

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

**AGENDA TITLE:** Multi-Family Housing Limited Property Tax Exemption Agreement  
with Arabella Apartments, LLC  
**DEPARTMENT:** CMO  
**PRESENTED BY:** John Norris, Management Analyst

**PROBLEM/ISSUE STATEMENT:** On November 25, 2002, the City Council adopted Ordinance No. 310, which established a property tax exemption program as an incentive to multi-family housing development. Ordinance No. 310 has been amended two times by Ordinance Nos. 479 and 496, and a third amendment by Ordinance No. 520 is currently pending. The Property Tax Exemption Program allows eligible projects to exempt property taxes on multi-family residential improvements for a period of either eight or twelve years.

On March 11, 2008, the City received an application for the Property Tax Exemption (PTE) Program from Arabella Apartments, LLC to construct 109 units of rental housing at 1227 NE 180<sup>th</sup> Street in the North City Business District. The project, Arabella II, is consistent with the North City Subarea Plan and Planned Action, and meets all criteria and guidelines as set forth in the PTE Program. As the application also states that 20% of the units will be rented as affordable housing, the project is eligible to receive the 12-year tax exemption. Based on this evaluation, the project was certified as eligible to receive the tax exemption by City staff. As per the PTE ordinance, a contract between an applicant and the City regarding the terms and conditions of the project must be presented to the City Council with a recommendation that the City Council authorize the City Manager to sign the contract if a PTE application is certified as eligible.

Attached is the Arabella II PTE application and development contract agreement between the applicant and the City to construct the project in accordance with the guidelines in the City's PTE Ordinance, North City Business District development regulations, and other appropriate City regulations.

**RECOMMENDATION**

Staff recommends that Council authorize the City Manager to execute the attached Multi-family Housing Limited Property Tax Exemption Agreement with Arabella Apartments, LLC for the Arabella II project located in the North City Business District.

Approved By:

City Manager 

City Attorney 

**ALTERNATIVES ANALYZED:**

On March 11, 2008, the City received an application for the Property Tax Exemption Program from Arabella Apartments, LLC to construct 109 units of rental housing at 1227 NE 180<sup>th</sup> Street in the North City Business District. The alternatives that have been analyzed for this proposed Council action are to approve or disapprove the Arabella Apartments, LLC application for a conditional certificate of tax exemption.

Ordinance No. 310, as amended, sets forth criteria and guidelines by which the City must evaluate a project for tax exempt status. This criteria includes:

- Location - Is the project in the North City Business District?
- Remaining Tax Exempt Units - Are the project's residential units within the remaining number of tax exempt units in the North City Business District?
- Size – Does the project provide for a minimum of 50% of the space for permanent residential housing?
- Proposed Completion Date – Will the project be scheduled to be completed within three years from the date of approval of the application?
- Compliance with Guidelines and Standards – Will the project comply with the Comprehensive Plan, building and zoning codes, including parking requirements, and any other applicable regulations in effect at the time the application is approved?
- 12-year Tax Exemption Affordability Component – Will 20% of the units be rented as affordable housing?

As the application for the Arabella II project meets all of these criteria, it was certified as eligible to receive a conditional certificate of tax exemption by City staff. Furthermore, in the development agreement, Arabella Apartments, LLC has agreed to the definition of affordable housing as it is proposed in proposed Ordinance No. 520 (households making no more 70% of the area median family income adjusted for family size for studio and one bedroom units). This is a more stringent definition of affordable housing than the definition as identified in Ordinance No. 479 for the North City Business District.

Parking impacts from new multi-family housing developments, such as Arabella II, have also been identified as an issue by some residents in the North City area. The current parking requirement for the North City Business District is one stall for every unit in a development, regardless of the bedroom count in the unit. Arabella II will be a 109 unit, six-story building built over two plus floors of sub-grade parking with 146 stalls and 64 bicycle spaces. Most of the excess parking stalls are being used to accommodate the parking stalls that are being removed from the Arabella I development to make way for construction of Arabella II.

In addition to the parking requirements in the development regulations, the tool the City will be using to address parking impacts for Arabella II is a parking management plan. The Shoreline Development Code section that pertains to the North City Business District, section 20.90.30, mandates that all planned action development proposals in North City, including Arabella II, must prepare a parking management plan to ensure

efficient and economic use of parking. The parking management plan shall include at a minimum a program for sharing residential and nonresidential spaces, encouraging use of transit and other forms of transportation, and providing incentives for commute trip reduction. Planning and Development Services (P&DS) staff have received the parking management plan for the Arabella II development as part of the building permit that Arabella Apartments, LLC have submitted to P&DS. P&DS staff is currently reviewing the parking plan to make sure that it provides adequate off-street parking for residents and visitors so that overflow parking does not impact nearby streets.

Ordinance No. 310, as amended, states that if a project is certified as eligible, "the application, together with a contract between the applicant and the City regarding the terms and conditions of the project, signed by the applicant, shall be presented to the City Council with a recommendation that the City Council authorize the City Manager to sign the contract." Since this project meets the necessary requirements and has been certified as eligible, disapproval of a conditional certificate of tax exemption is not a feasible alternative.

#### **FINANCIAL IMPACT:**

The Arabella II project will be exempt from all "ad valorem property taxation" of the value of new construction of the project for twelve years. The exemption affects the property tax levies for all taxing jurisdictions, including the State, County, School District, Port of Seattle and other special districts. Depending on the type of tax levy however, there are differing results for property tax revenue loss incurred by local jurisdictions. The primary taxing districts that are directly affected by the property tax exemption program are the regular property tax levies of the City of Shoreline, Shoreline Fire District, and King County Library District.

Under the PTE program, the Arabella II property tax exemption will take effect starting January 1<sup>st</sup> of the calendar year following the year in which the final certificate of tax exemption is issued. The exemption does not apply to retail square footage, other commercial space or land, or utility or other fees. The only portion of a project that would qualify for an exemption is the newly constructed or improved residential housing units.

The projected cost of new construction for the Arabella II project is \$18 million. Based on the City's 2008 regular property tax rate of \$1.02 per \$1,000 of assessed property value, the amount of the property tax collected annually by the City on these improvements would be approximately \$18,360. Applying the annual 1% property tax collection growth rate, and assuming that the tax levy rate is not reset to a higher rate by voter approval, the impact to the City would equate to \$232,850 over the project's twelve year exemption period. However, this estimate will be adjusted after the project is completed and the King County Assessor's Office makes a final determination of the tax value of the project.

As well, there may be additional costs for services that may be incurred by the City as a result of the Arabella II development. These costs would be in the form of increased

demand for services as a result of new development and increased population. As the property tax revenue to pay for the services would not be collected during the tax exemption period, this cost would have to be paid for from other sources. However, it was previously anticipated that for a twelve year tax exemption period, the City would be able absorb these service costs and would not necessarily need to rely on the corresponding property tax revenue generated from the new development to pay for them. As well, actual service costs generated by additional population are difficult to assess. There is not a direct one-to-one relationship between additional population and increased need for services. For these reasons, additional services costs are not being calculated here as a quantifiable financial impact.

**RECOMMENDATION:**

Staff recommends that Council authorize the City Manager to execute the attached Multi-family Housing Limited Property Tax Exemption Agreement with Arabella Apartments, LLC for the Arabella II project located in the North City Business District. Once this contract is fully executed, the City Manager shall issue a Conditional Certificate of Acceptance of Tax Exemption for the Arabella II project.

**ATTACHMENTS:**

**Attachment A** – Arabella II Property Tax Exemption Application

**Attachment B** – Arabella II Multifamily Housing Limited Property Tax Exemption Agreement

## MULTI-FAMILY HOUSING LIMITED PROPERTY TAX EXEMPTION AGREEMENT

THIS AGREEMENT is entered into this 11<sup>th</sup> day of SEPT., 2008, by and between ARABELLA APTS, LLC (hereinafter referred to as the "Applicant"), and the CITY OF SHORELINE (hereinafter referred to as the "City").

WITNESSETH:

WHEREAS the City has an interest in stimulating new construction or rehabilitation of multi-family housing in Residential Target Areas in order to reduce development pressure on single-family residential neighborhoods, increase and improve housing opportunities, provide affordable housing opportunities, and encourage development densities supportive of transit use; and

WHEREAS the City has, pursuant to the authority granted to it by RCW 84.14, designated the North City Business District as a Residential Target Area for the provision of a limited property tax exemption for new multi-family residential housing; and

WHEREAS the City has, through Ordinance Nos. 310 and 479, enacted a program whereby property owners may qualify for a Final Certificate of Tax Exemption which certifies to the King County Assessor that the owner is eligible to receive a limited property tax exemption; and

WHEREAS the Applicant is interested in receiving a limited property tax exemption for constructing 109 units of new multi-family residential housing located at 1227 N.E. 180<sup>th</sup> Street in the North City Business District, and generally referred to as "Arabella II" (the "Project"); and

WHEREAS on March 11, 2008, the Applicant submitted to the City a complete application for Property Tax Exemption as provided for under Ordinance Nos. 310 and 479; and

WHEREAS the Project proposes renting at least twenty percent (20%) of the residential units as affordable housing units, including associated parking stalls and utilities other than cable or telephone, to households making at or below 70% of the area median family income adjusted for family size for studio and one bedroom units; and

WHEREAS on May, 19, 2008, the City issued a written certification of eligibility for the Applicant's application for Conditional Certificate of Property Tax Exemption; and

WHEREAS the City has determined that the improvements will, if completed as proposed, satisfy the requirements for a Final Certificate of Tax Exemption.

NOW, THEREFORE, the City and the Applicant do mutually agree as follows:

1. The City agrees to issue the Applicant a Conditional Certificate of Acceptance of Tax Exemption once this Agreement is fully executed, which shall exempt the Project from ad valorem property taxation for twelve (12) successive years beginning January 1<sup>st</sup> of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption based on the Project's renting of at least twenty percent (20%) of the residential units as affordable housing, including associated parking stalls and utilities other than cable and telephone, to households making at or below 70% of the area median family income adjusted for family size for studio and one bedroom units.
2. The Applicant agrees to construct the Project in compliance with all applicable laws, ordinances, regulations, and as approved and permitted by the City. In no event shall such construction provide less than fifty percent (50%) of the space for permanent residential occupancy as required by Ordinance No. 479.
3. The Applicant agrees to submit a parking management plan to the Shoreline Planning and Development Services Department as required by Chapter 20.90 of the Shoreline Municipal Code.
4. The Applicant agrees to complete construction of the agreed upon improvements within three years from the date the City issues the Conditional Certificate of Acceptance of Tax Exemption, or within any extension thereof granted by the City.
5. The Applicant agrees, upon completion of the improvements and upon issuance by the City of a temporary or permanent certificate of occupancy, to file with the City Manager a request for Final Certificate of Tax Exemption with the following information:
  - (a) a statement of expenditures made with respect to each multi-family housing unit and the total expenditures made with respect to the entire property;
  - (b) a description of the completed work and a statement of qualification for the exemption;
  - (c) a statement that the work was completed within the required three-year period or any authorized extension;
  - (d) a statement that the project meets affordable housing requirements by renting at least twenty percent (20%) of the residential units, including associated parking stalls and utilities other than cable and telephone, as affordable housing to households making at or below 70% of the area median family income adjusted for family size for studio and one bedroom units; and
  - (e) a statement that the residential units which were rented as affordable housing include any associated parking stall charge, if collected, in the affordable rental rate.
6. The City agrees, conditioned on the Applicant's successful completion of the improvements in accordance with the terms of this Agreement and on the Applicant's filing of the materials described in Paragraph 4 above, to file a Final Certificate of Tax Exemption with the King County Assessor within 40 days of application.

7. The Applicant agrees, within 30 days following the first anniversary of the City's filing of the Final Certificate of Tax Exemption and each year thereafter for a period of twelve (12) years, to file a notarized declaration with the City Manager indicating the following:
  - (a) a statement of occupancy and vacancy of the newly constructed property during the twelve months ending with the anniversary date;
  - (b) a certification by the owner that the property has not changed use since the date of the certificate approved by the City and that property is in compliance with affordable housing requirements by renting at least twenty percent (20%) of the residential units, including associated parking stalls and utilities other than cable and telephone, as affordable housing to households making at or below 70% of the area median family income adjusted for family size for studio and one bedroom units;
  - (c) a description of any subsequent changes or improvements constructed after issuance of the Final Certificate of Tax Exemption;
  - (d) the monthly rent amount of each unit produced; and
  - (e) the income of each renter household at the time of initial occupancy for each of the units receiving a tax exemption.
8. The Applicant agrees, by December 15 of each year beginning with the first year in which the Final Certificate of Tax Exemption is filed and each year thereafter for a period of twelve (12) years, to provide a written report to the City Manager containing information sufficient to complete the City's report to the Washington State Department of Community, Trade and Economic Development as described in Section 9.D. of Ordinance No. 479.
9. If the Applicant converts any of the new multi-family residential housing units constructed under this Agreement into another use, the Applicant shall notify the King County Assessor and the City Manager within 60 days of such change in use.
10. The Applicant agrees to notify the City promptly of any transfer of the Applicant's ownership interest in the Project or in the improvements made to the Project under this Agreement.
11. The City reserves the right to cancel the Final Certificate of Tax Exemption should the Applicant, its successors and assigns, fail to comply with any of the terms and conditions of this Agreement or for any reason that the Project no longer qualifies for the tax exemption based on the laws, ordinances and regulations in effect at the time the Applicant executes this agreement.
12. No modifications of this Agreement shall be made unless mutually agreed upon by the parties in writing.
13. In the event that any term or clause of this Agreement conflicts with applicable law, such conflict shall not affect other terms of this Agreement which can be given effect without the conflicting term or clause, and to this end, the terms of this Agreement are declared to be severable.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first above written.

CITY OF SHORELINE

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

Approved:

By \_\_\_\_\_  
City Manager  
Robert L. Olander

Attest:

By \_\_\_\_\_  
City Clerk  
Scott Passey

APPLICANT

By ARABELLA APTS. LLC  
Name: [Signature]  
Its: MANAGING MEMBER

Approved as to form:

By \_\_\_\_\_  
City Attorney  
Ian Sievers



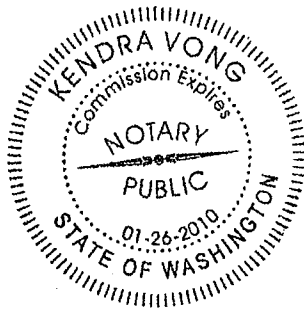
STATE OF WASHINGTON)

) ss.

KING COUNTY )

On this 11th day of September, 2008, before me, the undersigned Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared John Stephanus, to me known to be the managing member of Arabella Apts LLC, who executed the foregoing instrument and acknowledged to me that the said instrument was signed as his/her free and voluntary act and deed, for the uses and purposes therein mentioned.

WITNESS my hand and official seal this 11th day of September, 2008.



Kendra Vong

(Print Name) Kendra Vong  
Notary Public, Residing at Seattle, WA  
My appointment expires: 1/26/2010

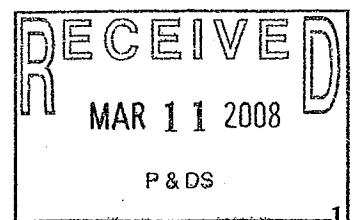


**APPLICATION FOR TAX EXEMPTION ON MULTIPLE FAMILY UNITS  
WITHIN A DESIGNATED RESIDENTIAL TARGET AREA:  
COVER SHEET**

This Application for Tax Exemption must be accompanied by a fee deposit of \$411. The breakdown for this deposit is as follows:

- 1) \$411 for the City's application processing. (\$411 is three times the current \$137 hourly rate for processing land use permits.)
- 2) \$ TBD or the King County Assessors fee for administering the Multiple Family Tax Exemption program. (Note: Jeff Forry, Shoreline staff, indicated in phone conversation of 3/6/08 that the second fee will be due at the time the City forwards the approved PTE application onto King County. J.J. McCament, 253-284-5702 x 251.)

Please return the Application for Tax Exemption on Multiple Family Units within a Designated Residential Target Area along with the deposit payable to the City of Shoreline to the attention of the Economic Development Manager, 17544 Midvale Avenue North, Shoreline, WA 98133.





**APPLICATION FOR TAX EXEMPTION ON MULTIPLE FAMILY UNITS  
WITHIN A DESIGNATED RESIDENTIAL TARGET AREA**

(Pursuant to Chapter 84.14 RCW and City of Shoreline Ordinance No. 479)

*Application fee required*

NAME OF APPLICANT: ARABELLA APTS LLC DATE: January 14, 2007

ADDRESS OF APPLICANT 219 E. GARFIELD STREET STE 600, SEATTLE, WA 98102 PHONE: 206-459-3278

NAME AND STREET ADDRESS OF PROJECT: 1227 NE 180<sup>TH</sup>, NORTH CITY BUSINESS DISTRICT,  
SHORELINE, WA 98155

**PROGRAM REQUIREMENTS**

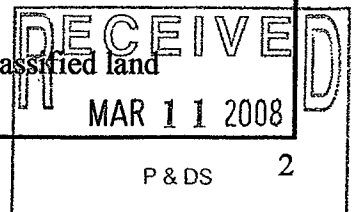
*Project must meet the following criteria for special valuation on multi-family property:*

1. Be located within the residential target area designated for the tax incentive by the City.
2. Be within the allotted number of units for the relevant target area.
3. Be a multiple family or mixed-use project which provides 20 or more additional dwelling units.
4. Be completed within three years from the date of approval of the application, unless extended for good cause by the City.
5. Be designed to comply with all building codes, zoning and other applicable regulations.

*Once application is approved, then:*

1. The applicant and the City execute a contract to be approved by the City Council under which the Applicant agrees to implementation of the development on terms and conditions satisfactory to the City Council.
2. Once contract is executed, the City will issue a Conditional Certificate of Acceptance of Tax Exemption, based on the information provided by the Applicant. The Conditional Certificate will be effective for not more than three (3) years, but may be extended for an additional 24 months if special circumstances warrant extension. The City will issue, at the Applicant's request, a Final Certificate of Tax Exemption upon completion of the project and satisfactory fulfillment of all contract terms.

**Note:** Assessor may require owners to submit pertinent data regarding the use of classified land



## PROJECT INFORMATION

Interest in Property: ☒ Fee simple: ☐ Contractor Purchaser: ☐ Other (describe) \_\_\_\_\_

County Assessor's Parcel Account #: 616390-0693 616390-0703 616390-0704

Street Address: 1227 NE 180<sup>th</sup>, Shoreline, WA 98155

Legal Description: 9 & 4 NORTHEND COUNTRY ESTATES ADD N ½ OF LOT 9 LESS W 130 FT TOW LOT 10 LESS W 290 FT; 10 4 NORTH END COUNTRY ESTATES ADD E 60 FT OF W 290 FT; 10 4 NORTHEND COUNTRY ESTATES ADD E 60 FT OF W 230 FT

New Construction: ☒ YES ☐ NO

Rehabilitation of Existing Units: ☐ YES ☒ NO

If rehabilitated/demolished, Applicant must secure from the City verification of property noncompliance with applicable building codes.

Number of Units: New 109

Rehabilitated: N/A

Number of Units for which you are applying for this exemption: 109

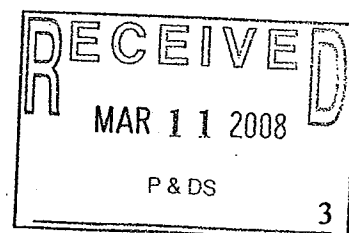
Required Preliminary Plans are attached: *Site Plan*\*: ☒ YES ☐ NO *Floor Plan*: ☒ YES ☐ NO \*See SMC 20.20.046.

Describe building use and square feet intended for each use 151,615 total gross square feet (86,158 sq. ft. residential including ground floor units that can be converted to live-work units or commercial/retail space; 2,800 sq. ft. community space and 62,657 sq. ft. in structured parking garage).

Projected cost of new construction/rehabilitation: \$18 million

Source of cost estimate: General Contractor, Developer & Architect

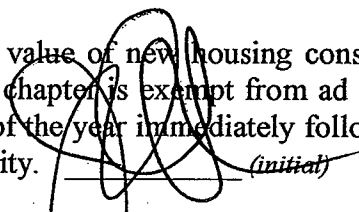
Expected date to start project: Mid-2008 Expected date to complete project Fall '09

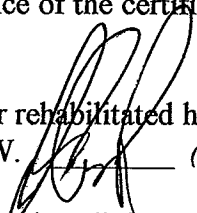


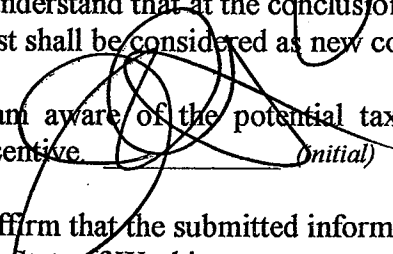
## NARRATIVE STATEMENT

**Provide a brief statement describing the project and setting forth the grounds for qualifications for tax exemptions:** Proposed Arabella Apartments Phase II development located at 1227 NE 180th, is in the emerging urban neighborhood of the North City Business District. Arabella II will be built on a surface parking lot now associated with Arabella I Apts (formerly North City Landing). Arabella II will be a six-story building with 109 apts. (6 units handicap accessible) built over two plus floors of sub-grade parking with 146 stalls (4 handicap+2 handicap van) and 64 bicycle spaces. Excess parking in Arabella II will balance out parking needed for Arabella I, and may be opened to hourly or day parkers as capacity allows and demand for parking is created by surrounding businesses. Building features an urban design with a mix of masonry, vertical metal siding, and horizontal lap siding. The building type reflects Shoreline's zoning code calling for scale and density appropriate to a developing urban village. Building size and mass will be softened by a below-grade parking garage, upper floors stepped back from the ground floor elevation, and the use of a landscaped trellis entry and interior courtyard to screen the building entry from adjacent properties and provide an intimate community space for apartment residents. Arabella II is designed as a mixed-income development providing studio and one-bedroom apartments ranging from 454-920 sq. ft. with projected rental rates from \$929 - \$1339/month. This unit mix complements Arabella I's unit mix of studio, 1- 2- and 3-bedroom apartments. At least 20% of the units are expected to meet affordable rental rates based on King County HUD guidelines. Apts. will include in-unit laundry and Energy-Star appliances for energy efficiency. The four ground floor units facing 180<sup>th</sup> St. could be converted to retail/commercial space or live/work units when market conditions make such conversions financially feasible. Arabella I & II are designed to help the City of Shoreline meet GMA density goals in the North City Business District & provide housing for singles, retirees, and employees of nearby businesses. Urban apartments and structured parking garages coupled with new street/sidewalk improvements & convenient mass transit connections make this pedestrian-oriented mixed-use neighborhood desirable for those wishing an urban lifestyle.

## AFFIRMATION

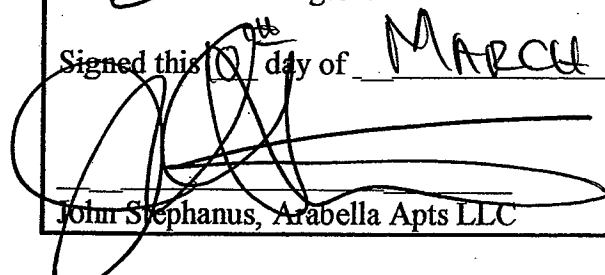
I understand that the value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation for twelve successive years beginning January 1 of the year immediately following the calendar year of issuance of the certificate of tax exemption eligibility.  (initial)

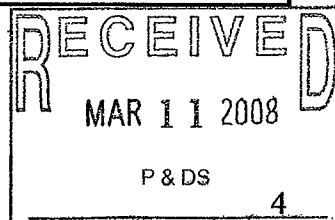
I understand that at the conclusion of the twelve-year exemption period, the new or rehabilitated housing cost shall be considered as new construction for the purposes of chapter 84.55 RCW.  (initial)

I am aware of the potential tax liability involved when the property ceases to be eligible for the incentive.  (initial)

I affirm that the submitted information is true and correct, subject to penalty of perjury under the laws of the State of Washington.

Signed this <sup>th</sup> 10 day of MARCH, 2008

  
John Stephanus, Arabella Apts LLC



PTE Project Summary  
Arabella Apartments II  
March 6, 2008

Project Name: Arabella Apartments II  
Project Address: 1227 NE 180<sup>th</sup> Street, Shoreline, WA 98155  
Parcel Number: 616390-0693, 616390-0703, 616390-0704  
  
Developer/Owner: Arabella Apts LLC John Stephanus, 206-459-3278  
Architect: Mark Travers & Associates, Seattle 206-763-8496  
General Contractor: TBD  
Construction Mgmt: Scott Harm, Belay & Associates, Tacoma 253-441-6400  
Consultant: J.J. McCament, 253-284-5702 x 251 or 253-219-7962

Project Description:

Mixed-income apartment development replacing a surface parking lot with a six-story building containing approximately 109 studio & one-bedroom apartments and 146 parking stalls and 64 bicycle stalls. Excess parking will be used to provide parking support for Arabella I and may be opened to hourly or day parkers as capacity allows and demand for parking is created by surrounding businesses. The unit mix of studio & one-bedroom apartments is meant to complement the unit mix of studio, 1- 2- and 3-bedroom apartments available in Arabella I (formerly known as North City Landing and purchased by Arabella Apts LLC in final stages of construction).

Arabella II features an urban design with a mix of masonry, vertical metal siding, horizontal lap siding, and an internal courtyard with landscaped trellis entry to the building. Apartments will include in-unit laundry and Energy Star appliances for energy efficiency. The four floor apartments facing 180<sup>th</sup> Street could be converted to retail/ commercial uses or live/work units as market conditions make such conversions financially feasible.

At least 20% of the apartments will be offered to households earning no more than 80% of the Area Median Income (AMI) established annually by HUD.

| Type of Unit | # of Apts. | Handicapped Accessible | Approximate Square Feet | Projected Mo. Rental Rates |
|--------------|------------|------------------------|-------------------------|----------------------------|
| Studio       | 50         | 3                      | 454 - 580               | \$929-\$1045               |
| One Bedroom  | 59         | 3                      | 536 - 920               | \$1066-\$1339              |
|              | 109        | 6                      |                         |                            |

Construction Start: Mid-2008  
Construction Completion: Fall 2009  
Targeted Consumer: Employees of nearby businesses, students, singles and retirees

