

CITY COUNCIL COMMUNICATION



MEETING DATE: January 11, 2022

ITEM NUMBER: 12.1

SECOND READING: January 25, 2022

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TYPE OF ITEM: General Business

PRESENTED BY:

Harold Dominguez, City Manager's Office, Harold.Dominguez@longmontcolorado.gov

Dale Rademacher, City Manager's Office, Dale.Rademacher@longmontcolorado.gov

Jim Golden, Finance Administration, Jim.Golden@longmontcolorado.gov

Eugene Mei, City Attorney's Office, Eugene.Mei@longmontcolorado.gov

SUBJECT/AGENDA TITLE:

Costco Project Cost Update

EXECUTIVE SUMMARY:

In December of 2020, the City Council approved a three party Public Private Partnership Agreement (P3 Agreement) between the City of Longmont, Costco Wholesale Corporation and Diamond G Concrete Company (property owner) for the planning, design, permitting and construction of a Costco store in the eastern area of Harvest Junction owned by Reggie Golden and his family within the Irwin-Thomas annexation. The project team has undertaken the planning and design and is nearing completion of the permitting. The project has been put out to bid and bids from qualified contractors have been received and reviewed. Bids received were quite a bit higher than the original estimates.

The original project costs were only estimates and more refined cost figures will be required for closing in accordance with the original agreement. As the design progressed, there were several additional unforeseen items, which were not anticipated in the original estimates and are now included. The items include the Bonus Ditch relocation, site underdrain, additional site grading/earthwork and demolition. Another factor in the price increases is that over the course of the past year, the construction industry has seen significant fluctuations in pricing for materials that have resulted in additional costs for core items for land development. Prices for items such as pvc pipe, steel, wood and concrete have escalated by more than 30% in the past year. In addition, the construction market in the Denver area and along the Front Range is more active than normal. This has led to material shortages and delays in supply, which has resulted in pricing increases. The increased activity in this area has also resulted in labor shortages that have also been a factor in the pricing increases. The pricing increases have been a common occurrence on projects going to construction in 2021 and the city has dealt with this issue on several other projects including the Fire Stations and the 2021 Waterline Replacement program.

There is a need for the City to move forward with an additional appropriation at this time to cover the current maximum identified costs so that the closing on the property can take place next month allowing construction to commence and keep with a timetable to meet Costco's needs to be able to open the facility. Currently that timetable anticipates opening the store in the second half of 2023.

Below is a comparison of the city project cost allocations from the initial estimates from November 2020, the maximum bid received in December, and finally the current estimated maximum cost scenario. When the bids were received in December they were significantly higher than the most recent engineering estimates and certainly higher than the estimates included in the P3 Agreement. Following the bid opening, the City along with the Developer, have been working with the bidders to both clarify their bids and questioning several bid tab items. That effort has been successful and has resulted in lowering of the original bid amount to the amounts shown in the table below:

	<u>Nov 2020</u>	<u>Dec 2021</u>	<u>Jan 2022</u>
Total maximum City project cost	\$12,530,953	\$17,069,726	\$15,024,268
City cost to essentially incentivize Costco	\$ 9,605,431	\$12,579,717	\$10,861,534
City cost of the affordable housing project	\$ 2,925,522	\$ 4,490,009	\$ 4,162,735

Article 9.12 of the City Charter authorizes Council to make additional appropriations during the fiscal year. This ordinance appropriates necessary funds for expenses above and beyond the 2022 Budget which was adopted in October 2021. This is the first additional appropriation ordinance for 2022. This ordinance appropriates an additional \$3,685,435 in three funds, bringing the total 2022 budget to \$395,456,152.

One type of expense is included in this appropriation:

1. *Represents expenses that have an offsetting revenue source such as grants donations of fees.

[Link to Council work plan:](#) Securing existing revenue and new revenues is a foundational item supporting department core responsibilities as well as potentially other Council work plan items.

Water Acquisition Fund

*Rebate of Cash-in-Lieu of Water Rights for Harvest Junction East Development \$ 21,970
(offset by cash in lieu of water rights)

Total Water Acquisition Fund **\$21,970**

Affordable Housing Fund

*Harvest Junction East Development (offset by transfer revenue) \$1,170,150
This is a transfer of ARPA Funding from the General Fund)

Total Affordable Housing Fund **\$1,170,150**

Harvest Junction East Special Revenue Fund

*Harvest Junction East Development \$2,493,315

(\$1,023,165 offset by proceeds from advance revenue – this is a loan from the Fleet Fund, and \$1,470,150 transfer from the Affordable Housing Fund)

Total Harvest Junction East Special Revenue Fund \$2,493,315

COUNCIL OPTIONS:

1. Approve the Ordinance as presented.
2. Modify, then approve the Ordinance.
3. Do Not Approve the Ordinance

RECOMMENDED OPTIONS:

Option 1: Approve the Ordinance as presented

FISCAL IMPACT & FUND SOURCE FOR RECOMMENDED ACTION:

\$3,685,435 in three funds. The \$21,970 from the Water Acquisition Fund is a reimbursement of cash in lieu of water rights. The \$1,170,150 from the Affordable Housing Fund is from ARPA funding to be used for the property purchase. The \$2,493,315 from the Harvest Junction East Fund comes from a loan from the Fleet Fund and the transfer of the ARPA monies from the Affordable Housing Fund.

BACKGROUND AND ISSUE ANALYSIS:*Project Status and Considerations*

In December of 2020, the City Council approved a three party Public Private Partnership Agreement (P3 Agreement) between the City of Longmont, Costco Wholesale Corporation and Diamond G Concrete Company (property owner) for the planning, design, permitting and construction of a Costco store in the area east of Harvest Junction owned by Reggie Golden and his family within the Irwin-Thomas annexation. The project team has undertaken the planning and design and is nearing completion of the permitting. The project has been put out to bid and bids from qualified contractors have been received and reviewed. Bids received were quite a bit higher than the original estimates.

The next step will involve updating the project costs for the construction phase of the project. The original project costs were only estimates and more refined cost figures will be required for closing in accordance with the original agreement. As the design progressed, there were several additional unforeseen items, which were not anticipated in the original estimates and are now included. The items include the Bonus Ditch relocation, site

underdrain, additional site grading/earthwork and demolition. Another factor in the price increases is that over the course of the past year, the construction industry has seen significant fluctuations in pricing for materials that have resulted in additional costs for core items for land development. Prices for items such as pvc pipe, steel, wood and concrete have escalated by more than 30% in the past year. In addition, the construction market in the Denver area and along the Front Range is more active than normal. This has led to material shortages and delays in supply, which has resulted in pricing increases. The increased activity in this area has also resulted in labor shortages that have also been a factor in the pricing increases. The pricing increases have been a common occurrence on projects going to construction in 2021 and the city has dealt with this issue on several other projects including the Fire Stations and the 2021 Waterline Replacement program. The bidders have provided costs that are above the original appropriated amounts and so this has necessitated an additional appropriation in order to provide the necessary funding for the City to meet its' obligations for the public infrastructure in accordance with the original three party agreement.

The project team is continuing to work with the project bidders on refining the proposed projects costs and the team feels strongly that the proposed costs on several items will decrease. Thru the use of local sub-contractors who are more attuned to the local Longmont construction market, it is possible that the following line items will see lower costs:

1. Grading and Earthwork
2. Water Facilities
3. Sanitary Sewer Facilities
4. Site Access and Roadways (Paving)
5. Underdrain System

There is a need for the City to move forward with an additional appropriation at this time to cover the current maximum identified costs so that the closing on the property can take place next month allowing construction to commence and keep with a timetable to meet Costco's needs to be able to open the facility.

The updated total maximum hard dollar cost to the City of this overall development is estimated at \$15,024,268. Of that amount, \$10,861,534 is the cost to the City to essentially incentivize Costco to locate in Longmont.

As part of the original P3 agreement the City had an opportunity to acquire 9 acres for affordable housing purposes. The full property site planned to be developed is a total of 48.66 acres. Of that total, 17 acres is for the Costco site itself; 9 acres are for affordable housing to be located south of Costco; and the remaining 22.66 acres will be developed by the Golden family.

Updated Project Costs and Allocation Among the Parties

The 26 acres of land for the Costco site and for affordable housing is still being purchased at a cost of \$3.75 per square foot for a total of \$4,247,100. That breaks out as \$2,776,950 for the Costco site and \$1,470,150 for Affordable Housing.

Public infrastructure improvements necessary to prepare the full 48.66 acre site for final development, originally estimated to cost a total of \$7,557,693, are now estimated to cost a total of \$10,273,098. They include design and construction of utilities; road improvements; and traffic signal. These costs are all shared by the City and the Golden family in a pro rata share based on the total 48.66 acres to be developed with the City paying the share of the 26 acres for the Costco development and the affordable housing development. The City share of that cost is \$5,489,119 with the Golden family paying the remaining \$4,783,979.

The following additional costs of construction are being shared by the City and the Golden family in pro rata shares as per the original agreement: Incidental costs of design and construction management of \$982,466; general conditions, mobilization & preconstruction services of \$721,531; and contractor profit, insurance, bonds & fees of \$712,186. Permit fees of \$11,022, the realtor commission of \$300,000 are also being shared by the City and the Golden family in pro rata shares.

The community investment fees related to the Costco facility total \$678,746. They are for the purpose of electric; transportation; and storm drainage. As part of the agreement with Costco, the City will be covering the cost of these community investment fees. The City is also covering the full cost for a temporary construction easement of \$250,000 and \$582,795 for project management.

In the P3 agreement, Costco originally committed \$6.16 million to pay for private site development costs associated with the development of the Costco Site itself. If there were private site development costs that exceed Costco's \$6.16 million budget, the City was to cover up to \$3 million of those costs with the Owner being responsible for the rest. Recent discussions with Costco have resulted in a verbal commitment that Costco will fund up to \$7 million toward the private site development costs. This commitment will be memorialized in a side agreement among all parties that will be presented to Council for action at your January 25th Council meeting.

The total raw water deficit on this 48.66 acre development is estimated to be \$901,572. In accordance with Chapter 14.05 of the Longmont Municipal Code the City will be satisfying the deficit on the Costco Property through an allocation of 17 acre-feet of raw water from the City's overall water supply to spur the certain economic development in the City. The Costco Development far exceeds the requirements set forth in Chapter 14.05 with a positive

benefit to cost ratio for the City. Similarly, and in accordance with Chapter 4.79 of the Longmont Municipal Code the City will satisfy the Raw Water Deficit on the Affordable Housing Property through the allocation of 9 Acre-Feet of raw water from the City's overall water supply to support the development of additional affordable housing on 9 acres within the Property. Lastly, the City will financially satisfy the Raw Water Deficit on the remaining 22.66 acres of the Property through payment to the Water Acquisition Fund in the amount of \$419,844 which represents the payment of cash-in-lieu at the current rate of \$18,528 per Acre-Foot needed to satisfy the 22.66 Acre-Foot deficit.

The following is a comparison of the city project cost allocations from the initial estimates from November 2020, the maximum bid received in December, and finally the current estimated maximum cost scenario since bids were lowered after the City and the Developer worked with the bidders to clarify bids :

	<u>Nov 2020</u>	<u>Dec 2021</u>	<u>Jan 2022</u>
Total maximum City project cost	\$12,530,953	\$17,069,726	\$15,024,268
City cost to essentially incentivize Costco	\$ 9,605,431	\$12,579,717	\$10,861,534
City cost of the affordable housing project	\$ 2,925,522	\$ 4,490,009	\$ 4,162,735

Of the total \$15,024,268 of hard cost to the City, \$2,940,300 will ultimately be funded from the Affordable Housing Fund. That represents the \$1,470,150 originally authorized in 2020 plus an additional \$1,470,150 of ARPA funding for the property acquisition cost. The balance of the City cost of \$12,083,968 will ultimately be funded through sales tax to be generated from the development. That includes \$1,222,435 of costs related to the affordable housing property. These cost allocations are broken out further on Attachment A.

Staff made an analysis of the impacts of the addition of a Costco facility on the City of Longmont. Based on information received from Costco, the potential taxable sales generated by a Costco facility is \$767 per square foot. For the 150,000 square foot facility that Costco projects to build, the sales tax to be generated would be estimated at \$4.06 million in the first full year of operation. Staff estimated that 25.9 % of that revenue could come from cannibalization of existing Longmont retailers. That would still result in over \$3 million of net new sales tax to the City annually. That means that the \$10.86 million to incentivize the Costco project would essentially be recovered in less than four years. The \$12.08 million of Costco project and the affordable housing project related costs to be covered by sales tax from Costco would also essentially be recovered in less than four years. Using growth projections of 2% annually, the Costco revenue projections net of cannibalization over twenty years would be over \$73 million. Net of the repayment of the Fleet Fund loan it would be almost \$59 million

Revised City Financing Proposal

In December of 2020 the City Council authorized a loan of \$11,060,803 to the Harvest Junction East Special Revenue Fund. A second loan of \$1,170,150 was authorized to be made to the Affordable Housing Fund. The AH Fund budgeted to pay \$300,000 annually toward the transaction in 2021 and 2022 and then repay the balance of the loan out of its annual revenues derived from the General Fund over three years beginning in 2023.

Also in December of 2020 the City Council appropriated \$459,758 from the Water Acquisition Fund, \$1,170,150 from the Affordable Housing Fund, and \$11,060,803 from the Harvest Junction East Fund. With the current maximum identified costs, the following additional appropriations will be necessary:

Water Acquisition Fund	\$ 21,970
Affordable Housing Fund	\$1,170,150
Harvest Junction East Fund	\$2,493,315

In order to provide the funding needed the staff is recommending that the interfund loan previously authorized from the Fleet Services Fund to the Harvest Junction East Fund be increased from \$11,060,803 to \$12,083,968, an increase of \$1,023,165. The Affordable Housing Fund will transfer \$1,470,150 to the Harvest Junction East Fund so that all City improvement costs will be expended from the latter fund. ARPA funds, already appropriated, will be transferred to the Affordable Housing Fund for the property purchase of \$1,470,150.

The City sales tax rate is 3.53%. Of that total, 1.53% is earmarked by voters for specific uses including .75% for Streets; .20% for Open Space; and .58% for Public Safety. The remaining 2% is non-earmarked but under current City Council financial policy it is allocated 1.70% to the General Fund and .30% to the Public Improvement Fund (PIF).

For the \$12,083,968 loan to the Harvest Junction East Special Revenue Fund, staff still proposes that 50% of the non-earmarked sales tax from the Costco development go toward repayment. The other 50% of the non-earmarked sales tax would continue to accrue to the General Fund (85%) and the PIF (15%). This financing arrangement is similar to the use of the sales tax from the Village at the Peaks (VATP) going toward repayment of the Certificates of Participation that were issued to fund public improvements at the VATP. In that arrangement the sales tax plays a small part in the repayment of the COP's so only .31% of the non-earmarked 2% is needed. For the Costco project, sales tax is the only proposed source of repayment. Thus the proposed financing arrangement is for 50% of the non-earmarked 2% to go to repayment while the other 50% goes to the General Fund and PIF to first offset any impacts of cannibalization and then to provide new revenue to those two funds.

Inter-fund loans are charged an interest rate based on the rate of return of city investments. That way the Fleet Fund, from which the loans are made, remains whole. Staff projections are using an interest rate on the loan of 1% during 2022; 1.5% during 2023; and 2% afterward which is well above current returns. Using those interest rates and the projections of sales of \$767 per square foot and 2% annual growth, the loans from the Fleet Fund would be repaid with 50% of the non-earmarked sales tax (1.0% tax rate) early in the thirteenth year of operations (sometime in late 2035). Staff proposed that any sales tax from the Costco development, including from the retail opportunities developed on the nearby pads, be subjected to this repayment plan. Those revenues are not included in the staff projections so anything from that source and Costco sales performance greater than \$767 per square foot would all combine to accelerate the repayment.

City Council Actions

The following are all current actions that the City Council will need to consider to facilitate the Costco project:

- An appropriations ordinance
- A Resolution approving a loan from the Fleet Fund to the Harvest Junction East Special Revenue Fund (to be considered for formal action at the January 25, 2022 regular session)
- A side agreement on the increased cost contributions by the three parties (to be considered for formal action at the January 25, 2022 regular session)

Following is a link to the November 17, 2020 City Council agenda. Go to item 12A(1) to view the full agenda item originally acted on by the City Council in 2020:

<https://longmont.primegov.com/Portal/Meeting?compiledMeetingDocumentFileId=6742>

ATTACHMENTS:

Att 1 – Costco Project Cost Allocation

Att 2 - Ordinance Making Additional Appropriations

Att 3 - Summary of 2022 Budgeted Expenditures by Fund