

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussing Ordinance No. 776 – Designating Light Rail Station Subareas for Property Tax Exemption (PTE); Sponsored by Deputy Mayor Winstead and Councilmember Scully
DEPARTMENT:	City Manager’s Office
PRESENTED BY:	Dan Eernisse, Economic Development Manager
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

Deputy Mayor Winstead and Councilmember Scully have requested that the City Council discuss designating the 145th and 185th station sub-areas, MUR-45 and MUR-70 zones, as residential targeted areas eligible for the City’s Property Tax Exemption (PTE) program. Proposed Ordinance No. 776 (Attachment A) would provide for this designation.

The City currently has seven designated residential targeted areas that are eligible for PTE for multifamily housing. The purpose of the designation, per SMC 3.27.010 is to:

- Encourage increased residential opportunities within the residential targeted area;
- Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for revitalization of the designated targeted areas;
- Assist in directing future population growth to the residential targeted area, thereby reducing development pressure on single-family residential neighborhoods; and
- Achieve development densities that stimulate a health economic base and are more conducive to transit use in the designated residential targeted area.

Eligibility requirements for the City’s current PTE program includes that at least 20 percent of a project’s housing units be affordable housing as defined in SMC 3.27.020. Within the Station Subareas, in the MUR-70 and MUR-45 zones, affordable housing is mandatory (SMC 20.40.235, Attachment B). The affordable housing requirements in these zones are dependent on income levels and style/number of bedrooms and are as follows:

- Studio/1 Bedroom: 20% of rental units shall be affordable to households making 70% or less of the median income for King County adjusted for household size; or 10% of rental units shall be affordable to households making 60% or less of the median income for King County adjusted for household size

- 2+Bedrooms: 20% of the rental units shall be affordable to households making 80% or less of the median income for King County adjusted for household size; or 10% of the rental units shall be affordable to households making 70% or less of the median income for King County adjusted for household size.

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 multifamily housing for the duration of the exemption period, currently 12 years. 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 receive the property tax revenues of the project improvements for the duration of the program. The City does continue to receive property tax on the value of the land which the project is built on. 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

No action is required by Council this evening, but staff is seeking Council direction on whether to bring forward proposed Ordinance No. 776 for consideration of adoption to designate the 145th and 185th station subareas as eligible for PTE. Staff would recommend that Council do so.

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

INTRODUCTION

Deputy Mayor Winstead and Councilmember Scully have requested that Council discuss designating the 145th and 185th light rail station sub-areas, MUR-45 and MUR-70 zones, as eligible areas for the City's property tax exemption (PTE) program. The City currently has seven designated residential targeted areas that are eligible for PTE for multifamily housing.

The purpose of the PTE designation, per SMC 3.27.010, is to:

- Encourage increased residential opportunities within the residential targeted area;
- Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for revitalization of the designated targeted areas;
- Assist in directing future population growth to the residential targeted area, thereby reducing development pressure on single-family residential neighborhoods; and
- Achieve development densities that stimulate a health economic base and are more conducive to transit use in the designated residential targeted area.

Eligibility requirements for the City's PTE program include that at least 20 percent of a project's housing units be affordable housing as defined in SMC 3.27.020.

The multifamily PTE Program is an effective financial incentive available to the City to encourage multifamily construction that provides both affordable and market-rate units. From the developer's perspective, PTE increases the net operating income of the project by lowering annual expenses, thereby making projects financially feasible by offsetting low rents or high land, construction, or entitlement costs. The incentive is allowed under Washington State law which finds specifically:

That planning solutions to solve the problems of urban sprawl often lack incentive and implementation techniques needed to encourage residential redevelopment in those urban centers lacking a sufficient variety of residential opportunities, and it is in the public interest and will benefit, provide, and promote the public health, safety, and welfare to stimulate new or enhanced residential opportunities, including affordable housing opportunities, within urban centers through a tax incentive as provided by this chapter. (RCW 84.14.005(3))

Tonight's discussion will deal with the policy ramifications of designating – or not designating – the station subareas as areas eligible for PTE. Proposed Ordinance No. 776 (Attachment A) would provide for this designation. While proposed Ordinance No. 776 includes a reference to Exhibit A, which are the maps of the proposed designated target areas for 145th and 185th Street Station Subareas, staff did not produce this Exhibit for this Council discussion. If Council is interested in further considering proposed Ordinance No. 776, Exhibit A to the ordinance will be produced and provided to Council.

BACKGROUND

The PTE program was instituted and subsequently updated by the Washington State legislature under RCW 84.14 to provide incentives to construct multifamily housing as well as affordable housing. According to the conclusions of 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.

In November 2002, the City Council designated the North City Business District as eligible for the PTE. In March 2008, the City Council expanded the PTE program to three portions of the Ridgecrest Commercial Planned Area (CPA) and to residential areas designated R-18 and R-24 adjacent to those portions of the Ridgecrest CPA. In December 2011, the City Council further expanded the PTE program to five (5) additional areas within the City. These areas are: the Aurora Avenue North Corridor, including a portion of Westminster Way North; the Ballinger Way NE commercial area; the Hillwood commercial area; the Richmond Beach commercial area; and the commercial area associated with the intersection of NE 145th Street with Bothell Way NE and 15th Avenue NE.

Shoreline's PTE program, codified as SMC 3.27, was most recently updated and streamlined through the adoption of Ordinance No. 694 in September of 2014 and amended in February of 2017. The current Shoreline PTE program requires that at least 20% of the project be affordable and provides a qualified project 12 years of exemption to the owner. Property owners are required to maintain 20% of the units at the affordable thresholds for the 12 years that they are participating in the PTE program.

Within the Station Subareas, in the MUR-70 and MUR-45 zones, affordable housing is mandatory (SMC 20.40.235, Attachment B). The affordable housing requirements in these zones are dependent on income threshold and style/number of bedrooms as follows:

- Studio/1 Bedroom: 20% of rental units shall be affordable to households making 70% or less of the median income for King County adjusted for household size; or 10% of rental units shall be affordable to households making 60% or less of the median income for King County adjusted for household size
- 2+Bedrooms: 20% of the rental units shall be affordable to households making 80% or less of the median income for King County adjusted for household size; or 10% of the rental units shall be affordable to households making 70% or less of the median income for King County adjusted for household size

Unlike the PTE program in the other seven designated areas, the mixed use residential zones (MUR) require that affordable housing units remain affordable for a minimum of 99 years from the date of initial occupancy, significantly longer than required in the other qualifying areas. SMC 20.40.235 states that although the affordable housing is mandatory, that projects may be eligible for 12-year property tax exemption (PTE) upon authorization by City Council.

DISCUSSION

PTE Program and Market Dynamics

As previously stated, Shoreline currently offers a 12-year Affordable Housing PTE program in seven areas: Aurora Ave N Corridor including a portion of Westminster Way N, Ballinger Way NE Commercial Area, Hillwood Commercial Area, Richmond Beach Commercial Area, Southeast Neighborhoods Commercial Area, North City Business District, and Ridgecrest Commercial Area.

From conversations with the development community, strong support continues to exist for offering Shoreline's current PTE program. Based on feedback from the development community, no other incentive compares with the effectiveness of the PTE program in offsetting low rents or high costs. At Council's recent Strategic Planning Workshop, held March 3 and 4, 2017, members of a Developer Panel that spoke to the Council reaffirmed the power of the PTE program. The panel was clear that the PTE program can be influential in decision making, and stated that the multi-family tax exemption program is the most influential tool in Seattle. The PTE helps when a project almost pencils, but not quite.

Developers shared that the 12-year PTE program that requires affordable housing is elegant in that it is self-adjusting. Shoreline currently offers this affordable housing PTE program, requiring 20% of a project's units be offered at affordable rents to those earning less than the King County Area Median Income (AMI). The program self-adjusts by reacting to current market conditions.

- In areas where market rents are already low and affordable, building a new project with only 80% market-rate units does not generate enough profit to make development financially feasible. In this case, the PTE program does not provide enough incentive to cause projects to be built that displace existing affordable housing or existing uses. This is the case in much of Shoreline where the PTE program has been offered for years, but no development has occurred.
- In areas where market rents are exceptionally high, the PTE program is not utilized because the loss of value represented by limiting rent on 20% of the units is larger than the value that the PTE incentive provides. Nowhere in Shoreline have rents achieved this level.
- Therefore, the PTE program is only used in 'middle markets' where projects are almost financially feasible, but an added incentive is needed to get a project to the tipping point. In these markets the PTE program has proven to be a highly effective market-driven method of creating affordable workforce housing that is intermingled with market-rate housing. Areas along Aurora Avenue N have proven to be in this category.

While the current multifamily building environment in the Puget Sound area is extremely robust, the Shoreline market continues to be vulnerable to fluctuations in demand and construction costs as well as the whims of financiers who do not value the Shoreline address. Developers continue to find it difficult to secure financing for Shoreline multifamily projects even with the PTE program in place. As a result, multifamily development in Shoreline has yet to meet Council's annual 10-year financial

sustainability goal of 360-units per year, or push the city's Assessed Value Growth beyond "average" in King County.

From conversations with prospective developers, Shoreline should expect to be fighting for every project for some years to come. Staff has been told that construction costs in the region have outpaced rent growth in Shoreline so that certain launched and even permitted projects may now be non-starters even with PTE in place. One particularly poignant example is the Centerpointe project on Midvale Avenue N, just north of City Hall. Although the project is eligible for PTE, is completely permitted, and has received the maximum administrative extensions, Centerpointe is in danger of losing its permit this summer because of the owner's inability to get financing and begin construction. Once its permit is lost, the Centerpointe project will be required to start fresh with a new application under the City's current development code. The new application will bring with it the requirement to pay Transportation Impact Fees of over \$693,000, making the redevelopment of the old Interurban Building even more challenging.

Note, too, that Shoreline's development climate is directly affected by what the City of Seattle does. Seattle does not charge impact fees on new development, its market rents are typically higher, and it utilizes the PTE program more extensively and effectively than any other city in the state. Seattle reported that in the years 1998–2015, 243 projects had been approved for PTE participation, representing 25,159 total units of which 6,457 are designated as affordable. Seattle, therefore, sets the competitive standard for the region by using PTE, especially for development in Shoreline with which it shares a four mile border.

Shoreline's PTE projects that are either complete or under construction include:

- The 109-unit Arabella market-rate apartment project's 10-year PTE expires this year, so it will be paying full taxes in 2018. There was no affordable housing requirement for this program;
- The 128-unit Malmo market-rate apartment project began a 12-year PTE in 2015, and for the duration of the program it will be providing 26 affordable units;
- The 5-unit North City Development townhome project began a 12-year PTE in 2015, and for the duration of the program it will be providing one (1) affordable unit;
- The 80-unit Interurban Lofts micro-housing project will begin a 12-year PTE in 2018 which will require 16 affordable units for 12 years; although this is the case, virtually all of the units will be considered affordable due to the small unit size and corresponding rents; and
- The 221-unit Paceline market-rate apartment project that is under construction at 172nd and Aurora has applied for PTE and will likely begin its 12-year PTE in 2019, and for the duration of the program it will be providing 44 affordable units.

It should be noted that the 165-unit Polaris tax-credit affordable housing project began a 12-year PTE in 2015 which requires 33 affordable units, but Polaris doesn't use the City's PTE program since it qualifies for larger exemptions through the State based on 100% of its units achieving a greater level of affordability.

Other notable projects include Ronald Commons, subsidized project, and the Artiste, which was built in the midst of the recession with very low construction costs. Therefore, Shoreline’s current PTE program has generated only two unsubsidized market-rate apartment projects, Malmo and Paceline, both of which share the same pioneering developer. On the other hand, a long list of less optimistic developers have looked at Shoreline multifamily projects even with the PTE program in place and determined “not yet,” even in the midst of the strongest multifamily building boom in the region’s history.

Therefore, Shoreline’s multifamily development opportunities clearly straddle the bottom half of where PTE is viable: even with PTE, the City’s market rents are either too low to generate development activity or are just barely approaching feasibility. In those cases, the determining factors for development are often site-specific, where a particularly strong site is acquired at the right price. It is clear that no areas of Shoreline are approaching the realm where profit is so plentiful that PTE is unnecessary. Staff’s strong recommendation, then, is to continue offering the current PTE program in the seven areas already designated; this seems both prudent and necessary to stimulate further multifamily development in Shoreline.

PTE Program in the Light Rail Station Subareas

When Council adopted *SMC 20.40.235 Affordable housing, light rail station subareas*, the following table indicated that the PTE program may at some time apply to all MUR zones, and that mandatory participation was required of all but the MUR-35’ zone (the complete chapter is provided in Attachment B).

	MUR-70'+	MUR-70'	MUR-45'	MUR-35'
Mandatory Participation	Yes	Yes	Yes	No
Incentives	Height may be increased above 70 ft.; may be eligible for 12-year property tax exemption (PTE) upon authorization by City Council and no density limits.	May be eligible for 12-year property tax exemption (PTE) upon authorization by City Council; and entitlement of 70 ft. height and no density limits.	May be eligible for 12-year property tax exemption (PTE) and permit fee reduction upon authorization by City Council; entitlement of 45 ft. height and no density limits.	May be eligible for 12-year property tax exemption (PTE) and permit fee reduction upon authorization by City Council and no density limits.

In evaluating the need for PTE in the station areas, staff has considered the following:

- 1) Providing the PTE program in the light rail subareas attracts investment and is consistent with City Council Goal #1, which states that...*it is vital to attract investment in Shoreline businesses and neighborhoods to enhance the local economy, provide jobs, and support the services that make Shoreline a desirable place to live. Investment will strengthen our tax base while providing our*

residents with greater housing choices, local employment, retail opportunities, and lifestyle amenities.”

- 2) Without reproducing the above discussion, the PTE program has been shown to be the most effective incentive program available to attract multifamily development. Staff believes that the PTE program should be offered in areas of the City that make sense for multifamily housing and the station subareas are particularly appropriate.
- 3) The PTE program also will help cure the current disincentives to build housing and affordable housing in the station subareas. Shoreline code currently provides a double-disincentive to development in the station subareas: first, the PTE program is not offered in the station subareas, so developers do not receive the financial incentive that they receive in other areas of Shoreline or in other cities such as Seattle; second, affordable housing is mandated, so developers incur the loss of income for 99-years from providing affordable housing as required in SMC 20.40.235. The combination of these disincentives has a strong chance to stymie the creation of new multifamily and affordable housing.
- 4) Providing the PTE program in the station subareas encourages property assemblage. In multifamily development, the strongest economies of scale are realized when several properties are assembled together. According to anecdotal information from the development community, given the transportation impact fee, the wastewater connection fee, Shoreline market rents, and no PTE program in place, the developers cannot justify paying more than single-family home prices for land. Therefore, developers can't offer a premium to home owners to assemble properties together; individual lots will therefore continue to trade as individual lots.
- 5) Pioneer projects in Shoreline's light rail subareas will lay the groundwork by demonstrating rent levels and by giving a glimpse of the potential to come. Demand for—and the pace of—multifamily development will likely increase once the stations are open in 2023; however, note that stations in Lynnwood, Mountlake Terrace, north Seattle, and on the eastside will also open in 2023, creating a new frontier and competitive environment for transit-oriented development. Pioneer projects built in Shoreline in the next five years will help establish Shoreline as “the place” for conscientious, sustainable transit-oriented development. On the other hand, by not providing the PTE program and still requiring affordable housing, Shoreline will clearly send a signal—whether or not intended—that the City is not advocating for multifamily development in the station subareas until the market supports the development without incentives. As such there is the potential to lose a focus on Shoreline as the community to invest in, and this signal has the potential to echo in the development community's ears even after the stations open.
- 6) Although when enacting a program or regulation, the intent is for consistency and predictability, the Council will have the ability to rapidly limit or change the PTE program in the station subareas if unforeseen consequences become apparent. In a more complicated example, the Council placed a moratorium on self-storage

development when the city received a rash of pre-application development appointments from self-storage developers. Within four months the Council had resolved the issue with new development code regulations regarding self-storage facilities. The risk of the PTE program getting “out of control” is even more unlikely. In proposed Ordinance No. 776, staff has suggested a 500 unit cap in each of the station subareas. The Council could implement this limitation or could put a sunset on the program if preferred.

- 7) Staff often hears concerns from the public regarding impact of the PTE program on tax-payers and/or other taxing districts. Although the City experiences a 12 year delay in property tax collection on the value of the improvements (land is not exempt), other revenue streams are generated to help off-set the cost of services to the new development, including sales and utility taxes. The School District is not negatively impacted, as they receive approval for a levy amount (as opposed to a levy rate) and therefore they are allowed to collect the full levy regardless of the PTE program. The Fire District’s fire benefit charge is not affected by the PTE program, but they do experience a delay in property tax collection, similar to the City, on their property tax levy.
- 8) As mentioned previously, development within the station areas, especially in MUR-70 and somewhat in MUR-45, requires the aggregation of properties to get the parcel size necessary for most multifamily developments. The City has little control in ensuring that economic growth cycles coincide with property owners willingness to sell and aggregate property, projects that are financially feasible, and investors who can access financing. Although early predictions were that higher density development may occur closer to the time period of the light rail stations opening (2023) current residential housing demand in the region and other economic factors may give incentive for the higher-density developments to start two or three years earlier than originally predicted, if the projects are financially feasible. What staff cannot predict is whether economic cycles will be right to deliver development closer to the light rail station opening with or without PTE. Given the timeline for higher density development to move from concept to completed and occupied, in a best case scenario (three years), developments getting started in 2017 would likely not have a finished project until 2020 or 2021 – getting ever closer to the opening of light rail.

Given all of these considerations, staff recommends that the City Council consider proposed Ordinance No. 776, designating residential targeted areas for PTE within the MUR-45 and MUR-70 zones of the 145th and 185th Street Station Subareas, for adoption. Proposed Ordinance No. 776, if adopted, would not amend the development code section relating to affordable housing in the light rail station areas (SMC 20.40.235). Council would likely want to amend this development code section, which would require Planning Commission review prior to Council consideration, subsequent to adoption of proposed Ordinance No. 776.

MUR Catalyst Program (SMC 20.40.235(B)(3))

The adopted affordable housing regulations for the light rail station subareas include the potential for a “Catalyst Program” for the first 300 multifamily units constructed for rent or sale in any MUR zone. The regulations state that these units may be eligible for an

eight-year property tax exemption with no affordability requirement in exchange for the purchase of transfer of development right (TDR) credits at a rate of one TDR credit for every four units constructed upon authorization of this program by City Council. Staff is still in the process of developing such programs and therefore has not brought forward a program for Council's consideration. This is on the work plan for this year. At this time, staff believes that the Catalyst Program is separate from the PTE Program in that the goal was to exchange the requirement for affordable housing for the ability to preserve regional lands.

Council Discussion and Direction

Staff is seeking Council's direction regarding whether Council would like to move forward with potential adoption of proposed Ordinance No. 776. If Council would like to move forward, then staff recommends that Council discuss the following policy questions to determine if changes should be made to the proposed ordinance.

1) Should both light rail subareas be eligible for PTE?

- Staff recommends that both light rail subareas should be eligible.

2) Should all zoned areas of the light rail subareas be eligible for PTE?

- Staff recommends that only those areas that are in the first phases of the rezones and that are designated as MUR-70' and MUR-45' be eligible. The MUR 35' zone is ideally suited for for-sale town home development which would neither need nor appreciate the PTE program.

3) What type of PTE Program should be offered in the PTE area?

- Staff recommends that at this time only the 12-year affordable housing PTE be used in light rail subareas as it complies with past Council action and with the current Shoreline PTE program.

4) How should the light rail subareas' mandatory affordable housing requirement interact with the PTE program?

- Staff recommends that the PTE program apply to projects that provide 20% of studio and 1 bedroom units at a 70% AMI level, and 20% of 2+ bedroom units at 80% AMI. By state law (RCW 84.14), the minimum amount of affordable units that must be constructed to be eligible for the 12 year PTE is 20%, so the City does not have the ability to apply the PTE to a development where a developer chooses to create 10% of their rental units at the lower AMI level (60% for studio/1 bedroom or 70% for 2+ bedrooms) allowed in the development code. This approach will satisfy both state law and the current light rail subarea requirements. In addition, it is similar to the current PTE program offered in other parts of the City with one notable exception: in the light rail subareas the affordable housing will be provided for 99 years, while in other parts of the City, it is only required for 12 years.

5) Should a limit be placed on the PTE program?

- Proposed Ordinance No. 776 includes a 500 unit cap for each of the station areas. An alternative could be a sunset provision (program

sunsets on a date certain) or a lower/higher cap number. If Council were to enact a sunset provision, then staff recommends that the PTE program in the light rail subareas automatically sunset on December 31, 2021, unless renewed by Council action.

COUNCIL GOAL ADDRESSED

This action addresses City Council Goal 1, strengthen Shoreline economic base to maintain the public services that the community needs. As noted in this goal: . . . *“it is vital to attract investment in Shoreline businesses and neighborhoods to enhance the local economy, provide jobs, and support the services that make Shoreline a desirable place to live. Investment will strengthen our tax base while providing our residents with greater housing choices, local employment, retail opportunities, and lifestyle amenities.”*

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 multifamily housing for the duration of the 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 receive the property tax revenues of the project improvements for the duration of the program. Currently every dollar that Shoreline foregoes is matched by six dollars from state, county, and other sources, thereby enhancing the effectiveness of the PTE program to attract multifamily housing to urban centers. 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

No action is required by Council this evening, but staff is seeking Council direction on whether to bring forward proposed Ordinance No. 776 for consideration of adoption to designate the 145th and 185th station subareas as eligible for PTE. Staff would recommend that Council do so.

ATTACHMENTS

Attachment A: Proposed Ordinance No. 776 (*Exhibit A is not included at this time*)
Attachment B: SMC 20.40.235 - Affordable housing, light rail station subareas

ATTACHMENT A

ORDINANCE NO. 776

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON AMENDING SHORELINE MUNICIPAL CODE CHAPTER 3.27, PROPERTY TAX EXEMPTION, DESIGNATING RESIDENTIAL TARGETED AREAS WITHIN LIMITED AREAS OF THE 145TH STREET STATION SUBAREA AND THE 185TH STREET STATION SUBAREA FOR THE CITY OF SHORELINE

WHEREAS, the City of Shoreline is a non-charter optional municipal code city as provided in Title 35A RCW, incorporated under the laws of the state of Washington (hereinafter referred to as “City”); and

WHEREAS, Chapter 84.14 of the Revised Code of Washington provides for exemptions from ad valorem property tax valuation for qualifying multi-family housing located in designated target areas within urban centers; and

WHEREAS, Chapter 84.14 authorizes the City to designate residential target areas in which exemptions from the ad valorem property tax is applicable; and

WHEREAS, in 2015 the City adopted the 185th Street Station Subarea and, in 2016, the City adopted the 145th Street Station Subarea; and

WHEREAS, the implementation of the zoning within the subareas is in three phases; and

WHEREAS, SMC 20.40.235 mandates affordable housing within the MUR-45 and MUR-70 zoning districts within the two subareas; and

WHEREAS, in addition to the increased density afforded by these zoning district, SMC 20.40.235 denotes the City Council my consider and adopt the use of the property tax exemption as an additional incentive in the Subareas; and

WHEREAS, the City Council has determined that the designation of property within the MUR-45 and MUR-70 zoning districts of Phase 1 of the two subareas would further promote the development of affordable housing in accordance with the goals and policies of the Comprehensive Plan; therefore,

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

Section 1. Amendment. SMC 3.27.030 Designation of residential targeted areas is amended to include Attachment H 145th Street Station Subarea and Attachment I 185th Street Station Subarea, as shown on Exhibit A.

ATTACHMENT A

Section 2. Amendment. SMC Chapter 3.27 is amended as follows:

SMC 3.27.040(A) and 3.27.040(D) are amended as follows:

A. Eligibility Requirements.

To be eligible for exemption from property tax under this chapter, the property must satisfy all of the following requirements:

1. The project must be located within one of the residential targeted areas designated in SMC 3.27.030;
2. The project must be multifamily housing consisting of at least four dwelling units within a residential structure or as part of a mixed used development, in which at least 50 percent of the space must provide for permanent residential occupancy;
3. The project must be designed to comply with the city's comprehensive plan, applicable development regulations, and applicable building and housing code requirements;
4. At least 20 percent of the housing units must be affordable housing as defined in SMC 3.27.020, except for housing units within the 145th Street Station Subarea and the 185th Street Station Subarea which must meet the affordability requirements set forth in SMC 20.40.235;
5. For the rehabilitation of existing occupied multifamily projects, at least four additional residential units must be added except when the project has been vacant for 12 consecutive months or more;
6. The project must be scheduled for completion within three years from the date of issuance of the conditional certificate;
7. Property proposed to be rehabilitated must fail to comply with one or more standards of the applicable state or local building or housing codes. If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate;
8. The mix and configuration of housing units used to meet the requirement for affordable units under this chapter shall be substantially proportional to the mix and configuration of the total housing units in the project; and
9. The applicant must enter into a contract with the city under which the applicant has agreed to the implementation of the project on terms and conditions satisfactory to the city. The contract must be approved by the city council.

ATTACHMENT A

D. Residential Targeted Areas – Specific Requirements.

1. No more than 500 total units will be approved under this chapter for areas of the Aurora Square Community Renewal Area (CRA) located within the Aurora Avenue North Corridor.
2. ~~Units will be allocated based on the date the project's application for a conditional certificate is considered complete.~~ No more than 500 total units will be approved under this chapter for the 145th Street Station Subarea.
3. No more than 500 total units will be approved under this chapter for the 185th Street Station Subarea.
4. Units within the 145th and 185th Street Station Subareas must meet the affordability requirements set forth in SMC 20.40.235.
5. Units will be allocated based on the date the project's application for a conditional certificate is considered complete.

SMC 3.27.100(B) is amended as follows:

B. Cancellation – Conversion of Use by Property Owner.

1. If the property owner intends to convert the multifamily housing to another use or to discontinue compliance with the affordable housing ~~requires described in RCW 84.14.020~~ requirements described in this chapter, the owner must notify, in writing, the city manager and the county assessor within 60 days of the change in use or intended discontinuance. Upon such change in use or intended discontinuance, the tax exemption shall be cancelled and additional taxes, interest, and penalties imposed pursuant to RCW 84.14.110

Section 3. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 4. Severability. If any section, sentence, clause, or phrase of this ordinance should be held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of any other section, sentence, clause, or phrase of this ordinance.

Section 5. Publication and Effective Date. A summary of this Ordinance consisting of the title shall be published in the official newspaper. This Ordinance shall take effect five days after publication.

PASSED BY THE CITY COUNCIL ON _____, 2017.

Mayor Christopher Roberts

ATTACHMENT A

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik-Smith
City Clerk

Margaret King
City Attorney

Date of Publication: , 2017
Effective Date: , 2017

DRAFT

ATTACHMENT B

SMC 20.40.235 Affordable housing, light rail station subareas.

A. The purpose of this index criterion is to implement the goals and policies adopted in the Comprehensive Plan to provide housing opportunities for all economic groups in the City’s light rail station subareas. It is also the purpose of this criterion to:

1. Ensure a portion of the housing provided in the City is affordable housing;
2. Create an affordable housing program that may be used with other local housing incentives authorized by the City Council, such as a multifamily tax exemption program, and other public and private resources to promote affordable housing;
3. Use increased development capacity created by the mixed-use residential zones to develop voluntary and mandatory programs for affordable housing.

B. Affordable housing is voluntary in MUR-35' and mandatory in the MUR-45' and MUR-70' zones. The following provisions shall apply to all affordable housing units required by, or allowed through, any provisions of the Shoreline Municipal Code:

1. The City provides various incentives and other public resources to promote affordable housing. Specific regulations providing for affordable housing are described below:

	MUR-70'+	MUR-70'	MUR-45'	MUR-35'
Mandatory Participation	Yes	Yes	Yes	No
Incentives	Height may be increased above 70 ft.; may be eligible for 12-year property tax exemption (PTE) upon authorization by City Council and no density limits.	May be eligible for 12-year property tax exemption (PTE) upon authorization by City Council; and entitlement of 70 ft. height and no density limits.	May be eligible for 12-year property tax exemption (PTE) and permit fee reduction upon authorization by City Council; entitlement of 45 ft. height and no density limits.	May be eligible for 12-year property tax exemption (PTE) and permit fee reduction upon authorization by City Council and no density limits.

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	MUR-70'+	MUR-70'	MUR-45'	MUR-35'
Studio, 1 bedroom	20% of rental units shall be affordable to households making 60% or less of the median income for King County adjusted for household size; or 10% of rental units shall be affordable to households making 50% or less of the median income for King County adjusted for household size.	20% of rental units shall be affordable to households making 70% or less of the median income for King County adjusted for household size; or 10% of rental units shall be affordable to households making 60% or less of the median income for King County adjusted for household size.		
2+ bedrooms	20% of the rental units shall be affordable to households making 70% or less of the median income for King County adjusted for household size; or 10% of the rental units shall be	20% of the rental units shall be affordable to households making 80% or less of the median income for King County adjusted for household size; or 10% of the rental units shall be affordable to households making 70% or less of the median income for King County adjusted for household size.		

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	MUR-70'+	MUR-70'	MUR-45'	MUR-35'
	affordable to households making 60% or less of the median income for King County adjusted for household size.			

2. Payment in lieu of constructing mandatory units is available upon City Council's establishment of a fee in lieu formula. See subsection (E)(1) of this section.

3. **Catalyst Program.** The first 300 multifamily units constructed for rent or sale in any MUR zone may be eligible for an eight-year property tax exemption with no affordability requirement in exchange for the purchase or transfer of development right (TDR) credits at a rate of one TDR credit for every four units constructed upon authorization of this program by City Council.

C. Mixed-Use Residential Zone Affordable Housing Requirements. The following provisions shall apply to all affordable housing units required by or created through any incentive established in the Shoreline Municipal Code unless otherwise specifically exempted or addressed by the applicable code section for specific affordable housing programs or by the provisions of an approved development agreement:

1. **Duration.** Affordable housing units shall remain affordable for a minimum of 99 years from the date of initial occupancy. At the discretion of the Director a shorter affordability time period, not to be less than 30 years, may be approved for ownership affordable housing units in order to meet federal financial underwriting guidelines at such time as the City creates an affordable ownership program.

2. **Designation of Affordable Housing Units.** The Director shall review and approve the location and unit mix of the affordable housing units, consistent with the following standards, prior to the issuance of any building permit:

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- a. **Location.** The location of the affordable housing units shall be approved by the City, with the intent that the units are generally mixed with all other market rate housing in the development.
 - b. **Size (Bedroom).** The affordable housing units shall consist of a range of the number of bedrooms that are comparable to the market rate housing units in the overall development.
 - c. **Size (Square Footage).** Affordable housing units shall be the same size as market rate housing units with the same number of bedrooms unless approved by the Director. The Director may approve smaller units when: (a) the size of the affordable housing is at least 90 percent of the size of the market rate housing in the project with the same number of bedrooms; and (b) the affordable units are not less than 500 square feet for a studio unit, 600 square feet for a one-bedroom unit, 800 square feet for a two-bedroom unit and 1,000 square feet for a two-bedroom-plus unit.
 - d. All units in the development must have equal access to the development's amenities or facilities, such as parking, fitness centers, community rooms, and swimming pools. If a fee is charged for the use of an amenity/facility, then all units in the development must be charged equally for such use.
3. **Timing/Phasing.** The affordable housing units shall be available for occupancy in a time frame comparable to the availability of the market rate housing units in the development unless a phasing plan is developed pursuant to subsection D of this section or the requirements of this section are met through subsection E of this section.
4. **Development Standards.**
- a. **Off-Street Parking.** Off-street parking shall be provided for the affordable housing units consistent with SMC [20.50.390](#).
 - b. **Recreation Space.** The recreation/open space requirements for housing units affordable to families making 60 percent or less of adjusted median income for King County shall be calculated at 50 percent of the rate required for market housing in SMC [20.50.240](#)(G).

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5. Depending on the level of affordability, units provided by a not for profit entity may be eligible for transportation impact fee waivers as provided in SMC [12.40.070\(G\)](#).

6. In the event of a fractional affordable housing unit, payment in lieu in accordance with subsection (E)(1) of this section is allowed for the fractional unit.

D. Affordable Housing Agreement. An affordable housing agreement shall be recorded with the King County Recorder's Office prior to the issuance of a building permit for any development providing affordable housing pursuant to the requirements or incentives of the Shoreline Municipal Code.

1. The recorded agreement shall be a covenant running with the land and shall be binding on the assigns, heirs and successors of the applicant.

2. The agreement shall be in a form approved by the Director and the City Attorney and shall address price restrictions, tenant qualifications, affordability duration, phasing of construction, monitoring of affordability and any other topics related to the provision of the affordable housing units.

3. The agreement may, at the sole discretion of the City, establish a monitoring fee for the affordable units. The fee shall cover the costs incurred by the City to review and process documents to maintain compliance with income and affordability restrictions of the agreement.

4. The City may, at its sole discretion, agree to subordinate any affordable housing regulatory agreement for the purpose of enabling the owner to obtain financing for development of the property.

E. Alternative Compliance. The City's priority is for residential and mixed-use developments to provide the affordable housing on site. The Director, at his/her discretion, may approve a request for satisfying all or part of a project's on-site affordable housing with alternative compliance methods proposed by the applicant. Any request for alternative compliance shall be submitted at the time of building permit application and must be approved prior to issuance of any building permit. Any alternative compliance must achieve a result equal to or better than providing affordable housing on site.

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1. **Payment in Lieu of Constructing Mandatory Affordable Units.** Payments in lieu of constructing mandatory affordable housing units is subject to the following requirements:
 - a. The in-lieu fee is set forth in Chapter [3.01](#) SMC, Fee Schedules. Fees shall be determined at the time the complete application for a building permit is submitted using the fee then in effect.
 - b. The fee shall be due and payable prior to issuance of any certificate of occupancy for the project.
 - c. The City shall establish a housing program trust fund and all collected payments shall be deposited in that fund.
2. Any request for alternative compliance shall demonstrate all of the following:
 - a. Include a written application specifying:
 - i. The location, type and amount of affordable housing; and
 - ii. The schedule for construction and occupancy.
 - b. If an off-site location is proposed, the application shall document that the proposed location:
 - i. Is within a one-mile radius of the project or the proposed location is equal to or better than providing the housing on site or in the same neighborhood;
 - ii. Is in close proximity to commercial uses, transit and/or employment opportunities.
 - c. Document that the off-site units will be the same type and tenure as if the units were provided on site.
 - d. Include a written agreement, signed by the applicant, to record a covenant on the housing sending and housing receiving sites prior to the issuance of any construction permit for the housing sending site. The covenant shall describe the construction schedule for the off-site affordable housing and provide sufficient security from the applicant to compensate the

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City in the event the applicant fails to provide the affordable housing per the covenant and the Shoreline Municipal Code. The applicant may request release of the covenant on the housing sending site once a certificate of occupancy has been issued for the affordable housing on the housing receiving site.

F. **Permit Fee Waiver.** A development fee waiver may be approved by the Director for City imposed fees for an affordable housing project that constructs or remodels units that are affordable to residents whose annual income does not exceed 60 percent King County Area Median Income. The development fee waiver will be commensurate with the percentage of affordable units in the development. (Ord. 731 § 1 (Exh. A), 2015; Ord. 706 § 1 (Exh. A), 2015).