COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 3/1/2022

To: Sonoma County Board of Supervisors
Department or Agency Name(s): General Services
Staff Name and Phone Number: Keith Lew, General Services 707-565-3193
Vote Requirement: Majority
Supervisorial District(s): All

Title:

Deferred Maintenance Alternative to New County Administration Center

Recommended Action:

Accept Report on Deferred Maintenance Alternative to Building A New County Administration Center

Executive Summary:

On February 8, 2022 the Board of Supervisors requested updated information on alternatives to acquiring the vacant Sears property and building new County Administration facilities in downtown Santa Rosa. Prior reports prepared in 2014 and 2018 concluded the alternative of continuing to invest in the County Government Center campus facilities was not a "good investment" due to the age and poor condition of existing buildings.

The County's independent consultant, Project Finance Advisory Limited (PFAL), has examined the methodology, assumptions and conclusions from the 2014 Facilities Condition Assessment Report prepared by VFA and the County's 2018 "Report on Solutions for Addressing the Growing County Government Center Administration Building Maintenance Costs". PFAL concludes that the costs presented in the 2018 report underestimated the total deferred maintenance liability facing the County, and that the alternative of "catching-up" on the deferred maintenance liabilities identified in 2014 is not achievable within a timeframe that would extend the useful life of the current County Campus buildings. The information provided by PFAL indicates that new construction is the most fiscally prudent option and the only path that accomplishes the goals and objectives identified by the Board of Supervisors in 2019.

Finally, PFAL has provided updated information on the proposed public-private-partnership (P3) design-build-finance-operate-maintain (DBFOM) project delivery model. The January 3, 2021 Board presentation compared three delivery models; DBFOM, build-to-suit lease, and design build. Updated information is provided reaffirming the recommended approach to pursue a DBFOM delivery.

Discussion:
Over the past fifteen years the Board of Supervisors has invested in a number of studies and considered several options for revitalizing the County government campus.[1] Each study concluded that the existing administration buildings should be replaced as 80% are well beyond an expected "useful" life of 30-40 years. The practice of repairing systems "like for like" for buildings of this age and condition is a waste of financial resources: the studies concluded the investment necessary to repair or replace rooftops, windows, heating, ventilation and air conditioning systems, plumbing, and electrical systems in significantly aged buildings would not be money well spent as the buildings will continue to deteriorate faster than they can be repaired.

The January 2013, the Comprehensive County Facilities Plan prepared by Gensler determined that three quarters of the County's facilities on the main campus were beyond their useful life, that space standards were lacking, and that average workstation sizes were significantly above industry standards, which suggests a need to rationalize current workspace. In addition, the Comprehensive County Facilities Plan concluded that 62% of the county's real estate portfolio expenses were a result of lease expenditures and that these costs were increasing as a result of campus space constraints.

In 2014, General Services contracted with VFA (now Accruent) to conduct a facility condition assessment analysis for the majority of the County's occupied facilities. The report determined that the County Government Center alone had a backlog of $236 million in deferred maintenance (or $367m in 2026 dollars assuming 4.5% escalation). VFA based this evaluation on the condition of County facilities given their age, construction type, level of maintenance performed, and overall condition of each building's systems. The assessment visually evaluated building closures (exterior walls, roofing, doors, windows, and sealants), foundations and structure, heating ventilation and air conditioning, electrical distribution systems, plumbing, interior doors and hardware and fire protection systems. However, typical for a study of this type, no destructive testing was done to evaluate structural or seismic conditions, and no opinions were given on current code compliance.

VFA generated a report rating the County's buildings using industry standard methodology assigning a facilities condition index and a replacement value. Replacement value is the cost to rebuild the existing structure in the same location, to the same size, same quality and codes as the original construction but at current costs. An FCI rating of greater than 0.3 is considered

---

[1] HOK Architects 2007; Gensler Comprehensive County Facilities Plan 2013; VFA Facilities Condition Assessment - 2014

“critical condition” and additional investment is not recommended. The County Government Center buildings had an average FCI of 0.5, which indicates a recommendation of divestiture.

On May 8, 2018 staff presented a report to the Board describing various solutions for addressing the issues identified in the 2014 VFA report. See Attachment 1 – Report on Solutions Options for Addressing the Growing County Government Center Administrative Building Maintenance Costs (Maintenance Costs Report) for more detailed information. Staff concluded, based upon the VFA analysis and escalating costs to 2018, that the Replacement Value for the County Center Administration buildings’ 470,456 square feet would be $635,748,266. This translated to $1351 per square foot.[2] A cost escalation factor to 2018 of 6% was used. Furthermore, staff concluded that the cost per square foot for replacement was higher than the estimated cost of new construction at the time.

A facilities condition assessment typically does not include in-depth structural analysis. However, given the age of the existing buildings and changes in building codes and standards since their construction, it is reasonable to assume that there is a risk of structural and seismic deficiencies in the current facilities. The value of these “known unknown” deficiencies cannot be quantified without destructive testing, but seismic deficiencies may compromise the ability of the County to effectively respond in the event of a major earthquake. Seismic strengthening is challenging and costly with older buildings and could require complete teardown. Since the first building on the campus were constructed in 1958, several updates to the building codes were enacted. In 1961, provisions for lateral force requirements from the Structural Engineers Association of California were adopted in the Uniform Building Code (UBC). The 1973 edition of the UBC incorporated several findings after the San Fernando earthquake of 1971 and updated again in 1976 following further research. UBC versions continued to be updated through the two editions in the 1980’s. The 1994 Northridge earthquake several significant issues regarding beam connections leading to more improvements in the 1997 edition and is now considered the “benchmark” for life safety standards. Only three of the 23 buildings on the County Administration Campus were constructed under this code and most not even meeting standards established following the Northridge earthquake.

The County has made an effort to maintain good, safe working conditions for staff, but the level of County maintenance investment has consistently been inadequate based on standard facilities management practices, which increasingly adds to deferred maintenance liability. As an example, in 2018, the County’s investment across its properties averaged $3.36/sq.ft. with

[2] The 2018 report described County Center Administration buildings including HOJ, Law Library, Mechanical Plant, and CRA (Ag Bldg.), and several buildings that have been subsequently demolished.

117,614 sq. ft.[3] per mechanic compared to the then IFMA standard of $4.83/sq.ft. (for buildings 31-50 years old) with 43,000 sq.ft. per assigned mechanic. PFAL identified that these figures understated the recommended spend for major maintenance and lifecycle cost standards of an additional $10/sq.ft typically used as an industry benchmark for new facilities. In the 2018 example, the County would have needed to spend $5.6 million on the County administration buildings (compared to its actual spend of $1.5 million) just to maintain the facilities in status quo condition. Additional funds and staff would have been required to address any portion of the deferred maintenance backlog from 2014, and this simply would not have been a wise use of funds given the age and condition of the County buildings.

The County is therefore faced with limited choices: (1) significantly increase annual expenditure and staffing levels to correct the 2014 deferred maintenance issues and continue investing in buildings that will continue to deteriorate and face even higher maintenance costs, (2) renovate existing structures and assume the associated risks of unknown cost and scope of required improvements, or (3) take action to remove the growing liability and meet the goals and objectives agreed by the Board to consolidate staff, improve operational efficiency, facilitate access to services, meet sustainability objectives, and create space that can be utilized for housing or other County objectives.

<u>Updated Deferred Maintenance Catch Up Option</u>

Staff revised the estimates provided in 2014 to calculate what it would take currently to catch up on deferred maintenance. Currently, the County allocates $8.9 million to the deferred maintenance fund, and under existing policy this is anticipated to grow by about $750,000 annually. With annual investments of $8.9 million and an annual growth of $750,000 per year, it would require 30 years to pay down the 2014 deferred maintenance deficit of $308 million in 2022 dollars.

However, the County will be unable to perform this volume of work without hiring more staff. PFAL identified that the County cannot spend enough money to correct the identified 2014 deferred maintenance issues within 30 years without hiring at least 15 more building mechanics. Without additional building mechanics, the County's ability to make necessary improvements is effectively capped, and it will never be able to get ahead of its 2014 deferred maintenance liabilities. PFAL has calculated that the cost of this single set of 2014 liabilities, capped at existing staffing capacity, grows to $958 million after 30 years. This number excludes the costs of (1) hiring additional staff and (2) correcting additional deferred maintenance issues that have arisen in the last 8 years and will continue to arise in the next 30. PFAL has assessed, with County input, that 15 additional building mechanics at a current salary and benefits cost of $210,663 per employee would equate to an additional $3.16 million per year in staffing costs.

---

[3] County Center Administration buildings (without the detention facilities) comprise 470,456 square feet with 4 assigned mechanics for the campus and funding at $3.36/sq.ft. or $1,580,732 out of the total $2,980,561 spent for the entire portfolio. This includes HOJ, CRA, and the Law Library.

These staffing costs would also be subject to annual salary and benefits escalation estimated at approximately 3.0% annually. Deferred maintenance costs, as defined here, also excludes routine preventative maintenance. This option would also not address significant underlying issues, for example it would leave County facilities far short of meeting current codes, not meet objectives for energy efficiency, and potentially leave the County vulnerable to seismic safety risks. Deferred maintenance is based only on replacement value of a building and its component systems. It does not include seismic upgrades adopted by building codes. Since the construction of the first buildings, there have been eight issuances of the building code where significant seismic standards have been mandated. Three of these issuances were addressing major seismic events that resulted in loss of life and property. Deferred maintenance also does not address energy improvements or accessibility improvements as required by California Building Code Title 24 nor your Board's highly relevant Strategic Plan pillar objectives for carbon reduction. It also would not address the current lack of space for operations: leasing of space would remain necessary and potentially increase, resulting in additional cost.

Renovate Existing Buildings Option

As an alternative approach to building new, or catching up on 2014's deferred maintenance, the County has considered the option of renovating the existing County Administration buildings. Entire building renovation requires gutting and building new to current building code all interior walls, building systems, plumbing, electrical systems, information technology, replacing roofs and windows, and mitigating hazardous materials. Renovation would require swinging existing department employees out to leased properties or remote work during the period of construction. Renovation assumes that structural elements (foundation, building floor slab, walls, floors, doors, windows, roof, and their bracing) are sound and meet current codes (including seismic), and this unlikely assumption presents significant risk given the age of the existing buildings. Building code upgrades create further significant cost exposure as would hazardous materials mitigation. PFAL has also raised the concern that the risks associated with entire building renovation and lack of cost control are increased because renovation risk of this scale and for buildings of this age is not positively viewed in the construction market. This effectively reduces the pool of potential developers which will result in loss of competitive tension in the bidding process. Furthermore, major renovations are not well suited to Public-Private Partnership (P3) delivery because of the unknown maintenance risks of building elements that have not been improved under contract. Without a P3 option, the County will need to either fund renovations on a pay-go basis (such as the Capital Improvement Plan where projects such as repairs, replacements or new construction is funded) or issue debt. The pay-go method would either phase the work over several years or accumulate funds to accomplish the entire scope of work at once. For a building such as Human Services Building on 2550 Paulin Avenue, the Deferred Maintenance Fund would require four years to accumulate enough funds at a rate of $8.9 million per year to renovate the one building.

The County has been gradually renovating existing buildings interiors over the past 50 years. This strategy has not addressed the need for additional space, nor has it met the Board of Supervisors goals and objectives for improved service delivery, land use, and reduced climate impacts.

PFAL's Analysis of Methodology, Assumptions and Conclusions
PFAL considered the methodology, assumptions and conclusions of the 2014 VFA report and the County's 2018 Maintenance Report. Three significant issues were found that likely result in understated deferred maintenance estimates.

- Structural, seismic, and code compliance deficiencies were not identified, and the cost of correcting these potential deficiencies is unknown
- The County is significantly underspending on operations and maintenance costs and would also need to incur the costs of hiring at least 15 more building mechanics to complete the volume of work required to perform deferred and/or preventative maintenance on schedule
- Deferred maintenance, once completed, also has a lifecycle, and the deterioration of repaired building elements will have a cost that was not quantified in the report

VFA used an industry standard facilities condition assessment methodology based upon visual inspection and review of maintenance records. PFAL did not evaluate and had no reason to dispute the FCI assigned to each building. However, because the VFA report did not conduct destructive testing and did not evaluate or estimate structural or seismic deficiencies, nor did it consider the cost of upgrading existing buildings to current codes and soft costs, the assessment of the 2014 deferred maintenance obligation is likely under-estimated. Replacement cost is not an accurate methodology to determine the actual costs of design and construction because it does not consider the cost of designing and constructing to the current building codes nor making necessary improvements to any structural, seismic, or infrastructure defects that were not visible during inspection.[4]

Furthermore, the VFA report did not consider the ongoing expenses associated with continuing to maintain, repair and replace building systems after an initial investment in deferred maintenance catch up. To generate an apples-to-apples comparison to the "new building option" PFAL calculated the 30-year cost of operations and maintenance in addition to the upfront cost of catching up on 2014 deferred maintenance.

Staff's analysis presented in 2018 also did not consider the escalating cost of maintaining the investments as they were made, a difficult analysis to conduct in light of known limitations in funding and staffing levels and likely accumulation of additional deferred maintenance costs.

[4] Insurance based upon replacement cost typically is not sufficient to rebuild to current codes. Therefore, most insurance policies offer building code upgrade insurance at an additional cost. Depending upon the age of the original structure and the number of CA building code changes since this coverage in itself may not be sufficient to cover actual costs.

The conclusion therefore is that corrective action, whether through deferred maintenance correction or major renovation, is likely to result in higher costs than currently calculated and would not meet the County's objectives.

Prior Board Direction on Goals and Objectives

In May 2018, the Board provided direction to staff rejecting the deferred maintenance catch-up, and instead directed staff to proceed with working on the new construction option, to collaborate with the City of Santa Rosa, and to issue a request for information to public-private market participants. Staff returned to the Board in January, May and June of 2019 with updates. In December 2019, staff presented information summarizing internal stakeholder interviews conducted to identify goals and objectives. The Board's goals included; reducing maintenance costs, investing in resilient infrastructure, improving access to County services, creating opportunities for housing, and strengthening the local economy. These objectives were subsequently further refined in greater detail to assist with site selection in three categories: service, affordability/cost, design and other opportunities including aesthetic, equity/community, and economic impact.

Building new administration facilities is the only option that achieves the objectives the Board adopted in 2019 and removes the growing risk and liability of the County's past underspend on major maintenance work. Catching up on deferred maintenance does not reduce maintenance costs as described above. Nor does it invest in resilient infrastructure as the structural and seismic challenges continue to exist. Finally, remaining in the existing single story buildings continues the automobile-centric land use and underutilization of land with surface parking. Only minimal land would be available for housing with the catch-up option. Continued investments in deferred maintenance do very little for the local economy compared to other options. There are no significant improvements in service as the existing buildings do not have sufficient space to consolidate leased functions and clients have to travel to multiple buildings and locations to obtain service.

Tenant improvements of existing buildings would not achieve the Board's objectives either. Essentially the County has been gradually redesigning building interiors to adapt existing space to new requirements. Each investment requires the county to bring the specific area within a building up to code, triggers accessibility improvements, and is not conducive to a comprehensive facility design or portfolio management. This approach is costly, requires pay-as-you-go financing, and does nothing to meet the Board's goals.

Prior Board Direction on DBFOM Project Delivery Approach

On January 5, 2021 staff presented PFAL's value for money analysis describing the relative merits of different project delivery models: a) design-build (DB) with traditional bond financing, or b) design-build-finance-operate maintain (DBFOM) under a public-private partnership (P3).

The different approaches to project delivery have certain advantages and disadvantages and associated costs and risks. This type of study is called a Value for Money analysis (VfM) and is a common tool for government entities to use when considering how best to deliver large-scale capital investment programs. The project team sought to understand which delivery model offered the most cost-effective and lowest-risk approach to replacing the County's aging buildings.

PFAL assessed certain risks quantitatively and assigned costs depending on whether the risk was borne by the County or the developer. The VfM analysis evaluates the likelihood of risks occurring during the capital financing, design and construction, and operating periods, then assigns a cost impact to the risks retained by the County vs the developer. The County retains more control over design decisions in the design-build (DB) project delivery method, but also retains more risk of cost escalation among other risk factors. With the design-build-finance-operate-maintain (DBFOM) delivery method the County gives up some control over design (but retains the option to select a preferred design offered by shortlisted developer teams), but also reduces risks over the life of the building asset as building performance is guaranteed (with payment deductions for failure to meet contracted standards) and up-front costs are amortized into an annual-payment to the public-private partner. With both DB and DBFOM delivery methods the County owns the asset. This approach differs from a build-to-suit lease structure where a third party owns the property.

The build-to-suit lease approach and the municipal bond financing approach were also considered previously. With a build-to-suit lease the County would not own its government facilities, would not have control over future rent escalations, and at the end of the term the County would not own the facility unless a buy-out option is exercised. In addition, there were no buildings available in the lease market that are large enough to accommodate the County's program goals. Therefore a landlord would need to identify vacant property, then finance the design-build. The County would pay a triple net lease that amortizes the cost of financing design and construction, and operations expenses would also be subject to market rate increases over the term of the lease. The risk exposure to market rate increases and the lack of ownership make this approach less desirable. Bond financing was previously evaluated and considered too costly. The requirement to carry an overall 50% debt reserve was cost prohibitive. The County would also continue to carry the risks and cost obligations of operations and maintenance in addition to debt obligation payments and could lose control over the quality of the operations and maintenance services. In a situation where the County is coordinating emergency response, this lack of control creates meaningful risks with respect to reliance on a third party to ensure continuity of operations. The County's ability to safely occupy a building and act as the county response coordinator following a disaster event could be compromised if another party is performing major maintenance and doesn't perform work to the necessary standards. This is a risk in a triple net lease (where the owner is incentivized to pay lower upkeep costs on leased facilities to increase their profits) but not in a DBFOM (where the P3 is incentivized to maintain the building to specified standards to increase their profits). The County project team obtained two independent reviews of the PFAL analysis. The County's financial advisor KNN reviewed bond financing assumptions, and West Coast Infrastructure Exchange reviewed the methodology used by PFAL to develop the VfM analysis.

The project team continues to recommend the procurement option of DBFOM for its predictability and cost advantages over bond-financed Design Build, for its ability to reduce risks to the County, and to cultivate alignment of incentives between a developer and the County. The DBFOM structure creates an annual "availability" payment for 30-40 years that is predictable with deductions for poor performance. The DBFOM structure incorporates lifecycle costs that include maintaining the facility during the term of the agreement. The County's contract with the P3 will contain performance guarantees with enforcement mechanisms to ensure the facility is appropriately maintained to defined specifications. The guarantee at the end of the 30 year term is typically for an 80-90% "as-new" building thereby preventing future issues of growing deferred maintenance.

Strategic Plan:
Resilient Infrastructure 1.1 New County Government Center Carbon Neutral
Resilient Infrastructure 1.2 New Office Space Standards
Resilient Infrastructure 2.2 Electric Power Resiliency
Resilient Infrastructure 2.3 Resilient EOC
Climate Action and Resiliency 3.1 Carbon Neutral New County Government Center
Climate Action and Resiliency 3.2 Telework

Prior Board Actions:
February 8, 2022: Sears Property Acquisition
July 2021: County Center Preliminary Site Selection
January 5, 2021: County Center Technical Advisor Findings
December 10, 2019: County Center Board Goals and Objectives and Site Selection Criteria
June 23, 2019: County Center Technical Advisor Recommendation
May 19, 2019: County Center Planning Phase 1 Update
March 19, 2019: Deferred Maintenance Cost Report
January 29, 2019: County Center Phase 1 - Technical Advisor RFP
May 8, 2018: County Center Planning - Request for Information Survey
June 24, 2014: Comprehensive Facilities Condition Assessment Plan Update
January 15, 2013: Comprehensive County Facilities Plan
April 7, 2009: County Administration Campus Site Evaluation and Opportunities Analysis

FISCAL SUMMARY

Expenditures	**FY 21-22 Adopted**	**FY22-23 Projected**	**FY 23-24 Projected**
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:
There is no fiscal impact associated with accepting this report.

Staffing Impacts:			
Position Title (Payroll Classification)	**Monthly Salary Range (A-I Step)**	**Additions (Number)**	**Deletions (Number)**

Narrative Explanation of Staffing Impacts (If Required):
None

Attachments:
1 – Staff Report on Deferred Maintenance
2 – Presentation

Related Items "On File" with the Clerk of the Board:
None