

# Capital Projects Prioritization

NW Annex, New Sherriff's Office & Morgue

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COUNCIL COMMITTEE OF THE WHOLE

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# Outline

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# Introduction to the Issue

## The Challenge

Both the NW Annex and the Sheriff's Office / Morgue projects assume reliance on REET revenues to pay for the annual debt service payments necessary to finance the projects. Projected REET revenues are not sufficient to support both projects.

## Purpose

To determine which project should be prioritized.

## Objective

Make an informed decision that aligns with organizational goals and available resources.



# Overview of the Projects

## Project 1: NW Annex Redevelopment

### Current Situation

The Northwest Annex site has a 100+ year old building that houses Planning and Development Services and some Public Works functions.

The building was remodeled in the early 1990's and is dilapidated beyond feasible repair.

### Cost Estimate

Current cost estimate for Phase 1: \$64 Million

*Phase 1 is front loaded relative to costs as it includes the cost of full site development for 3 buildings*

### Redevelopment Plan

Current redevelopment plan consists of 3 office buildings, with the first phase anticipated to include:

- Construction of building 1, to house staff currently working at the NW Annex site, and relocating PW Staff currently working in the Civic Building in Bellingham
- Construction of the shell of building 2 to replace the storage functions on the site that will be demolished
- Site development of the entire site making building 3 "pad ready"

# Overview of the Projects

## Project 2: New Sheriff Office / Morgue

### Current Situation

Sheriff's Office is located in the basement of the County Jail and has outgrown this space / space is not fully meeting the needs of the SO.



The morgue is located at the Way Station. It is inadequately sized and presents operational risks. Recent upgrades have improved, but not resolved these issues (re: meeting accreditation requirements).



### Redevelopment Plan

Collocate a new Sheriff's Office on the same site where the new jail and Behavioral Health Center is planned and provide a morgue that is designed to meet needs and accreditation requirements.

### Cost Estimate

Current cost estimate: \$40 Million



# Financial Considerations

## Current Funding Assumptions

Project	REET 1	Public Utilities Improvement Fund (EDI – County's 30%)	Capital Reserve Fund
<b>Northwest Annex (Current total project cost estimate: \$64M)</b>			
Seed \$	-	-	4,670,000*
Annual Debt Service (estimate)	1,792,633**	1,792,633	
<b>Sheriff's Office &amp; Morgue (Current total project cost estimate: \$40M)</b>			
Seed \$	3,000,000	-	-
Annual Debt Service (estimate)	1,878,581	-	-
<p><i>*Approximately \$1.5M of the \$4.7M has been expended to date on the NW Annex project.</i></p> <p><i>**Beginning in 2030 it is assumed that \$1M of REET 2 revenues will be used to cover a portion of the NW Annex debt service.</i></p>			



## *Financial Considerations*

# REET AUTHORIZING AUTHORITY

REET 1, or the "first quarter percent" – may be imposed by any... county primarily for capital projects that are listed in the capital facilities plan (CFP) element of their comprehensive plan.

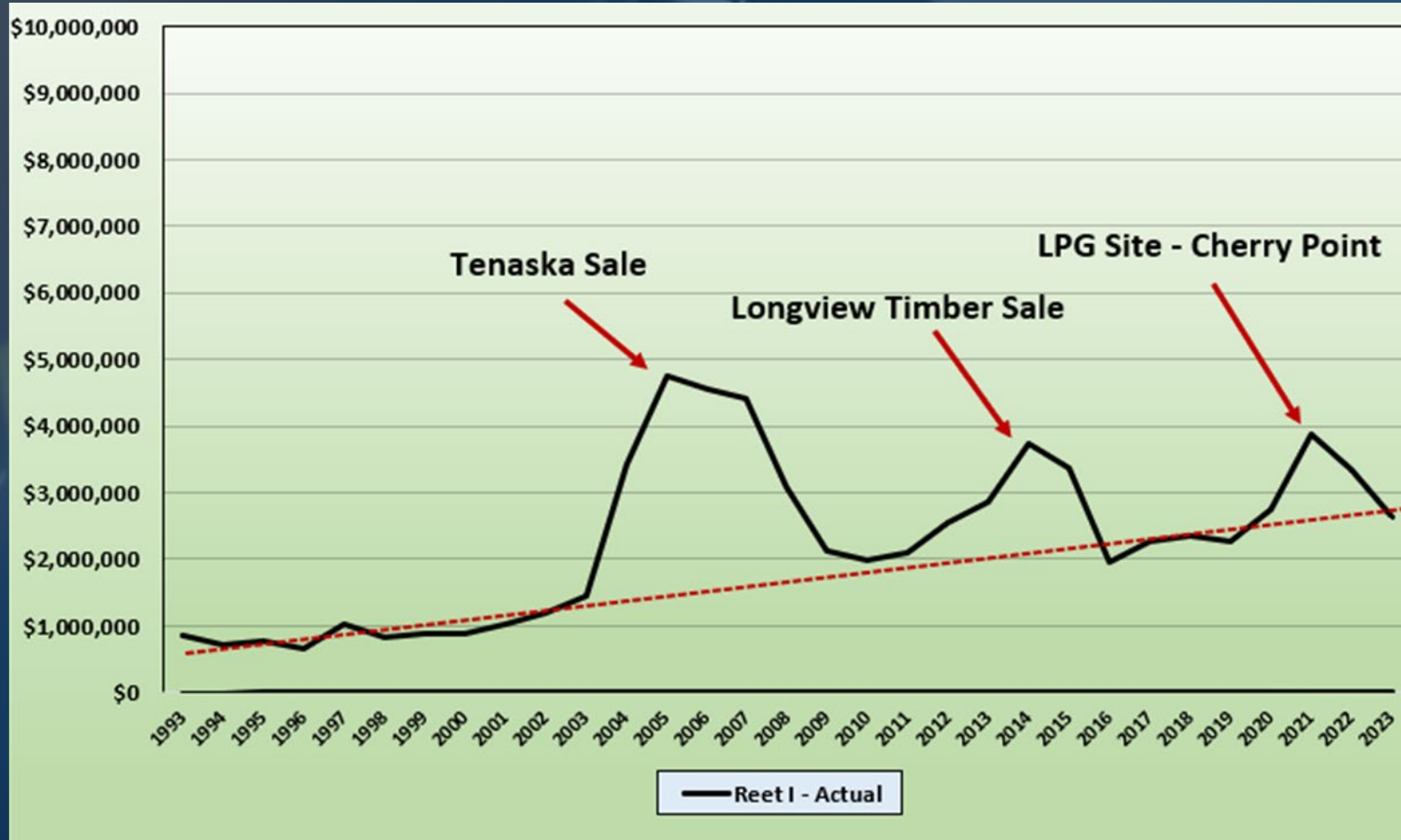
REET 2, or the "second quarter percent" – may be imposed by any... county fully planning under the Growth Management Act, to be used primarily for capital projects and limited maintenance.

Any county may use up to \$100,000 or 25% of its available REET 2 funds – whichever is greater, but not to exceed \$1 million per year – for the... construction... or maintenance of REET 1 capital projects that are not also included within the REET 2 definition of capital projects

*Authority Source: WAC 458-61A-301, RCW 82.46*

## Financial Considerations

# REET 1 Historical Growth

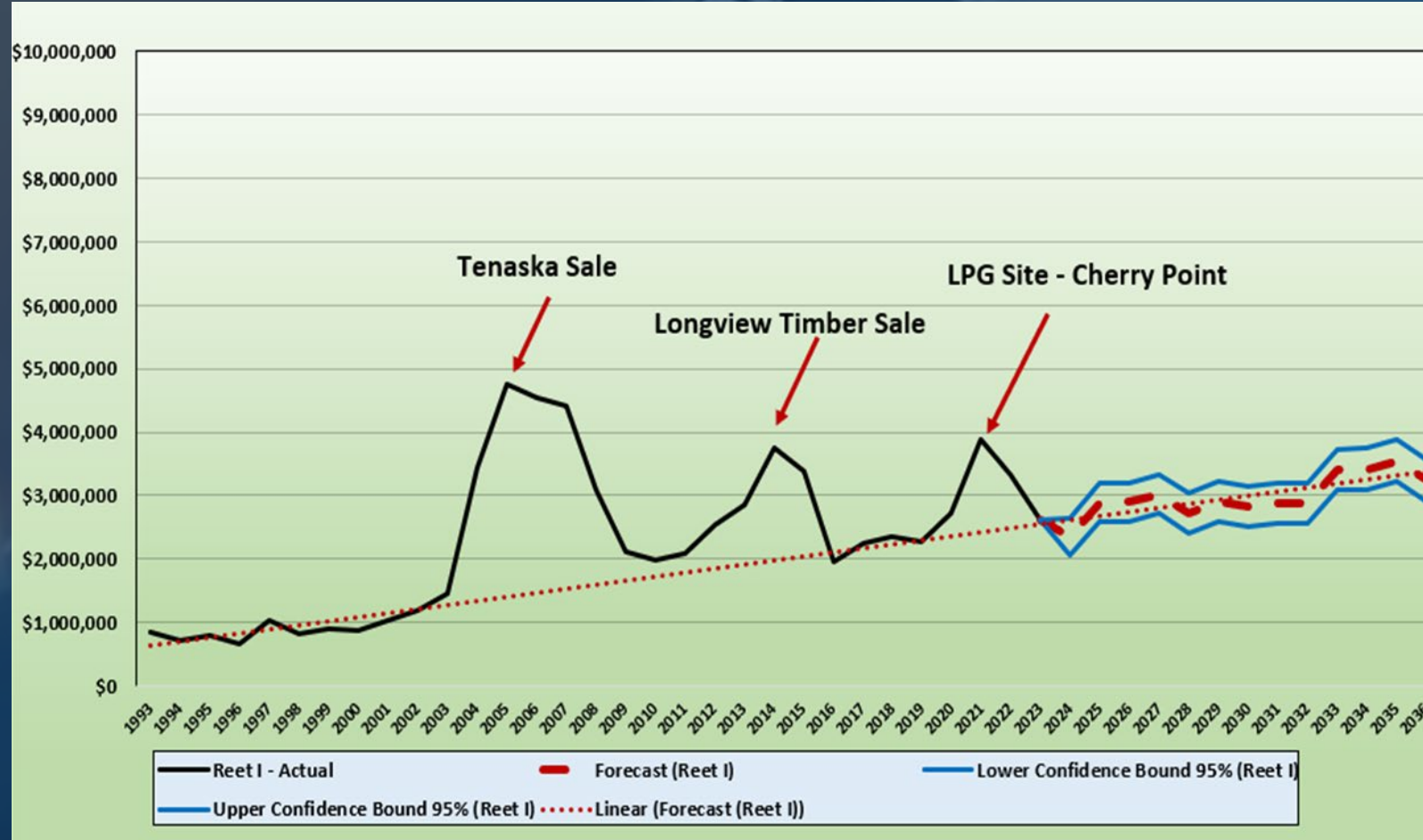


Over the last 30 years, Whatcom County has experienced moderate annual growth in REET revenues (~3.8% depending on the year), with occasional one-time increases due to large property sales.



## Financial Considerations

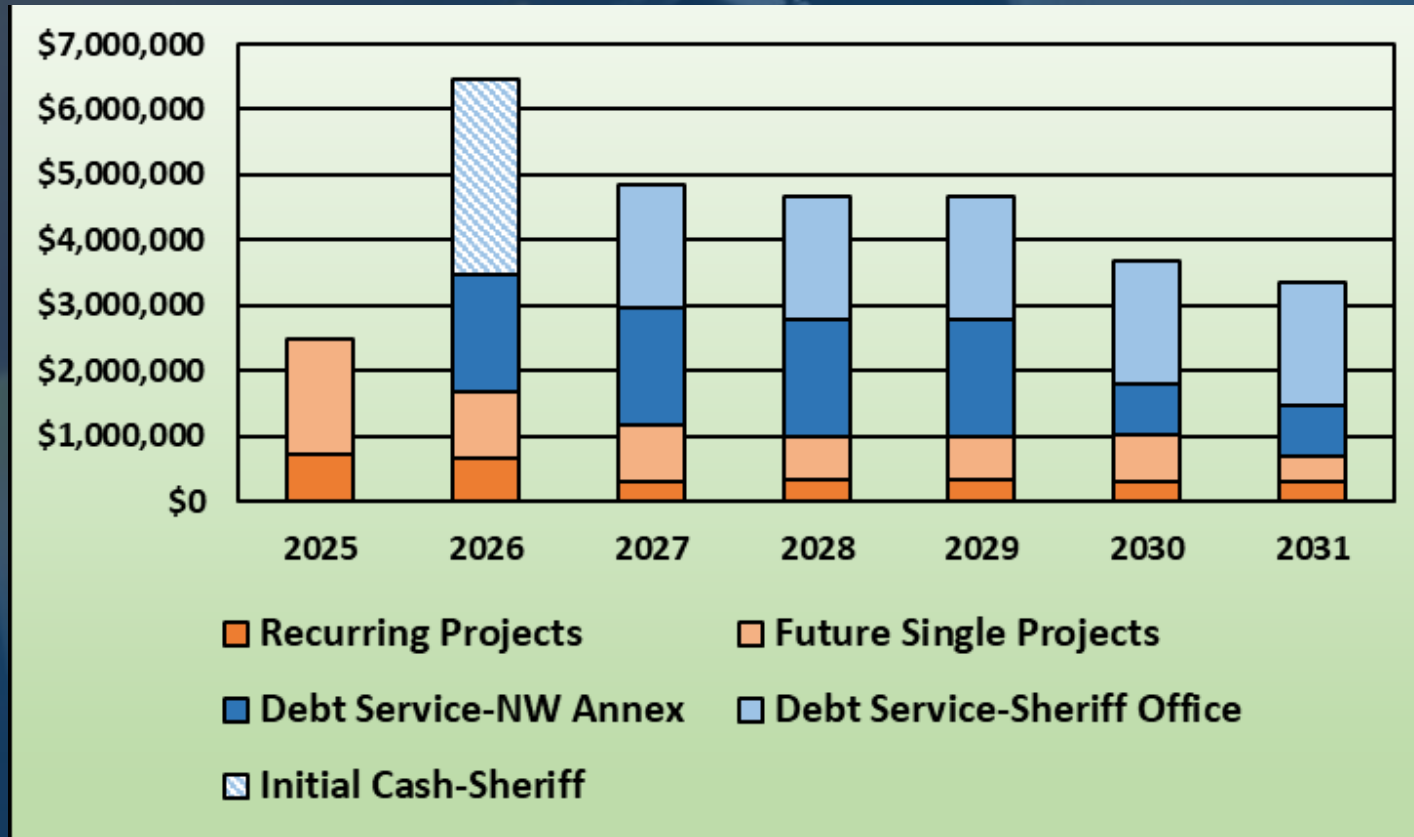
# REET 1 Projection – Trend on Historical Projections



Current statistical projections reflect continued moderate REET revenue growth, subject to possible changes in future economic conditions.

## Financial Considerations

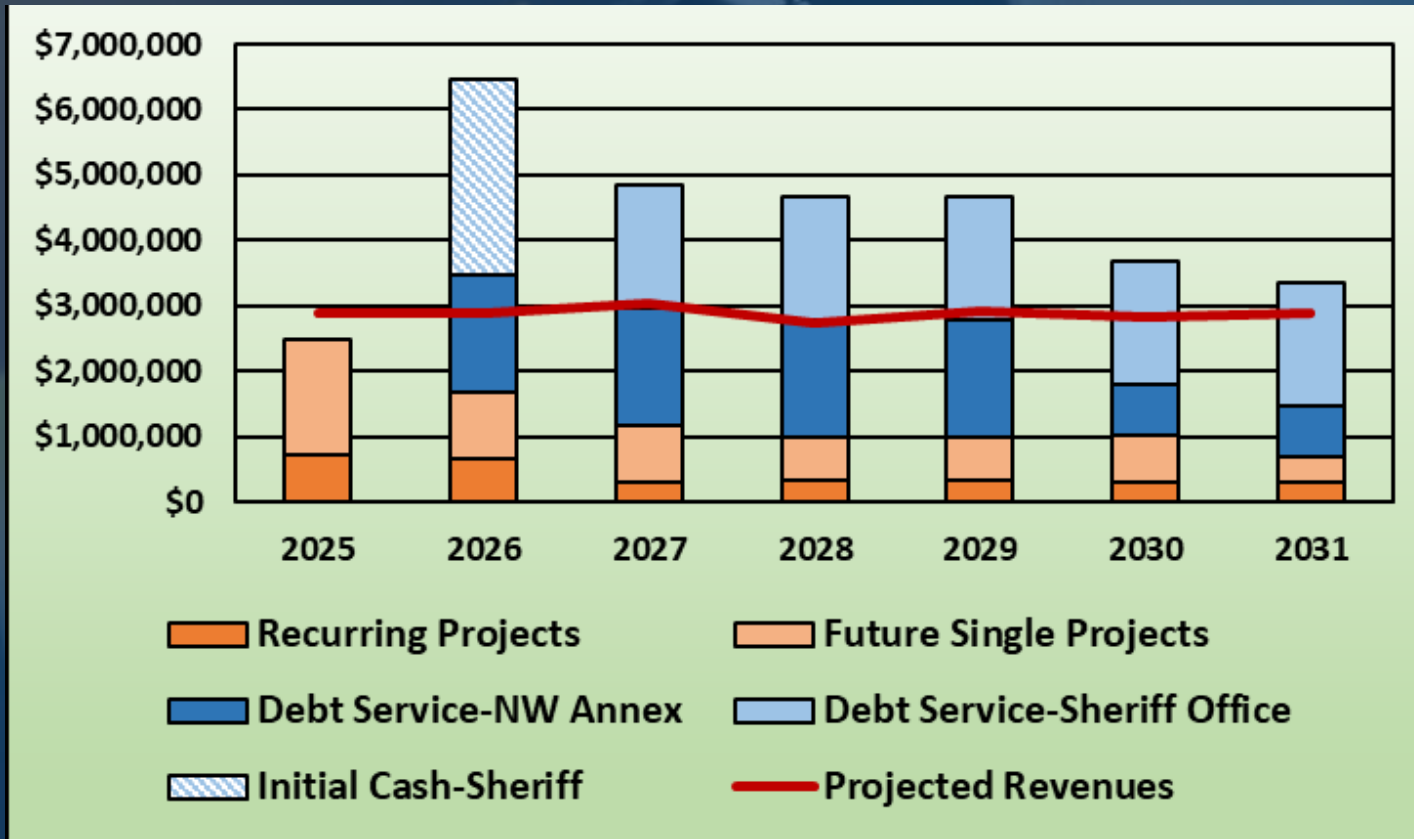
# REET 1: Projected Expenditures



- Blue shaded components reflect debt service/initial cash outlay expenditures for two projects – NW Annex and Sheriff's Office & Morgue
- Orange shaded components reflect maintenance and capital project expenditures

## Financial Considerations

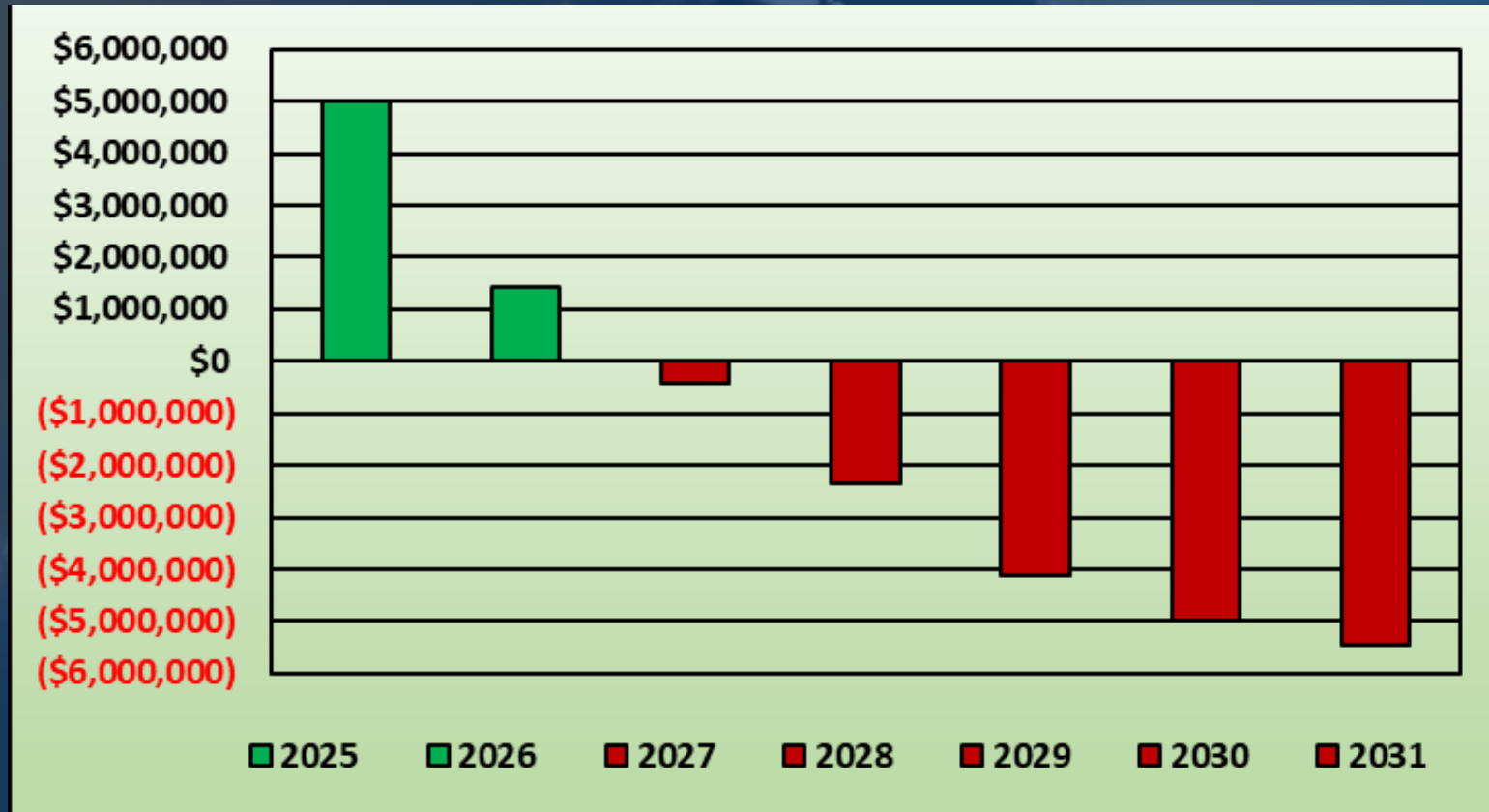
# REET 1: Projected Expenditures & Revenues



- Red horizontal line overlay represents estimated REET I revenues
- For six out of seven years presented, projected expenditures exceed estimated revenues.

## Financial Considerations

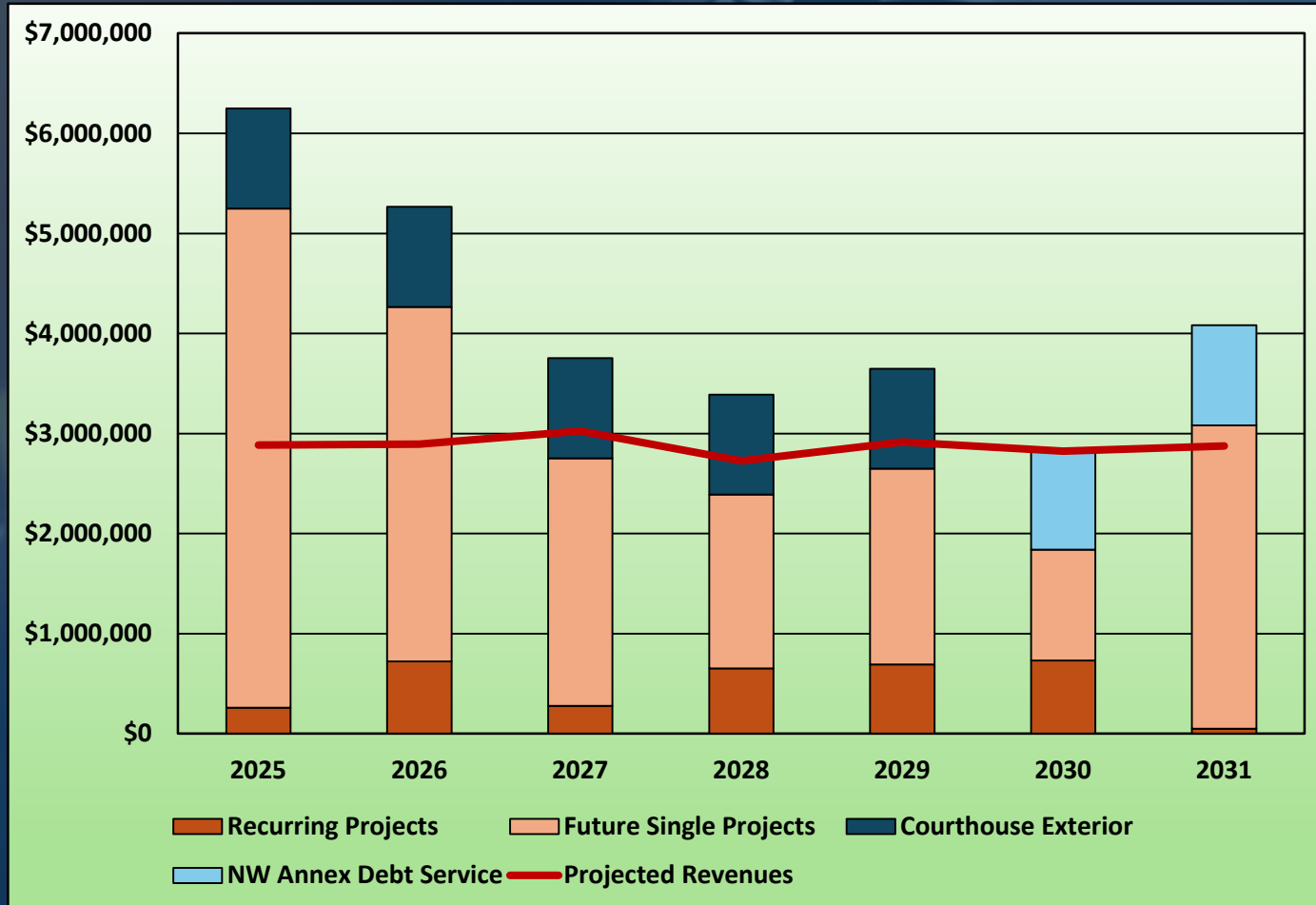
# REET 1: Projected Ending Fund Balance



- Chart shows the projected ending fund balance in the REET 1 Fund (if both projects are funded by REET 1) decreasing over time due to the revenue/expenditure imbalance.
- **Observation:** Projected ending fund balance is not sufficient to cover expenditure drawdown over time.

# Financial Considerations

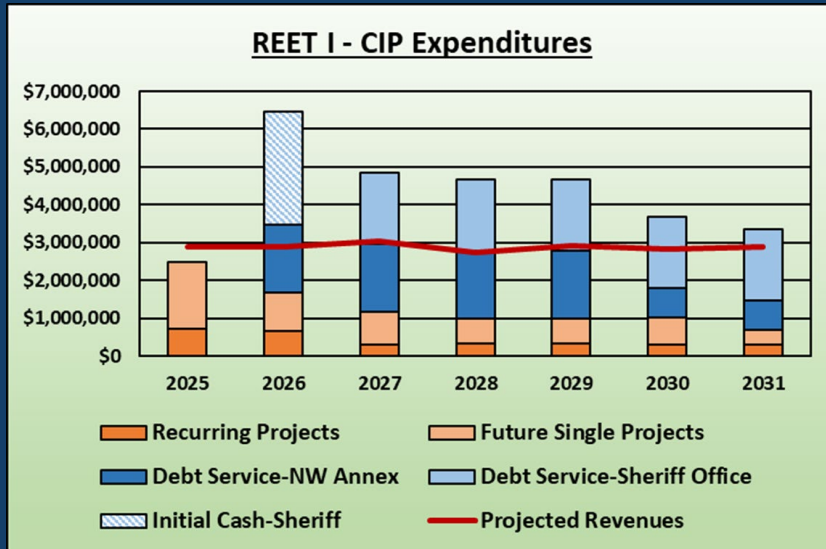
## REET 2: Projected Expenditures & Revenues



- Chart shows overlay of projected revenue line over projected expenditures.
- REET 2 revenues projections mirror REET 1 projections (moderate growth)
- **Observation:** Projected expenditures exceed projected revenues.



# Options?



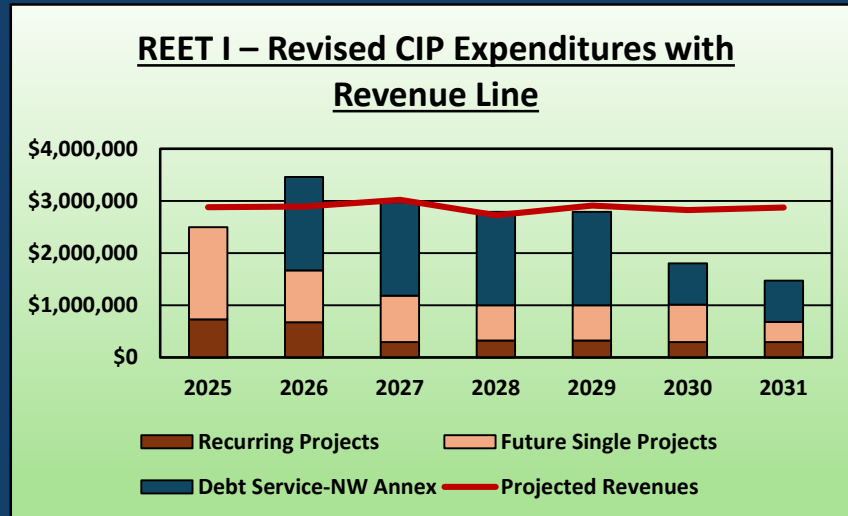
## Revenue Options?

1. Revenue is “market determined” so no choice option.
2. Fund balance reserves are not sufficient to cover draw down.
3. Look for alternative sources of revenue.

## Expenditure Options?

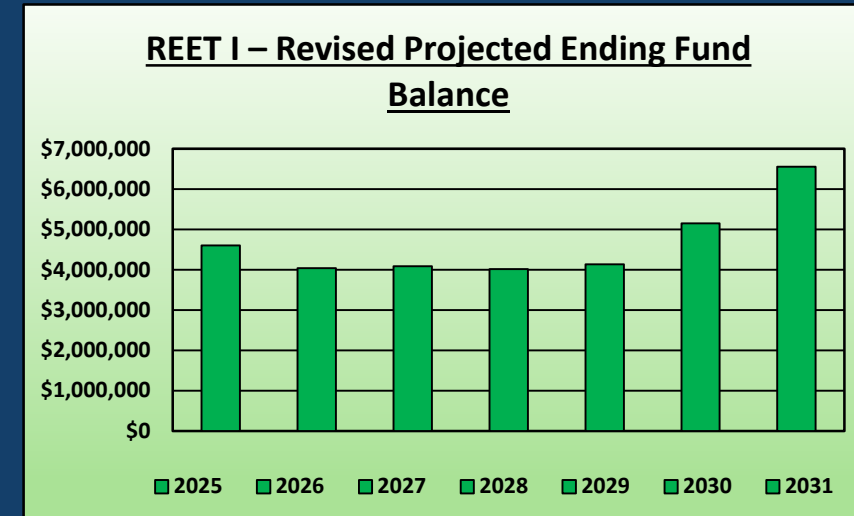
1. Reduce maintenance or future single projects? Not viable.
2. Select one major project and defer second? Seek alternative source of funds for deferred project?
3. Other?

# Options: Defer Sheriff's Office & Morgue Project



**Observation:** REET 1 revenues will be approximate to the projected expenditures for 4 of the first 5 years, with subsequent projected REET I revenues exceeding projected expenditures at a growing rate.

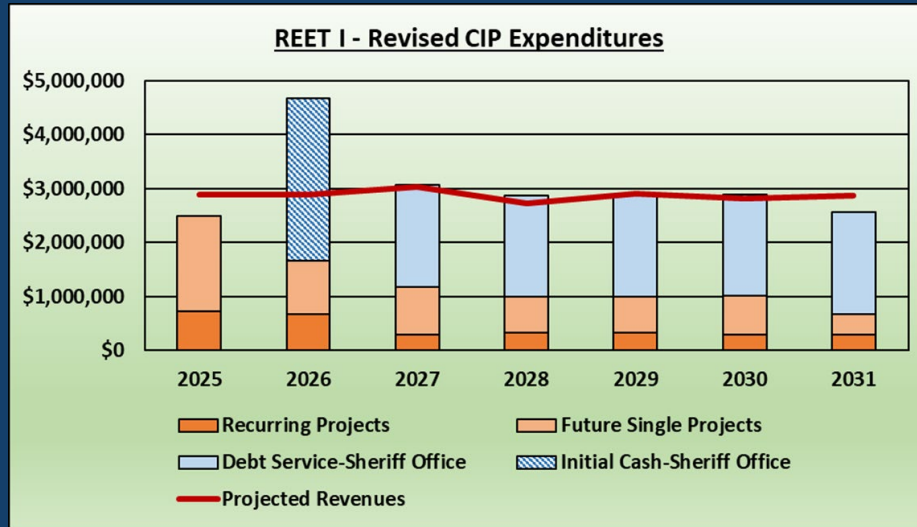
A review of the timing of the Sheriff's Office debt service may be performed in 2030 to determine if both ending fund balance reserves and actual revenues are sufficient to cover any anticipated cost increase for the Sheriff project.



**Observation:** With removal or deferral of the Sheriff's Office debt service, REET 1 ending fund balance will initially dip slightly until in 2026 at which time it begins increasing.

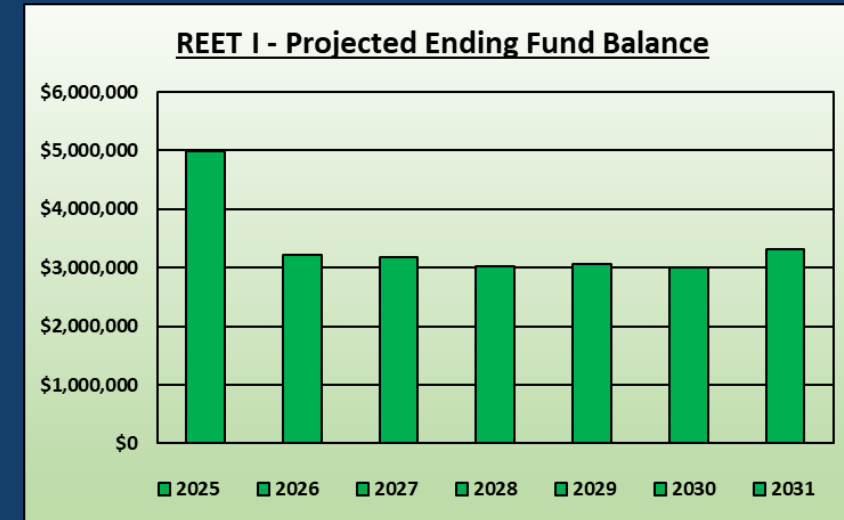
Projected ending fund balance is sufficient to cover future REET 1 expenditures over time.

# Options: Defer NW Annex Project



**Observation:** REET 1 revenues approximately cover expenditures except for 2026. 2026 shows the expenditure for the \$3 million initial cash outlay from fund balance.

With removal or deferral of the NW Annex debt service, REET 1 revenues will be approximate to the projected expenditures the 6 of the 7 years presented.



**Observation:** With removal or deferral of the Annex debt service, REET 1 ending fund balance will initially dip slightly in 2025 (initial cash outlay) after which time it remains static.



# Options: Policy Considerations

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## NW ANNEX

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- Addresses space needs for multiple County departments and provides options for future expansion.
- Already invested \$1.5 million on project design.
- Project is ready to proceed to permitting with anticipated construction start date in Spring 2026.
- Project is eligible for EDI funds (1/2 of the debt service assumed to be covered by EDI funds).
- Possibility of locating a new Sheriff's Office and Morgue at site, reducing overall project costs.

## SHERIFF'S OFFICE AND MORGUE

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- Addresses space needs of the Sheriff's Office and long-term needs for a County morgue.
- Provides efficiencies through co-locating Sheriff's Office on the same site as the jail.
- Planning for this project is earlier in the process compared to the NW Annex and thus cost estimates are less reliable.
- Need to resolve questions at LaBounty site regarding capacity and layout to accommodate all planned projects.

# Next Steps

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- Request direction from the County Council on which project to prioritize; move forward in developing prioritized project.
- Continue to review all projects on the CIP to determine if other projects can be adjusted, and seek alternative funding options for deferred project identified through this prioritization discussion.



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