



Legislative Department Seattle City Council Memorandum

Date: May 17, 2013
To: Library, Utilities and Center (LUC) Committee
From: Sara Belz, Council Central Staff
Subject: **Council Bill (CB) 117689 – Pottery Northwest Lease Agreement**

At its June 4, 2013, meeting, the LUC Committee will discuss CB 117689. This legislation would authorize Seattle Center to enter into a new lease agreement with Pottery Northwest. Pottery Northwest currently occupies about 10,800 square feet of space in the building located at 226 First Avenue North. Under the proposed agreement, Pottery Northwest would continue to lease their current space for an initial term of 10 years. An option to extend the lease for up to two additional five-year periods would also be provided.

Background and Summary of CB 117689

Pottery Northwest has leased space at Seattle Center for more than 40 years, first in the Armory and later in its current facility on First Avenue North. The mission of the organization is to “develop and promote excellence in the ceramic arts.” Pottery Northwest achieves this by providing studio space, classes, professional workshops, lectures, community programs, and a gallery dedicated to the sale and exhibition of handmade clay-based works.

Pottery Northwest currently pays Seattle Center about \$43,200 in total annual rent. This works out to around \$4 per square foot. The proposed agreement attached to CB 117689 would increase Pottery Northwest’s total annual rent in lease years one through five to \$64,800, or \$6 per square foot. In lease years six through 10, Pottery Northwest’s total annual rent would rise to \$75,600, or \$7 per square foot. Should Seattle Center and Pottery Northwest choose to extend the lease beyond its initial 10-year term, the annual rent due to Seattle Center would increase consistent with the Consumer Price Index (CPI) in each year of the two, five-year option periods. On a price-per-square-foot basis, the total annual rent levels proposed for Pottery Northwest are on par with what Seattle Center generally aims to charge its nonprofit tenants.

The proposed lease agreement would also allow Pottery Northwest to offset up to one-third of its annual rent through the provision of public benefits that are approved by the Seattle Center Director. Such public benefits could include, but would not necessarily be limited to, free or reduced-cost classes, scholarships, and the free use of Pottery Northwest’s studio space for City events. Figure 1 on the following page shows how a decision by Pottery Northwest to take advantage of this provision in the proposed lease could reduce the amount of cash rent it would be responsible for paying to Seattle Center for up to 20 years.

Figure 1: Proposed Annual Cash and Public Benefit Rent Rates for Pottery Northwest

Lease Years	Total Annual Rent	Minimum Amount of Annual Rent to be Paid in Cash	Maximum Amount of Annual Rent to be Paid with Public Benefits	Total Annual Rent per Square Foot
1-5	\$64,800	\$43,200	\$21,600	\$6
6-10	\$75,600	\$50,400	\$25,200	\$7
11-20 (option periods)	\$75,600 + increase annually by CPI	\$50,400 + increase annually by CPI	\$25,200 + increase annually by CPI	\$7 + increase annually by CPI

Since moving into the 226 First Avenue North building, Pottery Northwest has made significant capital improvements to its space, including electrical, heating, and gas line enhancements, and installed kilns and other equipment necessary to create ceramic art. Upon the commencement of its new lease term, Pottery Northwest plans to adopt a fundraising goal of \$75,000 per year in order support ongoing capital and programming upgrades at its current site. The potential 20-year term of the proposed lease agreement (includes the initial 10-year term and two five-year option periods) was requested by Pottery Northwest in order to help reassure its donors that any improvements made to the First Avenue North building would continue to benefit the organization for many years to come. Typically, the premises leases Seattle Center enters into with local nonprofit organizations occupying comparable amounts of space (e.g., Vera Project, Seattle International Film Festival, Seattle Public Schools) have 10- to 15-year terms. Pottery Northwest’s current lease agreement with Seattle Center has been in place for 10 years, originating in 2003.

Substitute Bill

CB 117689 was originally introduced and referred to LUC on January 7, 2013. However, Chair Godden and other Committee members had concerns about some of the proposed elements of the lease and, as a result, the legislation was not placed on any LUC meeting agendas until now.

Accompanying this memorandum is a substitute version of CB 117689 [ordinance, lease agreement (Attachment 1), and fiscal note] that addresses two key concerns expressed by Committee members. The amended language included in the substitute was collaboratively negotiated by Chair Godden, Seattle Center, and Pottery Northwest.

1. Moving Expenses

The space Pottery Northwest rents from Seattle Center on First Avenue North is located immediately across Thomas Street from KeyArena. Regardless of whether Seattle acquires a professional men’s basketball team within the next few years, it is possible the KeyArena site could see some level of redevelopment before the proposed lease agreement between Seattle Center and Pottery Northwest would expire. Recognizing this, Seattle Center and Pottery Northwest agreed to include language in the introduced version of CB 117689 that would allow Seattle Center to terminate the agreement

without liability in order to redevelop the building occupied by Pottery Northwest or adjacent sites. In exchange, Seattle Center would cover Pottery Northwest's moving expenses and make an effort to provide comparable space to Pottery Northwest on the Seattle Center campus. Should such space not be available at the time the lease is terminated, Seattle Center would provide relocation assistance comparable to, but not greater than, what Pottery Northwest would qualify for as a "Displaced Person" under the Seattle Municipal Code.

With the potential cost of moving Pottery Northwest to another site unknown, Committee members requested a clearer limit be placed on the City's responsibility for covering relocation costs. In response to that request, *the substitute version of CB 117689 would cap the total amount of relocation assistance Seattle Center would be obligated to provide at the then-current amount of annual rent Pottery Northwest would be required to pay in cash* (see Figure 1.)

2. Lease Term

The introduced version of CB 117689 would provide Pottery Northwest (so long as they are not in default on their rent payments) with full authority to decide whether their lease agreement with Seattle Center should be extended beyond its initial 10-year term. Committee members expressed some concern about this proposed arrangement given that 1) the potential 20-year term of the proposed lease is longer than other rental agreements currently in place on the Seattle Center campus for the use of comparable amounts of space; and 2) the City may, at some point in the next 10 years, decide to pursue redevelopment options for the KeyArena site that could also impact the space on First Avenue North that is occupied by Pottery Northwest.

In recognition of these concerns, *the substitute version of the bill would require Seattle Center and Pottery Northwest to mutually agree to exercise one or more of the proposed five-year option periods that would extend the lease beyond its initial 10-year term. It would also require the Seattle Center Director to brief representatives from the City Council's Central Staff and City Budget Office (CBO) on the terms of any such extensions prior to executing them.* In addition to reflecting Committee members' interest in providing additional site control to the City, the amended language in the substitute was also crafted to respond to Pottery Northwest's desire for a longer-term lease agreement that supports its fundraising goals.

Other Identified Issue: Public Benefit Rent

The 2013 Adopted and 2014 Endorsed Budgets assume Seattle Center's lease agreement with Pottery Northwest will bring in \$60,000 per year in cash revenues. If the Council passes either the introduced or proposed substitute version of CB 117689 and Pottery Northwest decides to take full advantage of the public benefit rent provisions included in the lease agreement, the total cash rent Seattle Center would receive from Pottery Northwest in 2013 and 2014 would fall short of budgeted amounts by almost \$17,000 per year. However, under the terms of its current lease agreement with Seattle Center, Pottery Northwest has the ability to offset up to 25% of its annual rent through the provision of public benefits and has never elected to exercise that option. Thus, it is unclear what

impact, if any, the public benefit rent provisions included in the new, proposed lease could have on Seattle Center's cash revenues through the end of 2014. Absent any further Council amendments to CB 117689, the Mayor's 2014 Proposed Budget for Seattle Center, which will be submitted the Council this fall, will include an adjustment that reduces the expected 2014 cash revenues associated with Pottery Northwest's lease by \$17,000.

Next Steps

If the LUC Committee does not take action on CB 117689 at its June 4 meeting, the Committee's next opportunity to vote will be on June 18. If you have any questions about the content of this memo or CB 117689, please feel free to contact me at any time (sara.belz@seattle.gov / 4-5382).