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City Council

Family Support Center's Proposal to Purchase the Smith Building

Agenda Date: 8/14/2012
Agenda Item Number: 6.C
File Number: 12-0446

Type: decision **Version:** 1 **Status:** Passed

Title

Family Support Center's Proposal to Purchase the Smith Building

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager's Recommendation:

Move to approve the proposed conveyance of the Smith Building and authorize the City Manager to sign a purchase and sale agreement with the Family Support Center providing that the purchase and sale agreement contains the type of conditions, restrictions, covenants and remedies set forth in Attachment 2.

Report

Issue:

Does the Council want to move forward with a sale or lease of the Smith Building to the Family Support Center, as proposed in their "Smith Building Family Housing Units" project proposal? The proposal, approved by Council, included a sale of the Smith Building for \$1 plus a commitment by the Family Support Center to renovate and repair the building and provide certain long-term low-income family housing at the Smith Building at an estimated cost to the Center of \$1.12 million annually.

Staff Contact:

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Presenter(s):

Anna Schlecht

Tom Morrill

Background and Analysis:

On March 19 the City issued a Request for Proposal for Community Development Block Grant

(CDBG) funding with the option to utilize the Smith Building for a CDBG-eligible project. Four proposals were received, and Council approved the Family Support Center's "Smith Building Family Housing Units" project to create a 32-bed emergency shelter and a six-unit, 28-bed permanent housing facility for up to 60 homeless parents with children.

The Family Support Center's proposal identified a purchase of the Smith Building for one dollar as a part of their proposal. Their intent is to utilize the Smith Building along with \$551,500 in federal CDBG funds to provide shelter and housing for 60 homeless family members. They estimate that the 28-bed permanent housing portion of the project will save shelter costs of approximately \$40,000 per person per year or a total of \$1,120,000 per year in public and charitable support. (See Attachment 1, Family Support Center "Smith Building Family Housing Units" Project Proposal.)

The Family Support Center needs to obtain "site control" by August 29, 2012 as part of their second round application for \$750,000 in State Housing Trust Fund (HTF) money. Their application will be rated on the strength of its "site control" with an ownership interest ranking the highest. A lease interest, even with the state required 40-year term, would result in a lower ranking for potential funding.

In a purchase and sale agreement, the City would include conditions, restrictions, and covenants that would create "reversionary terms" that would allow the City to take the building back with all improvements to date if: 1) the Family Support Center did not complete the project in a timely fashion; or, 2) if they discontinued the approved use of the building as a family shelter and housing project. Accordingly, the purchase would not be for just \$1, because the consideration would also include the commitment to provide certain public services for a long term, at least 40 years to be consistent with the state grant funding requirement. As noted above, Family Support Center has estimated that the cost of the services they will provide is approximately \$1,120,000 per year. If the City did have to invoke its reversionary rights and take the Smith Building back, federal CDBG requirements would stipulate that the City would need to find another similar CDBG-eligible use for the building as renovated with CDBG funds. A purchase and sale agreement would also include a contingency period that would allow the City to complete an appraisal of the property and ensure that the City's Action Plan is approved by HUD. Attachment 2 summarizes the primary conditions, restrictions, covenants and remedies that would be included as a part of a sale of the Smith Building and property.

Although a sale of the property is preferred by the Family Support Center because it improves their ability to obtain outside funding, the Council could decide to offer a long-term lease rather than a sale of the building and property. If Council decides to offer a long-term lease rather than a sale, the lease would need to be for at least 40 years to be consistent with the state grant funding requirement and would also need to contain conditions, restrictions and covenants that would create clear requirements concerning the use of the building and the City's right to terminate the lease if the lease terms were not met. If the City had to invoke its termination rights and take the Smith Building back, federal CDBG requirements would stipulate that the City would need to find another similar CDBG-eligible use for the building as renovated with CDBG funds. The conditions, restrictions, covenants and remedies set forth in Attachment 2 are similar to the types of provisions that would be included in a long-term lease agreement with the exception that the City would have a right of termination rather

than a right of reversion.

Staff recommends selling the Smith Building and property because a sale would increase the Family Support Center's ability to obtain state grants and other funding, and because maintenance and repairs on the Smith Building would likely be a drain on City resources if the City retains ownership and leases the building to the Family Support Center. As noted above, any sale would include conditions and covenants that would allow the City to repossess the property and the building (including improvements to the building) if the Family Support Center does not continue to provide the public services set forth in its project application.

Neighborhood/Community Interests:

The following interests emerged from the community partner meetings (March 27 and 29), the public hearing (June 12), and the public comment period (June 1 through July 2, 2012):

1. Strong support for the Family Support Center Housing project;
2. Concerns about selling the Smith Building for this project at the proposed price;
3. Concerns about potential impact(s) on downtown businesses; and
4. Concerns about potential impacts on surrounding residential neighborhoods, including the Downtown Neighborhood and the adjacent Eastside Neighborhood.

Options:

1. Authorize the City Manager to sign a purchase and sale agreement to sell the Smith Building to the Family Support Center as requested, as long as the purchase and sale agreement and other necessary legal documents include the type of conditions, restrictions, covenants and remedies set forth in Attachment 2.
2. Authorize the City Manager to sign a long-term lease of the Smith Building to the Family Support Center as long as the lease agreement includes conditions, restrictions, covenants and remedies similar to those set forth in Attachment 2.

Financial Impact:

The current assessed value of the Smith Building and property is \$1.8 million. However, in light of the current real estate market and the poor state of repair of the Smith Building, the market value of the building and property is informally estimated to be between \$600,000 and \$700,000. The repairs that are necessary for the Smith Building over the next few years are estimated to be approximately \$600,000. Prior to actual closing, staff will obtain a current appraisal on the Smith Building and property and ensure that the City's Action Plan is approved by HUD.