

## MEMORANDUM

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**To:** Mayor and Town Council  
**From:** Chris Blue, Town Manager  
Mary Jane Nirdlinger, Deputy Town Manager  
Lance Norris, Director of Public Works  
Chad Brown, Capital Projects Manager  
Amy Oland, Director of Business Management  
**Date:** March 6, 2024  
**Subject:** **Rosemary Parking Deck Update and Project Authorization Increase**

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### Summary

- The Town Council [authorized the Town Manager to negotiate and execute a contract](#)<sup>1</sup> for the Rosemary Parking Deck Project on June 14, 2021.<sup>2</sup>
- On November 16, 2022<sup>3</sup>, the [Town Council increased the project authorization by](#)<sup>4</sup> up to \$9 million to cover the known and anticipated cost increases related to the change in design for a new foundation system (micropiles), bringing the total project budget to 47.98 million.
- In November 2022, staff acknowledged that the project budget was based on the best information available and recognized that certain elements couldn't be fully known until later.
- The project has experienced ripple effects due to schedule delay and price escalations in the global construction market since November 2022.
- Town staff continues to work with Walker Consulting, our design team, and Samet (the contractor) to evaluate and reduce costs as possible and Samet continues to waive their fees for additional services.
- The current estimate is for the Deck to open for operations in late May 2024.
- The current cost estimate to complete the project, including the cost of materials, labor overall cost escalation, and unforeseen construction needs, as well as design fees and other costs associated with the project exceeds the approved project budget.

### Recommendation

Staff recommends increasing the project authorization by up to **\$3.02** million to cover the materials and costs for completion. Our intent is to only release authorization for anticipated costs as they are documented, reviewed, and agreed-upon by our staff and third-party review team.

### Financial Impacts

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<sup>1</sup> <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=4987952&GUID=C7E6D090-AFE4-490A-84A7-70BF43E391AF>

<sup>2</sup> <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=4987952&GUID=C7E6D090-AFE4-490A-84A7-70BF43E391AF>

<sup>3</sup> <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=5937011&GUID=5794DDA0-BB5C-48DA-857A-E4AB083DC61A&Options=&Search=>

<sup>4</sup> <https://chapelhill.legistar.com/LegislationDetail.aspx?ID=5937011&GUID=5794DDA0-BB5C-48DA-857A-E4AB083DC61A&Options=&Search=>

Since November 2022, Town staff, with the assistance of the Design Team and Walker Consulting has tracked Allowances and Exposures and made decisions on each request for additional funding. Samet has negotiated for reduced rates and fees wherever possible, and they continue to forego their standard 4% fee for change orders.

The project authorization must be increased in order for the Town to finish paying for the project.

**Budget Gap**

<b>Budget Gap</b>	
<b>Samet Construction Contract increases for design changes, dewatering, cost escalation, and approved project costs</b>	\$2,145,687
<b>Project related costs not in construction contract</b>	
Wayfinding signage	\$30,000
Cell phone booster system installation (will know if needed once deck is constructed)	\$150,000
Low voltage system requirements	\$125,000
Security cameras and installation	\$150,000
<b>Increased design fees for dewatering, additional time, design changes, and construction oversight</b>	\$90,000
<b>~11% Contingency</b>	\$330,245
<b>Total</b>	<b>\$3,020,932</b>

**We recommend increasing the project authorization by \$3.02 million to cover the final expenses of the project.**

→ The project team recommends including a minimum 10% contingency to cover unforeseen conditions.

Any unused allowances, exposures, or contingency funds would be unspent and would potentially release the debt capacity for use on other Town priorities at the completion of the project.

**1. Funding**

**The ultimate goal is to have the Parking Fund generate the revenues (parking fees) necessary to support the annual debt service payments on a borrowing.**

For now, excess project costs can temporarily be paid from Debt Service fund balance which allows the staff time to confirm final project costs beyond the known costs and to limit a future borrowing to only what is necessary. This strategy also expands our borrowing options to include Limited Obligation Bonds (LOBS) and installment financing.

### **Payoff and Debt Capacity Impacts**

The Town has the capacity to absorb this change with the existing debt service capacity that resulted from project borrowing delays (March 2023 streets & sidewalks and affordable housing bonds and the Municipal Services Center now permanently on hold) and by delaying the start of new, unfunded, or previously unplanned Town projects until the Debt Fund was able to accumulate the additional debt capacity for borrowing.

The average annual debt service for the additional costs is about \$200,000 which does not have a large impact overall. However, based on the additional project costs over what was originally projected and the changing market conditions, the Town could see the following impacts.

Payoff impacts:

- Positive annual cash flow from the deck could be pushed to FY 2030 vs FY 2029 because of the additional debt but also as a result of rising interest rates and the delayed opening. This means that based on current projections, the first year that annual revenues will exceed annual expenditures is projected to be FY 2030.
- Positive cumulative cash flows are anticipated in FY 2033 due to revised rate and occupancy projections. This means that it will be FY 2033 when the sum of all revenues from the opening of the deck less the sum of all expenditures from the first debt payment made during construction of the deck will be positive going forward. The Debt Service fund will be absorbing the cost of borrowing for the Rosemary Parking Deck until the deck is open, generating revenue, and reaches positive cumulative cash flows.

Debt capacity impacts similar to what was previously shared:

- Debt ratios (10-year payout, Debt to Assessed Value, and Debt Service to Expenditures) will be higher than the approved Town debt policy level for 3-5 years.
- May postpone ability to finance additional projects by 3-5 years.

### **Revenues**

Other strategies that Town staff will explore as the construction continues include reviewing the leasing and payment structures for the deck once it opens and negotiating with projects in the pipeline to

assure that the revenue strategy maximizes the benefits of the project to the downtown while accelerating the payback schedule on the additional debt.

Town management and parking staff evaluated our fee structure prior to Council proceeding with the East Rosemary Parking deck. Systemic changes were made to help produce more revenue and make sure the enterprise fund moves toward self-sufficiency.

Changes made in recent years to parking operations:

- Removed the Parking Fee chart from the budget process so that we are on a path to market-based parking.
- Changed our monthly parking fees to 12-hour increments to improve income from these users. This also prepares us for a shared parking system when we have a balance between residential and office users.
- Committed to over-leasing our monthly parking spaces to maximize income.
- We are also collecting and sharing data to better monitor our overall parking system and to better manage the overall system.
- We are in an aggressive mode of promoting our parking system through social media, ads, and stories around our parking system. The goal is to gain better occupancy on underperforming lots and the encourage higher utilization of all parking spaces.

### **Conclusion**

The increased costs for the project can be handled by the Town with the strategies and impacts identified above. The Deck continues to be a critical element of the overall vision for downtown Chapel Hill, and the Town has mechanisms in place to absorb the additional costs by deferring unfunded projects. Town staff will continue to explore options for revenue generation and return to Council with further recommendations as appropriate.

In order for the Town to reimburse itself for the additional deck project costs with a future borrowing, Council needs to approve the attached reimbursement resolution for the new total project authorization of up to \$51 million.