

# **DRAFT MINUTES OF HAMILTON PUBLIC DEVELOPMENT AUTHORITY BOARD MEETING**

March 18, 2009

**Attendees:** PDA Board participants included Commissioner Sharon Dillon (Skagit County), Dale Bonner (Town Council), Margaret Fleek (Town Planner), Kirk Johnson (Skagit County Planning) and Jim Meyer (Community Action Board). Other participants included Scott Thomas (PDA attorney), Lauren Tracy (program and fund development), Curt Miller (landscape architect), Jim Koetje (Windermere Real Estate), Dave Sheridan (interim county Public Works Director), Lorna Ellestad (county Public Works staff), and Chuck Steele (Ecology FCAAP program manager).

**Minutes:** Minutes of February 19<sup>th</sup> meeting were approved as amended on a motion by Kirk Johnson, and second by Dale Bonner.

**Finance Report:** Bank balance reported as \$39,434.82 as of 2/27/2009 statement.

FCAAP Grant Update: Lauren reported that the PDA's 2007-2009 grant from WA Department of Ecology FCAAP program has a balance of \$14,346.54 available for use by or before June 30, 2009.

Chuck Steele (FCAAP program manager) commented that all FCAAP funds must be expended by the June 30, 2009 date, after which time their availability expires. Chuck also indicated there FCAAP grant funds applied for and awarded for the 2009-2011 biennium will not be eligible to pay for costs during at least a 2-month gap (July-August). Costs accrued during this gap period would need to be paid from other sources.

County Loan Update: Lauren reported when the PDA was established, Skagit County extended a loan of up to \$150,000 to the PDA to be used as cash flow for town relocation planning activities (Contract #C20050494). The PDA This contract expired on December 31, 2008. The initial loan amount drawn was \$50,000. At the discretion of the County Administrator, additional amounts may be loaned in \$10,000 increments. Margaret Fleek, as PDA Secretary Treasurer, submitted a written request for a three-year extension of this contract agreement and a \$30,000 increase in the loan draw. Trisha Logue, County Budget and Finance Director reported that she discussed this request with Tim Holleran, County Administrator and is has been determined that, because the County is expecting a shortfall in revenue between \$1.7 and \$3.1 million dollars for 2009, the County is not in a position to increase the loan at this time. Trisha indicated that the County will be in contact with the PDA after the March Hamilton Town Council meeting to discuss extending the term of the \$50,000 loan that has expired.

Commissioner Dillon indicated that the contract extension request is working its way through the County's internal decision-making systems.

The finance report and invoices for February 2009 were approved on a motion by Margaret Fleek, second by Dale Bonner.

**Activities Update:**

Introductions were made.

Commissioner Dillon recommended discussion move first to agenda item #4 – Land Acquisition. It was agreed that this discussion be undertaken in public, rather than in Executive Session.

**Discussion of Relocation Site County Loan for Gap Funding:**

Commissioner Dillon discussed county financial difficulties and reported that the county does not have \$159,000 to lend (proposed as Gap Funds Needed with attachment *Memo. Public Works Board loan*, Table 3: Summary and Status of Financing Sources).

Lauren proposed the possibility of creative use of an existing, non-General Fund, source, such as the sales and use-generated Public Facilities Fund originated as a means to help fund public facilities that promote economic development, particularly in timber impacted communities. Another possibility put forth would be a loan against the \$2 million fund reserved for development of housing for persons with drug addiction and/or mental illness. Lauren did not think there was a project or developer ready to expend these funds in the near term (1-3 years).

Commissioner Dillon responded that the highly competitive Public Facilities Fund has substantially less revenue available than in previous years, and 100% of those funds are soon to be committed for this year, in part with projects that did not qualify for economic stimulus funding recently finalized. Commissioner Dillon added that she thought the County's Human Services fund (for drug addiction and/or mental illness housing) was targeted for the purchase of a building on the Northern State Hospital campus in Sedro-Woolley.

Chuck Steele asked if the County's Flood Control Zone District has implemented the countywide tax (e.g. \$0.10 per \$1,000 assessed value as in King County) to fund flood control projects such as Hamilton relocation. Chuck indicated that King County established their Flood Control Zone District at the same time as Skagit County and they have generated \$32 million per year for the last 2 years, of which they reserve 10% (\$3.2 million per year) for individual towns and cities to use. Similar taxing has produced revenues for flood control projects through the years for the Whatcom and Yakima County Countywide Flood Control Zone Districts.

Commissioner Dillon responded that "No", the county has not assessed that tax yet, and the county is way behind in doing this, as their District has just adopted their By-laws.

Lorna Ellstad added that the County's Flood Control Zone District has been focusing on organizational and relationship building to date and has not yet discussed the financing piece.

Chuck Steele reported that the Town of Hamilton has less than 1% of the county population, but they have received 33% of all FEMA flood insurance claims payments in Skagit County in the last 31 years. All the other Skagit County cities and towns combined only received 8% of FEMA flood insurance claims payments. The County's Flood Control Zone District would be an appropriate taxing mechanism to help resolve this issue.

Commissioner Dillon indicated that the state of Washington granted Lewis County \$50 million to address their flooding issues. Commissioner Dillon would like the state to grant Skagit County \$60 million to be able to bond against to implement flood control projects endorsed by the County's Flood Control Zone District.

Margaret Fleek responded that the Hamilton Relocation project is the only project that the County's Flood Control Zone District has identified as "green" for early action implementation (of the 37 flood damage reduction measures identified by the U.S. Army Corps of Engineers). The remaining 36 measures are labeled either "yellow" for needs additional analysis, development, design and alternative packaging or "red" for should be abandoned..

Lauren Tracy expressed strong concerns about the negative impression that is created if the county expects any other level of government to lend or grant funds for flood mitigation measures in Skagit County if the county is slow to act to use an available taxing opportunity to generate needed revenue and is unwilling to lend even \$159,000 toward this permanent flood mitigation solution.

### **Discussion of Relocation Site Land Purchase Cost:**

Commissioner Dillon indicated that she thinks \$1.3 million is too expensive to pay for land assessed for 2009 at \$373,000.

Lauren Tracy indicated that in her meeting with Dan Mitzel, a local land developer, Dan did not think \$1.3 million was unreasonable for the 45-acre site located in the UGA. Lauren added that the 2009 assessments were determined in January 2008, before the land was included in Urban Growth Area. [The Assessor's Office has also indicated that they will not likely revise their assessment of those properties for 3-4 years, unless a special request to do so is made. As such, assessed value is not a good indicator of the fair market value for this site, which an independent appraiser would evaluate.]

Jim Meyer stated that our work getting the property included in Urban Growth Area has likely increased the value of this property and he has a problem with using public funds to pay a higher price for this private property.

Dale Bonner asked about how the Town will be able to pay the debt service on any amount loaned. Are we willing to accept any offer the property owner makes or are we willing to "take" the property through a condemnation proceeding? The property owner would still be paid a fair market value.

Margaret Fleek commented that the Town is requesting loans, not grants, to buy this site, since that is the only avenue currently available to pursue. There is not a gift of public funds and the loan would be repaid with revenue from lots sold for commercial and residential development. Margaret added that we cannot forget that this is a public problem, with well over \$10 million in public funds and FEMA flood insurance claims having been paid already into Hamilton to maintain the status quo of flooding-repair-flooding-repair.

Lorna Ellestad indicated that no federal monies may be used for condemnation, stated clearly on the form in hand.

Jim Koetje (commercial/residential real estate professional) asked how much federal money would be forsaken if condemnation were pursued? With condemnation, the town may pay less, however, fair market value must be paid for condemnation actions. This fair market value is not necessarily represented by assessed value, which may be half the market value or right on. Jim added that 1). The UGA adoption has increased the property value, and 2). an appraiser will look at the potential zoning and annexation. With these, a \$1.3 million fair market value is likely accurate. Also, in today's market, the risk-to-reward ratio is marginal for any purchase and

development, but that will change. If the property owner is a willing seller and we have the money, now is a great time to buy.

Lorna Ellestad responded that the county was awarded \$198,000 toward relocation site purchase. Lorna also commented that there is a challenge in meeting property owner expectations with appraisals and with public funds, we can't pay more than 10% above appraised value. Also, an appraisal would need to be reviewed by a second appraiser. Lorna added that the requirement for appraisal when public funds are used is in place to protect the property owner (e.g. with highway projects).

Commissioner Dillon commented that the acquisition of the relocation site does not have any other money secured besides the \$198,000 federal grant and the \$147,750 state grant and asked where the funds might come from.

Lauren responded that creative staff at the Public Works Board are discussing internally the loan proposed. Lauren added that there is no existing government program for which this site purchase is a perfect fit, creative problem solving is essential, and strong political support is crucial to fitting this "square" need into the "round hole" of existing programs.

Curt Miller (landscape architect and planning team member) asked Jim to continue with his thoughts around how to manage "owner expectation" perceptions versus reality.

Jim Koetje responded that he works with property owner expectations every day. A fair market appraisal by knowledgeable professionals presents all the factors in an unbiased manner. Six different independent appraisers should all come within 5%-10% of one another.

Curt Miller asked about what a reasonable a window of opportunity would be for accepting an offer.

Jim Koetje responded that 30-45 days is reasonable for a seller to consider. Also, it will be very difficult to arrive at comparable sales for the Hamilton site. Commercial comparables would likely be \$4-\$6 per square foot. For residential, developed lots (with infrastructure) are listing for \$64,000-\$75,000 per lot. A Janicki plat in Sedro-Woolley is at \$65,000 per lot. Developed lots in Hamilton would likely need to list for \$40,000-\$50,000 per lot. New developed lots in Concrete are not selling right now.

Commissioner Dillon asked if the 2006 appraisal of \$570,000 for the 45-acre property would likely remain accurate and is it worth it to have the property reappraised.

Jim Koetje and Scott Thomas (PDA attorney) agreed that the appraisal is outdated and a new appraisal would be required.

Commissioner Dillon asked the group again where will we get the \$800,000-\$1 million needed to reach a purchase and sale agreement? And how do we pay this back? Commissioner Dillon added that, in her conversation with Mayor Bates, he shares this debt service concern.

Lauren Tracy responded that political decision-makers at every level of government want Hamilton relocation to succeed. The Governor and Congressman Larsen don't want to find themselves on the evening news during the next flood without visible progress they can point to, such as construction underway. If a debt service schedule is the real fear for the town and county, it would be very reasonable to ask the potential government lender(s) up front to modify the standard loan conditions to defer the initial loan payment until revenue from commercial and residential lot sales begins to become available. It is very unlikely that a government agency

lending the town money to move relocation efforts forward would default this low-income, timber impacted, flood-afflicted community if it takes longer than the standard 12-18 months to begin servicing the debt.

Margaret Fleek added that funds for this land purchase are the hardest to get and recommended updating the 2006 appraisal with a new one so we know better what loan amount funds would be needed, and if the PDA Board and the Town agree that the terms of a possible loan are viable, then we should make the property owner an offer. If they turn it down they could petition to annex (which will further increase their property value). If the Town is not fully prepared to set zoning in place, proceed with a capital facilities program, and establish a development agreement to ensure that necessary conditions will be met, such as provision of a reasonable percentage of affordable/low income housing, then the Town should turn down the Notice of Intent and Petition to Annex until the necessary programs are in place.

Jim Koetje suggested that the property owner be encouraged to partner with a private developer.

Scott Thomas believes the property owner prefers to close an agreement and walk away.

Dave Sheridan (acting County Public Works Director) asked why a public entity is in the development business.

Scott Thomas responded that public entities are in the development business all the time, for example, there is a Housing Authority in every county.

Margaret Fleek added that Skagit County has three housing authorities present (Skagit, Anacortes, and King County Housing Authorities).

Curt Miller added that public entities are in the development business when there a public need/benefit is involved, as with the provision of essential public services such as roads or in this case, low-income housing.

Dave Sheridan asked about using zoning and annexation to manage town relocation site development and assure this promotes the removal of floodway residents.

Margaret stated that the Town will establish the zoning for the land to be annexed, locate the public facilities such as City Hall and the Post Office, set the standards and layout for the street system and utilities, put together Low Impact Development and Green Building standards, and likely include a development agreement as part of the zoning that addresses a requirement for a percentage of affordable/low income housing and some other factors that can be regulated.

Kirk Johnson asked the group to consider the Integrated Solutions report question of “What is the PDA purpose?” Kirk voiced his support for the Integrated Solutions’ recommendations to:

- Focus on continuing to help people out of the floodway (FEMA buyouts).
- Help people relocate to affordable housing elsewhere. It’s cheaper to build affordable housing in Concrete and Sedro-Woolley, where infrastructure is in place.
- Strictly enforce existing floodplain development codes and restrictions.
- Pursue floodway habitat restoration projects in Hamilton.

Kirk added that he does not believe there are enough public resources available to make this relocation site purchase and infrastructure development affordable. He sees the role of the town

limited to adopting capital facilities plans, establish zoning and other relevant standards. for the UGA area and leave it up to the private sector to buy the land and develop it.

Dave Sheridan agreed that floodway buyouts should be the focus.

Scott responded that no political representative supports an abandonment or picking apart of the Hamilton community, which is what the result of these recommendations would be over time.

Margaret Fleek added that Hamilton is very competitive for infrastructure grant funding, as a low-income community. Neighboring Sedro-Woolley and Concrete have to charge developers expensive fees for infrastructure connection fees and then the developer may also have to pay for the construction of the infrastructure improvements with little or no opportunity for payback agreements. These high development costs make lots less affordable. With Hamilton, our opportunity to pursue grant funding for infrastructure enables us to pass on that savings to developers in the form of low cost lots for affordable housing projects.

Lauren added that the Integrated Solutions report approached relocation site financing as entirely a low-income rental development. There is no revenue in low-income rentals. Commercial development is the way to cover land purchase loan debt service.

Margaret added that she is hearing two options: 1. Complete all the capital improvement planning, assess site suitability (with archeologist at any soil excavation sites), complete the concept planning for the Town zoning and layout with the Town Council and interested citizens with a community workshop(s) that starts with the planning work completed for the UGA planning process and get as ready as possible in case an acceptable funding mechanism is identified. At that point, if there is no acquisition funding option that works, 2. If nothing comes together to fund acquisition, ask the property owner to petition to annex and encourage them to sell to a private developer. There is risk with this, as the town has learned from past failed private sector-led town relocation efforts. But, the town could use zoning and development agreements to help regulate development so that town relocation goals are protected and advanced (e.g. requiring a % of housing units to qualify as affordable).

Jim Koetje reported that a reasonable and conservative commercial value the PDA may expect would be \$4-\$5 per square foot. Also, it would be reasonable to expect this price by selling 4-5 acres within the first 3-4 years after land purchase, if infrastructure begins quickly. To attract private development interest and to assure that lease space will be affordable for small businesses, having infrastructure grant funded is important. The logical first commercial development would seek to include a federal Post Office contract and a developer would talk with existing businesses about their intention to relocate. It would be reasonable to expect to sell the remaining commercial area for more money, say \$6-\$8 per square foot, because the first relocated businesses have paved the way for more to follow. Over a ten year period, it is reasonable and conservative to expect to generate about \$2.3 million in revenue from commercial lot sales.

Kirk Johnson asked what the potential is in the county for constructing affordable housing units, adding that the self-help housing project in Mount Vernon (Rosewood) was a bust.

Jim Meyer responded that the Home Trust of Skagit is just beginning (a Community Land Trust Model) and that there is frustration with the Housing Authority of Skagit's lack of proactive development (70 new units in 30 years). In this market, there is potential for the Home Trust picking up foreclosure homes but there is no funding ready to pursue this. Also, there is talk of

the Housing Authority of Skagit County bringing on an affordable housing developer to their staff, but it will take time before any projects are realized. There is a huge need to create more affordable housing units countywide and more capacity for the Housing Authority to do this work.

Commissioner Dillon added that Hamilton needs greater diversity in housing, not just all low-income.

Curt Miller added that the residents of Hamilton want to remain a town, rather than be scattered.

Dale Bonner added that more FEMA-funded buyouts of floodway homes equals an increasingly debilitated and impoverished community.

Jim Koetje asked if grant funds for infrastructure are available to the private sector. If the PDA and town do not want to buy the relocation site, they might instead work with the property owner to increase their property's marketability to the private sector by finishing all of the site assessment work (ground water study, boundary and topographical survey, financial assessment, archeological assessment, etc.), zone the UGA areas for commercial and residential uses, and complete the infrastructure planning with agreements in place to develop the infrastructure using grant funds. Grant funded infrastructure would be a big incentive for developers, saving them between \$25,000 and \$35,000 per lot.

Lauren Tracy responded that there is grant funding for low-income communities to design, engineer and build infrastructure (e.g. community development block grants, USDA funds, county public facilities funds, etc.). Lauren cautions the use of public funds for this predevelopment work without a commitment to pursuing public control of the site. For example, the more predevelopment work completed the more valuable and expensive the property becomes. The more expensive the property, the more expensive the commercial leases and housing costs will need to be. A more secure way to assure affordable commercial leases and housing is get the site in public control at this current, lower, undeveloped cost, and then invest public funds for infrastructure.

Commissioner Dillon agreed that commercial development should be the first priority, with relocation of the Town Hall. Residential will follow as people invest in the new town site.

Dale Bonner agreed that breaking ground with this property represents hope for town residents that has been missing for many years.

Lauren Tracy added optimistically that if there is political will to move forward then there should be a financial way to make it happen. There is no perfect loan financing fit for this request. It will require political lobbying for financing with exceptions to existing programs.

Margaret Fleek recommends finishing the Capital Improvement Plan, site assessment, site layout and zoning, advise the property owner to consider signing a petition to annex, and return the unused state and federal funding if there is a lack of an acceptable funding solution to move forward with site purchase.

Commissioner Dillon stated that she cannot sign her name to a loan for \$1 million without assurance that debt service is payable.

Lauren Tracy responded that this is the same assurance that a government lender, such as the Public Works Board would require. We propose to contract with experienced commercial/residential developers Dan Mitzel and Jim Koetje to prepare a ProForma financial

plan for this debt service and PDA program operations. This is standard predevelopment work that would be undertaken by any developer proposing to purchase this site.

Kirk Johnson is troubled by Lauren's "political will" comments. Kirk commented that our country's current financial meltdown is due in large part to speculative investing. There is real concern with PDA investment of public money into a development that is a bust and faces defaulting loans.

Jim Koetje responds that if he were the property owner, we would see everything we are doing as only increasing the value of his property (e.g. UGA inclusion, ground water study, survey work, zoning, etc.). Usually, the buyer would need to assume all of these predevelopment costs and would spend a year or more doing it. All of this work reduces risk by providing crucial information that any developer and lender would require in order to make an informed investment decision.

Margaret Fleek adds that there is additional value in the floodway portions of town with habitat development. The wetlands reconnaissance work we are doing now is laying the foundation for putting dollar values to restoration projects.

Jim Meyer stated that the PDA should support this predevelopment work but should not become developers.

Jim Koetje responded that the PDA is acting like a Port Authority in doing this work. Ports own the land, do the predevelopment work, put infrastructure in, and then make lots available for private sector use. This is no different.

Commissioner Dillon added that the PDA and Town should pursue the master planning work.

Curt Miller commented that this town relocation effort is very much an organic, dynamic process that ebbs and flows and should keep moving forward.

Dave Sheridan asked if it is reasonable to expect town residents to move to this new site.

Dale Bonner suggested that maybe 30% of floodway residents would move. Plus, in time residents will die or leave the area.

Lauren Tracy added that 23 homes have already been permanently removed. A logical place to begin relocation residential development at the relocation site is by replacing this housing stock with affordable units.

Chuck Steele asked about physically moving homes from the floodway to lots at the new site and a lower cost alternative to new construction.

Dale Bonner agreed that there are some nice homes and it would be important to have these moved as a means of retaining the town's historic past. Other homes may have mold or structural issues as a result of repetitive flooding.

Commissioner Dillon enthusiastically supports moving the Town Hall first, as a statement.

Kirk Johnson asked if we have consensus and can make a motion to move forward with support for relocation site master planning and other predevelopment work but not with property purchase. Kirk asked if we could modify the existing state and federal grants identified for relocation site purchase to instead pay for master planning and other predevelopment work.



Scott Thomas indicated that there is state interest in relocation site purchase as evidenced by the Governor's Office requesting from him an update, rather than him pursuing their office. Lauren Tracy expressed great frustration and anger with the Board's lack of decisive support for moving forward with pursuing financing for site purchase. Lauren indicated that relocation site purchase is the final task with the PDA's 2007-2009 FCAAP-funded workplan. Lauren reminded that the purpose of the \$147,750 state appropriation and the \$198,000 federal appropriation are relocation site purchase. Lauren expressed a reluctance to ask that these funds be used instead for continued planning if the PDA Board is not committed to pursuing site purchase for development. Lauren underscored that the "D" in PDA is for Development and expressed outrage that in this 11<sup>th</sup> hour of PDA funding, Board members are now deciding that site purchase is outside the PDA's scope. Lauren added that it is obscene that, with more than \$10 million of public funds and flood insurance payments having been poured into Hamilton (pop. 309) for flood-related costs, that some PDA Board members now contend that the private sector should assume the leadership role in moving town relocation forward. Lauren indicated her refusal to believe that \$1 million in government loans does not exist to buy this town relocation site, or that government lenders would not allow loan payments to be deferred until revenue from lot sales begins to accrue. Lauren asked the Board what would be the purpose of asking the state to continue granting the PDA money for the 2009-2011 biennium if the Board is not committed to pursuing site purchase for development. With expressed anger, Lauren Tracy asked each Board member to, for the record, give their position on moving forward with pursuing loan financing.

- Commissioner Dillon responded that NO, she does not support moving forward with pursuing loan financing, and encourages the town to move forward if they choose.
- Jim Meyer responded that No, he does not support moving forward with pursuing loan financing.
- Margaret Fleek responded that she does not have enough information to offer a position on moving forward with pursuing loan financing and recommends the site and financial assessment work be completed so she may make an informed decision.
- Dale Bonner responded that the town lacks the capacity to do this without county support, and yes, he does support moving forward with pursuing loan financing and will continue to work to provide the site and financial assessment information.
- Kirk Johnson did not offer a direct response.

Jim Koetje indicated that using conservative, guarded financials in today's market is wise. In preparing a conservative ProForma assessment for moving forward with pursuing loan financing, he would start by finding out from the:

- Town where they would want to locate their Town Hall and how much land they would want to set aside;
- Post Office what their lease is, determine the lease cost for a new facility (assume \$100 per square foot), and when/where they would want to locate a new office;
- Existing businesses (market/café, tavern) what their lease is, what it would be in a new facility, and when/where they would want to relocate;
- Get letters of intent to relocate from existing businesses;

- What the development timeframe would likely be if infrastructure were prioritized at this first phase commercial core. After 18-24 months with these in place, it will be easier to draw additional businesses and franchises (e.g. Subway, pizza, etc.).

Dale Bonner asked Board permission to provide the property owner with a “right-of-entry” request that grants permission for site assessment contractors to access to the property and complete their studies.

Scott Thomas recommends providing the property owner with a plan for the next 3-months for the various predevelopment work activities so that the PDA remains engaged with and in good standing with the owners.

Lauren Tracy summarized the predevelopment activities that the Board supports completing including: capital infrastructure planning, ground water survey, NEPA environmental assessment with archeological/cultural preservation requirement, ALTA survey (boundary, topographical, easement, etc.). Lauren asked for Board permission to contract for a conservative ProForma assessment of the site’s development/revenue generation potential and timeframe.

Jim Meyer made a motion to contract for an objective financial feasibility assessment of the site’s commercial and residential development/revenue generation potential and to prepare a debt service plan that applies the financing criteria required by commercial and government lenders, whichever is more stringent. Kirk Johnson asked that the motion be amended so that financial feasibility be conducted by unbiased, objective persons. The amended motion was seconded by Margaret Fleek, and all in favor.

### **Other Business**

Margaret made a motion to approve the Community Action contract for land trust program development work, funded by a USDA Rural Community Development Initiative grant awarded to the PDA and the matching funds commitment letter. This was seconded by Jim Meyer, and all in favor.

Margaret made a motion to approve the Josef Kunzler contract for database and mailing list development work funded by the FCAAP grant awarded to the PDA. This was seconded by Jim Meyer, and all in favor.

**Meeting Adjourned at 10:00 am**