Approximately .7 acres of property in the First Hill neighborhood (2976 74th Ave SE) belongs to the City of Mercer Island Water Utility. This property was originally acquired as a potential water reservoir site. In August 2007, the Utility Board voted to recommend to the City Council that the property be declared surplus to the utility’s needs. In December 2007, City Council decided to table the issue until the neighborhood could be further consulted about uses for that property. No further decisions have been made at this time. This agenda bill outlines a proposed process for engaging Mercer Island residents in a conversation about the future of the First Hill property.

Background
The City of Mercer Island Water Utility owns approximately .7 acres, or 30,660 square feet of property at 2976 74th Avenue SE, in the First Hill neighborhood. The property was acquired, along with other property at the south end of the Island, for a potential additional water storage facility. However, last year an emergency well was successfully drilled at Rotary Park. To the extent that additional water storage is desirable, that storage should occur at the south end of the Island in a different pressure zone. Given these considerations, the First Hill property has become surplus to the City’s water utility needs.

In early summer of 2007, First Hill resident Anne Fox convened a meeting of neighborhood residents, to discuss possible options for future development of the First Hill property. City Manager Rich Conrad was invited and attended. The neighbors’ response was mixed. Some supported evaluation of development of alternative forms of housing on the site. Others opposed development of anything but traditional housing. To the extent there was a consensus, neighbors were open to more dialogue on the subject. In addition, many expressed a preference to retain some or all of the property as a park and/or open space.
On August 14, 2007, the City’s Utility Board voted unanimously to recommend that the City Council “declare the water property (on First Hill) as surplus,” that it be sold, “and that the proceeds of the sale be used by the Water Utility for investing in future water utility assets that would have the effect of decreasing the need for future rate increases” (August 14, 2007 Utility Board minutes). To implement the first part of the Utility Board’s recommendation, Resolution No. 1395 declaring the First Hill property surplus was presented to Council on December 3, 2007. City Council decided to table the issue at that time so that the public could be consulted before going forward with any actions. No further decisions about the property have been made.

On April 7, 2008, staff proposed a two-step process for engaging the community in a discussion of the future of the First Hill property. Several City Council members expressed concern over the suggested process, and directed staff to develop a revised process with the following components:

1. Identify all feasible options, taking into account the residential nature of the neighborhood;
2. Obtain Mercer Island public input and evaluate the identified options; and
3. Present the analysis to the Council.

Feasible Options

Staff has identified the following range of options for the First Hill property.

1. **No action/retain for future Water Utility use.** As noted above, the Utility Board has voted to recommend to the City Council that the property be declared surplus to the utility’s needs. In the event the City Council was to identify a likely future water utility need for the property, it could be maintained in water utility ownership. Under this option, alternative funding for would have to be identified for the emergency well project.

2. **Retain the property for open space or park purposes.** Under this option, the City could transfer responsibility for the property from the water utility to the parks department, and convert the property to use as a park. To do so state law (RCW 43.09.210) requires that when property is transferred from one department to another, “true and full value” must be paid to the transferring department. This statute would require that “true and full value” be provided to the water utility in exchange for the property. A “public park” would be allowed under the city’s development code subject to specific access, lighting and setback requirements.

3. **Sell the property without restriction.** The property could be sold “as is” in which case the new owner would be able to develop the site for any use allowed by the city’s development codes. The property is zoned R-8.4 Single Family, which would allow up to three detached single-family homes together with the accessory uses allowed in Mercer Island’s single family neighborhoods. The owner would also be eligible to seek a conditional use permit for other uses specified by code as potentially allowed in Mercer Island’s single family neighborhoods. Under this option, the City might consider dividing the property into two or three lots prior to sale, potentially increasing its market value.

4. **Sell the property with restrictions.** As property owner, the City could record a covenant placing specific conditions on the future development of the property prior to offering it for sale. Such conditions could, for example, establish higher development standards than required by zoning (e.g., larger setbacks, lower height limitations, etc.) or limit the number of homes to one or two. This might reduce the market value of the property by some amount depending on the type and level of additional restriction. As with Option #3, the City could also consider subdividing the property prior to offering it for sale.

5. **Consider making the property available for an innovative housing demonstration project.** The City Council could adopt an ordinance enabling the development of an innovative housing project (e.g., compact courtyard housing, attached single family, or smaller lot single family housing) as a demonstration project. Under this option the City would engage the community in a detailed planning and decision-making process before proceeding.
This is not intended to be an exhaustive list, but rather represents a range of options. For example, under Option #4 we could discuss a wide range of special conditions that could be placed on a property sale. The community and City Council could also consider some combination of these options. For example, it may be possible to divide the property into two or three lots, sell one or two for development under existing codes (Option #3), and retain one parcel for park or open space purposes (Option #2).

**Public Input and Evaluation of Options**

Staff is proposing a community workshop be held to obtain the ideas and opinions of Mercer Island residents. This workshop is tentatively scheduled for July 1, 2008 and would be a facilitated “brainstorming” session intended to:

- Share information regarding the options identified above;
- Solicit residents’ ideas regarding any additional feasible options that should be considered;
- Respond to questions regarding development options under existing code requirements;
- Solicit opinions as to what option or options are preferred, worthy of further consideration, or not desired.

The workshop would be broadly advertised through the following channels:

- City website
- MI Weekly email distribution list
- First Hill email distribution list (see www.mercergov.org/firsthillproperty)
- Mercer Island Reporter
- Postcard mailing to properties within 300 ft of the water utility property (this is the standard notification process for property impacts)

**Presentation to City Council**

Staff would report the outcome of the community workshop to the City Council and propose next steps based on public input and analysis.

**RECOMMENDATION**

*Development Services Director & Communications Coordinator*

**MOVE TO:** Authorize staff to proceed with the proposed public input and evaluation process for the First Hill property and report the results back to the City Council.
Parcel Boundary

Tax ID# 5315100885
Value (2008): $770,000
Owner: City of Mercer Island
Zoning: Residential 8400
Size: .7 Acres

2976 74th Ave SE- FIRST HILL

Air Photo: March 2007

AB 4305
Exhibit 1
Page 4
MINUTES:

(3) It was moved by Councilmember Litzow; seconded by Councilmember Grady to:
Approve the Study Session & Regular Meeting Minutes of March 17, 2008 as written.
Motion passed 7-0.

CONSENT CALENDAR:

(4) Payables: $1,036,243.67 Payroll: $589,570.89

It was moved by Councilmember Litzow; seconded by Councilmember Grady to:
Approve the Consent Calendar and the recommendations contained therein.
Motion passed 7-0.

REGULAR BUSINESS:

(5) AB 4291 First Hill Water Utility Property Future Use – Public Involvement Process

Development Services Director Steve Lancaster presented a public involvement process for determining
the possible uses for the First Hill property (2976 74th Ave SE) currently owned by the Mercer Island Water
Utility. Three options for the property have been identified so far: a housing demonstration project, selling
the property for traditional housing development or developing a park on the site.

The proposal is a two-step process for engaging the community in a discussion of the future of the
property. Step 1 would culminate in a “threshold decision” by the City Council whether to proceed with an
in-depth neighborhood conversation about housing options for the site. If authorized by the City Council,
Step 2 would explore housing options and culminate in a neighborhood recommendation to the Council
regarding what, if any housing option should be pursued by the City.

The Council discussed the assumed outcomes of Step 1, the purpose of the public involvement process,
and if the process should be Island-wide.

It was moved by Councilmember Grausz; seconded by Councilmember Litzow to:
Authorize staff to develop a revised public process for the property located at 2976 74th Ave SE
with the following components:
1. Identify all feasible options, taking into account the residential nature of the neighborhood;
2. Obtain Mercer Island public input and evaluate the identified options; and
3. Present the analysis to the Council.
Motion passed 7-0.

(6) AB 4284 Dangerous Building Abatement (5075 West Mercer Way)

Building Official Don Cole answered questions from the Council regarding the cost of the abatement
process and safety concerns.

It was moved by Councilmember Jahncke; seconded by Councilmember Cero to:
Appropriate the requested funds (from the 2007 General Fund year-end surplus) in an amount not
to exceed $85,000 and authorize the City Manager, City Attorney, and other staff to prepare the
necessary documentation in order for the City to obtain the legal authority from King County
Superior Court, to enter the property and abate all code violations, including demolition of the
structure, removal of the fallen tree and all other debris, and the implementation of necessary site
restoration measures. Additionally, authorize staff to attach a tax lien on the subject property to
recover any and all costs incurred by the City for such abatement, including but not limited to:
project managers, outside consultants, engineers, contractors, permit fees, material fees, penalties,
legal costs and other fees, along with the maximum interest allowable by law.
Motion passed 7-0.