

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: City Hall Delivery Method Options
DEPARTMENT: City Manager's Office
PRESENTED BY: Robert M. Olander, Deputy City Manager
Eric C. Swansen, Senior Management Analyst

PROBLEM/ISSUE STATEMENT:

The big picture problem we are solving here was well defined shortly after incorporation by the first City Council. The City has little control over the costs of leasing and maintaining office space for City Hall. In addition, the City's customer service locations have become de-centralized between two buildings, which creates a barrier to providing quality customer service. Furthermore, the City's image lacks a sense of community while it occupies leased office space in two adjacent buildings.

The more immediate issue is how to design and construct the City Hall. A desire to operate in an efficient and cost-effective manner, combined with continuing economic sluggishness, has caused staff to examine alternate delivery methods as a way to save both time and money on this important project.

ALTERNATIVES ANALYZED:

The City has two basic options – either construct a City Hall using a traditional design-bid-build approach, or using a more state of the art design and construction management system.

FINANCIAL IMPACT:

Although there is a financial impact to this discussion, it is impossible to gauge this impact at this time, due to numerous outstanding issues that directly affect costs. These issues include siting, market conditions, delivery method and project complexity.

RECOMMENDATION

No action is required. Staff is presenting a broad comparative analysis of the options available to the City for designing and constructing a City Hall, and will return with a recommendation on what delivery method is best suited for the project when potential sites are narrowed down.

Approved By: City Manager RSO City Attorney VJA

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INTRODUCTION

The big picture problem we are solving here was well defined shortly after incorporation by the first City Council. The City has little control over the costs of leasing and maintaining office space for City Hall. In addition, the City's customer service locations have become de-centralized between two buildings, which creates a barrier to providing quality customer service. Furthermore, the City's image lacks a sense of community while it occupies leased office space in two adjacent buildings.

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No action is required. Staff is presenting a broad comparative analysis of the two options available to the City for designing and constructing a City Hall.

BACKGROUND

Earlier this year, staff presented Council with a project plan for the City Hall project that included an analysis of alternate delivery methods. A delivery method is a term of art used by the building construction industry to describe the processes and tasks used to complete a project from concept to occupancy.

The private sector employs a number of delivery methods that provide a number of benefits over the traditional public sector approach, depending upon what factors the customer is most concerned with. Typically, the delivery method is matched to the type of project. Some methods work better than others at limiting costs, delivering on time and handling more complex projects. Under state law, cities of Shoreline's size are unable to directly employ some of these methods. However, the City is able to indirectly employ these methods by using a lease-to-own financing method, which contractually obligates a private sector firm to obtain these economies on behalf of the City.

There is no single best delivery method for all projects. Rather, the delivery method must fit the project and the community's values and expectations for the project. Each delivery method has a series of tradeoffs associated with it, suggesting that the best-suited delivery method is based on the relative priority of these factors.

To select the best-suited method requires a good understanding of the values of the community. These values should be the primary drivers for the project, upon which the project design is based. The primary values drivers likely include budget, schedule and quality. Typically there are relationships between the drivers that often result in tradeoffs.

Examples of these tradeoffs are fairly easily understood. The higher the budget, the greater the potential quality. Faster construction typically results in lesser quality. As they say in the building trades – time is money – so a slower project (which limits the amount of work a contractor can perform) typically costs more.

- If we are seeking to have the highest quality project, it will likely take longer to construct and cost more to construct than average.
- If we are seeking to have the lowest cost project, it will likely result in lower quality and take less time to construct than average.
- If we are seeking to have the quickest delivery time, that it will likely result in lower costs and lower quality than average.

A typical project involves making tradeoffs, seeking a more moderate project cost by either accepting less than optimal quality, a slower delivery schedules or combination of both.

The expectations of the project are also important in making a project delivery system decision. Project complexity, project management expertise, risk tolerance, the site selected, design complexity, market conditions and ability to change design elements are all factors that contribute to the overall success of the project.

The following is an overview of the most popular delivery methods used in our region. As mentioned before, not all of these methods are available to the City due to restrictions in state law. However, they are outlined here to get a better understanding of the methods, advantages and disadvantages. A more detailed analysis has been provided in the form of a memo from Olympic Associates, the project management consultant on this project, as attachment A.

Design-Bid-Build (Traditional) Delivery Method

Traditionally, the public sector uses the design-bid-build method, also called the traditional approach. This involves selecting an architect based on qualifications (not cost) to design a building. Once designed, the building is competitively bid, selecting the lowest responsive qualified bidder from a pool of contractors who submit bids. This delivery method is prescribed by state law, and has been used for many years. Because of the large amount of case law developed, there is a great amount of certainty associated with this method.

It is widely believed that the traditional method is used by the public sector because of the high level of competitive scrutiny it affords, creating a process that minimizes the potential for irregularities that result in favoritism or corrupt awarding practices. It seeks to treat all bidders equally, assuming that all bidders are capable of performing the work in a professional and craftsman-like manner. Failure to deliver acceptable quality usually results in lengthy and expensive litigation. There is some evidence that over time many qualified contractors opt out of the traditional process for public sector works altogether, due to the excessive, costly and burdensome regulations often placed on projects. Other contractors increase costs to compensate them for the added expenses and burdens, which are reflected in higher bids. Either way, there is a growing body of evidence that suggests the traditional process in the public sector often works against the public interest for delivery speed, cost and quality, especially on less complex projects.

Advantages	Disadvantages
Most familiar process, roles clearly established	Delivery time slower, as project cannot be built until design is complete
Lowest risk for owner	May result in expensive delays and litigation over change orders. Risk for litigation is 50% higher than other methods
Well established case law for dispute resolution	Design does not benefit from a review of construction methods or materials by the contractor
Allows last minute changes to design, but at a premium cost	Lowest bid contractors look for errors and omissions in the design documents as a way to increase profits.
Highest level of competitive scrutiny	Qualifications of contractors are secondary to price, resulting in inexperienced contractors or subcontractors.
Greatest level of control over the finished product	Many qualified contractors don't submit bids, due to complexity and risk
Delivery method is available directly to the City	Construction bids tend to be higher, due to complexity and risk to contractor
	Architectural and Engineering fees are not competitively priced.
	If bids come in over budget, more time and money must be spent in redesign and rebidding.

Design-Build Delivery Method

This method places one company, selected on the basis of cost, fully responsible for project design and construction. Prior to this selection process, a detailed owner's program must be developed, which clearly outlines program needs. A final contract provides a maximum guaranteed price for a project. One of the primary advantages of this method is that it allows construction to begin prior to design completion, increasing the construction speed and presumably lowers the project cost. One of the disadvantages of this method is that the control over the end result is limited, as the contract focuses on project needs not the end product quality or aesthetics. This method also provides little opportunity to make last minute modifications to improve the project. Any cost savings, either from better construction techniques or using less expensive materials, generally benefit the contractor, not the owner.

Bridging is a hybrid form of design/build that allows greater control of the finished project. Under this hybrid, the project owner goes into greater detail with an architect to design the project, specifying finish levels and aesthetic details, in addition to construction quality. The contractor then submits a proposal based on the expanded program, using the expertise of the firm to select the best-suited methods and techniques for construction.

Under state law, this delivery method is not available to the City for this project. This option is only currently available to cities with a population greater than 70,000. While Shoreline could not use this method directly, the City could employ a lease-to-own financing method where a developer uses this delivery method as the lessor.

A recent study¹ compared this method to the traditional method and made the following conclusions:

- The unit cost for space is on average 6% less than the traditional delivery method.
- Project costs overall is on average 5.2% less than the traditional delivery method.
- The speed to construct is 12% faster than the traditional delivery method.
- The overall project delivery speed (factoring in design and construction) is 33% less than the traditional method.

Advantages	Disadvantages
Private sector firms are most familiar with this delivery method	Not available to the City directly, but could be employed using a lease-to-own financing structure
Role of contractor early in design ensures best suited methods and materials	Project owner does not have as much control over the finished project. The bridging option could improve control significantly.
One point of responsibility for design and construction of project	Selecting the most qualified design/build team can require significant time and effort
Competitive pricing for location, design, engineering and construction. Price is guaranteed.	Some architectural costs are duplicated, as contract specifications require significant time and effort.
Selected developer guarantees pricing	Design/build team has little or no incentive to select methods and materials that minimize future maintenance costs.
Less risk to the owner in terms of cost and legal disputes.	Ability to make last minute changes to the design are very limited and expensive.
Unit costs for space are lower.	
Delivery time is decreased, due to parallel tracks for design and construction, enhanced communication with team.	

General Contractor / Construction Manager At-Risk (GC/CM)

This method allows the project owner to select an architectural and engineering team based on qualifications. Shortly after this selection, the owner seeks a GC/CM using a

¹ Konchar, Sandivo. Journal of Construction Engineering and Management, Nov.-Dec. 1998, "Comparison of US Project Delivery Systems". Due to copyright restrictions, this comparison is not being distributed with the staff report, but is available in the City Council Office for review.

combined competitive bid and qualifications based process. The GC/CM provides advice to the architectural team, using a number of subcontractors to ensure the best, most cost effective methods and materials are used. Once design is complete, the owner and GC/CM negotiates a maximum allowable construction cost contract. This contract obligates the GC/CM to deliver the project at a certain price.

The primary advantage to this method is the control it provides over the finished product. The project owner has a great ability to customize spaces to fit aesthetic, life-cycle and overall quality for the project. Cost savings are obtained by the early involvement of the contractor, using the best methods and materials suited to the project.

Under state law, this delivery method is not available to the City for this project. This option is only currently available to cities with a population greater than 70,000. While Shoreline could not use this method directly, the City could employ a lease-to-own financing method where a developer uses this delivery method as the lessor.

Advantages	Disadvantages
Owners life-cycle expectations are documented early in the process, improving the ability to ensure materials and methods meet long-term needs	Bids proposals are generally received from larger construction firms, with in-house architectural and engineering design expertise.
Role of contractor early in design ensures best suited methods and materials	Not available to the City directly, but could be employed using a lease-to-own financing structure
One point of responsibility for design and construction of project	Ability to make last minute changes is very limited and expensive.
Competitive pricing for location, design, engineering and construction	
Selected developer guarantees pricing	
Less risk to the owner	
Delivery time is decreased, due to parallel tracks for design and construction, enhanced communication with project team.	

Developer / Lease to Own (LTO)

While the typical Developer / Lease to Own method is more of a financing method than a delivery method, it does warrant mention here. LTO has the ability to allow the City to employ other delivery methods not currently allowed by state law, as long as the end result in a long-term lease for the project. Typically, the City selects a developer using a Request for Proposal process. The owner and developer enter into an agreement for a master lease of the project, which is used by the developer to finance the project. The developer can be specified to develop on a certain site, using certain construction quality, finishes and aesthetics.

LTO arrangements typically employ a design-build delivery method, using in-house staff for architectural, engineering and contracting. However, discretion is left to the developer as to what delivery method is best suited for the project. Financing instruments can be very complicated with this method, but it is possible to get long-term interest rates very similar to those for municipal bonds, making this alternative very attractive.

The developer could either finance the project directly, or seek to borrow funds “on behalf of the City” to get better municipal-like bond rates. To obtain the lowest possible cost, “on behalf of” financing would need to be used. In order to obtain such rates, the City would need to form a non-profit corporation to own and operate the building. The non-profit corporation selects and contracts with a developer to design and construct the project. This “on behalf of” financing is also called a “63-20” structure, after the Internal Revenue Service (IRS) code that allows it.

There are some restrictions on the use of a “63-20” structure. Most notably related to siting. In order to preserve the intent of the IRS code, the City cannot have a history as a titleholder to the development site. For this reason, the “63-20” structure is not a method available for all sites being considered.

The City has explicit authority to develop a lease-to-own project, based on state law and an opinion letter from the State Auditor. There are numerous examples of “63-20” projects in our area, including King County’s King Street Center, City utility improvements completed to support future development in Issaquah, the new (third) Tacoma Narrows Bridge, four buildings with the University of Washington, and the proposed redevelopment of the King Street Station.

Advantages	Disadvantages
Guarantees a price for the project	Subject to greater public scrutiny, as there are limited opportunities for competitive bids
Allows the City to use alternatives to the traditional design-bid-build delivery method indirectly – obtaining the advantages of any method employed above.	Potential developer pool is small, consisting of 5-7 large firms with capital, often with formal relationships with contractors, and project management expertise.
City could convert long-term lease to ownership with borrowed funds (at municipal rates) after construction.	Staff familiarity is limited with this process, requiring significant use of consultants for legal and financial advice.
Low risk for the City.	To get the lowest rates, the project site must not have the City as a “titleholder” to the property either currently or in the past.
High compatibility with other public entity partners.	Only practical if “on behalf of” financing is available, due to cost of funds.
	Project delivery method used by developer has the disadvantages as listed above.
	Financing costs are slightly more expensive (0.5%) in the long-term.

DISCUSSION

The comparative analysis above provides an overview of the options available. Staff does not suggest making a decision about a project delivery system at this time. There are a number of significant issues outstanding that could impact the decision on which method is best suited for this project. The most notable issues are the siting and pre-design concepts. Some sites may preclude the use of some methods. Some pre-design concepts may provide a more complex building design that is better suited for one method over another.

Staff would also like to hear from Council regarding the overall project goals in the future. This will help staff determine if we should be more focused on cost vs. schedule, schedule vs. quality and cost vs. quality.

RECOMMENDATION

No action is required. Staff is presenting a broad comparative analysis of the options available to the City for designing and constructing a City Hall, and will return with a recommendation on what delivery method is best suited for the project when potential sites are narrowed down.

ATTACHMENTS

Attachment A: Analysis of Project Delivery Methods, Olympic Associates

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Analysis of Project Delivery Methods

Executive Summary

There are several project delivery methods utilized in the construction of public works projects. The design/bid/build or traditional approach has been the prevailing, tried and true system used on public projects. In recent years, several alternative contracting procedures have been introduced for use on public sector projects in an effort to emulate similar systems used successfully in the private sector. Of these alternatives, the design/build and general contractor/construction manager methods are most common. A third alternative, developer/lease-to-own, is being used with increased frequency on public sector projects. These alternative contracting procedures often provide greater integration between the owner, design team and contractor than the traditional method, improving project cost, constructability and schedule performance. Each system has its distinct qualities and benefits. Selection of a project delivery method entails considering the merits of each option relative to the factors defining the project.

The design and construction of any project is controlled by a combination of unique drivers and factors. Budget, schedule and quality requirements and constraints typically define the project drivers. It is important for a project owner to establish the relative priority of these three drivers. The particular circumstances and conditions under which a project is designed, built and operated establish the factors that characterize a project. These include the functional program requirements, owner resources, the owner's risk capacity, the building site, the project design, market conditions and the likelihood of changes. A project's specific combination of drivers and factors needs to be understood and evaluated when selecting an appropriate project delivery method.

Of the most common project delivery systems available for use on public works projects, only the traditional design/bid/build and the developer lease-to-own methods are available to the City of Shoreline under the Washington State RWC. In a lease-to-own method, or LTO as it is known, the developer will typically use either a design/build or negotiated general contractor/construction manager (GC/CM) structure. This analysis focuses on a comparison of design/bid/build and LTO using the design/build structure. One prominent study sponsored by the Construction Industry Institute, Comparison of U.S. Project Delivery Systems, by Mark Konchar and Victor Sanvido, Penn State

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University, 1998, compared the statistical results of differences in project unit cost, cost growth, project delivery speed, construction speed and schedule growth between different delivery methods. The conclusion reached in the study is that the design/build approach is, on average, the optimum project delivery method. Quoting from the summary “Projects administered using design/build project delivery can achieve significantly improved cost and schedule advantages. In addition, design/build projects produce equal and sometimes more desirable quality performance than construction management at risk and design/bid/build projects.”

While Konchar’s and Sanvido’s study is one of the first rigorous comparisons of project delivery systems based upon an analysis of statistically significant factors, it did not definitively answer the question “Which delivery system is best?” but rather provided quantitative and objective information to assist owners in evaluating which approach is best in their particular circumstances. Our literature review and interviews of project professionals brought to light a range of experience and opinion on the merits of the different project delivery methods. The unifying agreement is that there is no one best system for all projects. In general, design/build is favored over design/bid/build as more likely to produce a superior outcome. Most commentators note, however, that the particular circumstances of a project are as likely to determine the outcome as the delivery method and must be evaluated when deciding how to proceed.

The value of the lease-to-own approach in the public sector is increased when coupled with the financial and structural advantages of an IRS tax mechanism called “63-20”. The IRS 63-20 mechanism allows for the creation of a not-for-profit corporation that can issue tax-exempt bonds for project financing, hold title to the property, enter into a development agreement with a design/build team and lease the finished facility to the public entity. At the retirement of the debt through either lease payments or early buy-out, the public entity holds title to the property free and clear. The LTO/63-20 variation leverages the advantages of the design/build efficiencies with the financial benefits of tax-exempt bonds. LTO/63-20 has been used successfully or is contemplated for numerous projects in Washington State including the King County King Street Center, Pierce County Road Improvements, Issaquah Utility Corridor, Auburn Utilities Project, King Street Station, Harborview 401 Broadway Building, the Redmond City Hall, the Tacoma Narrows Bridge and four University of Washington projects. Estimated cost savings over design/bid/build on projects cited above have ranged from 15% to 30%.

In evaluating whether the City of Shoreline is a good candidate for design/bid/build or LTO/design-build with “63-20” financing, a simple assessment tool was prepared that

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compares the key factors and attributes of successful project delivery. The assessment rates such factors as relative project cost, cost growth, delivery speed, quality, program requirements, owner resources, risk, design complexity and market conditions. Based on an assessment of the known factors associated with the Shoreline City Hall, LTO/63-20 earned a 19% higher point score than design/bid/build. LTO/63-20 typically was rated average or best for most factors. The notable exceptions were 'delivery process widely accepted and understood' and 'comfort factor for owner team', which were both rated lowest.

The City of Shoreline will be in a better position to have a positive influence on several project success factors, including project and design control, budget knowledge and control, prequalification of bidders, the level of integration of the owner, architect and contractor and team relationships and communications, on a LTO/design-build project. LTO/design-build has the advantage of transferring risk away from the City. The design-build process responds well to complexity, changes in scope and cost identification. Nonetheless, it is important to consider how well the delivery process is understood and accepted by the project team. Using LTO would be a new process for the City staff and there would be a learning curve as the team became familiar with the procedures and requirements. Assessing the City's resources available to handle the uncertainty and potential risks associated with a different delivery method is an important consideration in making a final decision.

Olympic Associates Company's recommendation is that the benefits of the lease-to-own/design-build delivery method be given strong consideration for the City Hall project by the City of Shoreline. We also recommend that a decision on which delivery method is chosen be reserved until the nature and scope of the project program are further defined. Available site options, the program requirements, project budget and the vision of Shoreline staff and Council will all play into the final project program and master use plan. As these factors fall into place, the choice of delivery method will become evident.

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Analysis of Project Delivery Methods

1.0 Project Drivers and Factors

The design and construction of each project is controlled by a combination of unique drivers and factors. The project budget, schedule and quality requirements and constraints typically define the drivers. The particular circumstances and conditions under which the project will be designed, built and operated establish the factors that need to be taken into consideration. A project's specific combination of drivers and factors need to be understood and evaluated when selecting an appropriate project delivery method.

1.1 Drivers:

A. Budget:

Budget requirements and constraints will often determine the scope and complexity of a project. A realistic budget has to be established to evaluate project feasibility before a design concept is finalized. The budget should guide the design and construction choices. Different delivery methods have differing abilities to establish, manage and forecast project costs.

B. Schedule:

Schedule requirements can dictate how a project delivery is structured. Delivery time can often be critical to meet internal and external requirements. Schedule delays due to extended decision making, review and approval requirements, changes and unforeseen conditions can have significant impacts. Different delivery methods foresee and respond differently to schedule requirements and impacts.

C. Quality:

Quality standards play a primary role in controlling the outcome of the finished product. Standards are established in the design documents which reflect the Owner's goals and expectations. Project design control and quality assurance procedures are the means for managing the outcome. Different delivery systems lend themselves better than others to design and quality control.

There is a dynamic interplay between cost, schedule and quality. All too often, one or more of these drivers needs to take a back seat to the other. It is important

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for a project owner to establish the relative priority of these three drivers. Knowing the priority of each driver will help inform the selection of a delivery method.

1.2 Factors

A. Program Requirements:

The owner's functional program requirements establish the project design goals. Program requirements can range from the simplicity of a storage facility to the complexity of a multimedia communications center. The program may call for a single building or a multiple-use civic center complex. Different delivery methods are appropriate depending upon the level of complexity and the degree of specificity within the program.

B. Owner Capabilities & Resources:

The level of owner project management capability will strongly influence the amount of outside assistance required during a project. Different delivery methods require different types of expertise and different levels of owner investment at different phases of the project. The type and availability of owner resources need to be considered in selecting a delivery method.

C. Risk Capacity:

The owner's capacity to absorb and manage risk is an important factor that can influence project decisions relative to cost, schedule, quality, design and program goals. While careful planning and a risk management plan can mitigate risk, unforeseen impacts can alter the outcome of a project. Risk capacity should be considered when assessing project delivery methods to find the most appropriate fit.

D. Building Site:

Different building sites offer unique opportunities and challenges. Some sites carry a greater risk than others. The nature and requirements of a particular site may be better served by one delivery method over another.

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E. Design:

Project designs range from traditional, industry standard systems to highly complex, custom requirements. Some program and development goals lend themselves to fully defined and detailed design, while others require greater flexibility for evolution and change. The anticipated quality and completeness of the design documents are critical factors when selecting a project delivery system. Depending upon the design requirements and anticipated documentation level, one project delivery system or another is going to best meet the project needs.

F. Market Conditions

The prevailing market conditions at the time of project delivery can strongly influence the nature of the development process. Available options for project financing are dictated by market conditions. Having qualified design, developer and contractor pools to select from are key factors in a project's success. Opportunities that exist in one type of market, may not be available or favorable in another. Consideration of market conditions is important in selecting the most favorable delivery method.

G. Change Likelihood

If an Owner anticipates that project requirements may change during design or construction, or that the complexity of the project makes changes inevitable, then a flexible delivery approach is required. Some delivery methods lack the flexibility to respond quickly and cost-effectively to changes, while others are able to minimize, anticipate and respond effectively to change.

These are many of the primary factors that influence project delivery. There may be others specific to a particular project that could play an important role and should be considered. One factor may suggest a particular delivery method while another suggests a different approach. The different factors need to be understood and weighed in terms of relative influence on the project delivery. The project team should give the various factors balanced consideration in selecting a project delivery method.

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2.0 Project Delivery System Definitions

There are several delivery systems utilized in the construction of public works projects. The systems identified below are the most widely used. Not all are available to the City of Shoreline, however are listed below to provide context for the purpose of this evaluation.

2.1 Design/Bid/Build:

The design/bid/build or traditional method has been the prevailing project delivery system and has typically been used in public works projects. The regulations and procedures that apply to the contracting, design and construction phases are well developed. The owner engages a design team who in turn develops drawings and specifications for the facility. Once completed, the design package is bid and the lowest responsible bidder is awarded a contract for the construction. The owner uses in-house staff and the architect or engages the services of a professional construction manager to manage the process.

2.2 Design/Build & Bridging:

Washington State RCW 39-10-50 (replaced by 39-10-51) Design-Build Procedure introduced to the public sector a process intended to emulate the design/build approach used in the private sector for many years and provide an alternative to the traditional design/bid/build process. RCW 39-10-020 Alternative Public Works Contracting Procedure, stipulates the requirements for a project to qualify to use the design-build method as an alternative contracting procedure, including project value, service population of the public entity and other factors. With the design/build method, one company is contractually responsible for project design and construction. Design/build contracts are typically negotiated once the owner's program is well defined and the contract terms can be established. The design/build contractor guarantees a maximum project cost based upon the owner's program and a development agreement defining the project scope and terms.

Bridging is a hybrid form of design/build that gives the owner greater control over the design process and end product. The owner's A/E team more fully defines the design documents prior to the development agreement being negotiated. The documents specify the project's functional and esthetic requirements, but the details of the construction technology are described with performance

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specifications leaving the specific methods up to the design/build team. The construction drawings are prepared by the design/build contractor's A/E who becomes the architect of record.

2.3 General Contractor/Construction Manager At-Risk (GC/CM)

Washington State RCW 39-10-60 (replaced by 39-10-61) General Contractor/Construction Manager Procedure also introduced to the public sector a process intended to emulate the so called negotiated contract method used in the private sector between an owner and a general contractor. The Alternative Contracting Procedure limitations that apply to RCW 39-10-51 also apply to 39-10-61. The owner's architect is selected in the usual manner and shortly thereafter a GC/CM is selected using a combined RFP and competitive bid process. The GC/CM provides preconstruction services working closely with the owner's A/E team to improve the cost effectiveness, value and constructability of the project. The GC/CM may engage the services of design/build electrical, mechanical and other subcontractors through a competitive RFP process. The GC/CM team's early involvement helps ensure the adequacy of the design and reduce the potential for costly change orders. Near the end of the design development phase a negotiated Maximum Allowable Construction Cost (MACC) is established. The GC/CM guarantees the MACC and is responsible for construction cost overruns.

2.4 Developer/Lease-To-Own (LTO)

The developer/lease-to-own approach is very similar to the design/build delivery method and is available to public entities through RCW 35.42.220. The owner typically selects a developer through a Request for Proposal process. The owner and developer enter into an agreement by which the developer is responsible for turn-key development of the project and leases back the facility to the Owner with an option to purchase. In some cases, the owner may pre-select a property and assign the purchase option to the developer. The developer chooses the design and construction delivery approach that best suites their interests. Design/build is the method of choice with the developer providing either in-house design and construction services, forming a design/build partnership or contracting with an architect and contractor. Bridging and other elements of the design/build method are applicable to the lease-to-own approach.



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On public sector lease-to-own projects there are two financing structures typically utilized, Certificates of Participation (COPs) and the “63-20” structure. In a COP arrangement, the developer directly receives a share of the lease revenue in return for financing the project. The “63-20” structure is an IRS established financing mechanism that allows a not-for-profit corporation to be formed which can issue tax-exempt bonds to fund the project. The not-for-profit holds title to the property and improvements. The public entity enters into a lease agreement with the not-for-profit and finances the bond debt through lease payments, typically over a twenty to thirty year period. At retirement of the debt, the property title is turned over to the public entity. COPs are often used during the initial construction stage of a project and later converted to a “63-20” structure at occupancy. In some cases, the public entity will elect to issue GO bonds and buy out the lease early.

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3.0 Delivery Methods Available to the City of Shoreline

Of the four most common project delivery systems available for use on public works CIPs, only the traditional Design/Bid/Build and the Developer Lease-To-Own methods are available to the City of Shoreline.

3.1 Design/Bid/Build:

The Design/Bid/Build method has historically been used on public works projects and is utilized by most public entities in Washington State under RCW 39. The procedures for implementing this approach are well established and understood by the City of Shoreline staff.

3.2 Design/Build:

The Design/Build method as defined by RCW 39-10-51 is not available to the City of Shoreline under the criteria defined by RCW 39-10-020 Alternative Public Works Contracting Procedure. 39-10-020 stipulates which bodies may use the design-build alternative contracting procedure and requires cities to have a population greater than 70,000 before the design-build procedure can be used. The City of Shoreline's current population is below the threshold at approximately 54,000.

3.3 General Contractor /Construction Manager At-Risk (GC/CM)

The GC/CM method as defined by RCW 39-10-61 is also not available to the City of Shoreline under the criteria defined by RCW 39-10-020 Alternative Public Works Contracting Procedure. In accordance with the constraints of RCW 39-10-020, the City of Shoreline does not qualify to use the GC/CM method because the current population is below the threshold level of 70,000.

3.4 Developer/Lease-To-Own (LTO)

The Developer/Lease-To-Own method is available to the City of Shoreline in accordance with RCW 35.42.220. The RCW allows a lease of real property with an option to purchase. In accordance with the IRS 63-20 ruling, the services of a developer can be engaged and a not-for-profit established to issue tax-exempt bonds for project financing and to hold title to the property. The private developer is typically used to manage the process, though this role can be held directly by the not-for-profit. The City executes a lease agreement with the not-



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for-profit and eventually receives title to the property when the debt is retired. The LTO method is being used with increased frequency on municipal, county and state projects in Washington.

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4.0 Quantitative and Qualitative Considerations

Olympic Associates Company has researched the relative merits of the Design/Bid/Build and the Developer/Lease-to-Own project delivery methods. Our research consists of a literature review and interviews with participants in design/bid/build and lease-to-own projects. We identified one formal, statistical study and innumerable empirical reviews discussing the merits of different project delivery methods. Considerable attention within the industry has been devoted to comparing design/bid/build with alternative public works contracting methods including design/build and GC/CM.

While we did locate one excellent paper on the use of the “63-20” lease-to-own method in public facility development, we did not identify any studies comparing the merits of LTO to other delivery approaches. LTO arrangements most typically employ either a design/build or negotiated GC delivery approach, therefore we felt it appropriate to use the Design/Build method as a proxy for Developer/LTO in comparing LTO to Design/Bid/Build. The primary elements where LTO differs from Design/Build are in the financing structure and the involvement of a not-for-profit corporation as a legal intermediary between the public entity and the developer. We address the details of this later in the report.

4.1 Quantitative Assessment

One prominent study sponsored by the Construction Industry Institute, Comparison of U.S. Project Delivery Systems, by Mark Konchar and Victor Sanvido, Penn State University, 1998, analyzed the results of a survey of 351 respondents regarding the outcome of several project delivery systems. The study design defined the performance metrics to be considered through a literature review that identified project delivery factors that had been shown to be statistically significant. The researchers developed data collection instruments based upon the identified metrics, collected and confirmed the data and used univariate and multivariate regression analysis to analyze the data. The study compared the statistical results of differences in project unit cost, cost growth, project delivery speed, construction speed and schedule growth. The study also looked at qualitative results and varying risk levels of the different methods. For the purposes of our evaluation, we have summarized the study results for design/bid/build and design/build (proxy for LTO).

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Unit Cost: the effects of the project delivery system on project outcome indicated design/build projects to be at least 6.1% less expensive to build than design/bid/build projects on an average unit cost basis for the entire project.

Cost Growth: the effects of the project delivery system on project outcome indicated design/build projects averaged at least 5.2% less expensive to build than design/bid/build projects as measured by growth in project cost during construction. Cost growth measured the change in project cost resulting from owner-elective and non-elective change orders.

Delivery Speed: the effects of the project delivery system on project outcome indicated design/build projects averaged at least 33.5% faster in delivery of the finished project than Design/Bid/Build projects. Delivery speed measures the period from initial project planning through design, construction, commissioning and move-in.

Construction Speed: the effects of the project delivery system on project outcome indicated design/build projects averaged at least 12% faster in construction speed than design/bid/build projects. Construction speed measures the period from commencement of construction through completion.

Schedule Growth: the effects of the project delivery system on project outcome indicated design/build projects averaged at least 11.37% less schedule growth than design/bid/build projects. Schedule growth results from time extensions to the project schedule due to unforeseen conditions and change orders.

The results of the multivariate linear regression for these factors reported by Konchar and Sanvido are summarized in the following table:

Metric	Unit	Design/Build vs. Design/Bid/Build
Unit Cost	\$/m ²	6 % less
Cost Growth	%	5.2 % less
Schedule Growth	%	11.4 % less
Construction Speed	m ² /month	12 % faster
Delivery Speed	m ² /month	33 % faster

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The Konchar and Sanvido study compared several quality aspects of each delivery system as determined by the facility end-user. The surveyed facility owners were asked to rate the actual performance of the building systems relative to expected performance. The results are summarized in the table below. A scale from 1 to 10 was used to determine the level of quality for each delivery system. A score of 5 represents that the owner's expectations were being met while a score of 10 indicates that performance exceeded expectations.

Quality Metric	Design/Build	Design/Bid/Build
Start up	7.30	5.96
Call Backs	7.94	7.04
Operation & Maintenance	7.67	6.88
Envelope, roof, structure & foundation	5.71	4.95
Interior Space and layout	6.15	5.19
Environment	5.24	4.86
Process equipment and layout	5.61	5.07
Total Overall	45.62	39.95
Average Score	6.5	5.7

Quality: the effects of the project delivery system on project outcome indicated design/build projects consistently rated higher in quality level than design/bid/build projects as measured by owner satisfaction.

Konchar and Sanvido also evaluated owner risk. Risk is closely associated with the potential for changes, delays and defects. Projects with higher levels of change orders, schedule impacts and quality issues are more likely to involve litigation and loss. A scale of 1 to 3 was used to assign risk level with 3 representing a high risk factor.

Risk Metric	Design/Build	Design/Bid/Build
Change Order Potential	1	3
Schedule Impact Potential	1	3
Quality Factor	2	2
Total Overall	4	8
Average Risk Factor	1.33	2.66



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Risk: the effects of the project delivery system on project outcome indicated design/build projects have a 50% lower likelihood of litigation than design/bid/build projects.

The conclusion that Mark Konchar and Victor Sanvido offer in their 1998 study, Comparison of U.S. Project Delivery Systems, is that the design/build approach is, on average, the optimum project delivery method. Quoting from the summary “Projects administered using design/build project delivery can achieve significantly improved cost and schedule advantages. In addition, design/build projects produce equal and sometimes more desirable quality performance than construction management at risk and design/bid/build projects.” (Konchar, M., Sanvido V., 1998. “Comparison of U.S. Project Delivery Systems,” Journal of Construction Engineering and Management.)

Konchar’s and Sanvido’s study is one of the first rigorous comparisons of project delivery systems based upon an analysis of statistically significant factors. As such, it can provide excellent guidance to the City of Shoreline when considering the variables captured by the study in evaluating alternative delivery methods. The broad distribution of data, the large sample size and the analytical methods support the validity of the project data and results. Nonetheless, the study was not able to consider all variables that may impact the outcome of the project delivery method in significant ways. As an example, the study does not differentiate between cost growth resulting from owner-elected (and possibly planned for) changes and non-elective changes resulting from errors, omissions and unforeseen conditions. Different delivery methods may have significant differences in their ability to anticipate and control the cost and schedule impact of elective and non-elective changes. The study scope also did not compare the cost and time for owner planning, management, procurement and administration of the project. The demand on owner resources and the timing of that demand are critical factors when considering the most appropriate delivery method. While the study provides valuable guidance in the selection of a project delivery system, the results of the analysis must be considered in the specific context of the City of Shoreline project.

4.2 Qualitative Assessment

Not all evaluations of project delivery methods conclude that design/build wins the race hands down. Jon C. Vanden Bosch, P.E. notes in a summary of the

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Konchar and Sanvido study that the analysis did not definitively answer the question “Which delivery system is best?” but rather provided quantitative and objective information to assist owners in evaluating which approach is best in their particular circumstances. Our literature review and interviews of project professionals brought to light a range of experience and opinion on the merits of the different project delivery methods. The unifying agreement is that there is no one best system for all projects. Each approach has its pros and cons that need to be weighed. In general, design/build and GC/CM delivery methods are favored over design/bid/build as more likely to produce a superior outcome. Most commentators note, however, that the particular circumstances of a project are as likely to determine the outcome as the delivery method and that project circumstances are a major factor in determining the success of one method over another.

For our literature review we drew from papers and reports obtained from the following sources: The Association of Higher Education Facilities Officers, ConstructionRisk.com, SchoolPlace Newsletter, School & University articles, 3D/International, Construction Industry Institute, American Public Works Association, Centex Construction, Design-Build Institute of America, The Seattle Daily Journal of Commerce, National Clearinghouse for Education Facilities, AIA Handbook on Project Delivery and Construction Management Association of America.

Based upon the literature review, interviews and professional experience, we summarize the relative pros and cons of the different approaches as follows:

1. Design/Bid/Build:
 - a) Pros
 1. Most public projects have been design/bid/build over the last several decades.
 2. The process is universally understood.
 3. Roles of the owner, architect and contractor are clear.
 4. The owner has well defined requirements.
 5. It is considered a prudent approach to project delivery.
 6. Potentially lower initial cost.

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b) Cons

1. The project can not be bid until after the project is completely designed.
2. If the bids come in over the budget more time and money must be spent in redesign and re-bidding.
3. Design suffers from a lack of constructability review by contractors.
4. Lowest bidder is usually awarded the project in this lump sum, “hard bid” method and contractors will look to errors and omissions in the design documents as a basis to later claim additional money.
5. The final cost of the project is not known until after the project has been completed and all claims settled.
6. There is lack of coordination and integration between the owner, architect and contractor resulting in a high potential for in fighting between these actors.
7. Qualifications of the contractor and accuracy of their bid estimate are secondary to price.

2. Design/Build:

a) Pros

1. The process is greatly simplified as there is one point of responsibility for design and construction of the project.
2. The architect works under or in partnership with the contractor which eliminates claims for additional cost due to design errors.
3. Owners are able to competitively select the best “package deal” for project location, design and construction with one entity, the developer.
4. The design/build developer guarantees a maximum construction cost early in the process and is responsible for any cost overruns.
5. The developer may select the delivery approach that best suits the project without having to hard bid to the lowest contractor or subcontractor.
6. The owner may retain control over the project design through the preparation of design development “performance-based” documents and favorably structuring the design/build agreement.

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7. The design build process and integration of the project team enhances communication and expedites the delivery process.
- b) Cons
1. Selecting a qualified design/build team can require a significant amount of time in the procurement process.
 2. Design/Build is not a fail safe system, does not guarantee a less expensive project nor a faster delivery schedule.
 3. Potential duplication of some architectural costs.
 4. High quality expectations may prove to be problematic as the design/build contractor has little incentive to consider life-cycle cost factors or to exceed minimal quality standards i.e. durable materials, energy efficient equipment and low maintenance systems.
 4. Difficult for owners to maintain the proper balance between design expertise, financial capability, construction experience and the overall experience of the design/build team.
 5. Lacks wide spread familiarity and acceptance by the public sector.

The pros and cons identified in the assessment of these two delivery methods highlight several factors that should be considered in assessing what results in a positive outcome for a project. In some cases it is possible to mitigate the “cons” and swing the project towards a more positive outcome despite the delivery approach. In the case of design/bid/build, a third-party construction management consultant can be engaged early to provide estimating services, value engineering and constructability review to lessen the likelihood of design errors and omissions, redesigning/rebidding due to an over budget bid, and cost overruns. With design/build, consideration of life cycle costs and adhering to quality standards can be achieved by incorporating requirements into the design/build agreement. Likewise, projects can be managed to favor the “pros” and more likely achieve a positive outcome with the selected delivery approach. These factors can be distilled into the attributes of the best and worst performing projects. Furthermore, the attributes of best performing projects can be considered as success factors and incorporated into the delivery method as best practices.

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5.0 Attributes of Best and Worst Performing Projects

Given the pros and cons of different approaches, overall, what are the success factors that make for a better project outcome, reduce owner risk and provide the highest quality at the best value? As noted earlier, the circumstances of a project are a major factor in determining the outcome. The owner and project team have a range of ability to influence the circumstances and structure the delivery and management systems to enhance the odds of a superior outcome. Empirical research has identified the attributes of the best and worst performing projects. The following outline is based on project performance attributes presented by Michael C. Loulakis of Wickwire Gavin, P.C. at the Northwest Construction Consumer Council on September 21, 1999.

1. Best Attributes

- a) Adequate to excellent ability of owner to make decisions.
- b) Adequate to excellent definition of scope.
- c) Excellent team communications.
- d) Qualified contractor pool.
- e) High ability to pre-qualify & shortlist contractor pool.
- f) Reasonable allocation of risk.
- g) Balanced procurement and delivery approach.
- h) Well understood project drivers and factors.
- i) Early establishment and integration of design and construction teams.
- j) Limited owner initiated change orders.

2. Worst Attributes

- a) Contractor engaged late in design process.
- b) Limited or no prior team experience.
- c) Onerous contract clauses.
- d) Poor ability by owner to make decisions on design or construction issues.
- e) No prequalification of bidders.

The owner's and project team's ability to influence the circumstances and structure the delivery and management systems to favor the best attributes is affected to some degree by the selection of the delivery method. The worst attributes provide a fair description of a typical design/bid/build project, with the possible exception of the owner's decision making ability. Of the best attributes, approximately half can be strongly influenced, if not determined, by the owner and project team no matter which delivery method is used. The remaining attributes require a design/build or GC/CM delivery method to retain the



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ability to control. Consequently, the odds of enabling the best attributes for project success are higher using a design/build delivery method than a traditional delivery process. The Lease-to-Own delivery approach leverages the design/build methodology to positively influence project circumstances to favor the success factors presented by Loulakis.

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6.0 Lease-to-Own/63-20 as a Project Delivery Method

Lease-to-Own as a project delivery method is of value to a public sector entity when it incorporates the financial and structural advantages of the IRS “63-20” mechanism. The use of a “63-20” not-for-profit corporation as the lease-to-own delivery vehicle enables a project to be financed with tax-exempt bonds while maintaining the benefits of private development. The approach provides access to the efficiencies of the design/build and GC/CM systems that may not otherwise be available due to the alternative contracting procedure limitations defined in RCW 39-10-020. The success of “63-20” projects has derived from the enhanced team relationships, improved project control and the allocation of risk possible by using the design/build or GC/CM approach.

While “63-20” not-for-profit corporations have been used to finance the construction of public and non-profit facilities for close to 40 years, it is only recently that private developers and public agencies have begun to utilize the mechanism in public-private development partnerships. The “63-20” approach has been used or is contemplated for numerous projects in Washington State including the King County King Street Center, Pierce County Road Improvements, Issaquah Utility Corridor, Auburn Utilities Project, King Street Station, Harborview 401 Broadway Building, the Redmond City Hall, the Tacoma Narrows Bridge and four University of Washington projects.

Karen J. Hedlund, Partner with Nossaman, Guthner, Knox & Elliott, LLP, has written an excellent paper titled “The Use of “63-20” Nonprofit Corporations in Infrastructure Facility Development” that describes the use and attributes of “63-20”. Ms. Hedlund defines several advantages of using a “63-20” nonprofit structure for public-private development partnerships including:

- 1) The ability to create a governing structure that can include representatives from both the public and private sectors;
- 2) Facilitating the transfer to the private sector of significant project risk while preserving the ability to finance the project through the issuance of tax-exempt debt if necessary;
- 3) Insulating public agency sponsors from financial or other liability;
- 4) Avoiding the need for special legislation to implement a project;
- 5) Combining the relative strengths of the public sector with the private sector’s value added efficiency and innovation in ideas;
- 6) The use of a design/build arrangement can enhance financing due to the developer’s guaranteed price and completion date.

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Some of the disadvantages or potential pitfalls Ms. Hedlund notes include:

- 1) The affiliation between the developer and design/build team may raise conflict of interest concerns especially given that the private parties have no long term equity risk in the project;
- 2) The public agency may have more limited control over the project than if developed using traditional methods;
- 3) If the public agency wishes to exercise greater control over the project as managed by the non-profit, it may face greater legal and political liability in the event the project incurs financial difficulties;
- 4) The private developer carrying the risk is going to seek very broad authority *vis a vis* the nonprofit corporation to manage the development process, setting up a potential conflict of management authority with the public agency;
- 5) Given that the control of the managing nonprofit is not under the strict control of either the public agency nor the private developer, the development agreement needs to be well defined and the role of the nonprofit understood by all parties to avoid potential conflicts.

David Klinges, an investment banker with Bear Stearns & Co. has written an opinion article for the Innovative Finance Quarterly on the use of the “63-20” corporation in financing public sector projects. Mr. Klinges provides a balanced perspective on the pros and cons of “63-20” as a delivery structure. He concludes his article with “as a financing vehicle, the 63-20 not-for-profit issuer has proven itself to be a workable solution. From a financing perspective, however, it will provide an efficient and appropriate mechanism in some cases but not in others. The 63-20 structure is admirable for the flexibility it offers to the development team and the legal comfort offered by a structure that has survived 35 years of consistent use.”

To supplement our literature review, we interviewed several individuals with experience with LTO and/or “63-20” projects including John Finke of the National Development Council, Jean Baker with Seattle Northwest Securities Corporation, Tom Beckwith of Beckwith Consulting Group and Jim Napalitano, King County Director of Construction & Facilities. The following points summarize the considerations of lease-to-own/“63-20” as a project delivery system gleaned from these interviews:

- 1) Lower risk for public entity;
- 2) Engagement of design/build team early in the process enhances outcome;

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- 3) Development expertise, knowledge of market conditions and efficiencies of private sector reduce development cost and provide profit margin for developer;
- 4) Establishes probable maximum cost early in the process;
- 5) “63-20” financed tax-exempt bond rate is approximately 0.5% higher than Limited Tax General Obligation bonds
- 6) Potential learning curve for public agency staff due to lack of familiarity;
- 7) May incur greater public involvement and scrutiny;
- 8) Typically requires more staff effort and hassle upfront;
- 9) Reduces staff involvement during design and construction;
- 10) Eliminates hassle and cost of change order negotiations and litigation;
- 11) Estimated cost savings over design/bid/build can range from 15% to 30% (examples: King County – 15%; City of Seattle – 20%; UW – 30%);
- 12) The level of success is contingent upon the capabilities and experience of the development team;
- 13) Best applied on projects over \$7 million;
- 14) Requires a well defined project program and development/lease agreement to ensure that program requirements and quality standards are met;
- 15) Mixed, public-private tenancy (where private tenancy exceeds 10%) becomes more complicated and requires a combination of tax-exempt and taxable bond financing;
- 16) More complicated if land is owned by government agency requiring lease-back agreement;
- 17) Can significantly increase project delivery speed if major political obstacles not encountered.

The general consensus of those interviewed is that lease-to-own/“63-20” as a financing mechanism, in and of itself, does not offer significant advantages over General Obligation bond financing except for the transfer of financial risk to the not-for-profit structure. The advantages of the LTO delivery method are those that derive from use of the design/build or GC/CM process. The inherent advantages of design/build and GC/CM over standard public works contracting include reduced owner risk, lower delivery cost, increased delivery speed and transfer of turn-key responsibility to the design/build developer.

Is LTO and design/build with “63-20” financing right for every project? Not necessarily. It does offer distinct advantages that need to be weighed against the potential ease and benefits of the traditional design/bid/build delivery method.

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7.0 Project Delivery Assessment

To support the assessment of which delivery method is the most appropriate for the City of Shoreline City Hall project, Olympic Associates Company has prepared a simple assessment tool that compares the key factors and attributes of successful project delivery. The assessment criteria include the measures of cost, cost growth, delivery speed and schedule growth utilized in the Konchar and Sanvido study, along with quality and risk factors. The attributes of best performance as outlined by Loulakis are also considered. Finally, we include other factors we deem valuable based upon the study interviews and our professional experience. The assessment tool uses a score ranging from 1 to 3, with 1 being a low rating and 3 being a high rating. The final scores are averaged and given as a percent of the total possible points.

We apply a consensus-based assessment informed by our research results, professional judgment and knowledge of the City of Shoreline project. We have not weighted any of the assessment criteria higher than any others. The average overall total score for design/bid/build is 2.04 points, earning 68% of the total potential score. LTO/63-20 rates 2.43 average overall total score and earns 81% of the total potential score. Based on our assessment, LTO/63-20 earns a 19% higher point score than design/bid/build. The assessment tool showing the individual criteria and the assigned scores is attached as Exhibit A.

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8.0 Conclusion

RCWs 39-10-50 and 39-10-60 introduced to Washington State public agencies the potential use of two project delivery methods, design/build and GC/CM, that had earned merit for superior performance in the private sector. The State legislature had the wisdom to recognize and make available these approaches where their use would be beneficial. Generally, the alternative contracting procedures of design/build and GC/CM have had positive outcomes in Washington State and elsewhere, but not always. There is a range of professional opinion regarding the pros and cons of the different approaches. The advantages of design/build and GC/CM have been demonstrated in one statistically based research study. Generally, the profession favors design/build as more likely to have a positive outcome than the traditional design/bid/build approach, but acknowledge that there is not one best system that fits all projects. Reviewers agree that project outcomes are strongly influenced by whether a set of positive attributes are present. Projects can be structured to incorporate the attributes as best practices. The structure of the design/build arrangement lends itself more favorably to the incorporation of these attributes than does the traditional design/bid/build structure.

If the RCW defining which bodies could use the design/build and GC/CM alternative contracting procedures allowed the City of Shoreline to implement a design/build or GC/CM project delivery method, it is highly likely that the City would take advantage of the benefits to be gained through an alternative contracting procedure. The City is evaluating a LTO/design-build option with “63-20” financing because the city population is below the threshold required to qualify for RCW 39-10-51 design/build or RCW 39-10-61 GC/CM. The LTO/design-build option and “63-20” financing is available to the City of Shoreline under RCW 35.42.220. The use of “63-20” not-for-profit corporations for financing and managing public capital improvement projects was established by the IRS ruling to enable public entities to benefit from the financial risk transfer and access to private sector delivery methods. The “63-20” LTO structure is increasing in use because it does leverage the advantages of the private sector design/build delivery method and transfers significant project risk away from the public entity while providing access to tax-exempt financing.

In evaluating whether the City of Shoreline is a good candidate for design/bid/build or LTO/design-build with “63-20” financing, we considered the factors summarized in the Project Delivery Method Assessment Matrix. Some of the factors are generic and some need to be assessed specific to the particular circumstances of the project. We evaluated the City of Shoreline’s potential for implementing best practices that are more likely to

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produce a positive outcome on the City Hall project. Of these factors, we feel that the City can equally influence risk allocation, design scope definition, owner resources, decision making ability, access to a qualified design and contractor pool, legal requirements and procedures and owner initiated change orders equally, whether the project is design/bid/build or LTO/design-build. We feel that the City can have a greater positive influence on several success factors, including project and design control, budget knowledge and control, prequalification of bidders, the level of integration of the owner, architect and contractor and team relationships and communications, on a LTO/design-build project. Several of the factors, notably project cost, cost growth, delivery speed, schedule growth and overall risk are most strongly influenced by the type of project delivery method selected, with the design-build delivery method statistically having had more positive outcomes than design/bid/build.

A final factor to be considered, and this may prove to be the swing vote one way or other, is how well the delivery process is understood and accepted. The traditional design/bid/build process is well known, the procedures and requirements are well established and it is a familiar process for the City of Shoreline staff. LTO/design-build using "63-20" financing is not well known and, while the requirements are well defined, the procedures are open to interpretation and variation. It would be a new process for the City staff and there would be a learning curve as the team became familiar with the procedures and requirements. The LTO/design-build approach is acknowledged to have a higher hassle factor upfront for City and project staff, while design/bid/build has a greater risk of cost impacts and litigation, putting a burden on City resources in the aftermath of a project. Assessing how and when the City wishes to handle the uncertainty and potential risks associated with different delivery methods is an important consideration in making a final decision.

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9.0 Recommendation

Taking these factors into consideration and scoring the assessment matrix accordingly, LTO/design-build earns a higher score. The lease-to-own/design-build delivery method using “63-20” financing offers the City of Shoreline several distinct advantages over the traditional design/bid/build delivery method. Primary in these advantages is potential cost reductions, increased delivery speed, reduced risk and positive control over the project outcome. The primary disadvantages of LTO are the greater uncertainty about the project process and the upfront learning curve resulting from LTO not being a “tried and true” method for the City of Shoreline. The upfront investment in the LTO/design-build process with “63-20” financing has to be warranted by the project requirements.

If the City elects to build a straight forward, office building with well-defined requirements on an easy site, the traditional design/bid/build delivery method is the best choice. In this case, the likely risks can be identified and best practices implemented to help mitigate the risk. If the City Hall program defines a mixed use civic project with complex requirements that involve multiple users on a challenging site, then the LTO/design-build delivery method is clearly the first choice. LTO/design-build transfers risk away from the public entity. The design-build process has the flexibility to respond well to complexity, changes in scope and cost identification. The level of integration between owner, developer, architect and contractor supports an enhanced team process, flexibility and an outcome that is positive for all parties involved. The incorporation of mixed use and public/private partnering is possible with the LTO/design-build approach, while it is not with the traditional design/bid/build delivery method. Overall, LTO/design-build using “63-20” financing offers more options to the City of Shoreline if its use is warranted by the scope of the project.

Olympic Associates Company’s recommendation is that the benefits of the lease-to-own/design-build delivery method be given strong consideration for the City Hall project by the City of Shoreline. Nonetheless, a decision on which delivery method to use should be reserved until the nature and scope of the project program are reasonably well defined. Available site options, the program requirements, project budget and the vision of Shoreline staff and Council will all play into the final project program and master use plan. As these factors fall into place, the choice of delivery method will become evident.



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EXHIBIT A

Project Delivery Method Assessment Matrix

Delivery Method Attributes	Design/Bid/Build	LTO/Design-Build
Project Cost	2	3
Cost Growth	1	3
Schedule Delivery Speed	2	3
Schedule Growth	2	3
Quality	2	2
Overall risk	1	3
Reasonable allocation of risk	2	2
Owner's ability to make decisions	2	2
Design - adequate scope definition	3	2
Change likelihood	1	3
Project program and design control	3	2
Budget - early knowledge of final cost	1	3
Owner resources	3	3
Qualified A/E design pool	3	3
Qualified contractor pool	3	3
Prequalification of bidders	1	3
Legal requirements & policies	2	2
Potential of owner initiated change orders	2	2
Project complexity	2	2
Delivery process widely accepted and understood	3	1
Integration level of owner, architect and contractor	1	3
Team relationships and communications	2	3
Comfort factor for owner team	3	1
Total Score (69 total possible)	47	56
Average Overall Score	2.04	2.43
Percentage	68%	81%

Rating Scale:
 3 = Best
 2 = Average
 1 = Acceptable