

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Ordinance No. 496, amending Ordinance No. 310 as amended by Ordinance No. 479, Property Tax Exemption Program - Public Hearing
DEPARTMENT:	CMO
PRESENTED BY:	Robert L. Olander, City Manager

PROBLEM/ISSUE STATEMENT:

Ordinance No. 310 was first adopted by the City Council on November 25, 2002. This ordinance established Shoreline's Property Tax Exemption (PTE) program for the North City Business District. Inherent purposes of the PTE program are to encourage the development of multi-family housing in areas that would not occur without such an incentive, offset the costs of structured parking, offset the risk of higher density and mixed use development, provide incentives for more affordable housing, and steer development to designated target areas close to transit and neighborhood services to promote sustainable communities.

More recently, the City Council held a public hearing on January 14 and March 3, 2008 on Ordinance No. 479, which amended Ordinance No. 310. As proposed, Ordinance No. 479 would have amended Ordinance No. 310 to comply with recently revised state law on property tax exemptions, amend the property tax exemption application requirements, clarify procedures, and add other administrative changes, and expand the program to incorporate Ridgecrest Commercial Area. However, at the March 3rd hearing, the City Council moved to amend Proposed Ordinance No. 479 by removing all sections of the ordinance that pertained to the Ridgecrest Commercial Planned Area. Subsequent to Council discussion, the City Council passed Ordinance No. 479 as amended, which brought the PTE Program into compliance with state law and clarified administrative procedures for the program.

Ordinance 496 would add back the removed sections of Ordinance No. 479 that pertain to the Ridgecrest Commercial Planned Area and would increase the number of Tax Exempt Units in the program in the Ridgecrest Commercial Planned Area from 250 units as originally proposed to 350 units. This public hearing will be an opportunity to provide input to the City Council on proposed Ordinance No. 496. The Council will then have the opportunity to discuss the proposal, ask staff questions, and provide direction for future adoption.

For reference, attached are proposed Ordinance No. 496 and the staff report from January 28, 2008 which details the changes in the PTE program outlined in Ordinance No. 479.

FINANCIAL IMPACT:

The PTE program is a partial exemption from property taxes because the value of the new construction is not included on the tax rolls until the end of the exemption period. The exemption does not apply to retail square footage, other commercial space or land, nor does it exempt utility or other fees. The portion of the project that qualifies is basically the housing construction improvements (building). This program provides exemption from all "ad valorem property taxation", which includes the property tax levy for all taxing jurisdictions. Depending on the type of tax levy there are differing results of the property tax exemption.

The primary taxing districts that are directly affected by the property tax exemption program are the City, Fire District, and King County Library District for their regular levies. Under this program the City would be forgoing property tax revenue on the qualifying portions of the program for the period of the exemption (8 or 12 years). Based on the City's 2008 regular property tax rate of \$1.02 the amount of the property tax collected on \$12 million of improvements would be approximately \$12,240. Under the property tax exemption program the City will not collect this property tax. Applying the annual 1% property tax levy limitation growth this would equate to \$106,400 over eight years or \$163,000 over twelve years. This does not take into account added retail sales, utility taxes, or the property taxes from any increase in land values and non-residential square footage that may be included in a mixed-use development. After 8 years for market rate developments or 12 years for affordable housing developments, the residential units become taxable. Residential buildings have useful lives of 25 or more years.

Generally property taxes alone are not sufficient to off-set the cost of government services. However, the City would collect other taxes, such as utility and sales, from occupants of the housing units during this time period to help off-set the cost of government services provided to the occupants.

CHANGES TO SHORELINE'S PTE PROGRAM AS CURRENTLY OUTLINED In ADOPTED ORDINANCE NO. 479:

Expansion of PTE Program into the Ridgecrest Commercial Area

Staff recommends expansion of the PTE program into the Ridgecrest Commercial area in order to encourage developments that incorporate the

principles of sustainability, on the ground and in the buildings. Ridgecrest has significant potential mixed use development, green buildings, public spaces, affordable housing opportunities, and pedestrian improvements. PTE is an important tool in negotiating these types of improvements and public benefits. Underground parking is essential to making new development work, in order to serve the residents and businesses of a site and without creating problems of parking spilling over to the neighborhood.

Staff recommends that the PTE program be amended to include the Planned Action zones on the southwest, southeast, and northeast corners, and adjacent zoning of R18 and R24. The incentive would not be available for the northwest corner where the movie theater is located, because residential development on that site would not be compatible with a movie theater.

Requirements for things like public space and other amenities or design features are to be delineated in the zoning code for the Planned Action areas.

Program Limits - Unit Cap in the Ridgecrest Commercial Area

The current cap on units limits the potential use of the PTE program and the benefit to the City's citizens and taxpayers. Currently, the PTE Program is limited to 250 residential units for North City, of which 162 units remain.

In Ridgecrest, several properties may be redeveloped under this plan. Staff requests that a unit cap of 350 residential units be established for this target area. This would allow for multiple developments of different sizes to be developed, and would decrease the likelihood that one or two developments would utilize all the Tax Exempt Unit capacity in Ridgecrest if the unit cap was similar to North City.

RECOMMENDATION:

Staff recommends that Ordinance No. 496 be adopted to modify the PTE program for expansion into the Ridgecrest neighborhood with a Tax Exempt Unit limit of 350 units.

Attachments:

- Attachment A: Proposed Ordinance No. 496
- Attachment B: Staff Report from January 14, 2008

Approved by:

City Manager



City Attorney _____

ORDINANCE NO. 496

**AN ORDINANCE ESTABLISHING AS AN URBAN CENTER
RIDGECREST COMMERCIAL PLANNED AREA 2(a), 2(c) AND
2(d) AND RESIDENTIAL AREAS DESIGNATED R-18 AND R-24
ADJACENT TO THESE PORTIONS OF RIDGECREST
COMMERCIAL PLANNED AREA 2 AND EXPANDING THE
PROPERTY TAX EXEMPTION PROGRAM INTO THIS URBAN
CENTER**

WHEREAS, on November 25, 2002, the City Council adopted a Property Tax Exemption Program for the North City Business District; and

WHEREAS, Chapter 84.14 RCW provides that an area designated as a residential target areas must be within an urban center, must lack 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; and the providing of additional housing opportunity in the area will assist in achieving one of the stated purposes in RCW 84.14; and

WHEREAS, the Council held a public hearing on March 31, 2008 to consider expanding the Shoreline property tax exemption program to a portion of PA 2 and R-18 and R-24 zoning districts adjacent to PA 2.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE,
WASHINGTON, DO ORDAIN AS FOLLOWS:**

Section 1. Amendment. Sections 1-4 of Ordinance 310 as amended by Ordinance No. 479 are further amended to read as follows:

Section 1. Findings

- A. The North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) are urban centers of the City of Shoreline as defined under RCW 84.14.010 (16).
- B. The North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) lack sufficient available, desirable and convenient residential housing, including

affordable housing, to meet the needs of the public, and current and future residents of the City of Shoreline would be likely to live in the North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) if additional desirable, convenient, attractive and livable places were available.

- C. Provision of additional housing opportunities, including affordable housing, will assist in promoting further economic development and growth management goals by bringing new residents to utilize urban services and encourage additional residential and mixed use opportunities.

Section 2. Purpose

- A. It is the purpose of this ordinance to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for revitalization of the North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d). The limited exemption from ad valorem property taxation for multifamily housing in the residential targeted area is intended to:
1. Encourage increased residential opportunities within the residential targeted area;
 2. Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for revitalization of the North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d).
 3. Assist in directing future population growth to the residential targeted area, thereby reducing development pressure on single-family residential neighborhoods; and
 4. Achieve development densities that stimulate a healthy economic base and are more conducive to transit use in the designated residential targeted areas.

Section 3. Designation of Residential Targeted Areas

The North City Business District, as defined in the Shoreline Municipal Code Chapter 20.90.020, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), as defined in Shoreline Municipal Code Chapter 20.91, and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) are designated as residential target areas as defined in chapter 84.14 RCW and the boundaries of the target area are coterminous with the North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and

2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d).

Section 4. Standards and Guidelines

- A. **Project Eligibility.** A proposed project must meet the following requirements for consideration for a property tax exemption:
1. **Location.** The project must be located within the North City Business District, the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d), or residential areas designated R-18 and R-24 adjacent to the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d) targeted areas as designated in section 3.
 2. **Limits on Tax Exempt Units.** The project's residential units must be within the first 250 tax exempt units of new or rehabilitated multifamily housing applied for and approved within the North City Business District residential targeted area or within the first 350 tax exempt units in the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d) and residential areas designated R-18 and R-24 adjacent to the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d).
 3. **Size.** The project must provide for a minimum of fifty percent of the space for permanent residential occupancy. At least four additional residential units must be added to existing occupied multi-family housing. Existing multi-family housing that has been vacant for 12 months does not have to provide additional units so long as the project provides at least fifty percent of the space for permanent residential occupancy and rehabilitated units failed to comply with one or more standards of the applicable state or local building or housing codes. Transient housing units (rental of less than one month) are not eligible for exemption.
 4. **Proposed Completion Date.** New construction multi-family housing and rehabilitation improvements must be scheduled to be completed within three years from the date of approval of the application.
 5. **Compliance With Guidelines and Standards.** The project must be designed to comply with the City's comprehensive plan, building, and zoning codes and any other applicable regulations in effect at the time the application is approved including Chapters 20.90 and 20.91 of the Shoreline Municipal Code.
 - a. Consistent with SMC 20.90.020(B)(1), projects located on 15th Avenue N.E. and within the property tax exemption program target area must have pedestrian-oriented business uses at the street level fronting on 15th Avenue N.E. The minimum depth of street level pedestrian-oriented business uses shall be 20 feet from the frontage line of the structure on 15th Avenue N.E., and all other requirements of Main Street 1 properties shall apply.

- B. Exemption - Duration. Projects qualifying under this chapter for a Multiple Family Tax Exemption that rent or sell at least twenty percent of the residential units as affordable housing units as defined by Chapter 84.14 RCW will be exempt from ad valorem property taxation for twelve successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption. Projects qualifying under this chapter for a Multiple Family Tax Exemption for market rate housing will be exempt from ad valorem property taxation for eight successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption.
- C. Limits on Exemption. The exemption does not apply to the value of land or nonhousing-related improvement, nor does the exemption apply to increases in assessed valuation of land and non-qualifying improvements. In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to submission of the completed application required under this chapter.
- D. Contract. The applicant must enter into a contract with the city approved by the City Council under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the Council.

Section 2. Effective Date. A summary of this ordinance consisting of the title shall be published in the official newspaper and the ordinance shall take effect five days after publication.

ADOPTED BY THE CITY COUNCIL ON MARCH 31, 2008

Mayor

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Publication Date: March , 2008
Effective Date: March , 2008

Council Meeting Date: January 14, 2008

Agenda Item:

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Ordinance 479, amending Ordinance No. 310, Property Tax Exemption Program
DEPARTMENT:	Economic Development Program/CMO
PRESENTED BY:	Tom Boydell, Economic Development Manager

PROBLEM/ISSUE STATEMENT:

The Economic Development Strategic Plan adopted by the City Council contains the following work program:

“Review the existing or formulate new development incentives where appropriate to support priority development areas and designated Planned Action areas.”

This report contains recommendations for revising the Property Tax Exemption (PTE) program, which is one tool the City can utilize to provide incentives for targeted economic development.

Ordinance 310 was first adopted by City Council on November 25, 2002. This ordinance established Shoreline’s PTE program for the North City Business District. The PTE program provides a ten-year property tax exemption for development of multi-family residential housing in the North City Business District. Inherent purposes of the incentive are to encourage the development of multi-family housing in areas that would not occur without such an incentive, offset the costs of structured parking, offset the risk of higher density and mixed use development, provide incentives for more affordable housing, and steer development to designated target areas close to transit and neighborhood services to promote sustainable communities.

The proposed changes are to:

- Comply with recently revised state law on property tax exemptions.
- Amend the property tax exemption application requirements, clarify procedures, and add other administrative changes.
- Expand the program to incorporate Ridgecrest Commercial Area.

The economic analysis of developer pro formas indicates that the property tax incentive for affordable housing, as recently adopted by the State Legislature, is significant and likely to lead to a greater variety of housing choices.

FINANCIAL IMPACT:

The PTE program is a partial exemption from property taxes because the value of the new construction is not included on the tax rolls until the end of the exemption period. The exemption does not apply to retail square footage, other commercial space or land, nor does it exempt utility or other fees. The portion of the project that qualifies is basically the housing construction improvements (building). This program provides exemption from all "ad valorem property taxation", which includes the property tax levy for all taxing jurisdictions. Depending on the type of tax levy there are differing results of the property tax exemption.

The primary taxing districts that are directly affected by the property tax exemption program are the City, Fire District, and King County Library District for their regular levies. Under this program the City would be forgoing property tax revenue on the qualifying portions of the program for the period of the exemption (8 or 12 years). Based on the City's 2008 regular property tax rate of \$1.02 the amount of the property tax collected on \$12 million of improvements would be approximately \$12,240. Under the property tax exemption program the City will not collect this property tax. Applying the annual 1% property tax levy limitation growth this would equate to \$106,400 over eight years or \$163,000 over twelve years. This does not take into account added retail sales, utility taxes, or the property taxes from any increase in land values and non-residential square footage that may be included in a mixed-use development. After 8 years for market rate developments or 12 years for affordable housing developments, the residential units become taxable. Residential buildings have useful lives of 25 or more years.

Generally property taxes alone are not sufficient to off-set the cost of government services. However, the City would collect other taxes, such as utility and sales, from occupants of the housing units during this time period to help off-set the cost of government services provided to the occupants.

RECOMMENDATION

Staff recommends that Ordinance No. 479 be adopted to modify the PTE program for compliance with state law, clarification of procedures, and expansion into the Ridgecrest neighborhood.

Approved by: City Manager _____ City Attorney _____

Analysis

INTRODUCTION

The PTE program, adopted by the City Council in 2002, was aimed at increasing the amount of desirable, convenient and attractive residential housing in North City Business District in order to attract additional residents, which in turn would attract new businesses, expansion of existing businesses, and local economic development.

As an incentive to development of multi-family housing in the North City target area, the PTE program offered a ten-year exemption from payment of property taxes, commencing upon completion of the development. The exemption applies to property taxes on the value of the residential improvements alone. The exemption does not apply to land, retail space, other commercial space, or utility or impact fees. Ordinance 310 limited the total amount of units available for the tax exemption to 250 units and to projects that created 20 or more new units of multi-family housing.

Inherent purposes of the incentive are to encourage the development of multi-family housing in areas where this would not occur without such an incentive, offset the costs of structured parking, offset the risk of higher density and mixed use development, and steer development to designated target areas with transit, sidewalks and local services. This is a key strategy in promoting neighborhood and community sustainability.

One project has been built under the PTE program – the 88 unit development formerly known as North City Landing, located at 17763 15th Avenue NE. The project was completed in April 2007.

Staff has reviewed the PTE program at length, in light of the completed project, discussions with developers and other cities, changes in state law, and the experience of Shoreline staff in handling the North City Landing project. The North City Landing project (now known as Arabella Apartments, Phase I) provided useful information about which portions of our program work well and which portions need improvement. In addition, in responding to recent inquiries by developers desiring to use the remaining 162 units under Ordinance No. 310, staff has noted significant deterrents of the PTE program application process.

The PTE program can be a better tool for increasing development, affordable housing, and a more sustainable community, or other amenities. In the long-term, it also creates substantially positive improvements to the City's tax base.

BENEFIT OF TAX EXEMPTION PROGRAMS

The Association of Washington Cities and cities in the Puget Sound region (Seattle, Bellevue, Renton, Kent, Olympia, Bremerton, and Bellingham) have extensive experience with PTE programs.

To assist in our review, staff in Tacoma and Federal Way provided us with copies of their program evaluations. These two studies are summarized below, and copies are provided as an *Attachment*.

City of Tacoma:

Tacoma produced a study titled "Property Tax Exemption Program for Multifamily Development 1996-2004 – Program Review for City of Tacoma, April 2005." This was prepared by Greg Easton, Property Counselors.

Important findings from this study are:

- "Even with the benefits available from the program, many projects don't meet the financial or market requirements to proceed." Page 5
- "In a competitive market, all cost savings beyond those required to make the project feasible will be passed on to renters." Page 6
- The affordability of housing sold as condominiums is improved. Page 7
- "The property tax exemption plays a critical role in supporting economic value established by an appraisal required by a lending institution and can strengthen the equity position of the developer allowing a project to proceed without seeking a partner or investor to allow the project to go forward." FAQ Attachment Page 3.

City of Federal Way:

Federal Way examined and reported on projects in Seattle, Bellevue and Renton in addition to analyzing its own City Center target area. Their findings were reported to Council in a memorandum from Patrick Doherty to Eric Faison, October 15, 2002 titled "Tax Exemption Program for Multifamily in City Center." While the Federal Way study focused on a comparison of multi-family development in neighborhoods vs. those in the City Center area, there are two conclusions that are relevant to Shoreline.

- They conclude that the PTE program will stimulate projects on land that otherwise will stay vacant.
- Their analysis shows that tax increases from land assessed values and commercial construction are significant. They conclude that multi-family projects, even with the PTE, can help to spread out the tax burdens and thereby lesson the tax pressures on single-family residential properties.

Economic Analysis of the Shoreline PTE Program:

An independent consultant (Greg Easton, Property Counselors) was hired to evaluate the Shoreline PTE program. He concluded that the tax exemption incentive is still needed because construction costs are rising and market rents are not keeping up. In particular, mixed use development and development that includes affordable housing remains financially risky. Projects may not be profitable until five years post-development.

Pro forma economic analyses were prepared for six alternatives:

1. Rental Housing
 - No program
 - Eight year exemption
 - Twelve year exemption with 20% affordable housing
2. Ownership as Condominiums
 - No program
 - Eight year exemption
 - Twelve year exemption with 20% affordable housing

The prototype that was used is based generally on the Arabella and proposed Arabella II Apartments in North City. The feasibility analysis concluded that development of apartments is not feasible without the PTE program and that the greater incentive for affordable housing projects would influence developers in that direction. Condominium projects also do not meet the feasibility threshold without the PTE program; however, a developer would be likely to apply for the eight year exemption.¹

Developers and property owners tell staff that, without the PTE, less than half of the same land will be redeveloped, and the rest is likely to be redeveloped as low density townhouses with no associated retail or services.

The Economic Analysis Report is included as an Attachment.

CHANGES TO SHORELINE'S PTE PROGRAM

The proposed changes:

- Comply with the recently revised state law on property tax exemptions

¹ Land is assumed to be approximately 20% of total post-construction property value for rental buildings and 30% for condominiums. Values are discounted by the developers cost of capital (assumed as 6.5%), in order to show how a bank or developer would view costs, risks, and the value of the tax exemption. Property values are slightly higher than the values used by Finance Dept staff in the Financial Impact Analysis.

- Amend the property tax exemption application requirements, clarify procedures, and add other administrative changes
- Expand the program to incorporate Ridgecrest

A. State law changes

Affordable Housing

Recent changes in state law encourage affordable housing by increasing the exemption period to 12 years for affordable housing developments and reducing the exemption period to 8 years for market rate housing developments. To qualify as an affordable housing development, at least 20% of the multifamily housing units must be rented or sold as affordable housing. "Affordable housing" is defined as residential housing that is rented by a person or household whose monthly housing costs do not exceed 30% of the household's monthly income. Our current Ordinance No. 310 provides a 10 year exemption for all types of projects. In order to comply with state law, our ordinance needs to reduce the exemption to 8 years for market rate housing and extend it to 12 years for affordable housing projects.

The state law amendments were effective on July 22, 2007, and thus no new applications can be received or processed until the City's program is amended to be in compliance with new state law.

Reporting Requirement Added

An annual report to the Washington State Department of Community, Trade, and Economic Development is now required.

B. Procedural changes

Application process

Under the current ordinance, a developer must submit a North City Business District Planned Action Development submittal checklist and a building permit submittal checklist for Planned Action in North City, a brief written description of the project, a site plan, a statement from the owner acknowledging the tax liability after the exemption period expires, and verification by oath.

Submitting the items on the two checklists (which includes engineering plans, landscaping plans, and parking and vehicular access plans) has proven to be an unexpected deterrent to developers. Developers do not want to spend significant time and money on preparing extensive development plans if the tax exemption

is not guaranteed. In addition, lenders will not consider a project loan application until the tax exemption application is approved or they will increase the equity requirements. Finally, in the financial mind of a developer, equity is five to ten times costlier than capital from an approved and leveraged project.

In order to remedy this deterrent, the application submittal has been amended (attached to Ordinance 479). The City will now only require the PTE application form, the description of the project, the site plan, the statement and the verification. The City will not require the building permit and planned action submittal.

C. Program Expansion

Expansion of PTE Program Geographical Area

Staff recommends expansion of the PTE program into the Ridgecrest Commercial area in order to encourage developments that incorporate the principles of sustainability, on the ground and in the buildings. Ridgecrest has significant potential mixed use development, green buildings, public spaces, affordable housing opportunities, and pedestrian improvements. PTE is an important tool in negotiating these types of improvements and public benefits. Underground parking is essential to making new development work, in order to serve the residents and businesses of a site and without creating problems of parking spilling over to the neighborhood.

Staff recommends that the PTE program be amended to include the Planned Action zones on the southwest, southeast, and northeast corners, and adjacent zoning of R18 and R24. The incentive would not be available for the NW corner where the movie theater is located, because residential development on that site would not be compatible with a movie theater.

Requirements for things like public space and other amenities or design features are to be delineated in the zoning code for the Planned Action areas.

D. Program Limits

Limit the program by continuing the unit cap and by delineation of business protection areas consistent with zoning code

Unit Cap

The current cap on units limits the potential use of the PTE program and the benefit to the City's citizens and taxpayers. Currently, the PTE Program is limited to 250 residential units for North City, of which 162 units remain.

In Ridgecrest, a vision plan was recently developed by the University of Washington working in collaboration with the City and community. Several properties may be redeveloped under this plan. Staff requests that a unit cap of 250 residential units be established for this target area.

First Floor Commercial Space (Business Protection Areas)

In Ridgecrest, one of the key design elements proposed by University of Washington student design team and encouraged by the public and Planning Commission is that the first floors of buildings fronting commercial streets be reserved for "pedestrian-oriented business activity" (e.g., retail, restaurant, service, entertainment). This idea is already incorporated into North City Main Street 1 standards that are in SMC 20.90. In Ridgecrest, these requirements are specified by the Planned Action Zone standards.

For North City, staff proposes one change in the PTE ordinance. In order to ensure that new development is mixed use and does not result in a loss of spaces for businesses, staff proposes that Main Street 1 be extended to all 15th Avenue NE frontages, with respect to the PTE incentive,. In other words, if a developer's property is located on a property in the North City Main Street 2 area, and if he wants to receive the tax incentive, then the developer would have to meet the higher standards of the code for Main Street 1.

FINANCIAL IMPACT ANALYSIS

The PTE program is a partial exemption from property taxes; the value of new residential construction is not included on the tax rolls until the end of the exemption period. The exemption does not apply to retail square footage, other commercial space or land, nor does it exempt utility or other fees. The portion of the project that qualifies is basically the housing construction improvements (building). This program provides exemption from all "ad valorem property taxation", which includes the property tax levy for all taxing jurisdictions. This includes not only the City's property tax levies, but also those assessed by the State, County, School District, and other special districts. Depending on the type of tax levy, there are differing results of the property tax exemption. For example levies, such as those established by the School District, are set at an overall dollar amount. As such the School District will not actually lose revenue, but rather the levy tax rate will be fractionally higher than it would have been if the value of the improved properties were included on the tax rolls in order to collect the full levy that was approved by voters. This is the same for voted general obligation bond levies, i.e., the City's Park Bonds, as the City will continue to collect the required levy amount, but the levy rate necessary to collect the levy will be slightly higher, for the remaining tax payers, than it would be if the value of the new construction were included on the tax rolls.

The primary local taxing districts that have regular levies and that are affected by the PTE program are the City, the Fire District, and the Library District. The City would be forgoing property tax revenue from its general levy on the residential portion of the building for the period of the exemption (8 or 12 years).

Greg Easton used a mixed use development with 97 residential units valued at \$12 million as prototype in his Economic Analysis. Based on the City's 2008 regular property tax rate of \$1.02 the amount of the property tax collected annually on \$12 million of improvements would be approximately \$12,240. Under the property tax exemption program the City will not collect this property tax. Applying the annual 1% property tax levy limitation growth this would equate to \$106,400 over eight years or \$163,000 over twelve years. This does not take into account added retail sales, utility taxes, or the property taxes from any increase in land values and non-residential square footage that included in a mixed-use development.

Without the PTE program, the most likely scenario on the same property would be a maximum 20 townhouses, with an estimated value of \$5 million. (This is based on an assumption of 35,000 square foot property and R-24 zoning.) The amount of revenue that the City would gain from residential property tax is \$5,100 in year one and approximately \$151,000 over 25 years. There would no additional commercial space created and little impact on local retail spending.

Over this same 25 year timeframe, the 97 unit mixed use project with 8-year tax exemption generates \$260,000 in taxes to the City. A mixed use project with a 12-year tax exemption generates \$203,000. As stated above, this is residential property tax alone and does not take into account added retail sales, utility taxes, or the property taxes on land and commercial square footage. These figures also do not include any comparison for cost of government services provided to the residences that occupy the residential units.

SUMMARY

Three categories of changes are recommended for the Property Tax Exemption program. The first adopts changes required by state law that change the length of the exemption to 8 years for market rate housing and 12 years for affordable housing projects. The second category consists of administrative and procedural changes. The third category consists of recommendations for program expansion, specifically, adding the Ridgcrest Commercial area as a designated "target area."

These changes will benefit the city. Tacoma and other cities have experienced that the PTE stimulates new development in target areas both of PTE certified properties and non-PTE eligible properties. The PTE program provides an incentive to multi-family residential housing, public space, green buildings, affordable housing, and more efficient land uses such as structured underground

parking instead of surface parking. Without the incentive, profitability considerations by themselves are likely to drive decisions toward lower residential densities, fewer affordable housing units, less public space and fewer other features of public benefit.

RECOMMENDATION

Staff recommends that Ordinance No. 479 be adopted to modify the PTE program for compliance with state law, clarification of procedures, and adding the Ridgecrest neighborhood as a second target area.