

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Authorizing the City Manager to Award an Option to Lease the City Owned 198 th Property to Community Psychiatric Clinic for Affordable Housing and Supportive Services
DEPARTMENT:	City Manager's Office
PRESENTED BY:	Nathan Daum, Economic Development Manager
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Public Hearing <input type="checkbox"/> Discussion

PROBLEM/ISSUE STATEMENT:

At the direction of City Council, the City entered into a partnership with King County to develop a request for affordable housing proposals on City-owned property located at 198th and Aurora, the majority of which is surplus property from the Aurora Corridor Project (map provided in Attachment A). A competitive process selected Community Psychiatric Clinic (CPC) as the housing owner and service provider, with Catholic Housing Services (CHS) serving as CPC's development consultant.

In order to pursue funding for the project in the form of Low Income Housing Tax Credits, CPC requires a lease option as evidence of site control. The proposed lease option is provided as Attachment B. City Council approval is needed to authorize the City Manager to award this lease option to the selected project team.

RESOURCE/FINANCIAL IMPACT:

Tax Parcel #222730-0025 was purchased for \$1,043,200 and Tax Parcel #222730-0030 was purchased for \$1,043,200, for a total of \$2,086,400. These two properties were purchased using federal grant money for the Aurora Corridor Project in 2012. Tax Parcel #222730-0036, purchased for \$225,000 in 2015, was acquired to create a more buildable assemblage when the City was approached by the owners with a compelling offer.

The lease option provides that the City and CPC would enter into a long-term 99-year lease at a rate of one dollar (\$1.00) per year. Staff estimates that the total market value of the three parcels could at least \$2.0 million.

RECOMMENDATION

Staff recommends that the City Council move to authorize the City Manager to award the option to lease the City owned parcels at 198th and Aurora to Community Psychiatric Clinic for the purposes of developing and operating affordable housing and supportive services.

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

BACKGROUND

The City owns three parcels of property (Tax Parcels #222730-0025, #222730-0030, and #222730-0036), with a total area of 34,360 square feet at the northeast corner of Aurora Avenue N and N 198th Street. The three parcels together are known as the 198th Property and were bought as part of the Aurora Corridor Project (Attachment A).

Once the Aurora Corridor Project was complete, the City determined it would no longer need these parcels. During the August 8, 2016 meeting, Council discussed what to do with the 198th Property, including leasing the property to a third party. Council directed staff to investigate using the property for affordable housing. The staff report for this discussion can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2016/staffreport080816-9a.pdf>

During the March 6, 2017 meeting, Council discussed a massing study to determine the potential of the site as well as a King County Department of Community and Human Services Development Concept. King County also presented on the potential RFP process to select an affordable housing developer and onsite service provider. The staff report for this discussion can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2017/staffreport030617-8a.pdf>.

King County subsequently conducted the RFP process and chose Community Psychiatric Clinic (CPC) to develop and manage the apartment building with Catholic Housing Services of Western Washington (CHS).

City Council was briefed on what was now called the 198th Affordable Housing Project at the September 24, 2018 dinner meeting. This included meeting and hearing from representatives of both CPC and CHS. The memo for this discussion can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/dinner/092418Dinner.pdf>.

The feasibility study and decision to proceed were complete in late 2018, along with various outreach open houses in the immediate vicinity of the site. The next project deadline is applying for \$19,359,039 in Low Income Housing Tax Credits (LIHTC) in January 2019 for an award in February 2019. Other sources of funding for the project include \$3,500,000 from King County's Veterans, Seniors & Human Services Levy and \$7,567,233 in equity invested by CPC. If successful, construction is estimated to start in October 2019 for a building occupancy of August 2020.

DISCUSSION

In order to pursue the \$19,359,039 in Low Income Housing Tax Credits, CPC requires a lease option as evidence of site control. The project team's deadline for this submission is January 22, 2018. The proposed lease option is provided as Attachment B.

If Council **approves**, Community Psychiatric Clinic will have the necessary agreements in place to submit a complete application for the Tax Credits needed to build the project.

If Council **rejects**, Community Psychiatric Clinic will be ineligible for the Tax Credits needed to fund the project. Since the project requires this funding for design and construction, the project will not move forward as currently intended by City Council.

COUNCIL GOAL(S) ADDRESSED

The 2018-2020 City Council Goals specifically reference this project under “Goal 1: Strengthen Shoreline’s economic climate and opportunities” which states in Action Step Five (**emphasis added**):

“Encourage affordable housing development in Shoreline, including continued promotion of the Property Tax Exemption program, **partnership with King County in the development of affordable housing on the City’s property at Aurora Avenue and N 198th Street**, and identify opportunities for integration of affordable housing at the future community and aquatic center facility.”

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RECOMMENDATION

Staff recommends that the City Council move to authorize the City Manager to award the option to lease the City owned parcels at 198th and Aurora to Community Psychiatric Clinic for the purposes of developing and operating affordable housing and supportive services.

ATTACHMENTS

Attachment A: Parcel map of 198th Property

Attachment B: Proposed Lease Option Agreement

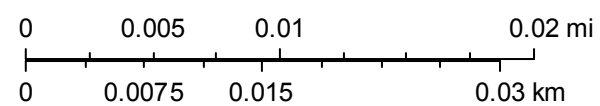
Attachment A



November 15, 2018

1:480

- ⋮ : City Boundary - outline
- Site Address**
- ⊕ Mailable
- ⊖ Location
- Street**
- Outside Shoreline
- Interstate
- Principal Arterial
- Minor Arterial
- Collector Arterial
- Local Primary
- Local Secondary
- ⋮ Tax Parcel



No warranties of any sort, including accuracy, fitness, or merchantability, accompany this product.

LEASE OPTION AGREEMENT

THIS LEASE OPTION AGREEMENT (“**Lease Option**”) is made and entered into as of the ___ day of _____, 2019 (“**Effective Date**”), by and between THE CITY OF SHORELINE, a Washington municipal corporation (“**Grantor**”), and CPC SHORELINE LLC, a Washington limited liability company, or its successors and assigns (“**Grantee**”). Grantor and Grantee are collectively referred to herein as the “**Parties**” and individually as a “**Party**.”

W I T N E S S E T H:

WHEREAS, Grantor is the owner of that certain real property located in the City of Shoreline, County of King, State of Washington, identified by King County Tax Parcel Nos. 2227300030, 2227300025, and 2227300036, generally located at the intersection of Aurora Avenue North and North 198th Street, as more particularly described on Exhibit A, attached hereto and made a part hereof, including any improvements thereon (“**Property**”).

WHEREAS, the City of Shoreline purchased in fee simple Tax Parcel Nos. 2227300030 and 2227300025 in 2012, conveyed by Statutory Warranty Deed, and purchased in fee simple Tax Parcel No. 2227300036 in 2015, conveyed by Statutory Warranty Deed.

WHEREAS, the City of Shoreline in partnership with King County, issued a Request for Qualifications (“**RFQ**”) entitled *Affordable Modular Housing at Shoreline 198th Site: Analysis, Financing, and Construction*. The RFQ was a joint solicitation to select a qualified team to develop a system-connected affordable housing project using modular construction methods if feasible (“**Project**”).

WHEREAS, Community Psychiatric Clinic (“**CPC**”) was selected to develop and manage the Project with support from Catholic Housing Services. The Grantee is the development subsidiary of CPC for the Project.

WHEREAS, the City of Shoreline is willing to make the Property available to Grantee for the development of system-connected affordable housing with support services.

WHEREAS, Grantee intends to submit an application to the Washington State Housing Financing Commission for an allocation of low-income housing tax credits to finance the development of the Property as an affordable housing project.

WHEREAS, the City of Shoreline desires to partner with the Grantee by granting an option to lease the Property to Grantee for the development of a “system-connected” affordable housing project with support services.

NOW, THEREFORE, in consideration of good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

A. GRANT OF OPTION.

Grantor hereby grants Grantee the exclusive option to lease the Property upon the terms and conditions set forth herein (“**Option to Lease**”).

B. OPTION TO LEASE.

This Option to Lease shall commence on the Effective Date of this Lease Option and shall expire at midnight two hundred forty (240) consecutive calendar days from the Effective Date (“**Option Period**”).

C. DUE DILIGENCE.

1. Grantee’s Obligations:
 - a. In order for Grantee to determine if it will exercise the Option to Lease during the Option Period, Grantee and its authorized contractors, employees, agents, representatives and engineers shall, as of the Effective Date, have the right to enter upon the Property during regular business hours to perform such tests (environmental or otherwise), examinations, an ALTA/ACSM survey in accordance with the requirements of Grantee, investigations, and feasibility studies which Grantee may deem necessary (collectively, the “**Due Diligence Activities**”). For the purpose of this section, regular business hours are Monday through Friday, 8 am to 5 pm Pacific Local Time, not including City-recognized holidays.
 - b. The Grantee shall have one hundred eighty (180) consecutive calendar days from the Effective Date to perform any and all Due Diligence Activities on the Property it deems necessary (the “**Due Diligence Period**”).
 - c. Grantee shall not perform any Due Diligence Activities prior to the Effective Date of this Lease Option.
 - d. Grantee shall comply with all applicable local, state, and federal laws, rules, and ordinances applicable to the Due Diligence Activities, including obtaining, at its own cost, any necessary permits.
 - e. Grantee shall ensure that during the term of this Lease Option that the Due Diligence Activities do not present trip, fall, or other hazards on the Property.
 - f. At least seventy-two (72) hours prior to entering upon the Property, Grantee, or a representative of Grantee, shall provide the City, either in writing or by phone or email, notice of the date and time of entry. At this same time, Grantee, or a representative of Grantee, shall notify the City as to who will be entering upon the Property and which Due Diligence Activities will be performed.
 - g. Grantee shall exercise due care while performing any and all Due Diligence Activities so as not to cause waste or damage to the Property.

At the completion of the Due Diligence Activities, Grantee shall remove any equipment and personal property used in connection with the Due Diligence Activities and shall restore the Property to the same or better condition that existed as of the Effective Date.

- h. Grantee shall be responsible for any damages caused by the acts and/or omissions of the Grantee while on the Property in connection with the Due Diligence Activities, unless solely caused by the negligence or willful misconduct of City or any of its elected officials, officers, employees, agents or volunteers. Grantee and its authorized contractors, employees, agents, representatives and engineers shall indemnify and hold the City and its elected officials, officers, employees, agents, volunteers, successors, and assigns harmless from, and defend the City against, any and all losses, damages, costs, penalties, expenses, liabilities, judgments, liens, suits, claims, or demands relating to or arising out of the Due Diligence Activities conducted on the Property, except to the extent caused by the negligence or willful misconduct of City or any of its elected officials, officers, employees, agents or volunteers. This obligation shall survive the termination of this Lease Option.

2. City's Obligations:

- a. The City will ensure that Grantee is granted access to the Property at the scheduled time(s) that the Due Diligence Activities will be performed. However, the City reserves the right to limit, deny, or reschedule access if, in the City's sole discretion, access would jeopardize the safety and security of City employees or the general public or would unreasonably interfere with a City project.
- b. Within thirty (30) calendar days of the Effective Date, Grantor will deliver to Grantee, copies of all surveys, reports, tests, plans, and studies, if any, pertaining to the Property which Grantor possesses or has previously obtained. Grantor makes no representations or warranties as to the accuracy of any surveys or reports which it may deliver to Grantee.

D. OPTION TO LEASE.

1. Exercising of Option to Lease.

- a. The Option to Lease may be exercised at any time during the Option Period by written notice to the Grantor delivered as provided in Section F Notices.
- b. As soon as reasonably practicable after exercising the Option to Lease but prior to the issuance of any building or development permits for the Project, the Parties shall enter into a lease agreement, the terms and conditions of which shall be mutually agreed to by the Parties, provided, the lease agreement shall, at the minimum, contain the following terms:

- i. Rent. Rental payments for the Property shall be one and no/100 Dollars (\$1.00) per year subject to applicable leasehold excise tax as authorized RCW 82.29A.040 and Chapter 3.25 of the Shoreline Municipal Code.
 - ii. Term. The term of the lease agreement shall be ninety-nine (99) consecutive years from the date of full execution of the lease agreement.
 - iii. Improvements. The lease agreement shall permit the construction of multifamily housing with support services affordable to households earning no more than 80 percent of the area median income (“AMI”) for King County, Washington, with preference for households earning no more than 50 percent of the AMI for King County. The cost of construction and maintenance for all improvements shall be the sole responsibility of Grantee.
 - iv. Condition of Property. The lease agreement shall provide that the Grantee accepts the Property “as is, where as” and that the Grantor has no obligation to remedy any physical or environmental conditions of the Property so as to accommodate Grantee’s improvements.
2. Intent Not to Exercise Option to Lease.
At any time prior to the expiration date of the Option Period, the Grantee may deliver written notice to the Grantor of Grantee’s intent not to exercise the Option to Lease as provided in Section F Notices.
3. Failure to Act.
If Grantee fails to exercise the Option to Lease or to send notice of its intent not to exercise the Option to Lease as provided in this Section then, this Lease Option shall terminate at the end of the Option Period set forth in Section B and shall have no further force and effect except, however, that such termination shall not amend, alter, or modify the rights and obligations of the Parties under Section D(1)(h) hereof, the terms of which shall survive the termination of this Lease Option.
4. Grantor’s Right to Terminate.
The Grantor reserves the right to terminate this Lease Option for cause upon thirty (30) calendar days written notice to the Grantee as provided in Section I Notices.
5. Responsibility for Costs.
 - a. Regardless of whether Grantee exercises the Option to Lease, sends notice of its intent not to exercise the Option to Lease, or fails to act, Grantee

remains solely liable for all costs and expenses incurred by it in making the determination whether or not to exercise the Option to Lease.

- b. Grantor shall not be entitled to any monetary compensation if Grantee determines not to exercise the Option to Lease or fails to exercise the Option to Lease.

E. INSURANCE.

- 1. Grantee shall procure and maintain the following insurance coverage during the term of this Lease Option:

Commercial General Liability. Grantee agrees that it will, at its own expense, procure and maintain Commercial General Liability insurance covering premises, operations, independent contractor's liability and damages for personal injury and property damage. Coverage shall be in amounts not less than \$1,000,000 per occurrence and \$2,000,000 general aggregate. A Certificate of Insurance will be provided by Grantee indicating that the City is included as an Additional Insured on the policy(ies) and Grantee shall provide thirty (30) calendar days prior written notice to the City of any cancellation of the required policy(ies), where there is no intent to timely acquire a new policy.

- 2. Grantee shall require its contractors, agents, representatives, and engineers to maintain the same coverage during the period of time the contractor, agent, representative, or engineer is performing work or services on behalf of Grantee in relationship to the Property.

F. NOTICES.

Any notice required under this Lease Option will be in writing, addressed to the appropriate party at the address which appears below (as modified in writing from time to time by such party), and given personally, by registered or certified U.S. mail, return receipt requested, by facsimile or by a nationally recognized overnight courier service. All notices shall be effective upon the date of receipt.

Nathan Daum
City of Shoreline
17500 Midvale Avenue N
Shoreline, WA 98133-4905
(206) 801-2218
Email ndaum@shorelinewa.gov

Doug Crandall
CPC Shoreline LLC c/o Community Psychiatric Clinic

11000 Lake City Way NE
Seattle, WA 98125
Email dcrandall@cpcwa.org

G. MISCELLENEOUS

1. **Governing Law and Venue.**
This Lease Option shall be construed and enforced in accordance with the laws of the State of Washington. Venue of any suit between the parties arising out of this Lease Option shall be King County Superior Court.
2. **Public Records.**
The Grantor is a public agency subject to Washington's Public Records Act, chapter 42.56 RCW, and all records produced by either Party in connection with this Lease Option may be deemed a public record as defined in the Public Records Act and that if Grantor receives a public records request, unless a statute exempts disclosure or a court order precluding disclosure has been issued, the Grantor must disclose the record to the requestor.
3. **Severability.**
Any provision or part of this Lease Option held to be void or unenforceable under any law or regulation shall be deemed stricken and all remaining provisions shall continue to be valid and binding upon the Grantor and Grantee, who agree that the Lease Option shall be reformed to replace such stricken provision or part thereof with a valid and enforceable provision that comes as close as possible to expressing the intention of the stricken provision.
4. **Entire Agreement.**
This Lease Option contains the entire agreement between the parties hereto and no other agreements, oral or otherwise, regarding the subject matter of this Lease Option, shall be deemed to exist or bind any of the parties hereto. Either party may request changes in the Lease Option. Proposed changes which are mutually agreed upon shall be incorporated by written amendment to this Lease Option.
5. **Captions.**
The titles of sections or any other parts of this Lease Option are for convenience only and do not define or limit the contents.
6. **Counterpart Originals.**
This Lease Option may be executed in any number of counterpart originals, each of which shall be deemed to constitute an original agreement, and all of

which shall constitute one agreement. The execution of one counterpart by a Party shall have the same force and effect as if that Party had signed all other counterparts.

- 7. Authority to Execute.
Each person executing this Lease Option on behalf of a Party represents and warrants that he or she is fully authorized to execute and deliver this Lease Option on behalf of the Party for which he or she is signing. The Parties hereby warrant to each other that each has full power and authority to enter into this Lease Option and to undertake the actions contemplated herein and that this Lease Option is enforceable in accordance with its terms.

This Lease Option Agreement is executed by:

CITY OF SHORELINE

CPC SHORELINE LLC

By: Community Psychiatric Clinic
Its: Manager

By: _____
Name: Debbie Tarry
Title: City Manager
Date: _____

By: _____
Name: Douglas Crandall
Title: Chief Executive Officer
Date: _____

Approved as to form:

By: _____
Attorney for City of Shoreline

Exhibit A
City of Shoreline Property

Tax Parcel 2227300025

Lot 5, Echo Lake Park, according to the plat thereof recorded in Volume 23 of Plats, page 8, records of King County, Washington.

Tax Parcel 2227300030

Lot 6, Echo Lake Park, according to the plat thereof recorded in Volume 23 of Plats, page 8, records of King County, Washington.

Tax Parcel 2227300036

South 150 feet of tract seven (7), Echo Lake Park, according to plat thereof recorded in Volume 23 of Plats, page(s) 8, records of King County, Washington.

All parcels are subject to:

All easements, restrictions, reservations, covenants, rights, and agreements of record.