



OFFICE OF ARTS & CULTURE
SEATTLE

InterOffice Memo

To: Councilmember Herbold, CRUEDA
From: Kelly Davidson
Date: July 24, 2017
Subject: Arts King Street Station Interfund Loan Briefing

Interfund Loan Request for Arts & Culture tenant improvement of King Street Station 3rd Floor

Description:

As part of the 2017 Proposed CIP, Seattle Department of Transportation (SDOT) in partnership with the Office of Arts and Culture (ARTS) requested \$1.8 million supported by 2017 LTGO Bonds for the King Street Station Tenant Improvements Project. This funding was to complete design and construction on the second and third floor of King Street Station for Arts tenancy in mid-2017 and be repaid with Admissions Tax proceeds in future years. The \$1.8 million was an estimation based on preliminary cost work and was based on a set of expectations for the space with regards to permitting and occupancy requirements. The budget was passed by Council in November 2016.

In late 2016, Arts was partnered with Finance and Administrative Services (FAS) to begin design and permitting discussions with SDCI and the City's architectural contractor for the King Street Station Project. As more detailed discussions occurred, it was discovered that the project would cost significantly more than anticipated due to a few factors: 1. Additional core and shell work requirements were discovered; 2. Unanticipated energy code requirements were triggered by the timing of the project and the nature of the space; 3. Additional heating and sound barrier requirements to meet both office space and gallery space occupancy requirements, and 4. An overall escalation of construction costs from when the initial estimates were provided. As construction costs increased, the soft costs also were estimated to increase (FAS' fee is a percent based fee). Because additional discussions were required to determine whether the project at the increased costs would occur, the City will not issue 2017 bonds for the project.

CBO, Art, FAS and SDOT partnered to look at scope options to determine a path forward. The option chosen reduces the overall footprint of Arts in King Street Station but does not impact the amount of public art space, a priority of the project. Under this new option, Arts will move its office to King Street and manage a gallery/public art space on the 3rd floor, but the Department will forego a room on the 2nd floor. A small theater and event space identified on the 3rd floor will now also be used for panels and commission meetings.

Randy Engstrom, Director | Ed Murray, Mayor

Funding and Bridge Financing:

Total project cost is approximately \$4.4 million, which will be debt-financed. Debt service will be repaid by Arts using its Admissions Tax allocation. FAS will manage design and construction. The interfund loan will fund approximately \$2.6 million of 2017 and early 2018 costs, and will be repaid with the issuance of 2018 LTGO bonds in second quarter 2018. SDOT will have incurred approximately \$325,000 in expenditures by the effective date of the interfund loan authorization ordinance. This loan request includes repayment of those project expenditures.

Because this is ultimately an Arts Project, and the debt service on the 2018 bonds will be paid for by Admissions Tax revenues via Arts, CBO believes that the Municipal Art Fund would be the best fund to provide the cash for this loan. The fund is managed by Arts and has sufficient cash balance that will not be required for use in 2017. The cash balance of the Municipal Art Fund as of March 31 was \$9.83 million with an average daily balance of \$9.95 million. CBO does not expect this fund to be negatively affected by this short-term loan or that there is any violation of the 1% for Art policy requirements as the funds will be repaid in a timely manner with interest. Arts is able to track the source of the cash to ensure that interest earnings are applied appropriately to future projects.

Memo generated by Kelly Davidson, Office of Arts & Culture, Finance Manager, 684-8362

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