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**FINAL OVERSIGHT REPORT ON SOUTH REGIONAL ROADS MAINTENANCE FACILITY PROJECT**

**EXECUTIVE SUMMARY**

The County Executive (Executive) cancelled the South Regional Road Maintenance Facility (SRRMF) project in March 2012 after determining it could not negotiate an acceptable sale price for the County-owned Summit Pit property to fund the project.

The Executive forecasts it will spend approximately \$4.4 million on SRRMF. This includes packaging the preliminary design and permitting work already completed for future use. The County spent an additional \$2.9 million of anticipated revenue from the Summit Pit sale on other road projects and \$360,000 on the Summit Pit transaction. Inter-fund borrowing covered these expenditures. The Executive plans to reconcile the inter-fund borrowing in the 2013 capital budget request.

The Executive planned SRRMF to consolidate existing Road Services Division (RSD) maintenance facility operations at Black Diamond and Summit Pit by constructing a new facility on County-owned property in Ravensdale. The June 2008 "Roads Maintenance Facility Study" by Dye Management Group, Inc. recommended consolidating these operations. RSD planned to retain the Black Diamond facility for emergency response use after the consolidation. RSD is currently updating their "Facilities Master Plan," and will reevaluate the consolidation plans and report to the County Council in 2013.

RSD originally planned to use the traditional design-bid-build delivery method for this project. Upon further evaluation, the Facilities Management Division (FMD), which managed the project for RSD, solicited private developer interest to deliver SRRMF. Results from this solicitation demonstrated that using an alternative developer-delivered approach could be feasible for road maintenance facility projects.



**LESSONS LEARNED**

1. The project team used a quantitative tool developed by FMD to evaluate delivery methods for SRRMF. This is a best practice supported by the Auditor's Office and could be adapted for use by other County agencies considering alternative delivery methods.
2. The Executive's effort to solicit private developer interest in delivering the SRRMF project demonstrated this alternative delivery method could be feasible for a maintenance facility and site work project like SRRMF. The proposals also indicate some potential for capital project cost savings over the traditional design-bid-build delivery method.

**RECOMMENDATION**

In coordination with the Facilities Master Plan, RSD should explore the timing of combining the Black Diamond and Summit Pit maintenance operations, and the Executive should review the value of retaining the Black Diamond site for emergency response and other County uses.

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

July 12, 2012

**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 report provides a final assessment of the South Regional Road Maintenance Facility (SRRMF) project, cancelled in March 2012. SRRMF was intended to construct a new facility at a King County (County) owned property in Ravensdale to consolidate operations from the Road Services Division's (RSD) Black Diamond and Summit Pit road maintenance facilities to increase operational efficiency and reduce costs. Project funding was to come from the proceeds of selling the Summit Pit site. The County Executive (Executive) cancelled the SRRMF project in March 2012 after determining it could not negotiate an acceptable price for the property. The Executive forecasts it will spend approximately \$4.4 million on SRRMF. This includes packaging the preliminary design and permitting work already completed for future use. Approximately \$2.9 million was spent on other RSD projects in anticipation of Summit Pit sale revenue. Three hundred sixty-thousand dollars was spent on the effort to sell Summit Pit.

This report summarizes the project history; reviews the scope, schedule and budget status at the time of cancellation; details revenue source issues; describes project alternatives considered by the Executive; and explores how cancellation of this project affects RSD's update of its Facilities Master Plan. We identify lessons learned from this project and make one recommendation.

The Metropolitan King County Council (Council) added independent oversight of the SRRMF project to the King County Auditor's Office (KCAO) work program in 2010. We provided an interim project status report to Council on October 21, 2011. This report closes out KCAO's oversight effort.

## **PROJECT HISTORY**

SRRMF was a proposed new maintenance facility on a portion of a 625-acre County-owned property located at 292<sup>nd</sup> Avenue SE and Kent-Kangley Road in Ravensdale. The project scope included the development of buildings and site work on approximately 200 acres in the southern portion of the property to consolidate RSD's Black Diamond and Summit Pit maintenance operations. Consolidation was recommended in a June 2008 "Roads Maintenance Facility Study" by Dye Management Group, Inc.

The Ravensdale property was selected as the consolidation site when the County decided to sell the 156-acre property containing Summit Pit to the Yarrow Bay Group (Yarrow Bay). Council approved the

sale by Ordinance 16359, enacted February 3, 2009. Yarrow Bay 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 selling Summit Pit to fund SRRMF and other RSD projects. The terms of the sale agreement drove the project schedule. The Facilities Management Division (FMD) managed the project on behalf of RSD and planned to use the traditional design-bid-build delivery method.

Yarrow Bay notified the County on February 17, 2011 that it had decided not to purchase Summit Pit, and the sale agreement was terminated. The Executive determined that the County could not finish SRRMF due to an RSD revenue shortage unless Summit Pit was sold. The Executive authorized three efforts to try to finish the project:

- First, a procurement request soliciting interested purchasers for Summit Pit was issued June 16, 2011. The County invited the two respondents determined to be qualified to submit proposals to purchase the property. Only one of them submitted a responsive proposal by the deadline of January 17, 2012.
- Second, a procurement request soliciting private developer interest in developing the facilities and site work for the SRRMF project on the Ravensdale site was issued August 18, 2011. The County invited five developers to submit proposals; all responded by the deadline of January 3, 2012.
- Third, FMD and RSD worked to finish selected key components of work already in progress necessary to develop the Ravensdale site. This included preliminary design, state environmental policy act (SEPA) determination, and conditional use permit (CUP) work.

All three efforts were cancelled when the County determined an acceptable price for Summit Pit could not be negotiated with a new buyer. The Executive notified Council about the cancellation in writing on March 13, 2012.

## **SCOPE, SCHEDULE, AND BUDGET STATUS AT CANCELLATION**

### **Scope**

As noted above, the Executive's immediate scope of work for SRRMF was limited to finishing preliminary design, SEPA review, and CUP work already in progress. Design and permitting was for constructing approximately 125,000 square feet of 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, site access roads, parking, material staging areas, access improvements to Kent-Kangley Road, and water supply and sewage disposal systems. The County was targeting a LEED Gold certification. After obtaining the CUP, FMD and RSD intended to set the project's baseline scope, schedule, and budget. This plan was consistent with Executive policy and King County Code for appropriate timing for setting the baseline for accountability moving forward. The project team worked to minimize project expenditures until the sale of Summit Pit was certain.

When the project was cancelled, the preliminary design work was substantially complete. The SEPA work was pending. The CUP application had been submitted to the permitting agency,<sup>1</sup> revised once, and resubmitted. The project team informed us they received a second round of comments on

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<sup>1</sup> King County Department of Development and Environmental Services.

April 18, 2012 and submitted a brief response to clarify some code related questions before officially withdrawing the CUP application on June 12, 2012. Even though the application process was not completed, it will provide useful information for future design work on the Ravensdale site. Although the CUP would be valid for up to five years, the project team determined it would not be cost effective to do any additional work to obtain the permit at this time since the schedule for constructing SRRMF is uncertain.

### Schedule

The original schedule for the SRRMF project was driven by urgency to meet contractual obligations with the Summit Pit purchaser, Yarrow Bay. When Yarrow Bay did not exercise its purchase, the schedule was reset and the urgency diminished. The project schedule for submitting the CUP application for SRRMF slipped by two weeks from the December 19, 2011 target stated in KCAO's October 21, 2011 report. The project team did not expect this to delay its mid-2012 target dates for finishing the SEPA work and receiving the CUP. The team continued to manage design consultants to meet contractual deliverable dates.

### Budget

Council appropriated \$6.4 million for design and permitting for SRRMF. The project team forecasts it will spend approximately \$4.4 million on the project. Their forecast includes spending approximately \$679,000 in addition to the life-to-date expenditures reported in the County's accounting system through April 2012, summarized in Exhibit 1.

### Exhibit 1 – SRRMF Appropriation and Expenditure Status

Appropriations <sup>(1)</sup>	Life-to-Date Expenditures through June 2012 <sup>(2)</sup>	Forecast Expenditures <sup>(3)</sup>	Forecast Balance After Forecast Expenditures
<b>\$6,356,000</b>	<b>\$3,680,951</b>	<b>\$4,360,000</b>	<b>\$1,996,000</b>

Notes:

(1) 2009 CIP budget.

(2) Life-to-date data reported in Oracle EBS through 6/30/12.

(3) RSD forecast provided 6/28/12.

Based on the 30-percent design prepared by consultants, FMD estimated the total project cost for SRRMF would range from \$41 to \$44 million. This represented an 11- to 19-percent increase over the \$36.9 million estimated cost presented to Council in 2009 when they passed Ordinance 16359 authorizing SRRMF. Consistent with policy and code, the estimated cost in 2009 was subject to revision as further design work was done. Comparison of the earlier estimate to the current estimate shows that the preliminary design work uncovered and quantified some challenges and additional costs for development of the Ravensdale site. Prior to project cancellation, FMD conducted an internal value engineering effort to modify the 30-percent design, identify opportunities to reduce estimated construction costs, and bring the total project cost closer to the earlier estimate. FMD identified design changes that could potentially reduce the project cost estimate to approximately \$32 million or 22 percent to 27 percent less than the design estimate. The procurement process soliciting private developer interest in the SRRMF project indicated potential to realize further construction cost savings. The "Private Developer Solicitation for SRRMF Delivery" section below discusses this further.

The County anticipated proceeds of \$51 million from the sale of Summit Pit to Yarrow Bay to fund SRRMF. Relying on the same revenue source, the County appropriated \$740,000 to manage the sale of Summit Pit and approximately \$6.3 million for nine other road projects.<sup>2</sup> The County used inter-fund borrowing as an interim funding source for this work. The Executive plans to reconcile the funding for these projects in the 2013 capital improvement budget request since the Summit Pit sale did not happen as planned. Attachment 1 summarizes the appropriation and expenditures for these projects.

## **PROCUREMENT SOLICITATION REQUESTS**

As noted on page two, the Executive conducted two separate solicitation processes. The first was to seek another buyer for Summit Pit, the second to select a developer to complete design and construct the new SRRMF facilities. Both solicitations were cancelled when the County could not negotiate a satisfactory price for selling Summit Pit.

### **Summit Pit Sale**

The County issued solicitation 1180-11-RLD on June 16, 2011 seeking potential buyers for Summit Pit for residential use. Two potential buyers were determined qualified, but only one of them submitted a responsive proposal. The Executive halted negotiations with the interested buyer in March 2012 when it could not achieve a sale price acceptable to the County. The price offered for the property was not disclosed to safeguard future negotiations. The Executive still hopes to sell Summit Pit when real estate values recover more fully from the recent recession. FMD reported they are monitoring the market to advise the Executive when conditions might be favorable again. The Executive may want to formalize periodic check-ins on this property and consider ways to keep Council advised of plans for sale of the Summit Pit site.

### **Private Developer Solicitation for SRRMF Delivery**

The Executive decided to seek private developer interest in delivering SRRMF after evaluating the alternative delivery methods available for the project. The project team used an evaluation tool developed by FMD to complete the evaluation, consisting of 29 quantifiable factors. To help ensure objectivity, it might be possible to improve the evaluation process by including a reviewer from outside the divisions directly involved in the project. FMD's approach is consistent with KCAO's 2008 recommendation that "Agencies using alternative project delivery methods should develop policies and procedures for selecting a delivery method."<sup>3</sup> The "Lessons Learned" section on the cover page of this report identifies FMD's quantitative tool as a best practice method, which could be adapted for use by other County agencies considering alternative delivery methods.

The County issued solicitation 1219-11-RLD on August 18, 2011 seeking private developer interest in delivering SRRMF.<sup>4</sup> FMD involved a team that included advisors experienced with past County projects that were developer delivered to prepare the solicitation package and train the SRRMF project manager in using this approach. They also used the project to familiarize RSD in this alternative delivery method. The Auditor's Office supports FMD's efforts to transfer its knowledge in developer delivered projects, which is consistent with prior audit recommendations.<sup>5</sup>

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<sup>2</sup> Based on review of approved capital improvement budgets through 2011.

<sup>3</sup> "Special Study - Alternative Capital Projects Delivery Methods," November 5, 2008. Recommendation 2, pg. 33.

<sup>4</sup> Both lease-leaseback and built-to-suit options were solicited using private financing. Under this arrangement, the County pays rent until the developer's costs are recovered, at which point the County owns the facility.

<sup>5</sup> "Special Study - Alternative Capital Projects Delivery Methods," November 5, 2008. Recommendation 2, pg. 33.

The County received proposals from five developers that FMD deemed acceptable for consideration. This demonstrated availability and interest of qualified developers to work on this type of project with an alternative delivery method. Further, the proposals showed that developer delivery of SRRMF could potentially result in capital project cost savings over the traditional design-bid-build approach.

Although still very early in the process, and not based on a binding agreement with a developer, the proposals compared favorably to FMD’s value-engineered estimate. We consider this comparison to represent reasonably equivalent scopes of work and calculated potential construction cost savings in the range of 17 to 38 percent, as summarized in Exhibit 2.

**Exhibit 2 – Construction Cost Comparison Between FMD’s Value-Engineered Estimate and Private Developer Proposals<sup>(1)</sup>**

FMD Value-Engineered Estimate	Developer One <sup>(3)</sup>	Developer Two	Developer Three	Developer Four	Developer Five
\$39,594,413 <sup>(2)</sup>	\$32,913,000 (17% lower than FMD estimate)	\$24,424,291 (38% lower than FMD estimate)	\$25,839,057 (35% lower than FMD estimate)	\$27,302,706 (31% lower than FMD estimate)	\$27,525,058 (31% lower than FMD estimate)

Notes:

(1) Cost shown for FMD value-engineered estimate includes FMD’s construction cost estimate and projected County administrative charges. Cost shown for developer proposals includes guaranteed maximum price for construction proposed by each developer plus County administrative expenditures projected by FMD.

(2) Cost benchmark for comparison.

(3) Developer One submitted two project proposals using different design features. RSD considered only the proposal shown to be acceptable.

Representatives from FMD and RSD reviewed the developer proposals. The Executive cancelled SRRMF before the project team selected its recommended proposal. FMD provided KCAO with an opportunity to review the proposals. We agree that utilizing a private developer to deliver SRRMF offered a feasible alternative to the design-bid-build delivery method originally planned for the project. The cover page of this report identifies this as a “Lessons Learned” for other maintenance facility and site work projects like SRRMF.

**FACILITIES MASTER PLAN FOR ROAD SERVICES**

The June 2008 “Roads Maintenance Facility Study” by Dye Management Group, Inc., recommended the consolidation of Black Diamond and Summit Pit. It was silent on whether either site should be surplus by the County. It stated that RSD “should address the fiscal impacts” of its consolidation strategy as part of an updated facilities master plan (FMP). The Council approved \$124,000 for the FMP in the 2012 roads capital budget. RSD intends to prepare a draft FMP by early 2013, with the final FMP presented to Council in late 2013 for approval.

According to RSD, the FMP will include an evaluation of RSD’s facilities needs over the next twenty years. The FMP will also evaluate RSD’s shorter-term (five-year) facility needs. This could result in recommendations for the existing Black Diamond and Summit Pit road maintenance facilities. FMD is separately evaluating the cost of current maintenance needs at both locations.

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“Final Oversight Report on Ninth and Jefferson Building Project,” February 10, 2011. Recommendation 3, pg. 9.

RSD does not plan to reevaluate the Ravensdale site as part of the FMP. RSD believes that the Ravensdale site offers an ideal location for consolidated operations and that the site selection study done in 2008 remains valid. Furthermore, RSD does not expect the FMP findings to affect the decision to consolidate Black Diamond and Summit Pit at a new facility in Ravensdale, since they believe consolidation would result in significant operation cost savings while continuing to support a reasonable level of service. RSD plans to retain the Black Diamond site after the consolidation effort for emergency response use during extreme weather events. The King County Sheriff's Office also has an intermittently used facility on the property. KCAO did not evaluate RSD's justification for retaining Black Diamond for emergency use.

Recommendation.

*In coordination with the Facilities Master Plan, RSD should explore the timing of combining the Black Diamond and Summit Pit maintenance operations, and the Executive should review the value of retaining the Black Diamond site for emergency response and other County uses.*

**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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**Attachment 1 – RSD Appropriations and Forecast Expenditures in Anticipation of Revenue from Selling Summit Pit**

Project (status)	Appropriations <sup>(1)</sup>	Expenditures through June 2012 <sup>(2)</sup>	Forecast Expenditures <sup>(3)</sup>	Forecast Balance After Forecast Expenditures
<b>1114789 Summit Pit Sale Transaction (cancelled)</b>	<b>\$740,000</b>	<b>272,704</b>	<b>\$359,999</b>	<b>\$380,001</b>
<b>1111817 SRRMF Preliminary Design (cancelled)</b>	<b>\$6,356,000</b>	<b>\$3,680,951</b>	<b>\$4,360,000</b>	<b>\$1,996,000</b>
<b>Other Roads Projects</b>	<b>\$6,287,288</b>	<b>\$2,527,702</b>	<b>\$2,911,331</b>	<b>\$3,375,957</b>
201307 Skykomish Shop Repairs (closeout)	345,000	68,223	68,223	276,777
400308 Facility Rehabilitation (cancelled)	312,000	0	0	312,000
400607 Facility Painting (closed)	229,000	48,615	48,615	180,385
700108 Roofing and Energy Effectiveness (Preliminary Design)	3,203,288	419,371	803,000	2,400,288
200891 Coal Creek Parkway (closed)	1,000,000	1,000,000	1,000,000	0
300908 Vashon Hazardous Materials Containment Area (closed)	78,000	59,300	59,300	18,700
400507 Renton Complex Fire Alarm (closed)	845,000	696,089	696,089	148,911
400608 Renton Backup Heat Source (closed)	95,000	54,983	54,983	40,017
700208 RSD Operational Master Plan (closed)	180,000	181,121	181,121	(1,121)
<b>Total</b>	<b>\$13,383,288</b>	<b>\$6,481,357</b>	<b>\$7,631,330</b>	<b>\$5,751,958</b>

Notes:

(1) Based on review of approved capital improvement budgets through 2011.

(2) Life-to-date data reported in Oracle EBS through 6/30/12.

(3) Provided by RSD 6/28/12.