

POULSBO CITY COUNCIL MEETING OF JUNE 6, 2018

MINUTES

PRESENT: Deputy Mayor McGinty; Councilmembers Garland, Lord, Musgrove, Nystul, Stern, Thomas.

Staff: Finance Director Booher, City Clerk Fernandez, Director of Engineering Kasiniak, Planning Director Boughton, Associate Planner Berghoff, Associate Planner Coleman, IT Manager Stenstrom.

ABSENT: Mayor Erickson

MAJOR BUSINESS ITEMS

- * * * Budget Amendment/BA# 18-0204, Noll Road (Storm Drain to Transportation)
- * * * Approval of April 25, 0218, Council Meeting Minutes
- * * * Approval of May 2, 2018, Council Meeting Minutes
- * * * Approval of May 9, 2018, Council Meeting Minutes
- * * * Ordinance No. 2018-12, Water and Sewer Revenue Bond Issue
- * * * 2018 Kitsap County Agreement for Incarceration of Prisoners
- * * * Public Hearing: Release of Concomitant Agreement – Convalescent Center Rezone
- * * * Public Hearing: Resolution No. 2018-08, Adopting the Six-Year TIP
- * * * Workshop: Commercial Districts Ordinance Update

1. CALL TO ORDER AND PLEDGE OF ALLEGIANCE

Deputy Mayor McGinty called the meeting to order in the Council Chambers at 7:00 PM and led the Pledge of Allegiance.

2. AGENDA APPROVAL

Deputy Mayor McGinty noted an executive session was added to the end of the meeting.

Motion: Move to approve the agenda as presented.

Action: Approve, **Moved by** Stern, **Seconded by** Musgrove.
Motion carried.

3. COMMENTS FROM CITIZENS

Harold Frombach asked for additional handicap parking next to the pavilion (north portion of Anderson Parkway).

4. MAYOR'S REPORT AND COUNCIL COMMENTS

Councilmember Lord said there are many pedestrians downtown and asked everyone to be cautious and alert when driving down there.

Councilmember Nystul reported he attended the Poulsbo Community Orchestra on Sunday. He attended KRCC Transpol, which reviewed the recommendation from the technical staff for the award of \$9.7MM Kitsap set-aside.

Councilmember Garland noted the Poulsbo newsletter came out and Marine Safety Day is June 9, 10am-3pm, a free family event.

Deputy Mayor McGinty congratulated the Finance Department on getting an AA+ bond rating.

Councilmember Thomas attended the Puget Sound Regional Council (PSRC) General Assembly last week. The PSRC budget and the regional transportation plan were passed.

Councilmember Musgrove asked everyone to remember its summertime and the kids are getting out of school. Please be careful while driving. He noted the uptick in citizen participation in committee meetings, which is cool.

Councilmember Stern said the Finance-Administration Committee reviewed and discussed recent statements in the newspaper from the Mayor regarding the filing for her candidacy for the 23rd District representative position. He said the Council did not green light the mayor's position to be part time. The Council has not taken any such action. The mayor's position has been full-time since 1985.

5. CONSENT AGENDA

Motion: Move to approve Consent Agenda items a through d.

The items listed are:

- a. Budget Amendment/BA# 18-0204, Noll Road (Storm Drain to Transportation)
- b. Approval of April 25, 2018, Council Meeting Minutes
- c. Approval of May 2, 2018, Council Meeting Minutes
- d. Approval of May 9, 2018, Council Meeting Minutes

Action: Approve, **Moved by** Lord, **Seconded by** Thomas.
Motion carried.

6. BUSINESS AGENDA

a. Ordinance No. 2018-12, Water and Sewer Revenue Bond Issue

Finance Director Booher presented the agenda summary, noting the ordinance is to issue revenue debt for our cost with Kitsap County's sewer system. The debt should be approximately \$7.5MM. They just went through their bond rating, and were upgraded to a AA+ rating, which is an exceptionally good rating for a city the size of Poulsbo. We should be very proud; it was a team effort. Public Works, Engineering, Finance and the Mayor sat in the ratings call and were very well prepared.

Nancy Neraas, Bond Counsel, said the ordinance authorizes a series of bonds which will be used to pay the City's share of the improvements to the Kitsap County Wastewater Facility, not to exceed amount of \$8MM. This delegates to Finance staff and the Mayor to finalize the exact terms within the parameters set in this ordinance. This ordinance is the City's contract with bond holders. These bonds will be secured by the revenues of the water and sewer utility, not the general fund. The City promises to raise rates and charges for the utilities sufficient every year to pay operating and maintenance expenses, debt service, and an additional 25% of debt service (can be used for improvements and maintenance to keep system healthy). The City promises to not sell the whole system without paying off its debt. There is currently no outstanding debt, and there are conditions in which to issue additional debt in the future.

Councilmember Nystul said these are being called the water and sewer revenue bonds, and yet, the City maintains a separate water utility and a separate sewer utility and reports it on the CAFR. Why is it named "water and sewer?" Nancy Neraas said under state law you can combine two or more utilities for financing purposes. Even though they are separate systems, revenues from both systems are pledged. When calculating coverage, they use both utilities. Internally, the City may use one or the other, but you need to show coverage based on the combined.

Councilmember Stern said this has a ten-year call provision, but the City is coming in on a very favorable rate, and he can see carrying this out all the way. The timing is fortuitous, it is structured very well. The sooner this can be finalized, the better.

Finance Director Booher said the City's expenses to the County are currently \$11MM; however, because they have reserved connection fees, they have \$3.5MM to put towards that cost.

Councilmember Mugrove said he asked about the discrepancy between the motion for 11.2MM and the actual bond issuance document of \$8MM. It is the difference from the banked funding from the County that would be used as a portion of the payment. He asked when the motion is made, to amend the amount from \$11MM to \$8MM. He also asked if a second motion was needed to use or release the \$3.5MM of banked funding by the County, because there is no explanation between the difference of the motion amount that says for bonding, and the actual amount.

Finance Director agreed the amount needed to be amended to \$8MM, and an additional motion is not needed for releasing the banked funding. This is strictly the ordinance to go out to debt for the bonds, it is not related to the whole project.

Alan Dashen, Northwest Municipal Advisors, gave a financing update, which included the schedule, bond rating, sources and uses of funds (preliminary), and interest rates.

Councilmember Lord asked how everything adds back up to \$8MM. It sounds like there will be variables. Nancy Neraas said the amount in the ordinance is a "not to exceed amount." As a practical matter the City will issue less than that, but if there is not as much premium, it gives them the ability to issue a larger amount to principal. There is also flexibility in the timing.

Motion: Move to approve Ordinance No. 2018-12, an ordinance of the City of Poulsbo, Washington, relating to the Water and Sewer Utility of the City; providing for the issuance of not to exceed \$8,000,000 of Water and Sewer Revenue Bonds for the purpose of providing funds necessary to pay the City's share of Kitsap County Wastewater Treatment Facility improvements; setting parameters with respect to terms and covenants of the bonds; appointing the City's designated representative to approve the final terms of the bonds; and providing for other related matters.

Discussion: Councilmember Stern stated for the record from the time period of 1996 to 2006 he was an employee of Piper Jaffray, at which point they dissolved their retail operations, and he has been completely unassociated with Piper Jaffray since that time.

Action: Approve, **Moved by** Lord, **Seconded by** Thomas.
Motion carried.

b. 2018 Kitsap County Agreement for Incarceration of Prisoners

Finance Director Booher presented the agenda summary, noting the agreement is for jail services with Kitsap County for fiscal year 2018. The current agreement expired 12/31/2017.

Motion: Move to approve the agreement and authorize the Mayor to sign the agreement between Kitsap County and the City of Poulsbo for incarceration of prisoners for fiscal year 2018.

Action: Approve, **Moved by** Thomas, **Seconded by** Garland.

Motion carried.

c. Public Hearing: Release of Concomitant Agreement – Convalescent Center Rezone

Associate Planner Berghoff presented the agenda summary, noting the Poulsbo Planning & Economic Development Department received an application requesting release of a 1983 concomitant agreement attached to property at the southwest corner of the Lincoln Road and 10th Avenue intersection. The concomitant agreement was for rezone from Residential (R-1) to Public Use (P.U.D.). The concomitant agreement included an accompanying site plan with conditions for a convalescent center and office building. Release of concomitant agreements is a Type V permit and requires a public hearing and decision by City Council. If the release is approved, the City Council will need to adopt an ordinance approving the concomitant agreement release and adopting findings and conclusions.

Presentation highlights included:

- Background
 - In 1983, the property owner and a contract purchaser filed a request to rezone the property to PUD (Public Use District).
 - The accompanying site plan shows 25,000 square feet convalescent center and 5,500 square feet office building, parking areas, open space, and other site elements.
 - Zoning at the time was R-1 (Residential) and comprehensive plan designation was BG (Business/General).
 - The rezone to PUD for the site was approved by City Council through ordinance 83-53 and required a concomitant agreement.
 - The concomitant agreement was filed to the property by Auditor No. 8401310113.

- Concomitant Agreements are considered a 'contract' between the City and the property owner, are recorded to the property, and are identified in a title report.
- PMC 19.40.060 H – Certain criteria must be met in order to approve a release of concomitant agreement:
 - Development of the site is consistent with current development regulations and comprehensive plan;
 - Adequate public services are available to the site;
 - Development would not unreasonably impact nearby property development; and
 - Future development under current zoning will be consistent with existing and planned development.
- Staff recommendation
 - The staff report addresses the criteria and recommends a finding for each.
 - In conclusion, PED staff has determined that the requested release of the Poulsbo Convalescent Center Rezone Concomitant Agreement is consistent with the four decision criteria and recommends approval.
 - If the Council moves to approve the release of the concomitant agreements, an ordinance will need to be brought forward formalizing the release and adopting findings and conclusions.

Deputy Mayor McGinty opened the public hearing at 7:39 pm.

Sandra Farley asked the Council to vote no on the request. She is afraid if the agreement is released, they will be able to build a huge building of any kind there. It will have a huge impact on their housing and neighborhood. The original agreement provided 3,330 sq. ft. of parking.

Patrick Riley, property owner, said when the concomitant agreement was made, the entire property would be developed. Dogfish Creek runs along the backside. Under today's standards, half of the property would be developed. In respect to the intensity of the use, they are not sure what they are going to do. They have pulled away from the mini-storage idea. Convalescent homes have a lot of activity, sirens, and traffic. That is why the original plan needed so much parking. They want to do a development that is consistent with the current city standards under that zoning.

Jennifer Wiegand said she is concerned that the property is going to be highly developed if the agreement is released. There are some beautiful old beautiful trees on the property. She asked the request be denied. She said the property had a perc problem in the past.

Deputy Mayor McGinty closed the public hearing at 7:47 pm.

Councilmember Nystul said he sees two choices, either release the agreement and then the zoning as applies to this C-3 will apply to the property or keep it on and build a convalescent center. Associate Planner Berghoff agreed those were the two options; however, it is possible to amend the agreement if there was some aspect they believed needed to be preserved.

Councilmember Nystul said when it was first presented, a storage unit was being presented with roll up doors. In the planning documents, it showed a building with enclosed units. He also said in the C-3 zoning, automobile sales, convenience stores, grocery stores and fuel stations are permitted. There was concern expressed about the traffic to a storage unit, and with the release, it could still exist.

Deputy Mayor McGinty asked staff to elaborate on the project being vested to 1983 standards, and the constraints the residential street has on any commercial development. Planning Director Boughton said in the 70's and early 80's, concomitant agreements were the preferred method for rezoning approvals. GMA changed all of that. This has been on the books since 1983. Upon release of the agreement, it does fall to current development standards. Our current environmental standards are much more restrictive than 1983, for example, the buffer to Dogfish Creek. The concomitant agreement establishes a 15-foot buffer. Today's standards would be 125 feet, making 50% of the property not developable. The stormwater regulations today are very stringent, the 1983 standards are not as rigorous. The use table in commercial zoning chapter for C-3 zone is much more extensive than convalescent center. She said it has been council's policy in the past to release these agreements when the projects have not been built out, because we want to have them under today's standards. Regarding the second question, there is a standard in our zoning code today that residential streets cannot be used as the primary access for commercial development.

Councilmember Musgrove said he wanted to be assured that there would be no grounds for legal appeal to revert to the original R-1 zoning. Planning Director

Boughton said when the city council rezones a property, it is done by ordinance. In 1983 when the rezone was approved, the map changed then. The concomitant agreement is a separate document that is often required by the rezone ordinance that gets recorded on the property and serves as conditions of approval. When they bring forward releases, it is that document. The rezone has already taken place and on the books and cannot be undone. Releasing the agreement releases the conditions of approval that apply to the property.

Councilmember Musgrove asked based on current code, no matter what is built there, it would all have to apply to current code. Planning Director Boughton said that was correct.

Councilmember Lord asked each of the four criteria be summarized. Associate Planner Berghoff gave a summary:

- Development of the site is consistent with current development regulations and comprehensive plan
 - If the release is approved, they would meet current standards; if the release is denied, they would meet 1983 requirements
- Adequate public services are available to the site
 - Water, sewer and storm facilities are available, or could be constructed on site (storm)
- Development would not unreasonably impact nearby property development
 - This is met because of the zoning that is in place on the property. It is commercial, it has been run through the standard process of zoning. It would be met with current development standards.
 - The development that would be in place would be consistent with the comprehensive plan, the zoning ordinance, and development regulations. In that consistency is where they believe the unreasonable impact would not occur.
 - It would not be different than any other property in the zone. It is not a unique parcel.
 - The use of development regulations and SEPA insure that all impacts can be mitigated.
- Future development under current zoning will be consistent with existing and planned development.
 - Future development would be reviewed under current zoning, and therefore it would be consistent.

Motion: Move to approve requested Poulsbo Convalescent Center Rezone Concomitant Agreement release, as identified in staff report Exhibit B, and direct the Planning and Economic Development Director to prepare an adopting ordinance in support of this decision.

Action: Approve, **Moved by** Nystul, **Seconded by** McGinty.

Discussion: Councilmember Lord said it is a benefit to everyone to have clear, current regulations that are very stringent now, compared to 35 years ago when this agreement was made. Dogfish Creek is better protected today with the Critical Areas Ordinance, and our development regulations include paying attention to the significant trees that need to be protected. Property rights are in effect, and the City cannot deny somebody the right to develop. The City has very conscientious development regulations in place. The City has an ability to be careful on how the property would get developed compared to the agreement which has 35 years of existence as a convalescent center with no applications having come forward to fulfill the constraints on that property. She is confident the City can regulate any proposed development.

Councilmember Thomas said this property is like many properties in the city in that it is currently undeveloped. The citizens benefit from the undeveloped land, because what we are getting is a free green space, the cost of which is borne by the property owners. A property owner won't move forward with a project that would be a financial loss. The convalescent center does not make sense for the property owner and they cannot move forward. They are subsidizing an open space for everyone else. He loves undeveloped properties, but they must realize that the property owners do have rights. If the agreement has tied the property owner's hands, they must look at releasing it and allowing them to move forward under today's rules. This vote is just looking at the release, and not looking at any other plan that is being brought forward. When that happens, that is the time to look at it very carefully.

Motion carried.

d. Public Hearing: Resolution No. 2018-08, Adopting Six-Year Transportation Improvement Plan (TIP)

Director of Engineering Kasiniak presented the agenda summary, noting the process of the City of Poulsbo's 6-Year TIP for adoption and the projects on the list. The Public Works Committee reviewed the list and provided input. A SEPA determination of Nonsignificance (DNS) was issued on May 4, 2018 for the 2019-2024 TIP. This will be submitted to the Secretary of Transportation, and then it will become an

official state document used to award grants. There are 13 projects totaling \$45MM, half of it is dedicated to the Noll Road Improvements project.

Deputy Mayor McGinty said this is the City's six-year plan, and any projects that we want to receive grant money for needs to be on this list.

Councilmember Nystul noted Project No. 5, 4th Avenue Sidewalks, has been on the list for several years, and when they get money, they will build it.

Councilmember Stern clarified on 3rd that they did a great deal of it with the City Hall project and in cooperation with some grant funding, continued it all the way down. But the first portion coming from Hostmark has not been done. Director of Engineering Kasiniak said the first step to try to fund this project was to reclassify the road and included 3rd Avenue. This step made it eligible for state and federal funding. Step 2 is to find the matching funds, and now with cooperation from a new property owner, they hope to have matching funds and will be actively looking for grants. One opportunity is a Complete Street program which will hopefully be implemented through the Transportation Improvement Board (TIB) with the Connect Washington money.

At 8:14pm, Deputy Mayor McGinty opened the public hearing, and receiving no comments, closed the public hearing.

Motion: Move to adopt Resolution 2018-08, a resolution of the City Council of the City of Poulsbo, Washington, adopting a six-year transportation improvement program for the years 2019 through 2024 and directing the same to be filed with the State Secretary of Transportation and the Transportation Improvement Board.

Action: Approve, **Moved by** Thomas, **Seconded by** Lord.

Motion carried.

e. Workshop: Commercial Districts Ordinance Update

Associate Planner Coleman gave a presentation on the Commercial Districts Ordinance Update. Presentation highlights included:

- Review of Schedule
 - Special Economic Development Committee scheduled for June 13, 2018, at 2:45 pm.

- Public hearing scheduled for June 20, 2018
- Summary of Updates
 - C-1 zoning district design and development standards: building design, site design, building height, lot coverage, shopfront overlay, mixed use opportunities
 - Revisions to Commercial Use Table
 - Amendments to Table 18.80.030, Commercial Zoning Districts Use Table, to respond to the changing retail market through the growth of online sales.
 - Additional uses are proposed in all C zones to allow for tech and IT, biotechnical, research and development, and electronics uses; light assembly and fabrication uses completely within enclosed buildings; and handcrafted artisan type products, crafts, or food processing.
 - Refinement of uses allowed in the C-1 zoning district shopfront overlay, to ensure the businesses in downtown continue to provide the diverse and unique shopping experiences, products or eating/drinking opportunities not found online or at typical retail settings. Some uses are proposed to be located above or behind the primary storefront uses of retail, services and food/drink establishments.
 - Amendments to Table 18.80.030 to prohibit self-serve mini storage facilities in the C-3 zoning district, while continuing to allow the use in the C-2 and C-4 zoning districts.
 - C-2, C-3, and C-4 development standards
 - Building design, site and parking lot landscaping, and screening standards were all reviewed with some amendments proposed.
 - Revised or new site, landscaping and building design standards for the C-2, C-3 and C-4 districts.
 - Revisions and consolidations of building design standards for architectural details, articulation, roof expression, exterior materials and colors.
 - Revisions to landscaping standards for setbacks and parking lots.
 - Additional site design standards for self-serve mini storage in the C-2 and C-4 zoning districts and allowing existing mini

storages in the C-3 zoning district to expand within existing property boundaries.

- Additional development standards
 - Modifications to mobile vendors to clarify the allowance of food trucks and associated standards.
 - Clarification to mechanical screening requirements.
 - Addition of standards for trash and recycling screening.
 - Amendments to mixed-use structures to respond to market trends.
 - Creation of standards for a “mixed-use site” for properties with street frontage off Front Street NE on the west and 3rd Avenue NE on the east.
 - Added language to allow stand-alone residential buildings on corner lots located at Moe St NE and 3rd Avenue NE and NE Hostmark Street and 3rd Avenue NE. However, residential units located adjacent to Moe St NE and NE Hostmark Street shall be constructed to commercial standards (including parking) to accommodate future conversion.
 - Additional lighting standards and requirement for a photometric plan.
- Mixed Use Considerations
 - How should mixed use be designed to fit into the character and scale of C-1 downtown?
 - Vertical
 - Draft proposes eliminating the height bonus, capping the height of new mixed-use structures to 35’.
 - Draft proposes decreasing lot coverage from 100% to 85%.
 - Draft proposes enhanced building design purpose statement and architectural/site standards for new buildings in C-1/Shopfront.
 - Draft supports and specifically identifies “Scandinavian” heritage and character as critical features.
 - Draft clarifies parking requirements:
 - Commercial/Retail use: 1 parking space per 300 square feet.
 - Residential use: 1 parking space per studio/one bedroom; 2 spaces per two bedrooms.

- Horizontal (18.80.080 K)
 - Residential uses near downtown Poulsbo provide housing opportunities within walking distance of its amenities and features. Through-lots which have street frontage off Front Street NE on the west and 3rd Avenue NE on the east, present an opportunity to offer stand-alone residential units on commercially zoned properties. Building and site design shall compliment the character of the Shopfront Overlay, including unique street-facing building facades and pedestrian scale massing.
- How to address density?
 - Draft proposes allowing setbacks, parking, lot coverage and height of the zoning district to determine number of residential units allowed (this is also the current standard).
 - Staff continues to recommend this option. There is ability to restrict standards further if desired.
 - Other options include:
 - Establish proportionate standards for how much the building square footage can be utilized for commercial use and residential use.
 - Provide a maximum density in C-1 zoning district.
 - Provide a maximum density in C zoning districts for mixed use structures that utilize 45' height bonus.
 - Identify a mixed use overlay district.
 - Determining the 'right' density number is difficult without taking into consideration market feasibility, conditions and rents.
- What uses should be located on first floor?
 - Draft proposes requiring commercial uses on the first floor along street frontage, and other uses can be allowed behind. Other uses may include those that support the residential uses, such exercise rooms, lobbies, community rooms/meeting spaces, hospitality suites, and parking – but not residential units.

Other options include:

- Require commercially permitted uses only on the first floor.
- Require commercial uses on the first floor along street frontage and allow other uses (as defined above) and allow residential uses behind.

- Allow conversion space by requiring first floor to be constructed and parked to commercial standards but allow for residential use until market demand supports commercial use. Draft proposes this option for two 'bookend' 3rd Avenue properties.
- Make no requirement for any commercial space and allow full-residential structures in the C zones.

Discussion:

- Councilmember Thomas asked what spurred on the idea of those parcels being treated differently for the bookend concept? Planning Director Boughton said the main reason for the Planning Commission was they believed the grade of the property would make it more difficult to site commercial uses there. They felt it would lend itself better to residential uses.
- Deputy Mayor McGinty asked about the needs analysis study and if it would be done before a project would come forward. Planning Director Boughton said they would have to demonstrate that there was not a market demand, the rent could not be supported for commercial use. She would model it after how they do the critical areas with peer review from an economist or real estate professional agreeing that the market cannot support the square footage with the rent. They would build it to commercial building code standard, and every four years submit a study on if there is a market change.
- Deputy Mayor McGinty clarified with the lower portion being commercial, that it is being proposed to provide support for the residential portion, like a private gym or pool. Planning Director Boughton agreed. There has to be commercial use, and street frontage, but minimum square footage and how deep it needs to be is not determined. The other use would support the residential use.
- Councilmember Musgrove asked if conversion buildings were permitted, what would be the controls used to prevent redevelopment instead of renovation of other downtown existing commercial buildings. Planning Director Boughton said this is where the "Shopfront Overlay" comes into play. It is shop-front primary uses that must be oriented towards Front Street. It addresses mixed use as far as the historic downtown structures should they be demolished and redeveloped. The Shopfront Overlay preserves the experiential uses that currently exist in the downtown. They

will have to be active commercial uses. Councilmember Musgrove asked if properties on Front Street and Anderson Parkway would be able to put residential on the Anderson Parkway side. Planning Director Boughton confirmed the proposal is for the properties on the westside of Front Street, they have to be commercial on both sides, but the properties on the eastside of Front Street they only have to do commercial on the Front Street side, and they can do other things on the back for those lots on 3rd Avenue.

- City Council Decision Points
 - How should mixed use be designed to fit into the character and scale of C-1 downtown?
 - Do you support the new and enhanced standards for vertical mixed use in C-1/Shopfront overlay?
 - If no, what additional standards do you wish to see included?
 - Do you support the creation of a new horizontal mixed use, through the “mixed use site” provisions?
 - If no, do you recommend deletion of this section?
 - If yes, do you agree with the Planning Commission proposal for conversion space on 1st floor of ‘bookend’ sites?
 - How to address density?
 - Do you support the proposed approach to density?
 - If yes, are there further restrictions? Parking, height, lot coverage, setbacks standards.
 - If no, which option do you prefer? Proportion, density range, overlay? How do you recommend we determine the ‘right’ number(s)?
 - What uses should be located on first floor?
 - Do you support the proposed approaches to uses on the first floor of vertical mixed use?
 - If no, which option do you prefer?
 - If yes, do you support conversion option for 3rd Avenue mixed use site ‘bookends?’

Discussion:

- Councilmember Stern recapped the Economic Development Committee’s discussion. The first cut was hard on the design and theme and to reincorporate old world Scandinavian as characterized as Little Norway, rather than a more strictly modern interpretation of waterfront fishing

village, and they blended the two together. Second was the mixed-use question. They determined they could not move it to a different area of town, it is already codified, and the City has committed to it in the Comprehensive Plan and KRCC agreements. Nobody had taken up the mixed use on Viking yet, but now there are folks who are willing to take it up and it needs to be honored. The question becomes what the right proportion is. His opinion is if commercial had economic viability, it would be happening. The truth is the market has shifted to residential. The whole point of conversion is to allow easily at the right tipping point when commercial is viable for it to convert back to commercial. He is in favor of the horizontal mixed use including 3rd Avenue, which is in line with the Planning Commission. He would like to have flushed out the understanding that anyone moving downtown could not expect quiet enjoyment of their home. The City is not going to stop downtown's natural progression to a nightlife economy. They also briefly discussed encouraging affordable housing.

- Councilmember McGinty asked if anyone has done a conversion before. It seems quite challenging to do a conversion. Would tenants be kicked out? He doesn't think the City would have any say on when the conversion would occur, it would be the market driving it. Planning Director Boughton said the conversion space would be market driven. The commercial conversion is a relatively new idea. Seattle and Bremerton are doing it. There isn't much data on its success.
- Regarding 3rd Avenue, Councilmember Nystul asked what the difference for construction would be between residential versus commercial construction. Planning Director Boughton said as far as the building codes go, the first floor would be a minimum of 10 feet high (mostly likely between 11-13 feet), ADA accessibility and fixture requirements would differ, and the more restrictive commercial parking standards would be required. Councilmember Nystul said conceptually, if you build to commercial standards and run it as residential, if the market changes, it is an easy conversion. The reality is you are going to gut the inside and reconfigure. He is not sure what the economic difference is between commercial conversion and residential, other than perhaps height. A market study was talked about being submitted every four years to determine whether the residential is justified. Would the City force the change? He also said one of the considerations for 3rd Avenue is if they require commercial, for example, at what point in time is that going to develop. On the other hand, if it was developed mixed used and you have residential-commercial, would that develop sooner? He does not think gaining financial assistance with rebuilding 3rd Avenue is a significant justification to make the decision on something that may or may not help. They should make them based on planning and not road reconstruction.

- Councilmember Musgrove confirmed the commercial versus residential parking requirements are 1 spot per 300 square feet versus 1 spot per bedroom. He asked how does that ratio out? Associate Planner Coleman said parking is generally always more restrictive for commercial. This is often why commercial projects do not pencil out.
- Councilmember Musgrove said conceptually, where would the parking go that is currently for commercial if the residential units were built on 3rd Avenue. The parking would be lost. Planning Director Boughton said they would have to figure out how and where they would put those parking spaces. There is no reduction in parking allowed.
- In response to Councilmember McGinty, Planning Director Boughton said the commercial parking is based on square footage, it doesn't matter what they intend to have for a business.
- Councilmember Thomas likes the idea for 3rd Avenue; however, the properties could become lucrative Air B&B places. Associate Planner Coleman said currently any place in the Pacific Northwest would be lucrative for Air B&Bs, this is a place people like to visit. Unless the Council wanted to pass an ordinance to restrict Air B&Bs, it would be tough to know what would happen there.
- Regarding the bookends, Councilmember Nystul said one would think that whoever built something there would pencil it out and determine whatever we come up with is going to work and if it doesn't work, maybe it will stay vacant. If they look at Moe Street, how does that look overall in Poulsbo to have residential on Moe or commercial on Moe and allow residential up on Third. It is an interesting concept. He wondered from a planning standpoint what is most appropriate for the Moe-side of the building and the Third-Avenue-side of the building.
- Councilmember Musgrove said in the north end across the street, they could orphan a commercial property right across the street and others on the other side of 3rd. He would be concerned for the commercial on 3rd right now to begin blocking it in with conversion.
- Councilmember Stern said prior to Poulsbo Place being built, there was seasonal variation in frequency of downtown businesses. After the Village was built, a lot of local use businesses left, and downtown became tourist oriented. The tourist off-season stressed some businesses. Poulsbo Place put a residential population within walking distance to downtown, which helped even out the seasonality of commercial business incomes. It could be argued it is orphaning or putting a population of users right in proximity to help with the existing commercial viability.
- Councilmember Musgrove does not know if one apartment building would provide support to an orphaned property. Councilmember Musgrove said 40% of downtown has been purchased to be redeveloped in its commercial space. On one hand they are trying to make it pencil for developers and on another hand, they open up Pandora's box. He feels

having apartments would be contrary to developing a night-time economy. He worries about the airport effect and people moving in and complaining about a vibrant downtown. He worries if conversions will happen. This commercial district has gone from 100% commercial to retail offices to allowing mixed use on purpose, and now they are going to push it even further based on current market conditions. He is not sure if it is wise to form zoning and uses based on current market conditions that today happen to be residential with unknown consequences. He believes ground level floors in the C-1 should be commercial. He supports the apartments upstairs.

- Councilmember Lord said her concern with conversions is it would be too expensive to convert back to commercial. She thinks it is logical to pay attention to the natural migration of commercial. The orphan status could be precluded by having commercial at the corner on the ground floor. It has a high elevation, and any residential on the second floor would have great views and would be desirable to rent. If the bottom is supportive of the residential, that won't allow the transition to continue on up to 3rd Avenue where there is commercial. It is more logical to have that piece on Moe be commercial on the ground level versus the other book end. The other book end has more constraints on access. Ultimately, she would prefer both pieces to remain commercial on the first floor than to not allow it at all. It will naturally evolve. They cannot preclude having commercial, because there is limited property available.

Planning Director asked the Council to start thinking about the density question, and it will be discussed at the next Council workshop.

7. COUNCIL COMMITTEE REPORTS

Lodging Tax Advisory Committee: Councilmember Nystul reported they are seeking a member of the committee who is a tax generator. One of the past members is no longer a B&B. They are not able to present the membership for approval currently. They would welcome any suggestions.

Finance-Administration Committee: Councilmember McGinty reported the committee discussed surplus disposal, City Hall locking system replacement, email archiving spam filter system, bond ratings, real estate excise tax, and monthly sales tax.

8. DEPARTMENT HEAD COMMENTS

City Clerk Fernandez requested which Councilmembers would serve as voting delegates at the AWC Annual Conference. Councilmembers McGinty, Musgrove and Stern will be the City's voting delegates.

9. BOARD/COMMISSION REPORTS

Councilmember Stern said the Kingston fast ferry will commence in September (Kitsap Transit) and plastic bags will be coming at us fast (KRCC). He shared KRCC had a retreat last week, and at TransPol it was shared that the State Route 305 Pedestrian Tunnel was approved for \$1.35MM in funding.

10. CONTINUED COMMENTS FROM CITIZENS

Cindy Baker said the height limit to be dropped to 25 feet in the C-1 zone, because that is currently the highest downtown. She also said apartment dwellers will not have the money to spend in the downtown area, the apartments should be built elsewhere. She asked them to get data. They do need commercial.

Tom Curran said the Growth Management Act does not require having mixed use units in downtown, they can be put elsewhere in Poulsbo. He said conversions undermine good planning; accommodations will be needed at an undetermined time. He feels things should be kept simple.

Mike Brown had three points: 1) the tenant improvement costs versus residential costs (the conversion question would it ever happen because it is expensive to convert?) -- conversion is a fact of life for commercial property owners, and these costs are normal. If the commercial components and requirements are put in place in the beginning, then the opportunity to convert will not be taken away. 2) How do we police the conversion? That is not needed. As soon as it is profitable to convert from residential to commercial, commercial properties owners will make the conversion and won't need to be told to do it when it makes sense. They track higher and best uses on a daily basis, that is the industry they are in. 3) Viability/Price – six months ago rent would have to be \$18 a square foot for a commercial space to break even on the debt service. Costs have escalated in the last six months; the average rents are \$13-\$15 in Poulsbo. They are a long way from the point where building commercial makes sense. Building small commercial spaces is hard to finance.

Brian Smith said it is clear they are at a cross roads. He appreciates the Council's leadership. He thanked the Planning Department for their efforts and hope the comprehensive plan is honored. He said no citizen has come and spoke in support of the changes.

Lynn Myrvang said the main premise of the commercial code update was because of the sale of downtown. She spoke against the conversion option. The market needs affordable housing, but downtown units will not be affordable. There are other properties next to services and transit for affordable housing development. She shared pictures of what she thought Poulsbo would look like with the proposed developments.

11. MAYOR & COUNCILMEMBER COMMENTS

Councilmember Lord appreciates the comments of the developers and citizens.

Councilmember Musgrove appreciates the attendance of citizens at committee meetings. He would welcome the invitation to the developers, too. They are a community, not just a residence.

12. EXECUTIVE SESSION

At 10:00 PM, Deputy Mayor McGinty recessed the meeting into an executive session for consideration of the acquisition by purchase pursuant to RCW 42.30.110(1)(b). At 10:15 PM, Deputy Mayor McGinty reconvened the meeting into open session. No action was taken.

13. ADJOURNMENT

At 10:15 PM, Deputy Mayor McGinty adjourned the meeting.

Jeff McGinty, Deputy Mayor

ATTEST:

Rhiannon Fernandez, CMC, City Clerk