

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Continued Discussion of the Extension of Property Tax Exemption Program to Other City Areas
DEPARTMENT: Economic Development
PRESENTED BY: Dan Eernisse
ACTION: ☐ Ordinance ☐ Resolution ☐ Motion ☒ Discussion

PROBLEM/ISSUE STATEMENT:

The City Council discussed the expansion of the City's Property Tax Exemption (PTE) program beyond what is currently offered in North City and Ridgecrest on September 26. 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 expansion of the PTE program to all or part of Aurora would provide an additional tool to use in attracting developer investment. While members of Council generally considered a 5-year PTE program to have merit in encouraging multifamily development, three issues were raised that warranted additional discussion:

1. What are the specific effects the PTE program has on tax payers and on tax revenue recipients, specifically the City, the School District, and Fire Department?
2. In which areas of the City would the PTE program be appropriately extended?
3. Should the PTE program be standardized in all areas in which it is offered?

RESOURCE/FINANCIAL IMPACT:

For the life of the tax exemption there will be no property tax revenue or property tax levy increases as a result of the value of improvements completed. The City will delay collecting property taxes on improvements (estimated at \$150-\$200/per unit) until the project's tax exemption period ends. While this could result in a loss in property tax, the long-term impact of no development carries a cost as well. The School District will not be affected by the PTE program, as its levy amount is fixed. As a result of the PTE tax payers will not enjoy the slight decrease in property taxes paid to support fixed-rate tax obligations – such as those covering the School District levy – until the participating project begins paying its share of those obligations.

Staff time would be required to explain the PTE program to applicants, collect applications, and coordinate and process the approval.

RECOMMENDATION

No action is required this evening as this is for discussion only. However, staff recommends that the PTE program be made available for commercial properties throughout the City. Staff is supportive of broadly expanding the PTE program, especially along the entire Aurora Corridor. Staff further recommends that the Council standardize the expansion of the program to a 5-year market-rate only program. This will allow the City to collect tax revenue sooner while still providing investors a significant incentive. Offering PTE to investors helps to keep Shoreline competitive with cities that do offer investors PTE. By offering exemptions, Staff believes Shoreline will attract investment that otherwise would seek incentives outside of Shoreline. The investment attracted will ultimately have the dual positive effects of significantly increasing permit revenues and sales tax related to construction in the short-term and in the long-term increasing property tax revenues and broadening the property tax base of Shoreline. If Council is agreeable to expanding the program, staff will return for Council action on December 12.

Approved By: City Manager *JM* City Attorney

INTRODUCTION

Council last discussed potential expansion of the City's Property Tax Exemption (PTE) program on September 26. The staff report for that evening can be viewed at this link: <http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/Council/Staffreports/2011/Staffreport092611-9c.pdf>. At the September 26th Council meeting, Council asked that Staff provide more information on three points of the PTE program: 1) How the PTE program affects taxes; 2) In what areas of the City should PTE be expanded; and 3) Whether or not PTE should be standardized throughout the City.

DISCUSSION

How PTE Affects Tax Collections

Staff contacted the King County Assessor to find out exactly how a property participating in the PTE program would affect taxes. In subsequent conversations with the King County Assessor, it became clear that this information was not readily understood even by those in the Assessor's office, but ultimately staff's initial stance was confirmed, namely that:

- A participating PTE project's improvement valuation is not counted in the City's overall assessed valuation until the exemption period is exhausted.
- The City does not account for additional tax revenue during the exemption period.
- No additional tax is borne by other tax payers during the PTE period.
- The School District and Fire Department is not affected by the PTE program, as its tax levy specifies an amount to be collected regardless of valuation and regardless of who is or who is not contributing.
- However, the tax assessor pointed out that since some property tax goes toward fixed amounts—such as the School District levy—the proportion that will be ultimately shared by the PTE program will not begin to be paid until the exemption is exhausted. Therefore, during the PTE period other tax payers will not enjoy the benefit of an additional contributor to those fixed costs. While those tax payers' taxes will not increase, they will not decrease until after the exemption is over.

Of course, the purpose of the PTE program is to attract developments that wouldn't happen without the program; if these projects do not happen, then the City's tax revenue will never increase and the tax payers' burden will never be shared with new projects.

Potential Expansion Areas for the PTE

Staff has identified five potential expansion areas that PTE could be offered within the City. These five commercial areas have sufficient property zoned and designated in the Comprehensive Plan for multifamily development. The five areas are pictured on the attached maps (Attachment A) with the PTE areas outlined in red. These areas are:

1. Aurora Corridor (shown in a north & south map)
2. Ballinger
3. Hillwood

4. Richmond Beach
5. SE Neighborhoods (shown in an east & west map)

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

Standardization of the PTE Program

Currently North City and Ridgecrest offer two different versions of PTE programs, and the Council is considering a third option for expansion, a 5-year market-rate program. There are two approaches that Council could consider:

- 1) Standardize all areas within the City to the 5-year program. This would require some type of sunset provision especially in North City since a developer has indicated that they will be soon applying for the 12-year affordable PTE program currently offered by the City.
- 2) Keep existing programs (North City and Ridgecrest) as-is, and expand the program to other areas of the City with the new 5-year program. The advantage of this approach is that it will allow the Council to test a variety of programs to see if one is more or less effective at attracting development. For example, if the 5-year program is not considered to be enough incentive for a particular developer, the 8-year and 12-year programs will still be available in other parts of the City. Staff recommends that Council use this approach for the PTE program expansion.

COUNCIL GOALS ADDRESSED

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

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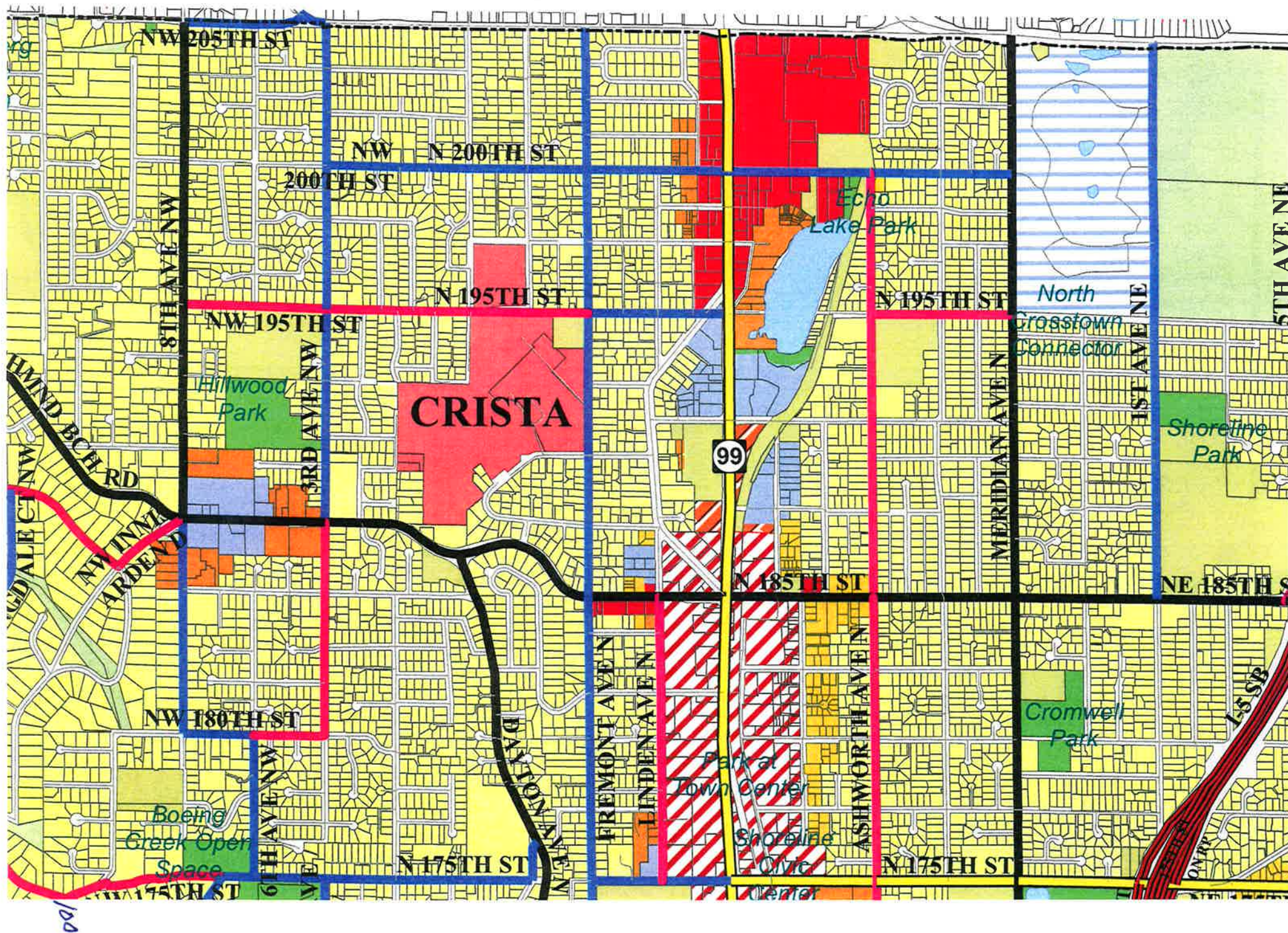
ATTACHMENTS

Attachment A - Maps of the five potential expansion areas for the City's PTE program

1. Aurora Corridor (south)
2. Aurora Corridor (north)
3. Ballinger
4. Hillwood
5. Richmond Beach
6. SE Neighborhoods (east)
7. SE Neighborhoods (west)

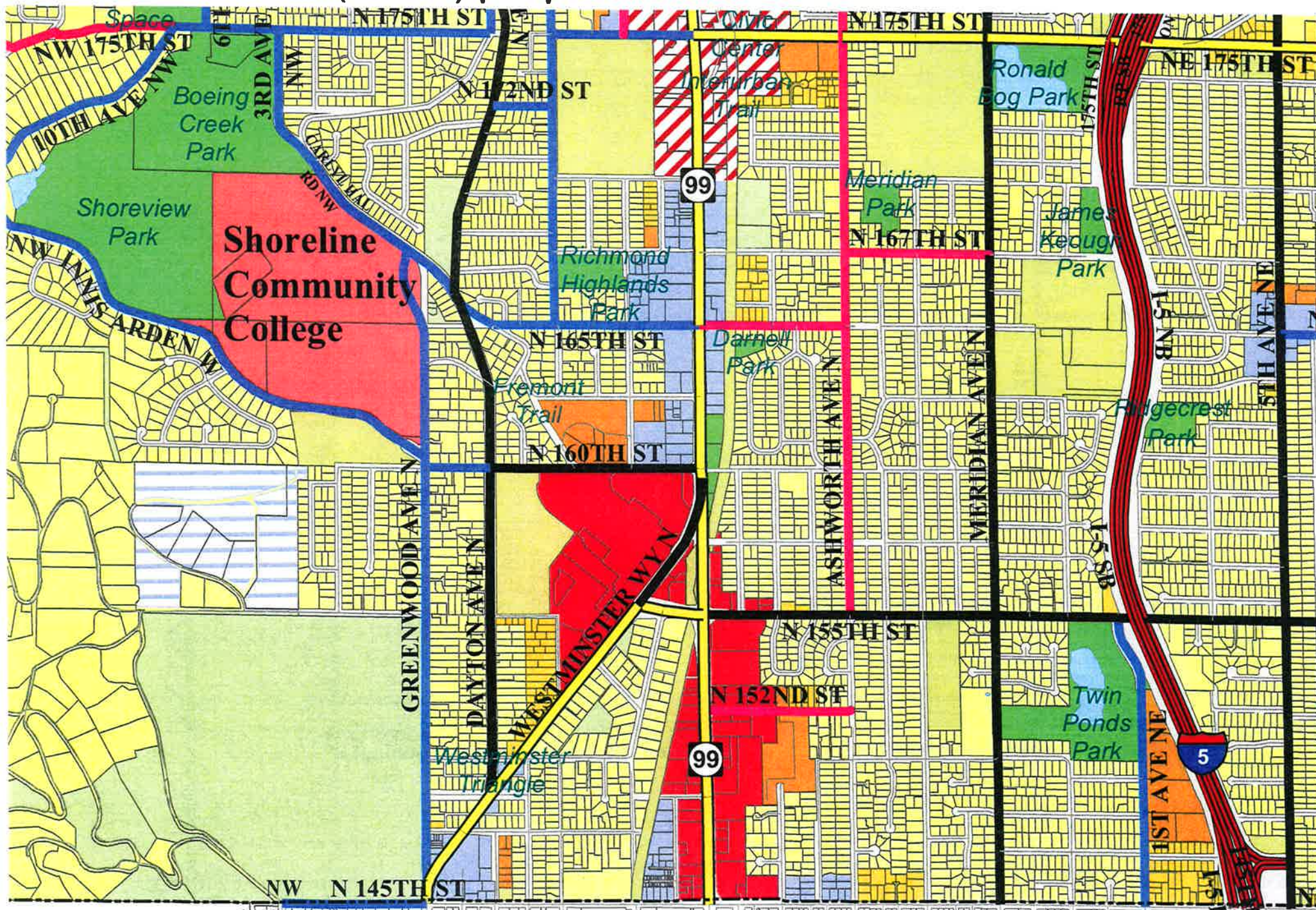
Attachment B – Letter of Support from Patrick Carroll

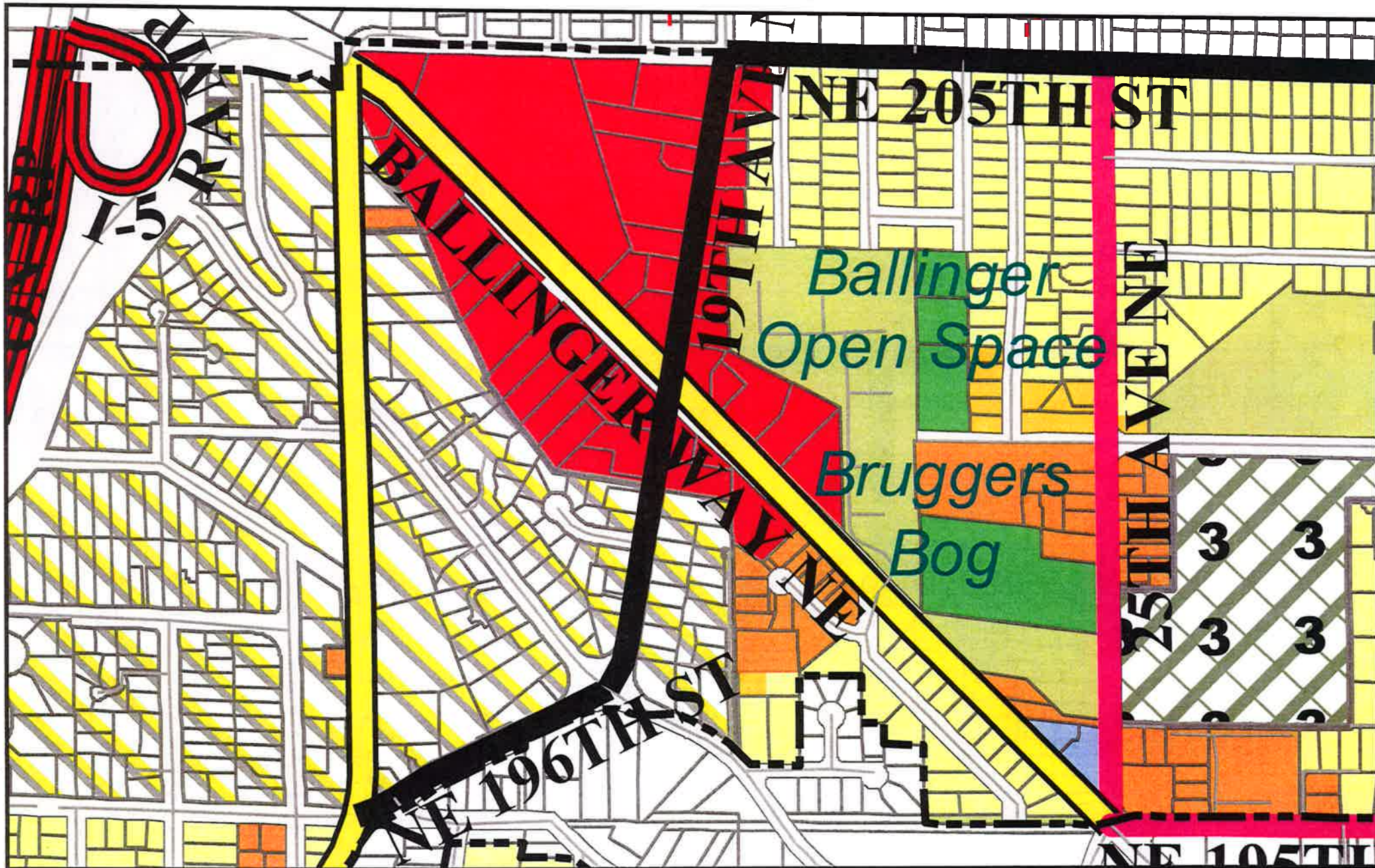
Attachment A

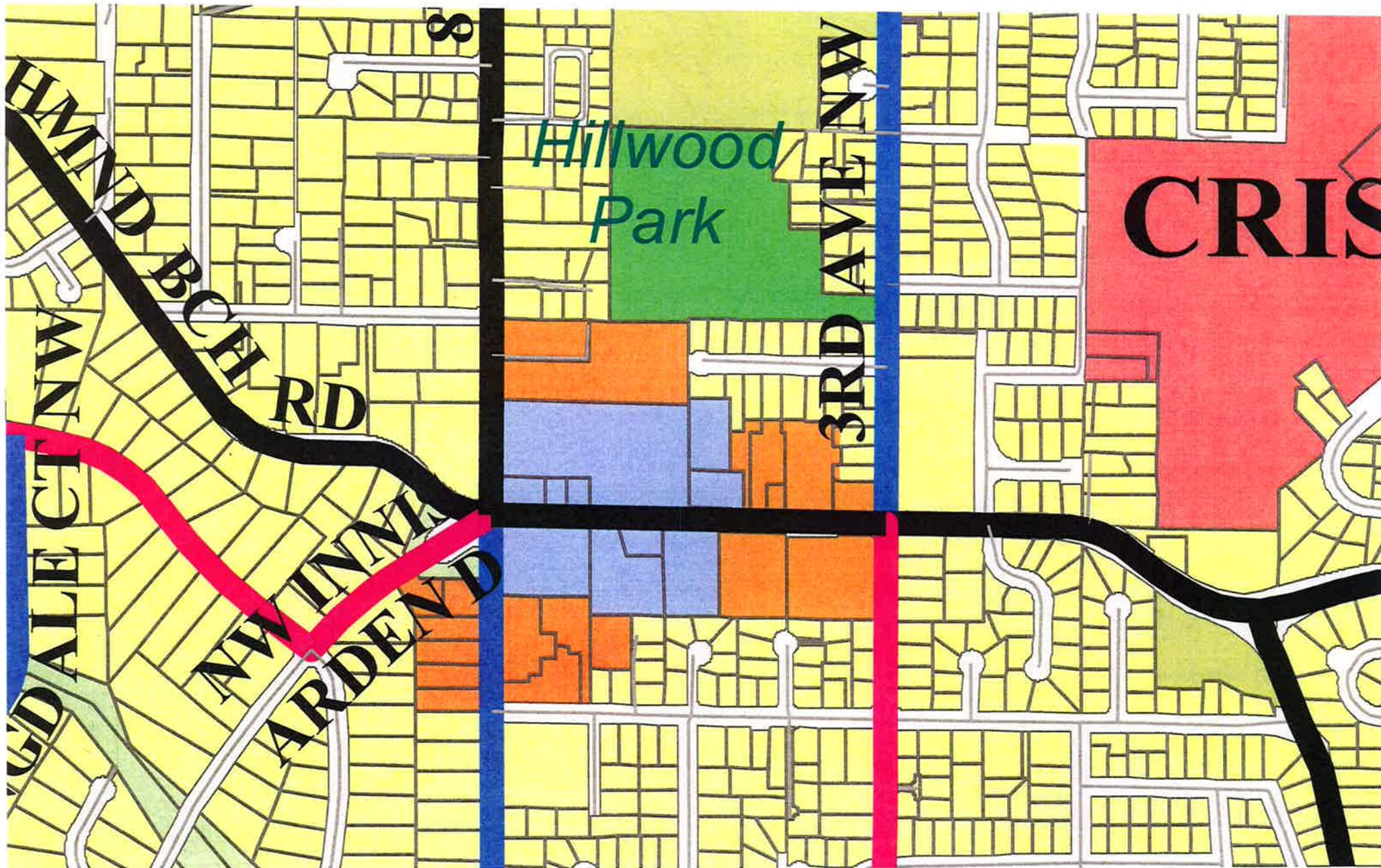


Aurora Corridor (south) proposed PTE area 11.28.2011

Attachment A

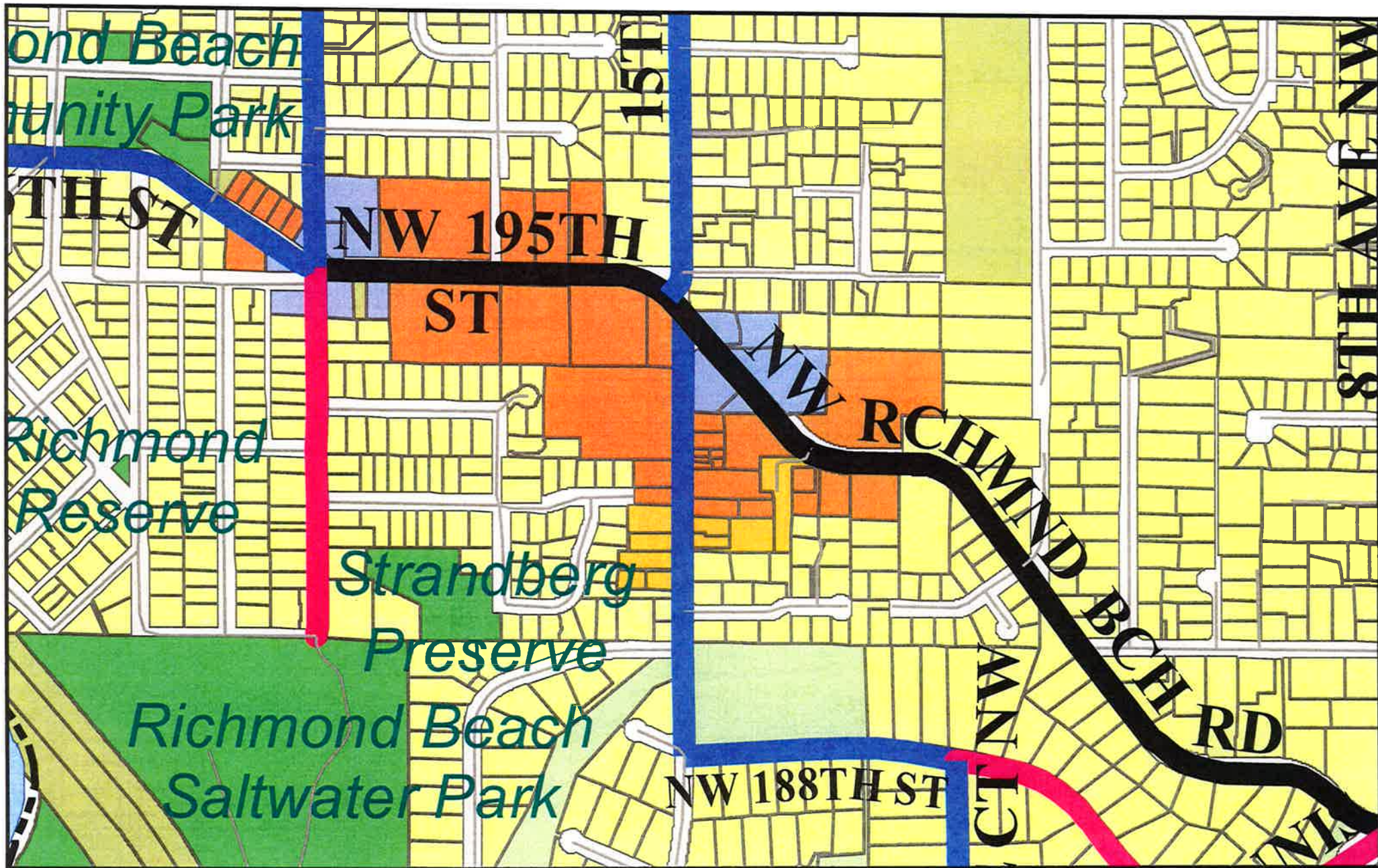






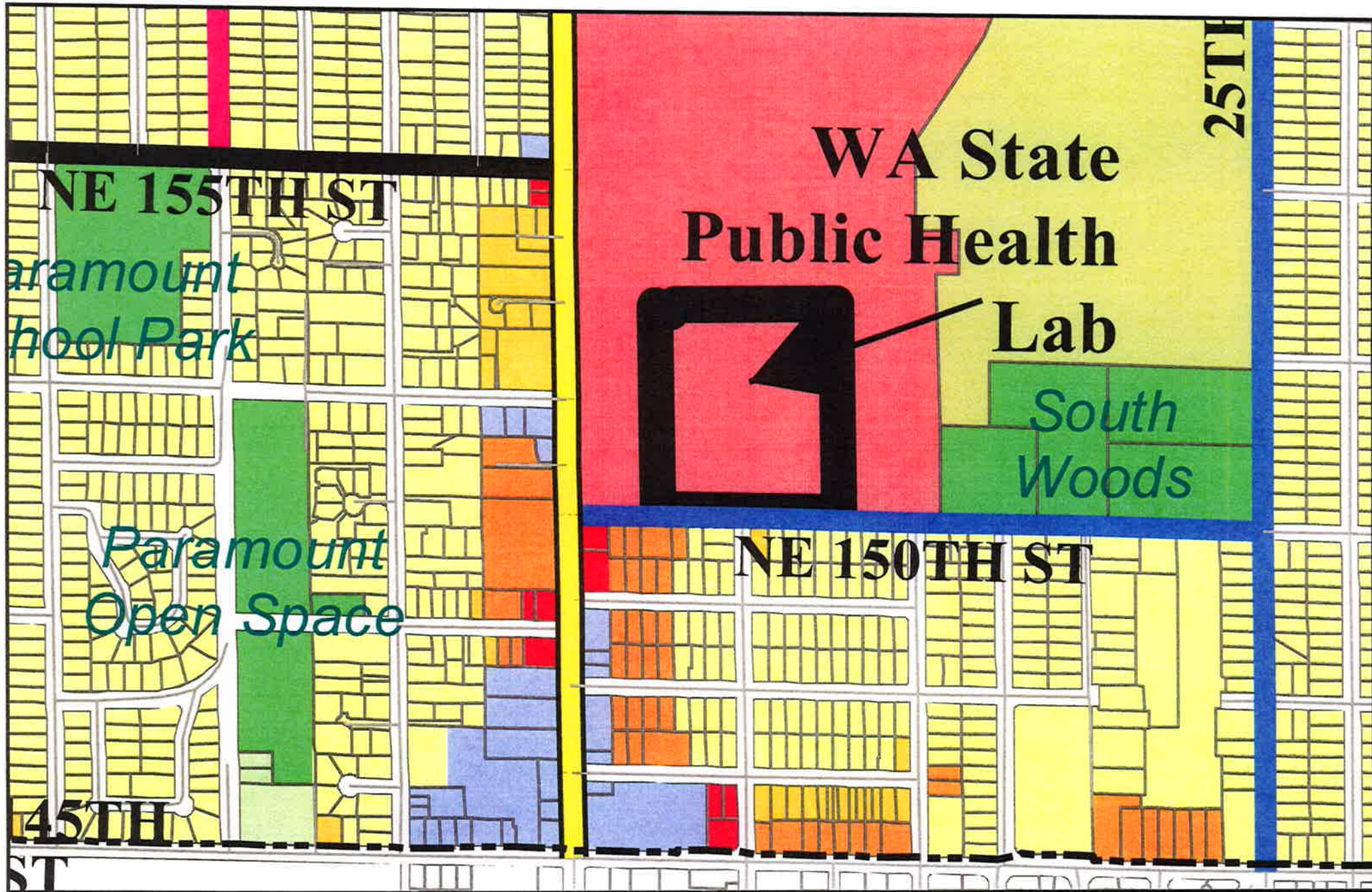
Richmond Beach proposed PTE area 11.28.2011

Attachment A



SE Neighborhoods (east) proposed PTE area 11.28.2011 Attachment A





ATTACHMENT B

Mr. Dan Eernisse
Economic Development Program Manager
City of Shoreline
17500 Midvale Ave. N
Shoreline, WA. 98133

Dear Mr. Eernisse:

We are anxiously awaiting the decision by the City Council as to whether it will enact a comprehensive program for real estate tax abatement for development in designated areas of Shoreline.

As you know we are apartment developers and are interested in developing in Shoreline if the abatement becomes a reality. We are presently contemplating projects in three areas, one in Shoreline and two in others areas, Lake City and Burien. In both the other jurisdictions they have designated the sites with 12 years of Tax Abatement.

In an apartment of approximately 120 units the tax abatement adds about \$90,000.00/year to the proforma income. Those "not-in-the-know" will immediately claim outlandish profits. However, that is not the case. In the old days we built garden apartments and the land component consisted of the price of the land. Today there is very little land that does not require a parking garage. A parking garage adds \$22,000.00 per parking stall to the land component. A 120-unit apartment requires at least 180 stalls. That translates into an increase in construction costs of \$3,900,000.00. To borrow that amount at 6% for 30 years adds \$23,382.00 per month or \$280,584 per year to the operating costs. You gain 90,000 and lose 280,000. You can see that projects that require parking garages are much more risky and difficult to make work. Developers have to evaluate each site based on topography, price, rent ability, achievable rental rates and tax abatement and try and make the proforma work. Tax abatement in today's world is important to each decision.

In the Cain and Dupre report they list all the proposed multifamily projects expected to be completed in the next five years. 70% of the cities that will be getting most of the development have tax abatement programs. In fact, most have 12-year periods of abatement. So I would suggest that if the City of Shoreline is serious about attracting apartment development, it should seriously consider the full program of 12 years with affordability and 8-years without affordability. The 5 year program, is good but you

will not be as competitive as other jurisdictions and you may not attract your share of the apartment projects.

I hope this costing example will show you why we are so interested in the Tax abatement program.

Sincerely submitted

Patrick Carroll
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