

SUMMARY and FISCAL NOTE

Department:	Contact Person/Phone:	Executive Contact/Phone:
Finance and Administrative Services/Real Estate Services	Robert C. Farrell 206-684-7154	Katherine Tassery 615-0703

1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to the sale of the Pacific Place Garage condominium unit (“Garage”); finding that City ownership of the Garage no longer serves municipal purposes; authorizing the sale of the Garage for \$87 million to MPH PP Garage LLC; authorizing the Director of Finance and Administrative Services to execute all documents and take other necessary actions to complete the sale of the Garage; directing the deposit of the net sale proceeds; and exempting the sale from the requirements of Resolution 29799 as amended by Resolution 30862.

Summary and background of the Legislation: FAS is seeking authority to sell the Pacific Place Garage (the “**Garage**”).

The City acquired the Garage in 1998 in conjunction with the comprehensive re-development of an approximately three-block area within the City’s retail core. Other components of the re-development included the renovation of the old Nordstrom store adjacent to Westlake Park, the preservation and renovation of the old Frederick and Nelson department store for use by Nordstrom as its flagship store, and the development of the Pacific Place shopping center. Pacific Place was structured as a two-unit condominium: a 350,000 square foot, multi-story shopping, dining and entertainment complex (referred to herein as the “**Retail Unit**”) situated atop the City’s 1,240 stall garage unit (the “Garage”).

The re-development effort was designed to address the deteriorating condition of the downtown retail core, a condition brought on in part by the 1992 closure of the venerable Frederick and Nelson store and the ensuing bankruptcy of the Frederick and Nelson chain of stores.

The City financed part of the Garage’s acquisition cost with \$60,805,000 in Limited Tax General Obligation Bonds, 1998, Series F (the “**1998F Bonds**”). To take advantage of lower interest rates, in 2007 the City issued its \$95,550,000 Limited Tax General Obligation Improvement and Refunding Bonds, 2007, a portion of which was allocated to refund the then-outstanding 1998F Bonds (the “**2007 Garage Refunding Bonds**”).

The 2007 Garage Refunding Bonds feature a twenty-one year repayment schedule, with interest-only payments in years two through seven, followed by escalating payments of interest and principal over the remaining term.

The graduated principal payments in years eight through twenty-one of the bond term are particularly challenging for the Parking Garage Operations Fund (46010). Consequently, in recent years, while revenues from the operation of the Garage have been more than sufficient to

cover the Garage’s operating expenses, they have not been sufficient to cover both operating expenses and debt service under the 2007 Garage Refunding Bonds. FAS has been able to bridge the Parking Garage Operations Fund’s cash flow (after debt service) deficit through a series of interfund loans, the cumulative total of which is approximately \$7.25 million.

Given the strong commercial real estate market, the 2014 sale of the Retail Unit at a premium price, the fact that ownership and operation of a commercial parking garage has served its municipal purpose of revitalizing the downtown core, and the three-party parking agreement restricting parking rates, FAS deemed it was time to pursue a sale.

Pursuant to a request for proposals, in early 2015 FAS retained Craig Kinzer & Co. to market the Garage. Kinzer’s marketing campaign generated numerous inquiries and multiple offers. An \$87,000,000 offer by MPH PP Garage LLC by was deemed by FAS to be the best offer.

In the accompanying ordinance, FAS seeks the authority to complete the sale of the Garage to MPH PP Garage LLC pursuant to its offer. After deduction of the escrow holder’s payment of customary closing and transaction costs, any concessions, and the escrow holder’s holdback of \$500,000 for one year in accordance with a holdback provision provided for under the purchase and sale agreement for possible claims against the City, the net proceeds from the sale will be deposited into the Parking Garage Operations Fund (46010).

If the sale of the Garage is approved, corrective action must be taken in order to preserve the tax exempt status of the 2007 Garage Refunding Bonds. Consequently, under a separate ordinance being presented concurrently with the accompanying ordinance, the Director of the Finance Division of FAS is requesting authority to carry out the defeasance of the 2007 Garage Refunding Bonds pursuant to an appropriation from the Parking Garage Operations Fund. Such appropriation will be funded with some of the net proceeds from the sale of the Garage.

2. CAPITAL IMPROVEMENT PROGRAM (not applicable, omitted)

3. SUMMARY OF FINANCIAL IMPLICATIONS

 X This legislation has direct financial implications.

Budget program(s) affected:				
Estimated \$ Appropriation change:	General Fund \$		Other (Parking Garage Operations Fund) \$	
	2016	2017	2016	2017
	\$0	\$0	\$0	\$0
Estimated \$ Revenue change:	Revenue to General Fund		Revenue	
	2016	2017	2016	2017
	\$0	\$0	\$87,000,000	\$0
Positions affected:	No. of Positions		Total FTE Change	
	2016	2017	2016	2017
	0	0	0	0

Other departments affected:

None

3.a. Appropriations (not applicable, omitted)

3.b. Revenues/Reimbursements

This legislation adds, changes, or deletes revenues or reimbursements.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Dept	Revenue Source	2016 Estimated Revenue
Parking Garage Operations Fund (46010)	FAS	Gross proceeds from sale of Garage	\$87 million
TOTAL			\$87 million

Revenue/Reimbursement Notes:

Note that the above is the gross revenue anticipated from the sale of the Pacific Place Garage and does not represent the net revenue, which will include consideration of the settlement of operational revenues and expenditures have prior to the transfer of ownership, the holdback provision and the payment of sale and closing costs.

3.c. Positions (not applicable, omitted)

4. OTHER IMPLICATIONS

a) **Does the legislation have indirect or long-term financial impacts to the City of Seattle that are not reflected in the above?**

Yes. The passage of the proposed legislation will result in the defeasance of the bonds used to purchase the Garage.

b) **Is there financial cost or other impacts of not implementing the legislation?**

Yes. Absent the sale of the Garage, in order to cover recurring cash flow deficits, the Parking Garage Operations Fund will continue to need either an interfund loan or a direct subsidy.

c) **Does this legislation affect any departments besides the originating department?**

No.

d) **Is a public hearing required for this legislation?**

No.

e) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No. However, SEPA notices were published in The Daily Journal of Commerce as required pursuant to relevant provisions of the Seattle Municipal Code.

f) Does this legislation affect a piece of property?

Yes. See Exhibit A for a depiction of the Garage's location.

g) Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?

Not applicable.

h) If this legislation includes a new initiative or a major programmatic expansion: What are the long-term and measurable goals of the program? Please describe how this legislation would help achieve the program's desired goals.

Not applicable.

i) Other Issues:

None.

List attachments below:

Exhibit A – Depiction of location of Pacific Place Garage