

Resolution No. R2023-14

Lynnwood City Center TOD surplus declaration, suitability for housing, and offering strategy

| Meeting: | Date: | Type of action: | Staff contact: |
|------------------------------|--------------------------|------------------------------------|--|
| Executive Committee Board | 05/04/2023 05/25/2023 | Recommend to Board Final action | Don Billen, Executive Director, PEPD Mara D'Angelo, Deputy Director, TOD Rebecca Brunn, Project Manager, TOD |

Proposed action

(1) Approves the chief executive officer's declaration that portions of three parcels adjacent to the Lynnwood City Center Station are surplus upon completion of Lynnwood Link Extension construction; (2) declares the TOD site as suitable for development as housing; (3) authorizes staff to offer the TOD site first to qualified entities for affordable housing development; and (4) authorizes staff to offer the TOD site at a discounted land value price to facilitate affordable housing outcomes.

Key features summary

- This set of four proposed actions advances transit-oriented development (TOD) on surplus property adjacent to the Lynnwood City Center Station (LCCS):
- This action:
 - Approves the chief executive officer's (CEO) declaration that certain property, as part of the Lynnwood City Center Station TOD site ("TOD site"), is surplus upon completion of the construction use associated with Lynnwood Link Extension (LLE);
 - Declares the TOD site as suitable for development as housing;
 - Authorizes staff to offer the TOD site first to qualified entities (local governments, housing authorities, and nonprofit developers) for development of affordable housing as defined in RCW 81.112.350; and
 - Authorizes staff to offer the TOD site at a discounted land value, including at no cost, to facilitate affordable housing outcomes.
- The real property identified in this requested action is depicted in Exhibit A.

Background

Property and TOD

The TOD site is approximately 2.4 acres, with a net buildable area of approximately 2.1 acres. It is comprised of three parcels originally acquired by Sound Transit to support construction of LLE. It is currently being used as a temporary surface parking lot. One of the parcels was purchased with federal assistance and Sound Transit will seek approval from the Federal Transit Administration (FTA) for the property disposition strategy as needed.

The TOD site is located in the City Center Subarea of Lynnwood and is zoned to support dense TOD projects. It was appraised in 2023 for \$4.8 million.

TOD Analysis

A piped stream that is potentially fish bearing runs beneath the TOD site. The 580' piped stream segment is contiguous with the upstream reach of the tributary to Scriber Creek daylighted by the LLE capital project in the LCCS plaza. Because it is potentially fish bearing, the stream is required to be daylighted or placed in a fully fish-passable culvert using Washington Department of Fish and Wildlife design guidelines when the property is redeveloped. The TOD stream will eventually connect to the station plaza daylighted stream, resulting in over 1000' of restored stream channel supporting native and threatened salmon species. Sound Transit will require the selected TOD developer to comply with the stream requirements, which likely includes replacing the pipe with an open stream channel and constructing the associated stream buffer zone and floodplain. Preliminary studies have confirmed that the alignment of the new stream is flexible and could be adjusted to maximize buildable area of the TOD site.

Sound Transit staff conducted a TOD assessment of the site, reflecting stream alignment options, anticipated property boundaries, potential development layout and program, market analysis, jurisdiction input, and community engagement. This work concluded that housing was a suitable use for the site, including housing as part of a mixed-use development (e.g., ground floor commercial with housing above). It estimated that between 1-3 7-story buildings could be supported, delivering 200-250 units of housing depending on the stream alignment, distribution of unit types, floor plans, and floor-to-area ratio.

Recommended Actions

- (1) Approve the CEO's declaration that certain property, as part of the TOD site, is surplus upon completion of the construction use associated with Lynnwood Link Extension;

The CEO has declared the portions of the three parcels comprising the TOD site, as depicted in Exhibit A, surplus.

- (2) Declare the TOD site as suitable for development as housing;

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

Staff recommends that these properties are suitable for development as housing based upon the following considerations:

Evaluation considerations:

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

Discretionary evaluation considerations:

- Local land use plans support housing on the site;
- The community is supportive of housing on the site;

- A market and feasibility study identified housing as a viable use on the site;
- An appraisal identified housing, as part of mixed-use development, as a highest and best use of the site; and
- The City of Lynnwood is supportive of housing on the site, which is consistent with housing targets depicted in their Comprehensive Plan.

Additional considerations:

The piped stream and required restoration present challenges to housing development. The stream itself, as well as the required buffer zone and floodplain, will reduce buildable area by an amount to be determined through refinements to the proposed TOD design. Moreover, the stream restoration requires additional permits and funding, and extends both the predevelopment and construction phases of TOD development.

However, as noted in the TOD Analysis section, housing remains feasible on the site. Staff are pursuing external funding opportunities for the stream restoration to reduce the financial burden on qualified entities, including a grant application to USDOT submitted in February 2023. Through stakeholder engagement, prospective developers have indicated that they are able to complete the project inclusive of the stream.

(3) Authorize staff to offer the TOD site first to qualified entities for the development of affordable housing;

Staff recommends pursuing an affordable housing outcome on the site for several reasons:

- The site is Sound Transit's first TOD opportunity in Snohomish County, and the only currently identified opportunity on the Lynnwood Link Extension. The site provides an opportunity for affordable housing that would otherwise be limited in the station area, as the majority of new developments are market-rate.
- The site is zoned for mid-rise buildings. The City Center neighborhood has been planned to accommodate growth and help the City meet its housing targets across a range of incomes.
- The City of Lynnwood and community stakeholders are supportive of affordable housing on the site.
- The site location provides excellent access to transit, including light rail, local and regional bus routes, and the future Stride BRT route, linking an affordable development to job centers and amenities throughout the region.

Due to the reasons above and consistent with RCW 81.112.350, staff recommend offering the full site to qualified entities (local governments, housing authorities, and nonprofit developers) for affordable housing, with the goal of achieving an all-affordable outcome.

However, while an all-affordable outcome is possible, the TOD site has constraints which present unique feasibility challenges. Third-party affordable housing subsidy is not robustly available in Snohomish County and so far, public/private affordable housing funders have not pre-committed funds to the site. The predevelopment work needed to explore stream daylighting, and the additional costs associated with stream restoration, add additional complexity. Coupled with current market conditions, these factors may strain the viability of a dense, all-affordable project.

In some cases, including a market-rate component alongside the affordable housing may make the overall project feasible by reducing the need for gap funding and/or providing retail or commercial elements that are more challenging for affordable developers to deliver. Thus, if a viable all-affordable proposal is not received, proposals containing a market rate component will be considered. Projects proposing less than 100% affordable housing must demonstrate that a non-affordable housing

component either benefits the community or improves the feasibility of the overall project, and that the affordable housing component maximizes the affordable outcomes that can be delivered on the site.

(4) Authorize staff to offer the site at a discounted land value in order to facilitate affordable housing;

Consistent with RCW 81.112.350, the Sound Transit Board can discount property to facilitate affordable housing outcomes. Staff recommends authorizing a discount for the TOD site for the following reasons:

- Most affordable housing projects serving area median incomes of at or below 80% of area median income require public subsidy in the form of low-cost, subordinate debt, low-income housing tax credit allocations, discounted land value, and/or grants. Land cost is typically 5-15% of a project budget. Without discounting land value, the project would likely require additional local subsidy, which is a barrier to affordable housing development.
- A discounted land value is important to leveraging other affordable housing funding resources. This site may be eligible for Washington State Housing Finance Commission bond/tax credit allocations that prioritize Sound Transit TOD sites for affordable housing, and for funding by Amazon's Housing Equity Fund.
- The required stream restoration adds additional project costs which would presumably be borne at the expense of housing units. A discounted land value will support the maximum number of units being produced regardless of third-party funding.

Staff are seeking authorization to offer the TOD site below market value, including a no cost transfer, for the TOD site to encourage the maximum amount of affordable housing delivered through a competitive solicitation process. Proposers will be required to demonstrate that the requested discount facilitates affordable outcomes commensurate with the discount amount. The final discount amount is subject to future Board approval once the amount of achievable affordable housing has been determined through a competitive offering process. Proposed projects with less than 100% affordable housing will be obligated to purchase land used for market-rate uses at fair market value.

Future Board engagement

Should these actions be approved, staff will develop and issue a request for proposals, anticipated in Q2 2023. Staff will evaluate proposals received and identify a top-ranked proposer. Staff will then negotiate a non-binding term sheet for the site with the top-ranked proposer. The term sheet will identify key business terms to be brought before the Board for consideration and approval, including any potential discount on the TOD site for affordable housing.

Fiscal information

A market appraisal in 2023 valued the Lynnwood TOD site at \$4.8 million. The Fall 2022 Financial Plan forecast of the surplus property target does not assume the identified value for the TOD site as revenue. Even if the site is discounted, the agency believes that the Financial Plan target can still be achieved within the same timeframe through other properties in its portfolio of current and upcoming surplus property. As a result, there would not be a negative impact to the affordability of the Financial Plan.

The agency's long-range financial plan assumes \$130 million (YOE\$) through 2041 from the sale and lease of the agency's surplus real estate and joint development property. Previously, this was reported to the Board as \$93.8 million (2016\$), and was updated to YOE\$ for consistency and ease of use. To date, the agency has received or contracted \$56.4 million, and the finance plan includes a forecast for the remainder of the target, including \$18.4 million awarded but not contracted projects.

The proposed action would direct staff to offer the TOD site at a discount from fair market value as necessary to achieve affordable housing outcomes, which could be as much as the full value. With federal funds in one parcel comprising the TOD site, Sound Transit will need to obtain approval from the FTA before disposing of the property.

Disadvantaged and small business participation

Not applicable to this action.

Public involvement

Sound Transit conducted community engagement on the TOD site in spring/summer 2022. Engagement efforts included meeting with stakeholders to identify goals and help shape community engagement efforts. Staff interviewed seven community-based organizations about community needs, published a survey in multiple languages that received over 4,400 responses, and held three online open houses for developers to provide feedback on the TOD opportunity and offering strategy. Key takeaways include:

- Support for prioritizing affordable housing.
- Desire for the project to include non-residential spaces including retail, services, or other community-serving amenities.
- Preference for more outdoor gathering space, such as open green spaces or plazas.

A final Community Engagement report will be available on the Sound Transit website.

Time constraints

A one-month delay could impact proposers' ability to secure affordable housing funding. The Amazon Housing Equity Fund prioritizes projects that will break ground by 2025. Releasing the solicitation as soon as possible gives proposers more time to determine funding eligibility and conduct necessary site due diligence work.

Prior Board/Committee actions

Resolution No. R2018-10: Adopted an Equitable Transit Oriented Development Policy to reflect ST3 and RCW 81.112.350 direction to implement a regional equitable TOD strategy during planning, design, construction and operation of the high-capacity transit system and supersedes Resolution No. R2012-24.

Environmental review – KH 4/18/23

Legal review – JV 4/21/23

Resolution No. R2023-14

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority (1) approving the chief executive officer's declaration that portions of three parcels adjacent to the Lynnwood City Center Station are surplus upon completion of Lynnwood Link Extension construction; (2) declaring the Transit Oriented Development (TOD) site as suitable for development as housing; (3) authorizing staff to offer the TOD site first to qualified entities for affordable housing development; and (4) authorizing staff to offer the TOD site at a discounted land value price to facilitate affordable housing outcomes.

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

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

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

WHEREAS, Sound Transit acquired the subject parcels, currently identified as the Lynnwood City Center TOD site located at the 4520 200th St SW in Lynnwood, WA, for the Lynnwood City Center Station project between 2017 and 2019; and

WHEREAS, a portion of the Lynnwood City Center TOD site was acquired using Federal Transit Administration (FTA) financial assistance and is subject to federal interest. As such, Sound Transit is required to consult with FTA regarding the manner of disposition and/or the use of the properties for joint development; and

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

WHEREAS, on June 23, 2016 the Sound Transit Board adopted Resolution No. R2015-16 approving the Sound Transit 3 Regional Transit System Plan (the "ST3 Plan") and on November 8, 2016 the voters approved the ST3 Plan. The ST3 Plan provides (at page 12), "Sound Transit will implement a regional equitable TOD strategy for diverse, vibrant, mixed-use and mixed income communities adjacent to Sound Transit stations that are consistent with transit oriented development plans developed with the community by the regional transportation planning organization within Sound Transit's boundaries. ... Sound Transit will use such plans as the 2013 Growing Transit Communities Strategy to inform the content and implementation of its TOD strategy"; and

WHEREAS, unless certain exceptions apply, RCW 81.112.350 requires that the agency offer for transfer at no cost, sale, or long-term lease at least 80 percent of its surplus properties that are suitable for housing first to qualified entities (local governments, housing authorities, and non-profit developers) that agree to develop affordable housing on the property, and if accepted, at least 80 percent of the housing units created on the property must serve those whose adjusted income is no more than 80 percent of the adjusted median income for the county in which the property is located; and

WHEREAS, on April 26, 2018, the Sound Transit Board adopted Resolution No. R2018-10 adopting an Equitable TOD Policy to reflect the ST3 Plan and RCW 81.112.350 direction to implement a regional equitable TOD strategy during planning, design, construction and operation of the high-capacity transit system; and

WHEREAS, the agency's long term financial plan does not assume the value for the TOD site as revenue, and discounting a property does not result in a negative impact on the affordability of the financial plan,

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

Section 1. The chief executive officer's declaration that the TOD site is surplus and is no longer needed for a transit purpose upon completion of Lynnwood Link Extension construction is approved.

Section 2: The TOD site is suitable for development as housing.

Section 3. Staff is hereby authorized to offer the TOD site first to qualified entities for development of affordable housing.

Section 4. Staff is hereby authorized to offer the TOD site at a discounted land value in order to facilitate affordable housing outcomes.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on May 25, 2023.



Dow Constantine
Board Chair

Attest:



Kathryn Flores
Board Administrator

Resolution No. R2023-14
Exhibit A

Site Depiction

Lynnwood City Center TOD Site

Lynnwood, WA



