Council Meeting Date: September 26, 2011 Agenda Item: 9(c)

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Extension of Property Tax Exemption Program
DEPARTMENT:	Economic Development
PRESENTED BY:	Dan Eernissee, Economic Development Manager
ACTION:	____**Ordinance** ____**Resolution** ____**Motion** X **Discussion**

PROBLEM/ISSUE STATEMENT:
The adoption of the Town Center Subarea Plan and the completion of the first two miles of the Aurora Corridor Project were aimed at attracting private investment that will capitalize on the City's infrastructure improvements. The City has provided additional incentives for development in the North City and Ridgecrest neighborhoods through the City's Property Tax Exemption (PTE) program. The expansion of the PTE program to all or part of Aurora would provide an additional tool to use in attracting developer investment. While the PTE program provides investors a recognized incentive, it does so at the expense of revenue the City would otherwise receive if the investment happened without the incentive.

While we continue to believe that one of the most significant incentives for investment is providing infrastructure/frontage improvements with projects such as the Aurora Corridor and North City, this program would provide another incentive to attract new development in a highly competitive and limited investment market.

RESOURCE/FINANCIAL IMPACT:
Staff estimates that the cost of the PTE program will be $150 to $200 per unit in lost revenue for each year the PTE program is in place. While this could result in significant loss in property tax, the long-term impact of no development carries a cost as well.

- A minimal amount of staff time would be required to explain the PTE program to applicants, collect applications, and coordinate and process the approval.
- If the property owner needed to comply with affordability requirements, additional staff time would be necessary to annually oversee compliance.

RECOMMENDATION

No action is required this evening as this topic is for discussion only. However, staff recommends that the PTE program be made available for commercial properties along the entire Aurora corridor. Staff further believes that while the 8/12 year program provides the most incentive to the investment community, a 5-year market-rate only PTE program provides tax revenue sooner while still providing investors a significant incentive. If Council is agreeable to expanding the program, staff will return for Council action on November 28.

Approved By: City Manager City Attorney FPC

INTRODUCTION

The discussion tonight will consider whether the Property Tax Exemption (PTE) program currently used in North City and in Ridgecrest should be utilized elsewhere in Shoreline; in which areas PTE is appropriate; and how the PTE program should or should not be implemented.

BACKGROUND

The State of Washington and King County provide cities with a mechanism for providing incentives for multifamily projects by exempting property tax on either new construction or significant retrofitting improvements. The incentive is capped at eight (8) years for market-rate housing and 12 years for projects that designate at least 20% of their units as "affordable." Cities are required to specify areas that lack "sufficient available, desirable and convenient residential housing, including affordable housing, to meet the needs of the public who would be likely to live in the urban center if affordable, desirable, attractive and livable places to live were available." (RCW 84.14.040.)

The City of Shoreline currently offers this incentive in North City and Ridgecrest. The two programs are somewhat different. To date one development, North City's *Arabella*, is currently enjoying tax exempt status. The second phase of *Arabella* holds a certificate for PTE which will expire in about two years; furthermore, the developers interested in developing the North City YMCA site have inquired about the availability of the program. Each of the developers using the PTE program in North City considers it critical to the success of their development. From the developer's perspective, PTE increases the net operating income of each development by approximately $50 to $100 per unit per month.

Many of those considering investment in Shoreline are also considering comparable Seattle properties. Attachment C includes information related to the Seattle program. The City of Seattle uses its popular "Homes Within Reach" program for the majority of its neighborhood commercial areas, and the program has helped attract a number of developments. The Seattle program recently was negatively portrayed by a *Seattle Times* article which casts the program as deficient in providing "affordable" housing. In staff's opinion, the article both misrepresented the concept of affordability as well as undervalued the community benefits and revenue effects of the program.

PTE BENEFITS

The PTE program offers several benefits. These include:

- Even during the period of PTE status, the new project generates more revenue to the City than would be generated without the project. This is achieved because the project continues to pay the base property tax (PTE only excludes tax on improvements) in addition to sales tax from construction, real estate excise tax,, permitting fees for the improvements, and on-going revenues, such as utility and sales tax, to support the cost of municipal services to be provided to occupants of the new units.
- Property taxes increase dramatically once the PTE period ends.
- PTE is the small nudge needed for some projects to make them "pencil."
- From the City's perspective, PTE is a leveraged incentive in which the City's share is only roughly 10% of the actual incentive received.

- PTE incentives are only given to those who make a significant investment in Shoreline.
- PTE benefits the community by allowing managed population growth in targeted areas and by providing a growing stock of sustainable housing.
- PTE helps the property owner by making his or her property more saleable.
- New multifamily housing opportunities within Shoreline are encouraged by PTE, and new construction or rehabilitation of existing structures prompted by PTE provides quality jobs within the City.
- Land is used more efficiently as multi-story buildings with structured parking replace single-story buildings with surface parking.
- PTE allows the Council to designate where incentives are spent.
- PTE can be capped or withdrawn by Council if abuses emerge.

POSSIBLE EXPANSION AREAS FOR PTE

Town Center. Expanding PTE would allow this incentive to be combined with those embedded in the recently adopted Town Center Subarea Plan. The disadvantage is that Town Center has only a handful of properties to develop.

Area around the Central Market/Sears shopping area. This area is of interest because it represents a great opportunity for a thriving mixed-use lifestyle destination.

The Aurora Corridor. Designating all of the commercial properties associated with Aurora Avenue would be consistent with the Council's stated desire to capitalize on the public investment already made in the Aurora Corridor Project. It would take in both of the areas discussed above, and it would allow properties along Shoreline's Aurora to compete successfully with properties along Seattle's Aurora.

Council has continued to focus on the importance of economic development as one way to lessen the property tax burden on Shoreline's primarily residential community. New construction valuation is one measure of economic development. Below is a table of the new construction values that have been added to Shoreline's tax rolls since 2005. The table clearly shows the delayed effect of the recession:

	2005	2006	2007	2008	2009	2010	2011	2012
New Construction Valuation	39,078,686	50,035,791	83,088,127	89,239,170	71,848,784	45,017,655	15,078,381	2,375,506

POTENTIAL PTE PROGRAM MODELS

The North City PTE Program. The program currently in place in North City offers the maximum 8-year PTE for market-rate housing and a 12-year PTE for affordable housing. It is more thoroughly described in the PTE Frequently Asked Question (FAQ) materials in attachment A. The Ridgecrest program was customized for the Ridgecrest planned area, and staff believes it to be less appropriate for other areas of Shoreline.

A 5-Year PTE Program. According to the City Attorney's Office no minimum time period is set under the law, and the City can choose to lower these limits for less than the eight and twelve year time periods. The Department of Commerce agrees with this approach, indicating that the state law does give local governments some flexibility with creating their property tax exemption programs.

Furthermore, a staff initiated financial analysis (Attachment B) indicates that the relative differences between a 5-year PTE program, an 8-year, and a 12-year PTE program is not significant to an investor's proforma. However, the difference between a 5-year PTE program and no PTE program is quite significant, as the 5-year PTE program provides extra cash flow during the building's lease-up and allows the project to attract better permanent financing. Should Council consider a 5-year program to be desired, more research with potential investors would be conducted by staff.

COUNCIL GOAL ADDRESSED

This program would support the following Council Goals:

Goal 1: Implement the adopted Community Vision by updating the Comprehensive Plan and key development regulations in partnership with residents, neighborhoods, and businesses

- Adopt amendments to the City's development regulations to make the permit process more timely, clear and predictable, e.g., administrative design review, planned actions, subarea plans, and other appropriate planning tools.

Goal 3: Improve economic development opportunities in Shoreline

- Promote investments in Shoreline's neighborhood centers to increase economic vitality, environmental quality, and housing choices
- Provide a business-friendly environment that attracts and retains both large and small businesses

RESOURCE/FINANCIAL IMPACT

Staff estimates that the cost of the PTE program will be $150 to $200 per unit in lost revenue for each year the PTE program is in place. While this could result in significant loss in property tax, the long-term impact of no development carries a cost as well.

- A minimal amount of staff time would be required to explain the PTE program to applicants, collect applications, and coordinate and process the approval.
- If the property owner needed to comply with affordability requirements, additional staff time would be necessary to annually oversee compliance.

RECOMMENDATION

Staff recommends that the PTE program be available for all Aurora corridor properties. Staff further believes that while the 8/12 year program provides the most incentive to the investment community, a 5-year market-rate only PTE program provides a less costly program for the City while continuing to provide a significant incentive to investors. If

Council is agreeable to expanding the program, staff will return for Council action on November 28.

ATTACHMENTS

A. Property Tax Exemption Frequently Asked Questions (FAQs) for the City of Shoreline's current PTE programs

B. Staff's financial analysis comparing various PTE programs on a "typical" 100-unit multifamily residential project
   a. No PTE program proforma
   b. 5-year PTE program proforma
   c. 8-year PTE program proforma
   d. 12-year PTE program proforma

C. The City of Seattle's comparable PTE Program
   a. Homes Within Reach website homepage
   b. List of areas the program is offered
   c. Selected maps showing PTE program offered on Aurora Avenue North from the Aurora Bridge to Shoreline's border
   d. Current projects using MFTE in Seattle
   e. The *Seattle Times* article criticizing the Seattle program

CITY OF
SHORELINE

Property Tax Exemption Frequently Asked Questions (FAQs)

What is the Property Tax Exemption (PTE) Program?
The PTE program provides a property tax exemption for development of multi-family residential housing in two targeted areas of Shoreline: the North City Business District and the Ridgecrest Commercial District. Currently, the City offers a 12-year tax exemption for new, affordable multi-family residential development, and an 8-year tax exemption for new, market rate multi-family residential development.

What is the purpose of the PTE Program?
The purposes of the PTE program is 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.

When was the City of Shoreline's Property Tax Exemption (PTE) Program established?
The City of Shoreline's PTE Program was initially established in November of 2002 by Council Ordinance No. 310, and amended in March of 2008 by Council Ordinance Nos. 479 and 496.

How does the tax exemption work?
Once a project is completed and a Final Certificate for tax exemption is issued by the City to the King County Assessor's Office, the tax exemption period will commence January 1st of the following year. The tax 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, utility or impact fees, or any residential units that were in existence at the time of application.

How does a project qualify for the PTE Program?
To qualify for the PTE Program, a project must:

- Be located within the adopted boundaries of the North City Business District target area or the Ridgecrest Commercial District target area.
- The project's tax exempt unit count must be within the remaining unit count allotted to the PTE Program target area. The North City Business District target area has a 250 tax exempt unit limit, and the Ridgecrest Commercial District target area has a 350 tax exempt unit limit.

- The new development or rehabilitation of an existing development must provide for a minimum of fifty percent of the space for permanent residential occupancy, and must create, at a minimum, four (4) additional residential units of multi-family housing.
- New construction or rehabilitation must be completed within three years from the date of approval of the application.
- 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.

For the 12-year property tax exemption, how is affordability determined?
To qualify for the 12-year tax exemption, the applicant must commit to renting or selling at least 20% of the multifamily housing units as affordable housing units to low-income households. "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of low or moderate-income households. In the North City Business District target area, eligible household incomes cannot exceed 100% of the King County median family income adjusted for family size, and in the Ridgecrest Commercial District target area, eligible household incomes cannot exceed 90% of the King County median family income adjusted for family size.

What does an applicant need to submit to the City for their project to be considered for a tax exemption?
To apply for the PTE Program, the applicant must first submit an application for Conditional Certificate of Tax Exemption to the City of Shoreline Planning and Development Services Department. In addition to the application, a processing fee, equal to three times the current hourly rate for processing land use permits, a site plan, and floor plan of the housing units must also be submitted.

How is an application for Conditional Certificate of Tax Exemption approved?
Once a Conditional Certificate application is received, City staff will review the application to determine if it is complete and if the project meets the criteria of the PTE Program. A decision to approve or deny certification of a conditional application shall be made within 90 days of receipt of a complete application. If denied, the applicant has the ability to appeal the denial to the City Council. If approved, the application, together with a contract between the applicant and the City regarding the terms and conditions of the project, signed by the applicant, will be presented to the City Council for final approval. Upon City Council approval, City staff will sign the contract and issue the Conditional Certificate of Tax Exemption.

When does an application for Conditional Certificate of Tax Exemption vest?
The application for tax exemption vests once a complete application for Conditional Certificate is received by the City of Shoreline. That is, the vested application reserves the amount of tax exempt units outlined in the application.

How long is the Conditional Certificate of Tax Exemption valid for?
The Conditional Certificate expires three years from the date it was signed unless an extension is granted.

How is a Conditional Certificate of Tax Exemption extended?
To extend a Conditional Certificate, an applicant must fill out an application for Extension of Conditional Certificate of Tax Exemption. A Conditional Certificate may be extended for a period not to exceed 24 months by City staff.

What is typically included in the terms and conditions contract between the City and the applicant?
The terms and conditions contract will typically require the applicant to meet all the requirements of the PTE program as outlined in Shoreline Ordinance Nos. 479 and 496. This includes providing an application and related information for a Final Certificate of Tax Exemption once the project has been constructed, providing ongoing compliance information for the duration of the exemption period, and other contractual requirements.

How does an applicant apply for a Final Certificate of Tax Exemption?
Once the project has been completed within three years of receipt of the Conditional Certificate of Tax Exemption, the applicant may request a Final Certificate for Tax Exemption. To apply for the Final Certificate, the applicant must submit an application for Final Certificate of Tax Exemption to the City of Shoreline Planning and Development Services Department. In addition to the application for Final Certificate, a King County Assessors fee for administering the Multiple Family Tax Exemption program, a statement of expenditures made with respect to each multi-family housing unit, and the total expenditures made with respect to the entire property must also be submitted.

How is an application for Final Certificate of Tax Exemption approved?
Once a Final Certificate application is received, City staff will review the application to determine if it is complete and if it meets the criteria for a Final Certificate. Staff will also determine if the project was completed in accordance with the contract between the applicant and the City and within the authorized time period. If the project was completed in accordance with these criteria, the City will file a Final Certificate of Tax Exemption with the King County Assessors Office within 40 days. The tax exemption period will commence on January 1st of the year following the year the Final Certificate is approved.

Can a property tax exemption be cancelled?
Yes. If at any time during the exemption period City staff determine that the owner has not complied with the terms of the contract or the requirements of the PTE Program, or that the property no longer complies with the terms of the contract of the requirements of the PTE Program, or for any reason no longer qualifies for the tax exemption, the tax exemption will be cancelled, and additional taxes, interest and penalties may be imposed on the property.

LAVORO DEVELOPMENT

SHORELINE STUDY OF ZERO YEAR PTE

September 8, 2011

values to be entered | *calculated by formula or linked to another cell*

RETURN ON EQUITY INVESTMENT (IRR)				
Stabilized (yr 3) cash-on-cash return		3.1%		
Stabilized (yr 3) return on equity		5.2%		
Sold as apartment upon stabilization		-7.9%	6.5%	CAP
Sold as a condominium after 15 years		15.2%	$ 400.00	sf
			$ 288,400	ave
Year 15 cash-on-cash return		18.4%		
Year 15 return on equity		18.4%		
Sold as apartment after 15 years		12.6%		
COSTS		per unit	total	
land costs	20.8%	37,850	3,785,000	
hard costs	64.2%	116,563	11,656,294	
soft costs	7.0%	12,801	1,280,072	
financing costs	7.9%	14,390	1,439,049	
Total	**100.0%**	**181,604**	**18,160,416**	
SOURCE OF FUNDS				
cost of project			18,160,416	
construction loan %		80.0%	14,528,332	
equity %		20.0%	3,632,083	
seller carry %		0.0%	-	

RETURN ON INVESTMENT FROM CASH FLOW

	Year	Rental/Sale	Rental/15yr Hold	Condo year 15
Cons	2012	(3,632,083)	(3,632,083)	(3,632,083)
Cons	2013	-	-	
1	2014	442,018	442,018	442,018
2	2015	2,433,108	128,977	128,977
3	2016		161,221	161,221
4	2017		196,831	196,831
5	2018		233,510	233,510
6	2019		271,289	271,289
7	2020		310,201	310,201
8	2021		350,281	350,281
9	2022		391,563	391,563
10	2023		434,083	434,083
11	2024		477,880	477,880
12	2025		522,990	522,990
13	2026		569,453	569,453
14	2027		617,310	617,310
15	2028		12,128,385	15,754,740
	Equity Return	**-7.9%**	**12.6%**	**15.2%**

APARTMENT MODEL			
NET OPERATING INCOME AT STABILIZATION			
Rental income after vacancy			1,488,577
Parking & utility income			167,460
Expenses			(518,708)
Total NOI			**$ 1,137,329**
RETURN IF SOLD AT STABILIZATION			
net operating income/cost			6.26%
profit/cost			-7.31%
FINANCIAL BENCHMARKS			
net operating income			1,137,329
debt service years	40	yrs	
debt service %	6.50%		
annual debt service			($1,025,789)
NOI/debt service			1.11
Yr 3 cash return & cash flow	3.1%		111,540
Yr 3 principle return & payment	2.2%		79,053
Yr 3 equity return	5.2%		190,593
CASH FLOW UPON CLOSING OF PERMANENT LOAN			
value of project at stabilization	6.5%	CAP	17,497,363
initial equity contribution			3,632,083
permanent loan (cost) as % of value	83%		14,528,332
cost of project			18,160,416
equity creation by completion			(663,052)
VALUE IF SOLD AT STABILIZATION			17,497,363
less sales commission	1.50%		(262,460)
less closing costs	2.30%		(402,439)
net after costs			16,832,463
TOTAL PROFIT (Net less construction costs)			**(1,327,952)**
TOTAL CASH FROM SALE (Net less construction loan)			**2,304,131**
VALUE IF SOLD AT YEAR 15			25,278,447
less sales commission	1.50%		(379,177)
less closing costs	2.30%		(581,404)
net after costs			24,317,866
TOTAL PROFIT (Net less loan balance less initial equity)			**7,829,699**
TOTAL CASH FROM SALE (Net less loan balance)			**11,461,782**
12-YEAR CONDOMINIUM MODEL			
Sales price	400	/sf	28,840,000
Marketing & conversion expense	12%		(3,460,800)
TOTAL PROFIT (Net less loan balance less initial equity)			**11,456,053**
TOTAL CASH FROM SALE (Net less loan balance)			**15,088,136**

Attachment B (a)

LAVORO
DEVELOPMENT

SHORELINE STUDY OF 5 YEAR PTE

September 8, 2011

values to be entered — calculated by formula or linked to another cell

RETURN ON EQUITY INVESTMENT (IRR)				
Stabilized (yr 3) cash-on-cash return		6.6%		
Stabilized (yr 3) return on equity		8.8%		
Sold as apartment upon stabilization		11.6%	6.5%	CAP
Sold as a condominium after 15 years		16.4%	$ 400.00	sf
			$ 288,400	ave
Year 15 cash-on-cash return		18.4%		
Year 15 return on equity		18.4%		
Sold as apartment after 15 years		13.6%		
COSTS		per unit	total	
land costs	20.8%	37,850	3,785,000	
hard costs	64.2%	116,563	11,656,294	
soft costs	7.0%	12,801	1,280,072	
financing costs	7.9%	14,390	1,439,049	
Total	100.0%	181,604	18,160,416	
SOURCE OF FUNDS				
cost of project			18,160,416	
construction loan %		80.0%	14,528,332	
equity %		20.0%	3,632,083	
seller carry %		0.0%	-	

RETURN ON INVESTMENT FROM CASH FLOW

	Year	Rental/Sale	Rental/15yr Hold	Condo year 15
Cons	2012	(3,632,083)	(3,632,083)	(3,632,083)
Cons	2013	-	-	
1	2014	562,018	562,018	562,018
2	2015	4,419,112	230,823	230,823
3	2016		288,529	288,529
4	2017		327,958	327,958
5	2018		368,571	368,571
6	2019		271,289	271,289
7	2020		310,201	310,201
8	2021		350,281	350,281
9	2022		391,563	391,563
10	2023		434,083	434,083
11	2024		477,880	477,880
12	2025		522,990	522,990
13	2026		569,453	569,453
14	2027		617,310	617,310
15	2028		12,128,385	15,754,740
	Equity Return	**11.6%**	**13.6%**	**16.4%**

APARTMENT MODEL			
NET OPERATING INCOME AT STABILIZATION			
Rental income after vacancy			1,488,577
Parking & utility income			167,460
Expenses			(391,400)
Total NOI			**$ 1,264,637**
RETURN IF SOLD AT STABILIZATION			
net operating income/cost			6.96%
profit/cost			3.06%
FINANCIAL BENCHMARKS			
net operating income			1,264,637
debt service years	40	yrs	
debt service %	6.50%		
annual debt service			($1,025,789)
NOI/debt service			1.23
Yr 3 cash return & cash flow	6.6%		238,848
Yr 3 principle return & payment	2.2%		79,053
Yr 3 equity return	8.8%		317,901
CASH FLOW UPON CLOSING OF PERMANENT LOAN			
value of project at stabilization	6.5%	CAP	19,455,948
initial equity contribution			3,632,083
permanent loan (cost) as % of value	75%		14,528,332
cost of project			18,160,416
equity creation by completion			1,295,532
VALUE IF SOLD AT STABILIZATION			19,455,948
less sales commission	1.50%		(291,839)
less closing costs	2.30%		(447,487)
net after costs			18,716,622
TOTAL PROFIT (Net less construction costs)			**556,206**
TOTAL CASH FROM SALE (Net less construction loan)			**4,188,289**
VALUE IF SOLD AT YEAR 15			25,278,447
less sales commission	1.50%		(379,177)
less closing costs	2.30%		(581,404)
net after costs			24,317,866
TOTAL PROFIT (Net less loan balance less initial equity)			**7,829,699**
TOTAL CASH FROM SALE (Net less loan balance)			**11,461,782**
12-YEAR CONDOMINIUM MODEL			
Sales price	400	/sf	28,840,000
Marketing & conversion expense	12%		(3,460,800)
TOTAL PROFIT (Net less loan balance less initial equity)			**11,456,053**
TOTAL CASH FROM SALE (Net less loan balance)			**15,088,136**

Attachment B (b)

LAVORO DEVELOPMENT

SHORELINE STUDY OF 8 YEAR PTE

September 8, 2011

	values to be entered		calculated by formula or linked to another cell		
RETURN ON EQUITY INVESTMENT (IRR)					
	Stabilized (yr 3) cash-on-cash return		6.6%		
	Stabilized (yr 3) return on equity		8.8%		
	Sold as apartment upon stabilization		11.6%	6.5%	CAP
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	Year 15 return on equity		18.4%		
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COSTS			per unit	total	
	land costs	20.8%	37,850	3,785,000	
	hard costs	64.2%	116,563	11,656,294	
	soft costs	7.0%	12,801	1,280,072	
	financing costs	7.9%	14,390	1,439,049	
	Total	**100.0%**	**181,604**	**18,160,416**	
SOURCE OF FUNDS					
	cost of project			18,160,416	
	construction loan %		80.0%	14,528,332	
	equity %		20.0%	3,632,083	
	seller carry %		0.0%	-	
RETURN ON INVESTMENT FROM CASH FLOW					
	Year	**Rental/Sale**	**Rental/15yr Hold**	**Condo year 15**	
Cons	**2012**	(3,632,083)	(3,632,083)	(3,632,083)	
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3	**2016**		288,529	288,529	
4	**2017**		327,958	327,958	
5	**2018**		368,571	368,571	
6	**2019**		410,402	410,402	
7	**2020**		453,487	453,487	
8	**2021**		497,866	497,866	
9	**2022**		391,563	391,563	
10	**2023**		434,083	434,083	
11	**2024**		477,880	477,880	
12	**2025**		522,990	522,990	
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	Equity Return	**11.6%**	**14.0%**	**16.9%**	

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cost of project			18,160,416
equity creation by completion			1,295,532
VALUE IF SOLD AT STABILIZATION			19,455,948
less sales commission	1.50%		(291,839)
less closing costs	2.30%		(447,487)
net after costs			18,716,622
TOTAL PROFIT (Net less construction costs)			**556,206**
TOTAL CASH FROM SALE (Net less construction loan)			**4,188,289**
VALUE IF SOLD AT YEAR 15			25,278,447
less sales commission	1.50%		(379,177)
less closing costs	2.30%		(581,404)
net after costs			24,317,866
TOTAL PROFIT (Net less loan balance less initial equity)			**7,829,699**
TOTAL CASH FROM SALE (Net less loan balance)			**11,461,782**
12-YEAR CONDOMINIUM MODEL			
Sales price	400	/sf	28,840,000
Marketing & conversion expense	12%		(3,460,800)
TOTAL PROFIT (Net less loan balance less initial equity)			**11,456,053**
TOTAL CASH FROM SALE (Net less loan balance)			**15,088,136**

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Attachment B (c)

LAVORO
DEVELOPMENT

SHORELINE STUDY OF 12 YEAR PTE

September 8, 2011

	values to be entered		*calculated by formula or linked to another cell*		
RETURN ON EQUITY INVESTMENT (IRR)					
	Stabilized (yr 3) cash-on-cash return		6.6%		
	Stabilized (yr 3) return on equity		8.8%		
	Sold as apartment upon stabilization		11.6%	6.5%	CAP
	Sold as a condominium after 15 years		17.4%	$ 400.00	sf
				$ 288,400	ave
	Year 15 cash-on-cash return		18.4%		
	Year 15 return on equity		18.4%		
	Sold as apartment after 15 years		14.4%		
COSTS			per unit	total	
	land costs	20.8%	37,850	3,785,000	
	hard costs	64.2%	116,563	11,656,294	
	soft costs	7.0%	12,801	1,280,072	
	financing costs	7.9%	14,390	1,439,049	
	Total	**100.0%**	**181,604**	**18,160,416**	
SOURCE OF FUNDS					
	cost of project			18,160,416	
	construction loan %		80.0%	14,528,332	
	equity %		20.0%	3,632,083	
	seller carry %		0.0%	-	
RETURN ON INVESTMENT FROM CASH FLOW					
	Year	**Rental/Sale**	**Rental/15yr Hold**	**Condo year 15**	
Cons	**2012**	(3,632,083)	(3,632,083)	(3,632,083)	
Cons	**2013**	-	-		
1	**2014**	562,018	562,018	562,018	
2	**2015**	4,419,112	230,823	230,823	
3	**2016**		288,529	288,529	
4	**2017**		327,958	327,958	
5	**2018**		368,571	368,571	
6	**2019**		410,402	410,402	
7	**2020**		453,487	453,487	
8	**2021**		497,866	497,866	
9	**2022**		543,575	543,575	
10	**2023**		590,656	590,656	
11	**2024**		639,150	639,150	
12	**2025**		689,098	689,098	
13	**2026**		569,453	569,453	
14	**2027**		617,310	617,310	
15	**2028**		12,128,385	15,754,740	
	Equity Return	**11.6%**	**14.4%**	**17.4%**	

APARTMENT MODEL				
NET OPERATING INCOME AT STABILIZATION				
	Rental income after vacancy			1,488,577
	Parking & utility income			167,460
	Expenses			(391,400)
	Total NOI			**$ 1,264,637**
RETURN IF SOLD AT STABILIZATION				
	net operating income/cost			6.96%
	profit/cost			3.06%
FINANCIAL BENCHMARKS				
	net operating income			1,264,637
	debt service years	40	yrs	
	debt service %	6.50%		
	annual debt service			($1,025,789)
	NOI/debt service			**1.23**
	Yr 3 cash return & cash flow	6.6%		238,848
	Yr 3 principle return & payment	2.2%		79,053
	Yr 3 equity return	8.8%		317,901
CASH FLOW UPON CLOSING OF PERMANENT LOAN				
	value of project at stabilization	6.5%	CAP	19,455,948
	initial equity contribution			3,632,083
	permanent loan (cost) as % of value	75%		14,528,332
	cost of project			18,160,416
	equity creation by completion			1,295,532
VALUE IF SOLD AT STABILIZATION				19,455,948
	less sales commission	1.50%		(291,839)
	less closing costs	2.30%		(447,487)
	net after costs			18,716,622
TOTAL PROFIT (Net less construction costs)				**556,206**
TOTAL CASH FROM SALE (Net less construction loan)				**4,188,289**
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TOTAL CASH FROM SALE (Net less loan balance)				**15,088,136**

Attachment B (d)

Attachment C (a)

Multifamily Property Tax Exemption (MFTE) Program

The Multifamily Property Tax Exemption (MFTE) Program provides a tax exemption on the residential improvements on multifamily projects in exchange for setting aside 20% of the units for moderate-wage workers. Projects must be located in a residential targeted area and applications must be submitted prior to the issuance of a project's first building permit. See details below.

Please contact **Amy Gray** at (206) 684-0262 for more information about the program.

PROGRAM OVERVIEW

Purpose

- Encourage the development of multifamily housing opportunities within the city of Seattle.
- Stimulate the construction of new multifamily buildings, and the rehabilitation of vacant or underutilized buildings.
- Increase the supply of housing opportunities for moderate-wage workers.
- Assist in accomplishing the planning goals required under the Growth Management Act, by increasing the supply of multifamily housing opportunities in urban growth centers.
- Contribute neighborhood development and community revitalization.
- Preserve and protect buildings of historic and cultural significance.
- Encourage the creation of both rental and homeownership housing for moderate wage workers.
- Encourage the development of mixed-income housing.

Tax exemption benefits

- The tax exemption is available for residential improvements.
- Land and any non-residential component of the project (retail, commercial, office space, etc.) are not eligible for the exemption and will be taxed on full assessed value.
- The property tax exemption will remain in place for a maximum of 12 years, provided the property remains in compliance with the rules of the program.
- The tax exemption is transferable to a new property owner as long as the new owner continues to meet the compliance requirements.

Eligibility criteria and map of target areas

- The development site must be located within the boundaries of one of 39 Multifamily Property Tax Exemption Program target areas (pdf format).
- The development must be a residential or mixed-use project with a minimum of 50% of the gross floor area for permanent residential use.
- New construction projects must have a minimum of 4 housing units.
- Rehabilitation or conversion projects must include the addition of at least 4 new housing units.
- Rehabilitation or conversion of existing buildings:

Attachment C (a)

- For vacant buildings, the residential portion shall have been vacant for at least 12 months prior to application.

- For occupied buildings, there shall be no **displacement** as defined in SMC Chapter 22.210.030.

Affordability requirements: (See current income and rent limits below)

For rental projects; the tax exemption is available for all units, and

A minimum of 20% of the units must be rented to households with incomes:

- At or below 65% of median for studio units
- At or below 75% of median for 1-bedroom units
- At or below 85% of median for 2-bedroom and larger units

For homeownership projects; the tax exemption is available only for those units occupied by income-eligible households.

The units must be sold to households with income at time of purchase that do not exceed:

- 100% of median income for studio and 1-bedroom units
- 120% of median income for 2-bedroom and larger units

Current income and rent limits table

Code compliance and design review

- All applicable zoning, land use, and building codes must be complied with during construction and throughout the duration of the tax exemption period.
- If applicable, Special Review District, Landmark Preservation or Historic District certificates of approval or permits must be obtained.

APPLICATION PROCESS

Applications must be submitted to Seattle's Office of Housing prior to the issuance of a project's first building permit.

- Seattle Multifamily Tax Exemption Program Application - *updated June 3, 2011*

CODE REFERENCES

- SMC 5.73: Multifamily Housing Property Tax Exemption Program

RULES AND OTHER PUBLICATIONS

- Directors Rule 01-2009: Calculation of Maximum Rent (PDF format)

ANNUAL REPORTING

- Multifamily Tax Exemption Program Annual Report form (Excel format)
- Multifamily Tax Exemption Program Current Income and Rent Limits

Seattle Homes Within Reach: Area Maps

Map #1: 23rd & Union–Jackson

Map #2: Bitter Lake

Map #3: Capitol Hill

Map #4: Chinatown-International District

Map #5: Columbia City

Map #6: Denny Triangle

Map #7: First Hill

Map #8: MLK @ Holly

Map #9: North Beacon Hill

Map #10: North Rainier

Map #11: Northgate

Map #12: Pioneer Square

Map #13: Rainier Beach

Map #14: South Lake Union

Map #15: South Park

Map #16: University District NW

Map #17 Delridge/Westwood-Highland Park

Map #18: 12th Avenue

Map #19: Pike/Pine

Map #20: Belltown

Map #21: Ravenna

Map #22: Ballard

Map #23: Fremont

Map #24: Lake City

Map #25: West Seattle Junction

Map #26: Admiral

Map #27: Aurora-Licton Springs

Map #28: Crown Hill

Map #29: Eastlake

Map #30: Green Lake

Map #31: Greenwood-Phinney Ridge

Map #32: Madison-Miller

Map #33: Morgan Junction

Map #34: Upper Queen Anne

Map #35: Roosevelt

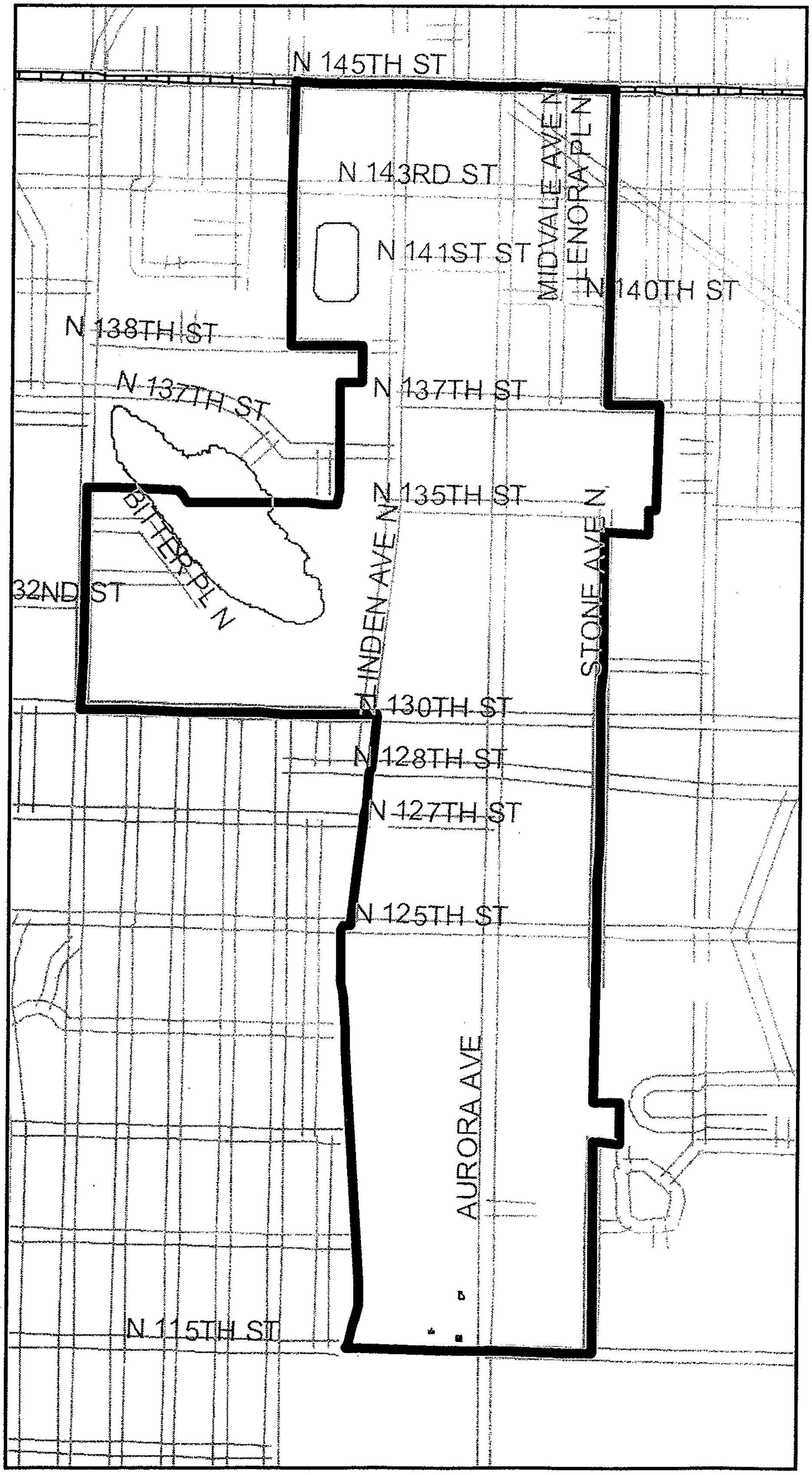
Map #36: Wallingford

Map #37: Dravus

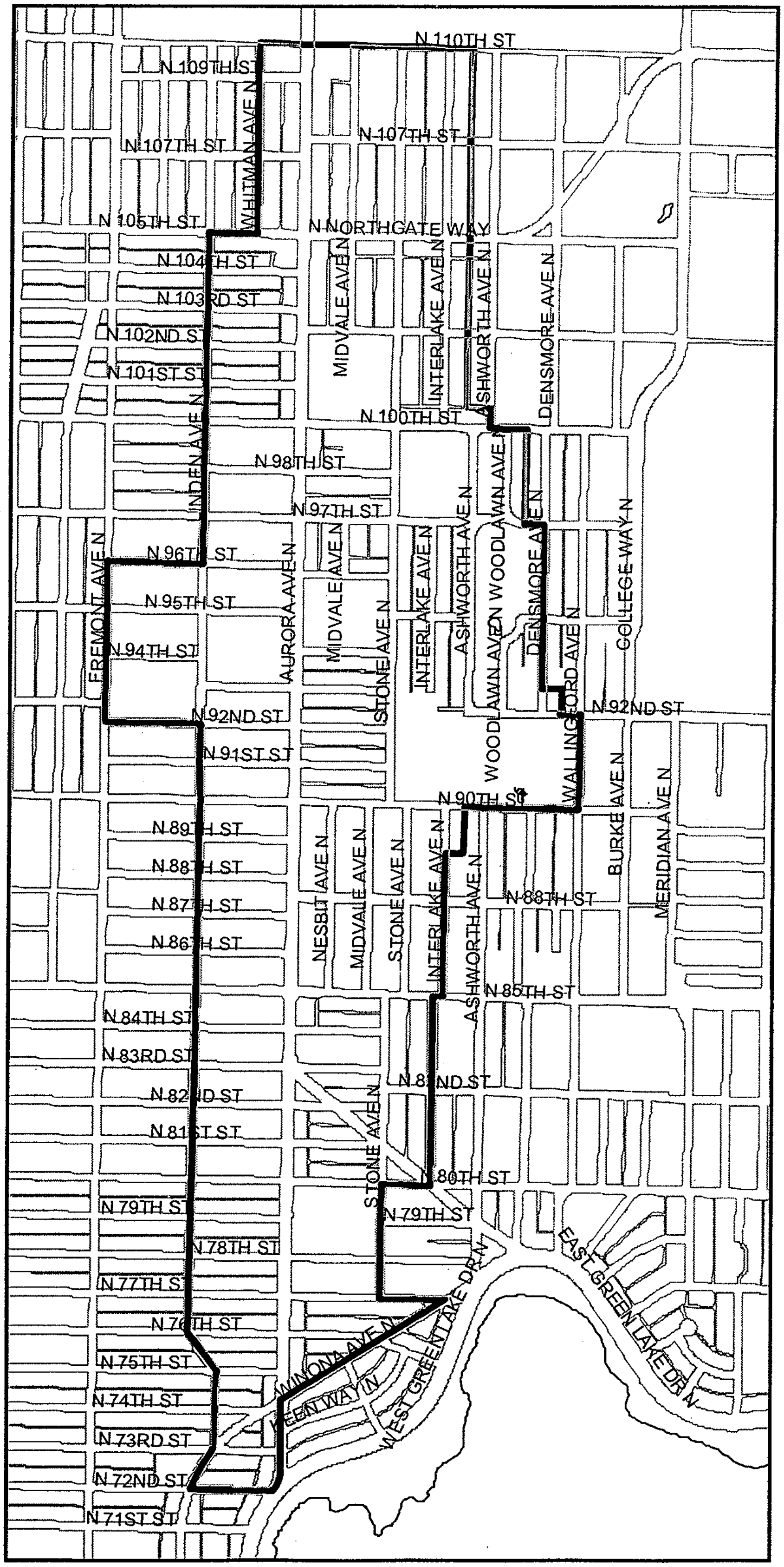
Map #38: Uptown

Map #39: Commercial Core

Map #2: Bitter Lake



Map #27: Aurora-Licton Springs



Map #23: Fremont

MFTE Total Program Units

Name	Rental or HO	Private or Non Profit	Total Units	Affordable Units	Affordability Level	Complete or Under Construction
1998-2002 Program (SMC 5.72)						
Uwajimaya Apts	R	P	176	46	80%	C
Noji Gardens	HO	NP	54	14	80%	C
Stewart Court	R	NP	65	65	50 - 60% - all units because it's a tax credit project	C
Stellina Condos	HO	NP	32	10	80%	C
Welch Apts	R	P/NP	90	23	80%	C
Tashiro Kaplan	R	NP	50	50	50 - 60% - all units because it's a tax credit project	C
Charlestown Apt	R	NP	7	7	50 - 60% - all units because it's a tax credit project	C
Subtotal			**474**	**215**		
2004 - 2008 Program (SMC 5.73)						
Judkins Park	R	NP	16	16	50 - 60% - all units because it's a tax credit project	C
Rainier Court	R	NP	178	178	50 - 60% - all units because it's a tax credit project	C
420 Yale	R	P	100	30	70%	C
Alley 24	R	P	172	35	60%	C
Weller Mixed Use	R	P	40	12	70%	C
Yesler Apts (aka Quintessa Apts)	R	P	132	132	60% - all units because private tax credit/bond deal	C
Cambridge Apts	R	P	140	140	60% - all units because private tax credit/bond deal	C
Colman School	R	NP	36	36	50 - 60% - all units because it's a tax credit project	C
Hiawatha Artist Lofts	R	NP	61	61	50 - 60% - all units because it's a tax credit project	C
507 Northgate	R	P	161	49	70%	C
Subtotal			**1036**	**689**		
2008 - 2010 Program (SMC 5.73 Revised)						
17th & Jackson	R	NP	59	12	80-90%	C
Linden 143	R	P	476	476	60% - all units because private tax credit/bond deal	C
809 Hiawatha (Pontedera)	HO	NP	94	20	100-120%	C
Dearborn Commons	HO	NP	15	15	80% - doing a land trust	C
Habitat for Humanity at Rainier Vista	HO	NP	12	12	60% - mission to serve lower incomes	C
Indigo @66	R	P	63	13	80-90%	UC
The Broadway Bldg	R	P	93	19	80-90%	C
Crown Apartments	R	P	15	3	80-90%	UC
The Westside	R	P	45	9	80-90%	UC
The Mural Apts	R	P	136	28	80-90%	C
Othello Station South	R	P	352	71	80-90%	C

MFTE Total Program Units

The Link Apts	R	P	200	40	80-90%	C
Thornton Place	R	P	278	56	80-90%	C
Altamira	R	P	157	32	80-90%	C
Portvue Apts	R	P	185	37	80-90%	UC
Pratt Park	R	P	248	50	80-90%	C
Claremont Apartments	R	NP	68	68	60% - tax credit/levy project	C
Equinox Apartments	R	P	204	41	80-90%	C
Ascona Apartments	R	P	57	57	60% due to deed restriction	C
Joule Apartments	R	P	295	59	80-90%	C
Ballard on the Park	R	P	268	64	80-90%	C
Avalon Queen Anne	R	P	196	41	80-90%	UC
Solana aPodments	R	P	32	32	80-90%	UC
13th & Madison	R	P	107	22	80-90%	UC
Interbay Apartments	R	P	215	43	80-90%	UC
Trovere aPodments	R	P	47	47	80-90%	UC
Greenhouse Apartments	R	P	124	25	80-90%	UC
Broadway B 230	R	P	234	47	80-90%	UC
Avalon Ballard	R	P	271	55	80-90%	UC
Stream on 6th	R	P	112	23	80-90%	UC
Bella Lago	R	P	320	64	80-90%	UC
101 Taylor	R	P	260	53	80-90%	UC
H2O Apartments	R	P	45	9	80-90%	UC
4301 Stone Way Apts	R	P	93	19	80-90%	UC
Oregon 42	R	P	135	27	80-90%	UC
100 Republican	R	P	275	55	80-90%	UC
Subtotal			**5786**	**1744**		
2011-2015 Program (SMC 5.73 Revised)						
Broadstone Koi	R	P	154	32	65%, 75% and 85%	UC
Element 42	R	P	78	16	65%, 75% and 85%	UC
Terrazza aPodments	R	P	56	56	65%, 75% and 85%	UC
12th & Jefferson	R	NP	40	40	65%, 75% and 85%	UC
Lake City Place Apts	R	P	144	32	65%, 75% and 85%	UC
Centro	R	P	56	56	65%, 75% and 85%	UC
412 Broadway	R	P	118	24	65%, 75% and 85%	UC
954 E Union St	R	P	79	16	65%, 75% and 85%	UC
320 E Pine St	R	P	134	27	65%, 75% and 85%	UC
Nova Apts	R	P	62	13	65%, 75% and 85%	UC
Harvard Flats	R	P	70	20	65%, 75% and 85%	UC

MFTE Total Program Units

Muriels's Landing	R	P	100	20	65%, 75% and 85%	UC
Spring Hills	R	P	101	21	65%, 75% and 85%	UC
Lake City Senior Apts	R	P	104	21	65%, 75% and 85%	UC
Joseph Arnold Lofts	R	P	132	27	65%, 75% and 85%	UC
Subtotal			**1428**	**421**		
Total			***8724***	***3069***		

Attachment C (e)

The Seattle Times | Winner of Eight Pulitzer Prizes

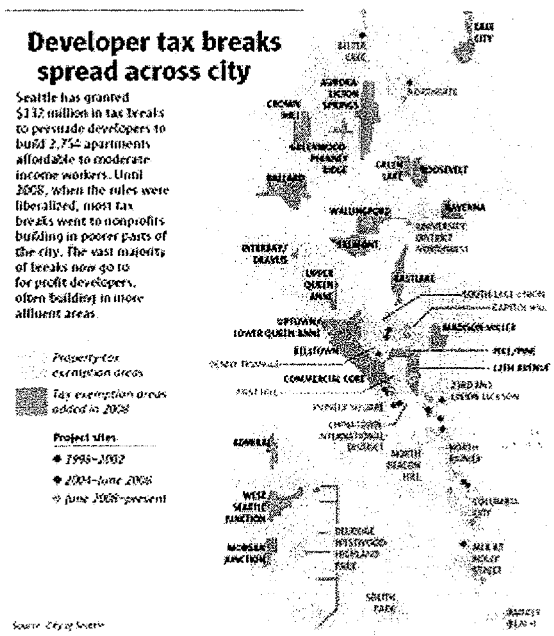
Originally published May 30, 2011 at 10:01 PM | Page modified May 31, 2011 at 8:25 AM

Developers cash in on tax breaks in vogue neighborhoods

In just the past three years, for-profit apartment developers, often building in vogue neighborhoods, have received nearly $100 million in tax breaks. That isn't what the city intended when it created the program in 1998 to encourage new apartments in the city's poorest neighborhoods.

By Bob Young

Seattle Times staff reporter



You probably didn't know your taxes are subsidizing new one-bedroom apartments that rent for $1,295 in one of Seattle's hot spots, Lower Queen Anne.

Under an obscure city program, the developer building the apartments across the street from Seattle Center will get a 12-year property-tax break of $5.9 million.

In return, Bruce Knoblock will set aside 55 of his 275 apartments — not for low-income tenants but for renters earning slightly less than Seattle's median income.

Top comments Hide / Show comments

" What!? Tax breaks for rich developers? We have GOT to vote out these Republicans on... (May 30, 2011, by road less travelled) *Read more*

" The only people who could possibly be shocked, would be those who think the City... (May 30, 2011, by Xman 91) *Read more*

"

Attachment C (e)

In just the past three years, for-profit apartment developers, often building in vogue neighborhoods, have received nearly $100 million in tax breaks.

That isn't what the city intended in 1998 when it created the program to encourage new apartments in the city's poorest neighborhoods.

But after city officials sweetened incentives in 2008 to try to generate even more affordable housing, the Multi-Family Tax Exemption exploded in popularity and geographic reach. Developers wanted in, and subsidies financed apartments in neighborhoods such as Ballard and Capitol Hill that already were exceeding growth targets.

And the city is subsidizing "affordable" rents that sometimes run higher than market rents in the same building.

In one case, at Uwajimaya Village, a tenant last year paid $135 more per month for an "affordable" studio apartment than a tenant with an income of $138,000 renting a market-rate studio.

The tax breaks leave many "suspicious," as City Councilmember Sally Clark recently said, "that we're leaving too much money in developers' pockets."

Some affordable-housing advocates said taxpayers aren't getting enough for their subsidies.

Tim Harris, executive director of Real Change, said the program at first was "arguably a good thing." But, he added, developers and city officials "busted it wide open into a giveaway."

City officials acknowledged they've been too generous. They tweaked the program in February, slightly lowering the incomes and rents considered affordable.

Councilmember Nick Licata argued the city should have gone further.

At his request, the program will be examined by City Auditor David Jones.

State Sen. Maralyn Chase, D-Shoreline, has asked state Attorney General Rob McKenna to look into the legality of the tax breaks. Chase contends the program is unfair in the way it shifts the tax burden to other property owners while offering "questionable public benefit."

Most council members, including Clark, maintain the tax breaks are doing good.

They guarantee stable, somewhat affordable rents in a volatile housing market. A subsidy for an apartment that doesn't seem affordable today may look a lot better in 10 years if rents escalate as some experts expect.

Tax breaks also have been a catalyst for new apartments in places that weren't getting them, Councilmember Tom Rasmussen said, such as West Seattle Junction.

And the 16 exemptions granted in the past year would cost the average Seattle homeowner a little more than $5 annually, noted Councilmember Tim Burgess, about the same as a "low-fat marionberry muffin and a latte." (That homeowner, however, will pay about $180 over 12 years for exemptions granted thus far.)

But concerns linger.

Despite the public money at stake, the program runs on an honor system.

Attachment C (e)

Developers report to the city every year that they are setting aside the required number of apartments for people with eligible incomes. Their reports never have been audited by the city; and some lack key details.

Tenant incomes, often listed in round numbers, such as $42,000, have not been verified. And if tenants in rent-controlled apartments get a raise, or have a roommate move in — in one instance increasing household income to $102,492 in an apartment renting for $995 — that's OK. They keep the rent-controlled apartment until they move out.

Licata doesn't think developers are breaking the rules, though. "The rules themselves are the problem." he said.

Who pays for breaks?

The voluntary program works like this: In exchange for a 12-year property-tax exemption, a developer agrees to set aside 20 percent of the apartments in a new building for moderate-wage tenants.

Eligible income levels depend on the size of the apartment. They're lower for a studio, higher for two bedrooms. They now average 75 percent of Seattle-area median income, which is $44,950 for a single person.

Controlled rents then are set so eligible tenants don't pay more than one-third of their gross income for housing and utilities.

Foregone taxes are shifted to all King County property taxpayers. From Shoreline to Enumclaw, everyone pays more for Seattle's tax breaks.

Most of the 17 exemptions granted in the program's first decade went to nonprofits, which built mostly in the Central District, Rainier Valley and the Chinatown/International District.

Combining local tax breaks with state and federal subsidies, nonprofits often have provided more than the minimum number of apartments, at lower rents than required.

Some said the sluggish program needed to entice more developers. Former Mayor Charles Royer, lobbyist Randy Bannecker and developer Bruce Lorig, among others, testified at City Hall, urging the council to increase affordable rent levels and the program's reach. Construction costs had gone up, they stressed, but income and rent levels had not.

The council expanded the exemptions, which started in 11 parts of town, to 39 neighborhoods. Eligible incomes were expanded from 60 percent of median income for a studio apartment ($35,950 today) to 80 percent of median income ($47,950). Affordable rents ballooned to $1,199 for a studio.

Market rents lower

Results were dramatic.

Of the next 36 apartment projects approved for tax exemptions, all but one went to for-profit ventures.

City officials had found the sweet spot at which for-profit developers believed the tax breaks were worth the trade-off in controlled, or "lost" rents. It helped that developers, who had been converting apartments to more lucrative condos, suddenly were seeking renters and help in financing their projects as the recession took hold.

Critics contend affordable rents sometimes appear to be higher than market rents in the same neighborhood. Some developers' reports confirm that.

Attachment C (e)

At Uwajimaya Village, a 480-square-foot apartment — set aside under the program as affordable — rented last year for $1,022 a month; another studio that size, and on the same floor, had a market-rate rent of $887.

A glitch in the city rules is to blame, according to the city's program manager Amy Gray.

At first, city rules required developers to rent a certain number of apartments to tenants below median income. But the rules didn't specify affordable rents; so developers who participated under the old rules could charge whatever rents they wanted.

The city fixed that in 2004, but Uwajimaya Village and others were grandfathered under the old rules.

Problems persist under the revised rules. At newer buildings in West Seattle and Northgate, for example, developers last year charged affordable rents specified by the city. But they still were higher than some market-rate rents in their buildings.

That's because the housing market crashed and developers wanted to fill units even if it meant charging less than planned, Gray explained.

Recognizing the city had gone too far, Mayor Mike McGinn late last year proposed a small reduction in rents. Four new for-profit projects — in Ballard, West Seattle, Lake City and First Hill — quickly applied under the new rules.

Catching fraud

Prominent developers who've received exemptions frequently contribute to election campaigns of city officials, but Licata doesn't see any quid pro quo or impropriety. He said there's no need to influence council members to gain a tax break. A developer receives an exemption if he or she meets program criteria; individual applications are first screened and approved by the Office of Housing.

Clark said she doesn't see a need to beef up the city's enforcement. If caught submitting fraudulent data, she said, a developer would have to reimburse exempted taxes, pay a penalty and suffer a severely damaged reputation.

It's not clear, though, how a developer would get caught under an honor system.

One thing about the program could be improved, Clark said. Qualified renters now have virtually no way to know rent-controlled apartments are sprinkled around Seattle.

The city doesn't advertise the program; nor do most landlords.

Stay tuned, housing director Rick Hooper said. The city is working with landlords and others to offer a Web-based, real-time apartment locator before the year ends.

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or byoung@seattletimes.com