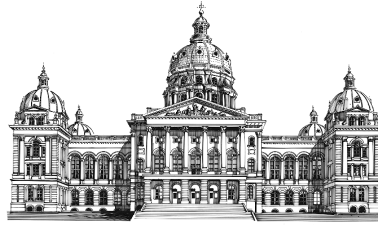

Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
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Parking Structure Construction Proposal

ISSUE

The purpose of this *Issue Review* is to compare costs between the Department of General Services' proposal to lease an 850-stall parking structure and office building to options involving State ownership.

AFFECTED AGENCIES

Department of General Services

BACKGROUND

The Capital Projects Committee requested the Legislative Fiscal Bureau provide a cost comparison between the lease of the proposed parking structure and office building and State ownership. The members of the Committee want to ensure that the cost to taxpayers for the Department's proposed lease option is not out of line with other funding methods.

Original Parking Structure Proposal

In FY 1999 and FY 2000, the General Assembly appropriated \$9.3 million (\$5.8 million in FY 1999 and \$3.5 million in FY 2000) for the planning, design, and partial construction cost of a 900-stall parking structure. The site for the proposed structure is located at the northwest corner of Grand and Pennsylvania Avenues. The proposal included funding for construction of a tunnel to connect the parking structure with the Historical Building. The total estimated cost to complete the project was \$17.6 million. The Department of General Services requested the remaining \$8.3 million for FY 2001; however, the appropriation was not recommended by the Governor nor funded by the General Assembly.

The General Assembly directed the Department to investigate options involving a public/private partnership as a means to help complete funding for the project. In addition, the Department also considered a scaled-down version of the project that involved construction of a 450-stall structure (excluding a tunnel connection to the Historical Building) that could be expanded, if funding became available.

In the fall of 2000, contracts were awarded for excavation and foundation preparation of the parking structure. Through June 30, 2001, the Department expended \$2.9 million of the appropriation. The funds were used for architectural and design services, construction

management services, and site work involving excavation, shoring, and foundation preparation. The Department also used \$224,000 for development of a temporary parking lot to account for the loss of parking spaces during construction.

DEPARTMENT OF GENERAL SERVICES PUBLIC-PRIVATE LEASE PROPOSAL

In the spring of 2001, the Department identified a private developer that was interested in entering into a 28E Agreement with the State that would involve private ownership and operation of the parking structure, as well as additional office space that would be leased by the State. The Department asked for legislative approval of the proposal as required for the sale of State-owned property. The General Assembly passed HF 698 during the 2001 Extraordinary Session, granting the Department authority to sell the property.

The following information outlines the lease proposal that was presented to the Legislature in June 2001 by the Department of General Services.

- The developer will purchase the existing parking structure improvements and land from the State and construct an 850-space parking structure. This will involve the developer paying the State what is currently invested in the property, approximately \$2.6 million (\$2,860,000-\$224,000). The funds will be credited back to the Rebuild Iowa Infrastructure Fund (RIIF) and set aside for the parking structure project. In addition, the Developer will build an 80,000 square foot office building adjacent to the parking structure and lease it back to the State over a 20-year period.
- The State will retain \$9.1 million of funds previously appropriated until the developer completes construction of the facilities. This will allow the State to earn additional interest revenue (approximately \$445,000) in the Rebuild Iowa Infrastructure Fund during the construction phase of the project. After construction is complete, the State will purchase approximately 551 spaces plus a pro-rata share of the land for \$9.1 million. The estimated completion date is December 2002.
- Of the 850 spaces, the State will own 551 and the developer will provide an additional 240 spaces that will be included in the office building lease mentioned above. The developer will own the remaining 59 spaces.
- This proposal does not include the construction of tunnels for connection to other State buildings.
- The lease for the 80,000 square foot building and the 240 parking spaces will be structured as follows:
 - A base rate of \$9.12 per square foot, plus a per square foot charge for operation of the facility.
 - The operation charge would include an annual increase of 5.0%, plus \$4.54 per square foot for taxes beginning the second year. For the first year of the lease, the operational charge is estimated to be \$3.09 per square foot and will increase to \$7.78 in the second year. The first year operational cost plus utilities will be capped at \$4.19 per square foot.

- Assuming the lease becomes effective January 1, 2003, the FY 2003 lease costs will total approximately \$488,000 and will increase to \$1.2 million in FY 2004. The Department will require an increase in their General Fund appropriation to cover the additional lease expense. The actual increase may be less if the Department relocates State employees currently housed in leased space in the metro area to the new building. At this point, the Department is not certain what agencies, if any, will be relocated. In addition, there may be an additional cost to the Department of Public Safety for providing security at the new location. This could cost an additional \$200,000 to \$300,000 per year.

The total cost of this proposal over the 20-year lease period will be an estimated \$45.7 million. The following table provides a break down of the costs for this period.

**Office Space Lease Proposal
Cost Estimate for 20 Year Life of Lease**

Lease - Base Cost (\$9.12/Sq. Ft.)	\$ 14,592,000
Lease - Overhead Cost	19,255,000
Land/Facility Purchase	9,100,000
Parking Structure Operation & Maintenance	3,231,000
Interest Earned	-445,000
Total	<u>\$ 45,733,000</u>

- Base lease cost - This includes the developer's costs associated with the purchase of property and construction of the facilities.
- Overhead lease cost - This includes costs for operation and maintenance of the office building (utilities and routine maintenance), as well as taxes. The cost also reflects a pro-rata share of the operation and maintenance expense for 240 spaces of the parking structure. Under the proposed agreement, the State would be responsible for 65.0% of the maintenance cost for the parking structure.
- Land and Facility Purchase - This cost includes the appropriated funds the Department will use to purchase a portion of the parking structure and pro-rata share of the land after construction is complete.
- Parking Structure Operation and Maintenance - This represents the State's responsibility for 65.0% of the operation and maintenance of the parking structure over the 20-year life of the lease. The estimate is based on 65.0% of a \$185,000 annual cost, plus a 3.0% annual rate of inflation. The estimated cost includes providing key card controls for State employees and no controls for visitors. The remaining costs will be included in the lease agreement with the developer.
- Interest Earned - This is the estimated net interest that will be earned on the \$9.1 million appropriation due to the funds being retained by the Rebuild Iowa Infrastructure Fund during the construction phase of the project.

COMPARISON OF STATE OWNERSHIP

In order to fully examine the advantages and disadvantages of the above proposal, it is necessary to consider what the cost to the State would be if the General Assembly fully funded a similar scale project through the appropriation process, or through the issuance of revenue bonds of the same 20-year period. In addition, the costs for operating and maintaining the facility over a 20-year period must be considered.

The options explained below illustrate two comparative cost estimates in order to provide a comparison with the Department's proposed lease option.

Fully Fund Construction Through Appropriations

This estimate involves the cost to construct and operate the parking structure and office building if the General Assembly appropriated all of the funds for construction. The estimate includes the total operation and maintenance costs over a 20-year period.

Estimated Cost to Construct, Operate, & Maintain an Office Building and Parking Structure over 20 Years

Construction Parking Structure	\$ 16,054,000
Construction Office Building	11,920,000
Total Construction Cost	<u>\$ 27,974,000</u>
Parking Structure Operation and Maintenance (<small>\$185,000 x 3.0% annual inflation</small>)	4,971,000
Operation/Maintenance Cost for Building (<small>\$7.36/sq. ft. x 3.0% annual inflation</small>)	15,800,000
Total	<u><u>\$ 48,745,000</u></u>

This option is estimated to cost \$48,745,000, which is \$3,012,000 (6.6%) more than the lease proposal. A portion of the estimate involves the cost to operate and maintain the office building and parking structure over 20 years. The estimate includes costs for annual routine maintenance, utilities, custodial staff, and security. The cost per square foot was calculated by applying the average operation and maintenance cost per square foot for buildings on the Capitol Complex to the proposed building. The following table lists the factors included in the operation and maintenance cost estimate.

	<u>FY 2000 Cost Per Sq. Ft.</u>
Utilities	\$ 1.83
Security	1.08
Grounds and Building Maintenance	3.45
Routine Maintenance	1.00
Total	<u><u>\$ 7.36</u></u>

The cost to operate and maintain the parking structure is based on an annual cost of \$185,000 plus a 3.0% annual rate of inflation. This estimate was derived from a study conducted by Walker

Parking Consultants for the Department of General Services in January 2000. The estimated cost includes providing key card controls for State employees and no controls for visitors.

This funding alternative would require the State to appropriate an additional \$18.9 million (\$28.0 million total construction minus the \$9.1 million appropriation) for FY 2003 in order to maintain a construction schedule that is comparable to the lease option. The Department estimates that construction will be completed six months sooner under the lease option than if the State funded the project. The primary reason being that the developer has a construction contractor ready to proceed. Under State ownership the Department would have to follow construction bidding procedures.

Issuance of Revenue Bonds

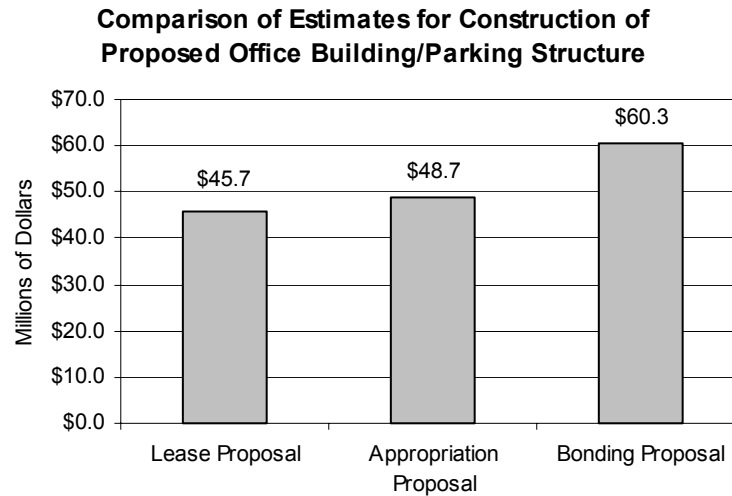
The second option involves the State issuing revenue bonds to fund a portion of the construction cost that is in excess of the funds currently appropriated. The estimates include the issuance of \$18.9 million in bonds that would be repaid over 20 years at an interest rate of 5.0%. The Department would retain the \$9.1 million appropriation for construction and the bond proceeds would fund the balance of the project. Under this scenario, the total cost is estimated to be \$60.3 million, approximately \$14.6 million (31.9%) more than the lease option. The operation and maintenance costs, as previously mentioned, are included in the estimate. The following table provides a breakdown of the cost estimate.

Estimated Cost to Construct, Operate, & Maintain an Office Building and Parking Structure over 20 Years Using Revenues Bonds

Principal	\$ 18,874,000
Interest (5.0%)	11,200,000
Underwriting & Attorney Fees	378,000
Appropriated Funds	9,100,000
Total	\$ 39,552,000
Parking Structure Operation and Maintenance	4,971,000
(\$185,000 x 3.0% annual inflation)	
Operation/Maintenance Cost for Building	15,800,000
(\$7.36/sq. ft. x 3.0% annual inflation)	
Total	\$ 60,323,000

CONCLUSION

Given the analysis and estimates included in this *Issue Review*, the cost of the proposal to lease the office and parking space is more favorable in terms of cost to that of State ownership. The following chart is a comparison of the estimates.



It should be noted, however, that the estimates for the lease proposal were based on information submitted in June 2001 and are subject to change as the contract agreement is negotiated between the State and the developer. A \$1.00 variation in the rate per square foot for the overhead cost of the lease proposal will result in an estimated \$2.5 million increase or decrease in the lease cost over the 20-year life of the lease. The Department and the developer have agreed in principle to the \$9.12/ sq. ft. base rate and that the operational cost per sq. ft. shall not increase by more than 5.0% annually.

The following is a list of advantages and disadvantages associated with the lease proposal. Many of these were presented by the Department to the General Assembly in June during the Special Legislative Session.

Advantages

- The lease provides an alternative means of funding to complete the parking structure similar to the original capacity. The increased competition for the limited funding from the Rebuild Iowa Infrastructure Fund, as well as political difficulties, reduced the possibility that the parking structure would be fully funded with State appropriations.
- The new building will provide an additional 80,000 square feet office space near the Capitol Complex. Currently, office space on the Capitol Complex has been deemed insufficient. The demolition of the Capitol Annex and the Executive Hills facilities, along with the various building renovation projects on the Complex, has resulted in a shortage of office space on the Complex.
- The proposal will enable the Department to eventually eliminate the surface lot located to the West of the Capitol Building and convert this lot into green space, which is consistent with the Capitol Complex Master Plan.

- The State will obtain permanent Capitol View Protection from the City of Des Moines. In addition, the proposal may enhance the development of the East side of the City of Des Moines.
- Construction of the parking structure will be completed six months earlier than the State's estimated completion date.

Disadvantages

- The Department will require an annual General Fund appropriation of approximately \$1.2 million for 20 years to fund the lease.
- The State will have approximately 59 fewer parking spaces than if the State were to own the facility. These spaces will be set aside for use by the developer.
- After 20 years, the lease will need to be re-negotiated. It is uncertain whether or not the lease proposal will remain cost effective beyond 20 years.

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