TriCo Regional Sewer Utility

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OFFICE IMPROVEMENTS COMMITTEE MEETING

Thursday, May 23, 2019 at 12:00 P.M.
10701 N. College Ave, Suite A, Indianapolis, IN 46280

AGENDA

1. Public Comment
2. Office Improvement Options
3. Other Business

Next Scheduled Meeting: TBD

MEMORANDUM

To: **Office Improvements Committee**

From: **Wes Merkle**

Date: **May 20, 2019**

Subject: **Office Improvement Options**

Background

Other than minor updates and renovations to common area, there have been no substantial changes or updates to TriCo's administrative office since its original construction 22 years ago. Security concerns need to be addressed, finishes are dated and worn or damaged, and many changes are needed for staff to better utilize the existing space. Improvements will improve staff morale and productivity.

TriCo has previously considered selling its stake in the Government Center Building and relocating its administrative office, with the most recent attempt abandoned in early 2017 primarily due to costs, among other considerations. At that time TriCo had engaged local architecture firm Blackline to complete a feasibility study and space needs assessment, which was followed by design of an expanded office at the plant that could house all staff under one roof. Design work was halted after completion of the schematic design phase, where plans were approximately 30 percent complete. The Board decided later in 2017 to proceed with less costly renovations to the administrative and plant offices.

Staff engaged local architecture firm CSO to provide interior design services and prepare plans and specifications for renovation of the administrative office. Bids were received earlier this month.

Recently staff began exploring alternative solutions following renewed interest in moving. Staff engaged a local commercial real estate broker with CBRE to identify potential office spaces that could serve as a new administrative office. Nearly two dozen locations were considered, four locations were toured by staff, and proposals were received for the two best locations. Both locations are sized and equipped similar to our current facilities and located in TriCo's service area.

Staff also revisited the Blackline design submittal from two years ago. Substantial savings opportunities were identified by reducing the site construction costs and rolling them into the plant expansion project, which includes all of the same trades, and by eliminating the oversized shop bay addition.

Staff recently began discussions with the Clay Township Trustee and City of Carmel to gauge interest in acquiring TriCo’s stake in the Government Center Building.

Purchasing and renovating an existing building was considered but ruled out due to lack of inventory and cost. Building new and leasing back our existing space were also considered but again ruled out due to cost.

Description of Options

Option 1: Lease

> This option includes selling TriCo’s stake in the Government Center Building and leasing a similar facility within our service area. Proposals were received for two locations deemed to be the best fit by staff – Pennwood (located on Pennsylvania Street south of 116th Street) and Carmel Tech Center (located on City Center Drive between Pennsylvania Street and Carmel Drive). Both locations include floor plan modifications to meet TriCo’s needs and all new finishes. TriCo would continue with plans to renovate the plant office, with design anticipated to start later this year.

Option 2: Renovate

> This option includes renovation of the existing administrative office. Renovation includes adding a conference room in the existing lobby waiting area, rebuilding the front office to better control access for security purposes, creating a new equipment storage and mudroom space for field staff, moving walls to make better use of space, renovating the kitchen and restroom, removing dated wallpaper and updating finishes, replacing the ceiling grid and lighting with modern fixtures, and replacing worn and deteriorated carpeting. Workstation furnishings would be replaced. TriCo would continue with plans to renovate the plant office, with design anticipated to start later this year.

Option 3: Unite

> This option includes selling TriCo’s stake in the Government Center Building, expanding the plant office, and locating all staff under one roof at the plant. An addition would be constructed on the front of the plant office and shop building and part of the shop would be converted to office space.

Advantages and Soft Costs

TriCo management is always conscious of fiduciary duty and acts in the long-term best interest of current and future ratepayers. The following list of advantages were developed for each option irrespective of financial considerations, as many are difficult to determine “soft costs”.

Option 1: Lease

- Landlord is responsible for maintenance of the building and grounds
- Landlord pays utilities and provides janitorial services (Pennwood)
- Available common areas offer additional amenities for staff and guests (Pennwood)
- Landlord carries the risk of repair or replacement of major building systems
- Lowest up-front cost

Option 2: Renovate

- Facilities are already familiar to staff and customers
- Located in the original part of our service area
- Proximity to Clay Township Trustee's office
- Costs already budgeted

Option 3: Unite

- Increased productivity by eliminating lost time due to travel needs
- Improved staff collaboration and morale with everyone at one location
- Office is wholly owned and controlled by TriCo
- Streamlined operating costs at one location
- New office space is a blank slate with space designed to meet all current needs and stay flexible for future needs as well
- Closer to a majority of construction activity in our service area
- Larger training room always available for Board meetings, staff use, trade organizations, etc.
- Addresses aging and deteriorating plant office/shop building systems
- Lowest long-term cost and payback period ≤10 years

Financials

See the attached financial analysis. Leasing has the lowest up-front cost. Uniting has the highest up-front cost; however, the breakeven point compared to renovation and leasing is less than 10 years.

The unite option cost includes replacement of multiple existing building systems at the plant office/shop that are in need of repair or approaching the end of their useful life – roofing, split-face block façade, windows, and HVAC. Costs were not included under the renovation and lease options.

While still in fair condition to the best of staff's knowledge, the Government Center Office is 22 years old and major building systems will similarly require replacement in the next 20 years. TriCo's share of these costs were not included in the renovation option.

Renovating is only practical if TriCo makes a long-term commitment to the existing offices. Multiple other government entities have inquired about the administrative office in past years. If the City of Carmel and Clay Township eventually consolidate, then the City of Carmel will have a controlling stake in the Government Center Building.

Leasing and uniting are only practical if TriCo secures a buyer for its stake in the Government Center Building.

Recommended Action

Staff respectfully requests the Committee review and discuss all options, refer any questions to staff, and recommend an option to move forward.

1. Renovate: Recommend the Board via C&C Committee award the renovation construction contract
2. Lease: Recommend the Board via B&F Committee approve lease costs and amend the budget accordingly, instruct staff and legal counsel to negotiate lease terms, and instruct staff to negotiate a sale of TriCo's stake in the Government Center Building.
3. Unite: Instruct staff to restart design by engaging an architect, modify the plant expansion design to include site work, and negotiate a sale of TriCo's stake in the Government Center Building.

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Office Improvement Options Comparison

Options Summary	Notes on options
Option 1 - lease new admin office, renovate plant office	Broker with CBRE is searching for potential spaces.
Option 2 - renovate admin office, renovate plant office	Architect with CSO is finishing renovation plans and construction bids will be received in May.
Option 3 - renovate & add on to plant office (unite/consolidate offices)	Project partially designed, put on hold in 2017.
Option 4 - buy new admin office + renovate plant	Per broker little inventory available. Unlikely feasible when renovation costs are considered at new location.
Option 5 - sell and lease back admin office + renovate both locations	There is little desire to stay in a building that will be controlled by Carmel.
Option 6 - build to suit/lease new admin office + renovate plant office	Per broker and builder lease cost would be much higher and cost prohibitive

Assumptions		Notes on assumptions
75,000	annual lease for option 1 w/ all expenses, phone, internet	Per received proposals and broker. Actual amount TBD in negotiation.
3.0	lease escalation rate	Per received proposals and broker. Actual amount TBD in negotiation.
52,000	annual admin office expenses	per current operating budget and previous 6 years of expenses
847,000	admin office sale price	per previous $775,100 appraisal plus 3% per year
280,000	admin office renovation cost	per capital budget + architect. Actual amount TBD once bids are received.
200,000	plant office renovation cost	per capital budget.
20,000	plant office annual estimated utilities/maintenance/repair budget (options 1+2)	estimated 1.5$/sft/yr for utilities + 1.5$ for janatorial + repair/replacement (2300 sft office + 4900 sft shop)
47,000	plant office annual estimated utilities/maintenance/repair budget (option 3)	estimated 1.5$/sft/yr for utilities + 1.5$ for janatorial + repair/replacement (7800 sft office + 2200 sft shop)
1,800,000	build at plant / unite offices	per budget by architect, with modifications noted below (*), plus 4% per year for escalation
41,000	annual savings w/ united offices (see separate calculation)	see separate sheet for lost staff time calculation
3.0	cost inflation rate	escalation rate for all espenses
4.0	TriCo ROR	cash use 0%, investment return 2%, borrow at 4%

Admin and plant offices are not depreciating assets and have FV under options 2+3. To account for this the sale price of the current admin office is excluded in the option 1 calc below. Alternatively the sale price can be added as a PV under option 1, FV under option 2, and FV for the future larger office under option 3.
PV = present value, FV = future value, ROR = rate of return

*revise site work & roll into plant expansion project. Delete vactor bay and modify biosolids instead.
delete patio and overhead glass/insulated doors.
budget 1.6M for building, add 0.2M to plant exp project for site work, total 1.8M