



MEMORANDUM

TO: Mayor Pete Kmet
City Council Budget and Finance Committee

FROM: John Doan, City Administrator

DATE: November 20, 2021

RE: Maintenance & Operations Facility Scope and Financing

REQUESTED ACTION

Staff is requesting the Council review and authorize the changes in the scope and financing plan for the proposed Maintenance & Operations Facility. This memo reviews the project history and the prior concept plan that was approved by Council and propose a new alternative plan along with an updated financial strategy. The specific next step is to authorize staff to select a project designer and negotiate a contract to prepare a final design and bidding. This would include permitting and meetings with the community.

CURRENT PLAN

History

The City has two operations facilities. One is the Public Works Shops, located behind City Hall, and the other is Parks and Facilities Shops at the SW corner of Israel Road and Capitol Blvd. The Public Works Shops site was built and started in use in 1988 after the City outgrew the former site on Tumwater Hill which is now Jim Brown Park. The Parks and Facilities location previously belonged to the Port and was transferred to the City in 1966. In 1987, a bond issue approved the purchase of fire engines and improvements to what was called the “south end fire station” at this location. The Fire Department moved from the former City Hall complex that is now Old Town Center (OTC) later in 1987. In 2000, the Fire Department moved to Station T-1 and the former south end fire station site was repurposed by Parks and Facilities. This facility had little renovation to either bring it up to code or to make it suitable for the office, storage, and operational uses in Parks and Facilities.

The underlying ownership of the PW Shops is with the General Fund. This property includes a storage yard for materials (sand, gravel, pipe, light poles, etc.), covered

and uncovered vehicle parking (most vehicles are pick-up trucks), offices with public and staff access, employee lunchroom/meeting room, and maintenance and repair facilities. While the primary tenant is the three utilities, other uses include an open, fenced and secure vehicle storage for Police evidence, secure enclosed storage for other Police evidence, fleet vehicle parking for several General Fund departments, a gas and diesel fueling facility with underground tanks, a shed with volunteer and emergency supplies, and secure storage for Parks and Recreation. The City's Fleet Maintenance (Equipment Repair/Replacement Fund) is also located in the facility. They are responsible for the maintenance of all City vehicles except fire engines.

The Parks and Facilities Building is owned by the General Fund but has an underlying deed restriction dating back to the FAA that limits the use and potential sale of the property, keeping it in City or Port use. The Port has indicated they no longer have an interest in the property.

Both of these operations facilities need extensive upgrades to meet codes, energy savings, modern office design, technology, security, and operational efficiency. They have also outgrown the space for the operations as the population of the City has more than tripled since the time those facilities were opened. More critically, the geographic size of the City has grown by more than 2.5 times since 1985. The scope of City operations (miles of streets, number of parks and facilities, number of streetlights and traffic signals, sewage lift stations, and stormwater facilities) has also increased in those 35 years.

In May 2002, the City adopted the Tumwater Town Center Plan which envisioned a higher density and mixed-use development in the Town Center Area (primarily bounded by Capitol Blvd., Tumwater Blvd., Linderson and Israel.) That plan envisioned a park or public plaza space on the PW property and anticipated a street grid that bounded almost all sides of the PW Shops site. A subsequent City campus master plan envisioned the extension of the street grid and the conversion of the PW Shops site to a park surrounded by office, retail, school, and residential uses.

The Parks and Facilities site was not proposed for a specific new use in the Plan because of the lease restrictions but recognized the adjacent intersection as a gateway giving it significance for development. The Tumwater's Farmers Market has operated out of the Parks and Facilities site during the summer for several hours, one day per week until 2021 when they moved to the elementary school. The Market managers have expressed a desire to expand the market into a permanent location that could accommodate more vendors and days. There have also been conversations about the Night Market being located at this site when the City operations leave.

The Current Plan

In 2011, the City began looking at options for the relocation of the Public Works operations. In addition to having outgrown the facilities both in size and nature of the operation, the use for a shops facility was inconsistent with the uses associated

with the Town Center (office, retail, education, residential, recreational) and impeded the future park development. The decision was made to look for a site that could integrate the current Public Works Shops functions with Parks and Facilities, opening the door to some greater efficiency and shared space. A new facility would also introduce the opportunity for the existing sites to be redeveloped consistent with the Town Center Plan.

The parameters of a new site included good access and proximity to the work, availability of space (about 10 acres), ownership, and affordability. Land in Mottman was too small and not proximate to the City core. Port land was not desirable because of the cost and inability to purchase property. Available land in the Littlerock commercial area was central, but expensive and took away from retail revenue-generating opportunities. Land on 93rd was not central and had significant infrastructure and mitigation costs.

The closure of the Trails End Arena during the recession of 2008 presented an opportunity for the City. The site was sufficient size to accommodate the shops and additional uses. It gave the City the opportunity to clean up a blighted property that presented a significant eyesore and hazard. It had decent proximity, particularly to the developing south part of the City and was near City Hall. Although a portion of the site had pocket gophers, other parts of the site were heavily disturbed and void of gophers. A portion was also a historic kettle and provided an opportunity to protect wetlands, slopes, and trees and provide permanent open space.

The presence of the prior use meant the property came with water, sewer and transportation impact fee credits, reducing the cost of future development. The City made the decision to acquire the property in July 2014 for \$800,000. In late 2018, the City demolished the main arena building and surrounding barns in order to reduce risk of vandalism or fire. The demolition cost was \$490,401 including abatement testing and project management.

In 2016, the City hired TCF Architecture (Council Authorization on September 20, 2016) to develop master planning and pre-design for the site. Among the design elements were:

- Include the Street, Fleet, Utilities, and Police storage functions
- Include the Parks and Facilities operations functions
- Include the Transportation, Engineering, and Water Resources office functions (formerly Public Works engineering) – this was later deleted as a cost saving measure
- Include a meeting room that could be available for community use
- Set aside space for a future park
- Alternative office design that allowed for greater flexibility and utilization
- Energy conservation measures, including solar and alternative stormwater management.

The cost of the preliminary planning was \$155,000. The estimated split for the project at that planning stage was 40% General Fund and 60% Utilities.

In January 2018, the City Council reviewed the design options and authorized the staff to engage with the public about the project and indicate a preference for what had been called Alternative A, which had the main facility on the western 6 acres and a park on the east.¹

A project open house was held by the City on March 22, 2018. Approximately 50 people attended and asked lots of questions. There was general support for the park and meeting space. There was also general support for the Public Works Shops being on the west side of the property, especially since the alternative allowed under the zoning at that time would be a large apartment complex or another commercial operation at this location. There was also understanding that the close proximity of the Public Works Shops to the neighborhood would bring faster services to their part of the City.

Given this feedback, the City decided to proceed with the alternative that had the operations site on the 6-acre west side, and the east side (where the arena was) slated for employee parking and a future park. The kettle in the back would remain undeveloped and enhanced to improve natural functions and provide limited public access. As the next step in the process, the City agreed to pursue the gopher mitigation necessary for this project to proceed.

Since that time, several factors have come into place to impact the project.

- In 2017, the City acquired ten gopher mitigation credits for the purpose of supporting this project estimated at 6-7 credits. (0.8 credits have been used on the Tumwater Blvd. to 73rd Ave Hwy 99 improvement project and some additional credits will be needed for a future roundabout at 79th Ave and Old 99). These credits are owned by the General Fund. Although the City has acquired these credits, U.S. Fish and Wildlife Service (USFWS) still requires the City to submit a Habitat Conservation Plan (HCP) for the development of this site. The City's consultant has developed and submitted a proposed HCP to the Service. While we are awaiting an official response, preliminary feedback from USFWS indicates they support this approach.
- In 2018, the City voters passed the Metropolitan Park District levy which provides funding for parks and frees up impact fee funds for a neighborhood park at this location.
- The City included funding for this project beginning in 2017 with a 1% increase in City utility rates in 2017 and 2018, 2% increases in each year

¹ In addition to the Public Works Committee, the facility was discussed at worksessions on September 13, 2016, and January 9, 2019. It was before the full Council for actions on July 1, 2014 (purchase), September 20, 2016 (hire architects), and September 25, 2018 (authorize demolition).

from 2019-2021. The adopted budget includes a rate increase of 2% in 2022. This has raised \$2.7M towards the project to date.

- The General Fund had also set aside \$1 M in the General Fund CFP towards its project share. The plan had been to impose a city Utility Tax to raise the remainder of the General Fund share. The preliminary assessment was a 2% Utility Tax for 20 years would generate sufficient funds to pay the debt on the General Fund share. On an average City residential utility bill of \$109.78 it would be \$2.19 per month.
- In autumn 2020, the US Fish and Wildlife Service informed the City that they would proceed with the review of the Habitat Conservation Plan that had been submitted previously. They have also agreed to include the RAB at 79th and Old Hwy 99 as part of this project. Delays by the Service have impacted the City's ability to proceed on a faster schedule.
- Since the time of the adopted design and the cost estimate, construction costs have continued to increase significantly. Although staff had hoped that costs would go back, they have not, even in the pandemic. The lack of availability of materials and the significant amount of on-going construction has kept costs high.
- In early 2021, the City's Legislative Agenda included an ask for \$150,000 in Capital Budget funding to support a public meeting room in this project. The funding would allow for security, separate restroom access, a public entrance, and other upgrades to allow for secure public access.
- The site would need to tie into the City's extensive fiber optic cable system. This would be paid by the City's E-Fiber fund at a cost of \$200,000.

COST ESTIMATES

Planning Level Design

As of 2019, the planning level cost for the new Operations Facility project was \$30M for a 2022 build year and the 40/60 split with General Fund and Utilities resulted in a General Fund cost of \$12M. This estimate did not include the costs of the park. With a delay in project permitting and increase in construction costs, the estimate has escalated to \$32.4M for a 2023 build year. These costs do not include prior expenditures of over \$2.1M for land, preliminary design, demolition, and habitat mitigation credits. They also do not include any offsite costs, such as the roundabout.

New Alternative Project

In light of the high costs and the impacts to the General Fund, where there are numerous competing priorities, Mayor Kmet asked that staff develop a second

alternative to reduce the General Fund share yet achieve goals to support the General Fund activities (streets, parks, facilities, police). A new Alternative has been developed with these features:

- Remove Parks, Facilities and Police functions from the Trails End site in order to reduce the share to be paid by the General Fund. It also reduces the project scope and avoids having parking on the east parcel at this time. It would leave Streets as a General Fund element at Trails End, along with Fleet which is partially funded with the General Fund. The site design would accommodate the future inclusion of a Parks and Facilities maintenance shop at the site.
- The redevelopment of the existing shops site behind City Hall into a park would be put on hold. The redevelopment was envisioned in the City Campus master planning work, but was not funded in Impact Fees or the Parks District (MPD). The community value as a park would occur with development of residential and other uses in the vicinity. Development of this park is likely at least 20 years away.
- Parks and Facilities would utilize the existing shops site for their operations. It would provide sufficient space for storage of vehicles, employee parking, office space, storage, and yard area. The Police would continue to use their storage and an additional enclosed bay would be provided for secure storage. The Parks offices that are located in City Hall would move to the shops, consolidating operations and administration into a single location. It would also provide improved public access. The Parks offices in the basement of City Hall would be available for other much needed uses. Some work is required to update the existing shops facilities and create administrative offices (paint, lighting, HVAC, furniture, etc.) These are estimated to cost \$1,375,000 and would be paid for by the General Fund and 50% by Park Impact Fees.
- With Parks and Facilities operations moving to the shops, it frees up the current Parks and Facilities building on the corner of Capital and Israel. This property has been used as the home of the Tumwater Farmers Market. Because this property cannot be sold by the City, it must either revert to the Port or be used for another public purpose. With some minor upgrades and improvements, the building could be available for expanded use by the Farmers Market. The estimated costs of paint, signage, awnings, restrooms, and HVAC are \$615,000. These are assumed to be General Fund costs. It may be possible to obtain grant or a State Capital Budget legislative appropriation.
- The intersection of Old Hwy 99 and 79th Ave has been an area of concern for the community in SE Tumwater. While not meeting signal warrants, the geometry of the intersection makes turning movements challenging. The City is currently completing a corridor study for Old Hwy 99 and the current findings recommend a roundabout for the intersection to improve safety

without sacrificing capacity. The City facility will further increase the need for improvements at that intersection. The estimated cost of the roundabout and intersection improvements is \$2.5M. Consistent with other private development, it is assumed the Transportation CFP would pay half the cost and the development would pay the other half. The USFWS has allowed the City to expand the HCP for the Maintenance Facility to include the authorization of the roundabout.

Cost Estimate – Alternative Design

The new cost estimate, which includes the current Shops renovation, the re-use of the Parks and Facilities building, and the development contribution to the roundabout brings the total cost to \$32,700,000, assuming this would be built in 2023. The General Fund for the Trails End shops reduces from 40% to approximately 33%, or \$9,090,000. In addition, the General Fund would pay for the improvements to the future and current Parks and Facilities spaces. This brings their total contribution to \$10,742,000.

With this revised proposal, the costs for the General Fund are lower and there is greater benefit provided by this revised project scope including:

- Provision of the roundabout to address current community needs. Without the development project contribution, the Transportation CFP would have to cover the entire costs, further delaying the project.
- Conversion of the former Public Works site to a public use, ideally, a farmers or night market.
- Delay of the conversion of the current shops to a Park until a future time when park revenues would be available. This would reduce costs of demolition of the existing structures.
- Creates additional space within City Hall for other needed uses.

The actual splits between funds are:

Fund Split Scenarios (excludes prior costs for planning, demolition, land, mitigation credits, etc.)

	2019 Planning Level Cost Estimate for 2022 Build Year		2020 Planning Level Cost Estimate for 2023 Build Year		Reduce scope by eliminating Parks and Police elements of the new facility		Add roundabout, Trails End Park, fiber, public meeting space, Arts, PW to Parks conversion, Parks to Market conversion		Recommended initial budget due to unmatched construction cost volatility*
General Fund	40.0%	\$ 12,000,000	40.0%	\$ 12,960,000	32.5%	\$9,090,000	32.8%	\$10,742,000	\$11,820,000
Water Utility	30.0%	\$ 9,000,000	30.0%	\$ 9,720,000	33.2%	\$9,290,000	30.2%	\$9,900,572	\$10,890,000
Sewer Utility	15.0%	\$ 4,500,000	15.0%	\$ 4,860,000	17.1%	\$4,776,500	15.5%	\$5,090,860	\$5,600,000
Storm Utility	15.0%	\$ 4,500,000	15.0%	\$ 4,860,000	17.1%	\$4,786,500	15.6%	\$5,101,442	\$5,610,000
Parks Impact							1.0%	\$325,000	\$360,000
Transpo Impact							3.8%	\$1,260,126	\$1,390,000
Fiber							0.6%	\$200,000	\$220,000
Grant							0.5%	\$150,000	\$170,000
Arts									
		\$30,000,000		\$32,400,000		\$27,943,000		\$32,770,000	\$36,060,000

Staff advises that all costs shown are based on mid-year 2020 construction cost trends. Year over year building construction costs rose more in 2021 than we have seen since 1978. At this time, we have to assume 2021 was an outlier and that building construction costs will normalize as we progress through design.

Regardless, the cost estimates will be refined through design as the project elements are more defined and construct cost outlook becomes is more predictable.

STAFF RECOMMENDATION

Staff recommendation is to proceed with this alternative concept with a base project estimate of \$36,060,000. Even though the total project cost is higher, it reduces the General Fund share and results in greater public benefit from the project. There is a real need for the improvements that are delivered by this proposal. The facilities for utilities, streets, parks, facilities, and police are “behind the scenes” activities but are essential to the effective operation of those City functions. The two outdated facilities are in need of improvements even if the project doesn’t happen. The prior City energy conservation measures were not implemented at those facilities. The City’s foresight of building a structure for funding the project starting in 2017 has reduced the pain to utility rate payers. The Utility tax structure for the General Fund share can be coordinated with utility rate increases to make funding less painful. The City offers numerous means to help people struggling with utility rates. By comparison, the City utility rates are below the rates in other cities.

In summary, staff recommends we proceed with the detailed design, permitting, and public meetings.

RECOMMENDED FUNDING STRATEGY

For the utilities share, it is recommended the City stay the course with the component of the annual utility rate increase being dedicated to this project. The revenue that has been collected and will be collected over the coming years is available to pay down debt that would be issued for the project. Given increased costs, at this time, we estimate that the utilities will need a final 1% increase in 2023 to fund their share of the project. After 2023, no increase would be required and the cash for the debt service would be built into the rates. After retiring the debt in 30 years, the City Council could decide what to do with that built-in rate component.

For the General Fund component, it is recommended the City impose a 4%² initial utility tax, that gradually ramps down over the life of the 30-year bond issuance³. The issuance is not the full amount of the General Fund contribution because the General Fund has cash saved for the project and would get credit for the ownership

² The preliminary schedule is a utility tax of 4% in years 1-5, 3.5% in years 6-10, 3% in years 11-20, 2.5% in years 21-28, and 2.0% in years 29-30. At the end of 30 years, the tax could be retired.

³ The current utility tax on City utilities is 6%, the same as it is for private utilities. The Council cannot increase the tax on private utilities beyond 6% without a public vote. No vote is required to set the tax on City utilities, regardless of the rate.

of the gopher mitigation credits. At the end of the debt issuance, the City could decide to reduce the utility tax back to 6%.

IMPLICATIONS OF NO ACTION

Failure to proceed with the project at this time, would result in the following negative results:

- The approx. \$2M would be at least in part wasted.
- The City would need to look for alternative storage space particularly related to police and other General Fund activities.
- The shops and parks/facilities buildings will require significant investment to renovate, bring to code, and address energy issues.
- The farmers and/or night market will continue to look for locations.
- The roundabout at 79th and Old Hwy 99 will be delayed because of lack of funding and the requirement to wait for the City-wide HCP.
- Cost for the park at Trails End will increase beyond budget because it won't be able to share infrastructure costs with the maintenance facility
- The City would have to return the funding from the Legislature which hurts the City's ability to obtain future grants.
- Lending rates are currently very low and waiting could result in high interest rates, meaning higher costs for borrowing.