

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Tax Incentives for Multi-Family Housing – Ordinance No. 310
DEPARTMENT:	CMO
PRESENTED BY:	Jan Knudson, Economic Development Coordinator

PROBLEM/ISSUE STATEMENT: At the October 21, 2002 Council workshop, Council discussed the advantages and disadvantages of establishing a tax exemption program as an incentive to development, particularly in the North City Business District. Council directed staff to proceed with establishing a tax exemption program and indicated a preference for designating the North City Business District as a residential targeted area.

On November 12, Council adopted Resolution No. 199 notifying the public of Council's intent to designate the North City Business District as a residential targeted area for the purpose of establishing a tax exemption program. This is the staff report for that public hearing and to propose the procedures, standards and guidelines for a tax exemption program via proposed Ordinance No. 310.

ALTERNATIVES ANALYZED:

The policy issues associated with the proposed procedures, standards and guidelines for a tax exemption program are:

- A. Whether to establish an affordability requirement for project eligibility;
- B. Whether the City Manager or the Director of Planning and Development Services shall decide of a project's eligibility; and
- C. Whether to establish a maximum number of units eligible for tax exemption.

Affordability Requirement. The proposed Ordinance does not include an affordability requirement. The primary goal for the tax exemption program is to create an incentive to development in the North City Business District. Setting affordability requirements may create a disincentive to market rate developments that are also desired in the area. Additionally, it is typically below-market rate projects that utilize the tax-exempt status in obtaining unconventional financing. This will likely bring affordable housing units to the area without additional requirements.

Decision-making. The proposed Ordinance establishes that the City Manager or designee shall determine a project's eligibility for tax exemption. This is a decision with financial implications to the City and is most appropriately made at the City Manager's level. Close coordination with Finance and Planning and Development Services will be required.

Maximum Number of Units. The proposed Ordinance establishes a 250 unit maximum number of units that can be eligible for tax exemption in the North City Business District. The

purpose of the limitation is to address Council concerns that a tax-exempt program could go too far in reducing property tax revenues for the City. 250 is approximately one half of the 500+ housing units planned for and evaluated in the 15-year horizon of the North City Planned Action.

FINANCIAL IMPACT:

It is anticipated that for a ten-year period, the City can absorb the additional costs for services that may be incurred by a maximum of 250 new housing units. This is particularly true if the project includes a mixed-use element. Above 250 new housing units, additional tax revenues would likely be required to pay for the additional demand for services. Specific financial impacts resulting from individual projects applying for tax exemption will be evaluated and discussed with Council on a case by case basis.

As was discussed at the October 21 Council workshop, the City will incur costs in the form of increased demand for services as a result of new development and increased population. Under tax exemption, increased property tax revenue on the improvements would not be generated to pay for these services. Revenue from assessment on the land, however, would continue and other tax revenues (e.g., sales tax, utility tax) would also be assessed and collected.

RECOMMENDATION

Staff recommends that Council adopt proposed Ordinance No. 310:

- designating the North City Business District as a residential targeted area;
- establishing a tax exemption program with no affordability requirement;
- authorizing the City Manager or designee to make decisions as to a project's eligibility; and
- establishing a limit of 250 new housing units eligible for tax exemption in the North City Business District.

Approved By: City Manager  City Attorney 

ATTACHMENTS

Attachment A – Ordinance No. 310

Ordinance No. 310

AN ORDINANCE ESTABLISHING A 10-YEAR EXEMPTION FROM REAL PROPERTY TAXATION FOR THE DEVELOPMENT OF MULTIFAMILY HOUSING IN A DESIGNATED RESIDENTIAL TARGETED AREA.

WHEREAS, Chapter 84.14 of the Revised Code of Washington provides for exemptions from ad valorem property taxation for qualifying multi-family housing located in residential targeted areas within urban centers and authorizes the City to adopt necessary procedures to implement the State legislation; and

WHEREAS, in order to establish a tax exemption program, the City must designate one or more residential target areas within which tax exemption projects may be considered; and

WHEREAS, on July 23, 2001, the Shoreline City Council adopted the North City Subarea Plan, Planned Action Ordinance, and the North City Business District regulations identifying a compact, special district where residents may obtain a variety of products and services in a pedestrian-friendly environment; and

WHEREAS, on November 12, 2002 the Shoreline City Council adopted Resolution No. 199 notifying the public of a public hearing to consider the City's intent to designate the North City Business District, as defined in the Shoreline Municipal Code Chapter 20.90.020, as a residential target area for the purposes of establishing a tax exemption program; and

WHEREAS, the public hearing was held on November 25, 2002; and

WHEREAS, the City of Shoreline desires to designate the North City Business District as a residential targeted area and to adopt the standards and guidelines to be utilized in considering applications for tax incentives; now therefore

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

Section 1 – Findings. The City Council finds that:

- A. The North City Business District is an urban center of the City of Shoreline as defined under RCW 84.14.010 (10).
- B. The North City Business District lacks sufficient available, desirable and convenient residential housing to meet the needs of the public, and current and future residents of the City of Shoreline would be likely to live in the North City Business District if additional desirable, convenient, attractive and livable places were available.

- C. Provision of additional housing opportunities will assist in promoting further economic development and growth management goals by bringing new residents to utilize urban services and encourage additional residential and mixed use opportunities.

Section 2 – Purpose

- A. It is the purpose of this ordinance to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for revitalization of the North City Business District. The limited 10-year exemption from ad valorem property taxation for multifamily housing in the residential targeted area is intended to:
 - 1. Encourage increased residential opportunities within the residential targeted area;
 - 2. Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for revitalization of the North City Business District;
 - 3. Assist in directing future population growth to the residential targeted area, thereby reducing development pressure on single-family residential neighborhoods; and
 - 4. Achieve development densities that stimulate a healthy economic base and are more conducive to transit use in the designated residential targeted area.

Section 3 – Designation of Residential Targeted Area

The North City Business District, as defined in the Shoreline Municipal Code Chapter 20.90.020 is designated as a residential target area as defined in chapter 84.14 RCW and the boundaries of the target area are coterminous with the North City Business District.

Section 4 – Standards and Guidelines

- A. Project Eligibility. A proposed project must meet the following requirements for consideration for a property tax exemption:
 - 1. Location. The project must be located within the North City Business District residential targeted area as designated in section 3.
 - 2. Limits on Tax Exempt Units. The project's residential units must be within the first 250 tax exempt units of new or rehabilitated multifamily housing applied for and approved within the North City Business District residential targeted area.
 - 3. Size. The project must include at least 20 units of multi-family housing within a residential structure or as part of a mixed-use development. At least 20 additional multi-family units must be added to existing occupied multi-family housing. Existing multi-family housing that has been vacant for 12 months does not have to provide

additional units so long as the project provides at least 20 units of new, converted or rehabilitated multi-family housing and rehabilitated units failed to comply with one or more standards of the applicable state or local building or housing codes. Transient housing units (rental of less than one month) are not eligible for exemption.

4. Proposed Completion Date. New construction multi-family housing and rehabilitation improvements must be scheduled to be completed within three years from the date of approval of the application.
 5. Compliance With Guidelines and Standards. The project must be designed to comply with the City's comprehensive plan, building, and zoning codes and any other applicable regulations in effect at the time the application is approved including Chapter 20.90 of the Shoreline Municipal Code.
- B. Exemption - Duration. The value of improvements qualifying under this chapter for a Multiple Family Tax Exemption will be exempt from ad valorem property taxation for ten successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption.
- C. Limits on Exemption. The exemption does not apply to the value of land or nonhousing-related improvement, nor does the exemption apply to increases in assessed valuation of land and non-qualifying improvements. In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to submission of the completed application required under this chapter.
- D. Contract. 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 development on terms and conditions satisfactory to the Council.

Section 5 – Application Procedures

- A. A property owner who wishes to propose a project for a tax exemption shall file an application for Multiple Family Tax Exemption to the Department of Planning and Development Services along with a minimum fee deposit of three times the current hourly rate for processing land use permits together with the current King County Assessors fee for administering the Multiple Family Tax Exemption program. Total City fees will be calculated using the adopted hourly rates for land use permits in effect during processing.
- B. In the case of rehabilitation or demolition, the owner shall secure verification of property noncompliance with applicable building and housing codes prior to demolition.
- C. The applicant shall contain such information as the Director may deem necessary or useful, and shall include:
 1. A North City Business District Planned Action Development Submittal Checklist and a Building Permit Submittal Checklist For Planned Action in North City;

2. A brief written description of the project setting forth the grounds for the exemption;
3. A site plan, including the floor plan of units;
4. A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this ordinance; and
5. Verification by oath or affirmation of the information submitted.

Section 6 – Application Review and Issuance of Conditional Certificate

- A. **Certification.** Once a development project application is deemed complete according to SMC 20.90.025, the City Manager or designee may certify as eligible an application which is determined to comply with the requirements of this ordinance and enter findings consistent with RCW 84.14.060. A decision to approve or deny certification of an application shall be made within 90 days of receipt of a complete application. If denied the applicant may appeal the denial to the City Council within thirty days by filing an Appeal Statement with the City Clerk. The appeal before the Council will be based upon the record before the City Manager or designee with the burden of proof on the applicant to show there was no substantial evidence to support the official's decision. The Council's decision on appeal shall be final.
- B. **Approval.** If certified as eligible, the application together with a contract between the applicant and the City regarding the terms and conditions of the project, signed by the applicant, shall be presented to the City Council with a recommendation that the City Council authorize the City Manager to sign the contract.
- C. **Issuance and Time Limit.** Once the contract is fully executed, the City Manager shall issue a Conditional Certificate of Acceptance of Tax Exemption. The Conditional Certificate expires three years from the date of approval unless an extension is granted.
- D. **Extension of Conditional Certificate.** The Conditional Certificate may be extended by the City Manager for a period not to exceed 24 months. The applicant must submit a written request stating the grounds for the extension, accompanied by a \$121.00 processing fee. An extension may be granted if the City Manager determines that:
 1. The anticipated failure to complete construction or rehabilitation within the required time period is due to circumstances beyond the control of the owner;
 2. The owner has been acting and could reasonably be expected to continue to act in good faith and with due diligence; and
 3. All Conditions of the original contract between the applicant and the City will be satisfied upon completion of the project.
- E. **Denial of Application.** If the application for tax exemption is denied, the City Manager shall state in writing the reasons for denial and shall send notice to the applicant at the applicant's last known address within ten day

of the denial. An applicant may appeal a denial to the Hearing Examiner under the Rules of Procedure for Administrative Hearings .

Section 7 - Application for Final Certificate

Upon completion of the improvements provided in the contract between the applicant and the City the applicant may request a Final Certificate of Tax Exemption. The applicant must file with the City Manager such information as the City Manager may deem necessary or useful to evaluate eligibility for the Final Certificate and shall include:

- A. A statement of expenditures made with respect to each multi-family housing unit and the total expenditures made with respect to the entire property;
- B. A description of the completed work and a statement of qualification for the exemption; and
- C. A statement that the work was completed within the required three-year period or any authorized extension.

Within 30 days of receipt of all materials required for a Final Certificate, the City Manager shall determine whether the improvements satisfy the requirements of this ordinance

Section 8 -- Issuance of Final Certificate

- A. Approval. If the City Manager determines that the project has been completed in accordance with the contract between the applicant and the City and has been completed within the authorized time period, the City shall, within 40 days of application, file a Final Certificate of Tax Exemption with the King County Assessor.
- B. Denial and Appeal. The City Manager shall notify the applicant in writing that a Final Certificate will not be filed if the City Manager determines that:
 - 1. The improvements were not completed within the authorized time period;
 - 2. The improvements were not completed in accordance with the contract between the applicant and the City;
 - 3. The owner's property is otherwise not qualified under this ordinance; or
 - 4. The owner and the City Manager cannot come to an agreement on the allocation of the value of improvements allocated to the exempt portion of the rehabilitation improvements, new construction and multi-use new construction.

The applicant may file an appeal to the Hearing Examiner under City of Shoreline Rules of Procedure for Administrative Hearings. An aggrieved party may appeal the decision to Superior Court under RCW 34.05.510 through 34.05.598

Section 9 – Annual Compliance Review

Within 30 days after the first anniversary of the date of filing of the Final Certificate of Tax Exemption and each year thereafter, for a period of 10 years, the property owner shall file a notarized declaration with the City Manager indicating the following:

- A. A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve months ending with the anniversary date;
- B. A certification by the owner that the property has not changed use since the date of the certificate approved by the City; and
- C. A description of any subsequent changes or improvements constructed after issuance of the certificate of tax exemption.

City staff may also conduct on-site verification of the declaration. Failure to submit the annual declaration may result in the tax exemption being canceled.

Section 10 - Cancellation of Tax Exemption

A. Cancellation. If at any time during the ten year exemption period, the City Manager determines the owner has not complied with the terms of the contract or with the requirements of this ordinance, or that the property no longer complies with the terms of the contract or with the requirements of this ordinance, or for any reason no longer qualifies for the tax exemption, the tax exemption shall be canceled and additional taxes, interest and penalties may be imposed pursuant to RCW 84.14.110 as amended. This cancellation may occur in conjunction with the annual review or at any other time when noncompliance has been determined. If the owner intends to convert the multi-family housing to another use, the owner must notify the City Manager and the King County Assessor within 60 days of the change in use. Upon such change in use, the tax exemption shall be cancelled and additional taxes, interest and penalties imposed pursuant to state law.

B. Notice and Appeal. Upon determining that a tax exemption is to be canceled, the City Manager shall notify the property owner by certified mail return receipt requested. The property owner may appeal the determination to the Hearing Examiner under City of Shoreline Rules of Procedure for Administrative Appeal. An aggrieved party may appeal the decision to Superior Court under RCW 34.05.510 through 34.05.598

Section 11 – Effective Date

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

ADOPTED BY THE CITY COUNCIL ON November 25, 2002.

Mayor Scott Jepsen

ATTEST:

APPROVED AS TO FORM:

Sharon Mattioli, CMC
City Clerk

Ian Sievers
City Attorney

Publication Date: December 2, 2002
Effective Date: December 7, 2002

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