

July 24, 2017

MEMORANDUM

To: Members of the Civil Rights, Utilities, Economic Development & Arts Committee
From: Asha Venkataraman, Council Central Staff
Subject: Council Bill 119035: Interfund Loan for King Street Station Tenant Improvements

On July 25, the Civil Right, Utilities, Economic Development & Arts (CRUEDA) Committee will consider Council Bill (CB) 119035, legislation to authorize a \$2.8M interfund loan from the Municipal Arts Fund to the 2018 limited tax general obligation (LTGO) Fund to finance improvements on the third floor of King Street Station. This memorandum describes the reasons for the legislation and how the Executive plans to fund King Street Station work going forward.

Background

King Street Station is a capital facility owned by the City, and a Seattle Department of Transportation (SDOT) capital improvements program (CIP) project. The Office of Arts and Culture (OAC) plans to move into King Street Station and was managing plans to improve it so potential tenants could move into the space as well. In November 2016, Council authorized \$1.8M of LTGO bond financing to be issued in 2017 for tenant improvements to King Street Station. Council gave SDOT appropriation authority to expend that \$1.8M in the 2017 Adopted Budget. The \$1.8M figure was derived from an initial architectural analysis of the cost of permitting and construction of tenant improvements for the third floor and some of the second floor of King Street Station. This analysis assumed, among other things, that the space could remain unfinished, some structural renovations scheduled to occur previously had been completed, and that certain permitting requirements were in effect.

However, Finance and Administrative Services (FAS) conducted further pre-design work, which revealed that the assumptions on which the architect estimated the original cost were based on incomplete information – the renovations believed to be completed had not been finished, planning an office space rather than a gallery space required different permits, and the energy code and mechanical requirements differed for the scope of the project. Based on the new scope necessary to complete tenant improvements, the Executive determined that additional funding would be necessary and that the timing to accomplish those changes was uncertain and expected to extend into 2018. The Executive anticipates that the entire project will likely cost a total of \$4.4M and that it will complete the project by August 2018, if the design and new permitting timelines remain on track. The Executive will need to spend \$1M of the \$4.4M in 2017.

CB 119035

Because of the uncertainty, the Executive proposes to fund work in 2017 using interfund loan financing rather than bond financing. Rather than issuing the \$1.8M in bonds to fund the 2017 work, the Executive proposes to borrow \$2.8M from the cash reserves in the Municipal Arts Fund and pay interest on the loan at the rate of return of the City’s Consolidated Cash Pool. The rate of interest for the interfund loan is lower than the rate for bond issuance. Out of the \$2.8M loan, SDOT plans to spend \$1M on tenant improvement work in 2017 and leave the remaining \$1.8M to cover expenses between the beginning of 2018 and when the Executive issues the 2018 bonds. The Executive would typically request an interfund loan of the \$1.8M to cover this gap at a later time, but decided to consolidate the requests instead of making one request for \$1M now and an additional request for \$1.8M later.

SDOT currently has \$1.8M in appropriation authority to spend the anticipated \$1.8M in bond funds. The second quarter supplemental budget (CB 119022), scheduled for a committee vote at the August 2 Affordable Housing, Neighborhoods, and Finance Committee meeting contains an item to decrease SDOT’s appropriation authority by \$800,000, leaving it with \$1M in 2017 appropriation authority. The Executive plans to request an additional \$3.4M in appropriation authority in the 2018 Proposed Budget to total \$4.4M. Table 1 below describes the changes in budgeting and appropriation authority.

Table 1: Budget and appropriations for King Street Station tenant improvements

	Initial Estimate	Current Estimate
Permitting and Construction Budget	\$1.8M	\$4.4M
2017 LTGO bond issuance (Anticipated)	\$1.8M	\$0
Interfund Loan: Municipal Arts Fund in 2017	\$0	\$2.8M*
SDOT 2017 Appropriation Authority	\$1.8M	\$1M
Future Appropriation Authority to be requested	\$0	\$3.4M

**\$1M in 2017 Spending + \$1.8M in 2018 Expenses*

To repay the loan, the Executive will use the \$1.8M of LTGO bonds now scheduled to be issued in 2018 and an additional \$2.6M to be requested in the LTGO bond ordinance accompanying the 2018 Proposed Budget. The \$4.4M total is expected to fund all tenant improvements, including loan repayment.

cc: Kirstan Arestad, Central Staff Director
Dan Eder, Central Staff Deputy Director