

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussion of Development Costs		
DEPARTMENT:	City Manager's Office		
PRESENTED BY:	Dan Eernisse, Economic Development Manager		
ACTION:	<input type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input checked="" type="checkbox"/> Discussion	<input type="checkbox"/> Public Hearing	

PROBLEM/ISSUE STATEMENT:

The Council places a high priority on economic development as it enables Shoreline to realize many of the goals outlined in Vision 2029. Council directed staff to investigate how the cost of development in Shoreline compares with surrounding and comparable cities in order to ensure that investors considering a project in Shoreline are faced with an attractive environment for development. Based on this direction, staff selected nine cities and compared the development costs of four types of projects that Shoreline may be considered for: a single-family home, a 100-unit multifamily building, a fast-food restaurant with a drive-through window, and a 40,000 square foot office building.

The development costs compared in this report are those which city or utility districts control, such as permit fees, utility connection and facility charges, and impact fees. Although controlled by cities, development standards such as required setbacks, design elements, and building height were not included, as the cities selected for comparison do not necessarily treat these potential cost drivers comparably. As well, land cost and income potential were not considered since city leadership cannot directly control either. On-going costs of operating projects such as property tax rates, business and occupation taxes, and property tax exemptions are also not considered in this study, but since they are able to be controlled by city leadership, they could be a fruitful subject for a future discussion.

RESOURCE/FINANCIAL IMPACT:

As this is a study item only, there are no financial impacts for this item. No additional financial impacts are anticipated without further study or Council direction.

RECOMMENDATION

This item is for discussion only and no specific decision is required.

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

BACKGROUND

The Council places a high priority on economic development as it enables Shoreline to realize many of the goals outlined in Vision 2029 and provides the financial means to sustain current service levels of both basic and quality of life services to Shoreline residents. Residents continue to desire these services from the City have demonstrated this through responses to the City's citizen survey and passage of the levy lid lift to sustain services in 2010.

Council directed staff to investigate how the cost of development in Shoreline compares with surrounding and comparable cities in order to ensure that investors considering a project in Shoreline are faced with an attractive environment for development. Based on this direction, staff selected nine cities and compared the development costs of four types of projects that Shoreline may be considered for: a single-family home, a 100-unit multifamily building, a fast-food restaurant with a drive-through window, and a 40,000 square foot office building.

DISCUSSION

Methodology

The nine cities selected for comparison are: Burien, Lynnwood, Bothell, Mountlake Terrace, Issaquah, Redmond, Kirkland, Kent, and Seattle. Seattle was chosen because of its immediate proximity to Shoreline and for its strong influence on development in Shoreline. The other cities were selected for elements of similarity with Shoreline, including size, distance from Seattle, and comparable development standards. In addition, many of these cities are experiencing robust growth in their economies and are therefore models for Shoreline.

For Shoreline, the comparison has four different groupings, given that we have two different water purveyors in our community and given that the Council is currently considering whether or not to impose traffic impact fees (TIF). Thus, staff has compared 1) Shoreline and SPU water (no TIF), 2) Shoreline and North City Water (no TIF), 3) Shoreline and SPU (TIF included) and 4) Shoreline and North City Water (TIF included).

In order to keep the comparison as objective as possible, four types of projects were selected that reflect common or desired Shoreline projects, and each type of project was given characteristics that allowed objective comparisons.

- 1) A single-family home costing \$300,000 to construct and needing a ¾" water meter;
- 2) A 100-unit multifamily building costing \$12,500,000 to construct, needing a 4" water meter, and generating 50 PM peak hour trips;
- 3) A fast-food restaurant with a drive-through window costing \$800,000 to construct, needing a 2" water meter, and generating 100 PM peak hour trips; and
- 4) A 40,000sf office building costing \$8,000,000 to construct, needing a 1 ½" water meter, and generating 80 PM peak hour trips.

The development costs compared were those controlled by cities or by utility providers. Cities and utility providers treat projects in unique and varied ways, and often – as in Shoreline itself – more than one utility provider is operating in the same city. The development costs are:

- 1) Land use and SEPA fees;
- 2) Plan check and building permit fees;
- 3) Water connection, which includes permitting, inspections, and facility charges;
- 4) Sewer connection, which includes permitting, inspections, and facility charges;
- 5) Traffic impact fees;
- 6) Park impact fees;
- 7) School impact fees; and
- 8) Fire impact fees.

Once the information was gathered, staff created a spreadsheet (Attachment A) with associated bar graphs to illustrate the effect of development costs added by governing agencies. Staff from several departments worked diligently to provide helpful information for Council's discussion this evening. Please note that the figures are helpful but not all exact; staff chose to use estimates and averages when the information provided by cities or utility providers was unclear or when several utility providers operated within one city.

Also included on the spreadsheet is a percentage column which denotes what percentage of the total project cost is related to development costs. As the construction cost is the same across all nine jurisdictions, this creates a helpful baseline from which to gage the effect of the total costs of development. In other words, the higher the percentage, the greater the cost of development in that jurisdiction.

Development standards such as required setbacks, design guidelines, and building height were not included in the comparison, as staff concluded that the cities selected for comparison do not necessarily treat these potential cost drivers comparably. For example, while the City of Seattle offers design-based incentives in South Lake Union, the incentives apply to building forms that Shoreline does not allow and are therefore irrelevant.

Another factor not considered in this analysis was the availability of large tracts of relatively inexpensive land that make different construction types feasible. An excellent example of this is the multifamily building boom Lynnwood is currently experiencing centered on Alderwood Mall Boulevard and 164th Street SW. These projects utilize three-story wood buildings that allow units to be built for \$100,000 – 125,000/unit, while the six-story wood and concrete buildings in Seattle and Shoreline generally cost at least \$175,000/unit.

On-going costs of operating projects such as property tax rates, business and occupation taxes, and property tax exemptions are also not considered in this study, but since they are able to be controlled by city leadership, they could be a fruitful subject for a future discussion.

Staff Observations

The following information highlights some of staff's analysis of regional development costs once the development cost data was collected and tabulated.

- 1) **High Rents are More Important than Low Costs** - If development cost was the only factor, one would expect that those cities with the highest costs would experience low investment, but Redmond, Kirkland, and Issaquah are enjoying robust growth in the face of high development costs. On the other hand, it would be foolhardy to think that high costs produce more development. The more likely conclusion is that cities with robust development enjoy income potential that more than offsets high development costs, rewarding the investor with healthy returns even after paying for expensive land and high development costs.

Typically the highest income potential is in close proximity to high paying jobs, as long as the area around the jobs is safe and attractive. The combination of jobs and an attractive place create a virtual cycle of development and investment seen in areas such as New York City, San Francisco, and downtown Seattle. Therefore, a city that creates an attractive job center will prosper.

- 2) **Shoreline's Plan Check and Building Permit Fees are Low** - Shoreline charges very low plan check and building permit fees for a small city. Shoreline's low fees may be a selling point or they may represent an opportunity to increase revenues without being perceived by the development community as exceptionally costly. At the same time, these fees can only recapture the cost of the service provided – in other words, the City cannot make a profit on these fees.
- 3) **Seattle is an Exceptional Neighbor** - Investors are understandably attracted to Seattle, as it offers investors the double win of the lowest development costs on every project type along with high rents, job growth, and urban amenities in many areas. The result is predictably robust development in many Seattle neighborhoods like South Lake Union, Queen Anne, Ballard, Capitol Hill, Sodo, and the University District. Shoreline is the only city that shares a significant land border with Seattle, and while Shoreline benefits greatly from this proximity, Seattle's competitive advantage for development casts a deep shadow.

RESOURCE/FINANCIAL IMPACT:

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RECOMMENDATION

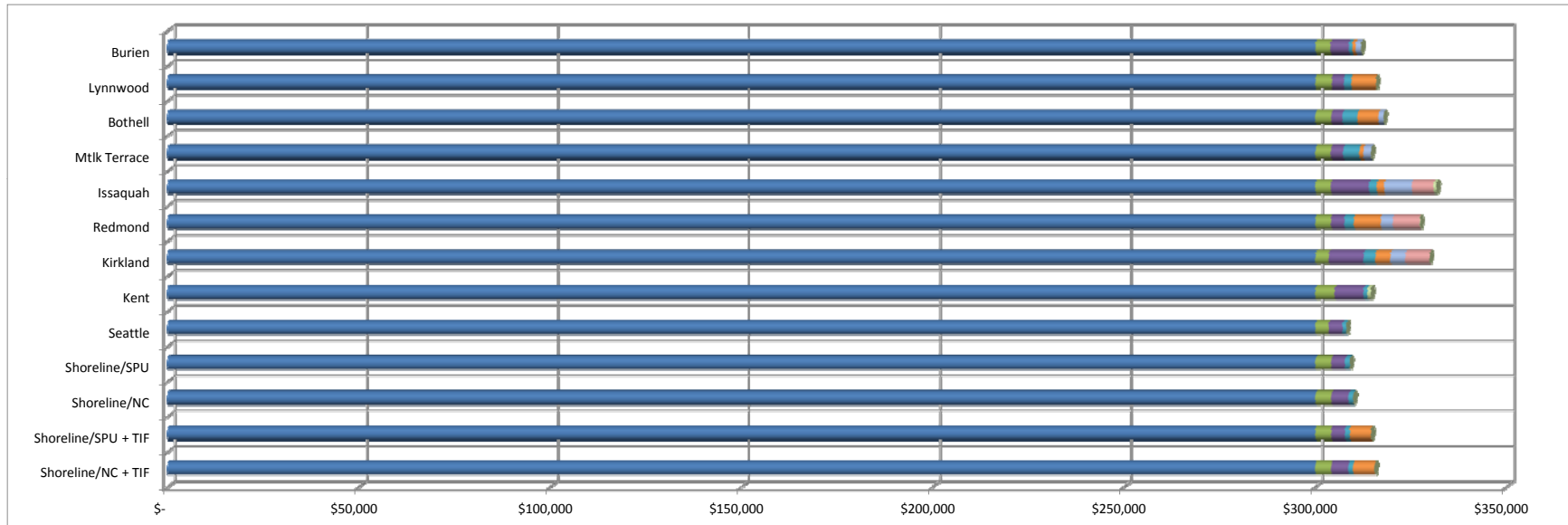
This item is for discussion only, and no specific decision is required.

ATTACHMENTS:

Attachment A: Comparison of Development Costs

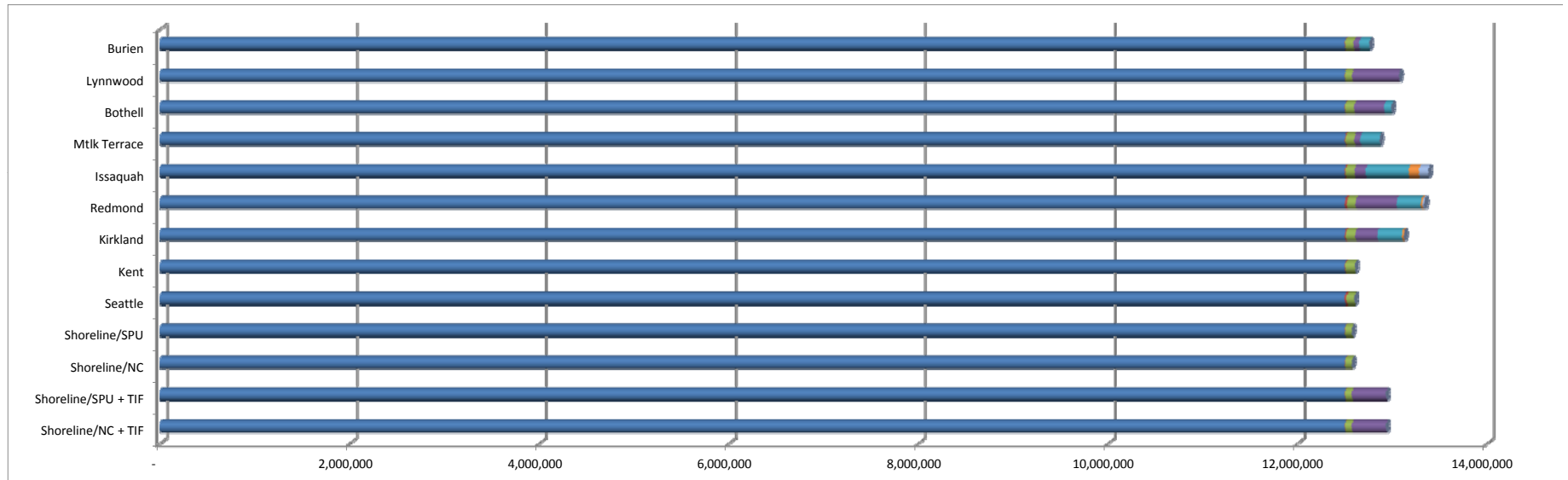
Single-family Home

	Construction	Land Use/SEPA	Building Permit and Plan Review	Water Connection and Facility Charge	Sewer Connection and Facility Charge	Traffic Impact Fee	Park Impact Fee	School Impact Fee	Fire Impact Fee	Total	%
	\$ 300,000	\$ 300,000	3/4" meter	3/4" meter	1 trip						
Burien	\$ 300,000	N/A	3,909	4,835	879	937	1,405	-	-	\$ 311,964	3.99%
Lynnwood	\$ 300,000	N/A	4,264	3,199	1,952	6,418	-	-	-	\$ 315,833	5.28%
Bothell	\$ 300,000	N/A	4,195	2,954	3,881	5,481	1,345	-	-	\$ 317,856	5.95%
Mtlk Terrace	\$ 300,000	N/A	4,017	3,266	4,216	1,041	2,027	-	-	\$ 314,567	4.86%
Issaquah	\$ 300,000	N/A	4,039	10,031	2,039	1,923	7,198	5,730	703	\$ 331,663	10.55%
Redmond	\$ 300,000	N/A	4,069	3,500	2,500	7,024	3,175	7,005	108	\$ 327,381	9.13%
Kirkland	\$ 300,000	N/A	3,488	9,133	3,056	3,942	3,949	6,302	-	\$ 329,870	9.96%
Kent	\$ 300,000	N/A	5,096	7,527	1,000	-	-	-	954	\$ 314,577	4.86%
Seattle	\$ 300,000	N/A	3,488	3,621	1,000	-	-	-	-	\$ 308,109	2.70%
Shoreline/SPU	\$ 300,000	N/A	4,161	3,621	1,257	-	-	-	-	\$ 309,039	3.01%
Shoreline/NC	\$ 300,000	N/A	4,161	4,532	1,257	-	-	-	-	\$ 309,950	3.32%
Shoreline/SPU + TIF	\$ 300,000	N/A	4,161	3,621	1,257	5,567	-	-	-	\$ 314,606	4.87%
Shoreline/NC + TIF	\$ 300,000	N/A	4,161	4,532	1,257	5,567	-	-	-	\$ 315,517	5.17%



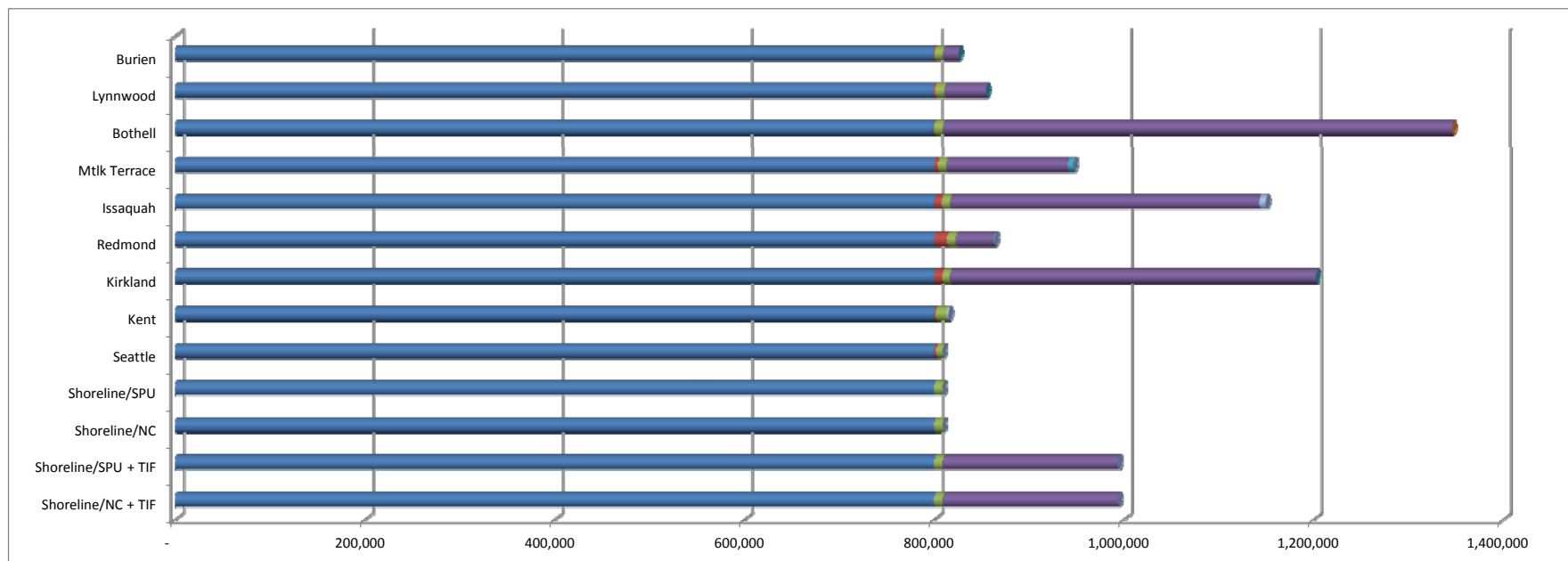
100-unit Multifamily Building

	Construction	Land Use/SEPA MF 100 Units	Building Permit plus Plan Check MF 100 Units	Average Water Connection MF 100 Units	Average Sewer Connection MF 100 Units	Traffic Impact Fee MF 100 Units - TC	Park Impact Fee MF 100 Units	School Impact Fee MF 100 Units	Fire Impact Fee MF 100 Units	Total	%
			\$ 12,500,000	4" meter	4" meter	50 trips					
Burien	12,500,000	5,451	89,285	102,358	220,000	58,800	106,347	-	-	13,082,241	4.66%
Lynnwood	12,500,000	3,500	75,049	65,000	162,200	495,680	-	-	-	13,301,429	6.41%
Bothell	12,500,000	5,000	96,493	100,238	189,090	315,600	76,235	-	-	13,282,656	6.26%
Mtlk Terrace	12,500,000	11,000	90,362	74,636	102,136	64,050	202,700	-	-	13,044,884	4.36%
Issaquah	12,500,000	12,000	93,999	235,077	203,900	116,914	453,401	109,700	96,359	13,821,350	10.57%
Redmond	12,500,000	25,000	91,620	91,100	160,000	431,181	255,214	19,700	18,180	13,591,995	8.74%
Kirkland	12,500,000	15,000	99,386	228,325	195,600	231,000	258,300	20,700	-	13,548,311	8.39%
Kent	12,500,000	8,000	100,777	267,200	106,461	-	-	-	-	12,982,438	3.86%
Seattle	12,500,000	20,000	82,325	38,071	15,000	-	-	-	-	12,655,396	1.24%
Shoreline/SPU	12,500,000	4,205	70,368	38,071	265,600	-	-	-	-	12,878,244	3.03%
Shoreline/NC	12,500,000	4,205	70,368	436,000	265,600	-	-	-	-	13,276,173	6.21%
Shoreline/SPU + TIF	12,500,000	4,205	70,368	38,071	265,600	360,749	-	-	-	13,238,993	5.91%
Shoreline/NC + TIF	12,500,000	4,205	70,368	436,000	265,600	360,749	-	-	-	13,636,922	9.10%



Fast Food Restaurant

	Construction	Land Use/SEPA	Building Permit plus Plan Check	Average Water Connection/GFC	Average Sewer Connection/GFC	Traffic Impact Fee	Park Impact Fee	School Impact Fee	Fire Impact Fee	Total	%
			\$ 800,000	2" meter/1 ac	2" meter	100 trips					
Burien	800,000	1,635	8,603	30,000	27,217	16,419	-			883,874	10.48%
Lynnwood	800,000	2,000	9,544	12,792	12,976	44,030	-			881,342	10.17%
Bothell	800,000	1,000	9,246	21,708	29,508	537,100	-	-		1,398,562	74.82%
Mtlk Terrace	800,000	4,110	8,859	26,276	32,776	128,100	6,030	-	-	1,006,151	25.77%
Issaquah	800,000	8,100	8,782	77,784	101,950	326,000	-	-	6,878	1,329,494	66.19%
Redmond	800,000	14,000	8,956	29,150	20,000	40,480	474	-	173	913,233	14.15%
Kirkland	800,000	9,000	7,687	73,064	24,448	386,300	-			1,300,499	62.56%
Kent	800,000	2,000	11,215	75,850	106,461	-	-	-	2,216	997,742	24.72%
Seattle	800,000	2,500	6,625	12,000	12,000	-	-	-	-	833,125	4.14%
Shoreline/SPU	800,000	N/A	8,946	12,000	25,060	-	-	-	-	846,006	5.75%
Shoreline/NC	800,000	N/A	8,946	25,952	25,060	-	-	-	-	859,958	7.49%
Shoreline/SPU + TIF	800,000	N/A	8,946	12,000	25,060	184,975	-	-	-	1,030,981	28.87%
Shoreline/NC + TIF	800,000	N/A	8,946	25,952	25,060	184,975	-	-	-	1,044,933	30.62%



Office Building

		Land Use/SEPA 40K Office	Building Permit plus Plan Check \$ 8,000,000	Average Water Connection 1.5" meter	Average Sewer Connection 1.5" meter	Traffic Impact Fee 80 trips	Park Impact Fee 40K Office	School Impact Fee 40K Office	Fire Impact Fee 40K Office	Total	%
Burien	8,000,000	5,451	53,088	18,915	17,011	56,520	-			8,150,985	1.89%
Lynnwood	8,000,000	3,500	57,724	7,000	8,110	381,600				8,457,934	5.72%
Bothell	8,000,000	5,000	63,080	15,000	24,000	106,000	-	-		8,213,080	2.66%
Mtik Terrace	8,000,000	11,000	53,798	17,136	20,536	102,480	30,920	-	-	8,235,870	2.95%
Issaquah	8,000,000	12,000	55,754	50,310	108,747	102,000	-	-	9,033	8,337,844	4.22%
Redmond	8,000,000	20,000	59,989	18,220	12,500	729,600	43,219	-	6,018	8,889,546	11.12%
Kirkland	8,000,000	12,000	64,117	45,665	15,280	305,200	-			8,442,262	5.53%
Kent	8,000,000	6,000	66,622	75,850	106,461	-	-		10,555	8,265,488	3.32%
Seattle	8,000,000	15,000	49,325	9,329	1,000	-	-	-	-	8,074,654	0.93%
Shoreline/SPU	8,000,000	N/A	46,979	9,329	12,530	-	-	-	-	8,068,838	0.86%
Shoreline/NC	8,000,000	N/A	46,979	207,619	12,530	-	-	-	-	8,267,128	3.34%
Shoreline/SPU + TIF	8,000,000	N/A	46,979	9,329	12,530	430,000	-	-	-	8,498,838	6.24%
Shoreline/NC + TIF	8,000,000	N/A	46,979	207,619	12,530	430,000	-	-	-	8,697,128	8.71%

