



North Carolina Department of Administration

Michael F. Easley, Governor

August 31, 2006

Britt Cobb, Secretary

Honorable Marc Basnight
President Pro Tempore
North Carolina Senate
2007 Legislative Building
Raleigh, NC 27601

Honorable James B. Black
Speaker
North Carolina House of Representatives
2304 Legislative Building
Raleigh, NC 27601

Re: Green Square Project Report
New Parking Deck Report

Gentlemen:

In compliance with Session Law 2006-221, a report on the Green Square Project is forwarded to the Joint Legislative Commission on Governmental Operations for consideration. Also, forwarded in compliance with Session Law 2006-231, is a report on the proposed new parking deck in downtown Raleigh authorized by the General Assembly.

If you have questions or need further information, please let me know.

Yours very truly,

Britt Cobb

Enclosures

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REPORT TO
JOINT LEGISLATIVE COMMISSION OF GOVERNMENTAL OPERATIONS
GREEN SQUARE PROJECT

August 31, 2006

Session Law 2006-221 (Senate Bill 198) ratified August 10, 2006, amends S.L. 2006-66 (Senate Bill 1741) by adding a new Section 6.18 which states:

“S.L. 2005-255 required the State of North Carolina to convey the property described by that section and to implement the Green Square Project in accordance with the provision of that act. The Department of Administration shall report to the Joint Legislative Commission on Governmental Operations no later than September 1, 2006, on (i) why the property has not yet been transferred, (ii) why that act has not yet been implemented, and (iii) what the transfer and implementation timetable is.”

This report is submitted in accordance with the directive of the legislation.

Background

The proposed Green Square Project is located within the city block bounded by McDowell, Salisbury, Edenton and Jones Streets in the City of Raleigh. The proposed project consists of an expansion of the NC Museum of Natural Sciences, known as the Nature Research Center (NCR), a new, larger State Employees' Credit Union and a new office building for approximately 615 DENR employees. In addition, 550 underground parking spaces are proposed for this location.

The Green Square Project came to the General Assembly's attention, in part, because the Museum of Natural Sciences would like to expand its downtown presence as would the State Employees' Credit Union and because in three years, DENR's leased space at the Parker Lincoln Building will expire. The Green Square Project most recent proposal would provide the following square footage for each entity: State Employees' Credit Union - 80,000 s.f.; Nature Research Center - 79,400 s.f.; and the Department of Environment and Natural Resources - 172,000 s.f.

There are three buildings on the proposed Green Square site that would be affected by the proposed project. These buildings are currently occupied. The Thompson Building houses DOT Traffic Engineering. The Geodetic Survey and the Clemency Board are located in the Elks Building. The Education Annex is adjacent to the Old Education Building. This one-story building is used by the Department of Justice for storage and serves as the loading dock for the Old Education Building. The State Property Office has already undertaken the steps to relocate Traffic Engineering into leased space. The occupants of the Elks Building are also scheduled to be relocated. There are currently no plans to deal with the Old Education Building Annex until further

details of the proposed Green Square Project are known. As noted above, there have been considerable efforts undertaken in preparation of the property conveyance outlined in the Green Square Project legislation.

Analysis and Findings

Section 2 paragraph (11) of Session Law 2005-255 Senate Bill 692 states: "...Such agreement shall be entered into on behalf of the State by the Secretary of Administration, subject to the approval of the State Treasurer and the State Budget Officer."

Further analysis and study, the property transfer described in S.L. 2005-255 indicated that it is not the simple conveyance contemplated by the General Assembly; but, in fact, is a complicated property development plan. As such, until the elements and details of this plan were analyzed and understood, the full financial impacts of the project to the State were not known. It was concluded that the property development and financial arrangements contained in the legislation needed to be re-evaluated for the reasons stated below:

The Green Square Project was presented to the Governor and the General Assembly as a cost neutral project. The analysis by the Office of State Budget and Management indicate it is not cost neutral. The State's part of the project to be financed is projected to be over \$108 million. If the financing schedule offered by the State Employees' Credit Union were to be implemented, the final cost to the state would potentially exceed \$259 million. The financing is based on a 30-year amortization with a balloon (purchase) at 20 years. After 20 years of leased payments, the State would still owe over \$61 million on the project.

The financial analysis conducted by the Office of State Budget and Management has indicated that the proposed revenue sources are insufficient to pay for the project. There are constraints that will have a significant impact on funding for the project. Federal regulations will not allow federal funds to be used to directly finance the construction of a new building (lease-purchase agreements are not considered to be allowable cost). Further, it has been determined that departmental reversions will not be allowed for support of the project. The revenue stream anticipated for the project by DENR included appropriations of billings from DENR regional office operations which are not appropriate to be used and were not contemplated when the law was enacted. For the office building component alone, the funds available will not support the payments required to retire the debt. Further, DENR made no provisions regarding payment for the required parking.

The Office of State Budget and Management also concluded that recurring costs may approach \$10 million annually. For their analysis, the Budget Office did not include the Museum exhibit costs of \$14 million in the lease/purchase costs analysis. As a capital lease to fund the project, the transaction must be shown as a debt on the State. All of the

above leads to an unresolved question of the financial viability and issuance of debt for the project.

The State Construction Office prepared a construction estimate of the project in March of this year (attached). The total cost of the project, including parking, was estimated at over \$157 million. This cost reflected a reduced square footage of the Nature Research Center from earlier proposals. It should be noted that the project architects, E. Verner Johnson and Associates from Boston, Massachusetts, in January 2005, projected a total project cost, including the State Employees' Credit Union building, to be \$109.5 million. The latest revised estimates of project costs provided by the State Employees' Credit Union, which is also included on the attachment under the heading M/C&T, indicate the project will cost nearly \$135 million. Considering the stage of project design, the base construction cost estimate between the State Construction Office and the construction manager at risk retained by the State Employees' Credit Union are not far apart. The main differences are in fees, contingencies, escalation and the cost of the parking deck.

For the project to be feasible, the development plan requires the construction of an additional parking facility fronting Jones Street between Dawson and McDowell Streets (Old YMCA Building location). This aspect of the project is not described in the legislation and leaves the intent of the General Assembly regarding the inclusion of this property as part of the development in question.

Recommendation

Until the legislation is amended to accurately define the details of the transaction involving the State property in question and amended to provide a sound, legal basis to carry out the intent of the General Assembly, it is recommended the conveyance not be brought before the Council of State for consideration. Furthermore, unless the project is found to be viable and a financially sound proposition for the State, it is recommended that the project as described in S.L. 2005-255 be reconsidered. The Governor's proposed budget provided alternatives to ensure the project viability. These alternatives included: \$10 million toward the cost of the Museum, \$50 million for a new DENR office building, and a \$20 million proposal for a downtown parking deck.

The recommended solution as proposed by the Department of Administration is to consider a revised Green Square Project. We propose to keep intact the most important element of the project, the new Nature Research Center, while accounting for the addition of much needed parking and reserving scarce downtown government property for future building locations. Locating the new parking deck adjacent to the Nature Research Center will not dampen the N. C. Museum of Natural Sciences program of expansion, but in fact, may enhance the project by providing an abundance of parking in close proximity to the Museum facilities. A new DENR office building could be accommodated at locations within one-half block of the Green Square location. The feasibility for this new office building could be analyzed and considered separately from

the Green Square Project.

Finally, the State Employees' Credit Union can expand on the property currently owned by them as a separate project. Certainly, the State would welcome continued discussions with the State Employees' Credit Union relative to a property swap to best utilize the space available for the benefit of both projects.

Green Square Project Costs

| | <u>SECU</u> | <u>DENR</u> | <u>NRC</u> | <u>Total</u> | <u>M/C&T Estimate</u> |
|--------------------------------------|----------------------|----------------------|----------------------|-----------------------|---------------------------|
| Demolition | \$ 120,000 | \$ 240,159 | \$ 110,951 | \$ 471,110 | \$ 388,693 |
| Site Work | \$ 503,814 | \$ 1,084,976 | \$ 501,723 | \$ 2,090,513 | \$ 2,308,642 |
| Environmental (USTs) | \$ 16,667 | \$ 16,667 | \$ 16,666 | \$ 50,000 | \$ - |
| Environmental (Asbestos) | Unknown | \$ 46,779 | \$ 21,611 | \$ 68,390 | \$ - |
| Utility Services (included in Bldgs) | | | | \$ - | \$ - |
| New SECU Bldg (80,000 sq. ft.) | \$ 13,818,000 | | | \$ 13,818,000 | \$ 14,462,137 |
| DENR Office Bldg | | \$ 29,708,700 | | \$ 29,708,700 | \$ 26,070,895 |
| Nature Research Center | | | \$ 25,532,100 | \$ 25,532,100 | \$ 26,491,616 |
| Restaurant/Retail (included in NRC) | | | | \$ - | \$ - |
| Sky-bridge to Museum | | | \$ 1,200,000 | \$ 1,200,000 | \$ - |
| LEED Bldg Silver included in Bldgs) | | | | \$ - | \$ - |
| Old Education Bldg Renov | | \$ 1,681,300 | | \$ 1,681,300 | \$ 1,756,240 |
| Estimated Construction Costs | \$ 14,458,481 | \$ 32,778,581 | \$ 27,383,051 | \$ 74,620,113 | \$ 71,478,223 |
| Contingencies 3% | \$ 433,754 | \$ 983,357 | \$ 821,492 | \$ 2,238,603 | \$ 7,945,415 |
| Design Fee 8% | \$ 1,156,678 | \$ 2,622,286 | \$ 2,190,644 | \$ 5,969,609 | \$ 5,151,491 |
| Construction Fee (CMR) 6% | \$ 867,509 | \$ 1,966,715 | \$ 1,642,983 | \$ 4,477,207 | \$ 2,154,252 |
| General Conditions (CMR) 8.85% | \$ 1,279,576 | \$ 2,900,904 | \$ 2,423,400 | \$ 6,603,880 | \$ - |
| Escalation Cost Increase (2 yr @8%) | \$ 2,313,357 | \$ 5,244,573 | \$ 4,381,288 | \$ 11,939,218 | \$ 2,604,321 |
| Office Furnishings | Unknown | \$ 2,520,000 | \$ 180,000 | \$ 2,700,000 | \$ 2,900,000 |
| Total Estimated Project Costs | \$ 20,509,355 | \$ 49,016,417 | \$ 39,022,858 | \$ 108,548,630 | \$ 92,233,702 |
| Nature Research Ctr Exhibits | | | \$ 14,000,000 | \$ 14,000,000 | \$ 14,000,000 |
| Totals | \$ 20,509,355 | \$ 49,016,417 | \$ 53,022,858 | \$ 122,548,630 | \$ 106,233,702 |

| | <u>SECU</u> | <u>DENR</u> | <u>NRC</u> | <u>Total</u> | <u>M/C&T Estimate</u> |
|-------------------------------------|----------------------|----------------------|-------------|----------------------|---------------------------|
| Parking On Green Square Site | 320 | 230 | 0 | | |
| Underground (550 spaces) | | | | \$ 19,250,000 | \$ 16,565,230 |
| Contingencies (3%) | | | | \$ 577,500 | \$ 2,000,277 |
| Design Fee (8%) | | | | \$ 1,540,000 | \$ 1,298,412 |
| Constuction Fee (CMR incl) | | | | \$ - | \$ 566,703 |
| General Conditions (CMR incl) | | | | \$ - | \$ - |
| Escalation (2 yr @ 8%) | | | | \$ 3,080,000 | \$ 324,603 |
| Total | \$ 14,224,000 | \$ 10,223,500 | \$ - | \$ 24,447,500 | \$ 20,755,225 |
| Cost/parking space | | | | \$ 44,450 | \$ 37,737 |

Total Project Costs (On Green Square) \$ 34,733,355 \$ 59,239,917 \$ 53,022,858 \$ 146,996,130 \$ 126,988,927

| | <u>SECU</u> | <u>DENR</u> | <u>NRC</u> | <u>Total</u> | <u>M/C&T Estimate</u> |
|---|-------------|---------------------|---------------------|----------------------|---------------------------|
| Parking on adjacent square (old Y) | 0 | 460 | 90 | | |
| Above Ground (550 spaces) - Old Y | | | | \$ 7,905,380 | \$ 5,849,586 |
| Demolition (incl in const cost) | | | | \$ - | \$ 750,000 |
| Contingencies (3%) | | | | \$ 237,161 | \$ 292,479 |
| Design Fee (8%) | | | | \$ 632,430 | \$ 467,967 |
| Constuction Fee (CMR incl) | | | | \$ - | \$ 175,488 |
| General Conditions (CMR incl) | | | | \$ - | \$ - |
| Escalation (2 yr @ 8%) | | | | \$ 1,264,861 | \$ 233,984 |
| Total | \$ - | \$ 8,396,951 | \$ 1,642,882 | \$ 10,039,833 | \$ 7,769,504 |
| Cost/parking space | | | | \$ 18,254 | \$ 14,126 |
| Total Parking | | | | \$ 34,487,333 | \$ 28,524,729 |

Total Project Costs (Incl above-ground parking) \$ 34,733,355 \$ 67,636,868 \$ 54,665,740 \$ 157,035,963 \$ 134,758,431

REPORT TO
JOINT LEGISLATIVE COMMISSION ON GOVERNMENT OPERATIONS
NEW PARKING DECK

August 31, 2006

Session Law 2006-231 (Senate Bill 1621), approved August 10, 2006, under Section 4, authorized the issuance or incurrence of special indebtedness in the maximum aggregate principal amount of twenty million dollars (\$20,000,000) to finance the capital facility costs of a new parking deck to be constructed in downtown Raleigh.

Section 5 of the legislation requires the Department of Administration to report to the Joint Legislative Commission on Governmental Operations no later than September 1, 2006, a description of how the parking structure described in Section 4 of this act fits with the Green Square Project authorized in S.L. 2005-255.

Background

The State of North Carolina is in the process of selling approximately 25 acres of land in the downtown government complex, known as the Blount Street Area. Upon doing so, approximately 1000 parking spaces that are used by state employees will be lost due to the sale of the property. To offset this loss of parking, the Department of Administration requested funding from the General Assembly during the 2005-2006 short session for the construction of a multi-level, above-ground parking deck. The General Assembly agreed with the need and included \$20 million in funding to construct this parking deck.

Findings and Analysis

The Department of Administration strongly believes the best location for construction of this facility is on the corner of McDowell and Jones Streets. As reflected in the 1995 Capital Area Master Plan for State Government, parking studies have shown that the southwest quadrant of the State Government Complex has the greatest deficit of available parking. A new 1250-space parking deck at this location would allow for much needed parking for the employees of the Supreme Court, Court of Appeals, Attorney General's Office, Office of the Secretary of State, State Auditor's Office and the Department of Labor and greatly reduce the deficit. Employees of these agencies who currently park in the decks located on the north end of the Government Complex would be redirected to the new deck, thereby providing parking for employees of the Departments of Revenue and Public Instruction destined to lose their current parking spaces.

Other locations have been considered for this parking structure, but none bring relief to the critical parking needs of the Government Complex or have conflicts with future commitments. With the sale for the Blount Street Area property, two future locations for underground parking structures along Wilmington Street will be lost. The

only other location consistent with the Master Plan for a proposed above grade deck structure is fronting Peace Street adjacent to the Personnel Training Center. However, this quadrant of the Government Complex currently has the least need for parking. Other possible surface locations, such as across from the Archives and History Building and the Governor's Mansion, are reserved for future office buildings and the Capital Area Visitor's Center.

Two blocks is generally accepted as the "outer" limit to consider parking reasonably nearby. On-street parking in and around the Government Complex is controlled by the General Assembly and the City of Raleigh and does not appreciably address the parking needs of state agencies and visitors. There has been considerable thought and study into the locations for parking decks. This is reflected in the 1995 Capital Area Master Plan for State Government and the subsequent Downtown Government Complex Parking Study completed in November 1997. This latest study indicated that the proposed Thompson Building deck location (corner of McDowell and Jones Streets) was well suited to addressing the parking deficit associated with the southern end of the Government Complex. With the future development of the Triangle Transit Authority's fixed rail mass transit system in doubt, the parking needs of Government Complex are becoming acute in this quadrant.

It is recognized that the proposed location of the parking deck conflicts with the office building component of the proposed Green Square Project. The proposed Green Square Project consists of an expansion of the NC Museum of Natural Sciences, a new, larger State Employees' Credit Union and a new office building for approximately 615 DENR employees. In addition, 550 underground parking spaces are proposed for this location. However, to be a viable project, another parking deck of approximately 550 spaces will need to be constructed across McDowell Street on the Old YWCA property. No provisions have been considered for the relocation of agencies in this building. Further, a parking deck at this location is inconsistent with the approved Master Plan. This site is reserved for a future office building.

Currently, there are approximately 230 surface parking spaces on the Green Square site. The Green Square Project, with the office building component, Museum and a larger State Employees' Credit Union with additional staff will greatly increase the parking load in this quadrant of the Government Complex far beyond the capacity to handle parking for the workforce. Coupled with the fact that the State Employees' Credit Union will require 320 parking spaces, there will be no gain of parking on the Green Square block. Parking for DENR employees will have to be accommodated in the deck across the street with no new parking available for the previously mentioned agencies. In essence, we will not have solved the parking deficit in this quadrant and the situation will be further aggravated by the loss of Blount Street parking.

The 1997 parking study included a financial feasibility analysis. This included estimations of monthly parking fee adjustments and/or visitor parking fee adjustments to fund various parking improvement projects. Based on this study, the Department of Administration will evaluate several strategies and combination of strategies for funding the proposed parking deck, as well as construction of a future parking deck in conjunction with the Capital Area Visitor's Center. The financial plan as outlined in the

study has three components that must be considered – an initial capital cost which includes design, construction, equipment and contingencies; financing “soft” cost which includes capitalized interest, debt service reserves and other miscellaneous costs; and finally, the annual operating costs for the new parking spaces.

To finance the new decks, parking rates system-wide will most certainly have to be adjusted to account for all three points of the financial plan. The amount of increase will be determined based on a detailed analysis of costs and the financial implications of adjusted rates on employees. Other strategies include conversion of selected lots from a strict leased-space to an over subscription basis, realignment of parking spaces with a graduated parking rate and consideration of rates for parking outside of the Downtown Government Complex. Parking for state employees, legislative staff and visitors in the Government Complex has always been a bargain. To satisfy the growing demands for parking, rates simply must be adjusted to more accurately reflect market conditions. The Department of Administration took a step in this direction by raising the visitor parking rates this past July.

Recommendation

The recommended solution proposed by the Department of Administration is to consider a revised Green Square Project. We propose to keep intact the most important element of the project, the new Museum while accounting for the addition of much needed parking and reserving precious downtown government property for future building locations. Locating the new parking deck in this location will not dampen the N. C. Museum of Natural Sciences program of expansion, but in fact, may enhance the project by providing an abundance of parking in close proximity to the Museum facilities. A new DENR office building could be accommodated at locations within one-half block of the Green Square location and the feasibility for a new office building for DENR could be analyzed and considered without interjecting the complicated development scheme proposed under the Green Square plan.

In summary, this location for the parking deck has been approved as part of the 1995 Capital Area Master Plan for State Government. Although the proposed Green Square Project has complicated the development of this block consistent with the Master Plan, it is by no means totally incompatible. With the exception of the office building element, which needs to be considered separately, the remaining pieces of the Green Square project could remain. The Governor's budget, in support of the Museum, included \$10 million for expansion of the Museum of Natural Sciences. The State Employees' Credit Union can expand on the property currently owned by them as a separate project. Certainly, the State would welcome continued discussions with the State Employees' Credit Union relative to a property swap to best utilize the space available for the benefit of both projects. The parking deck at this location is very much needed and we hope to continue development of this block of real estate in the best manner possible.