

02/17/98

Introduced By: Dwight Pelz

pj

Proposed No.: 98-733

ORDINANCE NO. **13414**

AN ORDINANCE authorizing the King County executive to consent to the assignment of the leasehold and amendment of certain provisions of the lease with Utilities Warehouse for a portion of the Duwamish waterway property located in Council District 5.

PREAMBLE:

In accordance with K.C.C. 4.56.075, 4.56.180 and 4.56.190, the King County Council may adopt an ordinance permitting the county to lease its property for a term not to exceed thirty-five years for property used for commercial purposes requiring extensive improvements and which extend the lease term by more than five years.

STATEMENT OF FACTS:

1. King County owns three properties on the Duwamish waterway consisting of a total of about thirty acres of submerged and uplands and about two thousand three hundred feet of shore line. The properties are held as investment properties and are leased separately from King County. The properties, identified by their current lessees are Manson Construction & Engineering Company property located at 5209 East Marginal Way South, Utilities Warehouse property located at 5409 Ohio Avenue South and the Ball-Foster Glass Container Co., L.L.C.(Ball-Foster) property located at 5601 Ohio Avenue South. Each of the leased portion of the property is occupied by two businesses.

2. Utilities Warehouse, a partnership, leasehold contains a total area of approximately 4.67 acres (203,375 square feet) of both submerged and upland property. Improvements to the property consist of two warehouses with attached offices and a large shed. Utilities Warehouse subleases the property to two businesses, ICONCO, a demolition company and United Western Supply, a foundry supply company.

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3. Utilities Warehouse has requested approval from the county to assign its interest in the lease to ICONCO, one of the two subtenants. ICONCO in turn has requested an extension to the existing lease term.

4. ICONCO, will also be subject to paying a fair rent based upon the fair market rental value of the land. Periodic rental rate adjustments will continue to occur at five year intervals and be based on an appraisal process of the fair market value of the property and the resulting fair market rental value adjusted and fixed by the county.

5. Subject to council approval, the existing long term lease will be assigned to ICONCO and the lease will be extended ten more years to December 31, 2009. The lease terms and conditions will be the same as the "existing lease" except for those changes expressly provided for by this ordinance. Upon assignment of the lease to ICONCO, the annual rent will be increased to \$171,862 per annum plus Washington state excise tax.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:


SECTION 1. The King County executive is hereby authorized to execute the necessary documents to consent to the assignment of Utilities Warehouse interest in the lease to

1 ICONCO and amendment of certain provisions of the lease in substantially the form with the
2 terms and conditions attached.

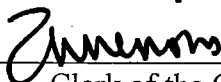
3 INTRODUCED AND READ for the first time this 7th day of
4 December, 1998

5 PASSED by a vote of 11 to 0 this 22nd day of February,
6 1999

7 KING COUNTY COUNCIL
8 KING COUNTY, WASHINGTON

9 
10 Chair

11 ATTEST:

12 
13 Clerk of the Council

14 APPROVED this 4 day of March, 1999

15 
16 King County Executive

17 Attachments: Agreement and Amendment of Lease - Duwamish Waterway Property -
18 Utilities Warehouse/ICONCO

CONSENT TO ASSIGNMENT AND AMENDMENT OF LEASE

This Consent to Assignment and Amendment of Lease is made this ____ day of _____, 1998, with respect to the Lease originally dated as of August 10, 1964 and effective January 1, 1965 between King County, a political subdivision of the State of Washington ("King County"), as Lessor and Utilities Warehouse, a partnership, successor in interest to Utilities Warehouse, Inc., a Washington corporation, as Lessee for approximately 204,599 square feet of dry land and shorelands commonly know as the King County Dock Site Investment Property at the Duwamish Waterway located at 5409 Ohio Avenue South, Seattle, Washington (the "Lease").

WHEREAS, the Lease has been amended on various occasions. Each of the amendments was incorporated into the Lease and the Lease as amended is the current agreement in force and effect between Utilities Warehouse (sometimes referred to as "Lessee") and King County.

WHEREAS, under the Lease as amended King County may adjust the rent every five years and indeed the rent has been adjusted every five years with the most recent rental adjustment for the five year period beginning January 1, 1995 and ending December 31, 1999.

WHEREAS, the Lessee has itself never been the occupant of the property, but subleased a portion of the property to Western Utilities Warehouse Supply Company, a business engaged in the waterworks industry, in which some of the Lessee partners were shareholders. The balance of the property and, since Western Utilities relocated to another site several years ago, the entire property, has been sublet to parties not related to the Lessee.

WHEREAS, the present Lease term expires December 31, 1999 and because of the age and diversity of the Utilities Warehouse partners, they do not desire to extend or renew the term.

WHEREAS, the Lessee subleases its leasehold interest to two businesses who have been in possession of the property for many years. The existing subtenants, United Western Supply Company and ICONCO, have significant investments in their parcels and have a strong desire to remain in possession of the property. Utilities Warehouse has entered into an agreement with ICONCO, a demolition contractor, to sell its interest in the Lease, subject to receiving the consent of King County to the transfer of the leasehold and the amendment of certain provisions of the Lease which would extend the lease for a period of ten (10) years. ICONCO as the new Lessee will continue to formerly sublease a portion of the property to Western Utilities Supply Company as did Utilities Warehouse.

WHEREAS, ICONCO has agreed that a rent adjustment will go into affect when the lease assignment is approved and the rent adjustment is a significant increase over the

existing rent which will result in the County achieving a targeted rate of return on its docksite investment properties.

NOW, THEREFORE, THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. Amendment. On the condition that ICONCO acquires the interest of Utilities Warehouse in the premises within the next 60 days, the Lease shall be amended as follows:

A. Consent to Assignment. King County hereby consents to the assignment of Utilities Warehouse interest in the Lease to ICONCO, a Washington corporation.

B. Lease Term. The Lease term shall be extended so that the Lease expires on December 31, 2010.

C. Rental Adjustment. For the period commencing from the time ICONCO acquires the interest of Utilities Warehouse in the premises to December 31, 1999, the rent will be increased to \$171,863.00 per annum, plus Washington State leasehold excise tax of 12.84 % or \$22,966.00. Said rental and excise tax shall continued to be paid in quarterly payments of \$48,706.

D. Lease Extension Period Rent Adjustment and Rent Reappraisal. Under the provision of the Lease, the rent shall be adjusted every 5-year period of the term of the Lease. Section 2 of the Lease is amended to permit rent readjustments every five (5) years during the Lease Extension Period starting with the first rent readjustment commencing on January 1, 2000 and ending on December 31, 2005 and thereafter commencing on January 1, 2006 and ending on December 31, 2010. In addition the standard for rent reappraisal shall be based on the fair market value on the land but in no event shall the rent be reduced below the amount fixed and agreed upon for the last proceeding rent readjustment period which in this particular instance will be the rent adjustment noted in Section C above. Rental disputes shall be settled as provided for in Section 2 of the Lease and the costs shall be divided equally between the Lessee and King County.

However, if Lessee assigns its rights under the Lease to an unaffiliated party or enters into one or more subleases with an unaffiliated entity or such unaffiliated entity's affiliates for more than eighty percent (80%) of the land portion of the leased premises for a term of more than one year, the Lessor shall have the right to request an immediate rent reappraisal upon such transfer. For the purpose of this paragraph, an unaffiliated party shall be defined as any third party which is not Lessee's parent, subsidiary, a company controlled by Lessee's parent or subsidiaries, or otherwise under common ownership or control with Lessee.

E. Improvements and Alterations. Lessee shall make no substantial alterations or improvements to or upon the leased premises without first obtaining Lessor's consent for such alterations or improvements, which consent shall not unreasonably withheld.

2. Continued Application of Lease Terms. Except as expressly set forth herein to the contrary, the terms and conditions of the Lease, as amended, continue in full force and effect.

UTILITIES WAREHOUSE

By: _____

Date: _____

Title: _____

KING COUNTY

By _____

Date: _____

Dave Preugschat
Manager, Property Services Division

ICONCO

By _____

Date: _____

Title _____

APPROVED AS TO FORM:

By: _____

Dennis C. McMahon
Senior Deputy Prosecuting Attorney

13414 #



KING COUNTY DOCKSITE INVESTMENT PROPERTY
ALONG THE SHORELINE OF THE DUWAMISH WATERWAY
LEASEHOLD AND ECONOMIC ANALYSIS

LOCATION

5209 East Marginal Way South
5409 Ohio Avenue South
5601 Ohio Avenue South
Seattle, Washington 98104

PREPARED BY

King County Property Services Division
Department of Construction and
Facilities Management

OCTOBER 9, 1998



MEMORANDUM

13414

King County
Property Services Division
Department of
Construction and Facilities Management
King County Administration Building
500 Fourth Avenue Room 500
Seattle, Washington 98104
(206) 296-7470
TDD (206) 296-0100
FAX (206) 296-0196

October 9, 1998

To: Pearl McElheran
Director, DCFM

FM: ^{VBP} Dave Preugschat
Manager, Property Services Division

RE: King County Dock Site on the Duwamish Waterway
Leasehold and Economic Analysis Report

The attached report presents the results of the Property Services Division's Leasing Section review of King County's docksite investment property along the shoreline of the Duwamish waterway. The property consists of three parcels of land totaling about 30 acres with about 2,300 feet of Duwamish waterway shoreline. Each parcel is leased separately from the County. The three parcels of land that comprise the King County Duwamish dock site property are leased to Manson Construction & Engineering, Utilities Warehouse and Ball-Foster Glass Container Corporation.

- Manson Construction & Engineering leases the north 13.6 acres of the site. The current lease term is 35 years with the lease termination date at July 31, 2011. Manson Construction subleases a portion of the site to Cadman Inc.
- Utilities Warehouse leases the middle 4.7 acres of the site and subleases the entire site to two companies, ICONCO and United Western Supply. The current lease term is 35 years and the lease terminates on December 31, 1999.
- Ball-Foster leases the southern 12.1 acres of the site with operations conducted both on this site and an adjoining company owned site. The current lease term is 40 years and the lease terminates on February 28, 2006. Ball-Foster subleases a portion of the site to J. A. Jack & Sons.

The Property Services Division has before it three requests to change existing leases at the site.

- Manson Construction & Engineering has requested a 20 year extension to their lease considering a significant capital investment in the dock and dockside facility and future capital investment plans for the site.
- Utilities Warehouse has requested an assignment of lease rights to their major subtenant, ICONCO. If this assignment is approved, ICONCO requests a 10 year extension to the lease.
- Ball-Foster requested a 5 year extension to their lease.

If these requests are approved, the northern 13.6 acres of this site would be leased up to the year 2031 and the southern 16.8 acres would be leased up to the year 2011 with both southern leases terminating on the same day.

The purpose of the Leasing Section's review was to determine whether or not it would be prudent to approve the lease changes requested by the tenants and under what scenarios, if any, would it be



Pearl McElheran

prudent to move forward with a redevelopment of all or portions of the site. The review also included an economic analysis of the property to determine whether or not the existing rates of return on the County's investment property were adequate when benchmarked against other similar types of investment properties.

The review shows that King County, without any periodic capital investment, is receiving a return on land value that compares favorably to other Puget Sound waterway institutional land holders and will increase even more for each tenant if lease extensions are approved. The Property Services Division recommends approval of the assignment of Utilities Warehouse leasehold to ICONCO extending the lease period for the three leaseholds as requested by the tenants because:

- All of the businesses currently leasing the property and conducting substantial business at the site desire to stay at the site.
- Each of the current tenants and subtenants conducts a significant amount of business activity on site and cumulatively support a large employment base with family-wage jobs.
- Manson Construction is using the site to its highest and best use as a water dependent business and, therefore, optimum development of the northern portion of the Duwamish property should be tied directly into Manson's capital improvements over the next 35 years.
- It did not make sense to undertake a redevelopment of the entire site at the year 2011 (current termination date for the Manson lease) because such a redevelopment would not materially increase the return on investment to the County, may result in idle property, and would cause a major economic hardship to those companies currently leasing and using the property. Approval of these three lease amendments would, however, allow for consideration of redevelopment of the southern 16.7 acres in the year 2011.

Annual lease payments to the County plus the County's share of leasehold excise taxes on the lease payments contribute in excess of \$1 million to the Current Expense fund. It is prudent for the County to continue holding the property and as requested by the tenants, authorize consolidations, assignments, and extensions to the leases through the Ordinance process while at the same time continuing to adjust the rent to ensure market rates. We recommend immediately approving the lease assignment from Utilities Warehouse to ICONCO and moving forward with a legislative package seeking approval for all three lease amendments. These amendments would satisfy our tenant desires and give us an opportunity to update lease language with regard to contamination mitigation, environmental risks, rental rates, and assignments.

KING COUNTY DOCKSITE INVESTMENT PROPERTY
ALONG THE SHORELINE OF THE DUWAMISH WATERWAY
LEASEHOLD AND ECONOMIC ANALYSIS
OCTOBER 9, 1998

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*KING COUNTY INVESTMENT PROPERTY
ALONG THE SHORELINE OF THE DUWAMISH WATERWAY
LEASEHOLD AND ECONOMIC ANALYSIS
OCTOBER 9, 1998*

I. Introduction

The King County Property Services Division, Department of Construction and Facility Management made a review of County-owned investment property commonly known as the Duwamish Waterway property. The property consists of three parcels of land containing approximately 30 acres along a 2,300 foot shore of the Duwamish waterway. The parcels are leased separately from the County. One of the three tenants, Ball-Foster has asked for an extension to its lease. Another tenant, Utilities Warehouse is due for a rent increase and has asked the County to assign its lease to another firm, ICONCO who currently occupies the premises. ICONCO has asked for an extension to the lease. A third tenant, Manson Construction & Engineering Company, has requested an extension to its lease and is also due for a rent increase.

The purpose of the review was to determine whether or not it would be prudent to approve the changes requested by the tenants. The review also included an economic analysis of the property covering the leaseholds, employment opportunities provided by the tenants, leasehold revenue growth and return on the County's investment (adjusted for appreciation) in the property. Looking forward, we performed a preliminary assessment of development potentials for the property which included alternative scenarios for redevelopment of the property. A typical development plan was created to demonstrate the numerous and extensive activities needed to be undertaken if the County was to consider a redevelopment of its Duwamish waterway property.

II. Findings

The Duwamish waterway property which pursuant to K.C.C. 4.56.075 is classified as financial investment property continues to achieve market rate returns. At the same time it provides a basis for economic development and employment opportunities for permanent family-wage jobs.

- King County owns approximately 30.05 acres of land on the Duwamish waterway that was acquired in 1910 and is currently classified as financial investment property. The land is divided into three separate parcels. The fair market value of the land based on appraisals was estimated to be approximately \$12 million.
- The parcels were originally leased to three companies under long term agreements. The companies using the property are engaged in either water-dependent or water-oriented activities.
- Annual lease payments total \$975,167 and result in a return on value to the County of about

8.12%. When the proposed rent re-appraisals are in place, the annual lease payments will total \$1,092,474 and result in a return on investment of 9.10%. This return compares favorably to other Puget Sound waterway institutional land holders who are experiencing returns on investments of between 8% and 10%.

- The sustained revenue growth provided by the property continues to contribute money to the County's Current Expense fund and it also generates additional revenue through taxes such as the 12.84% excise tax on rent payments and business and occupation taxes.
- In addition to sustained revenue growth, the County is receiving other economic benefits from sales of approximately \$235 million of products and services and the direct creation of about 1,270 family-wage jobs. Based on employment multipliers the number of secondary jobs created from the base employment is estimated at 2,679 totaling approximately 3,949 direct and secondary jobs.
- Considering the historical use of the property, -such as vehicle maintenance, factory, and creosote treatment for wood poles- the results of an environmental site assessment, while pointing out certain concerns, did not indicate nor did it recommend significant remediation action. Concerns with current use contamination either have been or are in the process of cleanup by the tenants.
- Both the economic and environmental issues of the Duwamish Coalition have been addressed and resulted in our finding that the County's Duwamish property is not a suspected contaminated site and the property, as measured by the Duwamish Coalition methodology, is not underutilized.
- Any redevelopment of the property such as joint ventures, assemblage of additional property and redevelopment of the existing land would include a substantial investment of monies to pay for the development costs. Redevelopment effort is not recommended at this time.
- While there may be opportunities to redevelop the property, the existing uses are considered to approximate the highest and best use of the site.

III. Conclusions

The Duwamish waterway investment property continues to achieve market rate returns. At the same time it provides a basis for economic development and employment opportunity for permanent family-wage jobs. It is prudent for the County to continue holding the property in trust and, as requested by the tenants, authorize consolidations, amendments, and assignments of the leases through the ordinance process. The Property Services Division should evaluate redevelopment options for the southern 16.7 acres of the property near the end of the amended terms of the assigned ICONCO lease and Ball-Foster lease giving tenants sufficient notice if redevelopment is a preferred option.

IV. Background

The Duwamish waterway basin is unique from its beginning as a salt water marsh to its current use as a navigable waterway which is part of Seattle's major transportation and industrial area. The Duwamish area was originally a salt marsh reclaimed from Elliott Bay and the Duwamish river estuary. It is in the northern most tip of the industrial corridor that extends from downtown

Seattle southward towards the City of Kent. From 1885 to 1921, a series of engineering efforts transformed the mud flats and winding course of the Duwamish River into a navigable waterway. It consists of tidelands, uplands and one island, (Kellogg Island). At the northern tip of the waterway lies Harbor Island and the East/West Waterways which are contiguous to Elliott Bay.

The Duwamish includes over one half of Seattle's total 6,000 acres of industrially zoned land and the area is recognized as a major regional employment center. Most of the King County Airport lies within the Duwamish waterway area. Boeing aircraft company remains a large land holder in the area and the Port of Seattle holdings are extensive and include three terminals.

The King County-owned Duwamish waterway property is located about 2 ½ miles south of downtown Seattle lying in the Duwamish waterway corridor. The property is situated between Ohio Avenue South, East Marginal Way, and the Duwamish waterway. The property consists of approximately 30 acres on the shore of the Duwamish waterway. The property is divided into three separate parcels which have been leased to others and have a variety of improvements consisting mainly of offices, warehouses and docks. Each leasehold has a portion subleased to others and therefore contains two businesses (See Appendix: Exhibit A- Site Vicinity Map).

V. Dock Site Property Held In Trust

In September 1910, the King County Commissioners passed a resolution called the "Harbor Bond Resolution" that was submitted to and approved by the voters of King County. The Harbor Bond Resolution allowed the County to issue general obligation bonds, the proceeds of which were utilized to participate in a number of projects in King County, including the acquisition of certain sites for docks and wharves along the commercial waterways including the proposed diversion of the Duwamish River into the new Duwamish waterway.

The Harbor Bond Resolution earmarked \$350,000 for the acquisition of sites for docks and wharves that came to be known as the "Dock Sites Fund" and included money that was spent between 1916 and 1918 to develop the King County Docksite on the Duwamish waterway. The docksite was to be used for public purposes and for the purposes of commerce and navigation.

In 1937, King County attempted to sell, through public auction, a portion of the King County dock site located on the Duwamish waterway. A legal challenge to the sale was initiated and in the case of Commercial Waterway District No.1 v. King County the Supreme Court held that King County holds the dock site in "trust" and it could not be sold without the matter being submitted to the voters.

VI. Preservation and Enhancement of the Property's Water Related Uses.

Since the Harbor Bond resolution there have been legislative actions and court decisions that determined how the property would be preserved and used. Relevant to these determinations, management of County-owned dock site investment property should preserve and enhance water-dependent or water-oriented uses. Non water-dependent or oriented use of County-owned dock site property is permissible. Such uses should be considered low-priority providing minimal

public benefits and should be allowed only to the extent where the uses are compatible with water dependent or oriented uses occurring in or are planned for the property.

The current tenants of the Duwamish waterway property preserve and enhance either water-dependent or water-oriented uses. The County's management of the dock site investment property provides a public benefit by fostering those uses and generating revenues consistent with water dependent or water oriented uses.

VII. Highlights of Leaseholds

The Duwamish property consists of a total of approximately 30 acres of submerged land and uplands and about 2,300 feet of shore line on the Duwamish waterway. The property is dock site investment property and it is apportioned into three parcels of land each leased separately from King County. There are no unusual or adverse easements encumbering the subject property. The property is zoned IG1-U/85 feet, Industrial General by the City of Seattle. This zoning allows a wide range of industrial and manufacturing uses, as well as office buildings, warehouses and related uses. Each leased parcel is occupied by two businesses. The three parcels of land that comprise the King County Duwamish dock site property are leased to Manson Construction, Utilities Warehouse and Ball-Foster. The lease terms range from 1999 to 2011. The current annual rent amount, not including the 12.84 percent leasehold excise tax, is \$975,167. Leasehold information is presented in Table 1 below:

TABLE 1
Duwamish Waterway Properties
Leasehold Analysis

<i>Lessee</i>	<i>Area (4)</i>	<i>Lease Period</i>	<i>Rent</i>
Manson Construction (1)	13.56 Acres	35 years (5) July 31, 2011	\$414,993
Utilities/ Warehouse (2)	4.67 Acres	35 years Dec. 31, 1999	\$140,000
Ball-Foster (3)	12.09 Acres	40 years Feb. 28, 2006	\$420,174
<i>Totals</i>	30.32 Acres		\$975,167

- (1) Subleases a portion of its leasehold to Genstar Sand and Gravel.
- (2) Subleases its leasehold to United Western Supply and ICONCO.
- (3) Subleases a portion of its leasehold to J. A. Jack and Sons.
- (4) Total area includes uplands and submerged property.
- (5) The leasehold also includes a portion of the uplands and submerged property leased out under a month to month lease.

The leases are net with the lessee paying all utilities, maintenance and insurance. As the property is owned by the County, the lessee is also required to pay a 12.84% leasehold excise tax, instead of property taxes. About 20% of these taxes are distributed to the County. The lease rents are adjusted every five years based on the current market rate to be determined by appraisal of the property.

VIII. Environmental Site Conditions

The property has been extensively used since at least the 1910's. In March 1997 a report was prepared by Boateng & Associates, Inc., environmental scientists, showing the results of a Phase I environmental site assessment of the three Duwamish leasehold properties. The report, while pointing out certain concerns of historical and current use of the property did not indicate nor did it recommend remediation steps be taken within and/or around the property. In fact, the concerns of current use noted in the assessment report have either already undergone cleanup actions or the County has received commitments from the tenants that cleanup will be accomplished in the near future.

Concerns of historic use of the Manson property include the use for vehicle maintenance, as a factory and creosote treatment for poles. Current concerns include soil staining, sand blasting grit on the soil, and the 10,000-gallon diesel under ground storage tank (UST) at the Cadman facility. Manson has cleaned up the current concerns and Cadman's use of the UST is ongoing without incident and it has been registered with the City of Seattle and Washington State.

The only concern regarding the Utilities Warehouse property is the area along the railroad tracks where sand blast material has spilled from shipping containers. ICONCO has committed to cleanup actions of the sand blast material before it takes assignment of the lease from Utilities Warehouse

Concerns regarding the Ball-Foster property include a 10,000-gallon diesel tank at J.A. Jack & Sons, the historic use as a lumber mill, and residue from the burned lumber mill. The diesel tank is in current use without incident and it has been registered with the City of Seattle and Washington State.

IX. Business Profile and Employment

The property has been extensively used since it was first developed in the 1910s. Each of the three separately leased properties have two businesses. Each business is unique to the other businesses. Combined sales for all six businesses are about \$235million, with annual payroll of about \$39 million, representing about 1,270 family wage jobs. Based on Washington State employment multipliers for each type of business, the employment base accounts for approximately 2,679 secondary jobs, totaling about 3,949 direct and secondary jobs. A map showing the location of each business on the property is attached (See Appendix: Exhibit B-Map of Tenant Location on the Site). Business profiles and employment figures for each of the tenants are presented on the next page:

Manson Construction & Engineering is a marine construction company, engaged in the construction, repair and replacement of piers, docks, etc. Manson has gross sales of about \$70 million. The company employs 493 persons of which 343 live in the County. Employees are union members. This employment base has the potential to generate 571 secondary jobs for a total of about 914 direct and secondary jobs. The annual payroll is \$17 million.

The lessee sublets a portion of the property to Cadman Cement Company which manufactures ready-mix concrete and also stores and sells sand, gravel and cement products. The company receives cement, sand and gravel via barge. Cadman has gross sales of about \$25 million. The company employs 35 persons, with an annual payroll of about \$1.7 million. Employees are union members. This employment base is estimated to generate 87 secondary jobs, totaling about 122 direct and secondary jobs.

Utilities Warehouse is not currently conducting any business from the site. The lessee sublets the property to United Western Supply, a sand blasting and foundry supplier and ICONCO, a demolition and salvage contractor.

United Western Supply is a warehouse and distribution facility for sand blasting and foundry businesses. The company has annual gross sales of about \$10 million. United Western Supply employees 17 persons and has a payroll of about \$1 million.

ICONCO uses the property as a support for field operations and all administrative functions, sales and marketing. The company had gross sales of about \$25 million nationally and about \$9.5 million from its Duwamish site. ICONCO employment at the Duwamish site averages about 45 persons with a direct payroll of approximately \$2 million. This business has a water-dependent use, and among other things will generate between 15,000 and 20,000 tons of ocean going cargo through Seattle and Tacoma over the next two years.

Combined both companies employ 62 persons. This employment base could generate 71 secondary jobs, totaling about 133 direct and secondary jobs.

Ball-Foster is currently using the property for a glass bottle warehouse. Most of the company's manufacturing activity is done in buildings located adjacent to the leased property. The company has gross sales of about \$123 million and employs 640 persons and creates as many as 1,600 secondary job opportunities, totaling about 2,240 direct and secondary jobs. Ball-Foster subleases a portion of its leasehold to J. A. Jack and Sons Inc., a limestone products manufacturer and its activity consist of a rotary kiln facility with offices. The company sales are about \$7.2million and it employs 40 persons. This employment base could generate 100 secondary jobs, totaling about 140 direct and secondary jobs. Both companies receive materials and supplies directly from vessels on the Duwamish waterway.

X. Fair Market Values

Appraised value was close in range to the assessed value for each property in the Duwamish

dock site portfolio. The estimate of fair market land values from the most recent appraisals are presented in Table 2 below:

TABLE 2
Land Valuation Analysis

<i>Lessee</i>	<i>Fair Market Value</i>
Manson Construction	\$4,840,000
Utilities Warehouse	\$1,700,000
Ball-Foster	\$5,465,000
<i>Totals</i>	<i>\$12,005,000</i>

Source: Lamb Hanson Lamb; Appraisal Associates, Inc., August 1994.

The value of land, as estimated by appraisal, is used as one of the components for estimating fair market rent.

XI. Return on Investment

According to a study of rates of return for Puget Sound docksite institutional land holders and other private sector businesses, the County should expect a minimum stabilized return on investment (adjusted for appreciation) of about 8% with a return from 9% to 10% preferable for its short and long term Duwamish waterway ground leases. This rate, also known as a land capitalization rate, is computed by dividing the ground lease revenue by the appraised value of the ground. Most water oriented ports in the Puget Sound basin have established financial goals for achieving a 10% return on investment with actual returns slightly less than those goals.

Ports and public agencies utilize a rate of return based on appraised land value. Returns on buildings and other improvements are typically based on cost or estimated depreciated value and are set at either the same rate for the return on land or up to 2% higher. Actual returns that some individual organizations are currently receiving on their land investments are presented below:

<u>Organization</u>	<u>Net Annual Rate of Return</u>
Port of Tacoma	10%
Port of Seattle	8% to 10%
Port of Everett	8.5% to 10%
Snohomish County Airport	10%
Port of Bellingham	9%
Port of Portland	10%
Port of Olympia	9% to 10%
Port of Astoria	10%
Port of Vancouver	10% to 11%
Sate of Washington	8%

The market land value and return on investment is affected, in part, by the capital costs involved in producing a complete ready-to-build site available for development of end-user and speculative buildings. In contrast the Duwamish site has no County-sponsored development cost requirement. Thus the rate developed for the Duwamish site is low-to-no-risk, as it requires no periodic commitment of funds for capital improvements to maintain cash flow.

An analysis of the most recent appraised land values and projected rent increases indicates a rate of return for the Duwamish waterway property of approximately 9.10%. The range of the returns are from 8.78% to 10.10% and fall above a minimum acceptable 8% benchmark for similar waterway properties with minimum risk. In the table below, the return on investment is calculated by dividing the current or proposed rents by the value of the County's property investment as represented by the fair market value of the land. The rental rates will be adjusted to reflect an up coming 1999 appraisal in accordance with the terms of each lease as amended.

TABLE 3
Return on Investment
Current Fair Market Rent v Proposed Rental Adjustment

<i>Lessee</i>	<i>Fair Market Value-1994</i>	<i>Current Lease Rent</i>	<i>ROI</i>	<i>Proposed Lease Rent</i>	<i>ROI</i>
Manson Construction	\$4,840,000	\$414,993	8.57%	\$440,413	9.09%
Utilities Warehouse	\$1,700,000	\$140,000	8.23%	\$171,863*	10.10%*
Ball-Foster	\$5,465,000	\$420,174	7.68%	\$480,198	8.78%
<i>Totals</i>	<i>\$12,005,000</i>	<i>\$975,167</i>	<i>8.12%</i>	<i>\$1,092,474</i>	<i>9.10%</i>

*Lease is due to terminate on December 31, 1999. As a condition of the County's agreeing to an assignment of the lease and an extension to the lease period, the rent would be adjusted for the remainder of the existing lease term of December 31, 1999 and then adjusted thereafter to market rent on a periodic basis.

The existing property leases provide the County with a stabilized revenue stream and a return on investment comparable to other dock site properties in the Puget Sound area. The potential exists, however, to sustain this revenue stream by approving tenants request for extensions to their leases. All such extensions would be predicated on, and continue the County's objective of receiving, fair market rent. For their part, the tenants would agree to continue to provide capital for improvements to the property. Also, the tenants' businesses should continue to contribute to the direct and secondary employment base totaling about 3,949 jobs. The recommended extension periods and terms are presented in Table 4 shown on the next page.

TABLE 4
Existing and Proposed Extensions to Lease Periods

<i>Lessee</i>	<i>Type of Lease</i>	<i>Current Lease Period</i>	<i>Proposed Lease Period Extension</i>	<i>Proposed Increase In Term Period</i>
Manson Construction	35 year ground lease	August 1, 1976 July 30, 2011	July 31, 2031	20 more years
	Month to Month	*	*	*
Utilities Warehouse	35 year ground lease	August 1, 1964 Dec. 31, 1999	Dec. 31, 2010	10 more years
Ball-Foster	35 year ground lease	March 1, 1966 Feb. 28, 2006	Feb. 28, 2011	5 more years

*The month to month lease would be consolidated into the long term lease.

XII. Future Development Plans

Though the property is producing a fair market rate of return, prudent management of the County's property would include periodic review and revision of management judgments for alternative use of the property. While the County is not currently engaged in an assessment of a site-ready land redevelopment plan, such a study, if undertaken, would need to look at alternatives for redevelopment, development capital costs, return on investment and the ability to provide jobs and business opportunities in the community for a sustained period of time. Some general observations are presented below.

Development Alternatives - Economic conditions and land availability are some key factors affecting industrial land values. With the region's economy in the midst of an expansion expected to last several more years and the State's Growth Management Act serving to limit the supply of land suitable for industrial development, demand for land and the value of the County's docksite property will be sustained. Working under these conditions the County may in the future want to consider alternatives for the redevelopment of its Duwamish property.

Redevelopment of the docksite property would be considered prudent in the future for two of the lessees (Ball-Foster and ICONCO) who occupy about 16 acres of the southern part of the property. If their requests for extensions to their leases are approved the property will revert to the County in about 10 years. Targeting an assessment of the Ball-Foster and ICONCO parcels midway through their lease extensions would provide sufficient time for the County to develop and act upon recommendations for a redevelopment of this section of the County's docksite property. Likewise, the County should target an assessment of the Manson leasehold in advance of its lease termination date.

Any redevelopment plan, whether it continues with the status quo by extending further the lease

periods of Ball-Foster and ICONCO when their new renewal periods expire or consolidates the Ball-Foster and ICONCO parcels when their leases expire, must be feasible. In this context, we would define feasibility as achieving a return on any investment that the County makes must be equal to or higher than those returns achieved on the property without the investment in capital assets and land improvements.

It would take significant public funding to undertake any redevelopment of the property. Any added capital costs to the County's investment base may jeopardize the stabilized return on investment of 9.1%. In addition, any investment made by the County in the form of building improvements would require an additional return. Experience tells us that the quality and durability of an income stream derived from improvements (as opposed to land) is far more at risk than base rent. In large part this is related to the depreciation that accrues in improvements over time, as highest and best use change and physical deterioration takes place. Periodic capital investment in the form of tenant and other building improvements, as well as leasing commissions, is typically required to maintain a given rental income stream over time.

Development Plans - A development plan for the Duwamish dock site property is envisioned as conventional land development and assumes the County would provide the funding for the demolishing of the structures on the property as well as the site preparation and infrastructure necessary to lease "pad ready" development sites to either end-users or developers. When and if the County decides to undertake a redevelopment of the Duwamish it will do so under the existing zoning regulations for the City of Seattle and the Urban Industrial Environment Zone of Seattle's Shoreline Master Plan. The development plan would have to take into consideration the uplands and submerged characteristics of the property including dock site development and the adjacent shallow water of the Duwamish waterway.

A redevelopment of some or all of the docksite property could occur in the future if the existing tenants chose not to extend their leases beyond the proposed amended terms or seek to broaden their property base by either moving to another location on the docksite or adding to its existing docksite holdings. If redevelopment was undertaken, viable scenarios would be developed for use in formulating the scope of work that would have to be committed to bring about a redevelopment of the Duwamish waterway. Any recommendations for a specific development plan should achieve the County's objective of attaining a stabilized return on investment. Also, any development scenario should include a mixed and highest and best use of the property which includes manufacturing, warehouse, and marine dependent or related use. Finally, any redevelopment scenario should keep at a minimum the negative impact to existing tenants and should, to the extent possible, be consistent with their long-term business plans.

XIII. Duwamish Coalition

The Duwamish Coalition was convened in April 1994 to bring a unified approach to economic and environmental issues confronting the businesses and residents of the Duwamish industrial corridor. The Coalition included representatives from the community, businesses, governments, unions, educational institutions and native American tribes. The mission of the coalition was to preserve and reclaim industrial land for the purpose of expanding the manufacturing and

industrial job base, and protecting and enhancing the natural environment of the corridor.

Two key indicators use by the Coalition to benchmark its mission achievements in the corridor were (i) the number and suspected contaminated sites and (ii) utilization of property as measured by the ratio of property improvement value to the assessed value of the land.

Through an independent Phase 1 environmental site assessment we determined there were some environmental issues on the County's Duwamish Waterway properties but the items were not significant enough to cause the property to be designated a contaminated site. In fact, several of the items have already undergone cleanup actions.

The Coalition developed a parcel utilization ratio to assess the use of land in the corridor. Parcel utilization is calculated as the ratio of property improvement value to total assessed value based on the King County Assessor's data base. A parcel is considered underutilized if the ratio is less than or equal to 25 percent. Applying the Coalition methodology to the County owned Duwamish waterway property results in a ratio of approximately 46 percent; therefore the property is not underutilized using this criteria. Other economic factors such as general business activity further confirm this condition.

XIV. Conclusions and Recommendations

For over 70 years the County has owned its Duwamish waterway property. It has leased its interests to marine-related or marine-dependent firms who were engaged in manufacturing, construction and warehousing. The County has virtually no money invested in either the infrastructure or improvements to the property. All improvements to the property were made by the tenants. Still, the County has continued to achieve a market rate of return on its investment property.

The current tenants, have requested extensions to their leases. In return, they are promising to spend money to construct or improve their facilities. If extensions are not approved, the tenants will relocate over a period of time, some sooner rather than later, as they will be unable to maximize their utilization of this property. If this were to occur, the improvements to the property would be turned over to the County and because the useful life of the improvements would have been exhausted with little or no salvage value, the County would have to demolish the building structures and clear the site.

From time to time the County may want to review options for alternative uses of the property. In this particular instance, the Property Services Division looked at several different scenarios including maintaining the status quo, selling the property, and redevelopment of the property. The development scenarios all would require differing levels of capital infusion to pay for site development and infrastructure. It is doubtful that even with improvements, the County would be able to further enhance its sustained revenue growth and return on investment levels. Certainly, the return on any additional investment would be at higher risk than the County's present investment. Even if a slight expansion of family-wage jobs were possible in a redevelopment scenario from a new or expanded business activity that would not in and of itself

justify the amount of capital costs and other risks associated with re-locating existing tenants and potential idle property.

Considering the foregoing information the County should:

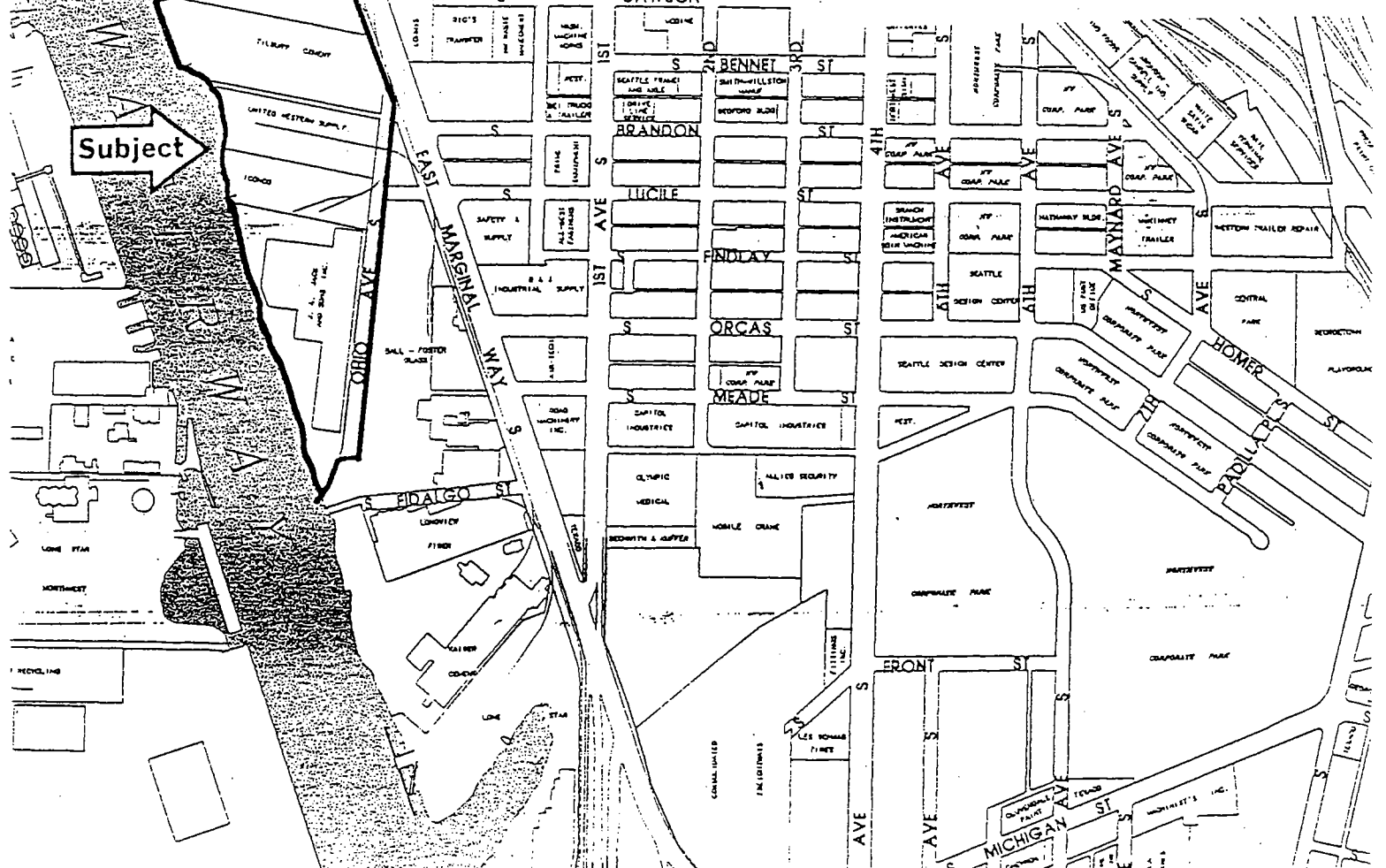
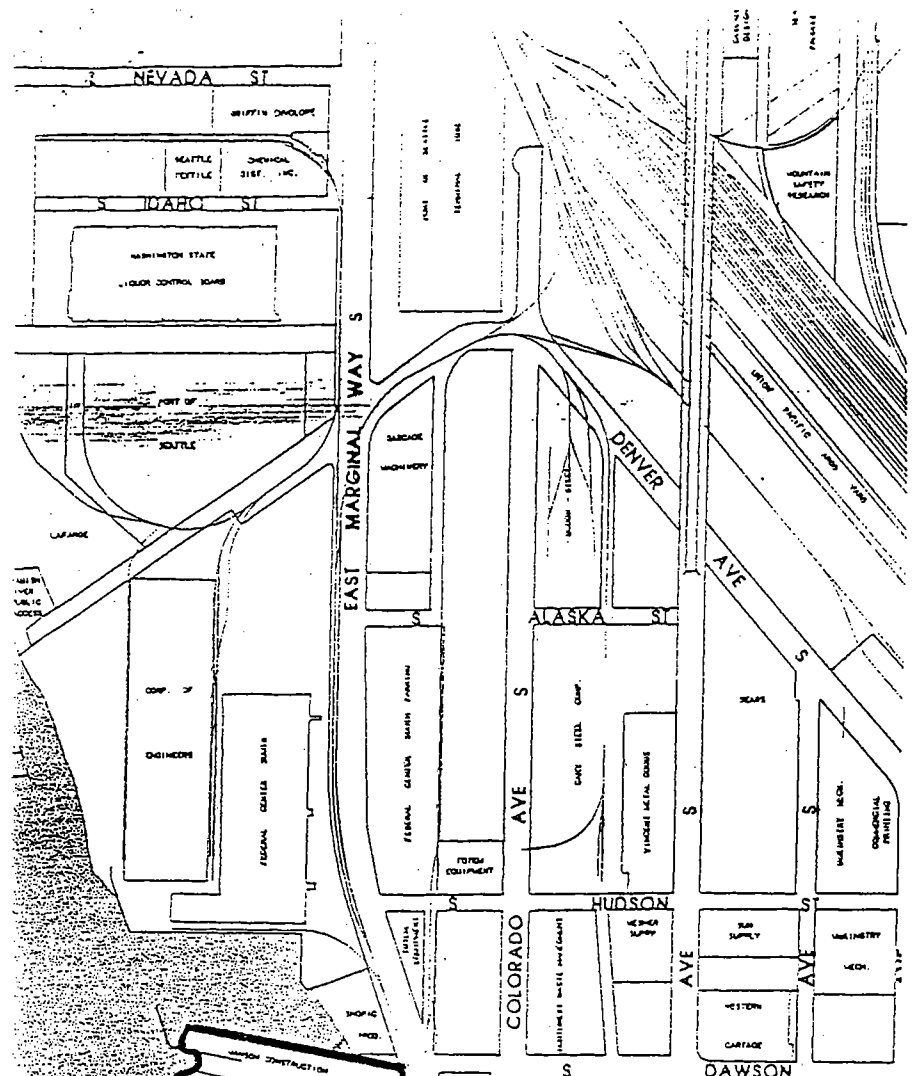
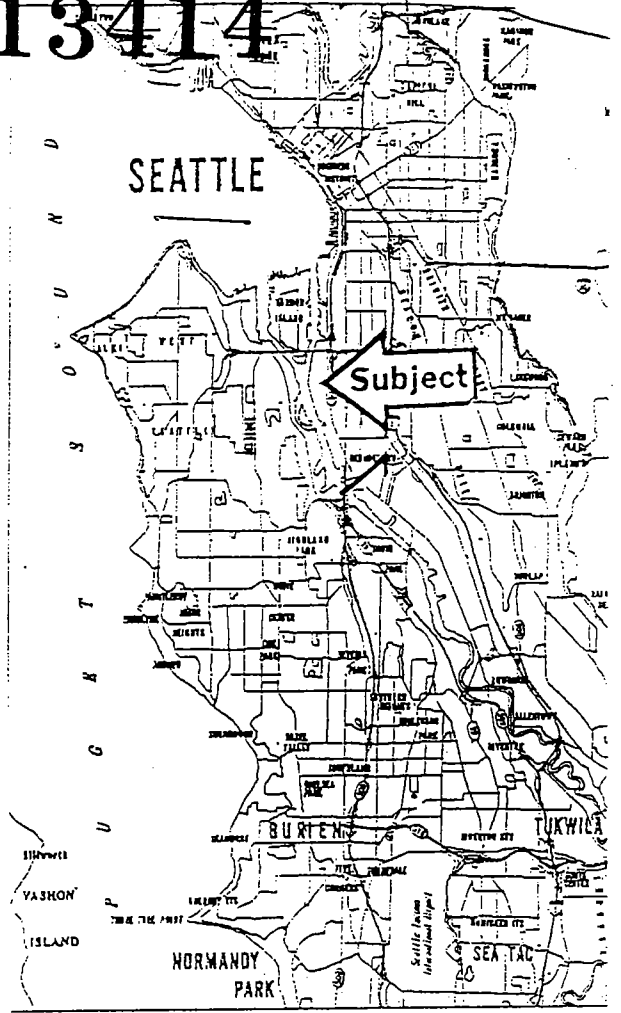
- Continue to hold the County owned Duwamish waterway dock site property in trust.
- Continue to provide for periodic appraisals to determine market rent and fair market value for the purpose of maintaining a market rate of return to the County.
- Authorize an assignment of the Utilities Warehouse lease to ICONCO.
- Request approvals for lease amendments for all three tenants as requested.
- Update redevelopment assessment for the property in five years and recommend whether or not to move forward with a master planning process toward the end of amended lease terms for ICONCO and Ball-Foster companies.

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EXHIBIT A

SITE VICINITY MAP

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EXHIBIT B

MAP OF TENANT LOCATION ON THE SITE

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