

Project Analysis

The budget as proposed by the Governor includes \$3.55 million of general obligation (GO) bond funds to acquire the Annapolis Post Office building. Although not programmed for funding in the five-year forecast as reflected in the 2011 *Capital Improvement Program* (CIP), the acquisition is presented as an opportunity for the State to add the historic building to the Annapolis State Government Center. The intended purpose of the acquisition is to provide office space for State agencies that currently lease space in the Annapolis area. The Department of General Services (DGS) is in the process of reviewing recent appraisals of the property which is currently owned and occupied by United States Postal Service (USPS). Once acquired, the building will be completely renovated. To this end, the fiscal 2013 budget proposal also includes \$232,000 to fund the design services for the proposed renovation. Construction funding is currently programmed in the 2012 CIP for fiscal 2014 in the amount of \$2.55 million, bringing the total estimated project cost to \$6,332,000 based on the facility program. The renovation is scheduled for completion in June 2014, at which time the intent is for the State to occupy approximately half of the building with the remaining space made available to USPS under an as yet to be negotiated lease arrangement with the State for continued operation of a post office serving Annapolis.

The initial assessment of the building by the DGS Office of Facilities Planning indicates that the building will require a comprehensive renovation of the exterior and interior and all major building systems. The already identified building deficiencies that must be corrected include total renovation of the building cupola, multiple roof repairs and possible replacement, abatement of lead paint and other hazardous materials which could impact the renovation schedule and cost, and complete updating and replacement of the plumbing; electrical; and heating, ventilation, and air conditioning building mechanical systems. There will also need to be Americans with Disabilities Act accessibility improvements. In addition to the known building deficiencies, two other factors could substantially impact both the cost and renovation schedule: (1) the need to provide continuity of services during building renovation since it will continue to be operated by USPS, and (2) the building's historical designation which will need to be recognized in the design phase as a potential mitigating cost factor. To a degree, both of these factors should cause some pause when evaluating the estimated design and construction costs. For instance, the estimated design fee is at 9% of the estimated construction costs, which for a comprehensive renovation of a historical building could be on the low side. Moreover, the need to schedule work while the building is occupied generally requires more project time and off-hour work scheduling which is reflected in the basic square foot cost estimate. The DGS cost estimate worksheet for the project reflects a base \$60 gross square foot (GSF) estimate that might be low for a complete renovation of a historical building and lower still for a project that will require careful sequencing.

Questionable Justification

As shown in **Appendix 2**, the State currently leases approximately 232,000 GSF of space for a variety of different State agencies in the Annapolis area. The primary justification presented in support of the proposed acquisition and renovation is the additional State-owned space that will be made available that will in turn allow the State to reduce the reliance on leased space in the Annapolis

area. However, the building is only 13,058 GSF and will not add that much space to the State's inventory since USPS still intends to occupy upward of 50% of the office space. This effectively reduces the amount of office space this building will provide the State (7,000 GSF). Based on the current lease space data for State agencies in and around Annapolis, this will result in just a 3% reduction in the amount of space currently leased by State agencies.

The Department of Legislative Services (DLS) also questions the basic cost benefit analysis for this acquisition and renovation project. Even if the total project cost is as currently estimated, and as noted above for a project of this nature, the current cost estimate should be considered very preliminary, the annual rent from USPS would need to cover, at a minimum, the debt service cost associated with the State's initial financial outlay. DLS estimates that \$6.3 million amortized over a 15-year period at 5% interest would require approximately \$670,000 annually to service the debt, and at a 30-year amortization, the debt service is reduced to approximately \$423,000 annually. Add to this annual operating costs and maintenance (including security services, for both the USPS space and State space), the breakeven point for the State could be even more elusive. DLS has asked for, but has yet to receive, a DGS cost benefit analysis that supports the proposed purchase and renovation. Since there is little in the way of additional State-owned office space that this purchase will provide, the cost avoidance associated with any move of a State agency from leased space should be relatively small. A negotiated lease with USPS is the most important factor in determining whether the proposal is financially sound and, at this point, DGS has yet to advise DLS on the status of any negotiations. DLS does not recommend moving forward with the proposed acquisition and renovation until a more thorough evaluation of the costs and benefits is provided for review.

Finally, DLS questions the need to add to the State's building inventory for the purposes of simple office space. As it is, the State has difficulty adequately funding building maintenance, and this building will add yet another property that must be accounted for in the DGS operating budget and facility maintenance budget. With respect to the building's historical designation, this should serve to effectively protect the building from potentially being altered or renovated, should USPS ever leave the facility, in a manner inconsistent with the Annapolis historical zoning requirements. Purchasing the building is, therefore, unnecessary as a means of protecting the building's historical designation and contribution to the city.

DLS recommends deferring funding for the acquisition of the historical building pending receipt of a full cost benefit analysis that supports the proposed acquisition and renovation.

Prior Authorization and Capital Improvement Program

**Authorization Uses
(\$ in Millions)**

<i>Fund Uses</i>	<i>Prior Authorization</i>	<i>2013 Request</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>
Acquisition	\$0.000	\$3.550	\$0.000	\$0.000	\$0.000	\$0.000
Planning	0.000	0.232	0.000	0.000	0.000	0.000
Construction	0.000	0.000	2.550	0.000	0.000	0.000
Equipment	0.000	0.000	0.000	0.000	0.000	0.000
Total	\$0.000	\$3.782	\$2.550	\$0.000	\$0.000	\$0.000

**Authorization Sources
(\$ in Millions)**

<i>Fund Sources</i>	<i>Prior Authorization</i>	<i>2013 Request</i>	<i>2014 Estimate</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>
GO Bond	\$0.000	\$3.782	\$2.550	\$0.000	\$0.000	\$0.000
Total	\$0.000	\$3.782	\$2.550	\$0.000	\$0.000	\$0.000

Executive’s Operating Budget Impact Statement

(**\$ in Millions**)

	<i>FY 2013</i>	<i>FY 2014</i>	<i>FY 2015</i>	<i>FY 2016</i>	<i>FY 2017</i>
Estimated Operating Cost	\$0.000	\$0.000	TBD	TBD	TBD
Estimated Staffing	0	0	0	0	0

Estimated operating costs that could be incurred by adding the Annapolis Post Office building to the State’s inventory have not been fully developed at the time the budget was submitted. The 2012 CIP reflects only that future costs are to-be-determined.

GO Bond Recommended Actions

1. DE0201B Annapolis Post Office..... \$ 3,782,000

Add the following language:

Annapolis Post Office. Provide funds for site acquisition and the design of renovations to the historic Annapolis Post Office building located on Church Circle in Annapolis, provided that no funds may be expended for acquisition until the Department of General Services has provided the budget committees with a complete cost benefit analysis that supports the proposed acquisition and renovation. The budget committees shall have 45 days to review and comment following receipt of the report.

Explanation: This language restricts the expenditure of funds for the acquisition of the Annapolis Post Office pending the submission and review of a cost benefit analysis that supports the proposed acquisition and renovation of the building.

Information Request	Author	Due Date
Cost benefit analysis for the proposed acquisition and renovation of the Annapolis Post Office	Department of General Services	July 1, 2012

Capital Project Cost Estimate Worksheet

Department: Board of Public Works
Project Number: DE0201B
Project Title: Annapolis Post Office Renovation
Analyst: Matthew D. Klein

Structure

New Construction:	13,058 Sq. Ft. X	\$60.00 Sq. Ft. =	\$783,480
New Construction:	0 Sq. Ft. X	\$0.00 Sq. Ft. =	0
Renovation:	0 Sq. Ft. X	\$0.00 Sq. Ft. =	0
Renovation:	0 Sq. Ft. X	\$0.00 Sq. Ft. =	0
Built-in Equipment:			0
Demolition:			45,000
Information Technology:	13,058 GSF X	GSF =	45,000
Telecommunications:			0
Miscellaneous – Other:	Infrastructure Upgrade		980,000
Miscellaneous – Other:	Asbestos Removal		80,000
Miscellaneous – Other:			0
Subtotal			\$1,933,480
Regional Factor:	100.0%		0
Subtotal			\$1,933,480
Escalation to Mid-point:	3.00 Yrs. X	3.8% =	11.50% 222,350
Total Cost of Structure (Bid Cost)			\$2,155,830

Site Work and Utilities

Site Improvements:	58,004 + regional factor + mid-point escalation	\$64,674
Utilities:	38,670 + regional factor + mid-point escalation	43,117
Project Subtotal (Bid Cost)		\$2,263,622

Fees and Miscellaneous Costs

Green Building Premium:	2.0%	\$45,272
Total Construction Contingency:	5.0%	113,181
Inspection Cost:	4.6%	104,127
Miscellaneous:	CPM Schedule	24,000
Miscellaneous:	Buidling Commissioning	21,257
Miscellaneous:	Buidling Acquisition	3,550,000
A/E Fee through Construction Phase @	8.3%	210,925
Total Cost of Project		\$6,332,384

Base Cost Per New Square Foot	\$60
Adjusted Cost Per New Square Foot (incl. escalation, contingencies, and Green Bldg.)	\$72
Base Cost Per Renovated Square Foot	\$0
Adjusted Cost Per Renovated Square Foot (incl. escalation, conting., and Green Bldg.)	\$0

Leased Administrative Office Space Annapolis

<u>Building Name</u>	<u>Address</u>	<u>Agency (Primary)</u>	<u>Size (GSF)</u>
Leased Space			
1 Maryland State Police Legislative Liaison	47 State Circle	MSP	920
2 Public Defender System Public Defender	50 West Street	PDS	6,010
3 Department of Juvenile Services	1623 Forest Drive	DJJ	10,000
4 Maryland State Department of Education Rehabilitative Services	2011-A Commerce Parkway	MSDE	3,739
5 Department of Human Resources Social Services Administration	60 West Street	DHR	57,112
6 Maryland Department of the Environment Water Quality Monitoring	416 Chinquapin Round Road	MDE	9,160
7 Judiciary of Maryland Administrative Office of the Courts	2661 Riva Road, Bldg. 900	JUDA	29,618
8 Judiciary of Maryland Administrative Office of the Courts	2009 Commerce Park Drive	JUDA	14,000
9 Property Tax Assessment Appeals Board Property Tax Assessment	60 West Street	PTAB	1,116
10 Department of Labor, Licensing, and Regulation Employment and Training	2016 Industrial Drive	DLLR	7,000
11 Maryland Department of Transportation Motor Vehicle Administration	Harry S. Truman Parkway	MDOT	26,000
12 State Board of Elections Board of Elections	151 West Street, Suite 200	SBE	9,000
13 Executive Department State Documents	1700 Margaret Avenue	EXEC	8,414
14 Executive Department Energy Administration	1623 Forest Drive	EXEC	6,600
15 Executive Department Critical Area Commission	1804 West Street	EXEC	10,000
16 Executive Department Ethics Commission	9 State Circle	EXEC	3,300
17 Maryland Department of Transportation State Highway Administration	1419 Forest Drive	MDOT	1,089
18 Maryland Higher Education Commission	839 Bestgate Road	MHEC	20,000
Leased Total			223,078

GSF: gross square foot

Note: Information provided by the Department General Services as of January 2002.