

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

<p>AGENDA TITLE: Authorizing the City Manager to Execute a Property Tax Exemption Contract with Arabella Apartments, LLC (Arabella II)</p> <p>DEPARTMENT: Economic Development</p> <p>PRESENTED BY: Dan Eernisse, Economic Development Manager</p> <p>ACTION: ___ Ordinance ___ Resolution <u> X </u> Motion ___ Discussion</p>

PROBLEM/ISSUE STATEMENT

On January 27 a completed application and payment of fees was received for property tax exemption (PTE) for Arabella Apartments, LLC (Arabella II). The project meets the affordability standards for a 12-year property tax exemption. The applicant states that the proposed 109-unit apartment project will be located at 1227 NE 180th Street, and that expected completion of the project is planned for October of 2015.

On September 22, 2008, Council passed Ordinance No. 520 offering property tax exemptions for new residential projects. The Arabella II project is within the North City area, which is one of two areas designated for both 8-year and 12-year property tax exemption for compliant new residential projects. The 500-unit cap for this area has not been exhausted. In the North City Business District target area, at least 20% of the units must be rented as affordable housing units to households making at or below 70% of the area median family income adjusted for family size for studio and one bedroom units and at or below 80% of the area median family income adjusted for family size for two or more bedroom units. The City created an expanded PTE program with different criteria and procedures for five new areas with Ordinance No. 624 in 2011. Although this new expansion program was codified in Chapter 3.27, it is clear from the staff report for Ordinance No. 624 that the preexisting program created under Ordinance No. 520 was supplemented and not repealed.

Arabella II currently holds a Certificate of PTE, but it will not meet the completion deadline of September of 2013. This deadline was extended for two years in 2011, but Ordinance No. 520 does not allow the applicant to obtain a second extension. Therefore, Arabella Apartments, LLC is seeking a new PTE Certificate to allow it to complete the project within the new three year window. The applicant is pursuing HUD financing for the project, and the PTE Certificate is a condition placed on the project by HUD. The applicant's representative stated that if financing is secured, ground will be broken in late 2013.

On January 14, 2013, the application was found to comply with all of the requirements set forth in Ordinance No. 520 (see Attachment A) to qualify for a Conditional Certificate of Property Exemption with the exception of executing the required contract. The next step is to present a contract signed by the applicant to the City Council with a

recommendation that the City Council authorize the City Manager to sign the contract. The attached signed contract (Attachment B) insures on-going compliance with Ordinance No. 520 and guarantees the appropriate period of property tax exemption for the applicant.

The project achieves Vision 2029 goals such as diverse and affordable housing (FG 12), specific high density areas (FG 14), and a business friendly environment (FG 15). In addition, the project builds on the investment made in the North City neighborhood by past Council action. Therefore, staff recommends that Council authorize the City Manager to execute the contract for the property tax exemption for Arabella II.

RESOURCE/FINANCIAL IMPACT

The project will generate one-time permit fees of over \$50,000. Once occupied, the project's residents will contribute on-going revenue through sales and utility taxes and utility fees. Shoreline's average annual per capita revenues for sales and utility taxes is currently \$110/year and \$120 respectively. Given the affordability requirement of the project, it is likely that its residents will spend less than average.

During the 12-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 until the project's tax exemption period ends. The building value is estimated to be approximately \$17 million. Based on the City's current property tax levy of \$1.60 per \$1,000 assessed valuation, the City will waive between \$25,000 and \$30,000 in property taxes annually. The new construction value of the buildings will not be added to the City's tax rolls until the exemption period expires in twelve years and increased property tax will begin at that time. There is no shift of tax burden during the exemption period, only a delay in adding new tax revenue. t The School District will not be affected by the PTE program as its levy amount is fixed.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to execute the property tax exemption contract with Arabella Apartments, LLC (Arabella II), Attachment B.

ATTACHMENTS

Attachment A – Findings of PTE Compliance issued by the Permits Services Manager
Attachment B – Property Tax Exemption Contract


Approved By: City Manager **JU** City Attorney **IS**



Memorandum

DATE: Jan. 14, 2013

TO: Julie Underwood, City Manager

FROM: Jeff Forry, Permit Services Manager 

RE: Arabella Apartments, LLC Tax Exemption Application
1227 NE 180th Street
Tracking Number - 301855

CC: Dan Ernissee, Economic Development Manager
Paul Cohen, Planning, Manager

An application for a tax exemption has been submitted by Arabella Apartments, LLC (Arabella II) for consideration by the City Manager pursuant to Ordinance 520. As required by 84.14 RCW, Ordinance 520 includes criteria that must be met to qualify for the issuance of a Conditional Certificate. The request is identical to a previously approved application that was extended in 2011. The applicant has determined that the project cannot meet the timelines established in the approval and the application has expired. The ordinance does not provide for subsequent extensions. A new application is required. We have reviewed the new application against the criteria and find the procedural requirements have been met and recommend continued processing of the application. The criteria are as follows:

1. Location.

The proposal is located at 1227 NE 180th Street. This site is within the North City Business District (NCBD). The NCBD has been identified as a residential target area as defined in 84.14 RCW.

2. Limits on Tax Exempt Units.

Ordinance 520 establishes a maximum of 500 tax exempt units in the NCBD. The Arabella I Apartments, completed in 2007, qualified 88 units for tax exemption. In 2010 Arabella II requested and received a Conditional Certificate for 109 units (now expired). In 2012 The North City Family Apartments (under construction) requested and received a Conditional Certificate for 165 units. If

granted the tax exemption request will maintain the number of available tax exempt units at 138. The request is for a twelve year exemption.

3. Size.

100% of the proposal units would be permanent residential occupancy.

4. Proposed Completion Date.

The application indicates an expected completion date in October of 2015. The timeframe is within the requisite three year limit.

5. Compliance with Guidelines and Standards.

The proposal generally conforms to the provisions of the NCBD in that the use is permitted under the adopted sub-area plan. A comprehensive review of the proposal has been performed in conjunction with the submittal of a complete application for development as defined in chapter 20 SMC and the permit applications are ready to be issued. To qualify for a twelve year tax exemption the project must rent or sell at least 20% of the residential units as affordable housing units as defined in Ordinance 520. To receive a twelve year exemption the project must demonstrate affordability prior to the issuance of the Final Certificate.

Application Criteria – Ordinance 520

1. Completed application form and payment of fees ✓
2. Brief written description ✓
3. Site plan and floor plan; ✓
4. Owner's statement on potential tax liability; and ✓

Application — Requirements. RCW 84.14.030

An owner of property making application under this chapter must meet the following requirements:

- ✓ (1) The new or rehabilitated multiple-unit housing must be located in a residential targeted area as designated by the city;
- ✓ (2) The multiple-unit housing must meet guidelines as adopted by the governing authority that may include height, density, public benefit features, number and size of proposed development, parking, income limits for occupancy, limits on rents or sale prices, and other adopted requirements indicated necessary by the city. The required amenities should be relative to the size of the project and tax benefit to be obtained;
- ✓ (3) The new, converted, or rehabilitated multiple-unit housing must provide for a minimum of fifty percent of the space for permanent residential occupancy. In the case of existing occupied multifamily development, the multifamily housing must also provide for a minimum of four additional multifamily units. Existing multifamily vacant housing that has been vacant for twelve months or more does not have to provide additional multifamily units;
- ✓ (4) New construction multifamily housing and rehabilitation improvements must be completed within three years from the date of approval of the application;

✓ (5) Property proposed to be rehabilitated must fail to comply with one or more standards of the applicable state or local building or housing codes on or after July 23, 1995. If the property proposed to be rehabilitated is not vacant, an applicant shall provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate; and

(6) The applicant must enter into a contract with the city approved by the governing authority, or an administrative official or commission authorized by the governing authority, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the governing authority.

RCW 84.14.060

Approval — Required findings.

(1) The duly authorized administrative official or committee of the city may approve the application if it finds that:

(a) A minimum of four new units are being constructed or in the case of occupied rehabilitation or conversion a minimum of four additional multifamily units are being developed;

(b) If applicable, the proposed multiunit housing project meets the affordable housing requirements as described in RCW 84.14.020;

(c) The proposed project is or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;

(d) The owner has complied with all standards and guidelines adopted by the city under this chapter; and

(e) The site is located in a residential targeted area of an urban center that has been designated by the governing authority in accordance with procedures and guidelines indicated in RCW 84.14.040.

(2) An application may not be approved after July 1, 2007, if any part of the proposed project site is within a campus facilities master plan.

MULTI-FAMILY HOUSING LIMITED PROPERTY TAX EXEMPTION AGREEMENT

THIS AGREEMENT is entered into this _____ day of March, 2013, by and between ARABELLA APARTMENTS, LLC (hereinafter referred to as the “Applicant”), and the CITY OF SHORELINE (hereinafter referred to as the “City”).

WITNESSETH:

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

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

WHEREAS the City has, through Ordinance Nos. 310, 479, 496, and 520 enacted a program whereby property owners may qualify for a Final Certificate of Tax Exemption which certifies to the King County Assessor that the owner is eligible to receive a limited property tax exemption; and

WHEREAS the Applicant is interested in receiving a limited property tax exemption for constructing 109 units of new multi-family residential housing located at 1227 North 180th Street in the North City Business District, and generally referred to as ARABELLA II APARTMENTS, and

WHEREAS the Applicant submitted to the City a complete application for Property Tax Exemption as provided for under Ordinance No. 520; and

WHEREAS the Project proposes renting at least twenty percent (20%) of the residential units as affordable housing units to households making at or below 70% of the area median family income adjusted for family size for one bedroom units, and at or below 80% of the area median family income adjusted for family size for two and three bedroom units; and

WHEREAS on the 31st day of January, 2012, the City determined that the Applicant met all procedural requirements to qualify for a Conditional Certificate of Property Tax Exemption with the exception of entering into this Agreement; and

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

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

ATTACHMENT B

1. The City agrees to issue the Applicant a Conditional Certificate of Acceptance of Tax Exemption once this Agreement is fully executed, which shall exempt the Project from ad valorem property taxation for twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the Final Certificate of Tax Exemption.
2. The Applicant agrees to construct the Project in compliance with all applicable land use regulations and as approved and permitted by the City. In no event shall such construction provide less than fifty percent (50%) of the space for permanent residential occupancy as required by Ordinance No. 520.
3. In order to qualify for the property tax exemption, the Applicant agrees to complete construction of the agreed upon improvements within three years from the date the City issues the Conditional Certificate of Acceptance of Tax Exemption, or within any extension thereof granted by the City.
4. The Applicant agrees, upon completion of the improvements and upon issuance by the City of a temporary or permanent certificate of occupancy, to file with the City Manager a request for Final Certificate of Tax Exemption with the following information:
 - (a) a statement of expenditures made with respect to each multi-family housing unit and the total expenditures made with respect to the entire property;
 - (b) a description of the completed work and a statement of qualification for the exemption;
 - (c) a statement that the work was completed within the required three-year period or any authorized extension; and
 - (d) a statement that the project meets affordable housing requirements by renting at least twenty percent (20%) of the residential units as affordable housing to households making at or below 70% of the area median family income adjusted for family size for one bedroom units, and at or below 80% of the area median family income adjusted for family size for two and three bedroom units.
5. The City agrees, conditioned on the Applicant's successful completion of the improvements in accordance with the terms of this Agreement and on the Applicant's filing of the materials described in Paragraph 4 above, to file a Final Certificate of Tax Exemption with the King County Assessor within 40 days of application.
6. The Applicant agrees, within 30 days following the first anniversary of the City's filing of the Final Certificate of Tax Exemption and each year thereafter for a period of twelve (12) years, to file a notarized declaration with the City Manager indicating the following:
 - (a) a statement of occupancy and vacancy of the newly constructed property during the twelve months ending with the anniversary date;
 - (b) a certification by the owner that the property has not changed use since the date of the certificate approved by the City and that property is in compliance with affordable housing requirements by renting at least twenty percent (20%) of the residential units as affordable housing to households making at or below 70% of the area median family income adjusted for family size for one bedroom units, and at or below 80% of the area median family income adjusted for family size for two and three bedroom units;

ATTACHMENT B

- (c) a description of any subsequent changes or improvements constructed after issuance of the Final Certificate of Tax Exemption;
 - (d) the monthly rent amount of each unit produced; and
 - (e) the income of each renter household at the time of initial occupancy for each of the units receiving a tax exemption.
7. The Applicant agrees, by December 15 of each year beginning with the first year in which the Final Certificate of Tax Exemption is filed and each year thereafter for a period of twelve (12) years, to provide a written report to the City Manager containing information sufficient to complete the City’s report to the Washington State Department of Community, Trade and Economic Development as described in Section 9.D. of Ordinance No. 479.
 8. If the Applicant converts any of the new multi-family residential housing units constructed under this Agreement into another use, the Applicant shall notify the King County Assessor and the City Manager within 60 days of such change in use.
 9. The Applicant agrees to notify the City promptly of any transfer of the Applicant’s ownership interest in the Project or in the improvements made to the Project under this Agreement.
 10. The City reserves the right to cancel the Final Certificate of Tax Exemption should the Applicant, its successors and assigns, fail to comply with any of the terms and conditions of this Agreement or for any reason that the Project no longer qualifies for the tax exemption.
 11. No modifications of this Agreement shall be made unless mutually agreed upon by the parties in writing.
 12. In the event that any term or clause of this Agreement conflicts with applicable law, such conflict shall not affect other terms of this Agreement which can be given effect without the conflicting term or clause, and to this end, the terms of this Agreement are declared to be severable.

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

CITY OF SHORELINE

By _____
City Manager
Julie Underwood

Approved as to form:

Ian Sievers, City Attorney

APPLICANT

By _____
Name: _____

STATE OF WASHINGTON)
) ss.
SPOKANE COUNTY)

On this _____ day of March, 2012, before me, the undersigned Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, to me known to be an authorized representative of North City Family Apartments, LLC, who executed the foregoing instrument and acknowledged to me that the said instrument was signed as his/her free and voluntary act and deed, for the uses and purposes therein mentioned.

WITNESS my hand and official seal this _____ day of March, 2012.

(Print Name) _____
Notary Public, Residing at Spokane, WA
My appointment expires: _____