Did Newcastle overpay to buy city hall?

By

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The King County Assessor's valuation of the Newcastle City Hall building for 2017 property taxes is $3.9 million, but city paid $6.9 million to buy it. At the Town Hall Annual Meeting the city manager didn't want to discuss the purchase. Why? Is the city trying to hide the ball?

City officials were exchanging high fives last month over the sale of $5 million of bond debt. The bond proceeds and $2 million in cash were used to buy the Professional Building, the current site of city hall. The city says it will "save" money, because the annual cost is now cheaper than continuing to rent. Here is what you haven't been told.

The city hall lease would have expired at the end of 2016. The city waited too long to negotiate a new lease and faced a deadline for lease renewal. Since the city had not arranged other options, the owner had the city trapped and raised the renewal rent by 25%. The city then offered to buy the building. With the city between a rock and a hard place, the owner sold the building to the city for $6.9 million, a price 77% higher than the assessed value.

To finance the purchase, the city first turned to a bank. The bank offered a 4% interest rate with 35% down and the building as collateral. But there was a catch: a mortgage requires an independent appraisal, and a new appraisal was likely to be closer to the King County Assessor's valuation, $3.9 million, $3 million less than the sales price. A 6-story 80-unit apartment building under construction now dwarfs the 3-story city hall, completely blocking out much of the sunlight and view, lowering the value further.

Since a large discrepancy between the sales price and new independent appraisal would be publically embarrassing and require more cash, Wall Street bond mavens offered a better deal: no appraisal, a lower interest rate, and less cash. But there was a catch: the building was no longer the collateral. Instead, the city pledged its resident's credit to back the bonds giving the bondholders first call on property tax revenues.

Legal questions surrounding the deal remain unanswered. If the sales price is several millions of dollars higher than an appraisal, has the city gifted monies to a private individual in violation of the state constitution? The state constitution also requires that bond debt and taxes levied be exclusively used for public purposes. With over 50% of the building leased to private parties, are the bond proceeds being used exclusively for "public purposes", or is the city now a commercial landlord?

What are the risks? A commercial property downturn or loss of major tenants is the biggest risk. There is also the opportunity cost of using $6.9 million for something that is not essential and forgoing the use of that money for something essential, like $10 million in unfunded city transportation improvement projects. Most importantly, depleting "rainy day" cash reserves by $2 million will put the city at high risk of default in a serious economic recession or natural disaster.

The city had alternatives**.** It could have used the recently purchased-- now vacant --former headquarters of the CCUD for office space and arranged to use the CCUD chambers for council meetings (rent savings: $230,000 annually). The city could also have sought a favorable long-term lease in the Avalon development currently under construction.

The city's major funds are forecasted to go into serious operational deficits in the next five years. In such an event, City officials have said, they will institute a utility tax, cut services, or in the worst case, sell city hall.

Really, was this a smart deal?