



EXECUTIVE DEPARTMENT

Date: March 5, 2021
To: Bainbridge Island City Council
From: Ellen Schroer, Interim City Manager
Subject: Background for March 9 Council Meeting, Police/Court Facility Discussion

Purpose

The purpose of this memo is to provide responses to some of the inquiries that City staff have received regarding the Police/Court Facility Project, as well as some additional information and recommendations for Council consideration. This memo updates some information provided for the February 9 Council meeting.

What is the schedule for the current Police/Court project?

The City's project management team expects to have a building permit and be ready to advertise the project for construction bids in March. With this timing, a contract could be ready to come to Council for consideration of award in April or early May. Construction could begin in the summer or fall of 2021.

What happens if the Council decides to put this project on hold?

If the Council puts the project on hold, the City will not advertise for construction bids in March, as we currently planned. In addition:

- The project will be delayed and the Police and Court functions will continue in their current undersized and inadequate locations. If a new site is sought, it will likely be at least three and maybe five or more years until acquisition is completed and a project can be designed, permitted and constructed.
- The project will likely become more expensive as we will delay the project.
- There are other financial and staffing implications which will depend on the length of the delay and the eventual decision.

How did the City arrive at the \$8.975 million purchase price?

There were four appraisals completed with as is market values ranging from \$7.0 million to \$9.7 million. A review of emails and other records shows that the seller was initially unwilling to consider anything less than \$9.0 million based on their appraisal and direction from their board. The final negotiated price was \$8.975 million. The City made lower initial offers based on appraisal information, starting at \$8.5 million, which were rejected. Some members of the community have suggested that the City should

have offered a much lower figure; I don't have any reason to believe that this would have been successful. The process used followed a standard approach for a municipal property purchase.

What is the current estimated cost of the Police/Court Facility?

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|--------------------------------|----------------------|
| Land and Building Purchase | \$ 8,983,427 |
| Design | 778,620 |
| Permits (95% complete) | 45,988 |
| Construction | 8,258,270 |
| Pre-Design | 415,000 |
| Project Management (estimated) | 280,000 |
| Administration | 184,137 |
| Contingency (5%) | 927,562 |
| Total | \$ 20,000,000 |

What are the sunk costs associated with the project?

| | |
|-----------------------|---------------------|
| Harrison acquisition | \$ 8,983,427 |
| Design and permitting | 718,612 |
| Project Management | 184,137 |
| Pre-design | 415,000 |
| Total | \$10,301,176 |

Could the City expect to recover any of the costs of the Harrison purchase?

The City's purchase of the Harrison property occurred through a real estate purchase and sale agreement that was executed on March 13, 2019. The City is not aware, at this time, of a definitive legal basis to claim recovery of costs under that purchase and sale agreement. We do not expect that we could recover any of the costs.

Could Harrison be repurposed?

Yes, however, without a defined concept, the costs of any potential repurposing are difficult to estimate.

In addition to facility-related costs, repurposing the Harrison property to a non-tax-exempt purpose could jeopardize the interest rate the City pays on the municipal bonds and potentially have a negative impact on the City's bond rating. If the building were sold, the City would need to take action to preserve the tax-exempt status of the bonds which were used to purchase the building. According to the City's Financial Advisor, these steps may be expensive for the City, so there must be a compelling reason to incur the expense, and the City must be able to document unanticipated changes in circumstances leading to the building's changed use in order to avoid tax issues with the Internal Revenue Service (IRS).

Since the IRS is involved, there will be increased scrutiny and documentation required. This will likely increase the cost of outside legal review and professional fees.

In addition to facility-related costs, repurposing the Harrison property to a non-tax-exempt purpose could jeopardize the interest rate the City pays on the municipal bonds and potentially have a negative impact on the City's bond rating. If the building were sold, the City would need to take action to preserve the tax-exempt status of the bonds which were used to purchase the building. According to the City's Financial Advisor, these steps may be expensive for the City, potentially as much as \$1.0 million, so there must be a compelling reason to incur the expense. In addition, the City must be able to document unanticipated changes in circumstances leading to the building's changed use to avoid tax issues with the Internal Revenue Service (IRS). Since the IRS is involved, there will be increased scrutiny and documentation required. This will likely increase the cost of outside legal review and professional fees.

Additionally, based on many years of analysis and consideration, the City needs a new public safety and municipal court building to address significant inadequacies with the current facilities. If the City decides to repurpose or even sell the former Harrison property, the City will need to acquire a new property or facility and incur additional professional fees and staff costs toward that effort.

Could the City lose its AAA bond rating as a result of re-purposing the Harrison Building?

Maybe. Moody's upgraded the City's bond rating in November 2019 due in part to what they considered the City's strong management and a robust general fund balance relative to operations. While the City's financial advisor does not necessarily believe the rating would be downgraded, he has informed City staff that the City's AAA bond rating could be affected if the assets purchased with municipal bonds do not retain their tax exempt status. He believes Moody's would expect the City to justify the changes in plans and the expenditures of funds which would be a credit negative.

What would happen if the City loses its AAA bond rating?

The AAA bond rating is the highest possible bond rating, and indicates to investors that the City is a good investment. Interest rates are generally lower for AAA bonds than other bonds. Thus, if the City loses its AAA credit rating, future debt issues will likely cost more in debt service because the interest rate will be higher.

Could an advisory vote be scheduled for the Police/Court project?

Yes. The soonest that an advisory vote could be held would be August 2021, with a Council resolution required by May. An advisory vote would cost approximately \$65,000 to \$75,000 not including City staff time. Along with the financial cost, scheduling a vote would require redirecting communications and public works staff from ongoing projects to support public information and outreach efforts during the summer.

Could a project advisory panel be developed for the Police/Court project?

Yes, the Council could create a project advisory panel for this project, or for any set of projects as defined by the Council's parameters. If the Council chooses to convene a panel, staff recommends using the typical process for community groups, including a neutral and inclusive selection process, and Council adoption of a specific workplan. An advisory panel should be given a specific set of criteria or parameters by which to evaluate projects.

Could a Blue-Ribbon panel be developed for the Police/Court project?

Yes, the Council could create a Blue-Ribbon panel for this project. If the Council chooses to convene a panel, staff recommends using the typical process for community groups, including a neutral and inclusive selection process, and Council direction of a specific workplan.

Managing a Blue-Ribbon panel would require staff resources. What projects could be deferred for this purpose?

The Blue-Ribbon panel would require staff time from the City's leadership team, in particular from the Executive, Finance, Public Works, and Legal staff. If such a panel is established, the following work plan items should be considered for deferral: citywide work plan development/strategic planning, small business grant program development and administration, PSE franchise work, and other franchise work (e.g., Verizon, KPUD).

Concerned citizens have highlighted that one of the original sites under consideration for the new Police/Court facility was the Yaquina property at the NW corner of Madison and SR305. Has any outreach been performed to the Yaquina neighboring community regarding the impacts of having a Police/Court facility in that neighborhood?

To date, there has been no outreach to the Yaquina community about the potential for a Police/Court facility in their neighborhood. There is a possibility that there could be significant concerns from the neighboring community about noise, traffic, and other impacts, which would need to be addressed through a public process, including a hearing associated with a Conditional Use Permit, which would be required since the project would be located in a residential zone.

If the Yaquina site was selected for the Police/Court facility, how long would it take to complete?

Based on the required permitting and estimated design and construction timelines, a project on the Yaquina site could take between three and four years for completion (2025).

Is the current Police/Court project the most expensive facility of its kind in the country?

Based on very limited staff research, it does not appear that the currently budgeted Bainbridge Island Police/Court facility is the most expensive of its kind in the country. The question is difficult to answer without extensive research, particularly since each project and community is unique, and without more

time for investigation, only anecdotal costs are available for scrutiny. The following information was documented from a 30-minute Google search:

- This project in California from 2015 appears to break down to \$1,012/square foot. It appears that land costs would be in addition to that cost breakdown.
https://hanfordsentinel.com/community/selma-breaks-ground-on-new-police-station/article_d8d82808-a268-56ed-be02-fc3be3f2eddc.html
- This project in California appears to break down to \$1,371/square foot. It appears that the land costs and the costs of an additional support building would be in addition to that cost breakdown. <https://www.ci.claremont.ca.us/home/showpublisheddocument?id=1667>
- This project in California appears to break down to \$2,107/ square foot. The project includes a 2-story parking garage that is not included in cost breakdown, and it is not clear if land costs are included in the total.
<https://www.paloaltoonline.com/news/2021/02/01/despite-budget-woes-palo-alto-approves-construction-of-new-police-headquarters#:~:text=The%20list%20included%20a%20bike,expensive%20project%20on%20the%20list.>
- This project in California appears to break down to \$808/square foot. The cost of land is not included in the cost breakdown, as it appears to have been acquired in a swap.
<https://www.thecalifornian.com/story/news/2018/09/10/new-salinas-police-station-breaks-ground-cost-56-million/1259525002/>

The Council was provided with data regarding the cost of police and court facilities in other communities. What does this data tell us about the cost of the City's project?

As mentioned previously, with limited time, it is difficult to create an apples-to-apples comparison of police and court facility construction costs in different communities. This is due to the types of facilities that were built, what elements of the project cost contribute to the totals listed, what year the projects were built, and the cost of construction in those communities.

One relative factor that can be used to put the data in context is the median cost of housing in each of the communities, which provides a consistent and relative figure by which to compare real estate costs between communities. The communities where police facility costs were evaluated and provided to the Council have an average median home price of approximately \$180/square foot. The median home price on Bainbridge Island is more than double at \$431/square foot (realtor.com).

cc: Barry Loveless, Project Executive
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Sara McCulloch, Judge