

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 Catholic Housing Services of Western Washington 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 the 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 N 198th Street and Aurora Avenue N (Attachment A), the majority of which is surplus property from the Aurora Corridor Project. A competitive process selected Community Psychiatric Clinic (CPC) as the housing owner and service provider. In 2019, CPC merged into another nonprofit behavioral healthcare entity, Sound, and is no longer available to provide that role. Catholic Housing Services of Western Washington (CHS), the development consultant selected for the project, has stepped in to the leadership role and will be the owner/operator of the housing.

In order to secure the necessary approval for King County funding to be redirected from CPC to CHS, CHS requires a lease option as evidence of site control by June 30, 2020. The proposed lease option is attached to this staff report 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 CHS 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 be 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 Catholic Housing Services of Western Washington 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). The City Council was briefed on what was now called the 198th Affordable Housing Project at the September 24, 2018 Council 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>.

During the January 14, 2019 Council meeting, Council authorized the City Manager to provide an option to lease the property in order to allow the project owner at the time, CPC, to move into the financing phase. The staff report for this decision can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2019/staffreport011419-8a.pdf>.

Following this Council action in 2019, CPC merged into another nonprofit behavioral healthcare entity, Sound, and is no longer available to provide that role. CHS has now stepped in to the leadership role and will be the owner/operator of the housing.

The next project deadline is securing the approval to redirect King County Veterans, Seniors and Human Services Levy (VSHSL) capital funding in the amount of \$4,500,000 from CPC to CHS. To do so, CHS needs to provide evidence of control of the site no later than June 30, 2020. Other sources of funding for the project include approximately \$19 million in Low Income Housing Tax Credits secured for the project in

2019 and \$7,917,086 of equity invested by CPC in the form of sales proceeds from an affordable housing property known as Harbor House. Construction is expected to start in Fall of 2020 and be complete in Winter of 2022.

DISCUSSION

As noted above, in order to secure the King County capital funding, CHS requires a lease option as evidence of site control. The project team's deadline for this submission is June 30, 2020. The proposed lease option from the City is provided as Attachment B.

The duration of the lease option is for one year. The City reserves the right to terminate the lease option with CHS with 30 days notice.

If Council approves the lease option, CHS will have the necessary agreements in place to secure the redirection of needed King County funds to build the project. If Council rejects the lease option, CHS will be ineligible for the King County capital funding. Since the project requires this funding for design and construction, the project will not move forward as currently intended by City Council. Staff therefore recommends that Council approve the lease option with CHS.

COUNCIL GOAL(S) ADDRESSED

This project was initiated in response to the 2018-2020 City Council Goals, specifically: "Goal 1: Strengthen Shoreline's economic climate and opportunities" which stated in Action Step #5:

"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."

RESOURCE/FINANCIAL IMPACT

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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 Catholic Housing

Services of Western Washington 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

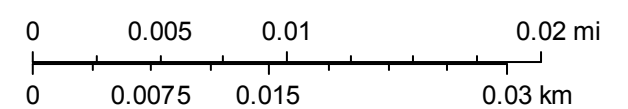
Attachment A



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 _____, 2020 (“**Effective Date**”), by and between THE CITY OF SHORELINE, a Washington municipal corporation (“**City**”), and CHS SHORELINE LLC, a Washington limited liability company, or its successors and assigns (“**CHS**”). The City and CHS are collectively referred to herein as the “**Parties**” and individually as a “**Party**.”

WITNESSETH:

WHEREAS, the City 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 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 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 Archdiocesan Housing Authority dba Catholic Housing Services, a Washington nonprofit corporation (“**AHA**”). The City previously granted CPC an option to lease the Property, which option has expired. Subsequent to its selection, CPC decided not to pursue the Project and entered into an agreement with AHA for an affiliate of AHA to develop the Project. AHA formed CHS for the purpose of developing the Project. CHS’s managing member is AHA and AHA will serve as the developer and sponsor of the Project.

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

WHEREAS, CHS has received an allocation of low-income housing tax credits from the Washington State Housing Financing Commission to finance the development of the Property as an affordable housing project.

WHEREAS, the City desires to partner with CHS by granting an option to lease the Property to CHS 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.

The City hereby grants CHS 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 three hundred sixty-five (365) consecutive calendar days from the Effective Date (“**Option Period**”).

C. DUE DILIGENCE.

1. CHS’s Obligations:

- a. In order for CHS to determine if it will exercise the Option to Lease during the Option Period, CHS and its authorized contractors, employees, agents, representatives and engineers require entry 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 CHS, investigations, and feasibility studies which CHS 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. To accomplish these Due Diligence Activities, the Parties fully executed a Limited Right of Entry Agreement on May 6, 2020.
- b. CHS shall have two hundred forty (240) 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. CHS shall not perform any Due Diligence Activities prior to the Effective Date of this Lease Option.
- d. CHS 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. CHS 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, CHS,

or a representative of CHS, shall provide the City, either in writing or by phone or email, notice of the date and time of entry. At this same time, CHS, or a representative of CHS, shall notify the City as to who will be entering upon the Property and which Due Diligence Activities will be performed.

- g. CHS 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, CHS 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. CHS shall be responsible for any damages caused by the acts and/or omissions of the CHS 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. CHS 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 CHS 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, the City will deliver to CHS, copies of all surveys, reports, tests, plans, and studies, if any, pertaining to the Property which the City possesses or has previously obtained. The City makes no representations or warranties as to the accuracy of any surveys or reports which it may deliver to CHS.

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 City 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 CHS.
 - iv. Condition of Property. The lease agreement shall provide that the CHS accepts the Property “as is, where as” and that the City has no obligation to remedy any physical or environmental conditions of the Property so as to accommodate CHS’s improvements.

2. Intent Not to Exercise Option to Lease.

At any time prior to the expiration date of the Option Period, the CHS may deliver written notice to the City of CHS’s intent not to exercise the Option to Lease as provided in Section F Notices.

3. Failure to Act.

If CHS 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. City’s Right to Terminate.

The City reserves the right to terminate this Lease Option for cause upon thirty (30) calendar days written notice to CHS as provided in Section I Notices.

5. Responsibility for Costs.

- a. Regardless of whether CHS exercises the Option to Lease, sends notice of its intent not to exercise the Option to Lease, or fails to act, CHS 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. The City shall not be entitled to any monetary compensation if CHS determines not to exercise the Option to Lease or fails to exercise the Option to Lease.

E. INSURANCE.

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

Commercial General Liability. CHS 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 CHS indicating that the City is included as an Additional Insured on the policy(ies) and CHS 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. CHS 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 CHS 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

Chris Jowell
CHS Shoreline LLC c/o Catholic Housing Services
100-23rd Avenue S.
Seattle, WA 98144
Email ChrisJ@ccsww.org

G. MISCELLENEOUS

1. **Nondiscrimination – Federal.**

During the performance of this contract, CHS, for itself, its assignees and successors in interest agrees as follows:

- a. Incorporation of Provisions – CHS shall include the following provisions of paragraphs (b) through (f) in every subcontract, including procurement of materials and leases of equipment, unless exempt by the Regulations or directives issued pursuant thereto. CHS shall take such action with respect to any sub-contractor or procurement as the City or the United States Department of Transportation (USDOT) may direct as a means of enforcing such provisions including sanctions for noncompliance.

Provided, however, that in the event CHS becomes involved in, or is threatened with, litigation with a subcontractor or supplier as a result of such direction, CHS may request the Washington State Department of Transportation (WSDOT) enter into such litigation to protect the interests of the state and, in addition, CHS may request that USDOT enter into such litigation to protect the interests of the United States.

- b. Compliance With Regulations – CHS shall comply with the Regulations relative to nondiscrimination in federally-assisted programs of USDOT, Title 49, Code of Federal Regulations, Part 21, as these regulations may be amended from time to time, (hereinafter referred to as the “Regulations”), which are herein incorporated by reference and made a part of this Lease Option.
- c. Nondiscrimination – CHS, with regard to the work performed by it during the Lease Option, shall not discriminate on the grounds of race, color, sex, or national origin in the selection and retention of sub-contractors, including procurement of materials and leases of equipment. CHS shall not participate either directly or indirectly in the discrimination prohibited by Section 21.5

of the Regulations, including employment practices if the Lease Option covers a program set forth in Appendix B of the Regulations.

- d. **Solicitations for Subcontracts, Including Procurement of Materials and Equipment** – In all solicitations either by competitive bidding or negotiations made by CHS for work to be performed under a subcontract, including procurement of materials and leases of equipment, each potential subcontractor or supplier shall be notified by CHS of the contractor's obligations under this Lease Option and the Regulations relative to nondiscrimination on the grounds of race, color, sex, or national origin.
- e. **Information and Reports** – CHS shall provide all information and reports required by the Regulations or directives issued pursuant thereto, and shall permit access to its books, records, accounts, other sources of information, and its facilities as may be determined by the City or the appropriate federal agency to be pertinent to ascertain compliance with such Regulations, orders and instructions. Where any information required of a contractor is in the exclusive possession of another who fails or refuses to furnish this information, the contractor shall so certify to WSDOT or the USDOT as appropriate, and shall set forth what efforts it has made to obtain the information.
- f. **Sanctions for Noncompliance** – In the event of CHS's noncompliance with the nondiscrimination provisions of this Lease Option, the City shall impose such contractual sanctions as it or the USDOT may determine to be appropriate, including, but not limited to cancellation, termination, or suspension of the Lease Option, in whole or in part.

2. Nondiscrimination – State of Washington.

In hiring or employment made possible or resulting from this Lease Option, there shall be no unlawful discrimination against any employee or applicant for employment because of race, creed, color, national origin, families with children, sex, marital status, sexual orientation, age, honorably discharged veteran or military status, or the presence of any sensory, mental, or physical disability or the use of a trained dog guide or service animal by a person with a disability, unless based upon a bona fide occupational qualification.

3. 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.

4. Public Records.

The City 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 the City receives a public records request, unless a statute exempts disclosure or a court order precluding disclosure has been issued, the City must disclose the record to the requestor.

5. 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 City and CHS, 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.

6. 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.

7. 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.

8. 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.

9. 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.

Signatures on following Page


This Lease Option Agreement is executed by:

CITY OF SHORELINE

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

CHS SHORELINE LLC

By: Archdiocesan Housing Authority
Its: Manager

By:  _____
Name: Chris Jowell
Title: Agency Director and Vice President
Date: 5.28.2020

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.