May 18, 2012

To: Government Performance & Finance Committee

From: Peter Harris, Central Staff

Re: SLI and Proviso on Mutual & Offsetting Benefit Properties

Introduction

Last fall the Council took two budget actions related to Mutual & Offsetting Benefit properties, which are buildings owned by the City and leased to tenants who provide a public service in lieu of some rent. The proposed budget included $1.9 million to replace roofs on six of these buildings. The Council approved this budget, but placed a proviso on $1.4 million of this amount pending the first of two reports called for by a Statement of Legislative Intent (SLI). Copies of the SLI and the Green Sheet placing the proviso are attached.

You received the first SLI report in early April. On May 31, the Committee will be briefed on this report and will discuss and possibly vote on an ordinance that would remove the proviso and allow the roof repairs to proceed as planned.

First I will summarize the SLI and the Executive's first report in response. Then I will summarize the proposed ordinance to remove the proviso.

SLI

The SLI asked a simple question and a complex one. The simple question was whether it would be wise to spend $1.9 million to repair the roofs on these buildings without knowing the cost of any other critical repairs the buildings might soon require. If the latter cost was large, the total cost might be more than the buildings are worth.

The first SLI report estimates that the total cost of other critical repairs to these six buildings is $312,000, ranging from $0 for the Southeast Health Clinic building to $132,000 for the Central Area Motivation Program building. A copy of the report is attached.

The report says the Executive will look for the additional $312,000 in the 2013 Proposed Budget. This implies that the Executive believes the total repairs are justified – that is, it is not only worthwhile to spend $1.9 million to maintain these buildings, it is also worth $2.2 million.

The more complex question in the SLI is how to resolve the apparent discrepancies between policy and practice in the leases on these properties – in particular, differences between the cash rent required by policy and the actual cash rents paid under at least some of the leases. See the SLI for a discussion of this question. This question will be addressed in the second SLI report, due June 30.

Proposed ordinance to remove the proviso

The proposed ordinance that will be before the Committee on May 31 would remove the proviso on $1.4 million of the $1.9 million budgeted for roof repairs. If the Council agrees that it is worthwhile to spend a total of $2.2 million to repair these buildings, it makes sense to remove the proviso.

Because roof repairs depend on weather, it may not be feasible to complete the repairs in 2012. Accordingly the proposed ordinance would allow any unspent funds to be carried over for this same purpose to 2013.

Conclusion

If you have any questions, please let me know.

2012 Seattle City Council Statement of Legislative Intent

Approved

Tab	Action	Option	Version
58	1	A	2

Budget Action Title: Report from FAS on major maintenance of mutual and offsetting benefit lease properties.

Councilmembers: Burgess; Conlin; Godden

Staff Analyst: Ketil Freeman

Budget Committee Vote:

Date	Result	SB	BH	SC	TR	JG	NL	RC	TB	MO
11/10/2011	Pass 7- 2-Absent	Y	Y	Y	Y	Y	-	-	Y	Y

Statement of Legislative Intent:

The Council requests that the Department of Finance and Administrative Services provide two reports to the Council related to major maintenance of the City's mutual and offsetting benefit (MOB) properties.

The first report, which shall be provided by March 31st, shall estimate the cost of repairs needed to building systems, including roofs, to maintain MOB properties in a tenantable condition and shall set out options for funding repairs including, but not limited to, an assessment of eligibility and availability of American Recovery and Reinvestment Act retrofit funds and uncommitted real estate excise tax revenue.

The second report, which shall be provided by June 30th, shall present a review of the present MOB situation, policies for MOB leases, and options for MOB facilities, including disposition of the property to current tenants or entities that would ensure that the buildings continue to be leased to organizations providing a public benefit. This report shall be developed with input from current tenants and shall be informed by a survey of current MOB tenants to assess their ability to pay the lesser of fair market rent or standard City rent for similar facilities.

Background:

MOB 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: FAS

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.

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. FAS 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

[1] *Rules Governing the City's Mutual and Offsetting Benefit (MOB) Properties*. Section V.H.
[2] Ibid at Section IX.A and IX.B.1.
[3] Id. at Section IX.8.

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.

Responsible Council Committee(s): Finance and Budget

Date Due to Council: March 31 (First Report)
June 30 (Second Report)

2012 Seattle City Council Green Sheet

Approved

Tab	Action	Option	Version
58	2	A	1

Budget Action Title: Impose a proviso on spending in FAS to limit expenditures on roof repair for mutual and offsetting benefit properties to $500,000 until authorized by future ordinance.

Councilmembers: Burgess; Clark; Conlin; Rasmussen

Staff Analyst: Ketil Freeman

Council Bill or Resolution:

Budget Committee Vote:

Date	Result	SB	BH	SC	TR	JG	NL	RC	TB	MO
11/10/2011	Pass 7- 2-Absent	Y	Y	Y	Y	Y	-	-	Y	Y

Budget Action description:

This action would impose a proviso on the Facility Services BCL in the Department of Finance and Administrative Services (FAS) to limit spending on roof replacement of mutual and offsetting benefit (MOB) properties to $500,000 until further spending is authorized by future ordinance.

Council would authorize future expenditure based on the report requested in Statement of Legislative Intent 58-1-A, which requests that FAS estimate the cost of repairs needed to building systems, including roofs, to maintain MOB properties in a tenantable condition and set out options for funding repairs including, but not limited to, an assessment of eligibility and availability of American Recovery and Reinvestment Act retrofit funds and uncommitted real estate excise tax revenue. That report would be submitted to Council by March 31st.

Limiting expenditures to $500,000 would provide FAS with sufficient appropriation authority to assess MOB properties and prepare bid estimates for roof replacement in advance of the summer construction season.

Background:

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

This green sheet would adopt the following budget proviso:

"No more than $500,000 appropriated in the 2012 budget for the Department of Finance and Administrative Services' Facility Services BCL may be spent for replacing roofs of mutual and offsetting benefit properties until authorized by future ordinance. Council anticipates that such authority will not be granted until the first report requested in Statement of Legislative Intent 58-1-A is provided to Council."

City of Seattle

Mike McGinn, Mayor

Department of Finance & Administrative Services
Fred Podesta, Director

MEMORANDUM

Date: April 2, 2012

To: Councilmember Tim Burgess, Chair,
Government Performance and Finance Committee
Councilmember Nick Licata
Councilmember Sally Clark
Councilmember Mike O'Brien

Via: Beth Goldberg, City Budget Director

From: Fred Podesta, Director
Department of Finance and Administrative Services

Subject: **Response to Statement of Legislative Intent 58-1-A-2**
Report from FAS on Major Maintenance of Mutual and Offsetting Benefit (MOB) Lease Properties

---

Summary

This memorandum summarizes the findings of recent Mutual and Offsetting Benefit (MOB) building assessments conducted in response to Statement of Legislative Intent (SLI) 58-1-A-2, which was adopted by the City Council as part of its 2012 budget process. The SLI requests two reports and specifically states: "The first report, which shall be provided by March 31st, shall estimate the cost of repairs needed to building systems, including roofs, to maintain MOB properties in a tenantable condition and shall set out options for funding repairs, including, but not limited to, an assessment of eligibility and availability of American Recovery and Reinvestment Act retrofit funds and uncommitted real estate excise tax revenue." I have provided a more detailed account of the findings in the report attached to this summary. The second report called for by the SLI, which focuses on MOB leases and options for MOB facilities, will be provided by June 30, 2012.

Background

The Department of Finance and Administrative Services' (FAS') 2012 Proposed Budget included $1.9 million to re-roof six City-owned buildings that house tenants operating under MOB arrangements with the City. These tenants include the Northwest Senior Center, South Park Area Redevelopment Committee (SPARC), Teen Parent Home, Central Area Senior Center (CASC), Central Area Motivation Program (CAMP), and Southeast Health Clinic. During its 2012 budget deliberations, the City Council issued SLI 58-1-A-2, directing the Executive to identify all other non-roof-related repairs needed to maintain these six MOB facilities in a tenantable condition.

FAS subsequently hired ARC Architects to assess the six buildings, identify what critical repairs would be needed, and provide cost estimates for each. For the purpose of the assessment, critical repairs were defined as items that if left unresolved would:

- Cause immediate vacation of the building or area of building;
- Cause an emergency project to be undertaken;
- Result in hazardous egress or other life safety issues; or
- Result in flagrant ADA violations (e.g., lack of access to entry, lack of compliant restroom, etc.)

Non-essential and/or upgrades to existing systems that would extend the life of the asset were not included in the condition assessments. Examples of these types of upgrades would include replacing single pane windows or providing new lenses for light fixtures.

Based on ARC's assessments, we have determined that each of the City's six MOB buildings has one major system failure – the roof – and that other required repairs, such as HVAC and electrical systems that are beyond their useful lives or do not meet current safety standards, will be considerably less expensive to fix. As a result, we believe that a total of $312,000 would cover critical, non-roof repairs for all six buildings. The building-specific summaries below outline the needed repairs, their respective total costs, and the time that will be required to complete them.

Northwest Senior Center
The majority of the repairs needed at the Northwest Senior Center (located at 5431 32nd Avenue NE) relate to its heating system. The boiler will need to be replaced within the next few years as well as several radiators on the second floor. Beyond these items, several thresholds need to be rebuilt to remove tripping hazards, and some minor electrical work is required to comply with current electrical safety standards. The total project duration for these repairs is approximately six months.

Construction Costs:	$ 31,000
Design/Permitting/WSST:	$ 10,000
Total Cost of Critical, non-roof Repairs:	$ 41,000
Total Cost of Re-roof:	$ 265,000

South Park Area Redevelopment Committee (SPARC)
Similar to the NW Senior Center, the largest repair needed at SPARC (located 8201 10th Avenue South) relates to the heating system—a rooftop unit that will need to be replaced in the next few years. Beyond the HVAC system, there are accessibility and exiting issues that must be resolved in order to provide safe egress, and some minor electrical work that must be addressed to meet fire safety standards. The total project duration for these repairs is approximately six months.

Construction Costs:	$ 33,000
Design/Permitting/WSST:	$ 11,000
Total Cost of Critical, non-roof Repairs:	$ 44,000
Total Cost of Re-roof:	$275,000

Teen Parent Home

The Teen Parent Home, located 339 22nd Avenue E, will need a new gas furnace within the next few years. Outside of the furnace, there are some minor egress repairs and one signage issue that need to be addressed. The total project duration for these repairs is approximately two months.

Construction Costs:	$ 23,000
Design/Permitting/WSST:	$ 8,000
Total Cost of Critical, non-roof Repairs:	$ 31,000
Total Cost of Re-roof:	$105,000

Central Area Senior Center (CASC)

The majority of the repairs needed at the CASC building, which is located at 500 30th Avenue South, are electrical in nature. These electrical repairs range from replacing original (1959) panels that lack short circuit ratings, to replacing exterior pathway lighting that no longer operates. Beyond these items, several accessibility and life/safety issues need to be resolved in order to provide safe egress and comply with life/safety codes. The total project duration for these repairs is approximately six months.

Construction Costs:	$ 48,000
Design/Permitting/WSST:	$ 16,000
Total Cost of Critical, non-roof Repairs:	$ 64,000
Total Cost of Re-roof:	$455,000

Central Area Motivation Program (CAMP)

The CAMP building, located at 722 18th Avenue, requires the most work of any of the other MOB facilities. The majority of repairs are electrical, involve the replacement of multiple unrated panels and the need to resolve code violations. Beyond these items, there are minor life/safety issues that need to be resolved in order to protect the tenants from unnecessary hazards. The total project duration for these repairs is approximately six months.

Construction Costs:	$ 99,000
Design/Permitting/WSST:	$ 33,000
Total Cost of Critical, non-roof Repairs:	$132,000
Total Cost of Re-roof:	$315,000

Southeast Health Clinic

ARC Architects and FAS staff determined no necessary repairs were evident at the Southeast Health Clinic (4400 37th Avenue South), due to the building's relative age (it was built in 1989) and recent upgrades made to its HVAC and plumbing systems. The building's roof is in very poor condition, however, and documents for the roof replacement project are ready to bid. Should funding be made available by June 1, 2012, roof construction could be completed within the 2012 summer weather window.

Construction Costs:	N/A
Total Cost of Re-Roof:	$485,000

Cost Summary

	Critical, Non-Roof Repairs	Re-Roof
NW Senior Center	$41,000	$265,000
SPARC	$44,000	$275,000
Teen Parent Home	$31,000	$105,000
CASC	$64,000	$455,000
CAMP	$132,000	$315,000
SE Health Clinic	$0	$485,000
Total Cost	**$312,000**	**$1,900,000**

Funding Options

FAS staff investigated the potential use of ARRA funding for these projects, but discovered it has been fully programmed and is therefore not available for this purpose. Other funding sources for capital improvements needed to make the MOB properties tenantable could come from REET I, General Fund and/or a combination of those, as well as debt financing.

While FAS cannot identify any current pools of uncommitted, available funding to make these repairs in 2012, we will continue to research the issue within the contexts of Part II of the SLI and the 2013-2014 Proposed Budget.

I hope you have found this information helpful. If you have questions or would like to be briefed on this matter, don't hesitate to call me at 386-0041.

Attachment: MOB Facility Assessments Report