

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Authorize the City Manager to Approve the Conditional Certificate of Property Tax Exemption for 205 Apartments
PRESENTED BY:	Dan Eernisse, Economic Development Manager
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Public Hearing <input type="checkbox"/> Discussion

PROBLEM/ISSUE STATEMENT:

The Property Tax Exemption (PTE) program was instituted and subsequently updated by the Washington State legislature to provide incentives to construct multifamily housing as well as affordable housing. According to the Growth Management Act and the State Legislature, multifamily housing and affordable housing are needed throughout the Puget Sound metropolitan area to combat the negative environmental impacts population growth places on the region. Shoreline has offered a PTE program in appropriate areas for many years. Shoreline's PTE program was most recently updated and streamlined through Ordinance No. 694, adopted on February 9, 2015. The current Shoreline PTE program requires that at least 20% of the project be affordable and provides the owner of a qualified project 12 years of tax exemption.

A qualifying application for PTE was received from GRE 205, LLC, dba 205 Apartments in the Ballinger neighborhood. The project will build 72 total units, 15 of which will be affordable. The City Manager has approved the application and provided the applicant with a contract that states that the City will provide PTE in exchange for compliance with SMC 3.27. The applicant subsequently signed and returned the contract; SMC 3.27.060 specifies that the contract must be approved or denied by Council prior to the City Manager executing the contract and issuing a Conditional Certificate of Property Tax Exemption to the applicant.

RESOURCE/FINANCIAL IMPACT:

The PTE program provides an exemption to the owner for the *ad valorem* property tax of the value of new or rehabilitated multiple unit housing for the duration of the 12-year exemption period. When a PTE project is built, the value of the building improvements are not added to the City's assessed value until after the exemption period ends; therefore, while no tax burden is shifted to other tax payers, the City does not collect the property tax revenues of the project for the program duration. In addition, Staff time is required to process applications, file annual reports to the State and King County, and to monitor compliance with affordable housing requirements.

RECOMMENDATION

Staff recommends that the City Council approve the PTE Contract with 205 Apartments and Authorize the City Manager to execute the contract and subsequently approve the Conditional Certificate of Property Tax Exemption.

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

ATTACHMENT

Attachment A: Applicant-signed PTE Agreement

BACKGROUND

The Property Tax Exemption (PTE) program was instituted and subsequently updated by the Washington State Legislature to provide incentives to construct multifamily housing as well as affordable housing. According to the Growth Management Act and the State Legislature, multifamily housing and affordable housing are needed throughout the Puget Sound metropolitan area to combat the negative environmental impacts population growth places on the region. Shoreline has offered a PTE program in appropriate areas for many years. Shoreline's PTE program was most recently updated and streamlined through Ordinance No. 694, adopted on February 9, 2015 and effective on February 17, 2015.

The current Shoreline PTE program, defined by SMC 3.27 (Attachment A), requires that at least 20% of the project be affordable housing. In return, a qualified project receives 12 years of property tax exemption for the *ad valorem* property tax of the value of new or rehabilitated multiple unit housing. According to SMC 3.27.020, "Affordable housing" means residential housing that is rented or sold to a person or household whose annual household income does not exceed 70 percent of the median household income adjusted for family size for King County, determined annually by the U.S. Department of Housing and Urban Development, for studio and one bedroom units and not exceeding 80 percent of the area median household income adjusted for family size for two bedroom or larger units. The program is audited annually by Staff and can be cancelled if the City finds that the applicant is not providing at least 20% of the units at an affordable rate.

DISCUSSION

The City is in receipt of one application from 2016 for Conditional Certification of Property Tax Exemption (PTE) for multifamily projects. The application complies with all applicable requirements of both RCW 84.14.060 and SMC 3.27.040. The project is located in a designated residential targeted area (Ballinger), the application is complete, and the City Manager approved the application.

The next binding step in the PTE approval process (SMC 3.27.060.A.4) is for the City Council to approve or deny the PTE Contract that define the terms under which the City will grant property tax exemptions, including binding the property to provide affordable housing for the 12-year period according to the RCW 84.14 and SMC 3.27. Once the PTE Contract is approved by Council, executed by the City Manager and recorded by the applicant, the City will issue a Conditional Certificate of Property Tax Exemption which defines dates and guarantees the exemption should the conditions of the contract be met. The project is:

Applicant:	GRE 205, LLC
Project:	205 Apartments
Location:	1795 NE 205 th St
PTE Area:	Ballinger Way NE Commercial Area
Units provided:	72
Affordable units provided:	15
Date of Application:	August 26, 2016

Other than project specific details, the PTE Contract is identical to the City's standard Mutli-Family Housing Limited Agreement for Property Tax Exemption (v. 2015) (Attachment B). The contract that is both approved by Council and signed by the applicant will be executed by the City Manager, and then recorded by the applicant. Once recorded, the City Manager will issue the applicant a Conditional Certificate of PTE, and the Applicant will have three years to complete the improvements.

RESOURCE/FINANCIAL IMPACT

The PTE program provides an exemption to the owner for the *ad valorem* property tax of the value of new or rehabilitated multiple unit housing for the duration of the 12-year exemption period. When a PTE project is built, the value of the building improvements are not added to the City's assessed value until after the exemption period ends; therefore, while no tax burden is shifted to other tax payers, the City defers the property tax revenues of the project for the program duration. In addition, Staff time is required to process applications, file annual reports to the State and King County, and to monitor compliance with affordable housing requirements.

RECOMMENDATION

Staff recommends that the City Council approve the contract for PTE.

ATTACHMENTS

Attachment A: Multi-Family Housing Limited Property Tax Exemption Agreement

**MULTI-FAMILY HOUSING LIMITED PROPERTY
TAX EXEMPTION AGREEMENT**

THIS AGREEMENT is entered into this _____ day of _____, 2017, by and between GRE 205, LLC (hereinafter referred to as the "Applicant"), and the CITY OF SHORELINE (hereinafter referred to as the "City").

WITNESSETH:

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

WHEREAS the City has, pursuant to the authority granted to it by RCW 84.14, designated various areas of the City as Residential Target Areas for the provision of a limited property tax exemption for new or rehabilitated multi-family residential housing; and

WHEREAS the City has, as set forth in Shoreline Municipal Code (SMC) Chapter 3.27, enacted a program whereby property owners may qualify for a Final Certificate of Tax Exemption which certifies to the King County Assessor that the owner is eligible to receive a limited property tax exemption; and

WHEREAS the Applicant is interested in receiving a limited property tax exemption for constructing 72 units of NEW multi-family residential housing within the BALLINGER WAY NE COMMERCIAL AREA, a designated Residential Target Area pursuant to SMC 3.27.030; and

WHEREAS the Applicant submitted to the City a complete application for Property Tax Exemption outlining the proposed development/redevelopment of multi-family residential housing to be constructed on property located at 1795 NE 205TH ST, SHORELINE, WA ("Property") and generally referred to as 205 APARTMENTS ("Project"); and

WHEREAS on DECEMBER 28, 2016, the City determined that the Applicant met all the eligibility and procedural requirements to qualify for a Conditional Certificate of Property Tax Exemption as provided in SMC 3.27, with the exception of entering into and recording this Agreement; and

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

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

1. The City agrees to issue the Applicant a Conditional Certificate of Acceptance of Tax Exemption once this Agreement is approved by the City Council, fully executed, and recorded with the King County Recorder's Office.

2. The Applicant agrees to construct the Project in compliance with all applicable land use regulations and as approved and permitted by the City. In no event shall such construction provide less than fifty percent (50%) of the space for permanent residential occupancy as required by SMC 3.27.040(A)(2).
3. The Applicant commits to renting at least twenty percent (20%) of the multi-family housing uses as affordable housing units as defined in SMC 3.27.020 and agrees that the property must satisfy that commitment and any additional affordability and income eligibility conditions contained SMC Chapter 3.27 for the duration of the tax exemption.
4. The Applicant agrees to complete construction of the agreed upon improvements within three (3) years from the date the City issues the Conditional Certificate of Acceptance of Tax Exemption, or within any extension thereof granted by the City.
5. The Applicant agrees, upon completion of the improvements and upon issuance by the City of a temporary or permanent certificate of occupancy, to file with the City Manager a request for Final Certificate of Tax Exemption with the information required by SMC 3.27.070 which includes:
 - (a) a statement of expenditures made with respect to each multi-family housing unit and the total expenditures made with respect to the entire Property/Project;
 - (b) a description of the completed work and a statement of qualification for the exemption;
 - (c) a statement that the work was completed within the required three-year period or any authorized extension; and
 - (d) a statement that the Property/Project meets affordable housing requirements of SMC Chapter 3.27.
6. The City agrees, conditioned on the Applicant's successful completion of the improvements in accordance with the terms of this Agreement and on the Applicant's filing of the materials described in Paragraph 5 above, to file a Final Certificate of Tax Exemption with the King County Assessor within forty (40) days of application.
7. The Applicant agrees, within thirty (30) days following the first anniversary of the City's filing of the Final Certificate of Tax Exemption and each year thereafter for the duration of the property tax exemption, to file an annual report with the City Manager with the information required by SMC 3.27.090 which includes:
 - (a) a statement of occupancy and vacancy of the newly constructed or rehabilitated Property/Project during the twelve months ending with the anniversary date;
 - (b) a certification by the owner that the Property/Project has not changed use since the date of the final certificate approved by the City and that Property/Project is in compliance with affordable housing requirements of SMC Chapter 3.27; and
 - (c) a description of any subsequent changes or improvements constructed after issuance of the Final Certificate of Tax Exemption.
8. The Applicant agrees, by December 15 of each year beginning with the first year in which the Final Certificate of Tax Exemption is filed and each year thereafter for the duration of the property tax exemption, to provide a written report to the City Manager containing

information sufficient to complete the City's report to the Washington State Department of Commerce as set forth in SMC 3.27.090(D).

- 9. If the Applicant converts any of the new or rehabilitated multi-family residential housing units constructed under this Agreement into another use, the Applicant shall notify the King County Assessor and the City Manager within sixty (60) days of such change in use.
- 10. The Applicant agrees to notify the City promptly of any transfer of the Applicant's ownership interest in the Property and/or Project or in the improvements made to the Property and/or Project under this Agreement.
- 11. The City reserves the right to cancel the Final Certificate of Tax Exemption should the Applicant, its successors and assigns, fail to comply with any of the terms and conditions of this Agreement, SMC Chapter 3.27, or for any reason that the Property/Project no longer qualifies for the tax exemption.
- 12. The Applicant acknowledges that the cancellation of the Final Certificate may subject the Applicant to potential tax liability as provided for in RCW 84.14, including real property tax, penalties, and interest.
- 13. No modifications of this Agreement shall be made unless mutually agreed upon by the parties in writing.
- 14. In the event that any term or clause of this Agreement conflicts with applicable law, such conflict shall not affect other terms of this Agreement which can be given effect without the conflicting term or clause, and to this end, the terms of this Agreement are declared to be severable.
- 15. Applicant agrees that this Agreement is subject to the Shoreline Multi-Family Housing Tax Exemption set forth in Shoreline Municipal Code, Chapter 3.27.

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

CITY OF SHORELINE

City Manager

Approved as to form:

City Attorney

TD APPLICANT

 Name/Title
 GRE 205th LLC
 George Petrie, Manager