

## Resolution No. R2025-02

### Federal Way Downtown Station TOD surplus declaration, suitability for housing, and offering strategy

Meeting:	Date:	Type of action:	Staff contact:
Executive Committee Board	1/16/2025 1/23/2025	Recommend to Board Final action	Thatcher Imboden, Community Development Office Director <b>Mara D'Angelo, TOD Deputy Director</b> <b>Matthew Mateo, TOD Senior Project Manager</b>

### Proposed action

(1) Approves the chief executive officer's declaration that portions of six tax parcels adjacent to the Federal Way Downtown Link light rail station and composed of four separate TOD Sites are surplus upon completion of Federal Way Link Extension construction; (2) declares TOD Sites 1 and 2 as suitable for housing; (3) authorizes staff to offer TOD Sites 1 and 2 first to qualified entities for development of affordable housing; and (4) authorizes staff to offer TOD Sites 1 and 2 below market value, including at no cost, 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 Federal Way Downtown Link light rail station.
- This action:
  - Approves the chief executive officer's declaration that portions of six tax parcels adjacent to the Federal Way Downtown Link light rail station and composed of four separate TOD sites ("TOD Sites") are surplus upon completion of Federal Way Link Extension construction;
  - Declares TOD Sites 1 and 2 as suitable for development as housing;
  - Authorizes staff to offer TOD Sites 1 and 2 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 TOD Sites 1 and 2 below market value, including at no cost, to facilitate affordable housing outcomes.
  - The real property identified in this requested action is depicted in Exhibit A.
- The offering strategies for TOD Sites 3 and 4 is not part of this action and will be brought to the Board in the future.

## Background

### Property information

Sound Transit acquired multiple parcels for the construction of the Federal Way Downtown Link light rail station, relocation of the existing Federal Way Transit Center, construction of the new Federal Way Transit Center bus loop, expansion of the existing Federal Way Transit Center parking garage, and construction of a passenger pickup/dropoff area. Upon completion of the capital project, four future TOD parcels separated by City of Federal Way rights-of-way will remain.

Combined, the four TOD Sites are approximately five and a half acres and will be subdivided into four separate tax parcels through a binding site plan led by the Federal Way Link Extension capital project.

The gross area of each future TOD Site is as follows:

- TOD Site 1 – approximately 42,000 square feet
- TOD Site 2 – approximately 52,000 square feet
- TOD Site 3 – approximately 42,000 square feet
- TOD Site 4 – approximately 102,000 square feet

All four TOD Sites are zoned City Center – Core which allow for residential, commercial, and mixed-use development as of right. The original parcels were acquired with federal assistance from the Federal Transit Administration (FTA). Sound Transit will seek FTA approval to facilitate the redevelopment of these properties.

### TOD Analysis

Sound Transit staff evaluated opportunities and challenges to development on the TOD Sites, with the goal of achieving a mixed-use, mixed-income outcome across the four TOD Sites. This set of actions includes an offering strategy for Board consideration applicable to TOD Sites 1 and 2.

Sound Transit staff conducted assessments of TOD Sites 1 and 2, reflecting anticipated property boundaries, potential development layout and program, real estate market analysis, financial housing pro forma analysis, and community engagement. The work concluded that housing is a suitable use for TOD Sites 1 and 2. The feasibility assessment found that TOD Site 1 could support a six-story mid-rise multifamily building with approximately 100 housing units, and Site 2 could support a six-story mid-rise multifamily building with approximately 150 units. The housing units are in addition to commercial space and amenities, depending on the distribution of unit types, floor plans, and floor-to-area ratio. In September 2024, TOD Site 1 was appraised for \$1.95 million, and TOD Site 2 was appraised for \$2.74 million.

Staff is still evaluating TOD Sites 3 and 4 and will return to the Board for approval of an offering strategy for those sites. The offering strategy across the four sites will be consistent with the Development Agreement between Sound Transit and the City of Federal Way, which defines a shared vision for developments that, "...include a mix of uses consistent with Sound Transit's Equitable TOD Policy as well as the City's vision for a compact, mixed use, mixed income and walkable urban center."

## Recommended Actions

- (1) Approves the chief executive officer's declaration that portions of six tax parcels adjacent to the Federal Way Downtown Link light rail station and composed of four separate TOD Sites are surplus upon completion of Federal Way Link Extension construction

The CEO has concluded that the portions of the parcels as depicted in Exhibit A can be declared surplus following completion of the Federal Way Link Extension.

- (2) Declares the TOD Sites 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 TOD Sites 1 and 2 are suitable for development as housing.

Threshold evaluation considerations:

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

Discretionary evaluation considerations

- The City of Federal Way is supportive of housing on the site;
- The community is supportive of housing on these sites;
- A market and feasibility study identified housing as a viable use on the site; and
- Appraisal identified housing, as part of mixed-use development, as highest and best use of the site.

- (3) Authorizes staff to offer TOD Sites 1 and 2 first to qualified entities for development of affordable housing;

Staff recommends pursuing an affordable outcome on TOD Sites 1 and 2 for the following reasons:

- Affordable housing is consistent with the Development Agreement between Sound Transit and the City of Federal Way outlining a mixed-use, mixed-income outcome across the four TOD sites.
- Affordable housing is consistent with the City of Federal Way Housing Action Plan.
- Affordable housing is consistent with market study findings that showed both demand and economic feasibility for affordable housing, with available gap funding which includes discounted land value.
- This site will be eligible for Washington State Housing Finance Commission ("Commission") bond/tax credit allocations that prioritize Sound Transit TOD sites for affordable housing. Early conversations have also indicated funding could be made available from King County and South King Housing and Homelessness Partners.

(4) Authorizes staff to offer TOD Sites 1 and 2 below market value to facilitate affordable housing outcomes

Consistent with RCW 81.112.350, the Sound Transit Board can discount property to facilitate affordable housing outcomes. Staff recommends a discount for TOD Sites 1 and 2 for the following reasons:

- Most affordable housing projects 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, a project would likely require additional local subsidy, which is a barrier to affordable housing development.
- Market study findings for TOD Sites 1 and 2 showed that delivering affordable housing at this location will require gap funding, to which discounted land value could be a contributor.
- A discounted land value is important to leveraging other affordable housing funding resources. The Commission bond/tax credit allocations that prioritize Sound Transit TOD sites contingent on Sound Transit providing a significant discount of the land value.

Future Board engagement

If this action is approved, staff will develop and issue requests for proposals for both TOD Sites 1 and 2 and negotiate term sheets with the top ranked proposers. The key business terms would be brought before the Board for consideration, including any potential discount for affordable housing.

The offering strategies for TOD Sites 3 and 4 will also be brought to the Board in the future.

**Fiscal information**

Per an appraisal conducted in September 2024, TOD Site 1 was appraised for \$1.95 million, and TOD Site 2 was appraised for \$2.74 million. The Fall 2024 Financial Plan forecast of the surplus property target assumes revenue from the sale of each property to be \$147,500 for a total of \$295,000 rather than the appraised value for each TOD site. Even with the assumed discount, 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, this action does not have an impact on the affordability of the financial plan.

The ST3 system expansion plan contained revenue assumptions from Sound Transit's disposition of surplus property to meet a revenue target as part of the agency's financial plan. Approximately \$76 million towards an \$130 million (YOE) goal has been attained through sales or leases. Thus, advancing an affordable housing transaction should be assumed to represent only nominal progress towards the financial plan target.

**Disadvantaged and small business participation**

Not applicable to this action.

## **Public involvement**

Sound Transit conducted a community engagement effort to guide the development of transit-oriented development near the Federal Way Downtown Station during the spring and summer of 2024. The engagement process involved collaboration with the City of Federal Way, community-based organizations, and Federal Way residents. Sound Transit held one-on-one conversations, hosted an online survey, and conducted in-person events to identify priorities for the TOD sites. More than 350 participants were engaged through the survey and events.

Key themes shared by the community and stakeholders included:

- Support for affordable housing.
- Desire for spaces that not only serve transit users but also address broader community needs.
- Desire for a station area that serves as a vibrant community hub with a range of uses.
- Preference for dense, livable developments.

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

## **Time constraints**

A short delay would not create a significant impact, however, in order to best serve the needs of the City of Federal Way and as follow up to the public outreach process, it is staff's goal to begin the RFP process for these sites as soon as possible.

## **Prior Board/Committee actions**

Motion No. M2019-65: Authorized the chief executive officer to execute a Development Agreement with the City of Federal Way for the Federal Way Link Extension.

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.

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**Environmental review** – KH 12/23/24

**Legal review** – JV 1/10/25

## **Resolution No. R2025-02**

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority (1) approving the chief executive officer's declaration that portions of six tax parcels adjacent to the Federal Way Downtown Link light rail station and composed of four separate TOD Sites are surplus upon completion of Federal Way Link Extension construction; (2) declaring TOD Sites 1 and 2 as suitable for housing; (3) authorizing staff to offer TOD Sites 1 and 2 first to qualified entities for development of affordable housing; and (4) authorizing staff to offer TOD Sites 1 and 2 below market value, including at no cost, 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 for the Federal Way Downtown Station project; and

WHEREAS, a portion of the Federal Way Downtown TOD Sites 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 development as 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 all TOD sites as revenue, and discounting these properties 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:

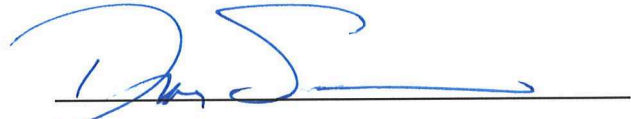
Section 1. The chief executive officer's declaration that the TOD Sites are surplus and are no longer needed for a transit purpose upon completion of Federal Way Link Extension construction is approved.

Section 2: TOD Sites 1 and 2 are suitable for development as housing.

Section 3. Staff is hereby authorized to offer TOD Sites 1 and 2 first to qualified entities for development of affordable housing.

Section 4. Staff is hereby authorized to offer TOD Sites 1 and 2 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 January 23, 2025.

  
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Dave Somers  
Board Chair

**Attest:**

  
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Kathryn Flores  
Board Administrator



# Exhibit A - Federal Way Downtown Station

