

**RESOLUTION NO. R2017-23**
**First Hill Transit-Oriented Development Site Offering**

MEETING:	DATE:	TYPE OF ACTION:	STAFF CONTACT:
Board	06/22/2017	Final Action	Ric Ilgenfritz, Executive Director PEPD <b>Brooke Belman, Land Use and Development Director</b> <b>Sarah Lovell, TOD Planning Manager</b>

**PROPOSED ACTION**

(1) Declares that the First Hill Transit-Oriented Development Site property is suitable for development as housing; (2) directs staff to offer the property first to qualified entities for affordable housing as described in RCW 81.112.350; and (3) directs staff to offer the property through a process that seeks to maximize affordability and density and reflects the goals of the agency, local municipality, and community.

**KEY FEATURES SUMMARY**

- This action will provide guidance for how the agency will offer surplus property for transit-oriented development (TOD) on First Hill, and will inform the upcoming TOD policy update.
- This action declares that the property is suitable for development as housing, directs staff to offer the property first to qualified entities for use as affordable housing, and authorizes staff to devise an offering to qualified entities that reflects the goals of the agency, local municipality, and community. Qualified entities are defined by statute as local governments, housing authorities, and non-profit developers.
- Responsive proposals will describe how proposers will address the goals of density and affordable housing at the site. Responsive proposals will include a financial plan that outlines funding sources and assumptions including timing and how much, if any, subsidy of land value is needed to accomplish the proposal as described. Proposals will be evaluated based on how the goals of density and affordability are met, financial viability, and other TOD goals.
- Staff will return to the Board following proposal review and seek authorization to enter into transaction negotiations with the highest ranked proposer or proposers. Staff could also seek authority to establish land value below fair market value if it is deemed necessary to achieve program goals. Alternately, if the first offer is unsuccessful, staff will return to the Board to discuss next steps.

**BACKGROUND**

Sound Transit adopted a TOD Program Strategic Plan in 2010, which introduced the policy framework for the TOD work program within the context of Sound Transit's mission to implement regional high-capacity transit. Sound Transit adopted its TOD Policy in December 2012 through Resolution No. R2012-24. This provides the policy foundation for how the agency approaches integrating transit infrastructure and local and regional land use development. Sound Transit updated its TOD strategic plan in 2014 to reflect the 2012 TOD Policy.

The First Hill TOD Site was identified in the 2010 and 2014 strategic plans as a TOD opportunity.

In 2015, the state legislature amended the agency's enabling legislation, directing the agency to advance TOD goals, setting forth specific financial and procedural requirements, and giving new tools to the agency to advance equitable development through prioritizing affordable housing in

surplus property disposition. Those statute changes took effect upon the November 2016 voter-approved Sound Transit 3 Regional Transit System Plan.

The 2017 TOD Work Program identified the First Hill TOD Site as a property that would contemplate the new requirements regarding affordable housing and equitable TOD. This action identifies how the agency will implement the requirements for this property.

### Property

The First Hill TOD site consists of approximately 21,600 SF fronting Boylston Street and Madison Street near the intersection of Broadway Avenue E in Seattle, WA. The property is comprised of two unique parcels located at 1014 Boylston Avenue (FH004) and 1400 Madison Street (FH005). The unrestricted value for this property based on a 2017 appraisal is \$8.64 million.

The property is occupied by two structures, one is a vacant medical office and the other is a commercial building currently occupied by a tenant. The property was purchased in 2001 for use as a First Hill Light Rail Station but was eliminated from the final station list in the Central Link Light Rail project through action Resolution No. R2000-04. The properties were purchased without assistance from the Federal Transit Administration (FTA); therefore FTA approval is not required to dispose of the property.

### TOD Analysis

A TOD assessment of the First Hill TOD Site was finalized by the agency in August 2016. It evaluated the property's development feasibility as (1) a high-rise market-rate residential development, (2) a high-rise affordable development, (3) a mid-rise affordable development, or (4) as two buildings, one high-rise market rate and another mid-rise affordable. The analysis concluded that the site did not accommodate efficient layouts for more than one building and that there were strong markets for market rate residential, hotel, and office space, but that a substantial funding gap exists to build a high-rise affordable project. Both mid-rise and high-rise affordable housing projects are challenged by the subject property's high land value. Because high-rise construction is an additional expense above and beyond the land, and a difficult proposition for affordable housing developers, this approach proposes an offering that states a desire for both affordability and density and solicits input from qualified entities in how best to maximize both goals.

The 2015 assessment concluded that 257 units could be accommodated in a high-rise, but that as few as 122 units would be supported in a mid-rise building. Currently contemplated upzones would add an additional floor to a high-rise building and result in additional units. Ground floor commercial is required on Madison Street by local zoning and the site would likely accommodate up to 10,000 square feet of ground floor commercial space.

### Suitability for Housing

Under RCW 81.112.350 and as approved by voters within the ST3 system expansion plan, Sound Transit must evaluate surplus properties to determine whether the property is suitable for development as housing. Staff completed an evaluation and recommend that the property is suitable for housing. The following summarizes the suitability findings.

- Threshold evaluation considerations:
  - Housing is a permitted use within the property's zoning district;
  - The size and shape of the property meet the zoning code's minimum requirements for constructing housing; and
  - The known environmental conditions of the property are not expected to act as a barrier to constructing housing.

- Discretionary evaluation considerations:
  - Local land use plans support housing on the property;
  - Other uses, such as office space, are not locally prioritized for the property; and
  - There is a real estate market for housing in the local trade area.

**TOD Goals for Property**

The following is a summary of the First Hill TOD goals that are being considered for the procurement.

	<b>Goals</b>
<b>Required</b>	<ul style="list-style-type: none"> <li>• The development team must have the appropriate experience, skills, ability, and financial wherewithal to complete the proposed project.</li> <li>• The project proposal must be feasible using reasonable assumptions.</li> <li>• The project must meet or exceed sustainability standards of LEED (Leadership in Energy and Environmental Design) Silver or the City of Seattle or State of Washington’s Evergreen standard.</li> <li>• At least 80% of the housing units created in the project must be affordable to those earning no more than 80% of the area median income for King County (per RCW 81.112.350).</li> </ul>
<b>Priorities</b>	<ul style="list-style-type: none"> <li>• The project should serve a range of people with varying incomes at or below 80% of the area median income, people with special needs, and families.</li> <li>• The project should maximize the achievable density of site.</li> <li>• the project should maximize affordable housing on the site</li> <li>• The project should maximize its orientation to pedestrians.</li> <li>• The project should minimize its orientation to automobiles.</li> <li>• The project should incorporate active ground floor uses.</li> <li>• The project should be completed as expeditiously as possible.</li> </ul>
<b>Desired</b>	<ul style="list-style-type: none"> <li>• The project is encouraged to provide space for small businesses and/or community-serving uses.</li> <li>• The project is encouraged to support job creation or retention.</li> <li>• The project is encouraged to provide private and public amenities that support transit use and active transportation.</li> </ul>

**Property offering**

RCW 81.112.350(b)(i) states that “a minimum of eighty percent of [Sound Transit’s] surplus property to be disposed or transferred, including air rights, that is suitable for development as housing, must be offered for either transfer at no cost, sale, or long-term lease first to qualified entities that agree to develop affordable housing on the property, consistent with local land use and zoning laws.”

The statute defines qualified entities as local governments, housing authorities, and non-profit developers. The statute states that if a qualified entity accepts the property through the offer, then at least 80 percent of the housing units constructed should be affordable to those earning 80 percent of the area median income for the county in which the property is located. For the First Hill TOD Site, 80 percent of the King County area median income in 2017 for a family of four is \$76,800.

**Partner Funding**

The City of Seattle Office of Housing would likely receive a request to fund any of any affordable housing project at this location through their annual “Notice of Funding Availability” (NOFA) round.

The anticipated subsidy needed to support a high-rise building at this location would be the largest single request to the City Housing Levy in its history.

### Property Pricing Options

The Board of Directors has flexibility in how it prices property in its offering, as recently authorized in RCW 81.112.350. Staff continues to evolve its thinking on how to best value property in light of the new statute. Staff have analyzed three pricing models to establish a base price through an appraisal process:

- Fair Market Value – Unrestricted (highest and best use): This model is standard practice to identify the likely price for a property in a competitive and open market. This model is how past Sound Transit properties were priced.
- Restricted Value —Statute Minimums (80% AMI): This model considers that the properties are competitively offered only to qualified entities, assumes housing would be constructed on the property, and that 80% of the housing units constructed would be in the long-term rented at rates to be affordable to those making 80% of the area median income.
- Discounted Value – Aligned with Housing Funding Programs (60% AMI): This model considers that local affordable housing funding programs minimally require that affordable housing units serve those earning 60% of area median income. This model is better aligned with existing affordable housing funding programs.

In addition to the values set by appraisal, the Board may consider a fourth pricing option: transferring the property at no cost or at a value between that established by the discounted value appraisal and zero.

Criteria the Board may want to evaluate when considering a discount include, but are not limited to:

- Public amenities required of the affordable housing project by Sound Transit, such as higher quality pedestrian spaces, plazas, etc.
- The availability of other local or federal affordable housing funding.
- Improved project viability due to reduced project costs and therefore higher leverage for other local funders.
- Maximizing the total number of affordable housing units produced or level of affordability provided.

Due to the unique nature of the site: its capacity to support high-rise construction and absence of federal interest, simplifying the disposition and pricing process, staff proposes an offering approach that asks both for proposers to maximize density and affordability, testing the creativity of the non-profit development community to respond to that challenge. Competitive proposals will weigh the benefits of each goal and provide Sound Transit with a project that best accomplishes both priorities and includes reasonable funding expectations for the project that competitively leverage all public dollars.

### Future Board Involvement

Staff will return to the Board following proposal review and seek authorization to enter into transaction negotiations with the highest ranked proposer or proposers. Staff could also seek authority to establish land value below fair market value if it is deemed necessary to achieve program goals. Alternately, if the first offer is unsuccessful, staff will return to the Board to discuss next steps. Staff will seek approval of final agreements with the selected responding team and project. The action is anticipated by end of 1Q 2018.

## FISCAL INFORMATION

### Financial Plan Assumptions

The financial plan assumes the First Hill property will provide \$8.6 million in 2020. As of May 2017, the North King County subarea has the ability to cover all the capital, operating, debt service, and other costs allocated to it under the Sound Move, ST2, and ST3 plans. At the conclusion of the ST3 capital program, in 2041, North King County will have a positive ending cash balance – i.e., the subarea’s forecasted revenues will fully cover its allocated capital and operating costs. In addition, the subarea has some additional bonding capacity to cover unanticipated cost increases, or revenue shortfalls, within the subarea, which may be allocated by the Board.

This subarea is at the beginning of a very ambitious, \$12 billion capital program, and it is prudent to retain capacity to cover risks associated with these projects. In addition, the ST2/ST3 program assumes \$2.2 billion of federal funding to finance capital projects within this subarea. Federal funding commitments for new, large, high-capacity projects were not funded within the outlined 2018 federal budget by the Trump administration. The North King County share of the Lynnwood FFGA is assumed to be \$480.6 million within the agency’s long-term financial plan.

## PROCUREMENT INFORMATION

A request for proposals (RFP) will be released to qualified entities soliciting proposals for an experienced development team and a development project concept that deliver on the TOD goals for the property. The RFP is expected to be released in July with selection in 4Q 2017.

## SMALL BUSINESS/DBE PARTICIPATION AND APPRENTICESHIP UTILIZATION

Not applicable to this action.

## PUBLIC INVOLVEMENT

Sound Transit partnered with the First Hill Improvement Association (FHIA) on a community meeting to discuss Sound Transit’s First Hill TOD opportunity. The meeting built on work completed by the First Hill Improvement Association’s Land Use and Public Space committee who previously had developed a short list of development priorities for the site. The public meeting held on June 5, 2017, was well attended and provided an opportunity to discuss Sound Transit’s TOD program, educate the community about our process, and collect feedback from a larger stakeholder group than FHIA’s land use and open space committee about the identified priorities for the site. The stated FHIA development goals for the site included:

- 100% affordable housing
- Affordability set at 60% of area median income or below
- Family-sized units
- Inclusion of retail and community space

The outcome of the event is summarized in the First Hill Transit Oriented Development-Summary of Community Engagement report.

## TIME CONSTRAINTS

Delaying this action would delay the issuance of the request for proposal and subsequently the selection of a developer for the site. If the Board chooses to pursue affordable housing at this location, the selected developer would likely pursue funds from the City of Seattle's Housing Levy, whose funding round deadline is in September. Delaying this action will jeopardize staff ability to complete a negotiation with the selected developer in time for their inclusion in this year's funding round. The result would be a delay in the project development of this site by as much as one year.

## PRIOR BOARD/COMMITTEE ACTIONS

Resolution No. R2016-06: Approved the chief executive officer's declaration that certain real property acquired for the University Link Extension is surplus and is no longer needed for a transit purpose.

Resolution No. R2012-24: Established a policy to guide evaluation, facilitation and implementation of transit-oriented development during planning, designing, building and operating the high-capacity regional transit system, and superseding Motion No. M99-60 and Motion No. 98-25.

Resolution No. R2000-04: Authorized the executive director to acquire, dispose, or lease certain real property interests by negotiated purchase, by condemnation, by settling condemnation litigation or entering administrative settlements, and to pay eligible relocation and re-establishment benefits to affected parties as necessary for the Central Link Light Rail Project.

## ENVIRONMENTAL REVIEW

KH 6/13/17

## LEGAL REVIEW

JRV 6/16/17



## RESOLUTION NO. R2017-23

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority (1) declaring that the First Hill Transit-Oriented Development Site property is suitable for development as housing, (2) directing staff to offer the property first to qualified entities as described in RCW 81.112.350; and (3) directing staff to offer the property through a process that seeks to maximize affordability and density and reflects the goals of the agency, local municipality, and community.

WHEREAS, the Central Puget Sound Regional Transit Authority, commonly known as Sound Transit, was formed under chapters 81.104 and 81.112 RCW for the Pierce, King, and Snohomish Counties region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, Sound Transit is authorized to plan, construct, and operate a high-capacity system of transportation infrastructure and services to meet regional public transportation needs in the Central Puget Sound region; and

WHEREAS, in general elections held within the Central Puget Sound Regional Transit Authority district on November 5, 1996, November 4, 2008, and November 8, 2016, voters approved local funding to implement a regional high-capacity transportation system for the Central Puget Sound region; and

WHEREAS, Sound Transit acquired the subject property, currently identified as the First Hill Transit-Oriented Development Site and located at 1014 Boylston Avenue and 1400 Madison Street in Seattle, WA, for the Central Link Light Rail Project purposes in 2001; and

WHEREAS, the Sound Transit Board by Resolution No. R2016-06 declared the subject property surplus; and

WHEREAS, RCW 81.112.350 requires Sound Transit to “develop and seek voter approval for a system plan, ...to implement a regional equitable transit-oriented development strategy for diverse, vibrant, mixed-use and mixed-income communities consistent with transit-oriented development plans developed with community input by any regional transportation planning organization within the regional transit authority boundaries”; and

WHEREAS, on June 23, 2016 the Sound Transit Board adopted Resolution R2015-16 approving the Sound Transit 3 Regional Transit System Plan (the ST3 Plan”) and on November 8, 2016 the voters approved the ST3 Plan. The ST3 Plan provides that, “Sound Transit will implement a regional equitable TOD strategy for diverse, vibrant, mixed-use, mixed-income communities adjacent to Sound Transit stations that are consistent with transit oriented development plans developed with the community by the regional transportation planning organization within Sound Transit’s boundaries. ...Sound Transit will use such plans as the 2013 Growing Transit Communities Strategy to inform the content and implementation of its TOD strategy”; and

WHEREAS, the Growing Transit Communities Strategy includes “Strategy 16: Make Surplus Public Lands Available for Affordable Housing” that calls on Sound Transit to “Develop policies and best practices related to the disposition of properties that support affordable housing production on surplus sites” (Strategy 16.3); and

WHEREAS, unless certain exceptions apply, RCW 81.112.350 requires that the agency offer for transfer at no cost, sale or long-term lease at least 80 percent of its surplus properties that are suitable for housing first to qualified entities (local governments, housing authorities, and non-profit

developers) that agree to develop affordable housing on the property, and if accepted, at least 80 percent of the housing units created on the property must serve those whose adjusted income is no more than 80 percent of the adjusted median income for the County in which the property is located; and

WHEREAS, affordable housing projects developed in Seattle that provide at least 80 percent of the housing units affordable to those earning no more than 80 percent of the area median income generally require significant financial assistance from local governments; and

WHEREAS, the subject property is zoned to accommodate a high-rise building; and

WHEREAS, staff will seek development proposals that seek to optimize both density and affordability on the site; and

WHEREAS, staff will return to the Board following proposal review and seek authorization to enter into transaction negotiations with the highest ranked proposer or proposers and staff could also seek authority to establish land value below fair market value if it is deemed necessary to achieve program goals; and

WHEREAS, negotiation with potential developers for the transit-oriented development project on this property will determine the final development program requirements for the subject property in advance of disposition; and

WHEREAS, Board approval will be sought for any future agreements related to the subject real property.

NOW THEREFORE BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority:

Section 1: The Sound Transit Board finds and declares that the First Hill Transit-Oriented Development Site property is suitable for development as housing.

Section 2: Staff is hereby directed to offer the property first to qualified entities for affordable housing as described in RCW 81.112.350.

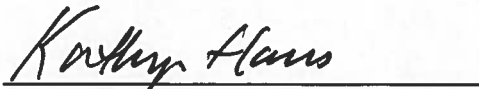
Section 3: Staff is directed to offer the property through a process that seeks to maximize affordability and density and reflects the goals of the agency, local municipality, and community.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on June 22, 2017.



Dave Somers  
Board Chair

ATTEST:



Kathryn Flores  
Board Administrator