



City Council Study Session Minutes – June 13, 2011

At 7:30 p.m. Mayor Maxwell called the regularly scheduled Anacortes City Council study session of June 13, 2011 to order. Roll call found present: Eric Johnson, Nick Petrish, Erica Pickett, Brad Adams, Bill Turner and Cynthia Richardson. Brian Geer was excused.

Change of Meeting Time for City Council Meetings

Mayor Maxwell explained that Mr. Adams and Mr. Geer had proposed changing the meeting time for City Council meetings from 7:30 p.m. to 7:00 p.m. Staff researched the question and suggested making the change effective with the September 6, 2011 meeting. The mayor asked councilmembers for feedback on the idea. Mrs. Richardson said she had no objection to either time but observed that a 7:00 start time would allow meetings to finish earlier. Mr. Turner said he had no problem with 7:00 but said it might take a while for people to get used to the new time. Mr. Adams said he prefers standardized meeting times and had asked Mr. Larsen to find out what time meetings begin in neighboring cities. Mr. Larsen said all cities in Skagit County start at 7:00 p.m. except La Conner which starts at 6:00 p.m. He also provided start times for Oak Harbor, Whatcom County, and cities south of Skagit County and said 7:00 p.m. is the prevailing time. Mr. Adams noted that Planning Commission meets at 7:00 p.m. now and the televised meetings broadcast at 7:00 p.m. so moving City Council to the same time would be less confusing. He also noted that a 7:00 p.m. meeting time will conclude business earlier in the evening and supported the change. Mrs. Pickett said she didn't feel strongly one way or the other. She suggested that for people who work until 5:00 a 7:30 p.m. start time would be easier but that apparently 7:00 works elsewhere. Mr. Petrish said 7:00 p.m. is too early for councilmembers and citizens who work until 5:00. He said he saw no compelling need to change the time. Mr. Johnson said he supported moving to 7:00 p.m. Mayor Maxwell said based on that feedback staff would bring the matter back to a future City Council meeting for action on the Consent Agenda. Mrs. Pickett asked if there would be an announcement in the press inviting public comment. The mayor said yes.

City Council Subcommittee Process

The mayor announced that this agenda item would be skipped because its sponsor, Mr. Geer, was not present.

Update by Island Hospital on Kitsap County Housing Authority Tax Credit Project

Island Hospital CEO Vince Oliver introduced Chuck Depew from the National Development Council and described him as the resident expert on the New Markets Tax Credit Program which may provide an innovative funding mechanism for the hospital's new Medical Arts Pavilion. Mr. Oliver said the building is half completed and they are still working on the financing.

Mr. Depew said he works out of the Seattle office of NDC and can be reached at 206-419-3904. Mr. Depew explained that in 1999 the Federal government created the New Markets Tax Credit and the first deals using it took place in 2004. He said like many other federal tax credits, the New Markets tax credits are available to investors to offset their tax liabilities. This results in the government supplying investment capital around the country. He said New Markets is unique in that non-profit facilities are eligible and many community facilities have been financed this way although this would be the first hospital. Mr. Depew said New Markets is a viable funding source for the Island Hospital project, they have found a bank partner, Washington Federal, that is very interested, and they have found two entities interested in providing tax credits from their allocation, the Kitsap County Housing Authority (KCHA) and the National Development Council itself. Mr. Depew explained that the tax credits are for low income communities and that downtown Anacortes meets the criteria due to its unemployment rate. Mr. Depew said that between the two organizations, New Markets tax credits can provide \$1.6M-\$1.8M of capital to the hospital district that will be essentially a grant as it won't have to be repaid. He called this a significant benefit to the hospital district.

Mr. Depew then explained that governmental entities can only participate in the program when acting as public corporations, often referred to as PDA's (preservation and development authorities). KCHA can

only be involved in New Markets when acting under its powers as a public corporation. It is a state entity chartered to do business in Kitsap County. As a New Markets entity it can do projects anywhere in Washington State but for it to work outside Kitsap County, state law requires a local government to designate it as a public corporation. The draft resolution included in the City Council packet would accomplish this by authorizing the Kitsap County Consolidated Housing Authority to exercise specified public corporation powers in Anacortes.

Mr. Petrish asked how the NDC is funded. Mr. Depew said they have many different funding sources but governments hire them to consult on financing public projects, perform training, and so on. Mr. Petrish asked how many similar projects KCHA has been involved in. Mr. Depew said Kitsap has financed \$50M on six different projects over the past eight years. He said the Island Hospital transaction would involve about a \$3M investment from KCHA plus \$7.6M from NDC. Mr. Petrish questioned the flow chart included in the packet. Mr. Depew explained how the \$10.6M of capital from Washington Federal would be lent to KCHA and NDC, who would collect some fees and then in turn loan \$2.8M and \$7.1M, respectively, to the hospital district which would pay those loans back with interest. Mr. Turner paraphrased that this would get the hospital district a loan for \$9.3M of net working capital, \$1.6M of which would not have to be paid back. Mrs. Pickett asked if this indebtedness was already bonded. Mr. Depew clarified that this would not be bond debt. Mrs. Pickett asked if the hospital district voters would have to approve the amount to be repaid. Mr. Depew said no, the amount is within the hospital district's authority and the repayment would come from revenue generated by the Medical Arts Pavilion. Mrs. Pickett summarized that KCHA and NDC are constructed to channel private money to public projects with residual tax credits to private investors. Mr. Depew said KCHA is a very smart housing authority which was already working as a redevelopment agency on behalf of Kitsap County and the City of Bremerton and was able to serve the redevelopment function for both entities. That mission got it involved in the New Markets Tax Credits program as a way of fulfilling its redevelopment mission. However, now KCHA has more credits than projects to use them in Kitsap County so it has expanded to work state-wide and its fees for that work help support its core mission. Mrs. Richardson said the program is very convoluted but given the way the Federal government has set up the program this is a funding opportunity that Island Hospital can use and Anacortes should be supportive to help the hospital take advantage of it. Mr. Depew said the reason communities go through the machinations to make the program work is because the investor market has been pretty strong and it builds a lot of community facilities and economic development projects that commercial banks want to see done but wouldn't be involved with otherwise.

Mr. Adams asked how this tax credit would benefit Anacortes taxpayers. Mr. Depew said the hospital district would receive about \$1.6M that would not have to be repaid by either hospital revenue or hospital district taxes. Mr. Petrish asked if the Medical Arts Pavilion has been totally funded. From the audience Mr. Oliver nodded yes. Mr. Petrish asked if this program would reduce the costs that taxpayers would have to repay. Mr. Depew said yes. Mr. Turner asked if the New Markets program could help the Fidalgo Pool build a new pool. Mr. Depew said any non-profit corporation is eligible, the question is whether the project is of sufficient size to warrant the fees. Mr. Depew noted that the latest census designates Anacortes as a non-metropolitan area so many New Markets partners would be interested in investing in Anacortes. Mr. Johnson said the New Markets program is designed for impoverished and very low income cities and observed that seems like a stretch for Anacortes. Mr. Depew discussed the criteria and said Anacortes doesn't meet deeper distress criteria based on income but does qualify based on unemployment rates. Mrs. Richardson asked if there would be an advantage for Anacortes to obtain its own New Markets tax credits. Mr. Depew said an agency needs a transaction of \$5M or more to make it worthwhile so working with other entities may be more cost effective and there are plenty of potential partners available. In closing, Mr. Oliver thanked Council for taking time to comprehend this complicated transaction and for their consideration. Mayor Maxwell said the enabling resolution would be placed on the Consent Agenda for the next regular City Council meeting.

Update on Depot Property Exchange

Assistant Planning Director Don Measamer updated Council on the interlocal agreement being worked out with the Port of Anacortes to resolve property ownership surrounding the Depot property. He displayed an overhead with the various parcels outlined and discussed which would transfer to City ownership and which to Port ownership to create more orderly and contiguous parcels. He noted that

currently Market Street is on Port property and that the proposal would dedicate a full 60-foot right-of-way for Market Street over the existing pavement. Mr. Measamer recalled that this process began in 2002 with an interlocal agreement between the City and the Port to arrange an exchange of property to achieve City ownership of property surrounding the Depot and Port ownership of right-of-way surrounding Dakota Creek Industries. He said that after a great deal of complicated surveying the current proposal would result in an overall transfer of 102,713 SF to the Port and 146,442 SF to the City. He said staff has reviewed the legal descriptions and interlocal agreement language. He added that the last time Council reviewed the draft agreement councilmembers asked to get out on the ground to view property alignments so staff is working with a surveyor to perform a third party review of the legal descriptions and put some stakes in the ground for the proposed right of way. Staff is hoping that will be done by mid-July so staff can come back to Council at the end of July with a draft interlocal agreement for Council review and action. He said he hoped to have more information at the next City Council meeting.

Mrs. Richardson observed that this will be an even exchange between the City and the Port in terms of value, not necessarily in absolute square footage. She remarked that some of the wetland area the City will obtain has a lot of value for park use that it would not have for development. She called it a win-win proposal.

Mr. Petrish asked Mr. Measamer to clarify some portions of the exhibits which he did.

Mr. Turner questioned the equity of Dakota Creek getting commercial property it can use while the City gets wetland that is only good for a park. He asked if an appraisal would be made. Mayor Maxwell clarified that the interlocal from years ago outlined how these properties would be relatively valued. He corrected that the zone is manufacturing/shipping, not commercial, and noted that the Port will own the property, not Dakota Creek. Mr. Adams said the City will obtain the beautiful madrone grove which will fit into the Depot master plan that will become a gem of the city. Mr. Turner asked again if there be any appraisals. Mayor Maxwell said no, the relative value has already been agreed upon. He added that everyone will gain from clarifying rights of way.

Mrs. Richardson asked if the wetland buffer has been calculated using the current Critical Areas Ordinance or an older system. She wondered if any of the buffer would extend onto adjoining Port property. She also asked who would own the vacated property in street and alley rights-of-way. Mr. Measamer responded that previously vacated right-of-way was split between Dakota Creek and the Port but that the new interlocal agreement would only allocate property between the Port and the City. Regarding wetland buffers, Mr. Measamer said the buffer shown on his exhibits is the original 25' buffer that was in effect when the Dakota Creek Industries building was permitted. However, he said, if DCI wanted to permit new facilities now the Administrator would have to determine if they were subject to a different buffer given the current Critical Areas Ordinance. Mr. Measamer said staff would schedule a site visit before a regular City Council meeting and was targeting the end of July.

Mrs. Richardson announced for television viewers that the Pennsylvania Avenue project had begun and that a street closure would be scheduled. Mayor Maxwell said a press release would be sent out.

There being no further business, at approximately 8:25 p.m. the regularly scheduled Anacortes City Council study session of June 13, 2011 adjourned.