



King County

Metropolitan King County Council

STAFF REPORT

Proposed No.:	2020-0266	Name:	Brandi Vena
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SUBJECT

Proposed Ordinance 2020-0266 would approve a lease between King County and Verizon Business Services, for county-owned space located at 22706 120th Avenue Southeast, Kent, Washington.

SUMMARY

The original ground lease for this property expired on October 14, 2019. King County and Verizon Business Services subsequently entered into a one year extension while lease negotiations took place. That extension is set to expire on October 14, 2020. The proposed ordinance would convert the ground lease to a new facility lease between the parties for a term of 10 years with options to extend which, if exercised, put the total term of the proposed lease at 35 years. Proposed Ordinance 2020-0266 would effectuate the new lease terms and increase the base rent to approximately 80% over the existing rate. The proposed ordinance would comply with county code and the county strategic plan.

BACKGROUND

King County originally entered into a lease with MCI Telecommunications Corporation (MCI) on October 9, 1984. This was a ground lease with a term of 20 years and an option to extend for 15 years. That option was exercised upon mutual agreement. MCI subsequently began constructing data center improvements in 1985 with other additions and remodels thereafter. The original lease required that any improvements made by the tenant reverted back to King County ownership at expiration of initial lease term.

In 2004, through a managed bankruptcy, MCI subleased its interest in the facility (and tower) to Verizon Business Services (Verizon) which has occupied the facility since. The original lease was scheduled to expire on October 14, 2019, however, King County and Verizon executed a one-year lease extension while negotiations for a new long-term lease were ongoing. The one-year extension becomes null-and-void upon execution of a new, long-term lease.

ANALYSIS

The Property

Verizon's operation sits on a King County-owned parcel comprised of a total of 199,766 square feet of land improved with a communications switch building originally constructed by MCI. The building contains 27,009 net rentable square feet (RSF) and includes a 190 foot self-supporting communications tower. The communications tower occupies approximately 2,442 square feet of land, and is managed by a third-party telecommunications asset management entity, SBA Communications, under a separate King County lease.

Lease Term

The lease term is for 10 years, with five successive options to extend the lease for five years each. If all options to extend are exercised, the total potential term of the lease is 35 years.

Financial Considerations

Under the proposed lease terms, King County would collect \$182,311 per year, or \$15,193 per month, plus Leasehold Excise Tax. This is also a triple net (NNN) lease, which means that Verizon will pay for its share of property taxes, insurance and common area maintenance in addition to the base rent. King County can therefore expect to receive \$373,086 in the first year of the proposed new lease. Additionally, the proposed new base rent will increase 3% annually and will be adjusted every five years. Executive staff state that this rental rate was reached in consultation with an independent appraiser and represents an 80% increase over the existing rate due to the reversion of the improvements made by MCI and for which King County can now charge rent.

Compliance with County Code

As provided in K.C.C. 4.56.160, with some exceptions, all leases of county real property must be leased at fair market rental value and all leases must be awarded upon the best terms and conditions available to the county.

Executive staff state that, because of the hybrid data center and industrial characteristics of the building on the property, the independent appraisal consultant developed a hybrid appraisal as well as a broker-opinion-of-value both of which resulted in an assigned rental value that is 25% higher than a market-area industrial building. Based on this information, the terms of the lease appear to be consistent with county code.

Consistency with County Policy

The King County Strategic Plan sets forth four guiding principles and seven goals to help in achieving the county's mission of providing "fiscally responsible, quality-driven local and regional services for healthy, safe, and vibrant communities." Executive staff state that this lease supports the strategic plan guiding principle of Financial Sustainability by increasing revenue from this site to current market rates, and the goal

of delivering local and regional services by continuing to support telecommunications service delivery through this site thereby connecting residents throughout the County.

Timing

The one-year extension to the original lease expires on October 14, 2020.

ATTACHMENTS

1. Transmittal Letter
2. Fiscal Note
3. Lease Property Summary



King County

Dow Constantine

King County Executive

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July 23, 2020

The Honorable Claudia Balducci
Chair, King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember Balducci:

This letter transmits a proposed ordinance that, if enacted, will enable King County to renew its lease with Verizon Communications for county-owned space located at 22706 120th Avenue SE, Kent, Washington.

This new lease for an existing operation supports the provision of King County operations and services.

This transaction is recommended per the rationale and considerations provided in the attached property summary.

This transaction supports the King County Strategic Plan guiding principle of Financial Sustainability by increasing revenue from this site to current market rates, and the goal of delivering a seamless network of telecommunications options in order to connect residents throughout the County by continuing to support telecommunications service delivery through this site.

Thank you for your consideration of this proposed ordinance. If your staff have questions, please contact Anthony Wright, Director, Facilities Management Division at 206-477-9352.

Sincerely,

Dow Constantine

King County Executive

The Honorable Claudia Balducci

July 23, 2020

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cc: King County Councilmembers

ATTN: Carolyn Busch, Chief of Staff

Melani Pedroza, Clerk of the Council

Shannon Braddock, Deputy Chief of Staff, Office of the Executive

Karan Gill, Director, Council Relations, Office of the Executive

Caroline Whalen, County Administrative Officer, Department of Executive Services
(DES)

Anthony Wright, Director, Facilities Management Division (FMD), DES

Bryan Hague, Manager, Real Estate Services, FMD, DES

KING COUNTY FISCAL NOTE - Property Leases and Sales

GENERAL TRANSACTION INFORMATION

Ordinance/Motion:				Transaction Duration:	10 yrs
Title:	Verizon Lease Kent			Fair Market Value:	\$ -
Affected Agency/Agencies:	Facilities Management Division/Real Estate Services			Legal Transaction Type:	Lease Renewal
Note Prepared By:	Carolyn Mock / Stephen Cugier	Date Prepared:	6/18/20	Fiscal Transaction Type:	Stand Alone
Note Reviewed By:					
Description of Request:	Verizon Communications Lease - 22706 120th Ave SE, Kent				

FINANCIAL IMPACTS

Part 1 - Net Present Value Analysis Results

Net Present Value to King County (all impacts): ***	NA	Net Present Value to Primary Impacted Agency (customer of transaction): ***	NA
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Part 2 - Revenue and Expenditure Impacts

As of the preparation date of this fiscal note, the impact of the above legislation on the **financial affairs** of King County is *estimated* to be as indicated below:

Revenue to: ^{2,3,5}

Appropriation Unit	Appr. Number	Department	Fund Number	Project Number	Revenue Account Code and Source/Description	Sum of Revenues Prior to 2019	2019 / 2020	2021 / 2022	2023 / 2024	Sum of Outyear Impacts ²
FMD/Real Estate Services	A44000	DES	0010		36258 - Wireless Antenna Site Rent - Estimated Start Date 10/1/20	\$ -	\$ 45,578	\$ 372,867	\$ 395,574	\$ 1,275,972
						\$ -	\$ -	\$ -	\$ -	\$ -
						\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL						\$ -	\$ 45,578	\$ 372,867	\$ 395,574	\$ 1,275,972

Expenditures from: ^{2,3,4,5}

Appropriation Unit/Expenditure Type	Appr. Number	Department	Fund Number	Project Number	Expenditure Notes	Sum of Expenditures Prior to 2019	2019 / 2020	2021 / 2022	2023 / 2024	Sum of Outyear Impacts ²
Real Estate Services Labor Costs						\$ -	\$ -	\$ -	\$ -	\$ -
King County Project Management						\$ -	\$ -	\$ -	\$ -	\$ -
Lease Payments/Associated O&M						\$ -	\$ -	\$ -	\$ -	\$ -
Service Costs (Appraisal, Title, Move)						\$ -	\$ -	\$ -	\$ -	\$ -
Tenant and Other Improvements						\$ -	\$ -	\$ -	\$ -	\$ -
10% Art for General Fund Transactions						\$ -	\$ -	\$ -	\$ -	\$ -
Other Transaction Costs						\$ -	\$ -	\$ -	\$ -	\$ -
SUBTOTAL						\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate Services Labor Costs						\$ -	\$ -	\$ -	\$ -	\$ -
King County Project Management						\$ -	\$ -	\$ -	\$ -	\$ -
Lease Payments/Associated O&M						\$ -	\$ -	\$ -	\$ -	\$ -
Service Costs (Appraisal, Title, Move)						\$ -	\$ -	\$ -	\$ -	\$ -
Tenant and Other Improvements						\$ -	\$ -	\$ -	\$ -	\$ -
10% Art for General Fund Transactions						\$ -	\$ -	\$ -	\$ -	\$ -
Other Transaction Costs						\$ -	\$ -	\$ -	\$ -	\$ -
SUBTOTAL						\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL						\$ -	\$ -	\$ -	\$ -	\$ -

APPROPRIATION IMPACTS

As of the preparation date of this fiscal note, the impact of the above legislation on the **budget appropriation** of King County is *estimated* to be as indicated below: ¹

Appropriation Unit	Appr. Number	Department	Fund Number	Project Number	Appropriation Notes	2019 / 2020 Appropriation Change	Total 6-Year CIP Outyear Planning Level Costs
					0	\$ -	\$ -
						\$ -	\$ -
						\$ -	\$ -
TOTAL						\$ -	\$ -

Assumption and Additional Notes:

*** An NPV analysis was not performed because ...

- If the expenditure impact equals or exceeds five percent of the fund expenditures, a copy of the most recent applicable appropriation unit financial plan is attached to this transmittal.
- The sum of outyear impacts is provided for capital projects and agreements. This sum for revenue and expenditures includes all revenues/expenditures for the duration of the lease/other agreement or life of the capital investment.
- This transaction does not require the use of fund balance or reallocated grant funding.
- The transaction is backed by new revenue. The new revenue does not include grant revenue. The new revenue has not been received. The new revenue will be received by ...
- A detailed explanation of how the revenue/expenditure impacts were developed is provided below, including major assumptions made in developing the values presented in the fiscal note and other supporting data:
 - Estimated start date 10/1/20
 - Base rent increases 3% annually. May be adjusted every 5 years to fair market rental value

Lease Property Summary



Property Owner: King County Facilities Management Division
Lessee: Verizon Communications
Address: 22706 120th Avenue SE, Kent, WA 98031
Cost Per Sq. Ft.: \$182,311.00 per annum (NNN), \$15,192.58 per month (NNN) + Leasehold Excise Tax (L.E.T.)
Term: 10-years, with five, (5-year) extension options
Square Footage: The operation sits on a King County-owned parcel comprised of a total of 199,766 square feet of land improved with a communications switch/industrial flex building constructed by Lessee which contains 27,009 square feet of net rentable area including a 190' self-supporting communications tower. The communications tower occupies approximately 2,442 square feet of land, and is managed by a third-party telecommunications asset management entity, SBA Communications, under a separate King County lease.
Council District: Five
Offer expiration: The Master Lease expires October 14, 2020

Lease Synopsis:

King County Facilities Management Division wishes to develop a new lease for the existing Verizon Communications operations at a telecommunications facility located in Kent, that provides for King County transitioning from a ground lease to a facility lease. The rent King County will be charging at the commencement of the new lease term is at market level for a facility of this type and will account for an 80% increase in annual rent. This lease provides important revenue for King County with a high credit rated tenant that has invested considerably into the property.

Context

In 1984, MCI Communications executed a 35-year ground lease with King County and constructed a 27,000 SF telecom facility and 190' communications tower. In 2004, through a managed bankruptcy, MCI subleased its interest in the facility (and tower) to Verizon Communications who has occupied the facility since. The Master Lease was scheduled to expire on October 14, 2019, however, King County and Verizon executed a one-year lease extension because negotiations for a new long-term lease were not yet concluded. The one-year amendment/extension becomes null-and-void upon execution of the new, long-term lease.

Policy considerations: Continuation of this lease to Verizon Communications maximizes revenue for King County and supports telecommunications service delivery to the area including cellular, telephone and internet service.

Political considerations: n/a

Community considerations or partnerships: There is no known community opposition or support for this tenancy or lease.

Fiscal considerations: The independently appraised and negotiated rental rate established under the new, extended, lease term represents a 80% increase over the existing rate. The new annual rent will increase 3% annually and will be adjusted every five years. This will serve as valuable revenue for King County now and into the future.

Other considerations: n/a

CIP/operational impacts: n/a

King County Strategic Plan impact: This transaction supports the King County Strategic Plan guiding principle of Financial Sustainability by increasing revenue from this site to current market rates, and the goal of delivering a seamless network of telecommunications options in order to connect residents throughout the County by continuing to support telecommunications service delivery through this site.

Equity and Social Justice impact: In accordance with Real Property Asset Management Plan (RAMP) policy, the Facilities Management Division reviewed this legislation for Equity and Social Justice (ESJ) impacts. This location is in the East Hill neighborhood of Kent. Renewing this lease, utilizing existing infrastructure, allows the lessee to continue providing telecommunications service through this location without any new ESJ impacts.

Energy Efficiency impact: N/A

Lease Alternatives Analysis

Due to the unique characteristics of the subject property, the Facilities Management Division employed a comprehensive property-valuation process that involved multiple data points, including a property appraisal and broker opinion-of-value, all of which informed the rate negotiations.

Vicinity View Map



Parcel Map

