

**MEMORANDUM**

TO: Roger L. Stancil, Town Manager

FROM: Lance Norris, Public Works Director  
Kathy Thompson, Library Director  
Kenneth C. Pennoyer, Director of Business Management

SUBJECT: Library Expansion Project Update and Establishment of a Project Budget

DATE: October 15, 2008

**PURPOSE**

The purpose of this report is to provide the Council an opportunity to:

- Review the final design of the Chapel Hill Library expansion project;
- Consider the staff's recommendation to proceed with utilizing the Construction Manager at Risk project delivery system;
- Review the cost implications and associated tax revenue issues associated with both construction and future Library operations; and
- Establish an estimated budget for the project.

Adoption of the attached Resolution A would authorize the Town Manager to direct the Town's design consultants to proceed with development of construction plans and specifications in preparation for bidding and award of construction contracts utilizing a Construction Manager at Risk.

Adoption of the attached Resolution B would establish an estimated project budget of \$16,515,374 and direct the Town Manager to prepare Town budgets with an increase of approximately 1.72 cents in 2009-10, and a cumulative increase of approximately 3.78 cents in 2010-11 to fund Library debt service and operating cost increases without affecting other Town services.

**BACKGROUND**

In November 2003, voters approved a \$16.26 million bond for improvements to the Chapel Hill Public Library. In June of 2004, the Town Council appointed a 15 member Library Building Committee to select an architect for a facility expansion project, and work with the architect through the schematic design process. On February 13, 2006 the Council authorized the Town Manager to advertise a Request for Letters of Interest for project architectural and engineering services and a Request for Qualifications for project construction management services. In

October of 2006 the Town executed a contract with Corley, Redfoot, Zack Inc., working with Robert A. M. Stern Architects, to prepare plans for the Library expansion project.

During the winter and spring of 2007, the design consultants worked with Town staff and developed design options for consideration by the Library Building Committee. The process involved a number of meetings with the Library Building Committee resulting in a Conceptual Plan that was approved by the Committee on June 14, 2007. On June 18, 2007, the Town Council, acting in its regulatory role, conducted its Concept Plan review of the proposed expansion.

On July 20, 2007, the Town Manager executed a contract with Clancy & Theys Construction Company to provide construction management services for the Library expansion project. Consistent with the Council's February 13, 2006 authorization, this agreement permits the selected firm to proceed with the project as a Construction Manager at Risk pending agreement on a "guaranteed maximum price" at the time construction documents are complete.

In September, 2007 the Library Building Committee endorsed the schematic design. On September 24, 2007 the Town Council, acting in its role as owner, approved the Schematic Design proposal and authorized the Town's consultants to proceed with Design Development drawings. On January 14, 2008, the Town Council approved the Special Use Permit Modification plans.

## **DISCUSSION**

### Final Design

Since the Town Council approved the Special Use Permit, the Town's design consultants, working with Town staff have completed the design development process. This process included a detailed construction cost analysis by Clancy & Theys Construction Company, the Town's project management consultant, to assure that the plans would remain consistent with the project's anticipated construction budget.

The result of this process is a design that is very similar to what was proposed schematically to the Library Building Committee, but with some minor adjustments made in building finishes and a small reduction in total building square footage in order to maintain the project within the estimated available budget. As currently proposed the completed project will include a total of 62,500 square feet of floor space reflecting a reduction of 2,280 square feet, or 3.5%, from the 64,780 square foot building initially proposed. Town staff has worked closely with both the project designers and the project construction manager to accommodate this small size reduction, and believe the project remains consistent with the Library building program as presented previously to the Library Building Committee.

### Construction Manager at Risk Delivery System

We believe that a Construction Manager at Risk process will be an efficient and cost effective means of managing the Library expansion project. The staff assigned by Clancy & Theys, the Town's construction management consultant, has already provided valuable insight during the

preliminary design and construction estimating phases of this project. A pending amendment to the Town's current contract with Clancy & Theys will permit them to be retained on the project in the capacity of the Construction Manager at Risk.

Under a Construction Manager at Risk arrangement, Clancy & Theys will agree to construct the project for a "guaranteed maximum price" and will assume the bulk of the risk related to cost overruns. The Town's risk will be limited to cost increases associated with change orders to cover changes in the scope of work.

### Estimated Project Budget

Prior to final execution of a construction contract for the Library project it will be necessary for the Town Council to adopt a budget ordinance establishing specific project accounts. We anticipate returning to the Council in the winter of 2009 to finalize this process. The table below provides information about revenues and expenses we expect will be reflected in the budget ordinance. This information is being provided now to assist with financial planning and to inform the Council of how we anticipate allocating the project funds.

	<u>Estimated Budget</u>
Interest Earnings	\$250,000
Proceeds from Bond Sales	\$16,260,000
Premium Amortization	\$5,374
Total Revenues	\$16,515,374

	<u>Estimated Budget</u>
General Bond Costs	\$25,000
Salaries (Temp)	\$30,000
FICA	\$2,300
Legal	\$5,000
Design and Engineering	1,897,400
Traffic Studies	\$15,000
Construction Management	\$80,000

Misc. Contract Services	\$20,000
Construction	\$12,630,000
Capital Equipment/IT	\$350,000
Small equip/Furniture	\$500,000
Art Acquisition	\$165,000
Contingencies	\$792,674
Meetings/Conf.	\$3,000
Total Expenses	\$16,515,374

#### Expenditures to Date

A budget for the Design Phase of the Library Expansion Project was established with the proceeds of the 2004-05 (\$500,000) and 2006-07 (\$1,500,000) Town Bond Sales. These funds were intended to cover the cost of the design work and other required services such as a Traffic Study, Geotechnical Soil Sampling and a contract for the project Art Work. To date a total of \$748,331 has been expended from these funds and an additional \$1,251,920 encumbered, for a total of \$2,000,251. These expenditures and encumbrances include \$1,947,898 for design services, \$16,632 for traffic studies, \$9,322 for other professional services, including soil boring and surveying, \$6,399 for temporary staff salaries, and \$20,000 for public art.

#### Market Conditions and Project Timing

If the project is delayed for a period of time, some of the completed design and permitting related work could potentially still be utilized. If changes are made to the scope of the project, or if construction cost increases resulting from a delayed start require that the project be substantively redesigned to remain within budget, the value of the work to date will decrease.

Possible construction cost increases related to delaying the project are difficult to estimate with certainty and are closely related to prevailing market conditions. Information provided by Clancy & Theys during the most recent project budget estimating process suggests that over the last year the slower pace of construction activity regionally has suppressed labor costs to some degree, while commodity costs for building materials has continued to rise. We believe this suggests that a modest construction cost escalation factor of 5% annually should be considered when evaluating the impact of possible project delays. This 5% escalation figure is consistent with the construction cost estimates provided by Clancy and Theys and equates to approximately \$55,000 per month for each month of delay beyond the proposed March 2009 project start date.

In recent weeks there has been considerable disruption in the credit markets that could have some impact on future interest rates on bonds and by extension the cumulative cost of debt associated with the project. In order to estimate project impacts on the Town budget it is necessary to establish an anticipated interest rate and we have assumed in the following analyses that the credit situation will likely stabilize by the end of the year allowing the Town to sell bonds at an annual rate of approximately 5%.

#### Library Project Debt Service Impacts on Town Budget

Of the original \$16.26 million of Library Bonds approved by voters in November of 2003 there remains a balance of \$14.26 million of unissued bonds. There have been two issues of Library Bonds from the \$16.26 million authorized. The first issue occurred in November of 2004 in the amount of \$500,000 for design. The second issue occurred in January of 2007 in the amount of \$1,500,000 for design, art and miscellaneous costs. If the Council decides to proceed with the project, the remaining debt must be issued prior to November 2010 when the referendum authority lapses. It is possible to extend the authority to issue by making application to, and receiving the approval of, the Local Government Commission. The Council could also request authority from the voters through the referendum process should the current authority expire without being extended.

Assuming that the project proceeds, it is anticipated that the \$14.26 million balance of the bonds will be issued as follows:

3<sup>rd</sup> Quarter FY2008-09            \$7.48 million  
 3<sup>rd</sup> Quarter FY2009-10            \$ 6.78 million

The resulting Library project related current and anticipated cumulative annual debt service costs, along with their tax rate equivalents based on existing valuations, are shown in the following table:

	2008-09	2009-10	2010-11
Annual Debt Payment	\$188,870	\$926,675	\$1,421,373
Tax Rate Equivalent	0.33	1.59	2.45

#### Anticipated Operating Cost Impacts on Town Budget

Operating and maintaining the new Library building will result in increases to the Library's current annual \$2,507,347 operating budget. The anticipated increased costs of providing Library services are the result of increased costs for both staff resources and for general facility use and maintenance in a larger building.

The costs associated with fully staffing the new facility are expected to be approximately \$626,227. This increase of 33.1% in personnel costs is based on new costs to cover three new service desks included in the proposed design (downstairs exit/circulation desk and computer lab support desk; teen room desk), in-house janitorial support, staff to coordinate increased use of expanded meeting room space and additional children's/teen programming efforts.

Increased personnel costs also include additional hours to maintain library service at the current level of service in a larger facility with an expanded collection. These personnel costs include additional hours to supervise the circulation desk, to process collection materials (selecting, purchasing, cataloging, mending and weeding of materials), to support increased use of the expanded Youth Services area, and to re-shelve materials. Proposed personnel costs reflect an anticipated 40% reduction in Library Assistant I circulation desk staff hours, due to the patron self-checkout option provided by planned installation of a radio frequency identification system (RFID). Personnel costs also reflect redistribution of some circulation desk clerical tasks and reclassifying two positions from a Library Assistant III to a Library Assistant I to perform these tasks at a reduced hourly rate.

The costs for other operating expenses, notably utility use and building maintenance are also expected to rise to reflect the 123% increase in the Library's physical size. In total, the additional non-personnel cost increase associated with the expanded facility is estimated to be approximately \$148,572.

Taken together, these anticipated annual operating cost increases total \$774,799 or approximately 30.9% of the Library's current annual operating budget, and result in an anticipated total annual Library operating budget of \$3,288,025 in 2010-11.

The resulting Library project related operating budget cost increases, along with their cumulative tax rate equivalents based on existing valuations, are shown in the following table:

	2009-10	2010-11
Annual Operating Cost Increase	\$74,600	\$774,799
Tax Rate Equivalent	\$0.13	1.33

Cumulative Impacts on Town Budget

Based on the preceding estimates, the combined operating and debt service costs for completing the library expansion project will add approximately 1.72 cents to the tax rate in FY2009-10 and 3.78 cents in FY2010-11. The impact on a taxpayer with a \$200,000 assessed value would be about \$76 per year beginning in FY2010-11. The preceding calculation does not take into account the annual pay-down of debt, which partially off-sets future debt increases. This impact is captured in the Net Debt Impact table below.

As shown in the following table, in addition to the debt for the library project, planned debt in the next two fiscal years includes an additional \$12,145,000 for Streets and Sidewalks, Parks and Recreation and Parking (Lot 5 Project).

<b>Planned Date of Issuance</b>	<b>Type of Debt</b>	<b>Purpose</b>	<b>Amount</b>	<b>Total</b>
3 <sup>rd</sup> Quarter FY09	GO Bonds	Library Expansion	\$7,480,000	
		Streets & Sidewalks	1,025,000	
		Parks & Recreation	2,950,000	\$11,455,000
<b>2<sup>nd</sup> Quarter FY10</b>	COPs	Parking – Lot 5	7,245,000	7,245,000
3 <sup>rd</sup> Quarter FY10	GO Bonds	Library Expansion	6,780,000	
		Streets & Sidewalks	1,175,000	
		Parks & Recreation	750,000	8,705,000
<b>Total</b>				<b>\$27,405,000</b>

The tax impact of this additional GO debt service is anticipated to be .74 cents in FY2009-10 and 1.32 cents in FY2010-11. There is also a reduction in existing debt service of 0.25 cents in FY2009-10 and 1.05 cents in FY2010-11. We expect to fund the debt service for the COPS for the Parking Lot 5 project from Parking Fund revenues.

The theoretical cumulative tax impact of existing and planned general fund debt service for FY2009-10 and FY2010-11 is summarized in the following table:

<b>NET DEBT IMPACT</b>	<b>FY2009-10</b>	<b>FY2010-11*</b>
Additional Debt Payments: Library Bonds	1.59	2.45
Additional Debt Payments: Other GO Bonds	0.74	1.32
<b>Total Additional Debt Payments</b>	<b>2.33</b>	<b>3.77</b>
Less: Reductions in Existing Debt	(0.25)	(1.05)

<b>Total Net Additional Debt</b>	<b>2.09</b>	<b>2.72</b>
Increase in Dollars	\$1,214,290	\$1,580,320

If the anticipated \$774,799 increase in the Library's operating costs in years 2010-11 and beyond is added to the above debt payment amounts the cumulative total budget impact increases to \$2,355,119. This total is equivalent to 4.05 cents.

It should also be noted that the planned increase in debt service is not the only anticipated increase in the Town's operating budget. Major components of the Town's operating budget including salaries, benefits and energy costs are expected to increase at a rate higher than general fund revenues. In prior budget years a portion of the gap between revenues and expenditures has been filled using fund balance. With fund balance currently at minimal levels, the potential for filling a significant portion of the budget gap with fund balance, including revenues in excess of expenditures from the preceding year, is unlikely. For the current budget year the Town benefited from a tax settlement windfall of \$1.3 million, most of which was one-time funds, that were used along with an additional \$1.4 million of budgetary surplus and a 5.9 cent tax increase to balance the budget.

## NEXT STEPS

### Design Details

As the final construction documents are prepared there are a number of design details that will require additional non-staff review. They include:

- Town Council Review of the Book Drop:

During the Special Use Permit approval process, the Town Council requested an opportunity to review the final design of the proposed drive through book drop. The project designers are developing the detailed design of the book drop and adjacent plaza area and we anticipate presenting these to the Council later this fall.

- Bicycle and Pedestrian Board Review of the Bicycle and Pedestrian Access and Signage Plan:

During the Special Use Permit approval process, there were discussions about the need for a comprehensive bicycle and pedestrian access plan that included on and off-site directional signage to facilitate access. This plan has been developed, and consistent with the Council's discussions at the January 14, 2008 meeting, it will be taken to the Bicycle and Pedestrian Board for their review prior to completion of construction documents.

### Transition Services



On September 8, 2008, the Council received an information report from the Town Manager describing construction options for completing the expansion project, and based on construction cost and duration considerations, a recommendation to vacate the building for the anticipated 14 months needed to complete the project. Maintaining Library services during the period the existing building is vacated will require relocating these services to another location(s). At the September 8, 2008 meeting, Chair of the Library Board of Trustees requested the Council to involve the Board and Library users in a discussion of options for providing transitional Library services during this anticipated relocation period.

The Town staff is currently researching relocation options. These include leasing suitable space in existing privately owned buildings along with consolidating some Library functions, such as administrative support services, in existing Town facilities. Depending upon what spaces are available and affordable, it is likely that the provision of Library services will be affected. We believe that determining what Library services are deemed to be the most desirable during this transition will help inform the staff's recommendations for relocation options. We anticipate returning to the Council later this fall to provide more detailed descriptions of relocation options and their associated costs, and to seek input from Library users and the Council on their priorities for services during the transition period. At that time we will be able to provide cost estimates associated with up-fitting and/or leasing temporary service locations and the impact these costs may have on the Library operating budget during the transition period.

### **RECOMMENDATIONS**

That the Council adopt the attached Resolution A authorizing the Town Manager to direct the Town's design consultants to proceed with development of construction plans and specifications in preparation for bidding and award of construction contracts utilizing a Construction Manager at Risk.

That the Council adopt the attached Resolution B establishing an estimated project budget of \$16,515,374 and directing the Town Manager to prepare Town budgets with an increase of approximately 1.72 cents in 2009-10, and a cumulative increase of approximately 3.78 cents in 2010-11 to fund Library debt service and operating cost increases without affecting other Town services.