



**Legislative Department
Seattle City Council
Memorandum**

Date: September 22, 2011

To: City Council

From: Ben Noble
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Subject: **Resolution 31321:** City trusteeship of the Seattle Indian Services Commission

The Housing, Human Services, Health, & Culture Committee will discuss Resolution 31321 on Wednesday, September 28, at which time there will be a public hearing as required by law. The Resolution requests that:

“the City Attorney petition the Superior Court of King County to impose a trusteeship over the Seattle Indian Services Commission in order to effectuate the conveyance of the Pearl Warren Building and the Leschi Center to the Seattle Indian Health Board ...”

This memorandum provides a brief history of the issue leading to this proposed action, and the context and rationale for staff’s recommendation that the Council pursue it. A table at the end provides a summary of some of the key financial and physical aspects of the two buildings.

Brief Background

The Seattle Indian Services Commission is a public corporation created by the City in 1972 pursuant to Chapter 3.110 of the Seattle Municipal Code. Its mission is to provide effective, comprehensive, and coordinated planning services, activities, and programs to meet the unique needs of the many Native American residents of Seattle.

The Commission’s governing body is made up of two representatives from each of the American Indian Women’s Services League, the Seattle Indian Health Board, the Seattle Indian Center, and the United Indians of All Tribes Foundation, for a total of eight.

The Commission owns the Pearl Warren Building and the Leschi Center, both located at 12th Ave South and S Weller. Both buildings were financed with municipal bonds guaranteed by the City. The Commission pays the debt service and covers operating costs from rent it receives from tenants in the two buildings: The Health Board in the Pearl Warren and Leschi Center and the Seattle Indian Center in the Leschi.

The Health Board, which occupies 50% of the Pearl Warren (the Commission occupies the rest) and 70% of the Leschi Center, provides a variety of services to the community. These include medical and dental clinical services, mental health, domestic violence, and dependency counseling services, and youth, elder, and veterans community services.

The Indian Center leases the remaining 30% of the space in the Leschi Center but currently only uses about half of it. It too provides a number of community services aimed at families and children, key among them is emergency shelter and a hot meals program. Like all such programs today, these are oversubscribed.

The Issue

Shortly after the Pearl Warren was built in the mid-1990's, it began to show signs of water infiltration, particularly around the windows. As far back as 2005, the Health Board advised the Commission of leaking in the building but the problems remained unresolved. In 2008 the Health Board engaged RDH Building Sciences Inc., at its own expense to study the problem. The report, which it shared with the Commission, identified a number of serious problems with the building envelop and structure. Unfortunately, the Commission did not adequately address the problems.

Faced with the continued failure of the Commission to fix the leaks and repair the damage already done to their space, the Health Board advised the Commission in writing in December 2009 that it planned to void its lease if the problems were not addressed promptly.

As the guarantor of the bonds the City faced the prospect of having to cover \$435,000 in debt service should the Health Board leave and its rent be lost. This would be a General Fund expense. Earlier this year, as an emergency stopgap, the City provided \$200,000 in loans to the Commission to allow temporary mitigation of the infiltration while the scope of the problem was investigated. That investigation indicates that the cost of permanent repairs will be approximately \$2.5 million, assuming those repairs are made before another winter aggravates the situation.

Unfortunately, the Commission does not have the resources to make those repairs. The situation is now clearly untenable. The City risks both significant financial losses if the Health Board leaves and the possibility that the Pearl Warren could be lost to the community it serves.

The Health Board, which has shown forbearance in not voiding its lease, has offered a viable solution to the problem. It is a financially successful private, non-profit with a proven track record of leadership and performance going back over 40 years. It believes that if it owned both the Pearl Warren and the Leschi Center, the latter bringing with it critical equity to offset the deficit in the former, it could secure the funding necessary to fix the Pearl Warren. And since the rent it pays in both buildings is the primary source of revenue to cover the debt service on them, it could readily assume that responsibility. (The Indian Center has been in arrears on its rent for several months. The Commission has so far not taken action to correct this situation or to repurpose the space to generate much-needed revenue.) The approach offered by the Health Board, in addition to relieving the City of the burden of ongoing debt service payments, has the advantage of preserving the Pearl Warren in the service of the community for which it was built.

The Purpose of this Resolution

While the immediate problem facing the Commission and the City is the serious damage sustained by the Pearl Warren and its rapidly deteriorating condition—and with it the certainty of losing critical rent revenue—there is a longer-term problem of the stewardship of the assets on behalf of the community served. The Health Board’s demonstrated record of success suggests it will be a strong steward.

Over the last two years, the City has been actively involved in trying to find a resolution to this problem. It has asked the Health Board to forestall voiding its lease while it worked with it to craft a proposal acceptable to the Health Board and the Commission. The negotiations have produced a proposal that meets all of the City’s terms and conditions and is acceptable to the Health Board. The key features of the proposal include the Health Board:

- Granting a right of first refusal to the Indian Center to rent adequate space in the Leschi Center at reasonable terms to ensure it will be able to continue its important work in the community;
- Providing space for the Commission and the Women’s Services League;
- Accepting a restrictive 50-year covenant on the buildings to ensure their continued use in the public interest;
- Entering into operating agreements with the City governing the use of the buildings that are essentially identical to those already in existence between the Commission and the City; and
- Assuming all responsibility for the repair of the Pearl Warren and all future maintenance of both buildings; all costs related to the conveyance of the buildings; and all debt service until both bonds have been paid off.

Unfortunately, the Commission has deadlocked in three separate votes on this proposal—three of the voting members voting for, and three voting against (the Health Board’s two representatives on the governing body recused themselves in each case). Absent action by the City the situation will remain deadlocked, the Health Board may leave at any time, requiring the City to pay the \$435,000 in annual debt service, and the Pearl Warren will continue to deteriorate, perhaps to the point that it is lost to the community.

Even if the City could find the funds to replace the lost rent from the Health Board and issued debt to repair the Pearl Warren, it would still be faced with the issue of how best to ensure the assets are protected for the community and that no future City Council faces similar problems.

It is for these reasons Council Central Staff strongly recommends that the Council petition for trusteeship over the assets so that it can vest them in an entity better equipped to secure them for future generations.

Summary of Physical & Financial Elements

	Pearl Warren	Leschi Center
Square feet	20,727	45,145
Occupants		
Seattle Indian Health Board	10,985	30,247
Seattle Indian Service Commission	9,742	
Seattle Indian Center		14,898
Lease payments		
Seattle Indian Health Board	\$443,000	\$320,000
Seattle Indian Center		\$162,000
Annual debt service	\$435,000	\$368,000
Outstanding debt \$MM (approx.)	(\$4.25)	(\$2.00)
Appraised value \$MM (2006/2010)	\$2.70	\$6.75
Estimated repair cost	(\$2.50)	
Net value	(\$4.05)	\$4.75

The Pearl Warren represents a net liability of over \$4 million between the debt outstanding and the repairs that need to be made. The Leschi Center represents a net asset of \$4.75 million. Combined the assets are net positive.