

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
FAS	Hillary Hamilton 684-0421	Jennifer Devore /615-1328

Legislation Title:

AN ORDINANCE related to the sale and redevelopment of the former Public Safety Building block; authorizing the execution of amendments to the Purchase and Sale Agreement, to continue implementation of the sale and redevelopment of such property, as previously authorized by Ordinance 122612, and accepting payment therefor.

Summary of the Legislation:

The legislation authorizes the Director of Finance and Administrative Services to execute a Second Amendment to the Purchase and Sale Agreement with Triad Civic Square LLC (Triad). The amendment modifies the form of consideration Triad will pay the City in exchange for an option extending the deadline for closing the transaction. It allows Triad to substitute a combination of prepaid interest, promissory notes, and personal guarantees for \$1 million in escrow deposits.

Background:

Ordinance 122612, passed in December 2007, authorized the redevelopment of the former Public Safety Building site (the Site), as the final project in the implementation of the Civic Center Master Plan. Triad was selected through a competitive process to redevelop the Site. Triad commissioned an international team to design a project that would enhance the vibrancy of the area and contribute to its economic vitality. Triad would develop a publicly-owned plaza with adjacent retail buildings (Civic Square) on the southern portion of the Site. On the northern portion of the Site, Triad would develop a privately-owned mixed-use office / residential tower with ground floor retail and underground parking.

Ordinance 122612 authorized the execution of a purchase and sale agreement and other development-related documents. Those agreements provided that the City would sell the Site to Triad as consideration for the Civic Square improvements, together with a revenue stream (annuity payments) designed to support the operation and maintenance of the Civic Square. The original project schedule provided that the purchase and sale would close upon completion of construction drawings in July 2009. Project completion was anticipated in approximately 2012.

Due to the Great Recession, the City Council authorized the First Amendment to the Purchase and Sale Agreement in 2009. The development schedule was revised, extending the closing date to December 2013. The amendment also granted Triad two one-year closing extension options, conditional upon the deposit of \$1,000,000 into escrow for each option.

Poor real estate market conditions in the area have resulted in the excavated site remaining undeveloped for significantly longer than the parties originally contemplated. In addition to Triad's Civic Square tower, there are two additional towers within a four-block radius that have obtained Master Use Permits. However, the earliest any building could reach the market is 2015, and that is dependent on developers pre-leasing the building or finding anchor tenants that will take an equity stake in the development, assuring lenders that the building will succeed. Vacancy rates remain high in older office towers in Seattle. While vacancy rates in downtown are generally improving, the submarket near the Civic Campus has lagged behind the north part of the Central Business District.

Consistent with the requirements of the First Amendment, Triad notified FAS in June 2013 that it wished to exercise the first one-year option to extend the closing date. However, in lieu of placing \$1,000,000 into escrow, Triad requested that the City accept a Promissory Note and personal guarantees for \$1,000,000 as well as \$50,000 in prepaid interest. Triad intends to use the funds made liquid by avoiding the cash deposit to step up its marketing efforts to find an anchor tenant for the office portion of the tower, which is necessary in order to begin construction.

X This legislation has financial implications.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2013 Appropriation	2014 Anticipated Appropriation
TOTAL				

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

Appropriations Notes:

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2013 Revenue	2014 Revenue
Cumulative Reserve Subfund – Unrestricted Subaccount (00164)	Cumulative Reserve Subfund	Purchaser (Triad)	\$50,000	\$50,000
TOTAL			\$50,000	\$50,000

Revenue/Reimbursement Notes: These funds will be deposited into the Cumulative Reserve Subfund – Unrestricted Subaccount in order to help the financial position of this fund.

Total Regular Positions Created, Modified, or Abrogated through this Legislation,
Not applicable.

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2013 Expenditures	2014 Anticipated Expenditures
TOTAL				

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

Spending/Cash Flow Notes:

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
The legislation does not have indirect or long-term implications. The legislation changes the specific mechanism for Triad to extend the closing date. Currently, Triad is obligated to put \$1,000,000 into escrow until the deal closes and/or they terminate the agreement. As proposed, the Promissory Note attached to the legislation is written to provide a low-risk alternative, and the City has a high likelihood of obtaining the funds as promised.
- b) **What is the financial cost of not implementing the legislation?**
This legislation provides the City with up to \$150,000 over two years for any municipal purpose, in the form of payments by Triad of prepaid interest. Without the legislation, these payments will not be made. Finally, not implementing the legislation increases the cost of funds for Triad, which reduces the financial resources available to them for marketing the building.
- 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?**
There are no alternatives that achieve the same or similar objectives. While the promissory notes and personal guarantees are considered low risk in this situation, other financial vehicles could be substituted for the \$1 million Triad deposits. However, these vehicles would be more expensive, and would not meet Triad's objective of lowering their cost of funds.
- 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. See Attachment 1.

h) Other Issues:

List attachments to the fiscal note below:

Attachment 1. Civic Campus Map

