



# KING COUNTY

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

## Signature Report

March 22, 2016

Motion 14589

Proposed No. 2015-0180.1

Sponsors McDermott

1           A MOTION approving the report on operations related to  
2           the Northshore public health and operations facility and  
3           plan for continued delivery of services currently provided  
4           at the Northshore public health center at a fixed location in  
5           response to the 2015/2016 Biennial Budget Ordinance,  
6           Ordinance 17941, Section 28, Proviso P2, and Section 95,  
7           Proviso P5, and authorizing the release of \$100,000  
8           currently held in reserve for the real estate services section  
9           and authorizing the release of \$100,000 for the department  
10          of public health.

11          WHEREAS, the 2015/2016 Biennial Budget Ordinance, Ordinance 17941,  
12          Section 28, Proviso P2, states that \$100,000 of the appropriation for the real estate  
13          services section shall not be expended or encumbered until the executive transmits a  
14          report on options related to the Northshore public health center operations and facility, a  
15          plan for the continued delivery of the services currently provided at the Northshore public  
16          health center at a fixed location and motion that approves the report and plan and the  
17          motion is passed by council, and

18          WHEREAS, the 2015/2016 Biennial Budget Ordinance, Ordinance 17941,  
19          Section 95, Proviso P5, states that \$100,000 of the department of public health's

20 appropriation shall not be expended or encumbered until the executive transmits a report  
21 on options related to the Northshore public health center operations and facility, a plan  
22 for the continued delivery of the services currently provided at the Northshore public  
23 health center at a fixed location and motion that approves the report and plan and the  
24 motion is passed by council, and

25 WHEREAS, the King County executive hereby transmits to the council a report  
26 on options related to the Northshore public health center operations and facility and a  
27 plan for the continued delivery of the services currently provided at the Northshore public  
28 health center at a fixed location and by this motion seeks approval of the report and plan,  
29 and

30 WHEREAS, the report and plan is jointly submitted by the real estate services  
31 section and the department of public health to fulfill their respective proviso obligations;

32 NOW, THEREFORE, BE IT MOVED by the Council of King County:

33 The report and plan is hereby approved and the \$100,000 currently held in reserve  
34 under Ordinance 17941, Section 28, Proviso P2, general fund, and the \$100,000 currently

35 held in reserve under Ordinance 17941, Section 95, Proviso P5, public health fund, are  
36 hereby released.  
37

Motion 14589 was introduced on 5/11/2015 and passed by the Metropolitan King County Council on 3/21/2016, by the following vote:

Yes: 9 - Mr. von Reichbauer, Mr. Gossett, Ms. Lambert, Mr. Dunn,  
Mr. McDermott, Mr. Dembowski, Mr. Upthegrove, Ms. Kohl-Welles  
and Ms. Balducci  
No: 0  
Excused: 0

KING COUNTY COUNCIL  
KING COUNTY, WASHINGTON

  
\_\_\_\_\_  
J. Joseph McDermott, Chair

ATTEST:

  
\_\_\_\_\_

Anne Noris, Clerk of the Council

**Attachments:** A. Real Estate Services and Department of Public Health Northshore Public Health Center Operations and Facility Proviso Response

Real Estate Services and Department of Public  
Health  
Northshore Public Health Center  
Operations and Facility  
Proviso Response

Ordinance 17941  
King County 2015/2016 Budget  
Section 28, Proviso 2  
Section 95, Proviso 5

**TABLE OF CONTENTS**

**Contents**

**EXECUTIVE SUMMARY..... 3**

**SECTION A..... 11**

**SECTION B..... 16**

**SECTION C..... 16**

**SECTION D..... 17**

**SECTION E..... 19**

**SECTION F..... 24**

**SECTION G..... 25**

**PLAN FOR THE CONTINUED DELIVERY OF SERVICES ..... 26**

**APPENDIX A: MAP OF CURRENT AND POTENTIAL WIC CLIENTS  
(2013) ..... 267**

## Executive Summary

The Facilities Management Division (FMD) and Public Health—Seattle & King County (PHSKC) have identical provisos relating to the Northshore Public Health Center (NSPHC) in the 2015/2016 budget (Ordinance 17941, Section 28 and Section 95). This proviso requires an analysis of options “for the continued delivery of services currently provided at the NSPHC in an integrated, comprehensive manner from a fixed location, whether directly or in partnership with an outside entity.” To fulfill the intent of the proviso FMD and PHSKC analyzed the operating, financial, equity and social justice impacts of providing services either at the current location or a potentially new location; PHSKC received input from the Professional & Technical Employees Local 17 and the Washington State Nurses Association regarding operations at the NSPHC; and, the agency called upon community partners to identify potential opportunities for the continued delivery of services for our community.

In response to these provisos, FMD and PHSKC are jointly submitting this report. This response addresses multiple questions related to different lease and sale alternatives. These are included in the following sections in the Proviso response:

- Section A – Retain ownership of the NSPHC and lease the vacant space
- Section B – Consider sale value of the NSPHC whether it is either partially or fully leased
- Section C – Consider sale of the NSPHC while PHSKC moves and leases at a new location
- Section D – Compare options A, B and C

Section E documents the space requirements and operational considerations for PHSKC to continue providing Maternity Support Services (MSS) and Women, Infants and Children (WIC) services to north and east King County. Section F discusses the feasibility of charging rent to other King County agencies that might be able to provide other services at the clinic. The final section, Section G, addresses the equity and social justice impacts of these alternatives.

In summary, two options present themselves as potentially equally promising for meeting the operational and financial needs of PHSKC while minimizing risk to the County (see Table 1). Both involve selling the facility, with revenue from the sale providing critical funds for reducing the PHSKC deficit. One option would sell to an agency that serves similar clients and could partner with PHSKC, with PHSKC leasing space in the current building. The other would sell the building and move the PHSKC services to a new location, in proximity to partner organizations, most likely in the Totem Lake area of Kirkland.

The preferred approach is to move forward with both of these options, simultaneously, until one proves more advantageous than the other, recognizing that PHSKC would not be able to enter into a long term agreement until there is clarity about the financial sustainability of Public Health Centers (PHC). In response to a separate proviso, a report on the financial sustainability of Public Health Centers is scheduled to be provided in October 2015.

**Table 1: Financial and Program Impacts**

<b>Financial and Program Impacts to PHSKC</b>					
<b>Options</b>	<b>Financial value</b>	<b>Impact to PH Fund</b>	<b>Estimated Annual Facility Expenses</b>	<b>Primary Risks</b>	<b>Client &amp; ESJ impacts</b>
Section A: King County retains ownership and PHSKC retains partial occupancy with a co-tenant	<b>Positive</b>		<b>Positive</b>	<b>High</b>	<b>Neutral</b>
	\$2.8M - \$3.6M NPV		\$100K Annually	a) Establishing & maintaining long-term tenants (that are compatible with PH services) b) Initial investment in improvements to attract a tenant	Same location as present, with a focus on securing full tenancy, potentially without complementary services on-site
Section B: Sale of the NSPHC to a partner that will lease-back to PHSKC <sup>1</sup>	<b>Positive</b>	<b>Positive</b>	<b>Neutral</b>	<b>Medium</b>	<b>Positive</b>
	\$2M NPV	\$3.4M One-Time	\$150K Annually	Limited # of interested parties	Same location as present, with addition of complementary services on-site
Section C: Sale of the NSPHC while PHSKC moves to an Outside Lease <sup>1</sup>	<b>Positive</b>	<b>Positive</b>	<b>Neutral</b>	<b>Medium</b>	<b>Positive</b>
	\$1.9M NPV	\$3.4M One-Time	\$150K Annually	Finding space that is both appropriately located and financially viable	Improved location & client accessibility

<sup>1</sup> PHSKC would not be able to enter into a long term agreement until there is clarity about the financial sustainability of Public Health Centers. In response to a separate proviso, a report on the financial sustainability of Public Health Centers is scheduled to be provided in October 2015.

## Background



*Picture: Northshore Public Health Center*

### **Beginnings of the Northshore Public Health Center**

Northshore Public Health Center (NSPHC) is located at 10808 NE 145th Street in Bothell, Washington. In 1987 King County Ordinance #8196 authorized a proposition to the voters to approve a levy for the issuance of \$99.8 million in general obligations bonds for a package of multiple health care improvements including Harborview Medical Center. The levy passed and the debt has been retired - there are no outstanding bonds. The bonds included \$15 million for five regional health care centers and a satellite clinic in north King County that became the NSPHC.

The property was originally owned by J. W. Properties and purchased by King County in 1989 for the purpose of building a public health center. Construction of the 16,691 rentable square foot (RSF) building was started in 1992 and completed in 1993 at a cost of \$1,478,000. In the period of 1993-2008 a health clinic was located at this facility, along with offices for Environmental Health field staff.

### **HealthPoint/Public Health Partnership (2009-2012)**

The original tenant was the Department of Public Health. By 2009, PHSKC had reduced its footprint in the building by nearly half. In November 2009, HealthPoint, a non-profit medical clinic, moved into a portion of the building. PHSKC and HealthPoint were joint tenants from November 2009 through 2012. They occupied 9,619 RSF and 7,072 RSF respectively.

HealthPoint has been the only additional paying tenant in the building. They provided a variety of health care services including: diabetes education, family medicine, family planning, physicals and annual exams. They also provided pregnancy care, and well-child care. HealthPoint vacated the building at the end of 2012 and moved to its own building elsewhere in Bothell. During that



same period, PHSKC provided Women, Infant, Children (WIC) nutrition services and Maternity Support Services.

**2013 to Present – Northshore Building Partially Mothballed**

Since early 2013 the building has been partially vacated. During 2013, FMD reached out to numerous agencies, internal and external, in an effort to lease the remaining space, and those efforts are detailed in Table 2 below. More recently, in 2015, FMD and PHSKC met with two outside organizations that expressed interest-- Hopelink and Sea Mar Community Health Centers.

**Table 2: FMD Early Contacts**

Focus of Effort	Status
Lease internally to King County Agencies	A flyer on the offering of space was sent out to a long list of County agencies. Follow-up discussions were held with several, but no agency expressed an interest at the time.
Lease to Outside Agencies with Focus on nonprofits and public/private sector health providers	Feelers were put out to a number of outside agencies including nonprofits and public/private organizations. Follow-up contact was made through emails and phone calls. The following are some of the agencies where discussions were held.
Swedish/Providence Medical Center	In preliminary phone conversations with senior management real estate staff there has been flexibility expressed in leasing all or part of the facility, collocating with PH; or purchasing with a lease back option for PH as a tenant.
University of Washington Medical Center	Initial preliminary interest, but determined UW Bothell Campus is expanding into office space recently leased across the street from the Bothell campus.
Polyclinic Medical Center	Not ready yet to branch out that far north. Keep them on the list for possible future interest.
North Urban Human Service Alliance (NUHSA)	NUHSA was most interested of the nonprofits contacted, but as a small organization did not have the resources to commit to a lease.
Hopelink	Did not express an interest at the time.
National Alliance on Mental Illness (NAMI)	Did not express an interest at the time.
Sound Mental Health	Did not express an interest at the time.
Navos	Did not express an interest at the time.
World Vision	No response

Currently, the only other County use of the building is for the Records and Licensing Section's (RALS) Community Services Center, which is provided on Mondays and Tuesdays using the main reception area. More information on the Community Services Centers is provided in Section F of this report. Due to the partially vacated state of the building, FMD has taken efforts to reduce the energy usage and building maintenance in the portions of the building that aren't used.

### **Northshore Public Health Center Building Condition**

The building is operated and maintained by FMD, a division of the Department of Executive Services. The building occupancy charges are divided into two categories: 1) an Internal Service Fund for Operation and Maintenance (O&M) to recover building direct costs, security costs and overhead expenditures; and, up until 2015, 2) a Major Maintenance Reserve Fund (MMRF) charge to collect money for the forecasted building systems replacement needed to address 20 year needs. For 2015, PHSKC will be charged \$100,000 for Operations and Maintenance for the 9,619 rentable square feet of occupied space. FMD will be reimbursed from the County's General Fund for "mothball" costs for the remaining vacant space in the building. For 2015, this will be \$55,382.

The NSPHC building is generally in good condition with the exception of the original heating, ventilation and air conditioning (HVAC) system, which has reached the end of its useful life. The air handling unit gas furnace is in poor condition and in need of replacement. The air conditioning condensing unit is also in need of replacement. The major maintenance expense associated with the building and site, from 2000 through 2010, was \$205,315. This represents an average annual expense of \$20,532. Based on a recent study, an additional \$544,577 in major maintenance and repair projects are needed in the next six years.

According to the study, the electrical system and the exterior structural system are in good condition, and the fire protection sprinkler system is also in good condition. However, the buildings perimeter air distribution is poor, and the security system is beginning to fail. Two years ago, the HVAC system was tested and balanced in an attempt to improve the air distribution.

### **2015/2016 Budget**

For PHSKC and its partners, the 2015/2016 budget process was a challenging time. Facing a projected gap of \$30 million in the Public Health Fund, the department initially outlined substantial reductions in programs and services, including closing four Public Health Centers. Northshore was one of these centers along with centers in Auburn, Federal Way, and White Center. As a result of leadership from the Executive and Council, and support from cities, labor, and other partners, most of these reductions were avoided in the final 2015/2016 budget (adopted by Council in November 2014). This includes restoring the four Public Health Centers. However, there are several key points to note:

- The funding to restore the four Public Health Centers was largely one-time – providing a bridge for leadership and partners to identify funding sources to support these centers longer term.
- The financial gap in the Public Health Fund was substantially reduced but not eliminated in the 2015/2016 Adopted Budget. For example, according to the adopted budget, the Public Health Fund will have a deficit of \$2.9 million at the end of 2016. This level of deficit assumes the sales of the Renton and Northshore public health centers – with these proceeds helping cover the portion of the financial gap that is one-time.
- Without sale of Northshore Public Health Center, or a similar infusion of funds, the deficit will grow substantially.
- The adopted budget assumes that Northshore Public Health Center is funded through 2015 while the other three centers are funded through 2016.
- The adopted budget also includes a proviso that requires that “the Executive transmits a report on the sustainability of public health clinic services in future biennia” by October 31, 2015

As noted above, proceeds from the sale of the Northshore facility are intended to offset a significant portion of the one-time financial gap in the Public Health Fund.

To identify the anticipated proceeds, the Facilities Management Division completed an appraisal of the property in mid-2014. The appraisal was based on the value of the two parcels associated with the NSPHC. These included the main parcel (1726059021) where the building is located and an adjoining vacant parcel (1726059123). The vacant parcel is owned by the Road Services Division (RSD) so the value of that parcel has been excluded from our analysis. The value of the NSPHC parcel including a cell tower is \$3,850,000.

### **The Proviso – Ordinance 17941 Section 28, & Section 95**

#### **P2 PROVIDED FURTHER THAT:**

Of this appropriation, \$100,000 shall not be expended or encumbered until the executive transmits a report on options related to the Northshore public health center operations and facility, a plan for the continued delivery of the services currently provided at the Northshore public health center at a fixed location and a motion that approves the report and plan and the motion is passed by the council. The motion shall reference the subject matter, the proviso's ordinance, ordinance section and proviso number in both the title and body of the motion.

The report shall be prepared with the assistance of real estate experts with expertise in real estate sales and medical office space leasing in the north and east King County markets. The real estate expert shall be retained no later than January 2, 2015. The report shall also include input from Professional & Technical Employees Local 17 and the Washington State Nurses Association regarding operational issues at the Northshore public health center. The report shall

include, but not be limited to, an analysis of options related to the Northshore public health center operations and facility including:

A. The potential for, revenue from, and expenses associated with leasing the unused portion of the Northshore clinic to either an internal King County agency or outside tenant or tenants, or both. The analysis should also include the potential for pledging the revenue stream from a lease to a third-party tenant, to secure debt financing to address the department's current deficit

B. The potential revenue from the sale of a fully leased Northshore clinic, including a lease with Public Health - Seattle & King County to continue its maternity support services ("MSS") and special supplemental nutrition program for women, infants, and children ("WIC");

C. The potential revenue from the sale of the Northshore clinic with King County executing a commercially reasonable lease for sufficient space to continue MSS and WIC and the expected costs to King County for such a lease;

D. A comparison of the options in subsections A. through C. of this proviso with a potential sale of the Northshore public health center property in vacant, as-is condition, including all costs to vacate the space, prepare it for sale, and maintain the vacated property until an estimated closing of a sale of the property;

E. Analysis of the space requirements, one-time and ongoing expected costs and operational impacts, including any adverse impacts to the delivery of client services, to continue the provision of MSS and WIC as provided currently to north and east King County with substantially equivalent or better market saturation and efficacy compared to the current level of service, if public health is required to vacate the current clinic;

F. Feasibility of charging rent to the agencies providing other King County services at the clinic, or other county agencies, and the impacts, savings and other issues associated with the cessation or relocation of the community service center currently providing those services; and

G. Analysis of the racial and social justice impacts of closure of the clinic.

All analyses regarding the potential sale of the property shall address K.C.C. 4.56.130, which requires a portion of sales proceeds to be paid into the fund for arts and culture, as well as leasehold excise taxes where applicable, and any other factors such that the analysis provides for as close-to-actual financial impact to the health department and the county as a whole, as possible.

At the same time as delivery of the report on options related to the Northshore public health center operations and facility, the executive shall transmit to the council a plan for the continued delivery of services currently provided at the Northshore public health center in an integrated, comprehensive manner from a fixed location, whether directly or in partnership with outside entities.

The executive must file the report, motion and plan required by this proviso by May 1, 2015, in the form of a paper original and an electronic copy with the clerk of the council, who shall retain the original and provide an electronic copy to all councilmembers, the council chief of

staff, the policy staff director and the lead staff for the budget and fiscal management committee, or its successor.

This proviso mirrors a proviso accompanying the Adopted Budget for the Public Health Department. Ordinance 17491 Section 95 Proviso 5 requires responses to the very same set of questions. Accordingly, this report addresses the technical analysis of various real estate questions posed by the both budget provisos.

### **Scope of Work**

**FMD: As part of the effort to determine the best course of action FMD reviewed prior work files, and in addition, performed the following tasks:**

- Reviewed the work completed in 2013 to determine if other County agencies were interested in the site. There was no interest at that time. That search has been updated with no new candidates for tenancy.
- Reviewed an appraisal completed by the firm McKee and Shalka. This was used to identify the property value and market rates. That appraisal was delivered on July 9, 2014.
- In 2015, hired the brokerage firm of CBRE to assist with a property search. This information was used to analyze the impact of a potential relocation of the NSPHC and to identify site options with a high probability of being feasible as site opportunities.
- Reviewed the report presented by the brokerage firm of Kidder Mathews at the behest of Councilmember Dembowski.
- Performed financial analysis of various alternative scenarios with financial benefits and costs assessed over a 10-year period.

**PHSKC: As part of the effort to determine the best course of action, PHSKC performed the following tasks:**

- Contacted and met with potential partner agencies regarding co-locating at either the current NSPHC or a new location and discussed other alternatives, such as potential purchase and lease back opportunities.
- Analyzed the current and potential client base in northeast King County, to identify potential sites for relocation.
- Analyzed geographical proximity of transportation and community partners, overlaid onto the density of potential client base.
- Analyzed the current and future space needs, based on current staffing model.
- Analyzed the potential equity and social justice impact of reducing or relocating services in this portion of the county.

- Consulted with and sought input from leadership of Professional & Technical Employees Local 17 and Washington State Nurses Association regarding operational issues and the various scenarios described below in Sections A-C.

### **Proviso Language – Section A – Retain Ownership of the NSPHC**

- A. The potential for, revenue from, and expenses associated with leasing the unused portion of the Northshore clinic to either an internal King County agency or outside tenant or tenants, or both....*

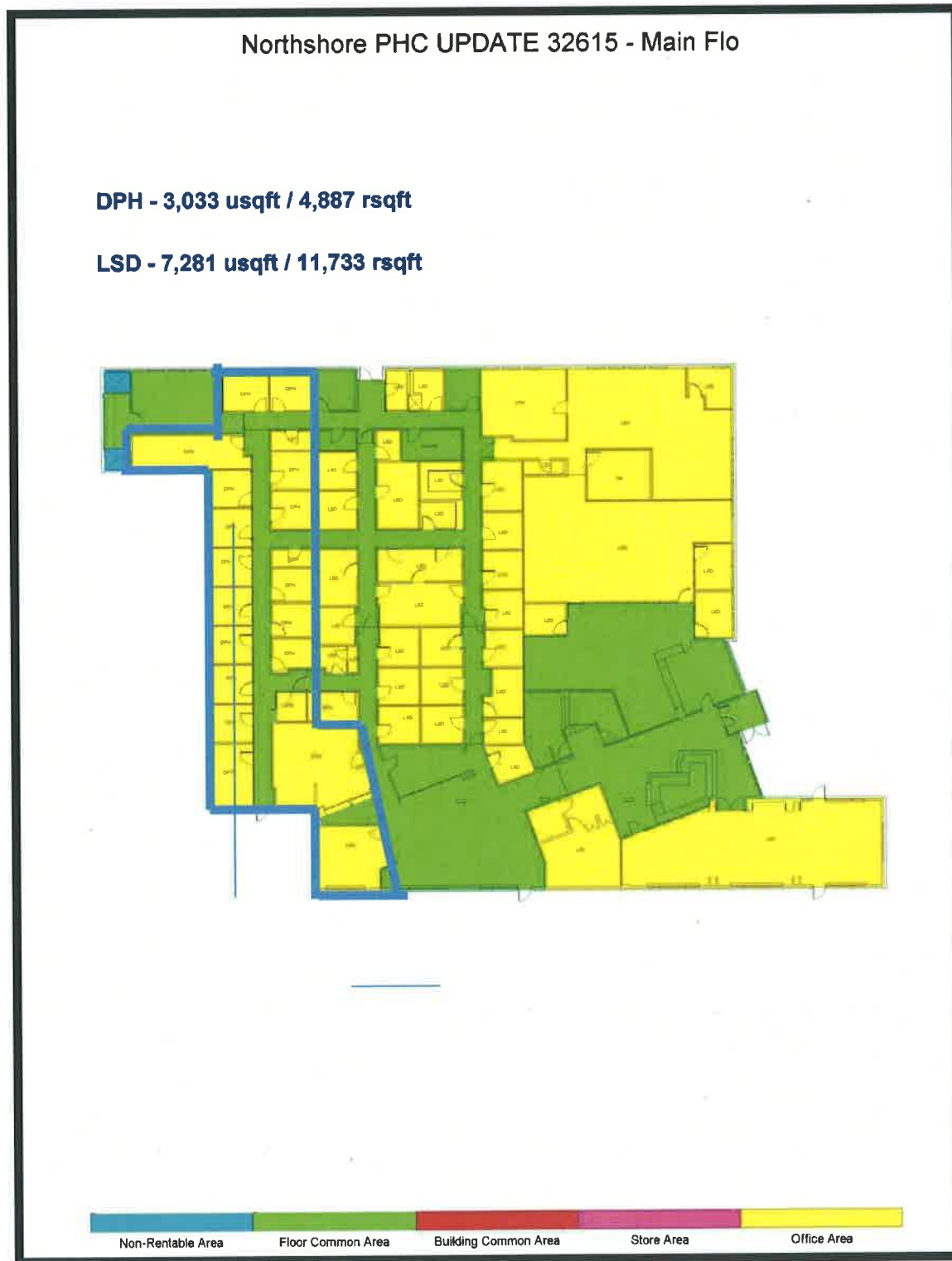
This Section explores various scenarios that would have PHSKC continue to occupy and provide services at the NSPHC, and it reviews potential opportunities to receive revenue from the residual vacant space. These scenarios include assumptions for leasing to either another County agency, community services oriented partner or a private tenant. In 2013, the Facilities Management Division canvassed other County agencies to determine whether or not there was interest in the site, and at the time there was none. During the marketing efforts of 2013, one health care provider expressed interest in leasing or purchasing the facility. As result of this proviso, two additional health and human services providers have expressed an interest in purchasing the site and potentially providing a lease-back opportunity to PHSKC.

The financial analysis used for co-tenancy at the NSPHC is based on market rates, regardless of whether the tenant is the County, other government agency, non-profit, or private sector tenant. This rate is \$21.22 per rentable square foot per year and is based on the appraiser's mid-point assumption for non-serviced, market rental rates in the Totem Lake area. Based on both the appraisal and existing leasing opportunities in the area, fully serviced market rate (which includes operating expenses) is assumed at \$31.83 per rentable square foot per year.

Using this information, a financial analysis was completed to determine the potential revenue and expenses associated with leasing the unused portion of the NSPHC to either an internal King County agency or other tenants. This analysis includes an evaluation of the potential for pledging the revenue stream from a lease to a third-party tenant in order to secure debt financing to address the revenue assumptions in the PHSKC 2015/2016 budget. In order to maximize the potential revenue from the lease, PHSKC identified how they would use the facility if they remained in a reduced size and co-located with either a community partner or private tenant.

Diagram 1 depicts an estimate of how PHSKC would occupy the facility (within the blue lines) with the residual space available for rent. PHSKC would occupy about 4,887 rentable square feet (RSQF) in the facility. The usable square feet (USQFT) is also included.

Diagram 1: Northshore PHC Proposed Space Utilization



Following is a discussion of each of the scenarios requested in the budget proviso, risks associated with those options, and the estimated financial outcomes related to each scenario.

### **Scenario A1: Retain Ownership of the NSPHC and Lease the Vacant Space to an Internal County Agency**

FMD did a preliminary search for potential County tenants in 2013. None were identified at that time (see Table 2). That continuing search has not identified a potential County tenant. However, the assumption used in responding to this budget proviso is that any tenant, public or otherwise, that would be leasing or occupying space at the NSPHC would be paying market rental rates to the County. Accordingly, there was no financial differentiation between Scenario A1 and the Scenario A2 below. The only difference was the type of tenant: County tenant versus outside tenant.

### **Scenario A2: Retain Ownership of the NSPHC and Lease the Vacant Space to an Outside Tenant**

The potential for financial benefit from leasing the vacant space within the NSPHC has risk:

- Finding a party to lease the space at market rates and to co-locate in the building alongside the NSPHC clinical services.
- The continued need to invest in major maintenance and repair to maintain this facility.
- The risk of future vacancies and how that impacts the assumed revenues.
- The accessibility of NSPHC for potential clients who are not currently using the provided services.
- The amount of County paid tenant improvement investment which may be required to place a tenant in the vacant space.

The analysis in this scenario involved evaluating potential income generated by leasing out unused space at the facility and continuing investment in major maintenance and repair over a ten-year period.

Assuming no required County investment in tenant improvements, and leased at market rates this 8.6% vacancy scenario results in a net present value of approximately \$3.6 million (8.6% vacancy is the median vacancy rate for the market area). This number represents the net present value benefit of leasing out the vacant space less costs of operating and maintaining the building for both the NSPHC and outside tenant plus the present value of the property at the end of the 10-year period.



### **Scenario A3: Retain Ownership of the NSPHC and Pledge Revenue from a Lease to secure debt financing**

A preliminary calculation of the revenue stream associated with a lease of the currently vacant space and King County's current borrowing rate indicated that approximately \$1.2 million could be borrowed for a 10-year term. This amount assumes an 8.6% vacancy rate, major maintenance repairs are made, and the facility is leased at the assumed \$31.83 per square foot (psf) fully serviced annual market rental rate, and with no required County outlay for tenant improvements. However, Scenario A3 is problematic because the practice of using debt financing to finance current operations is contrary to the County's adopted Debt Management Policy.

### **Vacancy Risk Sensitivity Analysis**

Perhaps the greatest risk of pursuing any of the Scenario A options is the risk that the space would remain vacant or partially vacant over the 10-year period being evaluated. Current vacancy rates in the Eastside Office Market – Kirkland submarket is estimated at 8.6% by the Broderick Group, for the 4<sup>th</sup> Quarter in 2014. Given the vacancy risk associated with this property, Table 3 below reflects the sensitivity of this, and other vacancy rate assumptions.

**Table 3: Vacancy Rate Bottom Line Sensitivity**

<b>Vacancy Assumption</b>	<b>NPV A1 and A2</b>	<b>Debt Financing A3</b>	<b>Definition of Condition</b>
<b>0 %</b>	<b>\$3.8 Million</b>	<b>\$1.4 Million of Leveraged Debt</b>	This scenario assumes the County would immediately secure a tenant to occupy all of the available space and the tenant would pay market rates and take the space as-is for the entire 10-year period.
<b>8.6 %</b>	<b>\$3.6 Million</b>	<b>\$1.2 Million of Leveraged Debt</b>	This scenario assumes the County would find a tenant to occupy all of the available space and that there would not be more than an equivalent of a 10 month vacancy period out of the 10 year period used for the analysis. The assumption is that the tenant would take the space as-is or pay for their own tenant improvements.
<b>20 %</b>	<b>\$3.4 Million</b>	<b>\$975,000 of Leveraged Debt</b>	This scenario assumes the County would ultimately find a tenant to occupy all or a portion of the available space with the rent paid for an equivalency of 8 years out of the next 10. The assumption is that the tenant would take the space as-is or pay for their own tenant improvements.
<b>50 %</b>	<b>\$2.8 Million</b>	<b>\$300,000 of Leveraged Debt</b>	This scenario assumes the County would ultimately find a tenant to occupy all of the available space with rent paid at market rates for an equivalency of 5 years out of the next 10. The NPV of this scenario would be less than the residual value of the property, meaning that there would be a negative cash flow during the 10-year period.

**Proviso Language – Section B – Sale of the NSPHC whether it is either partially or fully leased, with current health services remaining**

*B. The potential revenue from the sale of a fully leased Northshore clinic, including a lease with Public Health - Seattle & King County to continue its maternity support services (MSS) and special supplemental nutrition program for women, infants, and children (WIC).*

**B1. Potential revenue from the sale of the building fully leased, including PHSKC**

This scenario assumes that the Northshore site would be sold when it is totally occupied with tenants obligated to pay rent for 5 to 10 years. The sales value of the building would be affected by the positive economic benefit associated with those leases. The amount of premium (rent above market) the County would be willing to pay would directly affect the sales value of the building. FMD was advised by its appraiser that a building fully occupied with tenants paying market rates may increase the sales value of the building by 5%. Applying 5% to the building parcel would benefit the County about \$173,000. PHSKC anticipates occupying 4,887 rentable square feet, and this would create a first-year rental obligation of approximately \$150,000.

The sale results in a contribution of approximately \$3.4 million to the Public Health Fund and a net present value of approximately \$2 million.

**B2. Potential revenue from the sale of the building to another health and human services provider, which may be interested in co-locating with PHSKC**

This scenario is the same as B1, except that it may not benefit from the potential 5% increase in the purchase price, however, based on current outreach efforts it appears to be a more realistic assumption. This presumes finding a purchaser for the facility whose use would be compatible with the PHSKC services, including sharing common spaces.

Co-locating with other health and human service providers has several important advantages for PHSKC and its clients, as common spaces can be shared, and it helps improve collaboration, referrals, and integration with other service providers.

It should be noted that a sale would likely require a Request for Proposal (RFP) process in accordance with Section 4.56.100 of the King County Code.

The sale results in a contribution of approximately \$3.4 million to the Public Health Fund and a net present value (NPV) of approximately \$2 million.

**Proviso Language – Section C – Sale of the NSPHC in vacant, as-is condition, with current health services provided at another location**

*C. The potential revenue from the sale of the NSPHC with King County executing a commercially reasonable lease for sufficient space to continue MSS and WIC and the expected costs to King County for such a lease;*

Selling the property would involve PHSKC leasing at a more desirable location, which in turn generates its own costs. PHSKC estimates that its needs could be met with approximately 5,000 square feet and with adequate parking and transportation opportunities for clients. To meet these needs (and estimate costs), FMD has engaged the broker CBRE to identify leasing opportunities in the Totem Lake Area, an area identified as most desirable by Public Health (see Section E below).

While the best lease opportunity has not yet been identified, representative leasing opportunities were selected for financial analysis. It is assumed that a successful sale of the NSPHC, at the appraised sale value, would offset the costs associated with installation and tenant improvements at alternative leased sites over the 10-year evaluation period.

The sale results in a contribution of approximately \$3.4 million to the Public Health fund and a net present value of approximately \$1.9 million.

It should be noted that a sale would likely require a Request for Proposal (RFP) process in accordance with Section 4.56.100 of the King County Code.

#### **Proviso Language – Section D -- Comparing the options in subsections A through C**

*D. A comparison of the options in subsections A through C of this proviso with a potential sale of the NSPHC in vacant, as-is condition, including all costs to vacate the space, prepare it for sale, and maintain the vacated property until an estimated closing of a sale of the property.*

**Option A: This option carries a high degree of uncertainty and risk.** While retaining ownership of the NSPHC facility with Public Health programs in their current location has the highest potential in terms of NPV to the County (\$3.6M), this option carries a higher degree of uncertainty and risk. Moreover, this option generates significantly less funding to help offset the one-time financial gap in the Public Health Fund. Borrowing upfront against the revenue stream results in \$1.2M debt leveraging, compared to \$3.4M that could potentially be generated from other options. Risks are associated with securing long term tenancy, anticipating and funding major maintenance and modernization projects, anticipating potential tenant improvements, and working within the current 2015/2016 budget assumptions.

**Option B:** Financially, Option B is relatively equal to Option C. Both options evaluated in this section assume the sale of the current facility, while maintaining current PHSKC services in the current location. Option B1 considers the sale of a fully leased building, in which case, there is a probability of an increase in the purchase price by up to 5%. This option carries the risk of being able to find additional tenants that are compatible with the current PHSKC services and use of the building (similar to Option A). Option B2 holds more promise by selling the building to a mission-aligned organization, and thereby enabling integrated services through a lease-back opportunity. The integration benefits PHSKC operations as well as the clients themselves. The sale results in a contribution of approximately \$3.4 million toward reducing the deficit in the Public Health Fund and a net present value of approximately \$2 million depending upon whether the facility is sold fully leased, or the facility is sold to a mission-aligned organization and provides a leaseback opportunity to PHSKC.

**Option C:** Other parties have expressed interest in this option, outright purchasing the facility, and this could provide an opportunity for PHSKC to relocate near a major transit center and adjacent to other health and human service providers. This option would provide numerous benefits, including better access and proximity for clients, and potentially better proximity to partners when considering referral services. Financially, the sale results in a contribution of approximately \$3.4 million toward reducing the deficit in the Public Health Fund and a net present value of approximately \$1.9 million.

Table 4 below summarizes the options.

**Table 4: Summary of Options**

Options	Assumptions	Financial Implications	Risks
<b>Section A: Retain ownership of the NSPHC</b>	FMD would work to identify other County agencies as potential tenants.	No County agencies were identified to fill the vacant space.	Without a co-tenant a General Fund subsidy may be necessary to offset expenses associated with maintaining vacant space.
	Reduce the estimated 2016 annual County occupancy charge to \$95,785.	If a co-tenant cannot be secured, the County may decide to increase PHSKC space allocation, and corresponding occupancy charges.	PHSKC continues to occupy the current NSPHC in a reduced footprint (from 9,619 sf to 4,887 sf) and is able to share space such as conference rooms, reception, waiting areas, and break rooms with a co-tenant.
	Potential revenue from leasing vacant space to non-County organization could be used to address revenue assumptions in Public Health Fund.	NPV = \$3.6M .. Potential contribution to the PH Fund is \$1.2M (LTGO debt)	Additional expenses may be necessary to modify the current space to accommodate future tenants. No funds are set aside for facility modernization projects.
<b>Section B: Sell the NSPHC, assuming it is leased &amp; partially occupied by PHSKC</b>	Sale of a fully occupied facility may increase sales value by 5%.	NPV = \$2M .. Potential contribution to the PH Fund is \$3.4M (property sale with premium)	Confidence in securing long term tenancy for the entire facility, which is necessary to realize the potential sale premium.
	PHSKC has identified mission-aligned organizations interested in purchasing the facility and providing lease back opportunities.	NPV = \$2M .. Potential contribution to the PH Fund is \$3.4M (reduces the premium related to sale of a fully leased facility).	

<b>Section C: Sell the NSPHC with Public Health moving to an outside lease</b>	PHSKC would require approximately 5,000 sf with adequate parking and transportation opportunities for clients.	NPV = \$1.9M .. Requires tenant improvements and furniture, fixtures and equipment. Potential contribution to the PH Fund is \$3.4M (property sale)	Ability to negotiate a financially viable short-term lease with options to renew, in an appropriate location.
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**Proviso Language –Section E**

*E. Analysis of the space requirements, one-time and ongoing expected costs and operational impacts, including any adverse impacts to the delivery of client services, to continue the provision of MSS and WIC as provided currently to north and east King County with substantially equivalent or better market saturation and efficacy compared to the current level of service, if public health is required to vacate the current clinic.*

**Costs and benefits of relocating the clinic**

Should PHSKC vacate the current PHC and relocate to a new site, certain one-time costs associated with moving can be expected, along with potential benefits to clients and services.

The impact of relocating is likely to be beneficial, by providing better access and proximity for clients, and potentially better proximity to other community service partners.

Ideally, co-locating and collaborating with a broad range of other health or human services providers benefits our clients the most.

**Staffing & Space Requirements**

Overall, the operations require approximately 5,000sf and 15.60 staff to maintain current services. This information is presented in Table 5 and Table 6 below.

**Table 5: Space Requirements**

<b>Room</b>	<b>Quantity</b>	<b>SF</b>	<b>Total SF</b>
Service Delivery Rooms	8	120	960
Team Room	15	50	750
Check-In	1	150	150
Waiting	15	20	300
Patient Toilet (M/F/U)	2	60	120
Staff Toilet (M/F/U)	2	60	120
Kitchenette / Conference	1	300	300
Work, Copy, Storage Room	1	200	200
Record's Room	1	200	200
Soiled Utility	1	80	80
Clean utility	1	80	80
Dispensary	1	80	80
Eligibility	1	80	80
Mothers Room	1	60	60
Small staff mtg room	1	120	120
Offices	2	100	200
Break Room	1	120	120
			3920
	DGSF Multiplier		1.3
	<b>Total Estimated SF</b>		<b>5096</b>

**Table 6: Current Staffing**

<b>Job Title</b>	<b>FTE</b>
Public Health Nurse	1.00
Public Health Nurse	1.00
Public Health Nurse	1.00
Social Worker	1.00
Administrative Specialist III	1.00
Administrative Specialist II	1.00
Nutritionist II	1.00
Nutrition Assistant	1.00
Nutrition Assistant	1.00
Application Worker	1.00
Education Specialist	1.00
Nutrition Assistant	0.60
Nutritionist (reclass from PHN)	1.00
Personal Hlth Svcs Supv-Clinic	1.00
Administrative Specialist II	1.00
Nutrition Assistant	1.00
<b>Total</b>	<b>15.60</b>

A location with better access could potentially draw new clients who are currently underserved and do not use WIC or MSS services. While current staff could accommodate some growth, were it to occur, substantial growth would require additional staff and potentially additional space.

**One-time costs to relocate**

Tenant Improvements (TI) depend entirely on the configuration of the available leasable space. For comparison, Section C in this Proviso response evaluated two potential lease options. Both locations are currently available and near EvergreenHealth in Totem Lake. One is currently a health care facility, which already has waiting areas, check-in, service delivery rooms, and other functional space necessary to support the continued operations of the NSPHC. Another facility, located in an office park, would require more extensive TI's to convert the space to a health care occupancy. Additionally, a certain amount of Furniture, Fixtures, and Equipment (FF&E) would be necessary to furnish a new space. Estimated expenses for the existing health care facility used in the financial analysis are \$45.00 per square foot for TI and FF&E. For the facility in the office park, the financial analysis assumes \$65.00.

**Ongoing costs**

The main variable in ongoing operational costs will be the lease terms and the operations and maintenance. Other current operational costs, particularly staff salaries and supplies, would carry over to a new location, and as such are a constant for all scenarios.



- Proviso Section A assumes an initial cost to PHSKC for the NSPHC (O&M + MMRF) for 4,887 sf to be \$95,785 in 2016.
- Proviso Section B assume an initial cost to PHSKC for the NSPHC (Market Rent + O&M) for 4,887 sf to be \$152,562 in 2016.
- Proviso Section C assumes an initial cost to PHSKC for the NSPHC (Market Rent + O&M) for 4,105 sf to be \$149,504 in 2016.

### **Potential sites for relocation in northeast King County region**

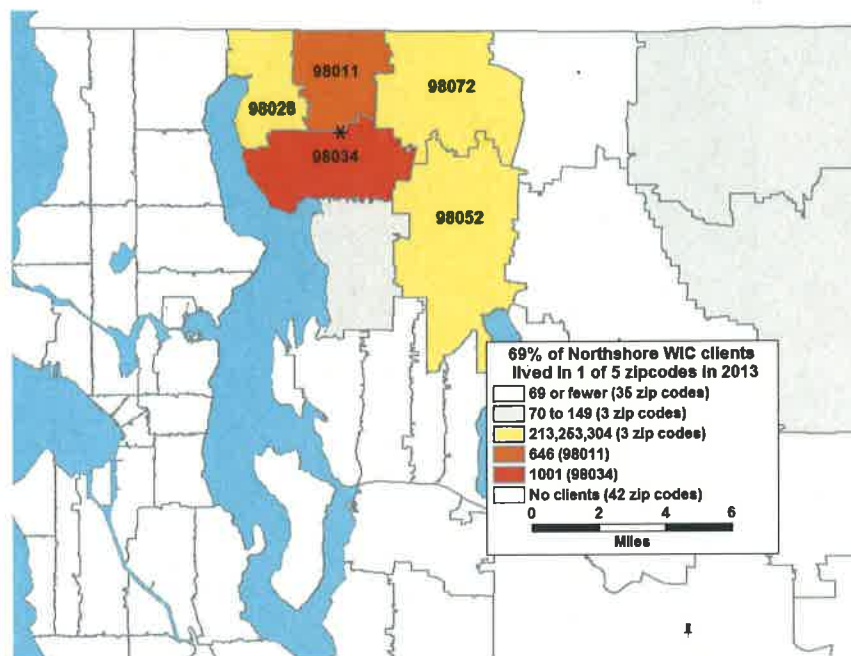
If the current clinic is relocated, the greatest potential for serving more people and serving them better would come from locating in the vicinity of EvergreenHealth Medical Center, which is in the Totem Lake neighborhood.

**Proximity to clients.** The services provided at Northshore (WIC and MSS/First Steps) are income-based. A client who meets WIC eligibility will also qualify for MSS services. Therefore, the highest need for services is where there is a higher density of WIC-eligible residents.

Among clients who received services in 2013, as illustrated in the map below, the top five zip codes for residency were (percentages are approximate):

- 1) 98034 (primarily north Kirkland, including Totem Lake), 35%
- 2) 98011 (Bothell), 22%
- 3) 98028 (Kenmore), 10%
- 4) 98052 (Redmond), 8%
- 5) 98072 (Woodinville), 7%

Diagram 2: Map of WIC clients in 2013



An additional map, Appendix-A, shows the density of current plus potential WIC clients in North King County. After adding *potential* clients, who are WIC-eligible but *not* enrolled, the zip code with the most clients is in north Kirkland, followed by areas in Bothell, Kenmore and Redmond. The geographic epicenter for potential clients, considering both those who currently are and are not enrolled, is north Kirkland. This zip code encompasses the current Northshore PHC as well as EvergreenHealth Medical Center and the Totem Lake neighborhood.

**Access for clients.** Transit service is important to Public Health clients. Free parking is also important. Since the current Northshore PHC location has very limited transit service, a new location could be potentially more accessible to clients.

- The only Metro Transit Center for the northeast King County region is at Totem Lake in Kirkland, adjacent to EvergreenHealth Medical Center, where seven bus lines converge.
- Totem Lake and EvergreenHealth are also near a major freeway interchange and several surface arterial streets.

As noted, the vicinity of EvergreenHealth’s campus holds the highest value in terms of proximity to where clients live and to good transportation access.

**Proximity to partner agencies.**

Locating near other health and human service providers is ideal, as it helps improve collaboration, referrals, and integration with other service providers.

Each of the following key partners that currently operate in northeast King County was contacted. At present, none are able to offer space for co-location, although two organizations expressed interest in co-locating at the current NSPHC, providing they have the opportunity to purchase the facility and lease-back to PHSKC.

- EvergreenHealth Medical Center (hospital). Evergreen is the main hospital for the Northshore region. Since most PH clients are pregnant women and new mothers, the main hospital for this region is a major source of referrals and a logical partner. EvergreenHealth's real estate services suggested nearby medical offices could potentially meet the requirements for a PHC.
- HealthPoint Community Health Center (primary care clinic). The HealthPoint clinic in Bothell is the only Federally Qualified Health Center/primary care site in the Northshore region at the moment. Currently, PHSKC operates a satellite clinic, co-located with HealthPoint in Bothell. However, space is tight, allowing for service three days per week (and a total of two staff). There is no opportunity to expand services at this site.
- Hopelink is the premiere social services agency in Northeast and East King County. It operates food banks and many other services in Kirkland, Redmond and other cities in Northeast and East King County. Hopelink's most centrally located service center/food bank is on the southern edge of the Totem Lake neighborhood in Kirkland. Hopelink does not have room for a PHSKC in its current space, but the agency is expanding and interested in exploring a possible purchase of NSPHC with current MSS and WIC services remaining (co-located) in the building.
- Sea Mar Community Health Centers is a Federally Qualified Health Center offering primary care, dental care, and behavioral health services. Sea Mar does not currently operate in Northeast King County. But Sea Mar operates in adjacent areas (Bellevue and Everett) and expressed strong interest in expanding to the Northshore area and exploring a possible purchase of the NSPHC, with current Public Health MSS and WIC services remaining (co-located) in the building.

#### **Proviso Language –Section F**

*F. Feasibility of charging rent to the agencies providing other King County services at the clinic, or other county agencies, and the impacts, savings and other issues associated with the cessation or relocation of the community service center currently providing those services; and*

The only current county agency that provides services at this location is the Community Services Center (CSC) operated by Record and Licensing Section. There has not been any interest from additional County agencies regarding locating at the NSPHC. Consequently no additional rent can come from this particular scenario.

The current community services center located at NSPHC is open on Mondays and Tuesdays from 8:30-4:30. The services it provides are: 1) Marriage licenses; 2) Pet Licenses; 3) Property Tax Payments; 4) United States passport application processing and; 5) information on King County Programs. The community services center which is operated by the Records and

Licensing Services (RALS) Division of the Department of Executive Services. The other community service center locations are Issaquah, Kent, Renton, Seattle, Shoreline and Vashon Island.

In order to minimize costs, RALS has sought to locate CSC's at locations that currently have a King County network and areas that are secure enough for cash to be accepted. RALS uses the current location ten days per month.

RALS staff are interested in relocating with NSPHC if there is room. If that cannot be accommodated, they would most likely investigate whether there are other County or City locations that would be interested in hosting them.

### **Proviso Language –Section G -- Analysis of the racial and social justice impacts of closure of the clinic**

The clinic serves primarily low-income people, and a majority of clients are people of color. PHSKC estimates that closure of the clinic would mean that up to 40-percent of these clients could continue getting services through a different Public Health location, but 60-percent or more would no longer receive their current services from Public Health. Those estimates are based on the capacity of the department's satellite sites and the nearest PHCs, along with an analysis of where clients live and their distance from the nearest WIC/MSS location. Therefore, closure would likely have substantial impacts on vulnerable populations.

**Client demographics.** Of approximately 4,200 Total Clients served in 2013 (the most recent year with complete data), 93% were below 200% Federal Poverty Level; 62% were people of color; 8% were homeless; and 12% required a language interpreter. Therefore, a reduction in service would particularly and disproportionately affect women living in poverty and people of color.

**Community Health Indicators.** Two common indicators of maternal and child health are (1) the percent of babies with low birth weight (<2500 gm) and (2) the percent of pregnant women who initiated prenatal care in their first trimester.

There is not a disparity in these indicators between northeast King County and the county overall. The five main zip codes in the "Northshore catchment area" (comprising 70-percent of clients) have rates of low birth weight and early prenatal care that do not differ significantly from those of the county as a whole. The rate for low birth weight is 6-percent in the Northshore area and 6.4-percent for the county overall. The rate for early prenatal care is 87-percent in the Northshore area and 82-percent for the county overall.

Racial groups within the Northshore area also have rates similar to the county-wide rates: White (non-Hispanic); Black (non-Hispanic); Asian/Pacific-Islander (non-Hispanic); and Hispanic women all had statistically equal rates of the two indicators regardless of whether they lived in the Northshore catchment or in King County as a whole.

However, disparities do exist between racial groups in the category of birth weight outcomes – in the Northshore area as in King County overall. This is particularly true for Blacks and Native Americans, and the disparity exists if we compare Whites to non-Whites. For example, 5-

percent of babies born to Whites (non-Hispanic) have low birth weight, while 7.2-percent of babies born to people of color have low birth weight.

**Impacts:**

If PHSKC were forced to close Northshore, a reduction in service to at least 60-percent of clients would disproportionately affect women living in poverty and people of color.

- Approximately 1,500 WIC clients could decide it is not viable to travel the longer distances to get their WIC checks and they could cease to receive these nutrition payments. Statistically, we would expect about 900 of these clients to be people of color, and 150 of them to require an interpreter to assist with English. The other WIC locations would be in Bellevue, Seattle, or Lynnwood – and it’s likely that some clients would decide the WIC payment is not worth the cost and difficulty of travel.
- Approximately 1,000 First Steps enrolled mothers could be at higher risk for having a low birth weight child. Statistically, we would expect about 600 of these mothers to be people of color, and 100 of them to require an interpreter to assist with English. People of color already experience inequity in birth weight outcomes.
- In addition, one reason King County has a lower rate of “low birth weight” than Washington State as a whole could be related to King County’s unique model for delivering First Steps maternal and infant services. By reducing access to these services, it’s possible the incidence of these two indicators could worsen.

**Plan for the continued delivery of services currently provided at the Northshore Public Health Center**

*Proviso language: At the same time as delivery of the report on options related to the Northshore public health center operations and facility, the executive shall transmit to the council a plan for the continued delivery of services currently provided at the Northshore public health center in an integrated, comprehensive manner from a fixed location, whether directly or in partnership with outside entities*

Continuing the current level of services in Northeast King County would require operating a Public Health Center in that area. However, funding for Northshore PHC was allocated only for 2015, which is half of the biennium. To continue services beyond that date, PHSKC will need additional authorization.

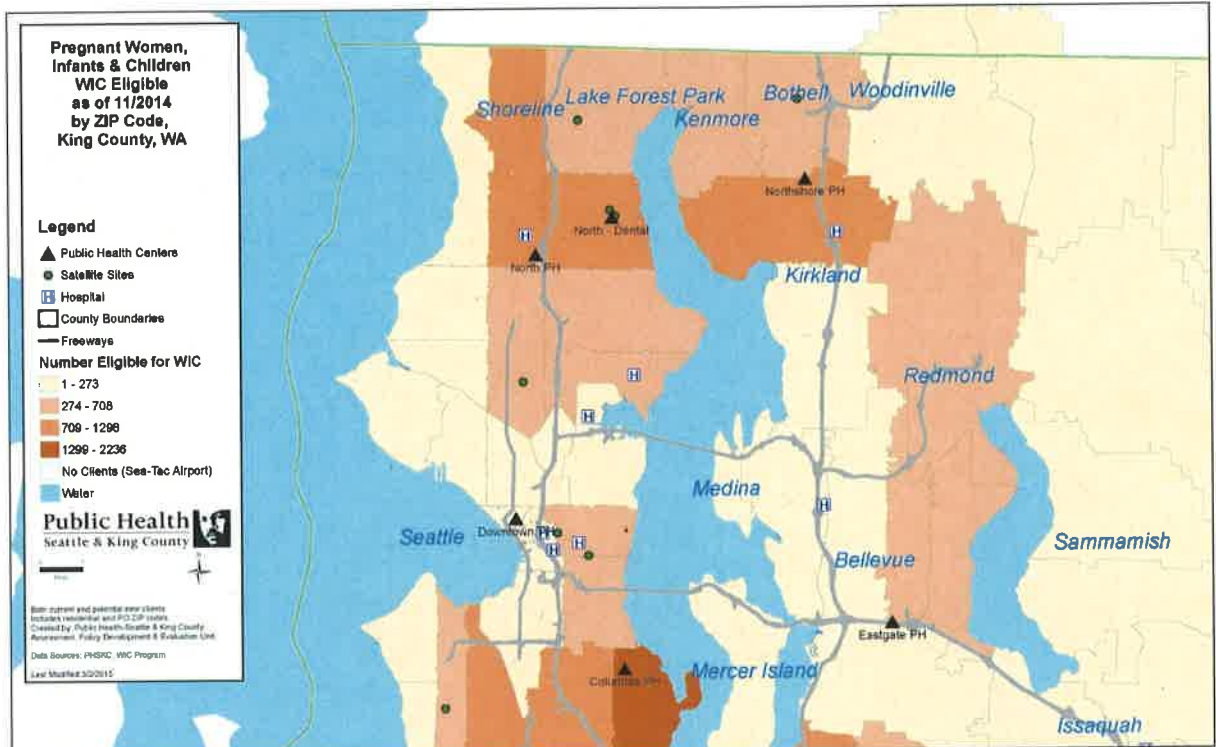
As noted earlier, the adopted budget includes an additional proviso that requires that “the executive transmits a report on the sustainability of public health clinic services in future biennia” by October 31, 2015. PHSKC is working with Executive and Council and its partners in preparation for responding to that proviso. That proviso report will contain the full response to the sustainability of the Northshore PHC.

Relating to this proviso, the preferred approach is to simultaneously move forward with both options stated below, until one proves more advantageous than the other, recognizing that

PHSKC would not be able to enter into a long term agreement until there is clarity about the financial sustainability of Public Health Centers.

- Develop a Request for Proposal for the sale of Northshore PHC, with priority to an agency that could accomplish all of the following: Lease back approximately 4,880 sf to PHSKC for a WIC/MSS clinic on site, provide its own services on-site that complement and serve a similar base of clients, and purchase the property at a value that provides the anticipated revenue for the Public Health Fund.
- Prepare for a sale of the Northshore PHC to any willing buyer, at a value that maximizes revenue for the Public Health Fund, while PHSKC prepares to move to another location in the Totem Lake area of Kirkland, with maximal proximity to a partner organization such as EvergreenHealth.

# APPENDIX A: Map of Current and Potential WIC Clients (2013)



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