

January 15, 1997

Introduced By: Ron Sims

Proposed No.: 96-966

12614

ORDINANCE NO.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32

AN ORDINANCE approving a plan to finance the acquisition of office space for county use by means of a lease; authorizing the county executive to negotiate such lease for approximately 310,000 square feet of office space in a building to be located adjacent to the King Street Station in the City of Seattle, for a term not to exceed 20 years, with the aggregate principal amount of lease payments not to exceed \$65,550,000.

PREAMBLE:

The county council has determined that it is in the best interest of the county and its residents that the county's department of natural resources and department of transportation be consolidated and housed in economical office space in downtown Seattle.

The council has reviewed three proposals for providing such office space to the county by means of a plan of lease-financing. The council wishes to further develop the proposal of Wright Runstad & Company to build an office building adjacent to the King Street Station, to be known as King Street Center, and to approve a plan of financing for such proposal so that Wright Runstad & Company and the executive may negotiate a lease agreement that would come to the council for final approval.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. Findings. It is hereby found and declared that the public interest, welfare and benefit require the county to lease approximately 310,000 square feet

1 of office space in downtown Seattle for county use. The
2 council finds that the proposal of Wright Runstad & Company
3 ("Wright Runstad") to build an office building located
4 adjacent to the King Street Station in downtown Seattle to be
5 known as King Street Center, best satisfies the county's
6 requirements.

7 SECTION 2. Approval of Office Space Plan; Authorization
8 of lease negotiations.

9 The financing plan for acquiring office space for county
10 use, as described in the Office Space Plan ("the Plan")
11 attached as exhibit A hereto and incorporated herein by this
12 reference, is hereby given preliminary approval.

13 In accordance with the Plan, the executive is hereby
14 authorized on behalf of the county to negotiate a lease with
15 the National Development Council, a nonprofit corporation, or
16 a subordinate organization thereof ("the Nonprofit
17 Corporation"). The amount of lease payments shall not exceed
18 the amount required to pay principal of and interest on the
19 Bonds (as hereafter defined), and in any event the aggregate
20 principal component of such lease payments shall not exceed
21 \$65,550,000. Other terms and conditions of the lease shall
22 be in accordance with the criteria set forth in the Plan,
23 including, without limitation, the specifications for the
24 King Street Center, a maximum construction price of
25 \$60,300,000 from Wright Runstad, the MWBE developer goals,

1 and the provisions for management and oversight of the
2 project, and shall be subject to approval by the office of
3 the prosecuting attorney and bond counsel to the county as
4 appropriate.

5 The lease shall not be executed by the executive until
6 he is authorized to do so by ordinance.

7 INTRODUCED AND READ for the first time this 25th
8 day of November, 1996.

9 PASSED by a vote of 10 to 3 this 21st day of
10 January, 1997.

11 KING COUNTY COUNCIL
12 KING COUNTY, WASHINGTON

13 Jane Hayes
14 Chair

15 ATTEST:

16 Gerald A. Peterson
17 Clerk of the Council

18 APPROVED this 31 day of January, 1997.

19 Dwight Smith
20 King County Executive

21 Attachments:

This summary outlines the motivation, project structure, and material terms that the King County Executive will observe in negotiating a build-to-suit, lease-to-own office project with respect to Wright Runstad & Company's King Street Center proposal.

Motivation:

For ten years, King County has benefited from the substantial oversupply of downtown Seattle office space. Because of tremendous overbuilding in the 80's, Class A downtown rental rates were driven, and have remained, far below break-even expenses. (This market momentum has also dragged Class B rates lower.) The downtown Seattle office market has seen immense losses, numerous ownership restructures and/or bankruptcies, and dramatic writedowns on downtown office properties. Little new space has been completed since 1990. King County has exploited this market weakness with great effectiveness, leasing more than 500,000 square feet of mixed Class A and B office space at an average, fully serviced rate of \$13.50 per square foot.

This market is in the process of a dramatic change favoring landlords. Rental rates are rising rapidly in both Class A and Class B buildings. There is every indication that rising rates are in fact accelerating -- as downtown vacancy rates fall below 6.5%. Moreover, this vacancy rate understates the availability of large contiguous space required by the County (e.g., 50,000 square feet and up) -- with perhaps only one such space currently in the downtown market. Rates quoted today are above \$20.00 per square foot with a minimal tenant allowance of \$10.00 per square foot. Quoted rates will continue to escalate to the point that it makes economic sense for new construction to resume. Proposed buildings will require rental rates approaching \$30.00 per square foot before lenders will finance new development.

Using a build-to-suit, lease-to-own development structure, King County will replace a substantial portion of the 500,000 square feet of rented office space with "owned" space. The County should do this for three reasons.

First, it will save money. Under this plan, King County will fix its base rental at a price less than or equal to projected market rents for 1999. Thus, on a cash flow basis, King Street Center rent will probably remain under, and presumably cost no more than, renting at market rates. Moreover, the King Street Center will accumulate equity each year resulting in ownership at the end of the lease term. To the extent that market rents continue to escalate into the future while the County's base rent at King Street Center is fixed, greater savings will accrue. Second, by fixing base rental costs, budgeting projections will be far more reliable. Third, operationally it is important to physically consolidate the Department of Transportation and the Department of Natural Resources. The King Street Center project permits this consolidation and meets or exceeds operational criteria.

Project Structure:

12614

Outline

This proposal will utilize "63-20" financing for the transaction. Permitted by IRS Revenue Ruling 63-20 (compiled and supplemented by Revenue Procedure 82-26), this approach entails a not-for-profit corporation issuing bonds to finance a project utilized by a governmental entity. The interest on such bonds is tax-exempt if certain conditions are satisfied.

Here, the nonprofit entity will issue bonds and contract with the developer to build the King Street Center. The County will enter into a lease for the use of the project once it is completed to the County's satisfaction. The lease payments will amortize the bond debt. The nonprofit will use bond proceeds to make progress payments to the developer as construction proceeds. The nonprofit will own the project while the bonds are outstanding. In accordance with the requirements of Revenue Ruling 63-20, title to the property must transfer to the County when the bonds are paid off.

Parties & Roles

There are three principal parties involved in the structure of this proposal -- Wright Runstad & Company, the National Development Council, and King County.

Wright Runstad & Company will be the developer, pledging to construct and deliver a specified building at the King Street Center site for a not-to-exceed cost, assuming all construction risk. Wright Runstad & Company is a well known and highly respected developer of high rise and suburban office projects. The National Development Council (a not-for-profit acting on behalf of King County) will be the building owner and financier. The National Development Council is a not-for-profit corporation in business 30 years with an expertise in public/private financing structures. Two recent local projects include the Commodore Duchess on behalf of the University of Washington (a 63-20 transaction) and the Fredrick and Nelson Parking Garage. King County will be the long term tenant -- and owner once the bonds are paid off.

With the advice and consent of King County, the National Development Council will take title to the property, obtain debt financing, contract with the developer for construction of the project, and thereafter become King County's landlord. King County will lease the project during the financing term (twenty years) on an absolute net basis and will take title at the end of the financing term.

King County's lease with the National Development Council will accomplish three primary purposes. First, it will incorporate all material specifications agreed upon between King County and Wright Runstad & Company describing the project to be built -- clearly defining the building that King County will move into upon completion. Second, it will describe all the terms and conditions between King County as lessee and National Development Council as lessor for the term of the lease. Finally, the lease will cause the

National Development Council to hire from time to time, with the County's advice and consent, professional property management companies to manage the property.

Material Terms:

12614

Site, Building, Approvals

Specifically, Wright Runstad & Company controls, by way of an enforceable purchase and sale agreement, a parcel of land next to the King Street Station just south of Jackson. They have proposed to build on behalf of King County an eight story building of approximately 310,000 square feet, including 304 parking spaces – i.e., the King Street Center. Seattle DCLU has conditionally approved this project as of October 31, 1996.

Design Specifications, Space Planning, Permits, Timing

A preliminary design for the building, along with outline building specifications has been proposed by Wright Runstad & Company and has been reviewed by DCFM staff. General agreement on systems and finishes quality levels has been reached, resulting in a "Class A" office building. Preliminary space programming and planning with the Departments of Transportation and Natural Resources has been completed, verifying that the project will accommodate the programmatic requirements of each.

Wright Runstad & Company is prepared to move into the Design Development and Construction Drawings phases of the project as soon as a final agreement is made. Wright Runstad & Company contemplates application for final building permits to occur in the summer of 1997; construction to begin in the fall of 1997; and delivery to take place in the spring of 1999. Flexibility exists to delay construction and delivery if found to be in the best interests of King County.

Particular issues that will require further development and/or negotiation during the Design Development phase include; type of heating, ventilation and air conditioning system to be installed; elevator specifications; data, phone and fiber optic cabling; electrical needs; open office furnishings; and use of recycled and environmentally-friendly products in design.

Maximum Financial Exposure, Shared Savings, Risks

Total costs to construct will be defined as a "not to exceed" figure of \$60,300,000 guaranteed by Wright Runstad & Company. Construction and development risk will be borne by Wright Runstad & Company. However, to the extent the project is delivered under budget, King County will participate in those savings with Wright Runstad & Company on a 75% to 25% basis, respectively.

Project Costs, Translation to Rent

Wright Runstad and Company has proposed base costs for land, shell and core, as well as a complete build-out for tenant improvements. Projected costs and totals are identified on the attached spreadsheet. In addition to the proposed land, shell, core, and

tenant improvements, there are additional costs. These include: open office systems furnishings, telecommunications wiring/cabling, financing costs, 1% for the Arts, King County project management, not-for-profit fee, construction period interest, and other capital costs.

King County's net lease payments will be a function of the total capitalized cost of the project, amortized over twenty years at the market interest rate on the date the bonds are underwritten. Operational expenses, repairs, and capital improvements will be in addition to net lease payments.

By way of example, if the total capitalized cost is \$65,550,000, the debt is for twenty years, the interest rate is 6.25%, and rent is paid bi-annually, then the annual net rent payment will be approximately \$16.00 per square foot before operational costs and after adjusting for parking and retail space revenues.

Finally, there will be a one time expense incurred in office furnishings and moving costs. These expenses are not part of the project plan. However, they represent a real cost projected to be approximately \$4,500,000. If amortized over 10 years at 5.5%, this requires additional debt service of \$591,046 per year; or approximately \$1.91 per square foot.

Women and Minority Business Enterprises

The MWBE component for this project will embody developer goals. These would include the developer identifying and articulating MWBE goals in the development of the King Street Center project.

Management and Oversight

Although it is promised as a "turn-key" project, King County DCFM will be involved through the Programming and Space Planning, Design Development, and Construction phases. The intent of the County is to provide its greatest input through the Programming and Space Planning and Design Development phases. All fundamental space planning and building specification issues will be resolved during this time. Once construction begins, the County will work hand in hand with the National Development Council to ensure the building is being constructed per specifications. A County DCFM Project Manager will be the primary conduit for evaluation of reports on construction issues. DCFM will also take the lead in evaluating final acceptance of the building.

Conclusion:

There is no question that if King County does not replace a substantial portion of its downtown rental office space with owned space, it will be costly and result in major operating inefficiencies. Implementing this proposed plan will result in an outstanding facility for King County with a minimum of risk. While the costs should not be minimized, in the long run ownership of King Street Center will be seen as an prudent and farsighted investment.

12614

**Analysis of NNN Rent
King Street Station**

Assume Rentable Square Feet Revised 309,663
Original 305,000

20 Yr Rate	Original* 6.25%	Revised** 6.25%	All Costs Interest @ 6.25%	All Costs Interest @ 5.75%
Base Construction	\$36,200,000	25,700,000	25,700,000	25,700,000
Land	\$8,000,000	8,000,000	8,000,000	8,000,000
Parking Floors	\$7,000,000	7,000,000	7,000,000	7,000,000
Tenant Improvements	\$6,100,000	8,300,000	8,300,000	8,300,000
Other Capital Costs		11,300,000	11,300,000	11,300,000
Total -- Cost to Construct	\$57,300,000	60,300,000	60,300,000	60,300,000
Telecommunications/Cabling			1,523,000	1,523,000
Efficiencies from Full Building TI's			(1,000,000)	(1,000,000)
Financing Costs			850,000	850,000
Non-Profit Fee			487,500	487,500
County Project Management			200,000	200,000
1% for Art***			250,000	250,000
Construction Period Interest		2,939,702	2,939,702	2,704,526
Total Capital Costs****	\$57,300,000	63,239,702	65,550,202	65,315,026
Required Annual Debt Service 20 Yr	\$5,058,545	5,582,912	5,786,887	5,537,741
Annual Parking Revenue @ Break Even	(617,972)	(653,593)	(653,593)	(624,969)
Retail Revenue	(180,000)	(180,000)	(180,000)	(180,000)
Required Annual Rent - 20 Yr	\$4,260,572	4,749,319	4,953,294	4,732,773
Required Annual Debt Service 25 Yr	\$4,581,666	5,056,601	5,241,346	4,981,022
Annual Parking Revenue @ Break Even	(559,715)	(591,978)	(591,978)	(562,140)
Retail Revenue	(180,000)	(180,000)	(180,000)	(180,000)
Required Ongoing Cap Cost 25 Yr	\$3,841,951	4,284,623	4,469,369	4,238,883
NNN Rent Per Sq Ft 20 Yr	\$13.97	15.57	16.00	15.28
NNN Rent Per Sq Ft 25 Yr	\$12.60	14.05	14.43	13.69
Furnishings & Move			4,500,000.00	4,500,000.00
County Debt Service Interest Rate (10 Yr. Amortization)			5.30%	5.50%
Required Debt Service			585,536	591,046
Rent Add for Furnishings/Move			1.89	1.91

Assumptions

All schedules assume semi-annual payments
 *Construction Period Interest Included In Original Proposal
 **Use Original Square Feet
 ***Assume 1/2% from Construction & TI's
 ****Does not include furnishings and move costs
 Add .0005 percent to go from 20 to 25 year financing

Parking	\$7,000,000	7,000,000	7,000,000	7,000,000
Construction Period Interest		403,489	403,489	371,210
Total Costs to Finance	\$7,000,000	7,403,489	7,403,489	7,371,210
Required Debt Service 20 Yr	\$617,972	653,593	653,593	624,969
Operating Costs	\$125,000	125,000	125,000	125,000
Total Ongoing Costs	\$742,972	778,593	778,593	749,969
Equivalent Price/SF on Office Space	\$2.40	2.51	2.51	2.42
Required Monthly Revenue/Stall	\$203.67	213.43	213.43	205.58
Required Debt Service 25 Yr	\$559,715	591,978	591,978	562,140
Operating Costs	\$125,000	125,000	125,000	125,000
Total Ongoing Costs	\$684,715	716,978	716,978	687,140
Equivalent Price/SF on Office Space	\$2.21	2.32	2.32	2.22
Required Monthly Rental/Stall	\$187.70	196.54	196.54	188.36

12614

Proposed Ordinance/Motion No. 96-964 Item No. 9

Consent Items Nos. _____

	Ayes	Noes	Excused
Derdowski		1	
Fimia		2	
Gossett	1		
Hague	2		
McKenna		3	
Nickels	3		
Pelz	4		
Phillips	5		
Pullen	6		
Sullivan	7		
Vance	8		
von Reichbauer	9		
Madame Chair (Miller)	10		

10-3

BD
MF
RMK' no'

12614

Metropolitan King County Council
Budget & Fiscal Management Committee
Committee Recommendation

RECEIVED
97 JAN 16 AM 8:50
CLERK
KING COUNTY COUNCIL

DATE: January 15, 1997

PROPOSED ORDINANCE 96-966: AN ORDINANCE approving a plan to finance the acquisition of office space for county use by means of a lease; authorizing the county executive to negotiate and execute such lease for approximately 310,000 square feet of office space in a building to be located adjacent to the King Street Station in the City of Seattle, for a term not to exceed 20 years, with the aggregate principal amount of lease payments not to exceed \$65,550,000, pledging the county's full faith and credit for the payment of such lease payments, and otherwise satisfying the criteria set forth in the lease financing plan, and approving other aspects of the lease financing plan. (Michael Ledbetter).

COMMITTEE RECOMMENDATION:

- DO PASS
- DO PASS WITH AMENDMENTS
- DO PASS SUBSTITUTE DATED 1/15/97
- DO NOT PASS
- POSTPONE INDEFINITELY
- PASS OUT OF COMMITTEE (WITH NO RECOMMENDATION)
- REFER TO ANOTHER COMMITTEE

ATTACHMENTS ADOPTED BY THE ORDINANCE OR MOTION:

- NONE
- APPROVED AS REFERRED TO COMMITTEE
- AMENDED BY COMMITTEE AND DATED
- (List if more than one)

CONSENT ITEM: *No*

OTHER: _____ CLERK'S OFFICE TO HOLD FOR 60 DAY STATE NOTICING
_____ SEPA Review

Chris Vance, Chair

Cynthia Sullivan

Brian Derdowski

Rob McKenna

Greg Nickels

Larry Phillips

Pete von Reichbauer

12614

ORDINANCE/MOTION INTRODUCTION SLIPS

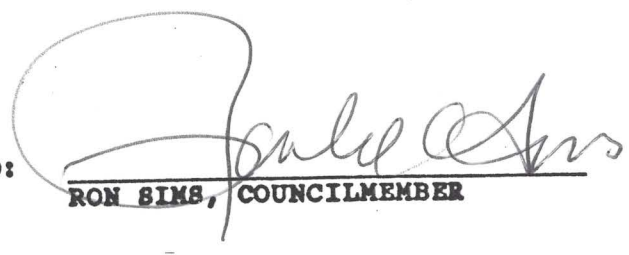
TO: COUNCIL CLERK

TYPE: ORDINANCE/MOTION

DATE SUBMITTED: _____

DATE FOR COUNCIL ACTION: _____

SIGNED:



RON SIMS, COUNCILMEMBER

96-966

CLERK
KING COUNTY COUNCIL

96 NOV 20 PM 2:55

RECEIVED



King County Executive
GARY LOCKE

12614

RECEIVED

96 NOV 15 PM 2:41

CLERK
KING COUNTY COUNCIL

96-966

November 14, 1996

The Honorable Jane Hague
Chair, King County Council
Room 1200
COURTHOUSE

Duell BFM

Dear Councilmember Hague:

Enclosed is proposed legislation authorizing the Executive to execute the necessary agreements to undertake the King Street Center Office Building Project. This project will provide the County approximately 310,000 square feet of office space next to the King Street Station. The resulting 20 year lease will address the long-term downtown office needs of the Departments of Transportation ("DOT") and Natural Resources ("DNR"). This proposal allows the County to consolidate DOT and DNR, vacate the Exchange Building, and backfill most of the Yesler building. The move to the King Street Center will occur starting in the Spring of 1999. This move saves the County money and is consistent with my proposed Long-term Office Space Plan

This proposed legislation will authorize the Executive to move forward with agreements to finance, build, and occupy the King Street Center Building. There will be three principal parties involved in the structure of this project. Wright Runstad & Company, the National Development Council, and King County. These relationships are described more fully in the attached "Office Space Plan." We estimate that the annual rent for space in this building will be no more than \$16 per square foot plus operating costs for a 20 year period. The County will then own the building. Wright Runstad & Company will agree to build the building for an amount not greater than \$60.3 million and bear all risks of construction.




12614

The Executive Proposed Long-term Office Space Plan calls for the County to replace a substantial portion of its downtown rental office space with owned space. Failure to meet this goal will be costly and result in major operating inefficiencies. This proposed plan will develop an outstanding facility for King County with minimum risk. While the costs of the new building result in initial rental rates that will approximate market, over the long term the fixed rental rate and ultimate County ownership of King Street Center are expected to result in costs substantially below market and will be seen as a prudent and farsighted investment.

In order to complete the project before current leases expire, I request your timely consideration of this proposal. Please free to call Pearl McElheran, Director of DCFM, at 296-0630 if you have questions.

Sincerely,



Gary Locke 
King County Executive

enclosures

cc: King County Councilmembers
ATTN: Jerry Peterson, Administrator
Paul Tanaka, Deputy County Executive
Pearl McElheran, Director, Dept. of Construction and Facilities Management
Pat Steel, Director, Office of Budget and Strategic Planning
Pam Bissonette, Director, Dept. of Natural Resources
Paul Toliver, Director, of Dept. of Transporation

12614

Sponsored by: McKenna

Proposed No. 96-966

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15

PROPOSED AMENDMENT
TO SUBSTITUTE ORDINANCE NO. _____

On page 3, line 6 after 'ordinance.' add

"SECTION 3. Analysis of Alternatives.

The Executive is hereby requested to solicit proposals from qualified persons and firms to construct county office space on county lands located near Jefferson Street in the City of Seattle.

The Executive is further requested to submit to the Council a comprehensive analysis of both the proposals obtained pursuant to Section 3 of this ordinance and the proposed King Street project."

*Amendment failed
3-10
MF, BD RMCK
"yes"*

This summary outlines the motivation, project structure, and material terms that the King County Executive will observe in negotiating a build-to-suit, lease-to-own office project with respect to Wright Runstad & Company's King Street Center proposal.

Motivation:

For ten years, King County has benefited from the substantial oversupply of downtown Seattle office space. Because of tremendous overbuilding in the 80's, Class A downtown rental rates were driven, and have remained, far below break-even expenses. (This market momentum has also dragged Class B rates lower.) The downtown Seattle office market has seen immense losses, numerous ownership restructures and/or bankruptcies, and dramatic writedowns on downtown office properties. Little new space has been completed since 1990. King County has exploited this market weakness with great effectiveness, leasing more than 500,000 square feet of mixed Class A and B office space at an average, fully serviced rate of \$13.50 per square foot.

This market is in the process of a dramatic change favoring landlords. Rental rates are rising rapidly in both Class A and Class B buildings. There is every indication that rising rates are in fact accelerating -- as downtown vacancy rates fall below 6.5%. Moreover, this vacancy rate understates the availability of large contiguous space required by the County (e.g., 50,000 square feet and up) -- with perhaps only one such space currently in the downtown market. Rates quoted today are above \$20.00 per square foot with a minimal tenant allowance of \$10.00 per square foot. Quoted rates will continue to escalate to the point that it makes economic sense for new construction to resume. Proposed buildings will require rental rates approaching \$30.00 per square foot before lenders will finance new development.

Using a build-to-suit, lease-to-own development structure, King County will replace a substantial portion of the 500,000 square feet of rented office space with "owned" space. The County should do this for three reasons.

First, it will save money. Under this plan, King County will fix its base rental at a price less than or equal to projected market rents for 1999. Thus, on a cash flow basis, King Street Center rent will probably remain under, and presumably cost no more than, renting at market rates. Moreover, the King Street Center will accumulate equity each year resulting in ownership at the end of the lease term. To the extent that market rents continue to escalate into the future while the County's base rent at King Street Center is fixed, greater savings will accrue. Second, by fixing base rental costs, budgeting projections will be far more reliable. Third, operationally it is important to physically consolidate the Department of Transportation and the Department of Natural Resources. The King Street Center project permits this consolidation and meets or exceeds operational criteria.

Project Structure:

12614

Outline

This proposal will utilize "63-20" financing for the transaction. Permitted by IRS Revenue Ruling 63-20 (compiled and supplemented by Revenue Procedure 82-26), this approach entails a not-for-profit corporation issuing bonds to finance a project utilized by a governmental entity. The interest on such bonds is tax-exempt if certain conditions are satisfied.

Here, the nonprofit entity will issue bonds and contract with the developer to build the King Street Center. The County will enter into a lease for the use of the project once it is completed to the County's satisfaction. The lease payments will amortize the bond debt. The nonprofit will use bond proceeds to make progress payments to the developer as construction proceeds. The nonprofit will own the project while the bonds are outstanding. In accordance with the requirements of Revenue Ruling 63-20, title to the property must transfer to the County when the bonds are paid off.

Parties & Roles

There are three principal parties involved in the structure of this proposal -- Wright Runstad & Company, the National Development Council, and King County.

Wright Runstad & Company will be the developer, pledging to construct and deliver a specified building at the King Street Center site for a not-to-exceed cost, assuming all construction risk. Wright Runstad & Company is a well known and highly respected developer of high rise and suburban office projects. The National Development Council (a not-for-profit acting on behalf of King County) will be the building owner and financier. The National Development Council is a not-for-profit corporation in business 30 years with an expertise in public/private financing structures. Two recent local projects include the Commodore Duchess on behalf of the University of Washington (a 63-20 transaction) and the Fredrick and Nelson Parking Garage. King County will be the long term tenant -- and owner once the bonds are paid off.

With the advice and consent of King County, the National Development Council will take title to the property, obtain debt financing, contract with the developer for construction of the project, and thereafter become King County's landlord. King County will lease the project during the financing term (twenty years) on an absolute net basis and will take title at the end of the financing term.

King County's lease with the National Development Council will accomplish three primary purposes. First, it will incorporate all material specifications agreed upon between King County and Wright Runstad & Company describing the project to be built -- clearly defining the building that King County will move into upon completion. Second, it will describe all the terms and conditions between King County as lessee and National Development Council as lessor for the term of the lease. Finally, the lease will cause the

National Development Council to hire from time to time, with the County's advice and consent, professional property management companies to manage the property.

Material Terms:

12614

Site, Building, Approvals

Specifically, Wright Runstad & Company controls, by way of an enforceable purchase and sale agreement, a parcel of land next to the King Street Station just south of Jackson. They have proposed to build on behalf of King County an eight story building of approximately 310,000 square feet, including 304 parking spaces – i.e., the King Street Center. Seattle DCLU has conditionally approved this project as of October 31, 1996.

Design Specifications, Space Planning, Permits, Timing

A preliminary design for the building, along with outline building specifications has been proposed by Wright Runstad & Company and has been reviewed by DCFM staff. General agreement on systems and finishes quality levels has been reached, resulting in a "Class A" office building. Preliminary space programming and planning with the Departments of Transportation and Natural Resources has been completed, verifying that the project will accommodate the programmatic requirements of each.

Wright Runstad & Company is prepared to move into the Design Development and Construction Drawings phases of the project as soon as a final agreement is made. Wright Runstad & Company contemplates application for final building permits to occur in the summer of 1997; construction to begin in the fall of 1997; and delivery to take place in the spring of 1999. Flexibility exists to delay construction and delivery if found to be in the best interests of King County.

Particular issues that will require further development and/or negotiation during the Design Development phase include; type of heating, ventilation and air conditioning system to be installed; elevator specifications; data, phone and fiber optic cabling; electrical needs; open office furnishings; and use of recycled and environmentally-friendly products in design.

Maximum Financial Exposure, Shared Savings, Risks

Total costs to construct will be defined as a "not to exceed" figure of \$60,300,000 guaranteed by Wright Runstad & Company. Construction and development risk will be borne by Wright Runstad & Company. However, to the extent the project is delivered under budget, King County will participate in those savings with Wright Runstad & Company on a 75% to 25% basis, respectively.

Project Costs, Translation to Rent

Wright Runstad and Company has proposed base costs for land, shell and core, as well as a complete build-out for tenant improvements. Projected costs and totals are identified on the attached spreadsheet. In addition to the proposed land, shell, core, and

tenant improvements, there are additional costs. These include: open office systems furnishings, telecommunications wiring/cabling, financing costs, 1% for the Arts, King County project management, not-for-profit fee, construction period interest, and other capital costs.

King County's net lease payments will be a function of the total capitalized cost of the project, amortized over twenty years at the market interest rate on the date the bonds are underwritten. Operational expenses, repairs, and capital improvements will be in addition to net lease payments.

By way of example, if the total capitalized cost is \$65,550,000, the debt is for twenty years, the interest rate is 6.25%, and rent is paid bi-annually, then the annual net rent payment will be approximately \$16.00 per square foot before operational costs and after adjusting for parking and retail space revenues.

Finally, there will be a one time expense incurred in office furnishings and moving costs. These expenses are not part of the project plan. However, they represent a real cost projected to be approximately \$4,500,000. If amortized over 10 years at 5.5%, this requires additional debt service of \$591,046 per year; or approximately \$1.91 per square foot.

Women and Minority Business Enterprises

The MWBE component for this project will embody developer goals. These would include the developer identifying and articulating MWBE goals in the development of the King Street Center project.

Management and Oversight

Although it is promised as a "turn-key" project, King County DCFM will be involved through the Programming and Space Planning, Design Development, and Construction phases. The intent of the County is to provide its greatest input through the Programming and Space Planning and Design Development phases. All fundamental space planning and building specification issues will be resolved during this time. Once construction begins, the County will work hand in hand with the National Development Council to ensure the building is being constructed per specifications. A County DCFM Project Manager will be the primary conduit for evaluation of reports on construction issues. DCFM will also take the lead in evaluating final acceptance of the building.

Conclusion:

There is no question that if King County does not replace a substantial portion of its downtown rental office space with owned space, it will be costly and result in major operating inefficiencies. Implementing this proposed plan will result in an outstanding facility for King County with a minimum of risk. While the costs should not be minimized, in the long run ownership of King Street Center will be seen as an prudent and farsighted investment.

12614

12614

**Analysis of NNN Rent
King Street Station**

Assume Rentable Square Feet	Revised	309,663
	Original	305,000

20 Yr Rate	Original* 6.25%	Revised** 6.25%	All Costs Interest @ 6.25%	All Costs Interest @ 5.75%
Base Construction	\$36,200,000	25,700,000	25,700,000	25,700,000
Land	\$8,000,000	8,000,000	8,000,000	8,000,000
Parking Floors	\$7,000,000	7,000,000	7,000,000	7,000,000
Tenant Improvements	\$6,100,000	8,300,000	8,300,000	8,300,000
Other Capital Costs		11,300,000	11,300,000	11,300,000
Total -- Cost to Construct	\$57,300,000	60,300,000	60,300,000	60,300,000
Telecommunications/Cabling			1,523,000	1,523,000
Efficiencies from Full Building TI's			(1,000,000)	(1,000,000)
Financing Costs			850,000	850,000
Non-Profit Fee			487,500	487,500
County Project Management			200,000	200,000
1% for Art***			250,000	250,000
Construction Period Interest		2,939,702	2,939,702	2,704,526
Total Capital Costs****	\$57,300,000	63,239,702	65,550,202	65,315,026
Required Annual Debt Service 20 Yr	\$5,058,545	5,582,912	5,786,887	5,537,741
Annual Parking Revenue @ Break Even	(617,972)	(653,593)	(653,593)	(624,969)
Retail Revenue	(180,000)	(180,000)	(180,000)	(180,000)
Required Annual Rent - 20 Yr	\$4,260,572	4,749,319	4,953,294	4,732,773
Required Annual Debt Service 25 Yr	\$4,581,666	5,056,601	5,241,346	4,981,022
Annual Parking Revenue @ Break Even	(559,715)	(591,978)	(591,978)	(562,140)
Retail Revenue	(180,000)	(180,000)	(180,000)	(180,000)
Required Ongoing Cap Cost 25 Yr	\$3,841,951	4,284,623	4,469,369	4,238,883
NNN Rent Per Sq Ft 20 Yr	\$13.97	15.57	16.00	15.28
NNN Rent Per Sq Ft 25 Yr	\$12.60	14.05	14.43	13.69
Furnishings & Move			4,500,000.00	4,500,000.00
County Debt Service Interest Rate (10 Yr. Amortization)			5.30%	5.50%
Required Debt Service			585,536	591,046
Rent Add for Furnishings/Move			1.89	1.91

Assumptions

All schedules assume semi-annual payments
 *Construction Period Interest Included In Original Proposal
 **Use Original Square Feet
 ***Assume 1/2% from Construction & TI's
 ****Does not include furnishings and move costs
 Add .0005 percent to go from 20 to 25 year financing

Parking	\$7,000,000	7,000,000	7,000,000	7,000,000
Construction Period Interest		403,489	403,489	371,210
Total Costs to Finance	\$7,000,000	7,403,489	7,403,489	7,371,210
Required Debt Service 20 Yr	\$617,972	653,593	653,593	624,969
Operating Costs	\$125,000	125,000	125,000	125,000
Total Ongoing Costs	\$742,972	778,593	778,593	749,969
Equivalent Price/SF on Office Space	\$2.40	2.51	2.51	2.42
Required Monthly Revenue/Stall	\$203.67	213.43	213.43	205.58
Required Debt Service 25 Yr	\$559,715	591,978	591,978	562,140
Operating Costs	\$125,000	125,000	125,000	125,000
Total Ongoing Costs	\$684,715	716,978	716,978	687,140
Equivalent Price/SF on Office Space	\$2.21	2.32	2.32	2.22
Required Monthly Rental/Stall	\$187.70	196.54	196.54	188.36

12614

1
2 11- 14, 1996

INTRODUCED BY: RON SIMS

3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52

PROPOSED NO. 96 - 966

ORDINANCE NO. _____

AN ORDINANCE approving a plan to finance the acquisition of office space for county use by means of a lease; authorizing the county executive to negotiate and execute such lease for approximately 310,000 square feet of office space in a building to be located adjacent to the King Street Station in the City of Seattle, for a term not to exceed 20 years, with the aggregate principal amount of lease payments not to exceed \$65,550,000, pledging the county's full faith and credit for the payment of such lease payments, and otherwise satisfying the criteria set forth in the lease financing plan, and approving other aspects of the lease financing plan.

PREAMBLE:

The county council has determined that it is in the best interest of the county and its residents that the county's department of natural resources and department of transportation be consolidated and housed in economical office space in downtown Seattle.

The council has reviewed three proposals for providing such office space to the county by means of a plan of lease-financing. The council wishes to select the proposal of Wright Runstad & Company to build an office building adjacent to the King Street Station, to be known as King Street Center, and to approve a plan of financing for such proposal so that Wright Runstad & Company and the National Development Council, a nonprofit corporation, or a subordinate organization thereof, may enter into an agreement permitting the National Development Council or its subordinate organization to issue tax-exempt bonds to finance construction of the King Street Center.

To complete the lease financing plan authorized by this ordinance, the council recognizes that such tax-exempt bonds will be issued and sold and that the county's lease payments for the King Street Center will be based on the principal of and interest on such bonds.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. Findings. It is hereby found and declared that the public interest, welfare and benefit require the county to lease approximately 310,000 square feet of office space in downtown Seattle for county use. The council finds that the proposal of Wright Runstad & Company ("Wright Runstad") to build an office building located adjacent to the King Street Station in downtown Seattle, to be known as King Street Center, best satisfies the county's requirements.

SECTION 2. Approval of Office Space Plan; Authorization of Lease. The plan for acquiring office space for county use, as described in the Office Space Plan attached as Exhibit A hereto and incorporated herein by this reference (the "Plan"), is hereby accepted and approved. In particular, the council acknowledges and approves Wright Runstad's plan to

1 enter into an agreement with the National Development Council, a nonprofit corporation, or a
2 subordinate organization thereof (the "Nonprofit Corporation") to finance construction of
3 King Street Center by means of lease revenue bonds issued by the Nonprofit Corporation in
4 accordance with Revenue Ruling 63-20 of the U.S. Department of Treasury (as compiled and
5 supplemented by Revenue Procedure 82-26 of the U.S. Department of Treasury).

6 Further in accordance with the Plan, the county executive is hereby authorized on
7 behalf of the county to negotiate and execute a lease with the Nonprofit Corporation or its
8 successor or assignee for all or substantially all of King Street Center (the "Lease"). The term
9 of the Lease shall not exceed 20 years. The amount of lease payments shall not exceed the
10 amount required to pay principal of and interest on the Bonds (as hereinafter defined), and in
11 any event the aggregate principal component of such lease payments shall not exceed
12 \$65,550,000. Other terms and conditions of the Lease shall be in accordance with the criteria
13 set forth in the Plan, including, without limitation, the specifications for the King Street
14 Center, a maximum construction price of \$60,300,000 from Wright Runstad, the MWBE
15 developer goals, and the provisions for management and oversight of the project, and shall be
16 subject to approval by the office of the prosecuting attorney and bond counsel to the county,
17 as appropriate.

18 The lease payments shall represent a limited tax general obligation of the county, and
19 the full faith, credit and resources of the county shall be pledged for the annual levy and
20 collection of taxes, within and as a part of the tax levy permitted to counties without a vote of
21 the people, for the prompt payment of the lease payments as the same shall become due.

22 SECTION 3. Approval of Nonprofit Corporation's Financing Plan. For the purpose
23 of complying with the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26
24 of the U.S. Department of Treasury and in accordance with the Plan, the council hereby
25 acknowledges and approves the Nonprofit Corporation's plans to issue tax-exempt lease
26 revenue bonds in the aggregate principal amount of not to exceed \$65,550,000 (the "Bonds")
27 to finance construction of King Street Center. The county agrees that when the Bonds are
28 retired, the county shall accept delivery of full legal and unencumbered title to King Street
29 Center for no additional consideration.

30 SECTION 4. General Authorization. The appropriate county officials, agents and
31 representatives are hereby authorized and directed to do everything necessary to accomplish
32 the Plan and this ordinance, including but not limited to negotiation and execution of the
33 Lease.

34 SECTION 5. Ratification of Past Acts. All actions heretofore taken by county
35 officers, staff, attorneys and agents consistent with the terms and purposes of this ordinance
36 are hereby ratified, confirmed and approved.



12614

Metropolitan King County Council
Budget & Fiscal Management Committee

AGENDA ITEM: 2

DATE: January 15, 1997

PROPOSED No.: 96-966

PREPARED BY: Michael Ledbetter

SUBJECT: An ordinance approving a plan to finance the acquisition of office space for county use by means of a lease; authorizing the county executive to negotiate and execute such lease for approximately 310,000 square feet of office space in a building to be located adjacent to the King Street Station in the City of Seattle with the aggregate principal amount of lease payments not to exceed \$65,550,000, pledging the county's full faith and credit for the payment of such lease payments, and otherwise satisfying the criteria set forth in the lease financing plan, and approving other aspects of the lease financing plan.

BACKGROUND: Approximately one year ago, the Council requested the Executive to update the County's Office space plan. In response, the Executive transmitted a comprehensive study which, among other things, identified about one-half million square feet of County leased space in the downtown area. The study also recommends that the County reduce its reliance on leased space. Specifically, the Executive recommended entering into a build-to-suit/lease-to-own development agreement for the purpose of constructing a 300,000 square foot office building adjacent to King Street Station.

At last week's Budget & Fiscal Management meeting, Committee members heard a brief presentation by staff on the development of the space plan followed by an Executive presentation on the King Street proposal.

At the direction of the Chair, today's presentation will begin with staff presentation and analysis, followed by questions for legal counsel, and then a follow-up presentation by the Executive on the King Street proposal.

SUMMARY OF PROPOSED ORDINANCE 96-966: Proposed Ordinance 96-966 approves a plan to finance the acquisition and development of office space located adjacent to the King Street Station. If approved, the Executive will negotiate *and execute* a build to suite/lease to own development agreement. The Prosecutor's Office has advised the Executive that the attached ordinance would be sufficient authorization to negotiate and execute and agreement.

Key features of the plan are as follows:

Build-to-Suit/Lease-to-Own: The Executive is requesting authorization to enter into a build-to-suit/lease-to-own development agreement whereby the developer builds an office building to the County's specifications and then

leases back the land and improvements. At the end of the term of the lease, title of the property is transferred to the County.

12614

Financing: The financing plan for the project utilizes "63-20" financing which entails a non-profit corporation issuing bonds to finance a project utilized by a governmental entity. The interest on such bonds is tax-exempt if certain conditions are satisfied.

The non-profit corporation (National Development Council) issues bonds and contracts with the developer (Wright-Runstad) to build the King Street Center. The County will enter into a lease with the non-profit corporation once the Center is complete. The lease payments in turn are used by the non-profit to retire the debt. The non-profit corporation will own the Center during the term of the lease. When the bonds are retired, the title of the land is transferred to the County.

Project Costs: The development agreement will include a not to exceed figure of \$60.3 million. The developer assumes the risks of costs exceeding the maximum allowable construction price of \$60.3 million. Furthermore, any savings that may accrue if costs are less than \$60.3 million will be shared on a 75 % /25 % basis with King County and the developer, respectively.

Operation of the Center: The King Street Center will be owned and operated by the non-profit during the 20 year term of the lease. The plan calls for operation and maintenance to be performed through a professional property management company.

Timing: The developer anticipates application for final building permits to occur in the summer of 1997; construction to begin in the fall of 1997; and delivery to take place in the spring of 1999.

JEFFERSON CENTER: At the Council's request, the Executive has conducted a feasibility study for developing the County owned site directly south of the King County Correctional Facility (KCCF). The analysis shows that a 315,000 square foot building would cost from \$87.6 million to \$99.9 million.

Locating the building on the site south of KCCF has a number of benefits. Those benefits include:

- Additional parking for the Courthouse
- Easy access to I-5
- "One-stop shopping" for government services
- Operational savings achieved by co-locating office buildings (security, maintenance, interoffice mail, payroll transports, interaction between other county agencies including Council, Executive and central service functions, personnel, finance, budget, etc.)
- Flexibility to build to 500,000 square feet
- Ability to connect tunnels
- Ability to achieve significant savings by building a central physical plant for Courthouse, Administration Building, and jail
- No developer profit if conducted as public work
- No fee for non-profit

- No property taxes estimated at \$300,000/year for King Street
- Already own the majority of the land

12614

EXCHANGE BUILDING: Also at the Council's request, the Executive conducted a building assessment and appraisal of the Exchange Building. The Executive's appraisal estimated the building's value at \$17.6 to \$19 million.

ATTENDING:

1. Pearl McElheran, Director, DCFM
2. Dave Preugschat, Real Property Manager
3. John Runstad, Wright-Rundstad
4. Bob Stier, PAO
5. Kendall Moore, PAO

ATTACHMENTS:

1. Proposed Ordinance 96-966
2. Transmittal Letter

12614

1996 DATE INTRODUCED 11/25/96
PROPOSED ORD/MOT. NO. 96-0966
INTRODUCED BY RS
REFERRED TO COMMITTEE

TITLE AN ORDINANCE approving a plan to finance the acquisition of office space for county use by means of a lease; authorizing the county executive to negotiate and execute such lease for approximately 310,000 square feet of office space in a building to be located adjacent to the King Street Station in the City of Seattle, for a term not to exceed 20 years, with the aggregate principal amount of lease payments not to exceed \$65,550,000, pledging the county's full faith and credit for the payment of such lease payments, and otherwise satisfying the criteria set forth in the lease financing plan, and approving other aspects of the lease financing plan.

NEEDS ADVERTISING _____
COMMENTS _____

RECEIVED
JAN 24 1997
KING COUNTY EXECUTIVE

February 10, 1997

Ron Sims
King County Executive
400 King County Courthouse

Dear Mr. Sims:

ORDINANCE 12614 was passed by the King County Council on January 21, 1997.
Attached please find a copy for your file. The ordinance has been sent to the following:

Prosecuting Attorney	5C
King County Law Library	6C
King County Library System	1B
Pearl McElheran, Department of Construction and Facilities Management,	3A
Pat Steel, Office of Budget and Strategic Planning,	4C
Pam Bissonette, Department of Natural Resources,	7Y
Paul Toliver, Department of Transportation,	MS/94

Sincerely,

Gerald A. Peterson
Clerk of the Council

GAP:aa

Attachments