



# **Seattle Multimodal Terminal at Colman Dock Project**

## **Entry Building Public-Private Financing and Funding Options Analysis**

December 2017



## TABLE OF CONTENTS

<b>1. Purpose .....</b>	<b>1</b>
<b>2. Approach.....</b>	<b>2</b>
<b>3. Project Background and Schedule.....</b>	<b>3</b>
<b>4. Delivery Options Analysis.....</b>	<b>6</b>
4.1 Project Considerations .....	6
4.2 Entry Building - Potential Project Delivery Methods.....	8
4.3 Delivery Options Multiple Criteria Analysis .....	10
<b>5. Alternative Funding Options.....</b>	<b>14</b>
5.1 63-20 Financing.....	14
5.2 Entry Building Revenue Generation versus Debt Service Requirements.....	14
5.3 Land Leveraging.....	15
<b>6. Report Findings and Next Steps.....</b>	<b>17</b>
6.1 Findings .....	17
6.2 Next Steps.....	17
<b>Appendix 1 – Design-Build Screen .....</b>	<b>19</b>
<b>Appendix 2 – Stakeholder Notification .....</b>	<b>25</b>

## 1. PURPOSE

Section 214(4) of the 2017-19 Transportation Budget (ESB 5096) directed the Washington State Department of Transportation (WSDOT) to “study public-private partnership alternatives for the financing and construction of an entry building located at Colman Dock.” The full text of the proviso is included below. The purpose of this report is to respond to this directive.

The WSDOT Office of Innovative Partnerships worked with the West Coast Infrastructure Exchange (WCX) and Partnerships BC (collectively, the Project Team) to develop this report to examine financing and funding opportunities for the Entry Building included as part of the larger Seattle Multimodal Terminal at Colman Dock Project (the Project) as directed in Section 214(4) of ESB 5096.

While the overall Project has approval to proceed and is currently in the first phase of construction, there is insufficient funding to deliver its full scope. Overall, there is a \$66 million funding shortfall to deliver the entire Project. Included in the shortfall is the \$33 million Entry Building.

### Budget Proviso (Colman Dock Preservation Project Program K):

\$500,000 of the multimodal transportation account—state appropriation is provided solely to study public-private partnership alternatives for the financing and construction of an entry building located at Colman Dock.

- (a) As part of the study, the public-private partnerships program must work with the city of Seattle, Native American tribes, and local community groups to evaluate the efficacy of contracting with a private entity to participate in the construction of the Colman Dock entry building. The study must:
  - i. Identify and discuss options to construct the facility as currently scoped;
  - ii. Identify and discuss options, including re-scoping the current design of the facility for purposes of providing a project that has the potential to increase economic development activities along the Seattle waterfront area, such as through the inclusion of office space and restaurants;
  - iii. Consider concepts and options found in the design development described in the 2013-2015 capital budget (chapter 19, Laws of 2013 2nd sp. Sess.), including connections to Pier 48 as a future public park;
  - iv. Consider rooftop public access for panoramic views of the Puget Sound and Olympic mountains; and
  - v. Consider exhibits of the history and heritage of the vicinity.

## 2. APPROACH

The Project Team undertook the steps below to produce this analysis:

- Reviewed the following background material:
  - Analysis of Joint Development Opportunities at Washington State Ferry Terminals, dated January 12, 2009;
  - Best Practices Review of Washington State Public Private Partnership Programs and Laws for Non-Toll Facility Projects, dated January 2011;
  - Infrastructure Financing Options for Transit-Oriented Development, dated January 2013;
  - Request for Final Proposals for General Contractor/Construction Manager Services, dated July 14, 2015;
  - Pre-Design Study – Version 6, dated February 1, 2017;
  - SR519 Colman Dock Risk Register, dated March 9, 2017;
  - Colman Dock Replacement 90% Design Estimate, dated March 10, 2017;
  - Preliminary Results of CEVP Update – Revision 1, dated March 14, 2017; and
  - Contract No. 00-9074 GCCM Services Agreement Rev, dated April 2017.
- Gathered input from WSDOT and WSDOT Ferries Division (WSF) to improve the Project Team’s understanding of the broader Project, particularly the Entry Building.
- Examined key considerations and constraints in order to assess potential delivery options for the Entry Building.
- Summarized the findings of the preceding analysis and developed recommendations as appropriate.

### 3. PROJECT BACKGROUND AND SCHEDULE

WSF is replacing the aging and seismically vulnerable components of Colman Dock to maintain ferry service both in the present and into the future. The Seattle Multimodal Terminal at Colman Dock Project is a critical connection across Puget Sound between downtown Seattle and communities in Kitsap County. In total, more than nine million riders travel through Colman Dock annually. The purpose of the Project is to preserve the role of the terminal as a regional multimodal transportation hub providing safe, reliable, and effective ferry service.

The existing Colman Dock terminal consists of:

- Two large trestle structures, one concrete and one timber;
- Three ferry slips; and
- Various buildings, including the main terminal building.

These existing structures are at the end of their service life and are highly vulnerable to seismic events. Along with addressing seismic vulnerabilities, the Project will also reduce vehicle loading times and resolve conflicts between vehicles, bicycles, and pedestrians.

WSF began planning for the replacement of facilities at Colman Dock more than a decade ago. The current vision of the Project is part of WSF's Long-Range Plan published in 2009. In the development of its plan, WSF incorporated feedback received from significant stakeholder consultation, which included the City of Seattle, King County, and local Native American tribes. In 2014, WSF completed an environmental assessment and received a finding of no significant impact from the Federal Transit Administration and Federal Highway Administration.

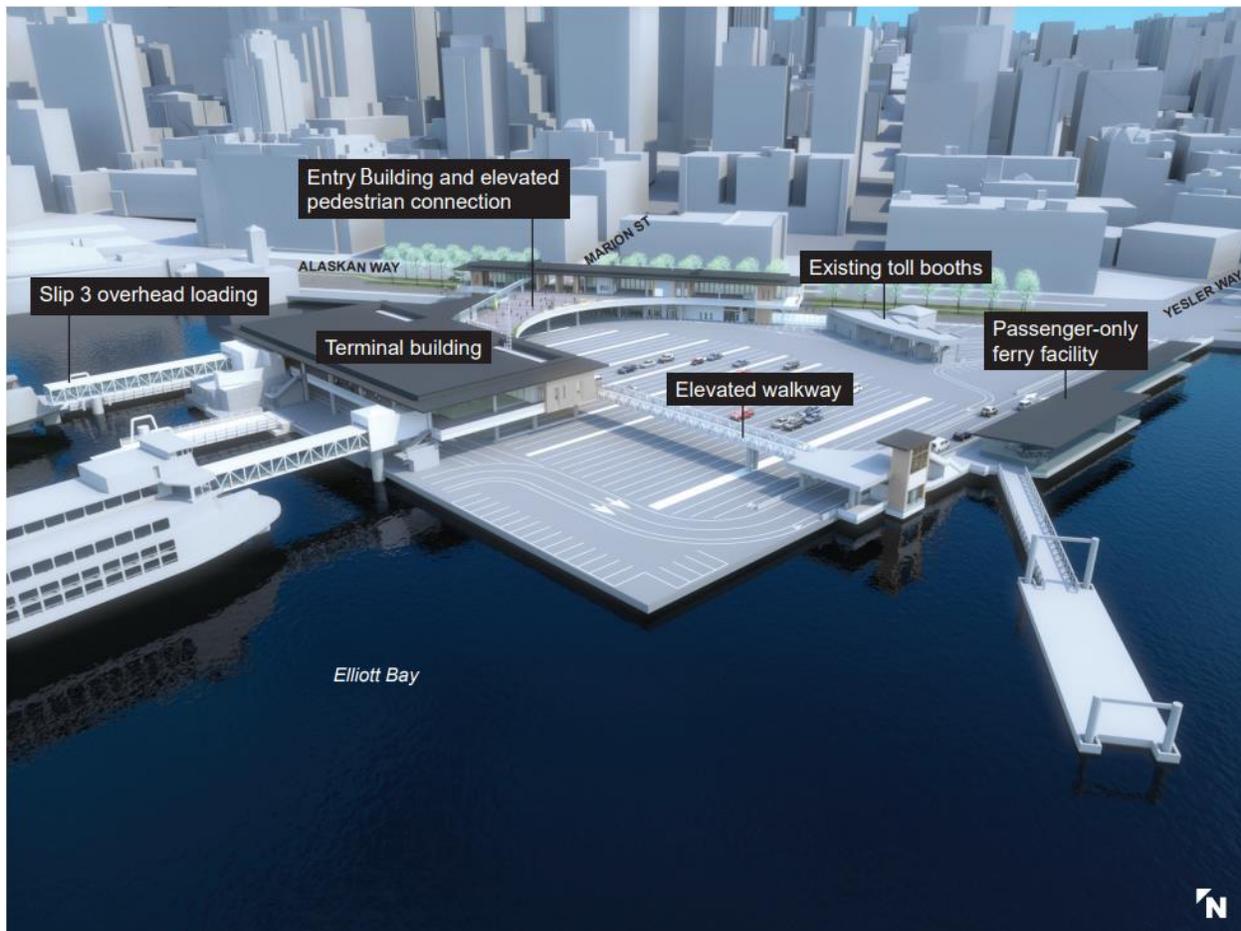
The construction is planned in five phases, and the Project scope includes:

- Replacing the existing timber trestle portion of the dock with a new concrete and steel trestle (Phases 1, 2, 3, 4);
- Replacing the main terminal building and creating a new Entry Building (all Phases);
- Replacing the passenger-only facility on the south edge of Colman Dock (Phase 1);
- Constructing a new elevated walkway between the terminal building and the passenger-only ferry facility (Phase 1);
- Replacing the overhead loading facility on the northernmost slip (Phase 2);
- Adding a bicycle entry and holding area north of Marion Street (Phase 5);
  - Maintaining an elevated connection between the terminal building and the Marion Street Bridge (Phase 5);

- Providing stairs and elevators to connect the facility to Alaskan Way (Phase 5); and
- Mitigating for additional overwater coverage by removing overwater coverage from a neighboring pier (Phase 1).

The rendering in Figure 1 visually presents the anticipated Project.

**Figure 1 – Project Rendering**



The Entry Building is programmed at approximately 24,000 gross square feet and is expected to have space for car deck support functions (restrooms, bike storage, mechanical and electrical rooms); vertical circulation elements connecting the facility to Alaskan Way, Marion Street overpass, and transit options; and several complementary retail vendor locations.

In order to satisfy its stakeholder and environmental commitments, WSF developed a phased schedule to maintain ferry operations during construction while limiting in-water work to approved work windows. The Entry Building, which is the focus of this report, is the final phase of the Project. A high-level schedule for the Project is described in Table 1 on the following page.

**Table 1: Estimated Project Schedule**

Milestone	Estimated Date
Environmental Process complete	November 2015
Maximum Allowable Construction Cost (MACC) negotiations	November 2016 – June 2017
Procurement of materials (off-site pile fabrication)	Completed by April 2017
Construction	Phase 1: Spring 2017 – Summer 2018 Phase 2: Summer 2018 – Summer 2019 Phase 3: Summer 2019 – Summer 2020 Phase 4: Summer 2020 – Late 2021 Phase 5 (Entry Building construction with some overlap with Phase 4): Fall 2020 – Early 2022

WSF and its consultant team developed detailed drawings and tendered the Project using a General Contractor / Construction Manager (GC/CM) procurement approach. Using the GC/CM methodology, WSF engaged a construction manager to serve as a construction advisor during the pre-construction phase and a general contractor during construction. The request for proposals (RFP) was tendered in 2015 and a joint venture of Hoffman-Pacific was selected in Fall 2015 to deliver the Project.

The overall Project has a construction contract cost of approximately \$310 million, excluding sales tax (\$341 million including sales tax), based on the 90% design estimate and the assumed GC/CM approach. The budget includes a contingency and risk allowance based on an assessment of the Project’s risk profile. The Entry Building is budgeted to cost approximately \$30 million, excluding sales tax (\$33 million including sales tax).

In terms of funding sources, the Project has committed federal, state, and local funding to deliver most of the Project scope. There is an approximate overall funding gap of \$66 million to deliver the Project, inclusive of the \$33 million shortfall for the Entry Building.

## 4. DELIVERY OPTIONS ANALYSIS

WSF's interest in examining alternative private financing options for the Entry Building is driven by the \$33 million funding gap. The range of viable potential options is informed by certain key considerations.

Before reviewing the potential options, however, it is important to differentiate between project financing and project funding. Performance-Based Infrastructure (PBI), also commonly referred to as Public-Private Partnerships or P3s, is a pay-for-performance model for delivering public infrastructure. PBI methods ensure public ownership and consolidate responsibility for the key phases of a project's full lifecycle – design, construction, and maintenance – into a performance-based contract with a private partner.

PBI projects typically include a certain level of private finance invested into the transaction by the private partner. This private finance component is a financing source for project costs that must be repaid by the owner either at completion of construction or during the asset's operating period. It is important to note that a PBI delivery option is not a source of additional funding designed to resolve a project's funding gap, and it would be recorded on the owner's books as an on-book obligation.

However, there may be other unanticipated benefits derived from the use of alternative delivery methods for the Entry Building, such as improved budget and schedule performance, risk transfer, and reduced whole life costs when contrasted against the current delivery option. Options and their relative merits and risks are described in the sections following.

Potential options to address the funding gap are discussed in a subsequent section of this report.

### 4.1 Project Considerations

The range of Entry Building delivery options depends largely on the level of flexibility available to WSF on the Project. The project exists in a highly regulated and challenging environment—operationally, technically, and from a land-use perspective. While changes are possible, it is likely that they would have a major impact on the Project's cost and schedule given construction elsewhere on the site is already underway.

The Project is located on a tight, constrained site in an environmentally-sensitive area along Seattle's waterfront with operations that cannot be interrupted during construction. The Project's overwater footprint, structural design, and construction phasing plans were developed with these factors in mind and are memorialized in the Project's NEPA environmental documentation, permits, tribal agreements and final design plans, and GC/CM contract.

The current Entry Building is designed and permitted to support the operations of the terminal, provide connectivity to transit, and integrate the facility with the surrounding urban environment. It is the result of close coordination with the City of Seattle to provide these functions while integrating with the context

of overall plans for the future Waterfront. The Entry Building includes 3,000 square feet of retail space at the street level and future unfunded opportunities for up to 1,000 square feet of potential retail space on the upper level.

In reviewing opportunities to increase the size of the Entry Building and provide additional space, key considerations should be evaluated. Core to each of the scenarios described below is the current land use code within Seattle shoreline regulations (23.60A – section 442) related to water-dependent use. "Water-dependent use" is defined as a use that cannot exist in other than a waterfront location and is dependent on the water by reason of the intrinsic nature of its operations. Depending on the intended use of spaces within the Entry Building, a variance may be required.

#### Scenario 1 – Increasing the height of the Entry Building

- The current design maximizes the height allowable under current land use code (Seattle shoreline regulations 23.60A – section 446); consultation with the City of Seattle would be required;
- Additional stories would increase the loads transferred to the pier foundation, which would require extensive redesign of the trestle and other structures, revisions to permits, and a change order to the GC/CM contract; and
- The current NEPA documentation did not contemplate this scenario and would need to be re-opened and updated; additionally, permits and tribal agreements would need to be re-opened.

#### Scenario 2 – Increasing the depth of the Entry Building

- The current design proposes a narrow building in order to provide terminal operation functions while maintaining the current vehicle holding capacity and traffic lanes;
- Increasing the depth of the building would result in a larger overall Project footprint and additional overwater coverage;
- Adding depth would also increase the overall building size and seismic loading; this would require analysis of the trestle and redesign of the foundation system, revisions to permits, and a change order to the GC/CM contract; and
- These changes would require re-opening the NEPA documentation, permits, and tribal agreements.

#### Scenario 3 – Extending the Entry Building to the south

- Extending the building to the south would extend its footprint beyond the Project area, over an area of concrete trestle built in the 1990s under a different building code; extending the Entry Building would require design and construction of a new foundation in this area; and
- This change would require re-opening the NEPA documentation, permits, and tribal agreements.

In this scenario, design and construction could be delivered separately from the ongoing Project, assuming corresponding NEPA requirements are satisfied and new permits and tribal agreements could be secured.

From a commercial perspective, a key consideration is the degree of flexibility in the contract with Hoffman-Pacific regarding the addition of the Entry Building scope. The RFP issued by WSF to select a GC/CM contemplated the full scope of the Project, including the Entry Building. Hoffman-Pacific won the competitive process based on this premise.

Prior to awarding the contract to Hoffman-Pacific, however, it became apparent to WSF that the Entry Building funding gap would not be resolved in time. Consequently, WSF decided to remove the Entry Building (and other unrelated packages) prior to signing the final GC/CM contract.

## **4.2 Entry Building - Potential Project Delivery Methods**

Based on the key considerations described above, an examination of whole life and construction term project delivery methods (including the current delivery method) for the Entry Building were explored.

### **4.2.1 Whole Life Methods**

#### **4.2.1.1 Design-Build-Finance-Maintain**

A Design-Build-Finance-Maintain (DBFM) delivery method would involve a long-term PBI contract that includes a fixed-price, fixed-schedule commitment with a consortium that would be responsible for designing, building, maintaining, and partially financing the Entry Building according to a set of performance specifications. It is a model that has been widely used across the world and is typically used for projects with a capital value of \$100 million or greater.

While the Entry Building would benefit from innovations inherent to the PBI method, its \$33 million estimated cost is well below \$100 million; DBFM is therefore not recommended for the Entry Building.

### **4.2.2 Construction Term Methods**

#### **4.2.2.1 General Contractor / Construction Manager**

Under the GC/CM project delivery method, WSF hired Hoffman-Pacific to act as the general contractor and construction manager for the Project. Hoffman-Pacific is responsible for carrying out a portion of the work, tendering sub-contract opportunities to the market and managing those sub-contractors in an integrated fashion to deliver the Project.

WSF has transferred a discrete amount of construction cost and schedule risk to the GC/CM. WSF retains associated design and constructability risk and will be liable for claims if there is a design error or

omission or if the design is not constructible as detailed in the tender package. WSF also retains the price risk on the sequential tender packages managed by the GC/CM.

Clause 104 of the GC/CM contract grants WSF the ability to issue changes of up to 15% of the contract's value without the renegotiation or modification of any associated administrative or management fees. Defined as a non-Cardinal<sup>1</sup> change, WSF is within its contractual rights to modify the contract within the parameters described under clause 104.

#### **4.2.2.2 Design-Build and Design-Build-Finance**

A Design-Build (DB) delivery would involve a fixed-price, fixed-schedule contract with a Design-Builder that would be responsible for designing and building the Entry Building according to a set of performance specifications. The Design-Builder would be paid by WSF through construction progress payments, and WSF would transfer the majority of the design and construction risks to the private sector. Further, there is the possibility of an extended warranty provision backed by performance security that would transfer warranty risk to the Design-Builder for several years after construction completion. Industry has extensive experience delivering projects under the DB delivery approach.<sup>2</sup>

A Design-Build-Finance (DBF) delivery is a variant to the DB option with the added responsibility for the private sector to invest a certain level of financing into the project as a form of additional performance security. WSF would pay back the private financing upon completion of significant project milestones or upon substantial completion of the Entry Building.

Both a DB and DBF require the private sector to develop a design solution that meets WSF's performance requirements. WSF has already developed a complete Entry Building design solution that integrates with the other elements of the Project. Although other design solutions may be possible, WSF would need to analyze and convert the existing design into a performance-based statement of requirements. There is sufficient time in the schedule to allow for this work, but it would require the expertise of a coordinated technical specifications drafting team. Further, as discussed in detail in section 4.1, WSF has indicated that there is not a great deal of opportunity for design innovation for the Entry Building given the precise building footprint requirements due to the site constraints and the building's relatively simple functions.

#### **4.2.2.3 Build-Finance**

Under a Build-Finance (BF) delivery, a builder would be contracted at a fixed price and fixed schedule to construct the Entry Building based on WSF's existing design while also financing the construction costs until completion. This option allows WSF to transfer the construction cost and schedule risk to the

---

<sup>1</sup> A Cardinal change is defined as one which cannot be redressed within the contract by an equitable adjustment to the contract price.

<sup>2</sup> Partnerships BC conducted a screen to determine whether the project has characteristics which indicate that DB could be an appropriate delivery option. A copy of the screen is attached as Appendix 1 to this report.

private sector anchored by private financing that serves as performance security. WSF would retain significant design risk, meaning if there are issues with the design (e.g. an error or omission, constructability), the builder would be eligible to submit a claim for cost and schedule relief.

The BF option has been successfully utilized on a large number of complex projects in Ontario, Canada. It is a viable option that would allow WSF to transfer a greater amount of risk to the private sector than the GC/CM project delivery method being used.

### 4.3 Delivery Options Multiple Criteria Analysis

The preceding section described three viable delivery options for the Entry Building:

- Option 1: GC/CM
- Option 2: DB / DBF
- Option 3: BF

These options can be compared against one another using a multiple criteria analysis (MCA). An MCA process provides a framework for evaluating qualitative factors and presents an assessment of each option in a form that can be easily interpreted and integrated by decision-makers.

The assessment framework of the qualitative criteria requires judgments to be made on the magnitude of the relative benefits, or impacts, of each option for a particular criterion. In order to discuss criteria and judge their values on a consistent basis, the assessment framework shown in Table 2 has been used to assess how well each option achieves the stated criteria.

**Table 2: MCA Assessment Framework**

✓	✓✓	✓✓✓	✓✓✓✓
Model fails to meet basic requirements of WSF	Minimally meets requirements of WSF	Adequately meets the requirements of WSF	Provides a highly efficient and effective delivery solution for WSF

The Project Team identified three criteria to be used in the delivery options assessment as described in Table 3.

**Table 3: Delivery Options Criteria Descriptions**

Criteria	Description
Work under the Existing Project Constraints	The ability to deal with the existing Project constraints which include: 1) A signed GC/CM contract with Hoffman-Pacific with construction of the Project currently underway; 2) A fully developed design along with the associated building and environmental permits; and 3) Stakeholder buy-in to the existing approach.
Interface Risk	The ability to deal with potential interface risk between Hoffman-Pacific and any new contractor on-site.
Cost and Schedule Certainty	The ability to obtain a high level of cost and schedule certainty and minimize change order risk during construction.

The results of the delivery options MCA are summarized and described in Tables 4 and 5.

**Table 4: Summary of Delivery Options MCA Results**

	Option 1 – GC/CM	Option 2 – DB / DBF	Option 3 – BF
Existing Project Constraints	✓✓✓✓	✓✓	✓✓✓
Interface Risk	✓✓✓✓	✓✓	✓✓
Cost and Schedule Certainty	✓✓	✓✓✓	✓✓✓

**Table 5: Delivery Options MCA Results**

	<b>Option 1 – GC/CM</b>	<b>Option 2 – DB / DBF</b>	<b>Option 3 – BF</b>
Existing Project Constraints	<p>✓✓✓✓</p> <p>WSF would issue a change order to Hoffman-Pacific to include the Entry Building scope. As described previously, the Entry Building was included in the original scope bid by Hoffman-Pacific in the RFP, which it competitively won.</p> <p>Hoffman-Pacific is already on-site and is intimately familiar with the Project and its existing design and permit requirements.</p> <p>The status quo would satisfy the Project’s numerous stakeholders.</p>	<p>✓✓</p> <p>WSF would be required to convert the existing design into a statement of requirements (performance specifications) and run another competitive selection process with its associated costs.</p> <p>The site constraints and the Entry Building’s relatively simple functions limit the opportunity for design and construction innovation. This would hamper the Design-Builder’s ability to develop a more effective approach.</p> <p>If the Design-Builder proposes a different design solution, it would likely require changes to the existing permits and additional discussions with the Project’s stakeholders. Both of these items would increase the delivery risk.</p>	<p>✓✓✓</p> <p>WSF would be required to run another competitive selection process with its associated costs.</p> <p>The site constraints and the Entry Building’s relatively simple functions limit the opportunity for construction innovation. This would hamper the builder’s ability to develop a more effective approach.</p>

	Option 1 – GC/CM	Option 2 – DB / DBF	Option 3 – BF
Interface Risk	<p>✓✓✓✓</p> <p>This would not be an issue as Hoffman-Pacific would be responsible for delivering the Entry Building scope.</p>	<p>✓✓</p> <p>WSF would need to develop an interface agreement between Hoffman-Pacific and the successful Design-Builder. Hoffman-Pacific would seek additional fees for managing this interface on site.</p> <p>This approach also increases the likelihood of claims from either party if construction does not progress exactly as planned.</p>	<p>✓✓</p> <p>WSF would need to develop an interface agreement between Hoffman-Pacific and the successful builder. Hoffman-Pacific would seek additional fees for managing this interface on site.</p> <p>This approach also increases the likelihood of claims from either party if construction does not progress exactly as planned.</p>
Cost and Schedule Certainty	<p>✓✓</p> <p>The option requires sequential tendering of numerous packages over the term of the Project. The cost of the Entry Building will not be confirmed until late in the Project.</p> <p>The lack of fixed pricing at the outset along with changing market conditions and unanticipated changes can expose the Project to cost increases if not managed carefully.</p> <p>WSF also retains significant schedule risk as change or design-related issues can create opportunities for Hoffman-Pacific to extend the schedule and make delay claims.</p>	<p>✓✓</p> <p>The competitive selection process would result in a fixed-price, fixed-schedule agreement with a Design-Builder. However, before reaching that level of certainty, there are three key risk factors that may have cost or schedule implications:</p> <ol style="list-style-type: none"> <li>1) The existing permits may need to be amended.</li> <li>2) New stakeholder issues may arise.</li> <li>3) The interface risk with Hoffman-Pacific may lead to claims.</li> </ol>	<p>✓✓</p> <p>The competitive selection process would result in a fixed-price, fixed-schedule agreement with a builder. However, before reaching that level of certainty, there are three key risk factors that may have cost or schedule implications:</p> <ol style="list-style-type: none"> <li>1) New stakeholder issues may arise.</li> <li>2) The interface risk with Hoffman-Pacific may lead to claims.</li> <li>3) WSF retains a certain amount of design risk, which may provide an opportunity for the builder to seek relief if design-related challenges are experienced during construction.</li> </ol>

While there may be opportunity to derive value from other alternative forms of delivery such as improved schedule and budget certainty, the current circumstances of the Entry Building (progress of the Project to-date, provisions within the current GC/CM contract, and the complexities associated with prevailing stakeholder consultation and project permitting) dictate that the current GC/CM option remains the preferred method for the Entry Building.

## **5. ALTERNATIVE FUNDING OPTIONS**

As discussed in preceding sections, the \$33 million funding shortfall will not be resolved through project financing. While WSDOT will need to seek additional Project funding from the Legislature, there is no certainty that the additional funding will be approved. A brief exploration of 63-20 financing, Entry Building rental income financing options and land leveraging was conducted and is described below. Other potential sources of federal funding or other grant program options are outside the scope of this report.

### **5.1 63-20 Financing**

Under a 63-20 financing model, a not-for-profit corporation would enter into a contract with a developer to proceed with the Entry Building. The not-for-profit corporation would issue 63-20 debt on behalf of the State of Washington to help finance the capital costs not funded by the developer. The not-for-profit corporation would be responsible for paying back the 63-20 debt during the Project's operating period. Meanwhile, WSF would be responsible for making a lease payment to the not-for-profit corporation.

According to various legal opinions, the debt issued via a 63-20 structure is subject to the State of Washington's debt limitations and would be considered on-book financing. The funding for the Project has already been established with no additional debt room available. As a result, the 63-20 financing model is not a viable option to help resolve the Project's funding gap.

### **5.2 Entry Building Revenue Generation versus Debt Service Requirements**

The current design of the Entry Building contemplates a small amount of retail space. With that assumption in mind, a brief analysis was developed to determine whether the Entry Building could generate sufficient rental revenue income to cover the debt servicing costs associated with a loan to finance the Entry Building's capital costs. The analysis demonstrates that without extensive reconsideration of the current design, the Entry Building could not self-sustain its funding needs and clearly requires supplementary funding from other sources.

Table 6 outlines the assumptions used in the analysis.

**Table 6: Entry Building Revenue and Debt Service Requirement Assumptions**

Category	Assumption	Notes
Total Capital Costs Financed	\$35,000,000	All-in cost including construction and financing fees.
Annual Interest Rate	3.5%	August 2017 30-year Treasury yield (2.8%) plus spread of 0.7% to account for Washington State's cost of borrowing above the federal rate.
Loan Period	29.5 years	Typical debt period for a 30-year operating period as often assumed in DBFM building projects.
Number of monthly payments	354	
Annual loan payment	\$1,904,099	
Assumed Rentable Space (sq. ft.)	4,040	Based on the Facility Space Requirements outlined in the Pre-Design Study – version 6 February 1, 2017. 80% commercial occupancy assumed.
Assumed Annual Rental Rates (\$ / sq. ft / yr)	\$30 - 43	CBRE Marketview Puget Sound: Office Q2 2017 and Retail H2 2016 Data Reports: Downtown Seattle area rent ranges (Triple Net). No growth in rental rates over time.

The annual rental revenue ranged from approximately \$121,000 to \$174,000 depending on the rental rate, resulting in an annual shortfall of \$1.7 – \$1.8 million. This equates to a total shortfall over the life of the loan of approximately \$51 - \$53 million. The Entry Building would need to have approximately 63,500 rentable square feet to break even at the lowest assumed rental rate of \$30 / sq. ft. Even if a certain revenue growth rate was incorporated into the analysis, it is apparent that significantly more rental space would be required to cover the shortfall.

The analysis clearly demonstrates that the Entry Building, as currently designed, is unable to generate sufficient revenue to cover its potential debt servicing costs, even in a high rent scenario.

### 5.3 Land Leveraging

WSDOT has a number of surplus land assets in its portfolio of real estate holdings. These land assets might be used in a variety of ways to attract private co-investment.<sup>3</sup> It may be that public land can be used as:

<sup>3</sup> Source: *Urban Land Institute*

- A means to plan and develop new functions and districts and to establish longer term and higher value goals for certain land parcels;
- A means to lower costs and boost returns to private co-investors in land, or projects, which are otherwise un-economic;
- An equity contribution to a longer term joint venture with a private partner;
- Part of a land swap arrangement that helps to assemble one or more parcels of land for development; and
- A means to resource and deliver social and environmental infrastructure within a larger development which is commercially driven.

Land leveraging usually considers the sale of the asset or a prepaid lease with a developer (e.g. 99-year lease term). In order to maximize the land value in both scenarios, a land value assessment is conducted with the intent to analyze the highest and best use of the parcel (e.g. intended use, zoning scenarios).

A successful and recent example of land leveraging by a municipal government is the New Long Beach Civic Center in California. The New Long Beach Civic Center Project took an innovative procurement approach combining civic infrastructure needs with a real estate redevelopment opportunity. The City of Long Beach (the City) required a new City Hall, library, park, parking facilities, and office space for their Port Authority. The City sought a developer to design, build, finance, operate, and maintain this new civic center. In order to incent developers, the City offered two parcels of land: the existing City Hall, as well as approximately eight additional acres of developable land. The City maximized the allowable zoning density of this land in their Official Community Plan to create additional value.

The City established a competition with an annual \$12 million affordability ceiling as the maximum they were able to spend on the project. The ceiling corresponded to the City's current annual expenditures running the existing City Hall, and proponents were incented to deliver the public infrastructure within the affordability ceiling. The successful proponent would also be responsible for assuming the risk and potential benefit of redeveloping the excess land after meeting all of the civic infrastructure needs.

The results of the procurement process were a great success to the City. The City will receive new facilities at the annual cost of the current facility over the next 40 years. In return, the developer will develop complementary commercial, hotel, and residential space. The construction of the project is expected to be complete in mid-2019.

## 6. REPORT FINDINGS AND NEXT STEPS

### 6.1 Findings

The preceding analysis indicates:

- Once sufficient project funding is identified, continued reliance upon the prevailing GC/CM contracting methodology is the preferred method to complete the Entry Building; and
- Land leveraging of WSDOT's current surplus land assets may be a viable option that could be investigated in order to solve the funding gap and potentially achieve the additional improvements identified by the Legislature in ESB 5096 Sec. 214(4).

### 6.2 Next Steps

Based upon the content of the preceding analysis, the following next steps are recommended:

- Assess WSDOT's long-term, strategic land holdings to determine sites with the highest potential redevelopment value;
- Once these sites have been selected, perform a land value assessment to determine whether sufficient money could be raised through a land leveraging arrangement to cover the Entry Building funding gap;
- Engage with legal counsel to assess any potential legal considerations that need to be taken into account when developing a strategic approach;
- Engage with the market to determine whether there is appetite for an innovative arrangement which could see a private developer assume certain risk transfer on the Entry Building development, in conjunction with a separate development opportunity on one of the sites to be identified;
- Develop comprehensive site condition assessments (both geotechnical and environmental) for the to-be-identified sites;
- Develop a broad internal, and external, stakeholder engagement strategy to determine support and potential roadblocks in the development of these sites;
- Develop a comprehensive site competitive selection strategy that balances returns to WSDOT while also providing mechanisms for assurance in the long-term performance and recapitalization of the Project;

- Depending on the value of WSDOT's potential land leveraging sites to raise additional funding for the Colman Dock Project, if enough funding exists and it is determined feasible to do so, consider the possibility of funding some of the additional improvements identified by the Legislature in ESB 5096 Sec. 214(4).
- Develop conceptual designs and preliminary budgets for these additional improvements to better inform the Project Team as to the magnitude of the proposed changes.
- Once the additional funding has been secured through either land leveraging or another funding source, negotiate as soon as possible with the existing GC/CM Hoffman-Pacific to understand how these new scope elements can be incorporated into their work plan and schedule.
- Develop a strategic project plan that considers the preceding items relative to overall Project schedule demands including budget and resource requirements; and
- Engage with the market again prior to procurement to confirm interest and potential competitive process configurations.

## APPENDIX 1 – DESIGN-BUILD SCREEN

Criteria	Foundation	Assessment	Points	Rationale
<b>1. Timeline:</b>		<b>Points: 3</b>		
Is there a benefit to a shorter overall implementation and/or is there a critical target completion date?	The overall timeline for a DB through to completion can be shorter than traditional methods providing that project planning is not significantly advanced under a different method (such as detail design for a DBB) so it essentially has a “running start”.	Benefit to Saving	Points	Project planning has been significantly advanced under the current GC/CM option. Detailed 90% design drawings have already been developed and costed. The Entry Building scope was included in the GC/CM RFP in 2015. The fixed fee bid by the GC/CM contractor for the broader Project was based on the defined scope, including this building.  The schedule outlined in the NEPA document requires the facility, including the Entry Building, to be fully operational within the Project schedule.
		0 – 1 months 2 – 3 months > 3 months OR Schedule Certainty for a critical date	1 3 5	
<b>2. Construction Cost:</b>		<b>Points: 1</b>		
What are the estimated construction costs in current dollars?  This would be the cost to a proponent to build the project including hard and soft costs. As such it would exclude: <ul style="list-style-type: none"> <li>▪ land cost; and</li> <li>▪ owner’s project costs.</li> </ul>	The cost to construct a project is an important element in determining the likelihood of realizing the cost benefits of DB procurement that can: <ul style="list-style-type: none"> <li>▪ offset potential additional resource requirements for the procurement process; and</li> <li>▪ improve the overall net value of the project;</li> </ul>	\$ Millions	Points	The construction contract is approximately \$28 million (nominal dollars).
		< 20 20 - 30 30 - 40 40 +	0 1 3 5	

Criteria	Foundation	Assessment	Points	Rationale
	Smaller projects may also be viable as a DB if there are precedent projects and/or past transactions can be replicated cost-effectively using existing requirements, contracts and procurement documentation.			
<b>3. Statement of Requirements / Performance Requirements:</b>			<b>Points: 5</b>	
To what extent can the required program be specified in detail?	<p>SOR/performance requirements necessary to achieve the end result, or goal of the project, must be sufficiently well-defined so they can form the basis of performance contracts.</p> <p>While the SOR needs to be well-defined so the intended outcome can be achieved, it is generally important not to be unnecessarily prescriptive to retain the potential for design and construction innovation. A project with unique program or site requirements and owner standardization of building requirements across a portfolio may drive more prescription.</p>	<p><b>Not at all</b>                      <b>Completely</b></p> <p>0    1    2    3    4    5</p>		The Entry Building’s requirements can completely be specified in detail.

Criteria	Foundation	Assessment	Points	Rationale
<b>4. Complexity:</b>		<b>Points: 2</b>		
How complex is the project?	<p>The complexity of project elements is also important in determining potential suitability as a DB, including:</p> <ul style="list-style-type: none"> <li>• design and engineering;</li> <li>• construction (materials, techniques, logistics);</li> <li>• phasing (coordination in multi-building or multi-phased projects); and</li> <li>• schedule (a tight completion date adds schedule complexity)</li> </ul> <p>Complexity in these areas can provide the opportunity to:</p> <ul style="list-style-type: none"> <li>• transfer the associated risk to parties with the necessary size, skills and experience to manage them more cost effectively;</li> <li>• find innovative approaches to address the associated risks where there is sufficient incentive</li> </ul>	<p><b>Not Very Complex</b></p> <p>0   1   2   3</p>	<p><b>Very Complex</b></p> <p>4   5</p>	<p>The Entry Building itself is not particularly complex. There is a limited amount of flexibility given the tight site constraints. Further, the surrounding broader Project elements add an element of complexity, along with the need to ensure that ferry operations are not interrupted.</p>

Criteria	Foundation	Assessment	Points	Rationale
	and flexibility in a DB contract to encourage innovation; and <ul style="list-style-type: none"> <li>benefit from the potential for the integration of design and construction elements in order to address unique and challenging circumstances.</li> </ul>			
<b>5. Renovation:</b>		<b>Points: 5</b>		
What percentage of the construction cost involves renovation?	Generally projects involving renovation or rehabilitation of existing facilities have the potential to carry a high degree of latent risk with respect to design and construction. As a result, projects where renovation would be included in the project scope would be expected to: <ul style="list-style-type: none"> <li>require owner due diligence to establish existing conditions and baselines if required;</li> <li>require attention to detail in establishing municipal code and variances to guide development of requirements; and</li> </ul>	% Reno	Points	The Entry Building is entirely new construction.
		> 50%	0	
		40-50	1	
		30-40	2	
		20-30	3	
		10-20	4	
< 10%	5			

Criteria	Foundation	Assessment	Points	Rationale
	<ul style="list-style-type: none"> <li>require contract provisions to transfer risk efficiently.</li> </ul> <p>Projects with new construction coupled with renovation could benefit from DB procurement.</p> <p>The extent of integration with existing facilities may impose design limitations that may predetermine the solution thus leaving advantages mainly in the areas of logistics and constructability.</p> <p>Consider the extent to which the renovation component can be adequately documented (conditions and requirements) to transfer risk and obtain competitive pricing</p>			
<b>6. Stakeholder Readiness:</b>			<b>Points: 4</b>	
To what extent are key stakeholders (i.e. owner and market) able to undertake a DB project, or are resources available to ensure a successful project?	A successful DB project requires an owner and/or advisors that are skilled in preparing requirements and managing procurement and implementation. Some owners are experienced and adequately resourced	<p><b>Not at all</b></p> <p>0    1    2    3    4    5</p> <p><b>Completely</b></p>		<p>WSDOT as a broad organization has experience undertaking significant and complex DB projects, including the Tacoma Narrows Bridge and the recent and ongoing SR99 tunnel project.</p> <p>The construction market is also familiar with the DB procurement model.</p>

Criteria	Foundation	Assessment	Points	Rationale
	<p>whereas others require additional advisory support to augment the project team.</p> <p>Also, the market must be broad enough and/or the project interesting enough to attract skilled market participants that are prepared to compete.</p>			
<b>Total Score:</b>				<b>20/30</b>

## APPENDIX 2 – STAKEHOLDER NOTIFICATION



### Seattle Multimodal Terminal at Colman Dock Project

#### Public-private financing and funding options analysis Briefings to stakeholders

Updated: Dec. 20, 2017

#### Background

During the 2017 legislative session, WSDOT's Office of Innovative Partnerships was directed to complete a study of public-private partnership alternatives for financing construction of the entry building proposed as part of the Colman Dock Project. The proviso language noted that "*As part of the study, the public-private partnerships program must work with the city of Seattle, Native American tribes, and local community groups to evaluate the efficacy of contracting with a private entity to participate in the construction of the Colman Dock entry building.*" Washington State Ferries reached out to several groups to provide an update on the draft study, including sharing key findings, in December 2017.

#### Stakeholder briefings

##### *City of Seattle*

- Agency executive meeting on Dec. 7, 2017
  - Executive representatives from WSDOT, City of Seattle, King County and Port of Seattle
- Agency coordination meeting on Dec. 14, 2017
  - Representatives from WSDOT and City of Seattle – both the Office of the Waterfront and Seattle Department of Transportation

##### *Native American tribes*

- Letter summarizing key findings sent to Chairman Forsman (Suquamish Tribe) and Chairwoman Cross (Muckleshoot Tribe) on Dec. 12, 2017
- Email including draft report document for tribal review sent Dec. 20, 2017; requested response by Dec. 31, 2017

##### *Community groups*

- Alaskan Way Viaduct Replacement Program stakeholder meeting on Dec. 12, 2017
  - Stakeholders representing businesses, community groups, freight and labor organizations along the SR 99 tunnel alignment; full stakeholder list available at [www.wsdot.wa.gov/projects/viaduct/Library/Meetings/WorkingGroups](http://www.wsdot.wa.gov/projects/viaduct/Library/Meetings/WorkingGroups)
  - Attendees included representatives from West Seattle neighborhoods, the Seattle Mariners, the Seattle Freight Advisory Board, and South Lake Union/Uptown/Belltown neighborhoods; no questions received from stakeholders
  - WSF recommends follow-up with the Alliance for Pioneer Square as they were not in attendance, but are a member, of the stakeholder group

- Waterfront Business Association meeting
  - Stakeholders representing businesses on the Seattle waterfront
  - November and December briefings canceled; next briefing anticipated January 2018 and WSF plans to share an update on the draft study