Council Meeting Date: January 27, 2020 **Agenda Item:** 8(c)

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussing Ordinance No. 879 – Amending Shoreline Municipal Code Section 3.27 for Multi-family Property Tax Exemption Conditions Within the Shoreline Place Community Renewal Area
DEPARTMENT:	Economic Development
PRESENTED BY:	Nathan Daum, Economic Development Manager
ACTION:	____ Ordinance ____ Resolution ____ Motion __X_ Discussion ____ Public Hearing

PROBLEM/ISSUE STATEMENT:
The Property Tax Exemption (PTE) program is the City's main affordable housing program and is intended to encourage increased residential opportunities within targeted areas of the City, assist in directing future population growth to the residential targeted areas, and achieve development densities that stimulate a healthy economic base that are more conducive to transit use in targeted areas. The City has identified nine (9) residential targeted areas for its PTE program.

The PTE program provides for a 12-year property tax exemption on new housing construction and improvements. This does not exempt the land valuation or non-housing-related improvements from taxation. For a development to qualify for the PTE program in the targeted residential areas, with the exception of the two light-rail station areas, a project must be multifamily housing development with at least 20% of the units meeting the affordable housing definition as defined in Shoreline Municipal Code (SMC) Chapter 3.27.020. SMC 3.27.020 defines affordable units as those that are rented or sold to a person or household whose annual household income does not exceed 70% of the median household income adjusted for family size for King County for studio and one-bedroom units and not exceeding 80% of the area median household income adjusted for family size for two bedroom or larger units.

SMC 3.27.040(D) provides a specific requirement that within the Shoreline Place Community Renewal Area (CRA) there is 500 total unit cap that can qualify for the PTE program. This is the only residential target area in Shoreline and in King County to have a limit. The 500-unit cap applies to the total number of units developed, not just the 20% that are required to meet the affordability standards. To date, Trammel Crow, the developer of the Alexan within the CRA, has submitted a PTE application for 330 units (the total number of units in their development), leaving just 170 units available under the current CRA 500-unit cap.

Merlone Geier has requested that the City consider removing the 500-unit cap (Attachment A). The primary reason for this request is that many multifamily developers are able to use the tax exemption to offset rising construction costs in the region while providing much needed affordable housing. Not removing the cap may also have the effect of slowing the ongoing transformation of the CRA. The Council is being asked to discuss changes to the SMC to eliminate or increase the cap on PTE in the CRA.

Tonight, the City Council will consider proposed Ordinance No. 879 (Attachment B), which proposes to remove the 500-unit cap in the Shoreline Place CRA residential target area. Proposed Ordinance No. 879 is currently scheduled to be brought back to Council for action on February 10, 2020.

RESOURCE/FINANCIAL IMPACT:

Staff and consultant resources are used to administer PTE program. For every project that utilizes the PTE program, City property tax revenue from building improvements—set for 2020 as $1,190 per year for every $1 million invested in the development—will not be collected for 12 years from the first full year of occupancy. For a multi-family qualified PTE project with a $30M improvement valuation this amounts to an estimated $43,138 per year in City property tax revenue exempted. Although a project with this valuation will not generate property tax revenue on the improvements for twelve years, the project will provide new affordable units for those households making less than the AMI, and the project will likely generate more than $1.2M in one-time revenues and nearly $69,000 in other annual revenues once occupied during the twelve-year exemption period. After PTE expiration, this project would provide an estimated $112,000 per year in annual revenue to the City.

RECOMMENDATION

Tonight, this agenda item is for discussion purposes only. Adoption of proposed Ordinance No. 879 is currently scheduled for February 10, 2020. Staff recommends that Council repeal the 500-unit cap on PTE in the CRA as presented in proposed Ordinance No. 879.

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

INTRODUCTION

In 2002, Council established the Property Tax Exemption (PTE) to attract development to Shoreline. Originally Shoreline's PTE programs did not include any affordable housing requirements, rather, PTE was adopted to achieve development densities that stimulate a healthy economic base and are more conducive to transit use in the targeted areas. In 2011, Council established the Aurora Ave N Corridor Property Tax Exemption (PTE) area to manage growth, to stimulate housing options, to ensure competitiveness, and to promote efficient use of land through a 5-year Property Tax Exemption with no affordability requirement. In 2013 Council imposed a 500-unit limit on PTE for the Shoreline Place Community Renewal Area (CRA). In 2015 Council established an affordability requirement for all PTE projects and, as of 2019, there are 330 units under construction in the CRA with a PTE application pending. The remaining capacity of 170 units, under the current CRA PTE cap, is insufficient for the next development slated for the CRA. Multifamily homebuilders who have expressed interest in redeveloping the Sears property have stated that they would be unable to do so without access to the PTE program (Attachment C).

The CRA is the only targeted residential area to have a PTE unit cap. The purpose of tonight's discussion is to consider potential options to maintain, repeal, or replace the PTE 500-unit cap in the Shoreline Place CRA residential target area.

BACKGROUND

Washington law (RCW 84.14) encourages property tax exemptions for multifamily investment in urban areas as a tool to manage growth, to encourage affordable housing, and to use land more efficiently. RCW 84.14 sets upper limits of 8 years of PTE for market-rate housing and 12 years of PTE for affordable housing. Although at one time the City had a PTE program for market-rate housing, we now only have a 12-year program for affordable housing.

The PTE program provides a 12-year property tax exemption on new housing construction and improvements in exchange for at least 20% of the units qualifying as affordable housing. The tax exemption does not apply to the land valuation or non-housing-related improvements. The PTE provides for exemption of taxes levied by all taxing districts during the 12-year period.

Currently the City has identified nine targeted residential areas which are eligible for the City's PTE program. Per Shoreline Municipal Code (SMC) Chapter 3.27.030 the nine designated areas are: Aurora Avenue North Corridor, including a portion of Westminster Way N, Ballinger Way NE commercial area, Hillwood commercial area, Richmond Beach commercial area, Southeast Neighborhood commercial area, North City Business District, Ridgecrest commercial area, and the two light-rail station areas.

Affordable housing is defined in SMC 3.27.020 for all targeted residential areas, except the two light-rail station areas. As per SMC 3.27.020 for studio and one-bedroom units the affordability level is no more than 70% of Area Median Income (AMI) and larger units at 80% AMI. Current rent and income limits are detailed in the attached City of Shoreline 2019 Income and Rent Limits (Attachment D).

PTE Program Results

Since the first PTE project in 2007, eight buildings with a total of 820 units have enrolled in the City's PTE programs, producing 278 affordable units. The projects are summarized below and in the 2019 PTE Report (Attachment E).

- The 88-unit Arabella was Shoreline's first PTE project and this project's exemption period expired in 2017. The City began receiving property tax on the building valuation in 2018.
- The 165-unit Polaris Apartment building was, technically, enrolled in the City's 12-year exemption in 2014. The PTE program requires that 33 units meet affordability requirements, but because the project used tax credit financing, all 165 units meet an affordability level of no more than 60% median household income and through a State program this building qualifies for a permanent property tax exemption.
- The 109-unit Arabella II cited the PTE program as a stated condition HUD placed on its financing.
- The 129-unit Malmo apartments in the Aurora Avenue North Corridor PTE area and the 5-unit North City Development enrolled in the PTE program in 2015.
- The 80-unit Interurban Lofts in the Aurora Avenue North Corridor PTE area and the 60-unit Sunrise Eleven in the Ballinger Way NE PTE Area enrolled in the PTE program in 2018.
- The 72-unit 205 Apartments in the Ballinger Way NE PTE Area and 221-unit Paceline, in the Aurora Avenue North Corridor PTE area, enrolled in the PTE program in 2019.

Seven more buildings currently in design and permitting are expected to enroll in the City's 12-year PTE program. This will add approximately 1,354 PTE units, including an estimated 272 affordable units.

Non-PTE Project Examples

Not all recent Shoreline multifamily developments have required the PTE incentive. A brief description of projects known to have not accessed PTE follows below:

1) The property for *The Artiste* was purchased in pre-recession 2007 by Weidner Apartment Homes, a large privately-owned company already familiar with and invested in Shoreline; Weidner owns Forest Hill Apartment Homes to the southeast of City Hall. Weidner may not have purchased *The Artiste* property even months later, given the economic downturn of 2008. Thanks to the financial strength of the company, it wisely held the property yet delayed construction for three years. Beginning construction in 2010 allowed Weidner to take advantage

of extraordinarily low construction pricing and to ride the creeping tide of recovery. The combination of an owner willing to weather a three-year delay and the timing of the recovery are conditions that won't often be repeated in Shoreline.

2) *The Echo Lake* project was a product of the real estate boom prior to the recession when financing was relatively easy to attain for multi-family and senior housing. In addition, it was a project with an owner-occupant anchor tenant in the YMCA that helped bring the project together. That project would have difficulty being financed in the current market, and the property struggled its first five years. Many similar projects feed the current level of caution and pessimism in the investment community.

3) *High Hill* apartments, located at Firlands Way, completed construction in 2019. The project team did not know PTE was available and reportedly would have chosen to participate had they been aware. There are no PTE-program-certified affordable units included in this development.

DISCUSSION

PTE Incentive Overview

PTE is an efficient tool for the creation of affordable housing as it combines exemptions from all taxing jurisdictions. The result is that for every property tax dollar the City elects to forgo over the 12-year tax exemption duration, the investor experiences a savings of approximately eight dollars on its property taxes. This provides the trade-off necessary to allow for 20% of the units to be rented at below market rates. While programs vary from city to city, PTE is now so commonplace that some multifamily homebuilders do not consider investments in areas where it is not available.

For multi-family investors, PTE is an important incentive. Despite strong demand for housing product, rents are currently too low in most areas outside of Seattle to justify the high cost of construction. PTE reduces expenses in a way the investor can count on, whereas escalating rents in the submarket could slow or reverse at any time after the project begins construction. Very few builders have full control of the capital required for their projects, relying on more conservative, quantitatively-focused lenders and equity partners.

Shoreline Place Community Renewal Area

According to the Shoreline Place CRA Plan, one of the keys to renewal is building residential development on site. The Shoreline Place CRA Plan, which the City Council adopted in 2012 to guide the economic renewal of the former Sears properties, includes adding on-site residential development to extend the area's vibrancy beyond shopping hours. The parcel where the former Sears store and parking lot are located equals roughly 25% of the CRA and is owned by Merlone Geier who has announced their first phase of development will be a roughly 17,000 square feet retail gateway project known as Block E and their second phase has been announced as the adjacent Block D, which will include the first of several mixed-use multifamily and ground-floor commercial buildings, tree-lined streets, and plazas and landscaped public spaces.

SMC 3.27.040 (D) provides a specific requirement that within the Shoreline Place Community Renewal Area (CRA) there is 500 total unit cap that can qualify for the PTE program. This is the only residential target area in Shoreline and King County, to have such a limit. The 500-unit cap applies to the total of number of units developed, not just the 20% that are required to meet the affordability standards. To date Trammel Crow, the developer of the Alexan within the CRA, has submitted a PTE application for 330 units, leaving just 170 units available under the current CRA cap. Due to the 500-unit cap on PTE, Merlone Geier's multifamily buildings, which could otherwise be incentivized to include an estimated 270 new affordable units, would not include any affordable housing. The cap may also have the effect of slowing the ongoing transformation of the CRA due to the high cost of construction that cannot be off-set with higher rents within the Shoreline market.

Fiscal Analysis: Sample PTE Project

As previously stated in this report, the 12-year PTE program provides a property owner with 12-years of property tax exemption on the valuation of improvements constructed as part of a multi-family project. It does not provide for an exemption on the valuation of the land or any existing structures. In exchange for this 12-year exemption period the developer must provide that at least 20% of the units developed provide for below-market rents for the qualifying income thresholds (70% or 80% of AMI) based on the size of the unit.

Although the valuation of the project may not be fully on the City's tax rolls for twelve years, therefore lowering the amount of new property tax, there are other revenue streams that will be generated by the project and the occupants of the units to off-set the costs of providing services to the new residents. These include:

One Time Revenues:

- Real Estate Excise Tax (REET) when a property is sold.
- Impact Fees: The City currently collects park and transportation impact fees for all new residential units (single-family and multi-family). In 2020 each new multi-family apartment units is assessed a transportation impact fee of $4,565 and a park impact fee of $2,812.
- Sales & Use Tax: Sales and use tax is collected by the City on construction when a project is developed in Shoreline. The amount of sales tax is dependent on the cost of the project.

On-Going Revenues:

- Sales & Use Tax: As new residents occupy the multi-family units, they buy goods in Shoreline that generate sales tax. On average, staff estimates that each resident of a multi-family unit generates approximately $119.74 per year of sales taxes.

- Utility Taxes: All residents of multi-family housing use a variety of utilities which are subject to utility taxes and franchise fees. This includes water, wastewater, garbage, electricity, natural gas, cable, telecommunications, and surface water. On average, staff estimates that each resident of a multi-family unit generates approximately $114.77 per year of utility taxes.
- State Shared Revenues: Many of the state shared revenues distributed to the City are based on a per capita basis. Assuming that the average multi-family unit occupancy is two people per unit, each resident of a unit generates approximately $36.15 per year of state shared revenues.

In order to financially quantify the contribution from a multi-family project, staff analyzed the potential fees and revenues collected for a hypothetical project that qualifies for the multi-family property tax exemption with a project that is $30 million in construction valuation on a 35,000 square foot lot estimated to yield 125 apartments. These are rough figures and are well below current median projects in Shoreline in terms of size and cost. Smaller projects had been the majority over the past few years, but larger projects have opened recently or are under construction now. Also recognizing that many of the projects constructed to date are being built on parcels where a smaller development may have existed staff assumed that the typical development site has an existing 24-unit apartment building.

One-time revenues collected from the project include REET, sales tax and transportation and park impact fees. The REET collected by the City on the developer's purchase of this hypothetical property would be approximately $17,500. The City's share of sales taxes, which are collected on the total of a project's hard and soft costs, would total an estimated $315,000. Approximately $922,125 in impact fees would be collected for the 125 units. While impact fees are designed to ensure concurrency with a level of service as a result of the growth in population, they also contribute to desirable projects that benefit the whole community. It is anticipated that this project would generate nearly $1.255M in one-time revenues.

Table 1: One-time City Revenues

REET on Land Sale	$17,500
Sales Tax of 1.05% (Construction)	$315,000
Impact Fees (125 Units X $7,377)	$922,125
Total (One-time)	**$1,254,625**

Table 2 below provides a comparison of on-going annual revenues prior to the development, the revenue stream during the 12-year property tax exemption period, and the revenue stream following the expiration of the 12-year tax exemption period. As can be seen from Table 2 the pre-redevelopment revenues are approximately $17,500 per year, during the 12-year tax exemption period approximately $69,000 and following the expiration of the exemption period $112,000.

Table 2: Ongoing Annual Revenue

	Pre-Development	**Development and PTE Program Duration**	**Post PTE Program**
Assumptions	(Current conditions)	(Years 1-12)	(Years 13+)
Total Units	24	125	125
PTE Program-Enrolled Affordable Units	0	25	0
Population	48	250	250
Property Tax (Land)	$1,309	$1,309	$1,309
Property Tax (Improvements)	$3,213	$0	$43,138
Sales Tax	$5,748	$29,935	$29,935
Utility Tax	$5,509	$28,693	$28,693
State-Shared Revenue (restricted)	$1,735	$9,038	$9,038
Total (Annual)	**$17,514**	**$68,974**	**$112,112**

Alternatives for Council Consideration

Council can consider three alternatives:

1. Maintain the 500-unit cap *(No Action)*
2. Raise the cap to a higher number
3. Remove the cap (*Staff Recommendation in Proposed Ordinance No. 879)*

Option 1: Maintain the 500-Unit Cap (No Action)

Council may choose to keep the 500-unit cap on PTE for the CRA. The housing affordability crisis has deepened in the time since the City's decision to require affordability in all PTE projects. There have also been significant changes in demographics and lifestyle preferences since the CRA Plan was developed. While commercial uses are possible in the CRA, multifamily homebuilders represent an important ally in creating the conditions for those additional commercial uses to become feasible in the CRA. Retail, for example, requires a much higher density of additional residents within walking distance for every new space added to a submarket. Office space, due to the recent record-high costs of construction, requires high rents set in an agreement with a prospective tenant in advance. The tenants today who can pay new-construction prices are those companies competing for the most highly sought-after talent. In addition to high-quality office space, these employers seek vibrant, walkable, urban districts in which to locate and are not typically the first to invest in an emerging area. Without the ability of developers to utilize PTE in the CRA the timeline for planned development may be lengthened significantly. Even if development were to occur it is likely that it would do so without any provision for affordable units.

Option 2: Raise the Cap to a Higher Number
Council may choose to increase the unit cap on PTE for the CRA. While a higher cap could encourage some multifamily investment and yield a limited contribution to the City's affordable housing supply, it would still signal a limit to the City's interest in redeveloping the CRA. It would also still be an outlier among PTE areas, not just within the City of Shoreline, but across King County. Should Council wish to impose limits on the residential density of the CRA in order to strike a balance of uses, this could be accomplished through land use and zoning policy.

Option 3: Remove the Cap (Staff Recommendation)
Council may choose to eliminate the cap on PTE for the CRA. Eliminating the cap on PTE for the CRA would bring it into alignment with other PTE areas of the city where investment is encouraged and affordable housing is incentivized. It would also align with other policies related to the CRA which are intended to encourage, rather than limit, reinvestment and redevelopment. This is staff's recommendation as reflected in proposed Ordinance No. 879 (Attachment B).

STAKEHOLDER INPUT

Staff reached out to six developers and received responses from three of them regarding their thoughts on PTE and its influence on their development decisions (see developer email responses in Attachment C). The multifamily homebuilders who responded cited the PTE program's important role in spurring private investment as well as incentivizing some amount of affordable housing to be brought to market within new residential buildings. Other comments included:

- General support for PTE as a way to facilitate more supply in a market constrained by challenges of developing more inventory to the degree that there is a housing shortage.
- Without the PTE program, the justification for one multifamily homebuilder starting their most recent development may have been insufficient. Ultimately, once opened, rents exceeded expectations, but that was nearly four years after the decision to purchase the land.
- Cited the 500-unit PTE cap as a deterrent to investing in the Shoreline Place CRA.
- City's broader PTE requirements should be adjusted in response to the differing market conditions in different neighborhoods of the City as demand from the market and City interests in revitalization may not be aligned. Simply put, some areas of the City do not have sufficient market demand for rents high enough to offset the lost revenue from the affordability requirements which are set uniformly citywide.

Finally, Shoreline Place CRA Property Owner Merlone Geier provided comments in support of repeal of the 500-unit cap (Attachment A). Merlone Geier shared feedback from potential development partners with whom they are in discussions with regarding

Block D of their redevelopment plan. Block D would replace the lower portion of the Sears Building and tie into the 17,000 square-foot all-retail Phase One project at the corner of Westminster Way and N 155th St. (Block E) and would include the creation of a new "C Street" connection roughly midpoint in the CRA connecting Central Market and other upper retail area establishments to the lower northeast corner retail area of the CRA. Block D would also include more than 17,000 square feet of retail and public space designed in accordance with Development Agreement Supplemental Design Guidelines negotiated by the City. Merlone Geier has asked that the cap be repealed in recognition of the changing market conditions since the time of its codification, at which point 100% commercial use was considered feasible in CRA redevelopment scenarios explored by the city and its consultants.

COUNCIL GOALS ADDRESSED

Renewal of Shoreline Place will promote the Council's Goal 1: Strengthen Shoreline's economic climate and opportunities, of which action step one is "Implement the Community Renewal Plan for Shoreline Place," while action step four reads "Encourage affordable housing development in Shoreline, including continued promotion of the Property Tax Exemption program."

The City Council adopted a five-year comprehensive Economic Development Strategic Plan in 2018 that focuses placemaking projects designed to trigger large-scale redevelopment and growth in four City-Shaping Areas. One of these four city-shaping placemaking priorities is "Catalyze Shoreline Place" and specifically calls for encouraging intensive private redevelopment of the former Sears center.

RESOURCE/FINANCIAL IMPACT

Staff and consultant resources are used to administer PTE program. For every project that utilizes the PTE program, City property tax revenue from building improvements—set for 2020 as $1,190 per year for every $1 million invested in the development—will not be collected for 12 years from the first full year of occupancy. For a multi-family qualified PTE project with a $30M improvement valuation this amounts to an estimated $43,138 per year in City property tax revenue exempted. Although a project with this valuation will not generate property tax revenue on the improvements for twelve years, the project will provide new affordable units for those households making less than the AMI, and the project will likely generate more than $1.2M in one-time revenues and nearly $69,000 in other annual revenues once occupied during the twelve-year exemption period. After PTE expiration, this project would provide an estimated $112,000 per year in annual revenue to the City.

RECOMMENDATION

Tonight, this agenda item is for discussion purposes only. Adoption of proposed Ordinance No. 879 is currently scheduled for February 10, 2020. Staff recommends that

Council repeal the 500-unit cap on PTE in the CRA as presented in proposed Ordinance No. 879.

ATTACHMENTS

Attachment A: Merlone Geier Letter Requesting Elimination of the PTE 500-unit Cap
Attachment B: Proposed Ordinance No. 879
Attachment C: Stakeholder Input Emails
Attachment D: City of Shoreline 2019 Income and Rent Limits
Attachment E: 2019 PTE Report

MerloneGeier
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October 25, 2019

Nathan Daum
Economic Development Program Manager
City of Shoreline
17500 Midvale Ave N
Shoreline, WA 98133

RE: Multifamily Property Tax Exemption (MFTE) Program – Aurora Square Community Renewal Area

Nathan,

Since our DA was approved we have begun a robust retail leasing campaign including launching a new website and releasing a new fly-thru video – both of which can be found at www.shorelineplace.com. We also had a booth at the last Shoreline Place Farmer's market of the season wherein we received even more valuable feedback on the types of retailers and restaurants that the community would like to see.

We have also been in touch with all of our adjacent property owners and are working towards an updated set of governing documents to control operations and allow for the orderly redevelopment of Shoreline Place.

Last but not least, we have commenced a robust process to identify a prospective multifamily partner for the first phase of residential. Feedback thus far has resulted in two important items that we wanted to share with you.

The first is that our assumptions were confirmed that Block D is the right block to move forward with as an initial phase for the project. This will complete the work on Westminster and tie into the new 17,000sf of retail we are designing adjacent to 155th and Westminster. It will also allow for the first phase of ground floor retail and open space (the East Plaza) and C Street to be constructed after we demolish the former Sears Auto Center. Having this block move forward first, concurrently with the work that is occurring on Westminster by Trammel Crow and the City, will minimize the impacts to that road system, help in our implementation of the CRA signage objectives as well as provide other assurances for Central Market and the other existing businesses.

The second important piece of information that we have received through our conversations with multifamily groups is related to the Property Tax Exemption program (also known as the MFTE program). Many multifamily groups have asked whether the City would consider removing the cap that currently is in place on the CRA for the MFTE program. The main reason for this request is that many multifamily developers are able to use this tax abatement to offset rising construction costs in the region. Other groups in the region have also shared that they now have corporate objectives to incorporate affordable units where the MFTE program is available.

Based on this feedback we would simply ask that the 500 unit MFTE cap that was put in place prior to our ownership and at a time when significant commercial was thought possible in the CRA (something our market analysis confirmed to be inaccurate) is no longer applicable. Removing the cap would help market rate multifamily developers offset rising costs allowing the Shoreline Place phases to move forward more expeditiously than we had previously anticipated, a goal shared by many citizens who spoke before the Planning Commission and City Council. Given our Development Agreement for 1,358 units, lifting this cap will also allow for the potential creation of over 270 affordable housing units, integrated into a new mixed-use environment adjacent to goods, services, recreation and transit options.

Thank you in advance for your consideration and we look forward to continuing our work with you on making Shoreline Place a reality.

Sincerely,

James Gwilliam
Vice President, Development
Merlone Geier Partners

ORDINANCE NO. 879

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON AMENDING SHORELINE MUNICIPAL CODE SECTION 3.27 PROPERTY TAX EXEMPTION.

WHEREAS, in December 2011, with the adoption of Ordinance No. 624, the City Council established a portion of the Aurora Square (Shoreline Place) Community Renewal Area as a residential target area for the multi-family tax exemption provided for in chapter 84.14 RCW; and

WHEREAS in July 2013, with the adoption of Ordinance No. 664, the City Council established 500 units as the maximum number of units that could benefit from the tax exemption and also imposed a housing affordability requirement; and

WHEREAS, the purpose of the maximum number was to address City Council concerns that the tax exemption program could adversely impact property tax revenues for the City; and

WHEREAS, since the maximum was established in 2013, development projects have encumbered 330 units in this residential target area, leaving only 170 units available as an incentive for affordable housing development; and

WHEREAS, the tax exemption program has been an efficient tool for the creation of affordable housing as it serves as an important incentive for multi-family project investors; and

WHEREAS, in September 2019, the City Council authorized the execution of the Shoreline Place Development Agreement to redevelop a large portion of this obsolete 1960s shopping center into a mixed-use development which includes approximate 1,358 residential units; and

WHEREAS, limiting the number of units that could benefit from the tax exemption is contrary to the goals and policies contained in the Aurora Square (Shoreline Place) Community Renewal Area Plan (2012) which seeks to guide economic renewal of the area and provides no incentive for providing affordable housing in the Community Renewal Area; and

WHEREAS, the City has studied the multifamily tax exemption and finds the taxes and fees from projects incentivized by this limited exemption are a net positive budgetary impact and understands that accelerating the redevelopment of the Community Renewal Area will support the City's fiscal sustainability;

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASINGTON DO ORDAIN AS FOLLOWS:

Section 1. Amendment to Chapter 3.27 Property Tax Exemption, Section 3.27.040 Eligibility standards and guidelines. SMC 3.27.040 is amended as set forth below:

SMC 3.27.040(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. Units will be allocated based on the date the project's application for a conditional certificate is considered complete.~~

~~2~~. 1. Units within the 145th and 185th Street Station Subareas must meet the median income requirements of the 20 percent affordability option as set forth in SMC 20.40.235.

~~3~~. 2. The designation of residential targeted areas with the 145th and 185th Street Station Subareas shall automatically expire on December 31, 2021. Complete applications for exemption filed prior to this date will be considered vested under this chapter.

Section 2. Severability. Should any section, subsection, paragraph, sentence, clause, or phrase of this ordinance or its application to any person or situation be declared unconstitutional or invalid for any reason, such decision shall not affect the validity of the remaining portions of this Ordinance or its application to any person or situation.

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

PASSED BY THE CITY COUNCIL ON FEBRUARY 10, 2020.

____
Mayor Will Hall

ATTEST: APPROVED AS TO FORM:

_________________________ _________________________
Jessica Simulcik Smith, City Clerk
Margaret King, City Attorney

Date of Publication:	, 2019
Effective Date:	, 2019

Archived: Wednesday, November 20, 2019 8:45:23 AM
From: Elizabeth Cobb
Sent: Thursday, September 26, 2019 9:35:21 AM
To: Nathan Daum
Cc: Kirk Bezanson
Subject: [EXTERNAL] RE: Request for comment on City's MFTE program
Sensitivity: Normal

Good morning Nathan.
We are aware of the 500-unit cap on MFTE for the Shoreline Place Community Renewal Area, and it does deter us from investment within this district. Your suggestions are good, and I would like to give it some more thought as to what would be constructive feedback for the city.

When do you need responses back?
Regards,
Elizabeth

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Vice President, Development
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SheaProperties.com | Facebook | Twitter | Linked In

From: Nathan Daum <ndaum@shorelinewa.gov>
Sent: Thursday, September 26, 2019 9:22 AM
To: Elizabeth Cobb <elizabeth.cobb@sheaproperties.com>; Kirk Bezanson <Kirk.Bezanson@sheaproperties.com>
Subject: Request for comment on City's MFTE program

Hi Elizabeth and Kirk,

The City of Shoreline will soon undertake a review and reconsideration of an existing 500-unit cap on MFTE for the Shoreline Place Community Renewal Area and I have been tasked with collecting perspectives of investors familiar with the program. The Shoreline Place Community Renewal Area is a roughly 70-acre district of the city bounded by 160th to the North, Aurora to the East, 155th/Westminster/Fremont, and Dayton Ave. N. to the South.

While this does not affect any projects you are working on (that I know of), and you are under no obligation whatsoever, it would be helpful to know how MFTE affects project feasibility generally and what your recommendations would be to the City of Shoreline as we consider whether to potentially do nothing (keep the 500-unit cap in place), remove the cap, or set it at some higher number. Another scenario we may prepare for in case of Council interest, would be whether to adjust the affordability limits in that area (currently 70% for studios, 80% for 1 BD and larger units).

Attached is an example of the kind of letter that has been helpful to have in the past when the Council has looked at this issue. For background, you can watch the January 26, 2015 meeting on this topic. At the 2 hour 2 minute mark, former City of Shoreline Economic Development Program Manager Dan Eernissee describes the thought process that went into the cap. In short, since entertainment, restaurant, office, and other commercial uses were the priority for the Shoreline Place Community Renewal Area, an incentive to build housing was not considered to be a priority.

Please let me know if you have any questions. Your input would be most helpful as we explore this issue and don't want to do so in a vacuum of real-world market insights.

Sincerely,
Nate

Nathan Daum
Economic Development Program Manager | City of Shoreline
17500 Midvale Avenue N, Shoreline, WA 98133
☎: (206) 801-2218 | : (206) 391-8473 | www.shorelinewa.gov | www.SURPRISEDbySHORELINE.com

Archived: Wednesday, November 20, 2019 8:45:58 AM
From: Adel Sefrioui
Sent: Thursday, September 26, 2019 10:08:49 AM
To: Nathan Daum
Subject: [EXTERNAL] Re: Request for comment on City's MFTE program
Sensitivity: Normal

Nate,
My views may differ from other developers on this question. I'm all for providing more affordability in King County. I think it's our duty to ensure that nurses, tradesmen, teachers, etc. all have the ability to live in the cities in which they work. On the other hand, there is also the clear fact that developers need the costs associated with providing their units at lower rents to be offset by some other cost(s) in order for their projects to be viable financially. In areas such as Shoreline, where rents tend to average at $2.40-$2.50/SQFT, versus in Bellevue or parts of Seattle where rents can average at $3.00-$4.00/SQFT, it's difficult to make projects pencil, even if all housing units are provided at market rate. Thus, some offset, whether it be a property tax exemption for 12 years, something entirely different, or a package of offsets, must be provided to ensure that developers are not disincentivized from building within any given municipality. If a city wants to encourage development, policies shouldn't be prescribed that have the opposite effect. That's the 40,000 ft view.

More specifically, on our project currently under construction in the North City neighborhood, we were able to make subsidized housing pencil by participating in the MFTE program in exchange for 20% of our units dedicated to subsidized rents. But my issue with the program, as adopted by the city of Shoreline, provides little flexibility in making these numbers pencil. It just so happened to work for this project, but it may not have if other factors did not align themselves - cost of land, cost of construction, average area rents, etc.. My approach would be to work with developers to find a % of units and a % of subsidy that works for their budget on a case-by-case basis, rather than having an across the board, one-size fits all, approach. For instance, the project in North City is a 5 over 2 wood-framed building, but the proposed one on 145th has the potential to be a 14 story high rise. But there are significant cost increases to a developer for building a high rise, where building materials switch from wood to concrete or steel, leading to higher overall project costs. Accordingly, in exchange for subsidized housing, a greater offset should and must be provided in order to make projects such as that one pencil. The alternative would be that no developer will exercise his or her right to take advantage of the higher building heights afforded in the MU-70' zone.

These are my initial thoughts on the program. I think PARKING is another offset that could be exchanged for providing subsidized rents. I know the city already provides greater parking reductions in exchange for lower % of AMI (i.e providing units at 50% AMI instead of 70% AMI), but again, this impacts your average rent and makes it even harder for projects to pencil.

I'm happy to meet with you or others, including the council, in an open workshop-style setting where I can provide insight into how we build our pro formas on the developer side of things, and how each variable - whether it be parking, or rent subsidies, or construction cost impacts of wood vs. concrete - can impact the viability of any given project. My hope would be that such transparency would help inform the future decision-making of the city vis-a-vis any housing-related policy is hopes to prescribe in the future.

Best,
Adel

Adel Sefrioui | Vice-President
Evergreen Point Group
D: 425 922 7226
E: adel@evergreenpoint.net

From: Nathan Daum <ndaum@shorelinewa.gov>
Sent: Thursday, September 26, 2019 9:31 AM
To: Adel Sefrioui <adel@evergreenpoint.net>
Subject: Request for comment on City's MFTE program

Hi Adel,

The City of Shoreline will soon undertake a review and reconsideration of an existing 500-unit cap on MFTE for the Shoreline Place Community Renewal Area and I have been tasked with collecting perspectives of investors familiar with the program. The Shoreline Place Community Renewal Area is a roughly 70-acre district of the city bounded by 160th to the North, Aurora to the East, 155th/Westminster/Fremont, and Dayton Ave. N. to the South.

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Archived: Wednesday, November 20, 2019 8:46:30 AM
From: Trent Mummery
Sent: Thursday, October 24, 2019 6:07:58 AM
To: Nathan Daum
Subject: [EXTERNAL] RE: Request for comment on City's MFTE program
Sensitivity: Normal

CAUTION: This email originated from outside of the City of Shoreline. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi Nathan,

Apologies for the delay. I support MFTE for all developers, not just me. Recognising that the below likely benefits our much larger competitor, I wish for a level playing field for all.

Mr. Hyatt wrote a nice letter. Minus 500 words...I concur with his position.

Development is already difficult enough, and there is a housing shortage. One can argue about the merits of the program, but it does help create relatively affordable housing. Without the PTE program, I doubt we would have been able to justify starting the development at Malmo. Yes, rents exceeded our expectations once we opened, but that was almost 4 years after we made the decision to purchase the land. Without PTE, we might not have made that purchase.

Hope this helps.

Thanks,

Trent Mummery
Trent Development Inc
trent@onetrent.com
206-234-6543

From: Nathan Daum <ndaum@shorelinewa.gov>
Sent: 26 September 2019 09:30
To: Trent Mummery <trent@onetrent.com>
Subject: Request for comment on City's MFTE program

Hi Trent,

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Nate

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2019 Income and Rent Limits — City of Shoreline

The rent and income limits shown below apply to all MFTE projects except those with height bonuses in the MUR-70 zone. Projects in MUR-70 that don't use the height bonus do follow these rent and income limits.

Based on the King County (Seattle-Bellevue HFMA) Median Income: $108,600 for a family of 4.

Rent Limits

70% AMI

BEDROOMS	Maximum Monthly Housing Costs	Maximum Rent if No Other Expenses	Maximum Rent if Tenant Pays Own Utilities, and No Other	Maximum Rent if Tenant Pays Own Utilities, Renters Insurance, and No Other Expenses
Studio	$1,330	$1,330	$1,222	$1,210
"Open 1"	$1,520	$1,520	$1,412	$1,400
One	$1,520	$1,520	$1,412	$1,400

Household Income Limits

AMI: Household Size	70% Initial Occupancy	90% Recertification
1	$53,250	$68,450
2	$60,850	$78,200
3	$68,450	$88,000
4	$76,050	$97,750
5	$82,150	$105,600

80% AMI

BEDROOMS	Maximum Monthly Housing Costs	Maximum Rent if No Other Expenses	Maximum Rent if Tenant Pays Own Utilities, and No Other	Maximum Rent if Tenant Pays Own Utilities, Renters Insurance, and No Other Expenses
Two	$1,955	$1,955	$1,821	$1,809
Three	$2,172	$2,172	$2,002	$1,990
Four	$2,346	$2,346	$2,135	$2,122

AMI: Household Size	80% Initial Occupancy	100% Recertification
1	$60,850	$76,050
2	$69,550	$86,900
3	$78,200	$97,750
4	$86,900	$108,600
5	$93,850	$117,300

Maximum monthly housing costs are 30% of the maximum household income, and include basic utilities, one parking space, and any costs required by the property owner (e.g., renter's insurance).
Income and housing cost limits are adjusted from the 4-person basis according to the table below, left.
Maximum contract rents are calculated by deducting charges borne by the tenant: basic utilities or utility allowance, first parking space, and monthly costs required for tenancy (e.g., renters insurance). Instead of deducting actual expenses, the owner may deduct allowances according to the table below, right.

Other Expense Allowances

Bedrooms	Electricity & Gas	Water, Sewer, Garbage	Renter's Insurance
Studio	$38	$70	$12
"Open 1"	$38	$70	$12
One	$38	$70	$12
Two	$53	$81	$12
Three	$70	$100	$12
Four	$93	$118	$13

Example: The maximum rent of an 80% AMI studio with all utilities included, and no other required expenses, would be $1,330
The maximum rent for the same studio with no utilities included and renters insurance required would be $1,210
The maximum rent for the same studio with water, sewer, and garbage included (i.e., no W/S/G allowance) but not electricity and gas, and renter's insurance required would be $1,280

2019 Property Tax Exemption Program Report - City of Shoreline

Updated 6/5/2019

Currently in PTE Program

Units	Project	Type	Affordable	Start	End	Improvements Valuation	Tax Rate	Exemption of City Property Tax
221	Paceline	12-year affordable	44	1/1/2019	12/31/2030	46,777,920	1.39820	65,405
72	205 Apartments	12-year affordable	14	1/1/2019	12/31/2030	14,571,200	1.39820	20,373
60	Sunrise Eleven	12-year affordable	12	1/1/2018	12/31/2029	12,912,000	1.39820	18,054
80	Interurban Lofts	12-year affordable	16	1/1/2018	12/31/2029	3,822,700	1.39820	5,345
129	Malmo	12-year affordable	26	1/1/2015	12/31/2026	31,920,000	1.39820	44,631
5	North City Development	12-year affordable	1	1/1/2015	12/31/2026	663,300	1.39820	927
165	Polaris*	12-year affordable	165	1/1/2015	12/31/2026	see note		
732			**278**			**110,667,120**		**154,735**

Graduates of PTE Program

Units	Project	Type		Start	End	Improvements Valuation	Tax Rate	2019 Revenue
88	Arabella	10-year market	n/a	1/1/2007	12/31/2016	22,957,100	1.39820	32,099
88						**22,957,100**		**32,099**

Conditional Certificates of PTE

Units	Project	Type	Affordable	Cert. Date	Expiration	Status	Est. Completion	Final App
203	Vail II	12-year affordable	41	-	-	Construction		no
318	18815 Aurora	12-year affordable	63	-	-	Construction		no
16	145th Apartment	12-year affordable	4	-	-	Construction	Late 2019	no
330	Alexan at Shoreline Place	12-year affordable	66	-	-	Construction	Late 2020	no
81	Arabella 2	12-year affordable	17	3/8/2018	3/8/2021	Construction	Late 2019	no
243	The Postmark	12-year affordable	49	2/20/2018	2/20/2021	Construction	Late 2019	no
163	Geo (Formerly known as Vail)	12-year affordable	33	1/4/2017	1/4/2020	Construction	Early 2020	no
1,354			**272**					
2,174	**Total homes**		**551**	**Affordable homes**				

**NOTE: Polaris qualifies for an alternative state incentive program offering full property tax exemption; the City's PTE program acts as backup.*