



**COMMISSION
AGENDA MEMORANDUM**

ACTION ITEM

Item No.	<u>10b</u>
Date of Meeting	<u>May 10, 2022</u>

DATE: April 22, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Lily Ninburg, Real Estate Manager, RE Portfolio & Asset Management
Melinda Miller, Director, RE Portfolio & Asset Management

SUBJECT: Surplus and Sale of Terminal 115 Non-Alliance Portion of Property to King County as a Site for Building a Combined Sewer Overflow (CSO) Facility

Amount of this request: \$ sale price of \$2,200,000
Total estimated project cost: \$ NA

ACTION REQUESTED

Request public hearing and introduction of Resolution No. 3803: A resolution of the Port of Seattle Commission authorizing the sale of a portion of the Parcel (#536720-2505) to King County to be used as a site for building a new Combined Sewer Overflow (CSO) facility, and apply Boundary Line Adjustment (BLA) to divide the parcel covering both Alliance and Port of Seattle properties into two parts – the bigger and the majority part to remain with the Alliance, the smaller part (southeast corner of SW Michigan St & 2nd Ave SW) to be sold to King County; and amend the Port’s Comprehensive Scheme to delete the smaller part of the Parcel (#536720-2505; BLA pending) from Unit 20 of the Port’s Comprehensive Scheme and authorize its sale to King County Wastewater Treatment Division.

EXECUTIVE SUMMARY

King County Wastewater Treatment Division wants to purchase a parcel of Port property known as Terminal 115 SE lot, approximately 58,121 sf of unimproved land, to build a required Combined Sewer Overflow (CSO) facility. Staff has been working on this transaction with King County since 2018. In late 2018, King County commissioned an appraisal done by Bates McKee & Eric McKee. The Port then had Kidder Mathews perform an independent review of the McKee Appraisal. The reviewer agreed with the appraiser’s conclusion: \$1,890,000. This price was adjusted to current market rate of \$2,200,000 in April 2022., for the subject unimproved industrial land of 58,121 sf. Given the fair market value purchase offer, the environmental benefits of the project, and the risk of condemnation, we recommend proceeding with surplus and sale of the subject property.

Meeting Date: May 10, 2022

DETAILS

King County Wastewater is one of many sewer utilities across the nation under a consent decree with the Environmental Protection Agency (EPA). In 2013, King County signed an agreement with the U.S. Department of Justice and the EPA. This agreement known as “Consent Decree” requires King County to complete its CSO Control Plan by 2030. This plan contains a list of “Protecting Our Waters” projects with strict timelines. The CSO control project involving construction of a new CSO facility located at SW. Michigan St./ Terminal 115 is required to meet the critical milestone of “construction completion by December 31, 2025 ”. Based on the preliminary designs, the scope of work, and the time needed to construct this CSO facility, King County would like to acquire this property to ensure meeting the goal and strict timelines set by the Federal Consent Degree. If King County cannot purchase this property from the Port in an amicable manner, they will likely use eminent domain to acquire the property.

King County completed an extensive site selection process in 2017 that included careful evaluation of 17 sites. The result of this process identified the T115 Parcel A property (King County’s title for subject property) as the ideal site for the tank because the majority of the sewer overflow volume required is at the W Michigan St. Regulator Station Overflow, which is directly adjacent to the site and outfall, thus limiting conveyance needs while reducing costs and traffic and property impacts. The T115 Parcel A site is also the ideal shape and size, allows gravity flow into the tank, and minimal conveyance. Additionally, it is a large enough site for the tank size needed with room for on-site landscaping and stormwater treatment and allows for adequate access to perform routine maintenance.

The site evaluation considered the following criteria:

- Above grade impacts to the existing site use.
- Property acquisition process and ability to acquire.
- Facility configurations that will fit on the site.
- Distance from the W Michigan St. Regulator Station and subsequent conveyance requirements and potential need to over-size the facility.
- Other considerations such as road closure requirements, construction staging area, shoreline restrictions, and/or potential to drain the storage facility by gravity.

This process was documented in the Site Selection Technical Memorandum and Alternatives Analysis Report for the West Duwamish CSO Control Project dated April 21, 2017, prepared by HDR/King County.

The purpose of the Combined Sewer Overflow storage tank at the T115 Parcel A location is to control the number of sewage spills from two outfalls (“West Michigan” and “T115”) directly into the Duwamish River, to fewer than one occurrence per year. Reducing uncontrolled sewage spills has significant water quality benefits, including the prevention of debris (including plastics), biodegradable solids, other pollutants and bacteria from entering the Duwamish River. The tank

Meeting Date: May 10, 2022

location was chosen due to the appropriate size of the parcel and its proximity to an existing wastewater force main and the West Michigan outfall.

The parcel (#536720-2505) covers what is known as Terminal 115. With the formation of Northwest Seaport Alliance in 2013-2014, the majority of Terminal 115 was assigned to the Northwest Seaport Alliance except for a small area we call T115 SE Corner Lot which is separated from the larger T-115 site a by right-of-way, immediately south of 2nd Ave SW.

The Port of Seattle has been leasing this smaller area (T115 SE Corner Lot) for the past few years. The current tenant is American Best Trucking. On multiple occasions Port staff has clearly communicated with American Best Trucking about King County's intent to purchase this lot for the federally required CSO since late 2018. The company has also signed onto multiple agreements with the Port and King County for site access needed for the County's site investigative work. In this context, we have been very clear with the company that we would not be able to renew a long-term lease and that eventually the company would need to relocate.

Given the small size and location of this property, the Port of Seattle does not view it as critical to their current or future operations. Thus, there is no compelling need for the Port to retain ownership of this property.

Kidder Mathews, at the Port's request, provided an independent review of the McKee Appraisal of the subject property in 2018. The reviewer's conclusion of the value of the subject property agrees with the appraiser's conclusion: \$1,890,000 for the unimproved industrial land of 58,121 sf located on the corner of SW Michigan St. and 2nd Ave SW. In April 2022, the sale price was adjusted to current market by applying a 15% increase to a total of \$2,200,000.

The Port and King County have reached an agreement on the substantially agreed-upon version of the Purchase and Sale Agreement which has gone through multiple rounds of internal review.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Status Quo. Do not sell. Retain Port's ownership of subject property.

Cost Estimate: \$0. No cost to Port.

Pros:

- 1) Continue to bring in yard lease revenue of just over \$105K a year.
- 2) Possibly serve as a site for future redevelopment opportunities.

Cons:

- 1) Creates a challenging situation for King County in meeting and fulfilling its federally mandated goals and milestones for CSO facilities.

Meeting Date: May 10, 2022

- 2) If fee simple purchase approach, somehow, doesn't materialize, King County still has the option of following acquisition process per eminent domain statutes and have the Port transfer ownership to King County for the purpose of constructing a CSO facility benefiting the general public.
- 3) Would lose an opportunity to use sale revenue to fund other Port asset enhancement projects that align strategically with the Port's Century Agenda's missions and visions.

This is not the recommended alternative.

Alternative 2 – Retain ownership of a portion of the property where the subterranean holding tank will be constructed and sell the portion where above-ground level structures will be built.

Cost Estimate: Cost of separating the space between Port and King County and clarifying the maintenance and repair responsibilities, risks and liabilities associated with the lot are difficult to quantify

Pros:

- 1) May be able to continue leasing a portion out for certain uses barring highly constrained weight and other structural and unforeseen limits and restrictions.
- 2) Possibly redevelop the portion in the future per market needs and trends.

Cons:

- 1) Restrictions on weight and other unforeseen elements for above ground use could create challenges in leasing and redeveloping the above ground space.
- 2) Risks and liabilities between underground tank and above ground Port use could be hard to define and delineate, thus creating complications and higher costs for future management, maintenance and repair responsibilities.

This is not the recommended alternative.

Alternative 3– RECOMMENDED: Sell at market value to King County.

Cost Estimate: \$0. No cost to Port.

Pros:

- 1) Sell to King County at fair market value and bring in net sale revenue for funding other projects and enhancing asset values of other Port properties critical to its growth and Century Agenda goals.
- 2) Cooperate and assist with King County as a public entity in fulfilling its goal and milestones set by the Federal Consent Decree, thus indirectly contributing to and facilitating the

Meeting Date: May 10, 2022

construction of CSO facility that reduces uncontrolled sewage spills, pollutants and bacteria from entering the Duwamish River while also benefiting the communities that the Port serves.

- 3) Avoids the complicated and expensive process of eminent domain should King County choose to condemn the site for public use.
- 4) Surplus the subject property that's not deemed critical to the Port's future business growth strategies aligned with the overall Century Agenda missions and visions.

Cons:

- 1) Loss of a property that is currently generating some rent revenue with little maintenance and repair cost to the Port.
- 2) Loss of a property that may potentially become a redevelopment site.

This is the recommended alternative.

Financial Summary:

- 1) No cost to the Port other than typical transaction costs involved in sale of a property.
- 2) Net revenue of \$2.2M at fair market value for unimproved land compared to an annual rent revenue of about \$105K with minimal operating expense.

ATTACHMENTS TO THIS REQUEST

- 1) Draft Resolution No. 3803
- 2) Substantially Agreed-upon Draft Purchase and Sale Agreement (PSA)
- 3) Property Map
- 4) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None.