



## **BUDGETING FOR COMPLEX BUSINESS RELOCATIONS**

Anticipating the potential variables

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Those of us who work on relocation projects are often tasked with creating budgets and estimating timelines for business relocations. Without this information, public agencies would find it detrimental to proceed with any project. Yet, with business relocations, surprises and unknowns are a very real possibility, if not a probability. Each parcel is distinctive, and every project will face different challenges. In the end, even two identical businesses displaced by the same agency and the same agent might have substantially different outcomes.

Providing a budget estimate for a business relocation is a lot like being asked to estimate the cost to repair a car before having a chance to inspect it. Once you open the hood, it may

turn out to be as simple as a loose battery cable...or it may be that the entire engine is missing!

With so many unknowns and variables that can arise, I have found that the best way to budget for relocations is to anticipate the worst-case scenarios and assume that the most difficult challenges and issues will arise. In practice, this means assuming that all capped categories will be maximized. Then adding a contingency for the potential issues that could not have possibly been anticipated prior to identifying the business owners' intentions, physical and logistical components of the relocation and most importantly, the final selection of a replacement site.

## Setting the Stage

Let's say that the ACME Roadrunner Trap Manufacturing Company is an owner-occupant business that is being displaced by a regional transportation project. The initial assumption is that ACME will relocate and reestablish their business. But the relocation plan has revealed that it may be extremely difficult to locate a replacement site, as the current business use was grandfathered in.

Industrial zoning is already scarce and local municipalities are moving toward a rezoning as opportunities arise. Design is complete, and the project will require a complete fee take and full business displacement for this parcel. All personal property and equipment must be inventoried, disconnected, prepared, packed, transported, reinstalled and reconnected at the replacement facility. Necessary utilities will include electrical, water, sewer, natural gas, phone and internet service. Reinstallation may include code upgrades or modifications to personal property. The related moving costs include searching for a replacement site, replacing company stationary and forms, feasibility studies, professional services, impact fees, insurance and storage. There will also be reestablishment expenses.

Let's break down a few possible scenarios.

### ►► SCENARIO A

Upon receiving a Notice of Relocation Eligibility and considering his options, the owner, Mr. Wile E. Coyote, decides to retire rather than relocate and reestablish the ACME business.

Eliminating roadrunners with clever gadgets, contraptions and explosive devices has become less and less popular over the years, and there has even been speculation that the roadrunner may become an endangered species. Mr. Coyote decides to sell everything to a

Mr. Fudd, who intends to make some minor retrofits to the equipment in order to manufacture bunny traps. Mr. Coyote then negotiates a nice acquisition settlement with the displacing agency and accepts the In-Lieu/Fixed Payment option for this relocation. This payment pays a maximum of \$20,000 and is typically based on the average net profit over the previous two tax years of business prior to displacement. The agent opens the file, interviews the owner, provides the required notices, explains the options, obtains the required income documentation, destroys the income documentation as required, processes the claim, makes the payment, performs final quality assurance/quality control and closes the file.

|                            |                |
|----------------------------|----------------|
| Relocation Reimbursements: | \$20,000       |
| Estimated Agent Hours:     | 10 to 30 hours |

### ►► SCENARIO B

Upon the issuance of the Notice of Eligibility, Mr. Coyote immediately locates a completely up-to-date, properly zoned and fully code compliant replacement site that has just become available on the market.

The existing building includes all necessary utilities, adequately amped and phased electrical, natural gas, sewer and sufficient water supply. The replacement site is already configured as an industrial manufacturing facility, and the existing necessary infrastructures are in place. There is no change of use and no zoning issues. The new facility is perfectly suitable for the business, and Mr. Coyote sees no need for a feasibility report. The business provides the agency with proper notice, moves into the replacement facility and hooks up the relocated personal property. The agent assists with inventory, obtaining estimates, requests for proposals and scopes of work. The agent monitors, tracks, advises and processes the claims.

|                            |                  |
|----------------------------|------------------|
| Relocation Reimbursements: | \$200,000        |
| Estimated Agent Hours:     | 100 to 200 hours |

### ►► SCENARIO C

The owner has no idea where to find a replacement facility.

The agent provides ongoing updates on potential replacement opportunities, zoning information and financing options. Following a 12-month extensive search, including two feasibility studies of sites that were found to be "not feasible," the owner finally selects a replacement site that is the only viable option within 50 miles.

There are some logistical and operational concerns, so another extensive feasibility study is performed prior to the purchase. Initial design, a zoning variance application process, permitting, inspections and other improvements will be needed. The replacement facility does not have fully adequate utilities, and extensive modifications are needed. However, the necessary electrical and natural gas lines are available nearby in the right of way, just across a heavily traveled four-lane highway. There is a substantial one-time impact fee for connecting to these utilities.

The replacement facility also needs engineering and structural retrofitting modifications in order to reinstall the relocated bridge and jib cranes that have been deemed personal property. There will be specialized pits, pads and foundations necessary to reinstall the machine shop, including a massive metal shear, press brake and lathe equipment. It is determined that all of this equipment is perfectly functional and currently operating legally with annual inspections and certifications, however, relocating these items will trigger substantial and costly modifications to this personal property to meet newer electrical and safety codes.

It is determined that the natural gas volume availability is inadequate to

# “Each business relocation takes on a pulse all its own.”

accommodate the gas-fired equipment, so the trunk line volume must be increased, requiring a substantial one-time impact fee for this necessary utility. The paint booth, although currently EPA compliant and grandfathered as-is, will no longer meet code once it is relocated. The existing water supply line is inadequate to support the required fire suppression system so the existing two-inch line from the right of way must be increased to four inches. This will require yet another one-time impact fee for necessary utilities. The increased water usage will require an increase in the sewer connection from a four-inch line to a six-inch line that connects to the main in the adjacent right of way, which of course, is the same four-lane major arterial. This connection will require another impact fee. All of this will require extensive design, engineering and additional permits.

Due to the agency’s construction schedule and pending need to possess the displacement site, all personal property will need to be temporarily stored for eight months. Additionally, the personal property inventory reveals that ACME just spent \$200,000 to print 50,000 copies of their 500-page product catalog, which features their old building photo on the cover and their address on the inside pages. A simple label on the cover won’t work. The obsolete catalogs will need to be replaced.

Some might believe the examples and scenarios depicted here are unusual, extraordinary and extremely unlikely. But the fact is, I have experienced each of the challenges described, although not all of them occurred on the same assignment. So, the question is, prior to commencing with this relocation for ACME, what is the overall estimated cost and number of anticipated agent hours?

|                            |      |
|----------------------------|------|
| Relocation Reimbursements: | \$?? |
| Estimated Agent Hours:     | ???  |

While we ponder this question, there are a few more items to consider. Eligible Moving

Expenses do not have a cap and may include, but are not limited to:

- 1) Modifications to any moved personal property to bring it up to current code;
- 2) Storage for up to 12 months or longer if determined necessary by the agency;
- 3) Licenses and permits;
- 4) Professional services for planning, moving and reinstalling;
- 5) Replacement of printed materials that become obsolete as a result of the move;
- 6) Direct loss of tangible personal property;
- 7) Substitute personal property;
- 8) Searching for replacement location costs; and
- 9) Feasibility surveys, soils testing and marketing studies.

In addition to the above eligible moving expenses, which have no cap, relocating agencies are required to pay eligible Reestablishment Expenses. Federal programs typically cap these expenses at \$10,000, however some states can and do increase the amount. For example, in Washington State, the reestablishment cap can be \$50,000 for specified projects. In some states, the amount is unlimited. Displacing agencies will need to determine if an increased reestablishment cap applies to them.

Reestablishment items are typically expenses that do not directly relate to moving personal property and can include, but are not limited to:

- Repairs or improvements to real property required by code;
- Modifications to accommodate the business operation;
- Exterior signs;
- Advertising;

- Increased costs of operation for first two years at replacement facility; and
- Other items the agency considers necessary providing they are not listed as ineligible.

## Controlling What We Can

There is no doubting that a more accurate cost analysis can certainly be achieved by means of comprehensive research, owner surveys, interviews and other tactics. But there will always be variables, and the actual costs don’t really begin to come into focus until after the initial occupancy survey, after the business chooses its general relocation path and most importantly, after the business chooses a replacement site. It’s not surprising that the agency bean counters can sometimes have difficulty with this because they are the ones who are tasked with tracking, monitoring and watching all the beans.

The only element within our control is to assure that all relocation costs and reimbursements meet the requirements of being eligible, actual, reasonable and necessary. Beyond that, the agent assigned to the project must have the experience, expertise and knowledge to manage and control the entire process through communication, cooperation, management, documentation, monitoring, due diligence, creativity and value engineering.

Each business relocation takes on a pulse all its own. It is not a static or prescribed process that can be estimated on a price per square foot or a comparative basis. It is a dynamic progression of events, decisions and yes, surprises, that can and will affect overall cost and duration. ★



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