

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of 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:	<input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

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 CRA's 500-unit cap.

On January 27, 2020, the City Council discussed proposed Ordinance No. 879 (Attachment A), which would repeal the 500-unit cap on PTE for the CRA. At this meeting, Council requested that staff also provide amendment language that would increase the cap to the total housing units currently proposed in the Merlone Geier Development Agreement and those already being built by Trammel Crow. The new cap under this proposal would be a total of 1,688 units. Tonight, Council is scheduled to take action on proposed Ordinance No. 879.

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

Staff recommends that the City Council adopt Ordinance No. 879, removing the 500-unit PTE cap in the Shoreline Place CRA residential targeted area.

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

BACKGROUND

The Property Tax Exemption (PTE) program is the City's main affordable housing program. The City has identified nine (9) residential targeted areas for its PTE program, which 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 a targeted residential area, it must be a 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 area median household income (AMI) 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.

Eight (8) buildings with a total of 820 PTE units have been built over 12 years producing 278 affordable housing units, with seven (7) more buildings expected to enroll in the program. This will add approximately 1,354 PTE units, including an estimated 272 affordable units.

Shoreline Place Community Renewal Area (CRA) Residential Targeted Area

SMC 3.27.040(D) provides a specific requirement that within the Shoreline Place CRA residential targeted area, 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 Apartments 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 CRA's 500-unit cap.

On January 27, 2020, the City Council discussed proposed Ordinance No. 879 (Attachment A), repealing the 500-unit cap on PTE for the CRA. A copy of the staff report for this Council meeting can be found at the following link:
<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2020/staffreport012720-8c.pdf>.

DISCUSSION

At the January 27th Council meeting, the City Council discussed both removing the PTE cap for the CRA, as recommended by staff, and increasing the cap to match the total number of units under construction by Trammel Crow Residential and proposed in the Merlone Geier Partners' Development Agreement with the City. Council requested that staff prepare amendment language that Council could consider if they chose to raise the cap instead of removing the cap.

If Council chooses to increase the cap, it should be noted that since neither of the applicants has yet completed a PTE contract with the City, capacity under that limit would be available to any developer on a first-come first served basis. Currently there are no other developers who have committed to residential development within the CRA. Having a cap would 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.

If Council would like to increase the PTE cap for the CRA instead of removing the cap, staff recommends using the following amendment motion language:

"I move to amend the proposed Ordinance No. 879 to retain the existing Section 1 language but amend the number of total units from 500 to 1,688 as stated in the staff report, and renumber the remaining sections consecutively."

~~Strike "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"~~

and insert "1. No more than 500 1,688 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."

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

Staff recommends that the City Council adopt Ordinance No. 879, removing the 500-unit PTE cap in the Shoreline Place CRA residential targeted area.

ATTACHMENTS

Attachment A: Ordinance No. 879

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, WASHINGTON 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: , 2020

Effective Date: , 2020