



# County of El Dorado

## Chief Administrative Office

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Date: July 5, 2016

To: The Board of Supervisors

From: Don Ashton, Chief Administrative Officer

RE: Public Safety Facility

Chief Administrative Office recommending the Board:

1. Receive a presentation on the Public Safety Facility project and related cost information; and
2. Approve the Public Safety Facility project and select one of the following options:
  - 1) All Buildings - \$60,700,000, or
  - 2) All Buildings less the morgue - \$57,500,000, or
  - 3) All Building less the morgue and gun range - \$51,900,000, or
  - 4) All Buildings less the morgue, gun range and training/special ops - \$48,200,000
3. Direct staff to move forward with interim and permanent financing based on the approved project; and
4. Direct staff to complete the United States Department of Agriculture (USDA) final application with the approved project costs and required loan amount and return to the Board on July 26<sup>th</sup> with the completed application; and
5. Direct staff to use the Design Build construction project delivery method.

**FUNDING:** General Fund

### DEPARTMENT RECOMMENDATION

The Chief Administrative Office recommends the Board receive a presentation on the Public Safety Facility Project and four construction scope alternatives that identify project cost, financing and loan payment amounts by "Option". Estimated project construction costs and corresponding loans amounts are estimated to range from approximately \$48M to \$61M, with loan payments of approximately \$2M to \$2.6M per year.

At the close of the presentation, the Board will be asked to approve one of the four construction "Options" listed, and the USDA Final Loan Application will be updated with Board directed project cost, loan, and annual payment amounts. The data will also be used in the interim loan financial feasibility analysis that is required to obtain the funding for the estimated three year construction phase of the project.

## **DISCUSSION / BACKGROUND**

In 2013 Vanir Construction Management prepared *The Sheriff's Operational Assessment and Facility Study* which outlined Sheriff's Office capital facility uses and current and future needs. One critical element identified in the Study was replacement of the 22,314 square foot Sheriff's Administration building that was at the end of its useful life. Subsequently, the Board of Supervisors identified replacement of the Sheriff's Administration facility as a top priority for the County, and agreed to consider consolidation of other Sheriff functions, currently operating out of thirteen other facilities, into one new replacement facility.

On March 8, 2016 the Board of Supervisors signed Resolution 043-2016 certifying the Environmental Impact Report (EIR) for the full scope of the Public Safety Facility Project and authorized the payment of approximately \$2.65M for the acquisition of 30.73 acres of land for the new public safety facility site. The parcel is located in the Diamond Springs area of unincorporated El Dorado County at Industrial Drive. The Public Safety Facility Project would be located on 12 acres of this parcel with the Solar Farm located on an additional 7 acres.

On April 19, 2016 the Board directed staff to proceed with filing a United States Department of Agriculture (USDA) loan application, intended to finance the Public Safety Facility Project's construction. On November 18, 2015, the USDA indicated that the County's pre-application proposal met USDA basic eligibility requirements for financial assistance through the Community Facilities Program. When the USDA pre-application was submitted, staff had broadly identified the scope of the Public Safety Facility Project and related costs. The USDA's final application requires detailed Project and costing information, proof of completion of the environmental review process, as well as a General Fund historical and projected financial feasibility analysis.

### **Project Description**

The Public Safety Facility Project proposes construction of approximately 99,024 square feet of facility space in a campus setting that would address current and future needs of the Sheriff's Office. For this presentation, and to assist the Board with the requested action, the total Project and related costs will be broken down into four separate alternatives or construction scope "Options" for Board members to choose from. The Public Safety Facility Project at build out includes a Headquarters Building, Evidence Building, Training / Special Operations Building, Indoor Gun Range and a Morgue. Please see the Sheriff's staff report for additional detail regarding the various buildings (Attachment 3B). The costs referenced below in the *Financial Overview* section will address each Options' construction costs, loan and loan payment amounts.

Architectural Nexus (Arch Nexus) has prepared design schematics, cost estimates, and construction timeline projections for the Public Safety Facility Project. The square footage requirements for the Public Safety Facility Project have been factored for a 20+ year expansion factor by utilizing historical Sheriff's Office trending data for staffing, county demographics, proposed county development and forecasted future service delivery needs. Please refer to Appendix A for a table that compares Sheriff's Office current square foot operations to that proposed for the Project.

### Design Build

Construction costs quoted for the Public Safety Facility Project assumes a Design Build project delivery method is used. Utilizing the County's Procurement processes, the County would contract with a design-build contractor that would perform the complete design of the facility, usually based on a preliminary scope or design (performance specifications). The County and contractor would negotiate a guaranteed maximum price to complete the Project's design and construction work.

The design-build team would not only be responsible for construction of the project, but also for design. Since the construction team is working together from the outset, the design-build method offers the opportunity to save time and money.

### Construction Management

Construction management encompasses a range of services that can be provided by a consultant on behalf of the County. It is proposed that a construction management consultant be hired to supplement El Dorado's in-house expertise, and to manage the construction process. A consultant can provide professional services on the County's behalf throughout the project, with no vested financial interest in the design or construction of the project. Construction managers can help prevent costly problems during construction, reduce construction risks and promote cost savings by limiting change orders, delays, and contractor claims.

### Construction Timeline

The following is a tentative project schedule assuming a design build method:

✓ BOS Project Approval	July 11, 2016
✓ BOS Loan Application Approval	July 26, 2016
✓ Bridging Documents Complete	October 2016
✓ USDA Loan Approved*	October 2016
✓ Design-Build Contract Selection Process	Sept. 2016 – Feb 2017
✓ Design-Build Contract Awarded	March 2017
✓ Construction	Aug. 2017 – Feb. 2019
✓ Occupancy	March 2019

\*Dependent on local and national approval of USDA application

### **FINANCIAL OVERVIEW**

Board approval to construct the Public Safety Facility Project is a significant financial decision. The El Dorado County Board of Supervisors has not yet given staff direction on the Public Safety Facility Project scope, which would clearly identify which building(s) the Board approved to be constructed. The purpose of this presentation is to provide the Board with enough project detail and costs, as well as loan information, to make a fully informed decision that will be in the County's best interests.

- Costs for on and offsite infrastructure, soft costs<sup>1</sup> and a 5% contingency are included in all listed Options.
- *Excluded* from all project cost estimates are the land acquisition cost and preliminary consulting costs, since these dollars have already been expended and will be used to offset the USDA match requirement, and the Solar Farm. Interim financing costs including issuance and interest costs are also not included in the project cost estimates. These costs should be paid on a pay as you go basis and not included in the USDA loan amount. Interim financing costs can be considered a part of the County's match.

The table below summarizes four options the Board can consider related to the Public Safety Facility Project, with annual payments based on a 3% interest rate:

OPTIONS		LOAN AMOUNT	ANNUAL PAYMENT
1	All Buildings	\$ 60,700,000	\$ 2,630,000
2	All Buildings - Less the morgue	\$ 57,500,000	\$ 2,490,000
3	All Buildings - Less the morgue & range	\$ 51,900,000	\$ 2,250,000
4	All Buildings - Less the morgue, range & training/special ops	\$ 48,200,000	\$ 2,090,000

Options 2 through 4 require the deferral of construction of one or more buildings within the Public Safety Facility Project. However, when construction is postponed to a later date, possibly years later, the cost to construct a building can be expected to increase by approximately 8% per year, accounting for inflation and other factors. For example, if the Board should decide to delay construction of the Indoor Gun Range for 10 years, the cost to construct the same building can be expected to increase from \$5.6M to approximately \$12.1M (Appendix B).

It is important to note that facility construction cost estimates are best estimates at a point in time and are based on a series of assumptions. As required by the USDA, the Public Safety Facility Project will include a 5% construction contingency added to the original cost estimate (based on direct construction costs only, not including soft costs).

### *Solar Farm*

Seven acres of the parcel is proposed to house solar-generating facilities, or the Solar Farm, that would be located within a fenced area, west of the Public Safety Facility. The Farm is expected to generate 2 megawatts (MW) of power which will be used to offset other county power costs. Based on initial research on development options for the solar farm and in consideration of general financing concepts (e.g. a financing period should not extend beyond the estimated useful life of a contemplated facility), staff is recommending that the solar farm be considered by the Board as a stand-alone option at a later date.

<sup>1</sup> Soft costs include the following: engineering studies, construction management, quality control, financing, insurance, legal, permits and fees, and pre-construction A & E.

## **5 YEAR GENERAL FUND BUDGET PROJECTIONS**

On June 14, 2016 the Board approved the 2016-17 Recommended Budget, which will be included in the USDA final application. During the budget presentation, Laura Schwartz, Chief Budget Officer, presented a *5 Year General Fund Budget Projection* schedule to provide the Board with a general overview of the County's financial outlook for the next few fiscal cycles, given fiscal assumptions at that time. These figures forecasted funding deficits in FY 2018-19 through FY 2020-21 and did not include loan payments for the Public Safety Facility Project. In order to qualify for the USDA loan, the County will need to demonstrate how the annual loan payments fit into the projected General Fund budget.

The USDA final loan application requires a financial feasibility analysis containing historical financial data as well as projections for 5 years of future General Fund budgets. This financial analysis is intended to demonstrate to the interim credit market and the USDA's Credit Committee that El Dorado County has the ability to appropriate funds in the annual General Fund budget and can afford to make loan payments over the loan term.

On June 28, 2016, the Board directed staff to revise the *5 Year General Fund Budget Projection* schedule to include interim finance costs and loan payments, and to reflect anticipated operating efficiencies that will balance forecasted budgets, as required by external financing and the USDA application. The revised *5 Year General Fund Budget Projection* schedule will demonstrate the County's ability to annually appropriate and repay the loan. When the Board approves the Public Safety Facility Project Scope, the budget schedule will be updated to include the Project cost, USDA loan, and corresponding payment amounts.

Over the next few months, the CAO will begin discussions with county department heads and key staff to identify efficiencies in service delivery, reductions in operating costs where possible, and other cost recovery options. Beginning those discussions now, in advance of the FY 2017-18 budget cycle, will provide departments with the maximum amount of time to plan for and implement changes that will be necessary to close future budget shortfalls.

## **INTERIM AND PERMANENT FINANCING PROCESS**

As required by the USDA, the County will need to obtain interim financing for the construction phase of the Public Safety Facility Project, through a Grant Anticipation Note or similar type of Note financing, which will last through the completion of construction (up to 3 years). This interim financing is anticipated to be obtained through a public offering. The USDA loan will be held as collateral since the funds will be appropriated at the Federal level. The cost of issuance for this interim financing (including costs for bond counsel, underwriters, financial advisors, etc.) is estimated at \$420,000. As discussed in a previous presentation, rating by a credit rating agency may be required for this financing.

Upon completion of construction, the USDA will "buy out" the full remaining value of the interim financing. At that time, the County's obligation to repay the USDA loan will take the form of a lease evidenced through the issuance of a Certificate of Participation (COP). The lease payments are payable from the County's General Fund, requiring an annual appropriation of funds that match the debt service on the USDA loan. The lease obligation evidenced by a COP is not considered a debt within the meaning of the California Constitution, therefore not

requiring voter approval, because the payments will be subject to abatement in the event of casualty that causes a loss of use and occupancy of the Public Safety Facility. As part of the COS, the County will also be required to establish a reserve account equal to one annual payment. The first payment on the USDA loan will begin one year after the USDA takes over the lease obligation. The term of this loan could be up to 40 years.

On July 26<sup>th</sup> the Board will be asked to hold a public hearing for, and approve the filing of, the USDA Final Application. Upon receipt of El Dorado County's final application by the USDA, the local office will complete a preliminary review to approve the application locally, and will then forward the application to the national office for a final review and approval. If the national office approves the loan, the USDA will issue a *Letter of Conditions*. Staff will recommend that the Board accept the *Letter of Conditions* through the adoption of a Resolution. It is anticipated that the local USDA office will lock in the County's loan rate within days of this action.

USDA interest rates are adjusted quarterly and the interest rate for July 1 through September 30, 2016, is 2.75%. While the maximum term on a USDA loan is up to 40 years, a shorter term is available if requested by the Board. The County could be required to contribute up to 15% of the project cost as matching funds; however, it is possible that a lower match amount could be approved by the USDA. Purchase of the site and some consultant contract costs can be applied to the match requirement.

It should be noted that the loan approval process is expected to take several months to complete, potentially concluding in September or October of 2016. Once the USDA Final Application is submitted, the actual review timeframe will be completely dependent on USDA. Furthermore, the timeline for approval of the Federal budget could impact the actual appropriation of funds, which is required in order to execute the interim financing.

## **ALTERNATIVES**

As an alternative to selecting one of the four Options identified by staff, the Board could identify an alternative or "new" option, or could decide not to move forward with the project at this time. If the Board defers the decision to approve the Public Safety Facility project to a later date, filing the USDA final application and interim financing actions would also be postponed, since the USDA application requires staff to specifically define the project and amount to be financed.

## **OTHER DEPARTMENT / AGENCY INVOLVEMENT**

Facilities Finance Committee, County Counsel, Sheriff's Department

## **CAO RECOMMENDATION**

The Chief Administrative Office recommends approval, with selection of one of the four options.

## **FINANCIAL IMPACT**

Moving forward with financing and construction of the Public Safety Facility Project will be a significant financial commitment by the County. Over the term of the loan, up to 40 years, creditors will require the County to annually appropriate the loan payment amount and, further, set aside a reserve account that equates to one annual loan payment.

Staff recommends that the Board direct as much funding as possible toward the Public Safety Facility Project in each of the construction years in an effort to reduce the final loan and annual payment amounts, which would then limit the size of the future budget constraints that would be necessary.

**CLERK OF THE BOARD FOLLOW UP ACTIONS**

N/A

**STRATEGIC PLAN COMPONENT**

Infrastructure

**CONTACT**

Shawne Corley

Russ Fackrell

Laura Schwartz

## Appendix A

Current		Proposed	
Description	Square Feet	Description	Square Feet
Administration	22,314	Headquarters	57,820
Contracted Storage	1,600	Evidence Building	11,728
Fiscal	3,459		
IT	852		
OES	5,714		
Dispatch	2,147		
Support Services	6,020		
Investigations	7,000		
<b>Subtotal:</b>	<b>49,106</b>	<b>Subtotal:</b>	<b>69,548</b>
Communications / Boats	4,000	Training & Special Operations	12,933
Search & Rescue (SAR)	1,580		
Sheriff's Team of Active Retirees (STARS)	1,368		
Training (DST)	5,000		
<b>Subtotal:</b>	<b>11,948</b>	<b>Subtotal:</b>	<b>12,933</b>
External Agencies - Morgue	Contracted	Morgue	3,993
External Agencies - Range (Est.)	10,000	Indoor Range	12,550
<b>Total Current:</b>	<b>71,054</b>	<b>Total Proposed:</b>	<b>99,024</b>



# Appendix B

	<b>Today's Cost</b>	<b>5 Year Cost*</b>	<b>10 Year Cost*</b>
<b>Training/Special Operations</b>	\$ 3,700,000	\$ 5,436,514	\$ 7,988,022
<b>Indoor Gun Range</b>	\$ 5,600,000	\$ 8,228,237	\$ 12,089,980
<b>Morgue</b>	\$ 3,200,000	\$ 4,701,850	\$ 6,908,560

\* Includes an 8% inflation factor for rising construction costs as well as other factors such as re-mobilization, financing, etc.