

Spoken in Spokane: Downtown Revival Plan Relying on HUD Aid Poses Hard Questions --- Among Them: Is Guarantee Proper for a Fancy Mall, And What Is City's Risk? --- Cowles Clan's Many Interests

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SPOKANE, Wash. -- The downtown renewal planned for this old mining city is bright with promise: a total makeover of an aging mall, with new shops, a multi-screen cinema and a fancy new Nordstrom's; a bridge to feed suburban traffic to the urban core; and low-cost financing, through not just municipal bonds but also federal loan guarantees and grants. Who could be opposed?

So many people, it turns out, that armed guards have been posted at City Council meetings called to discuss the project, and a mayor has complained of telephoned threats.

The fight involves not just environmentalists and rival developers, as many projects do, but even federal bureaucrats in Washington, who have been urged by one official to rethink the very purpose of a program that is involved. And it has caused strains within the first family of Spokane, the Cowles clan, owners of a broadcasting, publishing, real-estate and paper empire.

Family members own the downtown mall and are spearheading the revitalization plan. If it succeeds, they stand to profit. That has stirred a bitter debate over using public money not merely to promote needed economic development but potentially to enrich a private developer.

Worsening the suspicions is officially imposed secrecy about certain terms. This has fed worries that there are financial dangers to the city and its taxpayers that have been hidden from them. The worries are not unfounded; one confidential document reviewed by The **Wall Street Journal** lays out certain terms and describes a risk that it says "squarely falls to the city."

At the center of this storm stands Elizabeth Cowles, 36 years old. Her father, media magnate William Cowles III, helped set the downtown renewal plan in motion in the early 1990s. Ms. Cowles, invited back from a Seattle law firm to join the family business, had barely arrived in 1992 when her father died suddenly during a mid-morning jog, leaving the project and its not-yet-fathomed controversies to her.

It was now up to Ms. Cowles to implement a massive renovation of a major family property, the 25-year-old downtown mall known as **River Park Square**. She had no experience in the rough-and-tumble world of local politics. But she does now. Ms. Cowles says she is shocked at the level of vitriol directed at a family that she says has always had the community's best interests at heart.

"People called us all sorts of names," says Ms. Cowles, the mother of two young children. "I'm glad my children didn't have to hear what talk radio has been saying about us."

One thing the combatants don't disagree on is that downtown Spokane has seen better days. A turn-of-the-century timber and mining center, now with a population of about 200,000, Spokane had its greatest growth spurt during and immediately after World War II, as manufacturing jobs in the mountainous region near the Idaho border flourished. But as in many cities, downtown suffered as people gravitated to the comforts of suburban living.

In the late 1950s, Sears, Roebuck & Co. left its inner-city site for a mall north of town. Urban projects by the Cowleses and other developers, including construction of **River Park Square** in 1973, stemmed the decline for a time, but the area began to deteriorate again in the late 1980s. A big downtown store called Frederick & Nelson's folded, and J.C. Penney joined Sears in moving to the suburban mall.

Nordstrom, the last big retail outlet left in **River Park Square**, gave the Cowles family an ultimatum: Spruce up **River Park Square** or this store, too, was likely to relocate. That was when the family organized a series of meetings with other business leaders and city officials that began planning the redevelopment. Although Mr. Cowles's death made his brother, James, head of the family business, Cowles Publishing Co., James Cowles has chosen not to get involved in the downtown project. The follow-through was thus left to Ms. Cowles, then just a few years out of law school.

Ms. Cowles, known as Betsy, leaned on professionals and consultants with long ties to the family to craft the plan. The family would build a new 400,000-square-foot mall on the site of **River Park Square**. The biggest chunk of it would go to Nordstrom. An adjacent five stories of shops and a 20-screen cinema would round things out.

But there was one hitch: Low-cost financing was needed to make it economically feasible, family members say. Several banks made clear they wouldn't finance the entire deal, says family attorney Duane Swinton. It was structured to provide at least some profit for the Cowleses, plus an enticing lease deal for Nordstrom. That was when family consultants decided to look into forms of government support. One consultant, a former adviser to the U.S. Housing and Urban Development Department, had an idea: Tap into HUD's Section 108 loan-guarantee program.

These guarantees are meant to fight urban blight and create jobs, and they have been used to help build small strip malls and other commercial properties in distressed inner-city areas. Cities apply for them on behalf of private developers. Although the guarantees aren't normally used for large, swanky shopping malls like **River Park Square**, the program's rules are broadly enough written that they don't rule out such a project.

The Cowleses had little trouble persuading City Council members and the mayor to back the plan and ask HUD for a loan guarantee. Not only were many politicians friendly with family members, but they also feared that the Cowleses would pull out of downtown, leaving Spokane in worse shape. The council passed an emergency ordinance declaring that without city help, the project would fail and lead to a loss of jobs, tax revenue and recreational opportunities.

The entire project is worth roughly \$100 million, of which the bonds have already provided a chunk. Mr. Swinton says the Cowles family has put in millions of dollars of its own money and has a bank loan facility of about \$40 million to draw from. Spokane officials applied to HUD for a \$22.6 million Section 108 loan guarantee and a \$3.6 million grant for the project.

Things were humming along, with HUD approval considered almost assured, when the family encountered Cherie Rodgers, newly appointed to the Spokane City Council in early 1997. She was initially inclined to support the downtown renovation. At a meeting with Ms. Cowles, Ms. Rodgers says, "I told her public-private partnerships are fine as long as the public doesn't take a bigger risk than private business. Betsy just shook her head and smiled."

Ms. Rodgers soon had a change of heart. City attorney James Sloane made an unusual request of City Council members. He told them they had an obligation to keep confidential certain information regarding the **River Park Square** project. The Cowleses didn't want certain items leaking out, Ms. Rodgers says, including a lease arrangement they had made with Nordstrom and details of the city's own financial exposure if it joined the Cowleses as a partner.

A document from the city attorney and his assistant, prominently labeled "confidential memorandum," described some of this risk. It said that Nordstrom's long-term lease required the developer to make sure at least 70% of the project was occupied. If the Cowleses failed to attract enough tenants, Nordstrom's "base rent" would drop from \$1.3 million a year to \$520,000 a year, the document said.

The six-page memorandum, dated Nov. 20, 1997, and addressed to the mayor and City Council, went on to say that Spokane could find itself on the hook if the project began to unravel. If the rebuilt **River Park Square** wasn't "fully or substantially leased," it said, the city "could find itself in a situation where there are inadequate funds to repay the debt" and would be forced to tap money from its annual federal community-development block grants to repay the loan.

The city, the memorandum stated, had tried to negotiate a waiver that would soften the blow to its wallet if the project began to fail; the city wanted to prevent the Cowleses from deducting taxes, a management fee and a parking fee if the rent was cut because of low mall occupancy. The family's response: No way. "We were unsuccessful in this endeavor thus this risk squarely falls to the city," the document said. City Attorney Sloane declines to comment on the memorandum.

A "due diligence" analysis prepared for the city two years ago by Coopers & Lybrand (now part of PricewaterhouseCoopers) sheds light on other aspects of the **River Park Square** overhaul. The Cowleses, for example, have maintained that when all is said and done, **River Park Square** won't make them a lot of money; but a draft of the Coopers report says the family refused to provide financial statements "necessary to evaluate the Developer's financial status, ability or commitment to fund equity contributions" to the project. The family's return on equity could be "substantially" higher than what the Cowleses have indicated, it says.

Ms. Cowles says, "We didn't provide them with that information because we don't open our books to anybody." She says the return-on-equity issue is moot because the family has put so much more into the project.

Yet another document provides some insight into what kind of deal Nordstrom Inc. got; the family, according to the memo, agreed to pay the Seattle-based retailer \$1 million as part of its lease agreement. Mr. Swinton, the Cowles attorney, won't comment. Nordstrom officials say the payment is due in two halves, the second when the doors of the new store open, adding that the money is meant to cover the retailer's "internal" costs related to the project.

As skepticism about the downtown project grew, the family put its own spin on the matter through editorials in its newspaper, the Spokesman-Review. W. Stacey Cowles, who is its publisher and Betsy Cowles's 38-year-old brother, provided what he calls "moral support" to his sister, including columns and editorials. In one, he urged citizens to "Join us in saving downtown, the heart of Spokane."

Later he got more directly involved. He wrote to the mayor and City Council demanding that the city not back away from its plan to build a new bridge across Spokane Falls that would feed directly into **River Park Square**. He enclosed two opinion pieces from the Spokesman-Review, including one written by editor Christopher Peck, who oversees news coverage as well as editorials.

Mr. Cowles says he believes his paper's coverage has been fair and accurate, but he concedes that "the sheer fact that we own a newspaper and we're asking a public entity to join us sets up obvious conflicts." Mr. Peck says the Cowleses "have never told me what story I should put in the paper."

Despite the newspaper's efforts, a vigorous antidevelopment movement sprang up. An attorney, Stephen Eugster, launched the first of several lawsuits against various parts of the project, including the bridge and the city-approved sale of \$31 million of municipal bonds to build a garage for the mall. An architect, Rick Hastings, mounted an effort to block the bridge over the falls. It is currently stalled by a state environmental ruling, which is being appealed.

In late 1997, the project suffered a setback when Mayor Jack Geraghty, who backed it, lost to John Talbott, a candidate who vehemently opposed public funding for **River Park Square** and had joined a suit against it. Mr. Talbott had some help: David Sabey, a rival developer and former owner of a suburban mall, gave thousands of dollars to an organization that opposed Mayor Geraghty, and he labeled the Cowles project a corporate welfare scheme. "We are active politically, just as they are," Mr. Sabey says, contending that Mayor Talbott "brings balance" to city government.

After taking office, the new mayor met with HUD officials in Washington, raising questions about the deal and how it would affect Spokane's taxpayers. He provided a critical analysis of the project, some data in which came from a consulting firm that Mr. Sabey had retained to look into the proposed loan guarantee.

HUD was noncommittal about the plea from the new mayor. He kept up his campaign, telling the Clinton administration's Council on Environmental Quality the Cowleses had violated HUD rules by beginning construction before getting environmental clearance. A council official spoke to HUD about the concerns.

The project appeared to be moving ahead anyway. And in late March of 1998, a senator from Washington, Patty Murray, issued a news release stating that HUD had "agreed to terms" with the city regarding the loan guarantee for **River Park Square**. The Spokesman-Review ran an article headlined "Feds OK loan for Spokane."

Sen. Murray, a Democrat, later won a re-election endorsement from the generally conservative newspaper. The publisher says it endorsed her because her opponent was a fringe candidate. Ms. Murray, who was re-elected, declines through a spokesman to comment.

The report of the favorable HUD decision was premature. In a Sept. 30 report, HUD's inspector general cited several procedural "deficiencies," including the fact that construction work had begun before the project was environmentally certified.

Then HUD's inspector general for audits in the Northwest and Alaska wrote a report questioning the way HUD 108 loans are granted, citing the risk of "undue enrichment" of private developers who use the program to get low-cost financing. HUD's definition of "urban blight" might be too broad, he suggested, in a report that was spurred by the Spokane project and one other. Officials at HUD say they have made no decision on whether to grant a loan guarantee for the **River Park Square** project, but there are indications a decision is imminent.

The Cowleses continue to tough it out. Although Mr. Swinton, their attorney, said in recent days that "we may never get the HUD money," late yesterday he said he had heard the deal is going through.

But if not? "I have no clue what would happen," he says. "I imagine lawsuits would be flying every which way. . . . We have about \$30 million in" the project so far.

Betsy Cowles says she is confident **River Park Square** will be completed and downtown Spokane will have a new lease on life. Has it been worth all the effort? She and her brother say

the contentious struggle has taken a toll on the family, as well as on the city that the family has called home for four generations.

"This is not something you do to get rich quick," she says. "We would be better off investing in Treasury bonds."

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