

Project Profits From Privatization

By Roger Stanton

Eight years ago, the county of Orange, Calif., — like so many other counties across the nation — faced a serious shortage of facility space. Of particular concern was the sheriff's forensic sciences laboratory which had increased in size and scope, but was crowded into only 5,000 square feet of space.

A facilities needs assessment indicated that the forensic sciences laboratory and offices would require 120,000 square feet for growth through 2010, and that the county could develop a building of that size on county-owned land next to the sheriff's headquarters. Parking would not be available and the project would cost more than \$40 million.

It was agreed that an alternative delivery system was needed, and that privatization should be explored.

Accordingly, the board issued a request for proposal to a select list of 16 real estate developers, requesting a build-to-suit turnkey forensic sciences building to be erected either on the original county-owned site or on some alternate site in close proximity to the sheriff's headquarters. Based on the responses, the list was narrowed to eight highly qualified firms.

A developer-architect team headed by Hutton Development, Santa Ana, Calif., offered an innovative solution. The firm proposed a 3.5 acre site across the street from the sheriff's headquarters — a site for which the development firm had acquired an option from the city of Santa Ana, the county seat. On that site, Hutton, along with architect Albert C. Martin and Associates and contractor Perini Building Company Western U.S. Division, had planned to develop twin, triangular towers to be called Hutton Civic Centre Plaza.

Hutton's proposal was for the sheriff's forensic sciences laboratory and offices to occupy one of the 186,000 square foot towers and to use half of the project's 1,156 parking spaces. The other tower, to be developed at a later date, would be leased out to private firms.

This solution would provide the county with a larger building than that proposed on the original study — 186,000 square feet versus 120,000 square feet. In addition, 575 parking spaces — 120 of which would be underground and secured — at a cost of a little more than \$30 million.

Thus, through privatization, the county would obtain the required space with plenty of room to grow for 25 percent less cost.

Moreover, Hutton would assume the risks of interest rates, city fees and labor and material price fluctuations. The county's only obligation was to pay the fixed, pre-determined rental rate upon occupancy.

In addition to the need for a forensic sciences lab, the Environmental Management Agency (EMA) was running out of space. The General Services Administration saw a second solution in the Hutton-Martin-Perini project. If EMA, which

has funding and is able to pay rent, were taken out of its cramped offices, these offices could be used for a number of non-revenue generating agencies scattered in leased space throughout the area.

Hutton was asked to consider developing the proposed twin tower as a privatization build-to-suit for the EMA. The proposal for the two towers — one for the forensic sciences and one for EMA — was then considered by the Board of Supervisors.

This proposal would give the county two highly operational, cost-effective, energy efficient and strikingly designed buildings more quickly at less cost than the county could provide for itself. Moreover, there would be no risk of cost overruns and no public funds would be extended to build the project.

The proposal presented to the board was to lease both buildings and the entire parking structure for 20 years with options to extend the lease. With this arrangement, the dollar amount was locked in and the county did not pay rent until move-in.

The proposal also included an option to purchase the complex at a pre-determined cost with an escalation formula. With this option, the county could own the buildings without borrowing money and holding it during construction. In either case, there were no hidden risks.

The agreement was signed and the Forensic Sciences building was completed within 24 months.

While the project was under construction, interest rates dropped and the county elected to take advantage of its option-to-purchase, keying the purchase date to building occupancy. Bonds were issued, and the entire project was bought for less than \$65 million.

The project includes twin, triangular eight-story towers, both with basements, and 1,156 parking spaces on a key 3.5 acre site. The architect's solution for the forensic sciences building meets all of the sheriff's critical vertical and horizontal security concerns and is topped by a helipad.

The forensic sciences tower was delivered on time — in exactly 24 months — due to close cooperation between the county and the development team.

Some believe that a project of this type can only be cost-effective if non-union labor is used, lowering the labor cost. However, this project used all union contractors and demonstrates the benefits of proper scheduling and teamwork. The development team's pre-construction efforts maximized every dollar.

Forensic sciences and the EMA have now moved into their respective towers, each on a time table that was in keeping with its schedule. □



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