

MEMORANDUM

TO: Roger L. Stancil, Town Manager

FROM: Bruce Heflin, Assistant Town Manager
Lance Norris, Public Works Director
Kathy Thompson, Library Director
Kenneth C. Pennoyer, Director of Business Management

SUBJECT: Library Expansion Project Scheduling Options and Their Respective Budget Implications

DATE: December 8, 2008

PURPOSE

The purpose of this report is to provide the Council with additional Library expansion project information in response to questions raised at their October 15, 2008 business meeting and to provide the Council with an opportunity to consider the following three project scheduling options:

1. Complete project design and permitting work but delay project construction until budget implications are addressed and reasonable bond interest rates are available.
2. Complete project design and permitting work and proceed to construction contract negotiations as scheduled for a construction start date in the spring of 2009.
3. Discontinue all work on the project.

Adoption of the attached Resolution A would authorize the Town Manager to proceed with option 1 as detailed in this report by:

- Directing the Town's design consultants to proceed with completion of construction plans and specifications, and
- Delaying project construction until reasonable bond rates are available and the Council approves the necessary bond sales.

BACKGROUND

On October 15, 2008 the Council received a report that provided an update on the Library expansion project and included a proposed \$16,515,374 project budget and a description of the Town budget implications associated with both Library expansion construction and future Library operating costs (Attachment 1). In response to this report the Council requested additional information about: 1) different possible options for proceeding; 2) the basis we are

using to determine anticipated cost increases associated with possible project delays; and 3) alternative approaches for receiving revenues from out-of-Town Orange County Library users.

DISCUSSION

OPTIONS FOR PROCEEDING

1. Complete project design and permitting work but delay project construction until budget implications are addressed and reasonable bond interest rates are available.

This option would authorize the Town Manager to direct the Town's design consultants to proceed with completing ongoing design and permitting work in preparation for a future, as of yet undetermined project construction start date. This option would take full advantage of the design and permitting work done to date and would permit the Town's designers and their assembled team of design sub-consultants to fulfill their existing contractual obligations.

This option would provide the Town with a complete set of construction documents and a Zoning Compliance Permit that would allow the Town to enter into construction contract negotiations at such time as reasonable bond rates are available. This approach would also provide additional time to consider the budgetary implications of the project and potentially delay the start time of associated debt service payments.

If this option is pursued, and depending upon the time period the project is delayed, it will be necessary to carefully monitor possible future construction cost inflation estimates to assure that the completed construction documents can be fully realized within the established budget. As described in additional detail in the following section on Project Inflation Cost Estimates, information recently provided to the staff by Clancy & Theys Construction Company, the Town's construction management consultants, suggests that construction costs are anticipated to remain stable for at least some period of time into the future. As long as this stability remains, the project as currently proposed should continue to be attainable within the anticipated budget.

Costs associated with this option would have no impact on current Town debt obligations as the bond funds necessary to fund all of the pre-construction phases of the project have already been issued. Also, if at some point prior to construction the Council were to decide not to proceed with the project, it is likely that the approximately \$300,000 in the design services budget allocated for Construction Administration could be unencumbered and potentially used for Library project debt service payments or other Library improvements consistent with the language of the bond issuance.

2. Complete project design and permitting work and proceed to construction contract negotiations as scheduled for a construction start date in the spring of 2009.

This option would proceed with the project as originally scheduled in anticipation of a spring 2009 construction start date. The details of this approach were included in the October 15 Council report (Attachment 1) and are based on an estimated total project budget of \$16,515,374 to be funded by the issuance of additional bonds totaling \$14,260,000.

This option would complete the project most quickly, and based on recent trends in the local construction industry may be attainable at some level of savings to the construction budget portion of the overall project budget. The interest rates charged on municipal bonds currently being issued suggest that in the long run any possible decrease in construction cost due to the very competitive local construction market may be overcome by the costs of borrowing at this time.

3. Discontinue all additional work on the project.

This option would immediately discontinue all additional work on the project. To date, the Town's design consultants have completed a large portion of their scope of work including Conceptual Design, Schematic Design, Special Use Permitting, Design Development, and very recently submitted "60%" Construction Documents. These Construction Documents have been distributed to Town staff and the Town's construction management consultant and are currently under review to develop recommendations to be addressed in the design consultant's final round of Construction Documents. If this option is selected, this review process would cease and the design consultant will instead be requested to engage in a process of negotiating a settlement for termination of their contract.

If it is determined at a later date that the project should proceed, it is possible that the design and permitting work done to date can still be utilized. If the project's design remains essentially the same as currently proposed and the Town's design consultants are willing and available it may be possible to reconvene the various design sub-consultants working on the project and proceed with completion of the Construction Documents at a future date. Because this process would involve development of a new contract for design services, and may also include settlement costs associated with termination of the original contract, it is likely that some increase in the project budget component for design services should be anticipated.

If at a later date it is determined that substantive design revisions should be considered for the Library expansion project, the value of the work done to date will depend upon the scope of the proposed revisions.

The following chart provides information about the use of Library bond revenues as of October 31, 2008. It should be noted that the chart does not reflect anticipated billings from the Town's design consultants for development and delivery of the 60% construction drawings. These billings will likely be significant as construction document preparation accounts for approximately \$365,500 of the Town's design consultant's contract.

	Expended	Encumbered	Total
Design Services	\$847,572	\$1,100,325	\$1,947,897
Traffic Studies	\$14,920	\$1,712	\$16,632
Other Services	\$18,033	\$0	\$18,033

Public Art	\$1,042	\$163,958	\$165,000
Total	\$881,567	\$1,265,995	\$2,147,562

The chart shows that \$881,567 of the existing \$2,147,562 project budget has been expended and the remaining \$1,265,995 is currently encumbered. If this option is selected and the outstanding contracts for design services and public art are terminated it is likely that through settlement negotiations a portion of the encumbered but as of yet unexpended costs could be unencumbered.

The process for determining what portion of the encumbered but as of yet unbilled or unexpended funds could be freed up for other uses, would involve contract termination negotiations, which may in themselves involve settlement fees. If this option is selected, settlement negotiations will be initiated with Corley, Redfoot and Zack, the Town's primary design consultant and Janet Echelman, the public artist who is currently working on an installation for the project as currently designed. These unencumbered funds could then be used for future Library design work, Library project debt service payments, or other Library improvements consistent with the language included in the bond issuance. Regardless of the eventual contract termination settlement outcome, this option would have no impact on current Town debt obligations as the bonds have already been issued.

PROJECT INFLATION COST ESTIMATES

In the October 15 report to the Council, the staff provided an estimate for possible construction cost increases that could result from delaying the project. This information was based on work done by Clancy & Theys, the Town's construction management consultants, earlier in the year that concluded that local construction costs were expected to escalate at a fairly modest 5% annual rate into early 2009. This 5% rate is less than the construction industry has experienced in recent years and reflected a generally moderating economic forecast. Using this inflation factor the anticipated impact on the Library expansion project budget was projected to be the equivalent of \$55,000 for each month of delay beyond the March 2009 start date used in the project budget estimating process.

In response to greatly changing economic conditions in the months since this estimate was prepared, the staff requested that Clancy & Theys reanalyze current economic conditions as they are affecting the local construction industry. Information received from Clancy & Theys in mid-November suggest that in fact conditions in the construction industry have been very volatile, especially in regard to decreases in some construction materials costs, and the initially anticipated 5% annual inflation rate likely overestimates actual construction cost increases expected in the near future. Based on their analysis, it appears likely that existing construction costs will likely remain stable rather than increasing until the construction industry is supported by a more stable or improving general economy, at which point, at least initially, construction cost increases are more likely to be in the range of 2% - 3% annually barring substantive unforeseen changes in the building materials market. Accordingly, as described in the section on

recommended option 1 above, we now believe that delaying the project for some period of time, at least in the short range, should not adversely affect the overall construction budget.

ORANGE COUNTY REVENUES

Orange County provides no capital support toward the Town's Library expenses; this includes all past and present Library construction costs, debt service for same, equipment or special project costs. County support toward Library operating expenses has remained at \$250,000 since 1995 and represents 11% of this year's Library operating budget.

Approximately 12,100 of the Library's patrons live in Orange County outside Chapel Hill limits. The number of materials borrowed by these patrons was 386,000 items last year. This represents approximately 40% of the Library's annual circulation. The Town Manager, the Library Board acting as the Council's agent, and most recently the Mayor, have made annual requests to the County Commissioners for increased funding. To date, the County has taken no steps to address the disparity between its financial support and use of the Library by Orange County residents that do not live in Chapel Hill.

Library Master Plan recommendations for the expansion project space needs are currently based on projected population figures for Chapel Hill and 40% of southern Orange County. The Council could review these recommendations and downsize them to reflect Chapel Hill population projections only. Eliminating service to non-Chapel Hill residents could reduce space needs projections.

If the Town chose to eliminate or reduce Library service to Orange County residents who do not live in Chapel Hill, it would no longer be eligible to receive the County's \$250,000 annual library support. North Carolina Law states that "if a county or city, pursuant to this Article, operates or makes contributions to the support of a library, any resident of the county or city, as the case may be, is entitled to the free use of the library" (§153A-264. Free library services). Some revenue could be recovered from individual users willing to purchase an annual Library card. However, we believe that the individual cost of \$60-\$100 per card would limit the number of cards requested and increase the Town's costs to register and monitor card purchases. We are also uncertain if sufficient numbers of Orange County users would purchase cards to offset the likely loss in current County funding should this approach be taken. We note that 2,500 Orange County users would need to purchase cards at a cost of \$100 to recoup the current \$250,000 Orange County contribution.

SUMMARY

The proposed design process for the Library expansion project has been a comprehensive and deliberate effort reflecting the goals of the Chapel Hill Library Master Plan and the substantial public input that has been received since the Library bonds were approved in November of 2003. The process has included extensive input from the Library Building Committee, the Library staff and during the Special Use Permit process, Town boards and commissions as well as the general public. We believe that if the Council wishes the project to be realized as envisioned in this process and within the budget provided by the approved bonds, the Town Manger should be

authorized to direct the Town's design consultants to complete the necessary construction document preparation and the Zoning Compliance Permit application materials.

In light of recent volatility in the economy, currently high bond interest rates and uncertainty over the Town's upcoming budget, we also believe that there is clear justification to delay actual construction until additional information is available. The most current information we have received from the Town's construction management consultants suggests that delaying the project for the time being should not adversely affect the project's construction budget. Accordingly we recommend that the Council approve the proposed project schedule option 1, as described above.

If this approach is endorsed by the Council, the staff will continue to monitor both the bond markets and trends in the local construction industry and report back in the future. We anticipate that we can return to the Council for further consideration of these issues and will tentatively schedule an update for late January, 2009.

RECOMMENDATION

That the Council adopt the attached Resolution A authorizing the Town Manager to proceed with option 1 as detailed in this report by:

- Directing the Town's design consultants to proceed with completion of construction plans and specifications, and
- Delaying project construction until reasonable bond rates are available and the Council approves the necessary bond sales.

ATTACHMENTS

- 1) October 15, 2008 Council report titled "Library Expansion Project Update and Establishment of a Project Budget" (begin new page 1).

A RESOLUTION AUTHORIZING THE TOWN MANAGER TO DIRECT THE TOWN'S DESIGN CONSULTANTS TO PROCEED WITH DEVELOPMENT OF CONSTRUCTION PLANS AND SPECIFICATIONS IN PREPARATION FOR FUTURE BIDDING AND AWARD OF CONSTRUCTION CONTRACTS (2008-12-08/R-11)

WHEREAS, in November 2003 the voters approved a \$16.26 million bond for improvements to the Chapel Hill Public Library; and

WHEREAS, design consultants were contracted by the Town to work with the Library Building Committee and Town staff to develop Library expansion project plans; and

WHEREAS, the Town Council has reviewed the project plans and the Manager's recommendation to proceed with completion of project design and permitting work.

NOW, THEREFORE, BE IT RESOLVED by the Council of the Town of Chapel Hill that the Council authorizes the Town Manager to direct the Town's design consultants to proceed with development of construction plans and specifications in preparation for future bidding and award of construction contracts.

This the 8th day of December, 2008.