



# Finance & Asset Management Committee Meeting Minutes

**Tuesday, July 17<sup>th</sup>, 2018**

**4:00 p.m. to 6:00 p.m.**

**Classroom**

**Committee Members Present:** Ray Ishii, Gloria Skouge, David Ghoddousi, Patrice Barrentine

**Other Council Members Present:** Mark Brady

**Staff/ Consultants Present:** Mary Bacarella, Sabina Proto, Jay Schalow, Matthew Holland, Brady Morrison, Karin Moughamer

**Others Present:** Howard Aller, Chris Scott, Jerry Baroh, Joan Paulson

The meeting was called to order at 4:03 pm by Ray Ishii, Chair.

## **I. Administration**

A. Approval of the Agenda

*The agenda was approved by acclamation.*

B. Approval of the Finance & Asset Management Committee June 19<sup>th</sup>, 2018 Minutes

*The June 19<sup>th</sup>, 2018 meeting minutes were approved by acclamation.*

## **II. Announcements and Community Comments**

None.

## **III. Reports & Discussion Items**

A. Review of the PDA Financial Statements June 2018

Sabina Proto began by noting that the financial statements look good and there are no major changes in categories of the Balance Sheet. The PDA operating statement shows revenue is over budget by \$708,274 which is due to commercial, residential, parking and daystall performance. Operating expenses are under budget by \$663,732, partly due to some vacancies in staffing.

Mary Bacarella noted that the Director of Marketing position as been filled and there is one vacancy in Security.

Sabina Proto continued by noting net result after debt service and reserves was \$1,742,484, which is \$1,372,015 over budget.

Sabina Proto handed out the Pike Place Market PDA 5 Year Actuals Analysis for Period January – June. Total revenue in 2017 decreased 1% (\$96,630) and as a result a mid-year budget adjustment was made. In 2018 revenue has increased 11% (\$937,956). All departments are doing well especially commercial, residential and parking. With regards to Expenses, each

department has been doing really well and many are under 2017 values. However, utilities and insurance have increased as a result of adding MarketFront. Sabina noted the PDA outperformed during the slower part of the year and this should bode well for the second half of the year which is busier. The net operating result shows a 50% increase (\$983,364) over 2017.

Sabina Proto continued reviewing the financial report noting that overall the PDA is under budget on expenses. Percent rent is doing well and is \$33,000 over budget.

Patrice Barrentine appreciated the 5 Year Actuals Analysis and is glad to see a positive result.

Ray Ishii asked if there are any accounts receivable that are over 60 or 90 days. Sabina Proto responded there are some but those accounts are on payment plans and nothing needs to be written off.

Ray Ishii noted the difference in expenses for the Market Foundation actuals. Sabina Proto responded there were big changes in the expenses as a result of the revised partnership agreement and there were changes in staffing due to fundraising for the MarketFront. Also the resident advocate was under Market Foundation and has now moved to the senior center and the cost is covered under residential department.

#### B. Checking Account Activity Report

Sabina Proto handed the Checking Account Activity Report to Karin Moughamer.

#### C. LaSalle Senior Housing LLC Exit Options

Sabina Proto began by referencing councilmember Devin McCombs Low Income Tax Credit overview that was presented several months ago. Low Income Tax Credit is a housing subsidy program which provides a tax credit to subsidize the construction of affordable rental units serving tenants at or below 60% of the area median income. LaSalle Senior Housing LLC is a project that was built utilizing the Low Income Housing tax credits. The type of the tax credit used was 9% and tax credits are received over the first 10 years of operation. In this case it started in September 2006 through August 2016. The initial compliance period is 15 years beginning on the completion of the construction, in the case of the LaSalle that is September 2006 through August 2021.

Sabina Proto continued by noting that staff have been exploring the option of exiting the compliance period and the PDA has hired Beacon to consult on this option. LaSalle is a Limited Liability Company (LLC) structure. The General Partner is the PDA which owns just 0.01% and manages the business. The Limited Partner is the NEF (National Equity Fund) which received all the tax credits in exchange for putting cash into the project. NEF gets in return 99.99% of ownership and they are a passive investor and gets its return on investment exclusively from the tax credits. After the 15 year compliance period the LLC dissolves, in our case the exit date is August of 2021, leaving the asset (the project built) with a single owner, hopefully the PDA.

Sabina Proto explained that LaSalle LLC is different from Western Housing in that WASH was new construction while the LaSalle project included acquisition, new construction and rehabilitation. The project insured the preservation of 40 units of section 8 housing and created an addition of 24 new units of low income housing by utilizing the last vacant site available in the Market Area. The total number of units are 64, 80% of the units available to residents 55

and older, and 20% available to people with disabilities. 15 one bedroom units are for residents at or below 50% median income, 32 studios are for residents at or below 30% median income, 11 studios for residents below or at 40% median income and five one bedroom units are at or below 40% median income. Tenant Rent should not exceed 30% of the monthly income of the target population

Sabina Proto reviewed funding for the project. The total cost was \$11,641,842

- \$8,206,504 from Low Income Housing Tax Credit
- PDA Acquisition Loan; PDA leased/sold the residential portion of the LaSalle building for \$2,020,000
- Washington State Housing Trust Fund \$839,000, 40 year loan, at 1% interest
- Seattle Office of Housing \$839,000, 50 year, at 1% interest
- Federal Home Loan Bank Affordable Housing Program \$321,954– granted to the PDA, and PDA contributed this amount to LAS construction in the form of a loan
- Tax credit factor 0.9650 on the dollar

It was purposely structured in this way so that when it was time to exit from the deal, it was favorable to the PDA. The project required an Operating Reserve, Replacement Reserve, and Special Purpose Reserve. It outperformed estimates and because of that quite a bit of money was put in the Replacement Reserve. The PDA is looking at the exit strategy, whether to exit early or on time. Options include to retain/use the cash for Capital Improvements or paid some of the debt and not spend out of pocket funds to get the LaSalle building. The exit analysis provided in the packet was prepared by Beacon.

Ray Ishii noted that NEF is a national organization set up to invest in affordable housing and communities so it's not like they are a hedge fund trying to maximize profit.

Sabina Proto continued the PDA has the first right of refusal. The purchase options include:

- The higher of debt and taxes (assume the debt of \$5,060,799) or fair market value (\$2,272,703)
- Purchase of the LP interest: the higher of (1) value plus member loan balances (\$2,442,665) or (2) taxes and member loan balances (\$40,451)

Sabina noted that in order to purchase the partnership assets, the PDA will need to set up a new partnership to purchase the assets. This can be accomplished by assuming the \$5.1M debt and triggers a 10 year holding rule and may not allow for re-syndication. Sabina thinks that is ok since the PDA will not reapply for low income housing tax credit for LaSalle again.

The PDA is not going to rush into exiting the program. The exit starts in 2021 but it takes 180 days, which would be January 2022.

David Ghoddousi asked what Beacons recommendation is. Sabina Proto responded their strategy is to purchase the investor member's interest, assuming NEF offers that for \$1. Sabina will be interested to see what NEF has to offer.

Mark Brady asked if Sabina can ask NEF for information on how other deals settled. Sabina Proto responded that NEF has always been very accommodating and NEF is not there to make money, just to get the tax credits. With that said she can ask.

David Ghoddousi noted that he has sat through many meetings on this topic and Sabina has done a great job on keeping up with all the changes. For him, it's been a real learning process.

Ray Ishii asked if historic tax credits were used on this project. Sabina Proto responded no.

Ray Ishii asked if NEF is concerned with the \$1.35M fewer losses than projected. Sabina Proto responded NEF has seen these financials every quarter and they are very active in reviewing. The PDA provides most of their services and we provide a good deal. Sabina explained additional reasoning for the losses based on cash flow and loan payments made to the city and PDA. Ray further asked if not delivering the \$1.35M in losses will need to be worked out at closing. Sabina responded they will have to see how the negotiations will go. Ray suggested keeping money in case NEF asks for funds to cover that loss.

Ray Ishii asked if this will be included in the Capital Needs Assessment. Sabina Proto responded LaSalle has a separate CNA report but she will check with John and Brady. Ray noted it would be good to know what repairs or updates will need to be done once the PDA takes ownership of the building in order to plan.

#### D. Capital Projects Overview

Mary Bacarella noted that Brady Morrison and his team have been doing great work to pull all this information together.

Brady Morrison began by noting the top five projects on the Capital Projects List have been completed and that a lot of the projects are in progress. Brady added he would be happy to review the list or answer any questions committee members may have. In addition to this list the Maintenance Department is working on a number of small projects.

Mark Brady asked if Pike Place Chinese windows are on this list as they are a major eye sore. Brady Morrison responded there are currently four window projects on the list with the goal of getting a bid. Chinese Cuisine is one of those projects and three different contractors have looked at those windows. The window design will need to be reviewed by Historic Commission.

Brady continued by noting the Livingston Baker roof has been walked with four different bidders. In looking at the list Brady notes there are a number of large jobs still to be completed.

Patrice Barrentine asked if the rest of this list will be completed this year. Brady Morrison responded there will be some projects that will not be completed but he's confident a majority of the projects will be. In addition, Kelsey [Lindblom] is getting up to speed with Bob and once he leaves the department will be all new.

Mary Bacarella added that during the budgeting process staffing will be reviewed. Brady added that Keith has been jumping in to help with some capital projects, including the Chiller on the Soames Dunn roof that developed a leak. That will need to be replaced as it affects a lot of tenants.

Brady is seeing decent responses to RFP's and he feels confident that the bids are competitive and better than previous times.

Mary Bacarella added there will most likely be an emergency resolution to replace the Soames Dunn chiller. Brady noted the leak developed last Friday and on Monday the refrigerant ran out. A RFP went out today to five contractors with a response date of July 27<sup>th</sup>.

Patrice Barrentine asked if it's possible to move the response date to Thursday at noon. Brady Morrison responded he can look into that but it's a fine balance with giving companies enough time to put together competitive bids.

Ray Ishii asked if all of these costs are charged to the capital reserve budget. Sabina Proto responded it depends on the project and costs can be shared among different budgets.

Ray Ishii asked if a column could be added to the table that lists Project to Date Expense in order to track projects that span multiple years. A conversation took place discussing the reasoning behind the request. Sabina responded she can add that column.

Ray Ishii asked if there is an update on the women and minority owned businesses used on Maintenance projects. Brady Morrison responded an advertisement was placed in the business journal and didn't get much response. Staff reached out to businesses found on the states online roster and they were able to sign up a few businesses. Projects that are not time sensitive are good candidates for working with these businesses and trying to get RFPs from them. Tristan has been working on this project but has not been having success in getting responses.

Ray Ishii asked how many businesses are on the small works list. Brady Morrison does not know the number but can find it out. Ray also asked how much has been contracted with women or minority owned businesses. Brady will provide that number as well.

Ray Ishii asked if Maintenance reaches out to women and minority owned businesses once a year to update the roster. Brady Morrison is not sure on how often this occurs and will look into it.

**IV. Action Items**

None.

**V. Property Management**

**A. Residential Property Management Report**

Mary Bacarella reported in lieu of John Turnbull and began by noting vacancy continues to be less than budgeted which is really positive. A new manager for the LaSalle has been hired and the residential buildings are holding summer BBQ's this month. In August there will be a HUD inspection and revenue is on or over budget and expenses are on or below budget.

**VI. Public Comment**

Joan Paulson, after reviewing the number of capital projects, is concerned that the number of projects is dwindling and does not feel that is good for the performance level of maintaining the buildings. She feels the bidding process should have started last fall and does not believe the

projects listed as on hold will be completed or started this year. The report shows that things are lagging behind and preservation is not a priority and needs to be. She feels this plays into the changes of staff and staff wages. The name of the organization is Pike Place Market Preservation and Development. Preservation is named first and Development should follow. What has been happening is Development and then Preservation. That needs to be switched.

Sabina Proto noted that today is Gloria's last Finance and Asset Management meeting and she thanked Gloria from the bottom of her heart. She has been reliable, available, helpful, and supportive every time. Her commitment to the Market and all of us has been amazing.

**VII. Closed Session**

*The Committee Chair stated that the committee would go into closed session at 5:03 p.m. to discuss the property management report and return into open session at approximately 5:33 p.m.*

*The committee entered into closed session at 5:04 p.m.*

- A. Property Management Report - *Closed Session (RCW 42.30.110(c))*
- B. Review of Lease Proposals
  - i. Lease Renewal – Pike Place Chowder Co., 1530 Post Alley #11
  - ii. Lease Renewal – Manzo Brothers' Produce, 1509 Pike Place
  - iii. Lease Renewal – Seattle Bagel Bakery, 93 Pike Street #4
  - iv. Lease Renewal – Quality Cheese Inc., 1508B Pike Place
- C. Review of Delinquency Report
  - i. Vacancy Report
  - ii. Current Lease Negotiations

*The committee entered into open session at 5:37 p.m.*

*The committee discussed the property management report which included the delinquency and vacancy report along with the current commercial lease negotiations during the closed session.*

**VIII. Open Session**

Proposed Resolution **18-26**: Lease Proposals – July 2018

<u>Tenant</u>	<u>Term</u>	<u>Start Date</u>
Pike Place Chowder Pike Place Chowder Co. Larry Mellum	Five (5) Years	July 1, 2018
Manzo Brothers' Produce Mario Manzo	Two (2) Years	July 1, 2018
Seattle Bagel Bakery Seattle Bagel Bakery, LLC	Five (5) Years	August 1, 2018

AJ Ghambari

Quality Cheese Inc.  
Shirley Linteau

Five (5) Years

August 1, 2018

Patrice Barrentine moved the proposed resolution and Patrice Barrentine seconded the motion.

For: David Ghoddousi, Ray Ishii, Patrice Barrentine, Gloria Skouge

Against: 0

Abstain: 0

Proposed Resolution **18-26** passed by a vote of 4-0-0.

**IX. Resolutions to be added to the Consent Agenda**

- Proposed Resolution **18-26**: Lease Proposals – July 2018

**X. Concerns of Committee Members**

Ray Ishii will be reaching out to Councilmembers about serving on the Finance & Asset Management Committee for the coming year.

Patrice Barrentine noted the Council is not going to be the same without her. Ray Ishii added that she is the backbone of the committee.

David Ghoddousi noted the Constituency vote is taking place tonight and again on Friday from 9 am – 5 pm on Flower Row.

**XI. Adjournment**

The meeting was adjourned at 5:40 p.m. by Ray Ishii, Chair

Meeting minutes submitted by:  
Karin Moughamer, Executive Administrator