

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<p><b>AGENDA TITLE:</b> Tax Incentives for Multi-Family Housing <b>DEPARTMENT:</b> CMO <b>PRESENTED BY:</b> Jan Knudson, Economic Development Coordinator George Smith, Human Services Planner</p>
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**PROBLEM/ISSUE STATEMENT:** Shoreline's Comprehensive Plan calls for higher density residential and mixed use development to occur in the City's commercial areas, thereby preserving the single family character of our neighborhoods. The North City Subarea Plan, for example, encourages development of residential and commercial uses in the North City Business District (NCBD). Small lot sizes, expensive construction types and high land values, however, make development in the NCBD difficult.

Strategy #6 of the Economic Development Program is to "consider development incentives such as fee waivers, designated Planned Action areas, business relocation strategies etc." This workshop item is to introduce for Council discussion a development incentive known as tax abatement or property tax exemption.

**ALTERNATIVES ANALYZED:**

If the City does not pursue a tax abatement program, new development may not occur that might otherwise be stimulated if such a program exists. In this no action alternative, there would be no new financial impact.

If Council's direction is to continue to explore tax exemption as an incentive for development, other alternatives analyzed and presented to Council could include tax increment financing.

**FINANCIAL IMPACT:**

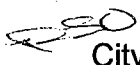

The preliminary financial analysis included in the Discussion Section below shows that actual tax loss of a sample project (85 units) would be approximately \$1800 as a result of demolition. Total property tax revenues lost on new development under a tax exemption program would equal approximately \$68,000 annually. The City's General Fund portion of this (@10.5%) would be approximately \$7,100 annually to pay for services. The exemption would apply to all state and local taxing districts

The City will incur costs in the form of increased demand for services as a result of new development and increased population. Under tax exemption, increased property tax revenue on the improvements would not be generated to pay for these services. Revenue from assessment on the land, however, would continue and other tax revenues (e.g., sales

tax, utility tax) would also be assessed and collected. Total estimated revenues from sales and utility taxes would equal approximately \$40,800 annually.

### **RECOMMENDATION**

No action is required at this time. Staff is requesting Council's interest in pursuing a ten-year tax exemption program further. Staff will return to Council with a more detailed cost/benefit analysis and, if appropriate, a draft resolution designating the NCBD as an initial/pilot residential target area for such a program.

Approved By:      City Manager  City Attorney 

## **INTRODUCTION**

Implementation of the economic development program is Goal #2 in the Council's 2002-2003 Work Plan. The NCBD/15<sup>th</sup> Avenue Project is identified as Goal #3. Both of these goals would benefit from new residential and mixed use development in the NCBD. However, small lot sizes, expensive construction types and high land values are making development in the NCBD difficult.

Strategy #6 of the Economic Development Program – “consider development incentives such as fee waivers, designated Planned Action areas, business relocation strategies etc.” could help alleviate some of the difficulties of developing in the NCBD. This workshop item is to introduce for Council discussion a development incentive known as tax abatement or property tax exemption.

## **BACKGROUND**

RCW 84.14 authorizes cities of 50,000 or more to grant property tax exemptions for a period of ten years on improvements that create additional multi-family housing. The purpose of the law is to encourage the development of new housing and or rehabilitation of vacant and underutilized buildings to create additional multi-family housing within urban growth centers.

### **Key Features of the Legislation**

- The exemption is for ten years, and *only* applies to housing improvements. Land continues to be assessed and taxed. Non-housing uses within a project, such as first floor commercial or office, continue to be assessed and taxed throughout the exemption period.
- A minimum of four units of housing must be created to qualify.
- Housing must be built within designated residential target areas that meet the state definition of an urban center. The City determines the areas to target and the method of implementation.

### **Other Western Washington Cities Experience in Implementing Tax Exemption**

Tacoma, the first city to implement an exemption program in 1996, has completed fourteen projects totaling 535 units of housing with a value of \$30.6 million. Another 28 projects are in the pipeline for a grand total of 2,941 units. When all the projects currently planned end their ten year exemption, the city will realize a minimum of \$4.8 million in additional property tax dollars.

Tacoma did not require additional amenities from developers, beyond the existing design codes, nor did it set affordable housing targets. To date about 75% of the housing units produced under the program are market-rate and 25% are subsidized. The city council strongly supports the program. The program administrator cites it as “an invaluable tool in

attracting housing development to key areas of the city.” A key to the program’s success has been aggressive marketing of the program to lenders and developers.

Seattle began its program in 1999, targeting 11 areas for either multi-family or mixed-use projects. Seattle is the only city that adopted affordability criteria as part of its program. The results have been mixed, with private developers avoiding the areas with the more stringent affordability requirements. A total of 969 units have been created under the program. In 2001 the program experienced a significant drop in projects. The program is under revision and must be re-authorized next year as it contained a sunset feature.

Everett adopted its program in 1999 and has had two projects approved for more than 100 units. The city set a minimum size of 20 units (state law requires a minimum of four units) and made the downtown area the target area.

Olympia adopted its program in 1997 and began marketing it in 1998. To date more than 300 units of housing have been developed, including one 284 unit low-income senior housing project, plus many in-fill units. Approximately 70 units of additional housing are pending. Olympia’s program is targeted to the downtown area and does not have an affordability requirement; however, the majority of the housing to date has been affordable.

## **DISCUSSION**

### **How Does The Multi-Family Tax Exemption Program Stimulate Development?**

A tax exemption program effectively “buys down” the cost of developing a project. This could be particularly effective in stimulating development in North City where the construction type the City is looking for is more expensive and land values have gone up.

A tax exemption program also assist projects in qualifying for more unconventional financing such as low interest loans through the Housing Finance Commission. Projects seeking this source of funding gain “points” in the loan application process for developing within a residential targeted area. Increased points make these projects more competitive for these scarce funds.

### **How Will the PTE Program Benefit Shoreline?**

- Encourage development in areas already targeted for redevelopment, such as North City.
- Increase the attractiveness of Shoreline to mixed use housing developers.
- Increase pedestrian circulation and the use of public transit.
- Increase surrounding property values in the designated areas to help support additional city services.
- Spur other area development, further supporting community redevelopment efforts.

- Create jobs and provide employment in the construction industry during construction and throughout the economy when residents occupy the units and begin to purchase goods and services.
- Help the City meet the countywide target of 38% of housing units affordable to people with incomes from zero to 80% of median. Shoreline was at 34.4% based on 2000 data.

### How Would the PTE Impact Other Taxing Districts?

In initial discussions, the Shoreline School and Fire Districts have expressed general support for a tax exemption program. The School District is experiencing declining enrollment and views such a program as potentially bringing new students to the District. The North City area is considered a particular location able to handle additional students.

None of the other western Washington cities contacted indicated problems or issues with other taxing districts arising from implementing a tax exemption program. Their local taxing districts impacted also include the school and fire districts. The county districts affected include library and port, plus four county levies for various purposes.

### A Financial Illustration of A Tax Exemption Project

If the City implements a tax exemption program, there will be costs and benefits. The general benefits are described above. A preliminary financial analysis quantifying the benefits and cost of services is provided below.

Example:

- An under-utilized parcel containing a single family home is replaced with 85 units (800 sq. ft/unit avg.) of multi-family rental housing. Annual inflation in assessed value is assumed to be 5% for land and 3% for improvements.
- At the end of the ten-year exemption period, the land and improvements are worth \$8,482,867 and the taxes owing would be \$112,649.

Without Exemption	2002	With Exemption	2004
Land Value	1,000,000	Land Value	1,102,000
Improvements	240,000	Improvements	5,100,000
Tax Levy	13.28098	Tax Levy	13.28098*
Taxes Levied	16,468	Taxes Levied	14,642
Tax Savings	NA	Tax Savings	67,726

\*due to the 1% annual property tax levy limit, the City's tax levy will decrease over time without voter approval of a levy lift.

In this example, the amount of actual tax revenue lost in year one of the exemption period (2004) is \$1,826.00 (the difference between taxes levied in 2002 and 2004) due to demolition

of the existing structure. Potential tax revenue lost if a project is built would be \$67,726. The City's General Fund portion of this (@10.5%) to pay for services would be approximately \$7,100 annually.

Since projects are often developed on raw land, or land with low value structures that historically have produced little tax revenue, tax losses during the exemption period are recouped and exceeded once the full value of the property goes on the tax rolls. In this example, this would be \$112,649, or \$11,828 annually to the City's General Fund. For projects developed on raw land, there is no loss of tax revenue, since land continues to be taxed and assessed. In the most recent reassessment, land values in Shoreline increased by slightly over approximately 8%.

A preliminary estimate of projected revenues is as follows:

Shoreline Revenue (New Development)	Shoreline 2001 Population	Number of Dwelling Units and Business Units*	Shoreline 2001 Sales Tax Revenue	Shoreline 2001 Property Tax Revenue	Shoreline 2001 Utility Revenue
	53,421	22,330	\$6,148,503	\$6,340,070	\$3,920,230
Per Capita Sales Tax	\$115				
Per Unit Utility Revenue	\$176				
Per Unit Vehicle License Fee	\$15				
Per Capita State Shared Revenues	\$29.88				
<b>85 Unit Development</b>					
<b>2 Persons Per Unit avg.</b>	<b>170</b>				
Total New Sales Tax	\$19,550				
Total New Utility Revenue	\$14,960				
Total New Vehicle License Revenue	\$1,275				
Total New State Shared Revenue	\$5,079				
<b>Total Est. Revenue Impact</b>	<b>\$40,864</b>				

\* Units are based on 2000 Census information

This example shows that approximately \$40,800 additional revenue to the City could be generated by non-property tax sources.

Preliminary costs for the increased demand for services are more difficult to assess. There is not a direct one-to-one relationship between additional population and increased need for services. For example, if there were 170 additional residents, they would not require a proportional addition of police officers or city employees. A more detailed analysis of the incremental cost of increased demand for services represented by 170 additional residents is required. If Council wishes to pursue a tax exemption program further, staff will conduct this analysis and return to Council with the results.

## **The Process**

To implement a tax exemption program, the City Council would need to issue a finding that there is “insufficient housing opportunities” within an existing urban growth area. The test for this finding is that “the area must lack, as determined by the governing authority, sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center, if the desirable, attractive, and livable places to live were available.”

In the case of North City, the City Council would need to designate the NCBD as a “residential targeted area”. Only projects located within the targeted areas are eligible for the exemption. Council would adopt a resolution notifying the public of the intent to designate, and then hold a public hearing that would officially make the designation.

The Council would then adopt standards and guidelines to be utilized in considering applications for the tax exemption program. The standards and guidelines must establish basic requirements for both new construction and rehabilitation including application process and procedures. There are other models the City can use in developing these application procedures, and the standards and guidelines are already provided by the North City Subarea Plan.

Generally, project proponents would make application to the City for tax exemption. The City would review the application and, upon approval, enter into negotiations and a contract specific to the project. The Council can set limits on the number of projects the City will allow in each area or city-wide.

## **RECOMMENDATION**

No action is required at this time. Staff is requesting Council’s interest in pursuing ten–year tax exemption program further. Staff will return to Council with a more detailed cost/benefit analysis and, if appropriate, a draft resolution notifying the public of the intent to designate the NCBD as an initial or pilot residential target area.

## **ATTACHMENTS**

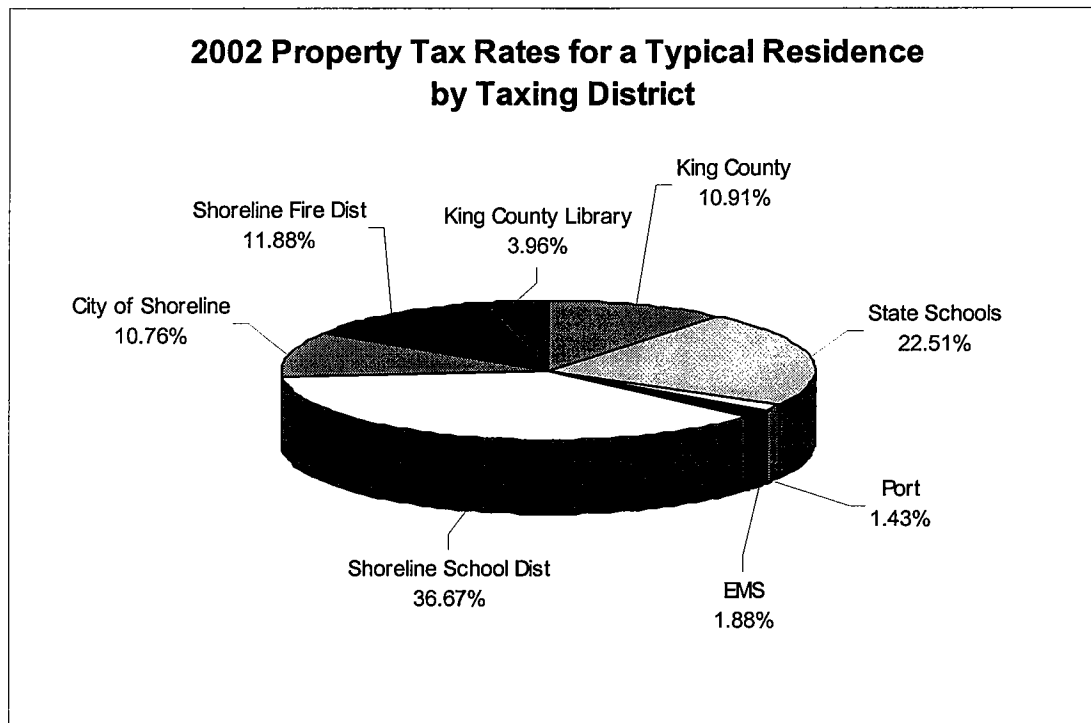
Attachment A – 2002 Property Tax Rates for a Typical Residence by Taxing District

## **ATTACHMENT A**

### **2002 Property Tax Rates for a Typical Residence by Taxing District**



Tax Incentives for Multi-Family Housing  
October 21, 2002 Council Workshop  
Attachment A



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