

## FINAL MEMORANDUM

**DATE:** January 6, 2014

**TO:** John Caulfield and Becky Newton, City of Lakewood

**FROM:** Michael Hodgins, Emmy McConnell, & Annie Saurwein, BERK Consulting

**RE:** **Pacific Highway Site Cost Analysis and WSDOT Relocation Options**

---

### INTRODUCTION

#### Background

The City of Lakewood (City) is in discussion with the Washington State Department of Transportation (WSDOT) regarding a property in Lakewood near Interstate 5 that is currently owned by WSDOT. This property, along with several adjacent parcels, may present an opportunity to foster a catalyst-type redevelopment project in the City.

The project site is currently being used for industrial purposes, as a WSDOT maintenance site. The City does not believe that this is the highest and best use for the site, as the site's prime Interstate 5 (I-5) frontage, heavy daily traffic loads, and proximity to the Lakewood Station-Sound Transit make it particularly suited for retail development. Additionally, residential development (including multifamily and single family residential) and the construction of a new hotel (proximate to the site) is already planned elsewhere in the City, which will increase demand for nearby retail services. Retail development is also aligned with community interests and the fiscal goals of the City.

There are many stakeholders involved in this project. The city has a financial interest in achieving highest and best use for its properties, to generate tax revenue to support city services. WSDOT has an interest in having a cost effective and easily accessible maintenance site for delivery of its services. Additionally, there are multiple current property owners at the site the City is considering for redevelopment who would need to be willing to sell their properties in order for this type of development to occur.

#### Project Overview

The City is seeking assistance in evaluating the possible fiscal benefits that a redevelopment project at this location might generate. That type of redevelopment project would only be possible if the WSDOT maintenance site is relocated to a different property, to allow the parcels at the Pacific Highway Site to be sold together. This memo outlines the estimated costs of transferring locations, and assesses the reasonability of cost estimates that have been developed to-date.

Since relocating the WSDOT maintenance facility will have significant costs, including current site environmental clean-up and demolition, new site acquisition, and new facility construction, the purpose of this memo is to describe and assess the potential costs associated with relocation.

## COSTS ASSOCIATED WITH SITE TRANSFER

### Summary of Current Project Cost Estimates

WSDOT and the City's public works department have estimated site acquisition will cost about \$3.25 million and construction costs will total approximately \$16.2 million, as shown in Exhibit 1. The construction cost estimate comes from the State of Washington Agency/Institution Project Cost Estimate form. The site acquisition estimate and current site clean-up and demolition costs are based on analysis previously conducted by the City's public works department.

**Exhibit 1**  
**Current Estimated Site Development Costs (from WSDOT and Lakewood Public Works)**

Item	Est. Cost
<b>Consultant Services</b>	<b>\$820,533</b>
Pre-Schematic Design Services	\$45,000
Construction Documents	\$423,320
Extra Services	\$55,000
Other Services	\$190,187
Design Services Contingency	\$107,026
<b>Construction Contracts</b>	<b>\$13,081,957</b>
Site Work	\$3,049,179
Primary Construction Costs	\$6,191,449
Construction Contingencies	\$2,772,188
Sales Tax (8.90%)	\$1,069,141
<b>Equipment</b>	<b>\$235,889</b>
Equipment	\$216,611
Sales Tax (8.90%)	\$19,278
<b>Other Costs</b>	<b>\$1,500,615</b>
<b>Project Management</b>	<b>\$529,529</b>
<b>Total Construction Cost</b>	<b>\$16,168,523</b>
New site acquisition and clean up (10 acres)	\$3,250,000
Current site clean up and demolition	\$1,025,000
<b>Total Cost Including Site Costs</b>	<b>\$20,443,523</b>

Source: WSDOT, 2014; City of Lakewood, 2014; and BERK, 2014.

- The largest drivers of construction costs are primary construction contracts (\$13.1 million), including facility construction (\$6.2 million), site work (\$3.0 million), contingencies (\$2.3 million) and sales tax (\$1.1 million); and "other costs," primarily site mitigation and security, (\$1.5 million).
  - It's important to note that WSDOT's estimate includes an assumption of a 16% increase in building space over the existing facility, which adds about \$1.5 million to the cost of the project.
- The City's public works department estimated site acquisition costs at \$3.3 million.

- Demolition of existing buildings on the current site (\$500,000) and clean-up of the current site (\$525,000) are estimated to total an additional \$1.0 million.

## Review of Estimated Costs

This section builds on the summary above to determine the reasonableness of the estimates that have been put together so far by WSDOT and City public works staff. It's important to understand if these estimates should form the basis for continued discussions regarding project feasibility and decision making.

Below, this assessment considers the three largest components of the project's cost estimate: building costs, site preparation costs, and "soft costs" such as design, contingencies, and project management.

### Building Construction Costs

The table below provides a more detailed summary of the facility construction cost estimate developed by WSDOT.

Building	SF	Cost/SF	Estimated Cost
Heated Office	9,417	\$ 164	\$ 1,547,684
Service Bay	5,022	\$ 138	\$ 690,776
Heated Storage	7,254	\$ 136	\$ 988,358
Unheated Storage/Vehicle	19,801	\$ 123	\$ 2,431,563
Truck Washbay	1,945	\$ 181	\$ 352,068
Decant Facility	2,500	\$ 60	\$ 181,000
<b>Total</b>	<b>45,939</b>	<b>\$135</b>	<b>\$6,191,449</b>

WSDOT used RSMeans construction cost data indices to develop their cost estimates. Costs per SF were selected for each separate type of facility they are considering for construction. Given the square footage provided by WSDOT and the independent estimate of cost per SF, it is likely that this estimate is reasonable for a facility of this size. While these are reasonable estimates, actual costs can, and likely will, vary from the RSMeans estimate, and could come in either higher or lower than the estimates above. Factors that can create substantial variation in actual construction costs include fluctuating materials and transportation costs, and construction industry demand at the time of construction.

It's important to note that the project estimate provided by WSDOT assumes a total building square footage of 45,939, which is approximately 16% or 6,445 SF larger than the existing facility. If WSDOT were to build strictly a replace facility more similarly sized to the existing maintenance yard, building construction costs could be closer to \$5.3 million.

This \$0.9 million in additional building cost would be an incremental value to WSDOT of moving to a new location. This value would go toward meeting WSDOT's current needs for maintenance facilities more closely than the current building does.

### Site Preparation Costs

The site preparation costs are based on an estimate of \$7 per SF of land area to develop the site, and include all 10.2 acres of the potential site. This per square foot cost estimate is inclusive of site preparation, improvements, mechanical and electrical utilities, stormwater, drainage, and paving.

One variable that the City is interested in studying as part of this analysis is if the project were sited on smaller lot sizes, potentially ranging from as small as five acres up to the size of the current facility's lot, which is about eight acres.

Assuming similar land preparation costs per SF, site preparation costs under a smaller site size assumption could range from between \$1.5 million and \$2.4 million, which would be a significant savings from the \$3.0 million estimated for the full 10 acre site.

### ***Design, Contingencies, and Project Management***

The design, contingencies, and project management costs included in the estimate are calculated using standard project assumptions about each of these cost components as a percentage of actual facility construction costs. This section describes the factors included in the WSDOT estimate, and the reasonableness of each.

**Design (consultant) costs.** The estimate provided by WSDOT assumes that consultant fees related to design and bidding will be approximately \$0.8 million, or about 8.9% of the Maximum Allowable Construction Cost (MACC) of the project, which is defined as the site work and primary construction costs (\$9.2 million).

**Construction Contingencies.** The estimate provided by WSDOT uses standard WSDOT estimate practices to ensure there are adequate costs built into the estimate to deal with unforeseen circumstances. The estimate includes the following contingency amounts:

- **15% for management reserve.** This allowance provides flexibility to respond to potential scope changes throughout the project lifetime.
- **15% for allowance for change orders.** This contingency provides flexibility to address unknown conditions and changes that will have to be addressed during construction, such as quantity differences or variations in materials prices.

These contingency amounts are consistent with other estimates for WSDOT public works projects. It's important to note that contingencies may not be spent, and these may not represent "real" project costs unless unforeseen circumstances result in cost increases.

**Agency Project Management.** The estimate provided by WSDOT assumes about \$0.5 million in agency project management costs. It is unclear from the structure of the estimate how this amount was calculated. However, it represents about 3% of total project costs, which is reasonable compared to similar construction projects.

### ***Potential Range of Site Development Costs***

Our review of WSDOT's site estimates finds that the assumptions used by WSDOT and the city's public works staff are generally reasonable. Therefore, the main opportunities for reducing the cost of this project would come from adjustments in the scope of the project, such as reducing the amount of land acquired and developed from 10 acres to something less, or reducing the scale of the building to closer to the size of the current facility.

Exhibit 2 shows how costs may vary if the new maintenance facility were sited on either a 5-acre site or an 8-acre site. All estimates shown assume the same, larger building size as proposed by WSDOT. Please note that these estimates would require working with WSDOT to determine feasibility of each scenario. At this time, they are presented to show the general magnitude of the differences in cost.

**Exhibit 2**  
**Potential Range of Site Development Costs (Not Including Land Acquisition)**

	WSDOT Budget Estimate	Potential Cost Range for Smaller Site	
	10.2 acre site	~5 acre site	~8 acre site
Consultant Services	820,533	820,533	820,533
Site Work	3,049,179	1,494,696	2,391,513
Facility Construction	6,191,449	6,191,449	6,191,449
Contingencies	2,772,188	2,305,843	2,574,889
Sales Tax	1,069,141	889,287	993,049
Equipment	235,889	235,889	235,889
Other Costs	1,500,615	1,034,270	1,303,315
Project Management	529,529	529,529	529,529
<b>Grand Total</b>	<b>16,168,523</b>	<b>13,501,496</b>	<b>15,040,165</b>
Costs Related To Increased Facility SF	1,493,084	1,493,084	1,493,084
<b>Replacement Cost Value</b>	<b>14,675,439</b>	<b>12,008,412</b>	<b>13,547,081</b>

Source: WSDOT, 2014; City of Lakewood, 2014; and BERK, 2014.

The main differences in the cost estimates come from two major drivers: the cost of site improvements and the cost of land acquisition for different site sizes (five to ten acres). Some costs, such as contingencies and sales tax, scale proportionally with those changes to further reduce the overall project cost estimate. According to this analysis, a smaller scale project could cost between \$13.5 million and \$15.0 million for construction, compared to WSDOT's original estimate of \$16.2 million.

It's important to note that WSDOT's estimate includes an assumption of a 15% increase in building space over the existing facility, which adds about \$1.5 million to the cost of the project. Cost estimates using assumption of a similar sized building are shown in the bottom line of the table, labeled "Replacement Cost Value."

#### **Land Acquisition and Alternatives**

The cost estimate developed by WSDOT assumed the purchase of a specific 10-acre site for the new maintenance facility location. The cost estimate was based on the assessed value of the site in mind at that time – about \$3.25 million.

Actual site acquisition costs will vary significantly based on the eventual site location and the size of the site that is selected. In this analysis, we have considered sites ranging from five to eight acres, as well as the original 10-acre estimate.

Acquisition of land may end up being the final consideration in whether or not the project is feasible. Once all other project costs are understood, it may make sense to think of land acquisition from a "what can we afford?" perspective. WSDOT would need to understand its available funding to support such a relocation, and if there are opportunities to minimize land acquisition costs. If the new location can be acquired at a minimal price, revenues from the Pacific Highway Site sale could offset land acquisition costs as well as some project construction costs.

## Benefits and Fiscal Impacts of Relocation

This section identifies some of the additional benefits that decision makers should take into consideration that are not easily quantified and therefore not included directly in the above analysis.

### *Benefits for WSDOT*

For WSDOT, most of the potential benefits will likely come from improved operating effectiveness of a more modern and tailored facility. Potential benefits may include:

- The proposed facility includes more building square footage than the current facility, which will provide additional value to WSDOT over their current operating capacity at this maintenance facility. Also, it will set them up to better manage growth going forward.
- New facilities will likely operate more efficiently than older facilities. This may result in reduced utility costs to WSDOT, as well as reduced ongoing maintenance costs of the buildings themselves.
- WSDOT will be able to design from the ground up a maintenance facility that is optimized for their current operations and fleet of vehicles. They can “right size” the buildings on the site, and improve the layout for better flow of operations.
- A site further from I-5 and existing high levels of retail activity may result in less traffic and easier movement of WSDOT fleet vehicles.

### *Benefits for Other Jurisdictions*

In addition to benefits for WSDOT, retail development on this side would benefit multiple jurisdictions through increased retail sales tax and property tax revenues. The City of Lakewood, Pierce County, Washington State, Pierce Transit, the Port of Tacoma, and Pierce County Library all stand to receive additional tax revenues from retail use of the site.

## ADDITIONAL CONSIDERATIONS FOR FURTHER ANALYSIS

This range of potential outcomes suggests that the City would need to answer some key questions about this project before moving forward with a decision. Such questions should include:

- **Could a new WSDOT’s site be acquired at no cost by trading existing city properties to WSDOT?** If so, site acquisition costs would be minimal.
- **For how much would WSDOT be able to sell the Pacific Highway Site to a developer?** The approximate assessed land value of the Pacific Highway Site is about \$2.8 million. If WSDOT were to acquire new land at little to no cost and sell the current site for \$2.8 million, this would create some revenue to be used to support the relocation more generally.
- **Does WSDOT need a larger facility?** The project WSDOT has estimated includes a 16% increase in building space over the existing facility, which adds about \$1.5 million to the cost of the project.
- **Are there financing options, such as public-private partnerships, or deal structures that could minimize costs, or cost risk to WSDOT?** There are a number of alternatives for how the new WSDOT facility could be developed. One option that is gaining increasing popularity as a way to efficiently and effectively build public facilities is through a 63-20 financing mechanism. This alternative method of obtaining tax-exempt financing allows public bonds to be used if secured by a lease agreement to construct public facilities.

A nonprofit corporation issues tax-exempt debt on behalf of a political subdivision for the purpose of financing facilities. Generally, these bonds require a credit-worthy private developer that is willing to enter into a lease to support the bond offering. The nonprofit corporation also manages and operates the building over the lease term. The facility is transferred to the government entity once the debt is retired. The tenant is required to be either a governmental entity or a charitable organization. A minimum 90% of the space must be occupied by the governmental entity, as specified by “private use” requirements.

63-20 financed bonds have higher financing costs, such as a higher interest rate and issuance fees, due to the perceived higher level of risk compared to the more traditional general obligation bond, which has the full backing of the governmental jurisdiction. 63-20 financed bonds also have a small asset management fee associated with them.

Benefits of 63-20 financing include the ability to realize construction cost savings through using a general contractor/construction manager (GC/CM) project delivery process compared to the design-bid-built model typically used for government facilities construction. Under this project delivery method, the general contractor guarantees a fixed price for the work. As a result, the contractor takes on additional construction risk of subcontracting the project work. In addition, the contractor provides specialized project management, scheduling, budgeting, and other advice early on and throughout the project design process, which can result in a more efficient construction process and less costly project. This project delivery process is especially advantageous for unique or complex projects that managing governmental agencies may not have much experience doing. The cost savings are not guaranteed, and they vary from project to project depending on the situation. Lastly, 63-20 bonds are also not counted towards a jurisdiction’s debt limit, which is advantageous for jurisdictions with debt capacity issues.

## Next Steps

**Capacity Analysis.** A capacity analysis should be conducted to determine WSDOT’s site need specific to relocating the maintenance facility. This analysis should also identify potential sites within Lakewood and surrounding areas that would meet this need.