

NATIONAL ASSOCIATIONS OF STATE CHIEF ADMINISTRATORS
2006 OUTSTANDING PROGRAM AWARDS APPLICATION

Program Title: Tumwater State Office Building
Type of Award: Individual State Award
NASCA Member State: Washington
Submitted By: Craig Donald
Title: Project Director
Department: Department of General Administration
Address: 210 11th Avenue SW
City: Olympia **State:** WA **Zip:** 98504-1009
Phone: 360-902-7344 **FAX:** 360-902-9088 **Email:** cdonald@ga.wa.gov



PROGRAM SUMMARY

We are in lean times. Most states are struggling with budget challenges. States are increasingly making choices regarding which programs to fund with less revenue available. In the State of Washington, funding for quality office space for state programs is increasingly what is squeezed, even though high quality, energy-efficient office space demonstrates cost savings time and again on a life cycle cost basis through increased productivity and decreased utility costs.

In 2002, the Washington State Department of General Administration (GA) initiated a build-to-suit, lease-to-own, public-private partnership program. The objective of this program is to secure for state use and ownership high quality office space for a cost (both first cost and ongoing cost) that is comparable to the cost of market quality leased space.

A Request for Proposal (RFP) process was used to solicit private developers to enter into a public-private partnership to deliver a LEED™ Silver, high performance, sustainable 212,500 square foot building at pre-established lease rates. The RFP process established the structure for a competitive “arms length” transaction to be negotiated among the parties. It established a public-private partnership that set clear and mutually achievable goals for the project. The RFP process built in substantial incentives and disincentives for each party. The incentives for the developer were to finish quickly and save money without impacting quality. There were disincentives for project delays and change orders and inefficient space design.

The program uniquely incorporates design-build efficiencies, build-to-suit functionality and the low first cost of leasing to the delivery of office buildings that enable state ownership with a relatively low life cycle cost. The developer assumes all development and construction risk, thereby incorporating the characteristics of the General Contractor/Construction Manager delivery model with the design-build model.

The RFP established a new investment grade high performance building specification against which proposers were asked to conduct a pre-design and design (value engineering) process that reduced first costs to the state. The resulting evaluation of the proposals was a two stage process with distinctive evaluation criteria at each stage. This allowed the state to appropriately screen the proposers given the quality of information provided at each stage, but relieved the state from the typical honorarium that is paid to design-build candidates. The second stage included an extensive review by a team of state and private sector technical experts. The evaluation criteria included unique cost evaluation models incorporating actual and life cycle costs, long term facility flexibility and program housing efficiency. It also allowed the proposer to value engineer the proposal by offering cost savings over what was specified.

The project was financed with privately issued Internal Revenue Service 63-20 Rule tax exempt debt. The lease agreement includes a fixed lease rate with ownership at the end of the lease term for one dollar. The lease was only enforceable on completion of

construction. The lease payments are equal to the amortized debt payments on an absolute net basis. Two badly fragmented (a total of 14 offices) state agencies consolidated their offices into this single building in October, 2005. Their lease costs are comparable to other leased space in the Capitol area in a built-to-suit building that will be owned at the end of the lease term.



Pluses

- Quick delivery – RFP issuance to groundbreaking – 14 months. Groundbreaking to occupancy – 14 months. This time savings saved the project \$1.5 million.
- Saved \$1.3 million financing cost during construction.
- Private market flexibility with state ownership at end of lease
- The final price is established early in the design process rather than after design.
- An alignment of interests (developer controls the design and construction and takes all of the risk) vs. a traditional GCCM where the CM and GC control the construction but the State takes all of the risk.
- Able to lock in prices. Construction and price risk shifted to developer. Estimated savings were \$2.0 million.
- Shared savings from project cost under run (\$0.5 million to State from Tumwater).
- When these factors are added together, the cost savings and risk avoidance by the State far outweigh the very marginal increase in the cost of capital.

Drawbacks

- Added financing cost of approximately \$0.7 million.
- State vests construction control to Developer.
- Unable to change scope during construction.

NASCA Application Questions and Descriptions

1. Describe the program and relative significance to the improvement of the operation and/or efficiency of state government.

In 2001, the state identified a need for 800,000 square feet of office space in the Capitol area within ten years – much of it to replace obsolete space. Unfortunately there was no money available to accommodate this need. Since 1993, however, the legislature has allocated funds to higher priority needs such as schools and colleges, prisons and roads.

As a result, office needs continued to be met by an aggressive leasing program and the percent of leased to total space grew. A major advantage of leased space is low first cost. But often, leased space is not built to meet state needs, but rather the investment needs of the developer. Although there are low first costs, over the term of the lease we pay for the first cost time again and again through increasing lease payments and operational and functional inefficiencies. On a life cycle cost basis this behavior was reckless – but when you can't afford the first cost, what do you do?

Another downside of that approach was and is increasing sprawl and fragmentation. Agencies sought low cost housing—at a cost—the facilities went where there was cheap land—on the edges of the cities. This led to agencies being fragmented by being in different buildings and separated by distance. After a number of years, another factor came to haunt us—the leased facilities were not built for the long term and so the cost of maintaining these facilities kept rising. Concurrently, productivity decreased.

Faced with these problems, the state needed to explore other options. The traditional design-bid-build procurement process for owned office space is often more expensive than private sector projects due to higher administrative costs, more extensive bid documentation and change orders and often results in protracted project schedules, typically lasting three or more years from concept to delivery. These projects were historically financed using state bonds. Since funding would not be available, a new method had to be found.

In 2002, General Administration (GA) initiated a build-to-suit, lease-to-own, public-private partnership program. The state elected to use this approach because it was faster, cheaper overall, allowed more developer flexibility with commensurate reduction in construction costs, and required the private developer to assume more of the development, construction and operational risks.

A Request For Proposal (RFP) process established the structure for a competitive arms length transaction to be negotiated among the parties. It established a public-private partnership that set clear and mutually achievable goals for the project. The developer agreed to deliver a LEED™ Silver, high performance, sustainable 212,500 square foot building at pre-established lease rates. Ground was broken in May, 2004, with occupancy occurring in October, 2005 – six months ahead of schedule. Planning is already underway on a second project.

2. Provide calculation of actual savings in short term and/or long term: if applicable.

(a) RFP process and design specifications

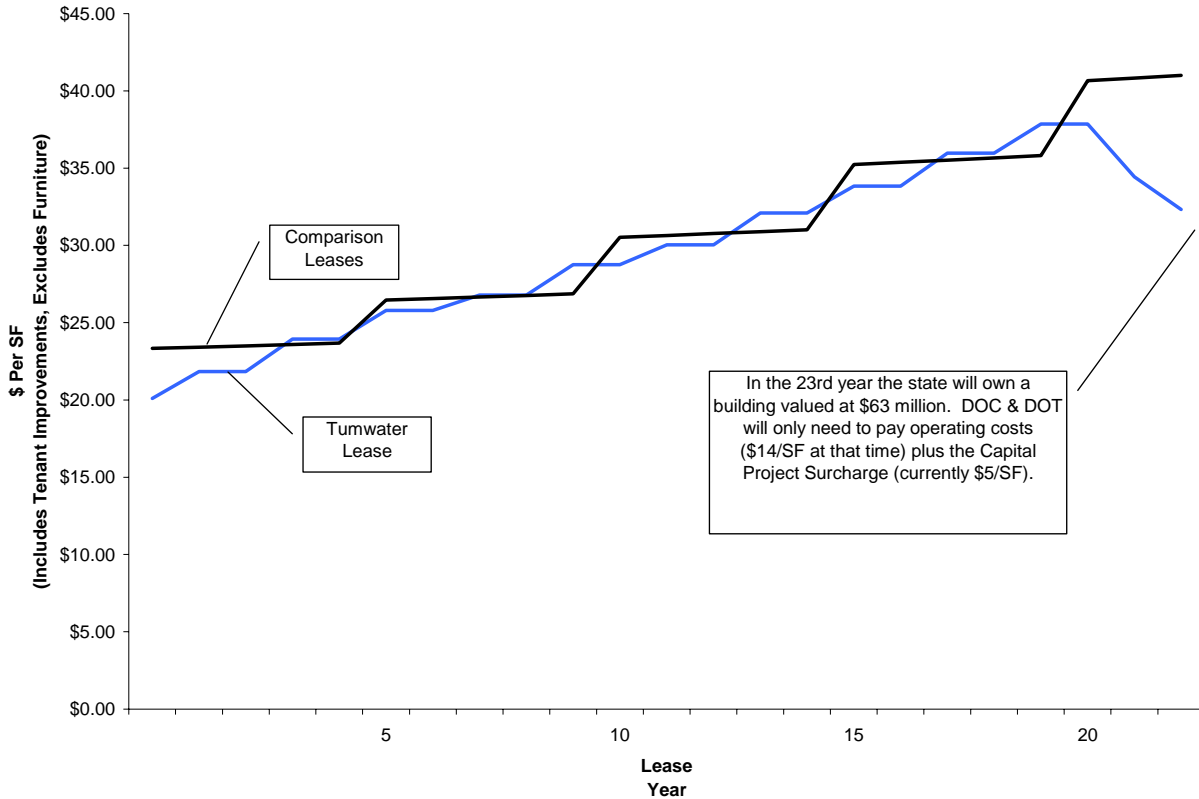
The RFP process relieved the state of costly design or honorarium payments in advance. The high performance building specifications were developed to take advantage of the Pareto Principal that we could receive 80% of the benefit for 20% of the cost. By using our specifications rather than consultant design, we encouraged the private market to be creative in their design process. In fact, we encouraged the private market to share their ideas for cost effective changes that would save us even more money.

(b) Quick Delivery and sharing savings

The state achieved direct benefits (approximately \$1.5 million) from savings incurred from the quick delivery of the project (14 months), as well as approximately \$1.3 million saved in financing costs during the construction period. This was a result of an agreement between the state and developer to share any savings. Right now the developer and the state are splitting over \$3.1 million in savings. And the project finished 6 months ahead of schedule.

(c) Lease Costs

GA signed a long-term master lease which guarantees market rates for 24 years. The state saves \$2.3 million in cash flow alone over 24 years. Including the building's residual value at lease end, on a life cycle cost basis the state will save over \$10 million during that 24 years. The lease costs are comparable to typical leased space, but more importantly, the state gains ownership of an asset valued at \$63 million at the end of the lease.



3. Describe quantitative benefits realized by service recipients, taxpaying, and/or state agencies.

(a) State Benefits

There is a great deal of subjective and anecdotal evidence that the workplace greatly affects the worker's job satisfaction which in turn affects productivity. By helping create a more effective and comfortable work environment, high performance buildings, together with integrated building systems and sustainable techniques, may help keep employees "happier" and thus more productive.

Over the typical 20 year life cycle of a facility, 90% of the cost of office functions can be attributed to the salaries of the people who work there; while only 5% is initial construction costs and another 5% is operational and maintenance costs. These figures show that the greatest opportunity for workplace gain is in improving the performance of the people in the space, not cutting the facility's first cost or on-going maintenance expenditures.

This makes a compelling argument for life-cycle cost analyses that include the effects of the workspace on the building population when determining the cost-benefit of workspace elements. If the cost of providing important workplace attributes can be shown to provide even a modest increase in productivity, they can be justified.

Conversely, a short-sighted approach to cutting the first cost by providing the wrong kind of space, inadequate space, or installing systems, furniture and technology that only meet minimum standards and thus hamper work performance, can have disastrous long-term effects.

GA concluded that since people are the most important resource and greatest expense of any organization, the long-term cost benefits of a properly designed, user-friendly work environment should be factored into any life cycle cost considerations. Design strategies that increase user satisfaction should therefore be considered not as cost “extras”, but as productivity “investments” that will increase an organization’s bottom line. To help create a more effective and comfortable work environment, GA developed “high performance building” specifications that incorporated the principles of “healthy

buildings”, energy and water conservation, enhanced safety features and daylighting and open space office layouts.

It is also extremely “space efficient”—200 rentable square feet per worker. This means that the higher performance quality—even though more costly per square foot to construct—actually is comparable on a per worker “housed” basis.

(b) State tenant agencies benefited from consolidating fragmented offices into high-efficiency, built-to-suit space. They benefited from market lease rates with building ownership at the end of the lease term. In addition, in a major natural disaster event, because of its structural integrity and its improved building systems, the building will be able to continue to operations without outside sources of support for up to 72 hours

(c) The developer benefited with low interest construction financing, reduced tenant change orders and fewer construction delays.

(d) The City of Tumwater benefited from a project with few infrastructure impacts that met its downtown economic development goals. Major arterials and transit are already in place. Storm water is retained on-site and waste water is reduced 52%. In addition, the project generated sales tax revenue for the city as well as spin off from the workers spending locally.

(e) The Public benefited from easy access to consolidated agencies in the immediate vicinity of many others.

(f) Washington taxpayers benefited from guaranteed, market rate leases, no-cost ownership at lease end, and lower operating costs.

(g) The environment benefited from a LEED™ Silver certified building. All storm water is retained on-site to replenish groundwater. Waterless urinals and no-irrigation landscaping reduce water demand. HVAC innovations, using nighttime ice-making to provide daytime cooling, greatly reduce peak energy demands. Rooftop plantings reduce cooling needs and improve air quality. 25% of construction materials have 20% post consumer or 40% post industrial recycled content. 50% of the construction debris is recycled.

4. Describe applicability of use by other state, local and/or federal government.

This shrewd and innovative approach to public-private development is an idea whose time has come. This program will benefit other states and their citizens who are asking “How can we afford new space?” 63-20 is an Internal Revenue Service Ruling that any state may use. General Administration will be happy to share our specifications and RFP to other states