

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

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| <p><b>AGENDA TITLE:</b> Civic Center Project Progress Report<br/><b>DEPARTMENT:</b> City Manager's Office<br/><b>PRESENTED BY:</b> Robert L. Olander, City Manager<br/>Jesus Sanchez, Civic Center Project Manager</p> |
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**ISSUE STATEMENT:**

The purpose of this report is to provide an update to Council on the Civic Center Project. Included in this update is a current status of the construction schedule, environmental grants related to the City Hall project, site warranties and the current project budget which includes financing costs and estimated costs of clean-up for unanticipated hazardous substances on the project site.

The City Hall construction project is on schedule to meet the "substantial completion date" of August 27<sup>th</sup>, 2009. All floors of the building and the roof have now been poured and precast concrete panels have been affixed to the outer walls. Mechanical, electrical and plumbing activities are taking place at this time.

To date, the City has been awarded environmental grants totaling nearly \$271,335 from King County and Seattle City Light designed to focus on sustainable qualities such as solar power utilization, water quality features and energy conservation measures.

Finally, as presented to Council in previous Council updates on the Civic Center Project, the costs associated with contaminated soils and abatement/demolition are considered "warranties to the ground lease" and as such are not included within the guaranteed maximum price of the Development Agreement. Staff stated that if the costs were higher than the projected allowance for these elements, "Unknown Soils Conditions, Asbestos Abatement and Demolition", staff would provide Council with a status update and at the appropriate time, a request for a budget amendment with an identified revenue source.


**FINANCIAL IMPACT:**

The current budget for the City Hall and parking garage facility is \$31,639,577. The warranty costs for unknown soil conditions, abatement, and demolition are estimated to total \$1,188,536. Additionally, staff anticipates a future increase of \$288,500 in the furniture, fixtures, and equipment allowance and grant supported environmental improvements and revenues that total \$229,289. These changes would bring the budget to \$33,275,902. Savings within the current budget of the project and additional environmental clean up grants may be available to help off set these additional costs,

but if not the amount of debt issued to fully fund the project may need to be increased between \$1 million and \$1.375 million.

**RECOMMENDATION**

No action is required at this time. This report is to provide Council with the estimated costs of clean-up for unanticipated hazardous substances on the project site. In the future, staff will be bringing forth a request for a budget amendment with identified revenue sources to reflect the costs associated with these items.

Approved By: \_\_\_\_\_ City Manager  \_\_\_\_\_ City Attorney \_\_\_\_\_

## INTRODUCTION

The purpose of this report is to provide an update to Council on the Civic Center Project. Included in this update is a current status of the construction schedule, environmental grants related to the City Hall project, site warranties and the current project budget which includes financing costs and estimated costs of clean-up for unanticipated hazardous substances on the project site.

## BACKGROUND

At the last July 7, 2008 Council update on the Civic Center Project, staff provided a project update that included a discussion on materiality such as wall colors, tile samples, glass and other surface finishes contemplated and proposed by LMN Architects. Additionally, staff presented a short discussion on solar voltaic panel array designs, solar thermal in the Council Chambers and landscaping designs that included native vegetation, bio-swales, and rain gardens. Staff also presented to Council a budget status update with the Guaranteed Maximum Price remaining constant. Construction financing was still in the process of being secured by OPUS.

The Phase II Environmental Survey had begun and OPUS was in the process of completing and submitting a "No Further Action Required" (NFA) request to the Department of Ecology (DOE) for levels of contaminants that were found outside of a previous dig. The time for review and response from DOE was expected to be 60-90 days. During that Council update, it was also explained to Council that the Development Agreement addressed this project element as "Unknown Soils Conditions" and that although OPUS had established a specific dollar allowance for this work, any costs of clean-up based on what was discovered in the soils that were beyond the allowance would be the responsibility of the City. This cost is a warranty cost to the City outside of the Total Project Cost of the Development Agreement budget. Additional asbestos abatement prior to demolition is covered by the same warranties.

Staff stated that if the costs were higher than the projected allowance for these elements, "Unknown Soils Conditions, Asbestos Abatement and Demolition", staff would provide Council with a status update and at the appropriate time, a request for a budget amendment with an identified revenue source.

Move-in was anticipated to be August 2009.

## DISCUSSION

### Project Update:

The City Hall construction project is on schedule to meet the "substantial completion date" of August 27<sup>th</sup>, 2009. All floors of the building and the roof have now been poured and precast concrete panels have been affixed to the outer walls. Mechanical, electrical and plumbing activities are taking place at this time. The following milestones have been achieved since the last Council update:

- Construction financing was secured by OPUS from US Bank in December 2008.
- A Ground Breaking Ceremony was held on July 22, 2008 to anticipate the start of construction. Construction began in July. To date, all four floors of the new City Hall have been poured as well as the roof deck. The roof of the Council Chambers has been poured. The parking garage slab-on-grade was poured. Precast concrete exterior wall panels have been installed and framing has begun on the first floor.
- A "Topping Out" event was held on January 16, 2009 to recognize that the roof deck had been poured.
- An Art Presentation was made by 4-Culture to the Council on January 20, 2009 describing the art selected and the art components for the new City Hall.
- To date, the City has been awarded environmental grants totaling nearly \$271,335 from King County and Seattle City Light designed to focus on sustainable qualities as solar power utilization, water quality features and energy conservation measures. Of this amount \$42,046 is already programmed into the existing development agreement. The remaining \$229,289 will be added as a budget amendment to the project.
- Intergovernmental cooperative purchasing agreement with the US Communities, National Joint Powers Alliance, and the State of New York was passed on October 13, 2008. The proposed contract for furnishing was available under this interlocal agreement.
- The current LEED scorecard of the project secures LEED Silver with the possibility of attaining LEED Gold certification.

#### Improvements Funded by Grants:

The City has been awarded \$229,289 in grant funds to do environmental improvements to the building such as solar voltaic panels on the garage, solar thermal in the Council Chambers and other energy conservation measures. These improvements will be done outside of the current Development Agreement, meaning that the budget for the improvements is in excess to the current \$31 million authorized for the facility, and therefore a budget amendment is necessary to authorize expenditure for these improvements. At the same time, the grant revenue will off-set the cost of these improvements. Even though these improvements will be reimbursed, a change order must be executed with OPUS and the project budget increased to include the costs. Finally, there is strong support from Seattle City Light for an additional investment that would allow for additional voltaic panels beyond what is current planned.

#### Site Warranties:

As presented to Council in previous Council updates on the Civic Center Project, the costs associated with contaminated soils and abatement/demolition are not included within the guaranteed maximum price of the Development Agreement. The budget commitments in the Development Agreement were based on soils and building surveys available to the parties when the Agreement was negotiated. The ground lease delivering the site to OPUS for development provided environmental warranties that the site did not contain unknown hazardous substances that would materially affect construction. OPUS did encounter conditions covered by these warranties during excavation and demolition that were higher than the budget allowance. It is anticipated

that the City may incur up to \$1.12 million in building site warranty costs associated with these items.

To date, the City has incurred \$222,121 in costs that are warranty costs under the ground lease. Items that are included in this cost are the environmental investigative reports (especially dealing with the contaminated soils discussed in the next section of this report), removing contaminated soils and unknown underground storage tanks under the AKC Auto building, additional abatement and demolition associated with the ACK Auto building and pan handle of the Annex.

In the redevelopment of the property, soils that are affected by "tetrachloroethene (PCE) and that exceed the "Model Toxics Control Act (MTCA) Method B cleanup level of 1.9 mg/kg will need to be removed.

As borings were completed and soils tested, high levels of PCE (3.9 mg/kg) were found from the borings that were done directly north of where a former dry cleaner was located and where City of Shoreline offices are now. Operations associated with the dry cleaner resulted in PCE-affected soils. It was discovered that the PCE contamination appears to extend approximately 15 feet below ground surface.

Since the soils contain the PCE, URS Cooperation, an environmental consultant to OPUS, submitted a request to the Department of Ecology (DOE) to request management of the soil as a non-dangerous waste. DOE responded that soils with PCE concentrations less than the MTCA Method B cleanup level could be managed as such and could be disposed of in a Subtitle D landfill.

However, soils having the PCE concentrations above the MTCA Method B cleanup level would have to be disposed of as a dangerous waste at a Subtitle C landfill. URS prepared a request for reconsideration. DOE responded and reiterated their position that soils having levels exceeding the MTCA Method B cleanup level would require management of the soils as a dangerous waste.

Staff estimates regarding the cost for clean-up was not expected to be high because Department of Ecology (DOE) had earlier issued a letter of "No further Action Required" to the previous owners of the Highland Plaza site in 2004, regarding "tetrachloroethylene (PCE) contaminants levels" after a clean-up of the site.

It was expected that since no greater levels of contaminants were found when the City conducted its own Environmental Phase II review, the cost for clean-up would not be high. With the State's new and more stringent requirements, DOE reassessed its earlier findings and reclassified certain contaminant levels now as hazardous and therefore, must be treated accordingly thus increasing the cost for clean-up.

In order to address the clean-up, as these soils will need to be removed, a "Remedial Action Plan" was developed and proposed by URS. Known at this time are an estimated 1,350 tons of soils that will require disposal at a hazardous waste landfill (Subtitle C Landfill). As part of the action plan, the Developer will do additional soil sampling in the area following the demolition of the Annex Building. This could give a

better indication of the condition of the soils and the impacts and may even reduce the volume of soil requiring disposal.

A cost estimate to implement the proposed soil remedial action plan was also prepared by URS. At this time, the engineer's estimate is approximately \$613,955.00. As the project progresses, it is the Developer's commitment to work towards the most cost effective approach to address the clean-up of the contaminated soils.

Pursuant to the Development Agreement, "Office Land Ground Lease Agreement" and the "Garage Land Ground Lease Agreement"- Sections 6 – Condition of the Office Land and Section 6 Condition of the Garage Land, 6.2 Environmental Indemnification - this cost would be the City's responsibility and is a warranty to the Ground Lease, outside of the Total Project Cost and Development Agreement for unknown soils conditions.

As the project progresses, it is the Developer's commitment to work towards the most cost effective approach to address the clean-up of the contaminated soils.

**Environmental Clean-up Opportunity Grants:**

Staff is pursuing grant opportunities to help offset the cost of the clean-up as prescribed by the State Department of Ecology. Programs within the Environmental Protection Agency (EPA) such as Brownfields Grants support government clean-up programs that will result in a public and environmental benefit. Such activities include prevention, abatement, or removal of hazardous substances or contaminants that threaten public safety water supplies and ecosystems.

The Oversight Remedial Action grant also assists in the investigation and clean-up of contaminated sites. Staff is aggressively pursuing such grant venues to help offset the new mitigation costs required by DOE.

Project Budget :

The following table summarizes what staff considers to be the "worse case" project budget for the City Hall building and garage:

|   | Current Budget      | Changes            | Revised Total       |
|---|---------------------|--------------------|---------------------|
| <b><u>Project Costs</u></b>   |                     |                    |                     |
| Project Management, Space Analysis, Legal   | \$369,577           |                    | \$369,577           |
| Utility Hook-Ups  | 170,000             |                    | 170,000             |
| Miscellaneous   | 50,000              |                    | 50,000              |
| Development Agreement   | 31,050,000          |                    | 31,050,000          |
| Penalties to the Ground Lease Already Incurred  |                     | 222,121            | 222,121             |
| Future Anticipated Penalties to Ground Lease for Environmental & Demolition/Abatement |                     | 896,415            | 896,415             |
| Additional Allowance for Furniture, Fixtures & Equipment                              |                     | 288,500            | 288,500             |
| Grant Funded Improvements   |                     | 229,289            | 229,289             |
| <b>Total</b>  | <b>\$31,639,577</b> | <b>\$1,636,325</b> | <b>\$33,275,902</b> |

| <u>Funding Mechanism</u> | <b>Current Budget</b> | <b>Changes</b>     | <b>Revised Total</b> |
|--------------------------|-----------------------|--------------------|----------------------|
| Cash                     | \$10,828,732          |                    | \$10,828,732         |
| Financed                 | 20,768,799            | 1,407,036          | 22,175,835           |
| Grants                   | 42,046                | 229,289            | 271,335              |
| <b>Total</b>             | <b>\$31,639,577</b>   | <b>\$1,636,325</b> | <b>\$33,275,902</b>  |

The major change in the City Hall project budget is linked to the unknown soil and abatement issues which have a current estimated total of \$1,188,536. Until the soils are actually removed and the Annex is abated and demolished, the final number will not be known, but consultants believe that the estimates are fairly representative.

While staff will aggressively look for off setting project savings, additional remedial grants, and opportunities to increase the amount of cash available to cover the soil condition and abatement costs, we may need to increase the amount of debt issued to cover the any remaining gap.

Construction Financing Costs: A review of the current facility budget indicates that the construction loan and legal fee costs may be closer to \$1.9 million or approximately \$200,000 under the current allowance of \$2.1 million. Interest rates from U.S. Bank have been significantly lower to date than originally anticipated as lending rates are historically low-about the only good thing we can say coming from the current international economic crisis. This could change, but based on the information currently available, we anticipate that rates will remain low through most of 2009 so we believe that this is a conservative projection of savings that may be incurred. If this is the case, then all but approximately \$88,500 of the unfunded portion of furnishings and fixtures could be covered within the current project budget.

### **RECOMMENDATION**

No action is required at this time. This report is to provide Council with the estimated costs of clean-up for unanticipated hazardous substances on the project site. In the future, staff will be bringing forth a request for a budget amendment with an identified revenue source to reflect the costs and revenues associated with these items.

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