

HOUSE BILL REPORT

HB 2930

*As Passed House
February 14, 1992*

Title: An act relating to the state convention and trade center.

Brief Description: Refunding construction obligations for the state convention and trade center.

Sponsor(s): Representatives Locke, Prince and Ferguson.

Brief History:

Reported by House Committee on:

Capital Facilities & Financing, February 5, 1992, DP;
Passed House, February 14, 1992, 91-1.

**HOUSE COMMITTEE ON
CAPITAL FACILITIES & FINANCING**

Majority Report: *Do pass.* Signed by 12 members:
Representatives H. Sommers, Chair; Rasmussen, Vice Chair;
Schmidt, Ranking Minority Member; Neher, Assistant Ranking
Minority Member; Beck; Brough; Fraser; Jacobsen; Ogden;
Peery; Silver; and Wang.

Minority Report: *Do not pass.* Signed by 1 member:
Representative Heavey.

Staff: Bill Robinson (786-7140).

Background: In 1982, the Legislature created a public non-profit corporation to build and operate a state convention and trade center. The convention center was to be a joint public/private development located over the I-5 freeway in downtown Seattle. The lower levels of the building, which consisted of the land, parking lot, and retail space, were to be owned and developed by the private party, and the upper levels containing the exhibit halls, meeting rooms, and lobby were to be owned and developed by the public corporation. The private developer, CHG, had the obligation to pay all the costs of the lower portions of the building. This obligation was shared by CHG's lender, Westside Federal Savings and Loan, and was backed by a financial guaranty bond of \$30 million provided by Industrial Indemnity Co.

In 1984, CHG filed for bankruptcy and Westside Federal Savings and Loan acquired the land, which CHG had owned, and assumed responsibility for construction of the parking and retail portions of the convention center. In 1985, Westside closed its doors and was placed in receivership by the Federal Savings and Loan Insurance Corporation (FSLIC). Under agreement between the parties, construction was allowed to continue until a final agreement on the major business disputes between the federal receiver, the bonding company, and the convention center was reached in early 1987.

Under the agreement the state received:

1. All private land occupied by the Convention Center;
2. The retail space;
3. The parking garage;
4. The adjacent Eagles Building; and
5. \$29.2 million in cash from the Industrial Indemnity Co.

In exchange the state agreed to:

1. Complete construction of the convention center;
2. Pay \$5 million to the receiver (FSLIC);
3. Satisfy the outstanding title claims of approximately \$1 million; and
4. Make payments totaling \$29.2 million from parking revenues for the next 30-year period to Industrial Indemnity Co.

The remaining private property, the McKay building, was placed in trust with the state, with the obligation to sell it and divide the proceeds equally between FSLIC and Industrial Indemnity Co. In 1987, the Legislature allowed the State Convention Center temporarily to borrow \$8.9 million from the state treasury to purchase the McKay property and to pay off the obligation to FSLIC and the Industrial Indemnity Co. The McKay property would then be sold to repay the treasury loan.

Parking Revenues to Industrial Indemnity Co.(IIC)

In exchange for the cash settlement of \$29,250,000 paid by IIC to complete construction of the convention center, the Washington State Convention and Trade Center issued a revenue note to IIC requiring the convention center to pay \$975,000 from parking revenues for each of the next 30 years. If the amount of net revenues in any year is less than \$975,000, the convention center is obligated to pay 11 percent interest on the shortfall.

Early projections indicated that there would be sufficient annual parking revenues to make payment on the revenue note. But due to the high vacancy rate in downtown Seattle, the parking revenues have been insufficient to make the annual payments of \$975,000. The accumulated shortfall from the first three years of operation is projected to total one full payment, approximately \$970,000 by February 1, 1992. Projections of future garage revenues show that interest payments to IIC on the shortfall will total \$3,349,000 over the next six years. Present favorable interest rates provide the opportunity to issue general obligation bonds to refund the revenue note with IIC. A \$2.3 million bond issue could be used to pay the shortfall plus interest and to prepay the next two installments due to IIC. At an estimated interest rate of 6.25 percent, a 10-year bond would result in a net savings of \$2.4 million to the Washington State Convention Center.

Extend Date for Repayment of the Temporary Borrowing for the McKay Building.

In 1987, the Legislature authorized the Convention Center temporarily to borrow funds from the state treasury to complete construction of the center and purchase the McKay building. The loan was authorized until bonds could be sold at a favorable interest rate. Because the Convention Center intends promptly to re-sell the McKay building, the treasurer advised that the \$8.9 million purchase be financed with temporary borrowing rather than bonds. So, the Convention Center now owns the McKay parcel and owes the treasury \$8.9 million plus interest.

The Convention Center is seeking to sell the McKay property but is concerned that it will be unable to secure the best price for the property. In 1991, the Legislature extended the repayment date from 1991 to 1993, because the market conditions in Seattle were not conducive to sale of the property. Since that time, market conditions in downtown Seattle have not improved and the Convention Center is requesting another two-year extension on the repayment date.

Summary of Bill: The date by which temporary borrowing from the state treasury must be repaid is changed from June 30, 1993 to June 30, 1995, and the authorized use of Washington State Convention and Trade Center bonds is expanded to include refunding obligations of the parking garage revenue note issued to Industrial Indemnity Company. The sum of \$2.3 million is appropriated from the state convention and trade center account for refunding the obligations of the parking garage revenue note issued to Industrial Indemnity Company.

Fiscal Note: Not requested.

Appropriation: \$2.3 million from the state convention and trade center account.

Effective Date: The bill contains an emergency clause and takes effect immediately after enactment.

Testimony For: The bill will reduce the interest costs to the convention center and allow the convention center to sell the McKay parcel during more favorable market conditions.

Testimony Against: None.

Witnesses: Egil Krogh, Washington State Convention and Trade Center.