



# KING COUNTY AUDITOR'S OFFICE

## CAPITAL PROJECTS OVERSIGHT PROGRAM

King County

### OVERSIGHT REPORT ON SOUTH REGIONAL ROADS MAINTENANCE FACILITY (SRRMF) PROJECT

#### DESCRIPTION

The Road Services Division (Road Services) plans to consolidate the Black Diamond and Summit Pit roads maintenance facilities by building a new facility to increase efficiency and reduce costs. Ravensdale was chosen as the consolidation site because it is County owned, Black Diamond is too small for this purpose, and the County intends to sell the Summit Pit site for residential development. The original plan to sell Summit Pit in order to pay for SRRMF and several other Road Services projects fell through in February 2011. While the county is exploring alternatives to sell the property, current work on the project is limited to finishing the preliminary design phase, including obtaining the conditional use permit (CUP) necessary to develop the Ravensdale site. The Facilities Management Division (FMD) is managing the project on behalf of Road Services.



**PROJECT STATUS** ● = No Current Concerns ▼ = Attention Needed ◆ = Corrective Action Needed

#### ● Scope

The project includes construction of approximately 125,000 square feet (sf) of enclosed and unenclosed building space, including a crew headquarters building, vehicle and equipment storage and repair areas, and materials storage. Other features include a fueling station, vehicle wash area, de-icing and street waste processing operations, parking, access road, and drilling a new water well or connecting to an existing well onsite.

#### ▼ Schedule

The next major milestone is obtaining the conditional use permit (CUP), targeted for July 3, 2012. The CUP schedule has slipped by approximately nine months from the original estimate, and was revised to limit expenditures when it became evident that the initial Summit Pit sale plan might fall through in February.

#### ▼ Budget

Of the \$6.4 million appropriated, approximately \$3.4 million has been spent to date. FMD anticipates spending approximately \$3.7 million on SRRMF by the time the CUP is obtained. The current total project cost estimate ranges from \$41.6 million to \$45 million, compared to the conceptual estimate of \$36.9 million provided to council in 2008.

#### Issues and Risks

- The project revenue source is uncertain. Until this issue is resolved, the project cannot be finished.
- The proposed site is located over a critical aquifer protection area. Permitting requires extensive study of drainage, aquifer protection measures, uncertain mitigation obligations, and a risk of appeal.
- Continuing delay could result in the need for facility repairs at Black Diamond and Summit Pit estimated at \$2.7 million in 2008.

#### Recommendation

FMD should verify that the SRRMF project is consistent with the Facilities Master Plan for Road Services before proceeding with any work beyond the preliminary design phase.

**For detailed information regarding this project, see the following pages.**

October 21, 2011

***King County Auditor's Office – Cheryle Broom, County Auditor***

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***Capital Projects Oversight Program – Tina Rogers, Manager***

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**ALTERNATIVE FORMATS AVAILABLE UPON REQUEST**

## **INTRODUCTION**

This is the first oversight report submitted to County Council by the Capital Project Oversight Program on the status of the scope, schedule, budget, and risk for the South Regional Road Maintenance Facility (SRRMF) project. Oversight is conducted through meetings with the project team members from the Facilities Management Division (FMD) and the Road Services Division (Road Services). Information has also been obtained from project records provided by the project team and the county ordinance records relating to the project. This report summarizes the project scope, schedule, and budget results to date, discusses risks, and recommends actions to help assure that the project is well documented for decision-making on future appropriation requests.

## **PROJECT HISTORY**

SRRMF is a proposed new maintenance facility within the southern portion of a 625-acre county-owned property located at 292<sup>nd</sup> Avenue SE and Kent-Langley Road in Ravensdale.<sup>1</sup> Approximately 200 acres will be developed to consolidate the County's existing Summit Pit and Black Diamond road maintenance operations. The project resulted from the County's decision to sell the 156.5-acre property containing Summit Pit site to the Yarrow Bay Group, which was approved by Ordinance 16359, enacted on February 3, 2009. The Yarrow Bay Group intended to build a residential development on the property consistent with the county's affordable housing guidelines. The County planned to use the proceeds from the Summit Pit sale to fund SRRMF and several other Road Services projects.

Yarrow Bay notified the County on February 17, 2011 that it had decided not to purchase Summit Pit. The Executive has confirmed that SRRMF cannot be completed without adequate revenue from selling Summit Pit. The County issued a request for qualifications (RFQ) soliciting new buyers for the property on June 16, 2011.<sup>2</sup> The county received responses from Polygon Homes and Powell Development. The County Executive has evaluated their qualifications, but has not yet announced plans for moving forward on the property sale.

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<sup>1</sup> Several gun ranges are located on the northeast portion of the property, including one for the King County Sheriff's Office.

<sup>2</sup> 1180-11-RLD

The County is also exploring establishing a public-private partnership as a means to expedite delivering SRRMF in case relocating Summit Pit early is necessary to meet the terms of a property sale agreement. The County issued an RFQ soliciting the establishment of a public-private partnership agreement to develop SRRMF on August 18, 2011.<sup>3</sup> The Executive is currently evaluating responses received from five firms on September 27, 2011.

Although SRRMF cannot be completed until the project revenue source is established, the Executive has authorized work needed to finish schematic design and permitting efforts<sup>4</sup> currently in progress.

## **PROJECT STATUS UPDATE**

### **Scope**

The project scope is to consolidate the existing Summit Pit and Black Diamond road maintenance facilities at a new maintenance complex located in Ravensdale. There have been no changes to this scope since Ravensdale was identified as the preferred consolidation alternative when Ordinance 16359 authorizing the sale of Summit Pit was enacted.

The detailed project scope includes construction of approximately 125,000 square feet (sf) of enclosed and unenclosed building space, including a crew headquarters building, vehicle and equipment storage and repair areas, and materials storage. Other features include a fueling station, equipment wash area, de-icing and street waste processing operations,<sup>5</sup> site access roads, parking, and staging areas, access improvements to Kent-Kangley Road, and water supply and sewage disposal systems. The County is targeting a LEED Gold certification for the project.

Consolidating Summit Pit and Black Diamond is recommended in the June 2008 “Roads Maintenance Facility Study” by Dye Management Group, Inc., which evaluated the volume, type, and location of work faced by Road Services in coming decades. Although the Dye report did not include a financial analysis, it recommended that Road Services “should address the fiscal impacts” of its consolidation strategy as part of the Facilities Master Plan for Road Services. Road Services intends to complete the Facilities Master Plan in 2012 if Council approves \$124,000 requested for this purpose in the 2012 capital improvement budget.

The scope of the project’s current phase is limited to finishing the schematic design. This includes obtaining the conditional use permit (CUP) required to develop the site as a roads maintenance facility. The CUP is good for at least four years. The project baseline will be established once the CUP is obtained.

If the Facilities Master Plan for Road Services is funded, FMD will need to evaluate SRRMF to ensure that it is consistent with the new plan. We note too, that the primary revenue source for construction of the project is still pending.

**Recommendation 1:** The Facilities Management Division should verify that the SRRMF project is consistent with the Facilities Master Plan for Road Services before proceeding with any work beyond the preliminary design phase.

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<sup>3</sup> 1219-11-RLD

<sup>4</sup> Includes obtaining the state environmental policy act (SEPA) determination and conditional use permit (CUP).

<sup>5</sup> Including Vactor Decant, Coordinated Reduction of Waste (CROW) and Street Waste Alternative Program (SWAP) operations to separate, treat, and monitor liquid and solid waste materials for environmentally safe reuse or disposal.

## Schedule

Exhibit 1 below summarizes the project team's major milestone schedule for finishing the preliminary design phase. This schedule has slipped by approximately nine months from the original estimate. This delay was deliberate, since the Executive wanted to limit expenditures while waiting for Yarrow Bay's Summit Pit purchase decision. The schedule for completing the entire project cannot be determined until the project revenue source is established.

### Exhibit 1 – Major Milestone Schedule to Finish Preliminary Design Phase

Major Milestone	Target Date for Completion
Revision of CUP application to respond to King County Department of Development and Environmental Services review	December 19, 2011
State Environmental Policy Act (SEPA) Determination (required for CUP)	June 17, 2012
Receipt of Conditional Use Permit	July 3, 2012

In addition to funding source uncertainty, several other schedule risks exist. According to FMD, there is a risk that the county's SEPA determination could be appealed. Should this happen, and the appellant be successful, it could add one or more years to the conditional use permit process. According to Road Services, there is a risk that delaying SRRMF will force them to spend capital funds to keep the Summit Pit and Black Diamond facilities operational. The County estimated in 2008 that it would cost approximately \$2.7 million to make necessary short-term repairs at these sites.

## Budget

The County Council has appropriated \$6.4 million to date for SRRMF. The project team's current scope is limited to completing the preliminary design phase, which they estimate will cost approximately \$3.7 million. They have spent approximately \$3.4 million so far, as summarized in Exhibit 2.

### Exhibit 2 – SRRMF Appropriation and Expenditure History

Appropriations <sup>(1)</sup>	Expenditures thru September 2011 <sup>(2)</sup>	Planned Expenditures for Preliminary Design Phase <sup>(3)</sup>	Balance after Planned Expenditures
<b>\$6,356,002</b>	<b>\$3,383,533</b>	<b>\$3,696,288</b>	<b>\$2,659,714</b>

Notes:

(1) 2009 CIP budget.

(2) Last closed month in county's accounting system. Excludes \$349,042 in encumbrances, since the encumbrances may not be realized in full.

(3) FMD projection provided 6/21/2011.

The estimated total project cost for SRRMF has increased by 13 to 22 percent since council consideration of Ordinance 16359. The project team has engaged in value engineering efforts to reduce the estimated cost, including revising the facility layout from a multiple building concept to a more cost effective single building approach. The team is currently evaluating water supply and site access road options, which will affect the project cost estimate. They expect to complete this evaluation by the end of the year. Exhibit 3 compares the cost estimates developed so far for the project.

### Exhibit 3 – SRRMF Project Cost Estimate Comparison

Estimate Date	Estimate Type	Total Cost Estimate
December 2008 <sup>(1)</sup>	Rough Order of Magnitude	\$36,900,000
June 2010 <sup>(2)</sup>	30% Design (not baselined yet)	\$41,582,712 - \$44,995,172
Cost Increase		\$4,682,712 - \$8,095,172
% Increase		13% - 22%

Notes:

(1) Estimated project cost provided by Executive for consideration of Ordinance 16359.

(2) Project cost estimate document provided to auditor's office by FMD. The total cost estimate range allows for an uncertain construction start date and inflation.

The County commissioned a study by the project design consultant, KPG, Inc., in June 2010 to compare the estimated building construction and site development costs for SRRMF with similar projects recently completed by the City of Bothell, the City of Issaquah, Pierce County, and Snohomish County. The results showed that SRRMF had the lowest building construction cost (\$120/square foot) but the highest site development cost (\$636,354/acre) of the projects studied.<sup>6</sup> The County is targeting a LEED Gold certification for SRRMF, whereas two of the comparison facilities were LEED Silver and two were not LEED certified. Conducting this type of comparison and using it to evaluate planning decisions is a best practice supported by the Auditor's Office.

The project team has informed the Auditor's Office about the cost risks for SRRMF, including the SEPA determination appeal risk noted under "Schedule" above. If the SEPA determination is appealed, and the appellant is successful, it could increase the project cost; however, no cost estimate is available. Other cost risks include the cost of the final water supply and site access road solutions for the site, which are still under development.

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<sup>6</sup> The building construction costs ranged from \$120/square foot to \$237/square foot. The site development costs ranged from \$150,000/acre to \$636,354/acre. The comparison was based on the cost of construction, estimated at approximately \$27.3 million for SRRMF. Approximately \$17.7 million in other project costs for SRRMF were excluded to normalize the comparison, including construction administration, permits, equipment and furnishings, county force labor, contingency, 1% County Art Program, and escalation to midpoint of construction costs. All costs were adjusted to 2013 dollars. The study was completed by KPG, an interdisciplinary design firm headquartered in Seattle.

## **PROJECT REVENUE SOURCE**

The SRRMF appropriation was made in anticipation of the county receiving up to \$55.2 million in revenue by selling Summit Pit to Yarrow Bay. Relying on the same revenue source, the County appropriated \$740,002 to manage the sale of Summit Pit and another \$6.3 million to complete other Road Services projects. The County is currently relying on interfund borrowing to fund this work. Exhibit 4 summarizes the appropriation and expenditure history.

### **Exhibit 4 – Appropriations and Expenditures to Date in Anticipation of Revenue from Selling Summit Pit**

Project (status)	Appropriations thru September 2011	Expenditures thru September 2011 <sup>(4)</sup>	Total Expenditures Planned by Executive	Appropriation Balance After Deducting Planned Expenditures
<b>700209 Summit Pit Sale Transaction (open)<sup>(1)</sup></b>	<b>\$740,002</b>	<b>\$176,448</b>	<b>\$305,000</b>	<b>\$435,002</b>
<b>300808 SRRMF Preliminary Design (open)<sup>(1)</sup></b>	<b>\$6,356,002</b>	<b>\$3,383,533</b>	<b>\$3,696,288<sup>(5)</sup></b>	<b>\$2,659,714</b>
<b>Other Roads Maintenance Facility Projects</b>	<b>\$6,287,288</b>	<b>\$2,900,226</b>	<b>\$3,061,719</b>	<b>\$3,224,570</b>
201307 Skykomish Shop Repairs (closeout) <sup>(1)</sup>	\$345,000	\$341,092	344,700 <sup>(6)</sup>	\$300
400308 Facility Rehabilitations (never opened) <sup>(1)</sup>	\$312,000	\$0	\$0 <sup>(6)</sup>	\$312,000
400607 Facility Painting (closed) <sup>(1)</sup>	\$229,000	\$48,615	\$48,615 <sup>(6)</sup>	\$180,3856
700108 Roofing and Energy Effectiveness (preliminary design) <sup>(1)</sup>	\$3,203,288	\$519,116	\$678,000 <sup>(6)</sup>	\$2,525,288
200891 Coal Creek Parkway (closed) <sup>(2)</sup>	\$1,000,000 <sup>(3)</sup>	\$1,000,000	\$1,000,000 <sup>(7)</sup>	\$0
300908 Vashon Hazardous Materials Containment Area (closed) <sup>(2)</sup>	\$78,000	\$59,300	\$59,300 <sup>(6)</sup>	\$18,700
400507 Renton Complex Fire Alarm (closed) <sup>(2)</sup>	\$845,000	\$696,089	\$696,089 <sup>(6)</sup>	\$148,911
400608 Renton Backup Heat Source (closed) <sup>(2)</sup>	\$95,000	\$54,893	\$54,893 <sup>(6)</sup>	\$40,107
700208 RDS Operational Master Plan (closed) <sup>(2)</sup>	\$180,000	\$181,121	\$180,122 <sup>(6)</sup>	(\$1,121)
<b>Total</b>	<b>\$13,383,292</b>	<b>\$6,460,207</b>	<b>\$7,063,007</b>	<b>\$6,319,286</b>

Notes:

- (1) The December 15, 2008 Council staff report for Ordinance 16359 notes these projects would be funded from Summit Pit sale proceeds.
- (2) Road Services reported to Council staff in April 2011 that Summit Pit sale proceeds were also intended to fund these projects.
- (3) As reported by Road Services to Council staff in April 2011. This represents only part of the \$9,932,134 appropriated for this project.
- (4) September 2011 is the most recent closed month in the County's accounting systems. Excludes encumbrances.
- (5) As reported by FMD on June 14, 2011.
- (6) As reported by Road Services to Council staff in April 2011.
- (7) As reported by Road Services to Council staff in April 2011. This represents only part of the \$10,067,653 expended through July 2011 for this project.

## **PROJECT DELIVERY METHOD**

As noted earlier, the County is exploring using a public-private partnership (63-20 lease-leaseback approach) to develop SRRMF. Previous reports by the Auditor's Office contain a number of lessons learned regarding the use of public-private partnerships:<sup>7</sup> We think these lessons are applicable to this project.

- 1) Agencies using alternative project delivery methods, including public-private partnerships, should develop policies and procedures containing criteria for selecting the delivery approach.
- 2) It is important for the county to partner with highly qualified non-profit organizations and building developers who have prior experience successfully completing 63-20 projects.
- 3) It is important to assign agency representatives to 63-20 projects familiar with public-private partnerships, including enforcing the legal agreements involved.
- 4) It is important to leverage the private sector expertise of the developer, general contractor, and product vendors to the extent allowed by contract to achieve the most cost-effective outcome.
- 5) A fixed price for the project must be established and enforced.

## **OTHER RISKS**

The project team identified 49 risk factors for SRRMF, including risks mentioned in this document. They were identified during a risk review workshop completed with project stakeholders in June 2010. Each risk was evaluated using probability of occurrence, cost impact, and schedule impact to determine a "low," "medium," or "high" risk rating. Thirty-six risk factors received a "low" rating and 13 risk factors received a "medium" rating. No risks received a "high" rating. The Ravensdale site includes water supply and access road challenges. It also includes environmental clean-up issues associated with prior gun-range use. Where possible, the project team is mitigating these risks through strategic design choices. The Auditor's Office supports the project team's risk review process as a best practice approach.

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<sup>7</sup> Final Oversight Report on Ninth and Jefferson Building Project, February 10, 2011. Special Study – Alternative Capital Project Delivery Methods, November 5, 2008.



## **ACKNOWLEDGEMENTS**

We appreciate the collaborative efforts of the Road Services Division, the Facilities Management Division, and council staff in providing for effective oversight of the South Regional Roads Maintenance Facility Project consistent with Council intent. Tom Wood of the Auditor's Office prepared this report. Should you have questions or comments regarding this report or the South Regional Roads Maintenance Facility Project, please contact Tom Wood, Capital Projects Oversight Analyst, or Tina Rogers, Capital Projects Oversight Manager.

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