

CITY COUNCIL STUDY SESSION ITEM

SUBJECT:

Summary report on the Feasibility Analysis (Phase I) for the proposed Wilburton Connections Local Improvement District (LID) and request for Council direction to proceed with the LID Formation Analysis (Phase II).

STAFF CONTACT:

Goran Sparrman, Director 425-452-4338
Eric Miller, Capital Programming Division Manager, 425-452-6146
Francine Johnson, Senior Planner, 425-452-6967
Transportation Department

FISCAL IMPACT:

There is no new fiscal impact associated with this subject. On February 2, 2009, Council approved Resolution No. 7876, authorizing a professional services agreement with Macaulay & Associates, LTD for up to \$180,000 to conduct a phased Feasibility and Formation Analysis of the proposed local improvement district for the Wilburton Connections project. The agreement is funded through the Mobility and Infrastructure Initiative (CIP Plan No. G-80). The agreement was administratively amended in May 2010 to allow for the update of critical real estate market analysis originally conducted early in the contract term. The new total contract amount is \$194,400.

The completed Phase 1 work totaled \$72,400; Phase 2 work will cost up to \$122,000. There are sufficient funds budgeted in the 2010 CIP budget to cover remaining costs associated with this agreement. The LID feasibility and formation analysis costs will be part of the total project costs once the benefit area is established. These types of costs are recoverable as part of an LID assessment.

POLICY ISSUES:

This work supports the implementation of the NE 4th Street Extension and improvements to 120th Avenue NE between the proposed NE 4th and NE 8th Street projects, both identified as high priority projects in the Mobility and Infrastructure Initiative due to their connecting corridor role between Downtown Bellevue and Wilburton/Bel-Red Subareas. The projects are consistent with policies in the 2008 update to the Wilburton/NE 8th Subarea Plan, including improving local access and circulation (S-WI-25) and improving pedestrian/bicycle facilities on arterial streets (S-WI-28).

The Feasibility Analysis (Summary provided as Attachment 1) supports implementation of the Mobility and Infrastructure Initiative Finance Plan approved by Council on January 20, 2009. The feasibility analysis was the first step in completing a detailed market-based benefit analysis consistent with Section 15.04.210 of the Bellevue City Code, which requires LID assessments be proportionate to the special benefit a property receives. The Feasibility and Formation Analysis support formation of the NE 4th Street/Wilburton LID, which is the first of two LIDs assumed in the finance plan.

DIRECTION NEEDED FROM COUNCIL:

- Action
- Discussion
- Information

Staff is seeking Council direction tonight to proceed with the special benefit/formation analysis phase of the contract.

BACKGROUND/ANALYSIS:

On December 1, 2008, Council approved Ordinance No. 5851 adopting the 2009-2010 Budget and 2009-2015 CIP Plan, which included the Mobility and Infrastructure Initiative (MII) project (CIP Plan No. G-80). On January 20, 2009 Council approved Resolution No. 7874 endorsing the Mobility and Infrastructure Finance Plan, which included a variety of funding sources to fund high priority capital projects supporting planned growth in Downtown Bellevue, the Wilburton Subarea, and the emerging Bel-Red Corridor.

Below is a summary of the preliminary project costs estimates and secured and unsecured funding identified for the 120th Street NE improvements and the NE 4th Street Extension. The estimated project costs total \$47,495,000 with an estimated funding gap of \$17,695,000. Other financing options Council could consider to fund the gap include property owner participation through a local improvement district or right-of-way dedications, additional state and federal grants, general CIP allocation, additional property tax increases, and transportation impact fees.

120th Street NE Improvements – Segment 1 (NE 4th – NE 8th)

	Estimated Costs (000)	FUNDING SOURCES (\$000)					
		Secured				Total Secured	GAP
		Allocated		Unallocated			
Design	925	900	Gen. CIP			900	(25)
ROW	5,070	5,000	Sup. CIP	100	Gen. CIP	5,100	30
Construction	3,100	2,600	Fed. STP Grant			2,600	(500)
120th Totals	\$9,095	\$8,500		\$100		\$8,600	(\$495)

NE 4th Street Extension

	Estimated Costs (000)	FUNDING SOURCES (\$000)							Revised GAP w/Unsecured
		Secured				Total Secured	GAP	Unsecured Options	
		Allocated		Unallocated					
Design	3,600	1,200	Gen. CIP						
		2,400	Sup. CIP			3,600	0		-
ROW	24,200			7,000	LRF ¹	7,000	(17,200)		(17,200)
Const.	10,600						(10,600)	5,600	Fed. STP Grant
								8,000	PWTF ²
NE 4th Totals	\$38,400	\$3,600		\$7,000		\$10,600	(\$27,800)	13,600	(\$17,200)

¹Local Revitalization Funding ²Public Works Trust Fund

The Wilburton Connections Local Improvement District is one of two LIDs assumed in the Mobility and Infrastructure Initiative Finance Plan. An LID provides a means for property owners who derive a “special benefit” from transportation improvements to pay a proportionate share of the costs of those projects through assessments. The “special benefit” a property gains from a capital improvement (road or utility) is the difference between the fair market value of the property before and immediately after the project is completed. An assessment to a property cannot exceed the special benefit to that parcel — it must be proportionate to the special benefit received in relation to other properties in the LID and cannot include general or public benefits of the project.

The first step in advancing the development of an LID is to determine if the special benefit derived by properties within the proposed LID boundary is sufficient to support the LID assessments. This step is known as a Feasibility Analysis and evaluates benefits in relation to categories of properties and the degree of assessments that could be supported if an LID were to be formed. This analysis is usually completed by an appraiser and serves as a first decision point for Council to proceed with the formation process.

The next step is a Formation Analysis. A Formation Analysis is a property-by-property appraisal of the market value of each parcel before and after the completion of the capital improvement. This analysis determines the special benefit each property is anticipated to receive and is used to set the boundaries of the LID and the proposed assessments for all property owners within the LID. The Formation Analysis will help determine the most appropriate and defensible methodology for allocating the proportionate project costs to the properties in the LID. (Please see Attachment 3 for the proposed Wilburton Connections LID Formation Schedule and Attachment 4 for more information about the LID Formation Process.)

Feasibility Analysis. Macaulay & Associates, LTD conducted a phased Feasibility and Formation Analysis of the proposed Wilburton Connections Local Improvement District. Based on the research and analysis completed to date, the following conclusion is presented:

Estimated Special Benefit Range:
\$13,000,000 to \$18,000,000

Special benefit to affected properties derives from enhanced relative location provided by the proposed roadway projects, which results in reduced traffic congestion and improved traffic circulation. In addition, with the NE 4th Street Extension in place, a number of parcels will be rezoned allowing for more intensive land uses in the north-central portion of the proposed district.

Under Washington state statutes, the full special benefit amount can be assessed against individual affected parcels. The amount funded by an LID varies considerably from project to project depending on construction and other costs, funding sources and the extent of special benefit. However, in order to provide an economic incentive to property owners, an LID assessment is typically 50% to 75% of the full special benefit. Based on a 50% ratio, the above estimated special benefit range would support an LID that could fund \$6.5 million to \$9 million of total project costs. With a 75% ratio, the estimated range would support \$9,750,000 to \$13,500,000.

The conclusion resulting from this feasibility analysis is a preliminary estimate which requires further refinement by performing a more detailed and extensive Formation Analysis identified above.

ALTERNATIVES:

1. Council direction to proceed with the Formation Analysis for the Wilburton Connections LID.
2. Council direction to not proceed with the Formation Analysis for the Wilburton Connections LID.

RECOMMENDATION:

Proceed with the Formation Analysis for the proposed Wilburton Connections LID.

ATTACHMENTS:

1. Consultant Cover Letter: Summary of Feasibility Analysis and Salient Facts and Conclusions.
2. Preliminary Wilburton Connections LID Boundary Map
3. Proposed Wilburton Connections LID Formation Schedule
4. Memo to City Council on Local Improvement District Formation Process (11/17/08)
5. Wilburton Connections Project Map

AVAILABLE IN COUNCIL OFFICE:

Executive Summary of Feasibility Analysis for the proposed Wilburton Connections LID

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June 3, 2010

Mr. Goran Sparrman,
 Transportation Director
 City of Bellevue
 450 110th Avenue NE
 Bellevue, WA 98004

RE: Executive summary of the consulting assignment involving a preliminary economic feasibility analysis for the proposed Wilburton Connections LID project, Bellevue, WA. Job No. 09-125.

Dear Mr. Sparrman:

As requested, we have prepared an executive summary of the economic feasibility study conducted for the above-referenced infrastructure improvement project. The analysis is intended for internal use by the client, the City of Bellevue, to evaluate economic feasibility of the project for possible formation of an LID as one of a number of funding sources for the NE 4th Extension and the 120th Avenue NE Improvements (Segment 1).

This brief report summarizing the consulting assignment complies with Standards 4 and 5 of the Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by the Appraisal Foundation for an appraisal consulting assignment and report. As such, it includes limited discussions of the data, reasoning and analyses utilized in the valuation process; supporting documentation is retained in the appraiser's files. The depth of discussion contained in this report is specific to the needs of the client, the City of Bellevue, and for the intended use stated herein. The appraiser is not responsible for unauthorized use of this report, which is the result of a limited valuation process. This report conforms with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include USPAP, as well as additional reporting requirements which are discussed herein.

Briefly, the scope of the assignment was to recommend an LID boundary and complete an economic feasibility study centering around two road improvement projects collectively known as the proposed Wilburton Connections Local Improvement District and to prepare an executive summary of our findings and conclusions. One of the projects would construct a new section of NE 4th Street on the east side of Interstate 405, connecting 116th Avenue NE and 120th Avenue NE, and the other widens a section of 120th Avenue NE (beginning where the new NE 4th Street connects with 120th Avenue and ending at NE 7th Street) in the Bellevue neighborhood known as Wilburton. Signalization would be installed at the new NE 4th Street/120th Ave NE intersection at NE 6th Street and 120th Avenue NE.

Mr. Goran Sparrman
June 3, 2010
Page two
Job No. 09-125

The current total estimated project cost is \$47,495,000. Between the two projects considered herein, the estimates are \$38,400,000 for the NE 4th Street extension portion and \$9,095,000 for the 120th Avenue NE widening portion. It is recommended that, if this brief study forms part of the basis for a decision on whether or not to form an LID, it is reviewed by the city's bond counsel.

To make estimates of probable increases in market value or special benefit resulting from the proposed LID project, market sales of land and improved properties were researched, together with rental rate information on the various types of property found within the proposed LID boundary. These property types consist primarily of office and retail uses. Also, engineering and economic studies relating to supply and demand, absorption and population growth trends were reviewed.

In this feasibility study, properties within the proposed LID boundary are segregated into general classifications based on highest and best use. Analysis is then made of parcels within each property segment or class that are representative of properties within that class. The difference in market value (special benefit) is then extrapolated over the other parcels in each respective classification, arriving at an estimate of the total range in special benefit accruing to property within the boundary due to the proposed project.

The nationwide economic recession, which began in late 2007, is having a profound and long-lasting effect on commercial real estate markets. The tightening of both national and global credit markets and a resultant reduction in liquidity are adversely impacting both current and future investments in real estate. This has resulted in limited real estate sales activity over the last several years in the Bellevue vicinity. Reductions caused by the ongoing recession have been especially severe when contrasted with the economic boom which preceded it in the early years of this decade. As in the greater Seattle area, new development has been sharply curtailed and a number of large projects have been cancelled or put on hold in Bellevue and elsewhere on the "Eastside". According to the March 2010 Puget Sound Economic Forecaster (PSEF), the regional economy is expected to begin to recover beginning in the second quarter of 2010. Current positive signs in the local market pertaining to new sale transactions and development activity remain limited.

This consultation summary is a brief, preliminary discussion of the conclusions resulting from this study. In order for the preliminary estimates to be refined, a more detailed and extensive special benefit/proportionate assessment study would need to be undertaken. This involves analysis of each individual parcel, both with and without the LID assumed completed, as opposed to this consulting assignment, which has a much more broad-based scope. As requested by the client, this document is an executive summary of the consulting assignment/economic feasibility study. Additional data and analysis are retained in the appraiser's file. The research and analysis completed to date result in the following conclusion of estimated special benefit to affected parcels due to the proposed project.

Estimated Special Benefit Range:
\$13,000,000 to \$18,000,000

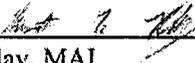
Special benefit to affected properties derives from enhanced relative location provided by the proposed road improvements, which results in reduced traffic congestion, improved circuitry of traffic flow and

Mr. Goran Sparrman
June 3, 2010
Page three
Job No. 09-125

enhancement of the neighborhoods' reputation and aesthetic appeal. Also, with the NE 4th Street Extension in place, a number of parcels will be rezoned, allowing for more intensive land uses in the north-central portion of the proposed district.

Under Washington state statutes, the full special benefit amount can be assessed against individual affected parcels. The amount funded by an LID varies considerably from project to project depending on construction and other costs, funding sources and extent of special benefit. However, in order to provide an economic incentive to property owners, an LID assessment is typically 50% to 75% of the full special benefit. Based on a 50% ratio, the above estimated special benefit range would support an LID that could fund \$6.5 million to \$9 million of total project costs. With a 75% ratio, the estimated range would support \$9,750,000 to \$13,500,000 in project costs.

Respectfully submitted,
MACAULAY & ASSOCIATES, LTD.



Robert J. Macaulay, MAI
WA State Certified - General Appraiser No. 1100517

Salient Facts & Conclusions

Boundary Recommendation/ LID Study Area:

The area most likely impacted by the proposed LID project is the west Wilburton neighborhood, which extends east from Interstate 405 between NE 8th Street on the north and the Lake Hills Connector on the south. Although the area known as Wilburton continues further east, the recommended east boundary for the LID is 118th Avenue SE towards the south (south of Main Street) and midway between 120th Avenue NE and 124th Avenue NE further north (see "Proposed LID Boundary" map).

Definition of Special Benefit:

A specific, measurable increase in value of certain real property in excess of enhancement to the general area (and benefitting the public at large) due to a public improvement project.

Project Overview:

Wilburton Connections is the name given to a group of three long-planned road construction projects in the west Wilburton area. They are designed to work together to improve connections between the downtown, Wilburton, Bel-Red and Overlake areas of the city. The projects are 120th Avenue Northeast (widening) and Northeast Fourth and Sixth streets (extensions). The 6th Street extension is not part of the proposed LID and this study focuses on the first two; the widening of 120th Avenue Northeast and the NE 4th Street extension. The two are collectively termed herein the "proposed Wilburton Connections Local Improvement District".

Neighborhood Description:

Characterized as a close-in mixed use neighborhood (predominantly office and retail), the Wilburton area is conveniently situated just across Interstate 405 from the intensely developed urban core of the City of Bellevue, Washington state's fifth largest city. Further description of the subject neighborhood is found on subsequent pages of this report.

Scope of the Assignment:

This is a consulting assignment whereby the client has requested a brief report summarizing valuation conclusions pertaining to the proposed LID project in the form of an estimated range in special benefit to affected property, as shown below.

Valuation Conclusion:

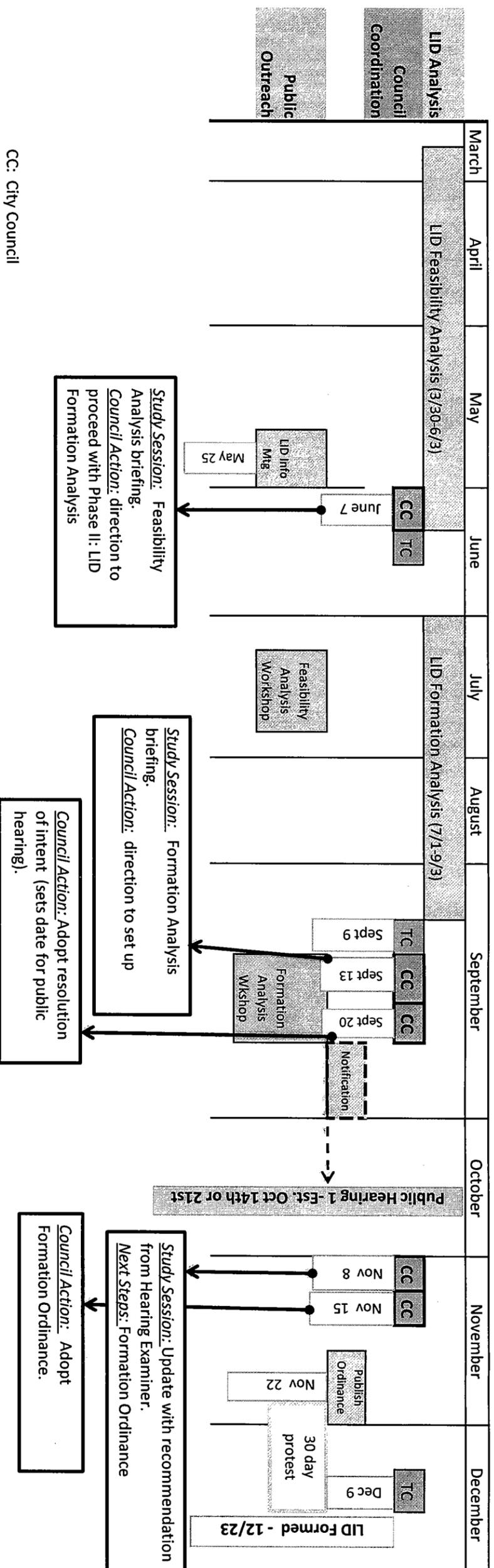
As explained further within this economic feasibility study, the estimated market value of representative parcels in each of four property classes without the project are compared to the same parcels with the project assumed complete, as of the same date.

Class	Zoning	General Location
1	GC	Central portion of LID, extending north to NE 8 th Street.
2	O, PO, GC, O/R-15	East of 120 th Ave NE, extending westerly to the railroad tracks in the southern portion, north of Main Street.
3	O, PO, CB, R-20	Between 116 th Ave NE and the southerly portion of the recommended east boundary, generally south of Main Street.
4	OLB, GC	West of 116 th Ave NE, including those east of 116 th in the northern portion of the district.

The difference in value is the estimated special benefit to each parcel due to the proposed LID project. These value estimates are then extrapolated over all the parcels in each class to arrive at a total estimate of special benefit to affected property resulting from the project; this total, expressed as a range, is presented below.

Estimated Special Benefit Range:
\$13,000,000 to \$18,000,000

**Wilburton Connections LID Formation
PROPOSED 2010 Schedule -- All dates are estimates**



CC: City Council
TC: Transportation Commission



Management Brief

TO: Mayor Grant Degginger and Bellevue City Council members

FROM: Goran Sparman, Director, Transportation Department
 Jen Benn, Program Manager – Transportation Department

DATE: November 17, 2008

SUBJECT: Local Improvement District Formation Process

cc: Steve Sarkozy, Brad Miyake, Myrna Basich

In response to Councilmember Davidson's request at the November 10, 2008 Council meeting, this memo provides a summary level discussion of Local Improvement District (LID) principles and process. The LID formation process is governed by Chapter 35.43 RCW and Chapter 15.04 Bellevue City Code.

What is an LID?

A Local Improvement District (LID) is a method of financing capital improvements constructed by the City that provide a special benefit to the properties within the boundary of the LID. The LID formation process leads to the sale of bonds and the retirement of those bonds via annual payments paid by the property owners within the district. The LID assessments become liens on the benefitted properties.

What is a Special Benefit?

The "special benefit" a property gains from a capital improvement (road or utility) is the difference between the fair market value of the property before and immediately after the project is completed. "Fair market value" is the amount of money a purchaser willing, but not obligated, to buy would pay an owner willing, but not obligated, to sell. Fair market value also takes into consideration the current and future land uses that might reasonably be applied to the property. An assessment to a property cannot exceed the special benefit to that parcel: It must be proportionate to the special benefit received in relation to other properties in the LID and cannot include general or public benefits of the project.

ESTABLISHING AN LID

LIDs can be created in two ways – in response to property owner petition or by Council direction. This memo will outline only the steps related to the Council directed process.

STEP 1: Feasibility Analysis

A feasibility analysis takes a broad look at categories of properties within a proposed LID boundary to determine the likelihood of special benefit to those categories and the degree of assessments that could be supported if an LID were to be formed. This analysis is usually completed by an appraiser and serves as a first decision point for Council to proceed.

STEP 2: Formation Analysis

A formation analysis is a property by property appraisal of the market value of a parcel before and after the completion of the improvement. This analysis determines the special benefit each property receives and is used to set the boundary of the LID and the proposed assessments for all property owners within the LID. The City may use any reasonable method to allocate costs among the various assessed properties. Common methods are square footage of property, front footage on the improvements, or "zone and termini." The formation analysis will help determine the most appropriate and defensible methodology for the proposed LID. (This work would be initiated if Council decides to include LIDs in the overall funding strategy.)

STEP 3: Resolution of Intent

Council adopts a resolution declaring its intent to form the LID and sets a hearing date. Notice of the hearing and an estimate of each property's assessment is mailed to all property owners and published at least 15 days before the hearing.

STEP 4: Formation Hearing

The purpose of the formation hearing is to hear objections to the formation of the LID. Testimony is allowed on the improvements to be constructed, what properties should be included in the LID, and whether it is appropriate to form an LID. The assessment methodology or amount of assessments are ordinarily not appropriate subjects for testimony, unless the City elects to use an alternative method (defined by the RCW) and provides notice of that method to the property owners prior to the formation hearing. Following the hearing, the Hearing Examiner will make a recommendation on the resolution to the City Council.

STEP 5: Formation Ordinance

Assuming no changes were made to the boundaries or the scope of the improvements to be funded based on the formation hearing, Council adopts an ordinance creating the LID and orders the construction of the improvements. If changes are made, a new hearing must be held.

STEP 6: 30-Day Protest Period.

The LID may be stopped if protests by property owners representing 60 percent or more of the estimated assessments are received within 30 days after the adoption of the formation ordinance. All lawsuits challenging the creation of the LID must be filed within 30 days from the end of the protest period. A successful protest does not bar the City from seeking to form the LID at a future date.

STEP 7: Project Development

The City and its competitively-selected contractors design, complete environmental documentation, and acquire right of way for the project and the advertisement for construction bids is issued.

STEP 8: Bond Anticipation Notes

Issue once the construction bid is awarded and construction begins.

STEP 9: Final Assessment Roll

Once construction is complete and all costs are known, the appraiser compiles the final assessment roll – maintaining the proportionality of costs to property benefits. The appraiser re-evaluates each property and makes any needed adjustments in the preliminary roll based on changes in use, new zoning, etc.

STEP 10: Final Assessment Resolution

Council adopts a resolution to set a date for the hearing on the final assessment roll. Notice of the hearing is published and mailed to all property owners at least 15 days before the hearing.

STEP 11: Final Assessment Roll Hearing

Hearing Examiner considers objections from property owners regarding their individual assessments. Only those property owners who have filed written objections at or prior to the hearing are allowed to speak at the hearing. The Hearing Examiner will consider the objections made and will make a recommendation to the Council to overrule objections or modify the final assessment roll based on the objections. If assessments are raised or reallocated based on Council's subsequent action, a new hearing must be held.

STEP 12: Council Adopts Ordinance to Confirm Final Assessments

STEP 13: Appeal Period

Property owners have 10 days from the effective date of the confirming ordinance to appeal assessments.

STEP 14: Notice to Property Owners

Notice is mailed to property owners indicating the assessments may be paid without interest within an identified 30 day period or in annual installments (up to 20 years) with interest based on the interest rate set on the LID bonds to be sold by the City. First annual payment is due one year after the end of the 30 day pre-payment period.

STEP 15: City Sells Bonds

After the prepayment period ends, City sells bonds in the amount of the outstanding assessments.

The LID formation process is clearly defined in state law and City code. Following all the steps to establish an LID takes time, however. Steps 1 – 6 outlined above require at least 6-9 months to implement, depending on the size and complexity of the proposed LID.

If you require additional information about the process to form an LID or have questions about other LID-related topics, please contact Jen Benn at 425-452-4270 or jbenn@bellevuewa.gov or Monica Buck, City Assistant Attorney, at 425-452-4082 or mbuck@bellevuewa.gov.

Conceptual Layout for Wilburton Connections

