## 

## REVISED STAFF REPORT

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| **Agenda Item:** | 6 | **Name:** | Andrew Kim |
| **Proposed No**.: | 2019-0421 | **Date:** | February 16, 2021 |

**COMMITTEE ACTION**

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| ***Proposed Substitute Ordinance 2019-0421.2 would amend King County Code related to financial investment properties to add reporting requirements and make technical corrections, passed out of committee on February 16, 2021, with a “Do Pass” recommendation. The Ordinance was amended in committee with Striking Amendment S1 to:***   * ***Expand the administrative requirements for the sale of financial investment properties to be the same as sale of any surplus county real property which would include requiring council approval and advertising a notice of sale; and*** * ***Modify the due date for the initial inventory report to June 31, 2021 and be transmitted to the lead of the budget and fiscal management committee.*** |

**SUBJECT**

An ordinance to amend King County Code related to financial investment properties to add reporting requirements and make technical corrections.

**SUMMARY**

Financial investment properties are county owned real properties currently not needed for county use but are held to provide a financial return to the county. Proposed Ordinance 2019-0421 would make the following amendments to King County Code Section 4.56.075 related to financial investment properties:

* Clarify that county properties acquired through Harbor Bonds be classified as financial investment properties as per Ordinance 15570 (Note: Currently, all county financial investment properties were acquired through Harbor Bonds);
* Require that initial appraisals of all financial investment properties be performed by an independent appraiser for properties with a value of more than $500,000 and have the initial appraisal inventory report be transmitted to council by March 31, 2020; and
* Require the Facilities Management Division (FMD) to notify council if FMD determines that a property should no longer be considered a financial investment property at least 60 days prior to making this determination.

Staff has prepared striking amendment S1 which would do the following:

* Expand the administrative requirements for the sale of financial investment properties to be the same as sale of any surplus county real property which would include requiring council approval and advertising a notice of sale; and
* Modify the due date for the initial inventory report to June 31, 2021 and be transmitted to the lead of the budget and fiscal management committee.

**BACKGROUND**

**Harbor Bonds Properties.** On September 25, 1910, the King County Board of Commissioners approved a resolution placing a measure on the November 1910 ballot to determine whether the county should issue bonds to pay for the improvement and enlargement of county harbors. Subsequently, on November 8, 1910, the voters approved the ballot measure authorizing the issuance of bonds "*for the purpose of the improvement and enlargement of harbors of King County.*"

A total of $1,750,000 of such bonds were issued during 1911 and 1912. The proceeds of the bonds were used to purchase properties as potential public sites for wharves and docks along the Lake Washington Ship Canal and the Duwamish Waterway (“Harbor Bonds Properties”), and also make improvements in these areas. In light of the general development of the City of Seattle Harbor occurring subsequent to the acquisition of the Harbor Bonds properties, the dedicated purposes were no longer needed. As a result, the county has classified Harbor Bonds properties as financial investment properties and have been developed and improved for commercial and industrial uses under long term leases. It should be noted that the last of the bonds were redeemed in 1931 and the county has no remaining indebtedness on the bonds.

K.C.C. Section 4.56.075.A states that financial investment properties are “*currently not needed for county use but are held to provide a financial return to the county, and it is the ultimate objective of the county to dispose of this type of property, and disposal should not occur until optimal market conditions exist for maximizing financial return to the county.*”

**Disposition of Harbor Bonds Properties.** On August 2006, the council adopted Ordinance 15570 to place a ballot proposition to allow the county to sell the Harbor Bonds properties with the stipulation that the proceeds be used to support county capital purposes. Subsequently, in November 2006, King County voters approved the proposition (Proposition 1). The proposition also required that **no** Harbor Bond properties “*can be sold for less than its fair market value or a value that reflects the income producing analysis required in KCC 4.56.075[[1]](#footnote-1) [financial investment property], whichever is greater*.”

Table 1 below provides the current inventory of the county’s financial investment properties. FMD has confirmed that all of the county’s financial investment properties were acquired from Harbor Bonds and there are no additional county properties anticipated to be designated as financial investment properties. Of the ten financial investment properties, two have been sold in the last three years. Details of the two sold are as follows:

1. In March 2018, the council approved a surplus sale of 1111 Fairview Ave North in the South Lake Union neighborhood of the City of Seattle for $5.6 million to TRC Maritime Properties and Marina, LLC (TRC).[[2]](#footnote-2)
2. In August 2019, the council approved a surplus sale of 7900 10th Avenue South in the South Park neighborhood of the City of Seattle for $1.0 million to the City of Seattle to be used as Duwamish Waterway Park.[[3]](#footnote-3) Of note, upon the direction of the FMD Director, the parcel was removed from financial investment property designation and the surplus sale was not required to be sold for less than its fair market value or a value that reflects the income producing analysis.

**Table 1. Inventory of Financial Investment Properties from 2018**

| **Area** |  | **Property Address** |  | **Current Status** |
| --- | --- | --- | --- | --- |
| North Lake Union |  | 1301 North Northlake Way |  | Lease with City Dock LLC  (Exp: August 2024) |
| South Lake Union |  | 1111 North Fairview Ave |  | Sold in 2018 to TRC Maritime Properties and Marina, LLC for $5.6 million[[4]](#footnote-4) |
| Duwamish Ind. Sites |  | 5209 East Marginal Way |  | Lease with Manson Construction (Exp: July 2031) |
|  | 5225 East Marginal Way  (3 parcels) |  | Lease with Manson Construction (Exp: July 2031) |
|  | 5801 East Marginal Way |  | Lease with Ardagh Glass  (Exp: February 2021) |
|  | 5427 Ohio Ave South |  | Lease with Ardagh Glass  (Exp: February 2021) |
|  | 5409 Ohio Ave South |  | Lease with United Western Supply (month-to-month lease) |
|  | 7900 10th Avenue South |  | Sold in 2019 to City of Seattle for $1 million to be used as Duwamish Waterway Park[[5]](#footnote-5) |

**ANALYSIS**

**Summary of Proposed Ordinance.** Upon the recommendation of council staff, Proposed Ordinance 2019-0421 was initiated by both prior and current budget and fiscal management committee chairs in response to lessons learned from the surplus sale of the 1111 Fairview Avenue North and 7900 10th Avenue South financial investment properties as discussed above. The proposed ordinance would make the following amendments to King County Code Section 4.56.075 related to financial investment properties:

* Clarify that county properties acquired through Harbor Bonds be classified as financial investment properties as per Ordinance 15570 (Note: Currently, all county financial investment properties were acquired through Harbor Bonds);
* Require that initial appraisals of all financial investment properties be performed by an independent appraiser for properties with a value of more than $500,000 and have the initial appraisal inventory report be transmitted to council by March 31, 2020; and
* Require the Facilities Management Division (FMD) to notify council if FMD determines that a property should no longer be considered a financial investment property at least 60 days prior to making this determination.

**Fiscal Impact.** FMD has stated that it would cost between $54,000 and $90,000 to conduct independent appraisals of all financial investment properties ($600 to $1,000 for each property) and approximately 18 hours of staff time that would cost approximately $3,750. FMD has stated that the cost for this work was not included in the 2021-2022 Biennial Budget.

**AMENDMENT**

Council staff has prepared Striking amendment S1 which would do the following:

1. Expand the administrative requirements for the sale of financial investment properties to be the same as sale of any surplus county real property. This would result in requiring financial investment properties to also require the following:
   1. Council approval for any property sold for more than $100,000;
   2. Allow the assistance of Department of Executive Services to help determine the potential public/private uses of the surplus property; and
   3. Posting advertisement when disposing of property (which would also include provisions to waive the advertising requirement).
2. Require that the initial inventory report, ongoing inventory reports, and any notifications related to financial investment properties be sent to the lead staff of the budget and fiscal management committee rather than the lead staff of the committee of the whole;
3. Change the due date of the initial inventory report to June 30, 2021; and
4. Make additional technical corrections.

FMD has stated that they have no issues with the proposed ordinance and the striking amendment.

1. KCC 4.56.075 includes the requirements relates to the definition and sale of county financial investment properties. [↑](#footnote-ref-1)
2. Ordinance 18682 enacted Mach 19, 2018. [↑](#footnote-ref-2)
3. Ordinance 18966 passed August 21, 2019. [↑](#footnote-ref-3)
4. Ordinance 18682 passed Mach 19, 2018. [↑](#footnote-ref-4)
5. Ordinance 18966 passed August 21, 2019. [↑](#footnote-ref-5)