7.0 Financial Analysis

7.0 FINANCIAL ANALYSIS

Guiding Principles:

Create a project that is economically feasible and sustainable.
The planning process should consider the project's economic feasibility and sustainability in terms of revenue opportunities and tourism potential based upon how it supports and enhances the downtown retail setting.

7.1 FINANCIAL ANALYSIS

The Finance Committee of the LPWG worked with Maria Barrientos to develop a conceptual financial analysis of the project. In addition to Barrientos' extensive background in project management and real estate development, committee members applied their professional expertise in development, banking, and real estate.

To evaluate a range of project costs, the financial analysis was run with a "base case" and a "conservative case" analysis. The base case combines lower development costs with higher project revenue projections. The conservative case combines higher development costs with lower revenue projections. The following summarizes the detailed development pro-forma contained in Appendix 8.6.

Project Costs:
Table 7.1 illustrates the estimated total project costs for both scenarios. Note that approximately 75% of the costs are for public improvements (parking, public spaces, art, etc.) while about 25% of the costs are private.

Table 7.1 - Costs

	"Base case"*	**"Conservative case"***
Public Improvements (e.g. – parking garage, plaza, structures, landscaping, etc.)	$15.8	$20.0
Arts, infrastructure, environmental	$2.0	$3.5
Financing costs	$2.6	$3.9
Commercial Improvements (e.g. – retail and restaurant shell buildings)	$6.0	$6.6
TOTAL	**$26.4**	**$34.0**

**dollars in millions*

Project Revenue:
The project includes a number of potential revenue sources. Some are obvious (e.g. - income from commercial space developed in conjunction with the project) while others would require future policy review (e.g. – charge for parking and accounting for new tax revenue).

Table 7.2 illustrates potential project revenue. The largest revenue sources are rent for commercial spaces and user fees for parking. Commercial space was modeled at 40,000 square feet with lease rates based on similar properties in downtown Kirkland. To provide a relative sense of how much new space that

includes, the existing two-story building that includes the Waimea Brew restaurant contains about 22,000 square feet. Parking revenues were based on analysis contained in the City's 2330 Downtown Kirkland Parking Study and Plan. Project revenue is significant because it indicates what portion of the project debt (cost to build) can be paid by the project itself. This analysis indicates that project revenue could cover between approximately $17 - $21 million dollars of project debt.

Table 7.2 - Revenue

	"Base case"*	**"Conservative case"***
Parking fees	$.28	$.23
Commercial	$1.0	$.92
New property tax	$.015	$.015
New sales tax	$.14	$.11
(Less plaza operating expenses)	($.12)	($.19)
Total	**$1.4**	**$1.0**

**dollars in millions*

Financial Conclusions:
Under this conceptual analysis, the financing gap (that portion of project costs not covered by project revenue) is between approximately $5 - $16 million dollars.

Table 7.3 – Finance Gap

	"Base case"*	**"Conservative case"***
Uses	$26.4	$34.0
Sources	$21.0	$17.0
Other Financing Required (gap)	$5.3	$16.4

**dollars in millions*

It should be noted that the debt supported by the revenue from the commercial elements of the project exceeds the costs of building those elements. The following table shows how the income and value from the commercial components of the project subsidize the public improvements:

Table 7.4 – Debt Financing (using Base Case)

	Cost*	**Supported by Revenue***	**Difference***
Public Improvements	15.8	4.4	(11.4)
Commercial Improvements	6.0	15.2	9.2
Other	4.6	2.6	(2.0)
Total	**26.4**	**21.1**	**(5.2)**

**dollars in millions*

This finding is encouraging because it means that the commercial components of the project can be used to subsidize the cost of the public facilities. Obviously, the amount of commercial space is the largest single variable in the project finance – the greater the amount of commercial space, the smaller the finance gap.

There are multiple strategies that the City could pursue to fill a potential finance gap (e.g. – lower project costs, increase project revenues, solicit private donations, pursue public/private finance opportunities, issue public bonds, etc.). For purposes of the current level of analysis, the LPWG is not recommending a preferred strategy. Any decision for funding should be based on future confirmation of these financial assumptions, decisions about appropriate development and management mechanisms, and detailed analysis of the pros and cons of all options.

7.2 FINANCIAL CONSIDERATIONS

Given the potential costs to develop this project and the fact that there is no direct precedent in Kirkland's history, it is important to try to provide some context to illustrate the opportunities of this investment.

The project has three basic physical components – plaza (public space), parking, and commercial space. Each of these components has a relative value based on similar yet separate components. The real opportunity here is in the efficiency of the mixed use project envisioned in the preferred design alternative and the adaptive reuse of a surface parking lot.

Plaza:
The project site is approximately 4 acres of publicly owned property comprised of Marina Park and parking area. The site is waterfront property and is arguably the most valuable land in the City. King County's assessment of the property is $7.82 million or about $49/square foot. However, the last time the City purchased waterfront park property, the Buhren property, the cost was $124/square foot in 1992. The current assessed value of the Buhren property is $248/square foot. The project's addition of new plaza/park space over the parking garage creates approximately 75,000 square feet of public open space. Using a conservative figure of $124/square foot, it would cost $9.3 million to acquire 75,000 new square feet of public waterfront – if it were available.

Parking:
The preferred alternative illustrates 280 structured parking stalls at a cost of $25,000-$28,000 per stall. Because the structure is located on publicly-owned land, cost does not include purchase of land. If the purchase of property was required to satisfy parking requirements, estimated at a typical land value of $70/square foot (based on recent sales of non-waterfront properties in the downtown), it would cost approximately $3.4 million.

Commercial:
Finally, the analysis assumes the development approximately 40,000 square feet of new commercial space. The estimated revenue from the commercial space is enhanced by a lack of land costs, providing a significant return for the project. To provide a sense of value for the new commercial improvements, recent sales of commercial properties in the CBD have generated prices between $192 and $292 per square foot of building.

This puts a fundamental public use question into financial terms – is a surface parking lot the highest and best public use of waterfront property in downtown Kirkland? The public outreach process illustrates a range of opinions about development specifics. However, when the question was asked at the Visions and Values workshop "how would you describe this place to an out of town visitor in 15 years", the preferred vision does not anticipate a surface parking lot.