Council Meeting Date: **September 13, 2021** **Agenda Item:** 8(a)

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussion of Ordinance No. 944 – Amending Ordinance No. 776 and Ordinance No. 694 Amending Shoreline Municipal Code Chapter 3.27 for Property Tax Exemption Conditions Within the Light Rail Station Subareas and Within the Multifamily Tax Exemption Areas
DEPARTMENT:	City Manager's Office - Economic Development Program
PRESENTED BY:	Nathan Daum, Economic Development Manager
ACTION:	____ Ordinance ____ Resolution ____ Motion __X_ Discussion ____ Public Hearing

PROBLEM/ISSUE STATEMENT:

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

The MFTE program provides for a 12-year property tax exemption on new housing construction and improvements. This does not exempt the land valuation or non-housing-related improvements from taxation. For a development to qualify for the MFTE program a project must be multifamily housing development with at least 20% of the units meeting the affordable housing definition in Shoreline Municipal Code (SMC) Chapter 3.27.020.

SMC 3.27.040(D)(2) allows for applications to the MFTE program until December 31, 2021 in the City's light rail station areas. The light rail station areas are the only RTAs in Shoreline to have a MFTE sunset date. To date, no multifamily buildings have been completed in the light rail station areas.

In 2021, the State Legislature enacted Senate Bill 5287 which expanded the MFTE program to allow for the preservation of existing affordable units that were created by the program by creating a 20-year MFTE program that, in return for the tax exemption, would keep units affordable for 99 years. This aligns with the current mandatory affordability requirement of Shoreline's light rail station areas. Shoreline is one of seven cities in our region where an affordability requirement outlasts the offsetting tax exemption of an MFTE program.

SB 5287 also provides for the opportunity for a property that qualified for and used a property tax exemption and is within 18 months of expiration, to apply to extend the exemption for an additional 12 years if it meets locally-adopted affordability requirements. To qualify, an applicant must be approved by the city and commit to rent or sell at least 20 percent of the housing units to low-income households.

Tonight, the City Council will consider proposed Ordinance No. 944 (Attachment A), which would remove the December 31, 2021 sunset to the MFTE program in the light rail station area RTAs, establish a 20-year MFTE program, and provide for a 12-year MFTE extension option.

RESOURCE/FINANCIAL IMPACT:
During the development of an MFTE project, the value of the improvements is taxable until the City certifies project completion and compliance with MFTE requirements. On the following January 1, the 12-year tax exemption begins, but this does not reset tax revenues. Forgone taxes are only those levied on the difference, if any, between the value assessed prior to and after MFTE certification. Any balance is not added to the assessed value until the 13th year. Although improvements from the development projects may be exempt from property tax, these projects contribute significant one-time revenues from impact fees, real estate excise tax and sales tax. These projects also result in increased population that generates increased state-shared revenues and local sales and utility taxes, even during the property-tax exemption period. Staff and consultant time is required to process applications, file annual reports to the county and state, and to monitor compliance with affordable housing requirements.

RECOMMENDATION

No action is required; this agenda item is for discussion purposes only. Three potential code amendments in proposed Ordinance No. 944 are recommended by staff for consideration:

1. Extension and expansion of MFTE in the light rail station subareas.
   Proposed Ordinance No. 944 would eliminate the 2021 expiration of the MFTE program in the subareas and expand the MFTE boundaries to add the newly enacted Phase 2 station area zoning (Attachment A, Exhibit A) to encourage multifamily projects in these areas, with the inclusive affordability required by the development code in these areas.
2. Establishment of a 20-year MFTE program as authorized by the State legislature as a pilot program to be tested in Shoreline.
3. Adoption of a 12-year extension for MFTE projects to remain in the program as authorized by the State legislature for all jurisdictions.

Council action on proposed Ordinance No. 944 is currently scheduled for September 27, 2021.

Approved By: City Manager ***DT*** City Attorney ***JA-T***

INTRODUCTION

Washington law (RCW 84.14) encourages property tax exemptions for multifamily investment in urban areas as a tool to manage growth, to encourage affordable housing, and to use land more efficiently. RCW 84.14 sets upper limits of 8 years of MFTE for market-rate housing and 12 years of MFTE for projects that include housing affordable to low- and moderate-income households. Although at one time the City had a market-rate MFTE program, the City now only has a 12-year program for projects that include housing affordable to households that meet the state's definition of "low-income." Low-income is defined as "a single person, family, or unrelated persons living together whose adjusted income is at or below eighty percent of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development."

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

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

Affordable housing is defined in SMC 3.27.020 for all targeted residential areas, except the two light-rail station areas. As per SMC 3.27.020 for studio and one-bedroom units the affordability level is no more than 70% of Area Median Income (AMI) and larger units at 80% AMI. As per state statute, low-income households must have an income no more than 80% of the median income of their county, while moderate income would be an income between 80 and 115 percent of the median income in the county. Current rent and income limits are detailed in the attached City of Shoreline 2021 Income and Rent Limits Chart (Attachment B). Affordability requirements for the two light-rail station areas is defined in SMC 20.40.235.

In 2021, the State Legislature enacted Senate Bill 5287 which expanded the MFTE program to allow for the preservation of existing affordable units that were created by the program by creating a 20-year MFTE program that, in return for the tax exemption, would keep units affordable for 99 years. This aligns with the current mandatory affordability requirement of Shoreline's light rail station areas. Shoreline is one of seven cities in our region where an affordability requirement outlasts the offsetting tax exemption of an MFTE program. The cities of Bothell, Issaquah, Kirkland, Newcastle, Redmond, and Sammamish all have programs that require lifetime affordability tied to a specific land use zone.

SB 5287 also provided for the opportunity, for a property that qualified for and used a property tax exemption and is within 18 months of expiration, to apply to extend the exemption for an additional 12 years if it meets minimum locally-adopted affordability requirements. To qualify, an applicant must be approved by the city and commit to rent or sell at least 20 percent of the housing units to low-income households.

The purpose of tonight's discussion is to consider

1. Options to maintain, repeal, or extend the MFTE sunset in the light rail station area residential target areas;
2. Adoption of a 20-year MFTE program; and
3. Adoption of a 12-year MFTE contract extension.

BACKGROUND

In 2002, the City Council established the Property Tax Exemption program (MFTE, also known as PTE) to attract development to Shoreline. Originally Shoreline's programs did not include any affordable housing requirements, rather, MFTE was adopted to achieve development densities that stimulate a healthy economic base and are more conducive to transit use in the targeted areas. In 2011, Council established the Aurora Ave N Corridor Property Tax Exemption Area to manage growth, to stimulate housing options, to ensure competitiveness, and to promote efficient use of land. In 2013, the Council imposed a 500-unit limit on MFTE for the Shoreline Place Community Renewal Area (CRA). In 2015, the Council established an affordability requirement for all MFTE projects. Also in 2015, the Council removed the sunset, then set for the end of that year for applications to the City's MFTE program for projects located in any of the City's RTAs. The discussion at that time noted that light rail station subarea planning was underway and that multifamily housing was expected to be a majority of the development in the subareas, with MFTE being an important incentive for multifamily homebuilders.

In 2017, the Council added Phase 1 light rail station subarea zones to the seven existing RTAs for a total of nine RTAs in the City's MFTE program. A sunset date of December 31, 2021 was set at that time for MFTE in the light rail station RTAs. The alternative of limiting the program by a unit-count cap was discussed, with a sunset considered preferable for its predictability for developers and ease of administration for the City. The ease of revisiting the sunset date was also discussed, should an extension be deemed necessary.

In 2019, Council repealed the 500-unit cap on MFTE for the CRA, which was the only MFTE Area to have such a cap at that time. The discussion included the need for the MFTE program for Shoreline to be competitive with other submarkets in the Seattle metropolitan area where the incentive is available, and the importance of multifamily development as a product type with much greater interest compared to retail or other commercial uses.

MFTE Incentive Overview

Housing affordability is a multifaceted challenge, and a variety of strategies are needed to continue to address the crisis from all angles. Established originally to encourage redevelopment in urban areas of Washington as an alternative to unsustainable sprawl, MFTE has also proven an efficient tool for incentivizing the private sector to build below-market rate housing. In essence, the property-tax exemption, from all taxing jurisdictions, provides the trade-off necessary to allow for 20% of the units to be rented at below-market rates.

While programs vary from city to city, MFTE is now so commonplace that many multifamily homebuilders do not consider investments in areas where it is not available. As the cost of construction has increased, the property tax exemption provides a critical reduction in operating expenses and, as such, has become an expectation on the part of institutional investors and lenders considering financing any given project. Where the affordability requirement and tax exemption duration are aligned, generally these offsetting conditions result in an increased supply of new housing at both market and below-market rents.

Despite unprecedented demand for housing, the cost of construction has also never been higher. This creates a perfect storm of unaffordable existing housing stock for the typical wage-earner and unaffordable construction costs for the typical builder seeking to add much-needed supply. While Shoreline's development sites are comparatively affordable, many remain on the market for many years simply because rents are not high enough in most areas outside of Seattle to justify the high cost of construction. Escalating rents in the Shoreline submarket can ultimately help make a project feasible upon completion, but this is a process that could slow or reverse at any time after the capital would be put at risk to begin construction. Very few builders have full control of the capital required for their projects, relying on more conservative, quantitatively-focused lenders and equity partners. MFTE reduces expenses in a way the investor can count on.

MFTE Program Results

Since the first MFTE project in 2007, 12 buildings with a total of 1,308 units have enrolled in the City's MFTE programs, producing 378 affordable units. Three multifamily projects—Artiste, Echo Lake Apartments and High Hill—were constructed without participating in Shoreline's MFTE programs during that time. Participating projects are summarized below and in the 2021 MFTE Report (Attachment C).

Year(s)	*MFTE Project(s)*
2002-2006	*No MFTE projects*
2007	1. The 88-unit Arabella, Shoreline's first MFTE project. Expired in 2017/owner began paying property tax on the building in 2018.
2008-2013	*No MFTE projects*
2014	2. The 165-unit Polaris. 100% affordable, in the North City MFTE area. Permanent (State) property tax exemption.
2015	3. The 129-unit Malmo in the Aurora Avenue North Corridor MFTE area. 4. The 5-unit North City Development.
2016-2017	*No MFTE projects*
2018	5. The 80-unit Interurban Lofts in the Aurora Avenue North Corridor. 6. The 60-unit Sunrise Eleven in the Ballinger Way NE MFTE Area.
2019	7. The 72-unit 205 Apartments in the Ballinger Way Area. 8. The 221-unit Paceline, in the Aurora Avenue North Corridor.
2020	9. The 81-unit Arabella II in North City (MFTE a HUD financing condition).
2021	10. The 164-unit Geo Apartments in the Aurora Avenue North Corridor. 11. The 243-unit Postmark Apartments in North City. 12. The 16-unit 3108 Apartments in the Southeast Neighborhoods Commercial Area.
2022-2024	Eight (8) projects anticipated to add 1,477 additional MFTE units over the next two to three years.

Eight more buildings, currently in design and permitting, are expected to enroll in the City's 12-year MFTE program. This will add approximately 1,477 MFTE units, including an estimated 670 affordable units. It is important to note that, with the exception of the light rail station areas, the affordable units can be converted to market rate units at the expiration of the 12-year MFTE program. Within the light rail station areas, the City's current regulations require affordable units for a period of 99 years, even though the property-tax exemption period only lasts 12 years. Staff has received feedback from the development community that this requirement is one of several impediments to the feasibility of projects, given the cost of construction in the region and rental rates in the Shoreline sub-market.

Five out of the nine RTAs have not yet yielded completed MFTE projects:

- 145th Street Station Subarea
- 185th Street Station Subarea
- Hillwood Commercial Area
- Richmond Beach Commercial Area
- Ridgecrest Commercial Area

<u>Senate Bill 5287</u>

Statewide, as in Shoreline, MFTE has been the subject of discussions as to its effectiveness as a tool, impacts to public finances, and the relationship between benefits to private developers and public benefits that are generated by use of this tool. Additionally, over the past few years as early MFTE projects approached the end of the tax exemption period, the possibility loomed that thousands of affordable units would convert to market rate. State legislators and advocacy groups sought to prevent a significant decrease in the supply of affordable units across the state in the midst of a worsening housing crisis.

In 2021, the state enacted Senate Bill 5287 which expanded certain provisions of the MFTE program. The bill's provisions include:

- MFTE projects that are within 18 months of expiration are allowed to extend the property tax exemption for an additional 12 years. While state law previously allowed affordable units to be targeted to "moderate-income" households, SB 5287 mandates that the affordable units be made available only to low-income households. Fortunately, this new provision aligns with the City's existing 12-year MFTE program requirements. Accordingly, multifamily housing projects which seek a continuing 12-year exemption simply must continue to include 20% of units as affordable to low-income households, defined by the state as those earning no more than 80% of AMI. However, SB5287 does impose some new requirements for MFTE applicants: they must provide notice to tenants in rent-restricted units at the end of the tenth and eleventh years of the extended 12-year exemption that the program will expire; and property managers must provide relocation assistance of one month's rent to qualified tenants in their final month when affordability requirements end.
- A city with a mandatory inclusionary zoning requirement for affordable housing which ensures affordability of housing units for at least 99 years and which has a population of no more than 65,000 may offer a 20-year exemption program for properties that commit to renting at least 20 percent of units as affordable to low-income households for at least 99 years, if the property is within one mile of high-capacity transit of at least 15-minute scheduled frequency. This legislation was targeted for Shoreline to conduct a 20-year property tax exemption pilot program in its light rail station subareas.

The legislature also provided funding and direction to the state Department of Commerce, in Engrossed Substitute Senate Bill 5092, to work with cities, counties and other stakeholders to study MFTE and assess the relative costs and benefits.

DISCUSSION

Light Rail Station Subarea Affordable Housing Policies

SMC 3.27.030 designates the City's MFTE residential targeted areas, including the 145th and 185th Street Station Subareas. At the time that the City Council approved adding the Station Subareas as RTAs only Phase 1 of the 185th Station Subarea had been activated and as such it is only the Phase 1 zoning that is reflected in SMC 3.27.030. On March 31, 2021, Phase 2 of the 185th Station Subarea rezone was activated. Proposed Ordinance No. 944 expands the MFTE boundaries to add the newly enacted 185th Street Station Phase 2 station area zoning to encourage multifamily projects in these areas.

SMC 3.27.040(D)(2) stipulates that the designation of residential targeted areas within the 145th and 185th Street Station Subareas shall automatically expire on December 31, 2021.

In its November 30, 2020 meeting, Council discussed potential measures to address the lack of development in MUR-70 zones of the two Light Rail Station Subareas including potential expansion to Phase 2/3 zoning in the light rail station subareas and the extension or elimination of the December 31st sunset of the MFTE program. More information about this discussion can be found here: [185th Street Station Subarea Plan Progress Report 2015-2020].

In its April 5, 2021 meeting, Council discussed potential expansion and extension of the MFTE program in the light rail station areas as a low-effort, medium/high impact, short-term code amendment (2021-2022). More information about this discussion can be found here: [185th Street Subarea Plan Progress Report Follow-up: MUR-70 Regulations].

SMC 20.40.235 sets forth the mandatory inclusionary affordable housing requirements for the 145th and 185th Street Station Subareas. Affordable housing is voluntary in MUR-35' zone and mandatory in the MUR-45' and MUR-70' zones. Within the MUR-45' and MUR-70' zones, developers must do the following, regardless of any existence of a MFTE program within the Station Subareas:

- For studio or 1-bedroom units, make 20% of the units affordable for households making 70% or less of King County AMI or 10% of the of the units affordable to households making 60% or less of the King County AMI.
- For units with two (2) or more bedrooms, make 20% of the units affordable to households making 80% or less of the King County AMI or 10% of the units affordable for household making 70% or less of the King County AMI.
- In either case, affordable units shall remain affordable for a minimum of 99 years from the date of initial occupancy. Thus, as noted earlier, the time period for units to remain affordable in the Station Subareas far exceeds the requirement of the City's 12-year MFTE program in all other RTAs.

The City does provide opportunities for permit fee reduction and impact fee reduction/waiver if the units are affordable to households whose income is no more than 60% of AMI.

Given the overlap of the existing 12-year MFTE program and the mandatory inclusionary affordable housing requirements in the Station Subareas (land use based), it is important to understand how they work together under the current municipal code requirements. The land use requirement within MUR-45 and MUR-70 zones requires that a developer provide either 20% or 10% of their units as affordable based on a specific percentage of median income for 99 years. Under current regulations this developer could also choose to participate in the City's 12-year MFTE program if they provide a minimum of 20% of their units as affordable units. At the end of the 12-year period, this developer must maintain a minimum of 10% units as affordable units (meeting the appropriate median income threshold) for the remaining 87 years without any tax exemption.

Proposed Elimination of Station Subarea MFTE Sunset

If Council does not take action, the 12-year MFTE program in the Station Subareas will expire on December 31, 2021 and will no longer be available to developers. Staff still considers this is a critical tool to support development in the Station Subareas and the creation of affordable housing. Proposed Ordinance No. 944 eliminates the 2021 expiration of the City's 12-year MFTE program in the 145th and 185th Street Station Subareas. While MFTE has become more commonplace throughout the region, mandatory affordability like the 99-year requirement in Shoreline's light rail station subareas is still rare. The cost of construction has risen so dramatically, and development has proceeded so much faster in other areas since Shoreline rezoned its Station Subareas, it is unclear when, if ever, a mandatory inclusionary affordability requirement could stand on its own without the offsetting MFTE. If at some future point it becomes feasible for projects to secure underwriting with the requirement but without the offsetting tax benefit, Council could reconsider setting a sunset date at that time.

Proposed 20-Year MFTE Program

Staff also recommends that Council enact a 20-year MFTE program for projects subject to 99-year affordability requirements. A 20-year exemption may still not provide an adequate offset for the cost of 99-year affordability, but this was the time period that the State Legislature established to test the concept. Time will tell if this program will incentivize developers to move forward with a project subject to the mandatory inclusion of affordable units for 99 years. If such a program were adopted by the Council, the City would also participate in the study to be conducted by the Department of Commerce regarding its use, lack thereof, or other lessons learned in implementation.

The City Council could impose some form of a limit on the 20-year program, such as 1,000 units, or a sunset date, if there was concern of the number of projects that could qualify for this program.

While designed with Station Subarea redevelopment challenges in mind, SB 5287 is written such that projects in any Shoreline RTA that are within one mile of high-capacity transit at 15-minute frequency could opt in to the 99-year affordability requirement. As such, the proposed 20-Year Program is not limited to any one RTA and would apply to potential future projects within other RTAs such as the Ballinger Way NE Commercial Area RTA or Aurora Ave N Corridor RTA.

If the Council supports staff's recommendation of eliminating the sunset of the 12-year MFTE in the Station Subareas, having the 20-year MFTE program available provides an additional option for development decisions in these areas and how the development community can continue to provide various levels of affordable housing.

<u>Proposed 12-Year MFTE Extension</u>
Staff recommends that the Council adopt provisions to allow MFTE projects that are within 18 months of expiration to be extended for an extra 12 years in order to maintain a number of affordable housing units for qualifying low-income households. Multifamily housing projects which seek a continuing 12-year exemption simply must continue to include 20% of units as affordable to low-income households. They will also need to follow the notice and relocation requirements that were included in SB5287 as the expiration of the extended period nears. Staff would recommend the 12-year extension be made available only for projects in the 12-year MFTE program; it would not be available to projects enrolled in the proposed 20-year MFTE program.

<u>ALTERNATIVES</u>

Staff has identified potential policy options for Council consideration related to the Station area MFTE sunset of December 31, 2021, the opportunity to establish a 20-year MFTE program, and the opportunity to adopt a 12-year MFTE extension:

1. **Station Area MFTE Sunset, December 31, 2021**
    a. Maintain the 2021 deadline for enrollment into the City's MFTE, recognizing that projects so far have not materialized with this incentive available and therefore may be even more infeasible without, or
    b. Extend the 2021 deadline to effectively reduce the City's nine MFTE areas by two at some future date, or
    c. Remove the deadline, expand the boundaries to include Phase 2 zoning, and set a unit-count cap to limit enrollment into the City's MFTE, recognizing this could reduce interest on the part of potential applicants while increasing administrative complexity, or
    d. Remove the deadline and expand the boundaries to include 185th Street Station Subarea Phase 2 zoning (*Staff Recommendation in Proposed Ordinance No. 944).*

2. **Adoption of 20-year MFTE Program**
    a. Maintain the 12-year MFTE program as the only MFTE program available in the City of Shoreline, or
    b. Adopt the 20-year MFTE program as an additional program available only to projects with inclusive affordability for a term of 99 years (*Staff Recommendation in Proposed Ordinance No. 944).*

3. **Adoption of 12-year MFTE Extension**
    a. Maintain existing MFTE program's maximum duration of 12 years, recognizing that so far zero MFTE units have been constructed in the Station Subareas and after 2026 affordable MFTE units in other RTAs will begin reverting to market rate if an extension is not available, or
    b. Adopt a 12-year MFTE extension in certain RTAs, or
    c. Adopt a 12-year MFTE extension available for application in all RTAs (*Staff Recommendation in Proposed Ordinance No. 944)*

STAKEHOLDER INPUT

In both unsolicited input and responses from developers active in Shoreline, staff received comments on MFTE, its influence on their development decisions, and the importance of modifying the City's policies to make redevelopment of underutilized land feasible. The multifamily homebuilders who responded cited the importance of recognizing that development has yet to occur at a pace which could be considered sustainable enough to allow the MFTE program to sunset in the Station Subareas. Stakeholder comments received by staff included:

- Strong support for the duration of the mandatory affordability to be no longer than the duration of the tax exemption. At the time of the 12-year tax exemption's expiration, the financial impact of the affordability requirement is considered to cause Station Subarea multifamily projects' return on investment to turn to the negative.
- Strong support for a longer duration of tax exemption, seen as the essential expense-reduction offset for the revenue reduction of affordable housing requirements.
- Due to the propensity for older buildings to become more affordable as they age relative to new product on the market, years 13-30 are the most challenging with most developers supporting the adoption of a 12-year extension option.
- General support for MFTE as a way to facilitate more supply in a market constrained by challenges of developing more inventory to the degree that there is a housing shortage.
- Without the MFTE program, the justification for some multifamily homebuilders' recent projects may have been insufficient. Ultimately, once opened, rents have in some cases exceeded expectations, but that can ultimately come nearly four years after the decision to purchase the land.
- Support for adjusting the City's MFTE requirements in response to the differing market conditions in different neighborhoods recognizing that demand in the market and City interests in revitalization may not be aligned. Simply put, even with the tax exemption provided by the MFTE program, market rents in some areas of the City are so low that the lost revenue from the affordability requirements which are set uniformly citywide cannot be overcome by the combination of revenue from higher rents in the market-rate units and the cost-reduction of the tax exemption.
- Shoreline Place CRA Property Owner Merlone Geier shared feedback from potential development partners with whom they are in discussions regarding Block D of their redevelopment plan. MFTE was considered a critical element in the feasibility of a residential mixed use Block D which would replace the lower portion of the Sears Building and tie into the 17,000 square-foot all-retail first phase at the corner of Westminster Way and N 155th St. (Block E) and would include the creation of a new "C Street" bisecting the CRA. Block D would also include more than 17,000 square feet of retail and public space negotiated by the City.

COUNCIL GOALS ADDRESSED

Proposed Ordinance 944 supports the 2021-2023 City Council Goals, specifically: "Goal 1: Strengthen Shoreline's economic climate and opportunities" which states in Action Step #1:

> "Conduct a review of development that has occurred in the 145th Station Area; identify City policies and regulations that may need to be revised in order to realize the City's vision of mixed-use, environmentally sustainable, and equitable neighborhoods within the MUR zones."

Additionally, continued promotion of the MFTE program reflects Goal 1, Action Step #5 of the 2018-2020 Council Goals, which remains a priority of the City but has since been operationalized as an ongoing component of staff's work:

> "Encourage affordable housing development in Shoreline, including continued promotion of the Property Tax Exemption program, partnership with King County in the development of affordable housing on the City's property at Aurora Avenue and N 198th Street, and identify opportunities for integration of affordable housing at the future community and aquatic center facility."

RESOURCE/FINANCIAL IMPACT

Sample 12-Year MFTE Project

Because the City's overall assessed valuation grows when new projects are built and, typically, assessed more than once prior to receiving their tax exemption certificate, at least partial values for most projects are added to the tax rolls. Some projects' full improvement valuations may even be added prior to issuance of a final certificate of tax exemption. Although an MFTE project is exempt from paying those taxes on the improvements, any assessed value added is not removed from the City's total assessed value. Therefore, the City may not experience a significant lowering of the amount of new property tax collected compared to a scenario in which a project does not participate in MFTE.

For the purposes of revenue analysis, it is the City's standard practice to evaluate MFTE projects as if no revenue is generated for the City from the improvements during the 12-year exemption period. Still, there are other revenue streams that are generated by a multifamily project and its residents typically far in excess of the revenues generated on underutilized land prior to development. These include one-time and ongoing revenues:

One Time Revenues:

- Real Estate Excise Tax (REET) of 0.5% is provided to the City when a property is sold.
- Impact Fees: The City currently collects park and transportation impact fees for all new residential units (single-family and multi-family). In 2021 each new multi-family apartment units is assessed a transportation impact fee of $4,565 and a park impact fee of $2,812. While impact fees are designed to ensure concurrency with a level of

service as a result of the growth in population, they also contribute to desirable projects that benefit the whole community.

- Sales & Use Tax: Sales and use tax of 1.05% on construction costs is provided to the City when a project is developed in Shoreline. The amount of sales tax is dependent on the cost of the project.

On-Going Revenues:

- Sales & Use Tax: As new residents occupy the multifamily units, they buy goods in Shoreline that generate sales tax. On average, staff estimates that each resident of a multi-family unit generates approximately $119.74 per year of sales taxes.
- Utility Taxes: All residents of multifamily housing use a variety of utilities which are subject to utility taxes and franchise fees. This includes water, wastewater, garbage, electricity, natural gas, cable, telecommunications, and surface water. On average, staff estimates that each resident of a multi-family unit generates approximately $114.77 per year of utility taxes.
- State Shared Revenues: Many of the state-shared revenues distributed to the City are based on a per capita basis. Each resident generates approximately $36.15 per year of state-shared revenues for the City. Multifamily housing occupancy is estimated at two residents per unit.

In order to quantify the fiscal contribution of a multifamily project, staff analyzed the potential fees and revenues collected for a hypothetical project that qualifies for the multifamily property tax exemption with a project that is $30 million in construction valuation on a 35,000-square-foot lot estimated to yield 125 apartments. The REET collected by the City on the developer's purchase of this hypothetical property would be approximately $17,500. The City's share of sales taxes, which are collected on the total of a project's hard and soft costs, would total an estimated $315,000. Approximately $922,125 in impact fees would be collected for the 125 units. It is anticipated that this project would generate nearly $1.255M in one-time revenues.

One-time City Revenues

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

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

Ongoing Annual Revenue

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

Staff and consultant time is required to process applications, file annual reports to the state and King County, and to monitor compliance with affordable housing requirements.

RECOMMENDATION

No action is required; this agenda item is for discussion purposes only. Three potential code amendments in proposed Ordinance No. 944 are recommended by staff for consideration:

1. Extension and expansion of MFTE in the light rail station subareas. Proposed Ordinance No. 944 would eliminate the 2021 expiration of the MFTE program in the subareas and expand the MFTE boundaries to add the newly enacted Phase 2 station area zoning (Attachment A, Exhibit A) to encourage multifamily projects in these areas, with the inclusive affordability required by the development code in these areas.
2. Establishment of a 20-year MFTE program as authorized by the State legislature as a pilot program to be tested in Shoreline.
3. Adoption of a 12-year extension for MFTE projects to remain in the program as authorized by the State legislature for all jurisdictions.

Council action on proposed Ordinance No. 944 is currently scheduled for September 27, 2021.

ATTACHMENTS

Attachment A: Proposed Ordinance No. 944
Attachment A, Exhibit A: Proposed Amendments to SMC Chapter 3.27
Attachment B: Shoreline 2021 Income and Rent Limits Chart
Attachment C: 2021 MFTE Report

ORDINANCE NO. 944

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, AMENDING CHAPTER 3.27 PROPERTY TAX EXEMPTION OF THE SHORELINE MUNICIPAL CODE TO PROVIDE FOR A TWELVE YEAR EXTENSION PERIOD, ESTABLISH A TWENTY YEAR PROGRAM, EXPAND RESIDENTIAL TARGETED AREAS FOR THE 185TH STREET LIGHT RAIL STATION SUBAREA, AND ELIMINATE THE SUNSET OF THE PROGRAM WITHIN THE LIGHT RAIL STATION SUBAREAS.

WHEREAS, in 2002, the City of Shoreline established a Multi-Family Property Tax Exemption (PTE) program as authorized by RCW Chapter 84.14 and is codified in Shoreline Municipal Code (SMC) Chapter 3.27; and

WHEREAS, since that time, SMC Chapter 3.27 has been amended to expand the PTE program to other residential targeted areas, to establish eligibility criteria, to define the duration of the program, and to ensure all previous actions were codified in SMC Chapter 3.27; and

WHEREAS, with the adoption of Ordinance No. 776 on April 10, 2017, the City Council designated Phase 1 of the 145th and 185th Light Rail Station Subareas as residential targeted areas eligible for the PTE program but established a "sunset" period of December 31, 2021 for the use of the PTE in these areas; and

WHEREAS, the purpose of the December 31, 2021 sunset was to provide for a short-term incentive to spur lot assemblages and the development of large multi-family projects in the areas closer to the Light Rail Stations; however given the real estate market, COVID-19, and Sound Transit's construction schedule, development has not occurred as anticipated; and

WHEREAS, with the adoption of Ordinance No. 706, the City Council established three (3) phases for the 185th Light Rail Station Subarea; and

WHEREAS, with Ordinance No. 776, the City Council designated only Phase 1 of the Light Rail Stations Subareas as residential targeted areas eligible for the PTE; and

WHEREAS, at its November 30, 2020 and April 5, 2021 regular meetings, the City Council discussed the phasing of the Light Rail Station Subareas and an extension of the PTE for the Subareas beyond that set in Ordinance No. 776 and it was determined that expansion within the 185th Street Station Subarea was appropriate; and

WHEREAS, in 2021, the Washington State Legislature adopted Engrossed Second Substitute Senate Bill 5287 (ESSSB 5287), amending RCW Chapter 84.14 to further incentivize affordable housing in urban areas; and

WHEREAS, amendments approved by the Legislature available to the City are the ability to extend a property tax exemption for an additional 12 years after completion of the first exemption term and to establish a 20-year property tax exemption when the Multi-Family housing is within one (1) mile of high capacity transit, both subject to certain criteria; and

WHEREAS, the City Council discussed the PTE program at its September 13, 2021 regular meeting and has considered the entire public record, public and stakeholder comments, written and oral; and

WHEREAS, the City Council has determined that the amendments to SMC Chapter 3.27 are in the best interests of the City of Shoreline and the need to provide affordable housing to its residents;

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

Section 1. Amendment – SMC Chapter 3.27 Property Tax Exemption. SMC Chapter 3.27 is amended as set forth in Exhibit A to this Ordinance.

Section 2. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this Ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 3. Severability. Should any section, subsection, paragraph, sentence, clause, or phrase of this Ordinance or its application to any person or situation be declared unconstitutional or invalid for any reason, such decision shall not affect the validity of the remaining portions of this Ordinance or its application to any person or situation.

Section 4. Publication and Effective Date. A summary of this Ordinance consisting of the title shall be published in the official newspaper. This Ordinance shall take effect five (5) days after publication.

PASSED BY THE CITY COUNCIL ON SEPTEMBER 27, 2021

____
Mayor Will Hall

ATTEST:

____
Jessica Simulcik Smith
City Clerk

APPROVED AS TO FORM:

____
Julie K Ainsworth-Taylor
Assistant City Attorney
on behalf of Margaret King, City Attorney

Date of Publication: __________, 2021
Effective Date: ________, 2021

Chapter 3.27

PROPERTY TAX EXEMPTION

SECTION 3.27.010 IS AMENDED TO READ AS FOLLOWS:

3.27.010 Purpose
The purpose of this chapter providing for an exemption from ad valorem property taxation for multifamily housing in the residential targeted areas is to:

A. Encourage increased residential opportunities within the residential targeted area;

B. Stimulate new construction or rehabilitation or conversion of existing vacant, ~~and~~ underutilized, or substandard buildings to multi-family housing for revitalization of the designated targeted areas;

C. Assist in directing future population growth to the residential targeted area, thereby reducing development pressure on single-family residential neighborhoods; and

D. Achieve development densities that stimulate a healthy economic base and are more conducive to transit use in the designated residential targeted area.

SECTION 3.27.020 IS AMENDED TO READ AS FOLLOWS:

3.27.020 Definitions.
A. “Affordable housing” means residential housing that is rented or sold to a person or household whose annual household income does not exceed 70 percent of the median household income adjusted for family size for King County, determined annually by the U.S.

Department of Housing and Urban Development, for studio and one bedroom units and not exceeding 80 percent of the area median household income adjusted for family size for two bedroom or larger units.

B. “Department” means the city of Shoreline department of community and economic development.

C. “High-capacity transit” means public transit providing a substantially higher level of passenger capacity and operates with at least 15-minute scheduled frequency.

~~C~~D. “Household annual income” means the aggregate annual income of all persons over 18 years of age residing in the same household.

~~D~~E. “Multifamily housing” means a building or ~~project~~ a group of buildings having four or more dwelling units designed for permanent residential occupancy.

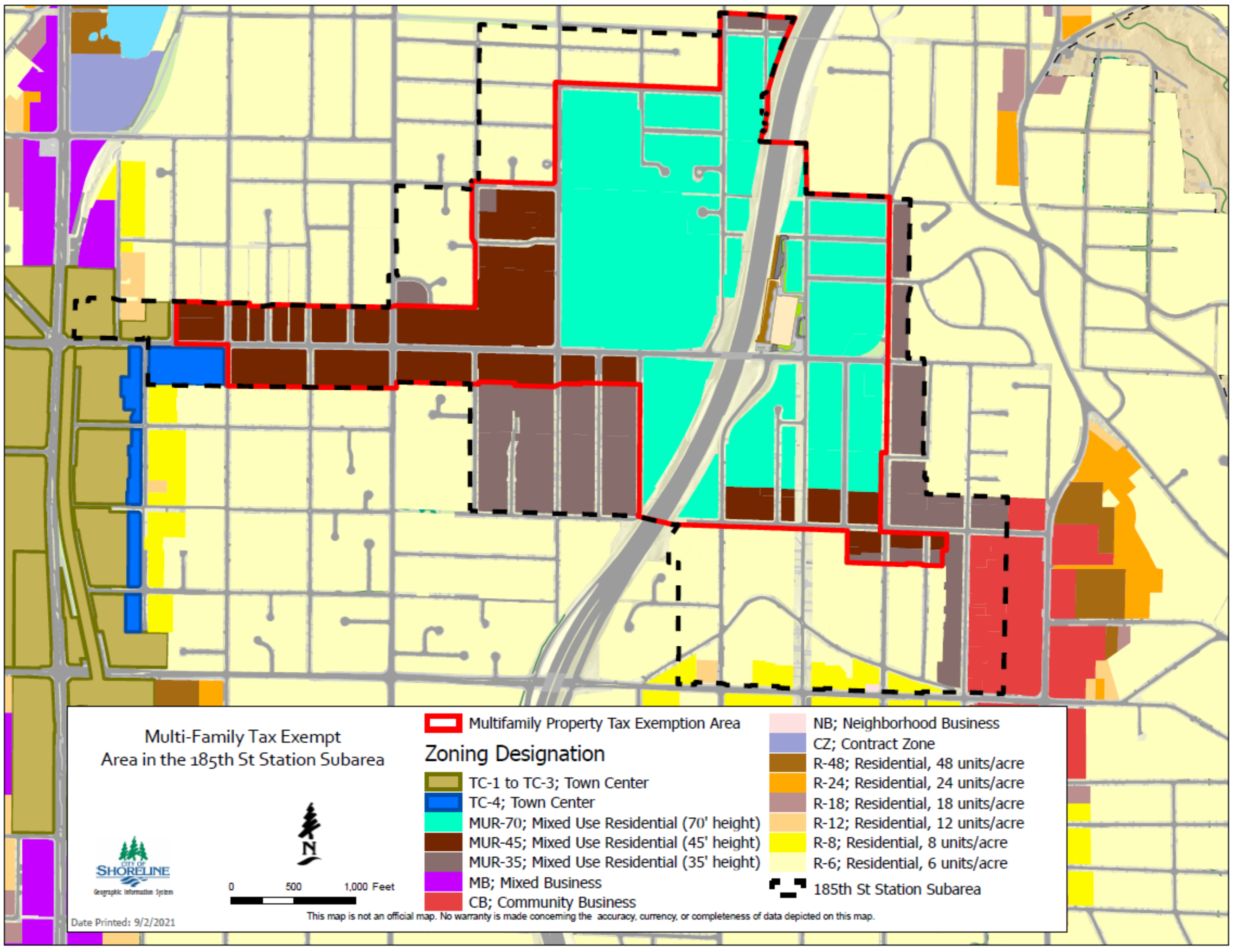
~~E~~F. “Owner” or “property owner” means the property owner of record.

~~F~~G. “Permanent residential occupancy” means multifamily housing that provides either rental or owner-occupancy for a period of at least one month, excluding hotels, motels, or other types of temporary housing that predominately offer rental accommodation on a daily or weekly basis.

SECTION 3.27.030 IS AMENDED AS FOLLOWS:

3.27.030 Designation of residential targeted areas.

Attachment I - 185th Street Station Subarea is deleted in its entirety and replaced with a new Attachment I as shown below:



SECTION 3.27.040 IS AMENDED TO READ AS FOLLOWS:

3.27.040 Eligibility standards and guidelines.
A. Eligibility Requirements. To be eligible for exemption from property tax under this chapter, the property must satisfy all of the following requirements:

1. The project must be located within one of the residential targeted areas designated in SMC 3.27.030;

2. The project must be multifamily housing consisting of at least four dwelling units within a residential structure or as part of a mixed used development, in which at least 50 percent of the space must provide for permanent residential occupancy;

3. The project must be designed to comply with the city's comprehensive plan, applicable development regulations, and applicable building and housing code requirements;

4. At least 20 percent of the housing units must be affordable housing as defined in SMC 3.27.020, except for housing units within the 145th Street Station Subarea and the 185th Street Station Subarea which must meet the median income requirements of the 20 percent affordability option as set forth in SMC 20.40.235;

5. For the rehabilitation of existing occupied multifamily projects, at least four additional residential units must be added except when the project has been vacant for 12 consecutive months or more;

6. The project must be scheduled for completion within three years from the date of issuance of the conditional certificate;

7. Property proposed to be rehabilitated must fail to comply with one or more standards of the applicable state or local building or housing codes. If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate;

8. The mix and configuration of housing units used to meet the requirement for affordable units under this chapter shall be substantially proportional to the mix and configuration of the total housing units in the project; and

9. The applicant must enter into a contract with the city, approved by the city council, under which the applicant has agreed to the implementation of the project on terms and conditions satisfactory to the city. ~~The contract must be approved by the city council.~~

B. Duration of Tax Exemption. The following property tax exemptions are available for qualified properties in designated residential targeted areas:

1. Twelve-year tax exemption: ~~The value of new housing construction and rehabilitation improvements qualifying under this chapter shall be exempt from ad valorem property taxation~~ If the property otherwise qualifies for the exemption under this chapter and meets the conditions in subsection A of this section, an exemption for 12 successive years beginning January 1st of the year immediately following the calendar year ~~after~~of issuance of the final certificate of tax exemption~~.~~; or

2. Twenty-year tax exemption: If the property otherwise qualifies for the exemption under this chapter, meets the conditions in subsection A of this section, and the conditions set forth below, an exemption for 20 successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate of tax exemption:

   a. The property is located within one mile of high-capacity transit of at least 15-minute scheduled frequency measured in a straight line from the property line at which access from the property to a public street is provided to the nearest existing or planned high-capacity transit stop or station; and

   b. The Owner must record a covenant or deed restriction acceptable to the city ensuring continued rental of units for at least 99 years and sets forth criteria to maintain public benefit if the property is converted to a use other than permanent affordable low-income housing.

C. Extension of tax exemption. The Owner of property that received a tax exemption pursuant to subsection B(1) of this section, may apply for an extension for an additional 12 successive years. No extension will be granted for property that received a 20-year tax exemption pursuant to subsection B(2) of this section.

1. Only one (1) extension may be granted.

2. Failure to timely apply for an extension shall be deemed a waiver of the extension.

3. For the property to qualify for an extension:

a. The property must have qualified for, satisfied the conditions of, and utilized the twelve-year exemption sought to be extended;

b. The Owner must timely apply for the extension on forms provided by the City within 18 months of expiration of the original exemption;

c. The property must meet the requirements of this chapter for the property to qualify for an exemption under subsection A as applicable at the time of the extension application, and

d. The property must continue to rent or sell at least 20 percent of the multifamily housing units as affordable housing units for low-income households for the extension period.

4. If an extension is granted by the City, at the end of both the tenth and eleventh years of a twelve-year extension, the applicant or the property owner at that time, must provide tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month as provided in RCW 84.14.020, as amended.

~~C~~ D. Limitation on Tax Exemption Value.

1. The exemption provided for in this chapter does not include the value of land or nonhousing-related improvements not qualifying under this chapter.

2. In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to the submission of the application for conditional certificate required by this chapter.

3. The exemption does not apply to increases in the assessed value made by the county assessor on nonqualifying portions of the building and value of land.

~~D~~ E. Residential Targeted Areas – Specific Requirements.

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

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

The income and rent limits published here are effective now for properties in the City of Shoreline's affordable housing program receiving initial certificates of occupancy on or after April 1, 2021.
The Governor of Washington issued Proclamation 20-19.1, an order which prohibits landlords, property owners, and property managers "from increasing or threatening to increase the rate of rent or the amount of any deposit for any dwelling or parcel of land occupied as a dwelling" anywhere in the state through June, 2021. Therefore, **2019 income and rent limits remain in effect until the Governor lifts the order** for projects that opened before April 1, 2020.

2021 Income and Rent Limits City of Shoreline

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

Based on the King County (Seattle-Bellevue HFMA) Median Income: $115,700 for a family of 4.

Rent Limits

Table 1 70% AMI

BEDROOMS	Maximum Monthly Housing Costs	Maximum Rent if No Other Expenses	Maximum Rent if Tenant Pays Own Utilities, and No Other	Maximum Rent if Tenant Pays Own Utilities, Renters Insurance, and No Other Expenses
Studio	$1,417	$1,417	$1,309	$1,296
"Open 1"	$1,519	$1,519	$1,411	$1,398
One	$1,519	$1,519	$1,411	$1,398

Table 2 80% AMI

BEDROOMS	Maximum Monthly Housing Costs	Maximum Rent if No Other Expenses	Maximum Rent if Tenant Pays Own Utilities, and No Other	Maximum Rent if Tenant Pays Own Utilities, Renters Insurance, and No Other Expenses
Two	$2,083	$2,083	$1,949	$1,936
Three	$2,407	$2,407	$2,237	$2,224
Four	$2,684	$2,684	$2,473	$2,460

Table 3: Household Income Limits

AMI: Household Size	70% Initial Occupancy	90% Recertification
1	$56,700	$72,900
2	$64,800	$83,350
3	$72,900	$93,750
4	$81,000	$104,150
5	$87,500	$112,500

AMI: Household Size	80% Initial Occupancy	100% Recertification
1	$64,800	$81,000
2	$74,050	$92,600
3	$83,350	$104,150
4	$92,600	$115,700
5	$100,000	$125,000

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

Table 4: Other Expense Allowances

Bedrooms	Electricity and/or Gas	Water, Sewer, Garbage	Garbage	Renter's Insurance
Studio	$38	$55	$15	$13
"Open 1"	$38	$55	$15	$13
One	$38	$55	$15	$13
Two	$53	$66	$15	$13
Three	$70	$85	$15	$13
Four	$93	$103	$15	$13

Example: The maximum rent of an 80% AMI studio with all utilities included, and no other required expenses, would be:	$1,417
The maximum rent for the same studio with no utilities included and renters insurance required would be:	$1,296
The maximum rent for the same studio with water, sewer, and garbage included (i.e., no W/S/G allowance) but not electricity and gas, and renter's insurance required would be:	$1,351

2021 Property Tax Exemption Program Report - City of Shoreline

Updated 8/27/2021

Currently in PTE Program

Units	Project	Type	Affordable	Start	End	Improvements Valuation (2021)	City Tax Rate (2021)	City Property Tax Abatement
16	3108 Apartments	12-year affordable	4	1/1/2021	12/31/2032	$ 3,483,900	$ 1.28912	$ 4,491
81	Arabella II	12-year affordable	17	1/1/2020	12/31/2031	$ 21,285,800	$ 1.28912	$ 27,440
164	Geo Apartments	12-year affordable	34	1/1/2021	12/31/2032	$ 50,139,000	$ 1.28912	$ 64,635
80	Interurban Lofts	12-year affordable	16	1/1/2018	12/31/2029	$ 3,720,800	$ 1.28912	$ 4,797
129	Malmo	12-year affordable	26	1/1/2015	12/31/2026	$ 34,355,000	$ 1.28912	$ 44,288
5	North City Development	12-year affordable	1	1/1/2015	12/31/2026	$ 595,700	$ 1.28912	$ 768
221	Paceline	12-year affordable	44	1/1/2019	12/31/2030	$ 65,930,600	$ 1.28912	$ 84,992
165	Polaris*	12-year affordable	165	1/1/2015	12/31/2026	see note		
60	Sunrise Eleven	12-year affordable	12	1/1/2018	12/31/2029	$ 14,551,900	$ 1.28912	$ 18,759
72	The 205 Apartments	12-year affordable	14	1/1/2019	12/31/2030	$ 18,847,000	$ 1.28912	$ 24,296
243	The Postmark	State program	49	1/1/2021	12/31/2032	$ 64,101,500	$ 1.28912	$ 82,635
1,236			**382**			**$ 277,011,200**		**$ 357,101**

Graduates of PTE Program

Units	Project	Type		Start	End	Improvements Valuation (2021)	City Tax Rate (2021)	2020 Revenue
88	Arabella	10-year market	n/a	1/1/2008	12/31/2017	$ 24,738,100	$ 1.28912	$ 31,890
88						**$ 24,738,100**		**$ 31,890**

Conditional Certificates of PTE

Units	Project	Type	Affordable	Cert. Date	Expiration	Status	Est. Completion	Final App
330	Alexan at Shoreline Place	12-year affordable	66	5/11/2020	5/11/2023	Construction	Jul-21	no
315	18815 Aurora Ave N	12-year affordable	63	Pending	Pending	Construction	Mid 2020	no
124	Trad Apartments	12-year affordable	25	Pending	Pending	Construction	Apr-21	no
227	Quinn by Vintage*	State program	226	Pending	Pending	Predevelopment	Oct-22	no
241	Crux*	State program	241	Pending	Pending	Predevelopment	2024	no
203	Geo II	12-year affordable	41	Pending	Pending	Construction	2023	no
22	2152 185th	12-year affordable	5	Pending	Pending	Construction	2022	no
15	1719 185th	12-year affordable	3	Pending	Pending	Construction	2022	no
1,477			**670**					

2,801 Total homes

1,052 Affordable homes

**Participates in alternative state incentive program offering full property tax exemption; the City's MFTE program acts as backup.*