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11/22/13 Meeting of the Planning, Land Use, and Sustainability Committee Virginia Mason Responses to PLUS Committee Questions

We appreciate the discussion that has taken place in the PLUS Committee over the last few weeks, and the Committee members and staff have raised some important issues. Nevertheless, we respectfully request that you adopt the Hearing Examiner's recommendations unchanged and reserve the broader policy discussions for a future legislative action.

The issue of housing replacement was discussed in detail with Virginia Mason's Citizens Advisory Committee, community and executives, with significant guidance of City staff. It has now taken three years, 23 CAC meetings, numerous additional meetings with City staff and over \$2.5 Million dollars, to bring the Master Plan before the Committee for approval.

Following the guidance of the Children's MIMP and the Seattle University MIMP—the Council's two most recent examples—Virginia Mason proposed and the Hearing Examiner recommended a housing replacement plan that meets, and in some instances exceeds, the conditions the Council imposed on those institutions. In addition to the requirements from those MIMPs, we have voluntarily limited replacement of the housing to the First Hill community, which will mean that the housing will be significantly more expensive to build than other areas of the City. We have also voluntarily agreed to a goal of making 10% of the units affordable to those earning 80% AMI for 10 years and to utilize a design that allows the project to compete effectively for affordable housing grants and loans, possibly as part of a mixed affordability project that works with First Hill's higher development costs.

As a non-profit healthcare organization, Virginia Mason is acutely aware that keeping healthcare costs affordable is crucial to the continued well-being of Virginia Mason and its community. Providing housing is not Virginia Mason's core business, and every dollar it spends on housing is a dollar it cannot spend doing what it does best: providing high-quality healthcare services as efficiently as possible.

We ask that you not increase the duration, difficulty or expense of replacing this housing beyond the Hearing Examiner's recommendations. Complying with the proposed mitigation will be difficult enough, and will distract us from our core mission to serve the healthcare needs of our community, and to replace our aging hospital with a safe, appropriate environment for our patients.

We have engaged in a rigorous, productive and robust process with our neighborhood and the affected City departments. We ask that you support the outcome of this process, and adopt the recommendations of the CAC, DPD and the Hearing Examiner.

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Below, we provide responses to the following questions raised in the staff memo of October 25, 2013:

1. Trigger for housing replacement,
2. Establishing that Virginia Mason caused the housing to be built,
3. Questions surrounding payment-in-lieu,
4. Incentivizing affordability, and
5. Size of replacement units.

Trigger for Housing Replacement. Our proposed trigger for issuance of a demolition permit for the Chasselton Court apartments, which DPD and the Hearing Examiner recommended, is the filing of a building permit application for replacement housing. This is more restrictive than either the Children's or the Seattle University MIMP, which each required only a MUP application. Waiting for building permit issuance or a later trigger such as inspection of shoring will have adverse impacts on Virginia Mason's ability to replace its hospital. While we understand the desire to see housing replaced before demolition, requiring occupancy before demolition would add a new restriction on Virginia Mason that will significantly increase the time it will take to construct their replacement hospital, and increase the cost of replacement due to inflation over that time. This restriction would also prevent Virginia Mason from proceeding with its hospital and replacement housing projects concurrently, as Children's did to such great effect.

Requiring occupancy prior to demolition commencing is also arguably inconsistent with the code, which requires only that comparable replacement housing be "proposed" before approving expanded MIO boundaries. SMC 23.34.124.B.7. Filing a building permit application satisfies Virginia Mason's obligation to propose comparable replacement housing, while requiring occupancy before demolition would add a regulatory requirement that does not appear in the Code.

Had this restriction been imposed on Children's, it would have complicated or even prevented what everybody agrees was a wonderful solution, as the PLUS Committee acknowledged a couple of meetings ago. Children's started working on its housing replacement immediately after MIMP adoption, but the ultimate solution required coordinating a number of players and took several years to put together. Fortunately, the Council had preserved the flexibility to allow Children's to do its hospital construction simultaneously, and now the new hospital wing is open and serving the community, and the housing replacement is under construction.

In light of all this, we ask you to maintain the building permit application trigger as recommended by DPD and the Hearing Examiner.

Establishing that Virginia Mason caused the housing to be built. The Committee can take official notice that this was a significant issue for the Children's MIMP, and after extensive deliberation, the Council decided to restrict acceptable replacement housing only to those projects that were not in the permitting pipeline before MIMP approval. The Council again imposed the same condition for the Seattle U MIMP. Virginia Mason followed these precedents, and the Hearing Examiner recommended it. Unlike the Children's situation, this was not a controversial issue at any stage in Virginia Mason's MIMP drafting or review process. This

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resolution provides a clear standard on which Virginia Mason and DPD can rely. The change contemplated in the memo, by contrast, would interject regulatory uncertainty without a sufficient corresponding benefit. It does not provide standards by which DPD can evaluate causation, which would leave Virginia Mason without guidance in its planning.

If the Committee does decide to add a new level of review to determine whether Virginia Mason caused the housing replacement to be built, it should assign the task to DPD alone. There is no reason to burden OH or split regulatory responsibility between different departments. DPD is the permit approval authority, and making the determination of causation is within DPD's ability. We would prefer to leave the Examiner's recommended condition unchanged, but should the Committee decide to add an additional layer of review, we ask that (a) DPD have jurisdiction and (b) DPD make an early and binding determination, before Virginia Mason invests significant time in developing a replacement project.

Payment-in-Lieu questions. At the October 30 PLUS Committee meeting, the Committee appeared to agree that there should be a payment-in-lieu option. The recommended condition allows the City to adjust the amount of payment in the future to reflect then-applicable building costs. This adequately protects the City from increasing expenses, and we do not see a sufficient reason to also adjust the percentage, which could lead to double-counting.

The possibility of imposing the same "build option" restrictions to any housing built under the "payment option" unnecessarily restricts the Office of Housing's ability to use its affordable housing dollars. The MIMP already requires the money to be spent on a First Hill project, which will increase the expense of the project. If the Office of Housing finds a 50-unit development going in on First Hill, and the Virginia Mason money is sufficient to buy down the rents, why prohibit that use? We suggest preserving the Office of Housing's ability to respond to market conditions by restricting only the location for use of payment-in-lieu dollars and leaving the rest of the details to the Office of Housing.

Requiring affordability. We agree with the Law Department that state law prevents the City from requiring rent control. However, the Council can add flexibility to the condition by allowing DPD to provide relief from other housing replacement requirements (such as unit count) in exchange for increased affordability, as Councilmember Burgess suggested at the last meeting. Virginia Mason would support, for example, options like granting DPD the authority to accept reductions to the total required unit count, without a MIMP amendment, in exchange for Virginia Mason providing additional affordable units at Virginia Mason's option.

Size of Replacement Units. The staff memo suggested imposing a condition that all of the replacement units be no smaller than the average size of the demolished studio units. Virginia Mason has agreed to replace the Chasselton units with at least the same number of units and units that are comparably-sized (studio for studio and one-bedroom for one-bedroom). To require that the new units be larger than existing goes beyond the requirement for comparable housing replacement and places an additional monetary burden on Virginia Mason. In addition, some of the smaller, less expensive and more desirable units would not be replaced with comparable housing, which could have a negative impact on the housing stock of the City.

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In sum, we ask that you adopt the Hearing Examiner's recommended conditions, with the possible exception of increasing DPD's authority to encourage affordable housing. Thank you again for inviting parties of record to speak to these questions, and thank you for your attention and in-depth review of our MIMP. We look forward to concluding this process and starting the implementation of the improvements to Virginia Mason Medical Center.