

MOTION NO. M2018-78
Roosevelt Station – Central TOD Site Property Final Transaction Agreements

MEETING:	DATE:	TYPE OF ACTION:	STAFF CONTACT:
Board	06/28/2018	Final Action	Don Billen, Executive Director, PEPD Brooke Belman, Director of Land Use and Development Thatcher Imboden, TOD Manager

PROPOSED ACTION

(1) Approves the key business terms of a joint development agreement with the joint venture of Bellwether Housing, Inc. and Mercy Housing Northwest, Inc. for a mixed-use affordable housing transit oriented development on the approximately 54,000 square foot Roosevelt Station – Central Transit Oriented Development (TOD) Site located at 6600 Roosevelt Way NE in Seattle; and (2) delegates to the CEO the authority to execute and subsequently amend as necessary a Joint Development Agreement and associated documents, including a purchase and sale agreement, all subject to the Board-approved key business terms.

KEY FEATURES SUMMARY

- This action allows the selected development team to further advance the design, financing, and due diligence process for the proposed TOD project.
- Sound Transit and the development team of Bellwether Housing, Inc. and Mercy Housing Northwest, Inc. negotiated a Joint Development Agreement that contains the following key business terms:
 - At least 230 housing units.
 - 100 percent of the housing units affordable long-term to those earning *at or below* 60 percent of area median income (AMI), with at least 20 percent of the units affordable to those earning *below* 60 percent AMI.
 - At least 20 percent of the units sized for larger families (2 and 3 bedroom units).
 - At least 12,000 square feet of active storefront for commercial uses.
 - A \$6.75 million payment to Sound Transit for the land, out of which Sound Transit will place \$130,000 in a holdback account to cover remediation costs if certain environmental conditions are encountered by the developer during construction.
- The preliminary project concept will evolve as the development team advances the concept to reflect more detailed design considerations, alignment with financing requirements, and non-housing space market considerations, and other customary project refinements. The resulting detailed project description must meet or exceed the key business terms included in the Joint Development Agreement.
- The transaction is structured as a fee simple sale that is subject to covenants for affordable housing, transit operations, transit-oriented development, and continuing control of the FTA interest.
- Following approval of this action, Sound Transit will seek formal approval from the FTA prior to executing the Joint Development Agreement.

- No further Board action is anticipated.
- Assuming approval from the FTA for a Joint Development Agreement, construction of the proposed TOD project would begin upon completion of station construction staging on the property, which is anticipated in early 2020. As a result, the TOD project is anticipated to open in late 2021, the same year as the station opens for revenue service.

BACKGROUND

Sound Transit adopted a TOD Program Strategic Plan in 2010, and adopted a TOD Policy in December 2012 through Resolution No. R2012-24. Sound Transit updated its TOD strategic plan in 2014 to reflect the 2012 TOD Policy. The policy and strategic plan provided the foundation for how the agency approached integrating transit infrastructure and local and regional land use development during the Roosevelt Station – Central TOD Site planning process.

The Roosevelt Station – Central 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 equitable 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 (ST3) Regional Transit System Plan. Sound Transit adopted an Equitable TOD Policy in April 2018 through Resolution No. R2018-10, which superseded the previous TOD Policy. This action is consistent with R2018-10.

Property

The Roosevelt Station – Central TOD Site consists of an approximately 54,000 Square foot portion of the property located at 6600 Roosevelt Way NE in Seattle, WA. The property is a single property bound by NE 66th Street, NE 67th Street, Roosevelt Way NE, and 12th Avenue NE. The North Headhouse for Roosevelt Station is located along 12th Avenue NE and would be retained by Sound Transit. The portions west of the North Headhouse will be available for TOD.

The property was acquired in 2008 for the Northgate Link Extension project for the North Headhouse and construction staging. Federal funds were used to purchase the property, resulting in a federal interest in the property. Upon completion of construction staging activities from the Central TOD Site, anticipated for Q1 2020, the non-station portions of the property could be made available for TOD construction. The planned early turnover of the property would allow a TOD project to potentially open in time for Link service commencement at Roosevelt Station, reducing TOD construction and station access impacts on the community.

TOD Assessment

Sound Transit conducted a TOD assessment of the Roosevelt Station – Central TOD Site, including the property's planned turnover conditions, likely development layout and program, and financial viability for TOD. The fair market value of the property in the open market would likely limit the quantity of affordable housing that could be created on the property without an atypical, greater subsidy from local affordable housing funders and/or reduction in property value.

Offering Process

The 2017 TOD Work Program identified the Roosevelt Station – Central TOD Site as a property that would apply the new requirements regarding affordable housing and equitable TOD. Resolution No. R2017-20, adopted May 25, 2017, provided direction on how the agency would

apply RCW 81.112.350 for this property offering prior to the 2018 TOD policy update. 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 nonprofit 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.

Through Resolution No. R2017-20, the Sound Transit Board found and declared that the Roosevelt Station – Central TOD Site property is suitable for development as housing; directed staff to offer the property first to qualified entities to support affordable housing creation pursuant to state law; and directed staff to offer the property through a process that prioritized development of the maximum number of units affordable to those earning no greater than 60 percent of area median income, and establish a base price in the offering commensurate to achieving that outcome.

Transaction Agreements

Financing the construction of affordable housing projects typically involves multiple lenders, investors, and ownership entities. The existing FTA interest in the property combined with a high fair market value and targeting affordable housing suggests that Sound Transit will need to enter the TOD project into the FTA Joint Development Program. That program requires ongoing continuing control, most commonly provided for through a ground lease but is permitted to be provided through covenants placed upon the property through a sale. The joint RFP sought proposals in the form of a ground lease however reserved the right for Sound Transit to negotiate the transaction as a sale that maintains continuing control through easements and covenants. The proposed transaction reflects a sale transaction with permanent covenants providing for continuing control of the FTA interest in the property as well as protections for Sound Transit’s on-going transit’s interests in the property.

Sound Transit submitted a pre-application for the project into the FTA Joint Development program for preliminary feedback. Sound Transit received positive feedback on the pre-application and expects to submit the full application for the FTA Joint Development upon approval of this motion. Upon approval of the transaction from FTA, Sound Transit will execute a Joint Development Agreement that will govern the time from execution through the completion of TOD construction. Additional transaction documents, such as covenants and easements, will be executed at or prior to conveying the fee interest in the property. The transaction will not close until Sound Transit’s construction activities on the property are completed and the developer has obtained the necessary building permits, project financing, and Sound Transit approvals for the TOD project.

The key business terms negotiated as a part of the Joint Development Agreement include the following:

Category	Agreement
Number of Housing units	Target of 245 units, but no fewer than 230
Percentage of units that are affordable	100% of units <u>at or below</u> 60% AMI
Range of incomes served	Target of 40%, but no fewer than 20% of units, <u>below</u> 60% AMI
Family sized units	Target of 40%, but no fewer than 20% of units, sized for two or more bedrooms
Active street-level uses	No less than 12,000 square feet of commercial space; Daycare space not regulated under agreement

Sustainability	Designed to meet or exceed Washington State Evergreen Standard
Sale price	\$6,750,000 with \$130,000 in sale proceeds held in escrow for environmental work, if encountered, otherwise released to ST
Termination of Agreement	Performance milestones, including those related to land use approvals, financing, and transaction closing*
Availability of property/Penalty for late turnover	After Sound Transit's certification that it has completed construction staging activities on the site. The targeted property availability date is January 1, 2020*. If after March 31, 2020, Sound Transit may be required to compensate developer for developer's actual damages resulting from the delay. Sound Transit will have 60 days to cure the default before penalties are due.**

* The performance milestones and turnover date are subject to enforced delay, which allows the date to be extended should events out of either the developer's or Sound Transit's control occurs, such as Acts of God, freight embargos, strikes, material shortages, etc.

** The property is currently used by a construction contractor, which anticipates a demobilization date for the Roosevelt Station – Central TOD Site of September 17, 2019 and is contractually required to demobilize from this property as a part of a larger project milestone in December 2019.

Future Board Involvement

No further Board action is anticipated for this development. Any material changes to the key business terms will be brought to the Board for approval.

PROCUREMENT INFORMATION

In an effort to best support the affordable housing and TOD goals for the property, Sound Transit and the Seattle Office of Housing partnered in a joint request for proposals (RFP No. RTA/RP 0105-17) where Sound Transit offered its property for long-term affordable housing creation and Seattle Office of Housing made \$15 million available to support such a project that also achieved the city's affordable housing goals. By responding to the joint RFP, proposers were able to submit proposed project details that addressed Sound Transit's and the Seattle Office of Housing's goals expressed in the RFP with the option to simultaneously apply for the available Seattle Office of Housing funding.

The joint RFP was issued on August 4, 2017. The RFP required that proposers be a "qualified entity" as defined by RCW 81.112.350. Four development teams submitted proposals. The evaluation committee determined the proposal submitted by the joint venture of Bellwether Housing, Inc. and Mercy Housing Northwest, Inc. to be the top ranked proposal. Consistent with Motion M2017-143, Sound Transit staff negotiated transaction agreements with the Bellwether Housing and Mercy Housing Northwest development team.

FISCAL INFORMATION

Through adoption of Resolution No. R2017-20, the board directed staff to offer the property to qualified entities (as defined by RCW 81.112.350) at a price intended to facilitate development of the maximum number of units affordable to those earning no greater than 60 percent of area median income. Staff established a minimum price in the RFP of \$6.75 million, which is consistent with the fiscal information provided to the Board in Resolution R2017-20.

The agency's financial plan assumes \$93.8 million of sales revenue from selected surplus real estate parcels of which, approximately \$32.1 million has been realized to date from the sale or lease of properties. The current fair market value (FMV) of the property is \$18.5 million (2017\$). However, restricting the land use to affordable housing significantly reduces the income potential and therefore the value of the property.

The key business terms of the Joint Development Agreement allow for flexibility to align the project's design and components with available financing. The key business terms require the developer to pay the \$6.75 million land price with a hold back of \$130,000 of the sale proceeds placed in escrow for eligible environmental work that, if not fully used, would be released to Sound Transit. The environmental work hold back is provided to reflect that the property has certain recognized environmental conditions that may be encountered and were not factored into the initial land pricing. The property is otherwise sold as-is and the development team assumes the risk for all encountered environmental costs beyond the hold back amount.

Funding Commitments and Outstanding Funding Gaps

Seattle Office of Housing has offered \$15 million in support of affordable housing on the Roosevelt site. The funding commitment is contingent upon the selected proposer meeting all funding conditions. The proposed project will require additional public funding and the availability of such funding is likely to be constrained. Both the commitment from Seattle Office of Housing plus the land price reduction offered by Sound Transit (by appraising the property as restricted to affordable housing) demonstrate local support and provide leverage to the project in seeking additional funding. However, if the necessary additional funding is not secured, the proposed project may require either a significant reduction in scope or cost in order to proceed. In that instance, staff would return to the board to seek direction on next steps.

PUBLIC INVOLVEMENT

Sound Transit collaborated with the City of Seattle and the Roosevelt Neighborhood Association on a community engagement plan for Sound Transit's Roosevelt Station – Central TOD Site. The plan utilized a focused series of stakeholder workshops to develop a set of community stakeholder principles that would inform Sound Transit's TOD goals for the property. A public open house and survey kicked off the engagement to provide the community stakeholders and Sound Transit with the broader community's insights prior to establishing principles. The outcome of the engagement effort, including a set of principles adopted by community stakeholders, is summarized in the Roosevelt Station Transit-Oriented Development – Summary of Community Engagement report dated March 24, 2017.

The selected development team will engage the Roosevelt community as a part of the TOD project design process. A community meeting organized by the developer in conjunction with the Roosevelt Neighborhood Association occurred on June 14, 2018. The meeting presented the project's design development ahead of the developer's Early Design Guidance permit package submittal to the City of Seattle and provided an opportunity for the community to provide input. Additional engagement by the development team is anticipated for later in 2018.

TIME CONSTRAINTS

A delay in executing agreements with the selected developer could result in reduced time for the selected developer to prepare their projects for construction prior to the agency's anticipated January 2020 turnover of the property. A later turnover would likely result in additional time that TOD construction impacts the quality of pedestrian access to the Roosevelt Station, once

operational, as well as delay the benefits to the agency and community that the TOD project will provide.

PRIOR BOARD/COMMITTEE ACTIONS

Resolution 2017-143: Authorized the chief executive officer to begin negotiations with the joint venture of Bellwether Housing, Inc. and Mercy Housing Northwest, Inc. for land transaction agreements for the foot Roosevelt Station – Central Transit-Oriented Development Site for a mixed-use affordable housing transit-oriented development project.

Resolution No. R2017-20: Declared that the Roosevelt Station – Central Transit-Oriented Development Site property is suitable for development as housing; directed staff to offer the property first to qualified entities to support affordable housing creation pursuant to RCW 81.112.350; and directed staff to offer the property through a process that prioritizes development of the maximum number of units affordable to those earning no greater than 60 percent of area median income and establish a base price in the offering commensurate to achieving that outcome.

Resolution No. R2017-09: Approved the chief executive officer's declaration that certain real properties acquired for the Northgate Link Extension will be surplus and no longer needed for a transit purpose upon completion of construction staging activities.

ENVIRONMENTAL REVIEW

KH 6/21/2018

LEGAL REVIEW

JV 6/22/2018

MOTION NO. M2018-78

A motion of the Board of the Central Puget Sound Regional Transit Authority (1) approving the key business terms of a joint development agreement with the joint venture of Bellwether Housing, Inc. and Mercy Housing Northwest, Inc. for a mixed-use affordable housing transit oriented development on the approximately 54,000 square foot Roosevelt Station – Central Transit Oriented Development (TOD) Site located at 6600 Roosevelt Way NE in Seattle; and (2) delegating to the CEO the authority to execute and subsequently amend as necessary a Joint Development Agreement and associated documents, including a purchase and sale agreement, all subject to the Board-approved key business terms.

BACKGROUND:

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- At least 20 percent of the units sized for larger families (2 and 3 bedroom units).
- At least 12,000 square feet of active storefront for commercial uses.
- A \$6.75 million payment to Sound Transit for the land, out of which Sound Transit will place \$130,000 in a holdback account to cover remediation costs if certain environmental conditions are encountered by the developer during construction.

MOTION:

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that (1) the key business terms of a joint development agreement with the joint venture of Bellwether Housing, Inc. and Mercy Housing Northwest, Inc. for a mixed-use affordable housing transit oriented development on the approximately 54,000 square foot Roosevelt Station – Central Transit Oriented Development (TOD) Site located at 6600 Roosevelt Way NE in Seattle are approved; and (2) authority is delegated to the CEO to execute and subsequently amend as necessary a Joint Development Agreement and associated documents, including a purchase and sale agreement, all subject to the Board-approved key business terms.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on June 28, 2018.



Dave Somers
Board Chair

ATTEST:



Kathryn Flores
Board Administrator