

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	Discussion of Affordable Housing Options for 198 <sup>th</sup> Property		
<b>DEPARTMENT:</b>	City Manager's Office		
<b>PRESENTED BY:</b>	Dan Eernisse, Economic Development Manager		
<b>ACTION:</b>	<input type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input type="checkbox"/> Public Hearing	<input checked="" type="checkbox"/> Discussion	

**PROBLEM/ISSUE STATEMENT:**

The City currently owns three parcels of property (Tax Parcels #222730-0025, 222730-0030, 222730-0036) with a total area of 34,360 square feet at the northeast corner of Aurora Ave N and N 198<sup>th</sup> St. The three parcels together are known as the 198<sup>th</sup> Property (see Attachment A).

During its August 8, 2016, business meeting, Council directed staff to further investigate using the 198<sup>th</sup> Property as an Affordable Housing site given the interest expressed by the King County Department of Community and Human Services (KCDCHS). Staff has subsequently developed a massing study and worked with KCDCHS to develop a Development Concept (Attachment B) for how the property could potentially be developed as affordable housing. Mr. Mark Ellerbrook and Ms. Jackie Moynahan of KCDCHS are scheduled to participate in tonight's discussion on the following topics:

- The KCDCHS Request for Proposal (RFP) process that would be used to select an affordable housing developer for the site.
- The aesthetic characteristics of the building itself and the construction and design process that KCDCHS intends to pilot in Shoreline.
- The two levels of housing affordability options made feasible given the financing tools available.
- How offering the 198<sup>th</sup> Property below market value would affect the project.
- Shoreline's surplus process for real property.

**RESOURCE/FINANCIAL IMPACT:**

Should Council decide to hold the property off market for the RFP process, staff estimates that impact will be \$24,000, assuming that a short-term lease of the property would be discounted compared to a long-term lease. The level of discount on the property purchase that is set by Council would determine the financial impact; staff estimates that the market value of the property could yield over \$2.0 million. In addition, staff time will be needed to prepare an RFP in cooperation with KCDCHS.

**RECOMMENDATION**

Tonight's meeting does not require a formal decision. However, staff asks that Council provide direction by consensus on three items to guide the next actions taken:

1. Should the City formally engage with KCDCHS to create an RFP for affordable housing proposals on the 198<sup>th</sup> Property?
2. Assuming that the answer to #1 is yes, does Council direct that the 198<sup>th</sup> Property serve:
  - a) Workforce households at or below 60% AMI?
  - b) Homeless households at or below 30% AMI?
  - c) Leave this as an open item within the RFP, allowing those responding to identify which level of affordable housing they believe could be financed and developed on the site?
3. Assuming that the answer to #1 is yes, does Council wish to add to its existing subsidies by:
  - a) Holding the 198<sup>th</sup> Property off market free of charge?
  - b) Reducing the purchase price of or donating the 198<sup>th</sup> Property? If price reduction, by what method and by how much?

Approved By:            City Manager **DT**                      City Attorney **MK**

## **BACKGROUND**

Two parcels were acquired to widen Aurora Avenue during the corridor project, and a third was acquired as the Aurora project continued. Once the Aurora project was complete, that the City began to look at surplus any remaining property. Once surplus, the proceeds could help fund the improvements at the North Maintenance Facility.

King County faces an unprecedented affordable housing crisis. Rents continue to rise dramatically throughout the County, with increases pronounced in inner ring cities such as Bellevue, Redmond, Renton, and Shoreline. From 2005 to 2015, average rents increased 26% in Shoreline, impacting middle income working families. Additionally, the rising rent affects households living at the margin, often pushing them into homelessness. The most recent homeless point in time count (2016) found a 181% increase in north King County (48 in 2015 to 135 in 2016).

In partnership with the City of Shoreline, King County—through the King Council Department of Community Health Services (KCDCHS)—is promoting the development of high quality affordable housing that can be developed at lower cost, greater speed, or both. To demonstrate the feasibility of such efficient and affordable housing, King County is interested in piloting modular design and construction. The completed housing project will provide permanent affordable apartments targeted to households at or below 60% area median income.

Council discussed potential surplus of City property, including the parcels at 198<sup>th</sup>, on August 8, 2016. This staff report can be found at: <http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2016/staffreport080816-9a.pdf>

At this meeting, the City Council gave staff direction to pursue affordable housing opportunities for this site.

### **The 198<sup>th</sup> Property**

The City currently owns three parcels of property (Tax Parcels #222730-0025, 222730-0030, 222730-0036) with a total area of 34,360 square feet at the northeast corner of Aurora Ave N and N 198<sup>th</sup> St. The three parcels together are known as the 198<sup>th</sup> Property (see Attachment A).

The following are significant facts about the property:

- All three parcels are vacant and have all had had environmental remediation.
- The property is at three topographic levels with the western one-third being at the same grade as Aurora, then a middle shelf approximately 20 feet below, and a third shelf 10 feet below that. While the grade change limits the site's value for retail, it can be a benefit for multifamily or office development as it allows for parking to tuck under the building.
- The front two parcels are zoned Mixed Business, the City's broadest zoning district, while the eastern parcel is zoned R-48, high-density residential. This

split-zoning would most easily accommodate a multifamily development. Staff estimates that at least 40 multifamily units could be built on site.

- No appraisal has been completed of the 198<sup>th</sup> Property, but given assessed values in the area and past sales of similar properties, staff estimates that the 198<sup>th</sup> Property has a market value of approximately \$2.0 million.
- The two parcels along Aurora were purchased as part of the Aurora Corridor project's third mile for approximately \$1.5 million using federal and WSDOT funds (see the Staff Report from Council's August 8, 2016 discussion on the Use and Surplus of Real Property). If the property is sold, WSDOT may make a claim to 42% of the proceeds on these two parcels; however, staff believes that WSDOT would waive this claim if the property were sold at a discount to an affordable housing provider. Therefore, if Council determines that the 198<sup>th</sup> Property be used for affordable housing, there would be no advantage to lease the property and it is assumed in this discussion that the city would sell/dedicate the property to an affordable housing provider.
- The third parcel was purchased for \$225,000, and the appraisal, closing costs, environmental remediation, utilities, and demolition of the house added approximately \$90,000 for a total outlay from the general fund of approximately \$315,000.
- Should the City decide to enter into a long-term (40+ year) ground lease of the property, the 198<sup>th</sup> Property would generate a fixed amount each month that represents a market-rate loan. A \$2 million loan for 40 years at 3.5% interest would generate a payment of nearly \$8,000/month.

## **DISCUSSION**

During its August 8, 2016, business meeting, Council directed staff to further investigate using the 198<sup>th</sup> Property as an Affordable Housing site given the initial interest expressed by the King County Department of Community and Human Services (KCDCHS).

**Affordable Housing Provider Selection Process.** In order to demonstrate the potential of the site, Staff worked with a Shoreline architecture firm, RMA, to develop a massing study. The 63-unit study (Attachment B) shows a mix of studio, one-bedroom, and two-bedroom in two buildings, 64 parking stalls, with ample open space. KCDCHS created a Development Concept (Attachment B) to define the next steps, and Mr. Mark Ellerbrook and Ms. Jackie Moynahan of KCDCHS are scheduled to participate in tonight's presentation and answer Council's questions.

In summary, should Council direct tonight, KCDCHS will work with staff to create a Request for Proposals (RFP) that will be advertised to not-for-profit providers of affordable housing to develop the 198<sup>th</sup> Property. KCDCHS will manage the RFP process, select an affordable housing provider, pledge an amount of King County Capital Funding that KCDCHS is responsible to disperse, and monitor the provider's compliance to the conditions of the RFP. It is assumed that the provider will then need to permit the building and raise additional financing through private bank loans, tax credit financing, and other public and private funding. KCDCHS estimates that the RFP

selection will be made later in 2017, and construction on the project will begin no sooner than one year later.

**Two Levels of Affordability.** KCDCHS identified two categories of households that they believe providers will serve based on the available funding sources for building and operating affordable housing:

- 1) **Workforce housing** targeted to households earning 60% Area Median Income or less. The project could provide rapid rehousing units for low service needs households exiting homelessness. The project would likely provide a mix of 1 bedroom (50% of units), 2 bedroom (30% of units), and 3 bedroom apartments (20% of units). One unit would be set aside for a live-in site manager.
- 2) **Permanent supportive housing for homeless households** earning below 30% of the Area Median Income. The project would likely provide a mix of studio (50% of units) and 1 bedroom apartments (50% of units) along with space for case management services.

In order to attract the widest pool of proposals, KCDCHS recommends that the RFP be worded broadly so that it allows for providers of either category of housing. However, should Council prefer that the 198<sup>th</sup> Property be used to serve a particular population, KCDCHS will adjust the RFP accordingly. Staff supports KCDCHS's recommendation to word broadly so that it allows for providers of either category of housing.

A Workforce Housing project would serve qualifying households who apply specifically to the project as vacancies allow. Therefore, it will serve current Shoreline residents or those who desire to live in Shoreline.

In contrast, housing for homeless would not necessarily be filled with existing Shoreline homeless households or even those that express a preference to live in Shoreline. KCDCHS operates a system-wide coordinated entry system that would be used to fill vacancies at the 198<sup>th</sup> Property as well as other properties throughout King County. "Coordinated Entry for All" (CEA) ensures that people experiencing homelessness can get help finding stable housing by quickly identifying, assessing, and connecting them to housing support services and housing resources. CEA uses a standardized assessment tool that matches the right level of services and housing resources to the persons facing a housing crisis. CEA uses an assessment tool, called the VI-SPDAT, to get more information about the needs of each homeless family or homeless person. In general, the assessment tool asks a series of questions about you, your health, how you are experiencing homelessness, and what other needs you might have. The need for homeless housing far outstrips the supply, and qualifying households are placed based on a number of factors. Households within the system are asked to express a preference of where they hope to live and—whenever possible—KCDCHS places households where they prefer to live.

**Modular Construction Technique.** KCDCHS would like to pilot modular construction techniques at the 198<sup>th</sup> Property. It should be noted that this is permanent modular construction, not to be confused with modular temporary housing which typically refers to very small self-contained units without a permanent foundation that are a more

habitable alternative to tent encampments and can be moved from site to site relatively easily.

Modular construction techniques are used to build permanent housing that is in most ways similar to site-built projects. Modular construction utilizes factory pre-fabricated components—think Lego blocks—that are relatively quickly assembled with a crane on a site-poured permanent foundation. Modular construction has been successfully used in projects such as [N-Habit in Seattle's Belltown neighborhood](#), and it has resulted in a shortened construction period and cost savings. KCDCHS would like to demonstrate modular construction techniques at the 198<sup>th</sup> Property in order to determine if it is a faster and/or less expensive way to deliver permanent affordable housing for the region.

Regardless of the housing population served or whether modular construction is used, the look of the finished project will be virtually indistinguishable from a modern, market-rate apartment project. The massing study prepared for the 198<sup>th</sup> Property (see Attachment C) responds to the topography of the site by splitting the project into two buildings: the first is a four-story wood building over tuck-in parking along Aurora, and the second is a three-story wood building over a concrete parking structure to the east with views of Echo Lake. Surface parking and an ample common area lies between the two buildings. No decks are provided, but the eastern three-story building features patios on the first floor on top of the parking structure. If the project calls for management services, they would be located in the commercial space on the first floor along Aurora.

**City of Shoreline Subsidy.** According to KCDCHS, all not-for-profit providers of affordable housing need a number of sources of subsidies to build affordable housing, and those who serve homeless households need on-going operational subsidies as well. Therefore, KCDCHS encourages the City of Shoreline to add additional subsidies to the 198<sup>th</sup> Property acquisition, as it will make the project that much more attractive to those who will ultimately respond to the RFP.

The City already provides an exemption from the Transportation Impact Fee to not-for-profit providers of affordable housing (currently that represents a subsidy of \$4,255.01 per unit), and Council recently adopted amendments that give the Director the ability to waive city-imposed development fees for projects that meet affordability requirements. The following is a list of things that the City of Shoreline could add to further subsidize the 198<sup>th</sup> Property should Council so choose:

- 1) **Hold the 198<sup>th</sup> Property off-market free of charge**, at least from a long-term lease or a purchase. Even if the City were to sell the property at market rate through the RFP process, its willingness to hold the property off market for as long as it takes to attract an affordable housing provider has great value. This subsidy could apply during the entire time that it takes for KCDCHS to prepare, advertise, and manage responses to an affordable housing RFP, and for the time it takes for the successful responder to raise financing and close on the property. Without this subsidy, KCDCHS and/or the provider would need to reimburse the land owner while the process proceeds. The value of this subsidy is estimated at least at \$1,000/month for 24 months, or \$24,000, and it reflects the lower value of a short-term as-is lease versus a long-term lease for the same period

- 2) **Sell the property below market.** Clearly affordable housing has virtually unlimited needs. Council could determine that its investment in the 198<sup>th</sup> Property could be completely directed to the 198<sup>th</sup> Property project, or it could direct a portion of the value to the 198<sup>th</sup> Property and direct the rest to other city projects and/or to repay the general fund for the recent \$315,000 outlay to acquire the third parcel.
- a. **A market-based discount.** Council could establish that the 198<sup>th</sup> Property will be sold at discount of its market rate at the time of acquisition by the affordable housing provider. For example, if at a set time before closing the property appraises at \$2.0 million, and if Council has determined that a subsidy of a \$1 million would be applied, then the provider would pay the City \$1.0 million. While the discount would not fluctuate, the amount the provider pays would, since it would fluctuate with the market rate.
  - b. **A fixed purchase price.** Council could instead set a fixed purchase price that is not dependent on the market rate. For example, Council could determine up front that \$1.0 million is the total amount that the successful proposal would pay for the 198<sup>th</sup> Property, and then KCDCHS would publish this fixed amount in the RFP. This is a more robust subsidy than #2 above because along with a dollar amount it provides a greater level of certainty for the proposals.
  - c. **Donation of property.** Council could determine that the City's contribution towards increasing affordable housing in Shoreline includes the value of the property and in essence deed the property at no cost for the development of the project.

**Next Steps.** Should Council determine that the 198<sup>th</sup> Property be used for affordable housing with the provider selected through an RFP prepared by KCDCHS, staff will bring the RFP back to Council along with an ordinance to surplus the 198<sup>th</sup> Property according to the terms prescribed by Council this evening. Staff has added the discussion to the Agenda Planner on April 17, 2017 with action on the ordinance scheduled for May 1, 2017.

#### **RESOURCE/FINANCIAL IMPACT:**

Should Council decide to hold the property off market for the RFP process, staff estimates that impact will be \$24,000, assuming that a short-term lease would be discounted compared to a long-term lease. The level of discount on the property purchase that is set by Council would determine the financial impact; staff estimates that the market value of the property could yield over \$2.0 million. In addition, staff time will be needed to prepare an RFP in cooperation with KCDCHS.

#### **RECOMMENDATION**

Staff asks that Council provide direction by consensus on three items to guide the next actions taken:

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- a) Workforce households at or below 60% AMI?
  - b) Homeless households at or below 30% AMI?
  - c) Leave this as an open item within the RFP, allowing those responding to identify which level of affordable housing they believe could be financed and developed on the site?
3. Assuming that the answer to #1 is positive, does Council wish to add to its existing subsidies by:
- a. Holding the 198<sup>th</sup> Property off market free of charge?
  - b. Reducing the purchase price of or donation of the 198<sup>th</sup> Property? If price reduction, by what method and by how much?

### **ATTACHMENTS**

Attachment A: Parcel map of 198<sup>th</sup> Property  
Attachment B: 198<sup>th</sup> Property Site Development Concept, KCDCHS  
Attachment C: Massing Study of 198<sup>th</sup> Property



King County iMap



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The information included on this map has been compiled by King County staff from a variety of sources and is subject to change without notice. King County makes no representations or warranties, express or implied, as to accuracy, completeness, timeliness, or rights to the use of such information. This document is not intended for use as a survey product. King County shall not be liable for any general, special, indirect, incidental, or consequential damages including, but not limited to, lost revenues or lost profits resulting from the use or misuse of the information contained on this map. Any sale of this map or information on this map is prohibited except by written permission of King County.

Date: 7/20/2016

Notes:





## **Attachment B: 198<sup>th</sup> Property Site Development Concepts**

**Summary:** In partnership with the City of Shoreline, King County is promoting the development of high quality affordable housing that can be developed at lower cost, greater speed, or both. To demonstrate the feasibility of such efficient and affordable housing, King County is interested in piloting modular design and construction. The completed housing project will provide permanent affordable apartments targeted to households at or below 60% area median income.

**Background:** King County faces an unprecedented affordable housing crisis. Rents continue to rise dramatically throughout the County, with increases pronounced in inner ring cities such as Bellevue, Redmond, Renton, and Shoreline. From 2005 to 2015, average rents increased 26% in Shoreline, impacting middle income working families. Additionally, the rising rent affects households living at the margin, often pushing them into homelessness. The most recent homeless point in time count (2016) found a 181 % increase in north King County (48 in 2015 to 135 in 2016).

**Building Concept & Population:** Residential, minimum 63 units. Assumes a minimum 25% parking reduction.

- Option 1: Workforce housing targeted to households earning 60% Area Median Income or less. Building could provide rapid rehousing units for low service needs households exiting homelessness. Provides a mix of 1 bedroom (50% of units), 2 bedroom (30% of units) and 3 bedroom apartments (20% of units). One unit set aside for live-in site manager (typically two bedroom unit).
- Option 2: Permanent supportive housing for homeless households. Provide a mix of studio and 1 bedroom units. Approximately 50%/50% split along with space for case management services.

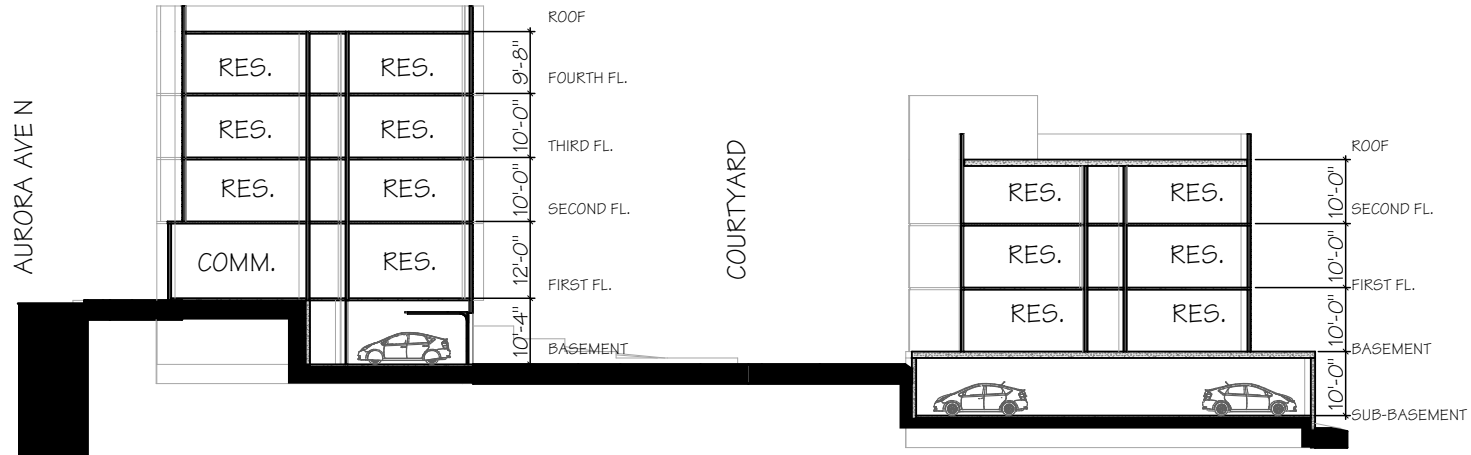
### Average Range of Square Footage per Unit Size:

Studio	350-430 sf
1 Bedroom	450 -540 sf
2 Bedroom	600 -800 sf
3 Bedroom	885 – 1080 sf

### **Project Financing:** Potential Financing Sources:

- Private bank loan
- 4% or 9% tax credits from the Washington State Housing Finance Commission (competitive sources of funding)
- King County Capital Funding
- Deferred Developer Fee (all projects are expected to defer a portion of the allowed fee)
- Other – sponsor equity, other public or private funding.
- The retail/commercial space would need to be funded separately from the housing portion, likely through a commercial bank loan

**Site Disposition and Developer Selection:** It is expected that a developer would be selected through a Request for Proposals (RFP) process developed by King County in coordination with the City of Shoreline’s staff. Once the developer is selected, the County would move forward with negotiating and contracting. Given that the site would be used for affordable housing and likely to serve low income and homeless populations for 50 years, a nominal to zero purchase price for the land is optimal.



SITE SECTION A-A

PROJECT INFORMATION

ZONING	MB (Mixed Buisness) and R-48		
BUILDING HEIGHT	MB	65'	
	R-48	50'	

UNITS	bldg one	bldg two	total	total SF rentable
1 bedroom 500 SF	11	21	32	16,000
2 bedroom 800 SF	10	9	19	15,200
3 bedroom 1000 SF	14	0	14	14,000
total	35	30	65	45,200

PARKING	
1 BED X .75	24
2+ BED X 1.5	49.5
COMMERCIAL 1/400 SF	10
TOTAL	84
25% REDUCTION	-21
TOTAL REQUIRED	63

Bldg one garages	16
bldg two garage	29
surface	17
PROVIDED	64

BUILDING SF	garage	commercial	residential	common area	total SF
building one	3,344	4,000	27,500	5,000	39,844
building two	8,585	0	17,700	3,660	29,945

OPEN SPACE	
1 bedroom x 100 SF	32
2 bedroom x 130 SF	19
3 bedroom x 170 SF	14
Total required	8,050 SF

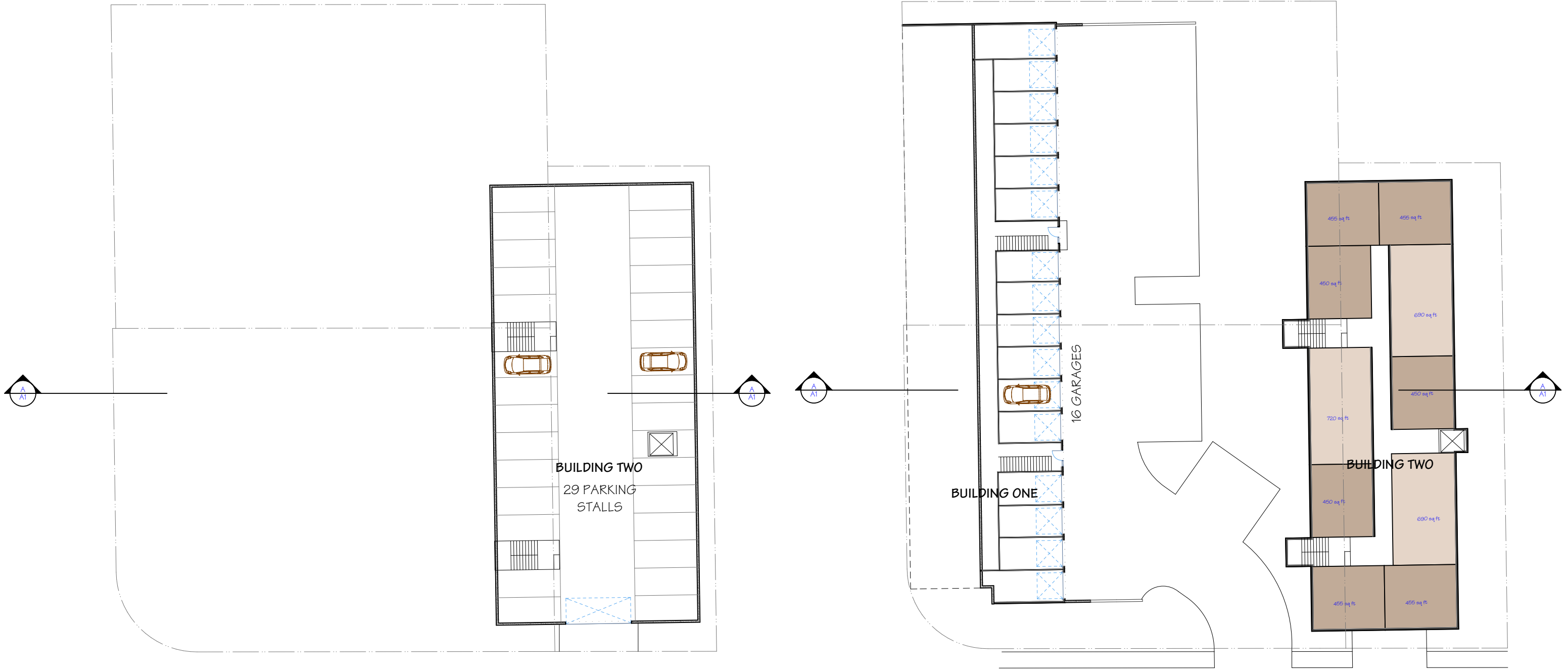
Courtyard	5176 SF
Bldg Two roof top	3,136 SF
total provided	8,312 SF

BUILDING ONE  
4 STORIES OVER BASEMENT GARAGES  
APARTMENTS TO BE TYPE V WOOD FRAME OVER  
COMMERCIAL AND GARAGES OF TYPE I CONCRETE

BUILDING TWO  
3 STORIES OVER BASEMENT GARAGE  
APARTMENTS TO BE TYPE V WOOD FRAME OVER  
GARAGE OF TYPE I CONCRETE



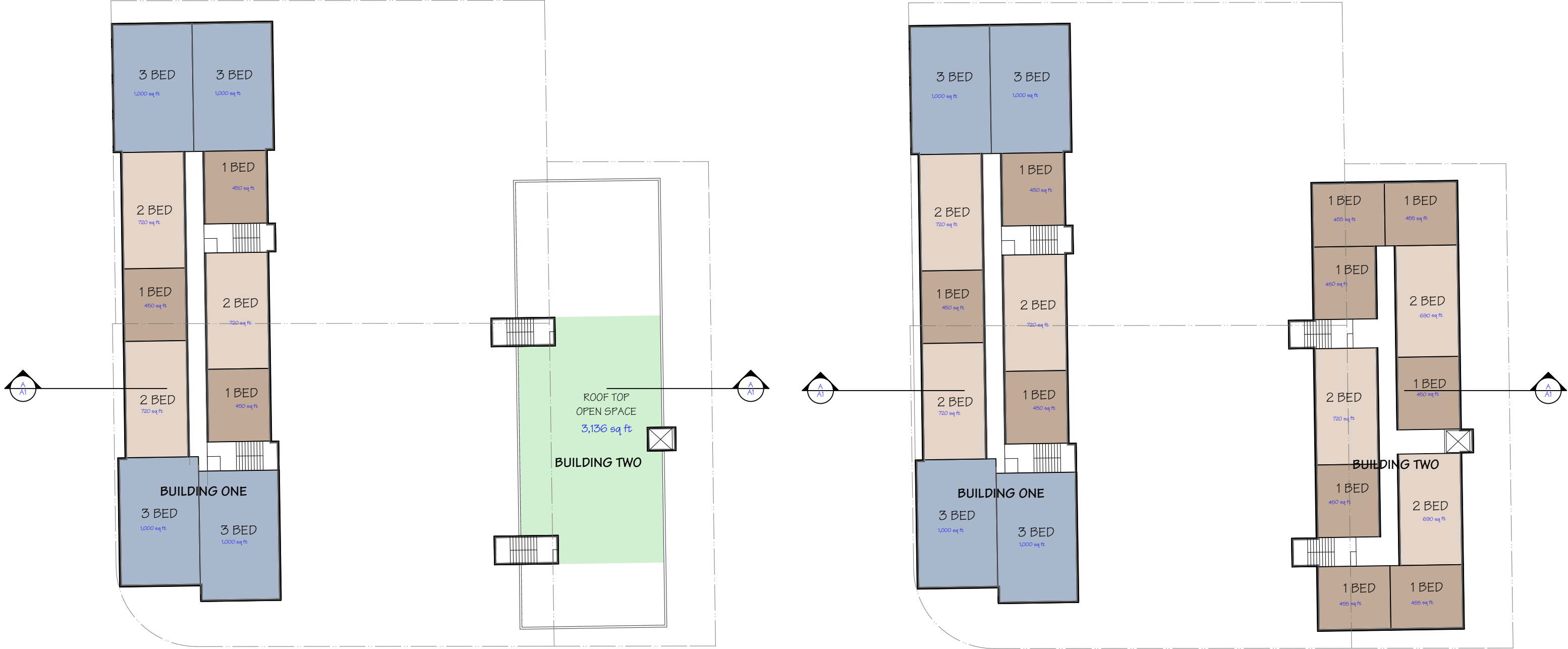
FIRST FLOOR / STREET LEVEL



SUB-BASEMENT FLOOR

BASEMENT FLOOR

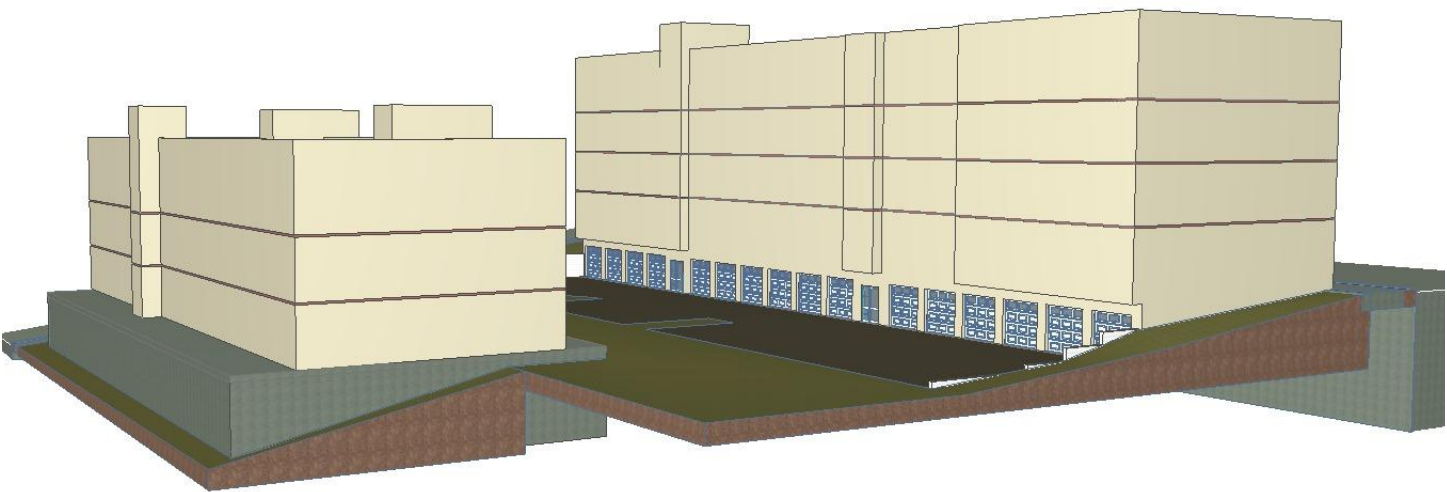




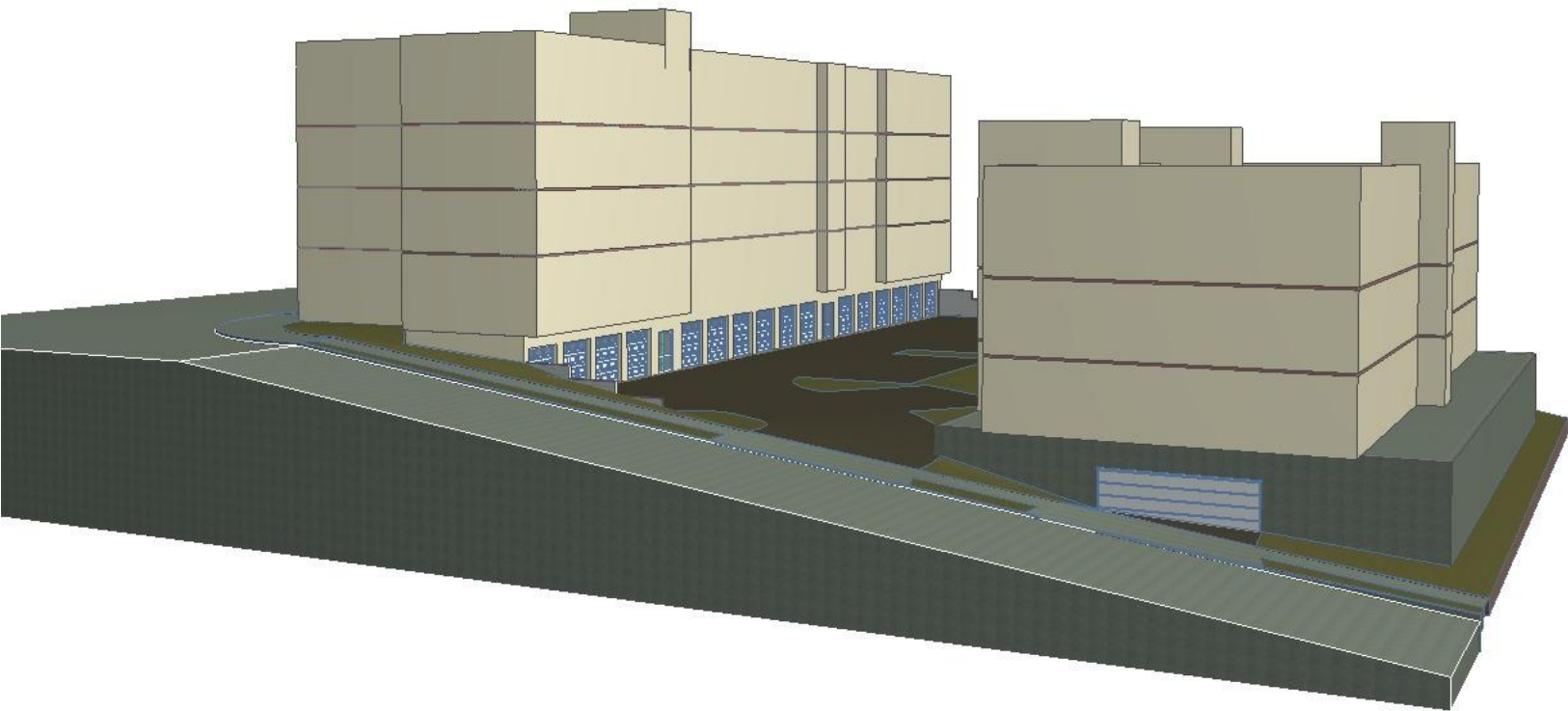
FOURTH FLOOR AND ROOF

SECOND & THIRD FLOOR

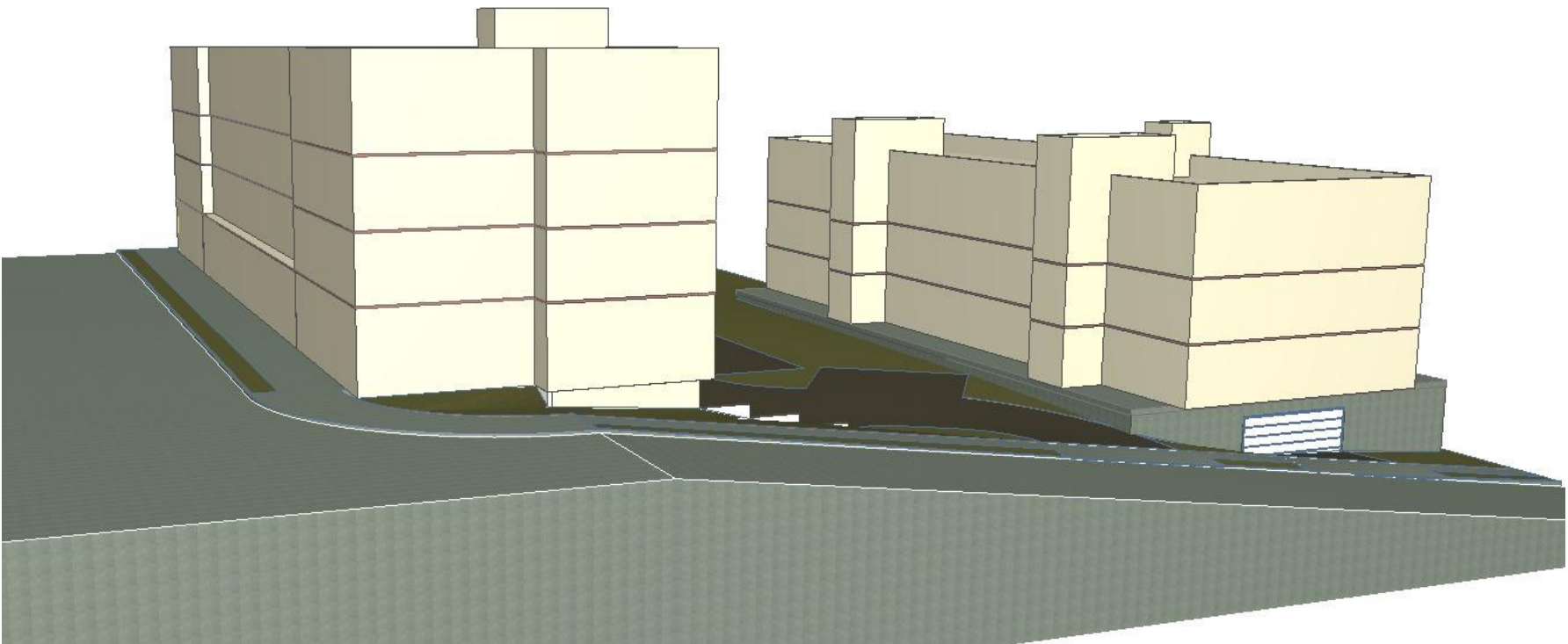




VIEW FROM NORTHEAST



VIEW FROM SOUTHEAST



VIEW FROM SOUTHWEST

