CITY OF BELLEVUE
CITY COUNCIL

Summary Minutes of Study Session

October 19, 2015
6:00 p.m.

Council Conference Room
Bellevue, Washington

PRESENT: Mayor Balducci, Deputy Mayor Wallace and Councilmembers Chelminiak, Lee, Robinson[1], and Stokes

ABSENT: Councilmember Robertson

1. Executive Session

At 6:03 p.m., Deputy Mayor Wallace called the meeting to order and announced recess to Executive Session for approximately 20 minutes to discuss one item of pending litigation.

The meeting resumed at 6:33 p.m., with Mayor Balducci presiding.

2. Study Session

(a) Update on Implementation of LID Principles Project's Public Participation Plan

City Manager Brad Miyake said the 2013-2018 National Pollutant Discharge Elimination System (NPDES) stormwater permit requires the City to revise its development codes and standards to incorporate low impact development (LID) principles. On July 6, 2015, the Council approved the LID project principles, interest statement, and preliminary public participation plan. He said the purpose of tonight's agenda item is for staff to update the Council on the public participation activities to date and next steps.

Catherine Drews, Legal Planner, said introductory briefings on the LID project have been given to the Boards, Commissions, and the East Bellevue Community Council. She said a web page has been created on the City's website, which provides the opportunity for public comment. Approximately 40 comments have been received to date.

Ms. Drews said Development Services Department staff is working with the Neighborhood Outreach division, which is utilizing www.nextdoor.com to generate public involvement in the project. Three public workshops have been held: September 30 at City Hall, October 6 at Lewis

[1] Councilmember Robinson left the meeting at 7:16 p.m. following Agenda Item 2(b).

Creek Visitor Center, and October 15 at Cherry Crest Elementary School. A meeting with the Master Builders Association is scheduled for November 5 and staff continues to reach out to other stakeholders as well.

Ms. Drews said the internal staff team and consultants will begin putting together potential LID standards based on the public input and involvement.

Mayor Balducci said she has heard more discussion in the community on this initiative than for similar projects in the past. She thanked staff for the enhanced outreach using workshops and online resources. She observed that there is enthusiasm by the public in this effort.

Councilmember Robinson questioned how the project affects the tree canopy. Ms. Drews said the project does not yet specifically address the tree canopy. However, there is a strong focus on retaining and enhancing native vegetation. In further response, Ms. Drews said the project will allow property owners to plant more vegetation. She noted that best management practices in this and other projects involve the implementation of rain gardens and bio swales that will require certain vegetation. She said the public is very interested in this issue and has made suggestions about how the City might approach those components.

Deputy Mayor Wallace said that, when this topic comes back to the Council, it would be helpful to orient the Council and the community regarding how the LID project fits within the overall framework of storm water management and state and federal regulations. He said it will be important to distinguish the mandates from recommended practices. He observed that the U.S. Environmental Protection Agency is not focused on housing affordability or land use growth, but is instead focused on the Clean Water Act and other environmental regulations. This is consistent with the State Department of Ecology's focus as well. The Puget Sound Partnership, which consists of environmentalists, publishes a handbook for jurisdictions to follow.

Mr. Wallace said the City is the first layer of this effort and has priorities that go beyond environmental impacts and policies. He said it is important to design the right program that will achieve storm water objectives while also considering housing affordability; economic growth in the Downtown and BelRed areas; and neighborhood issues. He said there are different solutions for areas with different densities, growth targets, and other factors.

Mr. Wallace expressed concern that the regional handbook is focused on single-family neighborhoods, which may or may not be the best solutions for the Downtown, Wilburton and BelRed. He said it is important to approach the regulations and standards with a focus on Bellevue needs and to hire the most appropriate consultants who can advise on the best solutions based on multiple priorities beyond storm water objectives.

Mayor Balducci questioned the process going forward. Ms. Drews said the next step is to organize and coordinate the work and interests of City staff, consultants, and community stakeholders to ultimately determine whether Code amendments and/or development standards are needed to implement the LID principles. She said the City's consultants have conducted an opportunity analysis, and they have determined that Bellevue's Codes are largely consistent with the language of the LID initiative. However, Ms. Drews said there are areas that could benefit

from additional work. One example is the City's Planned Unit Development (PUD) Code, which has not been updated in some time. A PUD cannot be applied to commercial property unless it also includes a residential component.

Ms. Drews said staff will come back to the Boards, Commissions and City Council with an update on their direction and to obtain input. Any required Code amendments will be implemented through the City's usual process. The targeted deadline for completing this work is November 2016.

Mayor Balducci observed that the example of PUDs seems to be outside of the realm of LID principles. Ms. Drews said LID best practices could include bio swales, bio-retention, and vegetation. The principles are a more holistic look at the development site and the goal of retaining the natural features (e.g., vegetation) of the site. Ms. Drews acknowledged that other practices will be appropriate for the Downtown.

Mayor Balducci said it is important to maintain a focus on the goal and to encourage development to move forward while minimizing environmental impacts. She recalled public testimony during the Shoreline Management Program update process regarding concerns that shoreline property owners are at the end of the storm water system that receives water from the rest of the city and the roads. Shoreline residents expressed frustration that they are being tasked with managing the impacts of storm water that is coming from the broader community. Responding to Ms. Balducci, Ms. Drews confirmed that LID guidelines are one way to try to mitigate that type of situation.

Councilmember Lee questioned the definition of low impact development and the information and context that is being shared with the public. He observed that LID principles could refer to the broader context including transportation, energy, sustainability, and preserving the tree canopy. That context has different ramifications than a more narrow approach. Mr. Lee said he was unclear about the specific definition of LID principles and practices at this point. If it is not defined, he suggested it might be more appropriate to have a broader discussion about what is intended for future sustainable community development.

Ms. Drews said the Council provided direction to staff through its previous approval of the LID principles. Staff is working with the Boards, Commissions and the public to describe the project and the areas of focus. Responding to Councilmember Lee, Ms. Drews confirmed that the project principles are specific enough to guide the ongoing work.

Councilmember Stokes noted the principle that Bellevue supports the objective of maintaining the region's quality of life, including making LID the preferred and commonly used approach to site development. He observed that this is a discrete program and area of application within the broader context of overall quality of life. He noted that the project is still in the early stages of a year-long process. He thanked staff for the update.

(b) Execution of new Interlocal Agreement among the jurisdictions of King County, City of Seattle, Pierce County, Snohomish County, and the cities of Bellevue, Issaquah, Kenmore, Kirkland, Mercer Island, Redmond, and Woodinville

regarding the "Regional Equitable Development Initiative" (REDI) fund. The REDI fund is a $18 plus million revolving loan fund for the purpose of acquiring equitable Transit Oriented Development (TOD) sites within King County and the greater Puget Sound region.

Mr. Miyake said the Regional Equitable Development Initiative (REDI) fund is a revolving loan program allowing early investments in transit-oriented development (TOD) through the use of low-interest loans for housing. He said that entering into an Interlocal Agreement to establish the REDI fund is consistent with the Council's vision and priorities to establish a revolving fund for affordable TOD. Mr. Miyake said the intent is to place this item on a future Council meeting agenda for formal action.

Arthur Sullivan, Program Manager for A Regional Coalition for Housing (ARCH), noted that the meeting packet includes the draft Interlocal Agreement, which is undergoing final legal review. He said the REDI fund is a revolving loan program involving public and private funds to be spent in King, Pierce, and Snohomish counties. The purpose is to: 1) allow early investment in well-located transit-oriented neighborhoods by providing low-interest loans to nonprofit and for-profit developers, and 2) help housing authorities secure land for existing properties for the purpose of creating housing that includes affordable housing in pedestrian-oriented transit centers. The REDI fund encourages incorporating other community facilities (e.g., community centers) into the resulting development as well.

Mr. Sullivan said the Interlocal Agreement addresses governance. All public agencies providing funding will have representation on the oversight committee. A credit committee will review all individual loans for approval or disapproval. This will always include at least one public representative plus a representative of the public entity that is most closely located to the project.

The Interlocal Agreement refers to a master credit agreement, which will be the major policy document with more detailed program description. The agreement will be developed by the ARCH Administrator (City of Bellevue) after consultation with the ARCH Executive Board. Mr. Sullivan said the Interlocal Agreement identifies a number of issues and conditions for funding that must be addressed in the master credit agreement.

Mr. Sullivan said the REDI fund will consist of public funds of $5 million from ARCH member jurisdictions including the City of Seattle, King County, and the State of Washington. The Interlocal Agreement sets a minimum of $18 million in total private and public funds to allow the program to move forward. Those funds have been received and additional funding is being pursued. The Interlocal Agreement has a provision to allow public and private funds to be added over time.

Mr. Sullivan said the ARCH cities committed, through the 2014 Affordable Housing Fund Award program, $500,000 from previous years that were set aside for housing, which includes $250,000 from the City of Bellevue. He said the Interlocal Agreement provides for geographic balance of the funds based on the local funding contributions.

Mr. Sullivan said there is a requirement for an affordability covenant when the land is first acquired as well as a long-term covenant that will be put in place after the final funders are confirmed. This covenant is flexible at this time because the objective is to encourage a wide range of types of programs with different financing structures. The program is in place for 10 years and can be extended by the parties.

Mr. Sullivan described the chart addressing geographic balancing. Each funding source had a formula for allocating the statewide funds, following the use of a formula to determine how to split the funds between the three participating counties. The latter was based on population and the percentage of land areas in transit-oriented neighborhoods. This results in designating 59 percent of the statewide funds for King County. All of ARCH's funds are credited toward East King County, and all City of Seattle funds are credited toward Seattle. King County and State funds are allocated based on the same formula used to allocate other public funds for other affordable housing programs through King County. Mr. Sullivan said the result is that 24 percent of the total funds will be targeted for East King County.

Responding to Councilmember Stokes, Mr. Sullivan said private funders include the Enterprise Community Partners, Living Cities Fund, and the Low Income Investment Fund. Discussions are underway with additional potential participants with a goal beyond the minimum $18 million to achieve $20 million.

Responding to Councilmember Lee, Mr. Sullivan said Bellevue's contribution of $250,000 is funded by past allocations in the City's budget.

Councilmember Robinson questioned the TOD areas under consideration for Bellevue. Mr. Sullivan said preliminary mapping has been completed with the Puget Sound Regional Council (PSRC), which led the Growing Transit Communities effort. The project team is looking for areas with good transit service located in neighborhoods designed for transit-oriented and pedestrian-oriented densities. In Bellevue, identified areas are the BelRed corridor, Downtown, Eastgate, and potentially Factoria. However, other areas can be considered if transit service changes and/or if there are certain areas with one-quarter to one-half mile radiuses around transit service.

Councilmember Robinson observed that a connection from Wilburton to BelRed light rail could then connect to the Downtown. She questioned whether this would make Wilburton a potential REDI fund project candidate. Mr. Sullivan said that is a possibility based on determinations within local communities. Ms. Robinson suggested that connectivity beyond light rail (i.e., buses) should be considered as well. Mr. Sullivan concurred. He said East King County includes seven ARCH member cities with many areas that are and will continue to be served primarily by buses.

Deputy Mayor Wallace questioned whether the Interlocal Agreement authorizes condemnations. Mr. Sullivan said the funds are eligible to be used by for-profit, nonprofit, and housing authorities for land acquisitions. Mr. Sullivan said condemnations were not specifically discussed in developing the program and Interlocal Agreement.

Deputy Mayor Wallace said he has concerns about the program. His assumption is that there will not be governmental organizations with condemnation authority condemning individual properties and borrowing at non-market rates using the REDI funds. Mr. Wallace asked Mr. Sullivan to confirm that for him and to let him know whether this is being addressed in the legal review.

Mr. Sullivan said he will pursue the question. He speculated that this would be an area the master credit agreement would address, if appropriate. He recalled that the oversight committee will have representation from all funding partners. Mr. Sullivan said he would get back to the Council with more information.

Deputy Mayor Wallace raised the issue of the State Constitution prohibition on the gifting of public funds. While this is not specifically addressed in the Interlocal Agreement, Mr. Wallace said he assumes that the loans will be structured in a way to avoid challenges on those grounds. Mr. Sullivan said that is correct.

Mr. Wallace noted information in the meeting packet's agenda memo about three funding tiers: 1) seed money from public sources, 2) foundations and mission-driven investors, and 3) banks and community development financial institutions. He noted that public funds receive no interest and second and third tier funds are contributed at a variety of interest rates. Mr. Wallace questioned whether that means that the funds will not be disbursed until there is a specific deal in place, or whether the City is expected to contribute the $250,000 now.

Mr. Sullivan said both public and private funders contribute their monies into the account now. This allows the REDI fund to establish a blended rate of the three tiers. He said the accounting system will be similar to ARCH in terms of tracking each investor's contribution. Mr. Wallace observed that everyone except the taxpayers receive a return on their investment. Mr. Sullivan agreed and said the return is the affordability that is being secured. He reiterated that these are loans and the anticipation is that funds will be returned.

Deputy Mayor Wallace restated his understanding. The REDI fund is created and every funder contributes its portion. Taxpayers invest money and receive no interest. The nonprofit and for-profit parties receive interest returns. At that point, the REDI program looks for opportunities for acquiring land. Mr. Sullivan confirmed this understanding.

Mr. Wallace observed that taxpayers are paying a proportionate share of a profit return to organizations that are providing the money. He said the non-public entities appear to be receiving profit from public investments. Mr. Sullivan said the interest is being paid through the loan proceeds, which is similar to project funded through the Housing Trust Fund/ARCH. He said cities contribute funds as grants or at zero percent to one percent interest, and there is often private funding associated with those projects as well. Mr. Wallace observed that, in those cases, the funding is not provided until a deal is in place. His understanding of the REDI fund is that the money is contributed upfront and the interest could continually erode the contribution. If the City makes a $250,000 contribution for housing affordability or acquiring land near transit stations, that money could be paid to lenders involved with the non-public entities.

Mr. Sullivan said that, when all of the cities contribute to ARCH, the money is placed in an account with the City of Bellevue and earns interest until it is used. While it sits there, each city is receiving credit for its contribution. He said he would confirm whether the REDI fund works in the same way.

Deputy Mayor Wallace said that, of the $18 million REDI fund, $13 million comes from non-public sources and earns interest while it is held by the program. He said this is not the same as the money being held in a bank account where all of the money is earning interest. This results in using funds from public sources to pay a return to the non-public funders. Mr. Sullivan said he will check to confirm whether that is how the private funds are treated within the program.

Mr. Wallace questioned when REDI fund participants will know the interest rates for loans and whether that will be before or after projects are approved. Mr. Sullivan said that will be addressed in the master credit agreement. There are general projections for interest rates, which he will provide to the Council. The hope is that the blended rate will be three to four percent. Mr. Sullivan said the Interlocal Agreement authorizes the City of Bellevue and the ARCH Executive Board to review the master credit agreement.

Mr. Wallace said the program seems flawed to him. He suggested that the money from the non-public, second tier and third tier investors should not come in until a property is ready for purchase. He disagrees with a program structure in which taxpayers are contributing $5 million and part of that is used to pay interest to the private investors. Mr. Sullivan reiterated that he will clarify the information requested by Deputy Mayor Wallace.

Councilmember Stokes noted that page 5 of the Interlocal Agreement states that first tier funds are contributed to the fund without interest. Second tier and third tier funds are contributed at a variety of interest rates. He said that does raise a concern, as articulated by Deputy Mayor Wallace, about the public benefit and use of public funds.

Mr. Sullivan said the general principle underlying the REDI fund is that the public investment creates a pool of funds that is three to four times the public investment. This can be used by groups that have a difficult time obtaining land loans in order to secure property for affordable housing. Mr. Sullivan said this was driven by situations in which, by the time transit service is in place, private developers move in and it is very difficult to secure affordable housing at that point. The public benefit of the REDI fund is bringing in partners who are willing to work with local governments to create housing opportunities, including affordable housing at transit centers, before land prices increase with the implementation of transit services. An additional public benefit of the REDU program is that it enables parties that might otherwise have trouble obtaining a loan source to tie up properties for development within 5-6 years. While public funds are used at no interest, the intent is to achieve lower interest rates for property loans that would otherwise be higher.

Mayor Balducci said her understanding of how the program works on a policy level is that the cost of land, especially around transit stations, increases very quickly. The value of having affordable housing around transit stations is very high from a public policy standpoint. The benefit and return from the public financing, which is a small portion of the overall financing, is

that governments are able to stimulate the development of housing that would not otherwise be possible.

Mayor Balducci asked Mr. Sullivan to provide information, when the topic comes back for Council action, on how the REDI fund program is working in other jurisdictions. Her understanding is that it has been successful in San Francisco and Denver. Mr. Sullivan confirmed that understanding. Ms. Balducci observed that this is a good opportunity and she would like to hear more information.

Deputy Mayor Wallace said it is critical to fully understand the program before the Council decides to proceed. He is not strongly opposed to the proposal but he needs more information. He is concerned about buying land and holding it until it can be developed. He expressed concern about creating a large fund that will pay profits to non-public investors at the expense of taxpayers, with an undefined rate of interest and an undefined term. He questioned what will stop investors from benefitting from the interest on the public dollars and never completing projects. Mr. Sullivan reiterated that the master credit agreement will articulate all of those items.

Mr. Miyake said staff will ensure that responses to questions and requests for information will be provided to the Council before the proposal moves forward for formal action.

Mayor Balducci said the Council will need to receive the information sooner than the Thursday before the Council meeting scheduled for action.

Mayor Balducci observed that the issue is whether the Council is convinced that the land acquisition enabled by the REDI fund would be possible without this type of funding arrangement. She said this appears to be a relatively inexpensive way to achieve affordable housing. However, more information on the details is needed.

(c) Discussion and Information on Human Services Commission's Recommended Use of 2016 Community Development Block Grant (CDBG) Funds

City Manager Miyake introduced discussion regarding the use of 2016 Community Development Block Grant (CDBG) Funds. He said a transmittal summarizing the Human Services Commission's recommendations was included in the meeting packet. He welcomed James McEachran, Human Services Commission Chair, to the meeting.

Patrick Foran, Director of Parks and Community Services, noted that Michelle Kline and Judith Mercer, Human Services Commissioners, were in the audience. He said that, while CDBG funding has been relatively stable in 2014 and 2015, it is always unpredictable due to the actions of the U.S. Congress and the difficulty in estimating the amount of program income to be generated by the Major Home Repair Loan Program.

Emily Leslie, Human Services Manager, said CDBG funding decreased between 2010 and 2012 and increased slightly for 2014. The City anticipates that 2016 CDBG funding will be similar to the current year's funding ($615,000). Challenges in using CDBG funding relates to strict requirements regarding the timely expenditure of funds. The City narrowly missed last year's

deadline but was allowed to keep the funding. As a result, the Human Services Commission's overriding criteria for evaluating the 2016 funding allocations was the ability for the timely expenditure of CDBG funds. Ms. Leslie said the two projects affected most by this requirement were ARCH and the Major Home Repair Loan Program.

Ms. Leslie described the Commission's process in developing its recommendations. Eight applications were received in June. The Human Services Commission discussed the requests during four meetings and held a public hearing. The total allocation amount recommended by the Commission is $775,000. This includes $615,000 from the HUD entitlement grant. The remaining funds are estimated reprogrammed funds or income generated by repaid loans in the Major Home Repair Loan Program.

Ms. Leslie said Attachment A in the meeting packet is a detailed list of the recommended projects divided into capital projects, planning and grant administration, and one public service program. Attachment B is a contingency plan should the federal dollars be higher or lower than the estimated $615,000.

Mr. McEachran said the Human Services Commission extensively discussed the funding requests. He said the recommendations are based on the estimate of funds that will be available. He said the Commission strongly supports ARCH's mission and work. However, CDBG funds cannot be used to construct affordable housing. They can only be used for the rehabilitation of existing facilities. In the past, ARCH utilized CDBG funds to rehabilitate Evergreen Court and Bellevue Manor. HUD requires that CDBG funds be spent on projects physically located in Bellevue, and there are strict requirements for timely spending.

Mr. McEachran said ARCH's application identified one potential project in Bellevue that would be eligible for CDBG funds in 2016. Due to the overriding criteria for timely spending, the Commission recommended $50,000 for ARCH in 2016, which is slightly less than what was awarded in previous years. ARCH has indicated it has the capacity to use the funds for a project in Bellevue. Mr. Eachran said this funding source represents a small percentage of total funding to ARCH from the City.

Mr. Eachran said funding for the King County Housing Authority Major Home Repair Loan Program has been reduced significantly. The recommended funding is based on revised staff projections in view of the HUD requirements for timely spending. He said there is currently sufficient funding from the 2015 award and the recommended 2016 allocation to serve the usual 30-40 households per year and maintain the same service level.

Mr. Eachran highlighted additional recommendations for the Boys and Girls Clubs of Bellevue and the International Community Health Services.

Councilmember Chelminiak observed that the CDBG rules are being enforced somewhat differently than in the past. In addition to ARCH and the Major Home Repair Loan Program, the monies are able to fund programs for refugees and immigrants through Jewish Family Services, the Boys and Girls Clubs of Bellevue, the International Community Health Services, and the Senior Services Minor Home Repair Program. He said the programs significantly benefit those in

the community with the greatest needs. Mr. Chelminiak thanked the Human Services Commission for their hard work.

Mayor Balducci said the federal government is enhancing its enforcement of requirements for the timely spending of grant funds in many areas, including transportation. She noted that ARCH requested $200,000 but later determined it would not be ready to spend that amount in Bellevue in 2016. Ms. Leslie confirmed that the Commission recommended funding at the level that ARCH will be able to spend in 2016.

Mayor Balducci suggested the Council might want to discuss, in the future, using CDBG funds for different purposes than they have been used in the past.

Deputy Mayor Wallace said the federal requirements on timely spending highlight his concerns about the REDI fund program. He said development and housing agreements are very complicated. It does not make sense to have public money held and contributing to private interest gains without a defined project. He noted that ARCH's more appropriate approach is to pool resources, secure loans, and then start paying interest.

Councilmember Stokes observed that society does not make the investments it needs to make for the economic and other human development of citizens. However, investments that are made need to be handled in the best way possible. He suggested that the CDBG program encourages directed and purposeful investments for public benefit.

Councilmember Lee thanked the Human Services Commission for its work and reminded the Commissioners of the trust the Council places in their process and recommendations.

Mayor Balducci said the recommendations will be back for final action in the near future.

Councilmember Stokes encouraged the Council and the public to visit the new public art piece in Newport Hills. He said the same artist has done work at Metro bus stops as well.

At 7:45 p.m., Mayor Balducci declared recess to the Regular Session.

Kyle Stannert
Acting City Clerk

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