



King County

Transportation, Economy and Environment Committee

STAFF REPORT

Agenda Item:	5	Name:	Paul Carlson John Resha
Proposed No.:	2012-B0024	Date:	February 29, 2012
Invited:	Kathy Brown, Facilities Management Division Lauren Smith, Office of the Executive Paulette Norman, Manager, Road Services Division		

SUBJECT

Impacts on the Road Services Division of a Potential Sale of the Summit Pit and Implementation of the South Regional Maintenance Facility Project at Ravensdale.

SUMMARY

In February 2011, the Summit Place 156 LLC withdrew from its Purchase and Sale Agreement for the Summit Pit site owned by the Road Services Division ("RSD"). The Executive has continued to explore options for selling Summit Pit. As the sale would require vacation of a major road maintenance facility, planning has continued for a South Regional Road Maintenance Facility at Ravensdale ("Ravensdale facility") using part of a General fund-owned parcel. Today's briefing will provide a status report on a Request For Proposals ("RFP") to purchase the Summit Pit site and an RFP for a lease-leaseback project to construct a roads maintenance facility at Ravensdale.

Issue: Operational and Financial Basis for a New Road Maintenance Facility

As discussed at length in the 2012-2013 budget process, RSD is facing significant financial challenges, which stems in no small part from more aggressive revenue forecasting than the more fiscally conservative approach employed by the rest of the County's budgeting entities, as well projecting unrealistic revenues. Couple these with the Unincorporated Area Levy being at the maximum level, and the current downturn in real estate value, RSD is an organization restructuring and retrenching on unstable financial ground.

The Strategic Plan for Road Services ("SPRS") has provided a policy road map for navigating this fiscally challenging situation. Applying SPRS, and based on its available funding, RSD is directed to focus on critical life-safety, regulatory requirements and to stretch the remaining dollars for preservation and maintenance of the as much roadway network as is feasible. In fact, RSD has implemented a tiered prioritization system that results in many low usage roadways and facilities receiving minimal attention. To fulfill a SPRS directive, Council funded a Facilities Master Plan ("FMP") for RSD to be completed during the 2012-2013 biennium to align its facility needs with its new structure and operations, which is intended to provide realistic guidance as to the Division's overall maintenance facility needs.

With the failure of the Summit Pit Sale to Summit Place 156, LLC, RSD has been established no business basis for leaving Summit Pit and developing a new maintenance facility, especially given its difficult financial situation.

As it exists today, RSD has spent approximately \$6.4 million of anticipated Summit Pit sale revenues through existing appropriations. These expenditures have been funded by interfund borrowing. This means that the first "call" on any revenues associated with the sale of Summit Pit must be the repayment of these interfund loans, then the sale proceeds must fully fund the replacement of the existing Summit Pit Maintenance Facility. It is also worth mentioning that Summit Pit is one of the Division's last working gravel pits, and its sale will represent an additional ongoing expense of purchasing and trucking gravel from sites outside the County.

The justifications for moving forward with the sale and construction of a new maintenance facility must be viewed not in the context of the sale to the Summit Place LLC, but in the context of the current reality and the realistic forecast of RSD's future.

Until the FMP shows otherwise, it is unclear why Summit Pit fails to meet the County's current and projected operational and maintenance needs. Over the course of the last several years, RSD staff have reported that the RSD facilities at Summit Pit are at the end of their life-cycle and major infrastructure improvements to those would have to be performed if the County were to stay at Summit Pit. The current estimates of improvements to Summit Pit and another south County facility near Black Diamond facility are \$2.7 million. Executive staff suggested that making this level of investment when Summit Pit's operations are incompatible with Maple Valley's increasing urban residential developments is not reasonable. However, until the FMP is completed, proceeding with building a replacement facility at a cost of \$30 to \$40+ million¹ and no solidified revenue source, may no longer be the appropriate policy decision

Given the operational and financial concerns, and the very recent acknowledgement of more than \$3.5 million of 2011 deficits in the Road Fund, the Division needs to explain how moving forward with the proposals currently under consideration will result in no further drain on the Division's now preeminent focus of preservation and maintenance.

¹ Executive's estimates have ranged over time

BACKGROUND

The County bought the 156-acre Summit Pit parcel in 1953 and uses part of the parcel as a major road maintenance facility serving southeastern King County (collectively referred to as "Summit Pit"). Road services include gravel mining and road waste processing/recycling. RSD also uses Summit Pit facilities to fulfill its contractual obligations to provide road services to the nearby cities of Covington, Maple Valley and others.

In 2006, an unsolicited offer came to the Executive office from the Yarrow Bay Group ("YBG") (the holding company of the ultimate purchasing entity - Summit Place 156 LLC). In exchange for (1) approximately two hundred eighty acres of conservation land, known as Icy Creek Properties; and (2) YBG's relocating the Summit Pit operations to a site acceptable to King County, and at no cost to the County, YBG would receive fee simple title to the 156 acre Summit Pit. After YBG was unable to locate a replacement site acceptable to King County, in May 2007, RSD identified a potential replacement site of approximately two hundred acres of the underutilized six-hundred-fifty-acre General Fund-owned Ravensdale shooting range site. The structure of the proposal was changed, dropping the requirement that YBG replace the Summit Pit facilities at a site supplied by it.

In June 2007, the King County Council unanimously approved Ordinance 15856 authorizing the Executive to enter into direct negotiations with YBG for the sale of Summit Pit in exchange for valuable resource lands in the Icy Creek basin and cash.

Subsequently, to ensure all potential opportunities could be explored, a Request for Proposals for purchase of the site was issued in February 2008. The only response was a \$35,000,000 purchase offer from YBG. The Executive deemed YBG's RFP submittal responsive to the criteria enumerated in King County's RFP, but the offered purchase price too low. Further negotiations resulted in a sale agreement that the Council approved in 2009 through Ordinance 16359. The Purchase and Sale Agreement ("PSA") between the County and Summit Place 156 LLC (YBG) included a purchase price to be determined by a set of contingent decisions, resulting in the purchase price ranging from \$51-55 million, payable over six-eight years.

As part of the 2008 Comprehensive Plan updates, the property was redesignated from rural to, allowing for the potential of higher density development.

While the deadline by which YBG had to convert the earnest money promissory note to cash was extended, by February 2011, the purchase of Summit Pit fell through. The Executive has proceeded to find another buyer for Summit Pit. Simultaneously, an effort was undertaken to site and build the necessary replacement maintenance facility.

Budget – The Roads Capital Improvement Program ("CIP") and Roads Maintenance CIP have included project funding backed by anticipated Summit Pit sale revenue since

at least 2009. Total expenditures² are about \$6.4 million, with another \$600,000 to be spent for a total planned expenditure of a little over \$7 million. Projects include: preliminary design work for the Ravensdale facility, capital improvements made at various RSD maintenance facilities, and a contribution to the Coal Creek Parkway project. See Attachment A for fuller details. According to staff at the Office of Performance, Strategy and Budget ("PSB"), \$2 million of the expended \$6.4 million has been covered by the Road Fund. Additionally, \$1.2 million may have been paid from the Renton Maintenance Fund. Central staff has requested that PSB confirm this. It has been confirmed that RSD has borrowed approximately \$3.8 million using the County's interfund borrowing mechanism. Therefore, at the very least, the \$3.8 million would have to be repaid through an eventual Summit Pit sale or other, as yet unidentified, revenues.

FMD is continuing to work on the preliminary design phase for the Ravensdale facility. This effort is approximately nine months behind the original schedule but this is attributable to the Executive slowing down design work when the deadline for YBG to convert its earnest promissory money note to cash was postponed. The current focus is on obtaining a conditional use permit, the main permit required to develop the Ravensdale site, estimated in July 2012. Executive staff estimates it will have spent approximately \$3.7 million the Ravensdale facility by the time it obtains the conditional use permit (this is part of the \$7 million total planned expenditures mentioned in the previous paragraph).

Audit Review – The County Auditor's Office is monitoring the Ravensdale Project and identifies budget-related risks:

- Revenue source is uncertain.
- The Ravensdale site is over a critical aquifer protection area; permitting requires extensive study of drainage, aquifer protection measures, uncertain mitigation obligations, and a risk of appeal.³
- Delay could trigger a need for facility repairs at Black Diamond and Summit Pit, estimated to cost \$2.7 million.
- June 2010 cost estimates of \$41.6-45 million are 13-22 percent higher than estimated in December 2008; compared to similar projects by other jurisdictions, the construction costs are low but site development costs high.

The Auditor notes that RSD is in the process of completing a FMP as part of the Strategic Plan for Road Services process, and recommends verification that the Ravensdale project is consistent with the FMP.

² Total appropriations through September 2011 are approximately \$13.4 million.

³Executive branch staff has indicated that the current approach to Ravensdale development presents less potential risk in this respect.

The Latest RFPs

Summit Pit Sale RFP – The Executive is evaluating a proposal from Polygon Homes. Details cannot be disclosed until a decision is made. Published RFP goals include:

- Receiving highest cash payment.
- Increasing affordable housing opportunities.
- Enhancing long-term community employment opportunities.
- Promoting environmental sustainability and green development.

Ravensdale Maintenance Facility RFP – Five developers responded to an RFP exploring development of the Ravensdale project as a lease-leaseback arrangement. Responses came from EP Graham Development Company, Lease Crutcher Lewis, Moreland Corporation/Absher Construction Company, Pannatoni Development Company, and the Seattle Commercial Development Corporation. Reportedly Executive staff is pleased by the results, but cannot disclose details until decision is made. The RFP team includes staff that completed prior lease-leaseback projects for the County.

ATTACHMENT

1. Page 5 from the October 2011 Auditor's Office Oversight Report

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PROJECT REVENUE SOURCE

The SRRMF appropriation was made in anticipation of the county receiving up to \$55.2 million in revenue by selling Summit Pit to Yarrow Bay. Relying on the same revenue source, the County appropriated \$740,002 to manage the sale of Summit Pit and another \$6.3 million to complete other Road Services projects. The County is currently relying on interfund borrowing to fund this work. Exhibit 4 summarizes the appropriation and expenditure history.

Exhibit 4 – Appropriations and Expenditures to Date in Anticipation of Revenue from Selling Summit Pit

Project (status)	Appropriations thru September 2011	Expenditures thru September 2011 ⁽⁴⁾	Total Expenditures Planned by Executive	Appropriation Balance After Deducting Planned Expenditures
700209 Summit Pit Sale Transaction (open)⁽¹⁾	\$740,002	\$176,448	\$305,000	\$435,002
300808 SRRMF Preliminary Design (open)⁽¹⁾	\$6,356,002	\$3,383,533	\$3,696,288⁽⁵⁾	\$2,659,714
Other Roads Maintenance Facility Projects	\$6,287,288	\$2,900,226	\$3,061,719	\$3,224,570
201307 Skykomish Shop Repairs (closeout) ⁽¹⁾	\$345,000	\$341,092	344,700 ⁽⁶⁾	\$300
400308 Facility Rehabilitations (never opened) ⁽¹⁾	\$312,000	\$0	\$0 ⁽⁶⁾	\$312,000
400607 Facility Painting (closed) ⁽¹⁾	\$229,000	\$48,615	\$48,615 ⁽⁶⁾	\$180,3856
700108 Roofing and Energy Effectiveness (preliminary design) ⁽¹⁾	\$3,203,288	\$519,116	\$678,000 ⁽⁶⁾	\$2,525,288
200891 Coal Creek Parkway (closed) ⁽²⁾	\$1,000,000 ⁽³⁾	\$1,000,000	\$1,000,000 ⁽⁷⁾	\$0
300908 Vashon Hazardous Materials Containment Area (closed) ⁽²⁾	\$78,000	\$59,300	\$59,300 ⁽⁶⁾	\$18,700
400507 Renton Complex Fire Alarm (closed) ⁽²⁾	\$845,000	\$696,089	\$696,089 ⁽⁶⁾	\$148,911
400608 Renton Backup Heat Source (closed) ⁽²⁾	\$95,000	\$54,893	\$54,893 ⁽⁶⁾	\$40,107
700208 RDS Operational Master Plan (closed) ⁽²⁾	\$180,000	\$181,121	\$180,122 ⁽⁶⁾	(\$1,121)
Total	\$13,383,292	\$6,460,207	\$7,063,007	\$6,319,286

Notes:

(1) The December 15, 2008 Council staff report for Ordinance 16359 notes these projects would be funded from Summit Pit sale proceeds.

(2) Road Services reported to Council staff in April 2011 that Summit Pit sale proceeds were also intended to fund these projects.

(3) As reported by Road Services to Council staff in April 2011. This represents only part of the \$9,932,134 appropriated for this project.

(4) September 2011 is the most recent closed month in the County's accounting systems. Excludes encumbrances.

(5) As reported by FMD on June 14, 2011.

(6) As reported by Road Services to Council staff in April 2011.

(7) As reported by Road Services to Council staff in April 2011. This represents only part of the \$10,067,653 expended through July 2011 for this project.