

The remodeled garage at River Park Square was valued at \$26million in late 1996, nearly a year before the first shovel of dirt was turned on the mall renovation.

Using different theories on how to set a price on a structure that didn't yet exist, critics put the value as low as \$7 million. The project's developers put it as high as \$44million.

What the garage really is worth remains in debate today, nearly four years after it opened.

Whatever the true worth, the price that eventually was negotiated and paid - \$26 million for the structure, the land it sits on not included - is at the root of the controversy. It drives the level of revenue needed to pay off bonds sold to buy the garage.

Elected city leaders had two reports that justified that price and a developer telling them that anything less would kill the entire mall renovation. But they also had staff urging them to pay less and critics in the community saying the price was artificially inflated.

The price was paid by a foundation that had no part in the negotiations. The foundation existed only on paper in 1996.

Now investors who bought Spokane Downtown Foundation garage bonds are in federal court, saying they were defrauded, in part because the value of the garage was inflated before the price was set. The garage performs so poorly that it can't cover all of its expenses, including some of its bond payments.

“Who assured you the price was appropriate?” an attorney involved in a federal lawsuit asked foundation board member Chris Schnug in a 2003 deposition.

In reply, Schnug offered a long list of people, including city officials - who hoped to get the garage free when the foundation's bonds were paid off - and Betsy Cowles, the head of River Park Square LLC, which was selling the garage.

Debating value

The garage's value was debated almost from the start.

Joel Crosby, a City Councilman in 1995 when the project was first discussed, said preliminary revenue estimates at that point justified a price of about \$14 million.

“It was always my understanding the garage was going to pay for itself,” said Crosby, who was the council liaison to the mall development companies before he left the council at the end of 1995. But that was before the city

hired Walker Parking Consultants to do a financial analysis of the garage, and the hourly parking rate was pegged at \$1.50.

“The numbers just kept going up and up and up,” Crosby said recently. He added he never saw the Walker report, but believes that rate is not “a realistic number for parking in Spokane.”

Former city Finance Director Pete Fortin told the City Council in mid-1996 the city shouldn't pay more than \$18million. He was worried that the garage couldn't make enough money to justify a higher price.

Initially, the council agreed. But when the mall developer was told that was the city's best offer, “they said we had killed the project,” Fortin said in his deposition.

The developers said they needed more than \$18 million. Money from the garage would become part of the overall financing package for the \$100 million mall renovation.

The council, which badly wanted the project to end downtown's financial slide, handed negotiations over to its Economic Development Committee - then-Mayor Jack Geraghty and then-council members Orville Barnes and Roberta Greene.

At that point, Fortin said in his deposition, he wasn't part of the negotiations; he was just “staffing the meetings” and “running the numbers.”

To get those numbers, the city hired two appraisers for separate appraisals of the expanded garage. Because they were looking at a proposal, not an actual structure, appraisers had to make assumptions about what it would cost and how much revenue it would generate.

Appraisers hired by the city said the 1,304-stall facility could be worth as much as \$30.8 million. But only if one believed the revenue projections from Walker Parking Consultants, which some city staff members thought might be too high.

One appraiser made some adjustments to lower the revenue projections and said the garage could be worth \$22.4 million.

But all of these estimates were based on a method that the appraisers and some city officials thought inflated the price.

That method, an investment value appraisal, was rare in Spokane. Daniel Barrett, one of the appraisers hired by the city, said he did only one or two a year. But it is a common method used around the country for public projects, said Allen Safer, a Seattle appraiser who has worked on garage projects but has no connection to the Spokane controversy.

The method had never been used by the city in any property purchase, city real estate director Dennis Beringer told his superiors in mid-1996. He

recommended another method, which would have produced a lower estimate.

Fortin and Beringer said the mall development company's manager for the renovation, Bob Robideaux, insisted on the investment value appraisal.

Beringer told attorneys he felt Robideaux was being "dictatorial" but was told by superiors the investment value was the right method and the mall project "is needed in downtown."

Arguing price

Fortin said in his deposition he met with Robideaux and the developers' appraiser, Derek Zimmer, and was assured the method was infrequently used, but valid. Meanwhile, city appraisers were warning that it was going to inflate the price.

"Did you agree?" Fortin was asked last year in his deposition.

"I was listening to it, yes," he replied.

Robideaux disputes city officials' claims that the developer forced the city into shaping its appraisal to inflate the price. The company had an investment value appraisal prepared by Zimmer, and it gave the city information about the validity of that method, he said.

Zimmer's appraisal pegged the value as high as \$44 million, but it used different interest rates and revenue projections that were lower than Walker's projections. The city never saw that appraisal. Because the developer refused to disclose it, said Beringer; because the city never asked, said Robideaux and other company officials. But the city did know Zimmer's bottom line, they added.

"We didn't tell the city to use investment value exclusively," Robideaux told lawyers in his deposition. "There was no criticism of the method before the bonds were issued."

But there was criticism of the price.

In fall 1996, executives for the company that owned NorthTown Mall said they had recently built a 4,500-stall garage for \$18 million. Using that standard, a 1,300-stall garage should cost about \$7 million, not the \$30 million figure at the upper end of the appraisers' reports, said Laurent Poole, a top executive of Sabey Corp.

Poole, his boss, David Sabey, and a group of Spokane businessmen opposed to the project met with council members that fall, arguing the price was too high.

This prompted Geraghty, the mayor, to shoot back: "The way he (Sabey) sizes it up, it's not a good project and that's his opinion."

Betsy Cowles, president of the development companies, also was dismissive of critics.

“It's too bad Mr. Sabey doesn't see the vision,” she told a reporter for The Spokesman-Review. “I believe a downtown full of exciting shops, restaurants and businesses is better for Spokane than a boarded-up downtown.”

Setting a price

On Nov. 13, 1996, city officials and the developer agreed on \$26 million for the garage - \$8 million more than Fortin thought it was worth; \$18 million below the highest value estimated by Zimmer.

“The council accepted \$26 million, knowing it was higher” than the fair market value, Fortin said in a deposition.

But the city also knew it wasn't going to have to pay that price. By November 1996, attorneys for both the city and the developer were worried that project critics would sue if the city bought the garage.

Instead, they agreed a nonprofit corporation would sell bonds to cover the purchase price, buy the garage and let a city agency operate it for 20 years until the bonds were paid off. After that, the city would get the garage at no cost.

The foundation at the time existed only on paper. Its three board members wouldn't be named until early 1997 and would never have any say in the price they would pay in 1999.

The city would need some way to assure Wall Street that the bonds were a good investment. That meant promising the garage revenue would first be used to pay off the bonds, and only then to cover other expenses. If garage revenue didn't cover those expenses, the city could pass an ordinance to loan money from its parking meter fund, its financial advisers said.

Before it would agree to that, the City Council ordered another financial study.

Meanwhile, the developer warned it was running out of time to start the renovation and open in time to satisfy potential tenants such as Nordstrom.

Downtown business groups brought in speakers to warn that Spokane could become like its worst nightmare - Tacoma - without the project. Critics called for the city to fix streets, reduce crime and cut taxes before getting involved in a shopping mall.

Wednesday: A report raises warnings that the council - urged on by project supporters - ignores.

Two sidebars appeared with the story:

1. AT A GLANCE

Anatomy of a decision

- * The decision: The use in 1996 of an investment value - a rarely used appraisal method - to determine a price for the proposed garage.

- * Who made it: Spokane city officials told appraisers they decided to use that method at the urging - some say the insistence - of the mall's developer.

- * Why it became controversial: The investment appraisal produced a range of prices that were higher than other methods, which became the basis for a negotiated price of \$26 million.

Critics said that was millions higher than the cost of building a garage or the fair market value of the facility. The extra money was a gift to the mall developer, they said.

- * What went wrong: The state Supreme Court eventually said the high price for the garage was not an illegal gift to the developer. The city gets the garage when the bonds are paid off, the court said, and has the power to set a value in line with its appraisals. But the high price tag on the garage required the sale of \$31.5 million in bonds. Payments on those bonds started at \$2.2 million a year, and eventually will grow to \$3.4 million.

Although the garage was projected to make far more than that, those estimates were wrong. Last year, the garage collected less than \$2.3 million in revenue.

2. AT A GLANCE

Forecasting value

Appraisers hired by the city to estimate the value of the River Park Square garage were required to use a process known as investment value.

It is a different method from that used by a person buying a house or a business. It had never been used by the city in evaluating property and hasn't since.

- * Someone building a new house might estimate "actual value," the cost of purchasing the land and building the structure.

- * Someone buying an existing house usually wants to know the "market value," or the price of similar houses sold recently in similar locations.

- * Someone buying an existing business might want to know the expected income the business could generate. The price is based on its "income value."

- * Investment value looks at both the income a business is expected to generate and the cost of borrowing money. Rare in Spokane, it is a standard method for governments to use in "public-private partnerships."

A lower interest rate will produce a higher investment value; in the case of the garage, the financing being proposed was tax-free municipal bonds, which have lower rates than conventional loans or most other bonds. That also increased the investment value of the proposed garage.

- Jim Camden

ILLUSTRATION: 5 Photos (1 color)

2 Graphics: 1. Timeline

2. FOCUS: City and developer agree on a price for the garage

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