

CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

May 2, 2011
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Davidson, Deputy Mayor Lee, and Councilmembers Balducci, Chelminiak, Degginger, Robertson, and Wallace

ABSENT: None.

1. Executive Session

The meeting was called to order at 6:07 p.m., with Mayor Davidson presiding. There was no Executive Session.

2. Study Session

(a) 2010 Census and American Community Survey Data Releases

City Manager Steve Sarkozy opened discussion regarding recent demographic data.

Emil King, Strategic Planning Manager, recalled that early 2010 Census data was presented to the Council on March 7. This presentation includes data from the 2005-2009 American Community Survey and additional data from the 2010 Census at both the citywide and neighborhood levels.

Gwen Rousseau, Associate Planner-Demographer, described the differences between the 2010 Census, which produces actual counts, and the American Community Survey, which produces estimates based on a survey of approximately 6.5 percent of the population. The American Community Survey replaced the long-form Census used in 2000. Ms. Rousseau noted that Bellevue's population grew by 11.4 percent between 2000 and 2010 through annexation and new development.

Ms. Rousseau reviewed population, housing, race/ethnicity, education, income, and employment data for Bellevue neighborhoods, including the Downtown.

Councilmember Chelminiak requested data regarding travel times and travel modes for workers in Bellevue, if available. He said it would be interesting to see density data for useable acres versus figures that include public properties and open spaces. Mr. King said staff will provide additional information as requested. Councilmember Chelminiak noted the increasing number of children living in the Downtown.

Councilmember Robertson said she would also be interested in density figures that exclude acreage used for parks and other public properties.

Deputy Mayor Lee said he would like more information on Asian populations and the Asian languages spoken in Bellevue, as this would help in the delivery of services. He requested information on older adults and on the services the City might need to provide for them. He is interested in comparing Bellevue's data with other cities, especially in the area of affordable housing.

Ms. Rousseau said more detailed data will be released this summer. However, she can provide the Council with more specific information now on the languages spoken in Bellevue. More detailed information on senior citizens will become available later this month. Ms. Rousseau noted that she works with the Human Services staff to utilize this data in planning for social services.

Deputy Mayor Lee noted his ongoing interest in an update to the City's Cultural Diversity program.

Councilmember Balducci observed that it will be interesting to see how this information is incorporated into citywide planning and service delivery. She would like to hear more in the future about how the information is used on an ongoing basis.

Councilmember Wallace expressed an interest in annexation areas, and the implications of future annexations for planning purposes. He is interested in neighborhood densities for areas in Seattle with light rail stations, and in using this information to help better plan for Bellevue's system. He requested data on employment densities. He concurred with Ms. Balducci's interest in how the information is used for future planning and implementation.

Mr. King suggested that staff return in the future to discuss the implications of the data for use by staff and the Council.

Mayor Davidson thanked staff for the report.

(b) Affordable Housing Principles and Work Program

Mr. Sarkozy recalled previous Council discussion on March 21 regarding the affordable housing work program.

Dan Stroh, Acting Director of Planning and Community Development, noted the draft Council Principles for the 2011-2012 Housing Work Program provided in the meeting packet [Page SS 2-19], which are presented for Council discussion and feedback.

Councilmember Robertson stated her understanding that the issue of accessory dwelling units is based on the Comprehensive Plan update of 2005-2006. She remembers drafting some of the language during her time on the Planning Commission, and she recalled her interest in a variety of housing types. Since that time, the City developed the Bel-Red Plan, which in her mind included creating a spot other than the Downtown for new density, to avoid pressure on single-family neighborhoods to take increased density. Ms. Robertson is concerned about creating a citywide fix on detached accessory dwelling units, which will increase density in single-family areas. The Bel-Red Plan and Downtown Plan were presented to avoid having to densify to accommodate population growth.

Regarding the draft principles, Ms. Robertson said she would prefer to use the term “stability and health” as opposed to “vitality.” She believes this is more precise in stating the desired outcome. Referring to Principle 3 regarding pursuing a range of tools, she prefers limiting the range of housing choices to those that will be consistent with maintaining the stability and health of single-family neighborhoods. She wholeheartedly agrees with Principle 6 about a robust public outreach and engagement plan.

Ms. Robertson next commented on Attachment 2 in the meeting packet, which is the Draft 2011-2012 Housing Work Program, as modified following the March 21 Council Study Session. She said her comments on accessory dwelling units apply to Item 2. Regarding Item 4, Ms. Robertson noted the Bel-Red catalyst project and related station area planning. In looking at the light rail B7 alternative, she noted that the route includes a station near Main Street and in areas appropriate for transit-oriented development. Going forward, it might be appropriate to have the same type of station area planning work completed for the hotel row area south of downtown Bellevue.

Mr. Stroh stated his understanding that she is suggesting a catalyst project potentially at the light rail station near Main Street. Ms. Robertson confirmed that she wanted to propose that idea because it could be an excellent place for transit-oriented development.

Mr. Stroh clarified that staff does not expect the Land Use Code Amendment on detached accessory dwelling units to contribute to increased densities in established neighborhoods. Most of the City’s housing targets will have to be accommodated in the Downtown and in Bel-Red. One purpose for allowing ADUs is to provide a new housing option, especially to allow for aging in place. Mr. Stroh said that most Eastside cities allow both attached and detached ADUs, yet the number of these units is small.

Councilmember Robertson stated that the City needs to be cautious, and the regulations need to be carefully crafted. She observed that there might be a number of unlicensed ADUs, and she noted an increasing prevalence in two-kitchen homes. She is concerned that ADUs might be

incompatible with maintaining a stable and healthy environment if this adds a lot of density to single-family neighborhoods.

Deputy Mayor Lee expressed support for discussing general interest statements at this time instead of specific policy direction. He said that when he asked this week about how the City is doing with its affordable housing program, the response was that Bellevue's program is consistent with other cities. He noted that people still want to live here, and they do buy houses. Mr. Lee suggested prioritizing the draft principles, with the top priority being to ensure that housing is a good fit with the existing neighborhood character. He listed robust public outreach and engagement as his second priority, followed by the principles of pursuing a range of tools, tailoring the tools, increasing housing choices, and promoting affordable long-term housing opportunities. He noted that the City assists in providing affordable housing through its work with ARCH (A Regional Coalition for Housing).

Mayor Davidson questioned whether Councilmembers want to prioritize the draft principles.

Councilmember Degginger said he prefers to not prioritize the principles, as they are all important. He suggested it might be more appropriate to establish priorities later after obtaining sufficient data on proposed policies and work items. He agrees with the need for a robust public process. He observed that staff is on the right track, but there is a long way to go in terms of fully addressing the issues.

Councilmember Wallace expressed support for Principles 5 and 6. However, he questioned the language "contributes to neighborhood quality and character" as being vague and raising a red flag. He said the City's neighborhoods are already fairly well defined, with the exception perhaps of the Bel-Red corridor. Mr. Wallace agrees with Principle 4 in terms of looking at relaxed parking standards in transit-rich neighborhoods. He expressed concern with Principle 3 and pursuing a range of tools to promote housing affordability. He said it is important to look at fiscal realities, and to remember that the Bel-Red Plan was developed within the context of a much more robust economy.

Continuing with Principle 3, Mr. Wallace suggested the following added language: "...including improving regulatory flexibility and predictability." With regard to the phrase "reducing barriers," Mr. Wallace said there are items beyond the City's sphere, such as the role of the state sales tax as a barrier to providing affordable housing. He suggested it is important to identify all potential barriers. With regard to the phrase "creating effective incentives," Mr. Wallace suggested first analyzing the incentives to determine whether the City wants to create them. Councilmember Wallace observed that the principles do not articulate the City's obligations under the Countywide Planning Policies. If the City gets to a point at which it does not seem realistic to be able to deliver on the County's growth targets, the issue needs to be addressed.

Councilmember Balducci commented that the principles are sound as proposed. She expressed support for Councilmember Robertson's suggested "stability and health" language. However, referring to the definition of "vitality," Ms. Balducci said the word denotes a sense of animation

and action. She cautioned that stability can become negative in terms of stagnation, and wants to ensure that the concept of liveliness is not lost.

Responding to Councilmember Balducci about the Planning Commission's workload, Mr. Stroh confirmed that the Shoreline Master Program Update is a major work item. The Commission anticipates completing its review this fall and forwarding its recommendations to the Council. Other items in the work program are potential Code amendments related to helistop facilities, wireless facilities, Neighborhood Business (NB) zoning, and the Eastgate/I-90 corridor.

Councilmember Chelminiak questioned Councilmember Wallace about the Planning Commission's discussion on accessory dwelling units (ADUs). Mr. Wallace noted that the Commission is focused on the Shoreline Master Program at this time.

Responding to Mr. Chelminiak, Associate Planner Janet Lewine said there are approximately 77 attached ADUs. The regulation went into effect in 1992.

Mr. Stroh said there are a number of detached ADU models, including retrofitting an existing garage or structure. Staff anticipates that more of them would be new, freestanding structures such as a two-story garage. An important issue is how to fit these into existing neighborhoods. The City currently has a provision applicable to large lots for guest cottages, which are allowed with the standard minimum five-foot side yard setback. Staff feels this is not appropriate for detached ADUs and envisions a broader setback requirement. The size of guest cottages is not currently restricted, while staff recommends a size limitation for detached ADUs.

Councilmember Chelminiak commented that ADUs can be controversial. He questioned the wisdom of moving forward with significant public outreach before first determining the level of support on the Council for detached ADUs.

Mayor Davidson said he, like Councilmember Degginger, believes the Council should study the issue to some extent before deciding how to proceed.

Councilmember Degginger suggested that staff provide public information on the City's web site and through the Planning Commission to familiarize the community with the issues.

Councilmember Wallace requested another check-in with the Council before moving forward, after staff has the opportunity to flesh out a more detailed proposal. Given the list of Council priorities and the Planning Commission's workload, he suggested it might be appropriate to defer the topic at least temporarily.

Mayor Davidson suggested bringing back the draft principles with the Council's proposed changes for further discussion. However, he senses general support for the work program.

Councilmember Degginger confirmed that he is comfortable with the proposed work program, and with the revisions to the principles suggested by Councilmembers Balducci and Robertson.

(c) Affordable Housing Funding Request for Evergreen Court Senior Apartments

Mr. Sarkozy opened discussion regarding the Evergreen Court Senior Apartments located east of the Downtown.

Mr. Stroh said the proposed funding request has been reviewed and approved by the ARCH (A Regional Coalition for Housing) Executive Board and the Citizen Advisory Board, and the property is at risk of going into foreclosure. He recalled that ARCH has been in existence for approximately 20 years and has completed many affordable housing projects in Eastside cities. All of the project's financial partners are participating in the proposed restructure, and extensive study and analysis has been conducted to reach this point. Staff recommends moving forward with the financial restructuring of the project. He noted that representatives of DASH (Downtown Action to Save Housing), which originally acquired and rehabilitated the property, were in attendance at the meeting.

Arthur Sullivan, ARCH Program Manager, introduced Gregory Russell and Todd Bennett, members of the ARCH Executive Board, and Jim Brunner, the consultant hired by DASH. Mr. Brunner has been involved in numerous similar projects during the past 20 years.

Mr. Sullivan reviewed the key information provided in the meeting packet. The project has 84 units at NE 8th Street and 124th Avenue NE, and was originally built in the 1970s and early 1980s in two phases by a private senior housing provider. DASH acquired it in the early 1990s and rehabilitated the units. The complex includes 54 affordable independent living units, 10 Medicaid units, and 20 market rate independent living units. It is the only project of its kind in the state. One of the objectives in creating the project was to allow senior citizens to age in place.

Mr. Sullivan highlighted information in the packet regarding what caused the current need for financial restructuring, the participation of original funding partners, options for proceeding, whether the proposed investment is reasonable, and the steps and conditions to be placed on the project with the restructuring. Separate third-party consultants were hired to assess the physical structures, analyze the costs, and evaluate the overall property management. Mr. Sullivan noted a condition for additional third-party review during the proposed rehabilitation/construction work.

Mr. Sullivan explained that vacancy rates increased with the downturn in the economy. Another factor is that the project was originally structured with 33 percent of costs covered by public funding, while most other projects are funded in the 40- to 50-percent range. He described the need for maintenance work, which is not adequately funded.

Mr. Sullivan referred the Council to page SS 2-38 of the meeting packet, and reviewed the list of financial partners, their role in the original financing, and their role in the restructuring. He said the basic structure and foundation are sound, and that repairs and rehabilitation make sense. He noted there are potentially significant penalties for discontinuing the use of affordable housing, including federal tax credit implications and foreclosure consequences for DASH and its other properties.

Mr. Sullivan explained that saving the project is significantly more cost effective than trying to replace the housing with another project. He referred the Council to page SS 2-25 for a summary of the recommendation and the special conditions on the proposal. He reviewed planned building and site maintenance items, and noted that market rate rents will be lowered to reduce vacancies. The management structure will be changed to a new agency whose first priority is understanding how to serve this unique population versus general affordable housing projects. All conditions on the proposed restructuring are described in the ARCH memo beginning on page SS 2-31 of the meeting packet.

Mr. Sullivan highlighted the economic summary of the project on page SS 2-37. He noted that the cost per housing unit is \$150,000 to \$180,000, while unit costs can range from \$200,000 to \$300,000 for new construction.

Mayor Davidson stated that this is a complex issue, and noted the limited time left for the meeting.

Councilmember Wallace stated that he is left with a number of questions. He noted that a pro forma has not been provided to demonstrate the income that the project would produce. He expressed concern about the multiple levels of debt equity already in the project and the developer's role/fee in the financing. He is not clear about the housing tax credit and its implications. He asked why the City's role is not similar to the State's in terms of the deferral of loan payments as a contribution to the project instead of providing new funds.

Mr. Wallace is concerned that the City is being asked to contribute to a project in which it has already made an investment, without sufficient information to make a decision on such an extremely complex arrangement. He questioned whether it would be appropriate for the Council to hire a third party to aid in evaluating the proposal.

Responding to Mayor Davidson, Mr. Sullivan said the property has been in default with the lender since last summer. ARCH began reviewing the situation in September.

Given the number of remaining questions, Mayor Davidson suggested deferring action for another week.

Councilmember Robertson noted that she had a number of questions as well. She stated that she has a great deal of trust in ARCH, and she wants to protect the Evergreen Court residents. If the property enters foreclosure, she questioned whether the covenant for affordable housing would remain in effect. Mr. Sullivan said there are multiple covenants on the property, and it is unclear as to which would be preserved. Ms. Robertson requested more details on this question for next week's discussion.

Ms. Robertson noted the statement that the loan will be refinanced in 15 years, and she questioned whether ARCH will request additional funds for the project at that time. Mr. Sullivan explained that provisions in the restructuring, including reserves, are designed to avoid the need for any additional funds in the future.

Councilmember Robertson expressed concern about setting a precedent with ARCH in bailing out a project. She shares Mr. Wallace's concern about the developer's role/fee. She met with DASH last month and is still not clear about how the developer fee, prior deferred fee, and future fee all work together. She requested more information on the market conditions for this type of housing: 1) Is there sufficient demand? and 2) How unique is this in the region?

Mr. Sullivan said that, until the fall of 2009, the vacancy rate for the market rate units was approximately 10 percent. He noted that having Medicaid units on site is attractive in terms of offering this type of stabilization to prospective tenants. Many market rate developments with assisted living do not have Medicaid units. Ms. Robertson acknowledged that this is a positive feature, as is the offering of Section 8 units.

Councilmember Balducci observed that there is a great deal of information without necessarily providing sufficient context. She expressed concern that foreclosure could result in the removal of affordable housing covenants. Mr. Sullivan clarified that the proposed restructuring will preserve affordable housing.

Referring to the financing partners summary on page SS 2-38, Ms. Balducci observed that the specific dollar value of some of the partners' contributions is not provided. She said it would be helpful to see the analysis of alternatives conducted by the consultant and ARCH in formulating this proposal. Ms. Balducci would like the ARCH Executive Board to review the construction costs to identify modifications and opportunities for savings.

At 8:02 p.m., Mayor Davidson declared recess to the Regular Session.

Myrna L. Basich, MMC
City Clerk

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