Council Meeting Date: July 20, 2015 **Agenda Item:** 8(a)

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussion of the Outcomes from the Feasibility Study for Transfer of Development Rights and the Landscape Conservation and Local Infrastructure Program in Shoreline
DEPARTMENT:	Planning & Community Development
PRESENTED BY:	Steven Szafran, AICP, Senior Planner
ACTION:	____ Ordinance ____ Resolution ____ Motion _X__ Discussion ____ Public Hearing

PROBLEM/ISSUE STATEMENT:

The Landscape Conservation and Local Infrastructure Program (LCLIP) was passed into State Law in 2011. LCLIP creates incentives for both land conservation in the county and infrastructure improvements in the city. The City received a grant to study the feasibility of applying LCLIP in the 145th and 185th light rail station subareas, Town Center, and the Community Renewal Area (Aurora Square).

At tonight's meeting, the City's consultant, ECONorthwest, will provide their findings regarding use of LCLIP in these locations to the Council. If Council chooses to pursue a LCLIP program, staff will work with the consultant and King County to implement the program.

RECOURCE/FINANCIAL IMPACT:

As this item is for discussion purposes only, there is no financial impact at this time. If the Council chooses to pursue LCLIP for Shoreline, there may be a range of financial implications. The report finds that the City stands to gain $4.4 million for infrastructure improvements if half of the City’s growth targets occur and up to $7.3 million if those targets are exceeded.

The report lists three different LCLIP revenue scenarios the City may consider in implementing the LCLIP program:

- Scenario 1 assumes growth occurs at 50% of PSRC’s target and uses Multifamily Tax Exemption (MFTE) for the first 300 units constructed in the 185th Street Light Rail Station Subarea. Under this scenario the program would cost the City $1.35 million.
- Scenario 2 assumes the same level of growth as Scenario 1 but applies MFTE to all properties within the 185th Street Light Rail Station Subarea. It also assumes that instead of a ratio of one (1) Transfer of Development Rights (TDR) for every four (4) units, that a ratio of one (1) TDR for every two (2) units is implemented. Under this scenario, the City would not have to buy TDR credits as the private

market could retire all credits necessary to keep the program current. This scenario would net the City $4.4 million over the life of the program.

- Scenario 3 is similar to Scenario 2 except it assumes high growth (growth over what PSRC forecasts), but also uses MFTE. This scenario would net the City $7.3 million over the life of the program.

RECOMMENDATION

As this item is for discussion purposes only, staff recommends that Council discuss the LCLIP and ask questions of staff and the City's consultant. At a future meeting, staff will make a recommendation to Council for next steps for establishing a Transfer of Development Rights program and participation in the LCLIP program.

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

BACKGROUND

The Landscape Conservation and Local Infrastructure Program (LCLIP) was passed into State Law in 2011. LCLIP creates incentives for both land conservation in the county and infrastructure improvements in the city. The purpose of the program is to encourage the Transfer of Development Rights (TDR) with a public infrastructure financing tool called tax increment financing (TIF). This program seeks to credit added development potential in exchange for preservation of natural and rural lands in the county, while providing greater assessed tax revenues for the City to pay for improvements such as plazas, parks, sidewalks, bike lanes, etc. to encourage vibrant, livable cities.

As Council recalls, an initial discussion of the LCLIP was held on December 8, 2014. The staff report for this discussion can be found at the following link: http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2014/staffreport120814-9a.pdf.

The City began looking at the LCLIP program as a way to include TDRs into the light rail station subareas. In exchange for accepting development rights, the City will have access to financing for revitalizing designated districts. The City will also be able to bond against the future tax revenue generated by the development projects to make essential infrastructure improvements.

In addition to looking at the two station areas, the consultant also looked at getting more TDR's in Town Center, the Aurora Square Community Renewal Area (CRA), and the Aurora Corridor. As part of this study, staff is looking at ways to encourage more TDR's through Development Agreement's at the CRA and increased development potential in the 145th Street Light Rail Station Subarea.

Goals of the Program

It is important to point out that Transfer of Development Rights have been part of the City's Comprehensive Plan Goals since at least 2005. Goals NEI, NEII, NEIV, and NEV speak to preservation of natural areas and Land Use Policy LU58 specifically supports TDR programs throughout the City. It reads:

> ***LU58:*** *Support regional and state Transfer of Development Rights (TDR) programs throughout the city where infrastructure improvements are needed, and where additional density, height and bulk standards can be accommodated.*

The Council's policy has been, through support of the City's Comprehensive Plan, to support the preservation of rural land by increasing density within urban areas and support regional partnerships with King County and the Puget Sound Regional Council.

Other goals of the program include money for public improvements within designed areas assigned by Council. The future light rail stations at 185th and 145th will require street improvements including pedestrian and bicycle facilities. More density around the stations will require more park space, open space, and recreational facilities. Density increases will also require utility upgrades including stormwater, sanitary sewer and water lines.

LCLIP will be one way the City can divert the County portion of property taxes to fund these improvements that will be needed in the future. In addition to the King County portion of the taxes, the County has expressed a willingness to provide park and/or open space to the City in the area of the 185th light rail station.

DISCUSSION

The City recently received a $42,060 grant to study the feasibility of applying LCLIP in the 145th and 185th light rail station subareas, Town Center, and the Community Renewal Area (Aurora Square). At tonight's meeting the City's consultant, ECONorthwest, will explain the program and their findings to the Council. The attached report (Attachment A) from ECONorthwest provides study findings and recommendations for the LCLIP program as it applies to the City of Shoreline. Staff and the consultant will also be able to answer any clarifying questions the Council may have.

The study found that there is a strong policy case for LCLIP is Shoreline. Specifically, the study states:

> *The analysis shows a range of situations in which LCLIP could succeed. In a scenario assuming that half of the City's PSRC 2035 growth target occurs in the Study Area, LCLIP could generate net revenue of $4.4 million (net present value, or $8.5 million in nominal terms) for infrastructure in Shoreline. Should the City exceed that growth, the net revenue would increase to $7.3 million (net present value, or $13.9 million in nominal terms).*
>
> *LCLIP will likely be a successful proposition as the local market continues to evolve. Conditions in Shoreline will support use of LCLIP through redevelopment in the Study Areas. This analysis shows that growth, if in line with projections, is sufficient to make LCLIP a success. At minimum the City would receive new revenue for infrastructure that it otherwise could not access and at best that revenue would exceed $13.9 million. Under such a growth scenario, the Study Areas could support approximately 33 multifamily projects and 32 new retail office projects over a 25 year period.*

Based on the report provided by ECONorthwest, staff poses five questions that will help provide direction on establishing a TDR program in the City of Shoreline, if the Council is so inclined. The questions are as follows:

- <u>Question #1</u> – What is/are the risk(s) or downside(s) to entering into a TDR agreement with King County? The report paints an optimistic picture of implementing the LCLIP program in the City of Shoreline. What, if any, is the downside into entering into such agreement?

- <u>Question #2</u> – Is the City obligated to refund money collected from King County if the City fails to meet specified targets or chooses to end the LCLIP program before specific milestones are met?

- Question #3 – As noted earlier, the City's Comprehensive Plan Land Use (LU) Policy 58 states: "Support regional and state Transfer of Development Rights (TDR) programs throughout the city where infrastructure improvements are needed, and where additional density, height and bulk standards can be accommodated." To what degree is the Council interested in pursuing the creation of a TDR program in Shoreline even if the City does not avail itself to the use of LCLIP funds?

- Question #4 – What are the costs of administering a TDR Program? Costs considered will be costs in terms of staff resources and tine and costs in terms of money to set up the program and its continued maintenance and operation.

- Question #5 – If the City were to retire all of the 231 TDR credits allotted by King County, what is the return on investment the City should expect to see in the near and long term?

If the Council agrees, staff will proceed with answering the above questions and any other questions the Council may have, and come back to Council with a recommendation for establishing a TDR program in the City of Shoreline.

RECOURCE/FINANCIAL IMPACT

As this item is for discussion purposes only, there is no financial impact at this time. If the Council chooses to pursue LCLIP for Shoreline, there may be a range of financial implications. The report finds that the City stands to gain $4.4 million for infrastructure improvements if half of the City's growth targets occur and up to $7.3 million if those targets are exceeded.

The report lists three different LCLIP revenue scenarios the City may consider in implementing the LCLIP program:

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RECOMMENDATION

As this item is for discussion purposes only, staff recommends that Council discuss the LCLIP and ask questions of staff and the City's consultant. At a future meeting, staff will make a recommendation to Council for next steps for establishing a Transfer of Development Rights program and participation in the LCLIP program.

ATTACHMENTS

Attachment A: LCLIP Feasibility Study – Findings and Recommendations

Shoreline LCLIP

Findings and Recommendations

June, 2015

Prepared for:

City of Shoreline

Final Report

ECONorthwest
ECONOMICS • FINANCE • PLANNING

FORTERRA

HEARTLAND

Contact Information

Morgan Shook, Erik Rundell, Matt Hoffman, and Nick Bratton prepared this report. ECONorthwest gratefully acknowledges the substantial assistance provided by staff at Forterra and Heartland.

ECONorthwest specializes in economics, planning, and finance. Established in 1974, ECONorthwest has over three decades of experience helping clients make sound decisions based on rigorous economic, planning and financial analysis.

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Executive Summary

Why is the City of Shoreline undertaking this study?

The City is exploring the viability of the Landscape Conservation and Local Infrastructure Program (LCLIP) for the 185th and 145th Street light rail station subareas, Town Center, and Aurora Square, collectively referred to herein as the Study Areas. The City has created a compelling vision for the Study Areas through recent and ongoing planning efforts that promotes higher levels of activity through mixed-use, high-density development. The growth and development envisioned for the Study Areas can support the City in achieving its broader community goals, such as economic development, fiscal sustainability, environmental conservation, and higher quality of life for its current and future residents.

To catalyze and support growth in the Study Areas, the City will need to make substantial investments in infrastructure. While funding for these capital needs will come from a variety of sources, the City will likely need to contemplate pursuing innovative funding tools beyond those already identified to address potential funding gaps. One funding tool the City is exploring the use of is LCLIP, a form of tax increment financing.

What is LCLIP?

LCLIP is a form of tax increment financing enacted in 2011. The program offers cities access to tax increment financing in return for their acceptance of development rights transferred from regional farms and forests. These transfers are typically conducted as private real estate transactions, but can also be conducted by cities.

In exchange for the placement of development rights in LCLIP districts, the jurisdictional county (in this case King County) agrees to contribute a portion of its regular property tax to the sponsoring city for use for a defined period (up to 25 years). Cities may use this revenue to fund infrastructure improvements that support infill growth and redevelopment. The program is only available to select cities in the central Puget Sound counties of King, Pierce, and Snohomish.

What did the study find?

There is strong policy case for LCLIP in Shoreline.

The analysis shows a range of situations in which LCLIP could succeed. In a scenario assuming that half of the City's PSRC 2035 growth target occurs in the Study Area, LCLIP could generate net revenue of $4.4 million (net present value, or $8.5 million in nominal terms) for infrastructure in Shoreline. Should the City exceed that growth, the net revenue would increase to $7.3 million (net present value, or $13.9 million in nominal terms).

The future light rail station areas can play a role in the city meeting its growth targets. Following a recent rezone, the 185th Street station area has the capacity to accommodate a sizable amount of population and employment growth and already includes a mechanism for using the transfer of development rights (TDR). The pending rezone of the 145th Street station area offers similar possibilities, while developer agreements in Aurora Square and multifamily projects in Town Center could drive TDR use and generate revenue. The City has identified a range of infrastructure improvements, many involving improved mobility and access to transit, in which LCLIP can finance investments that will support redevelopment.

LCLIP will likely be a successful proposition as the local market continues to evolve.

Conditions in Shoreline will support use of LCLIP through redevelopment in the Study Areas. This analysis shows that growth, if in line with projections, is sufficient to make LCLIP a success. At minimum the City would receive new revenue for infrastructure that it otherwise could not access and at best that revenue would exceed $13.9 million. Under such a growth scenario, the Study Areas could support approximately 33 multifamily projects and 32 new retail office projects over a 25 year period.

What is the path forward for LCLIP?

Redevelopment of the Study Areas with more intensive mixed-use development represents a departure from historical growth patterns for some of the areas, particularly those around future light rail stations. The station areas are currently low to medium-density residential areas. The new zoning reflects plans for more mixed-use residential growth near the stations. This change in zoning and potential expansion of uses represents a timely opportunity for the City to finance infrastructure investments that will support that redevelopment. Meanwhile, continued redevelopment of Town Center creates another area in the City that could both support the City's use of LCLIP and also benefit from public improvements. Finally, redevelopment of Aurora Square could be a variable, and potentially influential, contributor to the success of LCLIP in Shoreline. There are three approaches the consultant team identified for proceeding with LCLIP, two of which are likely feasible and can generate revenue for the City.

The current analysis shows that while (1) even with moderate growth estimates the City may net $4.4 million (NPV, or $8.5 million nominal) in new revenue, and (2) a simple and desirable market mechanism can drive the use of TDR. Uncertainty remains around the timing and amount of demand for redevelopment in the Study Areas. However, by taking no action in the near term the City may miss the opportunity to capture value from redevelopment until after the process has already started, thereby passing up potential revenue from LCLIP.

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1 Project Overview

In 2014 the City of Shoreline applied for and won a grant through the Environmental Protection Agency's National Estuary Program, administered by the Washington State Department of Commerce. This grant funded a study exploring the viability of the Landscape Conservation and Local Infrastructure Program (LCLIP) for the future light rail station areas at 145th and 185th Streets, Town Center, and Aurora Square, collectively referred to herein as the Study Areas. The City has created a compelling vision for the Study Areas through recent planning efforts that promotes higher levels of activity through mixed-use, high-density development. The growth and development envisioned for the Study Areas can support the City in achieving its broader community goals, such as economic development, fiscal sustainability, environmental conservation, and higher quality of life for its current and future residents.

In order to catalyze and support growth in these areas, the City will need to make substantial investments in infrastructure. While funding for these capital needs will come from a variety of sources, the City will likely need to contemplate other innovative funding tools to address potential funding gaps. The City is exploring the use of the LCLIP, a form of tax increment financing (TIF) enacted in 2011 (RCW 39.108). This program allows cities to access incremental county property tax revenues to fund and finance public improvements within designated LCLIP districts of their choosing. In exchange for receiving a portion of county revenues, cities agree to accept a number of regional development rights of their choosing through a transfer of development rights program (TDR). This program creates a new revenue stream for cities to help pay for infrastructure and is designed to be flexible to suit a wide range of city needs and objectives.

This report provides a series of findings and recommendations for a potential LCLIP program for the City of Shoreline based on:

- LCLIP legislation and program features.
- The City's incentive zoning and possible TDR mechanisms.
- Historical development trends, projections on future growth and estimates of TDR use.
- Estimates of LCLIP funding potential.

1.1 Why Use TDR and LCLIP in Shoreline

The Puget Sound Regional Council's (PSRC) Vision 2040 is the region's strategy for accommodating future growth through 2040. The strategy focuses on concentrating population and employment growth in cities that are best suited for growth and can mitigate many of the public costs and impacts of urban sprawl. Individual cities implement the goals of Vision 2040 through their comprehensive plans and zoning regulations in accordance with the Growth Management Act (GMA).[1]

[1] Washington State Department of Commerce. Website accessed July 2015.

The GMA encourages "innovative land use management techniques" such as TDR to help local governments achieve their planning goals.[2] TDR programs are a tool for implementing growth and planning goals that goes beyond traditional zoning by giving landowners other real estate options, by protecting resource lands from development in perpetuity, and by engaging the market to generate private funding for land conservation.

As mandated by VISION 2040 and by the King County Population and Employment Allocations the City of Shoreline has adopted population and employment planning targets as part of its comprehensive plan, and must act to accommodate that growth within the City over the next 20 years. In addition, the comprehensive plan envisions much of this new growth being directed to the future light rail station areas, Town Center, and Aurora Square.

The Study Areas are anticipated to play a central role in accommodating new growth. These areas have the capacity to accommodate a large amount of population and employment; however, each is in need of infrastructure improvements. The City has limited capacity to pay for all the desired projects through the general fund and existing infrastructure funding sources. As an alternative, LCLIP could help support future growth in accordance with the City's comprehensive plan by generating revenue to fund improvements that are needed to accommodate that growth and realize the City's vision.

1.2 Key Questions

This report outlines a series of considerations relating to the use of LCLIP to help inform the City's decisions on program participation. These considerations will also help the City to understand how to optimize use of the tool in a way that best advances its infrastructure, growth, and conservation objectives. The key questions for this analysis cover:

- What is the policy basis for using LCLIP and broader community goals?
- What are the key LCLIP program issues for how the City may construct its LCLIP program?
- What is the structure of the City's incentive zoning program and how would implementing a TDR program fit within that structure?
- Under current market and development conditions, how might development projects use TDR to access additional building capacity?
- What range of LCLIP revenues might be possible?
- Based on the cumulative understanding of the questions above, how might the city think about moving forward with an LCLIP program?

[2] RCW 36.70A.090

1.3 Report Organization

The report is organized into six subsequent sections that provide an analysis of the feasibility of LCLIP in the study area and recommendations for moving forward with a Landscape Conservation and Local Infrastructure Program. The main sections of the report are:

- **LCLIP Program Review:** This section reviews the LCLIP legislation and identifies a framework for thinking about incentive zoning, TDR, and LCLIP program choices.
- **Incentive Zoning and TDR Policy Review:** This section reviews mechanisms for TDR within the Study Area and individual zones.
- **Incentive Zoning and TDR Assessment:** This section summarizes the capacity for development and provides an assessment of the feasibility of TDR under current development economics and offers some insight on its potential use.
- **LCLIP Revenue Assessment:** This section reviews development trends in the study area, projects development over the next 20 years. This section then assesses the revenue potential of an LCLIP program under a different growth and TDR absorption scenarios.
- **Program Findings and Recommendations:** This section summarizes the key findings from previous sections and provides recommendations for establishing a LCLIP program based on those findings.
- **Implementation Road Map:** Lastly, this section outlines the steps necessary should the City decide to establish a TDR and Landscape Conservation and Local Infrastructure Program.

2 LCLIP Program Review

2.1 Program Overview

LCLIP is a form of tax increment financing enacted in 2011. The Washington State legislature created the LCLIP program based on its finding that:

The state and its residents benefit from investment in public infrastructure that is associated with urban growth facilitated by the transfer of development from agricultural and forest lands of long-term commercial significance. These activities advance multiple state growth management goals and benefit the state and local economies. It is in the public interest to enable local governments to finance such infrastructure investments and to incentivize development right transfer in the central Puget Sound through this chapter.

The program offers the City a new funding source: a portion of the jurisdictional county's regular property tax in return for 1) mechanisms to place development rights and 2) the acceptance of a specified amount of regional development rights. In exchange for the placement of rural development rights in LCLIP districts, the jurisdictional county (King County for the City) agrees to contribute a portion of its regular property tax revenue to the sponsoring city for use for a defined period. The program is only available to select cities in the central Puget Sound counties of King, Pierce, and Snohomish.

LCLIP targets only a portion of the incremental property taxes generated from new development. This is not a new tax to residents or businesses. The remaining portion of the property tax still accrues to the sponsoring city and to the jurisdictional county. Existing and incremental revenues flowing from sales, business and occupation, and utility taxes still accrue to the City, as well as other capital restricted revenues.

2.2 Use of LCLIP Funds

Under the LCLIP program cities can use LCLIP-generated funds to pay for public improvements in the LCLIP district as follows:

- Street, road, bridge, and rail construction and maintenance;
- Water and sewer system construction and improvements;
- Sidewalks, streetlights, landscaping, and streetscaping;
- Parking, terminal, and dock facilities;
- Park and ride facilities of a transit authority and other facilities that support transit-oriented development;
- Park facilities, recreational areas, bicycle paths, and environmental remediation;
- Storm water and drainage management systems;
- Electric, gas, fiber, and other utility infrastructures;

- Expenditures for facilities and improvements that support affordable housing as defined by WA law;
- Providing maintenance and security for common or public areas; and
- Historic preservation activities authorized under WA law.

LCLIP is different from previous versions of TIF in Washington in that it provides more flexibility on how the funds can be used. Specifically, LCLIP enables funding for more than just capital improvements and can support some operational activities related to the maintenance and security of public areas.

2.3 Determinants of LCLIP Revenues

LCLIP District Revenue Calculation

The tax basis of LCLIP originates from new construction so it excludes existing buildings and revaluation. LCLIP revenues are derived from the allocation of a portion of the City's and County's regular property tax (e.g. current expense levy) to the LCLIP district. Once a district has been created by a city, 75% of the assessed value of new construction – multiplied by a city's sponsoring ratio (explained below) – is allocated to the LCLIP district and used as the tax basis to distribute revenues from the regular property tax using the current year's regular property tax rate.

For example, suppose a newly constructed building generates $1,000 in regular property tax revenues on a property tax rate of $1.00. If this same building is valued at $1,000,000 for the purposes of new construction, then 75% (multiplied by the Sponsoring City Ratio, explained below) of the new construction would place $750,000 in the LCLIP assessed value base and lead to the distribution of $750 of the $1,000 paid in regular property tax to the LCLIP area. The remaining $250 would still go to the jurisdiction's general fund. As noted, the Sponsoring City Ratio acts to pro-rate how much of the 75% of new construction is added to the LCLIP district assessed value base. The example above assumes a ratio of 1.0. Alternatively, a ratio 0.50 would reduce that $750 revenue apportionment to $375.

The calculation of LCLIP district assessed value basis starts at the time that the district(s) is created. The dedication of city and county property tax revenues to the district commence the second year after the district is established. The program can run for a maximum of 25 years on the condition that cities meet performance milestones (explained below).

LCLIP Sponsoring City Ratio

In adopting an LCLIP program, the city must select a specific number of TDR credits to accept based on a regional allocation set by PSRC. These allocations are generally proportional to a city's growth targets; Seattle's allocation is 3,440 credits while Everett's is 1,491 and Tacoma's is 1,843. Shoreline's allocation from PSRC is 231 TDR credits. The "Sponsoring City Ratio" reflects the proportion of development rights a city has chosen to accept (the specific number above) relative to the city's allocated share, as determined by PSRC. The resulting ratio of "specified portion" to "allocated share" (anywhere from zero to one) acts to pro-rate the amount of new construction value that can accumulate to a LCLIP district. A city must set its sponsoring city specified portion that is equal to or greater than 20% of its allocation. For Shoreline, that amount is 46 development rights or higher.

Accepting the full allocated share would maximize potential LCLIP revenues while taking something less than the full allocated share reduces the potential value of the program to a city. For example, Shoreline's allocation is 231 rights; supposing it chooses to accept 58 of them (specified portion), its resulting sponsoring city ratio is 0.25 (58 divided by 231). The City would receive 25% of the county's portion of property tax revenue over the course of the program. If the City accepted 231 credits it would receive 100% of the county's portion.

In choosing its ratio, the city is trying to select an amount of credits it expects to be able to place over a 20-year period to meet the threshold requirements (discussed below) and extend the program (and revenues) to the full 25 years. In doing so, the city is balancing the feasibility/likelihood of TDR being used by development against the amount of revenue LCLIP can generate. Ideally the private market for growth will place all the credits, but as the analysis shows, in a scenario where the private market does not achieve full TDR placement there will be a decision for the city to purchase credits to continue the revenue stream or not to purchase credits and discontinue the program.

LCLIP Performance: Credit Placement Thresholds

While the LCLIP program can run for a maximum of 25 years, the legislation requires participating cities to demonstrate performance on the use of credits within their Local Improvement Project Area (LIPA). Cities using the LCLIP tool must meet a series of performance thresholds pegged to their specified portion and are given a choice in regards to permitting or acquisition of development rights if they want to start and extend the program revenues. These thresholds are as follows:

- Threshold #1: Placement of 25% of the specified portion of TDR credits is required to start the revenue stream. This is not a time-based milestone, but rather a performance-based milestone.
- Threshold #2: Placement of 50% of the specified portion of TDR credits is required by year 10 to extend it by 5 years.
- Threshold #3: Placement of 75% of the specified portion of TDR credits is required by year 15 to extend it by five years.
- Threshold #4: Placement of 100% of the specified portion of TDR credits is required by year 20 to extend it by five years to its conclusion.

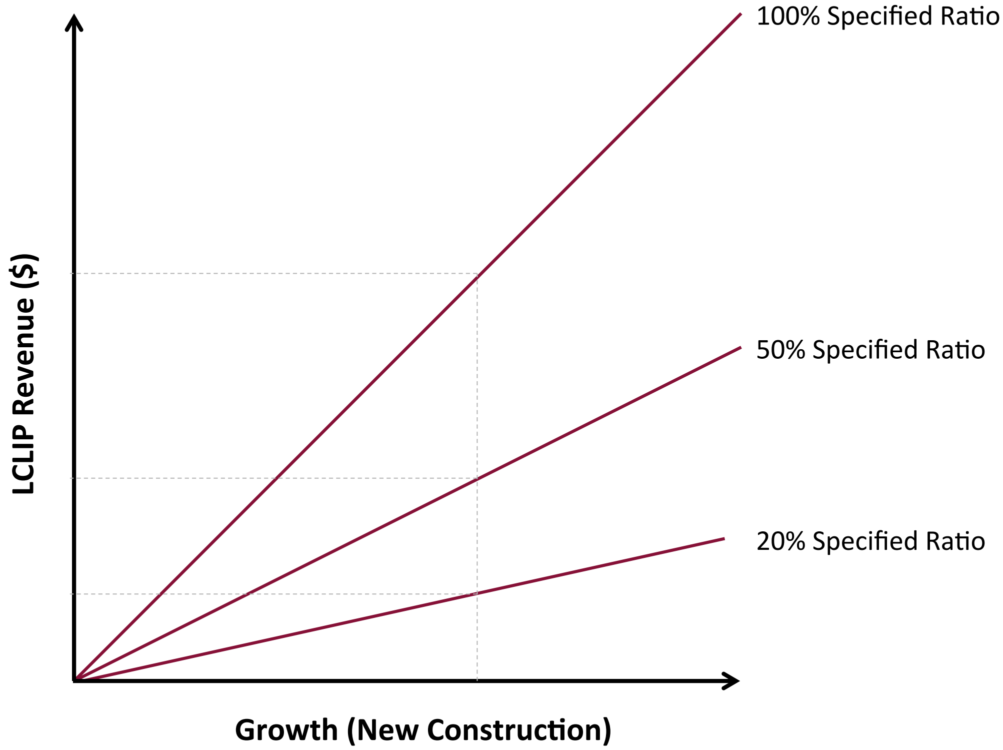
In previous examples of LCLIP implementation, there has been some difference in interpretation from program partners as to what is required to start an LCLIP program. Briefly, the difference in interpretation is whether the placement of 25% of the specified portion is required to start the program or whether the creation of the LCLIP program through ordinance is the trigger. **Should Shoreline adopt LCLIP, this question of timing will be resolved through an interlocal agreement with King County**.

Program revenue is a function of three central factors:

- Specified portion (City TDR credit commitment). Higher commitment = higher revenue
- New construction activity. More construction = higher revenue
- Market participation vs. City credit acquisition. More market activity = more revenue

Exhibit 1 below illustrates the relationships between city TDR commitment, growth, and revenue.

Exhibit 1. Conceptual LCLIP Revenue Scenarios



Source: Forterra, 2015

LIPA(s) District Formation

A LIPA or LCLIP district is the designated area in which:

- TDR credits will be placed by market transfers and measured for performance monitoring.
- Infrastructure projects will be constructed and funding will be used.
- The calculation of the new construction as the tax basis for LCLIP revenues will be based.

A city may have multiple and non-contiguous LIPA(s) as long as the area(s) meet the requirement of containing less than 25% of the city's assessed value. While a city may create multiple LIPA(s), LCLIP works on a cumulative citywide basis and not an independent district basis – meaning the same program parameters apply to all LIPA(s) regardless of start date and configuration. Therefore if a city is considering multiple LIPAs, it is advantageous to establish them all at the program launch rather than adding them incrementally over time, which would result in foregone revenue.

2.4 Program Framework for LCLIP

A strong LCLIP program for the City of Shoreline must position the City to maximize LCLIP revenues through structuring the following program parameters:

- **LIPA geography.** The City will want to create a LIPA(s) that meets the nexus requirements stated above. However, creating a district(s) that contain areas where development is expected will help create a large new construction tax base used as the basis of the revenue calculation. The larger the tax base, the more funding leverage the City will have.
- **TDR provisions.** The number of TDR credits used is a function of several factors:
  - The size and structure of the incentive component. The city must determine how much demand there may be for building projects that will utilize TDR. The placement of TDR within the structure of the incentive mechanism factors in how it may be accessed by developers. For example, TDR may be among a menu of options that developers can choose from, it may be tiered with other options requiring developers to sequence options that may place TDR first or last in that sequence, or it could be the means by which developers access cost savings.
  - The nature of the incentive associated with TDR. Typical TDR incentives offer additional FAR or height; however, TDR can be connected with any variety of opportunities associated with development ("conversion commodities"). Other examples include connecting TDR with reduced setbacks, structured parking requirements, or impervious surface limitations. In the context of Shoreline, the incentive may be a multifamily tax exemption, part of a negotiated development agreement, or incentive zoning.
  - The exchange rate for TDR. The amount of incentive a developer receives per TDR credit used in large part determines the extent to which a TDR consumes the incentive zoning available. The incentive created by the TDR exchange rate must be equal to (or exceed) a developer's willingness- and ability-to-pay, otherwise TDR will not be used.
- **City specified portion and program timing.** In order to optimize the flow of LCLIP revenues, the City has an incentive to meet all four performance thresholds. Doing so means the city must select a specified portion that is targeted at some expected use of incentive zoning and the absorption of TDR credits over the horizon of the program. This element of LCLIP is the most difficult technical aspect that the city must consider. Forecasting future development is challenging, much less determining the rate at which that development will access incentives that use TDR.

3 Incentive Zoning and TDR Policy Review

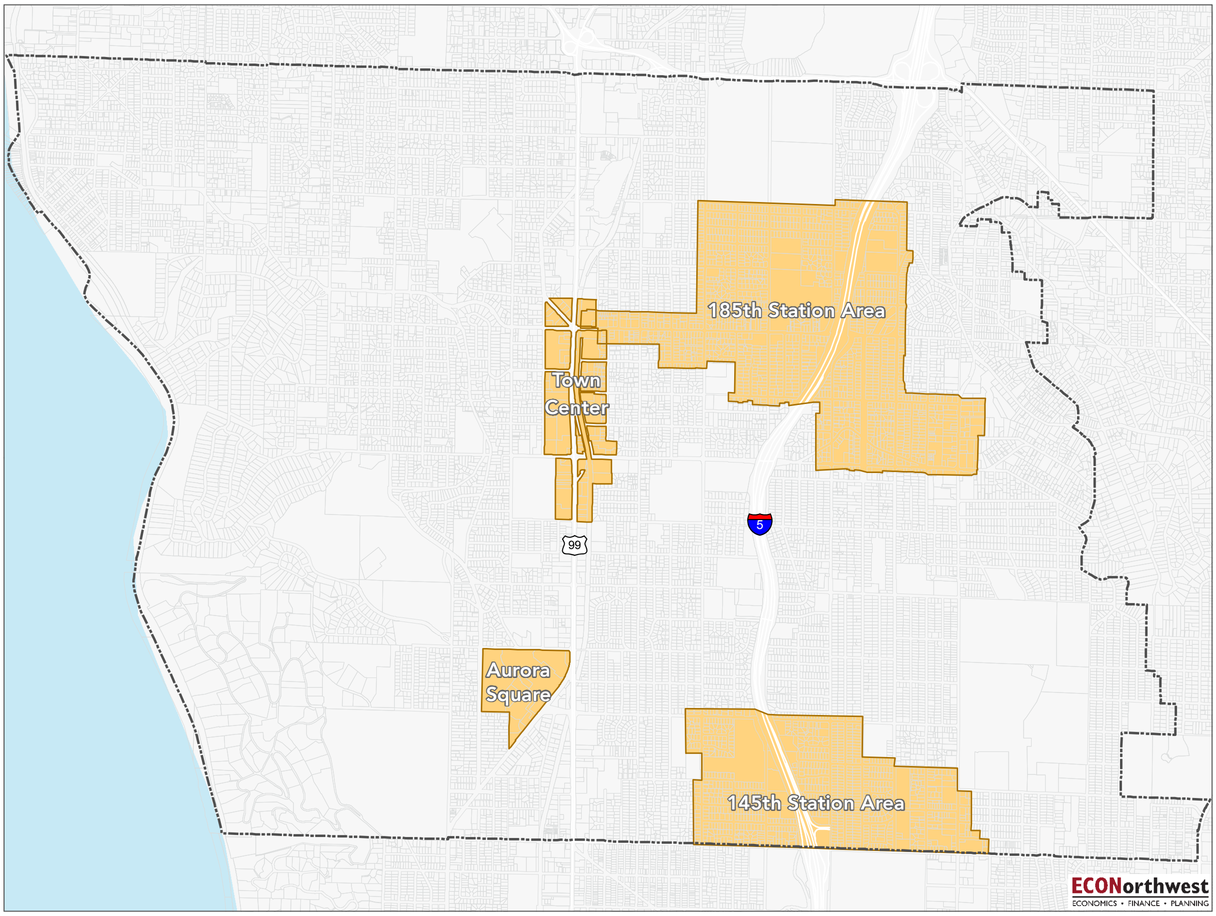
Overall, Shoreline's existing policies support the use of TDR and LCLIP. Shoreline currently offers incentives to advance affordable housing and density goals, although not in the form of incentive zoning. Shoreline does not currently have a stand-alone TDR program, however the 185th Street subarea plan includes a TDR provision.

Shoreline's comprehensive plan language establishes a policy foundation for the use of LCLIP and TDR to encourage quality development, revitalize neighborhoods, and provide infrastructure that supports growth. Shoreline should look to the comprehensive plan goals and policies to determine areas that LCLIP funding should be directed towards. Shoreline may consider using LCLIP as a source of funding to meet the goals of catalyzing a master-planned, sustainable lifestyle destination in Aurora Square. Additionally, light rail station expansion areas would benefit from infrastructure investments as the city plans to work with stakeholders to identify and funds additional improvements that can be efficiently constructed in conjunction with light rail and other transit facilities.

3.1 Study Area Context

The City has four different areas within Shoreline it is evaluating for LCLIP feasibility. The areas include the Town Center zone, Aurora Square, and the future Link light rail station areas at 145th Street and 185th Street.

Exhibit 2. Overview of Study Area



Source: City of Shoreline, King County

3.2 Existing Incentives

Real estate economics show that the value of building a home on a single-family lot in a rural area is considerably higher than the marginal value of an additional unit constructed in an urban multifamily receiving area project. To address these different values and incentivize the use of TDR the benefit to developers in a project must exceed the cost of buying credits. One way to achieve this goal is to offer developers more units in a project than are being removed from rural areas. For example, in the King County TDR program a developer gains the ability to construct two bonus units for every one TDR credit purchased. A similar approach will be useful in Shoreline to create sufficient incentive.

The City currently only encourages the utilization of TDR credits in the 185th Station Area where the first 300 units may access the eight-year MFTE program and do not have to provided the required affordable housing in exchange for TDR credits. The code dictates that projects may access this incentive if one TDR credit is secured for every four units. While this is currently the only requirement in place to use TDR credits, the LCLIP program is flexible and allows for multiple approaches to achieve market-based credit placement. Options the City might consider include the expansion of incentive zoning in the Town Center, Mixed Business zone, or potentially the 145th Station Area; an expansion of the current code in the 185th Station where private placement via a multi-family tax exemption is an incentive; development agreements; public acquisition of credits; or a combination of approaches to create a portfolio of mechanisms to place TDR credits and meet LCLIP performance milestones. The following summarizes each approach.

Incentive Zoning

Incentive zoning or the exchange of additional development capacity in return for a public benefit is a common approach to utilizing TDR credits. This can be in the form of additional height, additional units, lower parking ratios, or a reduced lot coverage ratio to name a few.

Private Placement

Another alternative is private placement through other incentives such as requiring the use of TDR credits to access the MFTE program. The concept MFTE is simple: developers receive an eight-year exemption from property taxes for constructing multifamily residential projects that provide a public benefit. Later sections detail this approach, along with costs and revenues associated with the mechanism. This approach would be considerably simpler from a policy and regulatory standpoint to implement than incentive zoning that includes TDR, and could potentially reduce uncertainty in implementation of LCLIP by providing a more streamlined and valuable bonus to developers.

Development Agreements

Another avenue by which the City can generate demand for TDR credit placement from private development is with development agreements. This approach is more opportunistic than MFTE or incentive zoning, and is more variable in its ability to absorb credits. When a developer proposes a large project to the City and requests special dispensations to facilitate its construction the City has an opportunity to negotiate the acquisition of TDR credits by the developer into the agreement. There is no formula or guideline for this, and since the pipeline of projects that could potentially place credits is uncertain the viability of this approach is difficult to predict with certainty. A single large project, however, could result in the placement of a substantial portion of the City's TDR commitment.

Public Acquisition

While not likely the first choice for the City as a means to meet performance milestones in LCLIP the use of public funds to acquire credits needed to continue the program is another option. Any public money that the City expends to buy credits to achieve milestones reduces the net revenue that would accrue to the City. That being said, it is important to keep as a backstop to close any gap left by the private market. The City could negotiate pricing agreements with King County or other flexible terms as part of an interlocal agreement implementing LCLIP. The revenue projections for the City are such that even if public acquisition became necessary the City would still come out ahead financially – possibly far ahead – given the prospects for the program.

3.3 Incentive Zoning

Shoreline currently offers a variety of incentives to developers to encourage affordable housing, density, and high quality development. However, Shoreline does not currently have a formal incentive zoning program. Shoreline's zoning in the Study Areas suggests that bonus options other than additional units or floor area would be potential approaches to pursue for TDR utilization. For example, there are no incentives currently offered for additional height. This would potentially make bonus height an incentive for a TDR program in areas where the City deems it appropriate. That said, in the Town Center commercial zones, as well as Mixed Business, multifamily residential buildings are permitted to be built up to 70-feet and 65-feet, respectively. These heights may support up to seven-stories. However, the resulting floor heights are not optimal under situations where the ground floor space is required to be taller than 10-feet (typically 15-feet ground floor height).

At these permitted heights we assume most developers would develop six-story multifamily residential projects often referred to as five-over-one construction types.[3] An additional floor would support five-over-two projects. Changes in building and fire codes are allowing cities to permit these seven-story projects and this extra floor could be a land use code modification that uses TDR credits. While there is an added cost to constructing an extra level this is often offset by the added revenue potential from additional units.

Additional TDR incentives that award parking reductions or impact fee offsets could be considered in light of existing incentives offered to promote other public benefits, particularly around future station areas. The current land use code and proposed language in the 145th Station area provide for typical market based ratios.

One opportunity for TDR use under current market conditions is within the Town Center and potentially the 145th Station Area where buildings are currently permitted to achieving 65 to 70 feet. These zones provide an opportunity to test the impact of an additional story on project economics. Modeling a hypothetical project provides insight into what a developer could afford to pay for bonus density holding other factors constant.

Market, revenue, and cost inputs were derived from an analysis of comparable projects in the surrounding area to arrive at a set of key analysis assumptions (below). These include physical programming such as podium sizing, building efficiency, and average unit sizes as well as market data such as rents, expenses, cap rates and typical developer profit assumptions.

In both cases the project was modeled assuming wood frame construction atop a concrete podium (Type V-A construction). This concrete podium encompasses all ground-floor uses, including a 2,500 square foot retail component, lobby and residential community space, and at-grade, "tucked," or

[3] The five over one construction type is an abbreviation for Type V construction over Type I construction or wood frame over concrete and steel construction. This construction can be in six stories with one level of concrete and five of wood frame or seven stories with two levels of concrete and five levels of wood frame.

"wrapped" parking. Podium height is assumed to be 15 feet, commensurate with market demand for Class-A retail space. Additional required parking is accommodated with surface parking to avoid costly below-grade structured parking. The prototype used for this assessment was the Malmo development. This project has recently been completed and comprises 129 units in a five over one construction type building. This project sits on 1.2 acres.

Space Program Comparison

In this example, an incentive of an additional floor (10' heights) is achieved with design bonuses through the provision of retail and public space. With the above assumptions, the modeled project yields 148 units within a 70-foot tall structure. Including a TDR bonus density through the addition of a story the project yields and additional 24 units - for a total of 171 units. The additional floor is of type one construction with a portion of the level being used for parking and a portion for residential units.

Financial Performance

Based on the current market, a five-over-one or five-over-two development type would be feasible if land values are at or below $34 per square foot. The project economics are similar between the two types because the cost of the additional floor of concrete construction is roughly in balance with the additional units and subsequent revenue potential. Developers may elect to construct an extra floor if the market would support a higher rent. As shown in Exhibit 3, the likelihood of an incentive requiring TDR credits to add an additional floor would not likely result in TDR credit utilization. This is indicated by the similar resulting residual land values between the two scenarios.

Exhibit 3. Bonus Density Pricing

Key Inputs	Base w/ Design	TDR	Type	Key Outputs	Base w/ Design	TDR	Increment
Use	Apartment	Apartment		**Density**			
Regulatory				Stories	6	7	**1**
Zoning	Mid-Rise	Mid-Rise		Height	65	80	**15**
Max Height	65 to 70	80	ft	Floor Area Ratio	4.00	4.90	**1**
Max FAR	NA	NA		**Space Program**			
Space Program				BGSF	134,100	155,225	**21,125**
Unit Size (NRSF)	705	705		Unit Count	148	171	**24**
Parking Ratio	1.00	1.00		Parking Stalls	133	154	**22**
Lot Size	50,000	50,000		Retail SF	5,000	5,000	**0**
Revenue				**Financial Performance**			
Rent	$1.95	$1.95	psf/mo	Proj Value	$29,148,428	$33,796,308	**$4,647,880**
Cap Rate	5.75%	5.75%		Proj Cost	$25,129,828	$29,203,829	**$4,074,001**
Expenses				Margin on Cost	16%	16%	**14%**
PUPY Cost	$5,700	$5,700	per unit/yr	**Value Remain for Land (RLV)**			
RE Taxes	$1,539	$1,539	per unit/yr	Total	$1,686,725	$1,888,774	**$202,049**
Returns				RLV / Unit	$11,434	$11,014	**-$420**
Developer Profit	16%	12%	on cost	RLV / Land SF	$33.73	$37.78	**$4.04**

Source: Heartland

There are other opportunities in the 185th Station Area and potentially in the 145th Station Area for utilizing TDR credits for additional height beyond just a single floor. According to the land use code for the 185th Station Area buildings in the MUR-70 zone buildings may exceed 70-feet (heights tall enough to support five over two construction) through a development agreement. However, the market economics to support multifamily towers in the City are several development cycles away and the likelihood of any towers being built during the LCLIP program is low.

3.4 Private Placement

The only area in Shoreline where TDR is currently allowed is the 185th Street station subarea, and this provision is subject to the City authorizing a TDR program. For the first 300 units of multifamily housing constructed, developers may access an eight-year property tax exemption and forgo the affordable housing requirement by acquiring TDR credits at a rate of one credit for every four units built. This would result in the placement of 75 TDR credits.

The other Study Areas (145th, Town Center, and Aurora Square) could also use an eight-year property tax exemption to place TDR credits. Under RCW 84.36 a city may grant a developer an eight-year exemption on property taxes if a multi-family project provides some public benefit. This mechanism has traditionally been used to incentivize the construction of affordable housing and can also apply to TDR and the LCLIP program, which clearly provides multiple public benefits.

Under this approach, the bonus that the developer would gain is access to operational cost savings through the eight-year tax exemption. In order to access this, the developer would buy TDR credits. The number of credits needed to access the MFTE would be calibrated such that the net savings to the developer is still sufficiently high to justify the credit purchase.

Analysis of developer willingness to pay suggests that a prototypical 120-unit project could place approximately 40 credits. This model results in **an exchange rate of one TDR credits per three units in the project or a fee in lieu of $25 per net square foot** assuming an average unit size of 800 square feet and the average TDR credit costs $20,000 today. By participating in this program the owner of this prototypical project could realize a tax savings of nearly $473,000 in nominal terms over the eight-year exemption for very little effort. This assumes that 65% of the benefit goes toward TDR acquisition and the remainder to the project owner. The City would need to amend its development regulations to define the terms and create the mechanism for developers to access MFTE through purchase of TDR credits. The table in Exhibit 4 summarizes the approach used to estimate TDR utilization.

Exhibit 4. TDR Credits to Access MFTE Program

	Annual Tax Δ	Split	TDR Cost:	$20,000
	1%	65%	Inflation:	2%

	Year	MFTE Benefit	TDR Contribution	Project Tax Savings	TDR Credits Afforded
1	2015	$163,200	$106,080	$57,120	5.2
2	2016	$164,832	$107,141	$57,691	5.1
3	2017	$166,480	$108,212	$58,268	5.1
4	2018	$168,145	$109,294	$58,851	5.0
5	2019	$169,827	$110,387	$59,439	5.0
6	2020	$171,525	$111,491	$60,034	5.0
7	2021	$173,240	$112,606	$60,634	4.9
8	2022	$174,972	$113,732	$61,240	4.9
	Total	$1,352,221	$878,944	$473,278	40.2
	NPV	$967,464	$628,852	$338,612	

Total credits over 8 year period for a 120 project	40.2
Exchange Rate 1: TDR credits needed per 3 units	1.0
Exchange Rate 2: Fee in lieu per net square feet	$25

Source: Heartland, 2015

The MFTE program does come with an opportunity cost for the City in the form of tax revenue reallocation during the eight years these units are exempt. The MFTE program would delay the new construction value contributions to the LCLIP program for the City until the eight-year exemption expired. After the exemption expires the value would be added to the City's assessed value used in calculating how much revenue the City is receiving under the program. The delay in adding new construction value will somewhat reduce the amount of LCLIP revenues to the City over the life of the program. The City would also realize slightly less in total property tax revenue due to the delay in the addition of new construction value as well. Further analysis may be warranted to study the fiscal impacts of this program relative to the benefits of added units and LCLIP revenue.

Based on this analysis we assume that the first 300 units in the 185th Station Area will use the MFTE incentive meaning 75 credits out of the 231 (under a full acceptance of credits by the City) would be utilized leaving 156 credits. If the other study areas are offered a similar incentive, but a one credit per three unit rather than one credit per four unit then only 468 more units would need to be delivered to support the LCLIP program. In total this would represent 768 units or between six to eight multifamily projects assuming an average project size of 100 to 120 units.

For Aurora Square, where rules around Community Renewal Areas allow the City greater flexibility in specifying terms for redevelopment and where zoning is not conducive to a traditional TDR incentive structure, a more appropriate mechanism for using TDR would be to include acquisition of credits as part of a negotiated development agreement. In this situation an exchange rate may not apply; rather the City and developer would agree on a total number of credits to buy as part of the terms of the project.

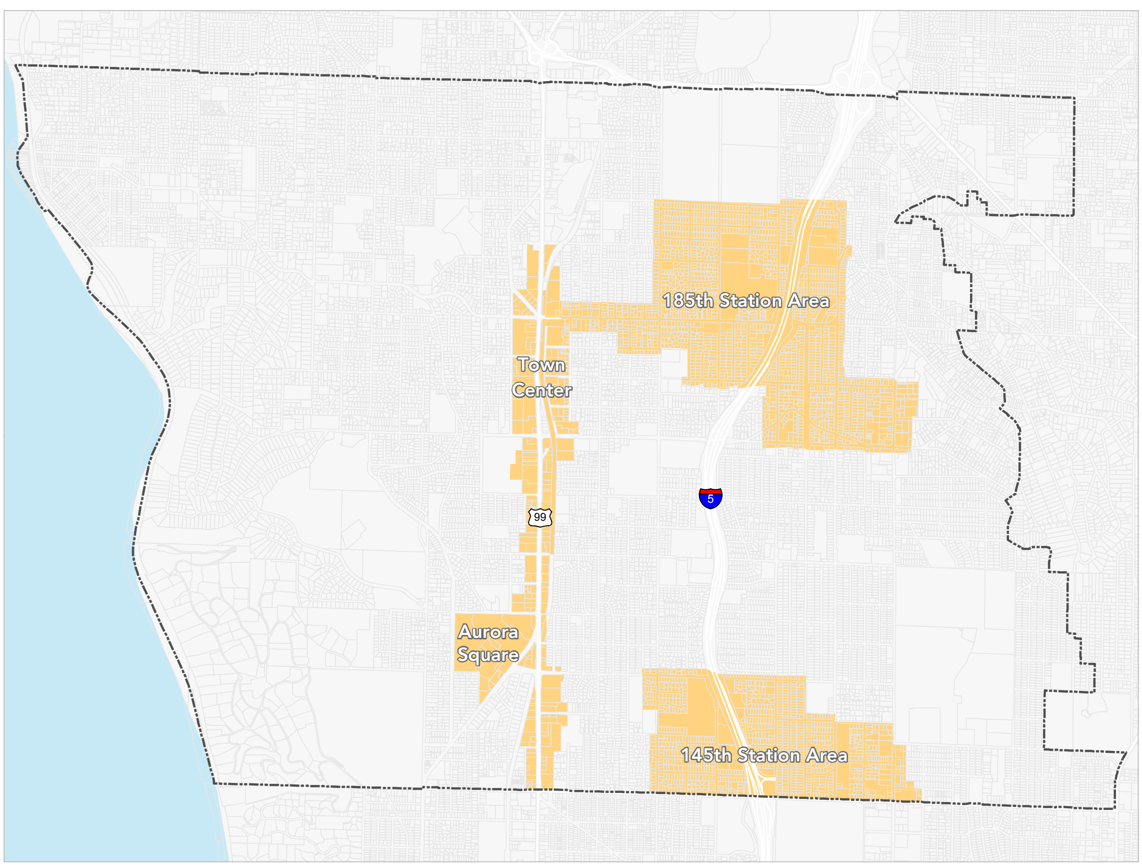
4 LCLIP Revenue Assessment

The LCLIP revenue assessment tests several parameters to better understand the impact of different TDR mechanisms and development growth variables as drivers of potential LCLIP revenues. LCLIP revenues are dependent on a few different inputs, primarily the LIPA area used and the projected amount of growth within that area. The next two sections discuss these in more detail before then assessing the revenue potential under different scenarios.

4.1 LIPA Area

For the revenue analysis, the initial combination of four discrete geographies was examined. Upon reviewing the revenue-generating potential for the Study Areas, the analysis showed that collectively these areas represented only 14% of the City's total assessed value. Two key features of LCLIP are that revenue is a function of growth and cities may capture the incremental revenue from up to 25% of their assessed value. It is to Shoreline's advantage to maximize the assessed value included in the LIPA in order to maximize the program's revenue potential. Subsequent revenue projections were based upon an expanded Study Area that extended north and south along Highway 99 from the Town Center, which is shown in Exhibit 5.

Exhibit 5. Expanded Study Area



Source: City of Shoreline, King County

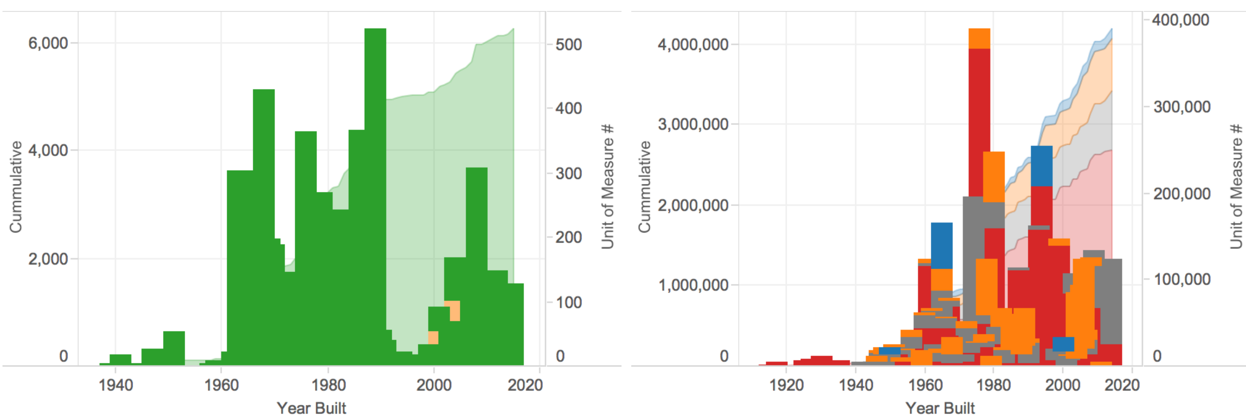
4.2 Development Assessment and Projections

This section provides an assessment of development trends in the study area in order to understand real estate development shifts in the area and make reasonable projections about possible future growth, based on those trends and near-term projects in the pipeline.

Based on the City's buildable land assessment and capacity analysis estimate there is enough land and zoning capacity to support approximately 9.1 million square feet of commercial space and just over 5,000 units. These estimates were calculated prior to the rezone of the 185th Study Area approval and the potential additional development capacity that may result from the rezoning of the 145th Study Area. Based on figures from OTAK, combined these two areas could increase the city's capacity up to 10.1 million commercial square feet and 42,730 multifamily units.

Exhibit 6 below helps put that capacity into perspective. The chart on the left shows historic multifamily development patterns through April 2015 in units delivered city-wide while the chart on the right shows historic commercial development patterns by net square feet delivered[4]. The city has just over 6,000 multifamily units (project with at least four units or more) and the cumulative total of commercial space in the city is just over four million square feet. Based on this assessment there is ample capacity to support new development for decades to come.

Exhibit 6. City Development Patterns



Source: Heartland LLC

The growth scenarios devleoped for LCLIP Revenue Testing were based on the PSRC's growth targets for the City and the three study areas as well as the property comprising Aurora Square and commercially zoned land within 500-feet of Aurora from the southern end of the city to the north just past the Town Center Study Area. The reason for including the latter two areas was to test potentital revenues from a LIPA that approaches the LCLIP programs 25% of the city's current assessed value.

The table in Exhibit 7 summarizes PSRC's household growth estimates between 2010 and 2035 for the City as well as the Study Areas. Also depicted in this table are estimated number of new housing

[4] Parking structures are non-leasable square footage are typically excluded from the King County Assessor's net square footage calculations.

units that may be introduced to support the household growth. These estimates are based on pre-Study Area rezone condition.

Exhibit 7. PSRC Growth Target Summary

	Area	2010 Households	2035 Estimated Housheolds	Estimated Household Growth	Estimated Housing Unit Demand	Estimated Multifamily Unit Demand*
	City of Shoreline	**21,576**	**26,711**	**5,135**	**4,602**	**2,591**
Study Areas	145th Study Area	1,132	1,601	469	419	419
	185th Study Area	1,690	2,141	451	403	403
	Town Center Study Area	395	595	200	179	179
	Aurora Square/Corridor**	4,232	5,657	1,425	1,275	892
	Study Areas Total	***7,449***	***9,994***	***2,545***	***2,276***	***1,893***
	Study Areas % of City	*35%*	*37%*	*50%*	*49%*	*73%*
	City Remainder	14,127	16,717	2,590	2,326	698

Source: PSRC, Heartland LLC

Notes:

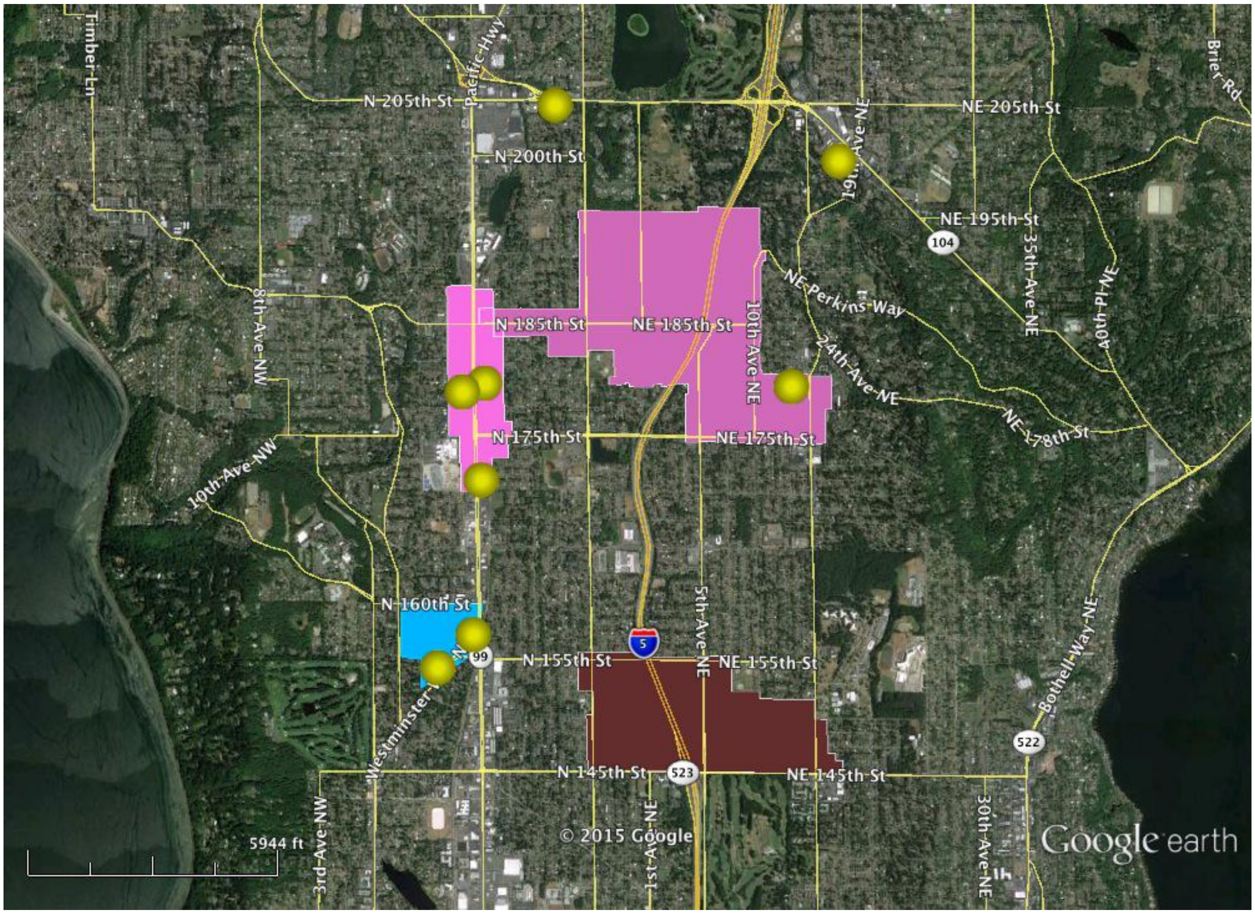
* Esimated multifamily unit demand assumes that 100% of the housing units delivered in the 145th, 185th, and Town Center study areas will be multifamily units while 70% of the units in the Aurora Square/Corridor area will be multifamily and 30% of the city's remaining household growth will be supported in multifmaily developments.

**The City, Town Center, 145th, and 185th Study Areas household estimates were provided by PSRC from its Land Use Targets data. The Aurora Square/Corridor estimates are based on PSRC's TAZ areas that touch the Aurora Square/Corridor area.

The PSRC is revising its growth targets and Shoreline's will likely increase as a result of this effort. This will be due to the additional capacity that the rezone will allow coupled with the City's proximity to job centers and the improved connectivety to those job centers via bus rapid transit imporvments and the planned Sound Transit Link Lynnwood extenion.

The development pipeline in the City illusrates it's growting attractivness to developers. Rental rate trends (driven by low vacancy rates) are supporting new multifamily projects. Exhibit 8 on the following page maps a list of key pipeline projects that will account for growth in the study area in the near-term. In the coming years, over 1,062 new residential units in 8 projects are planned with 215 of the units scheduled for delivery in the next two years. These projects are generally indicative of the type and scale of growth going forward.

Exhibit 8. Pipeline Sites



Source: Heartland

Development Projections

A look at historical delivery of mulifamily units and commerical square footage would suggest the current growth targets are likley attainable. However, with the regions projected growth, the obseved recent development trends, and a strenghtening regional market, Shoreline should be able to easily meet and exeed PSRC's growth target. As a result, two growth scenarios were developed for LCLIP revenue modeling. The following table in Exhibit 9 summarizes the multifamily and commercial projections for all of the Study Areas under the Growth Target Scenario over a 25-year period.

Exhibit 9. Growth Target Development Projection in Square Feet

Area	Commercial	Multifamily Units	Multifamily Projects	Parking Structures	Total Square Feet	Distribution
185th	16,307	544	5	102,261	662,146	11%
145th	15,993	533	4	100,290	649,383	11%
Town Center	765,431	265	2	381,198	1,411,329	24%
Aurora Square	258,988	518	4	203,953	980,917	17%
Aurora Remainder	900,382	744	6	524,109	2,168,442	37%
Total	1,957,101	2,603	22	1,311,810	5,872,218	100%

	Multifamily Units	Projects	Commercial Square Feet
First 10 Years:	810	7	602,078
Remaining 15 Years:	1,793	15	1,355,024

Source: Heartland

The second scenario, illustrated in Exhibit 10, summarizes the High Growth Scenario where the pace is projected to increase a greater rate than the Growth Target Scenario in all of the areas over a 25 year period.

Exhibit 10. High Growth Target Projections in Square Feet

Area	Commercial	Multifamily Units	Multifamily Projects	Parking Structures	Total Square Feet	Distribution
185th	23,296	777	6	146,087	945,923	11%
145th	20,562	685	6	128,944	834,922	10%
Town Center	921,813	319	3	441,280	1,682,163	19%
Aurora Square	517,976	1,036	9	407,906	1,961,835	23%
Aurora Remainder	1,350,573	1,116	9	786,163	3,252,663	37%
Total	2,834,221	3,933	33	1,910,379	8,677,506	100%

	Multifamily Units	Projects	Commercial Square Feet
First 10 Years:	1,238	10	879,804
Remaining 15 Years:	2,695	22	1,954,416

Source: Heartland; PSRC

4.3 LCLIP Revenue Testing – Scenarios

Overview

Using a LCLIP revenue model designed for the City, the analysis tested three different scenarios to assess the number of TDR credits potentially placed and corresponding revenues generated through the LCLIP program. Each scenario assumes different levels of growth to test how sensitive the revenues are to the assumed amount of growth.

Assumptions

The analysis uses a number of common assumptions for all scenarios. The revenue analysis assumes that the primary mechanism used to place TDR credits is the eight-year multi-family tax exemption (MFTE) program. It is likely a large share of new multi-family residential development would use the MFTE program. The program is voluntary, but if structured correctly, the property tax exemption would provide a cost saving to the developer after purchasing development rights, creating a financial gain for purchasing credits. LCLIP revenues in the scenarios below include the delay in property tax revenues due to using the MFTE mechanism.

The analysis assumes that the LCLIP program would start in 2016 and run for 25 years. For a program starting now the net present value is a useful measurement of projected revenue, as it is adjusted for inflation. For a program starting in the future it is helpful to consider the revenue stream over time in nominal terms (not adjusted for inflation). Considering both values provides a more complete picture.

All scenarios assume the price of TDR credits is $20,000 and increase to $36,000 (in 2015 dollars) at year 15. The analysis also assumes all TDR credits are first purchased by the private market, and the City only purchases credits to meet the program placement thresholds to continue the program going if needed. The exchange rate for the program is based on the assumed value of the tax exemption relative to the cost of purchasing TDR credits. For the exchange rate, about three units need to receive the exemption over eight years to justify paying for one $20,000 credit.

The Impact of Development Variables

The following scenarios assessed LCLIP revenue based on assumptions about the timing, scale, and quality of development. Outside of the LCLIP program parameters, the three main development-based determinants of revenue impact are:

- **Scale and mix of development.** The revenue impact is likely to change as developers contemplate differing types and amounts of residential and commercial development.
- **Value of development.** While the baseline assumptions around development value (normalized on a square footage basis) were drawn from reliable data, it is difficult to predict future development value with great certainty.
- **Timing of development.** The timing of construction can either accelerate or delay the delivery of LCLIP revenues. Delay reduces the revenues under the LCLIP time window by pushing out the returns into the future, resulting in reduced years of benefits that are discounted more heavily. The opposite is true in a situation where development happens earlier.

It should be noted that changes to any of these (whether driven by future policy or market dynamics) can have a significant impact on the amount of LCLIP revenue generated. A difficult issue to disentangle from the analysis is the degree to which potential LCLIP-driven infrastructure improvements may facilitate (i.e. lower the overcall cost or feasibility) development by solving critical site and/or access issues or by reducing costs to developers.

Scenario 1: Growth Target Forecast with Limited MFTE Program

This scenario assumes 3.7 million square feet of development occurs within the Study Areas by 2040. This level of growth represents 50 percent of PSRC's 2035 growth target for the City. This scenario assumes the first 300 units constructed in the 185th Station Area are eligible for the eight-year MFTE program and affordable housing waiver.

Under this scenario the City would not be able to meet the first performance threshold at year ten, which requires placement of 116 credits. This scenario assumes half of the projected growth for the 185th Station Area occurred over the first ten years and 80% of the first 300 multi-family units in the 185th Station Area used the MFTE program. As a result, only 54 credits would be placed in the first ten years. The City would need to purchase the additional 62 credits to continue the program at a cost of over $1.35 million in 2015 dollars.

Relying solely on the MFTE program in the 185th Street station area will not create a viable path for LCLIP success without City support or finding other options for placing TDR credits within the other components of the Study Areas.

Scenario 2: Growth Target Forecast with Full MFTE Program

Scenario 2 tests how many credits the MFTE program could utilize if the eight-year multi-family tax exemption (MFTE) program was enacted in the entire Study Area at the start of the program. This scenario also assumes the City would realize the same 3.7 million square feet of new development by 2040 as in Scenario 1, but it uses the lower exchange ratio of one TDR credit for every two units, which means the program could retire more TDR credits for the number of units constructed. It also assumes that 80% of multi-family residential development in these areas would utilize the program. This figure is derived based on utilization rates in the City of Seattle. Lastly, the scenario also assumes that the City accepts 100% of the 231 allocated credits to maximize revenue.

Under these assumptions the LCLIP program would place all 231 credits of the City's TDR credit allocation. In addition, the private market could retire enough credits to meet all of the performance thresholds.

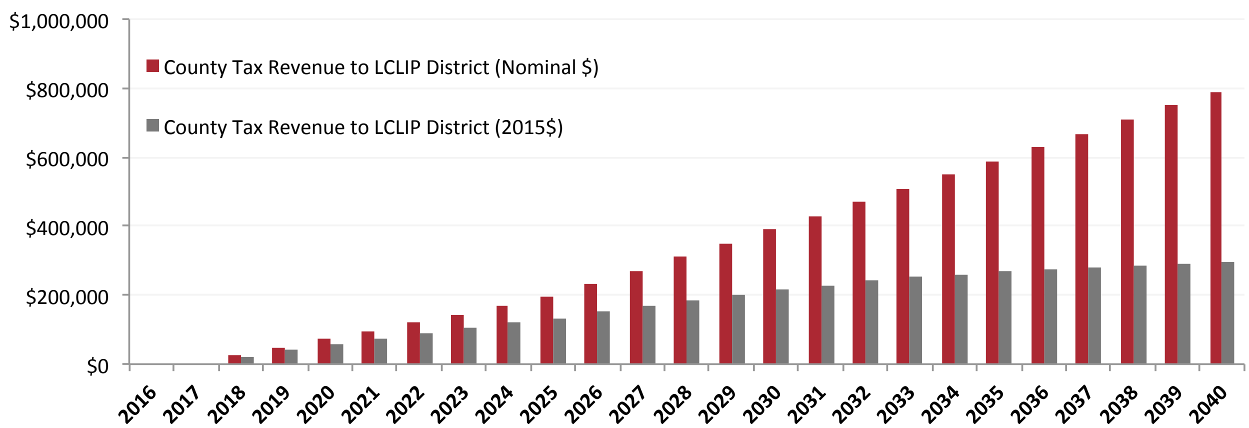
LCLIP would produce significant funding benefits to the City. Assuming a 100% specified ratio (City commits to all 231 credits), total revenue to the City from the County's portion of property tax revenues would be $4.4 million (net present value, $8.5 million in nominal terms) over the 25-year period and reach about $300,000 annually (in 2015 dollars, nearly $800,000 in nominal terms) by year 25 of the program.

Exhibit 11. Scenario 2 Summary

Total Square Feet of Growth	3.7 Million Square Feet	
TDR Credits Used	231	
Revenues	2015 Dollars (Inflation Adjusted)	Nominal (Non-Inflation Adjusted)
Total LCLIP Revenues	$12.0 Million	$22.8 Million
City Portion of Property Tax	$7.6 Million	$14.3 Million
County Portion of Property Tax	$4.4 Million	$8.5 Million
City TDR Acquisition Cost	$0	$0
City Net Revenue	**$4.4 Million**	**$8.5 Million**

Source: ECONorthwest. Note all figures in 2015 dollars; 25-year present value at 4% discount rate

Exhibit 12. Scenario 2 Annual LCLIP Revenues



Source: ECONorthwest

Scenario 3: High Growth with Full MFTE Program

The High Growth scenario tests the revenue potential if the City realizes more development than planned for under the City's growth target. This scenario assumes the City realizes over 5.4 million square feet of new development by 2040, which represents 61 percent of PSRC's 2035 growth target for the City. This growth is significantly more development than historically experienced and the 3.7 million square feet assumed in Scenario 1. As with Scenario 2, this scenario assumes that the eight-year MFTE program is enacted for the entire the Study Area at the start of the program.

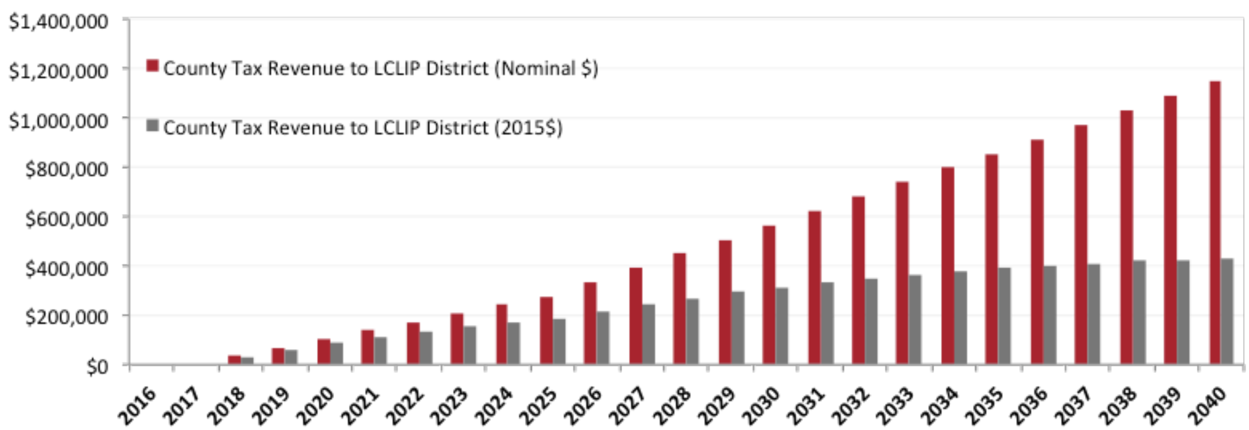
Under these assumptions the private market would be able to place all of the City's 231 TDR credits and meet each performance threshold without public support. Assuming a 100% specified ratio (the City commits to all 231 credits), the program could generate $7.3 million (net present value, $13.9 million in nominal terms) over the 25-year period and reach over $400,000 annually (in 2015 dollars, $1.3 million in nominal terms) by year 25 of the program.

Exhibit 13. Scenario 3 Summary

Total Square Feet of Growth	5.4 Million Square Feet	
TDR Credits Used	231	
Revenues	2015 Dollars (Inflation Adjusted)	Nominal (Non-Inflation Adjusted)
Total LCLIP Revenues	$19.7 Million	$37.4 Million
City Portion of Property Tax	$12.4 Million	$23.4 Million
County Portion of Property Tax	$7.3 Million	$13.9 Million
City TDR Acquisition Cost	$0	$0
City Net Revenue	**$7.3 Million**	**$13.9 Million**

Source: ECONorthwest. Note all figures in 2015 dollars; 25-year present value at 4% discount rate

Exhibit 2. Scenario 3 Annual LCLIP Revenues



Source: ECONorthwest

Summary

The three most important factors influencing the success of LCLIP in Shoreline are the amount of growth occurring, the timing of that growth, and the number of TDR credits placed. In order for LCLIP to generate the projected revenues through the MFTE approach outlined here, Shoreline will need to locate at least half of its PSRC growth target within the Study Area over the timeframe of the program.

In addition to the amount of development projected, high utilization of the MFTE incentive in projects within the Study Areas will be an important factor in ensuring the City consistently meets its TDR placement milestones and increases the assessed value for revenue purposes. As a result, the City will want to establish an exchange rate that provides sufficient incentive for developers to use the tool. Other factors, such as timing the start of the program and choosing how many credits to accept will influence the success of LCLIP in Shoreline.

5 LCLIP Program Findings and Recommendations

5.1 Summary of Findings

There is strong policy case for LCLIP in Shoreline.

The Study Area, including Town Center, Aurora Square, and the future light rail station areas, will play a central role in the city meeting its growth targets. These areas will have the capacity to accommodate considerable new population and employment. Residential capacity, particularly in the light rail station areas, can use TDR (and, by extension, generate LCLIP funding) through use of the multi-family tax exemption program. The study area can benefit from infrastructure improvements to support redevelopment, especially around improving access to transit. Flexible funding from LCLIP can provide Shoreline with a revenue source to help make those investments. A moderate growth scenario could generate $4.4 million (net present value, $8.5 million in nominal terms) while a more aggressive growth scenario could generate $7.3 million (net present value, $13.9 million in nominal terms).

A market-driven approach to TDR placement can make LCLIP viable.

Shoreline recently adopted a subarea plan for the 185th Street light rail station area. This plan contains provisions for market-based use of TDR, which can serve as a cornerstone for TDR use in the City. By itself, the 185th Street light rail station area will not place enough credits to make LCLIP successful, but if Shoreline can expand use of TDR in other areas the picture changes. By extending the MFTE program to other parts of the City the private market can absorb enough TDR credits to meet the LCLIP performance milestones.

Furthermore, Shoreline can augment the MFTE approach by negotiating TDR use as part of development agreements for projects in Aurora Square. This mechanism is variable and the scale of future Aurora Square projects is uncertain, however the inclusion of TDR as part of future projects in the Community Renewal Area could help accelerate the City's TDR placement and contribute to revenues. The pursuit of development agreements in Aurora Square should be a focus for the City as an opportunity throughout the duration of the LCLIP timeline or as a catalyst for the start of the program.

The timing of redevelopment is a key to the success of LCLIP.

Current conditions in Shoreline may not present a strong case for starting LCLIP immediately, however important zoning changes around the future light rail station areas create an important opportunity for redevelopment. New projects are already emerging in Town Center and the potential for redevelopment in Aurora Square is another potential driver for LCLIP success. In order to maximize revenues and mitigate risks the City may time the use of LCLIP around known projects that would use TDR.

5.2 Recommendations

Shoreline can pursue a range of actions to maximize the benefits of LCLIP while reducing its exposure to the risks of not meeting performance milestones. The City can take an approach to using the program that combines strategic and opportunistic elements. In thinking about using LCLIP, the City should consider a suite of actions that collectively could create conditions for the program to succeed.

Potential LCLIP Approaches

The follow section lays out three approaches to proceeding with LCLIP.

No Action in the Immediate Future

The analysis shows that while the 185th Street subarea can retire nearly one third of the City's allocation of development rights, by itself this source of demand will not be sufficient to meet the performance milestones of the program over time. Pursuing LCLIP under the status quo would either require City acquisition of credits to keep the revenue flowing or would result in the premature conclusion of the program without City acquisitions to bridge the gap.

Furthermore, Shoreline will soon consider a rezone of the 145th Street light rail station area, the outcome of which could potentially create more opportunities for using LCLIP. While the City may not consider adoption of LCLIP prior to the completion of the 145th Street subarea plan, it could strengthen the viability of LCLIP by including provisions in the rezone that support its use.

Target Maximum Specified Portion

This approach would establish LCLIP targeted at placing all 231 credits allocated to Shoreline. The program is designed to provide greater financial incentives for cities accepting higher numbers of credits. This would maximize revenue to the City but also carries increased risk as the program could end early (or require City intervention) should growth and TDR use not keep pace with performance milestones. King County has expressed a willingness to incorporate flexibility into a potential LCLIP partnership with Shoreline in ways that would reduce the City's financial exposure. This approach is predicated on the location of at least half of Shoreline's PSRC growth target within the four potential LCLIP districts identified in the analysis.

Time and calibrate LCLIP program to a development/TDR milestone(s).

The city can structure the start of the LCLIP program with a single (or multiple) major development, such as a project in Aurora Square or a multifamily/mixed-use project in either Town Center or a light rail station area. Timing the program to the start of a known large-scale development within the City would create three advantages. Shoreline could capitalize on known demand, increase the program benefits, and reduce risk by making progress towards performance milestones from the outset of the program.

Tying the program to a known quantity of TDR use would allow the city to comfortably structure the LCLIP program to run for the full 25 years (i.e. meet performance thresholds). Making headway on the performance thresholds in advance would allow the City more flexibility on the use of funds by allowing some public infrastructure costs to be financed with debt, should that be desirable.

Summary recommendations for path to LCLIP implementation

- Commit to all 231 credits to maximize revenues.
- Include 25% of the City's assessed value in the program by incorporating all four areas (Aurora Square, Town Center, and both light rail station areas), and expanding the Town Center LCLIP district.
- Consider including an incentive zoning provision in the 145th Street subarea plan or a MFTE provision similar to that adopted in the 185th Street subarea plan.
- Extend the MFTE provision for TDR use across all potential LCLIP districts (185th is already in place).
- Pursue TDR use as part of development agreements for Aurora Square projects.
- Discuss flexibility and accommodations around program performance milestones with King County.
- Prepare all the groundwork for adoption of LCLIP so the City may start the program on short notice as conditions change.
- Time the start of the program in conjunction with a project that would use TDR.

Furthermore, in moving forward the City should monitor the following conditions:

- Indications that confirm market interest in TDR, such as development applications that have been or are expected to be proposed that will need TDR credits in different zones.
- Analysis of the expected use of TDR credits confirms a reasonably high likelihood of meeting threshold requirements for TDR use in the LCLIP district.
- Infrastructure projects have been identified that qualify under the LCLIP program.
- A LCLIP district can be created that maximizes the projected LCLIP revenue to pay for infrastructure projects while meeting the requirements of the LCLIP legislation.
- As needed, a shared strategy approach with King County or another partner agency should be included in an approach to retiring TDR credits.

6 Implementation Road Map

Should the city of Shoreline choose to pursue LCLIP, the following next steps are necessary to implement the program:

Step 1: Identify a specific geographic area for increased density that will become a local infrastructure project area ("LIPA"). The LIPA must:

- Include contiguous land (no "islands" within a LIPA)
- Not include more than 25% of the total assessed taxable property within the city
- Not overlap another LIPA
- In the aggregate, be of sufficient size to: 1) use the City's "specified portion" of transferable development rights (unless the City has purchased the transferable development rights to reserve for future development), and 2) not be larger than reasonably necessary
- Contain all public improvements to be financed within its boundaries

Step 2: Accept responsibility for all or a share (a "specified portion") of the transferable development rights allocated from the Puget Sound Regional Council to the city. Consider whether to include any rights from another city through an interlocal agreement.

Step 3: Adopt a plan for development of public infrastructure within the LIPA. The plan must:

- Utilize at least 20% of the city's allocated share of transferable development rights
- Be developed in consultation with the Department of Transportation and the county where the LIPA is located
- Be consistent with any transfer of development rights policies or development regulations adopted by the city
- Specify the public improvements that will be financed
- Estimate the number of transferable development rights that will be used
- Estimate the cost of the public improvements

Step 4: Adopt transfer of development rights policies or implement development regulations, or make a finding that the city will receive its specified portion within one or more LIPAs, or make a finding that the city will purchase its specified portion. Adoption of transfer of development rights policies or implementation of development regulations must:

- Comply with the Growth Management Act
- Designate a receiving area(s)
- Adopt developer incentives, which should be designed, at the City's election, to:
- Achieve the densities or intensities in the City's plan
- Include streamlined permitting strategies
- Include streamlined environmental review strategies
- Establish an exchange rate, which should be designed to:
- Create a marketplace where transferable development rights can be bought and sold
- Achieve the densities or intensities in the city's plan

Provide for translation to commodities in addition to residential density (e.g., building height, commercial floor area, parking ratio, impervious surface, parkland and open space, setbacks and floor area ratio)

Allow for appropriate exemptions from land use and building requirements

- Require that the sale of the transferable development rights be evidenced by its permanent removal from the sending site (such as through a conservation easement on the sending site)
- Not be based on a downzone within the receiving area

The City may elect to adopt optional comprehensive plan element and optional development regulations that apply within the LIPA

Step 5: Hold a public hearing on the proposed formation of the LIPA. Notice must be provided to the county assessor, county treasurer, and county within the proposed LIPA of the City's intent to create the area. Notice must be provided at least 180 days in advance of the public hearing.

Step 6: Adopt an ordinance or resolution creating the LIPA. The ordinance or resolution must:

- Describe the proposed public improvements
- Describe the boundaries of the proposed LIPA
- Provide the date when the use of local property tax allocation revenues will commence and a list of the participating tax districts (the city and county)

A certified copy of the adopted ordinance or resolution must be delivered to the county assessor, county treasurer and each participating tax district

Step 7: Provide a report along with the county to the Department of Commerce by March 1st of each year. A requirement of participating in the LCLIP program is for Counties in cooperation with cities, to provide the Department of Commerce with a report on March 1st of every other year. Should the City of Shoreline choose to participate, the City in cooperation with King County would compile a report containing the following information:

- Number of cities within the county participating in LCLIP; and,
- The number of TDR transactions that have occurred; and,
- The number of acres conserved through the program, broken out by land type, agricultural, forest, or rural; and,
- The number of TDR credits transferred; and,
- The number of TDR credits transferred into the cities; and,
  - The total number of new residential units in the city; and,
  - The number of additional residential units allowed due to TDR credit transfers; and,
  - The amount of additional commercial space allowed due to TDR credit transfers; and,
  - The amount of additional building height allowed due to TDR credit transfers; and,
  - The amount of structured parking spaces reduced due to TDR credit transfers; and,
  - The amount of additional parking spaces allowed due to TDR credit transfers; and,
  - The amount of additional impervious surface allowed due to TDR credit transfers; and,
- The amount of property tax revenues per city received from the county; and,

- A list of public improvements paid for or financed by the received revenues; and,
- The names of businesses locating within the district as a result of the public improvements; and,
  - The number of permanent jobs created in the district as a result of the public improvements; and,
  - The average wages and benefits received by the employees; and,
- The date at which any indebtedness issued for LCLIP financing is expected to be retired.