

MRV ARCHITECTS

1420 GLACIER AVENUE, JUNEAU, AK 99801 (907) 586-1371

Project: **Skaguay Senior Complex**
Re: Construction and operating budget update
To: Scott Hahn, Borough Manager
By: Paul Voelckers
Date: June 30, 2017

MRV 1710

Dear Scott,

At our start-up meeting in early June, you identified Assembly concerns regarding the budget for the Skaguay Senior Complex. We agreed it would be useful for MRV to attend the Assembly meeting on July 6 and present an overview of budgets, both construction estimates and long-term operating costs.

This letter summarizes cost estimates to date, including a Financial Feasibility Analysis prepared by Foraker from November 2015 covering operating costs, and the Foraker construction budget prepared in early 2016 by Martha Schoenthal, Foraker project manager.

Construction and Build-out Costs: Total project cost estimates for constructing the Skaguay Senior Complex have dropped substantially from the initial projections. The Financial Feasibility Study from November 2015 placed total project cost at \$6,920,000.

At the completion of the Foraker study in 2016, which then included building plans and a professional cost estimate, the Foraker cost estimate for the project dropped to \$6,497,000. This April, MRV provided a project estimate which shows a potential reduction of the overall cost of the facility from roughly \$6.5 million to \$5.6 million. That estimate is included as an attachment with this memo, and will be discussed more fully on July 6.

Key elements of that reduction are summarized following: first, the construction bid cost of the building, estimated at \$4,827,000 by Foraker, can be reduced to \$4,305,000 by shrinking the scale of the building by 8%, and using a more realistic cost estimate of \$475/sq.ft.

Other major reductions include a \$65,000 savings in design cost from the estimate, saving \$75,000 in the allowance for furniture, saving \$43,000 for the purchase of art, and a corresponding drop in the contingency allowance of \$52,000. While not easy, we believe the \$900,000 drop in project cost can be made, and still maintain a quality senior project for the community.

Operating Costs: Operating costs are an equally large topic. Attached materials include a detailed spread sheet that identifies anticipated operating expenses and revenue. This material illustrates both the budget identified by Foraker, and new current estimates based on current plans and conversations with the Senior Committee.

Several changes have made the operating budget more affordable for the community. The Foraker study had recommended that four of the seven rental units be offered at deeply

discounted rates to make them readily affordable to the Skagway senior community. In the current budget, that assumption has been changed to reflect more of a market rate, but one which still represents value. This change allows the project to come much closer to a break-even operation. The budget developed shows an increase in Skagway municipal support of about \$1,000 per month, rising from \$18,300 per year to \$30,400 per year.

Senior services and opportunities will increase with the new facility. Meal offerings, for instance, will be expanded to meals four days a week throughout the year (instead of one day per week presently in the summer). Food service is the largest budget line item for the operating costs, with about 1 full-time-equivalent position. Management of the building is estimated at .5 FTE, with significant additional volunteer effort by the senior community.

Required Decisions:

1. Design work on the facility to prepare construction documents has not been started because of construction budget uncertainty. The MRV revised budget, or other figure determined by the Municipality, needs to be approved as a design target for work to commence.
2. Operating budget projections should be reviewed and generally approved by the Assembly and Manager. The Municipality of Skagway should review assumptions, operating procedures, costs, and the general level of services that will be provided. If changes are required, this may affect the general design process.

Operating Cost Projection				Revised July 6,2017
Line #		Foraker	Revised	Comments
INCOME STREAM		revenue per month	revenue per month	
1	Efficiency Unit, Subsidized	\$485	\$750	Market rate in revised current assumption
2	Efficiency unit, Market rate	\$0	\$750	Additional efficiency unit added in concept design
3	One-bedroom, Subsidized	\$674	\$1,100	Market rate in revised current assumption
4	One-bedroom, Subsidized	\$808	\$1,100	Market rate in revised current assumption
5	One-bedroom, Market rate	\$1,007	\$1,100	Market rate in revised current assumption
6	One-bedroom, Market rate	\$1,007	\$1,100	Market rate in revised current assumption
7	One-bedroom, Market rate	\$0	\$1,100	Additional 1-bedroom added in concept design
8	Two-bedroom, Subsidized	\$923	\$0	2-bedroom unit dropped in concept design
9	Two-bedroom, Market rate	\$1,194	\$0	2-bedroom unit dropped in concept design
10	Meal sales	\$0	\$840	based on 20 meals/day, \$2.50 payment
11	Title III grant support, State and Federal sources	\$5,083	\$5,083	Applied to meals and senior operations
12	Skagway municipal support	\$5,000	\$3,200	Reduced rate from Foraker, better income from apartments, total municipal support in Revised budget raises \$20,000/year to \$38,400.
	Monthly Income	\$16,181	\$16,123	
EXPENSES		cost per month	cost per month	
1	Staffing for meal preparation and distribution	\$7,000	\$6,125	Based on 3/4 time position, including benefits
2	Food, supplies, transportation costs	\$2,083	\$1,810	Based on four meals/week, year-round, increase of 65% overall
3	Building Administrator	\$1,237	\$2,600	Foraker assumed .25 FTE. Raises to .5 FTE with Revised
4	Management Costs	\$800	\$900	Maintains management fee to Catholic Community Services
5	Misc. Admin expenses and supplies	\$250	\$250	
6	Insurance	\$435	\$175	Drops due to revised quote through City insurance
7	Repairs, grounds work, snow removal	\$800	\$800	
8	Elevator maintenance	\$290	\$290	
9	Fuel oil, heating	\$700	\$0	Assume use of air-based heat exchanger
10	Electricity	\$150	\$750	Electricity raises for heat exchanger operation
11	Water/sewer	\$630	\$630	
12	Propane	\$200	\$200	Added to Foraker budget, missed previously
13	Trash	\$160	\$160	
14	Replacement reserve funds, contingency	\$600	\$600	
	Monthly Expense	\$15,335	\$15,290	
	MONTHLY OPERATING INCOME	\$846	\$833	

Proposed Target Project Costs					
Line #		%	Foraker	MRV	Comment on Reduction
1	Construction, 9,850 sf, 7 apartments, rough order of magnitude cost estimate, use \$490/sf, includes escalation to 2017	67%	\$ 4,826,500	\$ 4,305,000	Reduce total square footage to 92% of program. Revise sq.ft. cost to \$475/sf given more favorable bid conditions.
2	Administrative and Other Direct Costs: advertising, printing, legal review, utility account fee, building permit, special inspections, fund raising, etc.	2%	\$ 96,530	\$ 86,000	Retain same percentage
3	Project Management assistance: prepare contract documents, oversee design, oversee const.	2%	\$ 96,530	\$ 60,000	3rd party manager not necessary during design. MRV services include design management. Potential construction management, as needed.
4	Soils test, geotech report		\$ 27,500	\$ -	Included in MRV design proposal
5	Design and Engineering: prepare bid documents, assist with bidding, construction admin assistance	12%	\$ 579,180	\$ 515,000	\$383,000 in current contract for 100% design documents. Increased by 26% for Construction Administration services to \$515,000 total.
6	Start up costs: pre-opening costs, ramp-up period and operating reserves		\$ 50,000	N.A.	Part of separate operating budget.
7	Furniture, Fixtures, & Equipment	6%	\$ 289,590	\$ 215,000	Drop to 5%, within normal range.
8	1% for Art	1%	\$ 48,265	\$ -	Assume art is donated from community.
9	General Contingency, across all items	10%	\$ 482,650	\$ 430,500	Retain same percentage
10	Total Project		\$ 6,496,745	\$ 5,611,500	Drops total costs by \$885,000

SKAGUAY SENIOR COMPLEX

Management, Operations, and Budget Assumptions

June 30, 2017

An operating income and expense proforma has been developed for the Skaguay Senior Complex. This spread sheet, attached, identifies both the initial Foraker operating budget assumptions from late 2015, and current revised budget assumptions, based on more accurate building and operating assumptions.

Budget and Municipal Support: Current operating budget projections show a monthly income of \$16,123, and a monthly expense of \$15,298. This generates a modest monthly income of \$825. If this estimate proves accurate, the level of municipal support would be dropped by \$600 -\$700 month, creating a break-even operation, generating municipal outlays of approximately \$30,000 per year, or an expansion of \$12,000 per year to cover the new senior center and expanded senior programs.

Staffing and Operations: It is assumed that the facility will be operated with a combination of paid staff and volunteers. The food service operation would employ 1 full-time-equivalent (FTE). The general management and scheduling of the building would add another .5 FTE, possibly using more than one person in part-time roles.

It is assumed that the municipality would continue to provide assistance with on-going State and Federal senior services grant programs, such as Title III, and provide basic payroll and accounting functions for paid staff positions. The current level of volunteer support is anticipated to rise for the new building, since the facility provides live-in accommodations and an attractive venue. Volunteers will provide assistance in day-to-day operations such as greeting and scheduling.

Building Operations and Expenses: The attached spread sheet has developed realistic costs for daily operations of the senior complex. Much of this research occurred during the Foraker pre-development study, with detailed cost projections. Those costs have been reconfirmed, and modified where appropriate to reflect the current building and project scope.