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Acknowledgements

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## The Focus of this Phase 2 Report:

### Housing, Development, and Infrastructure Funding

#### Analysis and Recommendations

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**Appendix**

Housing Strategies and Recommendations Matrix
Preface

THE REGIONAL VISION

VISION 2040 is the central Puget Sound region’s long-range vision for maintaining a healthy region and is a guiding premise for all regional planning and implementation. VISION 2040’s cornerstone is its emphasis on development of vibrant, mixed-use centers where people can live, work, and play. Integrating affordable housing in mixed-use centers throughout the region contributes to achieving a jobs-housing balance that increases access to opportunity, lowers households’ combined cost of housing and transportation, and helps ensure that infrastructure investments enhance equity across the region.

SUMMARY OF THE GROWING TRANSIT COMMUNITIES PARTNERSHIP

In keeping with the regional vision described above, the central Puget Sound region is investing more than $25 billion dollars in high-capacity transit over the next twenty years, providing a once-in-a lifetime opportunity to capitalize on these investments by growing and strengthening communities around stations. The Growing Transit Communities Partnership (Partnership), funded by a grant from the US Department of Housing and Urban Development’s Sustainable Communities Regional Planning Grant Program and administered by Puget Sound Regional Council (PSRC), has been designed to help make the most of this investment by locating housing, jobs, and services close enough to transit so that it is a viable option for many people. If done right, more people will have a faster and more convenient way to travel.

The Partnership was formed through a coalition of city and county governments, housing authorities and affordable housing interests, transit agencies, public health agencies and departments, real estate and development interests, social justice and community development groups, economic development and business interests, community based organizations, educational interests, environmental advocacy groups, and the public. This coalition of the Partnership has been supporting neighborhood planning for more connected, livable, and sustainable communities around more than 74 high-capacity transit centers in the region—covering three counties in sixteen cities—including existing, new, and future station areas.

Through these efforts, the Partnership has been working to shape the region and station areas in ways that benefit current and future residents, local businesses, and the wider region. Working within the framework of existing plans, policies, and goals of local governments and guided by VISION 2040, the Partnership has been helping local communities bring their visions to reality and to make the most of new light rail service, bus rapid transit, and other transit investments, including identifying unique roles and opportunities for community development associated with high-capacity transit investments. For more information about the Growing Transit Communities Partnership and PSRC, visit www.psrc.org.
THREE CORRIDORS/THREE TASK FORCES

Planning activities of the Partnership have focused along the three light rail corridors from Seattle north to the city of Everett, south to Tacoma, and east to the city of Redmond. Based on the premise that change can happen at the local level through tools and solutions that address similar challenges shared by communities in the region, the Partnership has provided a big-picture perspective so that people can see both local and regional benefits, and local entities can apply lessons learned in other places in the region. Corridor task forces for the North, East, and South corridors were charged with analyzing and reviewing existing conditions and identifying unique opportunities and challenges for development of existing and future transit station areas.

In development of its work plan and specific assignments for each task force, the Partnership felt that it was important to focus implementation activities in specific station areas of the region’s transit corridors to serve as models for other parts of the region. In the case of the East Corridor, the intention was to work with the East Corridor Task Force to identify what catalyst project, or projects, were most appropriate. This evolved into the defined scope of work for the East Corridor Implementation Support Project.

EAST CORRIDOR CONTEXT

In 2011, the Sound Transit Board of Directors made its final decision about the East Link light rail transit (LRT) corridor alignment and station locations. Also in 2011, King County Metro began operation of its Bus Rapid Transit service (BRT) RapidRide line B. In order to help areas around LRT and BRT stations transform into more transit-oriented communities, the four cities participating in the East Corridor Task Force (Seattle, Mercer Island, Bellevue, and Redmond) and other Task Force members were interested in developing focused implementation strategies and tools for specific East Corridor station areas. Seattle and Mercer Island had already completed extensive planning for the station areas in their jurisdictions, so the Task Force decided to focus on stations in Bellevue and Redmond.

Staff from the cities of Bellevue and Redmond indicated that the station areas in the Bel-Red Corridor and Overlake were in most need of implementation support. Given these considerations, the Task Force determined that the East Corridor Implementation Support Project should focus on the following subset of East Corridor station areas in the cities of Bellevue and Redmond, along East Link and King County Metro’s RapidRide Route B stations:

**East Link Light Rail Station Areas (Future) Selected for the East Corridor Implementation Support Project:**
- Hospital Station Area in Bellevue
- 120th Avenue NE/Spring Creek Station Area in Bellevue
- 130th Avenue NE Station Area in Bellevue
- Overlake Village Station Area in Redmond
- Overlake Transit Center Station Area in Redmond

**King County METRO RapidRide B Line Station areas (Existing) Selected for the East Corridor Implementation Support Project:**
- Located in Bellevue’s Crossroads Neighborhood:
  - NE 10th Street Station Area
  - NE 15th Street Station Area

The Partnership funded and guided the East Corridor Implementation Support Project to examine opportunities for TOD along Sound Transit’s East Link Light Rail and King County Metro RapidRide Line B alignments through the Eastside cities of Bellevue and Redmond in these station areas initially as part of Phase 1 of the project, and then to provide more focused analysis and strategies for selected station areas as part of Phase 2. Portions of the project area are located within the areas known as the Bel-Red Corridor and Overlake.
FOUR FOCUS AREAS FOR EAST CORRIDOR IMPLEMENTATION ACTIVITIES

Through a series of meetings, the East Corridor Task Force examined key issues and identified barriers to transit-oriented development in the East Corridor, along with particular challenges to implementing equitable TOD in station areas. In its discussion of how to incent and accommodate equitable transit-oriented development in station areas, the Task Force determined four areas of focus for the East Corridor Implementation Support project. The Task Force identified the need for detailed strategies and action steps to implement existing local plans, particularly in the areas of:

- Affordable Housing
- Business Retention and Attraction
- Public and Private Partnerships
- Transportation Access and Connectivity

EAST CORRIDOR PROJECT PURPOSE AND OVERVIEW

The East Corridor Implementation Support project has identified pivotal opportunities to transform Eastside station areas into more vibrant, economically healthy neighborhoods that offer equitable housing choices, more convenient access to jobs and jobs-to-housing balance within the high-capacity transit corridors and region, and better connectivity to goods and services.

The project is supporting immediate advancement of the implementation of visions and plans that have already been developed by participating jurisdictions on the Eastside, and the project team has leveraged other products developed by PSRC and the Growing Transit Communities Partnership, including affordable housing and opportunity mapping, existing conditions reports, market analyses, station area typologies, Center for Transit-Oriented Development (CTOD) market strength index, and other information as a base of reference for the project.

IMPLEMENTATION SUPPORT PROJECT GUIDANCE AND TIMELINE

All phases of the East Corridor Implementation Support Project have been informed by representatives of the East Corridor Task Force. The Task Force identified a subset of members, called the Project Management Team (PMT), to advance the project and bring back matters to the Task Force for direction and decisions. PMT members were selected from the general membership of the Task Force (including representatives from the cities of Bellevue and Redmond) and confirmed by the Task Force co-chairs. See the Acknowledgements page for PMT members.

Growing Transit Communities staff and the PMT members of the Task Force retained a consultant team with expertise in affordable housing, urban design, transportation planning and policy, real estate and economic development, and other areas to assist in identifying actions and strategies to address these issues and help to catalyze TOD.

OVERVIEW OF PHASES 1 AND 2

The scope of work for the East Corridor Implementation Support Project was completed in two phases. Phase 1 included best practices research, a high level assessment of seven East Corridor station areas, screening and selection of station areas for further analysis in Phase 2, and development of the scope of work for Phase 2. See the Phase 1 Best Practices Research Report for a detailed description of initial tasks. Go to (http://www.psrc.org/about/pubs) to download the report.

Phase 2 involved more intensive analysis and development of specific recommendations for TOD implementation for two station areas: 130th Avenue NE in Bellevue and Overlake Village in Redmond. Phase 2 explored innovative approaches to leverage opportunities and incent TOD implementation in the short- and long-term in these station areas. Phase 2 developed recommended actions, strategies, and products to address specific issues in each station area per the scope of work that was developed by the Task Force and overseen by the PMT.
### PHASE 2 PRODUCTS

Products developed in Phase 2 supporting these four focus areas are listed in the chart below.

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| Vibrant Urban Neighborhoods                     |
| Generating Transit-Oriented Communities for All Ages |
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| Business Retention and Attraction               |
| Analysis and Recommendations                    |
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| Overtake Village District Energy Concepts and EcoDistrict Applicability |
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| 130th Avenue NE Transit-Oriented Development   |
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| Stakeholder Involvement and Outreach           |
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| Transit Integration and Parking Management      |
| Analysis and Recommendations                     |
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| Bicycle and Pedestrian Connectivity              |
| Analysis and Recommendations                      |
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These products have been completed as stand-alone, but complementary documents and reports. All reports are available for download at [http://www.psrc.org/about/pubs](http://www.psrc.org/about/pubs) (look for Growing Transit Communities Partnership, East Corridor information).
PARTNERSHIP FOR SUSTAINABLE COMMUNITIES LIVABILITY PRINCIPLES

The Growing Transit Communities Partnership supports the livability principles of the Partnership for Sustainable Communities. The US Department of Housing and Urban Development (HUD), US Department of Transportation (DOT), and the US Environmental Protection Agency (EPA) have joined together to help communities nationwide improve access to affordable housing, increase transportation options, and lower transportation costs while protecting the environment through the Partnership for Sustainable Communities. The Partnership for Sustainable Communities works to coordinate federal housing, transportation, water, and other infrastructure investments to make neighborhoods more prosperous, allow people to live closer to jobs, save households time and money, and reduce pollution. The Partnership agencies incorporate the following six principles of livability into federal funding programs, policies, and future legislative proposals.

Provide more transportation choices—Develop safe, reliable, and economical transportation choices to decrease household transportation costs, reduce our nation’s dependence on foreign oil, improve air quality, reduce greenhouse gas emissions, and promote public health.

Promote equitable, affordable housing—Expand location- and energy-efficient housing choices for people of all ages, incomes, races, and ethnicities to increase mobility and lower the combined cost of housing and transportation.

Enhance economic competitiveness—Improve economic competitiveness through reliable and timely access to employment centers, educational opportunities, services, and other basic needs by workers, as well as expanded business access to markets.

Support existing communities—Target federal funding toward existing communities—through strategies like transit-oriented, mixed use development and land recycling—to increase community revitalization and the efficiency of public works investments and to safeguard rural landscapes.

Coordinate and leverage federal policies and investment—Align federal policies and funding to remove barriers to collaboration, leverage funding, and increase the accountability and effectiveness of all levels of government to plan for future growth, including making smart energy choices such as locally generated renewable energy.

Value communities and neighborhoods—Enhance the unique characteristics of all communities by investing in healthy, safe, and walkable neighborhoods—rural, urban, or suburban.
The Focus of this Phase 2 Report: Housing, Development, and Infrastructure Funding
Analysis and Recommendations

This Phase 2 report of the East Corridor Implementation Support Project presents a diversity of strategies for implementing affordable housing and funding development and infrastructure in the station areas. The information developed in this report, supported by the Growing Transit Communities Partnership, can serve as a reference and model to other transit-oriented development implementation in station areas throughout the region.

BACKGROUND AND INTRODUCTION

One of the key objectives of the Growing Transit Communities Partnership is to make the most of the regional investment in high-capacity transit by locating housing, jobs, and services close enough to stations that using transit is a viable option for many people. Integrating affordable housing into the mix of options surrounding each light rail station brings the benefit of bringing people together with high-capacity transit who are likely to benefit from reduced household transportation costs.

To provide these housing and job opportunities in the station areas, the Cities of Bellevue and Redmond have adopted transformative plans for the 130th Avenue NE and Overlake Village, the subject of this report, and other station areas. Layers of public infrastructure improvements will be needed to support the planned increases in population. A concerted effort will be required to secure funding phases, over many years, and to work with development to implement the level of infrastructure improvements needed in the station areas.

As part of the East Corridor Implementation Support project for the Growing Transit Communities Partnership, the Otak team has developed this report of observations, strategies, and recommendations related to housing, development and infrastructure funding for the East Corridor. Opportunities to integrate equitable housing in the Overlake Village and 130th Avenue NE station areas are highlighted, including potential methods for reducing development costs and funding infrastructure to support redevelopment projects.

AN OPPORTUNITY-RICH AREA

The Geography of Opportunity Report, completed by the Kirwan Institute for the Growing Transit Communities Partnership in 2012 found the East Corridor had almost entirely high or very high opportunities surrounding high-capacity transit stations. This analysis was based on an opportunity index that considered education, economic health, housing, transportation mobility, health and environmental factors. The report specifically cited the prevalence of well-paying jobs, and noted:

“There are two primary strategies that can be pursued to increase opportunity for King County’s marginalized populations: to bring opportunities to opportunity-deprived areas, and to connect people to existing opportunities throughout the metropolitan region.”

The series of recommendations in this report, therefore, concentrates on the latter; connecting people to opportunities through equitable development and investment, especially by expanding affordable housing choices in close proximity to jobs. While the recommendations in this report place emphasis upon two of the twelve transit stations planned in the East Corridor as the highest priority focal points for public investment, the recommended public policies and incentives contained herein should also be broadly available within the East Corridor to engender a range of affordable housing choices. The Bel-Red Road (Bellevue-Redmond) subarea and Overlake subarea are contained within the East Corridor.
CREATING 20-MINUTE NEIGHBORHOODS

Creating a linked series of developments within the East Corridor unified by high-capacity transit mirrors the best practice trend of creating a linear series of “20-minute neighborhoods.” 20-minute neighborhoods are typically characterized by a vibrant mix of commercial and residential establishments within a one-mile walking distance. They are similar to traditional, walkable downtowns, but are popping up in neighborhoods outside of Main Street.”

Retrofitting suburban areas like the Bel-Red Corridor with into more compact, 20-minute neighborhoods with affordable housing, specialty retail, open space, and community services provides an alternative to other more suburban, low density and auto-dependant neighborhoods on the Eastside. Urban amenities such as a full service grocery store needs to be within walking distance of two or three transit stops to be accessible.

At present, planned stations at Redmond’s Overlake Village and Bellevue’s Hospital Station offer the amenity of full service grocery, but limited adjacent housing (though significant housing is planned for these station areas as well as the stations in the Bel-Red Corridor). Employment opportunities are available at the Hospital Station Area and will be expanded nearby at the 36 acre Spring District; (120th Avenue NE Station) within Bellevue that is currently under development by Wright Runstad & Company and Security Properties. The development will include a 316-unit project and has an option on a second 225 units on an adjacent site. Another multifamily development of significant scale (approximately 300 units) is under construction at the easterly end of the Bel-Red Corridor.

In Overlake Village, the redevelopment of the former Group Health Cooperative headquarters campus into a locus of housing, retail, hotel and office will provide these uses within walking distance of the light rail station and is vested for land use approval and well underway.

Initially offering employment and market rate housing, the Spring District projects will, in all probability, establish a high standard for market rate housing availability within the East Corridor. The project underway at the former Group Health Cooperative headquarters will be offering a mix of affordable units for moderate income households.

Taken together, these projects and the existing 70,000 jobs (including downtown Bellevue and Downtown Redmond, and the Microsoft campuses), within the East Corridor offer a remarkable opportunity to create walkable, mixed-use, transit-oriented communities where housing, jobs, services, and amenities are readily available within 20 minutes, without the use of a car.

The amount and availability of permanently affordable housing within the corridor needs to be expanded to be sufficient in support of the number of existing and planned jobs in the corridor. It is in the public interest to focus resources upon creating a mix of housing choices with a range of prices and sizes to engender family-friendly communities in close proximity to jobs.

Urban open space is an important placemaking approach needed to establish the identity of the area and to compete with established neighborhoods. As young millennial consumers consider their housing choices within the region, the East Corridor needs to offer more than just affordability but also urban ambience; “a cool factor” to draw people out of their comfort zones of close-knit Seattle neighborhoods. Maximizing the mix of international retailers already in the corridor and building upon the nascent arts community (e.g., Pacific Northwest Ballet) in the corridor will help further define and distinguish the area. These existing community assets need articulation, expansion and greater visibility so they are clear and present assets defining the character of the area.

1 “The Rise of the 20-Minute Neighborhood”; Initiative for a Competitive Inner City
EXISTING ASSETS, ACCOMPLISHMENTS, AND INTERNAL CAPACITY

There have been significant efforts by A Regional Coalition for Housing (ARCH-consisting of 15 cities and King County-including Bellevue and Redmond) local non profits, developers and the King County Housing Authority (KCHA) to increase the range of affordable housing options in the region, and in particular on the Eastside.

ARCH administers and distributes funding support through the ARCH Trust Fund, a unique and award winning approach used by local jurisdictions which entails sharing of funds across jurisdictional boundaries The ARCH Trust Fund has provided almost $40 million to fund approximately 3,000 dwelling units since its inception in 1993.

Within the immediate area of the East Corridor, there is a 200-unit project named Somerset Gardens (serving people at 30% - 60% of area median income) and a 300-unit tax credit project named Village at Overlake (serving primarily people at 60% or below of area median income). The Village at Overlake (above the Overlake Park & Ride) is within a walkable distance (within ½ mile) of Overlake Village and the proposed light rail station. The Crossroads area within Bellevue (served by RapidRide B, bus rapid transit connecting to planned Light Rail Train Stations) has some of the most relative affordable housing in East King County, with several of these properties permanently affordable and owned by the King County Housing Authority.

These existing assets are a strong foundation of affordable housing, which has been preserved for the future upon which to build. ARCH and its local partners, including the King County Housing Authority, have demonstrated that it is possible to create affordable housing through:

1) General market as a result of allowing a diversity of housing;

2) Land use regulations and incentives that explicitly create affordable housing; and

3) Direct assistance tools that have often included local resources leveraging low income housing tax credits (both 4% and 9%) often in combination with other resources. This successful track record leads to the conclusion that there needs to be a heavy reliance on “home grown” solutions to expand upon the existing accomplishments of ARCH, KCHA, and others to address the affordable housing challenges within the East Corridor.

DEVELOPER AND STAKEHOLDER CONSULTATION

On May 21-22, 2013, the Growing Transit Communities Partnership, including members of the East Corridor project management team (PMT) engaged community developers and real estate experts active in the Eastside markets of Bellevue and Redmond in workshop sessions to discuss their views of the feasibility, perceived risk, and barriers to development within the East Corridor. The assembled group included landowners, developers, non-profits and public agencies with development expertise. Each group included a cross section of interests.

After an orientation session and field visits for each of the station areas, an in-depth conversation was facilitated to explore their recommendations to help catalyze and promote redevelopment activity in the two highest priority station areas; 130th Street NE in Bellevue and Overlake Village Station in Redmond. The recommendations of these focus groups are incorporated into this report and recommendations. The Growing Transit Communities Partnership and PMT members also have been instrumental in guiding the work of this report.

The opinions and recommendations expressed herein are the work of Otak, Inc. and do not necessarily reflect the opinions of beliefs of the Cities of Bellevue and Redmond, Puget Sound Regional Council, or their agencies, nor the stakeholders engaged in furtherance of this work.
GENERAL STRATEGIES

A fundamental challenge to residential development in the East Corridor area is inducing private-sector development activity consistent with established goals and objectives for the area. Financial viability under current market conditions in the East Corridor is seen as the primary short-term obstacle to achieving more affordable housing while attaining the desired density and urban development forms. It is beneficial to promote Equitable Transit Oriented Development (ETOD) in anticipation of light rail train service within the area, but such service is 7-10 years from being available. That means steps need to be taken well in advance of the availability of LRT Service to ensure the option of affordability is embedded into the area. The key factors underlying a determination of the highest and best use of a property are achievable pricing, cost to develop, financing and entitlements. The highest and best use of the site represents the development form that can provide the best return to the property owner.

ACHIEVABLE PRICING

The key variable influencing the form of future development is the market's perception of achievable pricing in the East Corridor. To the extent that public actions marginally increase the area's desirability for prospective residents, residential development in the area should be able to attain a reasonable rate of return for the developer and property owner. This translates into higher residual land values, and at certain inflection points, a change in the form of development into higher density and higher quality urban forms.

The following is a list of recommended strategies to increase the feasibility of equitable transit-oriented development within the East Corridor:

- Capital investments in streetscape and infrastructure, which increase the aesthetics as well as functionality of the public realm.
  - Improved controlled intersections and railroad crossings in the vicinity to ensure connectivity while ensuring safety
  - Improve the pedestrian access along drainage corridors and daylight creeks within the area to provide connectivity within the area without relying solely upon arterial streets and neighborhood collectors.

- Support Urban Amenity Investments to attract and retain households with a mix of incomes:
  - Develop the Redmond Overlake Village parking lots slated for regional surface water management into a connected series of urban parks as urban amenity infrastructure for the area.
  - Interconnect open space within the Group Health Cooperative Site with the planned Shopping Street to ensure connectivity between Redmond Overlake Village LRT.
Station and planned residential and office developments.

- Promote the development of the Overlake Village Shopping Street through the use of tax incentives including LIFT (see the description under financing, elsewhere).

As a long-term strategy, the establishment of a publically or privately owned garage space at the 130th Avenue NE station in the Bel-Red Corridor will promote ridership, affordable housing choices and urban placemaking. A Public Development Authority could be chartered for this purpose, which would insulate Sound Transit from the development and operating risk of the facility. Ideally, this would be a dual-use facility to support the transit system riders in the East Corridor as well as to support the onsite parking needs of a catalytic project within the East Corridor.

Schematic designs and a series of alternatives for the parking facility at the 130th Avenue NE station were developed in consultation with Sound Transit and Bellevue staff. Proformas developed by BAE Urban Economics to model the economic performance of these alternative schemes demonstrate that a dual-use parking garage at the 130th Avenue NE Station could work with the foresight and support of Sound Transit and the City of Bellevue. For more information about this analysis, refer to the separate Phase 2 report 130th Avenue NE Transit-Oriented Development Opportunity Study.

**REDUCING THE COSTS OF DEVELOPMENT**

There are a number of public policy interventions that directly or indirectly reduce the cost of development, which can increase the viability of residential developments. To the extent that the residual land value of new development exceeds the existing residual land values, then redevelopment is probable assuming the land owners are economically motivated and the land is free of disqualifying encumbrances.

Public policy can motivate redevelopment by recalibrating this relationship through incentives in the form of reduced development costs. If there are encumbrances (such as obsolete buildings, toxins in the soil, easements, or rights-of-way) which affect the motivation of property owners, then public policy can also help remove these barriers.

To ensure new development achieves the desired outcome, conditions on affordability, quality and other desired public policy outcomes are customarily attached to the incentives. This approach has been used in to some extent in Bellevue (Bel-Red), Redmond (Downtown and Overlake), Mercer Island, Town Center Issaquah, and Sammamish, and should be expanded to increase housing choice in the East Corridor, specifically. Shifts in the cost of construction can lower the threshold rent levels necessary to support alternative forms of development.

**Local Employer-Led Housing Equity Fund**

The nexus between major local technology employers and the workforce necessary to support the local technology workforce is compelling. Microsoft Corporate employees are choosing to live elsewhere in the Seattle-Bellevue metropolitan area in part because their transportation costs are being mitigated by the company.

The best practices research in Phase 1 of the East Corridor Implementation Support Project identified the success of the Silicon Valley Leadership Group in capitalizing the Housing Trust of Santa Clara County. An initial investment of $1 million each by five advanced technology employers (Adobe, Applied Materials, Cisco, Hewlett Packard and Sun Microsystems) leveraged other private funds, state and federal resources. The current debt to equity ratio of the Housing Trust is 10:1 with $45 million in assets.

The cluster of advanced technology employers within the East Corridor compels serious consideration of the potential to link the interests of employers to attract and retain a competitive workforce while managing regional transportation...
congestion and improving quality of life in a coordinated and comprehensive manner.

A local employer-led equity fund could unite the shared interests of many business and community groups. Private funds should be held in trust separately from the King County Housing Opportunity Fund and the local funds allocated locally by ARCH. Expanding a locally funded housing trust fund with private equity could help address unmet needs for housing among high priority local populations. Since ARCH manages and distributes the ARCH Trust Fund, it would be most effective to build upon their successful track record. Some segregation of accounts will be necessary and appropriate to avoid encumbering private donated funds with public procurement requirements and to maximize leverage to the greatest possible extent.

Other recommendations:

- Structure the terms to leverage a portfolio average of 4:1 or four dollars for every one dollar of private funds invested. The assistance could include land banking, predevelopment costs, course of construction assistance and/or long term equity;
- Establishing a predevelopment revolving loan fund would help developers of affordable housing defer costs until projects could receive permanent financing. Such predevelopment costs include architecture and engineering fees; environmental due diligence and legal expenses, as appropriate;
- Financing System Development Charges (SDCs) tied to attainment of specific net operating income thresholds and/or occupancy (repaid upon issuance of a certificate of occupancy by the local building official or attainment of agreed upon occupancy);
- Construction Loan Guarantees for preferred development partners;
- Contingent Loan Agreement(s) to backstop debt service reserve accounts;
- Bridge equity pay-in of low income housing tax credit (LIHTC) and other subordinated debt or equity; and
- Assemble, acquire and/or remediate catalytic sites and prepare them for development by others, through competitive bidding and/or negotiated bids.

The wisdom of a fund separate from the King County Housing Opportunity Fund or the Washington State Housing Trust Fund requires discussion. These funds are capitalized with public resources and subject to policy and regulatory requirements of the funders and the agencies who administer the funds.

Targeting for extremely low income populations with special needs are state and county priorities, which may not be a high priority for employers in the East Corridor. Competitive bidding, state procurement requirements and prevailing wage rates are customarily required as a condition of county and/or state approval which is documented to add additional cost. These added costs may be an acceptable offset to the use of scarce public funds. A privately capitalized fund, however, would have the flexibility to be applied to meet locally determined priorities.

Workforce housing is essential for families working in the service sector, entry level public employees and at beginning levels in many businesses and industries. Taken together, public and private funds can serve a wider spectrum of community housing needs including housing for low and very low income individuals and families, people with special needs and the local moderate income workforce who are otherwise priced out of the area. Working together, the public and private sectors can help ensure that the full spectrum of housing needs in the East Corridor is addressed by local non-profits and/or private developers. Costs could be lower without sacrificing quality or sustainability. The employer-led Housing Trust Fund would be in addition to, and not diminish the demonstrated
success of the County and State efforts by leveraging ARCH’s prior successful track record.

**Linkage Fees for Commercial & Industrial Employers**

Since commercial development creates new employment opportunities, there is a linkage to be made between the employers and the housing demands of their employees. The cities of San Diego, Boston, and San Francisco have long tied new office development to local housing requirements. Washington State Statutes (RCW 36.70A.540) enables cities and counties to enact affordable housing incentive programs for residential, commercial, industrial, and/or mixed-use developments. Incentives offered may include the following:

- Density bonuses within the urban growth area;
- Height and bulk bonuses;
- Fee waivers or exemptions;
- Parking reductions; and/or
- Expedited permitting.

Future impacts on affordable housing demand and traffic congestion regionally should compel a discussion about how commercial, residential, industrial, and/or mixed-use development could be incentivized to help produce affordable housing. The cost of compliance with such incentives needs to take into account the benefits of new development including taxes collected by state and local governments (vis-a-vis sales, business and occupation, real estate excise and property taxes) as well as the competitive position of the affected companies nationally and globally.

**Use of Leasehold Excise Tax (LET)**

A Leasehold Excise Tax (LET) program could be explored for potential value capture of new mixed-use development. Phase 1 of this project explored in some detail the use of Leasehold Excise Taxes (LET) in Arizona, which other than Washington is the only other state that does not have Tax Increment Financing. The use of LET applies to publically-owned land and captures the taxable value of non-residential uses such as parking, office and retail.

In Arizona, the LET is used as a means to support public improvements. Case law in Arizona has determined that the use must be proportionate to quantifiable public benefits. In other words, the commercial ground floor of a mixed-use development owned by a public entity may be taxable unless the affected local governments (state, city, county and school district) agree to use the property for a valid public purpose. At scale, this tool could be used for ecodistricts including surface water retention facilities that have some associated air rights available for development. This may expand opportunities for affordable housing by shifting site development costs over a larger area or district. In Washington State any private use of public (non-federal) land requires a payment of 12.84% of the gross revenues annually.

**Transit Benefit Districts**

A transportation benefit district is a quasi-municipal corporation, which is an independent taxing "authority" and may be created by any city or county. Some 35 exist in Washington, including Seattle. Washington State Law regarding Transit Benefit Districts enables cities or counties to levy sales or use taxes (RCW 82.14.0455) or to impose an additional vehicle license registration fees (RCW 82.80.140) to fund local transportation projects consistent with the district’s transportation improvement plan.

Such revenue may be pledged to service bonds sold for transportation improvement projects. Proceeds may be used for capital costs associated with transportation improvement projects and related engineering, architectural, planning, and inspection costs as well as bond issuance fees and legal costs. Transportation costs funded by and through a Transit Benefit District may include structured parking or other improvements which could directly or indirectly reduce the cost of development, enhancing housing affordability. Decoupling the provision of parking from each specific project could help reduce the cost of specific projects by shifting the cost to the public or to an intermediary such as a Public Development Authority. Projects rents will be proportionately reduced by the amount of public investment into an area-wide parking strategy.
Community Facilities District
Of recent note and a potential model for other areas in the East Corridor is the creation of a community facilities district being proposed by Microsoft Corporation in the vicinity of the two Redmond light rail stations. Microsoft has agreed to pay for infrastructure improvements (including a pedestrian/bicycle bridge from Microsoft campus to the light rail station) with the understanding that the community facilities district (possibly the first in the state) would sell bonds financed by assessments charged to Microsoft-owned land.

Urban Land Trust
With or without an employer-led Housing Trust Fund recommended above, the cities working with preferred partners should option, acquire or attain the development rights (if not fee title) to one or more high priority sites and reserve them for development. Public or non-profit land acquisition and assembly can substantively reduce pricing as well as risk for subsequent development. The assembly of land is time intensive and costly, with a degree of risk. The risk is associated with the timely repayment of funds should the envisioned development not materialize in a timely manner, so some hedging and risk management are required to insulate the managing entity appropriately. The Cadman Sand & Gravel site and the assemblage by Sound Transit in and around the 130th Avenue NE Station are both compelling locations for early investment in the East Corridor.

To the extent that land is in public ownership and released to the market, through public offering, requirements can be placed on development of these properties, as desired. The entity assigned responsibility of the asset prior to development should have a direct relationship and accountability to city government; either the King County Housing Authority or a public development authority chartered by the appropriate city. Allowing for control and predevelopment work to occur by the intermediary while under public ownership sharply reduces costs as well as risk for the developer. This effort needs to be coordinated with and between the region’s efforts to create a regional land bank with the involvement of Enterprise Community Partners and Impact Capital funded through the Growing Transit Communities Partnership. For more information about this analysis exploring the potential to create the Regional Equitable Development Initiative (REDI) Fund, visit: http://www.psrc.org/assets/10278/TPB20131114Present-GTC.pdf

Local Infrastructure Financing Tool
In 2006, the Washington State Legislature passed ESHB 2673 creating the Local Infrastructure Financing Tool (LIFT) program. The goal of the program is to provide state matching funds to local governments to develop public infrastructure in defined areas. The underlying purpose is to use the public investment to attract private investment and improve the economic conditions of the selected project locations.

The Cities of Bellingham, Bothell, Everett, Federal Way, Mount Vernon, Puyallup, Yakima, Vancouver and Spokane County were selected as LIFT demonstration sites by the Community Economic Revitalization Board (CERB). Six of the nine authorized projects include higher density housing. Bothell has begun construction and is reconfiguring their downtown to create a sense of place and to accommodate greater densities.

Vancouver, Washington has used the LIFT authority to facilitate the so-called Library Square development which is anchored by the new flagship Fort Vancouver Regional Library within a larger project called River West.

Six of the nine LIFT projects may receive state contributions up to one million dollars per year for up to 25 years. CERB awarded the remaining three projects a maximum of $500,000 per year for up to 25 years. Per statute, the total amount of state contributions to all LIFT projects combined in any single year is $7.5 million, which is already accounted for in the nine current projects.

Without further allocation of funding by the Legislature, the LIFT program is effectively closed to new projects. While the program is limited in its current applicability and many of the projects authorized between 2006 and 2009 have been delayed due to the global economic downturn, several are now underway.
The Local Infrastructure Financing Tool (LIFT) was authorized as a demonstration program in lieu of Tax Increment Financing (TIF) to illustrate how a portion of the sales tax could be used to incent redevelopment and urban placemaking. Like a traditional TIF, the first step is for local jurisdictions to designate the geographic boundaries of the project. In the LIFT program, this project area is called a “revenue development area” (RDA).

Like in a traditional TIF program, the annual state contribution is intended to reflect the increase in state tax revenues in the RDA following approval of the project by CERB. However, due to state constitutional provisions, it is not permissible to simply give local jurisdictions state property tax revenues. Instead, local jurisdictions receive their state contribution by imposing a local sales and use tax (the “LIFT tax”), which is then credited against the state sales tax.

Consumers do not see any increase in sales tax at the register, but instead some of the state portion of the sales tax is diverted to the local jurisdiction to pay for the LIFT project. The recipients of LIFT assistance from CERB then are enabled to bond improvements against the revenue stream created within the RDA.

The LIFT-authorizing legislation requires the Joint Legislative Audit and Review Committee (JLARC) to report to the Legislature on the program every five years beginning in 2013. The JLARC report issued in September, 2013 recommends increased data collection and assignment of responsibility within state government to evaluate the program without continued JLARC involvement. The program terminates in 2039 unless extended or amended.2


It is recommended that the authorization for LIFT be expanded by the legislature for localities that are High-Capacity transit corridors, provided affordable housing and business development are facilitated by and through the support of sales tax revenues. This effort needs to be consistent with other regional initiatives and involve regional partners and affordable housing interests.

Credit towards System Development Charges and Development Fees

Employers who provide mitigation measures that ameliorate traffic impacts should rightly be credited with offsets when they take independent action to reduce trips and therefore congestion. Housing provided in or near the Bel-Red Corridor and other designated transit corridors should reduce the employer’s traffic mitigation expectations. Likewise contributions to Local Employer Led Housing Equity Fund should receive similar treatment i.e. employers who voluntarily contribute to a housing fund which reduces traffic burdens in the corridor should be credited with an offset towards otherwise required development fees and SDCs.

The timing of the collection of charges and fees is also a significant issue in development viability. To the extent that jurisdictions can defer charges, either to project completion or economic stabilization of the project, the viability of the project can be greatly enhanced. Financing of charges to allow them to be paid over time can also impact project viability; provided there is no lending of public credit for populations not considered poor or infirm (i.e. resident incomes may not exceed 80% of the Area Median Income).

Debt and Credit Enhancement

Low interest loans provide a number of benefits. First of all, they typically reduce the equity requirement for the project, with equity carrying a relatively high cost for the development. This can be through a better debt coverage ratio associated with lower-cost funds, and/or a lower equity requirement per the terms of the debt.

A commonly used tool is subordinated or second position debt, which is debt secured by a second position in the property. This can be used to reduce equity requirements. This type of debt is not typically available in the market, as it is not adequately secured by real property.
Contingent Loan Agreements have been used by King County Metro to “backstop” the debt service reserve accounts of bonds issued for high priority projects. Approximately $200 million was allocated to the King County Housing Authority (KCHA), Mercy Housing, Imagine Housing and the YMCA for projects located throughout King County.

The project sponsors and tenants have benefited from these agreements which lower the interest expense of the project translating directly to lower rents. Metro King County established a cap on the total amount they were willing to backstop, and this limit has been reached. The Cities of Bellevue and/or Redmond could undertake this activity directly or work in concert with King County Metro to re-open their existing program. According to Dan Watson, Deputy Director at the King County Housing Authority (KCHA), they were able to receive King County Metro approval of several projects for which the KCHA issued bonds that were of sufficient credit quality to give the County comfort that their involvement would involve minimal exposure to risk.

One high profile example is Overlake Station in the City of Redmond, a 308 unit transit oriented development that would not have been financially feasible without a contingent loan agreement. All projects were reviewed by a panel of financial advisors and vetted by the Office of Finance before the County Executive recommended action to the King County Council. Clark County, Washington and the City of Bellingham have also entered into similar agreements with local housing authorities undertaking projects financed with municipal bonds.

**LAND USE ENTITLEMENTS AND INCENTIVES**

Current entitlements in East Corridor provide sufficient flexibility and density to enable development as the area begins to redevelop. Some fine-grained refinements to existing policy and regulations are suggested below.

**Modification of Development Codes and Regulations to Promote Affordability**

The City of Seattle amended the uniform building code for Type Five (5) construction to enable initially five over one or 5:1 wood frame construction. Initially, the fifth floor was specified as a mezzanine floor with no more than 50% of the fourth floor as an interior loft. The code was later amended to authorize a full fifth floor and later to enable 5:2 or five floors of lightweight frame construction over two floors of steel reinforced concrete (AKA podium) as a right. This significantly increased the entitlement to density without proportionate public benefit.

The Cities of Bellevue and Redmond could consider enacting amendments to their respective building codes within the Bel-Red Corridor to authorize the 5:2 construction typology. An evaluation of the potential public benefits that might result related to code provisions allowing additional density under this construction type should be completed. The nexus between the added entitlement and the public benefit needs to be articulated in the ordinance authorizing the code amendment. Ideally, the public benefit would tie back to goals and objectives within the cities’ adopted comprehensive and neighborhood plan policies.

Any increases in height need to be supported by adequate fire suppression capability and affirm, not undermine, the allowable Floor Area Ratio (FAR) contained in the subarea plan.

Affordable housing could constitute an additional 10% of the 5:1 and 20% of the 5:2 construction typology, for example or half of the imputed “gain” of units created by the higher floors. Deeper affordability that is otherwise stipulated by Bellevue or Redmond could warrant this change in policy. Other fine-grained changes to development standards such as Bellevue’s stipulation of off-street loading docks and the laneways and size of parking spaces within parking structures could help facilitate more affordable projects in the East Corridor.

**Overlay Districts, Business Improvement Areas and Special Emphasis Areas**
One innovative use of tax exempt financing would be to engage the National Development Council (NDC) to finance the public realm improvements in the East Corridor and to use fees (storm water management fees, traffic impact fees, parking fees, etc.) to service the debt. The NDC is a national non-profit that serves as a conduit for tax exempt financing which has financed several municipal buildings for local governments using the 63.20 financing option. Redmond City Hall was funded in this manner. The new Bothell City Center is being financed in this manner. Any bona fide public facility that can be backed by a predictable revenue stream may be funded by 63.20 bonds.

The financing entails leased-back bonds whereby NDC undertakes the project under their tax classification to facilitate government facilities. After an agreed term, usually thirty years when the lease expires and the debt retired, local government may acquire the facilities at no cost. This enables the local government to lease properties with an option to purchase without issuing revenue bonds or general obligation bonds directly.

John Finke is the Seattle area Director of the NDC and finances projects throughout the county including many 63.20 financing. In addition to Redmond and Bothell, Metro King County, Pierce County and the City of Vancouver are using this financing tool. Up to 10% of the project may involve private commercial activity provided the local government entity has a master lease on the project and can ensure payment of the bonds.

**IMPROVE FINANCING/RATE OF RETURN**

Reducing financing costs may mitigate risk and improve the rate of return of developers undertaking projects in the East Corridor. Washington State Constitutional strictures and case law generally require projects to benefit the poor and infirm (people with incomes less than 80% of the area median) and/or fulfill a clear public purpose.

- Leveraging private investment through the use of property tax abatement by establishing a Property Tax Abatement Area in the East Corridor is another potential opportunity. Washington Statutes (RCW 84.14) enables cities to designate areas in which new residential properties or substantially rehabilitated properties may be eligible for 8-12 year property tax exemption.

The residential portions of mixed-use projects are eligible for either market rate (8 years) or below market rate housing (12 years) depending upon the incomes of the people served by the new or rehabilitated residential development. The commercial area of a mixed-use property is taxed at the improved value. In any event, the underlying land continues to be taxed.

- Access to equity equivalents such as the use of Project Based Rental Assistance (PBRA) vouchers within mixed income projects undertaken by either for-profit developers or non-profit developers could encourage the development of several scattered site housing investments in the East Corridor.

The King County Housing Authority (KCHA) administers this program and typically distributes such vouchers to non-profit sponsors of mixed income (affordable to people of low income) projects. If up to 25% of a given project is infused with PBRA, then the underwriting of the long term debt will assume higher sustained occupancy over time. KCHA is a designated Moving to Work (MTW) agency and enjoys more administrative flexibility in how such resources are deployed than many other local housing authorities.

KCHA has utilized PBRA on properties they have acquired in the Crossroads and 148th areas and within an award winning TOD project in Redmond named the Village at Overlake which was developed on a former METRO Park & Ride surface parking lot. Through ARCH, KCHA has allocated two rounds of PBRA vouchers over the last 5
years to distribute through the ARCH Trust Fund review process. The PBRA allocated by ARCH are tied to the specific policy requirements of KCHA including replacement housing for HOPE VI redevelopment and to assist the homeless. These resources would be less likely to be available if any forms of federal sequestration were to continue.

- Encouraging the use of Housing and Urban Development (HUD) 221 (d) 4 mortgage insurance financing by developers in the area should also be considered. This 40-year mortgage instrument enables qualified developers to obtain non-recourse financing for both construction and permanent financing.

- A case study by Urban Atlantic summarized the use of this program. The Rhode Island Row project a 274-unit, mixed-use, transit-oriented development located at the Rhode Island Avenue–Brentwood Metrorail station in northeast Washington, D.C. Under the program, up to 20% of the project may also be non-residential. Projects undertaken by private developers must have at least 10% equity to qualify.

Since projects are underwritten based on 90% of the Total Development Cost (TDC) it is necessary that projects reach a state of completion for HUD to underwrite the project according to final architectural drawings and construction specifications.

3 2012 Jack Kemp Workforce Housing Models of Excellence Award; Urban Land Institute

A role for the Cities of Bellevue and Redmond, through ARCH could include:

1) Use of city or county owned land and acquisition of land targeted for redevelopment. ARCH could serve as the entity which manages the public procurement process to match developers to the available sites land banked by the cities for future development.

2) Provide predevelopment funds to pay for architectural designs and engineering studies necessary to bring the designs to a state of completion for HUD to then underwrite the proposed project. This investment may be able to be secured as a predevelopment loan provided the 10% is available at the point of applying for the mortgage insurance.

Buildings may be considered residential or commercial depending upon their height. Buildings with more than four floors are considered commercial and four or fewer floors are considered residential. The HUD 221(d) 4 financing may be layered with Low Income Housing Tax Credits to further reduce the incomes below market if necessary and/or desired.

Non profits are eligible for a variant of this program entitled 221 (d) 3 which receive priority processing consideration. The primary difference is that nonprofits are eligible for up to 100% financing.

It is worth mentioning that in exchange for favorable financing terms, HUD requires projects to meet federal Davis-Bacon prevailing wage rates.

- Low Income Housing Tax Credits (LIHTC), either 4% or 9%, substantially reduces costs and reduces equity requirements. The 4% LIHTC used in conjunction with tax exempt bonds are less-competitive so may be more attractive as a short term strategy (there is still a state scoring system but it is not oversubscribed at present). The modeling performed in association with Sound Transit and the Cities of Bellevue and Redmond by
BAE Urban Economics for the 130th Street Station provides an illustration of how the public interest could be served through such development.

**MARKETING/FACILITATION**

Cities and King County Metro have a vested interest in and are partners in the Growing Transit Communities Partnership and East Corridor Implementation Support Project. Their land use plans support higher density development which is affordable and sustainable. ARCH, a partnership of 15 east King County cities and King County promotes and creates affordable housing throughout the Eastside, including mixed-use centers such as the Bel-Red Corridor, and Overlake. ARCH could continue to facilitate and expand affordable housing options within the East Corridor through the following measures:

- Increase awareness and interest of the opportunities for affordable housing and redevelopment in the East Corridor, including the sharing of market data and other supporting data with the development community.

- Serve as a key partner in the creation, deployment and management of an Urban Land Trust (described in the Section entitled Reduced Development Costs).

- Administer and distribute private sector contributions into a Local Employer-Led Housing Equity Fund. (described in the Section entitled Reduced Development Costs).

- Encourage phased development that can accommodate future phases at more urban densities. This allows for a viable development under current market parameters while retaining the ability to intensify uses if development economics allow in later years.

- Promote Lease to Own Options for Moderate Income Homeowners: Homeowners with incomes below 100% of the Area Median Income (AMI) or approximately $86,709 in 2013 are especially disadvantaged in the private market.

According to Zillow, the median Bellevue house price of new and existing homes in September 2013 was $551,100 ($572,100 downtown), clearly beyond the reach of the local workforce. Redmond prices of new and existing homes are somewhat less, but still high with a September 2013 median price of $506,800. Assuming a 20% down payment of $110,220 on a median priced home, the monthly payment would exceed $2,500/month with taxes and insurance (2013 calculations). Using national standards, an affordable house payment for the median household would not exceed $2,168/month, assuming the down payment could be procured at no cost (equity rollover or interest free gift).

This option is simply not available to many households. Lease to Own housing options have arisen in high cost areas to offset the barriers to homeownership, especially the required down payment.

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4 HUD User 2010 America Community Survey Data trended to 2013
SEQUENCING AND PHASING
Achieving the desired change in residential investment patterns will take time. Early interventions are likely to be limited to urban infill and the assembly of parcels of land to secure affordable housing for development from 2014 to 2019 (over the next five years). As the market area emerges as a residential area, the availability of cost effective sites for development will diminish.

RECOMMENDATIONS MATRIX
The recommendations in this report are grouped into five categories and include public finance techniques, tax incentives, private investment recommendations and regulatory incentives to improve housing affordability.

Public Finance Techniques are recommendations which hinge on city, county, regional or state programs to effect or implement. Direct spending on public improvements is a time-tested means to compel change in the urban form by increasing the level of service in a given area. Such improvements also can increase the value of land in the area and incentivize private owners to develop their property in a manner consistent with the enacted plans for the area. Tax Incentives are indirect inducements to achieve public aims and objectives.

Similar to direct public finance techniques above, tax incentives achieve similar outcomes without a direct expenditure or outlay of funds. Sometimes tax incentives are used with direct public spending to maximize beneficial impacts. Private investment recommendations recognizes that most land use decisions are made by private individuals, companies or corporations in pursuit of return on investment (ROI) or economic returns, not for altruistic reasons.

Actions that increase private ROI were evaluated in recognition that private actions have beneficial outcomes when consistent with enacted public plans. Regulatory incentives are recommendations which do not entail spending money per se but involve land use, zoning or building codes and ordinances which may indeed have the effect of increasing ROI or reducing development costs.

These recommendations have merit by achieving housing affordability through creative use of design and/or development regulations.

As there are nearly twenty specific recommendations, they are summarized, prioritized and evaluated in matrix format. This matrix is provided in the Appendix.

The recommendations in the matrix were evaluated in comparison to six diagnostic factors. Projects were considered high priority if they could be implemented within three years; medium priority if they are able to be implemented in three to five years and low priority if they would take longer than five years to implement.

Recommendations were considered to have transformational impact if they would change the urban form of development throughout the East Corridor. Alternatively, recommendations were considered to have significant impact if they would change the urban form in multiple locations in the corridor. Recommendations that potentially have the effect of changing urban form on discrete sites, but not multiple sites or the entire area were deemed not transformational or significant.

Recommendations were also evaluated as to whether they could be scalable (yes) or not (no) replicated (yes) or not (no). Recommendations were evaluated as to whether they would have a positive net impact on housing affordable to low, moderate or median income households (yes or no) or simply affect affordability for housing at market rates without differentiation.

Finally, recommendations were evaluated whether they were currently authorized by state law (yes or no) or would require statutory changes to implement. Recommendations were ranked lower in the legal context if changes to state law were needed to implement them.

Based on this evaluation, three recommendations are considered High Priority (able to be implemented in 1-3 years) and either Transformational or Significant in terms of their impact. These recommendations are as follows:

1) Employer-Led Housing Equity Fund;
2) Urban Land Trust for Catalytic Sites; and
3) Property Tax Abatement.

An additional five (5) recommendations are considered **Medium Priority** and are considered to have either **Transformational or Significant** impact. They are as follows:

1) Public or PDA Parking Garage to Support Equitable Development;
2) Transit Benefit Districts/Decouple Parking from Residential Projects;
3) Debt & Credit Enhancement/Contingent Loan Agreements;
4) Modifications of Development Codes & Regulations; and
5) Low Income Housing Tax Credits (especially 4%).

Taken together, these recommendations will have the greatest impact on expanding the supply of affordable, low income and/or workforce housing in the East Corridor. The other recommendations are in varying degrees important, but better suited for implementation at a later date after the highest priority recommendations have already been implemented. Refer to the matrix in the Appendix for additional information.

### ADDITIONAL INFRASTRUCTURE FUNDING OPPORTUNITIES

In addition to the potential funding mechanisms described above for development, some of which can be used to fund infrastructure improvements, there are additional funding sources that can be explored for infrastructure implementation.

As a result of the Great Recession that began in 2008 and ongoing state and federal budgeting challenges, the public funding “landscape" has been subject to many changes and volatility over the last five years. Given that the current federal transportation act is due to sunset at the end of FY 2014, ongoing changes can be expected.

Puget Sound Regional Council developed the report *Funding for Local Government Infrastructure* in 2009. The report describes the status of infrastructure funding programs and tools in Washington State as of 2008-2009. The comprehensive report provides valuable information to local agencies considering the full range of opportunities for infrastructure funding. This report provides an excellent summary of the taxes, grants, and loan programs local jurisdictions in Washington can explore, although it is somewhat out of date given changes at the state and federal level in recent years.

According to the PSRC report, under more normal economic conditions, local governments have covered almost three quarters of their total infrastructure costs through dedicated and general funds. State and federal government aid to local jurisdictions has covered the other quarter of the funding need. However, with the economic downturn, local capital budgets have been reduced and state and federal funding programs have become more constrained, creating a wider gap in available funding to cover infrastructure.
improvements. Even with the American Recovery and Reinvestment Act (ARRA) of 2009, state and federal funding for infrastructure and other purposes has not been available at pre-recession levels. Other challenges to funding infrastructure include increasing construction costs, fund usage restrictions and eligibility limitations, reduced voter support for special initiatives, and other influences.

**Available Funding Sources**

Funding sources available to cities for capital projects include:

- **Fund Revenues**—general funds (through property taxes, retail sales and use taxes, state-shared revenues, and utility taxes and enterprise funds (through charges and fees));

- **Bond and Dept Financing**—state/federal low interest loans, general obligation bonds, revenue bonds, and other bonds, as well as the federal/local dept section 108 loan guarantee program;

- **Local Options**—Real Estate Excise Tax (REET), mitigation and development fees, local improvement districts, transportation benefit districts, impact fees, and levy lid lift funding; and

- **Grants and Loans**—state and federal programs.

**Fees, Taxes, Grants, and Loans**

A variety of fees, taxes, grants, and loans are summarized below.

**Developer Contributions and Impact Fees**

Both the Cities of Bellevue and Redmond require developer contributions and the payment of impact fees for infrastructure and other improvements and community services. Fees are set by each city and then typically calculated based on the specifics of each project as part of the approval process. Impact fees are typically assessed on a per unit basis and system improvements must be reasonably related to development and not exceed proportionate shares. Latecomer agreements, often applied for municipal water and sewer projects, facilitate the payment by subsequent developments to reimburse earlier development that paid up-front costs.

**Community Revitalization Financing**

Legislation approved by the State Legislature in 2009 allows upfront funding for infrastructure to be repaid by increased revenues generated by investment. Areas in need of revitalization need to be delineated in a community renewal plan. An accompanying ordinance needs to find sufficient public health and safety deficiencies in the Community Renewal Area to warrant action.

Needed pedestrian facilities, incompatible land uses and/or inadequate infrastructure that can be found to jeopardize public health, safety and/or welfare may warrant action. Cities, Counties, Port Authorities or Housing Authorities may be designated and Community Renewal Agencies responsible to implement the enacted plan. Bonds may then be sold to alleviate or correct the identified public health and safety deficiencies.

The City of Vancouver established Community Renewal Areas in their City Center as well as within a transit corridor named the Fourth Plain Corridor. The City of Bremerton established a Community Renewal Area for the purpose of downtown revitalization. The City of Olympia is considering creation of a Community Renewal Area to help sustain the revitalization of their downtown area. The City of Everett established a Community Renewal Area for abatement of hazardous materials.

**Local Improvement Districts**

Rates assessed with property taxes, determined for a fixed number of years based on quantification of the benefit.
Local Infrastructure Financing Tool

Approved by the State Legislature in 2009 (ESSB 5901), the local infrastructure financing tool diverts a portion of state sales tax on increased sales and is a vehicle for dedicated assignment of local funds.

Real Estate Excise Tax (REET)

Washington State collects the third-highest Real Estate Excise Tax (REET) in the US on all recorded real estate sales. REET is a levy on real estate transactions, typically paid by the seller absent a contract to the contrary. Washington State enables local governments to use REET for “local Improvements” typically including streets, water systems, sanitary sewers, storm drainage and parks. Refer to the Municipal Research and Services Center (MRSC) for more information about the tiers of REET authorized in Washington State: http://www.mrsc.org/subjects/finance/reetweb.asp.

Given the need to promote infrastructure improvements within target areas, it behooves the cities of Bellevue and Redmond to consider using REET for public improvements in the East Corridor. It is possible (with judicious underwriting) to capitalize improvements using tax exempt bonds secured by the future receipt of REET funds because there is a predictable cash flow that can be underwritten. This could potentially cover costs of the urban amenity infrastructure in the East Corridor such as the daylighted creeks, drainage facilities, and other features. The improvements must be public in nature therefore owned or leased by public entities.

Growth and Transportation Efficiency Center (GTEC) Designation

Overlake’s designation as an Urban Center qualifies it as a candidate for a Growth and Transportation Efficiency Center (GTEC) designation. The GTEC concept is part of Washington’s Commute Trip Reduction program and enables areas to receive additional funding and assistance in creating programs to encourage use of alternatives to single-occupant vehicle use and reduce single-occupancy vehicle trips and vehicle miles traveled. Such programs benefit the community by supporting improved transportation efficiency, economic development, energy conservation, air quality, and livability.

State Environmental Policy Act—Mitigation Fees

Per RCW 43.21c, extracts a negotiated rate/cost or construction of project to mitigate impacts related to new development.

State Funding Programs for Local Governments

Many Washington State departments and programs provide loans and grants that local urban agencies are eligible. Several that are most applicable to infrastructure funding are listed below (gathered from the Municipal Research and Services Center (MRSC) of Washington’s website: http://www.mrsc.org/subjects/finance/grants/#fed)

Various state funding resources are listed below.

Washington State Department of Commerce

- Agency Resource Book - Provides quick reference to program fact sheets, agency contacts, and budget highlights
- Commerce Programs - Includes department services, grants, and loans
- Open Grants and Loans - Currently available funds from federal, state and local grant and loan programs administered by Commerce
- Community Services Block Grant Program
- Community Economic Revitalization Board (CERB), Department of Commerce—traditionally funds have been for public facilities to foster business/job development and retention
- Growth Management Grants - Growth Management Update
Grants and other growth management-related grants
  o **Homeless Assistance and Prevention Programs** - Provides funds to local governments to reduce homelessness

**Washington State Department of Ecology**
  o **Grants and Loans Programs** - Includes information from a wide array of programs including: air quality, flood control, shoreline management, waste management, water quality, water resources, watershed planning, and more

**Washington State Department of Transportation**
  o Highways and Local Programs
    - **Funding Programs for Local Agencies** - Includes federal and state programs

**Washington State Recreation and Conservation Office (RCO)**
These grants are typically for parks and recreation projects, including funding for acquisition and capital improvements. A wide variety of activities are eligible.
  o **Grants** - Information on the many grant programs offered by the RCO
  o **RCO Grants Available This Year**
  o **Find Grants** - Provides various options for finding RCO grant programs

**Washington State Public Works Board**

**Federal Funding Programs for Local Governments**
The following federal grant and loan programs that are available to local governments for urban areas (based on MSRC information).

- US Economic Development Administration - [Federal Funding Opportunities](#)
- US EPA - [Grants and Debarment](#) - Central resource for information on EPA grant programs
- US Department of Health and Human Services
  o National Institutes of Health, [Grants and Funding](#)
- US Housing and Urban Development, [Grants](#)
- US Department of Transportation, [Resources for Government](#) - Includes grants and other programs

**Moving Ahead for Progress in the 21st Century (MAP-21)**—On July 6, 2012, President Obama signed into law P.L. 112-141, the Moving Ahead for Progress in the 21st Century Act (MAP-21). MAP-21 provides needed funds and represents a milestone for the U.S. economy and is the first multi-year transportation authorization enacted since 2005. MAP-21 funds surface transportation programs at over $105 billion for fiscal years (FY) 2013 and 2014. The US Department of Transportation has been focused on working closely with stakeholders to ensure that local communities are able to build multimodal, sustainable projects ranging from passenger rail and transit to bicycle and pedestrian
paths through MAP-21 programs (including the TIGER program described below). The US Department of Transportation website (http://www.dot.gov/map21) provides detailed information about the funding opportunities through Map-21, but after this act sunsets in 2014, these programs are subject to change with any new authorizations.

**Tiger Program**—the federal discretionary grant program known as Transportation Investment Generating Economic Recovery, or TIGER, provides funding for road, rail, transit, and port projects. The program began with funding FY 2011, and for the initial program, Congress allocated $1.5 billion for TIGER I and $600 million for TIGER II. FY 2012, TIGER grants provided $500 million in funding. TIGER is a highly competitive program and successful projects must demonstrate a significant positive impact on the Nation, a region or a metropolitan area. As such, local infrastructure projects are less competitive compared to regional projects of significance. Each project is typically multi-modal, multi-jurisdictional or otherwise challenging to fund through existing programs. The TIGER program enables the DOTs to use a rigorous process to select projects with exceptional benefits, explore ways to deliver projects faster and save on construction costs, and make investments in our nation’s infrastructure that make communities more livable and sustainable. With new federal transportation act authorization, this program may change.

**Other Grant Programs**

While not specifically geared toward infrastructure, there are a number of funding programs that could be leveraged for local projects that may enrich the quality of life within new transit communities, such as:

- Washington State Arts Commission [Grants](#) - Includes grants to organizations, statewide partners and grants for education and special purposes.

- Washington State Department of Archaeology and Historic Preservation [Grants](#) - Includes Heritage Capital Projects Fund, Historic County Courthouse Rehabilitation Grants, and other preservation funding sources.

Also, please refer to the methods and opportunities discussed earlier in this report for funding redevelopment and reducing development costs, including:

- King County Housing Opportunity Fund, Washington State Housing Trust Fund, and/or the suggested Local Employer-Led Housing Equity Fund (see explanation below)
- Linkage Fees for Commercial Employers
- Use of Leasehold Excise Tax (LET)
- Transit Benefit Districts
- Urban Land Trust
- Local Infrastructure Financing Tool- LIFT program (Created by the State Legislature in 2006 through ESHB 2673)
- Credit Towards System Development Charges & Development Fees/Debt and Credit Enhancement
  - Low interest loans
  - Subordinated or second position debt

**Key State Resources**

The following are key resources for finding grants from Washington State agencies.

- Association of Washington Cities (AWC) [Grants and Purchasing](#) - Up-to-date listing of the most recent state and federal grants available for cities, with application information
- [Grant Gateway](#) - Provides tools to help plan, research and prepare successful grants
- [Infrastructure Assistance Coordinating Council (IACC)](#) - Nonprofit organization of staff from state and federal agencies, local government associations, and others. IACC helps Washington communities identify and obtain resources to develop, improve, and maintain public works programs
CONCLUSION

Although infrastructure funding opportunities are available in various forms, it will take a concerted effort to fund the substantial infrastructure needs of the East Corridor station areas. Prioritizing the improvements in the station areas for capital funding and aggressively seeking a wide variety of funding options will be critical.

- The cities of Bellevue and Redmond will need to continue to closely monitor federal and related state program funding for opportunities in the coming years.

- City departments should join together to seek funding for projects that can accomplish multiple objectives. For example, Department of Ecology funded water quality, habitat, and stormwater management projects could also result in enhancement of public open space and related transportation improvements (such as culvert and bridge replacement).

- The cities should partner with other agencies and jurisdictions on projects that are likely to bring regional benefits, such as a regional shared use path or improvement of local transit corridors to enhance service to High-Capacity transit stations.

- The cities should identify potential projects that may be eligible for emerging funding opportunities, such as the REDI loan fund if established, and proactively position these projects for consideration.
## Strategies & Recommendations

### Diagnostic Factors

<table>
<thead>
<tr>
<th>Strategies &amp; Recommendations</th>
<th>Priority</th>
<th>Impact</th>
<th>Scalability</th>
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<th>Affordability</th>
<th>Legal Context</th>
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<tbody>
<tr>
<td><strong>1) Achievable Pricing</strong></td>
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<tr>
<td>A Capital Investments in Infrastructure</td>
<td>Medium; 3-5 Years</td>
<td>Significant</td>
<td>Site Specific</td>
<td>Localized</td>
<td>Market &amp; Affordable</td>
<td>Authorized</td>
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<tr>
<td>B Support Urban Amenity Investments</td>
<td>Medium; 3-5 Years</td>
<td>Significant</td>
<td>Site Specific</td>
<td>Localized</td>
<td>Market &amp; Affordable</td>
<td>Authorized</td>
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<tr>
<td>C Establish Public or PDA Owned Garage to Support Equitable Development</td>
<td>Medium; 3-5 Years</td>
<td>Transformational</td>
<td>Site Specific</td>
<td>Localized</td>
<td>Market &amp; Affordable</td>
<td>City/STA Approval</td>
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<td><strong>2) Minimize Development Costs</strong></td>
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<tr>
<td>A Employer-Led Housing Equity Fund</td>
<td>High; 1-3 Years</td>
<td>Transformational</td>
<td>Systemic/Revolving</td>
<td>Region-Wide</td>
<td>Strong Affordable</td>
<td>Private Activity</td>
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<tr>
<td>B Linkage Fees for Commercial Employers</td>
<td>Medium; 3-5 Years</td>
<td>Incremental</td>
<td>Area-Wide</td>
<td>Area-Wide</td>
<td>Moderate Affordable</td>
<td>Authorized</td>
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<tr>
<td>C Use of Leasehold Excise Tax for Public Realm Improvements</td>
<td>Medium; 3-5 Years</td>
<td>Incremental</td>
<td>Area-Wide</td>
<td>Region-Wide</td>
<td>Market &amp; Affordable</td>
<td>City/County Approval</td>
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<tr>
<td>D Transit Benefit Districts/Decouple Parking from Residential Projects</td>
<td>Medium; 3-5 Years</td>
<td>Transformational</td>
<td>Area-Wide</td>
<td>Area-Wide</td>
<td>Moderate Affordable</td>
<td>City/County Approval</td>
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<tr>
<td>E Urban Land Trust for Catalytic Sites</td>
<td>High; 1-3 Years</td>
<td>Transformational</td>
<td>Site Specific</td>
<td>Region-Wide</td>
<td>Strong Affordable</td>
<td>Private Activity</td>
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<tr>
<td>F Local Infrastructure Financing Tool</td>
<td>Medium; 3-5 Years</td>
<td>Significant</td>
<td>Area-Wide</td>
<td>Area-Wide</td>
<td>Market &amp; Affordable</td>
<td>Requires State Approval</td>
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<td>G Credit Towards System Development Charges &amp; Development Fees</td>
<td>Medium; 3-5 Years</td>
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<td>Site Specific</td>
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<td>Moderate Affordable</td>
<td>Requires City Approval</td>
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<tr>
<td>H Debt &amp; Credit Enhancement/Contingent Loan Agreement</td>
<td>Medium; 3-5 Years</td>
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<td>Systemic/Revolving</td>
<td>Region-Wide</td>
<td>Strong Affordable</td>
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<td><strong>3) Land Use Entitlements &amp; Incentives</strong></td>
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<td>A Modifications of Development Codes &amp; Regulations</td>
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<td>Area-Wide</td>
<td>Area-Wide</td>
<td>Market &amp; Affordable</td>
<td>Requires City Approval</td>
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<tr>
<td>B Overlay Districts, Business Improvement Areas &amp; Special Emphasis Areas</td>
<td>Medium; 3-5 Years</td>
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<td>Area-Wide</td>
<td>Area-Wide</td>
<td>Market &amp; Affordable</td>
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<td><strong>4) Improve Financing &amp; Rate of Return</strong></td>
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<td>A Property Tax Abatement</td>
<td>High; 1-3 Years</td>
<td>Significant</td>
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<td>Market &amp; Affordable</td>
<td>Requires City Approval</td>
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<td>B Equity Equivalents; Project Based Rental Assistance</td>
<td>Medium; 3-5 Years</td>
<td>Incremental</td>
<td>Area-Wide</td>
<td>County-Wide</td>
<td>Strong Affordable</td>
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<td>C HUD Mortgage Insurance</td>
<td>Medium; 3-5 Years</td>
<td>Incremental</td>
<td>Site Specific</td>
<td>Region-Wide</td>
<td>Market &amp; Affordable</td>
<td>Authorized</td>
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<tr>
<td>D Low Income Housing Tax Credits</td>
<td>Medium; 3-5 Years</td>
<td>Significant</td>
<td>Site Specific</td>
<td>Region-Wide</td>
<td>Strong Affordable</td>
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<td><strong>5) Marketing &amp; Facilitation</strong></td>
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<td>A Data Sharing &amp; Promotion</td>
<td>Medium; 3-5 Years</td>
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<td>Area-Wide</td>
<td>Area-Wide</td>
<td>Supports Policy/Action</td>
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<td>B Lease to Own Alternatives to Ownership</td>
<td>Medium; 3-5 Years</td>
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</table>

**Terms and Definitions:**

- **Market & Affordable** means policies or projects that may be either market rate or affordable and may be mixed income, combining resident populations. The affordable dwellings may have long term affordability requirements.
- **Moderate Affordable** means policies or projects affordable to households with incomes above 60% of the Area Median Income up to 80% of Area Median Income (for Renters) or between 80-100% of AMI for Homeowners.
- **Strong Affordable** means policies or projects affordable to households with incomes less than 60% of the Area Median (for Renters) or below 80% of the Area Median Income for Homeowners.

For purposes of this analysis, it is assumed that any public funds invested in a project would be secured by a covenant, leasehold interest or regulatory agreement which would preserve the affordability for a long-term period.