

FISCAL NOTE FOR NON-CAPITAL PROJECTS

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Legislation Title:

AN ORDINANCE relating to the Seattle Center Department; authorizing execution of a ten-year lease agreement with two five-year options to extend with Pottery Northwest, Inc., for use of space on the Seattle Center campus.

Summary of the Legislation:

This legislation authorizes a lease agreement with Pottery Northwest, a Washington nonprofit corporation, for use of space on the Seattle Center campus. The term of the lease is ten years, commencing upon execution. Under terms of the lease, by mutual agreement, Seattle Center and Pottery Northwest may extend the term for up to two successive terms of five (5) years each. Prior to finalizing either of the two permitted five-year extensions to the lease, the Seattle Center Director would be required to review the terms of the requested extension with an internal oversight committee that would include at least one representative from the City Council's Central Staff and at least one representative from the City Budget Office.

The current annual base rent is \$43,190. The new lease will have nearly the same cash payment (\$43,200), but Pottery Northwest will also provide an additional \$21,600 in public benefit for the first five years of the contract, bringing the total value of the annual rent to \$64,800 for lease years one through five. Beginning in year six and continuing through year ten, rent increases to a total value of \$75,600, with the cash payment portion being set at \$50,400 and the public benefit at \$25,200. The Seattle Center Director will make the final determination as to the value of such services and whether to accept such services as an offset to rent.

This legislation includes some changes from the previous lease agreement. These changes increase the City's protection in the event of Pottery Northwest defaulting on its lease payments, allow for mutual agreement of executing lease extensions, and cap the City's relocation liability should Seattle Center decide to redevelop the property being leased.

Background:

Pottery Northwest occupies a professional clay facility of approximately 10,800 square feet located on the west edge of the Seattle Center campus. Pottery Northwest was incorporated as a non-profit arts organization in 1966. In the early years, it resided on the second floor of Center House (now known as the Armory) at Seattle Center. Later the pottery and kilns relocated to the

building it now shares with the landscape staff for the Seattle Center campus at the corner of 1st Avenue North and Thomas Street, south of Key Arena and adjacent to the First Avenue North parking garage. Pottery Northwest is one of the oldest resident organizations at Seattle Center.

Since its beginning, Pottery Northwest has been a resource for community classes, professional workshops, and exhibitions with nationally and internationally recognized artists. This past year, Pottery Northwest hosted over 600 students and workshop participants in addition to visitors for lectures, exhibitions, and community events. Pottery Northwest also provides studio space for individuals on a professional track. Up to ten artists are “in residence” for two years and serve as faculty to students of every age group and skill level.

Over the years, Pottery Northwest has invested significant amounts of capital in the space, including electrical, heating, and gas line improvements and purchased state-of-the art firing and reclamation equipment. Looking forward, they intend to continue improving the facility and expanding programming by initiating fundraising of \$75,000 per year. Investors and donors desire certainty of Pottery Northwest’s long-term sustainability, and a long-term lease will support their goal.

In January 1983, Ordinance 110817 authorized a lease agreement with Pottery Northwest which extended through December 1990. Subsequently, Ordinance 117044 authorized a lease period from January 1991 through December 1995, and continued on a month to month basis through July 2003, under the holdover provisions of the lease. The existing lease agreement, authorized by Ordinance 121214 in 2003, covered the period from July 1, 2003 through December 31, 2007. The current lease has been extended for two additional two (2)-year periods. Since January 1, 2012, Pottery Northwest has operated under a “hold over” clause which allows for month to month operations until a new contract is in place.

The proposed lease term is ten (10) years, beginning on the date signed by both parties. The existing lease allowed for three additional two (2)-year periods beyond the base period at Pottery Northwest’s request. The proposed lease allows for two additional five (5)-year periods, but those extensions are now by mutual agreement. Additionally, any extensions are automatically voided should Pottery Northwest default on the lease. If Seattle Center and Pottery Northwest elects to extend the term, base rent increases by CPI each year.

Under the agreement, Pottery Northwest’s annual rent in years one through five is \$64,800 or \$6.00 per square foot. In years six through ten, it is \$75,600 or \$7.00 per square foot. A minimum amount of \$43,200 (years one through five) or \$50,400 (years six through ten) will be paid in cash. The remaining \$21,600 (years one through five) or \$25,200 (years six through ten) may be paid as Public Benefit Rent.

Proposed Rent:

Year	Annual Base Rent per Square Foot	Annual Amount of Base Rent	Annual Amount of Base Rent Payable in Cash	Annual Amount of Public Benefit Rent	Monthly Cash Installment of Base Rent
Lease Years 1 - 5			\$43,200.00		
Lease Years 6 - 10			\$50,400.00		

Public Benefit rent includes free or reduced admissions classes, free use of studio space for City events, scholarships, and public displays of original ceramic art. It is calculated as the annual base rent per square foot (\$6.00 years one through five, \$7.00 years six through ten) for 3,600 square feet (1/3 of the leased space) and derived from the annual proposal submitted by Pottery Northwest for the coming year and subject to approval by the Seattle Center Director. At the end of each Lease Year, Public Benefit Rent will be approved or denied by the Seattle Center Director after review of the itemized statement of actual labor, materials, and other costs expended by Pottery Northwest. If the Public Benefit Rent is denied, short, or not provided, Pottery Northwest will pay the deficiency in cash within 30 days. Pottery Northwest is not entitled to any refunds or carryover of excess benefits.

Currently, space adjacent to the Pottery Northwest building is occupied by Seattle Center grounds crews. Under this agreement, if the City decides to vacate the space, Pottery Northwest has 120 days to exercise a first right to lease the unoccupied portion. Should Pottery Northwest decline, the City is free to pursue other tenants. Furthermore, should the City decide to redevelop the building or adjacent areas, City will assist in relocating Pottery Northwest by attempting to provide comparable space (if available) at Seattle Center and pay their moving costs. The agreement does limit the amount of relocation expenses Seattle Center would pay in this scenario to the level of annual base rent payable in cash at the time of relocation.

Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2012 Appropriation	2013 Anticipated Appropriation
TOTAL				

*See budget book to obtain the appropriate Budget Control Level for your department.

Appropriations Notes:

This legislation does not authorize appropriations.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2013 Revenue	2014 Revenue
11410	Seattle Center	Lease payments from Pottery Northwest	64,800.00	64,800.00
TOTAL			\$64,800.00	\$64,800.00

Revenue/Reimbursement Notes:

Under the lease, Pottery Northwest has the opportunity to offset up to \$21,600 in years one through five and \$25,200 in years six through ten of its annual rent with public benefit services. This provision is in keeping with the Seattle Center Director's authority under SMC 17.16.030 to accept in-kind contributions of services for the City's benefit to offset space rental payments due from non-profit organizations. Under the Pottery Northwest Lease Agreement, the Seattle Center Director will make the final determination as to the value of such services and whether to accept such services as an offset to rent. Seattle Center's proposed 2013 and 2014 budget assumes annual revenue of \$60,000 per year. Assuming Potter Northwest takes full advantage of the opportunity to offset cash payments with public benefit, the revenue from this contract would be approximately \$17,000 below what is assumed in Seattle Center's 2013-2014 Proposed Budget.

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

Position Title and Department	Position # for Existing Positions	Fund Name & #	PT/FT	2012 Positions	2012 FTE	2013 Positions*	2013 FTE*
None							
TOTAL							

* 2013 positions and FTE are total 2013 position changes resulting from this legislation, not incremental changes. Therefore, under 2013, please be sure to include any continuing positions from 2012.

Position Notes:

This legislation does not create or abrogate positions.

Do positions sunset in the future?

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2012 Expenditures	2013 Anticipated Expenditures
TOTAL				

* See budget book to obtain the appropriate Budget Control Level for your department.

Spending/Cash Flow Notes:

None.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
 There are no indirect financial implications. Long-term implications include a consistent and predictable revenue source for a minimum of ten years.
- b) **What is the financial cost of not implementing the legislation?**
 Without legislation authorizing the lease, the existing agreement will terminate and Pottery Northwest may seek alternate locations leaving a vacant space which Seattle Center would attempt to lease to another organization.
- c) **Does this legislation affect any departments besides the originating department?**
 No.
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?**
 Seattle Center could attempt to find another tenant for the Pottery Northwest space. However, there would be significant capital costs to transform the space from a pottery space to another use. The community would potentially lose a longstanding and valued organization and resource.
- e) **Is a public hearing required for this legislation?**
 No.
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**
 No.
- g) **Does this legislation affect a piece of property?**
 Yes. Exhibit A of lease agreement includes a site plan.

h) Other Issues:

Pottery Northwest has been a resident tenant at Seattle Center since 1966 and adds cultural and artistic activities to Seattle Center. Both parties would like to see Pottery Northwest remain at Seattle Center.

List attachments to the fiscal note below:

Site Map of space.