

**SUMMARY and FISCAL NOTE\***

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*\* Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

**1. BILL SUMMARY**

**Legislation Title:** AN ORDINANCE relating to certain City-owned properties located in the South Lake Union neighborhood and declaring them as surplus to the City’s needs; removing the properties from the limited access highway purposes property designation previously assigned to them; authorizing sale of the properties for an aggregate selling price of \$138,500,000, together with additional cash and non-cash consideration, including the purchaser’s covenant to develop affordable housing and to negotiate a lease with the Seattle Parks and Recreation Department for a recreational facility to be located upon a portion of one of the properties; authorizing the Mayor or designee to execute a Memorandum of Understanding for the sale of the property consistent with its terms; authorizing the Superintendent of the Parks and Recreation Department or designee to negotiate, execute, and deliver a lease of the recreational facility; authorizing the Director of the Seattle Department of Transportation or designee to negotiate, execute, and deliver all other documents necessary or appropriate to effect the foregoing and to carry out the transactions described in this ordinance; and ratifying and confirming certain prior acts.

**Summary and background of the Legislation:** This legislation authorizes the Director of Transportation or the Director’s designee to negotiate consistent in all material respects with the terms and conditions of the Memorandum of Understanding to complete all necessary transaction documents, agreements and any ancillary documents, e.g. Development and Disposition Agreement, purchase and sale agreement, covenants, leases and easements, to accomplish the sale and transfer of 602 Aurora Avenue North and 800 Mercer Street to Alexandria Real Estate Equities, Inc dba as 615 Dexter LLC and 800 Mercer LLC.

**Background:**

There have been two Council Green Sheets relative to Mercer Mega Block: 14-1-A-1 (for the 2014 Adopted Budget); and 90-3-A-2 (for the 2016 Adopted Budget). Specific interest in the 800 Mercer Street and 620 Aurora Avenue properties grew out of an effort developed several years ago to use City assets in South Lake Union (SLU) to address neighborhood interests and to create opportunities for all City residents to take advantage of SLU as a “neighborhood of opportunity.”

The decision was made to move forward and issue a RFP for these sites seeking an appropriate balance between the financial offer for Mercer Mega Block and affordable housing and community benefits.

The RFP was issued on July 11, 2018, based on many factors, including Resolution 31786, adopted by Council on December 11, 2017 and Ordinance 125599 adopted by Council June 11, 2018. Resolution 31786 states that, “...the City’s goal for disposing of 800 Mercer Street and

*620 Aurora Avenue N is to increase affordable housing resources either through on-site production or through increasing the amount of funding available for affordable housing projects...”.*

Accordingly, the RFP encouraged respondents to submit proposals that included on-site options for affordable housing (60% of AMI, or below). The RFP clearly stated that Developers should not assume any capital subsidy from the Seattle Office of Housing or other public funders, but may make reasonable assumptions about non-competitive resources such as 4% Low Income Housing Tax Credits and tax exempt bonds. Five of the proposals provided options for on-site affordable housing production. The on-site production had a reduction in the offer for both the fee-simple and ground lease options, ranging from 15% to 39%.

The RFP stated that the City has a strong preference to structure the transaction for the site as an unsubordinated long-term ground lease; however, the RFP did state the City will consider alternative acquisition offers including a fee simple sale. Four of the responsive proposals included offers that included ground lease options.

In addition, the RFP included other required elements that the development proposals were to respond to, designed to achieve important policy goals:

- ***Project Labor Agreement.*** The selected developer would enter into a project labor agreement for the initial phase of construction;
- ***Labor Harmony Agreement.*** Any hotel operators that are part of the development would be required to enter into a Labor Harmony Agreement;
- ***Sustainability Standards.*** The development must meet or exceed sustainability standards of LEED Gold for commercial/mixed-use;
- ***Remediate Environmental Contamination.*** The developer, not the City, would be responsible for the cost to remediate any environmental contamination;
- ***Broad Street Vacation Requirements.*** The developer would be responsible for implementing all the site-specific public benefits required by Ordinance 125599, which authorized the street vacations associated with consolidating the site.

The RFP for the disposition of 800 Mercer Street and 620 Aurora Avenue (collectively known as Mercer Mega Block), was released to the market on July 11, 2018 and generated 7 submittals on October 5, 2018. Of the 7 proposals, 6 were determined to be responsive, 2 of which were determined to be partially compliant.

The responsive proposals for the Mercer Mega Block RFP were evaluated by the Evaluation Committee according to the RFP criteria. This evaluation process guided the Evaluation Committee’s decision making. The Evaluation Committee considered all submission materials, presentations, and interviews when making their recommendation. Proposals were evaluated based on the following:

- Financial offer and associated terms, including financial capabilities
- Affordable Housing
- Building and Public Space Activation, Community Benefits, and Sustainability

- Proposed project and development team

On October 15<sup>th</sup> and 16<sup>th</sup>, 2018, the Evaluation Committee met to review, analyze, and request specific answers for each of the responsive submissions. The Evaluation Committee recommended that all of the 6 responsive proposals move forward to the interviews on October 29<sup>th</sup> and 30<sup>th</sup>, 2018.

Subsequent to the interviews, the Evaluation Committee recommended that all of the responsive proposals move forward to the next stage of the RFP process, specifically Best and Final Offer (BAFO). The BAFO process sought various modifications from the respondents, specifically increasing their financial offer, shortening the due diligence and closing time, and minimizing the reduction in payments to the City in exchange for providing affordable housing. After reviewing all responses to the BAFO, the Evaluation Committee on December 10, 2018 recommended to move forward with the RFP/BAFO proposal from Alexandria Real Estate Equities, Inc as the response offering the highest purchase price, least cost differential to provide 175 affordable housing units without public subsidy, inclusion of an up to 30,000 square foot community center, and limited financial and city permit requirements to close.

**2. CAPITAL IMPROVEMENT PROGRAM**

Does this legislation create, fund, or amend a CIP Project? \_\_\_ Yes  X  No

**3. SUMMARY OF FINANCIAL IMPLICATIONS**

Does this legislation amend the Adopted Budget? \_\_\_ Yes  X  No

Appropriation change (\$):	General Fund \$		Other \$	
	2019	2020	2019	2020
Estimated revenue change (\$):	Revenue to General Fund		Revenue to Other Funds	
	2019	2020	2019	2020
		\$88,846,426*		\$50,653,574**
Positions affected:	No. of Positions		Total FTE Change	
	2019	2020	2019	2020

\* Amount is an estimated net after \$4 million in total transaction costs. An estimated \$1.3 million of the \$50,653,000 will be held for housing performance.

\*\* Amount is an estimated net after \$4 million in total transaction costs.

**Does the legislation have other financial impacts to the City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?**

Disposition of these properties has been long contemplated. If the disposition of the properties identified above is not consummated, the City will not be able to maximize the value of these important City assets. This may severely impact the funds received from the sale of the properties, including proceeds to repay the interfund loan for the Mercer Corridor

Project West Phase project. Additionally, if the sale is not fully transacted there will not be other funds available for other affordable housing opportunities and the affordable housing and community center projects at this site will not be realized.

**Is there financial cost or other impacts of *not* implementing the legislation?**

The city may not receive the necessary funds to repay the following:

- The approved funding plan for the Mercer West Corridor Project included proceeds from the sale of 800 Mercer. In 2015, the City Council passed Ordinance 124904 authorizing a \$26,300,000 interfund loan for the Mercer West Project. Ordinance 125466 extended the term of the loan to December 31, 2019.
- Council authorized a \$4,300,000 interfund loan (Ordinance 125463) to provide one-time funding for homelessness for the 2018 Adopted Budget. Proceeds from the sale or lease of 800 Mercer were identified as the specific source to repay this loan.
- Ordinance 121850 requires that funding for operation and maintenance of the South Lake Union streetcar be provided from the sale of City surplus property in South Lake Union and Ordinance 122424, last amended by Ordinance 125716, authorizes a \$3,650,000 interfund loan for streetcar operations.

**3.d. Appropriations**

**Appropriations Notes:** Appropriations associated with the sale of the property will be included in the 2020 Proposed Budget.

**3.e. Revenues/Reimbursements**

  X   This legislation adds, changes, or deletes revenues or reimbursements.

**Anticipated Net Revenue/Reimbursement Resulting from this Legislation (after transaction costs):**

<b>Fund Name and Number</b>	<b>Dept</b>	<b>Revenue Source</b>	<b>2019 Revenue</b>	<b>2020 Estimated Revenue</b>
General Fund (00100)	N/A	Property Proceeds		\$83,846,426
General Fund (00100)	N/A	Property Proceeds		\$5,000,000***
Transportation Fund (13000)	SDOT	Property Proceeds		\$50,653,574
<b>TOTAL</b>				<b>\$139,500,000</b>

\*\*\* \$5 million cash to be used by the City to address homelessness in Seattle (“Homelessness Contribution”)

**Is this change one-time or ongoing?**

Because the revenues are from the sale of surplus property, the revenues are one-time.

**Revenue/Reimbursement Notes:**

The revenue allocations are an estimate of net proceeds after \$4 million in estimated transaction costs.

	<b>Total Proceeds</b>	<b>Percentage</b>	<b>Transaction Costs</b>	<b>Net Proceeds</b>
General Fund	\$86,340,000	62%	\$2,493,574	\$83,846,426
Transportation	\$52,160,000	38%	\$1,506,426	\$50,653,574
GF (Homelessness Contribution)	\$5,000,000	N/A	N/A	\$5,000,000
<b>Total</b>	<b>\$143,500,000</b>	<b>100%</b>	<b>\$4,000,000</b>	<b>\$139,500,000</b>

An estimated \$1.3 million of non-transportation revenues will be held for housing performance.

**3.f. Positions**

\_\_\_ This legislation adds, changes, or deletes positions.

**4. OTHER IMPLICATIONS**

- a. Does this legislation affect any departments besides the originating department?**  
Yes, this legislation will require work to be undertaken by the City Budget Office to negotiate on the behalf of the Seattle Department of Transportation for the disposition of these properties.
- b. Is a public hearing required for this legislation?**  
There will be a public hearing on August 16, 2019 at the Sustainability and Transportation Committee.
- c. Does this legislation require landlords or sellers of real property to provide information regarding the property to a buyer or tenant?**  
No
- d. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**  
This legislation does not require publication.
- e. Does this legislation affect a piece of property?**  
The legislation does affect several pieces of property. A map is attached as Exhibit 1.
- f. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?**  
The disposition of this property will not negatively affect the vulnerable or historically disadvantaged communities in Seattle.

- g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s).**

This legislation does not create a new program nor does it expand an existing program.

**List attachments/exhibits below:**

Summary Exhibit 1 - Property Location Map