



# City Council Agenda Bill

**20310**  
Bill Number

**Subject:** Bellingham Public Development Authority 2013 Annual Report and 2014 Work Program

**Summary Statement:** The BPDA Charter and the Second Operating Agreement between the City and the BPDA provide that the BPDA deliver an Annual Report to City Council following the end of each year. The attached report and presentation provides a summary of activities undertaken by the BPDA during 2013. A summary of the BPDA's 2014 work program is also included, which provides a summary overview of the BPDA "Army Street Project" with all BPDA resources devoted to that project in 2014. The report includes an update of cumulative net City Investment in the BPDA owned and managed properties through the end of 2013, and information relating to BPDA financial management and governance, as described in the Charter and the Second Operating Agreement.

**Previous Council Action:** None.

**Fiscal Impact:** References and projections relating to increases or decreases in City Investment and cost recovery are considered preliminary and illustrative and would not be deemed approved or final subject to further analysis per applicable agreements between the City and the BPDA.

**Funding Source:** Not applicable.

**Attachments:** BPDA 2013 Annual Report and 2014 Work Program.  
Power Point presentation.

Meeting Activity	Meeting Date	Staff Recommendation	Presented By	Time
Committee Briefing Information Only	10-Feb-2014	Information Only	Jim Long, Executive Director	20 min.

**Council Committee:**

**Agenda Bill Contact:**

Alison Henshaw, BPDA Administrative Assistant

**Committee Actions:**

**Committee of the Whole**  
Cathy Lehman, Chair

**Reviewed By**  
Brian Henshaw, Finance  
Jim Long, BPDA

Initials	Date
<i>BH</i>	2/3/14
<i>JL</i>	2/3/14

Legal  
Mayor

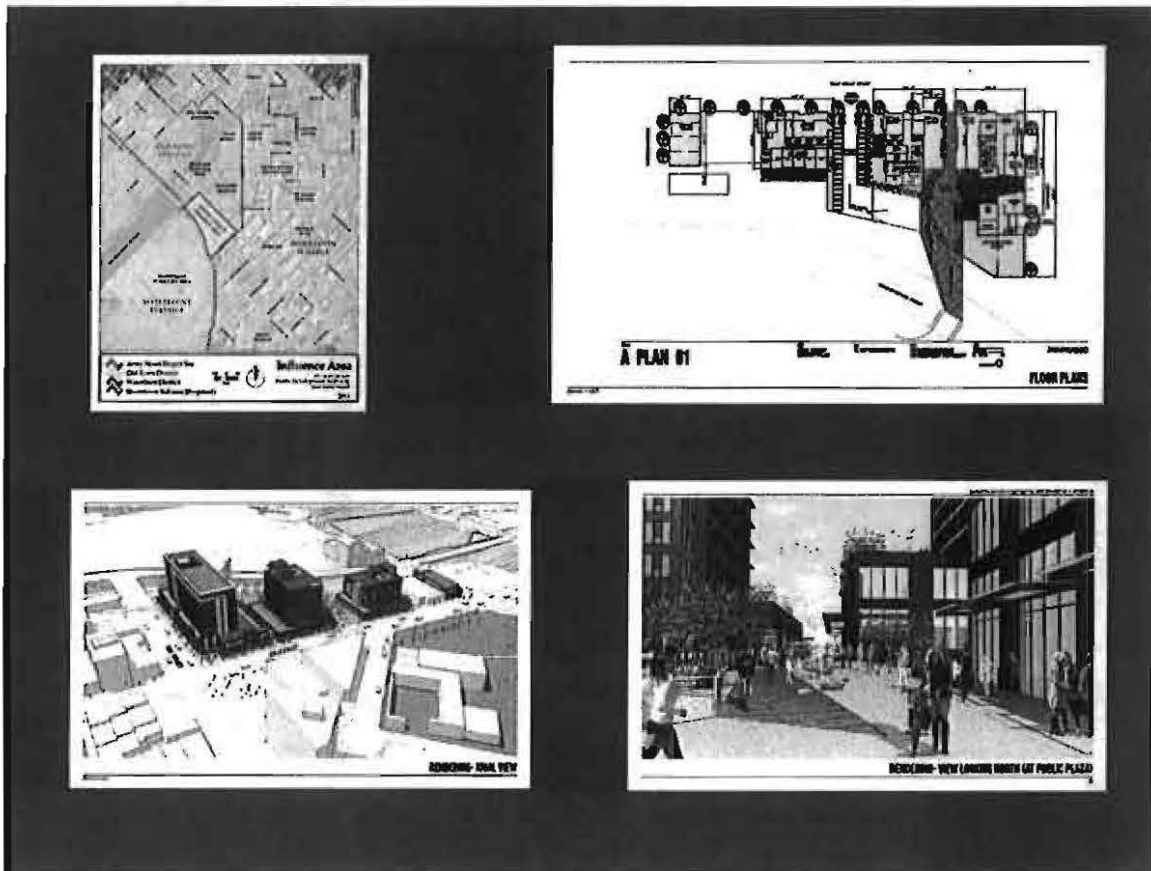
*pm* 2-3-14

**Council Action:**



## 2013 ANNUAL REPORT and 2014 PROGRAM

February 2014



The BPDA Charter and the Second Operating Agreement between the City and the BPDA provide that, following the end of each year, an Annual Report is to be prepared for City Management and City Council summarizing work undertaken during the prior year and the current cost basis in BPDA owned or managed properties. This Annual Report provides an overview of work undertaken by the BPDA during 2013 and work to be undertaken for 2014, along with a summary of budget, financial management, and governance information current for 2013.

## BPDA Background and 2013 Overview

The Bellingham Public Development Authority (BPDA) was created by the City of Bellingham in 2008 as a "public corporation" established by City ordinance and according to State of Washington statutes. BPDA management and operations are further defined and regulated by the Amended BPDA Charter and Bylaws (Sept 2009), the City-BPDA Second Operating Agreement (March 2011), and by provisions of Conveyance Agreements or Management Agreements for each property owned or managed by the BPDA, respectively. BPDA management and operations are further guided by periodically updated Strategic Plans prepared by the BPDA.

The BPDA essentially functions as an instrument of, but separate from, City government to work with other property owners, private interests and public entities to prepare and implement development plans for vacant or underutilized properties under the purview of the BPDA. City oversight of BPDA operations is provided by City Council. Projects undertaken by the BPDA are intended to achieve development goals, plans and policies previously adopted by the City.

The initial charge of the BPDA is to focus its work in three defined Priority Areas; the Downtown District, the Old Town District, and the Waterfront District. Since its formation, four properties located in the City's Downtown District and the Old Town District were assigned to the BPDA for management or development. Two vacant properties ("1100 Cornwall" and the "Army Street" parcel) were previously owned by the City and ownership was transferred to the BPDA. The management of the two other properties ("600 West Holly" and the "Federal Building"), which are owned by the City, was assigned to the BPDA.

In July 2012, the BPDA-owned "1100 Cornwall" parcel was sold by the BPDA, for assembly with the other remaining vacant parcel in the block, for development by the adjacent land owner. Proceeds from that sale were transferred to the City in December 2013, partially recovering the City's cost to acquire that parcel in 2005. The balance of City investment in that property will be recovered from net development fees and City tax revenues, per provisions of the BPDA-City Second Operating Agreement, generated by the development of the parcels with development expected to commence in 2014.

In 2013 the City determined that the City-owned Federal Building would be required for expanded or replacement City office uses. Management of that property was assumed by facilities management staff with the City's Department of Public Works in May 2013. The City opted to retain ownership of the City-owned "600 West Holly" parcel for future development, and management of that property was transferred back to the City in December 2013.

The City's re-assumption of management responsibilities for the City-owned properties allows for BPDA resources to be focused entirely on the "Army Street" project. This project refers to redevelopment of a strategically located block in "lower downtown" at the hub of the three BPDA priority areas and physically interconnecting those districts. The conceptual development program for this site considers a mix of uses in a master-planned complex with the potential to serve as a catalyst for development and enhanced property values in the project environs. The critical first step in this complex mixed use development, which includes public-private component projects, is the voluntary assembly of multiple small vacant and under-utilized properties owned by seven property owners, one of which is the BPDA.

## BPDA Mission Statement

"To develop and promote the use of City-owned property for the financial, social and environmental well being of the community".

## Work Undertaken in 2013

### **1. General and Administrative Functions**

- a) Execution of the City-BPDA Memorandum of Understanding (MOU).
  - Defined a schedule of activities and target milestones for the balance of 2013 for the three remaining properties owned or managed by the BPDA.
  - Executed May 2013.
- b) Termination of the Federal Building Management Agreement between the City and BPDA.
  - A provision of the City-BPDA MOU.
  - Asset management and facilities management assumed by the City effective May 2013.
- c) Termination of the 600 West Holly Management Agreement between the City and BPDA.
  - Property disposition work discontinued mid-year.
  - Asset management was assumed by the City, effective December 2013.
- d) Transfer of the 1100 Cornwall sale proceeds (\$1,176,900), previously held in the BPDA Reserve Fund, to the City Parking Fund at the end of December 2013.

### **2. Army Street Project**

- a) Property Owner Letter of Intent.
  - A provision of the BPDA-City MOU.
  - Outlined shared interests to be addressed for the assembly of the multiple, individually owned parcels to be combined into a consolidated parcel for future development.
  - Drafting commenced February 2013.
  - Executed by participating property owners (7 parties) July 2013.
- b) Concept Development Phase Plan.
  - A provision of the BPDA-City MOU.
  - Preparation commenced June 2013 with oversight by the Letter of Intent Parties (the participating property owners).
  - Plan approved by the participating property owners September 2013.
- c) Property Owner Memorandum of Agreement.
  - A provision of the BPDA-City MOU.

- Defines the framework for due diligence and predevelopment work required for the voluntary land assembly, and conditions to be fulfilled for voluntary consolidation of the multiple individual parcel ownerships.
- Defines basis for the governance of an entity to be formed to consolidate and manage the combined interests of the MOA Parties in the continued planning and development of the combined parcel, and the recovery of capital investment in the project contributed by the MOA Parties.
- Drafting commenced June 2013 concurrently with preparation of the Concept Development Phase Plan, which guided preparation of the MOA.
- Executed by the MOA Parties November 2013. Re-executed with revision per City Council approval of the final MOA in December. The effective date of the MOA is January 15, 2014.

### 2014 Activities and Objectives

#### **1. General and Administrative Functions**

- a) Management of consultants engaged for Army Street predevelopment work and the interests of the Army Street MOA Parties (participating property owners) during the Initial Due Diligence and Feasibility Research Stage as defined in the Army Street Property Owners MOA.

#### **2. 1100 Cornwall**

- a) Monitoring the commencement of construction for the first phase of development per terms of the July 2012 Development Agreement between the purchaser (Catholic Community Services) and the seller (BPDA).
- b) Monitoring the recovery of the balance of outstanding City Investment from net development fees and projected City tax revenue generated by development of the project.

#### **3. Army Street Project**

Work undertaken during 2014, and enabled by the BPDA 2014 budget, constitutes the first portion of predevelopment work during the Initial Due Diligence and Feasibility Research Stage described in the December 2013 Property Owners Memorandum of Agreement. This work begins to address the fulfillment of defined conditions prerequisite to the voluntary contribution of the separate property interests held by the MOA Parties to accomplish the assembly of the parcels enabling the development of the larger, consolidated parcel.

This predevelopment work would be guided by the September 2013 Army Street Concept Development Phase Plan and test the initial, conceptual development program illustrated in that plan. That development program is based on a full build-out scenario of the approximately 2.5 acre development site created by the consolidation of the MOA Parties' several smaller parcel ownerships. The build-out scenario contemplates a mix of uses in a multi-building, master-planned, master-developed complex for approximately 330,000 sq. ft. of buildings including a hotel and conference center as an anchor use, with surrounding office, residential, and specialty retail uses. The building program would be on the upper deck of a multi-level subsurface parking structure, with component elements of the project including a significant urban plaza and a pedestrian crossing spanning the

BNSF RR tracks/Chestnut Avenue and safely interconnecting the Old Town District, Downtown District and Waterfront District.

The Army Street Project is a significant step towards implementing the Old Town Sub-Area Plan adopted by the City in March 2008. The following exhibits are excerpted from the September 2013 Army Street Concept Development Phase Plan, approved by the parties to the Property Owners Memorandum of Agreement. This provides an illustration of the potential full-build out scenario for the development.

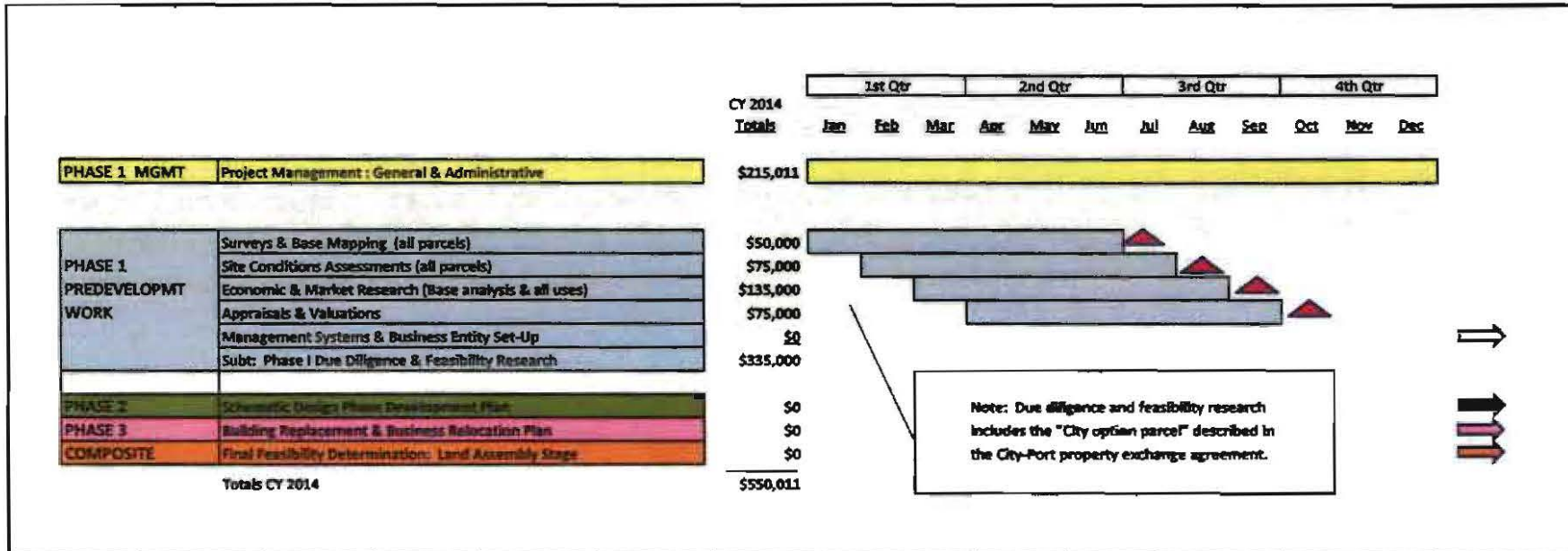
Initial work funded for 2014 is focused on basic factors that would influence development feasibility and support continued future project planning and research. These basic factors would be fundamental considerations that may support or restrict the contemplated development, and which may or may not be barriers to development that could be influenced by future project planning and management.

Figure 1 provides a summary breakdown of the elements of work to be performed during 2014 with an estimated cost and schedule for the work. These components would include an assessment of site conditions for each of the parcels included in the land assembly. This includes work defining and benefitting the parcel for which an acquisition option was granted by the Port to the City as part of the exchange and transfer of properties as defined in the October 24, 2012 Interlocal Agreement for the Exchange of Real Property between the Port and the City. Phase I predevelopment work elements include:

- a) Project management.
- b) Preparation of parcel surveys and a composite survey/planning base map, with title research.
- c) Assessment of site conditions, including Phase I environmental site assessments and geotechnical/subsurface investigations.
- d) Economic base analysis and market feasibility research for the component uses.
- e) Land, building and business appraisals and valuations.

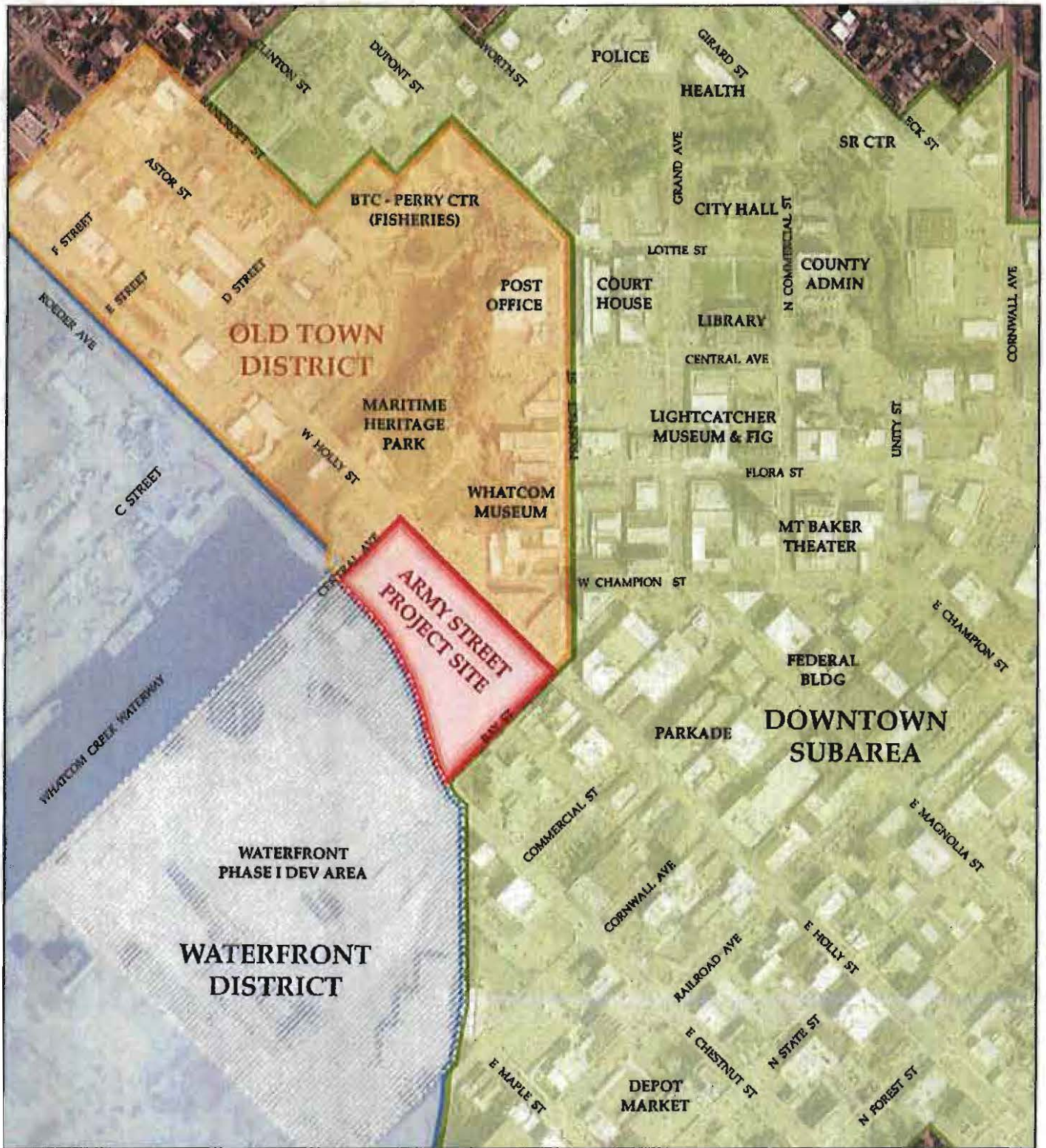


**Figure 1**  
**BPDA 2014 ARMY STREET WORK PROGRAM & SCHEDULE**



<p><b>Phase I Management: G&amp;A</b>          Staffing costs          General &amp; administrative expenses, operating expenses          Informational briefings - interest groups and stakeholders          Participating property owner meetings          Developer interest and recruitment.</p> <p><b>Surveys &amp; Base Mapping</b>          Parcel surveys &amp; title research - participating properties          Composite survey &amp; planning base map - combined parcels.</p>	<p><b>Site Conditions Assessments</b>          Phase I Environmental Assessments - participating properties and combined property.          Geotechnical and Subsurface Analysis - "</p> <p><b>Economic &amp; Market Research</b>          Economic Base Analysis - development program &amp; land use mix          Feasibility assessments - component uses</p> <p><b>Appraisals &amp; Valuations</b>          Vacant parcels          Buildings (as-is replacement values)          Business &amp; investment property valuations          Assembled (post-Clearing) land values as % of built-out project</p>
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Army Street Project Site  
 Old Town District  
 Waterfront District  
 Downtown Subarea (Proposed)



# Influence Area

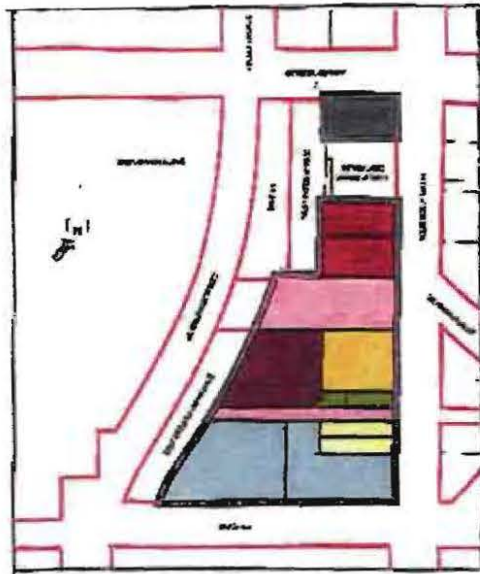
CITY OF BELLINGHAM  
 Public Development Authority  
 ARMY STREET PROJECT

2014



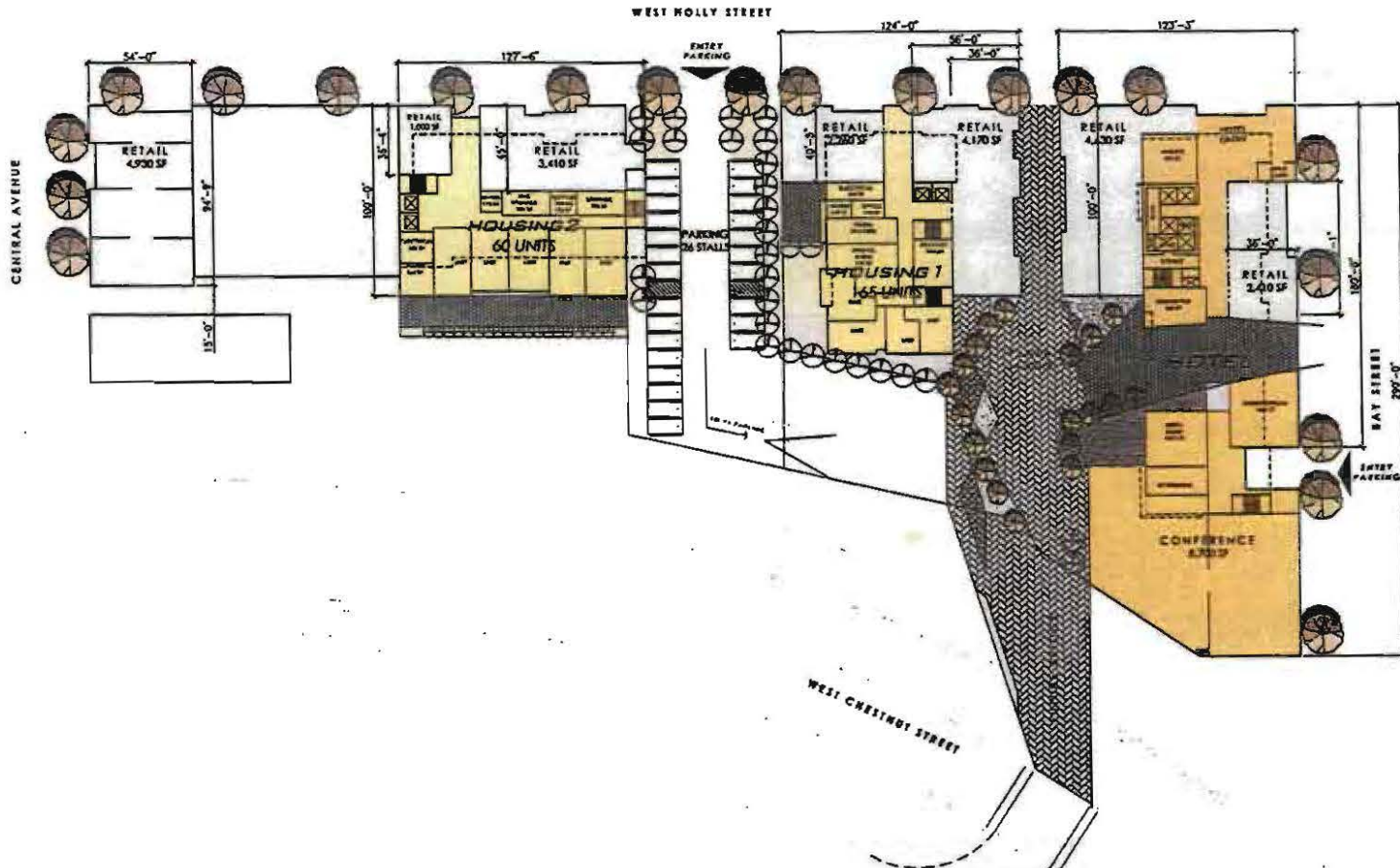
Land assembly is the key in positioning the Army Street Project for development. The pattern of small, separately owned parcels is a barrier to unlocking the location's development potentials.

Existing Parcel Ownerships



Post-Assembly Parcel



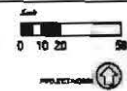


# A PLAN 01

Project: ARMY STREET  
CONCEPT PLAN

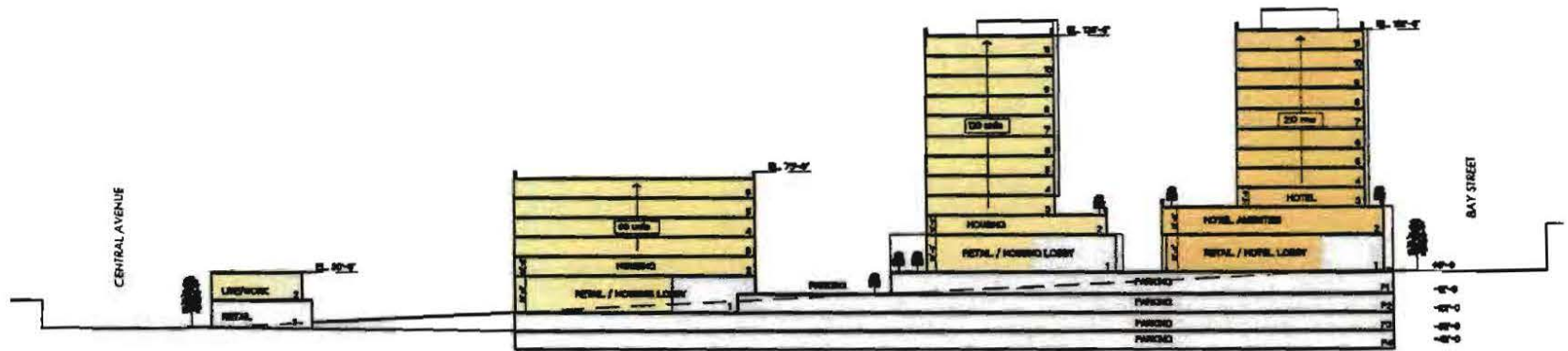
Date: 10 SEPTEMBER 2013

Client: BELLINGHAM PUBLIC  
DEVELOPMENT AUTHORITY



ZERVAS/GBD

## FLOOR PLANS

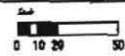


# SECTION (EAST-WEST)

Project  
ARMY STREET  
CONCEPT PLAN

Date  
18 SEPTEMBER 2013

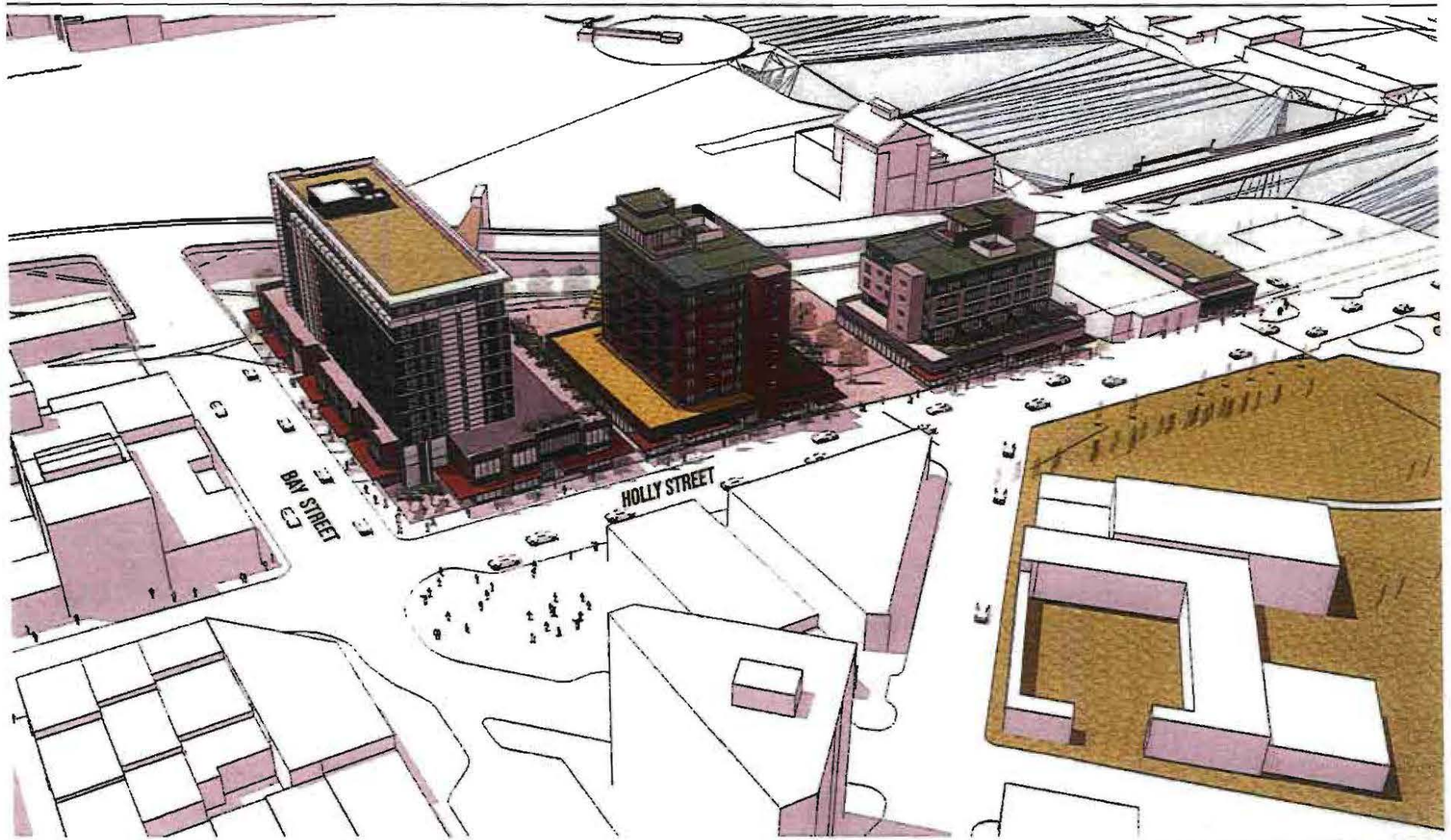
Client  
BELLINGHAM PUBLIC  
DEVELOPMENT AUTHORITY



Author  
ZERVAS/GBD

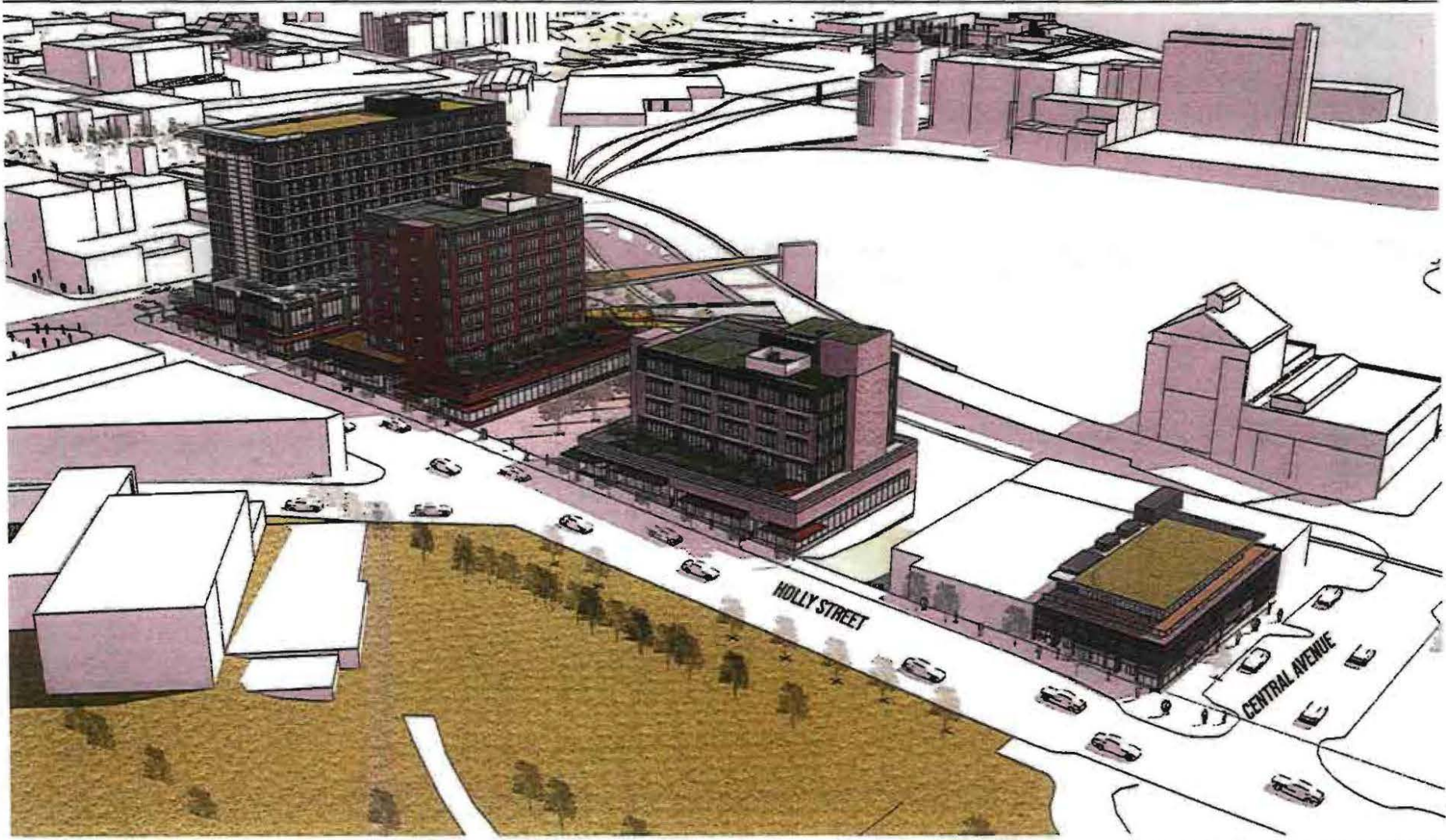
## BUILDING SECTIONS





**RENDERING- ARIAL VIEW**





**RENDERING- ARIAL VIEW**





**RENDERING- VIEW LOOKING NORTH (AT PUBLIC PLAZA)**



### BPDA Budget History and 2014 Operating Budget

The BPDA 2014 budget approved by City Council in December 2013 covers projected 2014 expenditures totalling \$550,000 for BPDA operating (general and administrative) expenses and project expenditures, all devoted to the Army Street project.

To date and including 2014, BPDA budgets and expenditures have been entirely funded by the City, and all BPDA resources are focused on properties that are currently City owned or were formerly City owned and conveyed to the BPDA for either management or development. All BPDA current and past operating expenditures funded by the City are treated as City Investment to be recovered from the development and operation of BPDA properties.

The following Figure 2 provides a summary of past annual BPDA operating budgets and actual expenditures providing a history of BPDA budget management performance since establishment of the BPDA.

Figure 2  
BPDA Budget History

<u>Year</u>	<u>Budgeted</u>	<u>Actual Spent</u>	<u>Actual Spent vs. Budgeted</u>	<u>% Over/(Under) Budget</u>
2008	\$15,000	\$7,451	(\$7,549)	-50.3%
2009	\$350,000	\$253,222	(\$96,778)	-27.7%
2010	\$505,457	\$436,767	(\$68,690)	-13.6%
2011	\$369,000	\$342,206	(\$26,794)	-7.3%
2012	\$358,353	\$294,479	(\$63,874)	-17.8%
<b>2013</b>	<b><u>\$350,000</u></b>	<b><u>\$316,001</u></b>	<b><u>(\$33,999)</u></b>	<b><u>-9.7%</u></b>
Totals	\$1,947,810	\$1,650,126	(\$297,684)	-15.3%

At the end of CY 2013, the BPDA Reserve Fund had a balance of \$1,253,666 which included proceeds from the sale of the 1100 Cornwall property in 2012 and which had been held in reserve. Per the budget ordinance approved by City Council December 9, 2013 the amount of the sale proceeds (\$1,176,877) will be transferred to the City's Parking Services Fund. Upon that transfer, the BPDA Reserve Fund balance at the beginning of CY 2014 is calculated at \$76,789.

### Cumulative Net City Investment End of 2013

The recovery of City Investment in the BPDA and the properties owned or managed by the BPDA is a primary objective and a unique feature of the BPDA. At the end of each year, City Investment in the BPDA and its owned or managed properties is updated to reflect increases and decreases to City Investment allocated to each property during the year. Factors comprising increases and decreases in City Investment are described in the BPDA-City Second Operating Agreement.

Essentially, City Investment is defined to include the City's outstanding, unrecovered out-of-pocket costs including acquisition costs, cumulative capital investment and expenditures to improve the properties, and cumulative operating and ownership costs (net of revenue received). City Investment also includes outstanding, unrecovered cumulative out-of-pocket costs for BPDA operating and general and administrative expenses funded by the City and allocated to each BPDA owned or managed property.

Recovery of City Investment is from sources defined in the BPDA-City Second Operating Agreement and management or conveyance agreements for the BPDA managed or owned properties. These sources include direct revenue sources that basically reflect "cash on cash" returns (e.g., sale or lease of properties, ownership interests in developed properties, etc.). Recovery sources or credits also include indirect sources (such as net revenues accruing to the City from fees and City tax revenues net of costs) from development of the BPDA owned or managed properties, and the value of capital improvements funded by private sector developers and available to the general public.

Figure 3 provides a summary of current outstanding City Investment for each BPDA property or project as of the end of CY 2013, compared to the previous year. Figures 4 through 9 provide graphic breakdowns of cumulative City Investment at the end of 2013 for each property separately and combined, showing component revenue or expenditure categories comprising additions and reductions to City Investment.

Changes during CY 2013 having an effect on outstanding City Investment include:

- 1100 Cornwall as shown in Figure 4 and 5 does not reflect a decrease in City Investment as a result of progress in the development of the property signified by the commencement of payments for development and permitting fees in CY 2013. Also, no BPDA operating expenses were prorated to the property during CY 2013.

As shown in Figure 6, outstanding City Investment would decrease as Indirect Benefits accrue to the City in future years. The amount of Indirect Benefits is currently projected at approximately \$1,329,100 which represents the net present value of net development fees and City tax revenues using a 5% annual discount rate and based on fiscal impact analysis of the phased build-out of current and future plans for full development of the property (utilizing the City's IMPLAN program).

- Army Street reflects a proration of 75% of BPDA staff time and resources (operating expenses) dedicated to the Army Street Project during CY 2013.
- Federal Building reflects a proration of 10% of BPDA staff time and resources (operating expenses) dedicated to Federal Building management and includes consideration of the reassignment of management to the City effective mid-year.
- 600 West Holly reflects a proration of 15% of BPDA staff time and resources (operating expenses) dedicated to the 600 West Holly asset and property management during CY 2013.

Worksheets for the EOY 2013 calculations for outstanding City Investment on a project-by-project basis are available.



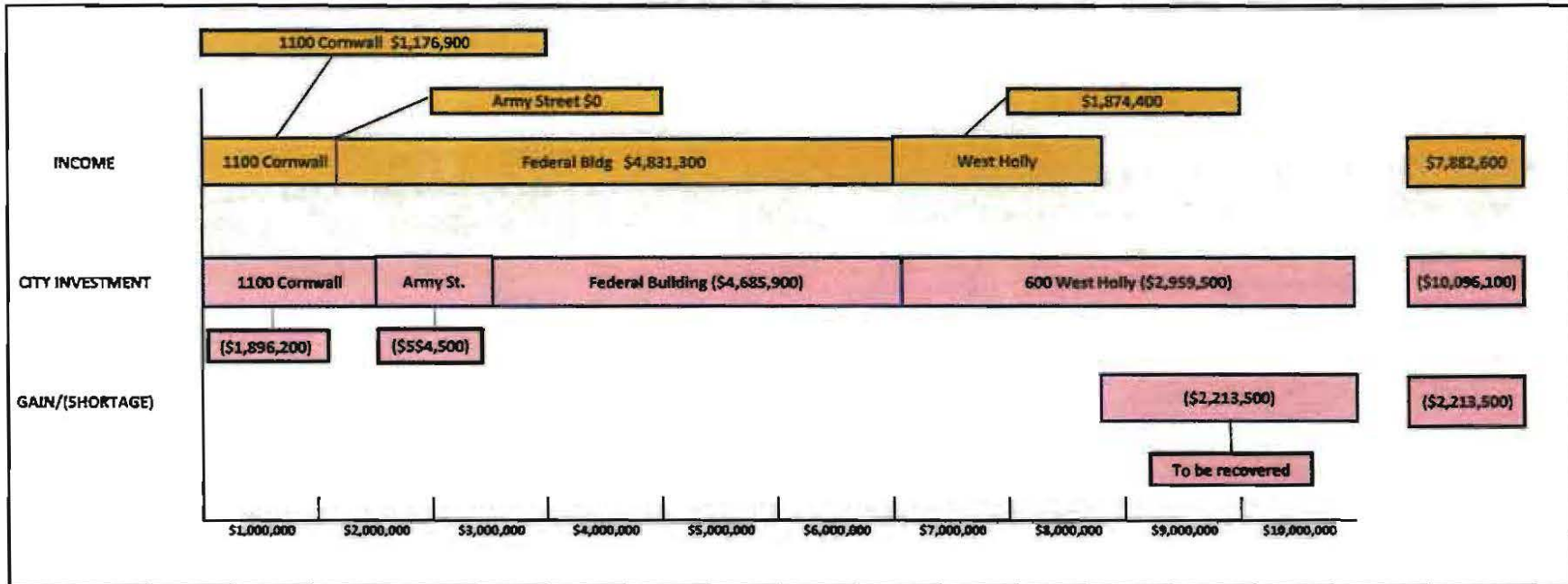
**Figure 3  
Summary of Outstanding City Investment to be Recovered**

<u>Property</u>	<u>EOY 2012</u>	<u>EOY 2013</u>	<u>Change</u>	<u>Notes</u>
Federal Building	\$371,414	\$145,475	(\$225,939)	a
1100 Cornwall	(\$719,326)	(\$719,326)	\$0	
600 West Holly	(\$1,037,749)	(\$1,085,149)	(\$47,400)	
<u>Army Street</u>	<u>(\$317,718)</u>	<u>(\$554,719)</u>	<u>(\$237,001)</u>	
<b>Totals</b>	<b>(\$1,703,379)</b>	<b>(\$2,213,719)</b>	<b>(\$510,340)</b>	
<b>Projected/Potential Adjustments:</b>				
<b>Future Years</b>				
1100 Cornwall Indirect Benefits	\$0	\$1,329,100		b
600 Cornwall: CDBG Eligible Uses	\$0	<u>\$513,850</u>		c
	\$0	<u>\$1,842,950</u>		
<b>Projected with Adjustments</b>	<b>(\$1,703,379)</b>	<b>(\$370,769)</b>		

**Notes:**

- (a) Federal Building CY 2013 costs include an estimated \$200,000 in building O&M costs.
- (b) 1100 Cornwall - net present value of fees and taxes from development build-out.
- (c) 600 Cornwall - without reallocation or reimbursement of past CDBG funding.

**Figure 4**  
**COMPOSITE OF ALL PROPERTIES - CITY INVESTMENT & COST RECOVERY EOY 2013**  
**(WITHOUT NET PRESENT VALUE OF 1100 CORNWALL INDIRECT BENEFITS)**

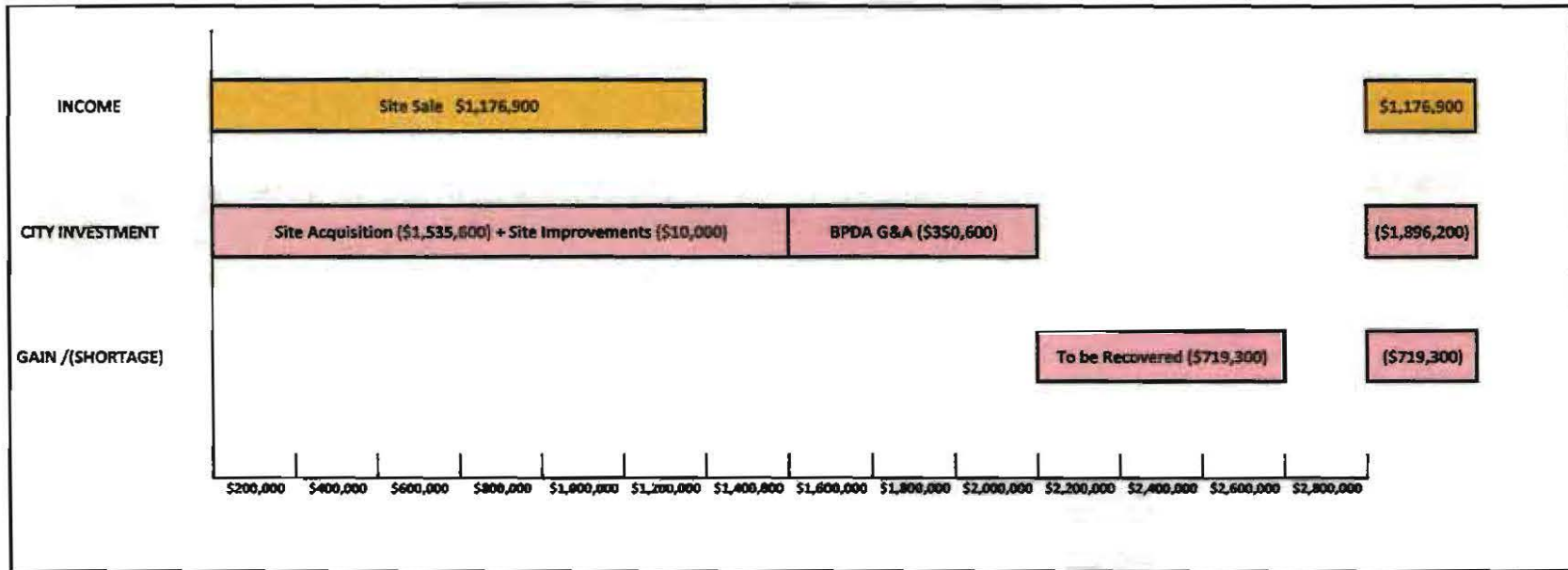


**Recovery of City Investment**

Outstanding City Investment at the end of CY 2013 does not include the Net Present Value of future net fee and tax revenue projected to be accrued by the City as development commences and continues to project build-out. That amount is projected at approximately \$1,329,100, with payments and construction commencing in CY 2014. Partial payment of total projected development fees was received by the City in CY 2013, but credit for those payments are deferred in this analysis. The actual value of Indirect Benefits would be calculated and credited as actual revenues are received.

If the NPV of the Indirect Benefits were considered at the end of CY 2013, Outstanding City Investment to be recovered would be projected at \$834,400.

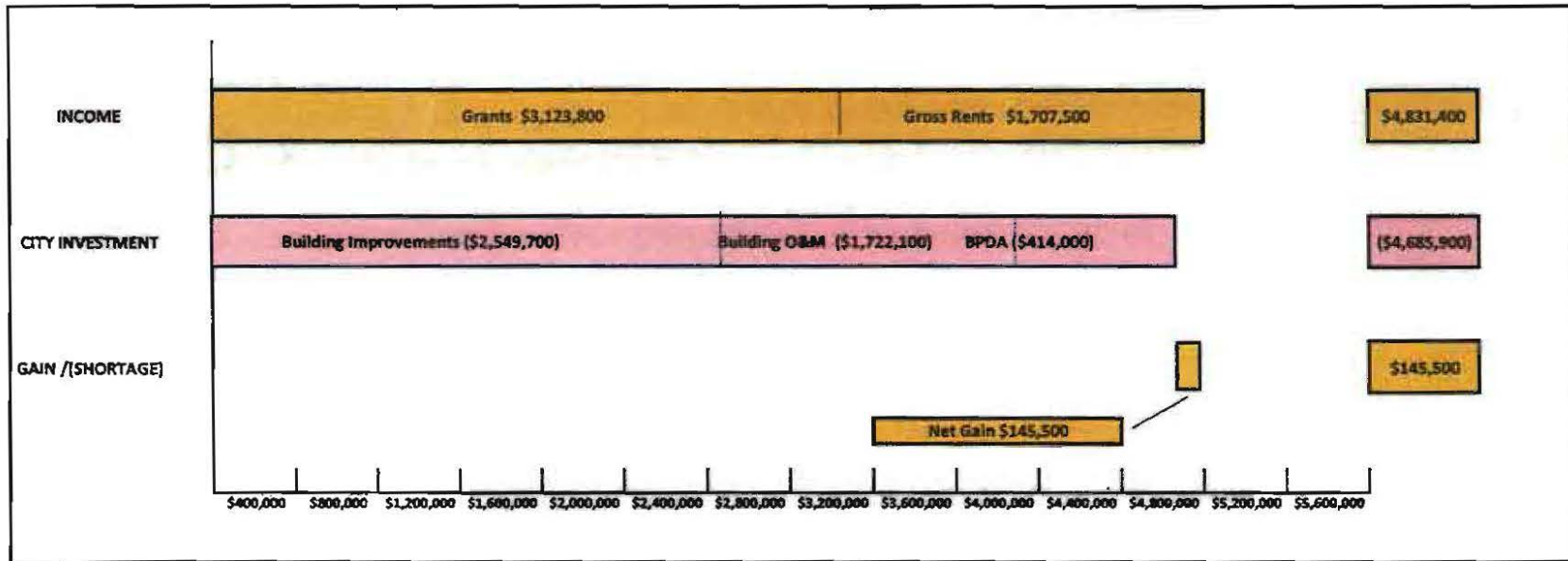
**Figure 5**  
**1100 CORNWALL - CITY INVESTMENT & COST RECOVERY EOY 2013**  
**(WITHOUT PROJECTED NET PRESENT VALUE OF INDIRECT BENEFITS)**



**Recovery of City Investment**

The net present value of development fees and City tax revenues accruing from the infill development of the property is projected to result in surplus revenue exceeding cumulative City Investment, providing a positive return.

**Figure 6  
FEDERAL BUILDING - CITY INVESTMENT & COST RECOVERY EOY 2013**

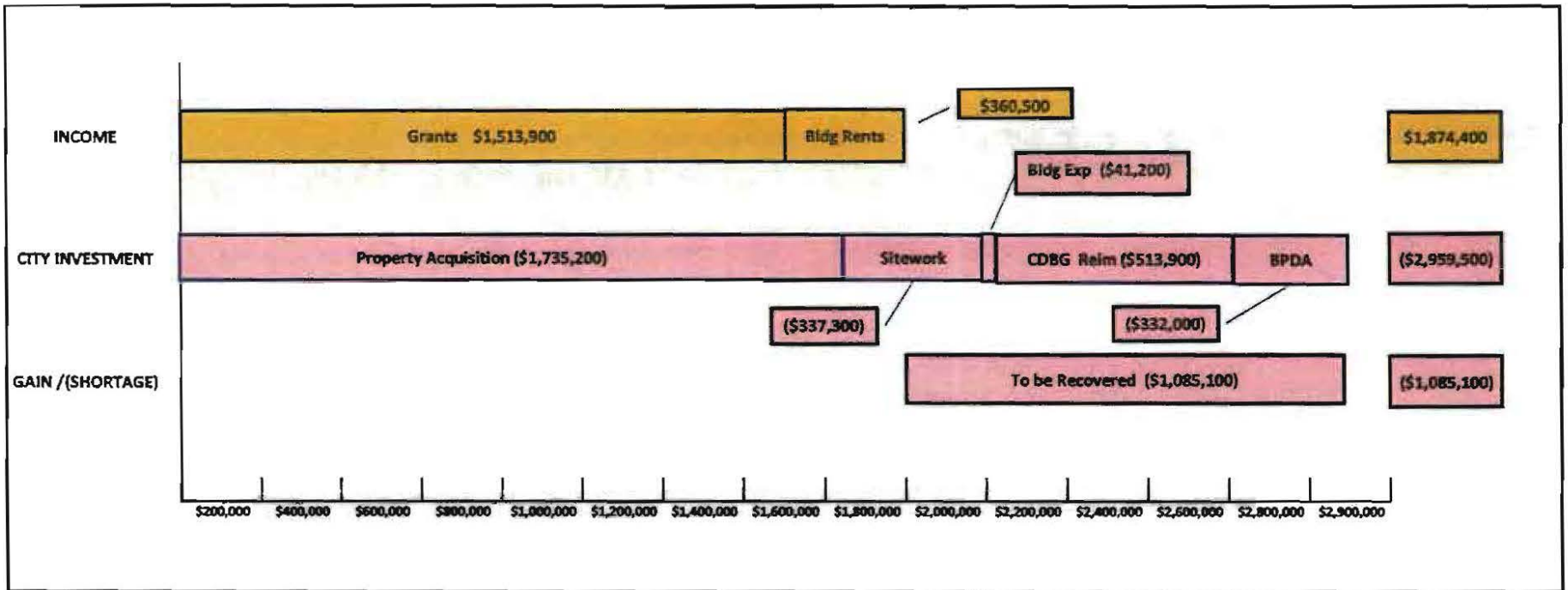


**Recovery of City Investment:**

The Federal Building has been reserved for non-revenue producing uses and recovery of City Investment via direct or indirect revenue generated from building adaptive reuse is not applicable.

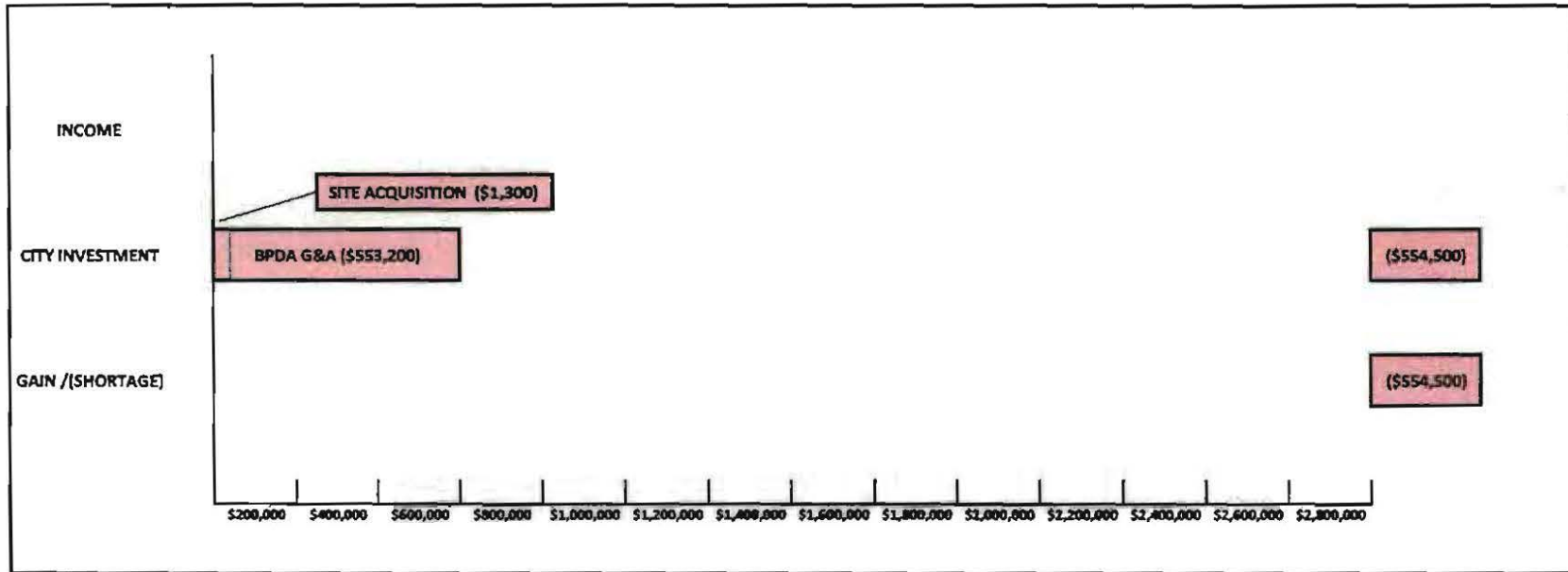


**Figure 7**  
**600 WEST HOLLY - CITY INVESTMENT & COST RECOVERY EOY 2013**



Recovery of City Investment  
 To be determined by others.

**Figure 8**  
**ARMY STREET - CITY INVESTMENT & COST RECOVERY EOY 2013**



**Recovery of City Investment**

Via sale (or joint venture participation) with the redevelopment of the consolidated parcel comprised of MOA Party ownerships.

Parcel size for BPDA parcel, City option parcel, and 50% of Army Street right-of-way	41,000	sq. ft.
Break-even pricing as of end of CY 2013	\$13.52	per sq. ft.

## 2013 Financial Reports and Statements

Through 2013 all accounting and fund management services for BPDA operations were provided by the City Finance Department. As all revenues and expenditures have been annual operating revenue and expenses, a more complete set of financial reports other than annual budget variance reports have not been a necessity and have not been delivered to or compiled by the BPDA. Accounting services provided by the City Finance Department are anticipated to continue through 2014.

However, as work progresses on the Army Street project culminating in the formation of a business entity comprised of the participating property owners, the BPDA anticipates that an independent accounting and financial management system for joint public and private investment and capitalized expenditures provided by a third party will become necessary. Development of that system will be undertaken in close coordination with the City Finance Department so that project accounting systems and reports integrate seamlessly with the City's budgeting and financial management systems.

### Depositories used

All BPDA funds are managed by the City Finance Department and this is expected to continue for the immediate future. Any BPDA revenue is currently deposited into the City of Bellingham's Discrete Component Unit for the BPDA.

### BPDA Board Members and Officers Serving During 2013

Governance and oversight of the BPDA is provided by a seven-member Board of Directors. Current Board membership includes the following individuals appointed by the Mayor and confirmed by City Council.

Scot Barg	Chairperson
Anne-Marie Falola	
Ken Hertz	Vice-Chairperson
Chris Webb	Treasurer
Heather Wolf	
Vacant	
Vacant	

### Bonded Individuals per Section 6 of the Enabling Ordinance

Section 6 of the Enabling Ordinance states, in part: "Any officer responsible for accounts and finances shall file with the Authority a fidelity bond in an amount determined by the Authority to be adequate and appropriate and may hold the office only as such a bond continues in effect."

During its initial years of operation, accounting and financial services and management of BPDA funds are provided by the City of Bellingham Finance Department. There is no need for BPDA board or staff to be bonded at this time.