

Date: June 25, 2009

To: Sally Clark, Chair, Committee on Planning, Land Use and Neighborhoods, Seattle City Council

From: David G. Jones, Acting Seattle City Auditor

Subject: Audit Indicators for City-chartered Public Development Authorities (PDAs)

This management letter summarizes the results of an Office of City Auditor risk analysis of City of Seattle-chartered public development authorities (PDAs). The purpose of the risk analysis was to identify potential risks associated with PDA operations and prioritize the sequencing of potential PDA audits based on the risk factors. We identified the risks during a survey that focused on each PDA's mission, governance and financial status. We also identified recent PDA accomplishments, opportunities and challenges to offer a broader context for considering the risk factors and audit priorities.

Background

The City of Seattle (City) began establishing PDAs during the 1970s pursuant to the Seattle Municipal Code (SMC 3.110.100) and Washington State laws (RCW 35.21.730) governing public corporations. Consistent with these laws, the City established each PDA as an independent, self-sustaining legal entity to perform a public function or provide a public service. These included administering authorized federal grants or programs; improving governmental efficiency and services, and general living conditions within the City; and performing various community services. The PDAs could generally perform these public functions or services more economically than the City.

The eight City-chartered PDAs and their dates of establishment are:

1. Burke Gilman Place Public Development Authority (1983)
2. Capitol Hill Housing Improvement Program Public Development Authority (1976)
3. Historic Seattle Preservation and Development Authority (1973)
4. (Seattle Art) Museum Development Authority (1985)
5. Pacific Hospital Preservation and Development Authority (1981)
6. Pike Place Market Preservation and Development Authority (1973)
7. Seattle Chinatown-International District Preservation and Development Authority (1975)
8. Seattle Indian Services Commission Public Development Authority (1972)

Survey and Risk Analysis Methodology

During the audit survey, we met with the executive directors or chief financial officers of each PDA to discuss current PDA operations, opportunities and challenges. We also reviewed the PDAs' original and revised charters, annual reports, annual financial statements and independent audits, strategic plans, select bond agreements and contracts, and other relevant documentation provided by the PDAs. In addition, we reviewed the Washington State Auditor's Office

accountability and financial audits and management letters on the PDAs. The survey primarily focused on the PDA operations reported between 2003 and 2007.

The risk analysis was based on the results of the PDA surveys. Attachments A and B contain summaries of the risk analysis results and background information on each PDA.

Highlights of Survey and Risk Analysis

Financial Risks

1. City Should Ensure PDAs Comply with City Reporting Requirements

Some PDAs have not consistently complied with City reporting requirements that provide assurance to City officials that the authorities' operations are financially stable, consistent with charter-mandated missions, and conform to City, state, and federal regulations and contractual requirements. Examples range from untimely submission of reports to report submittals with incomplete financial statements and budgets, to no reports at all. Untimely, incomplete, or inaccurate reports result in less accountability to citizens about how well the PDA is performing its public mission or services.

Recommendation 1: The City's PDA Coordinator, who works for the Department of Finance, should review and provide annual feedback to the PDAs on their reports to ensure that the reports provide adequate information.

2. City Should Expand PDAs' Financial Reporting Requirements

Each PDA is required to file with the City annual financial statements and independent auditor's reports as well as annual reports containing the governing council approved budgets. These annual reports should include a certified statement of assets and liabilities, income, expenditures, and changes in financial position during the previous year, a summary of significant accomplishments, and other information cited in the PDA charters. This information provides assurance to City officials that the PDAs' operations are consistent with charter-mandated missions, financially stable, and conform to City, state, and federal regulations and contractual requirements.

Five of the PDAs have formed limited liability corporations (LLCs) or limited partnerships (LPs) with private partners to leverage financing through tax credit arrangements for new public developments or expansion of existing public facilities. Several PDAs have transferred considerable assets to the LLCs and LPs. According to the Washington State Auditor's Office, the PDAs' liabilities have increased substantially as a result of the tax credit arrangements.

Yet, the LLCs and LPs are not subject to the same City reporting requirements as the PDAs and may not be audited by the same auditing firms that conduct the annual independent PDA audits required by the City. This is because the LLCs or LPs are legally separate, discrete units of the PDAs. One PDA, Historic Seattle, did not include financial data on the status of its LLCs and LPs as part of its financial statements for 2006 and 2007. Due to this omission, although the PDA's independent auditor issued an unqualified opinion on Historic Seattle's

business-type activities for these two years, they received an adverse opinion on the financial statements of the aggregate discretely presented component units.

Recommendations 2: The City Council should ask the Department of Finance to develop reporting requirements for PDA-related LLCs and LPs.

For example, the Office of City Auditor understands that a majority of the PDAs would be willing to include a schedule identifying and describing their LLCs and LPs with their annual report, and to work with the Department of Finance to identify further information of interest to the City. We recommend that this information include copies of the LLCs' and LPs' audited financial statements.

3. **PDAs Need to Conduct Annual Assessments of their Capital Facilities and Maintain Reserves for Facility Repair and Replacement**

Each PDA depends upon rental income as its major source of operating revenue, so well maintained facilities are crucial to their overall financial stability. Yet, many of the capital assets transferred from the City to the PDAs, as well as those acquired or developed by the PDAs, have deteriorated due to age during the past 20 plus years. Routine and major maintenance expenses are increasing as the facilities age, and capital investments will be needed to finance major system upgrades or replacement of systems that have reached or exceeded their expected life cycle. At least two PDAs, Seattle Indian Services Commission and Pike Place Market, have not generated sufficient operating revenues to develop capital reserves that fully cover major maintenance expenses, including the replacement of costly building systems such as seismic retrofits and ventilation systems.¹

Although the City requires PDAs to submit some types of financial reports, the City does not require PDAs to prepare ongoing assessments of building conditions, develop routine and long-term maintenance and repair schedules, or maintain capital reserves unless there are outstanding City guaranteed bonds or loans on the facilities. Nor does the City require reporting of capital budgets below \$100,000 in the annual PDA reports. The result is that the City does not have adequate information to determine whether sufficient capital is being invested in maintaining the public facilities in good operating condition.

Recommendation 3: The City Council should consider expanding the PDAs' annual reporting requirements so that any PDA that receives financial assistance from the City, regardless of whether it is in the form of a direct loan, or a loan or bond guarantee, is required to submit a plan for capital maintenance and replacement of their facilities. This would help ensure that the PDAs have sufficient resources available to cover immediate and long-term building maintenance, repair and replacement expenses.

¹ In light of this situation, in November 2008, Seattle voters passed a property tax levy to raise \$73 million over 6 years to pay or finance the cost of Pike Place Market for repairs to, replacement of, and additions to infrastructure such as plumbing, mechanical and electrical systems, roofs, elevators, windows, floors, building facades, restrooms, and seismic and fire safety systems at Pike Place Market.

Since this requirement is already met by those PDAs who submit a 20-year Capital Needs Assessment to the Office of Housing, they should not have to replicate this effort. The Capital Needs Assessments required by the Office of Housing are detailed analyses of all major replacement components and require the PDA to provide a planned schedule of replacement reserve deposits adequate to meet the capital needs of their property. The Office of Housing's Asset Management unit monitors the PDAs' compliance with these plans, including whether the PDA is maintaining their targeted level of replacement reserves. Given this, in lieu of requiring PDAs who complete Capital Needs Assessments to submit capital maintenance and replacement plans to the PDA Coordinator, the PDA Coordinator should meet with the representatives from the Office of Housing at least twice a year to review the existing PDA Capital Needs Assessments and discuss emerging issues, if any.

Governance Risks

Each PDA is governed by a volunteer board of directors or council. The governing council establishes policies, oversees activities and staff, and manages property or facilities transferred by the City. The Seattle City Mayor is responsible for appointing approximately one-third of the governing council members for most PDAs, and the City Council is responsible for confirming all governing council appointees. The City's PDA charters identify the specific powers of the PDA in performing mandated public services, and specify when governing council concurrence is required to approve PDA business².

We found that several PDAs were experiencing difficulty recruiting and retaining governing council members, or maintaining sufficient attendance at business meetings to establish a quorum. In some cases, governing council meetings are not convened, or transactions are executed without governing council approval. Irregular meetings or inconsistent member attendance reduces effective oversight of important business transactions for which the City charters require transparency and accountability to reduce potential risk.

According to the current PDA Coordinator, some PDAs regularly submit their meeting minutes to the City and some do not. Currently, six of the eight PDAs maintain web sites, and of these, two of the six post their meeting minutes on their web sites.

Recommendation 4: The PDA Coordinator should remind PDAs of their requirement to regularly submit governing council meeting minutes for review and request that they do so electronically. The PDA Coordinator should also work with the City's Department of

² Examples of PDA business transactions requiring governing council concurrence include:

- Transferring or conveying real estate (except for the release of a lien or satisfaction of a mortgage after payment has been received, or executing a lease);
- Contracting debts, issuing notes, debentures or bonds, and mortgaging or pledging corporate assets;
- Adopting an annual budget, and a separate capital budget when annual capital expenditures are expected to exceed \$100,000;
- Certifying as correct annual reports and financial statements filed with the City Clerk;
- Approving all transactions which exceed \$10,000, and
- Authorizing such other transactions, duties and responsibilities as the charter shall vest in the governing council or require its participation by resolution.

Information Technology to create an efficient and timely method for posting PDA council agendas and meeting minutes on the City's websites. To the extent possible, the PDA Coordinator should also attend governing council meetings more frequently to encourage better attendance and promote improved accountability.

Mission Risks

During the past 20 to 35 years, most PDAs have not only accomplished their original missions, but also expanded their missions, operations, and service areas. These expanded missions have been consistent with the original City charters, and approved by City officials. However, one PDA, the Burke-Gilman Place PDA, has successfully accomplished the largest part of its City Charter mission, but has been largely inactive for the past ten years. Recently, the PDA has focused on legal clarification of its assets and plans to redefine its mission.

Depending on the outcome of these efforts, Seattle Municipal Code sections 3.110.470 and 3.110.480 provide for the dissolution of a PDA, or merger of the PDA with another corporation. In the event of dissolution, the PDA assets could revert to the City. In the event of a merger, all the rights, assets and property of the PDA are transferred to the successor public corporation.

Recommendation 5: The PDA Coordinator should assist the Burke-Gilman PDA in refocusing its mission, or merging its operations with another PDA, or dissolving the Burke-Gilman PDA in a manner consistent with Washington State and City legal requirements.

The attached risk analysis (Attachment A) is based on the general risks areas discussed above, and its prioritization of potential audits reflects the number and significance of potential risks identified for the PDAs during our survey. More in-depth information is needed to assess the degree of risk for those PDAs with higher ratings.

Please contact me or Assistant City Auditor Jane Dunkel if you have questions or comments regarding this management letter and the attachments.

Attachments:

A - Summary of Audit Indicators

B - Summary of Accomplishments, Challenges and Current Status for each PDA

C - May 13, 2009 Response from K&L/Gates to Draft Management Letter

**City of Seattle Public Development Authorities (PDAs)
Summary of Audit Indicators**

Public Development Authority (PDA)	Audit Indicator	Rationale for Audit Indicator
Museum Development Authority	High	<p>Mission: The PDA is successfully meeting its City Charter mission.</p> <p>Governance: The PDA Council meets regularly and fully complies with other City Charter mandates (e.g., provides a capital budget in its annual report).</p> <p>Financial: The PDA has City guaranteed bonds, and leases property to the Seattle Art Museum. The debt service for the City guaranteed bonds is supported by revenue from space leased to the Seattle Art Museum. In turn, the Seattle Art Museum leased space it owns to JPMorgan Chase which recently acquired Washington Mutual Bank. In March 2009 JPMorgan Chase terminated the lease.</p>
Capitol Hill Housing Improvement Program	High	<p>Mission: The PDA is successfully meeting its City Charter mission.</p> <p>Governance: The PDA Board actively governs the PDA and has expanded its range of housing and development programs.</p> <p>Financial: The PDA owns or manages 39 properties, and is challenged by increased maintenance needs for one-third of its properties. The PDA also has considerable debt (about \$78 million, including the debt of its discrete component units). According to CHHIP's Executive Director, in the affordable housing industry, most of the housing providers are highly leveraged and have the majority of their assets in separate, discrete components to take advantage of tax credit financing.</p> <p>Another potential risk factor is that the PDA is largely dependent on federal, state and local housing funds for rental income, and could be challenged by changes in federal, state, or local funding policies for subsidies to low income households. This could affect the PDA's ability to keep its properties fully rented. However, according to CHHIP's Executive Director, the average vacancy rate for CHHIP's buildings is currently 5 percent, which is below market rate.</p>
Seattle Chinatown International District	High	<p>Mission: The PDA is successfully meeting its City Charter mission.</p> <p>Governance: The PDA Council actively governs the PDA.</p> <p>Financial: The PDA serves as the general partner and managing member of several limited liability partnership/companies and an association that were created to finance or raise funds for capital development projects and operations. The PDA is dependent on federal, state and local</p>

		funding, and could be challenged by policy decisions to reduce subsidies/reimbursements, or increase unfunded mandates. However, the PDA had substantial net assets (approximately \$22 million) at the end of 2007.
Historic Seattle	Medium	<p>Mission: The PDA is successfully meeting its City Charter mission.</p> <p>Governance: The PDA Council actively governs the PDA with emphasis on its historic preservation programs.</p> <p>Financial: The PDA did not conform to generally accepted accounting principles in preparing the annual financial statements it submitted to the City for fiscal years 2006 and 2007. Due to the omission of financial data for Historic Seattle’s legally separate discretely presented component units, the PDA’s independent auditor issued an adverse opinion on the financial statements of the aggregate discretely component units for these two years. The discrete component units include two limited liability partnerships, two limited liability companies, and the Historic Seattle Foundation. According to Historic Seattle’s Finance Director, the PDA has taken action taken in response to these findings and their associated recommendations (see Attachment B).</p>
Pike Place Market	Medium	<p>Mission: The PDA is successfully meeting its City Charter mission.</p> <p>Governance: The PDA Council actively governs the PDA.</p> <p>Financial: The PDA has not generated sufficient revenues for its capital improvements projects, including major maintenance of the Market Historic District properties. City taxpayers recently approved a \$73 million property tax levy to fund seismic retrofitting, mechanical and electrical upgrades, plumbing and structural repairs or replacements, and new restrooms and elevators. In addition, the PDA established and serves as the managing member of two limited liability corporations created to finance new capital development projects.</p>
Seattle Indian Services Commission	Low	<p>Mission: The PDA is successfully meeting its City Charter mission.</p> <p>Governance: The PDA Council (Commission) did not meet regularly, and vacancies were not filled in a timely manner as needed for quorum.</p> <p>Financial: The PDA’s net assets have diminished over time. The PDA’s total liabilities exceeded its total assets in 2007, and included two outstanding bond issues guaranteed by the City. The PDA is challenged by increasing building maintenance and repair expenses due to insufficient capital reserves and limited operating revenues. (Note: Our office audited the Seattle Indian Services Commission in 2008. The City PDA Coordinator is aware of current governance and financial risk issues, and the Commission is addressing the issues, which is why we did not rate it as high risk.)</p>

<p>Pacific Hospital</p>	<p>Low</p>	<p>Mission: The PDA is successfully meeting its City Charter mission, and generally complies with its Interlocal (Charity Care) Agreement with King County. In the past, the PDA has been challenged in meeting the unduplicated patient count required under the Interlocal Agreement. The PDA implemented new initiatives to address this issue in 2007 and in 2008, they exceeded the benchmark. Their funding resulted in care to 2,408 patients that year.</p> <p>Governance: The PDA Council actively governs the PDA.</p> <p>Financial: The PDA is financially stable under new its charter and governing council, and does not have any outstanding bonds or loans.</p>
<p>Burke-Gilman Place</p>	<p>Low</p>	<p>Mission: The PDA successfully accomplished the largest part of its City Charter mission, the development of housing and facilities on the property but has largely been inactive for the past ten years. Other aspects of the mission remain, and are addressed in Attachment B, Background and Status section. Recently, the PDA has focused on legal clarification of its assets and plans to redefine its mission.</p> <p>Governance: The PDA has experienced difficulty filling board vacancies, has cancelled 1-2 meetings per year for lack of quorum, and also has had difficulty adhering to annual City filing requirements. However, the PDA was largely inactive.</p> <p>Financial: The PDA is financially solvent and has consistently maintained a positive fund balance during the past five years. The PDA does not have any outstanding bonds or loans.</p>

Burke Gilman Place Public Development Authority (PDA) Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	<ul style="list-style-type: none"> • Implement and manage the development of the City’s adopted Burke-Gilman Place Plan and Planned Unit Development; provide an open forum for discussion of Burke-Gilman Place property uses and relationship to surrounding communities. According to the current PDA Board Chair, identifying and meeting the needs of the Burke-Gilman Place property users and surrounding communities will be the focus of the board’s future efforts to expand grant-making . • Provide for continued management and maintenance of Burke-Gilman Place and implement all deed covenants placed on the property by the City or federal government. For example, in 2001, two user groups collaborated on redevelopment of existing facilities and the PDA had to approve the architectural plans and amendments to the Declaration of Covenants, Conditions & Restrictions (CC&Rs). • Ensure that portions of the property that are owned, leased, or transferred are consistent with agreements made between the City and other property users.
Overall Operations Consistent with Mission	Consistent with its charter, the Burke-Gilman Place PDA ensures that development, redevelopment, and maintenance of its property conforms to City requirements and the permitted uses defined in the CC&Rs. Developments currently located on Burke-Gilman Place property include low and middle-income housing, an early childhood education center, temporary housing for families of seriously ill children undergoing treatment at Children’s Hospital, and low-income housing for adults with disabilities.
Recent Accomplishments	<p>No new development activities are currently planned or underway on the Burke-Gilman Place PDA property, but the PDA continues to coordinate maintenance of building exteriors and common areas with user groups. The PDA has also awarded annual grants in the amount of \$50,000 to The Children’s Center to help maintain a certain percentage of low-income families as clients.</p> <p>According to the PDA Board President, in the spring of 2009, the PDA Board adopted grant guidelines to facilitate additional grant-making beyond the support they already provide to The Children’s Center. The board also released a Request for Proposals to identify a consultant to complete a community needs assessment.</p>
Current PDA Opportunities	The duration of the Burke-Gilman Place PDA is tied to its ownership of any interest in real property transferred to the PDA, but the PDA has largely achieved its original charter mission and purpose. The

Burke Gilman Place Public Development Authority (PDA) Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	PDA is exploring opportunities to redefine its purpose and governance structure.
Current PDA Challenges	The Burke-Gilman Place PDA has experienced difficulty filling board vacancies, has cancelled 1-2 meetings per year for lack of quorum, and also has had difficulty adhering to annual City filing requirements.
Other Organizations Offering Similar Services	Other organizations currently offer similar services to those provided by the Burke-Gilman Place PDA, including the Capitol Hill Housing Improvement PDA that has a long-term lease for the Burke-Gilman Apartments and The Children's Center.
Audit Issues and Recommendations	<p>Watson & McDonell, PLLC, Certified Public Accountants (formerly Watson & Associates, P.S., Certified Public Accountants) reviewed the PDA's annual financial statements from 2003 to 2006 and conducted independent PDA audits through 2005. The independent auditors determined that the financial statements were prepared in conformity with accounting practices prescribed by the Washington State Auditor's Office and the state Budget and Accounting Reporting Systems Manual. No issues were identified by the independent auditors for the 2003 to 2005 reporting periods.</p> <p>The Washington State Auditor's Office most recent audit of the Burke-Gilman PDA was posted in 2001 for the December 31, 2000 and 1999 reporting periods. The State Auditor determined that the PDA consistently complied with state and local laws and regulations, and implemented an adequate level of internal controls given its limited areas of risk. The State Auditor also determined that the PDA's financial statements fairly presented its financial position in conformity with generally accepted accounting principles, as of December 31, 2000 and 1999, and the results of its operations and cash flows.</p>
Annual Operating Budget	\$70,480 in operating revenues and \$47,379 in operating expenses during 2007.
Annual Capital Budget	None.
Revenue Sources	Primary source of annual revenue is rent from a long-term ground lease with AF Evans, operator of low-income and market rate housing on the PDA property. The PDA receives \$50,000 a year in lease payments under this ground lease. The PDA also bills users for shared maintenance cost and insurance expenses.
Total Assets	\$710,464 in 2006.
Total Liabilities	\$209,140 in 2006.
Net Assets	\$510,324 in 2006.
Capital Assets	\$50,994 in 2006 (for underground utilities).
Bonds Payable	None. The PDA previously issued and repaid \$4.7 million in Multifamily Housing Revenue Bonds to develop low-income housing on the Burke-Gilman Place property.
Loans Payable	None.

Burke Gilman Place Public Development Authority (PDA) Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Compliance with City and Regulatory Agreements	No compliance issues were identified. Due to the absence of regular business activity, the PDA has not been regularly monitored by the City of Seattle or audited by the Washington State Auditor’s Office. The State Auditor’s Office has not audited the Burke-Gilman PDA since 2001.

Capitol Hill Housing Improvement Program (CHHIP) Public Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	Develop and manage affordable housing for low and moderate-income households. Assist homeowners, property owners, tenants and residents of Capitol Hill and the greater Seattle community in preserving, improving and restoring the quality of their homes, property and neighborhoods, as well as provide additional housing, cultural, social and economic opportunities and facilities.
Overall Operations Consistent with Mission	CHHIP's operations are consistent with its mission of developing and managing affordable housing for low and moderate-income households. CHHIP currently owns or manages 39 buildings with 987 housing units, serving approximately 1,600 residents. CHHIP is also an active participant on various Capitol Hill and neighboring planning councils and associations, and serves as the general partner or managing partner in several limited partnerships and limited liability companies that constitute discrete component units of the CHHIP PDA.
Recent Accomplishments	CHHIP opened Broadway Crossing in 2007. The five-story, mixed-use facility offers 44 new units of affordable housing and a strong retail presence, contributing to the revitalization of the Broadway area. CHHIP also began construction of the Woodland Park Project, and initiated purchase and sale agreements for two existing buildings.
Current PDA Opportunities	CHHIP's most recent business plan cites a number of opportunities for non-profit housing development agencies, and plans to emphasize development efforts primarily in Capitol Hill (including Pike-Pine and Miller Park) with secondary interest in adjacent neighborhoods where existing CHHIP assets are located. CHHIP will focus on developing housing units that span a range of sizes and affordability levels with a strong emphasis on developing units appropriate for households with children.
Current PDA Challenges	CHHIP's business plan cites additional demands for increased asset management with 39 unique buildings of which approximately one-third are older than 15 years, which resulted in repairs and maintenance expenses that are higher than budgeted. The disparity between the cost of housing and household income have also forced many lower income households to seek housing outside the City. External challenges for CHHIP include increased prices for land and existing buildings, increased construction costs, fewer available building sites, and increasingly complex, multi-source financing structures for affordable housing. (Also see below audit findings relative to CHHIP's financial position.)
Other Organizations Offering Similar Services	Other public and private agencies, including other PDAs, provide affordable housing development and related management services similar to the services provided by CHHIP. Nevertheless, CHHIP has been an active developer with an expansive portfolio and successful track record in partnering with other agencies offering complementary services. CHHIP has also been responsive to City of Seattle requests for services.

**Capitol Hill Housing Improvement Program (CHHIP) Public Development Authority
Background and Status (2003 to 2007 with selected updates)**

PDA Requirements	Accomplishments, Challenges, and Current Status
<p>Audit Issues and Recommendations</p>	<p>In 2007 CHHIP retained Watson & McDonell, PLLC, Certified Public Accountants to review its annual financial statements and conduct independent audits. From 2004 to 2006 it contracted with Clark Nuber, P.S., Certified Public Accountants, to provide this service. Deloitte & Touche, LLP, served as the independent auditor in 2003.</p> <p>In 2006 and 2007, the independent auditors determined that CHHIP’s financial statements fairly presented in conformity with generally accepted accounting principles and in all material respects, the respective financial position of the business-type activity and the aggregate discretely presented component units, and the respective changes in financial positions and its cash flows each year. CHHIP’s 2007 financial statements indicated that its net assets decreased due to significantly decreased development fees, and that annual revenues from grants for developing property varied substantially. CHHIP’s “Net Assets – Investment in Capital Assets, Net of Related Debt” was also negative in 2007 and in prior years due to its atypical schedule for amortization of the principal and interest on public loans, interest on loans that accrues but is deferred for 20 years and forgiven in year 75 if certain conditions are met, and total depreciation expenses.</p> <p>Before 2006, CHHIP’s financial auditors did not review its aggregate discretely presented component units as part of their consolidated financial statement review. However, the auditors determined that CHHIP’s financial statements fairly presented in conformity with generally accepted accounting principles the PDA’s respective financial position for fiscal years 2003 through 2005, and changes in financial position and cash flows each year. In addition, according to the PDA’s Executive Director, the discretely presented component units were audited individually by independent auditors.</p> <p>The Washington State Auditor’s Office’s most recent audit of CHHIP was an accountability audit released in 2006 and published in January 2007. The State Auditor’s Office determined in the areas it examined that CHHIP complied with state laws and regulations, and its own policies and procedures. CHHIP’s internal controls were adequate to safeguard public assets.</p> <p>In 2005, the State Auditor’s Office found that CHHIP had not periodically reconciled certain general ledger balances or completed year-end reconciliations in a timely manner. CHHIP management was unable to provide supporting documentation for the operating payables account, certain receivables and payables</p>

**Capitol Hill Housing Improvement Program (CHHIP) Public Development Authority
Background and Status (2003 to 2007 with selected updates)**

PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>accounts, and other asset and liability accounts. Certain general ledger balances could not be reconciled in a timely manner to the balances reported in the financial statements of affiliated limited partnerships and limited liability companies. CHHIP made significant adjustments to the financial statements during the audit.</p> <p>In 2004, the State Auditor's Office reported that the CHHIP had not completed annual inspections of all buildings in time to comply with Housing Quality Standards for its Section 8 Rental Assistance grant. The Section 8 standards require quality inspections at the time of initial occupancy and at least annually to ensure that rental units are maintained in a decent, safe and sanitary condition. CHHIP subsequently hired a new Director of Property Management and implemented procedures to ensure timely completion of annual inspections for all of its Capitol Hill Housing property.</p> <p>In separate management letters transmitted to the CHHIP Council in 2004 and 2005, the State Auditor reported that CHHIP could improve its controls related to depositing surplus rental revenues in an interest bearing U.S. Department of Housing and Development (HUD)-approved account within the required timeframe; and improve compliance with state public work laws related to prevailing wages and performance bonds, and business and occupation taxes for personal services contracts. CHHIP responded to the 2005 management letter stating that they had begun to follow the public works purchasing requirements for appropriate repairs and maintenance expenditures.</p>
Annual Operating Budget	\$5,481,290 in revenues and \$6,158,467 in expenditures during 2007.
Annual Capital Budget	CHHIP has a consolidated operating and building budget.
Revenue Sources	CHHIP's primary source of revenue is tenant rent and HUD subsidies of rental income.
Total Assets	\$43,004,059 for CHHIP and \$53,434,827 for its discrete component units in 2007.
Total Liabilities	\$38,819,113 for CHHIP and \$38,913,349 for its discrete component units in 2007.
Net Assets	\$4,184,946 for CHHIP and \$14,521,478 for its discrete component units in 2007.
Capital Assets	\$32,749,239 for CHHIP and \$49,027,210 for its discrete component units in 2007.
Bonds Payable	None.
Loans Payable	\$34,996,506 for CHHIP and \$35,550,369 for its discrete component units in 2007.
Compliance with City and Other Regulatory	CHHIP complied with City and other regulatory agreements, and maintained required cash balances for building improvements and other uses specified in debt and regulatory agreements. Many of CHHIP's

**Capitol Hill Housing Improvement Program (CHHIP) Public Development Authority
Background and Status (2003 to 2007 with selected updates)**

PDA Requirements	Accomplishments, Challenges, and Current Status
Agreements	notes have below-market interest rates, or provisions for deferral or forgiveness of principal and interest, subject to CHHIP's compliance with City requirements for rental of apartment units to low and moderate-income individuals at stipulated base rates with allowable increases, compliance with federal regulations, and establishment of certain reserves for repairs and maintenance. CHHIP is also subject to annual audits by an independent auditor and Washington State Auditor's Office audits, and quarterly monitoring and annual audits by the City of Seattle Office of Housing. Its discrete component units are audited separately, but reviewed by the independent auditor.

Historic Seattle Preservation and Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	Preserve and enhance the City's architectural heritage for the mutual pride and enjoyment of all citizens, and create a more livable environment within the historic areas of the City. In addition to historic preservation activities, Historic Seattle promotes public understanding of the City's history; develops residential housing for low, middle and upper-income levels; enhances cultural activities; improves open space in public areas, and balances transportation and pedestrian areas.
Overall Operations Consistent with Mission	Historic Seattle is a recognized leader in the preservation and rehabilitation of local historic buildings, landscapes and architectural artifacts. Its continued interest in developing affordable housing is not clear.
Recent Accomplishments	Historic Seattle is engaged in numerous capital development ventures, involving the sale, transfer, acquisition, financing and management of historic buildings. It also continues to actively serve as an historic preservation advocate and resource in developing programs and tours, raising funds, organizing volunteers, and co-sponsoring events with other relevant foundations and associations.
Current PDA Opportunities	Historic Seattle continuously seeks opportunities and develops strategies to increase the effectiveness, visibility, and diversity of its historic preservation efforts.
Current PDA Challenges	Historic Seattle has contracts and loans from the City of Seattle and the State of Washington that have regulatory and compliance requirements, and are subject to periodic audits. Required cash flow replacement reserves were slightly underfunded as of December 31, 2007.
Other Organizations Offering Similar Services	Historic Seattle offers unique and innovative historic preservation capital projects, programs and services to City of Seattle residents.
Audit Issues and Recommendations	Historic Seattle retained Watson & McDonell, PLLC Certified Public Accountants to review its annual financial statements and conduct independent audits from 2004 to 2007. In 2006 and 2007, the independent auditors' report expressed an unqualified opinion on the business-type activities of the PDA and an adverse opinion on the financial statements for the PDA's legally separate discretely presented component units.

Historic Seattle Preservation and Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Audit Issues and Recommendations	<p>The independent auditor cited the absence of the 2007 financial data for the legally separate, discretely presented component units as a significant internal control deficiency that adversely affected the PDA's ability to report financial data reliably. The absence of adequate internal control increases the risk that a consequential misstatement of the financial statements will not be prevented or detected.</p> <p>The Historic Seattle Preservation Foundation's financial activities were also not included in the PDA's financial statements. The PDA has a majority voting interest in the Foundation, which works with the PDA to raise funds for preservation projects. The independent auditor noted that the Historic Seattle Foundation approved a \$75,000 loan to the Historic Seattle PDA and advanced it \$50,000 in 2007 without a formal written agreement that included the terms of the loan or applicable interest rate.</p> <p>Based on its review of Historic Seattle's 2007 financial statements and operations, the independent auditor identified several additional issues and recommended that Historic Seattle take the following actions. We provide these recommendations along with an update from Historic Seattle's Finance Director on actions taken in response to these recommendations:</p> <ul style="list-style-type: none"> ▪ Consolidate separate books and records maintained for certain entities that are wholly owned by Historic Seattle and report financial activities in its financial statement. ▪ Update: All wholly owned and discrete components of Historic Seattle PDA will be reviewed and consolidated for reporting purposes in the 2008 financial audit. ▪ Develop written agreements to substantiate loans from the Historic Seattle Foundation to the Historic Seattle PDA, the terms of the loans or applicable interest rates. ▪ Update: There are now written agreements for all loans between Historic Seattle PDA and Historic Seattle Preservation Foundation. ▪ Institute a billing system for timely billing and collection of hourly rentals at the Good Shepherd Center, as well as a process for reconciling the billing system with the general ledger on a timely basis. ▪ Update: Written procedures are now in place which document the billing system for the hourly rentals at the Good Shepherd Center. These procedures outline a system for timely billing and collection of hourly rental fees and the system for reconciling the billing system with the general ledger. ▪ Establish an internal audit procedure for quarterly reviews of Bel Boy Apartment accounting activity now performed by outside property manager. The procedures should also include year-end bank

Historic Seattle Preservation and Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	reconciliations along with the review of accounts receivable and payable schedules. <ul style="list-style-type: none"> ▪ Update: The Bel Boy apartments in Building A are now managed by Historic Seattle instead of an outside property manager. ▪ Implement a comprehensive monitoring system to ensure compliance with contract and loan agreements that have regulatory and compliance requirements. ▪ Update: All contracts and loan agreements continue to be monitored on a regular basis and a spreadsheet, that is used to track these agreements, is kept up-to-date.

Historic Seattle Preservation and Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Audit Issues and Recommendations	<p>In 2004 and 2005, the independent auditor found no reportable compliance or internal control issues related to the audit of the major federal award programs, and no instances of material noncompliance related to the financial statements. No findings or questionable costs were identified related to the financial statement audit or to the major federal award programs audit. Ernest Jonson & Company, P.S., Certified Public Accountants reviewed Historic Seattle's 2003 financial statements, and determined that the statements fairly presented its financial position.</p> <p>The Washington State Auditor's Office's most recent accountability audit of Historic Seattle was completed in November 2006 for fiscal years 2004 and 2005. The State Auditor's Office determined in most areas examined that Historic Seattle complied with state laws and regulations as well as its own policies and procedures. The State Auditor reported no findings during the past 11 audits of the PDA; however, it recommended in a separate 2006 management letter that the PDA adhere to state public works law for public works projects exceeding \$25,000, and that it publicly advertise and take meeting minutes for annual council retreats, which are legally defined as open public meetings.</p> <p>The Washington State Auditor's Office's most recent financial audit of Historic Seattle was released in 2003 for fiscal years 2000 and 2001. The State Auditor's Office determined that Historic Seattle's financial statements presented fairly in conformity with generally accepted accounting principles, in all material respects, the financial position of the PDA, and the results of its operations and cash flows.</p>
Annual Operating Budget	Historic Seattle's operating budget was \$1,645,857 in 2007.
Revenue Sources	Primary source of annual revenue is rents.
Total Assets	\$10,858,790 for PDA and \$11,119,000 for discrete component units in 2007.
Total Liabilities	\$5,042,920 for PDA and \$9,708,000 for discrete component units in 2007.
Net Assets	\$5,335,562 for PDA and \$1,411,000 for discrete component units in 2007.
Capital Assets	\$6,221,385 in 2007.
Bonds Payable	None.
Notes Payable	\$4,731,065 in 2007.
Compliance with City and Other Regulatory Agreements	Historic Seattle has contracts and loans from the City of Seattle and State of Washington that have regulatory and compliance requirements, and are subject to periodic audits. Required cash flow replacement reserves were slightly under-funded as of December 31, 2007.

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	The Museum Development Authority (MDA) was initially chartered in 1985 to undertake, assist with and otherwise facilitate the development and operation of the public art museum in conjunction with the Seattle Art Museum (SAM), including but not limited to a downtown art museum and a public sculpture park adjacent to Myrtle Edwards Park and the Seattle waterfront. Consistent with the City's needs and objectives and with the promotion and cultivation of fine arts, this includes acquiring and managing real property (including property for future museum expansion, securing financing, and undertaking the construction and development of structures).
Overall Operations Consistent with Mission	Consistent with its charter mandates, the MDA successfully financed and developed the Seattle Art Museum and other facilities designed to meet the immediate needs and future growth of the Seattle Art Museum. The MDA also entered into a limited liability corporation (LLC) with Washington Mutual Bank and the Seattle Art Museum to jointly develop a mixed-use facility that included approximately 118,000 square feet for an immediate expansion of the existing downtown museum building and 236,000 square feet for future expansion space with the Seattle Art Museum and Washington Mutual. Upon completion of the project the LLC was dissolved.
Recent Accomplishments	In 2007, the MDA and SAM opened the expanded downtown Seattle Art Museum facility. In 2007, SAM and the MDA completed the development of an eight-and-a-half acre Olympic Sculpture Park adjacent to the Myrtle Edwards Park and the Seattle waterfront for the exhibition of sculptures to the general public. As part of the Olympic Sculpture Park project, the MDA agreed to facilitate the environmental clean-up of the park site.
Current PDA Opportunities	The MDA has no further development plans at this time.
Current PDA Challenges	The MDA Council has not met consistently during the past 24 months as required by the City Charter. In addition, the MDA has not consistently maintained or reported on its capital budget expenditures in its annual report. Its charter requires the PDA to adopt an annual operating budget and separate capital budget, and file an annual report reflecting both budgets with the City, when annual capital expenditures are expected to exceed \$100,000.
Other Organizations Offering Similar Services	None. The Seattle Art Museum and Olympic Sculpture Park are unique.

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Relevant Audit Issues and Recommendations	<p style="text-align: center;">Independent Audit Results 2003-7</p> <p>Moss Adams, LLP, Certified Public Accountants reviewed the MDA's annual financial statements and conducted independent audits of the MDA from 2003 to 2007. The independent auditors determined that in conformance with applicable accounting principles the financial statements fairly presented the MDA's financial position, the changes in its financial positions, and its cash flows for these years.</p> <p style="text-align: center;">State Auditor Findings: 2005-7</p> <p>The Washington State Auditor's Office released its most recent audit of the MDA in January 2008 for the July 1, 2005 through June 30, 2007 reporting periods. The State Auditor's Office determined that in most of the areas examined, the MDA complied with state laws and regulations, and its own policies and procedures. The State Auditor determined that the MDA did not comply with state bidding, bonding and prevailing wage laws for two public works contracts totaling \$29,811,166 for tenant improvements in a new building next to the Seattle Art Museum and a fire system update for the Downtown Seattle Art Museum. The State Auditor found that the MDA also did not conduct a public hearing to notify the public and receive public comment before its preliminary determination to use an alternative public works contracting method (i.e., general contract/construction manager approach).</p> <p style="text-align: center;">MDA Response to State Auditor's Findings re: SAM Expansion</p> <p>On September 26, 2006, the MDA made a Power Point presentation to the Washington State Attorney General's Office and the State Auditor's Office setting forth the chronological and substantive development of the MDA's participation in the SAM expansion.</p> <p>In short summary, the MDA was not a financial participant in the expansion until approximately May, 2005, at which time the audit demonstrates that MDA subcontracted tenant improvements were publicly bid. Up to the point that MDA funds were committed to the project, there was no obligation to utilize public procurement methods for the construction work. The records establish the publication of the procurement efforts through the Daily Journal of Commerce. Requests for proposals were issued in May, 2005 and September, 2005 for MDA tenant improvement work.</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>MDA provided the State Auditor with a copy of the performance and payment bond for the subcontracted MDA tenant improvement work under Sellen Contract 5247.</p> <p>Sellen Contract 5247, Change Order No. 4 to Contract 5247, Sellen Contract 4922 and Convergent Technologies Contract, 301-FN-5055 were awarded prior to March 2005, and prior to MDA financial participation, there are no public procurement bidding or bond documents, except as noted for 5247 above. Ultimately, in May 2006, the MDA provided \$11.8 million to the Seattle Art Museum, at the time of the condominium delivery, as partial reimbursement for some of the early works construction that was required in early 2005.</p> <p>The contract award for the Italian Period Room reinstallation, which is a unique piece of art in the permanent collection, required specialized art handlers and conservators to restore and install. The contract to provide this very specialized service was awarded to Traditional Line Architectural Restoration. Some of the firm’s work was paid from Bond Requisition #3 proceeds.</p> <p>Reinstallation of the permanent collections, such as the Italian Period Room, was to be paid by non-public fund sources. The reinstallation work was performed, for most part, simultaneously with tenant improvement construction. Due to this simultaneous activity, for the year ending June 30, 2006, approximately \$36,000 was inadvertently drawn from bond proceeds and paid towards the Traditional Line invoices. This amount was reclassified and deducted from a subsequent bond requisition in the following fiscal year as allowed by Treasury Regulation Section 1.148-6(d) (iii). The regulation provides for a final accounting and reallocation, which was timely accomplished under the regulation requirements.</p> <p>With respect to expenditures incurred by the LLC for management and construction of the shell and core, the Auditor sampled expenditures and determined that some were ineligible for bond proceeds. The total of these ineligible expenditures is slightly in excess of \$2,000 out of a total of eligible payments to the LLC from bond proceeds of more than \$23 million. The great weight of these payments was, of course, for production of a physical asset, but did include some “soft” costs such as management. Due to the complexity of the project and the unified project management approach they chose to use as between themselves in the interest of maximum efficiency, the MDA and SAM very reasonably determined in</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>advance that their relative costs and thus the eventual payments to the LLC would be allocated between the Seattle Art Museum and MDA based on relative ownership interests as determined by ultimate square footage of the finished facility. While only eligible expenditures should have been paid, this identified discrepancy appears to be de minimus.</p> <p>The record demonstrates that the MDA did not become a financial participant in the project until approximately May 2005. Prior to May 2005, no public bidding laws were applicable. The record demonstrates that the MDA beginning in May 2005, when it became a financial participant, undertook publicly advertised competitive bidding and award of contracts for its tenant improvements as was required and appropriate.</p> <p>Further, we understand that the timing of compliance with the affidavits of prevailing wage did not result in a single instance of a laborer not being paid a proper wage. Nor did the absence of some performance and payment bonds result in any unpaid individuals or entities performing work on the project or any failure of performance of the contract terms and conditions.</p> <p>In summary, when public bidding laws were applicable they were followed. As to state bond and prevailing wage laws, there was substantial compliance by the MDA and no prejudice or damage resulted to the public.</p> <p style="text-align: center;">State Auditor Findings: Management Letter covering 2005-7 Accountability Audit covering 2003-5</p> <p>The State Auditor also reported in a separate management letter for the 2005 to 2007 review period that the MDA Council held an executive session without announcing publicly the purpose of the meeting and expected duration as required by state law (RCW 42.30.110(2) and the PDA’s City Charter. In a separate management letter for the 2003 to 2005 review period, the State Auditor determined that the MDA Council did not review and approve claims and expenditures as required by state law (RCW42.24.180) and the State <i>Budgeting, Accounting and Report Systems Manual</i>. In addition, the MDA did not file its 2004 and 2006 annual reports with the City of Seattle in a timely manner as required by the PDA’s City Charter.</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>In 2006, the State Auditor’s Office released an accountability audit of the MDA for the July 1, 2003 to June 30, 2005 reporting period with a similar finding. The State Auditor’s Office found that the MDA did not comply with state bidding, bonding, and prevailing wage laws in issuing a 2004 public works contract totaling \$448,983 for the environmental clean-up of the Olympia Sculpture Park. The State Auditor reported no findings for the MDA before the 2004 and 2005 issues.</p> <p style="text-align: center;">MDA Response to State Auditor’s Findings re: Olympic Sculpture Park</p> <p>We do not believe the findings, which are critical of the method of procurement utilized to procure and placement replacement fill on the Olympic Sculpture Park (“OSP”) project, are proper. Simply stated, we assert that the MDA properly procured the material consistent with the letter and intent of state procurement law. The following sets forth our reasoning on this subject.</p> <p style="text-align: center;">Background</p> <p>The MDA and the Seattle Art Museum (“SAM”) were jointly developing an 8.5 acre sculpture park along the Seattle waterfront, known as the OSP. It lies less than 3 miles from an expansion of the Downtown Seattle Art Museum at 2nd and University.</p> <p>The MDA is a public entity chartered through the City of Seattle and is subject to procurement requirements and exceptions applicable to public agencies. The SAM is a private non-profit corporation which is not subject to such public procurement requirements. SAM has management for all remediation, construction and financing requirements for the completion of OSP.</p> <p>The OSP site is largely owned by SAM. A small 10,000 square foot parcel of the site is owned by the MDA and leased on a long term basis to SAM. The larger portion of the site was formerly owned by Union 76 Oil Company, (Unocal), with oil storage tanks occupying much of the site. Unocal had undertaken significant clean-up activities on the site but these actions had not been sufficient to meet the Department of Ecology clean-up standards. When the OSP project was undertaken, there was a need for additional site remediation due to the continued presence of contaminants.</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>MDA cleaned up its own 10,000 SF parcel by competitively procuring a remediation contractor in 2001 through a publicly advertised bidding process. The work was limited to excavating just that parcel and no further development work was to be performed at that time.</p> <p>In 2001, SAM, in anticipation of developing its property on the site, undertook a competitive solicitation of selected contractors to provide both remediation and development of the site. Due to the complexity of the project, and the intricate sequencing of activities that would be required to complete both the remediation and the project, SAM determined that it was essential to retain a contractor during the design process to mitigate risk, manage project costs, and provide input on constructability. SAM requested qualifications from seven pre-selected contractors. The pre selection was based on demonstrated reputation and competence in site remediation and development on a similar scale and complexity as anticipated on the OSP project. A short list of three contractors was developed and formal proposals were requested. After a review of the proposals and interviews with each short-listed firm, Sellen Construction was selected. Sellen did not commence work on the OSP site until later while funding was assembled to pay for the work.</p> <p>In approximately 2003, State of Washington Department of Ecology (“DOE”) funds became available to aid in the remediation of the OSP site. In order to obtain the funds, MDA was granted a lease of the SAM OSP property. MDA then leased the SAM OSP property back to SAM. DOE funds were directed solely to site environmental remediation.</p> <p>At the same time, economically viable and efficient development of the site required simultaneous contracting work commencing with utility relocates, deep utility installations, and replacement of the contaminated soil with a “soil cap” to meet the requirements of the Consent Decree that had been negotiated with DOE. The construction of the “soil cap” to the profiles determined by the project’s design, (and subsequently approved by DOE,) utilizes a soil retention system know as Mechanically Stabilized Earth (MSE). The construction sequence for building the MSE walls required complete integration and coordination of the site utility infrastructure, structural support for elements that were not part of the Remediation Grant funding, and accommodation of numerous construction tasks un-related to the remediation work but necessary for the completion of the OSP project. This work along with accompanying landscaping was all part of the work to be undertaken by SAM’s contractor, Sellen. Also of</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>importance to the efficient OSP site development was the donation of suitable fill (low permeability soil that had strictly defined silt content requirements) for the “soil cap” from the WAMU Tower and Downtown Seattle Art Museum site, where WAMU had also contracted with Sellen as the general contractor. After testing, it was determined that soil from this excavation would meet the DOE requirements, did not contain additional contaminants, and could be delivered to the OSP project at a substantially lower cost than could be obtained in the market at that time. Sellen’s WAMU excavation subcontractor, therefore, became responsible for the delivery and placement of the structural fill on the OSP site, where Sellen was also the general contractor under a separate contract.</p> <p>DOE did specifically allow the MDA to seek grant reimbursement for the “market value” of the donated fill as opposed to just the direct cost. The budget for this first phase of soil import and fill work included approximately 100,000 yds. of soil import. This soil would have a direct market cost of approximately \$8.00 per yd., (to supply haul and place, not including other general conditions, etc.) or an overall total market value of approximately \$800,000. The only means by which the MDA could obtain the donation of the WAMU tower soil was to use that project’s selected dirt contractor, CTI, to haul and place the soil on the OSP site. CTI charged the MDA approximately \$3.00 per yd to haul and place the imported soil, a net savings of approximately \$500,000 to the MDA. This \$500,000 in “value” was submitted for grant reimbursement and approved, in accordance with DOE’s stated policy on this matter. The MDA submitted \$800K in costs for reimbursement which consisted of \$300K of actual costs and \$500K of “in-kind” donations for the fill dirt. DOE then reimbursed the MDA for \$400K, pursuant to its pre-authorization of the “in-kind” donation.</p> <p>In accordance with the statute, this approach delivered significant economies and value to the MDA that could not have been obtained through a public bid process. The soil required under the consent decree had very stringent grain size requirements for the imported soil. Also, impacting the OSP site first phase of site remediation was the need to perform this work during the dry months as the high silt content of the required soil is very moisture sensitive and cannot be placed to the specified compaction requirements during wet winter weather. The availability of a large quantity of soil meeting DOE requirements, during the dry season, and the opportunity to obtain the soil at substantial savings, were primary drivers in the MDA’s decision to proceed with the Phase I fill project.</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>The WAMU tower site soil met these requirements and had a sufficient quantity to justify implementing a phased approach to soil placement, well in advance of starting the main project work. The timing of the WAMU excavation in June, July, August, and September allowed the work to proceed in an efficient and technically compliant manner to meet the consent decree requirements.</p> <p>The State Auditor should recognize the unique requirements that working under a consent decree imposes on a construction project.</p> <p>If MDA had bid the project, it would not have been able to effect the “in-kind” donation and MDA would have incurred the full \$800K in costs, (as opposed to \$300K in costs), in order to have received the \$400K reimbursement. While the reimbursement related to the in-kind donation was \$250K, the actual savings to the project was \$500K.</p> <p>Finally, in order to remediate and develop the OSP site it was critical that the work not be impacted by multiple prime contractors working for different owners on the site at the same time. The use of a single prime contractor was mandated. The circumstance is much like that which the Attorney General and State Auditor reviewed and approved with regard to the private and public shell and core development of the Washington State Convention Center Expansion by the private developer’s prime contractor.</p> <p style="text-align: center;">Legal Response to Procurement Issue</p> <p>SAM, who competitively selected Sellen for the OSP site work, is not required to comply with public bidding requirements. As noted above, virtually all of the OSP site property is owned by SAM. MDA’s interest was limited to a lease interest in order to facilitate the use of DOE funds to aid the remediation. The MDA holds no other interest or control in the SAM property. Upon completion of the OSP remediation, the MDA lease interest expires.</p> <p>Further, RCW 39.04.280 provides exemptions from normal competitive public bidding requirements where special facilities and/or market conditions exist. The statute requires that certain competitive negotiation occurs in the selection of the contractor if exemptions apply. While it can be said that this statute does not apply to the OSP project because of the SAM ownership, nonetheless, SAM and MDA entered into a joint</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>development agreement that provided for competitive negotiation in the remediation and development of the site. These procedures were generally observed in the MDA Sellen contract.</p> <p>There is no question that the OSP site is a special facility, featuring dual private and public ownership; complex remediation activity simultaneous with site soil structural and landscape development. To impose two prime contractors on a site of limited size, whose work is heavily intertwined, is a formula for impacted construction schedules, contractor claims and generally inefficient work productivity.</p> <p>The use of Sellen by the MDA to perform the remediation, where Sellen was competitively selected, and where Sellen is also the SAM site developer is sanctioned by state statute and a similar arrangement was approved by the State Auditor on the Convention Center Expansion.</p> <p>The MDA believes that well established principles protecting the public interest and promoting governmental efficiency and economy underlie Washington's competitive bidding statutes. "Competitive bidding is widely heralded among most authorities as a device to <i>promote economy in government</i>, prevent fraud, favoritism, extravagance and collusion, and to provide equal opportunities among all who would do business with the state, insuring by competition in bidding, that the public may receive the benefit of the <i>greatest possible value for the least expenditure</i>."³</p> <p>However, where a public bidding requirement would undermine these key rationales, both statutory and well-recognized common law exceptions exist. The Washington legislature has already created statutory exceptions for emergencies,⁴ a "small works roster,"⁵ alternative contracting procedures,⁶ and architecture and engineering services.⁷ Further, a 1996 opinion of the Washington Attorney General (the "AGO") endorsed the common law approach that "[e]ven where a public bidding requirement would otherwise apply," a "well recognized exception" exists "where the nature or subject of contract [sic] is such that</p>

³ *Miller v. State*, 73 Wn.2d 790, 793 (1968) (emphasis added) (internal citation and quotation omitted).

⁴ RCW 39.04.280(1)(e).

⁵ RCW 39.04.150.

⁶ RCW 39.10.

⁷ RCW 39.80.

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>where competitive bids proposals would be undesirable, impracticable or impossible, <i>they may be dispensed with.</i>⁸ Additionally, both the attorneys general and courts of other states consistently have recognized that competitive bidding requirements are inapplicable where situations that frustrate the basis for the statute arise.⁹ Rather than rigid interpretations of competitive bidding requirements, Washington and other states clearly recognize that public bidding limitations upon the power of the municipality “must be read in the light of the reason for their enactment, or they will be applied where they were not intended to operate and thus deny municipalities authority to deal with problems in a sensible, practical way.”¹⁰</p> <p>In light of the common law’s manageable and widely recognized exceptions to public bidding requirements, the MDA continues to urge the State Auditor to consider the unique situation faced by the MDA and the SAM that resulted in the decision to select Sellen. Requiring the MDA to follow the competitive bidding procedures cited in the State Auditor’s findings would have undermined precisely the values of “economy in government” and providing the public with the “greatest possible value for the least expenditure,” that the Washington legislature sought to further when it approved public bidding requirements.</p> <p>Perhaps equally important, the facts surrounding the MDA’s choice of Sellen do not raise any concerns of fraud, favoritism, collusion, or corruption that represent the moral anchor of competitive bidding statutes. The contract between the MDA and Sellen, in fact, fits precisely within the common law exception that recognizes where competitive bidding requirements fail to offer municipalities the ability to construct a project in an efficient and effective manner, they may be disregarded as long so they do no violence to the</p>

⁸ Wash. Op. Atty. Gen. No. 18 (1996) (emphasis added), *see also* 10 McQuillin, Municipal Corporations § 29.38 (3rd. ed. rev 1990).

⁹ *See* 63 Md. Op. Atty. Gen. 549 (1978) (recognizing “other considerations which may except [sic] the construction manager’s contract from the otherwise, strict mandate of advertised competitive bidding”); Ark. Op. Atty. Gen. No. 83-198 (1987) (noting that a “city can provide for its own necessities without violating the intent of the bidding law,” since no favoritism or extra cost to the city would result); Hiller v. City of Los Angeles, 197 Cal.App.2d 685, 694 (Cal. Dist. Ct. App. 1961) (emphasizing “where competitive proposals work an incongruity and are unavailing as affecting the final result, or where they do not produce any advantage ... or it is practically impossible to obtain what is required and observe such forms, a statute requiring competitive bidding does not apply.”); Graydon v. Pasadena Redevelopment Agency, 104 Cal.App.3d 631, 635 (Cal. Ct. App. 1980).

¹⁰ Wash. Op. Atty. Gen. No. 18 (1996); *accord.* Ark. Op. Atty. Gen. No. 83-198 (1987); McQuillin, Municipal Corporations, *supra*, at § 29.29; Smith v. Intergovernmental Solid Waste Disposal Ass’n, 605 N.E.2d 654, 664 (Ill. Ct. App. 1992); Hylton v. Mayor and City Council of Baltimore, 300 A.2d 656, 661 (Md. 1972); Whelan v. New Jersey Power & Light Co., 212 A.2d 136, 144 (N.J. 1965).

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>statute’s underlying anti-fraud or anti-corruption safeguards.</p> <p>The MDA acknowledges that the State Auditor raises valid concerns about the exceptions of RCW 39.04.280’s applicability to the MDA’s decision not to open its contract with Sellen to the public bidding process. However, the complexity of the situation lends itself to providing the MDA with flexibility to promote the policy rationale that competitive bidding statutes encourage. The MDA continues to believe that a strong parallel situation involves the public-private partnership that the legislature required for the mid-1990s expansion of the Washington State Convention and Trade Center (“WSCTC”).</p> <p>While the WSCTC project and the AGO it engendered were premised on a different situation due to the legislatively authorized scheme that brought the project into conflict with the state’s competitive bidding provisions, the MDA contends that those variations represent a distinction without a difference. Most importantly, the underlying reasoning is consistent between the two projects. Much like the WSCTC project, the OSP construction departed from the traditional public bid process due to an unusual public-private collaboration that “render[ed] any other solution uneconomical and impractical,” to use the language of the 1996 AGO. Although the legislature imposed the requirement that private funding be secured prior to development of a design plan for the WSCTC, in effect necessitating that public bidding be avoided for the design of the site’s “podium shell,” the result was that proceeding with competitive bidding was not impossible, but rather impractical. Since private developers were unwilling to pre-commit \$7.5 million without a voice in the design plan, strict adherence to competitive bidding requirements would have likely forced the project to turn to unprofitable alternatives, possibly including a discounted rate or other incentives in order to obtain a developer willing to commit the money blindly.</p> <p>Similarly, the MDA could have selected a different contractor and purchased fill for the OSP within the rubric of public bidding—without tapping Sellen and its preexisting relationship with the SAM’s downtown expansion. However, the use of a single prime contractor for both sites and the advantage gained by transferring fill to the OSP during the ideal time of year, enabled the construction to be accomplished at a substantially lower cost. The common law exceptions to competitive bidding permitted both the WSCTC and OSP to “produce an advantage” to the public that did result in “the greatest possible value for the least expenditure.” Again, while a competitive process was theoretically an option in both projects, resort to it would have proven to be “uneconomical and impractical”—precisely the ills that public</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>bidding seeks to remedy.</p> <p>In addition to the statutory exceptions that apply to the OSP project, this deeply rooted common law exception to state public bidding requirements should cause the State Auditor to withdraw the audit finding.</p> <p style="text-align: center;">Summary</p> <p>The State Auditor has made a finding that the MDA did not comply with procurement procedures on the OSP project. However, it is uncontradicted that Sellen underwent a competitive process of selection through SAM and that the special facility exemption under state law and common law principles sanction the contract process used in this case and, in fact, resulted in an efficient, economical and timely completion of the remediation work. Through MDA’s utilization of the donated fill from the WAMU site, the cost savings to the overall project exceed the value of the contract under review.</p> <p style="text-align: center;"><u>MDA Phase I Fill Cost:</u></p> <p>We have annotated the Schedule of Values for Pay Application #2 to show the subtotal cost of the work performed by City Transfer Inc. (CTI) which was the excavation contractor for the WAMU tower project, the source of the Phase I Fill material. As noted in previous communications, the stringent Department of Ecology Consent Decree requirements for this material were met by the WAMU excavation material and a large quantity could be obtained from a single, known, and tested clean source. This single source also reduced the required testing requirements for all import material and those cost savings are not reflected in this analysis.</p> <p>The annotations indicate a total cost for CTI’s work of \$211,540. By dividing this cost by the total truck cubic yards (tcy) of 80,000 tcy, the cost to transport and place this material is \$2.64 per tcy.</p> <p style="text-align: center;"><u>Sellen Base Contract Fill Cost:</u></p> <p>In order to make the comparison as comparable as possible, we have included the following cost line items from the executed contract with Sellen Construction in calculating the “market” cost for fill material; 1)</p>

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>“Import & Place Common Fill”, “Finish Grade Site”, and “Traffic Control“.</p> <p>The annotations indicate a total cost for the remaining fill of \$742,794. By dividing this cost by the total truck cubic yards of 87,630 tcy, the cost to transport and place this material is \$8.48 per tcy.</p> <p>As documented above, the procurement process employed for the MDA Phase I Fill saved the MDA \$5.84 per tcy. When applied over the 80,000 tcy estimated for the project, this equates to \$467,200 in savings (plus WSST). The final quantity supplied of approximately 92,000 tcy equates to \$537,280 (plus WSST) in savings.</p> <p>These savings would not have been possible other than by the procurement process used because CTI had the contract for the WAMU tower excavation, a private project, and therefore controlled disposition of the excavated material.</p> <p>With regard to prevailing wages, we understand that the State Auditor has not found any instance in which a prevailing wage was not paid for labor performed on the project. Rather, we understand that the fill contractor received its first contract payment without having previously submitted a Statement of Intent to Pay Prevailing Wages. This unintentional error was corrected for all subsequent contractor payments.</p> <p>With respect to the absence of a performance bond, we understand that there is no evidence that any person or entity, protected by the bond provisions, was ever in jeopardy or was not paid for services. The contract was performed in compliance with the contract documents and no circumstance arose that would have called the bonds into issue.</p>
Annual Operating Budget	\$3,409,892 in 2007 operating revenues, and \$1,580,743 in 2007 operating expenses.
Annual Capital Budget	No capital expenditures reported or planned.
Revenue Sources	Primary sources of revenues are from a lease and operating agreement with the Seattle Art Museum.
Total Assets	\$117,261,230 in 2007 and \$113,214,177 in 2006.
Total Liabilities	\$69,597,636 in 2007 and \$67,069,507 in 2006.
Net Assets	\$47,663,594 in 2007 and \$46,144,670 in 2006.
Capital Assets	\$88,848,546. This figure includes land, building, tenant improvements and equipment at net cost basis for

Museum Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	a portion of the downtown Museum building used by the Seattle Art Museum.
Bonds Payable	MDA's outstanding bonds totaled \$59,335,000 in 2007.
Notes Payable	None.
Compliance with City and Regulatory Agreements	Annual independent audit and reviews of MDA's financial statements are required per the terms of the PDA's charter with the City of Seattle, and include the independent auditor's review of MDA's compliance with designated reserve fund requirements. As of December 2007, the MDA complied with the City Operating Reserve Fund (\$100,000) and Maintenance Reserve Fund (\$75,000) requirements.

Pacific Hospital Preservation and Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	<p>The Pacific Hospital Preservation and Development Authority (PHPDA) supports and provides funding for the provision of the best possible health care to medically underserved communities in the greater Puget Sound area, including those referred through community clinics, those with limited access to medical care, and all others who are in need of charity health care, by:</p> <ul style="list-style-type: none"> • Promoting the increased provision of specialty services for the underserved and uninsured. • Promoting high quality, culturally appropriate health care in our community. • Promoting improved health care for the vulnerable and disadvantaged by “telling their story” (i.e., “putting a face” on their health care needs and the efforts of those who seek to address those needs). • Ensuring that the charity care commitment is met by providing funding for health care services for indigent, Medicaid, and Medicare patients, with a priority of providing specialty services to patients referred by Community Health Centers and Seattle-King County Department of Public Health Clinics.
Overall Operations Consistent with Mission	<p>The PHPDA was substantially restructured in 2003 but continues to ensure that its charter mandates and charity care commitment are met. The PHPDA funded healthcare services for indigent, Medicaid and patients, interpreter services for Medicaid patients, King County Project Access to improve referrals of low-income, uninsured patients to specialty physicians; and recently initiated a Referral Systems Study to examine gaps in the specialty referral system network and potentially increase the number of “unduplicated” patients served. PHPDA also continues to monitor its leases, the current conditions of its buildings, and the property maintenance practices of its tenants.</p>
Recent Accomplishments	<p>The PHPDA established an Oversight Committee of Safety Net Organizations and retained a consulting firm to study the referral and eligibility process for referring low-income patients from primary care clinics to specialty care providers. It also invested in the development of a medical interpreter database for use by medical organizations in the Puget Sound region to support its goals of providing culturally appropriate healthcare for low-income, Medicaid and Medicare patients.</p>
Current PDA Opportunities	<p>PHPDA is developing a three-year strategic plan and exploring opportunities to increase public support for PHPDA’s mission, goals and programs, and improving the effectiveness of its grant program and accountability of grantees. Since 2003, the PHPDA has also diversified its healthcare grants to improve the quality of healthcare services funded and number of patients served.</p>
Current PDA Challenges	<p>The PHPDA has been challenged in meeting a benchmark of serving 1100 “unduplicated” charity care patients annually. As noted above, the PHPDA has implemented new initiatives to address this issue.</p>

Pacific Hospital Preservation and Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	Update from the PDA Director: The Referral Systems Study was completed and new initiatives were implemented to address this issue in 2007. In 2008, the PDA exceeded the benchmark—their funding resulted in care to 2, 408 patients that year.
Other Organizations Offering Similar Services	PHPDA works in partnership with Washington State, the Public Health Department of Seattle-King County, Pacific Medical Centers, and other healthcare organizations to fund services for low-income, uninsured/underinsured, Medicaid and Medicare patients.
Relevant Audit Issues and Recommendations	<p>Moss Adams, LLP, Certified Public Accountants audited the PHPDA’s annual financial statements and conducted independent audits of the PHPDA from 2003 to 2007. The auditors determined that the financial statements in conformance with applicable accounting principles fairly presented the financial position of the PHPDA, and changes in its financial positions and its cash flows during the five-year period.</p> <p>For 2004, Moss Adams recommended that PHPDA adjust its financial statements to reflect changes in estimating depreciation of its capital facilities. They also recommended that PHPDA establish policies that cover the PHPDA’s capital threshold and depreciable lives of its capital assets, and develop an updated, detailed records system to facilitate monitoring and decision making for the capital assets. In addition, Moss Adams recommended that PHPDA document and monitor Pacific Medical Centers’ provision of charity care and interpreter services, including financial and data reporting of indirect cost rate calculations, timekeeping, eligibility determination, cost accumulation process for billings and financial commitment and benchmark reporting. PHPDA implemented these recommendations.</p> <p>The Washington State Auditor’s Office released a 2007 audit of the PHPDA covering the 2004 and 2005 reporting periods. The State Auditor’s Office determined that PHPDA complied with state laws and regulations, and its own policies and procedures, in the areas examined, and its internal controls were adequate to safeguard public assets. The State Auditor’s findings were similar for the 2003 reporting period.</p>
Annual Operating Budget	\$2,608,416 in 2008.
Annual Capital Budget	None.
Revenue Sources	PHPDA’s primary revenue source is rental income from the long-term leases.
Total Assets	\$17,154,599 in 2007.
Total Liabilities	\$1,112,461 in 2007.
Net Assets	\$16,042,138 in 2007.

Pacific Hospital Preservation and Development Authority Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Capital Assets	\$15,853,251 in 2007.
Bonds Payable	None.
Compliance with City and Regulatory Agreements	The PDA complied with its charter mandates and the King County Interlocal Agreement for charity care.

Pike Place Market Preservation and Development Authority Background and Current Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	Manage the Pike Place Market PDA properties to ensure that the traditional character of the Public Market is preserved, renew and develop structures and open space in and around the Market Historical District; continue the opportunity for farmers, merchants, residents, shoppers and visitors to conduct traditional market activities; initiate programs to expand food retailing in the District including the sale of local farm produce; preserve and expand the residential community, especially for low-income people; and promote the survival of small shops, marginal business, thrift shops, arts and crafts, and other enterprises essential to the Market; and provide structure for all organizations and individuals to work together to accomplish the purposes and goals of the Market.
Overall Operations Consistent with Mission	The Pike Place Market PDA owns and maintains over 600,000 square feet of commercial and residential real estate consistent with its overall mission. The PDA also operates and maintains three City of Seattle parking lots in the vicinity of the Pike Place Market consistent with a “Parking Operation and Management Agreement.”
Recent Accomplishments	The Pike Place Market PDA recently completed the \$16 million development of The Creamery Addition/LaSalle Buildings, that provided new and updated existing affordable housing units, space for the Pike Market Senior Center, and new retail space. The PDA also expanded housing for low-income and disabled residents and commercial space for small business owners with the acquisition of the First and Pine Building. The Pike Place Market also celebrated its Centennial Anniversary in 2007, and embarked on a levy campaign to support a long-planned renovation of its buildings and structures, core infrastructures and operating systems.
Current PDA Opportunities	The Pike Place Market PDA successfully pursued opportunities to increase its revenues through acquisitions, development and tenant sales during the mid-2000s. No new property acquisitions or developments are planned. The PDA’s current focus is on renovating and redeveloping the Pike Place Market to address infrastructure upgrades, accessibility, structural and safety issues.
Current PDA Challenges	The Pike Place Market PDA’s operating revenues were not sufficient to fully cover the expenses associated with its long-term capital needs. A \$73 million property tax levy was approved by the voters to renovate and upgrade the Market Historic District properties. The levy will fund seismic retrofitting, mechanical and electrical upgrades, plumbing and structural repairs and replacements, and new restrooms and elevators ¹¹ .

¹¹ According to the PDA’s Executive Director, the PDA’s charter and historic restrictions preclude its ability to self-fund the 30 year major capital investment necessary to preserve the Market in perpetuity. On-going operating and maintenance expenses, as well as ongoing capital reinvestment, are self-funded.

Pike Place Market Preservation and Development Authority Background and Current Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Other Organizations Offering Similar Services	None. The Pike Place Market PDA administers and preserves a unique historic property serving Seattle residents. The Pike Place Market also provides a venue for local farmers, merchants, craftspeople, residents, shoppers and visitors to engage in traditional market activities; market-owned and/or managed residential facilities for seniors and low-income individuals; and retail space to support small, owner-operated businesses.
Audit Issues and Recommendations	<p>The Pike Place Market PDA retained Peterson Sullivan, PLLC, and Certified Public Accountants to review its annual financial statements and conduct independent audits of the PDA covering 2003 to 2007. The independent auditor determined that the Pike Place Market PDA's financial statements fairly presented, in conformance with applicable accounting principles, its financial position, as of December 31, 2007 and 2006, and the changes in its net assets, and its cash flows.</p> <p>The independent auditor also reviewed and provided unqualified opinions on the PDA's 2003 to 2006 financial statements. However, the Pike Place Market PDA did not present a Management's Discussion and Analysis section with its financial statements in 2003. The Washington State Auditor's Office provided a qualified opinion on the PDA's 2003 financial statements due to the absence of a Management's Discussion and Analysis section.</p> <p>Update: According to the PDA's Executive Director, they have included a Management Discussion and Analysis Section as part of their financial statements every year since 2003.</p> <p>In its 2007 financial statements and Federal Single Audit Report, the State Auditor's Office issued an unqualified opinion on the PDA's basic financial statements, and found no deficiencies or material weaknesses in the internal control over financial reporting, or the internal control over major federal programs. However, in a separate management letter, the State Auditor indicated that improvements were required to ensure the PDA's financial reporting complied with generally accepted accounting principles (e.g., provided three years of comparative financial data in the Management's Discussion and Analysis portion of its financial statements). The State Auditor noted that the financial statements were subsequently revised to include this information but recommended that the PDA establish internal controls to ensure its inclusion in the annual financial statements in the future. The State Auditor also determined that the PDA had not correctly prepared the Schedule of Expenditures of Federal Awards (SEFA) due to the absence of staff training and experience and recommended that the PDA provide the staff training</p>

Pike Place Market Preservation and Development Authority Background and Current Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>necessary to correctly complete the SEFA.</p> <p>The State Auditor's Office released an accountability audit in 2007 covering fiscal year 2006. The State Auditor found that in the areas it examined the PDA complied with state laws and regulations and its own policies and procedures. The PDA also established adequate internal controls to safeguard public assets. The State Auditor's Office had similar findings in the accountability audit for fiscal year 2005. No significant findings were reported in the prior five audits.</p> <p>The State Auditor's Office issued unqualified opinions on the Pike Place Market PDA's basic financial statements and on the PDA's compliance with requirements applicable to its major federal program in 2006. The State Auditor's Office also determined that the Pike Place Market's financial statements presented fairly, in all material respects, the financial position of the Authority, and the changes in financial position for fiscal years 2004 to 2005, in conformity with generally accepted accounting principles. No significant deficiencies or material weaknesses were identified by the State Auditor's Office related to the Pike Place Market's internal control over financial reporting for its major federal program from 2004 to 2006. As noted above, the State Auditor's Office qualified its opinion on the PDA's 2003 financial statements, but determined that the PDA complied with major federal program requirements and maintained adequate internal control over financial reporting and its operations for its major federal program during 2003.</p>
Annual Operating Budget	\$12,887,625 in operating revenues and \$8,973,940 in operating expenses during 2008.
Annual Capital Budget	\$1,527,250 in carryover funds and proposed capital expenditures during 2008.
Revenue Sources	The Pike Place Market PDA's primary source of revenue is commercial tenant rents along with assessed common area utility and maintenance charges.
Total Assets	\$53,248,746 in 2007.
Total Liabilities	\$24,213,386 in 2007.
Net Assets	\$29,035,360 in 2007.
Capital Assets	\$37,288,843 in 2007.
Bonds Payable	\$13,954,235 in 2007.
Notes Payable	\$8,041,764 in 2007.
Compliance with City and Other Regulatory	The Pike Place Market PDA has City-guaranteed bonds as well as federal, state and City loans and contracts that have regulatory and compliance requirements that are subject to federal, state and City audits.

Pike Place Market Preservation and Development Authority Background and Current Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Agreements	The Pike Place Market PDA is also required to maintain certain low-income housing reserves, debt service reserve levels, and restricted funds. The PDA met these requirements in 2007.

Seattle Chinatown-International District Preservation and Development Authority (SCIDPDA) Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	Preserve, promote and develop the Seattle Chinatown-International District as a vibrant community and unique ethnic neighborhood. SCIDPDA carries out its mission by preserving the cultural and ethnic characteristics of the International District, renovating deteriorating historic facilities, providing housing and economic opportunities within the community, and increasing access to services and resources to create and maintain a healthy and economically sustainable neighborhood.
Overall Operations Consistent with Mission	Consistent with its charter mandates, SCIDPDA now owns or manages nine neighborhood buildings that include approximately 500 low-income housing units, 200,000 square feet of retail/commercial space, and programs and services that include assisted living, adult day services and a weekday meal program.
Recent Accomplishments	SCIDPDA transferred the New Central building to the New Central, LLC and completed an \$8 million renovation of the historic building in 2007 as a mixed use facility providing low-income housing, retail uses, and offices for social and health services agencies. SCIDPDA's former Executive Director was awarded a 2007 Fannie Mae James A Johnson Community Fellowship, which recognizes and rewards leading urban and rural affordable housing and community development professionals.
Current PDA Opportunities	SCIDPDA is continuously seeking new cultural and historic preservation opportunities while serving as a catalyst for economic development within the Chinatown-International District community.
Current PDA Challenges	See audit findings below.
Other Organizations Offering Similar Services	SCIDPDA has a unique role as a community preservation and development organization offering affordable, culturally-responsive developments, programs and services to enhance the Asian character and economic vitality of the Chinatown-International District community. SCIDPDA manages the largest portfolio of housing and community property in the International District.
Audit Issues and Recommendations	SCIDPDA retained Finney, Neill & Company, P.S., Certified Public Accountants, to review its annual financial statements and conduct independent audits from 2003 to 2007. The independent auditor determined that SCIDPDA's annual financial statements for fiscal years 2003 to 2007, in conformity with applicable accounting principles, fairly presented the respective financial position of the business-type activities and the aggregate discretely presented component units of the PDA, and the changes in financial position and cash flows. The independent auditor also determined that SCIDPDA complied with City bond agreements and other operating and capital reserve account agreements to maintain designated accounts and account balances.
Audit Issues and Recommendations	The Washington State Auditor's Office most recent accountability report was published in 2006 for fiscal year 2005. Before the release of the 2005 audit, the State Auditor's Office had not reported any accountability findings. However, in the 2005 accountability audit, the State Auditor's Office found that

Seattle Chinatown-International District Preservation and Development Authority (SCIDPDA) Background and Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
	<p>SCIDPDA generally complied with state laws and regulations as well as its own policies and procedures in most areas, but did not properly approve some expenditure claims and payroll transactions in open public meetings as required by state law. SCIDPDA also did not have an auditing officer certify that payments were correct before making payments. In response to the audit, SCIDPDA indicated that its council would start approving expenditures and payroll at its monthly meetings.</p> <p>In separate management letters transmitted to the SCIDPDA Council between 2004 and 2006, the State Auditor reported that SCIDPDA could improve its controls related to construction contractor payments, weekly certified payrolls, potential business and occupation tax obligations, and federal grant administration. In addition, the State Auditor determined that SCIDPDA could improve its compliance with legal requirements to obtain SCIDPDA Council approval of vendor and payroll claims in open public meetings, reporting suspected losses to the State Auditor's Office, and adhere to state law prohibiting additional compensation to employees.</p>
Annual Operating Budget	\$5,462,106 in operating revenues and \$4,850,501 in operating expenditures in 2007.
Annual Capital Budget	None.
Revenue Sources	SCIDPDA's primary sources of operating revenues in 2007 were rental income and service agreements.
Total Assets	\$32,957,710 for primary PDA and \$29,906,616 for discrete component units in 2007.
Total Liabilities	\$20,104,702 for primary PDA and \$20,952,827 for discrete component units in 2007.
Net Assets	\$12,853,008 for primary PDA and \$8,953,789 for discrete component units in 2007.
Capital Assets	\$18,359,886 for the primary PDA and \$25,390,068 for the component units in 2007.
Bonds Payable	Special Obligation Bonds—Series 2002 in the amount of \$5,525,000 and Special Obligation Refunding Bonds—Series 2007 in the amount of \$7,355,000 were outstanding in 2007.
Notes Payable	\$6,045,180 in 2007.
Compliance with City and Other Regulatory Agreements	SCIDPDA is subject to numerous federal, state, county and city contractual and regulatory compliance requirements. The independent auditor also determined that in 2007 SCIDPDA complied with City bond agreements and other operating and capital reserve account agreements to maintain designated accounts and account balances.

Seattle Indian Services Commission Public Development Authority Background and Current Status (2003 to 2007 with selected updates)	
PDA Requirements	Accomplishments, Challenges, and Current Status
Charter Mission/Purpose	Provide effective, comprehensive and coordinated programs, services and activities for Seattle Native American/Alaskan Native residents, including expanded housing, job and income opportunities, educational facilities and programs, healthcare services, and recreational and cultural opportunities. The Seattle Indian Services Commission (SISC) also manages and operates facilities for services organizations that offer direct services to these residents.
Overall Operations Consistent with Mission	Consistent with its charter mandates, the SISC PDA successfully developed the Pearl Warren Building and the Leschi Center. SISC and its tenant agencies have consistently provided direct healthcare, educational, recreational and other social services to Seattle Native American/Alaskan Native residents. SISC also operates Traditions and Beyond, which offers Native American/Alaskan Native handicrafts to the public.
Recent Accomplishments	In December 2003, SISC received the City's Distinguished Citizen Award for Human Rights given to local organizations and individuals. No new development or program activities are currently planned or underway, but the PDA actively coordinates with tenant agencies on the maintenance of its building facilities (see Current PDA Challenges below).
Current PDA Opportunities	SISC does not have further development plans at this time, but is planning to create a more user-friendly on-line shopping system for Traditions and Beyond to increase sales revenue.
Current PDA Challenges	SISC's maintenance costs are increasing as the Pearl Warren and Leschi Center age. Although SISC plans to develop a long-term maintenance and repair schedule, it has been and will continue to be challenged to fund the increased maintenance and repair costs due to revenue limitations. SISC derives approximately 95 percent of its operating revenues from its two long-term building leases. SISC has experienced difficulty recruiting and retaining council members and, due to the absence of a quorum, did not meet consistently during the past 24 months as required by the PDA's City Charter.
Other Organizations Offering Similar Services	SISC and its tenants offer services specifically for Seattle Native American/Alaskan Native residents. One of its four constituent agencies offers some similar services to one of SISC's two tenant agencies.

**Seattle Indian Services Commission Public Development Authority
Background and Current Status (2003 to 2007 with selected updates)**

Accomplishments, Challenges, and Current Status

Relevant Audit Issues and Recommendations	<p>SISC retained Watson & McDonell, PLLC, Certified Public Accounts to review its annual financial statements and conduct independent audits of the PDA from 2006 to 2007, and John L. O'Brien & Company, PLLC, Certified Public Accountants to review its annual financial statements and conduct independent audits of the PDA from 2003 to 2006. Both auditing firms determined that the PDA's financial statements in conformance with applicable accounting principles fairly presented the financial position of the PDA, and the results of its operations and its cash flows for the years reviewed.</p> <p>The Washington State Auditor's Office audits SISC on a two-year cycle. The most recent state audit of SISC was released in March 2007 for the July 1, 2004 through June 30, 2006 reporting period. The State Auditor's Office determined that, in most of the areas it examined, that SISC generally complied with state laws and regulations, and its own policies and procedures. However, the State Auditor's Office reported one finding related to noncompliance with state public work laws, including competitive bid requirements, during the 2004 through 2006 fiscal periods. The State Auditor's Office also noted internal control and compliance concerns over purchasing, contracts and payroll during the 2003 through 2004 fiscal periods. (Auditor's Note: The Office of City Auditor's 2008 audit on <i>Improving City Oversight of the Seattle Indian Services Commission</i> covers these audit issues.)</p>
Annual Operating Budget	\$843,049, which included annual depreciation expenses of \$262,422.
Annual Capital Budget	No capital expenditures were made in 2007.
Revenue Sources	SISC primary sources of revenues are from two long-term leases for the Pearl Warren Building and the Leschi Center.
Total Assets	\$7,612,003 in 2007.
Total Liabilities	\$8,386,057 in 2007.
Net Assets	Minus \$774,054 in 2007.
Capital Assets	\$6,696,710 in 2007.
Bonds Payable	SISC issued two bonds series—one for the Pearl Warren Building in 2004 and one for the Leschi Center in 2002. The combined total of bonds payable totaled \$8,216,879 in 2007.
Loans Payable	None.
Compliance with City and Other Regulatory Agreements	SISC complied with debt service and debt service reserve requirements identified in its City Cooperation Agreements for its outstanding bonds in 2007.

May 13, 2009

**VIA REGULAR MAIL
AND EMAIL: Jane.Dunkel@Seattle.Gov**

Ms. Jane Dunkel
City of Seattle – Office of the City Auditor
Seattle Municipal Tower
700 5th Avenue, Suite 2410
Seattle, WA

Re: Response to Public Development Authority Draft Management Letter

Dear Ms. Dunkel:

On behalf of the Historic Seattle Preservation & Development Authority, the Museum Development Authority, the Pacific Hospital Preservation & Development Authority, the Pike Place Market Preservation & Development Authority, the Seattle Chinatown International District Preservation & Development Authority, and the Seattle Indian Services Commission (collectively, the “PDAs”), this letter responds to the general recommendations contained in the City Auditor’s draft “Audit Indicators for City-chartered Public Development Authorities,” dated April 2009 (the “Draft Management Letter”). This response was prepared in consultation with the PDAs and based on their shared observations and comments regarding the Draft Management Letter recommendations. As you know, each PDA is responding to the specific feedback provided to individual PDAs.

As a general note, we have some concerns regarding the process for formulating the Draft Management Letter. Specifically, the City’s comments regarding State Audit findings did not include any PDA responses to the State Audit. This leaves the impression that the State Audit issues went unanswered. Obviously, this is an incomplete picture. We’d encourage the City to issue a revised Management Letter that includes PDA responses to State Audit findings.

City Recommendation 1: *The City’s PDA Coordinator should routinely review and provide annual feedback to the PDAs on their financial reports to ensure that the reports provide adequate information for ongoing status reviews.*

PDA Response: In general, the PDAs would appreciate a more consistent and ongoing relationship with the PDA Coordinator and would suggest that the City provide appropriate staffing and funding for this purpose. In recent years, this position has been subject to turnover and reduced hours. One consistent point of contact would be ideal for purposes of

Jane Dunkel, Office of the City Auditor
May 13, 2009
Page 2

improving communication and coordination between the City and the PDAs.

The PDAs commit to being more mindful of timely submission of reports presently required by Code. In addition, the PDAs are willing to work with the City to address additional information that may be requested by the City. Given that PDA issues and information are constantly evolving, we suggest that the City use the PDA Coordinator to obtain appropriate information (recognizing that the City may have different requests in different years). This is consistent with the existing SMC 3.110.400, which states that PDAs shall provide the City with “such statements, records, reports, data and information, as the Mayor or City Council may request pertaining to matters connected with any projects or activities of the public corporation.” SMC 3.110.400(B). The Code further sets forth that PDAs shall respond timely to “any written inquiries by appropriate City officials in the course of their duties about [PDA] finances, organization or activities.” SMC 3.110.400(C). Use of these provisions, and facilitation through the PDA Coordinator, should alleviate any concerns regarding the flow of information.¹

Recommendation 2: *The City Council should consider amending the Seattle Municipal Code to require mandatory reporting by PDAs on the status of LLCs or LPs and/or ask the Department of Finance to develop guidelines on LLCs and LPs for PDA financial statements filed with the City.*

PDA Response: As a general note, we fundamentally disagree with the statement that LLCs and LPs increase PDA liabilities. The legal purpose of forming such entities is to *decrease* liabilities. The PDAs also disagree that a Code change is necessary. The existing SMC 3.110.400 permits the City to request information pertaining to matters connected with any projects or activities of a public development authority. Moreover, the City already receives information regarding the status of PDA LLCs/LPs. Specifically, this information is commonly described in footnotes to the financial statements filed with PDA annual reports or in reports provided to other City departments.

However, the PDAs are willing to provide the City, as a part of the annual report, with a schedule identifying what LLCs or LPs a PDA may be affiliated with and a description of the nature of the relationship. This would include information regarding the project, the nature of the entity, and the role of the PDA. Furthermore, the PDAs are open to working with the Finance Department to address additional information that the City may be interested in receiving on this matter. However, because each PDA is unique, a one size fits all approach is not ideal. We recommend that this exercise be facilitated by the PDA Coordinator and that the information request be tailored to address specific-PDA circumstances. Again, this exercise is consistent with the existing SMC 3.110.400 and would not require a Code

¹ As you know, while public development authorities are independent legal entities, they are subject to certain City oversight. For example, in addition to the authority granted by SMC 3.110.400(B) and (C), the City Council must approve all governing council members; public development authorities must file annual reports with the City Clerk (containing audited and certified statements of assets and liabilities and of income and expenditures); and public development authorities must make their financial records available for City and State audits. SMC sections 3.110.270(B); 3.110.400(A); 3.110.410.

Jane Dunkel, Office of the City Auditor
May 13, 2009
Page 3

amendment.

Recommendation 3: *The City Council should consider expanding the PDAs' annual reporting requirements so that any PDA that receives financial assistance from the City, regardless of whether it is in the form of a direct loan or a loan or bond guarantee, is required to submit a plan for capital maintenance and replacement of their facilities. This would help ensure that the PDAs have sufficient resources available to cover immediate and long-term building maintenance, repair and replacement expenses. To this end, the Office of Housing has developed a 20-year capital needs assessment form that could serve as a useful template for reviewing existing PDA facilities, identifying future maintenance and long-term system replacement requirements, and capital financing requirements.*

PDA Response: The PDAs are acutely aware of the need for long-term viability and self-sustaining organizations. The PDAs are, and will continue toward, making good faith efforts to be strong asset managers. However, because of the unique circumstances of each PDA, a single approach, like the one suggested by the Draft Management Letter, is unfeasible. The PDAs are willing, consistent with the existing SMC 3.110.400, to provide the City with information regarding plans for long-term maintenance of PDA facilities (for those PDA facilities receiving any City financial assistance). This could be incorporated as a component of the Annual Report. For those public development authorities with a housing component, the PDA is already using the Office of Housing's 20-year capital needs assessment form. This form requires compliance with minimum funding requirements for replacement and reserve of affected PDA capital facilities.

As a general comment, the PDAs are curious as to the City's proposed remedy in the case where a PDA capital project did not possess adequate capital reserves. Would the City provide operations support or some other form of support to enable the PDA to accumulate an adequate capital reserve?

Recommendation 4: *The City Council should consider amending the Seattle Municipal Code to require PDAs to regularly submit governing council meeting minutes to the City PDA Coordinator for review, and to post the agendas and minutes of their council meetings on the PDAs' websites. The PDA Coordinator should also attend governing council meetings more frequently to encourage better attendance and promote improved accountability.*

PDA Response: Again, the PDAs welcome more active involvement of the PDA Coordinator. In years past, the PDA Coordinator regularly attended governing council meetings and provided an immediate line of communication with the City. The City should provide for appropriate funding and resources so that the PDA Coordinator can interact effectively and regularly with the PDAs. We welcome the PDA Coordinator's attendance at PDA governing council meetings and look forward to increased communication with the City.

As a general note, the PDAs do not disagree with the recommendation that PDAs regularly

Jane Dunkel, Office of the City Auditor
May 13, 2009
Page 4

submit meeting minutes to the PDA Coordinator. However, again, a Code amendment isn't necessary to implement this recommendation. The existing SMC 3.110.400 provides authority for the City to request that the PDAs regularly submit this information to the PDA Coordinator. In fact, many PDAs currently do provide this information to the PDA Coordinator on a regular basis (and to those members of the public who request such information). The PDAs appreciate that agendas and meeting minutes are public records and should be easily accessible to public.

However, the recommendation that PDAs post such items to their own websites is problematic and creates fiscal impacts. Not all PDAs have websites. Furthermore, those PDAs with websites pay host fees based upon the volume of information contained on a site. Without funding from the City for website development and management, this requirement would be an unfunded mandate. A more simple solution would be to direct the PDA Coordinator to post the PDA agendas and meeting minutes to the City's website (with appropriate notice to the PDAs of such action). For those PDAs with websites, the PDA could provide a link to the City's website to facilitate PDA website visitors' access to agendas and minutes.

We appreciate the City's review and, in particular, your willingness to review these matters with the PDAs. The PDAs commit to working with the City, ideally facilitated by the PDA Coordinator, to ensure that the City receives all appropriate information from the PDAs. Please let us know if you have any questions. Thank you.

Very truly yours,

K&L GATES LLP



By

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cc: Rosemary Aragon, Pacific Hospital Preservation & Development Authority
Carol Binder, Pike Place Market Preservation & Development Authority
Mark Blatter, Historic Seattle Preservation & Development Authority
Kathleen Brooker, Historic Seattle Preservation & Development Authority
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Ray Ishii, Seattle Chinatown International District Preservation & Development Authority
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