

## NORTHEAST PUBLIC DEVELOPMENT AUTHORITY

### - 3011 Wellesley Mixed Use Development Project DB Project

1. The application shows that Turner & Townsend Heery will be the direct supervisor of the Design Build team, as well as tracking the project finances. Are these costs for these services captured somewhere in the budget?

Yes, the costs for Turner & Townsend Heery are covered within the updated \$12.5M Total Project Budget (see question 5 below for our revised budget). They are committed on this project through closeout.

2. Why are professional services shown in the items "Costs for Professional Services (A/E, Legal, etc.)" and "Other related project costs" instead of including them in the single item "Costs for Professional Services (A/E, Legal, etc.)"?

Our intent was to try and break out the budget as identified specifically within the PRC application. The \$780K costs shown are specifically for design and legal fees as identified in the PRC. We understand that under progressive design-build, the "design fees" are part of the GMP, and thus considered part of construction, so sales tax is calculated upon the full GMP amount, however, the specific requested breakout within the PRC application wants design fees shown separate, even though it's part of the GMP.

By breaking out other project soft costs separately, we are trying to be transparent in showing how the budget is broken out based on the PRC's requested format. We have a full project budget with nearly 40 Work Breakdown Structure (WBS) codes, and we have condensed it in the format requested by the PRC.

3. Are the dates associated with the "Design-Builder Procurement" task listed as tentative because of uncertainty in obtaining PRC approval or apprehension in Design-Builder interest for a scope work that may be very limited (no construction phase work) due to the funding challenges?

The dates are provided as "tentative" for two reasons:

- a. Some of these events are imperative for our entire PDB Selection Committee to be in attendance, and sometimes getting schedules to line up can be a challenge. Some of the dates may need to adjust slightly in order to accommodate the entire Selection Committee's participation.
- b. As the Owner, we always reserve the right to adjust the schedule based on circumstances that may arise. Tentative dates allow interested Teams to plan the pursuit accordingly, with the understanding that some of the exact dates may slightly change.
- c. We have been marketing this project to the local PDB community. There is a tremendous amount of excitement surrounding this project. We have been, and will continue to be, extremely transparent with the funding status as we continue to progress this project. We believe there will be strong interest in this project.

4. Could you please clarify the total budget for the project? Based on the application, it appears that you currently have \$1,000,000 allocated to assemble a team to better define the overall project, which you estimate to be \$10,000,000. Additionally, it seems that the total project budget of \$10,000,000 is intended for the administration, design, and construction of a 25,000 sq ft building. If this interpretation is correct, please ensure it is explicitly stated in your presentation to avoid any confusion.

Correct. We currently have \$1M in pocket to get this project kicked off. Through our various means of funding, we will be able to obtain \$12.5M total for this project (hard and soft costs for the facility).

5. Please provide a detailed justification for the \$400/sq ft cost, demonstrating the feasibility of the total project budget. Lastly, elaborate on the plan to secure the remaining \$9,000,000 in funding.

Since submitting our PRC Application, we have done additional research into the cost per foot of a wood framed type of construction with Prevailing Wage. We contacted a local contractor who builds similar units in the area paying both Prevailing Wage and Davis Bacon. Based on our proposed scope, this contractor

**CAPITAL PROJECTS ADVISORY REVIEW BOARD**

**PROJECT REVIEW COMMITTEE**

**QUESTIONS RE: PROJECT APPLICATION**

Meeting Date: July 25,2024

believes that \$380 per sq. ft. for construction should be adequate for this type of project based on current market conditions. Additionally, approximately 1/3 of this current buildout will be core and shell only (the core and shell spaces will be future tenant improvement space). This cost savings has been factored into the \$380 per sq. ft. cost. After accounting for anticipated soft costs, this increases our total project budget to \$12.5M. Our updated budget breakdown (utilizing the requested format from the PRC is as follows:

Cost for A/E, Legal	\$780,000
Estimated construction costs (including GMP contingency)	\$9,500,000
Equipment and Furnishings (includes tax)	\$200,000
Off-Site costs	included above
Contract administration costs (CM and PDB Advisor)	\$207,000
Contingencies (design & owner)	\$648,000
Other related project costs*	\$250,000
Sales tax	\$915,000
Total	\$12,500,000

\*other related project costs include permit fees, commissioning, special inspections, NREC inspections, survey, etc.

As part of the Validation period with the progressive design-builder, they will be required to validate a realistic scope based on our \$10.26M GMP budget. As part of the Validation process, the design-builder will also be tasked with providing an “Owner Betterment Log” that will enable NEPDA to buy back scope as risk reduces. Based on the various funding mechanisms available to us, we need to be flexible in our budget and scope strategy, and a highly qualified and experienced PDB team will help us explore all options, and develop a strategy to add scope when additional funding becomes available.

As stated in the project’s PRC application, this project will be funded in a way that is more like a private-sector development project. On the private side, projects are almost never fully-funded at the time of design team (or Design-Build team) procurement. The reason for this is that funding institutions and investors alike need to fully understand what they are investing in, so that the risks associated with the project can be appropriately underwritten. This requires a certain degree of design and budget development. As a result, developers typically self-fund projects until sufficient detail is created, and then they use those materials to raise the construction capital while the design process is completed and permits obtained.

While PDAs are public agencies per RCW 35.21.730-.759, by statute they are intended to operate in a manner that is more akin to a private-sector company than a library or school district. As a result, in order to engage in a project of this type – and absent the levy power of other public agencies – the NEPDA must resort to typically private-sector fundraising strategies, as described above.

The primary tool that PDAs have that the private-sector doesn’t, is the ability to issue tax-exempt bonds. These are attractive financing tools as they typically provide considerably below-market financing without much of the uncertainty of traditional construction debt. As a result, the NEPDA plans to employ this tool to fund the majority of this project, though there is reasonable expectation of substantial 2025 state legislative funding, which will obviously impact the size of any potential bond issuance.

The capital raise plan for this project is as follows:

- The NEPDA has engaged the Spokane office of national public-finance experts Kutak Rock to begin development of a tax-exempt bond placement strategy. It is Kutak’s belief that, given the size of this capital request and the public mission of the project – as well as the positive publicity it has already generated – numerous local banks/credit unions will have interest in taking down the entire issuance without needing to go out to the larger bond market. This financing path can provide all of the required \$11.5 million. Once the design has progressed to provide sufficient solicitation

**CAPITAL PROJECTS ADVISORY REVIEW BOARD**

**PROJECT REVIEW COMMITTEE**

**QUESTIONS RE: PROJECT APPLICATION**

Meeting Date: July 25,2024

materials – primarily a refined program, budget, and renderings – letters of intent can be negotiated with shortlisted institutions.

- In parallel, Spokane’s state legislative delegation has shown substantive interest in supporting the childcare component of the project and has encouraged the NEPDA to submit a Local Community Project (LCP) request in the 2025 legislative session. There is a great deal of alignment between the project’s aspirations and the priorities of the state legislature around affordable access to childcare in under-served areas, so there is a realistic expectation that capital funding will be awarded. The NEPDA Director is working to ensure all relevant decision makers are up to speed with the project’s evolution and that a formal 2025 LCP request will be forthcoming. The request is expected to be for \$3.5 million. Once there is certainty around possible LCP funding awards, the final bond total can be defined and issuance documents prepared.

Hopefully this makes clear that there is not a financing challenge for this project, per se, but a timing challenge. None of what is described above can be finalized without at least a completed Schematic Design phase, so in order to complete that phase – and take advantage of all the efficiencies and cost certainty tied to PDB – we need to procure that team prior to full financing commitments being in place.

If there are any inaccuracies, please provide further clarification in the presentation.