a decision that does not make the best use of county resources. A thorough alternatives analysis is a standard best practice for any capital project, but especially for one as large as the Courthouse Revitalization Project.⁴ According to best practices, an alternative representing the status quo should also be included to ensure that action is warranted. In this case, the status quo would include making repairs and improvements within available funding. FMD states that analyzing the status quo is unrealistic and unnecessary, since this alternative would risk systems failures of the building. A thorough analysis would compare the baseline costs of the status quo against a diverse range of alternatives. If the analysis does not include a diverse range of alternatives, then the best option might never come before decision-makers, and they may select an expensive option that does not meet the county's needs.

Alternatives analysis cannot be done well without a better understanding of current and future operational needs of the downtown campus. According to best practices, an alternatives analysis should focus on meeting the needs of the users. Furthermore, since the

⁴An alternatives analysis involves identifying, evaluating, and selecting a preferred alternative to best meet an organization's needs. This includes comparing the operational effectiveness, costs, and risks of a variety of potential alternatives.

courthouse is physically and functionally linked with several county buildings downtown, an analysis should include the impact of alternatives on the needs of the downtown campus.

The county's primary document for comprehensive space planning, the Real Property Asset Management Plan (RAMP), is out of date and insufficient for a thorough alternatives analysis. The 2013 RAMP has a section for future needs and strategies, but it does not include the Courthouse Revitalization Project, a strategy for the downtown campus, or projections of agency space needs. Without an updated RAMP, an alternatives analysis would likely not reflect the county's needs. An improved RAMP that includes future space and operational needs for county agencies can provide a more accurate basis for alternatives to revitalizing systems in the courthouse.

County code requires FMD to update the RAMP in 2016, but due to the elimination of its strategic planning staff, FMD does not intend to complete this update. FMD acknowledges that long-term space planning and understanding the future needs of the entire downtown campus is necessary to make fully informed decisions about investments in the courthouse. However, FMD states that it lacks the time and resources to complete such a comprehensive analysis or to update the RAMP.

Recommendation 2 The County Executive should determine the future space needs of the downtown campus and update the Real Property Asset Management Plan as mandated by King County Code 20.12.100.

A thorough alternatives analysis based on an updated and improved RAMP could reveal options that address funding challenges to the project and operational challenges to county agencies. According to best practices, a thorough alternatives analysis should consider a wide range of options that meet the operational needs of stakeholders, such as building tenants. However, several tenants we spoke with said they were unaware of FMD's proposed project and would be interested in exploring alternatives beyond systems revitalization to address the limitations the building design places on their operations. Without a thorough alternatives analysis, informed by the needs of stakeholders, key factors may not be assessed sufficiently to determine whether they can be addressed by this project. These include:

- **The current courthouse layout and need for constant security mean that the building may never be utilized fully or efficiently.** According to the RAMP, the courthouse underutilizes almost a quarter of its floor space, one of the highest underutilization rates among county-owned buildings. For example, if office spaces in a new building had the same density as in the King Street Center, it would require nearly

80,000 fewer square feet of office space for courthouse tenants.⁵ This represents almost a third of the 240,000 square feet used for offices in the courthouse.

- **The courthouse does not fully meet the operational needs of the courts or users of the building.** For example, courtrooms are unable to accommodate emerging technology needs, the lack of secure holding facilities near courtrooms makes inmate transportation less efficient, and the layout of the courthouse does not provide private spaces for court employees and customers. In contrast, new facilities around the country and in King County improve on courtroom layouts and reduce the amount of redundant facilities and unused space.
- **The general fund faces a structural shortfall, and there are few alternative sources to fund a \$100 to \$200 million maintenance project.** While FMD recognizes that additional funding options need to be explored, a thorough alternatives analysis might identify a project alternative that could be more likely to have financing options other than the general fund or possibly generate revenue. For example, the Chinook and the Ninth and Jefferson building projects moved tenants into new buildings using private partnerships to fund construction, while voters approved a levy for the Children and Family Justice Center.

Identifying the long-term space needs through an improved RAMP will allow the county to conduct a thorough analysis and consider alternatives that optimize efficiency gains and the type and use of funds for a project of this size and scope.

FMD plans to complete an alternatives analysis, but this analysis might not be thorough enough for the County Council to make the best decision about the future of the courthouse. In approving \$1.2 million for project planning, the County Council issued a proviso directing FMD to prepare a report by April 2016 that must include an analysis of alternatives. However, FMD's alternatives analysis will not include space planning, future operational needs, or a strategy for the downtown campus when considering its alternatives. FMD has stated that, based on the RAMP, it assumes the courthouse will continue to be used as it is currently; this assumption could result in the analysis omitting alternatives that might better serve the county's needs. Furthermore, FMD's alternatives analysis will not address the structure of the courthouse, such as its underutilization and the limitations it places on county operations. FMD states that such a thorough analysis is necessary, but beyond the scope of the current appropriation for this project.

⁵ According to the 2013 RAMP, the courthouse uses 258 square feet per employee for those who need regular office space (i.e., this does not include courtrooms or other special function spaces). The King Street Center is currently using 173 square feet per employee. Assuming a new building used 173 instead of 258 square feet per employee for the 926 courthouse employees who need regular office space, it would require nearly 80,000 square feet less than the courthouse currently uses for regular office space.

Recommendation 3 The County Executive should conduct and report on a thorough alternatives analysis that compares the status quo of maintaining the current courthouse to other viable alternatives based on the future needs of the downtown campus, the updated Real Property Asset Management Plan, and input from stakeholders.

FMD's lack of risk management planning could lead to higher costs to maintain courthouse systems. Despite studies indicating that critical components of courthouse electrical, HVAC, and water systems are past their useful life and at risk of failure, as of July 2015, FMD did not have a risk management plan for potential courthouse systems failures. A plan will be needed to help maintain operations in the event of systems failures. FMD is planning to use an architectural and engineering consultant to improve information about these risks.

Should systems failures occur in the courthouse, it could impact the ability for the county to continue to conduct business. Additionally, costs for emergency repairs could be higher than costs for proactive solutions. Considering the vital county operations provided by courthouse tenants—including Superior Court, County Council, and the Sheriff's Office—FMD needs a clear understanding of the risks facing the courthouse as well as an action plan to mitigate those risks.

FMD was unable to produce documentation of the probability or impact of potential systems failures. In addition, FMD could not produce documentation of proactive planning to avoid, mitigate, or respond to the risks of systems failures. These risks will exist until an alternative is selected and implemented, which could take several years. During this time, the county will rely upon FMD to keep the courthouse habitable and minimize the need to relocate staff to provide for continuity of operations. Courthouse tenants and other key stakeholders need to be made aware of risks, so that they can plan to mitigate potential impacts on their operations should systems failures occur.

Recommendation 4 Facilities Management Division should conduct and document risk management planning to maintain county services in the courthouse for the number of years it will take to thoroughly explore alternatives and complete the systems revitalization or other alternative project.

Recommendation 5 Facilities Management Division should work with courthouse tenants and other stakeholders to understand, develop, and document action plans to mitigate potential impacts to operations in the event of failure of building systems.

Acknowledgments

We wish to thank the Department of Executive Services and FMD for their cooperation with this review.

Elise Garvey, Management Auditor; Peter Heineccius, Senior Management Auditor; and Tina Rogers, Capital Project Oversight Manager, conducted this review. Brooke Leary, Senior Principal Management Auditor, was the project supervisor. Please contact Brooke at 477-1044 if you have any questions about the issues discussed in this letter.

cc: Dow Constantine, King County Executive
Fred Jarrett, Deputy County Executive
Rhonda Berry, Assistant Deputy County Executive
Dwight Dively, Director, Office of Performance, Strategy and Budget
Ken Guy, Division Director, Department of Executive Services (DES), Finance & Business Operations Division (FBOD)
Eunjoo Greenhouse, Interim Deputy Director, DES, FBOD
Diane Carlson, Director of Regional Initiatives, King County Executive Office (KCEO)
Caroline Whalen, County Administrative Officer, DES
Tom Koney, Deputy Director, DES
Anthony Wright, Division Director, Facilities Management Division (FMD)
Elissa Benson, Interim Deputy Director, FMD
Carolyn Busch, Chief of Staff, King County Council (KCC)
Patrick Hamacher, Senior Principal Legislative Analyst, KCC
Rachelle Celebrezze, Legislative Analyst, KCC
Anne Noris, Clerk of the Council, KCC
Shelley Harrison, Administrative Staff Assistant, KCEO