Bel-Red Capital Projects Funding Strategy – Approaches Under Consideration

August 19, 2008

The City initiated work on the development of a long-term plan for the redevelopment of the Bel-Red area of the City in 2005 in order to establish a solid and dynamic economic future for the Bel-Red area, and also to be proactive on planning for the potential of high capacity transit through the corridor (connecting Downtown Bellevue with Overlake). In initiating the Bel-Red planning project, the City Council adopted principles that stress the importance of a long range vision, economic vitality, land use/transportation integration, protecting natural resources, and creating new community amenities.

Over a two year planning process, the Bel-Red Steering Committee developed a new vision for Bel-Red of denser, transit oriented new neighborhoods that will require significant public investments in transportation, parks, and environmental improvements. The Committee concluded that new investment in infrastructure and amenities would be needed to transform the area, and that a significant share of the investment would need to come from the properties undergoing redevelopment. The Committee stressed the importance of use of incentives to provide this investment, capitalizing on the additional intensity and height provided by new zoning.

This outline of the approaches under consideration for the Bel-Red capital investment strategy is an internal staff product that describes three related components: financial plan principles for Bel-Red, project cost estimates, and funding revenue scenarios. These have been developed for City Council consideration in parallel with its review of the recommended Bel-Red Subarea Plan. While this document describes potential project costs and funding revenues, work continues on both and refined estimates and projections are likely to be developed as the Council's review of this topic continues.

Additional capital project information, including project descriptions and maps are included in the draft Bel-Red Subarea Plan available on the project Web site at: http://www.bellevuewa.gov/bel-red_intro.htm .

Draft Bel-Red Financing Principles

On December 10, 2007, staff presented preliminary financing principles to the City Council that emphasize that:

- The Finance Plan should take the long view, with the understanding that the basic infrastructure, livability investments, and amenities will occur as redevelopment takes place;
- The Finance Plan should maintain the city's long-term financial stability (thus preserving the city's Aaa bond rating);
- The cost for the public infrastructure should be shared based on the relative impacts and benefits of development within the corridor;
- The Finance Plan should enable the Bel-Red vision to be fully realized,
- The Finance Plan should be complementary to the long-term economic development goals for Bellevue; and

- Public investments should be made strategically in order to leverage them for the greatest public good.

These draft principles were generated by staff as a means to guide the discussion of funding sources for Bel-Red. While Council has not adopted these principles, they discussed these and a list of funding mechanisms on December 10. The Council continued its discussion of the principles and reviewed draft project costs on April 14, 2008. Complete agenda materials and minutes from the Council's discussion about financing principles are available at: http://www.bellevuewa.gov/city_council_meetings.htm .

Bel-Red Capital Project Cost Estimates

The Bel-Red Subarea Plan is proposed to be supported by significant new city investment in roads, transit, parks, and stream corridor improvements. These proposed investments include:

- New road improvements to support growth in the area, including the development of NE 15th Street, a new arterial/transit street, and upgrades to other existing arterial streets in the area. These transportation improvements support the nodal development strategy for the Bel-Red area, respond to the impacts of the anticipated growth in Bel-Red, and are planned to be constructed as development occurs. NE15th Street is the centerpiece of the transportation strategy for Bel-Red. It provides for auto access to new development, accommodates new trips moving through the area from Downtown and elsewhere, provides a light rail corridor, establishes a major east-west pedestrian and bicycle connection between Downtown and Overlake, and is designed as a 'green' street, functioning as a visual and usable amenity for people living and working in the area.

- The park system for Bel-Red contains new community parks, neighborhood parks clustered in the mixed use residential area, and a system of trails providing connections through the area. The park system is designed to capitalize on adjacent stream locations so that the benefits of the open space, stream restoration and trails work together as an integrated system of green spaces. The park and stream restoration strategy is a necessary component to the overall redevelopment, making the area more livable. These open spaces will also serve the broader community by providing destination recreational opportunities and by linking key recreation destinations through development of the trail system.

- Bel-Red contains five potential salmonid streams. Restoration of these waterways will improve fish habitat, add urban amenities, and support the City's overall open stream strategy.

The cost of providing these facilities is significant. The financial strategy is based on the philosophy that these investments will occur over 40 to 50 years as this area matures, but that those facilities necessary to support growth will be programmed to occur as development takes place.

Capital Project Cost Estimates

	Estimate in millions in 2008$					
CAPITAL INVESTMENT AREAS	**2008-2014**	**2014-2020**	**2020-2030**	**Beyond 2030**	**Total**	**NOTES**
Transportation Total: Fully Developed Infrastructure	$117.5	$37.5	$181.1	$44.5	$380.6	Opportunity for $15M to $20M resale of ROW remnants, $2M/year thru grants. Does not include developer funded grid streets and regional projects.
Right-of-way acquisition	$80.3	$8.5	$115.8	$32.1	$236.7	
Engineering and construction	$37.2	$29.0	$65.3	$12.4	$143.9	
Parks Total	$43.1		$41.8	$39.8	$124.7	Does not include potential $98M major recreation facility.
Land acquisition	$35.4		$25.7	$6.0	$67.1	
Development/improvement	$7.7		$16.1	$33.8	$57.6	
Stream Restoration Total	$48.7		$3.7	$24.2	$76.6	Potential 50 to 100-foot enhancement width depending on stream reach.
Land acquisition	$29.9		$2.6	$15.0	$47.5	
Restoration, trail development, culvert replacement	$18.8		$1.1	$9.2	$29.1	
BROTS	Projects ideas and general cost estimates being developed.					
TOTALS	**$246.8**		**$226.6**	**$108.5**	**$581.9**	

Bel-Red Funding Revenue Scenarios

To provide funding for the potential Bel-Red capital investments in transportation, parks, open space, and stream enhancement, staff explored a number of potential revenue sources. These revenue sources were then evaluated at a range of levels and summarized in the following chart. Three scenarios are included to illustration low to high revenue assumptions:

- The ‘aggressive’ revenue scenario funds the Bel-Red capital requirements between 2008 and 2030. Developers and property owners have testified that the rates necessary to support this scenario are not economically feasible.

- The ‘moderate’ revenue assumption does not fully fund planned Bel-Red capital improvements by 2030. Key projects to support growth can be funded, but many of the park and stream corridor projects will not happen by 2030.

- The ‘conservative’ revenue assumption makes little progress in funding the transportation, parks and streams projects. The City would rely on developer funded improvements, resulting in a road network that serves local access. Concurrency violations are likely under this scenario.

Revenue Scenario Implications on Project Development

Conservative Revenue Scenario

The conservative revenue scenario assumes that a similar share of the general fund would be allocated toward capital spending in the future, that the City would apply transportation impact fees much higher than today’s rates (but less than the other scenarios), and that the City would employ a Bel-Red incentive system that would generate a modest contribution toward public infrastructure and affordable housing. It assumes that there would be no LID, park impact fee, fewer grants, and that the incentive system would be valued at a rate of $9/SF of additional development area.

The conservative revenue scenario falls short of the funding needed to for identified Bel-Red infrastructure investments. Further analysis would be needed on this scenario’s overall impact on the Bel-Red implementation.

Moderate Revenue Scenario

The moderate revenue scenario assumes, as described above, new impact fees, a local improvement district (LID), modest grants, and a moderate incentive ratio of $30/SF of additional development area that is applied largely to the parks and open space system.

The moderate revenue scenario does not provide sufficient revenue to fully fund the Bel-Red infrastructure investment in the 2030 time period. The Bel-Red infrastructure could be built, albeit some projects would be delayed or phased to match the timing of revenues and their construction would be extended beyond 2030.

Aggressive Revenue Scenario

The aggressive revenue scenario would provide Bel-Red funding that would approximate the need identified for Bel-Red projects. However, the citywide share of Bel-Red projects would need to funded through a yet to be identified citywide revenue source.

Bel-Red Funding Revenue Scenarios

		Conservative Assumptions		Moderate Assumptions				Aggressive Assumptions	
				2009-2015	2016-2030		2030 total		
General tax increment	$112,900,000	40%	**$ 45,160,000**	**$ 14,369,091**	**$ 30,790,909**	40%	**$ 45,160,000**	60%	**$ 67,740,000**
2015 portion	$16,900,000								
General CIP fund contribution			?				?		?
Transportation impact fees									
# BR trips	9000	4000	$ 36,000,000	$ 21,289,688	$ 46,210,312	7500	$ 67,500,000	7500	$ 67,500,000
citywide impact fee contribution			?				?		?
LID			$ -	$ 40,000,000			$ 40,000,000		$ 40,000,000
LID credit toward impact fees (not included)				*$ 6,576,562*					
ROW dedication		5%	$ 10,230,000	$ 9,765,000	$ 20,925,000	15%	$ 30,690,000	50%	$ 102,300,000
ROW sellback		10%	$ 19,437,000	$ 5,533,500	$ 11,857,500	10%	$ 17,391,000	15%	$ 15,345,000
Transportation grants			$ 11,200,000	$ 6,600,000	$ 15,800,000		$ 22,400,000		$ 33,600,000
Subtotal of trans specific			**$ 76,867,000**	**$ 83,188,188**	**$ 94,792,812**		**$ 177,981,000**		**$ 258,745,000**
Park impact fees									
# of residences	5000	0	$ -	$ 3,181,818	$ 6,818,182	2000	$ 10,000,000	4000	$ 20,000,000
Utility rate increase or surcharge			$ -	$ 3,977,273	$ 8,522,727		$ 12,500,000		$ 25,000,000
Parks grants			$ -	$ 3,181,818	$ 6,818,182		$ 10,000,000		$ 10,000,000
Utility grants			$ -	$ 159,091	$ 340,909		$ 500,000		$ 1,000,000
Incentive system for P&OS									
1.0 FAR of commercial develpmnt	1350000	9	$ 12,150,000	$ 12,886,364	$ 27,613,636	30	$ 40,500,000	40	$ 54,000,000
0.5 FAR of residential development	540000	9	$ 4,860,000	$ 5,154,545	$ 11,045,455	30	$ 16,200,000	40	$ 21,600,000
Dev contribution of P&OS									
assume dedicated site area = % of incentive		10%	$ 1,701,000	$ 4,510,227	$ 9,664,773	25%	$ 14,175,000	50%	$ 37,800,000
Subtotal of P&OS specific			**$ 18,711,000**	**$ 33,051,136**	**$ 70,823,864**		**$ 103,875,000**		**$ 169,400,000**
Total			**$ 140,738,000**	**$ 130,608,415**	**$ 196,407,585**		**$ 327,016,000**		**$ 495,885,000**

Revenue Scenario Notes

- All figures in 2008 dollars.
- Assumes rates/fees would escalate over time to maintain constant value.
- LID credit toward impact fees identifies an estimated amount that would be credited against impact fees collect by those development participating in an LID. This amount is not included in the calculation.
- Affordable housing incentives are not included in the revenue scenarios.

Moderate Revenue Scenario Assumptions

General Tax Increment (delta above current revenue stream)
This includes property tax, retail sales and use, B&O, utilities tax, and REET, recurring and one-time revenues. The moderate scenario assumes that 40% of the increment is applied toward local capital projects.

2009-2015	$14,369,000
2016-2030	$30,791,000
2030 total	$45,160,000

Multifamily Tax Exemption (MFTE)
If a Multifamily Tax Emption (as authorized by the state) was implemented to encourage affordable housing, it would reduce the general tax increment accordingly. The exempt City tax amount combined with exempt county and state taxes, for a limited duration, could be used as an additional incentive to encourage affordable housing. If enacted, the MFTE might divert on the order of 10% of new recurring City revenue streams for a limited time period – or about $1.0M total in years 2009-2015 and $8.8M total in years 2016-2030, based on assumptions of the number of residential developments that would qualify, and that the exemption does not apply to land value increases or commercial developments. This amount would need to be recalculated when a specific MFTE option is developed.

2009-2015	$1,020,000
2016-2030	$8,760,000

Transportation Impact Fees

Assuming 9000 Bel-Red new peak trips over the 2030 period and $7500 impact fees per peak trip results in $67,500,000.

2009-2015	$21,289,688
2016-2030	$46,210,312
2030 total	$67,500,000

Local Improvement District (LID)

An LID could be used to fund significant major street segments with property owner participation. LID assessments would need to credit redundancies with impact fees.

$40,000,000

It is assumed that an LID would be bonded to allow revenue use during the 2009-2015 period with payment over a longer period. The impact fee amount would be reduced by about $6.6M to credit redundant payments with the LID, assuming the LID pays for impact fee projects.

ROW Dedication

Property owners may dedicate property for rights-of-way (ROW) provided that it benefits their development and that they receive development credits for the land dedicated. The amount dedicated would vary depending on the timing of the transportation projects and private development. Total Bel-Red ROW costs are estimated to be $204,000,000. The moderate revenue scenario assumes that 15% of the total ROW costs would be acquired through dedication and apportions it between the two time periods.

2009-2015	$9,765,000
2016-2030	$20,925,000
2030 total	$30,690,000

ROW Sellback

Some remnants of right-of-way (ROW) acquired for transportation projects will likely be sold. The moderate revenue scenario assumes that 10% of all of the ROW purchased (not including that acquired through dedications) could be sold back at $45 per square foot. Considering that some parcels may be of limited value due to size and shape of the remnant, the actual cost per square foot may be less than the initial purchase price

2009-2015	$5,533,500
2016-2030	$11,857,500
2030 total	$17,391,000

Transportation Grants
Based on a review of the potential grant requests and assuming that the City obtains 20% of the amounts requested, the moderate revenue scenario assumes that $22,400,000 could be funded through grants.

2009-2015	$6,600,000
2016-2030	$15,800,000
2030 total	$22,400,000

Parks and Open Space
The funding for parks and open space includes assumed parks impact fees for residential development, a utility rates surcharge, and parks and utility grants. The value of the incentive system assumes that a 1.0 FAR increment of commercial development and a 0.5 FAR increment of residential development is able to support parks and open space improvements at a bonus ratio of $30 per additional development square foot (or at $9 or $40 for the conservative and aggressive scenarios). Calculation assumes that 75% of 4,500,000 square feet of net new commercial development applies toward the incentive system, and that 60% of 5000 new residential units applies toward the incentive system. In addition to the incentive system, it is projected that developments would dedicate land to City parks and open space in proportion to their participation in the incentive system. While some would use fee-in-lieu payments to participate in the incentive system, others would improve and dedicate park land. The moderate revenue scenario assumes that dedicated park space would be on the order of 25% of the amount contributed through the incentive system.

2009-2015	$33,051,136
2016-2030	$70,823,864
2030 total	$103,875,000