

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussing the Update of the Feasibility Study for Transfer of Development Rights and the Landscape Conservation and Local Infrastructure Program (LCLIP) in Shoreline
DEPARTMENT:	Planning & Community Development Administrative Services
PRESENTED BY:	Steven Szafran, AICP, Senior Planner Sara Lane, Administrative Services Director
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:

The Landscape Conservation and Local Infrastructure Program (LCLIP) was passed into State Law in 2011. The purpose of the program is to encourage the Transfer of Development Rights (TDR) with a public infrastructure financing tool called tax increment financing (TIF). The program gives the City access to a new form of revenue in return for TDR from regional farms and forests. LCLIP creates incentives for both land conservation in the county and infrastructure improvements in the city.

The City received a grant to study the feasibility of applying LCLIP in the 145th and 185th light rail station subareas, Town Center, and the Community Renewal Area (Aurora Square). Tonight's meeting is a chance for Forterra, ECONorthwest, King County, and staff to present the results of the updated LCLIP Feasibility Study (LCLIP Study) (Attachment A) and for Council to provide direction to City staff on whether the City should continue pursuing a TDR program including LCLIP based on the results of the updated LCLIP Study. If Council chooses to pursue an LCLIP program, staff will work with Forterra and King County to implement the program.

RESOURCE/FINANCIAL IMPACT:

If the Council chooses to pursue a TDR program and LCLIP for Shoreline, there may be a range of financial implications. The 2020 Feasibility Report has been updated and the report finds that the City stands to gain \$8.3 to \$12.8 million dollars for infrastructure improvements from revenue generated by new development over a 25-year period if all the City's allocated TDR credits are placed.

RECOMMENDATION

Staff recommends that Council direct staff to draft an LCLIP ordinance for potential future adoption and a complimentary TDR program for future Council consideration. The draft program would include Development Code Amendments for incentives to sell TDR

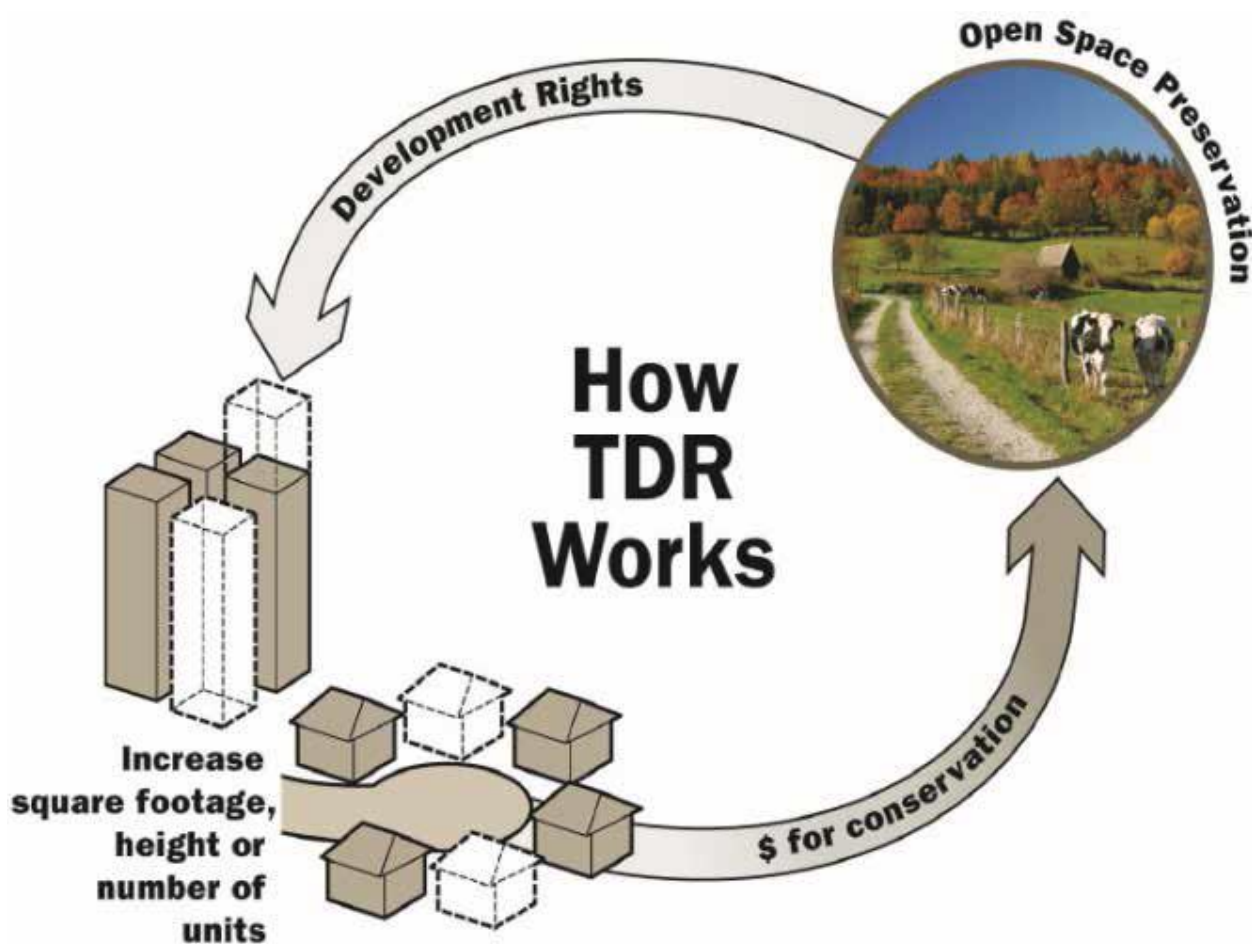
credits, TDR exchange rates, receiving areas, sending areas, and Local Infrastructure Project Area (LIPA), as well as Council direction from this evening's discussion.

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

BACKGROUND

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

A TDR is considered a unit of development. Instead of prime rural farm, forests, and open space lands being developed with new residential units, those units are relocated to urban areas with services that can support increased densities. Developers may pay property owners of rural resource lands for those TDRs and cities can provide an incentive for doing so. Incentives can come in many forms and are addressed later in this staff report.



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

The City began looking at the LCLIP program to include TDRs into the light rail station subareas. In exchange for zoning low density areas to transit supportive densities, the City will have access to financing for revitalizing designated districts. The City could bond against the future tax revenue generated by the development projects to make essential infrastructure improvements.

On July 20, 2015, City Planning and Community Development (PCD) staff, King County, ECONorthwest, and Forterra presented the findings of the Shoreline LCLIP Feasibility Study (LCLIP Study) to the City Council. The staff report for this meeting can be found at the following link:
<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2015/staffreport072015-8a.pdf>.

On November 6, 2017, Council authorized \$30,000 to update the LCLIP Study to determine if the City should continue to work with Forterra and King County to implement a TDR program with LCLIP. The staff report for this meeting can be found at the following link:
<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2017/staffreport110617-9a.pdf>.

DISCUSSION

The City entered into a contract with Forterra NW to update the 2015 LCLIP Study with current market information; refresh revenue projections; and expand the range of options for implementing both tools as a part of a growth management and infrastructure investment strategy in areas where the City desires redevelopment.

The purpose of the updated study is to create a TDR program that will place enough TDR credits for Shoreline to reach the upper limit of its TDR target (231) by selling the credits to developers and others who may want to take advantage of the environmental benefits and incentives offered by the program. This includes an incentive-based approach that balances the policy priorities of funding capital improvements, conserving resource land, and meeting housing affordability goals. The crux of the research devises an implementation strategy that optimizes the benefits of LCLIP to the City while placing 231 credits, keeping the approach simple, and crafting an incentive structure that will be attractive to landowners and developers.

Major Elements of the Revised LCLIP Study

1. **Clarity.** The LCLIP program is complex with many moving parts that can be very confusing to the novice reader. The updated LCLIP Study attempts to revise descriptions of how LCLIP works to make the report clearer in explaining the mechanics of the program, the benefits, the exact steps to follow for adoption/implementation, and the risks involved.

2. **LIPA Area.** The study focuses on a revised Local Infrastructure Project Area (LIPA), or LCLIP district, where TDR credits may be placed and infrastructure projects that will be constructed. TDR may be used anywhere in the City, but for the City to capture LCLIP dollars, TDRs must be used in the LIPA area. The LCLIP Study models a range of growth scenarios within the LIPA showing how TDR placement and program revenue will change based on LIPA configuration and growth rates. LIPAs are regulated by RCW [39.108.130](#) and place limitations on local infrastructure project areas. The currently proposed LIPA covers most of the commercial and mixed-use zones in the City and includes the Aurora corridor, Light Rail station areas, and commercial nodes in Hillwood and Echo Lake.
3. **Policy and Regulatory review.** The City's consultant, Forterra, proposed regulatory incentives to aid the City in the selling of TDR credits.
4. **Risk Analysis.** The LCLIP Study outlines revenue collection functions and the City's obligations under the State statute.
5. **Implementation Strategy.** The LCLIP Study proposes a TDR program framework that will maximize the likelihood of credit placement within the geography of the LIPA(s). It includes recommendations for program components such as sending areas, receiving areas, regulatory incentives, exchange rates, and an administrative model. The LCLIP Study also creates a roadmap for LCLIP adoption. The LCLIP Study includes specific steps to adopt an ordinance that reflects the City's priorities and partnership with King County, as well as an implementation strategy.

TDR Incentive Recommendations from the Updated LCLIP Study

The LCLIP Study revealed that multiple incentives will likely need to be employed to make the program attractive to developers. The following list includes the possible incentives to sell the TDR credits, as well as the Council option to mandate TDR credit purchase:

1. **Additional Building Height** – Purchase of TDR credits will allow developers to build above the base zoning height limits in certain zones up to a defined maximum height. The Development Code already has provisions for additional building height in the Residential (R)-48, Mixed Use Residential (MUR)-35', MUR-45', MUR, 70', Neighborhood Business (NB), Community Business (CB), Town Center (TC)-1, 2, and 3, and Mixed-Business (MB) zones.
2. **TDRs for Affordable Housing** – A developer may purchase TDR credits for a defined amount of new construction as an alternative to providing required affordable housing. The City may allow the first 300 units that require affordable housing to buy TDR credits as an alternative. The number of TDR credits required for purchase needs to be some amount less than rent of the affordable unit over the duration of the 99-year affordability period. For perspective, a 100-unit apartment building in the MUR-70' zone requires twenty (20) units of

affordable housing. The delta between the market and affordable rents for those units should be more than the cost of the TDR credits required.

3. **Parking Reduction** – Purchase of TDR credits could allow developers to build fewer parking stalls in certain projects. Parking reductions are a valuable incentive as the price of a typical structured parking space now exceeds \$60,000 whereas an average TDR credit costs \$30,000. The incentive can be restricted by the number of parking space reductions per project, areas of where reductions may occur (near light-rail station or other high-capacity transit areas), or a cap on the total reductions citywide. The City has conducted a parking study in the Station Subareas (185th and 145th Streets) and has concluded there is capacity for on-street parking for at least the next 10 years. This could be justification for allowing parking reductions near the light-rail stations.
4. **Property Tax Exemption** – Council may authorize an 8-year Multi Family Property Tax Exemption (PTE) for mixed-use projects with no affordability requirement for developers that purchase TDR credits. This is a valuable incentive to developers when paired with additional incentives of building height and parking reductions. The study shows this will be an effective driver of TDR placement credit. For example, an 8-year PTE on a mixed-use building saves a property owner an estimated \$500,000 on taxes over 8-years. In return, a developer purchases for example, four TDR credits at a cost of \$120,000, saving a developer \$380,000 over 8-years.
5. **TDR and Significant Tree Retention** - The City could allow the purchase of TDR credits to serve as a criterion to reduce the percentage of significant trees that must be retained and/or to reduce the number of required replacement trees in the MUR-35' and MUR-45' zones provided the development activity is not within a critical area or its buffers. The City currently allows removal of all significant trees on parcels zoned MUR-70'. The Development Code could be amended to required significant tree retention per SMC 20.50.310(B) for lots zoned MUR-70'. Significant trees may be allowed to be removed if TDR credits are purchased. The purchase of TDRs could also be adopted as a penalty for illegally removing or damaging significant trees or trees within critical areas without of permit located within the LIPA area.
6. **Permit Fee Reductions** – The City could wave the building permit review fees for any new multifamily, commercial, or mixed-use building in the LIPA area. Typical review fees for recent six-story mixed use buildings in the city are between \$200,000 and \$300,000 dollars.
7. **Expedited Building Permit Review** – The City could offer expedited building review for projects that purchased TDRs. Using the same project above, expedited review could be up to \$100,000.
8. **Mandate TDR Purchase** – Council has the option of requiring TDR purchase for all new multifamily and mixed-use projects. The City currently requires affordable housing and green construction in the MUR zones. For example, a mandate could be in place that for every 10 units constructed in the LIPA area a developer

must purchase one TDR credit. Another example of a possible mandate could be that for every 10,000 sq. ft. of commercial space constructed a developer must purchase one TDR credit.

Analysis of Proposed TDR Incentives

The following table provides a “pro/con” summary analysis of the above TDR incentives, including the Council option to mandate purchase of TDR credits.

Incentive	Pros	Cons
1. Increased height	Allows the developer additional units for the purchase of TDR's.	Additional height may impact nearby residential uses with the added density, bulk and scale of taller building. The cost of construction over 70-feet in height is currently not cost effective since wood frame construction cannot exceed five-stories. Cross-laminated timber is unproven, and most developers are hesitant to use it in Shoreline. Steel construction only makes financial sense for buildings over 14 stories. No market to support 14 story buildings in the short-term.
2. TDR Trade-Off for Affordable Housing Units	<p>The purchase of TDRs can be set at a price that is less than providing affordable units. The ability to buy TDRs instead of providing affordable housing would be discontinued as soon as all the TDR credits have been placed or another finite set of TDR credit are placed.</p> <p>The City could also require for sale units in the MUR-70' and MUR-45' zone to provide affordable housing or purchase TDR credits. There currently is no requirement that for sale units provide affordable housing.</p>	TDR credits are competing with affordable housing units until all 231 credits are extinguished. The Comprehensive Plan, Council Goals, and the Development Code encourage and mandate affordable housing to create housing for all economic segments of the population. Trading TDRs for affordable housing will delay the creation of a certain number of affordable housing units.
3. Parking Reductions	Reduces the space devoted to parking cars in areas adjacent to light rail and rapid transit, valuable service. Saves the developer the cost of building oversized expensive garages that may or may not	Perceived problems with parking on residential streets and parking demand for the next 4 years until light rail is operational and beyond.

	be fully utilized. Supports climate action goals by encouraging less parking, less cars and more usage of high-capacity transit and other non-motorized options. A recent parking utilization study completed by the City shows enough on-street parking capacity over the next 10 years.	
4. PTE tied to TDR purchase	8-year PTE saves the developer on the cost of property tax over 8-years. The cost of TDR's may be less than the savings of property tax over the 8-years.	Council will have to pass an ordinance to enact an 8-year PTE that covers the proposed LIPA area. 8-year PTE has no affordability requirement.
5. TDR purchase to reduce significant tree retention and replacement in MUR 35' and 45' zones; require tree retention and/or replacement in MUR-70' and then offer reduction with purchase of TDRs	<p>Provides the developer flexibility to maximize development potential within the light rail station areas. Saves a greater number of trees in the County while providing increased development potential in the urban areas.</p> <p>Like the pro argument above, requiring tree retention in the MUR-70' zone will save a greater number of trees in the MUR-70' if properties are not developed and also saves a greater number of trees in the County while providing increased development potential in the urban areas.</p>	Neighborhood perception of paying to remove trees otherwise required to be saved, loss of tree canopy in the station areas, not as many replacement trees would be required to be planted when TDR was used. Note: adding tree retention and replacement in the MUR-70' with the alternative to exempt the requirement if TDR credits are purchased is a pro for trees and TDR sales and a con for development.
6. Permit Fee Reductions	Provides the developer an additional cost savings of a potential project if the cost of TDRs is less than the permit review fees.	Not all fees can be waived including fire, wastewater, and impact fees (traffic, fire, parks).
7. Expedited Permit Review	Expedited permit review could save the developer half of the normal review time on a permit.	Staff may not have the capacity to expedite permits based on workload.
8. Mandate TDR Purchase	Purchase of TDRs would be guaranteed with every project that is permitted and built and retired consistently with every project built.	Station Subareas are already burdened with the mandates related to affordable housing and green building. Developers have indicated these two provisions alone are

		making development impossible in some cases (along with minimum parking requirements).
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TDR Program Implementation With LCLIP

Council could choose to implement a TDR program without the LCLIP program. This would result in the City forgoing financial consideration for the sacrifice of its development rights. The LCLIP program provides a financial incentive to cities as the County provides a portion of the County's property tax as an incentive to encourage TDR. As the attached report states, the City can collect between \$8.3 to \$12.8 million for local infrastructure projects by selling its 231 TDR credits. Without the LCLIP ordinance, the City would be unable to collect that money. Staff recommends that a TDR program be implemented only in concert with the LCLIP program. By creating a TDR program and adopting an LCLIP Ordinance, the City will further its sustainability goals while also raising money for local infrastructure projects. The following table summarizes a "pro/con" analysis of implementing the LCLIP program in concert with the TDR program.

Pros	Cons
Potential for development in the light rail station subareas is greater than that assumed in the 10 Year Financial Sustainability Model, therefore there is a limited impact on the revenue side of the 10-Year Financial Sustainability Model as staff cannot forecast the revenue potential for new construction in these areas resulting from rezoning over the next twenty years.	Administrative Complexity- the LCLIP program restricts 75% of the increase in the property tax levy resulting from new construction occurring within the LCLIP district(s) to be used for to support infrastructure within the LCLIP area. In order to mitigate potential impacts to general fund operating budget the City will need to carefully monitor and manage these expenditures by replacing activities currently funded with general funds and other restricted revenues to be supported by the LCLIP revenues. This will be an administratively complex process that will need to begin as soon as the LCLIP program is implemented, regardless of the timing of the sales of TDR credits. King County and Forterra have confirmed that this approach is allowed under the LCLIP program.
Preserves farm and forest land in rural King County.	The program would obligate the City to guaranteeing a certain number of TDR credits (231 max). If developers do not purchase the credits, the City would have to either purchase the credits or drop out of the program. Should the City choose to drop out we would not have to repay any LCLIP revenues received.
Could generate between \$8.3 and \$12.8 million in revenue over 25 years if City accepted all 231 credits. (NPV. \$13.9M to \$18.9M in nominal value.) Amounts are reduced accordingly if the City accepts a reduced percentage of credits.	Development (or the City if development does not occur) must purchase a certain amount of TDR credits every 5 years with all credits purchased within 20 years; payoff occurs over long term (25 years).

	Unclear timing for implementation. It is challenging to determine the best time to start the program. Start too early and you might lose some important revenue generating years before the sale of TDRs begin and start too late and you might miss critical development window or potential large development projects that may have taken advantage of TDR purchase. To mitigate this the LCLIP Program should identify key triggers that would implement the program and begin the 25-year timer.
	The program is not well tested. Only Seattle and Tacoma have a functioning program.
	The City's zoning does not lend itself to offering incentives such as additional height in many zones or additional density, leaving the options for incentives limited.
	New construction projects in the LIPA areas receiving the PTE will not contribute LCLIP revenue to the program during the exemption period reducing the amount of revenue received in the early periods.

Policy Questions for Council

In order to move forward with a TDR program and LCLIP ordinance, Council must provide direction on the following items:

1. Does the Council support designating the three LIPA areas shown in Attachment B covering nearly all of the commercial and mixed use zones? Are there any other areas the city should consider adding?

2. Is Council willing to consider the proposed incentives?

As a follow up, are there any incentives Council is uncomfortable considering that should be excluded? Are there other incentives the City should consider in order to sell TDR credits?

The proposed list of incentives would be drafted as Development Code amendments in a new section within the Development Code, including:

- Additional height in a majority of the commercial and mixed-use residential zones.
- TDR purchase in lieu of affordable housing units up to a defined maximum number of units.
- Parking reductions for TDR purchase.
- 8-year Multifamily Property tax exception (no affordability requirement) for the purchase of TDR credits.
- TDR purchase in exchange for significant tree removal.
- Permit fee reductions.
- Expedited permit review.

3. Should the City consider mandating TDR purchase? In all situations or in limited situations?

4. Where does Council want TDR credits to come from (sending areas)?

The TDR program requires the City to choose what kinds of forest and agriculture land the City wants to protect. **Attachment C** shows the different resource area of King County. The below table lists the sending areas with TDR purchase price within those areas:

Sending Area	Cost per TDR
King County Agriculture	\$41,000
King County Forest	\$28,000
Snohomish County Agriculture	\$35,000
Snohomish County Forest	\$25,000
Pierce County Agriculture	\$25,000
Pierce County Forest	\$20,000

5. How many TDR credits is the City willing to except?

Shoreline has been allocated 231 credits. The more credits that are placed, the more potential dollars can be realized.

Implementation Road Map

If Council accepts staff recommendation, the following steps and timing are outlined below (dates are tentative and subject to change):

1. Identify specific geographic areas for increased density that will become a local infrastructure project area (LIPA). The proposed LIPA is shown in Attachment B. The LIPA must:

- Include contiguous land.
- Not overlap another LIPA.
- Contain all public improvements to be financed within its boundaries.
- In the aggregate, be of enough size to 1) use the City's "specified portion" of transferable development rights (unless the City has purchased the transferable development rights to reserve for future development); and 2) not be larger than reasonably necessary.

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

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

- Describe the proposed public improvements.
- Describe the boundaries of the proposed LIPA (currently this includes the Aurora corridor, Light Rail station areas, and commercial nodes in Hillwood and Echo Lake).

- Provide the date when the use of local property tax allocation revenues will commence and a list of the participating tax districts (the city and county).
- A certified copy of the adopted ordinance or resolution must be delivered to the county assessor, county treasurer and each participating tax district.

Staff believes the Ordinance creating the LIPA area includes #2 above. Since the notice of public hearing must be in 180 days in advance of the hearing, the public hearing would not occur until after the six-month noticing period.

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

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

This plan will be developed and approved by Public Works ideally during the public noticing period for the LIPA. Public works may need to amend the Capital Improvement Projects/Transportation Master Plan and possibly the Engineering Development Manual. Discussions with Public Works indicate that they would recommend that Council use the money generated from LCLIP for ongoing sidewalk maintenance within the LIPA Areas.

5. Accept responsibility for all or a share (a "specified portion") of the transferable development rights allocated from the Puget Sound Regional Council to the city. Consider whether to include any rights from another city through an interlocal agreement. Shoreline's share of TDRs is 231 credits.

Council can specify how many TDR credits the City is willing to accept through the Resolution adopting the TDR program. Potential revenue is impacted by any reduction in the number of TDR credits accepted.

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

- Comply with the Growth Management Act.
- Designate a receiving area(s).
- Adopt developer incentives, which should be designed, at the City's election, to:
 - Achieve the densities or intensities in the City's plan.
 - Include streamlined permitting strategies.
 - Include streamlined environmental review strategies.

- Establish an exchange rate, which should be designed to:
 - Create a marketplace where transferable development rights can be bought and sold.
 - Achieve the densities or intensities in the city's plan.
- Provide for incentives in addition to residential density (e.g., building height, commercial floor area, parking ratio, impervious surface, parkland and open space, setbacks and floor area ratio).
- Allow for appropriate exemptions from land use and building requirements
 - Require that the sale of the transferable development rights be evidenced by its permanent removal from the sending site (such as through a conservation easement on the sending site).
 - Not be based on a downzone within the receiving area.

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

Staff would bring back Development Code Amendments that includes developer incentives to encourage the selling of TDR credits, fee schedule (indicating pricing for TDRs), mandates (for example, you must buy 1 TDR for every 10 units developed), and other incentives proposed in the LCLIP Study. Staff will coordinate the Ordinance for the Development Code Amendments with the Ordinance for the LIPA Area and the Ordinance establishing the TDR Program at the same time for Council.

RESOURCE/FINANCIAL IMPACT

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ATTACHMENTS

Attachment A – Final LCLIP Report
 Attachment B – Proposed LIPA Areas
 Attachment C – King County Sending Areas

Shoreline LCLIP

Findings and Recommendations

2020 update to 2015 report

Prepared for:
City of Shoreline

Final Report

For Discussion Only. Do Not Cite or Quote.



Contact Information

Morgan Shook (ECONorthwest) and Nick Bratton (Forterra) prepared this report.

ECONorthwest specializes in economics, planning, and finance. Established in 1974, ECONorthwest has over three decades of experience helping clients make sound decisions based on rigorous economic, planning and financial analysis. For more information about ECONorthwest, visit our website at www.econw.com.

Forterra is dedicated to regional sustainability in all its dimensions — environmental, social and economic. Since 1989 Forterra has been at the forefront of landscape-scale conservation, restoration, and community-building efforts to help secure a positive future. For more information, visit www.forterra.org.

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Executive Summary

Purpose of Report

This report reflects an update to a body of work originally completed in 2015. The need for an update reflects several factors:

- Changes in the real estate market and demand for growth in Shoreline since the initial study,
- A more imminent approach of light rail service opening in the City, and
- A growing need for infrastructure funding to pay for capital facilities that support current and future growth.

This revised version contains findings and recommendations that are based on analysis of the most recent data. The intent is to inform decision making around land use policy and development regulations in areas of the city where growth is desired and to present a refreshed picture of a new funding option that can pay for infrastructure improvements.

Why is the City of Shoreline undertaking this study?

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

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

What is LCLIP?

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

In exchange for the placement of development rights in designated districts, the jurisdictional county (in this case King County) agrees to contribute a portion of its regular property tax collected on all new construction in the designated districts to the sponsoring city for use for a period of up to 25 years. Cities may use this revenue to fund infrastructure improvements that support infill growth and redevelopment. The program is only available to the 35 largest cities in the central Puget Sound counties of King, Pierce, and Snohomish.

What did the study find?

The analysis shows a range of situations in which LCLIP could succeed. In a scenario if half of the City's PSRC 2035 growth target occurs in the Study Area, LCLIP could generate net revenue of \$8.5 million (net present value, or \$14.4 million in nominal terms) for infrastructure in Shoreline. Should the City exceed that growth, the net revenue would increase to \$12.8 million (net present value, or \$21.6 million in nominal terms).

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

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

Conditions in Shoreline will support use of LCLIP through redevelopment in the Study Areas. This analysis shows that growth, if in line with projections, is enough to make LCLIP a success. At minimum the City would receive new revenue for infrastructure that it otherwise could not access and at best that revenue would exceed \$13.9 million.

What is the path forward for LCLIP?

Redevelopment of the Study Areas with more intensive mixed-use development represents a departure from historical growth patterns for some of the areas, particularly those around future light rail stations. The subarea plans adopted for the light rail station areas encourage more mixed-use residential growth near the stations. This change in zoning and potential expansion of uses represents a timely opportunity for the City to finance infrastructure investments that will support that redevelopment. Meanwhile, continued redevelopment of Town Center and other neighborhoods highlights other areas in the City that could both support the City's use of LCLIP and benefit from public improvements – particularly around mobility and connectivity. Finally, redevelopment of Aurora Square could be a variable, and potentially influential, contributor to the success of LCLIP in Shoreline.

The 2015 analysis showed that while (1) even with moderate growth estimates the City may net \$4.4 million (NPV, or \$8.5 million nominal) in new revenue, and (2) a simple and desirable market mechanism can drive the use of TDR. Uncertainty remains around the timing and amount of demand for redevelopment in the Study Areas. However, by taking no action in the near term the City may miss the opportunity to capture value from redevelopment until after the process has already started, thereby passing up potential revenue from LCLIP.

The 2020 updated analysis shows, assuming a 100% specified ratio (the City commits to all 231 credits), the program could generate \$8.5 to \$12.4 million (net present value, \$14.4 to \$21.6 million in nominal terms) over the 25-year period.

Shoreline can pursue a range of actions to maximize the benefits of LCLIP while minimizing the risks of not meeting performance milestones. In thinking about using LCLIP, the City should consider a suite of actions that collectively would take advantage of conditions for the program to succeed. The following is a course of action that the city can pursue to further integrate TDR and set the stage for LCLIP implementation.

Set the stage for LCLIP success with a sound TDR framework

This is the first of two steps for using LCLIP. Before proceeding to LCLIP adoption, Shoreline could pursue policy and code changes outlined in this (updated) report to create a viable TDR program. This would give the City a solid foundation with a complete set of mechanics and the administrative structure for using the tool. With a TDR program in place that is designed to anticipate the demand for growth that should accompany expanded regional transit service, Shoreline will be positioned to adopt LCLIP when the conditions are best suited for success.

Prepare LCLIP legislation and identify conditions for adoption

Secondly, subsequent to (or concurrent with) TDR program creation, Shoreline can prepare legislation for adopting LCLIP. The City could draft an ordinance containing all the components specified by the statute (see Implementation Road Map below) and keep it ready for introduction when development conditions are prime for adoption. This would be the opportune time to negotiate an interlocal agreement with King County, so it is also ready for adoption. In this approach all legislation and agreements are ready for consideration on short notice, giving Shoreline the ability to act quickly when the timing is ideal for starting LCLIP.

The 25-year clock begins on the effective date of a city's LCLIP ordinance. It is inefficient to start the clock in the absence of new construction or TDR credit placement – the program would neither generate revenue nor achieve conservation for an unknown period. In order to take full advantage of LCLIP's benefits, Shoreline should set the program in motion when a developer proposes a project in a LIPA that would place TDR credits. This way the City begins LCLIP with progress towards TDR credit placement goals and new construction generating revenue from the outset. Implementing this adoption strategy would require a specific sequence of actions:

1. Design and adopt TDR program framework
2. Draft LCLIP implementing ordinance
3. Negotiate interlocal agreement with King County
4. Track development activity in proposed LCLIP areas
5. When a development comes forward that would use TDR, bring LCLIP ordinance (and interlocal agreement, if applicable) through the legislative process for adoption

Summary recommendations for path to LCLIP implementation

- Create a TDR program first.
- Commit to all 231 credits to maximize revenues.
- Establish LIPAs that encompass the revised study area geography to include the widest possible growth potential and increase the opportunity for TDR placement.

- Prepare all the groundwork for adoption of LCLIP so the City may start the program on short notice as conditions change.
- Time the start of the program in conjunction with a project that would use TDR.
- Make the necessary code changes to implement TDR within the development code.

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

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

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1 Project Overview

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

The 2020 update to this study expands the geography of the Study Areas to include more of Aurora Avenue, an extension of the 145th station area to the east, and portions of the city zoned for business and higher intensity residential use. Section 3 covers this in greater detail.

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

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

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

1.1 Why Use TDR and LCLIP in Shoreline

The Puget Sound Regional Council's (PSRC) Vision 2050 is the region's strategy for accommodating future growth through the next 30 years. The strategy focuses on concentrating population and employment growth in cities that are best suited for growth and have the infrastructure, parks, schools,

transit, and services to support it. Individual cities implement the goals of the Vision through their comprehensive plans and zoning regulations in accordance with the Growth Management Act (GMA).¹

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

As mandated by VISION 2050 and by the King County Population and Employment Allocations, the City of Shoreline has adopted population and employment planning targets as part of its comprehensive plan and must act to accommodate that growth within the City over the planning horizon. In addition, the comprehensive plan envisions much of this new growth being directed to the future light rail station areas, Town Center, and Aurora Square.

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

1.2 Key Questions

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

- What is the policy basis for using LCLIP and broader community goals?
- What are the key LCLIP program issues for how the City may construct its LCLIP program?
- What is the structure of the City’s incentive zoning program and how would implementing a TDR program fit within that structure?
- Under current market and development conditions, how might development projects use TDR to access additional building capacity?
- What range of LCLIP revenues might be possible?
- Based on the cumulative understanding of the questions above, how might the city think about moving forward with an LCLIP program?
- Added in the 2020 update: clarify the City’s obligations, risks, and constraints under the program.

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

² RCW 36.70A.090

1.3 Report Organization

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

- **LCLIP Program Review:** This section reviews the LCLIP legislation and identifies a framework for thinking about incentive zoning, TDR, and LCLIP program choices.
- **Incentive Zoning and TDR Policy Review:** This section reviews mechanisms for TDR within the Study Area.
- **Incentive Zoning and TDR Assessment:** This section summarizes the capacity for redevelopment in the Study Areas and provides an assessment of the feasibility of TDR under current development economics and offers some insight on its potential use. A 2020 addition is a deeper discussion of incentives and recommended framework for implementing the TDR portion of the program.
- **LCLIP Revenue Assessment:** This section reviews development trends in the study area, projects development over the next 25 years. This section then assesses the revenue potential of an LCLIP program under different growth and TDR absorption scenarios.
- **Program Findings and Recommendations:** This section summarizes the key findings from previous sections and provides recommendations for using LCLIP based on those findings.
- **Implementation Road Map:** Lastly, this section outlines the steps necessary should the City decide to establish a TDR program and participate in the Landscape Conservation and Local Infrastructure Program.

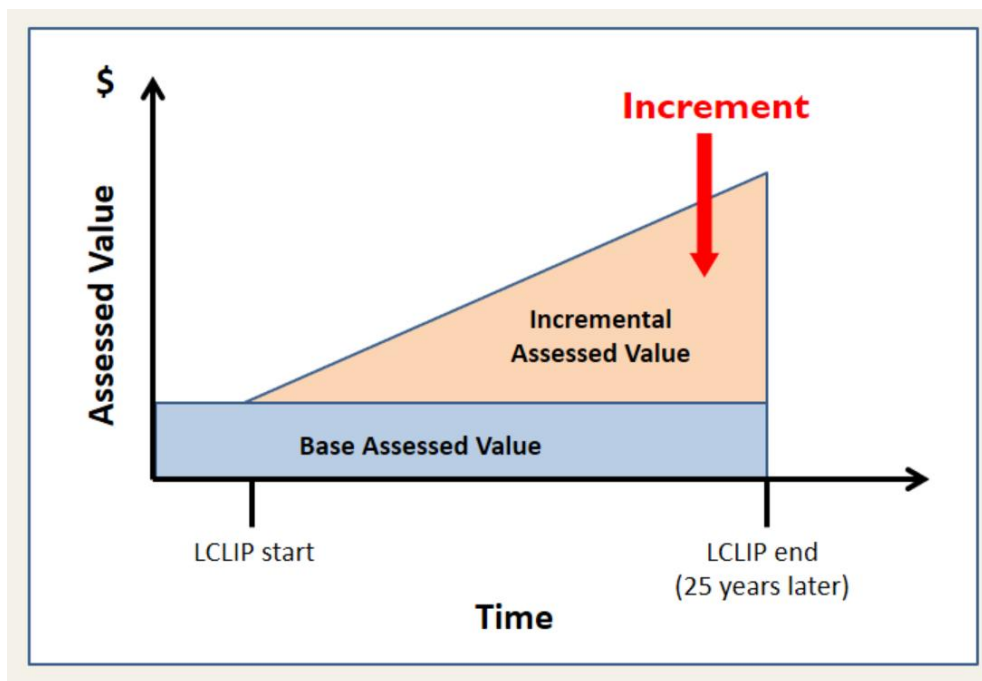
2 LCLIP Program Review

2.1 Program Overview

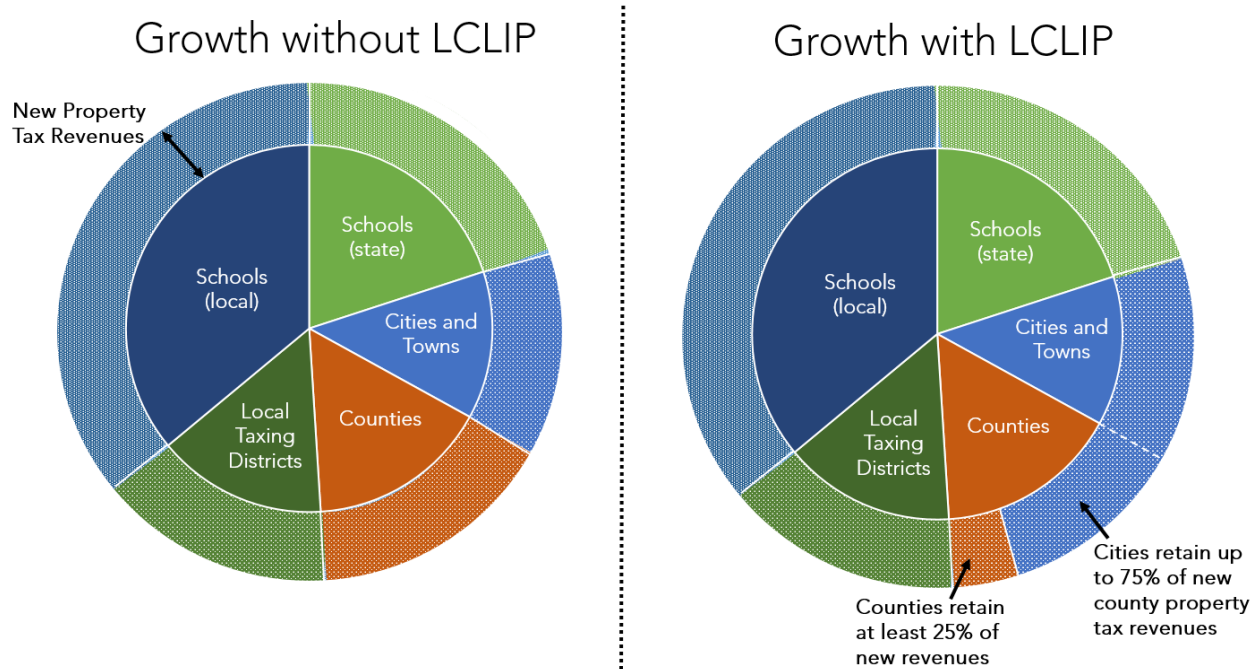
LCLIP is a form of tax increment financing combined with transfer of development rights. The program was enacted in 2011 (RCW 39.108) and is the only one of its kind in the country. The Washington State legislature created the program based on its finding that:

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

The program gives the cities access to a new funding source by allowing them to retain a portion of the county's regular property tax on all new construction in a defined area for a limited time. In return, cities must create a mechanism to place development rights and commit to the acceptance of a specified amount of regional development rights. In exchange for the placement of development rights in LCLIP districts, the jurisdictional county (King County in this case) agrees to contribute a portion of its regular property tax revenue to the City for a period of up to 25 years. The City benefits from the additional revenue, King County benefits from the conservation of resource lands as a result. Thirty-five cities in King, Pierce, and Snohomish Counties are eligible to participate in the program. The following graphic shows how LCLIP generates revenue from new construction over time. The incremental assessed value is the portion of revenue that cities retain.



LCLIP involves only a portion of the incremental property taxes generated from new development within the defined program geography. This is not a new tax to residents or businesses. The remaining portion of the property tax still accrues to the City and to the jurisdictional county. Existing and incremental revenues flowing from sales, business and occupation, and utility taxes still accrue to the City, as well as other capital restricted revenues. The following graphic illustrates how property tax revenues are distributed with and without LCLIP:



2.2 Use of LCLIP Funds

As defined by the statute, cities can use LCLIP-generated funds to pay for public improvements in the program district as follows:

- Street, road, bridge, and rail construction and maintenance;
- Water and sewer system construction and improvements;
- Sidewalks, streetlights, landscaping, and streetscaping;
- Parking, terminal, and dock facilities;
- Park and ride facilities of a transit authority and other facilities that support transit-oriented development;
- Park facilities, recreational areas, bicycle paths, and environmental remediation;
- Storm water and drainage management systems;
- Electric, gas, fiber, and other utility infrastructures;
- Expenditures for facilities and improvements that support affordable housing as defined by WA law;
- Providing maintenance and security for common or public areas; and
- Historic preservation activities authorized under WA law.

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

2.3 Determinants of LCLIP Revenues

LCLIP District Revenue Calculation

LCLIP generates revenues from new construction so existing buildings and revaluation do not count towards calculations. It is important to note that revenues come from all new construction in the program areas, not just from development projects using TDR. These revenues derive from the allocation of a portion of the City's and County's regular property tax (e.g. current expense levy) to the LCLIP district. Upon creating a district, the City retains a portion of the County's share of property taxes – up to 75% of the assessed value of new construction. How close to 75% depends on how many TDR credits the City commits to accept – see next section.

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

For example, suppose a newly constructed building generates \$1,000 in regular property tax revenues on a property tax rate of \$1.00. If this same building is valued at \$1,000,000 for the purposes of new construction, then 75% of the new construction would place \$750,000 in the LCLIP assessed value base and lead to the distribution of \$750 of the \$1,000 paid in regular property tax to the LCLIP area. The remaining \$250 would still go to the jurisdiction's general fund. This example assumes that a city commits to accepting its full complement of TDR credits.

TDR Credit Commitment

In adopting LCLIP, a city must select a specific number of TDR credits to accept based on a regional allocation set by PSRC. These allocations are generally proportional to a city's growth targets. PSRC assigned more credits to those cities expecting higher growth. For comparison, a sample of allocations for different cities includes:

- Seattle - 3,440 credits
- Everett - 1,491 credits
- Tacoma - 1,843 credits
- Mountlake Terrace – 92 credits
- Puyallup – 365 credits

Shoreline's allocation from PSRC is 231 TDR credits. The statute requires that, in order to participate in LCLIP, a city must commit to accepting between 20% and 100% of its allocated credits. This gives cities flexibility in using the tool. Rather than an all-or-nothing proposition, cities can choose to commit to several credits that reflect its own needs or projected likelihood of placement. The decision of how

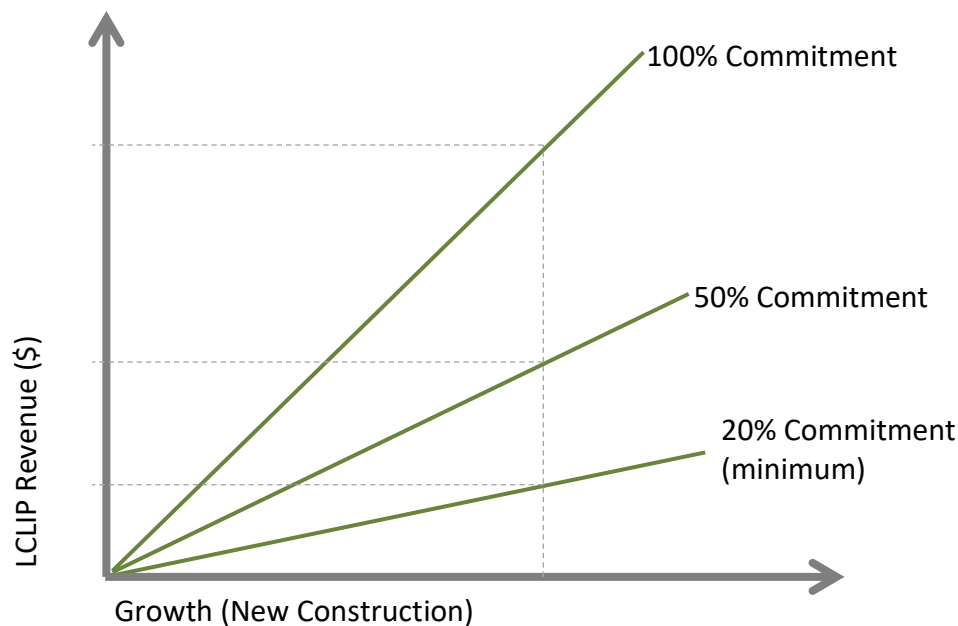
many credits to accept directly affects the amount of revenues a city retains. The statute links TDR use to revenue: the more credits a city commits to accepting, the more revenue the program generates. To illustrate, if Shoreline chooses to accept the minimum number of credits (231 credits * 20% = 43 credits), its revenue will be 20% of the share it is eligible to retain. If Shoreline commits to half of its credits (116), the City will earn half of the revenue it can retain. If committing to its full complement of 231 credits, Shoreline will earn 100% of the revenue it can retain, the full 75% complement of the County's share of property tax (as illustrated in the pie chart in Section 2.1 above).

Program revenue is a function of two factors:

- How many credits the city commits to accepting. Higher commitment = higher revenue
- New construction activity. More construction = higher revenue

The graph below illustrates the relationships between city TDR commitment, growth, and revenue.

Exhibit 1: Conceptual LCLIP Revenue Scenarios



In choosing how many credits to accept, the City is trying to select an amount of credits it anticipates new construction will place over a 20-year period to meet the threshold requirements (discussed below) and extend the program (and revenues) to the full 25 years. In doing so, the city is balancing the feasibility/likelihood of TDR being used by development against the amount of revenue LCLIP can generate. Part of the analysis in this study identifies how many TDR credits the City can expect to place based on assumptions about growth and credit utilization.

LCLIP Performance: Credit Placement Thresholds

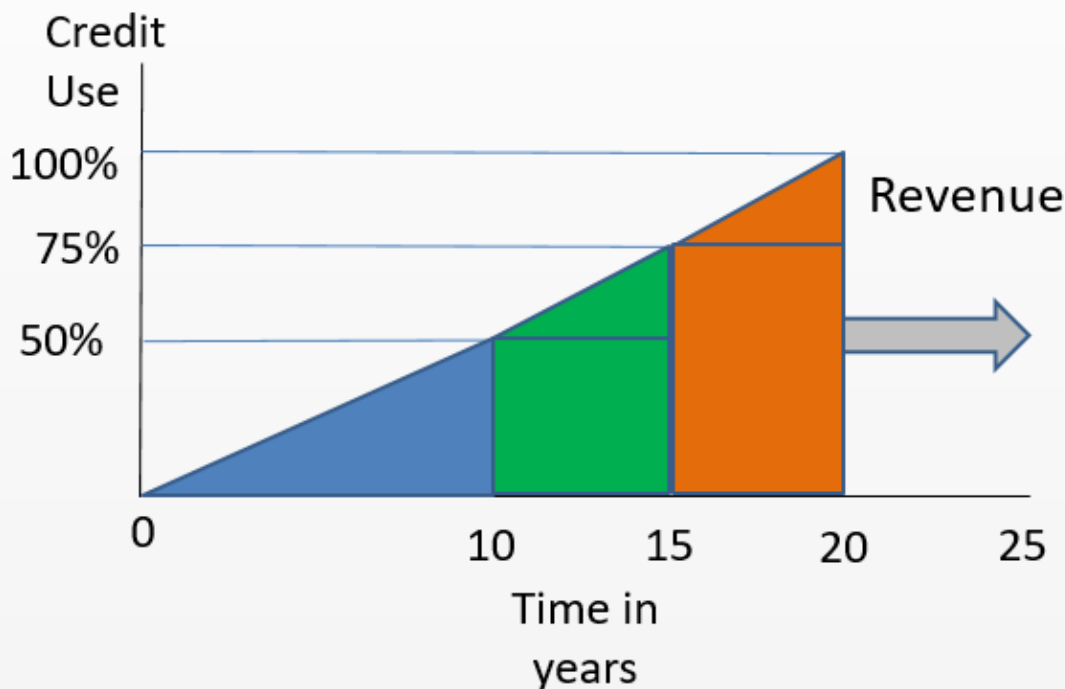
While LCLIP can run for a maximum of 25 years, the statute requires participating cities to demonstrate performance on the use of credits within their program district(s). Cities using LCLIP must meet a series of performance thresholds for placing credits in order to continue accessing the program revenues.

The purpose of these thresholds is to give counties assurance that cities are making progress towards their TDR placement commitments while counties are sharing their property tax revenues. The statute gives counties recourse if cities do not meet their TDR placement commitments – counties can stop revenues if cities do not hold up their end of the program.

Cities begin accruing revenue from the time they adopt an ordinance starting LCLIP. The earliest those revenues will be paid is in year 2 of the program and payments are made on an annual basis thereafter provided cities keep pace with the milestones laid out below.

LCLIP performance thresholds are as follows:

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



In the example of LCLIP implementation in Seattle, program partners made an interpretation as to what was required for the city to collect revenue. Briefly, the difference in interpretation is whether the placement of 25% of the specified portion is required to start the program or whether the creation of the LCLIP program through ordinance is the trigger. **Should Shoreline adopt LCLIP, this question of timing will be resolved through an interlocal agreement with King County.**

LIPA(s) District Formation

The statute defines the district(s) in which a city enrolls in LCLIP as a LIPA – Local Infrastructure Project Area. This is the designated area in which:

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

A city may have multiple and non-contiguous LIPAs if the areas meet the requirements of containing less than 25% of the city's assessed value and don't exclude any areas within them (i.e. no donut holes). While a city may create multiple LIPAs, LCLIP works on a cumulative citywide basis and not an independent district basis – meaning the same program parameters apply to all LIPAs regardless of start date and configuration. Therefore, if a city is considering multiple LIPAs, it is advantageous to establish them all at the program launch rather than adding them incrementally over time, which would result in foregone revenue.

2.4 Program Framework for LCLIP

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

- **LIPA geography.** The City will want to create LIPAs that meets the nexus requirements stated above. However, creating districts where development is expected will maximize the program revenue potential.
- **TDR provisions.** The number of TDR credits used is a function of several factors:
 - The size and structure of the incentive component. The city must determine how much demand there may be for building projects that will utilize TDR. The placement of TDR credits through incentive mechanisms determines how developers will use the tool. For example, TDR may be among a menu of options that developers can choose from, it may be tiered with other options requiring developers to sequence options that may place TDR first or last in that sequence, or it could be the means by which developers access cost savings.
 - The nature of the incentive associated with TDR. Typical TDR incentives offer additional FAR or height; however, TDR can relate to any variety of opportunities associated with development ("conversion commodities"). Other examples include connecting TDR with reduced setbacks, structured parking requirements, or impervious surface limitations. In the context of Shoreline, the incentive may be a multifamily tax exemption, additional building height, reduction in parking requirements, or a reduction in on-site tree retention requirements.
 - The exchange rate for TDR. The amount of incentive a developer receives per TDR credit used in large part determines the extent to which a TDR consumes the incentive zoning available. The incentive created by the TDR exchange rate must be equal to (or exceed) a developer's willingness- and ability-to-pay. Put a different way, TDR must be a profitable choice for developers otherwise they will not use it.

- **City credit commitment and program timing.** In order to optimize LCLIP revenues, the City has an incentive to meet all performance thresholds. Doing so means the city must commit to accepting several credits that anticipated growth can place through the private market over the timeline of the program. This element of LCLIP is the most difficult aspect to consider. Forecasting future development is challenging, much less determining the rate at which that development will use TDR in new construction.

3 Incentive Zoning and TDR Policy Review

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

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

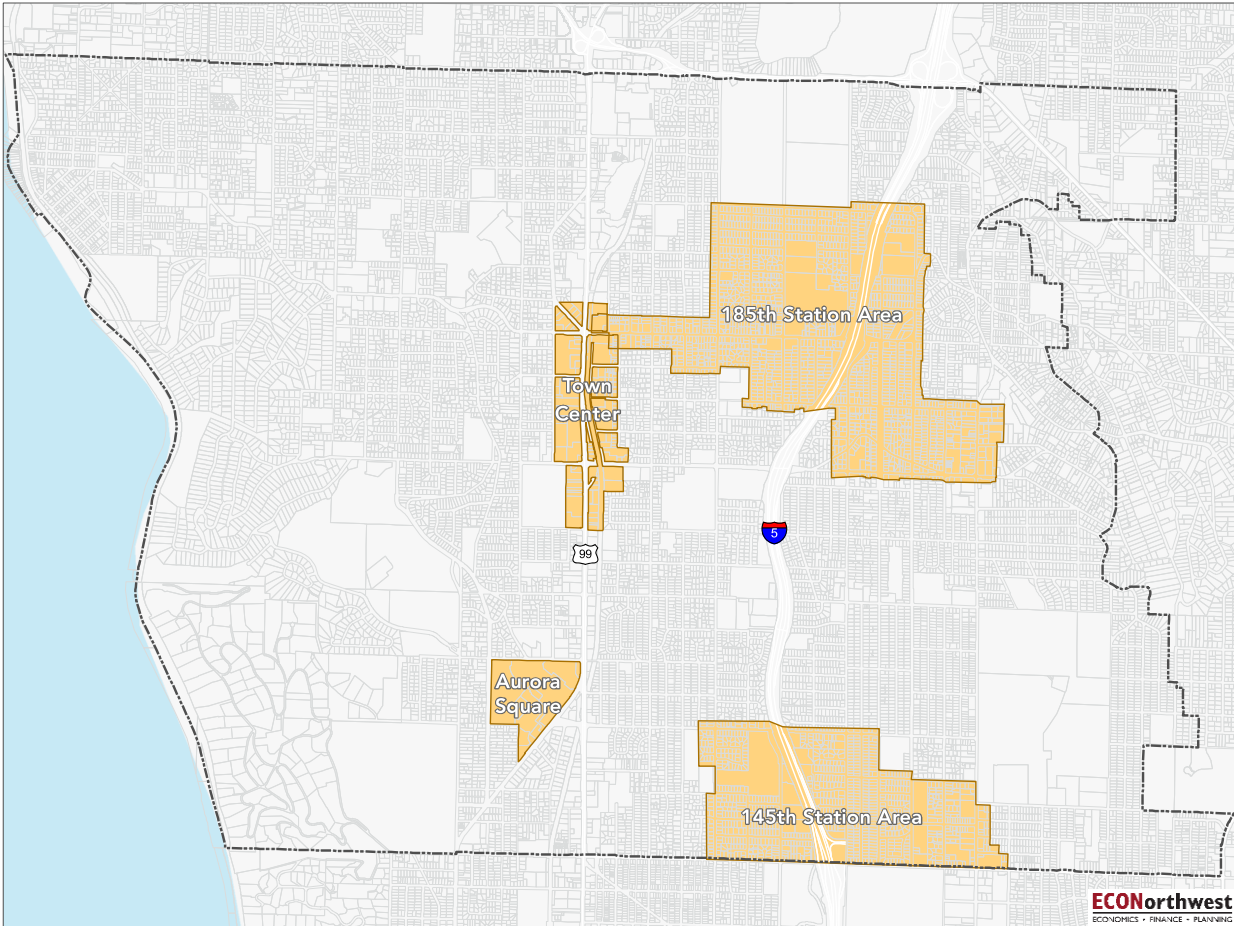
In addition, the city has other areas that encourage higher density land development in its Town Center (TC), Neighborhood Business (NB), and Community Business (CB) zones. These zones do not have current provisions in their code that allows the explicit use of TDR in them.

3.1 Study Area Context

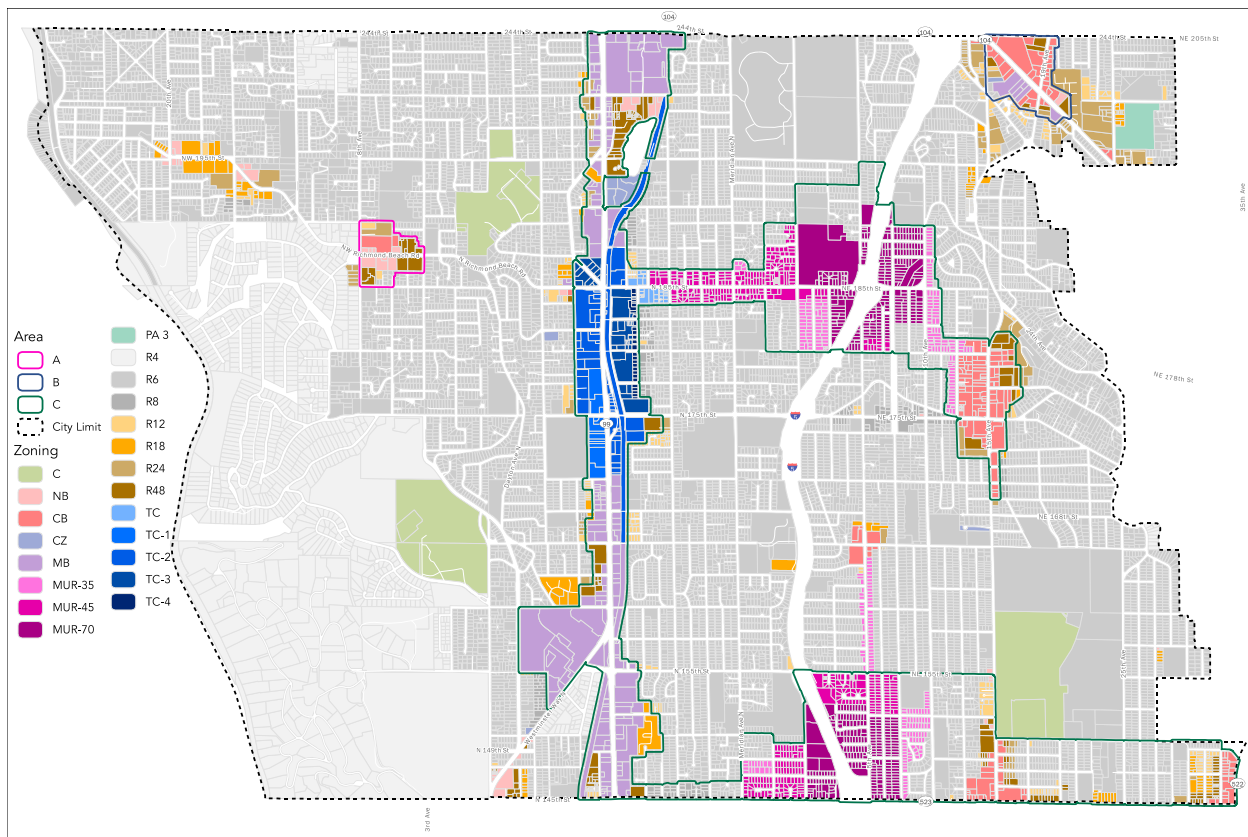
The 2015 study evaluated four different areas within Shoreline for LCLIP feasibility. These areas included the Town Center zone, Aurora Square, and the future Link light rail station areas at 145th Street and 185th Street. This area is shown in Exhibit 1 covers the area examined in 2015.

The updated study encompasses a larger geography (Exhibit 2). In addition to those areas already covered in the original study, the current review includes the corridors connecting the light rail stations to Aurora Avenue, an expanded area to the east of the 145th Street station area, and two separate areas of business and high-density residential land in the Hillwood and Echo Lake neighborhoods. The following maps show a comparison between the original and revised study areas.

Exhibit 1. Map of 2015 Study Area



Source: City of Shoreline, King County

Exhibit 2: Map of the 2019 Study Area

3.2 Review of Existing Development Regulations

One of the central objectives of updating the 2015 feasibility study is to identify ways for Shoreline to adopt a market-based approach to using TDR as a foundation for successful implementation of LCLIP. In other words, in order to make LCLIP viable as a source of infrastructure financing to support growth, the city must first create a predictable and usable market mechanism for TDR to work that aligns with existing regulations and policy intent. This section examines the city's zoning code in the areas under consideration for including in LCLIP and identifies opportunities for adding TDR to the code through an incentive-based approach. A challenge is identifying ways to add TDR retroactively to an existing zoning code. The findings show areas for modifying regulations in a way that balance Shoreline's desire to achieve multiple policy objectives while also setting the city up to use LCLIP successfully.

The policy, regulatory, and market context is different now than it was in 2015 when the city considered the original LCLIP report. In the previous analysis, one goal was to identify ways to include TDR into the subarea plans for the future light rail stations – creating something out of whole cloth. Now the goal is to fine tune existing zoning to incentivize multiple public benefits, including TDR and – by extension – LCLIP. Since the completion of the original report new construction has started and redevelopment in central areas is underway. The real estate market has responded to growth pressure and to the anticipated opening of the light rail stations in 2023. The chief findings of this regulatory

review are that the existing code would benefit from clarification and reconfiguration to more effectively achieve the land use patterns that the city desires in areas where it wants growth.

Current Zoning Review

The geographical extent of the LCLIP study update focuses on the following areas and zones, organized around the proposed local infrastructure project areas (LIPAs, or the districts in which Shoreline might use LCLIP):

- MUR zones: all three zones in each of the light rail station areas, 35', 45', and 70'.
- TC zones: all TC zones along Aurora Avenue, TC 1, 2, 3, and 4.
- Business zones: MB, NB, and CB.
- Residential zones: R-48

Mixed-Use Residential

The MUR-70' regulations allow for bonus heights but they neither have a formal incentive program nor specify exactly how projects can achieve bonus height. In the MUR-70' zone, the maximum building height is 70 feet, however, projects can gain additional height by satisfying the following requirements:

- Meeting LEED Gold standards,
- Providing affordable units,
- Providing structured parking for 90% of units, and
- Purchasing TDR credits at a price of \$5,000 per bonus unit.

The process by which projects can gain additional building height in the MUR zone is through a development agreement with the city. The elements to be included in developer agreements, as spelled out in SMC 20.30.355(D), reflect the priorities articulated by the city for what public benefits projects must provide in order to exceed maximum base heights: environmental building performance, long-term affordability, parking, and TDR. Code allows for a maximum building height of 140 feet under a developer agreement that provides the identified public benefits.

Town Center

The TC zones 1, 2, and 3 have a base height of 70 feet while TC-4 is a transitional zone with a base height of 35 feet. These zones are intended for high intensity uses around transit and east-west connectivity, including residential uses. Currently no provision for bonus heights exist in the TC zones.

Business zones

The Neighborhood, Mixed, and Commercial Business zones (NB, MB, and CB) encourage high density residential and mixed uses. The city has already seen multifamily residential development in the CB zone around 15th Avenue NE, for example. These zones have allowances for additional building height limited to mechanical facilities or rooftop amenities. No explicit provisions exist for higher occupied limits. There could be an opportunity for modest building height increases in these zones to increase TDR demand.

R-48

Base height in the R-48 zone is limited to 35 feet, however provisions exist for increases. Development on R-48 lots that are adjacent to other multifamily and business zones is limited to 50 feet but may be increased to 60 feet with the approval of a conditional use permit.

Challenges

The code establishes the developer agreement as the vehicle for projects seeking to build beyond the base height in the MUR-70' zone. This approach differs from the traditional approach by which cities regulate bonus heights: an incentive zoning program. Each approach has its tradeoffs.

The developer agreement has certain advantages. Chief among these is flexibility: a developer and the city can negotiate terms that meet specific needs of an individual property or project, resulting in a creative solution that may not otherwise be achievable. This method for determining bonus height, however, introduces challenges from a planning perspective. These include:

- A developer agreement is time-intensive for city staff to negotiate and draft.
- The code is ambiguous about aspects of the process, such as how much building height a project should be eligible to add in exchange for meeting the requirements.
- Developer agreements require legislative approval. This adds to the time, cost and complexity of the process.
- The certainty of the outcome is unclear for both the developer and the city.

A limitation of the current code is the cost implications of the requirements for gaining bonus height. To include requirements around LEED, affordability, parking, and TDR will hinder projects from exceeding the 70-foot base height. Feedback to the city from developers in pre-application meetings has echoed this perspective as has input from development consultants and builders.

Shoreline needs to make policy choices on how to prioritize the public benefits defined in an incentive zoning program. What are the most important objectives and what are the tradeoffs of each option? Are some public benefits a better fit as design standards? Would streamlining incentive choices create more certainty of use?

The overall goal is to make additional building height attractive using TDR in zones where it is consistent with city policy and growth objectives while lowering barriers to program use. Maximizing opportunities to place TDR credits throughout a range of zones and with a variety of incentives is important to increasing the certainty that Shoreline will achieve the conservation goals of LCLIP and generate revenue to fund infrastructure that supports this growth. The unique attributes of Shoreline's zoning and the need to retroactively insert TDR into regulations that have limited opportunity for bonus heights create a situation where program success will depend on a combination of the following factors:

- Enough value and growth to drive use of TDR to achieve marginal height gains where they are possible,
- Streamlining of process, lowering costs of public benefits, and creation of value in the use of TDR in the highest opportunity areas (MUR-70'), and

- Pursuit of a portfolio approach to incentives that generate value for developers in a diversity of ways that include both residential and nonresidential bonus options.

Recommendations for zoning changes include:

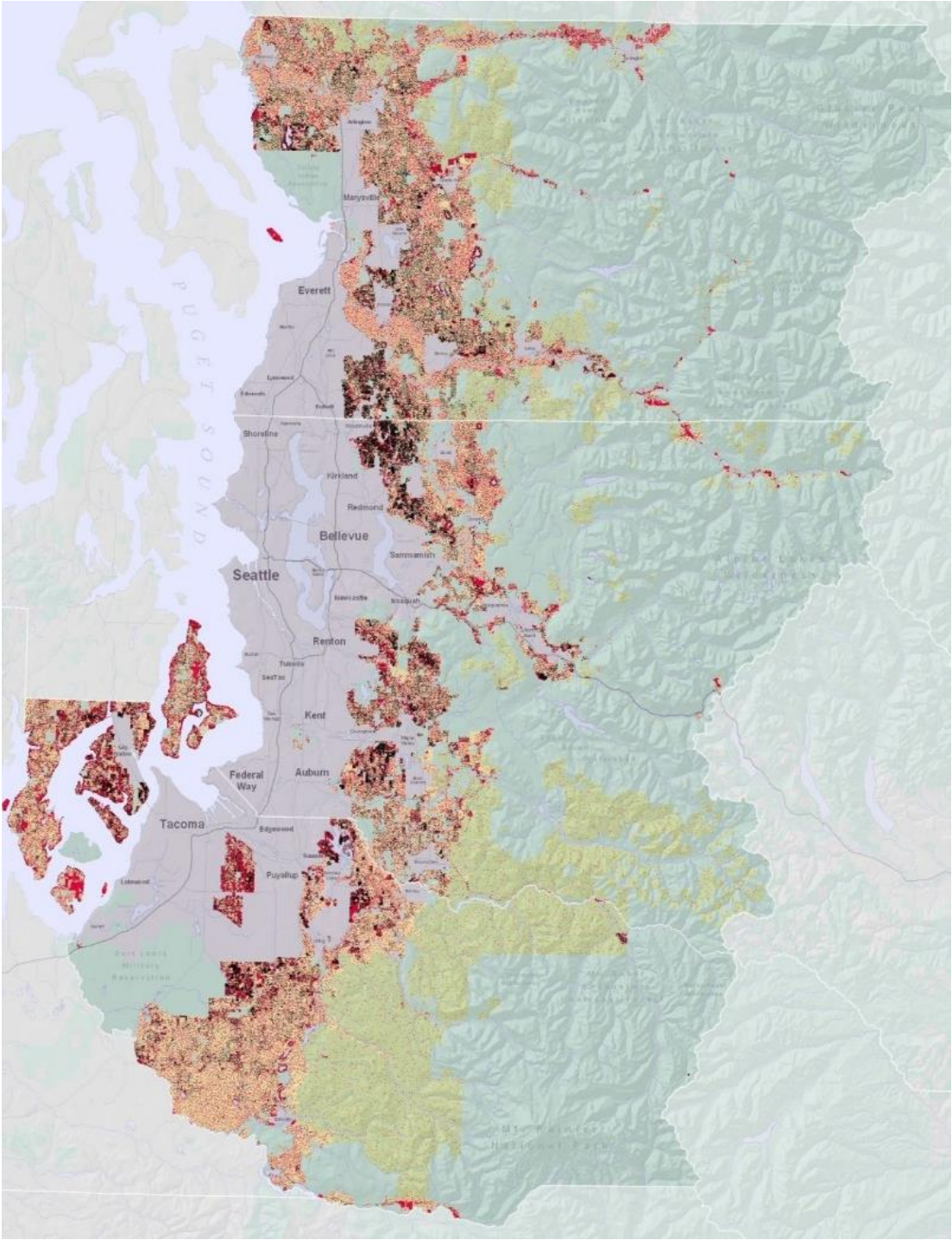
- Making height increases above 70 feet in the MUR-70' zone an administrative process with the use of TDR,
- Recalibrate the number or amount of public benefits required for projects exceeding 70 feet in the MUR-70' zone, for example by emphasizing TDR and affordable housing, and
- Make additional building height in other zones possible with TDR, such as the business zones (both NB and CB) and R-48.

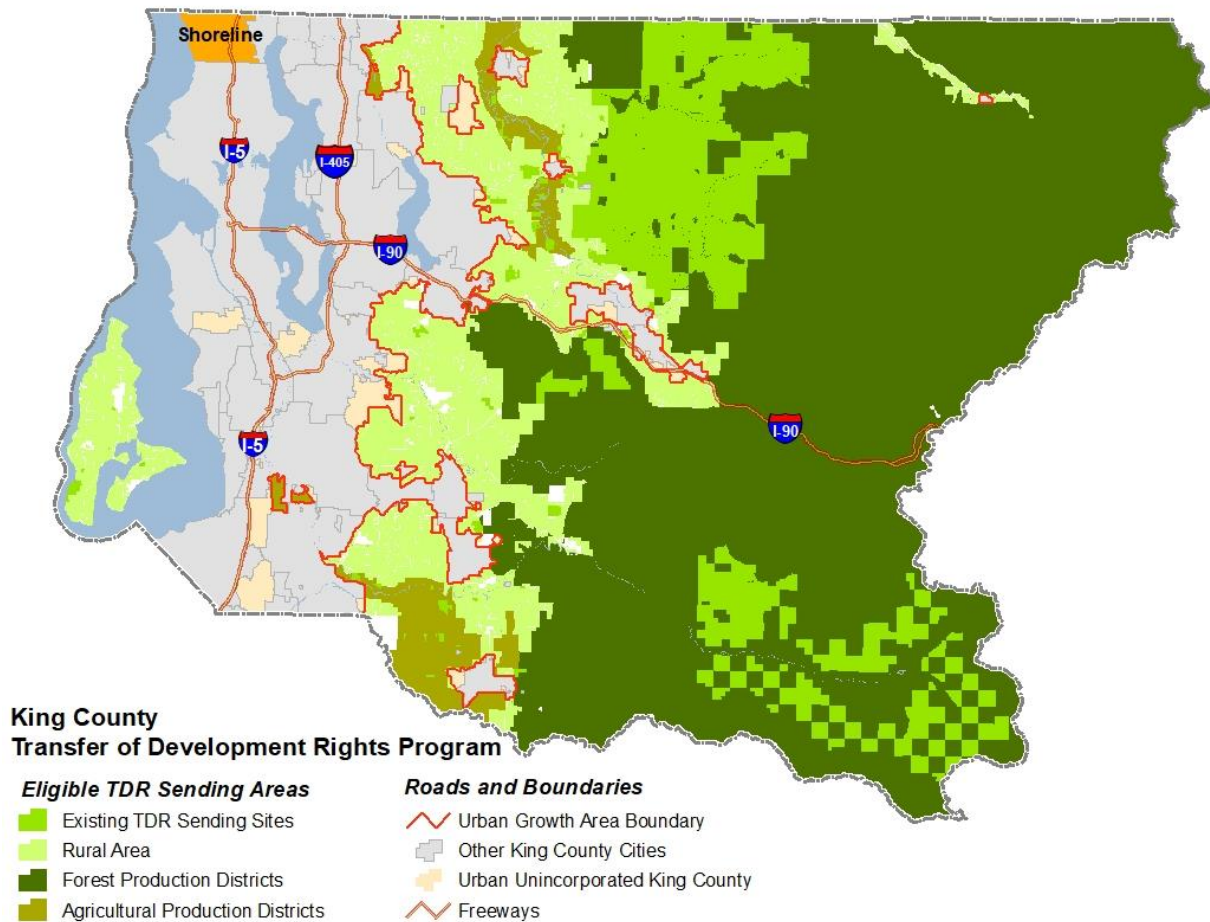
These recommendations are focused on zoning exclusively and are part of a broader suite of actions that include expanding development incentives and updating TDR exchange rates, which the report will cover in subsequent sections.

3.3 Sending Areas

In establishing a TDR program, a city must identify those lands it wants to protect through use of the tool. These lands to be conserved are called “sending areas” and are those properties from which landowners can sell development rights in the form of TDR credits. In central Puget Sound TDR programs sending areas are often resource lands or areas where growth is not desired. One of the goals of LCLIP is to create a regional marketplace to conserve farms and forests of long-term commercial significance, as well as specific riparian and rural lands. To this end, the statute requires that participating cities make these designated lands in all three counties (Pierce, King, and Snohomish) eligible as sending areas from which developers may purchase TDR credits for use in urban projects.

Beyond this requirement, cities have the discretion to prioritize specific lands for conservation within the eligible sending areas. For example, when adopting LCLIP the City of Seattle prioritized farms within its foodshed and King County resource lands by awarding higher development bonuses for TDR credits purchased from those areas. While there is no statutory obligation for cities to establish preferences for certain types of conservation within the regional market, it is an option. The choice to set such priorities is a policy decision and is appropriate to explore as a conversation between the City and counties. As the jurisdictional county that would share its property tax revenue with Shoreline, King County has an interest on this point. The following maps illustrate the regional sending areas and those specific to King County. In the regional map, red dots represent available TDR credits from sending areas while the grey cities along the I-5 corridor show the 35 cities that are eligible to use LCLIP.





3.4 Receiving Areas

Another decision in TDR program design is deciding where the city wants to encourage growth. Places where developers can gain more value for projects by using TDR are called receiving areas. As a market-based tool, TDR works best when connected to demand for growth. Because this study is inherently focused on where growth will occur in Shoreline, the recommended receiving areas for the City coincide exactly with the geography of the study area.

A policy decision the City may consider is how to address future rezones outside the study area. For the purposes of using LCLIP, Shoreline should establish TDR receiving areas prior to (or concurrent with) adoption of the regional program. If, in the future, the City decides to rezone an area outside the defined LCLIP districts to higher densities, it may designate it as a TDR receiving area. This would not change how the City uses LCLIP, however it would achieve additional conservation benefits.

3.5 Existing Incentives

Real estate economics show that the value of building a home on a single-family lot in a rural area is considerably higher than the marginal value of an additional unit constructed in an urban multifamily

receiving area project. To address these different values and incentivize the use of TDR the benefit to developers in a project must exceed the cost of buying credits.

The City currently requires developers to provide affordable housing in certain zones. It also has provisions for additional building height in some zones, however, Shoreline does not currently have a formal incentive zoning program. Shoreline's zoning in the Study Areas suggests that a range of incentives in addition to building height are needed to increase certainty of TDR utilization.

The City currently only provides for TDR use in the MUR-70' zone for projects exceeding 70 feet. Opportunities related to building height include:

- Making additional building height possible (within existing code limits) in the R-48 zone with TDR, or increasing them in parts of the zone adjacent to other zones with higher intensity uses,
- Increase building height limits in the NB and CB zones to 70 feet with TDR in parts of the zone adjacent to higher intensity uses,
- Change the bonus mechanism in the MUR-70' zone to an administrative process. In other words, replace the developer agreement framework with an incentive program that includes TDR to achieve height increases.

If there is interest from the city in considering building height increases the following table shows where and how these options could work. The base height and max height reflect current zoning provisions. The max option reflects a potential new height limit that is within limits already identified (for mechanical components, for example) but would expand the occupied portions of the building to those heights. This could be implemented selectively across zones to reduce incompatible uses or heights. As an example, the code already identifies this in SMC 20.50.020 (A)(8): *For development on R-48 lots abutting R-12, R-18, R-24, R-48, NB, CB, MB, CZ and TC-1, 2 and 3 zoned lots, the maximum height allowed is 50 feet and may be increased to a maximum of 60 feet with the approval of a conditional use permit.*

Zone	Base Height	Max Height	Max Option	Notes
NB	50	50	70	Adjacent to denser zones
CB	60	60	70	Adjacent to denser zones
MB	70	70	70	No change
TC (1, 2, 3)	70	70	70	No change
R-48	35	60	70	Adjacent to denser zones
MUR-70'	70	140	140	Administrative process

3.6 Alternative Incentives

There are two basic approaches to creating profitable incentives:

1. Award projects additional development value whose return exceeds the cost of TDR credits. These can take the form of bonus units, height, or floor area, for example, or
2. Create savings that are greater than the cost of buying TDR credits, by reducing parking requirements, for example.

This section examines alternative incentives that Shoreline may consider, recognizing that retroactively inserting such options into the zoning code will require balancing other policy priorities with TDR, such as affordable housing. The recommendations illustrate how the City could achieve this. Incentives explored here include:

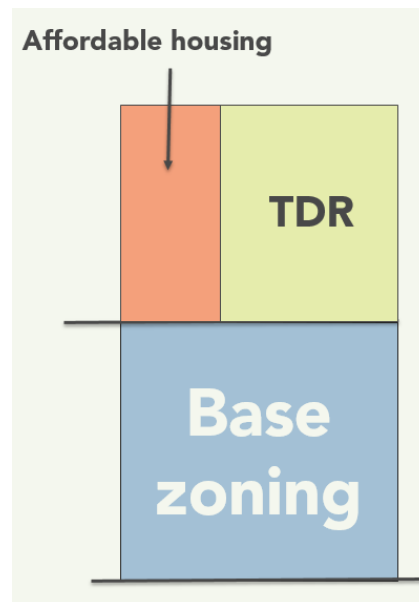
- Additional building height
- Parking reductions
- Property tax exemptions
- Tree exemptions
- TDR as an alternative to affordable housing
- Lowering incentive thresholds
- Administrative incentives

Additional building height

Shoreline's MUR-70' code currently allows for building heights above 70 feet and up to 140 feet if projects provide a range of public benefits. This incentive could be refined to allow for any additional height above base zoning up to the maximum specified through a combination of TDR and affordable housing. Additional height also appears to be an option in some of the business zones where code specifies different base and maximum heights. Using TDR to gain additional building height beyond

current maximums is an opportunity in the business zones (potentially in the portions that border other high intensity zones).

The public benefits of TDR and affordable housing are complementary, and it is possible to design an incentive program such that new construction provides both. One such approach is to use the “silo model,” in which a development must include both TDR and affordable housing in fixed proportions. This guarantees that no matter how tall the building, it will feature both benefits. The following graphic illustrates the relationship, recognizing that the proportion of each is a policy decision for the City to make. This graphic depicts approximately a 1/3:2/3 split between affordable housing and TDR as an example, but this could also be another proportion.



Parking reduction

Granting parking reductions in exchange for TDR use could be a valuable incentive, especially for structured parking in the MUR-70' zone (at taller building heights) and potentially other zones with high frequency transit service. Existing code (SMC 20.50.400(F)) gives the planning director discretion in granting parking reductions of up to 25% within $\frac{1}{4}$ mile of a light rail station. An opportunity for incentivizing use of TDR would be to grant administrative approval of a parking reduction with purchase of credits.

Currently the MUR-70' code requires structured parking for 90% of units as one condition for building above 70 feet. One way to design this incentive would be to set a ratio of stalls by which a project can reduce its parking if the project purchases a TDR credit. One consideration is that there would likely need to be a limit to how many parking spaces a project can reduce through TDR. New high-rise construction will still need to provide parking, however there may be flexibility on the amount in areas close to the light rail stations or transit corridors.

Property tax exemptions

This is a valuable incentive when paired with additional building height and for projects built to base density. The 2015 study showed that pairing TDR with an 8-year multifamily tax exemption would be an effective driver of credit placement. The key will be to structure the exemption such that it balances the incentive program's ability to deliver affordable housing. Shoreline currently has affordability requirements for multifamily projects in several zones. Combining a property tax exemption approach with TDR under current regulations (as originally envisioned in the 2015 study) would entail a reorganization of the existing exemptions related to affordability.

Tree exemptions

An incentive mechanism suggested by staff involves revising existing tree removal provisions in the MUR-70' zone to achieve a net increase in tree retention. SMC 20.50.310(A)(5) exempts from permit requirements removal of trees from property zoned NB, CB, MB and TC-1, 2 and 3, and MUR-70' unless within a critical area or critical area buffer. Having a healthy urban tree canopy remains a priority for Shoreline as demonstrated by a range of restoration efforts the City is pursuing. The policy decision to exempt tree removal from permit requirements in certain zones reflects a desire to encourage redevelopment focusing growth and employment in areas close to transit.

Revising tree permit requirements in MUR-70' would both support growth goals and create an opportunity for using TDR while promoting tree retention. If development potential is constrained by the presence of significant trees on a property, removal of those trees would allow for projects with a larger footprint. Instead of allowing tree removal in MUR-70' without a permit, tree removal could instead be conditional on the purchase of TDR credits. The amount of TDR credits needed to achieve this would be proportional to the additional building size the project would achieve. It would be important to structure this incentive so it would result in a net gain of trees for the City. This could be established by requiring tree replacement close to the project and by directing a portion of LCLIP revenues towards tree planting and maintenance within the LIPA.

TDR as an alternative to affordable housing

As part of the subarea plans for the future light rail station areas the City originally proposed an arrangement by which developers could substitute the use of TDR for the provision of affordable housing in multifamily projects until 75 credits were placed in each subarea. At the time there was no opposition to the concept. It would have created a situation where the use of TDR and affordable housing in new construction were mutually exclusive, albeit for a defined and limited period. As originally envisioned the long-term effect on housing might not be great, however it creates an either/or dynamic between two important public benefits. This option is included in the report update primarily because it was an approach that the City came close to adopting in the light rail station subarea plans. The combined use of TDR and affordable housing (as described in the Additional Building Height incentive) in the bonus tier would be a way to promote both policy objectives in a complementary fashion. In the MUR-35' and 45' zones, TDR could also be offered as an alternative to affordable housing under ownership models.

Changing incentive thresholds

This approach is not by itself an incentive, however it involves changing the thresholds for using them. For example, by lowering a threshold projects in MUR-70' might need to use incentives for building height above 45 feet instead of for building height above 70 feet, as the code currently specifies. Alternatively, if its objective includes encouraging more efficient land use in the areas closest to the light rail stations, the City could change the affordable housing MFTE provisions such that they apply only to projects exceeding 70 feet in height. Other jurisdictions that have attempted this approach discovered that taking away something that developers previously got for free and making them buy it back through incentive zoning is unpopular, however the situation may be different in Shoreline if redevelopment at this scale in the MUR-70' zone has not yet materialized.

Administrative incentives

Administrative incentives fall into the cost savings category. By purchasing TDR credits developers receive expedited permitting or other process-oriented benefits. The value is increased certainty in project approval and lower holding costs. The tradeoffs are that these kinds of incentives can be difficult to deliver on if multiple projects want to reach the front of the line simultaneously, or if the City doesn't have the capacity to review multiple permits in a shortened timeframe. Furthermore, the costs of these incentives are borne by the City and it's unclear how to price the benefits in the form of an exchange rate. Input from City staff suggests that these factors would be unlikely to create a burden on permitting from a cost standpoint, however multiple concurrent projects could potentially create a capacity issue.

A change identified in the zoning review section (3.2) would be to make use of incentives an administrative decision rather than taking the approach of a development agreement, thereby increasing the efficiency and certainty of the process.

The consultant team recommends pursuing an incentive strategy that includes a portfolio of options. No single incentive is likely to drive enough TDR placement for the City to reach 231 credits, so combining a range of incentives into a suite of choices will increase the demand for TDR. The current issue for the city with respect to TDR is integrating incentive-based mechanisms into its existing infill growth strategy. Much of that is expressed as part of its TOD approach in its MUR zones where the main public benefit of the zoning code is affordable housing. Such a strategy could include:

- Focus TDR use in MUR-70' where most growth is anticipated. A combination of incentives would create a range of different values for projects. For example:
 - Additional building height above 70 feet
 - Parking reduction
 - Tree removal offset
- Expand TDR use in business zones, including MB, NB, CB, and R-48 to allow additional building height

3.7 Exchange Rate

An exchange rate is a mechanism used to normalize the value of development rights across the landscape. The value of building one home on a large rural lot is much higher than the value of adding one unit to a downtown apartment building. Therefore, one development right purchased from a rural sending area rarely equates to one additional unit in an urban receiving area. Instead, the value that the receiving area project gains from purchasing a TDR credit is expressed in terms of a ratio – one additional floor per 5 credits, for example. The developer needs to gain enough additional value to justify spending the money on a TDR credit. An exchange rate should be calibrated to achieve profitable development while also conserving sending area lands. Too low of an exchange rate means TDR is cost-prohibitive for developers. Too high of an exchange rate means the program could be conserving more land. The following table illustrates these relationships.

Exhibit 3: Sample TDR Exchange Rates

Sending Area	Receiving Area	Incentive Type	Development Bonus Unit	Exchange Rate (per Floor)
King County Agriculture	MUR-70	Height	Additional Floor	1 TDR credit
	MUR-45	Height	Additional Floor	5 TDR credits
	Business zones	Height	Additional Floor	5 TDR credits
King County Forest	MUR-70	Height	Additional Floor	1 TDR credit
	MUR-45	Height	Additional Floor	8 TDR credits
	Business zones	Height	Additional Floor	8 TDR credits
Snohomish County Agriculture	MUR-70	Height	Additional Floor	1 TDR credit
	MUR-45	Height	Additional Floor	6 TDR credits
	Business zones	Height	Additional Floor	6 TDR credits
Snohomish County Forest	MUR-70	Height	Additional Floor	2 TDR credits
	MUR-45	Height	Additional Floor	9 TDR credits
	Business zones	Height	Additional Floor	9 TDR credits
Pierce County Agriculture	MUR-70	Height	Additional Floor	2 TDR credits
	MUR-45	Height	Additional Floor	9 TDR credits
	Business zones	Height	Additional Floor	9 TDR credits
	MUR-70	Height	Additional Floor	2 TDR credits
	MUR-45	Height	Additional Floor	11 TDR credits

Pierce County Forest	Business zones	Height	Additional Floor	11 TDR credits
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These are preliminary examples to illustrate the types of exchange rates that the City might adopt. Final exchange rates would be established in Shoreline development code following further discussions among Shoreline, King County, Forterra and ECONorthwest.

In the sample table, the exchange rates take a range of values to reflect certain market factors. The first is sending areas. The exchange rates are calibrated to reflect the variations in TDR credit prices across the region, both in terms of geography and land type. Credit prices are different in all three counties and they also differ between farm and forest properties. In the sample table, a developer would buy more credits from Pierce County than from King, or from a forest property than a farm, because those are less expensive.

The second variation is by receiving area. The sample table shows that projects in the business zones need more TDR credits to gain an additional floor than do projects in the MUR-70' zone. Why this difference? The cost of adding one floor to a 50-foot tall building in a business zone is low compared to the additional cost of adding height to a 70-foot building. In the shorter building, there is no change to the construction type, while any increase above 70 feet requires a shift from podium construction to steel/concrete or mass timber. Although they use land more efficiently, these taller buildings can be significantly more expensive to build, which leaves less money available to use TDR in a way that makes it profitable.

The state statute requires that cities using LCLIP must make all regional sending areas eligible for transferring credits into receiving areas. Cities retain discretion on prioritizing sending areas, however, and adjusting exchange rates to award higher bonuses to certain lands is one approach to creating a preference.

3.8 TDR Credit Placement

How might new construction in the proposed Shoreline receiving areas use TDR? The following scenario illustrates how a prototypical project might apply the tool. The first example shows a project in the MUR-45' zone under the status quo: a 4-story building containing 180 housing units on a lot slightly smaller than one acre. The second example shows how adding two floors to the building would increase the amount of housing by 25% and place five to 11 TDR credits. Assuming this building placed 10 TDR credits (two floors gained from King County farm credits), the market would need to build 23 such projects over a 20-year period to meet LCLIP credit placement goals.



Zone	MUR 45	MUR 45 with TDR Incentive
Lot Size	40,000 square feet	40,000 square feet
Height	45 feet	65 feet
Stories	4	6
Use	Housing	Housing with retail
Housing Units	180	225
Parking Stalls	180 (surface and structured)	225 (surface and podium)
TDR Credits Placed	0	5 to 22

Other permutations are also possible. For example, if this type of building used King County forest credits, the market would need to build 14 such projects over 20 years to meet the LCLIP credit placement goals. Thinking of credit placement in the context of buildings and the pace of construction is a helpful frame for visualizing what 231 TDR credits looks like on the ground.

3.9 Administrative Model

A program's administrative model is the mechanism by which TDR transactions occur. It defines a city's role in the process, which can vary from hands-on to light touch. An administrative model should make transactions simple for the buyer and the seller, as well as provide certainty and transparency on how the program works. The types of administrative model reviewed here include simple buyer-seller, private market with public support, and public-private partnership. A brief overview of each follows.

Simple buyer-seller

Under this model buyers and sellers of TDR credits find each other and negotiate private real estate deals to effect transactions. A city's role is limited to recording the use of credits when applied to a project as part of the development permitting process.

Private market with public support

This is a variation on the simple buyer-seller model with key differences. Elements that remain the same are that the buyers and sellers of credits negotiate private deals to transact TDR credits while the city processes and records the use of TDR credits. This model takes the city's role further, however, by augmenting the resources available to support a private market. Foremost among these is providing program and market information to help participants understand how the program works, how to find each other, and what is involved in a transaction.

Public-private partnership

In this model the city would retain responsibility for essential administrative tasks (processing and recording use of TDR credits) while a private partner would market the program, recruit users, and facilitate transactions. In this approach the city would retain responsibility for central administrative functions that it already performs while the private partner would pursue deal-making that can be time-intensive and requires real estate market expertise.

TDR bank

A bank is an entity in the marketplace that buys and sells TDR credits. A bank can be useful in that it conducts transactions that are beyond the scale of the private market, it reduces transaction costs for participants, and it simplifies the acquisition process for credit buyers. The consultant team did not explore the TDR bank option for Shoreline because King County operates one that is already used by urban developers and creating another bank specific to the City would be duplicative.

Regardless of the administrative model Shoreline chooses, King County will be an important partner in the implementation of a TDR program and LCLIP. Counties serve several roles essential to the function of a marketplace, including:

- Certifying TDR credits from sending areas,
- Operating TDR banks (where applicable), which buy credits from sending area landowners and sell them to developers, reducing uncertainty and transaction costs, and
- Tracking TDR use across the county and in other cities.

Shoreline would share program activity information with King County and the Washington State Department of Commerce, such as the use of TDR credits in new construction projects. King County and Seattle signed an interlocal agreement to establish the terms and conditions of TDR credit transfers when Seattle adopted LCLIP. Should Shoreline pursue LCLIP, King County may also wish to enter into a similar agreement with the City.

Shoreline can take a range of steps to achieve greater transparency, visibility, and usability for its TDR program. These are addressed as responses to questions from the perspective of program users.

How do prospective participants learn about the program?

The City can:

- Create a page on its website dedicated to TDR that
 - Explains the program and benefits to buyers and sellers, including a walk-through of the entire process
 - Links to relevant code chapters
 - Shows maps of receiving areas and identifies what incentives may be used in each
 - Includes a FAQ section
 - Lists staff contact information
 - Has downloadable electronic application forms
- Reach out to prospective developers and inform them of the opportunity to use TDR in the city. This can take the form of phone calls, a developer workshop, a webinar that the city posts on its website, mailing program summaries, or partnering with industry groups (realtors, Master Builders Association, chamber of commerce, etc.)
- Pursue media coverage to highlight the innovative aspects of the program and the benefits to residents

What does a TDR credit get me?

- Based on the market analysis for this study, the City should adopt exchange rates to define what density bonus a developer gains for purchasing a TDR credit. This is information that should be included on the city TDR website program overview, in code, and in a FAQ document.

How do buyers and sellers find each other?

- As part of the TDR web page, the city can provide resources for participants to connect. This can include contact information for the King County TDR program or private partners who can serve as sources for TDR credits.

What does a TDR credit cost?

- This is a simple question with a complicated answer, but for the purposes of encouraging program activity it is important to make market data publicly available. Each developer will calculate a willingness to pay that varies depending on individual project factors and each landowner will have a unique price expectation. King County publishes sales data of transactions as a public resource to share information about the TDR market.

What does the city have to do?

At minimum, the City's responsibilities in administering the TDR program involve:

- Establishing a review process for the use of TDR credits in receiving area projects. This includes setting a point in the development process at which an applicant must furnish certified TDR credits (or a substitute, such as an option agreement), such as at issuance of building permit or prior to certificate of occupancy.
- Tracking TDR credits used in receiving area projects, sharing credit use with King County so it can extinguish credits applied to new construction and reporting to the Washington State Department of Commerce on an annual basis.

Additional responsibilities may include:

- Making an annual report to planning commission and city council on TDR program activity.
- Marketing the program, recruiting participants.

What are the steps in a transaction?

This needs to be spelled out both in code and in program overview materials that the City publishes, including on its website. Some programs, like Snohomish County, have drafted visual flow charts to illustrate the process. The basic elements include:

For the buyer –

1. Developer holds pre-application meeting with city.
2. Developer and city discuss use of TDR and other incentive components to achieve bonus density.
3. City calculates number of TDR credits developer needs to achieve desired project density based on exchange rate and other program elements.
4. Developer seeks TDR credit seller, negotiates a price, closes a transaction, and furnishes necessary documentation to city (this can be an option agreement or original TDR certificates, as the city prefers) at the established point in the development process.

What happens after the transaction?

- The city tracks TDR credit use and communicates program activity to King County so the two jurisdictions can coordinate their respective sides of the process.

4 LCLIP Revenue Assessment

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

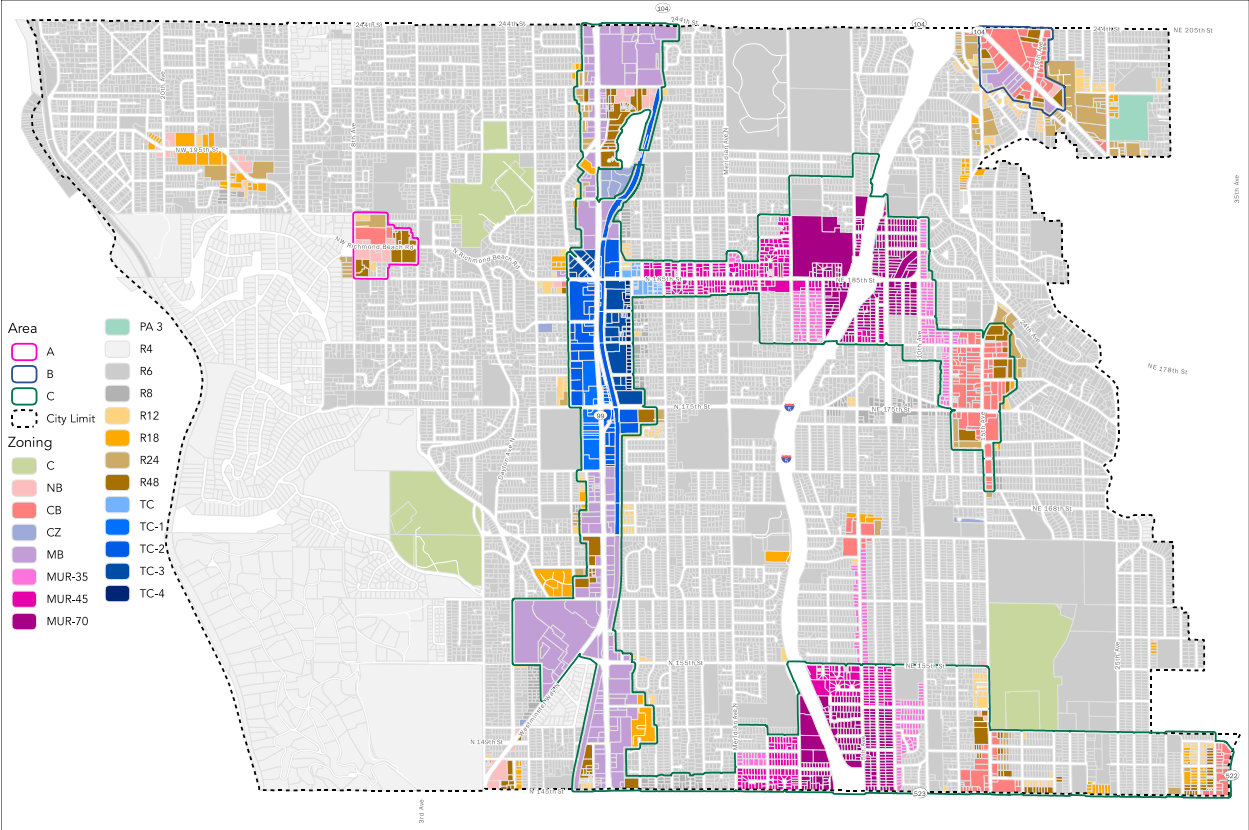
4.1 LIPA Opportunities

In the 2015 study the analysis focused initially on a combination of four discrete geographies. Upon reviewing the revenue-generating potential for the Study Areas, the analysis showed that collectively these areas represented only 14% of the City's total assessed value. Two key features of LCLIP are that revenue is a function of growth and cities may capture the incremental revenue from up to 25% of their assessed value. It is to Shoreline's advantage to maximize the assessed value included in the LIPA in order to fully achieve the program's revenue potential. Specifically, the city should select LIPAs in areas where it is planning the most assessed value expansion. Subsequent revenue projections were based upon an expanded Study Area that extended north and south along Highway 99 from the Town Center, which is shown in Exhibit 4. There are three LIPAs that cover the principal higher density areas of the city/

Land values have changed in the intervening time since the publication of the initial LCLIP study. The current, revised analysis recalculated the Study Area to include extensions of the original geography as well as two additional LIPAs. Collectively, these three LIPAs represent 22% of the City's assessed value at the time of the analysis. The following maps depict current Study Area.

The revised LIPA configuration was designed with input from Shoreline and King County staff to optimize program benefits (both revenues and conservation). The updated LIPAs include corridors between Aurora Avenue and the light rail stations, reflecting Shoreline's desire to improve connectivity among major commercial and transit centers. New, separate LIPAs were added in the Echo Lake and Hillwood neighborhoods to include redevelopment potential in the high-density residential and commercial zones.

Exhibit 4. Expanded LIPA Area



4.2 LCLIP Revenue Testing – Scenarios

Overview

Using a LCLIP revenue model designed for the City, the analysis assessed the number of TDR credits potentially placed and corresponding revenues generated through the LCLIP program. There is a baseline forecast with a higher and lower bound estimate. Each estimate assumes different levels of growth to test how sensitive the revenues are to the assumed amount of growth. Given the TDR exchange rates and LIPA geography, it is estimated that future growth can accommodate the full PSRC allocation of 231 development rights.

TDR Mechanism

The revenue analysis assumes that the primary mechanism used to place TDR credits is through the following areas.

- MUR-70' zones
 - Additional building height above 70 feet
 - Parking reduction
 - Tree removal offset
- Height bonus in MB, NB, CB, and R-48

All new multi-family residential development would use the 12-year MFTE program with affordable housing requirements.

The MFTE program would delay a portion of revenue to the City until the 12-year exemption expired. After the exemption expires the value would be added to the City's assessed value used in calculating how much revenue the City is receiving under the program. The delay in adding new construction value will somewhat reduce the amount of LCLIP revenues to the City over the life of the program. The City would also realize slightly less in total property tax revenue due to the delay in the addition of new construction value as well. It is important to note, however, that the revenues from other sources (sales tax, B&O tax, utilities tax, etc.) would likely exceed the foregone revenue from the 12-year property tax exemption.

Assumptions

The analysis uses several common assumptions for all scenarios. The analysis assumes that the LCLIP program would start in 2021 and run for 25 years. For a program starting now the net present value is a useful measurement of projected revenue, as it is adjusted for inflation. For a program starting in the future it is helpful to consider the revenue stream over time in nominal terms (not adjusted for inflation). Considering both values provides a more complete picture.

All scenarios assume the price of TDR credits ranging from is \$20,000 and increase to \$41,000 per the sending areas below.

Exhibit 5: Assumed Sending Site Costs

Sending Area	Cost Assumptions (per Development Right)
King County Agriculture	\$41,000
King County Forest	\$28,000
Snohomish Coouty Agriculture	\$35,000
Snohiomish County Forest	\$25,000
Pierce County Agriculture	\$25,000
Pierce County Forest	\$20,000

LCLIP Revenue Results

Under these assumptions the private market would be able to place all the City's 231 TDR credits and meet each performance threshold without public support. As a result, the LCLIP program would produce significant funding benefits to the city. Assuming a 100% specified ratio (the City commits to all 231 credits), the program could generate \$8.3 to \$12.8 million (net present value, \$13.9 to \$18.9 million in nominal terms) over the 25-year period.

Exhibit 5. Summary Lower Bound Estimate

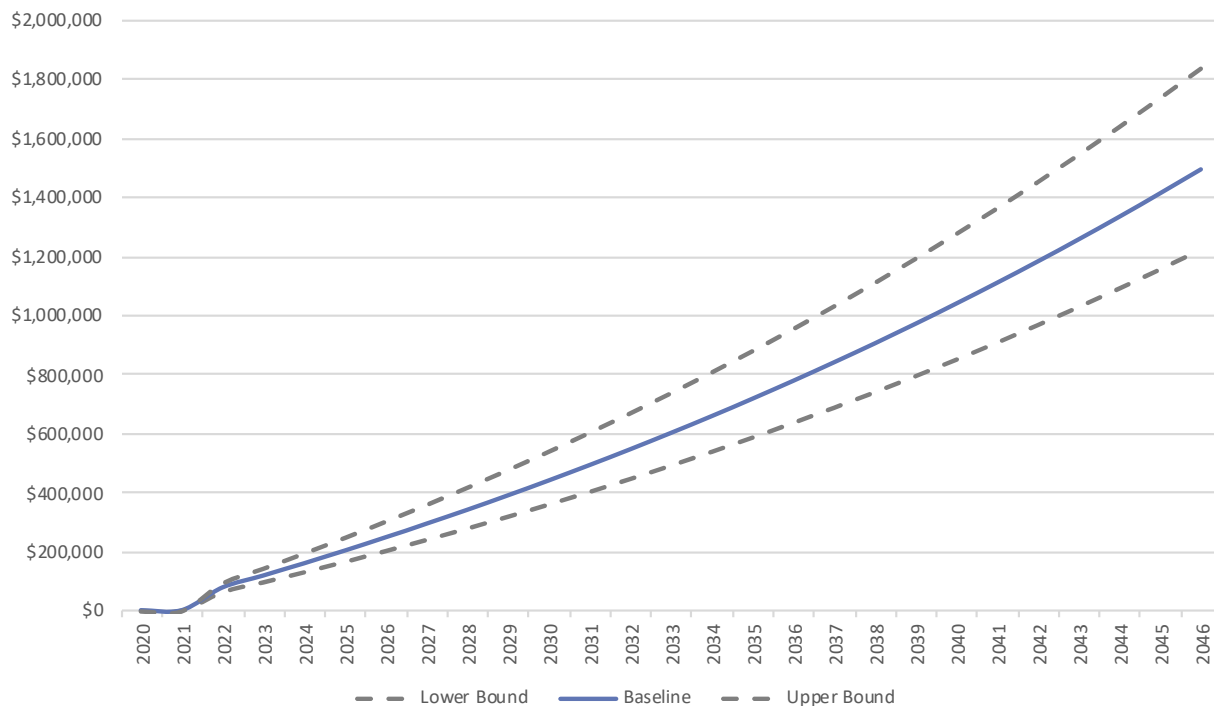
TDR Credits Used		231
Revenues	2020 Dollars (Present Value)	Nominal (Non-Inflation Adjusted)
Total LCLIP Revenues	\$16 Million	\$27.0 Million
City Allocation Revenues	\$7.5 Million	\$12.6 Million
County Allocation Revenues	\$8.5 Million	\$14.4 Million
City TDR Acquisition Cost	\$0	\$0
City Net Revenue	\$8.3 Million	\$13.9 Million

Source: ECONorthwest. Note all figures in 2020 dollars; 25-year present value at 3% discount rate

Exhibit 5. Summary Upper Bound Estimate

TDR Credits Used		231
Revenues	2020 Dollars (Present Value)	Nominal (Non-Inflation Adjusted)
Total LCLIP Revenues	\$24.1 Million	\$40.5 Million
City Allocation Revenues	\$11.3 Million	\$18.9 Million
County Allocation Revenues	\$12.8 Million	\$21.6 Million
City TDR Acquisition Cost	\$0	\$0
City Net Revenue	\$12.8 Million	\$18.9 Million

Source: ECONorthwest. Note all figures in 2020 dollars; 25-year present value at 3% discount rate

Exhibit 6. Annual LCLIP Revenues

Source: ECONorthwest

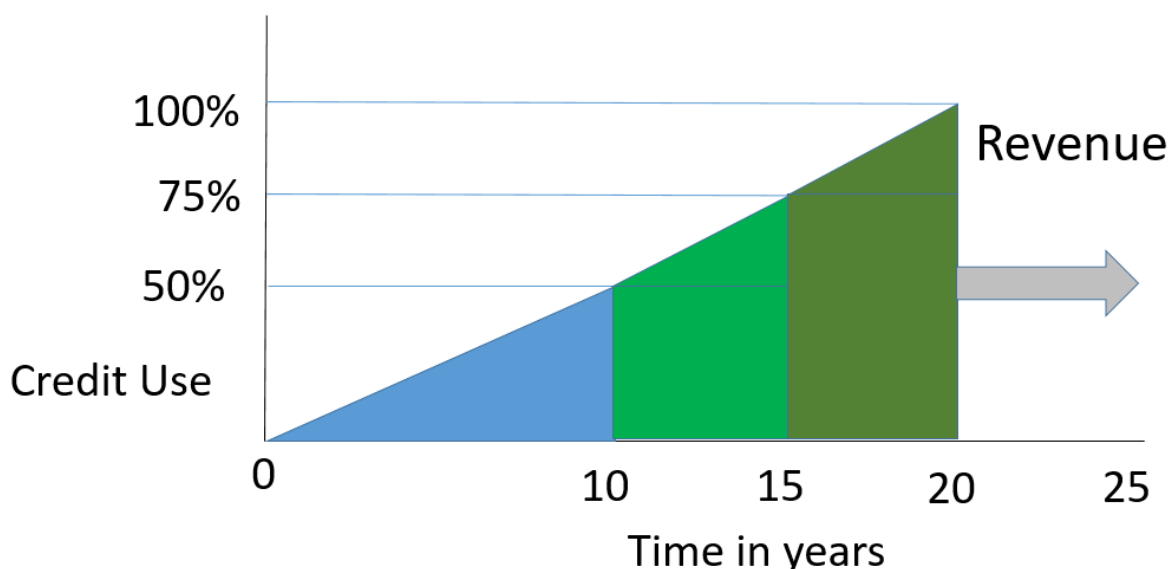
4.3 Risks and Requirements

A city's decision to participate in LCLIP does not guarantee program success. As described already, several factors determine revenue and conservation outcomes, primarily the amount of redevelopment that occurs and how well calibrated the TDR mechanism is to place credits as a result

of that growth. A goal of this study update is to identify an implementation strategy by which Shoreline can use TDR to optimize the benefits of LCLIP and maximize the likelihood of program success. That being said, cities want to know the ramifications of using LCLIP and what the consequences are if they are unable to achieve program objectives.

Risks

An unknown factor in pursuing LCLIP is that anticipated redevelopment may not occur at either the pace or the scale at which a city needs in order to meet program obligations. Projecting future growth is difficult and, while the analysis in this report is based on the best available information and reasonable assumptions, there is some degree of uncertainty in predicting land use patterns. The design of LCLIP recognizes this uncertainty in the timeline of the performance milestones and the consequences of missing them. The following diagram illustrates the schedule of TDR placement needed to keep the program running:



The best way to achieve the objectives of LCLIP is to adopt an implementation strategy that is most likely to succeed. This includes creating appropriate incentives for using TDR, exchange rates matched to the market, and an administrative model that meets the needs of participants. If, however, the demand for growth doesn't materialize, what happens? The short answer is that counties have the option to end the program. This means three things:

1. Counties can stop sharing revenue if cities fall short of performance milestones. The result is that cities forgo all future earnings. This is an opportunity cost as the compounding effect of LCLIP means that revenues are highest in the later years of the program.
2. There is no penalty or fee to cities if the program ends early.
3. Cities retain all the revenue already collected. They do not have to pay back anything.

Two scenarios illustrate potential outcomes of missed program milestones.

In the first scenario, imagine that Shoreline adopts LCLIP and commits to accepting all 231 TDR credits. Under the statute, the City must place half of those, or 116 credits, by the end of year 10. Over the first 9 years of the program new construction has placed 101 credits. No pipeline projects

that could use TDR will materialize by the end of the year and it appears that the City will fall short of its placement goal by 15 credits. If the program ends the City will not earn any further revenue. Shoreline and King County could negotiate an extension to the program, as it is in both jurisdictions' interests to do so and the shortfall could be made up by a future project. Shoreline might purchase 15 credits with City funds to meet its TDR goal and could re-sell those credits into future projects. Shoreline and King County might negotiate an alternative arrangement that allows the City to continue the program. The result is that the two parties agree to extend LCLIP for another five years.

In the second scenario (same assumptions), imagine that the pace of growth has been far below expectations and new construction has placed 50 credits by the end of year 9. Facing a gap of 66 credits to meet the placement target within a one-year period and low growth rates, the City may not wish to buy the remaining credits to satisfy program requirements. The result is that King County ends the program at year 10. This scenario is unlikely, however, as the City will be monitoring program use continually and will know if it's on track to reach TDR placement goals. If placement is not high enough, the City will have time in which to adjust the program to increase TDR use.

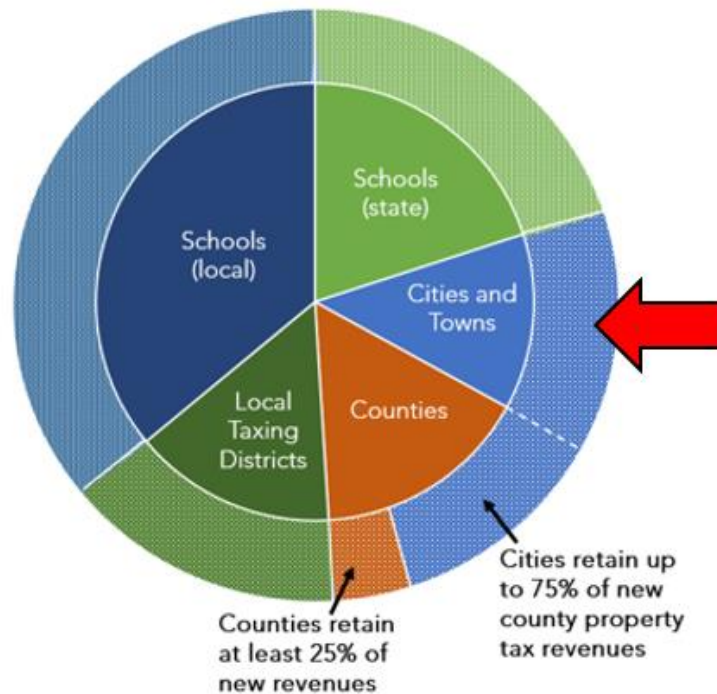
As a general statement, there is low risk to cities to participate in LCLIP. The main risk is the opportunity cost of not earning future revenues if a city does not meet TDR credit placement goals. Since it's unlikely that a city would start LCLIP if the conditions for success were not favorable, the likelihood of missing placement milestones would largely be driven by external factors, such as a market downturn.

In either scenario described above, a city has an additional option, which is to buy the balance of TDR credits itself to meet the placement goals. This is allowed by statute and gives a city the opportunity to intervene if the private market alone does not meet credit placement goals. Purchasing TDR credits with City funds would offset a portion of the financial gain through LCLIP but depending on the situation it could result in a city earning more than the expense over the duration of the program.

Another issue identified by cities that are considering multifamily property tax exemptions (MFTE) as a mechanism for placing TDR credits is that these tax exemptions will erode their overall revenue. For example, if a city uses TDR as a means for developers to access MFTE, the city forgoes revenues on those projects for a portion of LCLIP's duration. While that may be the case, the bigger picture tells a different story. Property tax is not the only source of revenue to a city from new construction. A city also collects sales and B&O taxes, among others. The revenues from sales tax during construction and ongoing taxes collected after occupancy in most cases will more than offset the loss of property tax through MFTE. That is revenue that would not otherwise be generated but for MFTE, which can create enough savings to justify building a project. Although MFTE may reduce LCLIP revenue, in the broader context a city still earns more revenue than it would have – through a multitude of sources – absent MFTE.

Requirements

Cities pursuing LCLIP assume certain responsibilities identified in the statute. Beyond those already discussed, cities must commit to allocating their own portion of property tax revenue from new construction in the LIPAs to infrastructure improvements in those areas. To return to the earlier visual example of tax revenue distributions through LCLIP, the red arrow in the following graphic shows the portion of earnings a city must direct to infrastructure funding in LIPAs (which is separate from and additive to the revenues retained from counties).



This requirement does not cover continued property tax assessments on existing buildings, it pertains only to new construction for the limited duration of LCLIP. Some cities have raised the concern that this requirement constrains their use of tax funds, however it is important to consider two factors on this point. First, because a city using LCLIP is committing to use revenues for infrastructure, this program requirement represents an expenditure on capital improvements that a city would make anyway. Second, because revenues from new construction in LIPAs must go towards infrastructure, property tax revenues from other parts of the city that would otherwise go into the capital facilities budget can be used for other purposes. The net result is flexibility in how cities deploy property tax revenues while ensuring that infrastructure investments in high-growth areas are adequately funded.

5 LCLIP Program Findings and Recommendations

5.1 Summary of Findings

There is strong policy case for LCLIP in Shoreline.

The Study Area, including Town Center, Aurora Square, the future light rail station areas, major east-west corridors, and two business/high density districts can play a central role in the city meeting its growth targets. These areas have the capacity to accommodate most of the City's new residents and employment, plus they have a need for capital facilities to support this growth. Residential capacity, particularly in the area where the city is planning on more intense land development, can use TDR (and, by extension, generate LCLIP funding) through use of the multi-family tax exemption program. The study area can benefit from infrastructure improvements to support redevelopment, especially around improving access to transit. Flexible funding from LCLIP can provide Shoreline with a revenue source to help make those investments.

The 2015 study found that a moderate growth scenario could generate \$4.4 million (net present value, \$8.5 million in nominal terms) while a more aggressive growth scenario could generate \$7.3 million (net present value, \$13.9 million in nominal terms). Assuming a 100% specified ratio (the City commits to all 231 credits), the program could generate \$8.5 to \$12.4 million (net present value, \$14.4 to \$21.6 million in nominal terms) over the 25-year period.

Looked at another way, if the City wanted to bond against future revenue, the relevant revenue figures would be the range of \$8.5 million to \$12.4 million. If the City instead wanted to collect the revenue and spend it as it comes in, the relevant revenue figures would be \$14.4 million to \$21.6 million.

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

Shoreline currently has TDR provisions in portions of the light rail station areas. In their current form they are unlikely to achieve the desired outcome because of the overall cost of including an array of public benefits in taller developments. Revisions to the development code that prioritize use of TDR, simplify the process, and offer more ways to use TDR should result in a market-driven approach in which new projects place credits in areas where the City desires growth.

Shoreline can augment the MFTE approach by combining it with TDR for projects in the commercial zones. An overall market-based strategy of offering an appropriate suite of incentives in areas expecting growth will maximize the likelihood of program success. However, some changes to affordable housing provisions would improve the capacity for new construction to provide multiple public benefits.

Timing the start of LCLIP

As demand for growth around the future light rail station areas emerges (and continues in business districts), this will drive further redevelopment. New projects are already emerging in Town Center and redevelopment at Shoreline Place is another project that will influence LCLIP utilization. There are two

main approaches to how to time the start of LCLIP. Each has its own advantages and tradeoffs. The City can weigh which factors matter most to plan for adoption in a way that best meets local needs.

One timing strategy involves waiting to start LCLIP until a developer proposes a new construction project that would place TDR credits. By launching the program just prior to such a project, the City achieves two objectives: making progress towards its TDR goals and ensuring revenue from the outset of the program. This approach mitigates – to some extent – the risk that redevelopment won’t achieve program TDR credit placement goals. One tradeoff is that it would not capture the revenue of other new construction that happens in the interim that doesn’t use TDR – in other words, the City might forgo revenue by waiting. Additionally, this approach postpones action, potentially reducing the likelihood of the program being adopted at some indeterminate future point.

The other strategy involves adoption of LCLIP now (or as soon as is feasible). This approach ensures that no value will be missed by waiting. Staff reports that three new construction projects within the proposed program area have already started the permitting process. Adopting LCLIP prior to completion of these projects would ensure that they generate revenue. A tradeoff to this approach is that the 20-year clock on TDR use begins without any credit placement. If the City makes code changes that result in greater certainty of TDR use in future projects, it mitigates the risk of missing credit placement goals.

A simple summary of the choice is this: adopt LCLIP now with the certainty of revenue from proposed new construction while relying on future redevelopment to place credits pursuant to code changes, or defer adoption to ensure some progress towards TDR credit placement goals with an opportunity cost of foregone revenue from known redevelopment.

5.2 Recommendations

Shoreline can pursue a range of actions to maximize the benefits of LCLIP while minimizing the risks of not meeting performance milestones. In thinking about using LCLIP, the City should consider a suite of actions that collectively would take advantage of conditions for the program to succeed.

Potential LCLIP Approaches

The 2015 report proposed three potential approaches to proceeding with LCLIP: no action, participate at the maximum level, and time the start of the program to a known project. The update to that report proposes a modified sequence of steps.

No Action in the Immediate Future

The “no action” alternative remains an option. While it was appropriate to consider in the context of the conditions informing the 2015 report, subsequent changes have introduced new factors influencing this choice. Since then, Shoreline adopted a subarea plan for the 145th Street light rail station area. Now both station areas have zoning that supports transit-oriented development. Additionally, growth has continued in multiple areas within the City. Multifamily projects are in various stages of completion, showing that a market for growth exists in advance of light rail service. Furthermore, opening of the light rail stations is less than three years away, which is a different timeline for prospective development than at the date of the original report (at which point opening was 8 years

distant). Finally, the LCLIP revenue projections are higher than in the original analysis, so the opportunity cost of not using the tool goes up accordingly. Conversely, because both light rail station area plans were adopted with limited and functionally constrained TDR provisions, retroactively expanding the use of TDR in existing zoning would be a complex (but not insurmountable) task.

Set the stage for LCLIP success with a sound TDR framework

This is the first of two steps for using LCLIP. Before proceeding to LCLIP adoption, Shoreline could pursue code changes outlined in this (updated) report to create a viable TDR program. This would give the City a solid foundation with a complete set of mechanics and the administrative structure for using the tool. With a TDR program in place that is designed to anticipate the demand for growth that should accompany expanded regional transit service, Shoreline will be positioned to adopt LCLIP when the conditions are best suited for success.

Prepare LCLIP legislation and identify conditions for adoption

Secondly, subsequent to (or concurrent with) TDR program creation, Shoreline can prepare legislation for adopting LCLIP. The City could draft an ordinance containing all the components specified by the statute (see Implementation Road Map below) and introduce it at a time that best supports City needs – either as soon as feasible or when a new project comes forward that would use TDR, depending on the City’s strategic preference around timing the start of LCLIP. This would be the opportune time to negotiate an interlocal agreement with King County, so it is also ready for adoption. In either approach, all legislation and agreements should be ready for consideration on short notice, giving Shoreline the ability to act quickly.

The 25-year clock begins on the effective date of a city’s LCLIP ordinance. It is inefficient to start the clock either in the absence of new construction or of TDR credit placement – the program would neither generate revenue nor achieve conservation for an unknown period. In order to take full advantage of LCLIP’s benefits, Shoreline should set the program in motion when either a project (or projects) would create value or use TDR credits, depending on City priorities. Implementing this adoption strategy would require a specific sequence of actions:

1. Design and adopt TDR program framework
2. Draft LCLIP implementing ordinance
3. Negotiate interlocal agreement with King County
4. Track development activity in proposed LCLIP areas
5. When a development comes forward that would use TDR, bring LCLIP ordinance (and interlocal agreement, if applicable) through the legislative process for adoption

Summary recommendations for path to LCLIP implementation

- Create a TDR program first.
- Commit to all 231 credits to maximize revenues.
- Establish LIPAs that encompass the revised study area geography to include the widest possible growth potential and increase the opportunity for TDR placement.
- Prepare all the groundwork for adoption of LCLIP so the City may start the program when ready (now or later, depending on council direction).

- Make the necessary code changes to implement TDR within the development code.

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

- Indications that confirm market interest in TDR, such as development applications that have been or are expected to be proposed that will need TDR credits in different zones.
- Analysis of the expected use of TDR credits confirms a reasonably high likelihood of meeting threshold requirements for TDR use in the LCLIP district.
- Infrastructure projects have been identified that qualify under the LCLIP program. This does not have to be a new, standalone plan. It can include investments already identified in the capital improvement plan.
- As needed, a shared strategy approach with King County or another partner agency should be included in an approach to retiring TDR credits.

Summary recommendations for TDR program framework

- Receiving area is the geography of the study area.
- Sending areas are consistent with the intent of the LCLIP statute – make all regional resource lands eligible.
- TDR incentives are a suite of options including additional building height, parking reductions, and tree replacement.
- Incentives are streamlined to prioritize TDR and other public benefits like affordable housing.
- Projects gain incentives at a rate determined by market analysis (exchange rates are based in empirical understanding of the development market).
- Set development thresholds and exchange rates for accessing incentives at levels where TDR will be used.
- Administrative model is easy to use for all parties and the City provides information and resources to support participation.

6 Implementation Road Map

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

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

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

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

Step 3: Adopt a plan for development of public infrastructure within the LIPA. The plan may be referenced in the adopting ordinance and appended to the interlocal agreement with King County. The plan must:

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

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

- Comply with the Growth Management Act
- Designate a receiving area(s)
- Adopt developer incentives, which should be designed, at the City’s election, to:
 - Achieve the densities or intensities in the City’s plan
 - Include streamlined permitting strategies
 - Include streamlined environmental review strategies
- Establish an exchange rate, which should be designed to:

- Create a marketplace where transferable development rights can be bought and sold
- Achieve the densities or intensities in the city's plan
- Provide for translation to commodities in addition to residential density (e.g., building height, commercial floor area, parking ratio, impervious surface, parkland and open space, setbacks and floor area ratio)
- Allow for appropriate exemptions from land use and building requirements
- Require that the sale of the transferable development rights be evidenced by its permanent removal from the sending site (such as through a conservation easement on the sending site)
- Not be based on a downzone within the receiving area

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

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

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

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

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

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

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

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

City of Shoreline LIPA Areas A, B and C

