

Policy Briefing Memo



City of Seattle

Edward B. Murray, Mayor

Date: September 8, 2017

To: Sustainability & Transportation Committee
Chair: Councilmember Mike O'Brien
Vice Chair: Councilmember Rob Johnson
Member: Councilmember Kshama Sawant
Alternate: Councilmember Lisa Herbold

From: Ben Noble, CBO 4-8160
Steven L. Shain, CBO 4-8211

Copies: Hillary Hamilton, FAS 4-0421
Quanlin Hu, OPCD, 6-1598
Sam Spencer, SDOT 4-5150
Eric Tweit, SDOT 4-8834

Subject: **Briefing on Community Benefits to be included in disposition and Request for Proposals for 800 Mercer and 615 Dexter**

This report serves to brief, seek input and support from the Sustainability and Transportation Committee for proposed Community Benefits as a conditional requirement of issuing a Request for Proposal for the sale of 800 Mercer and 615 Dexter. These Community Benefits will serve to leverage this City asset to achieve public attributes greater than an unrestricted sale. In addition to RFP specific Community Benefits, there will be Public Benefits for the Conditional Vacation and Final Vacation Ordinance of the remnants of Broad Street required to be implemented by the successful RFP respondent and developer of 800 Mercer. The combined vacation public benefits and disposition community benefits will be established as minimum requirements that must be met as part of any responsive proposal to the disposition RFP for 800 Mercer and 615 Dexter. These requirements will be expressed in the RFP and then as a contractual obligation of the successful respondent to the RFP in the eventual negotiated Disposition and Development Agreement (DDA) which will govern the sale of the properties. The Conditional Vacation Approval for remnants of Broad Street will not be submitted for

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your consideration until we have your acknowledgement that the proposed Community Benefits adequately leverage the public value of this City asset.

BACKGROUND

There have been three Green Sheets relative to this site: 14-1-A-1 (2014); 90-3-A-1 (2016); 90-3-A-2 (2016). Council’s specific interest in the 800 Mercer Street and two nearby sites grows 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”. Examples of opportunities that have been proposed are affordable housing near this robust employment center, a childcare center, a pre-school, a community or performing arts space, multi-modal transportation infrastructure or some type of training center to provide career opportunities in the industries located in SLU.

Although the focus of Council interest has been on the 800 Mercer Street property, there are actually three properties that have been considered as part of various Green Sheets:

| Location | Lot Size Approximate | Maximum Height per City Zoning Zoning | Fund Source Used for Purchase | Financial Obligations |
|---|---|---------------------------------------|--|---|
| 800 Mercer Street aka “Teardrop” or “Mega-Block” Seattle Department of Transportation (SDOT), owner | 96,000 square feet, subject to vacation of remnants Broad Street | 280’ residential; 175’ commercial | 30% commercial parking tax; 12% Gas Tax; 58% private/GSF | Fair Market Value \$26.3M (NTE) interfund loan repayment |
| 615 Dexter Ave N aka “Copiers Northwest” SDOT, owner | 24,000 square feet | 280’ residential; 175’ commercial | Gas Tax Revenue | Fair Market Value |
| 8 th and Roy Seattle City Light, owner | 67,000 square feet; which includes a 30,000 square foot building that has been landmarked | 95’ residential and 100’ commercial | SCL Enterprise Fund | Fair Market Value |

The Mayor’s Office responded to GS 14-1-A-1 in a report to Seattle City Council on July 31, 2015. The Executive responded by outlining opportunities identified by various City departments for programs that could operate in South Lake Union.

The 2015 report included the following three recommendations:

1. Sell the Copiers Northwest site to pay the balance of the \$10 million debt on the South Lake Union Streetcar.
2. Facilitate the purchase of the 8th and Roy site from Seattle City Light to a developer for affordable housing through an RFP process.

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3. Sell the 800 Mercer St “Teardrop” site after assembling the block and taking it through the street vacation process. The report recommended using the proceeds to pay for the Mercer West project and to invest any net proceeds towards the cost of developing affordable housing at 8th and Roy.

The Mayor’s Office responded to 90-3-A-1 (2016); 90-3-A-2 (2016) in a briefing to the Sustainability and Transportation Committee on May 31, 2016 with the following recommendations supported by the Committee:

- 800 Mercer Street and 615 Dexter Avenue be marketed together as part of a joint RFP.
- The SCL 8th and Roy Street site would be marketed through a separate RFP.
- Engage a consultant, allocating the funds identified in GS-90-3-A-2, to assist OPCD and FAS in the preparation of Requests for Proposals (RFP), developing objective criteria, marketing plan and review of responses to the RFP;
- Issue the RFPs, allowing respondents to propose on any and all sites;
- The RFP for 800 Mercer and 615 Dexter sites (SDOT) will identify and include the Office of Housing’s preferred development concept;
- SDOT’s RFP will clarify and present the public’s interest in and aspirations for the site;
- Neither RFP will propose a specific development scheme(s) for the property(s), rather the RFPs will outline various opportunities and potential constraints on the site(s);
- Authorize this property disposition to differ from the current FAS disposition guidelines for a “complex” site.

Subsequent to the May 31, 2106 Sustainability and Transportation Committee meeting:

- The Seattle Design Commission supported the proposed public benefits for the vacation of the remnants of Broad Street on July 21, 2016, the vacation petition was unique in that it is not concurrent with new development;
- On April 10, 201 City Council approved through Ordinance 125291, changed the zoning of these properties to ensure that future development will participate in Mandatory Housing Affordability programs as authorized under SMC 23.58B (for commercial development) and 23.58C (for residential development);
- Through a competitive Requests for Proposals, the City selected Jones Lang LaSalle Americas, Inc. (JLL), to provide real estate consulting, brokerage services, preparation of RFPs, developing objective criteria, marketing plan and provide review of responses to the RFP;
- Seattle City Light received City Council approval on July 31, 2017 for Ordinance 125372 that declared the City’s 8th and Roy Street property as surplus to the City’s needs and no longer required for providing public utility service or other municipal purpose; authorizing the sale of this property for fair market value through a brokered sale;

- SDOT's Mercer West Team transmitted support documentation for the Broad Street conditional vacation to Street Use on August 1, 2017. The materials submitted included the Broad Street Vacation Public Benefits Matrix.

PROPERTY DESCRIPTION

- This 800 Mercer Street property is bounded by Mercer Street to the south, Roy Street to the north, Dexter Avenue to the west and 9th Avenue to the east. The Seattle Department of Transportation (SDOT) has proposed vacating approximately 66,811 square feet of Broad Street within this boundary. This irregularly shaped portion of Broad Street was closed as part of larger strategy to reconfigure and reconnect the street grid within the framework of the realignment of State Route 99 and the related Mercer Street Improvements. The site is generally rectangular in shape and in total measures approximately 104,000 square feet. Underground utility easements will continue to encumber the property. However, with the exception of the area needed to accommodate the drop structure located mid-block on Roy Street, the easements are expected to have limited impact on future development.
- The 615 Dexter Avenue site property is bounded by an alley to its south, Roy Street to the north, Dexter Avenue to the east and Aurora Avenue to the west.
- Based on City Council action through Ordinance 125291, the properties zoning designation is SM 175' / 85' - 280', with a commercial height limit of 175' and a residential base height limit of 85' and maximum residential height limit of 280'. The base floor area ratio (FAR) limit for nonresidential uses is 4.5; the maximum FAR is 8 for commercial uses. The base FAR for R&D use is 5.0 with a maximum of 8..
- Additionally, the zoning code includes a provision whereby development proposals must show that the proposed structure will not interfere with the South Lake Union Seaport Flight Corridor. 800 Mercer is partially located in the flight path corridor and therefore actual maximum height limits in the northwest corner of the site are limited to 216'.

PUBLIC LAND TO MAXIMIZE PUBLIC VALUE

The success of the disposition of these City owned properties depends on a clear, strategic and achievable vision, defined through principles which will guide the redevelopment of these properties. By clarifying this, the City of Seattle can achieve benefits that will build upon and grow the vitality, affordability and economic development of South Lake Union and the City of Seattle overall. The RFP principles are meant to be used as tools to evaluate the responses for an economically, environmentally, and socially sustainable community.

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To create a vibrant place the principles will look at the mix of uses that will build on the uniqueness and character of this part of the community, activate the site and provide places for the community to gather. In particular, this will include a mix of housing (both affordable and market rate housing), commercial development, and public uses.

Listed below are those Community Benefits specific to this RFP, these will be a minimum threshold requirement to be considered a responsive proposal to the RFP. These benefits are intended to not unnecessarily encumber the potential sale and value of the properties. Achieving these benefits will allow leveraging the sale of this City asset to maximize public value.

| REQUIRMENTS: The following Request for Proposals (RFP) requirements are minimum commitments to be considered responsive to the RFP; and will be contractual agreements between the purchaser and the City of Seattle as terms in the Disposition and Development Agreement (DDA): | Implementation |
|---|--|
| <p>Minimum of 150 apartments units of affordable housing, which shall be income-and rent-restricted for households earning up to 60% of Area Median Income (AMI), as defined by U.S. Department of Housing and Urban Development (HUD), for a period of not less than 50 years.</p> <p>This housing requirement will not count towards the developer's requirement to meet the City's Mandatory Housing Affordability and will not count towards any Multi-Family Tax Exemption units.</p> <p>Funding could be from a cross-subsidization from the proceeds of the sale of the parcels.</p> | <p>Requirement. Will be included in RFP and commitment included in DDA.</p> <p>Anticipated that the affordable housing will not seek OH funding.</p> |
| <p>The development must meet or exceed sustainability standards of LEED Silver or the City of Seattle's Evergreen standard.</p> | <p>Requirement. Will be included in RFP and commitment included DDA.</p> |
| <p>Any and all hospitality operators that are part of the development will enter into a Labor Harmony Agreement.</p> | <p>Requirement. Will be included in RFP and commitment included DDA.</p> |
| <p>Developer responsible for the incremental cost to remediate environmental contamination.</p> | <p>Requirement. Will be included in RFP and commitment included DDA.</p> |
| <p>The properties must be sold at Fair Market Value.</p> | <p>Requirement. Will be included in RFP and commitment included DDA.</p> |
| <p>PREFERENCE: In review of RFP responses, relative to community benefits preference will be given to:</p> | |
| <ul style="list-style-type: none"> • Affordable housing commitments that exceed the 150 units with a mix of those units to be family units (2bd/2ba and 3bd/2ba). • Proposals that exceed LEED Silver. | <p>Evaluated by the RFP review panel.</p> |

BROAD STREET VACATION PUBLIC BENEFITS REQUIREMENT IN RFP

SDOT is requesting vacation of the Broad Street right-of-way between Dexter Avenue North and Ninth Avenue North and any remaining Eighth Avenue North right-of-way between Mercer and Roy streets across the Broad Street right-of-way. This right-of-way is no longer needed, or used, for transportation purposes because of changes to the transportation network constructed under the Mercer Corridor Project.

SDOT owns all property adjacent to the Broad Street right-of-way and is proposing to:

- Vacate the right-of-way to consolidate all property into one or two parcels between Mercer Street, Roy Street, Dexter Avenue North, and Ninth Avenue North (the Broad Street Property), and
- Sell the property for development consistent with the underlying zoning and neighborhood plans.

Vacating Broad Street to consolidate all property for sale will help ensure that the City receives the maximum value for the property and that the full value of the block is realized when the property is sold. The City will use some of the proceeds from the sale of the property to fund the Mercer Corridor Project West Phase improvements.

This is not the standard approach for a street vacation. A development proposal for the site is not included with the petition. The purchaser selected through a RFP will be responsible for developing the site under existing zoning and related development regulations and including implementing the conditions assigned under the street vacation.

The development conditions assigned under the street vacation will be requirements in the RFP.

| The following Broad Street Vacation requirements will be implemented by the purchaser with development of the site and will be required in the RFP: | Implementation |
|---|--|
| Eighth Avenue N, new surface public 60-foot wide access easement or right-of-way through the site (Mercer to Roy). The 60-foot wide pedestrian street will further establish the neighborhood street grid and connect the neighborhoods north and site of Mercer Avenue | Requirement will be included in RFP and Disposition and Development Agreement (DDA). |
| Eighth Avenue improvements between Mercer and Roy will implement the South Lake Union Urban Design Framework and will be consistent with Eighth Avenue North Design Guidelines. | Design Commission review is required. Requirement will be included in RFP and DDA. |
| Eighth Avenue improvements between Mercer and Roy will create and approximately provide 11,000 square feet of publicly accessible open space. | Maintenance and activation by adjacent property owners. Requirement will be included in RFP and DDA. |
| Extend two-way protected bike lanes on the north side of Mercer from Dexter to Ninth. This will provide a key link in the bicycle network. | Requirement will be included in RFP and DDA. SDOT to provide design criteria. |

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REMOVING UNCERTAINTY AND ENHANCING VALUE

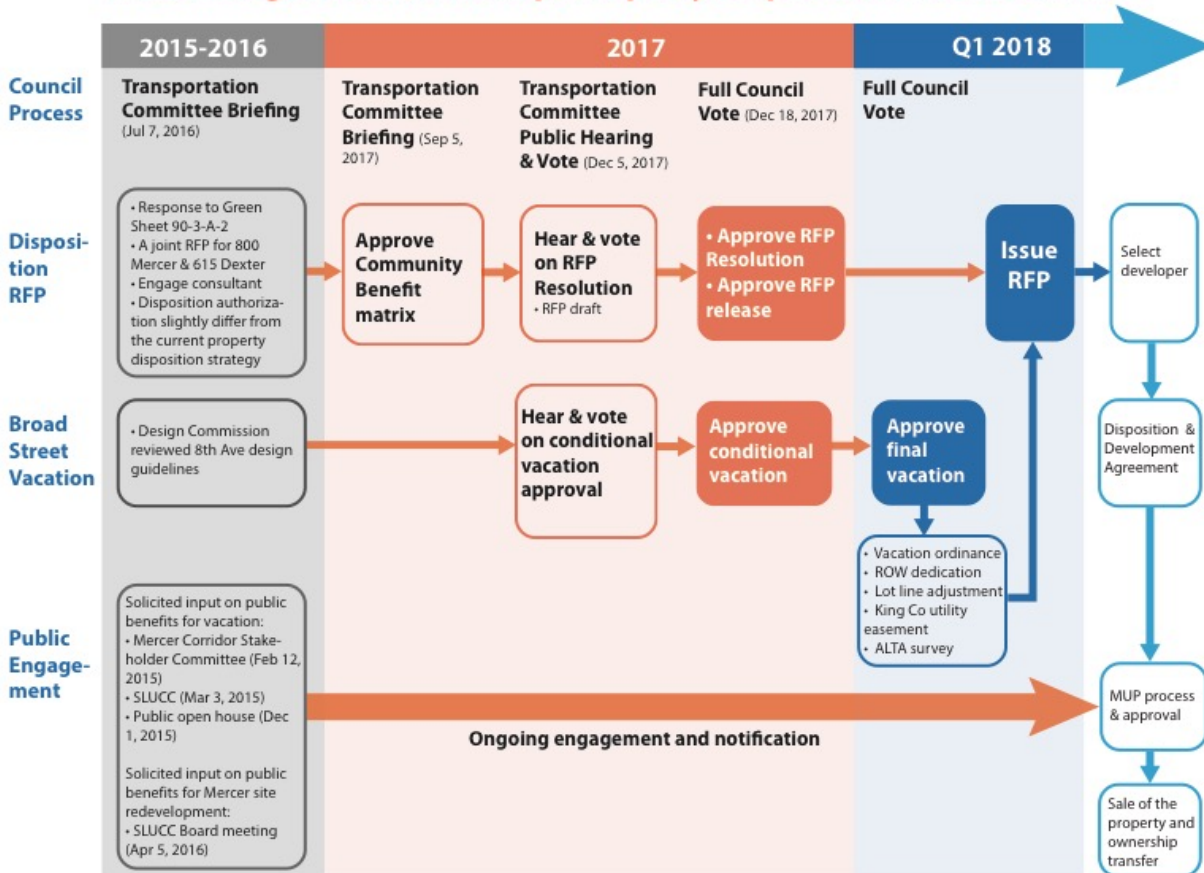
It is strongly recommended that the Sustainability and Transportation Committee endorse the proposed Community Benefits as significant leveraging of this City asset for greater public benefit.

800 Mercer Street, 615 Dexter Avenue North are valuable assets that properly marketed could achieve substantial public and community benefits for this neighborhood of opportunity. To generate maximum interest in the properties and value to the City, and to potentially mitigate for the value dampening encumbrances of the public and community benefits, the following actions will help resolve uncertainties for potential bidders regarding property configuration:

- City Council approves a Final Vacation Ordinance for Broad Street,
- Complete the Lot Line Boundary Adjustment needed to create two parcels at 800 Mercer;
- ALTA (American Land Title Association) survey recorded, which will note the final Vacation Ordinance requirements as deed restrictions on the property.

NEXT STEPS

Mercer Mega Block (Teardrop) Property Disposition Process Chart



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The following near-term steps are needed to implement the plan set out above:

- SDOT Street Use to prepare materials and schedule a public hearing at the Sustainability and Transportation Committee's December 5, 2017 meeting for the Broad Street Conditional Vacation Approval;
- CBO and OPCD prepare materials and schedule a public hearing at the Sustainability and Transportation Committee's December 5, 2017 meeting for the authorization of a Resolution to issue a joint RFP for 800 Mercer and 615 Dexter;
- Sustainability and Transportation Committee vote to authorize the Broad Street Conditional Vacation Approval and the Resolution to issue a joint RFP for 800 Mercer and 615 Dexter;
- City Council vote to authorize the Broad Street Conditional Vacation Approval and the Resolution to issue a joint RFP for 800 Mercer and 615 Dexter;
- Prepare materials for City Council vote on Ordinance to dedicate Real Property at 800 Mercer to Right of Way (fig 2 attached);
- Prepare materials for City Council vote on Ordinance for Final Broad Street Vacation;
- Prepare materials for City Council vote on Ordinance to authorize execution of utility easement with King County (fig 2 attached);
- Prepare Lot Line Adjustment creating two parcels (fig 3 attached);
- Prepare and record ALTA (American Land Title Association) survey;
- Issue RFP for the disposition of 800 Mercer and 615 Dexter.

Attachments: SLU Map of City owned property
SDOT Broad Street Vacation Public Benefits Matrix
Broad Street Property Pre-RFP Vacation, Dedication and Easement Figure (Fig 2)
Broad Street Property Parcel Limits Post Lot Line Adjustment (Fig 3)
Broad Street Property Final Parcels with Public Easements or Right of Way (Fig 4)

SLU MAP OF CITY OWNED PROPERTY



City Property



Produced by the City of Seattle FAS, Real Estate Services, D.Bretzke May 15 2015

SDOT Broad Street Vacation Public Benefits Matrix

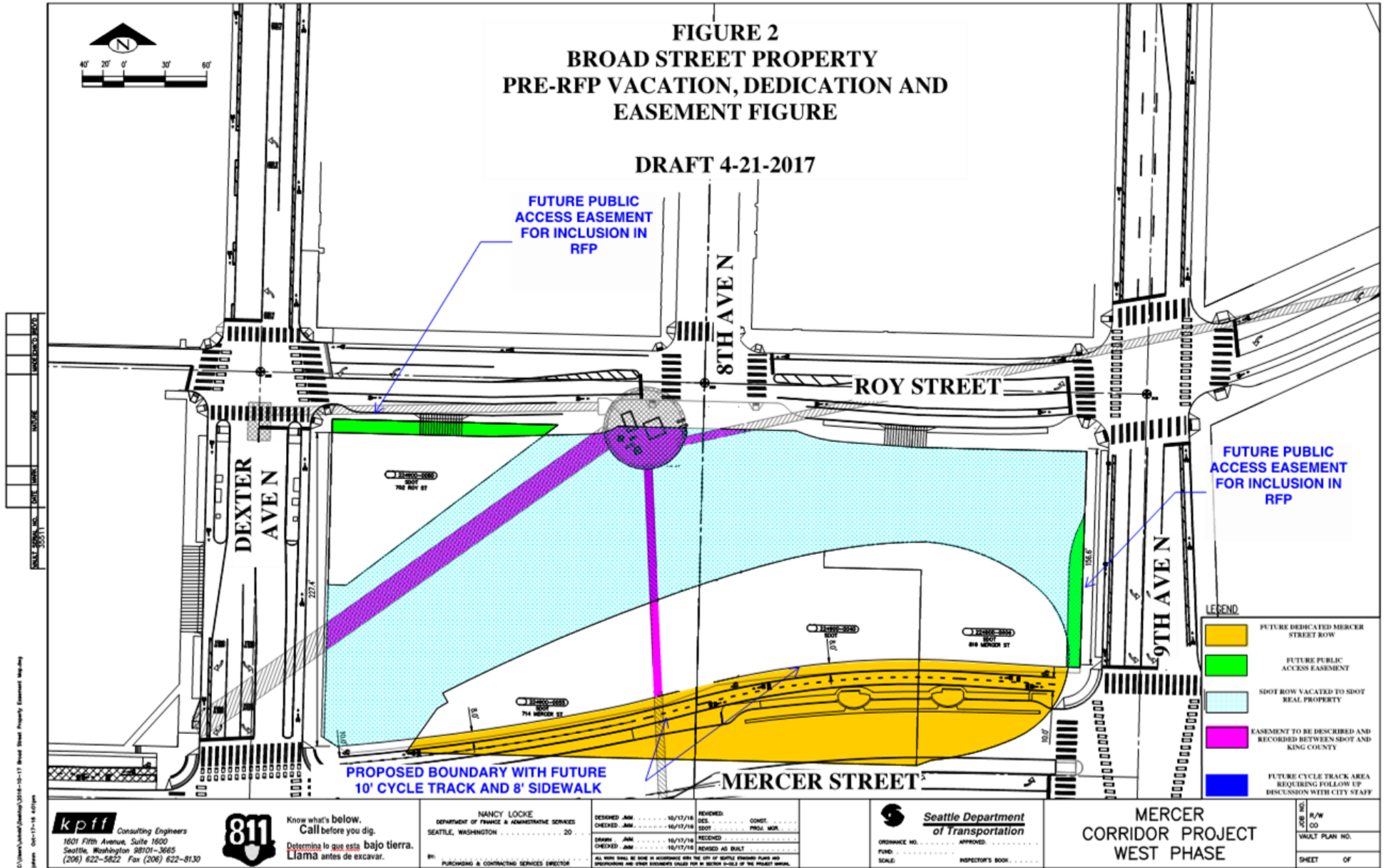
| | | Description | Implementation | Estimated Cost |
|--------------|--|---|---|---|
| 1 | Eighth Ave N New Surface Public Access Easement or Right-of-way through the site (Mercer-Roy) | <p>New 60-foot wide pedestrian street to further establish the neighborhood street grid and connect the neighborhood north of the site to Mercer Street</p> <ul style="list-style-type: none"> • Improvements will implement the South Lake Union Urban Design Framework and will be consistent with the Eighth Avenue North Design Guidelines • Provides 11,000 square feet of public open space | <ul style="list-style-type: none"> • By purchaser with development of the site • Requirements included in RFP and Purchase & Sale agreement • Design Commission review required • Maintenance and activation by adjacent property/purchaser | <ul style="list-style-type: none"> • \$400,000 - \$700,000 |
| 2 - 4 | Street Concept Plan for Eighth Avenue N and Aloha Street | <p>Streetscape Concept Plan for improvements to extend the Eighth Avenue North streetscape improvements north of the site and connect to Lake Union Park</p> <ul style="list-style-type: none"> • The Streetscape Concept Plan is a tool to leverage improvements by private development along Eighth Avenue North • Furthers implementation of the SLU Urban Design Framework • Up to 12,000 square feet pedestrian/landscape | <ul style="list-style-type: none"> • SDOT to develop Street Concept Plan and use to incentivize improvements on Eighth Avenue North between Roy Street and Aloha and on Aloha between Eighth Avenue North and Westlake Avenue North | <ul style="list-style-type: none"> • \$15,000 (to develop street concept plan) • \$650,000 – 880,000 (capital improvements) |
| 5 | Mercer Protected Bike Lanes | <p>Extend two-way bike lanes on north side of Mercer from Dexter to Ninth to provide a key link in the bicycle network.</p> | <ul style="list-style-type: none"> • By purchaser with development of the site • Requirements included in RFP and Purchase & Sale agreement | <ul style="list-style-type: none"> • |
| 6 | Ninth Ave N (Mercer – Westlake/Aloha) | <p>Protected bike lanes to advance implementation of the city and neighborhood bicycle network and connect the Westlake Cycle Track to South Lake Union, Downtown and Uptown (the latter via Mercer)</p> | <ul style="list-style-type: none"> • SDOT – Completed in 2017 | <ul style="list-style-type: none"> • \$235,000 |

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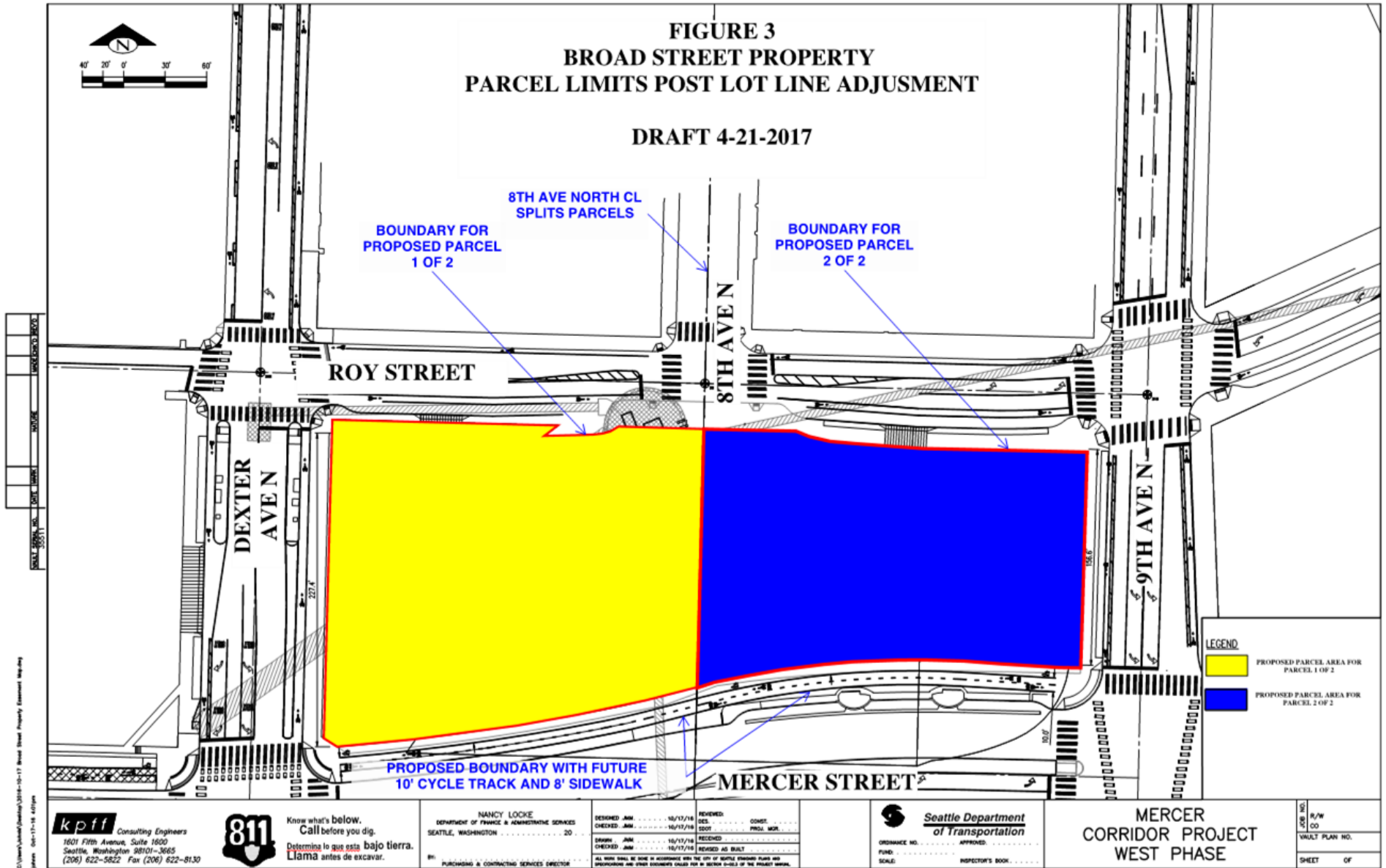
| | | Description | Implementation | Estimated Cost |
|----------|--|---|--|---|
| 7 | Seventh Ave N Transit Hub (Harrison-Thomas) | <p>Implementation Plan for bus zone, sidewalks, and streetscape on Aurora Avenue North to enhance connections between regional transit routes and the surrounding neighborhood</p> <ul style="list-style-type: none"> • Identified as a priority by the South Lake Union Community Council. • Implements South Lake Union Mobility Plan | <ul style="list-style-type: none"> • SDOT to lead design through the One Center City Plan (2017-2018) • Improvements to be coordinated with rebuild of Aurora Avenue N • Implementation coordinated with rebuild of Aurora (Seventh) by AWV Replacement (2019-2020) • Could include interim use of a portion of WSDOT property until sold and redeveloped. | <ul style="list-style-type: none"> • \$20,000 for plan development • \$30,000 for bike storage • Other tbd |

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Broad Street Property Pre-RFP Vacation, Dedication and Easement Figure



Broad Street Property Parcel Limits Post Lot Line Adjustment



Broad Street Property Final Parcels with Public Easements or Right of Way

