Department of Finance and Administrative Services
Major Maintenance of Mutual and Offsetting Benefit Properties

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<u>Potential Issue Under Assessment:</u>

Should the Council take some budget action to address on-going structural shortfalls for major maintenance of City-owned mutual and offsetting benefit properties?

Mutual and offsetting benefit properties are buildings owned by the City and leased to tenants who provide some public service. Tenants pay fair market rent, which is divided into cash rent and service rent. Cash rent is paid in cash. Service rent is delivered in the form of services provided to the community. Examples of services provided as rent include reduced cost medical care, nutrition education, meals for the elderly, operation of foodbanks, social service referrals, and transitional housing for homeless teen mothers.

The proposed budget appropriates $1.9 million from the insurance settlement for the 2010 Sunny Jim fire for major maintenance of six mutual and offsetting benefit buildings. Lessees of these properties include: 1) the Central Area Motivation Program, 2) the Central Area Senior Center, 3) the Northwest Senior Center, 4) the Southeast Health Clinic, 5) the South Park Community Service Center, and 6) the Teen Mother Center.

Major maintenance proposed by the Department of Finance and Administrative Services (FAS) would be limited to roof replacement for each building. However, in addition to roof replacement, systems in many of these buildings also need other major maintenance. FAS has not estimated the cost of those additional repairs. The estimated cost by facility for roof replacement only, prioritized in order of deteriorated condition, is set out in the table below.

Facility Name/ (Organization)	Estimate
SE Health Clinic	$ 485,000
Central Area Senior Center (Senior Services)	$ 455,000
South Park Community Service Center (SPARC)	$ 275,000
Central Area Motivation Program (CAMP)	$ 315,000
Teen Mother Center (Goodwill Missionary Baptist Church)	$ 105,000
Northwest Senior Center in Ballard (Senior Services)	$ 265,000
Subtotal:	$ 1,900,000

Source: CBO

Leases for these buildings are governed by the *Rules Governing the City's Mutual and Offsetting Benefit (MOB) Properties* (MOB Lease Rules), which were most recently amended by the Council through Resolution 27712 in 1988. These rules state that the City "shall be responsible for all normal repairs to ***roofs***, walls, and foundations" (Emphasis Added).[1] However, the MOB Lease Rules clearly contemplate that cash rent will cover some major maintenance.

[1] *Rules Governing the City's Mutual and Offsetting Benefit (MOB) Properties*. Section V.H.

Specifically, under the MOB Lease Rules, cash rent should be a portion of the fair market rental value determined by an appraisal performed every five years and should cover the amortized major maintenance costs over a 40 year life cycle.[2] Additionally, after the third year of an initial lease, the MOB Lease Rules require that cash rent covers 50% of administrative and major maintenance costs. The remainder of the administrative and major maintenance costs are to be made up through General Fund support.[3] In 2010 the Council increased the General Fund support for major maintenance of MOB facilities from $200,000 annually to $350,000 annually. CBO estimates that with the increase and with rent from tenants, the ongoing annual needed City support for major maintenance is about $129,000 more than is currently provided.

Central Staff reviewed the leases for the above facilities. The oldest lease, to the Central Area Senior Center, dates to 1974. The City entered into the most recent lease, to the Goodwill Development Association for the Teen Mother Center, in 2008. Many of these leases do not appear to be consistent with MOB Lease Rules. For example, cash rents payable under the older leases do not appear to be based on recent appraisals of fair market rent and in one newer lease the City has elected to charge only service rent.

These discrepancies reflect decisions made by previous administrations and Councils that the value of services provided by the current tenants are sufficient to cover fair market rent. However, those decisions may have compounded the challenge of adequately maintaining these City-owned buildings.

Options:

1. Approve a statement of legislative intent (SLI) that requests that FAS a) conduct appraisals of MOB properties; b) estimate the cost of repairs to maintain the buildings in a tenantable condition; c) prioritize repairs; d) assess and propose, as needed, whether the Council should adopt any changes to the MOB Lease Rules; and e) assess the feasibility of selling some or all of the MOB properties to current tenants or entities that would ensure that the buildings continue to be leased to organizations providing a public benefit.
2. Approve a SLI as in option 1, and also impose a proviso on some or all of the proposed appropriation for the roof replacements to prohibit spending until FAS submits a report on the SLI in option 1.
3. Approve the appropriation as proposed by FAS.

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[2] Ibid at Section IX.A and IX.B.1.
[3] Id. at Section IX.8.