PFAL Project Finance Advisory Ltd.

SONOMA COUNTY GOVERNMENT CENTER

Deferred Maintenance Alternative to New County Administration Center

Board Presentation
March 1, 2022

AGENDA

- Prior Board Direction
- Goals and Objectives
- Options
- Deferred Maintenance Liability
- Worked Example
- Investment Requirements
- Comparison
- Conclusions

PRIOR BOARD DIRECTION

- 4/7/09: County Center Site Evaluation and Opportunities Analysis
- 1/15/13: Comprehensive County Facilities Plan
- 6/24/14: Comprehensive County Facilities Plan Update
- 2017 & 2018 Board adopted strategic priorities
- 5/2018: Deferred Maintenance Assessment and Recommendation for Performance-Based Contract
- 1/29/19: Board directed staff to solicit and select a Technical Advisor
- 7/26/19: Board approved award of contract to PFAL for technical advisory services
- 12/10/19: Board approval of goals and objectives and site evaluation criteria
- 1/5/21: Technical Advisor Findings, establish Ad Hoc for site consideration; direction to initiate CEQA
- 7/27/21: Ad-Hoc Update and Technical Analysis, Board preference for Downtown Site for new Government Campus
- 2/8/22: Board request for additional information on options
- 3/1/22: **YOU ARE HERE**

GOALS AND OBJECTIVES

Approved December 10, 2019

SERVICE

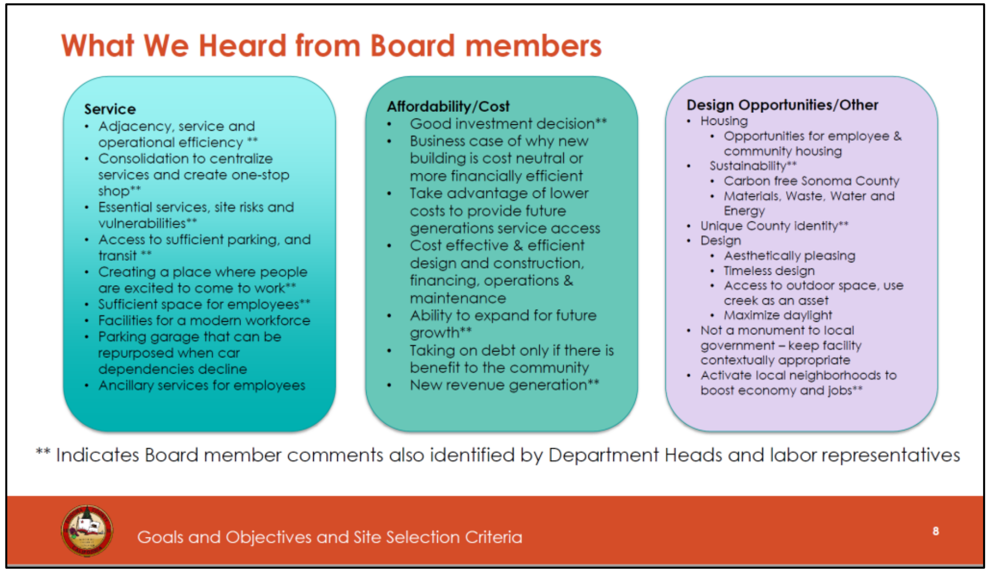
- Adjacency, service, and operational efficiency
- Consolidation to create one-stop shop
- Access to parking and transit

AFFORDABILITY/COST

- Good investment decision
- Take advantage of lower costs, provide future generations access to service
- Cost effective & efficient design, construction, financing, operations & maintenance

DESIGN OPPORTUNITIES/OTHER

- Sustainability – carbon free; materials, waste, water & energy
- Activate local neighborhoods to boost economy and jobs
- Create opportunities for housing and development



From presentation to board on Dec 10, 2019

The current facilities do not meet the needs of the community, constituents, or staff

Age	20+ years past useful life
Condition	Functionally obsolete
Deferred Maintenance	Multiple buildings = higher costs County underspending = growing financial liability

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	Impact	Cost	Pros/Cons
DO NOTHING	• County corrects deferred maintenance issues as funding becomes available	• Cost to correct 2014 deferred maintenance is projected to be $367 million in $2026 (4.5% escalation). • + growth in new deferred maintenance and ongoing operations and maintenance	✓ No immediate large expenditure required ✓ Maintain existing status quo budget ✘ 2014 deferred maintenance liability remains ✘ Potential negative impact to County credit rating ✘ Growing deferred maintenance and financial liability ✘ **Does not meet Board-approved goals & objectives**
RENOVATE EXISTING BUILDINGS	• Current facilities are gut renovated, reorganized to accommodate modern space requirements and additional staff	• Significant renovation risk and cost • Doesn't solve ongoing O&M underspend, resulting in additional deferred maintenance	✓ Utilizes existing County property ✘ Early large expenditure required if debt financed ✘ 2014 deferred maintenance liability remains on buildings not yet renovated ✘ Little to no cost control over design & construction ✘ Potential negative impact to County credit rating ✘ Renovation risk: "Money Pit," low contractor appetite, unknown/non-controllable cost risk, aged buildings may require more extensive rehab once work begins ✘ Swing space required for staff during renovation/ construction ✘ Growing deferred maintenance and financial liability ✘ Larger expenditure than "do nothing" option ✘ **Does not meet Board-approved goals & objectives**

DEFERRED MAINTENANCE LIABILITY

- PFAL reviewed May 2018 report
- Methodology sound, agree with conclusions but magnitude of problem is understated
- Structural, seismic, and accessibility deficiencies not addressed (no destructive testing undertaken), a typical approach
- County underspend is understated by about $10/sf/yr
- Losing battle against cost escalation
    - Cost to correct 2018 deferred maintenance is projected to be $367 million in $2026 with 4.5% escalation (a factor that includes inflation and cost increases as a result of other factors such as labor and materials availability and costs).
    - Financing costs using traditional bond financing are $37m in $2026 annually keeping assumptions from May 2018 report.
- County will also need to increase its annual spending to keep buildings in good repair following deferred maintenance corrections and spend on additional deferred maintenance needs but will also need to hire additional staff
- **Study conclusion: do no not spend more money on the buildings**

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HUMAN SERVICES BUILDING PAULIN

56 years old

44,484 sq ft, 138 FTE, 100-250 visitors/day (post and pre-COVID), average wait time of 60 minutes

FCI of 0.59 in 2019

Replacement cost of $40.8m in $2026 ($917/sq ft), renewal cost of $31.6m in $2026 ($710/sq ft)

67 elements identified in facility condition report, 58 of which are more costly to renew than to replace

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ADMINISTRATION BUILDING 575 ADMINISTRATION WAY

64 years old

45,682 sq ft, 184 FTE

FCI of 0.68 in 2019

Replacement cost of $37.6m in $2026 ($824/sq ft), renewal cost of $30.6m in $2026 ($671/sq ft)

64 elements identified in facility condition report, 58 of which are more costly to renew than to replace

LA PLAZA - A & B

45 years old

68,708 sq ft, 309 FTE

A: FCI of 0.57 in 2019 B: FCI of 0.62 in 2019

Total replacement cost of $55.7m in $2026 ($810/sq ft), renewal cost of $36.3m in $2026 ($529/sq ft)

113 elements identified in facility condition report, 98 of which are more costly to renew than to replace

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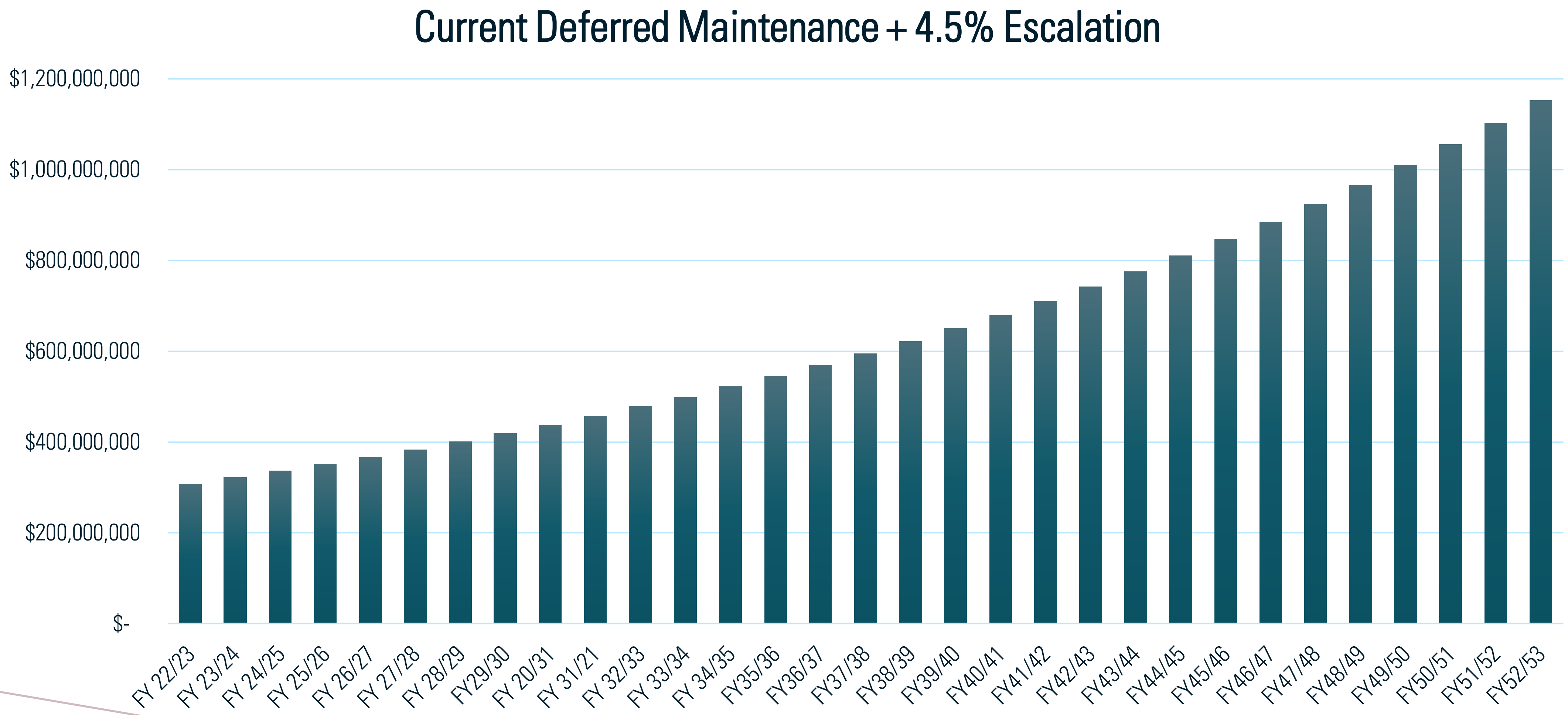
DEFERRED MAINTENANCE PROJECTIONS



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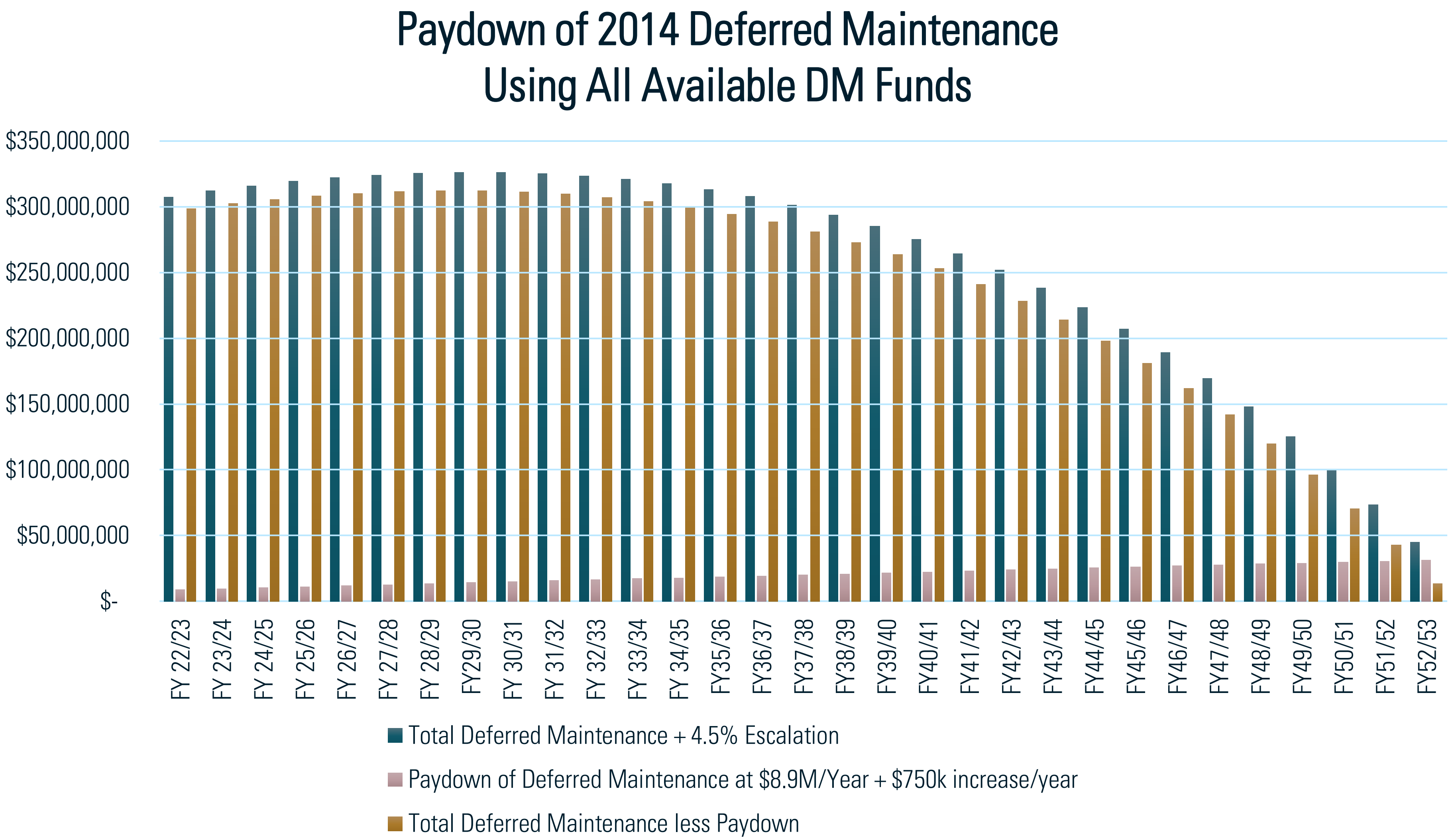
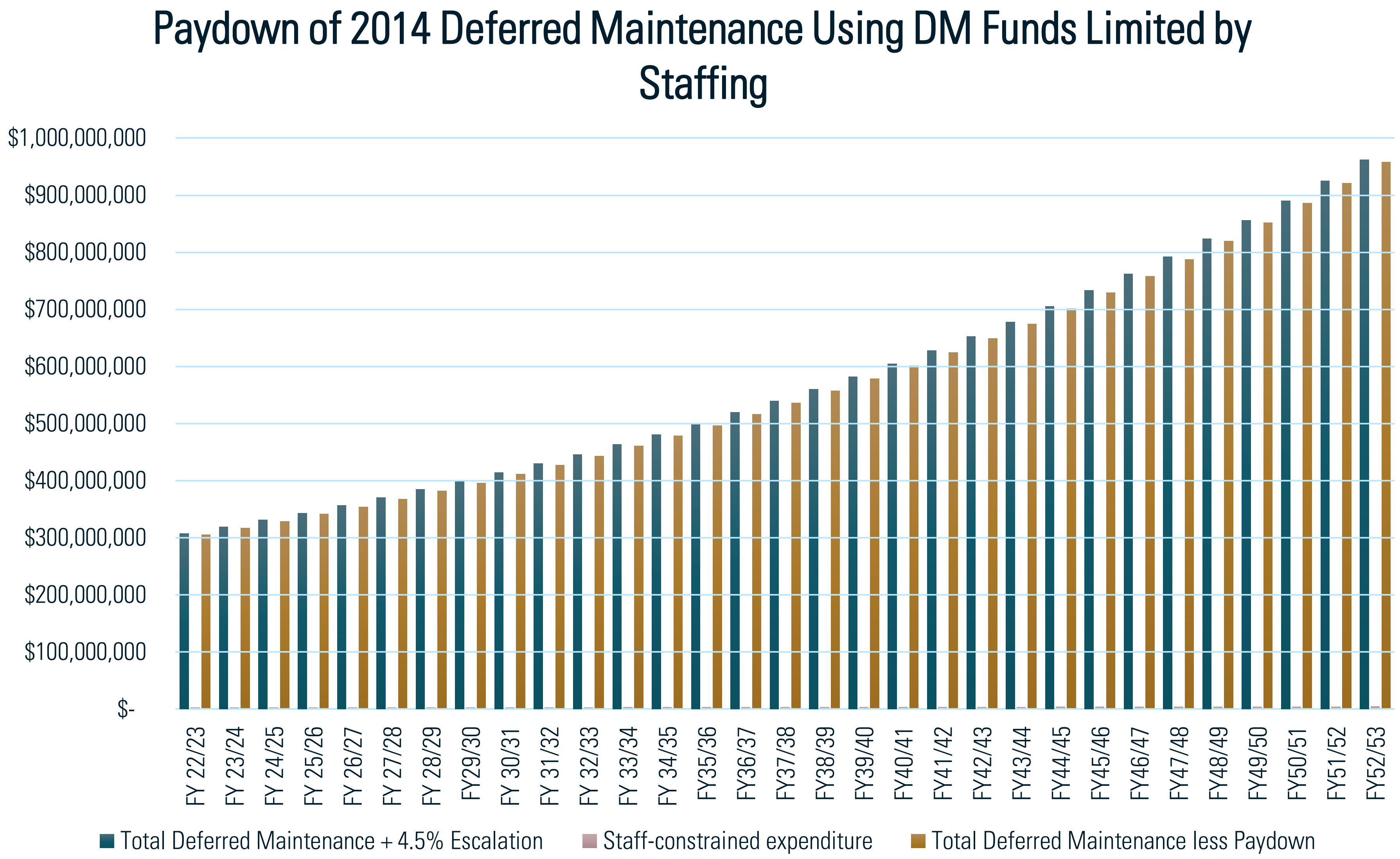
DEFERRED MAINTENANCE PROJECTIONS



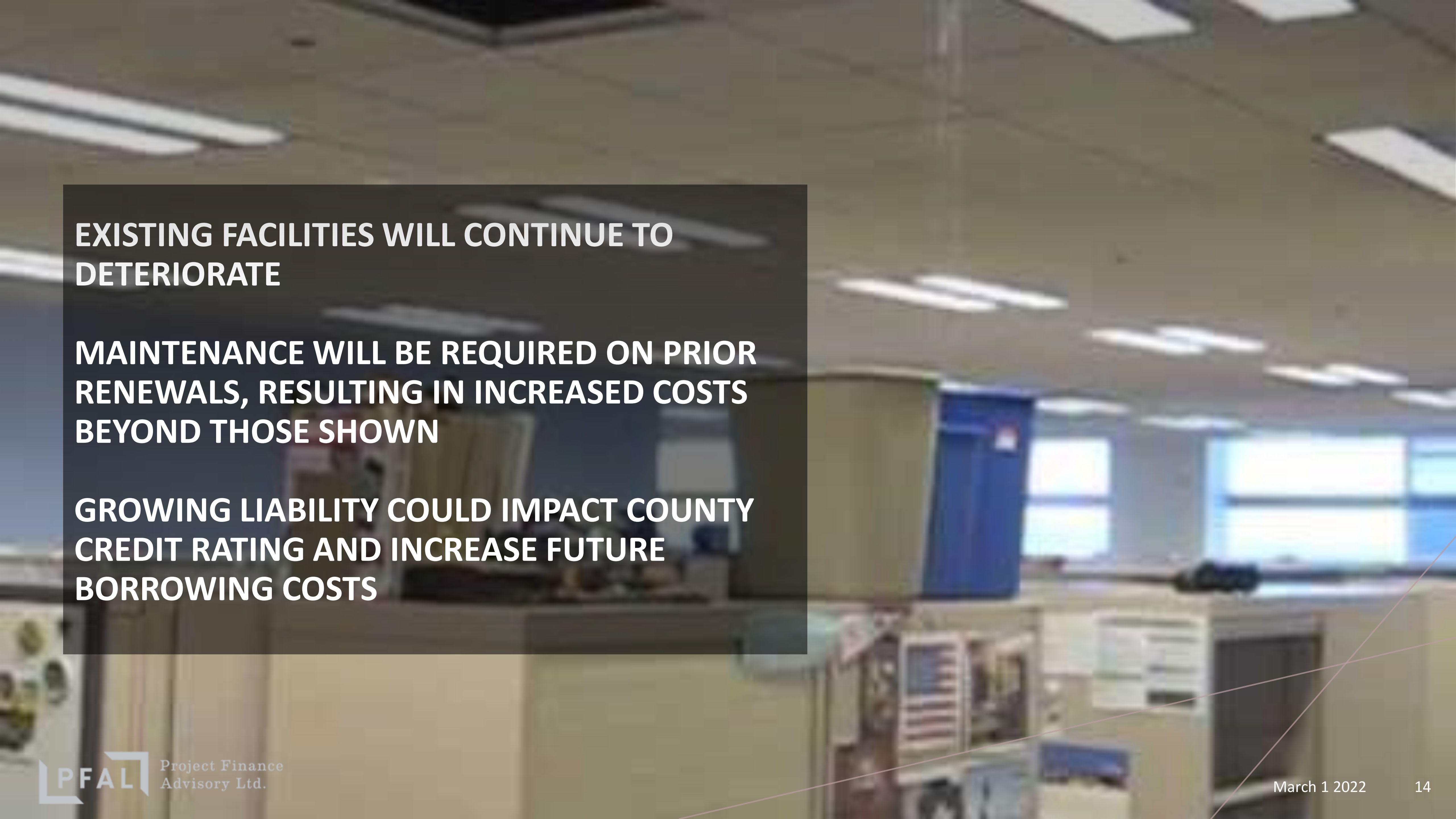
Payments total $624m over 30 years

DEFERRED MAINTENANCE PROJECTIONS



Payments total $101m over 30 years

Liability of $958m in 2053



EXISTING FACILITIES WILL CONTINUE TO DETERIORATE

MAINTENANCE WILL BE REQUIRED ON PRIOR RENEWALS, RESULTING IN INCREASED COSTS BEYOND THOSE SHOWN

GROWING LIABILITY COULD IMPACT COUNTY CREDIT RATING AND INCREASE FUTURE BORROWING COSTS

156K sq. ft.
$152M
Design-Build
$1,431/sq. ft.
Occ: 2022

SAN MATEO COUNTY OFFICE BUILDING #3

71K sq. ft.
$95M
Design-Build
$1,685/sq. ft.
Occ: 2021

CONTRA COSTA COUNTY BUILDING

254K sq. ft.
$393M
$1,671/sq. ft.
Occ: 2022

ORANGE COUNTY BUILDING 14

A challenge tackled by many jurisdictions

DELIVERY OPTIONS

DESIGN-BUILD-FINANCE-OPERATE MAINTAIN

- Developer finances, assumes more risk
- Specified O&M components during 30-year term
- Specified "Availability Payments" made after occupancy
- Payments based on performance
- County owns facility

DESIGN-BUILD DEBT FINANCE

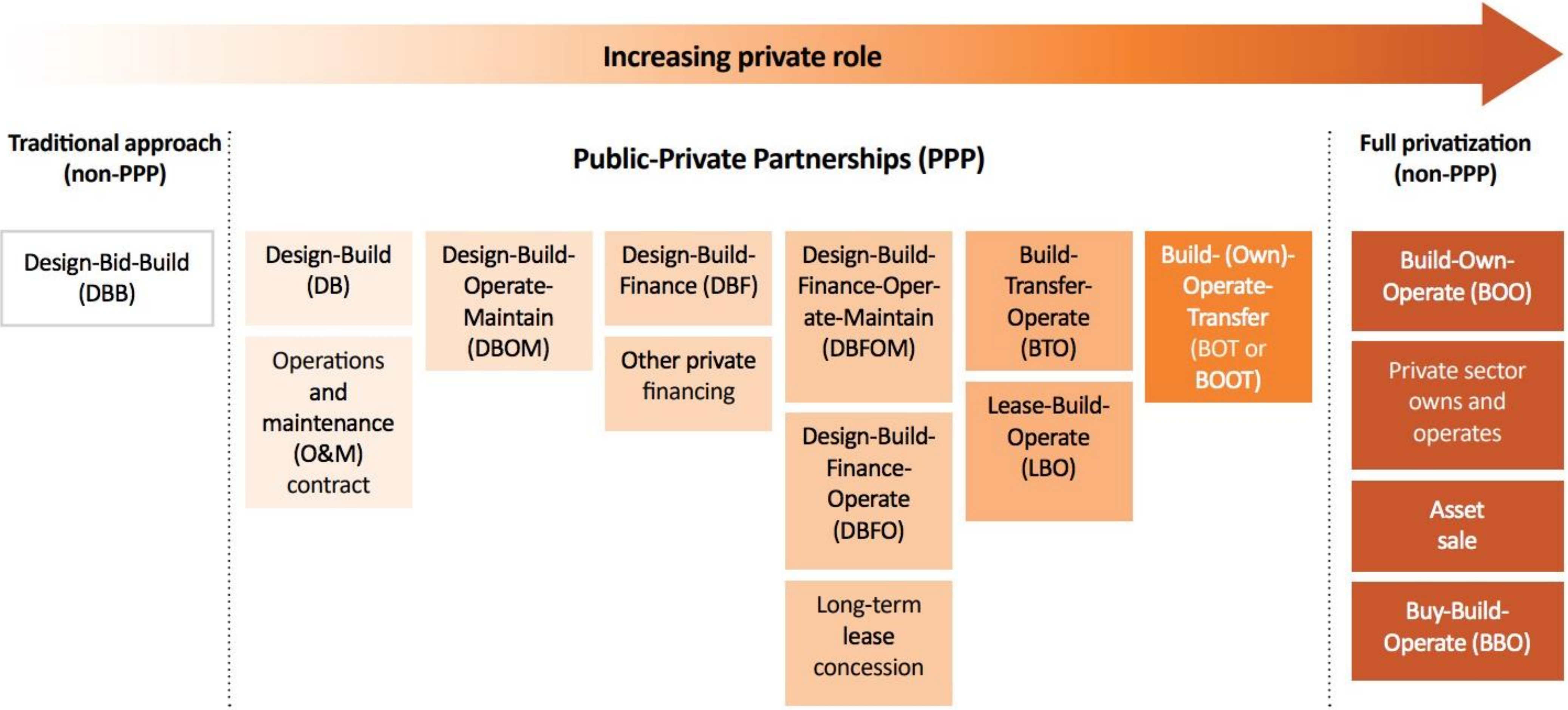
- County secures financing
- Design-Build (DB) team contracted
- DB team builds, constructs
- Progress payments made at specified milestones
- DB team paid in full at project completion
- O&M is County responsibility, including unpredictable major maintenance
- County owns facilities

BUILT-TO-SUIT

- County specifies requirements
- Lessor design and constructs
- Lessor manages construction risk
- Lessor/County agree rate and long-term lease, with specified terms, options
- Lease buy-back may be possible at term end

PUBLIC-PRIVATE PARTNERSHIP (P3)
CONTINUUM OF PRIVATE SECTOR INVOLVEMENT

DELIVERY OPTIONS

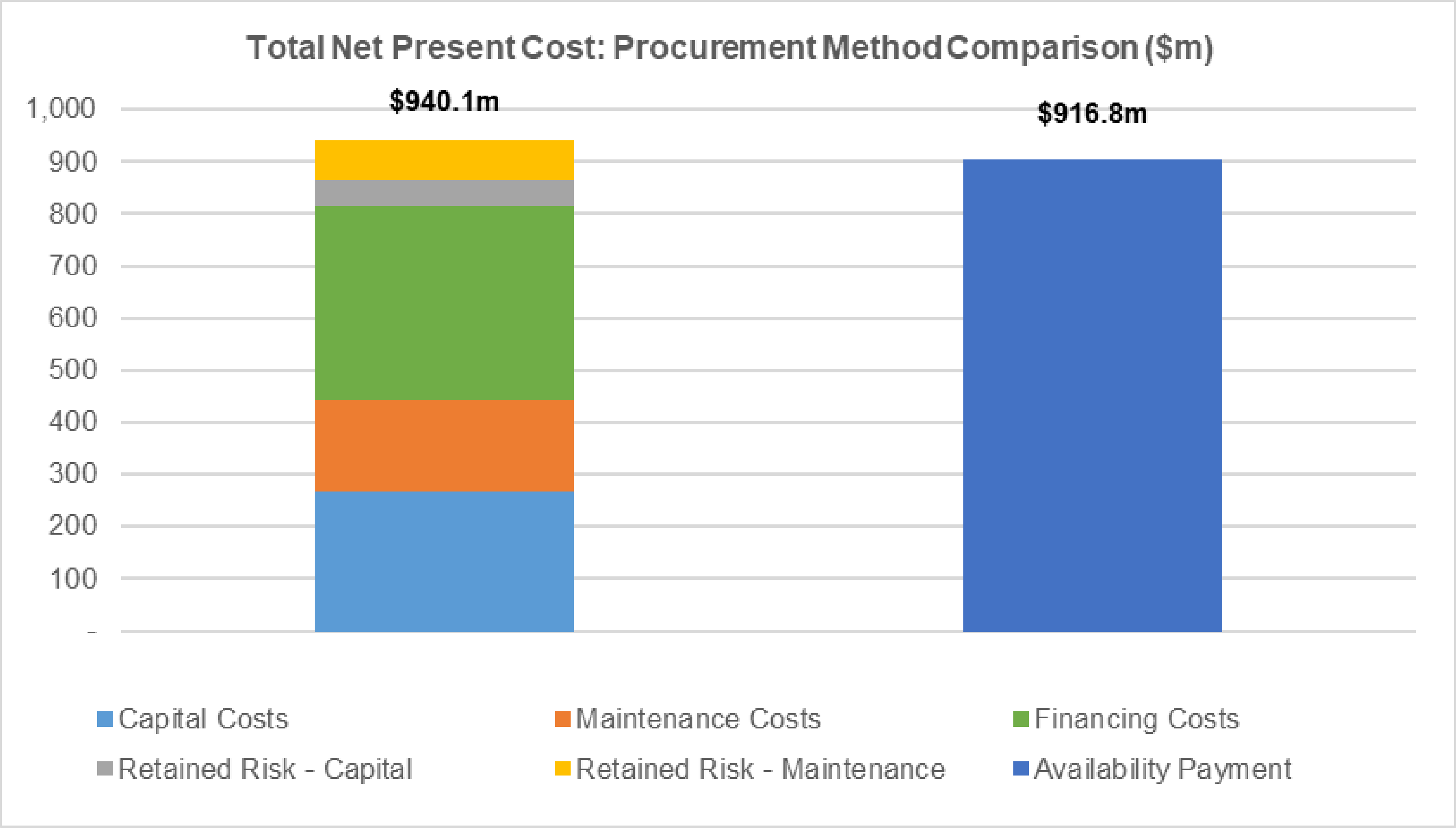


Source: National Council of State Legislators 2017

FINANCIAL ANALYSIS – VFM RESULTS

APPROVED JANUARY 25, 2021

All figures in $ '000s



- **VFM analysis approved in 2021 showed a 3% savings for a DBFOM, results remain valid under current program**
- **Board approved DBFOM approach previously confirmed significant savings over DB with Bond Financing**
- **DBFOM also permits significantly reduced risk of recurring deferred maintenance issues**
- **DBFOM cost and performance are predictable and guaranteed (over 30 years)**
- **Availability payment includes all design, construction, financing, operations and maintenance costs**

QUALITATIVE ASSESSMENT OF PROJECT DELIVERY ALTERNATIVES

County BOS Objective	DB vs. DBFOM	Commentary
1. Good investment decision	DBFOM superior	Mitigate and avoid significant deferred maintenance liability
2. Cost neutral and financially efficient	DBFOM superior	Value for Money (VfM) savings compared to traditional delivery method
3. Cost efficient design, construction, operations, and maintenance	DBFOM superior	VfM savings and efficient risk transfer with integrated project delivery
4. Taking on debt if beneficial to community	DBFOM superior	Strong project rationale and community benefits. Pay-go funds not available, therefore, debt required. Non-recourse project finance.
5. Not a monument to local government (affordable)	DBFOM superior	Efficient risk transfer with cost effective approach and lower cost

SUMMARY

- Deferred maintenance is a growing financial liability
- Current facilities are beyond useful life – renewal expenditure is no longer a sound investment based on facility condition
- County is underspending on operations and maintenance costs and does not have enough staff to maintain facilities
- Renovation is extremely risky as a result of building age, potential structural/seismic/accessibility issues, and lack of contractor appetite
- County goals cannot be met by maintaining status quo or renovating existing facilities



THANK YOU

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