

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Public Hearing and Adoption of Ordinance No. 624 Establishing a 5-Year Exemption from Real Property Taxation for the Development of Multifamily Housing in Designated Target Areas
DEPARTMENT: Economic Development
PRESENTED BY: Dan Eernisse, Economic Development Manager
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 during meetings on September 26th and on November 28th. After careful consideration, Council affirmed that an expanded PTE program would be an appropriate tool to manage growth, to stimulate housing options, to ensure competitiveness, and to promote efficient use of land. Therefore, Council instructed staff to prepare an ordinance that creates five new areas where a 5-year market-rate PTE program would be enacted.

RESOURCE/FINANCIAL IMPACT:

During the 5-year tax exemption there will be no property tax revenue or property tax levy increases as a result of the value of multifamily improvements. The City will delay collecting property taxes on improvements (estimated at \$150-\$200/per unit) until the project's tax exemption period ends. The School District will not be affected by the PTE program as its levy amount is fixed.

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

RECOMMENDATION

Staff recommends that Council hold the public hearing and following the public hearing consider the adoption of Ordinance No. 624.

Approved By:

City Manager 

City Attorney 

INTRODUCTION

Council 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>. Council discussed the issue again on November 28. The staff report for that evening can be viewed at this link: <http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/Council/Staffreports/2011/Staffreport112811-8d.pdf>.

DISCUSSION

The PTE Program

Washington law (RCW 84.14) encourages property tax exemptions for multifamily investment in urban areas as a tool to manage growth, to encourage affordable housing, and use land more efficiently. RCW 84.14 also sets upper limits of 8 years of PTE for market-rate housing and 12 years of PTE for affordable housing. The exemption offered is limited to multifamily improvements; other types of improvements and the land valuation are not exempt.

The City of Seattle offers both 8 and 12 year PTE programs in 39 large areas; to date 68 multifamily projects have or are being built under Seattle's PTE program. The City of Mountlake Terrace offers an 8 year market-rate PTE program in three areas; the City of Lynnwood offers an 8 or 12 year PTE program in its City Center Sub-Regional Area; the cities of Edmonds, Lake Forest Park, Bothell, and Kenmore do not offer a PTE program.

After extensive discussion at two Council meetings and drawing on nine years of experience offering PTE in North City and in Ridgecrest, Council determined it was appropriate to expand the PTE program while leaving the programs in North City and in Ridgecrest unchanged. Ordinance No. 624 (Attachment A) implements the expanded PTE program as discussed by Council.

Ordinance No. 624 prescribes that the expanded program be offered in five additional Shoreline commercial areas shown in Attachment A, Exhibits 1 through 5. The properties where PTE is proposed are those that are currently zoned for multifamily densities, and no change to any property's zoning is made or implied by this ordinance.

Ordinance No. 624 also prescribes that the expanded program be offered for 5 years, regardless of whether a project is considered to be market-rate or affordable housing. The definition of affordability in RCW 84.14 equates to market rate housing in Shoreline, so offering investors a longer period to build affordable housing is not effective. Furthermore, the Council and staff believe 5 years provides a balance between incentive for development and potential for increased revenue.

Required Findings

State law requires the Council have a public hearing on designation of the targeted areas for the tax exemption. The Council must find that:

1. The areas are within urban centers.

Staff Comment: An urban center is defined as: “a compact identifiable district where urban residents may obtain a variety of products and services.” The urban center must contain: (a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies; (b) Adequate public facilities including streets, sidewalks, lighting, transit, domestic water, and sanitary sewer systems; and (c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office, or both, use.

All of the areas included in the proposed areas meet these guidelines. Councilmember Roberts suggested that two additional areas be considered for inclusion to the areas presented by staff at the November 28th meeting: the multifamily-zoned area associated with the intersection of NE 145th and 1st Ave NE and the commercial area associated with the intersection of NE 145th and Westminster Way N. The first area did not, in staff’s opinion, contain sufficient business establishments to qualify. Therefore, it is not recommended for designation for PTE eligibility. The second area, however, did contain the necessary elements and therefore was included in the Aurora Avenue North Corridor (south) map (Attachment A, Exhibit 1(b)).

2. The areas lack sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center, if the affordable, desirable, attractive, and livable places to live were available.
3. The providing of additional housing opportunity in the area will assist in achieving one or more of the stated purposes of this chapter.

The purposes of the chapter are: “. . . to encourage increased residential opportunities, including affordable housing opportunities, in cities that are required to plan or choose to plan under the growth management act within urban centers where the governing authority of the affected city has found there is insufficient housing opportunities, including affordable housing opportunities. It is further the purpose of this chapter to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing in urban centers having insufficient housing opportunities that will increase and improve residential opportunities, including affordable housing opportunities, within these urban centers. To achieve these purposes, this chapter provides for special valuations in residentially deficient urban centers for eligible improvements associated with multiunit housing, which includes affordable housing.” (See RCW 84.14.007.)

Staff Comment: Council states in its goals and Vision 2029 statement that an increasing stock of housing—and with it increasing housing choices—is desired for Shoreline to manage and to attract a growing population. In order to achieve this goal and vision, more efficient use of Shoreline’s medium and high density properties is needed, especially given that Shoreline’s low density properties are developed to near capacity. The identified PTE areas contain most of Shoreline’s medium and high density areas that lack sufficient housing. The expansion of the PTE program to these areas

stimulates needed multifamily development and thereby satisfies the need of both findings #2 and #3 above.

The expansion of the PTE program also stimulates the creation of affordable housing in Shoreline. The current market rents in the City of Shoreline meet the definition of affordability, so a typical new product would be considered affordable. RCW 84.14 defines affordable housing as rental housing that is affordable to low and moderate-income households, and for-sale housing to moderate-income properties. Low-income households are defined as those earning less than 80% of the median county household income, and moderate-income households are defined as those earning between 80 – 115% of the median county household income. The following analysis only considers rental affordability, as it is the more stringent measurement.

The following two tables illustrate the 2011 Multifamily PTE Income and Rent Limits. The amounts shown in the first two tables reflect updates from 6/11/2011, and they assume that the costs of basic utilities are included in the rent. The 80% rent limit for low income households is highlighted in the second table below to illustrate the upper limit of rent affordability.

2011 Multifamily Property Tax Exemption Program Income Limits

| Family Size | 70% | 75% | 80% | 85% | 90% | 100% | 120% |
|--------------------|------------|------------|------------|------------|------------|-------------|-------------|
| 1 Person | \$42,560 | \$45,600 | \$48,640 | \$51,680 | \$54,720 | \$60,800 | \$72,960 |
| 2 Persons | \$48,650 | \$52,125 | \$55,600 | \$59,075 | \$62,550 | \$69,500 | \$83,400 |
| 3 Persons | \$54,740 | \$58,650 | \$65,560 | \$66,470 | \$70,380 | \$78,200 | \$93,840 |
| 4 Persons | \$60,760 | \$65,100 | \$69,440 | \$73,780 | \$78,120 | \$86,800 | \$104,160 |
| 5 Persons | \$65,660 | \$70,350 | \$75,040 | \$79,730 | \$84,420 | \$93,800 | \$112,560 |

2011 Multifamily Property Tax Exemption Program Maximum Rent Limits

| Unit Size | 70% | 75% | 80% | 85% | 90% |
|-------------------|------------|------------|------------|------------|------------|
| Studio | \$1,064 | \$1,140 | \$1,216 | \$1,292 | \$1,368 |
| 1 Bedroom | \$1,216 | \$1,303 | \$1,390 | \$1,476 | \$1,563 |
| 2+ Bedroom | \$1,368 | \$1,466 | \$1,564 | \$1,661 | \$1,759 |

Echo Lake Apartments, the newest apartment project in Shoreline and the one most comparable to future developments, is used to illustrate the City's affordable market rents. Echo Lake Apartments operates with no affordability requirements, is not offering significant concessions, and is currently at over 95% occupancy; given these factors, the apartment industry would conclude that Echo Lake is operating at market rent. The market rents are shown in the following table, adjusted upward by the City of Seattle's estimate of monthly utility cost (\$93/month).

Current Echo Lake Apartment rent range including utilities

| Unit Size | Low | High |
|------------|---------|----------|
| Studio | \$992 | |
| 1 Bedroom | \$1,132 | -\$1,157 |
| 2+ Bedroom | \$1,362 | -\$1,552 |

It is clear from a comparison of the 80% low income household affordable rents and the Echo Lake rents that the current market rent in Shoreline easily qualifies for low income households, at least by RCW 84.14's definition. Council can safely conclude, then, that until market conditions change dramatically in Shoreline in relationship to the rest of King County, affordable housing will typically be provided by investors who take advantage of the expanded PTE program, even though affordability is not required by ordinance.

Once the Council makes the above findings, it can designate all or a portion of the areas as residential targeted areas. The Council must also adopt and implement standards and guidelines for processing the applications. These have been incorporated into Ordinance No. 624.

How PTE Affects Tax Collections

The PTE program is an investment. Each unit that is built because of the PTE program is a unit that will eventually increase the tax base within the Shoreline community and lift a small amount of tax burden from other tax payers.

The King County Assessor confirmed that:

- PTE causes no "tax-shift" or increase in taxes paid by Shoreline tax payers.
- A participating PTE project's improvement valuation is not counted in the City's overall assessed valuation until the exemption period is exhausted.
- During the exemption period, a new unit built as a result of the PTE program has the following effects:
 - Permit fees are paid.
 - Property taxes on the land and all non-residential improvements are generated.
 - City services are used by the unit's occupant(s).
 - Retail sales tax and utility fees are generated by the unit's occupant(s).
- Once the exemption period expires, a new unit built as a result of the PTE program causes two positive effects on tax collections:
 - The City receives tax revenue for the multifamily improvements. After the exemption period expires, it is estimated that \$200 per unit will be added annually to City revenue.
 - Tax payers begin to enjoy a slight reduction in their fixed-levy taxes. After the exemption period expires, a tax payer with a property valued at \$275,000 will experience an estimated annual reduction of 2.7¢ per unit built. This reduction is caused by the addition of one more contributor to meet the fixed amounts levied by the School District and others.

Expansion Areas for the PTE

The five areas are illustrated on the attached maps (Ordinance 624, Exhibits 1-5) with the PTE areas outlined in red. These areas are:

1. Aurora Avenue North Corridor, including a portion of Westminster Way N. This section is divided into a north and south map.
2. Ballinger Way NE commercial area.
3. Hillwood commercial area.
4. Richmond Beach commercial area.
5. The SE Neighborhoods commercial areas associated with the intersections of NE 145th St with Bothell Way NE and 15th Ave NE.

Attachment C is the City's Comprehensive Plan that has the legend for the comprehensive plan designations used on the maps of the proposed PTE expansion areas.

Sunset Clause

During the November 28th meeting Deputy Mayor Hall suggested that a sunset clause could be added to the ordinance that would cause it to expire in five years to coincide with the expiration of Proposition One. Staff recommends instead that the PTE program be reviewed as part of the Council's annual update by the Economic Development Office, and that at that time appropriate steps be considered by Council to adjust or terminate the program.

Public Notice

During the November 28th meeting Councilmember Eggen asked staff to make a concerted effort to alert the citizens of Shoreline of the December 12th public hearing since the PTE expansion could easily be misinterpreted as a tax-shift and because many neighborhoods are included in the expansion areas. Staff published notice of the public hearing in *The Seattle Times* on December 1st and December 5th as required by RCW 84.14 (<http://nwsourc.kaango.com/ad-city-of-shoreline-summary-of-ordinance-no-624/19964129>).

Staff also:

- Created and posted the expansion area maps, the proposed ordinance, and a new Proposed PTE Expansion Frequently Asked Questions (FAQs), Attachment B, document on the City of Shoreline website (<http://www.shorelinewa.gov/index.aspx?page=68>).
- Wrote and posted a brief informative article about the proposed PTE expansion with links to the documents above.
- Posted a news link to the article on the City website front page.
- Sent the article to the *Shoreline Area News* blog and Shoreline-LakeForestParkPatch newsletter for publishing.
- Sent the article to the Council of Neighborhoods email list.
- Sent the Shoreline Chamber Board the article, the FAQs, and the expansion area maps via email along with a request that the Chamber consider the matter at its upcoming board meeting.

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

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 \$200/per unit) until the project's tax exemption period ends. The School District will not be affected by the PTE program, as its levy amount is a fixed amount and does not change with new construction. At the expiration of the PTE period tax payers benefit by having fixed property tax levies shared by a greater number of property tax payers, resulting in a slight decrease in property taxes paid by individual property owners.

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

RECOMMENDATION

Staff recommends that Council hold the public hearing and following the hearing consider adoption of Ordinance No. 624.

ATTACHMENTS

Attachment A: Ordinance No. 624

Exhibit 1-5 - Maps of the expansion areas for the City's PTE program

1. Aurora Avenue North
 - a. Aurora Avenue North Corridor (north)
 - b. Aurora Avenue North Corridor (south), including portions of Westminster
2. Ballinger Way NE commercial area
3. Hillwood commercial area
4. Richmond Beach commercial area
5. SE Neighborhoods
 - a. SE Neighborhoods (west), the commercial area associated with the intersection of NE 145th St and 15th Ave NE
 - b. SE Neighborhoods (east), the commercial area associated with the intersection of NE 145th St and Ballinger Way NE

Attachment B - Proposed PTE Expansion Frequently Asked Questions (FAQs)

Attachment C – Comprehensive Plan Map

ORDINANCE NO. 624

AN ORDINANCE ESTABLISHING A 5-YEAR EXEMPTION FROM REAL PROPERTY TAXATION FOR THE DEVELOPMENT OF MULTIFAMILY HOUSING IN DESIGNATED TARGET AREAS

WHEREAS, Chapter 84.14 of the Revised Code of Washington provides for exemptions from ad valorem property taxation for qualifying multi-family housing located in designated target areas within urban centers and authorizes the City to adopt necessary procedures to implement the State legislation; and

WHEREAS, in order to establish a tax exemption program, the City must designate one or more target areas within which tax exemption projects may be considered; and

WHEREAS, Chapter 84.14 RCW provides that areas designated as target areas must be within urban centers, must lack sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban centers, if the desirable, attractive, and livable places to live were available; and the providing of additional housing opportunities in the areas will assist in achieving one of the stated purposes in RCW 84.14; and

WHEREAS, at the City Council meetings on September 26, 2011 and November 28, 2011, the City Council discussed designating additional areas for the property tax exemption program; and

WHEREAS, a notice of public hearing for December 12, 2011 was published in the Seattle Times on December 1, 2011 and on December 5, 2011; and

WHEREAS, the public hearing was held on December 12, 2011; and

WHEREAS, the City of Shoreline desires to designate portions of the Aurora Avenue North Corridor, Westminster Way N, Ballinger Way NE commercial area, Hillwood commercial area, Richmond Beach commercial area, and intersections of Bothell Way NE and 15th Ave NE as residential targeted areas and to adopt the standards and guidelines to be utilized in considering applications for tax incentives; and

WHEREAS, the City Council desires to adopt a five year program rather than the standard eight year program in order to balance the incentive for development with the potential for increased revenue.

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

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Section 1. Findings. The City Council finds that:

- A. The following areas are urban centers of the City of Shoreline, as defined under RCW 84.14.010(16):
 - 1) Aurora Avenue North Corridor, including a portion of Westminster Way N;
 - 2) Ballinger Way NE commercial area;
 - 3) Hillwood commercial area;
 - 4) Richmond Beach commercial area;
 - 5) The commercial areas associated with the intersections of NE 145th St with Bothell Way NE and 15th Ave NE.
- B. These identified urban centers lack sufficient available, desirable and convenient residential housing to meet the needs of the public, and current and future residents of the City of Shoreline would be likely to live in these urban centers if additional desirable, convenient, attractive and livable places were available.
- C. Provision of additional housing opportunities will assist in promoting further economic development and growth management goals by bringing new residents to utilize urban services and encourage additional residential and mixed use opportunities.
- D. A five year program allows for these additional housing opportunities to be provided.

Section 2. Purpose

- A. The purpose of the 5-year exemption from ad valorem property taxation for multifamily housing in the residential targeted areas is to:
 - 1. Encourage increased residential opportunities within the residential targeted area;
 - 2. Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for revitalization of the designated targeted areas;
 - 3. Assist in directing future population growth to the residential targeted area, thereby reducing development pressure on single-family residential neighborhoods; and
 - 4. Achieve development densities that stimulate a healthy economic base and are more conducive to transit use in the designated residential targeted area.

Section 3. Designation of Residential Targeted Area

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The following areas, as shown in Exhibits 1-5, are designated as residential targeted areas:

- 1) Aurora Avenue North Corridor, including a portion of Westminster Way N;
- 2) Ballinger Way NE commercial area;
- 3) Hillwood commercial area;
- 4) Richmond Beach commercial area;
- 5) The commercial areas associated with the intersections of NE 145th St with Bothell Way NE and 15th Ave NE.

Section 4. Standards and Guidelines

- A. **Project Eligibility.** A proposed project must meet the following requirements for consideration for a property tax exemption:
 1. **Location.** The project must be located within one of the targeted residential areas designated in section 3.
 2. **Size.** The project must provide for a minimum of fifty percent of the space for permanent residential occupancy. At least four additional residential units must be added to existing occupied multi-family housing. Existing multi-family housing that has been vacant for 12 months does not have to provide additional units so long as the project provides at least fifty percent of the space for permanent residential occupancy and rehabilitated units failed to comply with one or more standards of the applicable state or local building or housing codes. Transient housing units (rental of less than one month) are not eligible for exemption.
 3. **Proposed Completion Date.** New construction multi-family housing and rehabilitation improvements must be scheduled to be completed within three years from the date of approval of the application.
 4. **Compliance With Guidelines and Standards.** The project must be designed to comply with the City's comprehensive plan, building, and zoning codes and any other applicable regulations in effect at the time the application is approved.
- B. **Exemption - Duration.** The value of improvements qualifying under this chapter for a Multiple Family Tax Exemption will be exempt from ad valorem property taxation for five successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption.
- C. **Limits on Exemption.** The exemption does not apply to the value of land or nonhousing-related improvement, nor does the exemption apply to increases in assessed valuation of land and non-qualifying improvements. In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to submission of the completed application required under this chapter.

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- D. **Contract.** The applicant must enter into a contract with the city approved by the City Manager or designee under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the City Manager or designee.

Section 5. Application Procedures

- A. A property owner who wishes to propose a project for a tax exemption shall file an application for Multiple Family Tax Exemption with the Department of Planning and Community Development in substantially the same form as the application set forth in Exhibit A, along with a minimum fee deposit of three times the current hourly rate for processing land use permits together with the current King County Assessors fee for administering the Multiple Family Tax Exemption program. Total City fees will be calculated using the adopted hourly rates for land use permits in effect during processing.
- B. In the case of rehabilitation or demolition, the owner shall secure verification of property noncompliance with applicable building and housing codes prior to demolition.
- C. The application shall include:
 - 1. A brief written description of the project setting forth the grounds for the exemption;
 - 2. A site plan, including the floor plan of units;
 - 3. A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this ordinance; and
 - 4. Verification by oath or affirmation of the information submitted.

Section 6. Application Review and Issuance of Conditional Certificate

- A. **Certification.** Once a development project application is deemed complete, the City Manager or designee may certify as eligible an application which is determined to comply with the requirements of this ordinance and enter findings consistent with RCW 84.14.060. A decision to approve or deny certification of an application shall be made within 90 days of receipt of a complete application. If denied the applicant may appeal the denial to the City Council within thirty days by filing an Appeal Statement and the current appeal filing fee with the City Clerk. The appeal before the City Council will be based upon the record before the City Manager or designee with the burden of proof on the applicant to show there was no substantial evidence to support the official's decision. The City Council's decision on appeal shall be final.
- B. **Approval.** If certified as eligible, the application together with a contract between the applicant and the City with the terms and conditions of the project shall be executed by the applicant and the City Manager.
- C. **Issuance and Time Limit.** Once the contract is fully executed, the City Manager shall issue a Conditional Certificate of Acceptance of Tax

ATTACHMENT A

Exemption. The Conditional Certificate expires three years from the date of approval unless an extension is granted.

- D. Extension of Conditional Certificate. The Conditional Certificate may be extended by the City Manager for a period not to exceed 24 months. The applicant must submit a written request stating the grounds for the extension, accompanied by a processing fee equal two times the current hourly rate for processing land use permits. An extension may be granted if the City Manager determines that:
 - 1. The anticipated failure to complete construction or rehabilitation within the required time period is due to circumstances beyond the control of the owner;
 - 2. The owner has been acting and could reasonably be expected to continue to act in good faith and with due diligence; and
 - 3. All Conditions of the original contract between the applicant and the City will be satisfied upon completion of the project.
- E. Denial of Application. If the application for tax exemption is denied, the City Manager shall state in writing the reasons for denial and shall send notice to the applicant at the applicant's last known address within ten days of the denial. An applicant may appeal a denial to the Hearing Examiner under the Rules of Procedure for Administrative Hearings within 30 days of receipt of the denial.

Section 7. Application for Final Certificate

Upon completion of the improvements provided in the contract between the applicant and the City the applicant may request a Final Certificate of Tax Exemption. The applicant must file with the City Manager such information as the City Manager may deem necessary or useful to evaluate eligibility for the Final Certificate and shall include:

- 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 that the improvements qualify for the exemption; and
- C. A statement that the work was completed within the required three-year period or any authorized extension.

Within 30 days of receipt of all materials required for a Final Certificate, the City Manager shall determine whether the improvements satisfy the requirements of this ordinance and the approved contract.

Section 8. Issuance of Final Certificate

- A. Approval. If the City Manager determines that the project has been completed in accordance with the contract between the applicant and the City and has been completed within the authorized time period, the City

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shall, within 40 days of application, file a Final Certificate of Tax Exemption with the King County Assessor.

- B. Denial and Appeal. The City Manager shall notify the applicant in writing that a Final Certificate will not be filed if the City Manager determines that:
1. The improvements were not completed within the authorized time period;
 2. The improvements were not completed in accordance with the contract between the applicant and the City;
 3. The owner's property is otherwise not qualified under this ordinance;
 - or
 4. The owner and the City Manager cannot come to an agreement on the allocation of the value of improvements allocated to the exempt portion of the rehabilitation improvements, new construction and multi-use new construction.

Section 9. Annual Compliance Review

- A. Annual Declaration. Within 30 days after the first anniversary of the date of filing of the Final Certificate of Tax Exemption and each year thereafter, for a period of 5 years, the property owner shall file a notarized declaration with the City Manager indicating the following:
1. A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve months ending with the anniversary date;
 2. A certification by the owner that the property has not changed use since the date of the certificate approved by the City;
 3. A description of any subsequent changes or improvements constructed after issuance of the certificate of tax exemption.
- B. Additional Reporting Requirement. 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 5 years, the property owner shall provide staff with a written report with the information sufficient to complete the City's report to the Department of Commerce described in Section D below.
- C. Audits. City staff may conduct audits or on-site verification of the declaration and information provided by the property owner. Failure to submit the annual declaration and annual reports may result in cancellation of the tax exemption.
- D. By December 31 of each year, the City shall file a report to the Department of Commerce indicating the following for each approved PTE project:
1. The number of tax exemption certificates granted;
 2. The total number and type of units produced or to be produced;

ATTACHMENT A

3. The number and type of units produced or to be produced meeting affordable housing requirements;
4. The actual development cost of each unit produced, specifically,
 - i. Development cost average per unit including all costs
 - ii. Development cost average per unit, excluding land and parking
 - iii. Development cost average per structured parking stall
 - iv. Land Cost
 - v. Other Costs
 - vi. Net Rentable Square Footage
 - vii. Gross Square Footage, including common spaces, surface parking and garage
5. The total monthly rent or total sale amount of each unit produced;
6. If available, the income of each renter household at the time of initial occupancy and the income of each initial purchaser if owner-occupied units at the time of purchase for each of the units receiving a tax exemption and a summary of these figures for the city; and
7. The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.

Section 10. Cancellation of Tax Exemption

A. Cancellation. If at any time during the exemption period, the City Manager determines the owner has not complied with the terms of the contract or with the requirements of this ordinance, or that the property no longer complies with the terms of the contract or with the requirements of this ordinance, or for any reason no longer qualifies for the tax exemption, the tax exemption shall be canceled and additional taxes, interest and penalties may be imposed pursuant to RCW 84.14.110 as amended. This cancellation may occur in conjunction with the annual review or at any other time when noncompliance has been determined. If the owner intends to convert the multi-family housing to another use, the owner must notify the City Manager and the King County Assessor within 60 days of the change in use. Upon such change in use, the tax exemption shall be cancelled and additional taxes, interest and penalties imposed pursuant to state law.

B. Notice and Appeal. Upon determining that a tax exemption is to be canceled, the City Manager shall notify the property owner by certified mail return receipt requested. The property owner may appeal the determination to the Hearing Examiner under City of Shoreline Rules of Procedure for Administrative Appeal.

Section 11. Effective Date

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

ADOPTED BY THE CITY COUNCIL ON DECEMBER 12, 2011.

ATTACHMENT A

Mayor Keith McGlashan

ATTEST:

APPROVED AS TO FORM:

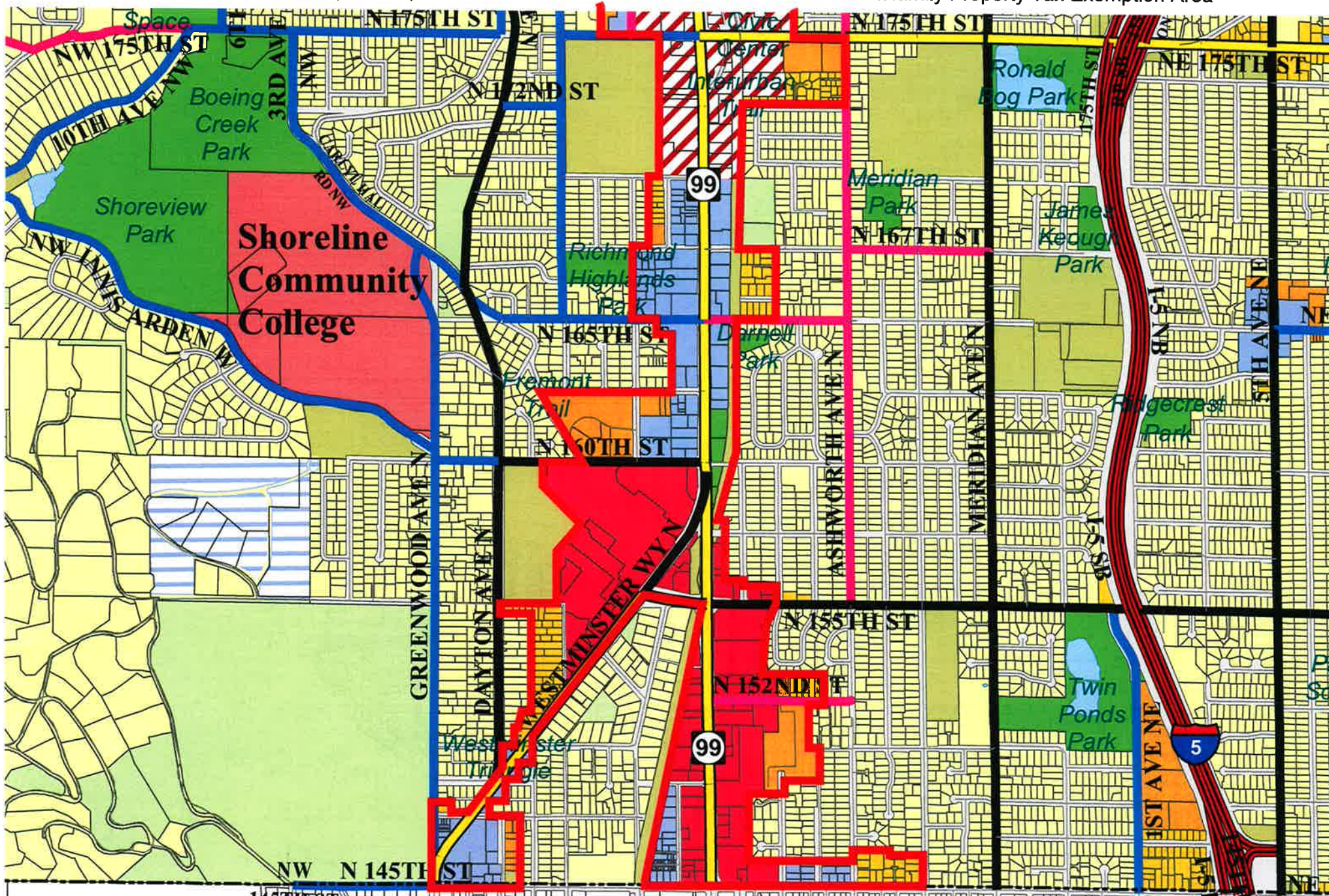
Scott Passey, CMC
City Clerk

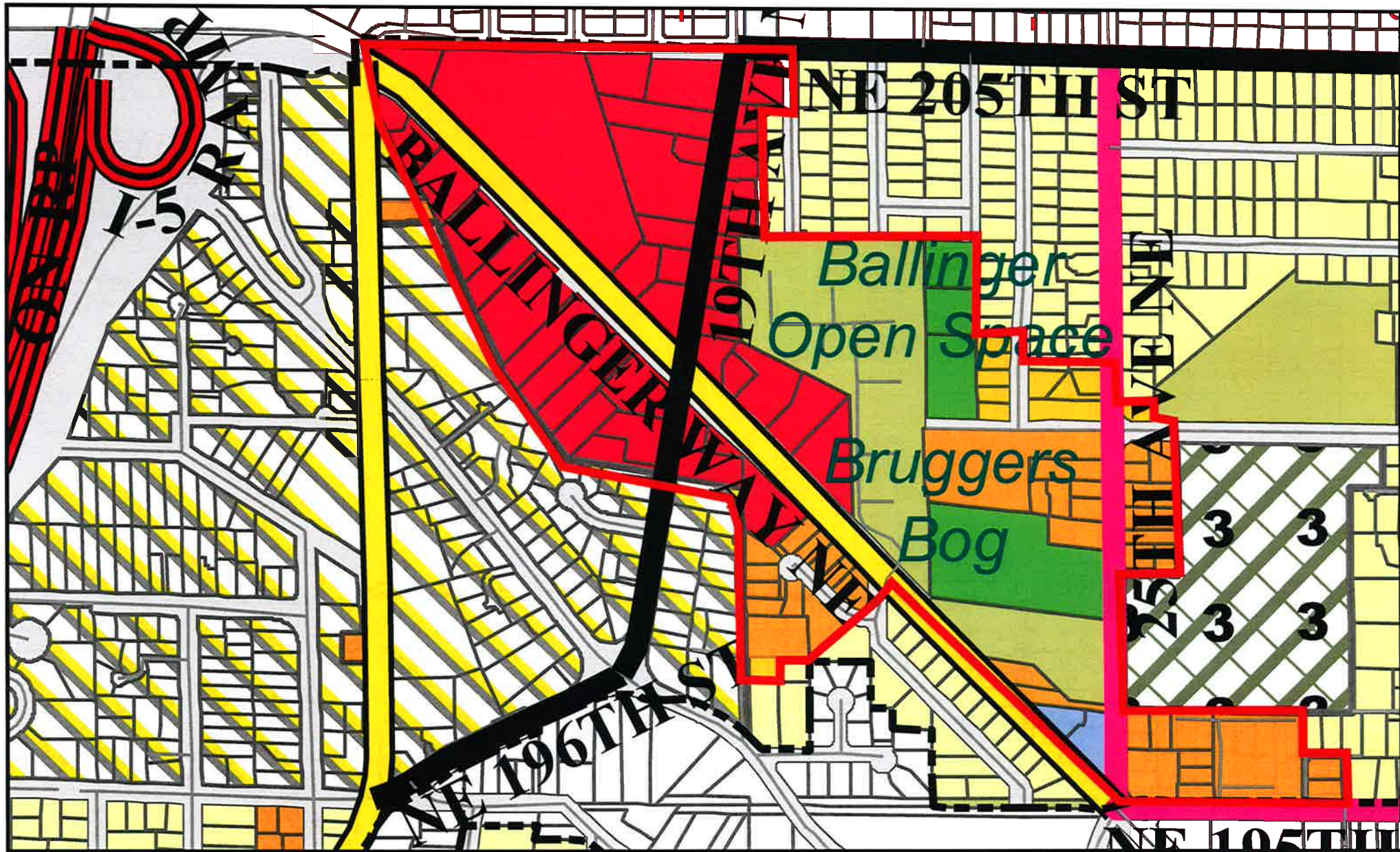
Ian Sievers
City Attorney

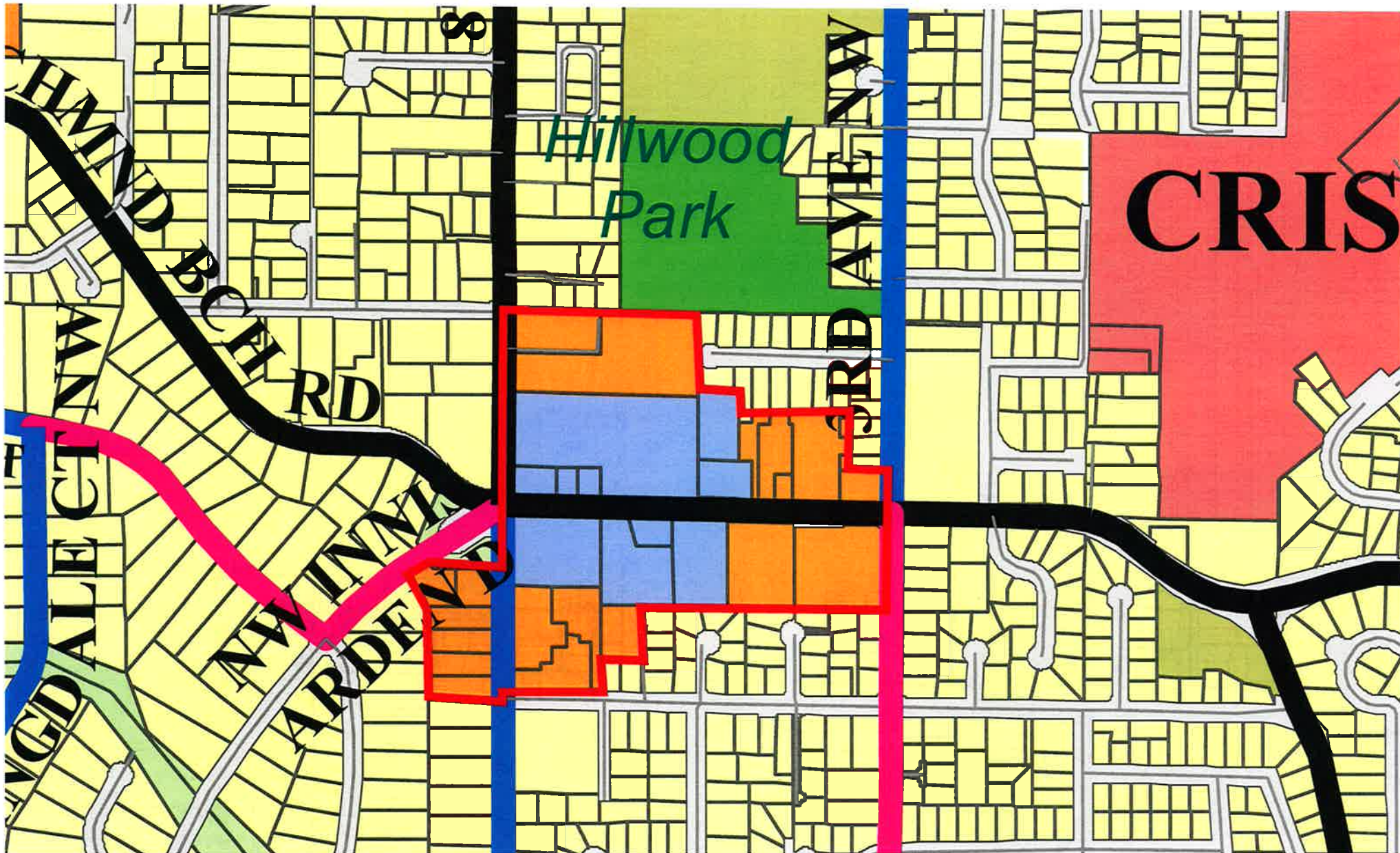
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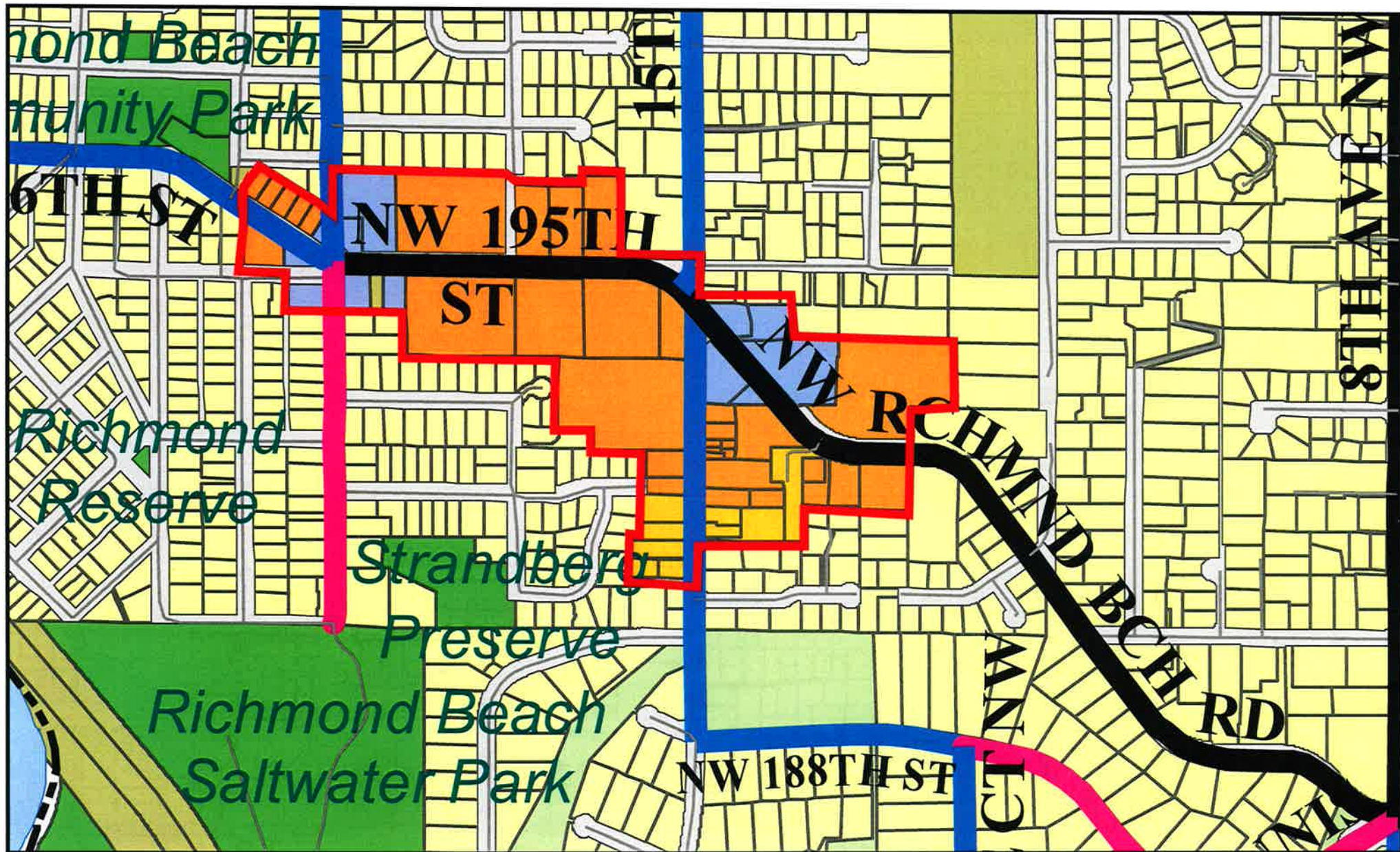
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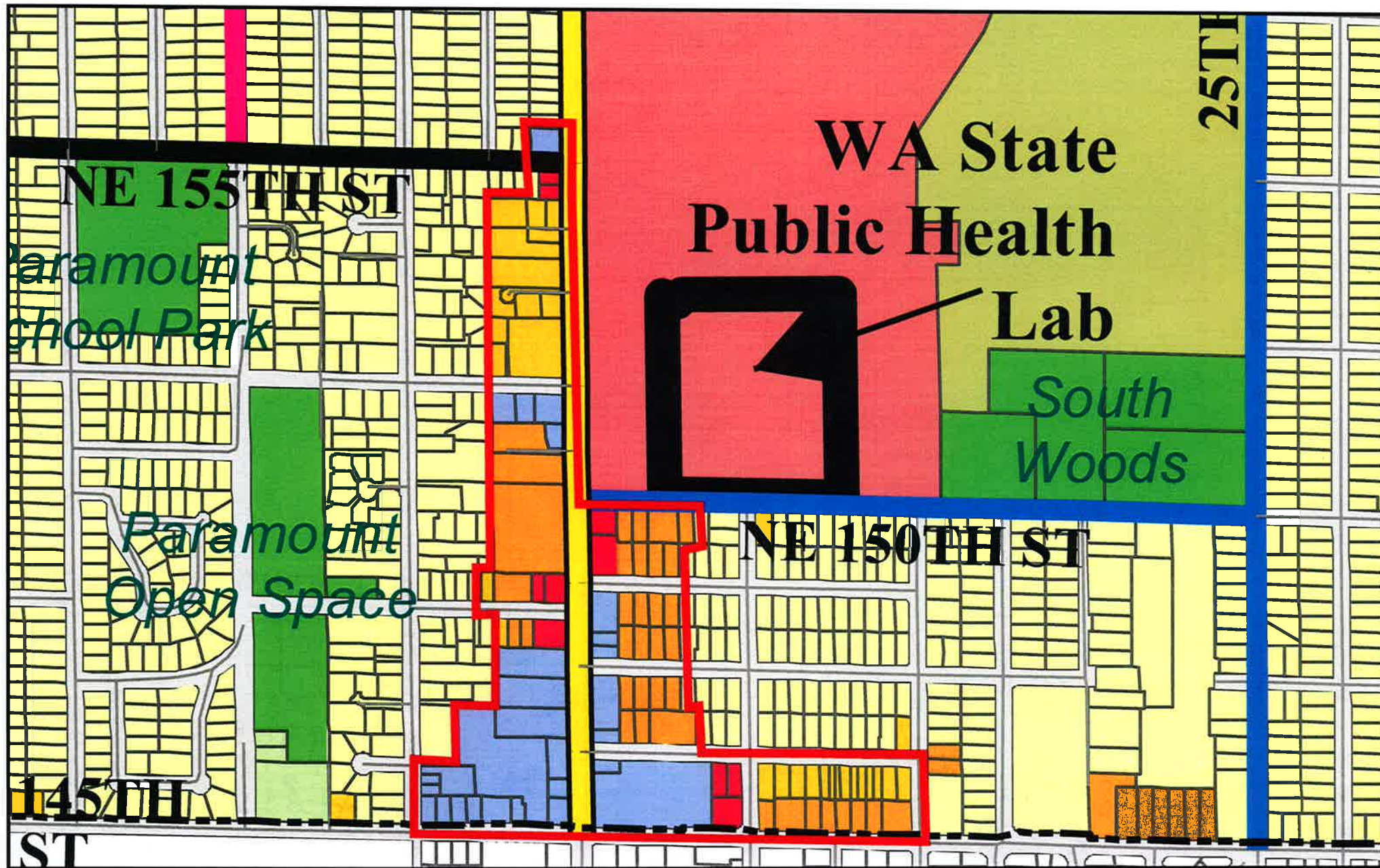
Multifamily Property Tax Exemption Area















Proposed Expansion of the Multifamily Property Tax Exemption Program Frequently Asked Questions (FAQs)

When will the proposed Multifamily Property Tax Exemption (PTE) expansion be considered?

Council studied the PTE expansion at meetings on September 26, 2011, and on November 28, 2011. After reviewing Staff's recommendation the Council directed City Staff to bring forward an ordinance for consideration on December 12, 2011. Washington law requires a public hearing with special notice to enact the expansion of the PTE program, so notice is being published for the two weeks prior to the hearing which is set for 7:30 p.m., December 12, 2011. The Council will vote on the ordinance shortly after the public hearing.

What is the recommended PTE program expansion?

Staff has recommended that Council consider creating a 5 year PTE program to encourage multifamily development in areas of Shoreline that are already zoned for multifamily housing and that already exhibit the synergies needed for clustered development.

Will my taxes go up to pay for the PTE program?

No! The King County Assessor confirmed that no one's taxes will increase as a result of the PTE program. The program simply delays the collection of taxes; it does not shift the collection to others.

What will be the effect on the City's tax revenue?

The City continues to collect property tax on the land value during the exemption period, but it does not collect property taxes on the value of the multifamily improvements until after the 5 year exemption has expired. Once year six arrives, the City will collect approximately \$200 more per unit built.

What will be the effect on the school's tax revenue?

Each year the school district collects a specific levy amount no matter how many tax payers are shouldering the burden. Therefore, the school district is unaffected by the PTE program and will collect the same amount whether or not there is new construction, tax exempt or not.

Will my taxes go down as a result of new construction?

Yes, although not significantly. As soon as the exemption expires and the owner of the multifamily building begins paying taxes on the improvements, all other Shoreline tax payers will see a very small *decrease* in taxes. The decrease is caused by a reduction in the amount current tax payers are charged to cover their portion of the fixed levy taxes such as those collected by the school district. Since the fixed levy tax is a set amount, adding more tax payers who are contributing to this fixed amount will result in a reduction. Another way to illustrate the effect is to consider what happens when eight guests are invited to Thanksgiving one year, and nine guests are invited the second year; if the pie is the same size both years, the second year serving would be slightly smaller because more people are taking part. In the case of fixed levy taxes, the decrease is quite small since so many are paying toward these taxes; it is estimated

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that the decrease experience by a property owner with a home valued at \$275,000 would be less than 3¢ per year per new unit built under the PTE program.

Why is there a need to expand where Property Tax Exemptions (PTE) are offered?

By expanding the area in which the PTE incentive program is offered, the City improves its chances that development will be stimulated somewhere in the City. For example, for a number of years the City of Seattle has offered PTE incentives in 39 separate areas which encompass the vast majority of multifamily property in Seattle. On average, less than two projects qualifying projects per area have taken advantage of the PTE program, and the projects have been widely scattered throughout the city. A second reason to expand the PTE program is related; without an expansion, Shoreline properties are at a competitive disadvantage with those just over the border in Seattle and in other similar cities that offer PTE. The expansion helps to attract investors who otherwise would build under a PTE program elsewhere.

How were the new areas selected?

The areas selected were those areas in Shoreline that already were zoned for multifamily housing and that already exhibit the synergies needed for clustered development. The five areas selected include the entire Aurora Corridor including Westminster Way, the Ballinger commercial area, the Hillwood commercial area, the Richmond Beach commercial area, and the Southeast Neighborhoods' two commercial areas at NE 145th St & Bothell Way and at NE 145th St and 15th Ave NE. These select areas possess sufficient area for the development of more housing as well as providing relatively easy access to amenities and recreation.

Does the PTE expansion allow for more height or more units?

No. Height and density are controlled by zoning, and the expansion of the PTE program changes no zoning, nor does it change what or how much can or cannot be built in any area.

Does the new PTE program provide affordable housing?

Yes, but it doesn't mandate that the developer comply with affordability limits. The Washington State law (RCW 84.14) that encourages cities to stimulate multifamily housing using PTE states that an increase in affordable housing stock is one of the possible—but not the required—positive outcomes of the program. Based on the law's definition of affordability, Shoreline's current market apartment rents already qualify as affordable. Since increasing housing choices in Shoreline is part of a stated city goal (Goal #3), Council concluded that new multifamily projects built using the PTE program would likely accomplish both the desired goal of affordability and of increasing housing choices. Therefore, no additional compliance regulations or lengthened incentives were considered prudent or necessary.

Why offer only 5 years of exemption?

State law limits tax exemptions to 12 years for affordable projects and 8 years for market rate housing. The Council concluded that limiting the length of the exemption to 5 years provides just enough incentive for the investor to make a project viable while generating increased tax revenue for city services 3 to 7 years sooner.

Will the North City and Ridgecrest PTE programs be affected by the PTE expansion?

No. Both North City and Ridgecrest's PTE programs will continue to provide 8 years of PTE for market rate and 12 years of PTE for affordable projects.
















Further questions?

Please feel free to contact Dan Eernisse in Shoreline's Office of Economic Development at deernisse@shorelinewa.gov.

Comprehensive Plan Land Use

Representation of Official Comprehensive Land Use Map Adopted By City Ordinance No. 292 Shows amendments through July 25, 2011.

Comprehensive Plan Land Use Designations

-  TCD, Town Center District
-  LDR, Low Density Residential
-  MDR, Medium Density Residential
-  HDR, High Density Residential
-  MU, Mixed Use
-  CB, Community Business
-  RB, Regional Business
-  PF, Public Facilities
-  I-C, Campus
-  PA-3, Planned Area 3
-  SSA, Special Study Area
-  BaSSA, Ballinger Special Study Area
-  NCBD, North City Business District
-  PrOS, Private Open Space
-  PubOS, Public Open Space

Other Map Features

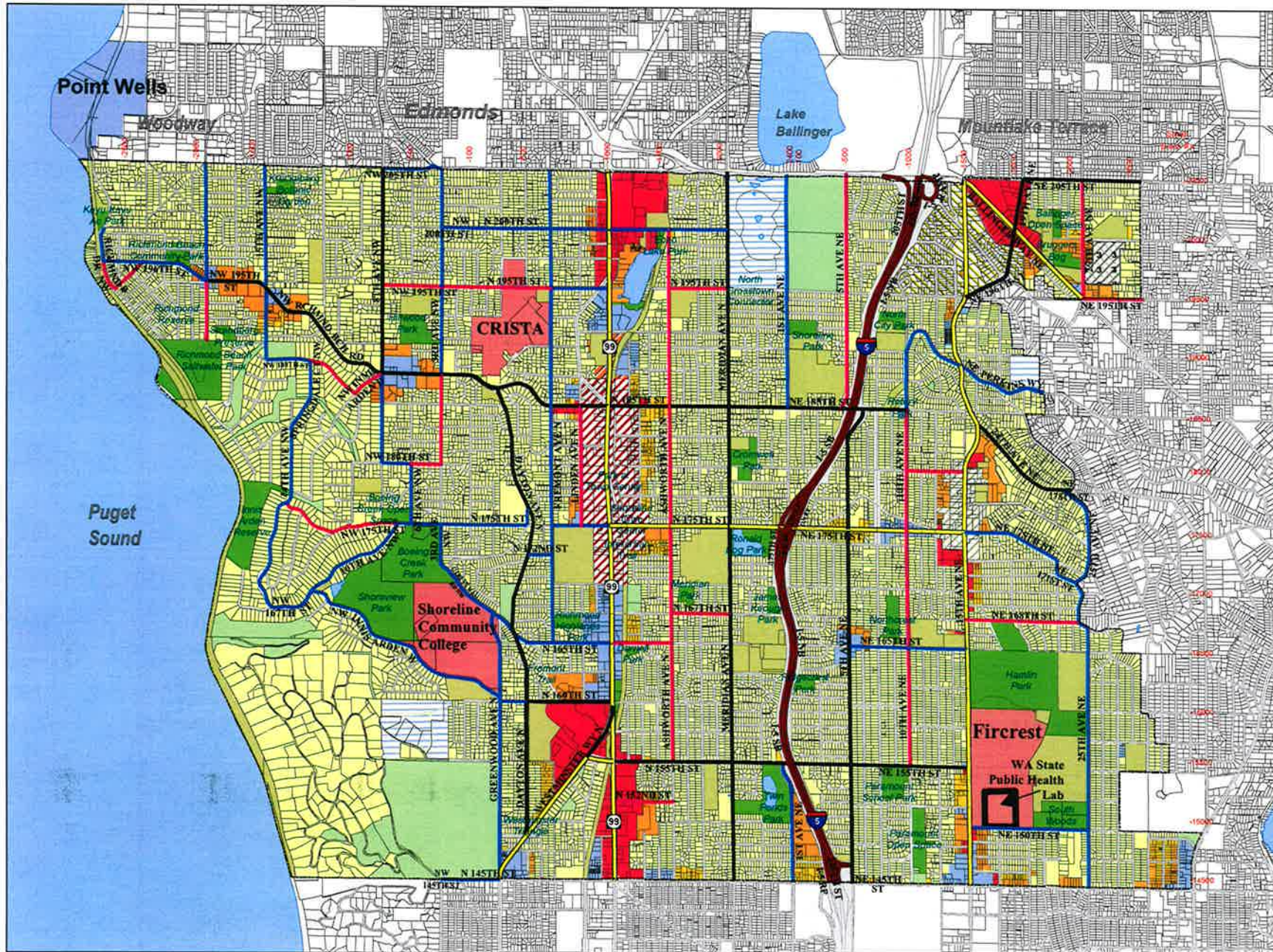
-  Unclassified Right of Way
-  City Boundary
-  Outside Shoreline
-  Interstate
-  Principal Arterial
-  Minor Arterial
-  Collector Arterial
-  Neighborhood Collector
-  Local Street
-  Open Water

0 100 200 300 400 Feet

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