



**CITY OF KIRKLAND**  
**Department of Public Works**  
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[www.ci.kirkland.wa.us](http://www.ci.kirkland.wa.us)

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## MEMORANDUM

**To:** Dave Ramsay, City Manager

**From:** Donna Burris, Internal Services Division Manager  
Greg Neumann, Water Division Manager  
Daryl Grigsby, Public Works Director

**Date:** November 24, 2009

**Subject:** NEXT STEPS FOR SOUTH ROSEHILL WATER DISTRICT BUILDING

### RECOMMENDATION

It is recommended that the Joint Board moves forward with the demolition of the South Rosehill Water District Building (approved by the Finance Committee on October 27).

### BACKGROUND DISCUSSION

In 1994, the Cities of Redmond, Bellevue, and Kirkland assumed joint ownership (Joint Board) of the Rosehill Water District. As part of this assumption, the Water Utilities of Redmond and Kirkland also became the owners of the South Rosehill Water District Building located on the South Rosehill Reservoir (water tank) site (13013 NE 65<sup>th</sup> St.). This building served as the District's Operations and Maintenance facility and also housed office staff.

As part of the conditions of the joint ownership, Kirkland was charged with the physical upkeep and maintenance of the South Rosehill Water District Building with Redmond sharing in costs for repair. Conversely, any revenues from lease agreements would also be shared of which Kirkland has 66% interest to Redmond's 34%.

Since 1994, various tenants have occupied this building with Hopelink being the most recent. Before Hopelink became a tenant, numerous discussions by the Joint Board took place to determine next steps for the building. During a meeting held on April 28, 2005, the Joint Board determined the building should be demolished because of the condition of the building, and security concerns for the reservoir and the pump house due to evidence of unauthorized access over the chain-link fence and barbed wire. Plans to move forward with this decision were put on hold to accommodate the Hopelink lease. Hopelink's lease ended on August 15<sup>th</sup> of this year. The building is currently vacant and this presents an optimal opportunity to determine the next steps.

As Kirkland looks towards long-term needs with possible annexation on the horizon, this property has been reviewed as potential property to accommodate City of Kirkland staff. Options to lease or purchase the building are examined below.

### LEASING THE BUILDING

In today's market, if the building was leased, the average rent for this property would be approximately \$3,500 per month with the tenant paying all operating expenses (excluding repair of the roof, foundation, and building exterior). The income approach calculation for the Joint Board would be as follows:

\$42,000	Gross Income per year
<u>-\$ 2,100</u>	(Less 5% vacancy)
\$39,900	Effective Gross Income
<u>\$5,000</u>	Miscellaneous Expenses
\$34,900	Net Operating Income (NOI)

It has not been the intention or desire of the Joint Board to continue as a "landlord" of the facility. A replacement fund was not established for major repairs or upgrades, thus the concern that future lease revenues would not be able to cover future costs. The roof is in need of replacement, the building is on a septic system, and the plumbing, electrical, etc. is 39 years old (the building was constructed in 1970). The Joint Board would need to invest approximately \$105,000 prior to putting the property on the market for lease. This would be the minimum amount of work necessary to have the building ready for leasing. With a \$34,900 NOI, the Joint Board would have a negative return on investment (ROI) for three years. The following is a list of the building's immediate needs:

a.)	Roof replacement costs -	\$25,000
b.)	HVAC system replacement costs -	\$20,000
c.)	Connection to the sewer system -	\$20,000
d.)	Paint, carpet, other flooring -	\$20,000
e.)	Gutters -	\$10,000
f.)	Lighting -	\$10,000

If Kirkland decides to pursue the option to lease the space for annexation, we would be required to pay the Joint Board market rate plus all operating costs. Set-up cost, if we lease, is about \$56,000, which includes signage, computer hardware, fiber connection, fire alarm panel installation, and furniture. Minimal annual maintenance costs are estimated to be approximately \$55,000 excluding salaries/wages for Facilities staff and ground maintenance.

### CITY PURCHASES BUILDING

On October 6, 2009, staff obtained a professional opinion from Ryan Dunham Real Estate as to the value of the property. Based on assessment of comparable property in the area, they estimate the 4,104 square foot building is valued at \$750,000 "as-is" with needed repairs performed and paid at the new owner's expense. However, the building does not sit on a separate legal lot and the property would need to be subdivided or a ground lease agreement created in order for the Joint Board to sell the property. Subdividing the property is not feasible due to the proximity of the building to the reservoir and pump house which cannot accommodate the required setbacks.

Downsides to pursuing this space for any annexation needs are as follows:

- 1) The building is located at the opposite end of the annexation area and is therefore not central to the layout of the city.
- 2) The only logical use for this space would be to staff it with the Water Division as they do not have any added responsibilities as a result of annexation.

3) The neighbors will not allow any type of maintenance use due to noise concerns.

The Department of Health (DOH) and the Department of Homeland Security have also expressed security concerns which are detailed in the Vulnerability Assessment Plan performed in June 2004. An excerpt from the assessment regarding the South Rosehill site is as follows:

*The South Rose Hill Reservoir is a partially wooded site with mature trees. The site shows significant evidence of unauthorized access over the chain-link fence and barbed wire. There is additional damage to the barbed wire from downed branches and overgrown vegetation. A conduit for a perimeter detection system is on the fence, but damaged in many places from past intrusions and downed trees. The conduits on the sides of the tanks are generally well covered, although there are some exposed conduits. This site is clearly visible from the main street and is surrounded by various densities of residential housing. Rolling gates are unlocked and open to the site during normal business hours. There is a motion detector below the tank ladder, but it can be easily bypassed with a standard ladder. Additional security features would include the following:*

- *Actively maintained barbed wire and chain link fences.*
- *Upgraded locks on gates, hatches, and vaults.*
- *Adequate perimeter alarm system.*
- *Hatch and vault alarms.*
- *Upgraded perimeter and motion detection.*
- *Video surveillance.*

The cost to upgrade the security to meet the DOH's requirements is \$454,175. Any purchase or lease of this building will preclude the ability for the Joint Board to secure the water reservoir as required especially if the building remains open to the public during normal business hours. In addition, the Cities of Redmond and Bellevue have expressed concern that Kirkland has been unable to assure the safety of the water to their customers.

#### DEMOLISH THE BUILDING

Due to the age of the building, the cost of upgrades, the need for better security of the reservoir and the pump house, the undesirable location if utilized for annexation, and the limited type of occupants that can be housed in this facility (neighborhood concerns), staff recommends that the South Rosehill Water District Building be demolished. Redmond is in agreement with demolishing the building (see attached). On October 27, the Finance Committee reviewed all options and approved the building's demolition as the preferred next step.

In addition to security upgrades, the cost associated with the demolition would be approximately \$20,000 and an additional \$10,000 to install new fencing. These costs would be incurred by the Utilities of the Joint Board.

Upon demolition, the Joint Board will continue to maintain the site to keep the area from becoming a weed patch and a blight on the neighborhood.

Staff respectfully asks that you consider the demolition option. Please direct any questions to Donna Burris (x3931) or Greg Neumann (x3910).

ATTACHMENT



November 20, 2009

City of Kirkland  
123 Fifth Avenue  
Kirkland WA 98033

ATTENTION: Donna Burris

SUBJECT: Demolition of the South Rose Hill Building

Please consider this letter Redmond's reaffirmation with the planned demolition of the South Rose Hill building.

The Rose Hill Water District was assumed in 1997 by Bellevue, Kirkland and Redmond. With the division of Rose Hill assets, the South Rose Hill building and tank site became a jointly-owned facility with Kirkland. All jointly-owned facilities are governed by a Joint Board that consists of a representative from each city.

Currently the building stands next to the tank and is unoccupied. At a Joint Board meeting held November 4, 2004, it was determined that the building should be torn down. The minutes from that meeting clearly state that the Joint Board unanimously approved demolishing the building.

Redmond continues to believe that the building is no longer serviceable and would need significant repairs to continue to be used. Also, continued use of the building raises concerns about security at the site.

Sincerely,



John Marchione  
Mayor

cc: file