CITY COUNCIL AGENDA MEMORANDUM

SUBJECT

Public Formation Hearing process on the Hearing Examiner’s Recommendation on the Wilburton Connection Local Improvement District (LID) for the purpose of constructing an extension to NE 4th Street between 116th and 120th Avenues NE and constructing improvements to 120th Avenue NE between the NE 4th Street Extension and Northeast 8th Street.

FISCAL IMPACT

The Wilburton Connections LID Formation Special Benefit/Proportionate Assessment Study identifies a total estimated special benefit of $13,565,000 within the proposed LID boundary. If the LID is formed, and assuming the Council’s preliminary indication to use an assessment of special benefit ratio of 75%, $10,173,750 would be proportionately assessed against the properties within the proposed LID boundary. This revenue would fund a portion, approximately 22%, of the currently estimated total costs of the NE 4th Street Extension (CIP Plan No. PW-R-160) and 120th Avenue NE Improvements (Stage 1; CIP Plan No. PW-R-161).

The Proposed 2011-2017 Capital Investment Program (CIP) Plan includes $10.2 million (rounded) in LID revenue within the project budgets for CIP Plan Nos. PW-R-160 and 161. If the Wilburton Connections LID is not formed or is approved at a lesser amount, alternate funding source(s) must be identified to fully fund these projects.

STAFF CONTACT

Christopher Mathews, Hearing Examiner – (425) 452-6935

POLICY CONSIDERATION

Whether the Feasibility and Formation Analysis supports implementation of the Mobility and Infrastructure Initiative Finance Plan.

BACKGROUND

For background information, please review the attached Hearing Examiner’s Summary.

EFFECTIVE DATE

Depending upon Council’s direction, an Ordinance concerning this application will become effective five days after legal publication following the adoption by the City Council.
OPTIONS

1. Direct staff to return to Council with an Ordinance authorizing the Formation of the Wilburton Connections LID.

2. Direct staff to discontinue the Wilburton Connections LID Formation Process.

3. Provide alternative direction to staff.

HEARING EXAMINER’S RECOMMENDATION

More work should be done to address issues raised by existing business and property owners during the public hearings, prior to making a final decision about boundaries and formation of the Wilburton Connections LID as currently proposed.

ATTACHMENTS

Hearing Examiner’s Summary
Map
Draft Wilburton Connections LID Formation Ordinance
SUMMARY

The City Council is considering the Hearing Examiner’s Findings, Conclusions and Recommendation regarding the proposed Wilburton Connections Local Improvement District (LID) for the purpose of constructing an extension to NE 4th Street between 116th and 120th Avenue NE and constructing improvements to 120th Avenue NE between the NE 4th Street Extension and Northeast 8th. Property owner participation in the LID boundary would be a funding source for the transportation improvements to the Wilburton area. The improvements to the area would allow for the rezoning within the proposed Wilburton Connections LID boundary from General Commercial zoning to Community Business.

1. BACKGROUND

On January 20, 2009 the City Council approved Resolution Number 7874 adopting the Mobility and Infrastructure Finance Plan to fund high priority projects to ease growth in Bellevue including the Wilburton Subarea. Local improvement funding by participation from property owners was one of the funding sources included in the plan.

On February 1, 2010, Council approved Ordinance No. 5936 amending the 2009-2015 CIP plan to include three new projects including the NE 4th Street Extension and 120th Avenue NE Improvements (Segment 1). The NE 6th Street Extension project is the third project, however is not included in this proposed LID. All three projects were created with only partial implementation funding.

On September 20, 2010, the Bellevue City Council passed a Declaration of Intent (Resolution Number 8141) declaring its intent to the formation of a local improvement district. The formation hearing was scheduled for October 21, 2010 and Notice of the Public Hearing was mailed to all property owners in the proposed LID boundary on October 1, 2010 by the Transportation Department.

2. FORMATION HEARING BEFORE EXAMINER

Public Hearings were held to consider the formation of the Wilburton Connections LID on October 21 and on October 28, 2010. The format for each hearing included the following five phases: (1) City staff and their representatives or consultants presented evidence, including a staff report, power point presentations, other exhibits and testimony; (2) anyone in attendance could ask questions to City staff and their representatives or consultants about the evidence initially presented; (3) anyone in attendance could present relevant evidence, including testimony and exhibits; and, anyone who was unable to attend, could present written comments to be included in the record; (4) City staff and their representatives or consultants were given an opportunity to
reply to the public response; and (5) anyone in attendance could ask questions to City staff and their representatives or consultants, about the reply evidence presented. Public comments were made at both hearings voicing opposition to the proposed formation of the LID.

On November 18, 2010, the Hearing Examiner issued Findings, Conclusions and Recommendation that the formation of the Wilburton Connection issues raised by existing business and property owners be addressed prior to making a final decision about the boundaries and formation of the LID.

3. LID PROPOSED BOUNDARY

The proposed Wilburton Connection Local Improvement District core extends south from NE 8th Street on both sides of 116th Avenue NE and 120th Avenue NE approximately to Main Street. Eighty-three parcels are located within the proposed boundary.

4. COMMENTS

As referenced in Section 2 above, public testimony did not support the formation of the Wilburton Connection Local Improvement District.

5. HEARING EXAMINER RECOMMENDATION

More work should be done to address issues raised by existing business and property owners during the public hearings, prior to making a final decision about boundaries and formation of the Wilburton Connections LID, as currently proposed.
Date: December 2, 2010

To: Mayor Davidson, Members of the City Council

From: Lori Riordan, City Attorney
       Monica Buck, Assistant City Attorney
       Eric Miller, Capital Programming Division Manager, Transportation Department

RE: Formation of the Wilburton Connections Local Improvement District

On Monday, December 6, 2010, staff will present the City of Bellevue Hearing Examiner’s Findings, Conclusion and Recommendation on the formation of the Wilburton Connections Local Improvement District.

Background

State law grants cities broad authority to form LIDs to construct the whole or part of any improvement that provides a “special benefit” to the properties within the boundaries of the LID “whenever the public interest or convenience may require.”\(^1\) The “special benefit” is the increase in property value that occurs due to the construction of the improvements. The special benefit is measured by determining the difference between the fair market value of the property with and without the improvements.

On December 1, 2008, Council approved Ordinance No. 5851 adopting the 2009-2010 Budget and 2009-2015 CIP Plan, which included a number Mobility and Infrastructure Initiative (MII) projects and was later amended to include the NE 4th Street Extension and Segment 1 of the 120th Avenue NE Improvements (the “Project”). On January 20, 2009, Council approved Resolution No. 7874 endorsing the Mobility and Infrastructure Finance Plan, which provided a variety of revenue options including local improvement districts to fund high priority capital projects supporting planned growth in Downtown Bellevue, the Wilburton Subarea, and the emerging Bel-Red Corridor.

In early 2009, the City commissioned the firm Macaulay & Associates, Ltd., to conduct a two-phased LID Feasibility and Formation Study for the Wilburton Connections LID. The purpose of the Feasibility Study was to determine whether the formation of a LID was economically feasible as one of a number of funding sources for the Project. To determine the economic feasibility of the LID, the City’s consultant evaluated the “special benefit” of the Project for different classifications of properties within the proposed LID boundaries and the degree of assessments that could be supported if a LID were to be formed. The purpose of the Formation Study was to establish a proposed LID boundary for properties specially benefited by the Project and provide an estimate of the amount of the preliminary assessments for the subject properties.

\(^1\) RCW 35.43.040.
On September 20, 2010, the Bellevue City Council passed a Declaration of Intent (Resolution No. 8141) declaring its intent to form the Wilburton Connections LID and setting the date for the formation hearing.

Formation Hearing

Following the adoption of a Resolution of Intent, state law requires a public hearing on the formation of the LID. The City Council delegated this authority to the Bellevue Hearing Examiner.

The formation hearing is for the limited purpose of gathering information to assist the Council in determining the feasibility of forming the LID. The Hearing Examiner’s role is to make a recommendation to the City Council on whether to form the LID and, if so, what properties should be included within the LID boundary. This determination relies in large part on whether the project will create a special benefit for the properties subject to the LID assessment. The specific amount of individual assessments is not an appropriate subject for testimony at the formation hearing. If formed, the individual LID assessments will be considered at the assessment roll hearing, which is held after the project is completed.

At the formation hearing, the primary issue raised by property owners and tenants was that the project provided a general rather than special benefit. Property owners and tenants also questioned the degree of special benefit assigned to their parcels as set forth in the preliminary assessment roll. As noted above, the amount of individual assessments is not an appropriate subject for testimony at the formation hearing. In addition, property owners and tenants provided comment on individual impacts of the Project to their respective properties, and raised questions regarding the City’s traffic analysis, environmental review, and adopted financial policies.

Note: Prior to the formation hearing, the City held numerous open houses regarding the Project and potential LID, for which notice was sent to property owners and tenants and posted on the project website. A formal notice of the hearing was sent to all property owners of record and published for two consecutive weeks in the City’s official newspaper. On October 21 and 28, 2010, the Hearing Examiner held a public hearing on the formation of the LID. The Hearing Examiner received oral and written testimony from approximately 13 out of 49 property owners and 6 out of nearly 400 tenants as well as city staff and consultants. Attached is a map of the proposed LID boundary identifying the parcels represented at the formation hearing. All parties who wished to participate were afforded the opportunity to do so.

Hearing Examiner Conclusions and Recommendation

The Hearing Examiner held two days of hearings and provided all parties with the opportunity to provide written and oral testimony and to question City staff and consultants. Subsequently, the Examiner issued his Findings, Conclusions and Recommendation in a document dated November 24, 2010. The Examiner stated: “the evidence supports a conclusion that the assessment methodology used by the City of Bellevue was appropriate.” He further stated: “the evidence also supports a conclusion that the Wilburton Connections Local Improvement District should be formed, if boundary and special benefit issues for businesses located on the fringes of the proposed LID, and ingress/egress impacts on existing businesses . . . can be resolved.”

The Hearing Examiner’s recommendation provides:

More work should be done to address issues raised by existing business and property owners during the public hearing, prior to making a final decision about boundaries and formation of the Wilburton Connections LID, as currently proposed.
The hearing examiner did not identify specifically what additional evidence was needed to better inform Council. In staff’s view, no additional “work” is necessary to allow Council to make a decision on the formation of the LID. It is not unusual for some property owners to oppose formation of a LID. However, all issues were adequately aired at the formation hearing, and there is a sufficient basis in the record upon which to make a decision.

Decision on Formation Ordinance

The decision on whether to form the LID is legislative in nature and will be upheld absent a showing that the decision was arbitrary and capricious. The courts define “arbitrary and capricious action” as “willful and unreasoning action, taken without regard to or consideration of the facts and circumstances surrounding the action.”2 “Where there is room for two opinions, an action taken after due consideration is not arbitrary and capricious even through a reviewing court may believe it to be erroneous.”3

As discussed above, many of the property owners who testified or provided written comment contend the project provides a general rather than special benefit. The City staff and City’s consultant do not disagree that the project provides a significant general benefit, but it also provides a special benefit to those properties within the proposed LID boundary. This conclusion is supported by the Formation Study prepared by the City’s consultant appraiser. The fact that the improvement is a part of an arterial highway, from which the public receives some general benefit, does not preclude the existence of a special benefit to the properties within the LID.4 The Project is funded in large part, greater than 75 percent, by the general CIP and state/federal grants, which is representative of the general benefit to the City. The funding proposed by the LID, less than 25 percent, on the other hand, represents only a portion of the specific special benefit to the properties located within the proposed boundary.

The other primary objection voiced by property owners was that their property received no special benefit from the Project, and in some cases the Project was a detriment to their property. However, the applicable legal presumption for LIDs is that the improvement does provide a benefit to property owners. It is the responsibility of a party challenging the LID to present expert appraisal evidence showing that the property would not be benefited by the improvement.5 Only then does the burden of proof shift to the City to prove otherwise.

Of the property owners who raised concerns regarding the formation study prepared by the City’s consultant, none presented their own expert appraisal evidence that their property would not benefit from the improvement. In addition to the legal presumption supporting the formation of the LID, and as noted previously, the City commissioned an expert appraiser to conduct a formation study, and the expert concluded that the project will confer a special benefit upon the subject properties.

A majority of the property owners who provided testimony at the formation hearing, and who are opposed to the LID, abut the proposed improvements. If an LID were to be formed, these properties would certainly be included within in the boundaries. The objections raised by these property owners relate to the amount of the assessment, not whether they should be included within the LID boundary. For the few property owners who own property on the fringes of the LID, and who provided testimony opposing the LID, none presented sufficient evidence to shift the burden of proof to the City to show why they should not be included in the LID boundary.

---

3 Id. (citations omitted).
Nevertheless, to assure the correctness of the boundary, all properties will be re-evaluated prior to the final assessment roll hearing. If no special benefit exists, these properties will not be assessed.

**Protest Period and Legal Challenge**

If the City Council adopts the formation ordinance, the formation of the LID can be stopped if, within thirty days of the date of passage of the ordinance, opponents file a written protest signed by owners of property, or their authorized representatives, within the LID representing at least sixty percent or more of the estimated assessments. Opponents also have an additional thirty days within which to file a lawsuit challenging formation.

**Assessment Roll Hearing**

If the LID is formed, once construction of the improvements is completed, a final assessment roll will be prepared and notice of a hearing on the assessment roll will be given to all owners of property within the LID. The purpose of the assessment roll hearing is to hear from individual property owners regarding the appropriateness of their individual assessments. Pursuant to state law, only those property owners that have filed written objections at or prior to the hearing are allowed to speak at the hearing.

At the hearing on the assessment roll, property owners must limit their testimony to: (1) whether the benefit conferred by the improvements is at least as high as the assessment on their property; and (2) whether their assessment is proportional to the assessments on other property in the LID. By law, property may not be assessed more than it is specially benefited by an improvement.

After all property owners who have filed written objections are allowed to testify, the Bellevue Hearing Examiner will make a recommendation to the City Council on whether to confirm the assessment roll as proposed or to raise or lower one or more assessments. If any assessment is raised, or if the Council decides to reallocate assessments, affected property owners must be given notice of the reallocation and a new hearing must be held on the revised amount(s).

Washington courts have ruled that, if challenged, an assessment will be upheld “unless it stands on a fundamentally wrong basis or the assessing body acts arbitrarily or capriciously.”

“Fundamentally wrong basis refers to some error in the method of assessment or in the procedures used by the municipality. If a fundamental error is found to exist, the court is limited to nullification or modification of those parcel assessments before it.”

cc: Steve Sarkozy  
Brad Miyake  
Myrna Basich  
Goran Sparrman

---


7 *Id.* at 908 (internal quotations and citations omitted).
CITY OF BELLEVUE, WASHINGTON

ORDINANCE NO. ______

AN ORDINANCE of the City Council of the City of Bellevue, Washington, ordering the construction of an extension to NE 4th Street between 116th and 120th Avenues NE and the construction of improvements to 120th Avenue NE between the NE 4th Street Extension and NE 8th Street, within the City, all in accordance with Resolution of Intent No. 8141; establishing the Wilburton Connections Local Improvement District (LID No. 300) and ordering the carrying out of the proposed improvements; describing the method of assessment; providing for payment of part of the costs of the improvements be made by special assessment upon the property in the district; and providing for the issuance and sale of local improvement district warrants or other short-term obligations redeemable in cash and local improvement district bonds; providing for severability; and establishing an effective date.

WHEREAS, by Resolution of Intent No. 8141, adopted on September 20, 2010, the City Council of the City of Bellevue, Washington, declared its intention to consider the formation of a local improvement district, to be known as the Wilburton Connections Local Improvement District (LID), for the purpose of constructing an extension to NE 4th Street between 116th and 120th Avenues NE and the construction of improvements to 120th Avenue NE between the NE 4th Street Extension and NE 8th Street, within the City; and fixed as the time and place for hearing all matters relating to the proposed improvements, method of assessment, and all objections thereto, and for determining the method of payment for the improvements before the city of Bellevue hearing examiner, previously designated by the City Council, in the City Council Chambers located at City Hall, 450 110th Avenue NE, Bellevue, Washington, on the 21st day of October, 2010 at 7:00 p.m.; and

WHEREAS, the Director of the Transportation Department of the City of Bellevue caused an estimate to be made of the cost and expense of the proposed improvements and certified that estimate to the hearing examiner, together with all papers and information in his possession relating to the proposed improvements, a description of the boundaries of the proposed Local Improvement District (the "District"), and a statement of what portion of the cost and expense of the improvements should be borne by the property within the District; and

WHEREAS, that estimate is accompanied by a diagram of the proposed improvements and a diagram showing thereon the lots, tracts, parcels of land, and other property that will be specially benefited by the proposed improvements and the
estimated cost and expense thereof to be borne by each lot, tract and parcel of land or other property; and

WHEREAS, due notice of the above hearing was given in the manner provided by law, and the hearing was held by the hearing examiner on the date and at the time above mentioned, and objections to the proposed improvements were heard; and

WHEREAS, all objections to the proposed improvements have been duly considered by the City Council, and all persons appearing at such hearing and wishing to be heard were heard; and

WHEREAS, the City Council has determined it to be the in the best interests of the City that the improvements as hereinafter described be carried out and the District be created in connection therewith; now, therefore,

THE CITY COUNCIL OF THE CITY OF BELLEVUE, WASHINGTON, DOES ORDAIN AS FOLLOWS:

Section 1. The City Council of the City of Bellevue, Washington, orders the construction of an extension to NE 4th Street between 116th and 120th Avenues NE and the construction of improvements to 120th Avenue NE between the NE 4th Street Extension and NE 8th Street as described in Exhibit A attached hereto and by this reference incorporated herein. All of the foregoing shall be in accordance with the plans and specifications therefor prepared by the Director of the Transportation Department, and may be modified by the City Council as long as such modification does not affect the purpose of the improvements.

Section 2. There is created and established a local improvement district, to be called Local Improvement District No. 300, of the City of Bellevue, Washington (the “District”), the boundaries of the District being more particularly described in Exhibit B attached hereto and by this reference incorporated herein.

Section 3. The total estimated cost and expense of the improvements, to be funded by the District and from other funds legally available to the City for such improvements, is declared to be $45,400,000. A portion of the costs and expense shall be borne by and assessed against the property specially benefited by the improvements included in the District, which embraces as nearly as practicable all property specially benefited by such improvements.

Section 4. The City may use any method or combination of methods to compute assessments, which may be deemed to more fairly reflect the special benefits to the properties being assessed. In accordance with the provisions of RCW 35.44.047, the City intends to use the special benefit analysis method of computing assessments.
Section 5.
A. Local improvement district warrants may be issued by the Finance Director in payment of the cost and expense of the improvements herein ordered to be assessed, such warrants to be paid out of the Local Improvement Fund, District No. 300, hereinafter created and referred to as the Local Improvement Fund and, until the bonds referred to in this section are issued and delivered to the purchaser thereof, to bear interest from the date thereof at a rate to hereafter fixed, as issuing officer, and to be redeemed in cash and/or by local improvement district bonds herein authorized to be issued, such interest-bearing warrants to be hereinafter referred to as "revenue warrants." In anticipation of the issuance of bonds to finance the cost and expense of the improvements herein ordered to be assessed, the City may provide by ordinance for the issuance of short-term obligations pursuant to Chapter 39.50 RCW or may (without the need for additional Council action) utilize one or more interfund loans. If the City authorizes expenditures to be made for these improvements (other than for any cost or expense expected to be borne by the City) prior to the date that any short-term obligations or local improvement district bonds are issued to finance the improvements, from proceeds of interfund loans or other funds that are not reasonably expected to be reserved, allocated on a long-term basis, or otherwise set aside to pay the cost of the improvements herein ordered to be assessed against the property specially benefited thereby, the City declares its official intent that those expenditures, to the extent not reimbursed with prepaid special benefit assessments, are to be reimbursed from proceeds of tax-exempt short-term obligations or local improvement district bonds that are expected to be issued for the improvements in a principal amount of approximately $45,400,000.

B. The City is authorized to issue local improvement district bonds to provide for long-term financing for the improvements authorized by this ordinance that shall bear interest at a rate, and be payable on or before a date, to be hereafter fixed by ordinance. The bonds shall be issued in exchange for and/or in redemption of any and all revenue warrants issued hereunder or other short-term obligations hereafter authorized. The bonds shall be redeemed by the collection of special assessments to be levied and assessed against the property within the District, payable in annual installments, with interest at a rate to be hereafter fixed by ordinance as provided by law and the ordinance of the City. The exact form, amount, date, interest rates and denominations of such bonds shall be hereafter fixed by ordinance of the City Council. Such bonds shall be sold in such manner as the City Council shall hereafter determine.

Section 6. In all cases where the work necessary to be done in connection with the making of said improvements is carried out pursuant to contract upon competitive bids (and the City shall have and reserves the right to reject any and all bids), the call for bids shall include a statement that payment for such work will be made in cash warrants drawn upon the Local Improvement Fund and from other funds legally available to the City for such improvements.
Section 7. The Local Improvement Fund for the District is hereby created and established for Local Improvement District No. 300. The proceeds from the sale of revenue warrants or other short-term obligations drawn against the fund that may be issued and sold by the City, and the collections of special assessments, interest and penalties hereon, shall be deposited in the Local Improvement Fund. Cash warrants to the contractor or contractors in payment for the work to be done by them in connection with the improvements and against cash warrants in payment for all other items of expense in connection with the improvements shall be issued against the Local Improvement Fund.

Section 8. Within 15 days of the passage of this ordinance there shall be filed with the Finance Director or her designee the title of the improvements and District number, a copy of the diagram or print showing the boundaries of the District and the preliminary assessment roll or abstract of such roll showing thereon the lots, tracts and parcels of land that will be specifically benefited thereby and the estimated cost and expense of such improvements to be borne by each lot, tract or parcel of land. The Finance Director or her designee shall immediately post the proposed assessment roll upon his or her index of local improvement assessments against the properties affected by the local improvements. Actual assessments may vary from assessment estimates so long as they don’t exceed a figure equal to the increased true and fair value the improvement adds to the property.

Section 9. All appeals arising from this Ordinance shall be within the jurisdiction of the King County Superior Court.

Section 10. If any section, subsection, paragraph, sentence, clause or phrase of this ordinance or its application to any person or situation should be held to be invalid or unconstitutional for any reason by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of the remaining portions of this ordinance or its application to any other person or situation.

Section 11. This ordinance or a summary thereof consisting of the title shall be published in the official newspaper of the City, and shall take effect and be in full force and effect five (5) days after passage and publication and provided by law.

Section 12. This ordinance shall take effect and be in force five (5) days after passage and legal publication.
Passed by the City Council this _____ day of December, 2010, and signed in authentication of its passage this _____ day of December, 2010.

(SEAL)

__________________________
Don Davidson, DDS
Mayor

Approved as to form:

Lori M. Riordan, City Attorney

__________________________
Monica Buck, Assistant City Attorney

Attest:

__________________________
Myrna L. Basich, City Clerk

Published ____________________
EXHIBIT A
PROJECT DESCRIPTION
NE 4TH STREET EXTENSION AND 120TH AVENUE NE IMPROVEMENTS
(SEGMENT 1) OF THE
WILBURTON CONNECTIONS MOBILITY IMPROVEMENTS

The NE 4th Street Extension project will extend the roadway from 116th Avenue NE to 120th Avenue NE and includes an at-grade crossing of the Burlington Northern-Santa Fe railroad corridor. The new five-lane arterial road consists of two travel lanes in each direction and a center turn lane where needed. The project will include bike lanes, curb, gutter and sidewalk on both sides, illumination, landscaping and irrigation, storm drainage and detention. The project will accommodate other utility infrastructure as needed. The project will include a new signalized intersection at NE 4th Street and 120th Avenue NE and will modify the existing signalized intersection at NE 4th Street and 116th Avenue NE.

The 120th Avenue NE (Segment 1) improvement project consists of widening the roadway to five lanes, including two travel lanes in each direction with a center turn lane, turn pockets, and medians from south of NE 4th Street to south of NE 8th Street. The project will improve, or install where missing, bike lanes, curb, gutter and sidewalk on both sides, a traffic signal at the NE 6th Street intersection, illumination, landscaping and irrigation, and storm drainage systems. The project will be designed and constructed to accommodate intersections with the NE 4th Street Extension, the planned extension of NE 6th Street, and other utility infrastructure.
EXHIBIT B
LID BOUNDARY MAP
WILBURTON CONNECTIONS LOCAL IMPROVEMENT DISTRICT