



AGENDA (V.2)

SHORELINE CITY COUNCIL WORKSHOP DINNER MEETING

Monday, January 14, 2008
6:00 p.m.

Shoreline Conference Center
Highlander Room

TOPICS/GUESTS: Council Photo

SHORELINE CITY COUNCIL BUSINESS MEETING

Monday, January 14, 2008
7:30 p.m.

Shoreline Conference Center
Mt. Rainier Room

	<u>Page</u>	<u>Estimated Time</u>
1. CALL TO ORDER		7:30
2. FLAG SALUTE/ROLL CALL		
3. REPORT OF THE CITY MANAGER		
4. REPORTS OF BOARDS AND COMMISSIONS		
5. GENERAL PUBLIC COMMENT		7:45

This is an opportunity for the public to address the Council on topics other than those listed on the agenda, and which are not of a quasi-judicial nature. The public may comment for up to three minutes; the Public Comment under Item 5 will be limited to a maximum period of 30 minutes. The public may also comment for up to three minutes on agenda items following each staff report. The total public comment period on each agenda item is limited to 20 minutes. In all cases, speakers are asked to come to the front of the room to have their comments recorded. Speakers should clearly state their name and city of residence.

6. APPROVAL OF THE AGENDA

7. CONSENT CALENDAR

- | | |
|---|----------|
| (a) Approval of expenses and payroll as of January 2, 2008
in the amount of \$3,620,310.83 | <u>1</u> |
| (b) Approval of Amendment to the Interlocal Agreement with | <u>3</u> |

King County Animal Control Services

- (c) Resolution No. 267 authorizing Final Design, Right-of-Way Acquisition and Construction of Aurora Corridor Improvement Project, N. 165th Street to N 205th Street 7
- (d) Resolution No. 268 Establishing a Public Hearing Date for the Vacation of Midvale Avenue for the City Hall Project 15
- (e) 2008 Legislative Priorities 18a

8. ACTION ITEMS: PUBLIC HEARING

- (a) Public hearing to consider citizens' comments on Ordinance No. 479, amending Ord. No. 310, Property Tax Exemption Program 41 8:00

9. NEW BUSINESS

- (a) Plan Area 2 Legislative Rezone for the Ridgecrest Commercial Area 19

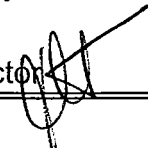
10. ADJOURNMENT

9:30

The Council meeting is wheelchair accessible. Any person requiring a disability accommodation should contact the City Clerk's Office at 546-8919 in advance for more information. For TTY service, call 546-0457. For up-to-date information on future agendas, call 546-2190 or see the web page at www.cityofshoreline.com. Council meetings are shown on Comcast Cable Services Channel 21 Tuesdays at 8 p.m. and Wednesday through Sunday at 6 a.m., 12 noon and 8 p.m. Council meetings can also be viewed on the City's Web site at cityofshoreline.com/cityhall/citycouncil/index.

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Approval of Expenses and Payroll as of January 2, 2008
DEPARTMENT:	Finance
PRESENTED BY:	Debra S. Tarry, Finance Director 

EXECUTIVE / COUNCIL SUMMARY

It is necessary for the Council to formally approve expenses at the City Council meetings. The following claims/expenses have been reviewed pursuant to Chapter 42.24 RCW (Revised Code of Washington) "Payment of claims for expenses, material, purchases-advancements."

RECOMMENDATION

Motion: I move to approve Payroll and Claims in the amount of \$3,620,310.83 specified in the following detail:

***Payroll and Benefits:**

Payroll Period	Payment Date	EFT Numbers (EF)	Payroll Checks (PR)	Benefit Checks (AP)	Amount Paid
11/04/07-11/17/07	11/23/2007	21587-21776	7102-7150	34710-34722	\$470,330.82
11/18/07-12/1/07	12/7/2007	21777-21966	7151-7190	34806-34815	\$381,473.38
12/2/07-12/15/07	12/21/2007	21967-22156	7191-7229	34936-34948	\$496,666.51
					<u>\$1,348,470.71</u>

***Accounts Payable Claims:**

Expense Register Dated	Check Number (Begin)	Check Number (End)	Amount Paid
11/29/2007	34723		\$10,000.00
12/10/2007	34724	34736	\$136,137.81
12/10/2007	34737		\$455.00
12/10/2007	34738	34754	\$58,235.07
12/11/2007	34755	34786	\$110,294.05
12/12/2007	34787	34803	\$109,473.83
12/13/2007	34804		\$4,955.98
12/13/2007	34805		\$579.96
12/13/2007	32822		(\$37.97)
12/14/2007	34816	34832	\$1,760.62
12/19/2007	34833	34840	\$4,113.49
12/19/2007	34841	34856	\$19,098.60
12/20/2007	34857	34896	\$321,811.53
12/24/2007	34897	34935	\$781,105.21
12/27/2007 1	34949	34963	\$577,317.09

***Accounts Payable Claims:**

Expense Register Dated	Check Number (Begin)	Check Number (End)	Amount Paid
12/27/2007	34964	34980	\$26,720.70
12/28/2007	34981	35000	\$6,303.18
12/28/2007	35001	35004	\$16,341.41
1/2/2008	35005	35017	\$87,174.56
			<u>\$2,271,840.12</u>

Approved By: City Manager _____ City Attorney _____

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	King County Animal Control Agreement Amendment- Supplemental Services
DEPARTMENT:	Parks, Recreation and Cultural Services
PRESENTED BY:	Dick Deal, PRCS Director

PROBLEM/ISSUE STATEMENT:

The City of Shoreline currently has an Interlocal Agreement with King County to provide animal control services in Shoreline. King County is allowed to collect all license fees, with a small amount retained by the City for each license the City sells, and in return King County Animal Control will provide services and enforcement of regulations as adopted in City of Shoreline Ordinance No. 25, approved July 10, 1995. Most cities in King County have similar agreements.

King County provides these services 24 hours a day, 7 days per week. Officers are on duty from 7 a.m. to 7 p.m. daily with emergency services provided at other times by on-call officers. The total King County Animal Control staff is 45 FTEs. This includes pet licensing, pet canvassing, shelter personnel, administration, etc. Of these 45, 16 employees are patrol officers. Given the expansive geographical area they cover, over 2,100 square miles, only one of these officers is dedicated to our district and this district includes: Kirkland, Bothell, Woodinville, Kenmore, Lake Forest Park and Shoreline.

About 75 to 80% of this service is funded through licensing and adoption fees, with the remainder funded by taxes paid to KC by our residents (King County General Fund). City residents are required to purchase a pet license each year, and this may be done in the City Clerk's Office for \$20 if their pet has been spayed or neutered, \$60 if not. There is a senior discount of \$20 for dogs and \$12 for cats, and they are required to pay only once during the ownership of said animal. The Clerk's Office processed 438 licenses in 2007. This is an increase of nearly 23% from 2006 City license registrations. Some of this increase can be attributed to the City off-leash enforcement that started in 2006. The City retains \$1 for each license purchased through the City.

Many people register their animals directly with King County Animal Control so the City only processes a small percentage of the total license issued. Throughout the county, King County Animal Control anticipates there is approximately one dog for every two households. If that ratio holds true in Shoreline, that would represent more than 10,000 dogs. Not all people register their dogs, but there are several thousand Shoreline dogs registered each year.

The inter-local agreement between King County and Shoreline sets the level of service standard for the City. Distinct response times or resource allocations are not described in the agreement. Though not specified in the inter-local, the services provided by King County include:

- Patrol requests
- Trespassing cats and dogs
- Stray dogs and cats, pick up.
- Owner release dogs and cats (if unlicensed a fee will apply)
- Animal pick-ups
- Vicious animal complaints
- Cruelty investigations
- Animal bites
- Barking dog complaints and petitions
- Injured animal rescues
- "Dead-on-arrival" wildlife/livestock/cats/dogs
- Pet license sales
- Requests for animal traps to capture nuisance stray pets
- Police department calls for assistance
- Leash law violations
- Loose livestock on roadways

Many of the complaints we receive are related to off leash dogs in our city parks. Since our base service agreement with King County, as described above, does not provide adequate foot patrol in our parks, in April 2006 the City executed a supplemental agreement which provided a KCAC officer to patrol the Shoreline park system. The officer worked for approximately six months in 2006 and was responsible for educating park users about the leash law, which brought more public attention to the problem of off-leash activity in Shoreline Parks. Through regular reports made by this officer in the field, the educational effort reached over 1000 park users and resulted in reduced off-leash activity.

This agreement was revised on May 18, 2007 which allowed the City of Shoreline to address the off-leash dog issue in our parks again that year by paying for additional hours of patrol each week for on-leash enforcement. This amendment allowed the Parks, Recreation and Cultural Services Department to schedule a KCAC employee to help manage off-leash activity in Shoreline parks.

Due to a successful campaign that has reduced off-leash activity with the past two years of additional education and enforcement services, the Parks, Recreation and Cultural Services Department would like to establish this as an ongoing agreement with King County Animal Services.

FINANCIAL IMPACT:

- The approval of this amendment to the Interlocal agreement would be in effect for the remainder of 2008, automatically renewable each year, and be limited to a maximum annual expenditure of \$20,000. Funds are available in the 2008 Parks budget for this expenditure.

BACKGROUND

This issue was last presented before Council on January 9, 2006. Council approved the first amendment to the Interlocal Agreement to provide education to park users about the leash law in Shoreline parks, and to re-enforce our commitment to a safe park system for multiple user groups. Since the last amendment was made, the KCAC officer has made contact with more than a thousand dog owners who bring their pets to Shoreline parks off-leash. Staff spends a significant amount of time in contact with park users who have had concerns in the past about their own level of comfort and personal safety while using a park.

It is staff's intent to continue educating off-leash violators in our park system. However, the Park Board recommended at its January 2007 meeting that staff direct the Animal Control officer to ticket repeat offenders who have previously been warned. It became evident that this increased enforcement would be necessary as last year several people were warned yet continued to violate the park leash regulations. The main reason for this enforcement is safety. In fall 2006 two people were hurt by an off-leash dog in our park system. In addition, many people are fearful of dogs and we receive several calls a year from citizens who are not comfortable using their park system because of the off-leash activity.

Staff continues to pursue the development of an off-leash area. An Off-leash Study Group was convened in July 2007 and has met regularly to review and develop criteria for site selection of the off-leash area, as well as anticipated regulations regarding use and operation.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to sign this addendum, as attached, to the King County Animal Control services agreement that would provide ongoing and regular services for the enforcement of off-leash dog activity in Shoreline parks.

Approved By:

City Manager 

City Attorney 

ATTACHMENTS

This page intentionally left blank.

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Resolution No. 267 Authorizing Final Design, Right of Way Acquisition and Construction of Aurora Corridor Improvement Project N. 165 th to N 205 th
DEPARTMENT:	Public Works
PRESENTED BY:	Kirk McKinley, Aurora Corridor Project Manager Kris Overleese, PE, Capital Projects Manager

PROBLEM/ISSUE STATEMENT:

The environmental analysis of the Preferred Alternative approved by Council on July 23, 2007 is complete. Both State Environmental Policy Act (SEPA) and National Environmental Policy Act (NEPA) review has been completed.

The Preferred Alternative focuses on being flexible in addressing impacts to buildings or parking as the design is developed over the next several months. It is generally based on the goals of a 110 foot cross section and includes a four foot amenity/utility zone, 7 foot sidewalk, and a 16 foot median. This alternative predominantly shifts east in the vicinity of N 175th Street and balances impacts and benefits throughout the corridor. Flexibility options include eliminating the amenity zone, narrowing sidewalks, narrowing medians, and shifting the roadway alignment to minimize impacts to business parking, buildings and business operation. This alternative recommends using the amenity zone and median for implementation of natural stormwater system concepts

Environmental review of the Preferred Alternative under the State Environmental Policy Act (SEPA) resulted in the issuance of a Mitigated Determination of Nonsignificance (MDNS) by the City's Responsible Official on November 21, 2007. Environmental review under the National Environmental Policy Act (NEPA) was also required because of the Project's federal funding and was completed with the issuance of a Documented Categorical Exclusion by the Federal Highway Administration on December 28, 2007.

Staff requests Council authorization to move forward with final design plans and specifications, right of way acquisition and construction of the flexible Preferred Alternative for the Aurora Corridor Improvement Project N 165th to N 205th Street as mitigated by the SEPA MDNS. Design and project planning will utilize the Implementation Strategies adopted by Council on July 23, 2007. As the middle mile (N 165th to N 185th Street) is fully funded, right of way acquisition and final design will begin with the adoption of Resolution No. 267. Construction for this segment is anticipated to begin in the spring of 2009. The third mile design (N 185th to N 205th Street) could also begin in 2008, though right of way acquisition and completion of design would wait until additional funding is secured. Staff is actively pursuing funding from State and federal

agencies for the balance. The total cost estimate (inflated) for the next two miles is \$93 million dollars.

RECOMMENDATION

Staff recommends that Council adopt Resolution No. 267 authorizing final design, right of way acquisition and construction of the Aurora Corridor Improvement Project (N 165th to N 205th Street).

Approved By:

City Manager

A handwritten signature in black ink, appearing to be "J. Scott", written over a horizontal line.

City Attorney

A handwritten signature in black ink, appearing to be "J. Scott", written over a horizontal line.

BACKGROUND

The community has been working on the Aurora Corridor Improvement Project since 1998. Completing the Aurora Corridor Improvement Project is currently Council Goal #4. The first mile (N 145th to N 165th Street) reached substantial completion in May, 2007 and staff has been working over the past two years to develop and perform environmental analysis on three project alternatives for N 165th to N 205th Street.

Three project alternatives were created in 2006 for the Aurora Corridor Improvement Project 165th – 205th. Alternative A was developed with assistance from the Aurora Business Team. Alternatives B and C were developed by staff and consultants. Once the preliminary environmental analysis was completed for all three build Alternatives and the “do nothing” alternative, staff developed the draft recommended flexible alternative. The draft recommended flexible alternative was adopted by Council on July 23, 2007 as the Preferred Alternative along with the updated Implementation Strategies (formerly the 32 Points).

The key to the Preferred Alternative is that it includes the flexibility to narrow the width of the sidewalk, amenity zone, and median to minimize impacts to business parking, buildings, and business operation. Due to this flexibility: Low Impact Development (LID) concepts can be utilized, property takes (impacts) are lessened, pedestrians are separated from the Business Access Transit (BAT) lane, and aesthetics are improved. This alternative balances the property required between east and west in the vicinity of the Seattle City Light right of way.

The SEPA and NEPA environmental analysis documentation was finalized in December of 2007. The City’s Responsible Official issued a mitigated determination of nonsignificance (MDNS) on November 21, 2007 incorporating mitigation measures included in several NEPA Environmental Discipline Reports. The Discipline Reports are adopted by reference in the MDNS and a complete copy is available in the Council Office or the Department of Planning and Development Services. The comment period closed on December 12, with three comment letters received. The City’s SEPA Responsible Official Joseph Tovar sent response letters to the three commenters in early January 2008. The Federal Highway Administration, as lead agency for NEPA, issued a Documented Categorical Exclusion (DCE) on December 28, 2007.

Both SEPA and NEPA decisions conclude that there are no probable *significant adverse* environmental impacts from the Project as conditioned for which an Environmental Impact Report or Environmental Assessment is required. This does not mean that extensive environmental review and analysis has not been accomplished. To the contrary, there has been significant and detailed environmental review over the last year as documented in the various discipline reports. What it does mean is that the detailed environmental discipline reports have indicated that the project (as conditioned and mitigated) will have no significant adverse environmental impacts warranting a full federal Environmental Assessment or more detailed State Environmental Impact Statement.

STAKEHOLDERS

From the beginning, this project has had a large group of stakeholders and a large community outreach component. Recently, the project has worked with the Aurora Business Team and the Aurora Business and Community Team. In 2006, project staff met with all property owners along the corridor to discuss the project and to get feedback. Two scoping meetings were held in 2006 and on January 17, 2007 Staff held a meeting with utility providers, transit providers, and local public agencies to give them an update. Late May and early June staff met individually with approximately 22 property/business owners along the corridor to review the draft recommended alternative. At the June 20, 2007 open house that had over 200 attendees, the community reviewed the draft recommended alternative. Staff has also met with the Fire Marshall to review the project.

FUNDING

The City's engineering consultant developed preliminary order of magnitude cost estimates for the draft recommended flexible alternative. These costs are preliminary, as there are many unknowns about the project. They are based on schematic designs and 2007 dollars. The updated Capital Improvement Program demonstrates the project cost to be \$93.4 million by the time the project is completed. This is due to right of way and construction inflation over the next several years (construction is estimated to be completed by 2012 as long as funding is secured for the N 185th to N 205th Street segment). The final project costs will depend on actual labor and material costs, actual site conditions, market conditions, final scope, schedule and right-of-way.

As design moves through the process, many of the unknown costs will be better understood. Also, because we haven't begun to acquire right-of-way, these costs may be quite different than presented. The contingency assumption which is included in the cost estimates below is 30% of the estimated construction costs.

The city currently has secured funding for the next two miles of \$48.2 million, of which \$36.7 million is from grants or from partner agency participation. The City is actively pursuing funding from several sources including Federal Transit Administration, Transportation Improvement Board, and other grant programs, as well as earmarks at the Federal level. The utility costs for Seattle City Light, Seattle Public Utilities, and Ronald Wastewater are separate projects within the Capital Improvement Program.

NEXT STEPS / SCHEDULE

With Council authorization, formal right of way acquisition and final design plans and specifications will begin. Construction from N 165th to N 185th Street is anticipated to begin the spring of 2009. This timeline is contingent upon a smooth right of way acquisition process. Staff would also begin design of the N 185th to N 205th Street segment in 2008, though right of way acquisition, completion of design, and construction would wait until additional funding is secured. Staff anticipates returning to

Council in the spring of 2008 with an update on Low Impact Development design. We are also tentatively scheduled to return to Council on January 28, 2008, for approval of some right of way acquisition procedures.

RECOMMENDATION

Staff recommends that Council adopt Resolution No. 267 authorizing final design, right of way acquisition and construction of the Aurora Corridor Improvement Project N 165th to N 205th Street.

ATTACHMENTS

A- Proposed Resolution No. 267

RESOLUTION No. 267

A RESOLUTION OF THE CITY OF SHORELINE, WASHINGTON, AUTHORIZING FINAL DESIGN FOR THE AURORA CORRIDOR IMPROVEMENT PROJECT 165TH-205TH AND DIRECTING STAFF TO PROCEED WITH PROPERTY ACQUISITIONS AND CONSTRUCTION CONSISTENT WITH THIS DESIGN

WHEREAS , on November 23, 1998, the City of Shoreline adopted a comprehensive plan under the provisions of Chapter 36.70A RCW that includes the state mandated transportation element which:

- anticipates “Upgrading Aurora Avenue to meet urban standards”,
- “proposes as a high priority the completion of the sidewalk system on all arterial streets, on school bus routes and in locations demonstrated to need safer facilities”, and
- Includes a policy to “Pursue methods to improve and enhance transit operations on Aurora in Shoreline...;” and

WHEREAS, on December 9, 2002, the City of Shoreline adopted a final design for the Aurora Corridor Improvement Project 145th -165th which reached substantial completion in May, 2007;

WHEREAS , the City Council adopted a Preferred Alternative July 23, 2007 for environmental review of the Aurora Corridor Improvement Project 165th-205th (“Project”) under SEPA and NEPA;

WHEREAS, environmental review has now been completed by the lead agencies resulting in issuance of a MDNS on November 21, 2007 and a DCE on December 28, 2007;

WHEREAS, the Project is consistent with the City of Shoreline Comprehensive Plan and the State Growth Management Act, Chapter 36.70A RCW; now therefore.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, AS FOLLOWS:

Section 1. Adoption of Design. The Preferred Alternative adopted by the Council on July 23, 2007 as conditioned by the Mitigated Determination of Nonsignificance issued November 21, 2007 is adopted as the Final Design for the Aurora Corridor Improvement Project 165th-205th.

Section 2. Project Construction. The Council directs the staff to proceed with the development of detailed construction plans for the Aurora Corridor Improvement Project 165th-205th consistent with the Final Design, acquire necessary right-of-way and other property rights necessary for construction, proceed with a formal bid process for awarding a construction contract consistent with the plans, and take all other actions necessary to complete construction of this project.

ADOPTED BY THE CITY COUNCIL THIS 14TH day of January, 2008.

Mayor

Scott Passey
City Clerk

This page intentionally left blank.

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Resolution No. 268 initiating vacation for a portion of Midvale Avenue N. between N. 175 th and N. 178 th streets and setting a public hearing on vacation.
DEPARTMENT:	Planning and Development Services
PRESENTED BY:	Ian R. Sievers, City Attorney

PROBLEM / ISSUE STATEMENT:

In 2007 the City purchased property on the northeast corner of Midvale and 175th for the new city hall/civic center project. Adjacent to the City ownership on the east side of Midvale, there is excess right of way (approximately 15 feet) that is not needed for current or future road improvements. It has been planned to vacate this excess to provide additional space and circulation for the city hall project and landscaping. The City Council made a commitment to Opus Northwest, LLC to convey a specified parcel in the ground lease necessary to construct the civic center according to the design option selected by the City Council. In order to fully convey this parcel, a small portion of Midvale Avenue North needs to be vacated.

The City Council is authorized to initiate a street vacation under Chapter 12.17 of the Shoreline Municipal Code. The first step in the street vacation process is for Council to pass a resolution fixing the time for a public hearing on the street vacation in front of the Planning Commission. This Council resolution is before you tonight.

The proposed schedule for the street vacation process is as follows:

- January 14, 2008: City Council action on Resolution No. 268 initiating the street vacation process and fixing the time for a public hearing on vacation of a portion of Midvale Avenue N between N. 175th and N. 178th streets
- February 7, 2008: Planning Commission public hearing on the proposed street vacation.
- After the Planning Commission action, the City Council conducts a closed record hearing and either approves or denies the street vacation.

FINANCIAL IMPACT:

A street vacation initiated by the City Council has no financial impact.

ANALYSIS

In authorizing the City Manager to enter into a development agreement and a ground lease with Opus Northwest, LLC, the City Council made a commitment to Opus to design and construct the civic center on a development site that includes a small portion of Midvale Avenue North. In order to convey the full parcel for construction, this small portion of Midvale Avenue N. between N. 175th and N. 178th must be vacated.

The street vacation resolution method outlined in SMC Chapter 12.17 authorizes the City Council to propose a street vacation by resolution of intent to vacate. Under this street vacation resolution method, the City Council sets a public hearing before the Planning Commission. The public hearing must be held no sooner than 20 days but no later than 60 days after the Council resolution is passed. Public notice of the hearing is posted in three conspicuous public places and mailed to each owner of the property within 500 feet of the proposed vacation.

At the conclusion of the public hearing in front of the Planning Commission, the Commission makes a recommendation to the City Council. The City Council then holds a closed record hearing to determine whether to approve the street vacation.

The resolution before you tonight initiates the street vacation process and sets a public hearing in front of the Planning Commission for February 7, 2008.

Council's actual decision on the street vacation will not take place until the Commission has forwarded their recommendation and the Council holds their closed record hearing.

RECOMMENDATION

Staff recommends the Council approve Resolution No. 268 initiating the vacation of a portion of Midvale Avenue N. between N. 175th and N. 178th and fixing the time for a public hearing on vacation.

Approved By:  City Manager _____ City Attorney _____

ATTACHMENTS

A. Proposed Resolution No. 268

RESOLUTION NO. 268

A RESOLUTION OF THE CITY OF SHORELINE, WASHINGTON, INITIATING REVIEW OF A STREET VACATION FOR A SMALL PORTION OF MIDVALE AVE. N. RIGHT-OF-WAY BETWEEN N. 175TH STREET and N. 178TH STREET; AND FIXING A PUBLIC HEARING DATE FOR THE VACATION

WHEREAS, the City Council may initiate a street vacation review by a resolution of intent under SMC 12.17.040 in lieu of a petition from two-thirds of abutting owners; and

WHEREAS, the City has identified a need to vacate this portion of Midvale Avenue N. to fulfill the City's commitment to convey the parcel in the ground lease necessary for Opus Northwest, LLC to construct the Civic Center; and

WHEREAS, the Council finds that a public hearing prior to consideration of final action should be placed on the agenda of the Planning Commission for February 7, 2008; NOW, THEREFORE

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON AS FOLLOWS:

Section 1. Vacation Proposed. The City Council declares its intent to consider the vacation of a portion of Midvale Avenue N. north between N. 175th Street and N. 178th Street following notice to the public and abutting owners as required by law and a public hearing.

Section 2. Hearing Date. A public hearing to take public comment on the vacation described in Section 1 is hereby set before the Shoreline Planning Commission for February 7, 2008, to commence at 7:00 p.m. or as soon thereafter as the hearing may be held, in the Rainer Room, 18560 1st Avenue NE, Shoreline, WA 98133. Following the public hearing, the City Council shall consider the hearing record and the recommendation of the Planning Commission at a closed record hearing and take such action in regard to the vacation as may be deemed appropriate.

Section 3. Notice of Hearing. The City Clerk shall cause to be posted a notice containing a statement that the vacation has been initiated by the City Council describing the right-of-way proposed to be vacated, and the time and place of the hearing to consider the vacation at the times and locations set forth in SMC 12.17.020. The Notice shall further state that if 50 percent of the abutting property owners file written objection to the proposed vacation with the City Clerk prior to the Planning Commission hearing, the vacation proceeding will terminate.

ADOPTED BY THE CITY COUNCIL ON JANUARY 14, 2008.

Mayor

ATTEST:

Scott Passey
City Clerk

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

<p>AGENDA TITLE: Revised 2008 Legislative Priorities DEPARTMENT: City Manager's Office PRESENTED BY: Scott MacColl, Intergovernmental Program Manager</p>
--

PROBLEM/ISSUE STATEMENT

The draft 2008 Statement of Legislative Priorities was presented to Council at the January 7, 2008 Council meeting. At that meeting, Councilmembers moved to slightly revise the draft priorities and place the revised 2008 Statement of Legislative Priorities on the January 14th, 2008 Consent Agenda. The revision added a reference in the 8th bullet to improved stormwater drainage and reduction in flooding.

Revised 2008 Legislative Priorities

- Pursue Funding for the City's Capital Improvement Projects.
- Oppose unfunded mandates that would result in loss of existing revenue or revenue authority.
- Support City Authority to provide municipal court services through interlocal agreements with other cities for the provision of court services and support ability to appoint part-time judges.
- Work with the State to ensure City participation in the redevelopment or other activities related to future uses of any surplus property on the Fircrest campus.
- Monitor health/human services legislation to ensure maintenance of the safety net for our most vulnerable residents and oppose legislation that would shift costs and responsibilities for these programs to cities and/or school districts without appropriate funding.
- Support legislation to increase exploration and use of renewable, sustainable and cleaner alternative energy resources.

- Oppose any state preemption of local government authority to manage and franchise local public rights-of-way.
- Support increased infrastructure funding for economic development and to repair and maintain utilities, streets and sidewalks, and to improve stormwater drainage capacity to reduce flooding.
- Support legislative opportunities to increase affordable housing.
- Support legislation to improve environmental sustainability including, but not limited to, carbon emission reduction, energy efficiency, alternative clean energy generation and improved surface water quality and habitat restoration.
- Support legislation that establishes a municipal property tax cap tied to the Implicit Price Deflator or 1%, whichever is greater.

RECOMMENDATION

Staff recommends that Council adopt the proposed Statement of Legislative Priorities.

Approved By: City Manager _____ City Attorney _____

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Ordinance 479, amending Ordinance No. 310, Property Tax Exemption Program
DEPARTMENT:	Economic Development Program/CMO
PRESENTED BY:	Tom Boydell, Economic Development Manager

PROBLEM/ISSUE STATEMENT:

The Economic Development Strategic Plan adopted by the City Council contains the following work program:

“Review the existing or formulate new development incentives where appropriate to support priority development areas and designated Planned Action areas.”

This report contains recommendations for revising the Property Tax Exemption (PTE) program, which is one tool the City can utilize to provide incentives for targeted economic development.

Ordinance 310 was first adopted by City Council on November 25, 2002. This ordinance established Shoreline’s PTE program for the North City Business District. The PTE program provides a ten-year property tax exemption for development of multi-family residential housing in the North City Business District. Inherent purposes of the incentive are to encourage the development of multi-family housing in areas that would not occur without such an incentive, offset the costs of structured parking, offset the risk of higher density and mixed use development, provide incentives for more affordable housing, and steer development to designated target areas close to transit and neighborhood services to promote sustainable communities.

The proposed changes are to:

- Comply with recently revised state law on property tax exemptions.
- Amend the property tax exemption application requirements, clarify procedures, and add other administrative changes.
- Expand the program to incorporate Ridgecrest Commercial Area.

The economic analysis of developer pro formas indicates that the property tax incentive for affordable housing, as recently adopted by the State Legislature, is significant and likely to lead to a greater variety of housing choices.

FINANCIAL IMPACT:

The PTE program is a partial exemption from property taxes because the value of the new construction is not included on the tax rolls until the end of the exemption period. The exemption does not apply to retail square footage, other commercial space or land, nor does it exempt utility or other fees. The portion of the project that qualifies is basically the housing construction improvements (building). This program provides exemption from all "ad valorem property taxation", which includes the property tax levy for all taxing jurisdictions. Depending on the type of tax levy there are differing results of the property tax exemption.

The primary taxing districts that are directly affected by the property tax exemption program are the City, Fire District, and King County Library District for their regular levies. Under this program the City would be forgoing property tax revenue on the qualifying portions of the program for the period of the exemption (8 or 12 years). Based on the City's 2008 regular property tax rate of \$1.02 the amount of the property tax collected on \$12 million of improvements would be approximately \$12,240. Under the property tax exemption program the City will not collect this property tax. Applying the annual 1% property tax levy limitation growth this would equate to \$106,400 over eight years or \$163,000 over twelve years. This does not take into account added retail sales, utility taxes, or the property taxes from any increase in land values and non-residential square footage that may be included in a mixed-use development. After 8 years for market rate developments or 12 years for affordable housing developments, the residential units become taxable. Residential buildings have useful lives of 25 or more years.

Generally property taxes alone are not sufficient to off-set the cost of government services. However, the City would collect other taxes, such as utility and sales, from occupants of the housing units during this time period to help off-set the cost of government services provided to the occupants.

RECOMMENDATION

Staff recommends that Ordinance No. 479 be adopted to modify the PTE program for compliance with state law, clarification of procedures, and expansion into the Ridgecrest neighborhood.

Approved by:

City Manager



City Attorney

Analysis

INTRODUCTION

The PTE program, adopted by the City Council in 2002, was aimed at increasing the amount of desirable, convenient and attractive residential housing in North City Business District in order to attract additional residents, which in turn would attract new businesses, expansion of existing businesses, and local economic development.

As an incentive to development of multi-family housing in the North City target area, the PTE program offered a ten-year exemption from payment of property taxes, commencing upon completion of the development. The exemption applies to property taxes on the value of the residential improvements alone. The exemption does not apply to land, retail space, other commercial space, or utility or impact fees. Ordinance 310 limited the total amount of units available for the tax exemption to 250 units and to projects that created 20 or more new units of multi-family housing.

Inherent purposes of the incentive are to encourage the development of multi-family housing in areas where this would not occur without such an incentive, offset the costs of structured parking, offset the risk of higher density and mixed use development, and steer development to designated target areas with transit, sidewalks and local services. This is a key strategy in promoting neighborhood and community sustainability.

One project has been built under the PTE program – the 88 unit development formerly known as North City Landing, located at 17763 15th Avenue NE. The project was completed in April 2007.

Staff has reviewed the PTE program at length, in light of the completed project, discussions with developers and other cities, changes in state law, and the experience of Shoreline staff in handling the North City Landing project. The North City Landing project (now known as Arabella Apartments, Phase I) provided useful information about which portions of our program work well and which portions need improvement. In addition, in responding to recent inquiries by developers desiring to use the remaining 162 units under Ordinance No. 310, staff has noted significant deterrents of the PTE program application process.

The PTE program can be a better tool for increasing development, affordable housing, and a more sustainable community, or other amenities. In the long-term, it also creates substantially positive improvements to the City's tax base.

BENEFIT OF TAX EXEMPTION PROGRAMS

The Association of Washington Cities and cities in the Puget Sound region (Seattle, Bellevue, Renton, Kent, Olympia, Bremerton, and Bellingham) have extensive experience with PTE programs.

To assist in our review, staff in Tacoma and Federal Way provided us with copies of their program evaluations. These two studies are summarized below, and copies are provided as an *Attachment*.

City of Tacoma:

Tacoma produced a study titled "Property Tax Exemption Program for Multifamily Development 1996-2004 – Program Review for City of Tacoma, April 2005." This was prepared by Greg Easton, Property Counselors.

Important findings from this study are:

- "Even with the benefits available from the program, many projects don't meet the financial or market requirements to proceed." Page 5
- "In a competitive market, all cost savings beyond those required to make the project feasible will be passed on to renters." Page 6
- The affordability of housing sold as condominiums is improved. Page 7
- "The property tax exemption plays a critical role in supporting economic value established by an appraisal required by a lending institution and can strengthen the equity position of the developer allowing a project to proceed without seeking a partner or investor to allow the project to go forward." FAQ Attachment Page 3.

City of Federal Way:

Federal Way examined and reported on projects in Seattle, Bellevue and Renton in addition to analyzing its own City Center target area. Their findings were reported to Council in a memorandum from Patrick Doherty to Eric Faison, October 15, 2002 titled "Tax Exemption Program for Multifamily in City Center." While the Federal Way study focused on a comparison of multi-family development in neighborhoods vs. those in the City Center area, there are two conclusions that are relevant to Shoreline.

- They conclude that the PTE program will stimulate projects on land that otherwise will stay vacant.
- Their analysis shows that tax increases from land assessed values and commercial construction are significant. They conclude that multi-family projects, even with the PTE, can help to spread out the tax burdens and thereby lesson the tax pressures on single-family residential properties.

Economic Analysis of the Shoreline PTE Program:

An independent consultant (Greg Easton, Property Counselors) was hired to evaluate the Shoreline PTE program. He concluded that the tax exemption incentive is still needed because construction costs are rising and market rents are not keeping up. In particular, mixed use development and development that includes affordable housing remains financially risky. Projects may not be profitable until five years post-development.

Pro forma economic analyses were prepared for six alternatives:

1. Rental Housing
 - No program
 - Eight year exemption
 - Twelve year exemption with 20% affordable housing
2. Ownership as Condominiums
 - No program
 - Eight year exemption
 - Twelve year exemption with 20% affordable housing

The prototype that was used is based generally on the Arabella and proposed Arabella II Apartments in North City. The feasibility analysis concluded that development of apartments is not feasible without the PTE program and that the greater incentive for affordable housing projects would influence developers in that direction. Condominium projects also do not meet the feasibility threshold without the PTE program; however, a developer would be likely to apply for the eight year exemption.¹

Developers and property owners tell staff that, without the PTE, less than half of the same land will be redeveloped, and the rest is likely to be redeveloped as low density townhouses with no associated retail or services.

The Economic Analysis Report is included as an Attachment.

CHANGES TO SHORELINE'S PTE PROGRAM

The proposed changes:

- Comply with the recently revised state law on property tax exemptions

¹ Land is assumed to be approximately 20% of total post-construction property value for rental buildings and 30% for condominiums. Values are discounted by the developers cost of capital (assumed as 6.5%), in order to show how a bank or developer would view costs, risks, and the value of the tax exemption. Property values are slightly higher than the values used by Finance Dept staff in the Financial Impact Analysis.

- Amend the property tax exemption application requirements, clarify procedures, and add other administrative changes
- Expand the program to incorporate Ridgecrest

A. State law changes

Affordable Housing

Recent changes in state law encourage affordable housing by increasing the exemption period to 12 years for affordable housing developments and reducing the exemption period to 8 years for market rate housing developments. To qualify as an affordable housing development, at least 20% of the multifamily housing units must be rented or sold as affordable housing. "Affordable housing" is defined as residential housing that is rented by a person or household whose monthly housing costs do not exceed 30% of the household's monthly income. Our current Ordinance No. 310 provides a 10 year exemption for all types of projects. In order to comply with state law, our ordinance needs to reduce the exemption to 8 years for market rate housing and extend it to 12 years for affordable housing projects.

The state law amendments were effective on July 22, 2007, and thus no new applications can be received or processed until the City's program is amended to be in compliance with new state law.

Reporting Requirement Added

An annual report to the Washington State Department of Community, Trade, and Economic Development is now required.

B. Procedural changes

Application process

Under the current ordinance, a developer must submit a North City Business District Planned Action Development submittal checklist and a building permit submittal checklist for Planned Action in North City, a brief written description of the project, a site plan, a statement from the owner acknowledging the tax liability after the exemption period expires, and verification by oath.

Submitting the items on the two checklists (which includes engineering plans, landscaping plans, and parking and vehicular access plans) has proven to be an unexpected deterrent to developers. Developers do not want to spend significant time and money on preparing extensive development plans if the tax exemption

is not guaranteed. In addition, lenders will not consider a project loan application until the tax exemption application is approved or they will increase the equity requirements. Finally, in the financial mind of a developer, equity is five to ten times costlier than capital from an approved and leveraged project.

In order to remedy this deterrent, the application submittal has been amended (attached to Ordinance 479). The City will now only require the PTE application form, the description of the project, the site plan, the statement and the verification. The City will not require the building permit and planned action submittal.

C. Program Expansion

Expansion of PTE Program Geographical Area

Staff recommends expansion of the PTE program into the Ridgecrest Commercial area in order to encourage developments that incorporate the principles of sustainability, on the ground and in the buildings. Ridgecrest has significant potential mixed use development, green buildings, public spaces, affordable housing opportunities, and pedestrian improvements. PTE is an important tool in negotiating these types of improvements and public benefits. Underground parking is essential to making new development work, in order to serve the residents and businesses of a site and without creating problems of parking spilling over to the neighborhood.

Staff recommends that the PTE program be amended to include the Planned Action zones on the southwest, southeast, and northwest corners, and adjacent zoning of R18 and R24. The incentive would not be available for the NW corner where the movie theater is located, because residential development on that site would not be compatible with a movie theater.

Requirements for things like public space and other amenities or design features are to be delineated in the zoning code for the Planned Action areas.

D. Program Limits

Limit the program by continuing the unit cap and by delineation of business protection areas consistent with zoning code

Unit Cap

The current cap on units limits the potential use of the PTE program and the benefit to the City's citizens and taxpayers. Currently, the PTE Program is limited to 250 residential units for North City, of which 162 units remain.

In Ridgecrest, a vision plan was recently developed by the University of Washington working in collaboration with the City and community. Several properties may be redeveloped under this plan. Staff requests that a unit cap of 250 residential units be established for this target area.

First Floor Commercial Space (Business Protection Areas)

In Ridgecrest, one of the key design elements proposed by University of Washington student design team and encouraged by the public and Planning Commission is that the first floors of buildings fronting commercial streets be reserved for "pedestrian-oriented business activity" (e.g., retail, restaurant, service, entertainment). This idea is already incorporated into North City Main Street 1 standards that are in SMC 20.90. In Ridgecrest, these requirements are specified by the Planned Action Zone standards.

For North City, staff proposes one change in the PTE ordinance. In order to ensure that new development is mixed use and does not result in a loss of spaces for businesses, staff proposes that Main Street 1 be extended to all 15th Avenue NE frontages, with respect to the PTE incentive,. In other words, if a developer's property is located on a property in the North City Main Street 2 area, and if he wants to receive the tax incentive, then the developer would have to meet the higher standards of the code for Main Street 1.

FINANCIAL IMPACT ANALYSIS

The PTE program is a partial exemption from property taxes; the value of new residential construction is not included on the tax rolls until the end of the exemption period. The exemption does not apply to retail square footage, other commercial space or land, nor does it exempt utility or other fees. The portion of the project that qualifies is basically the housing construction improvements (building). This program provides exemption from all "ad valorem property taxation", which includes the property tax levy for all taxing jurisdictions. This includes not only the City's property tax levies, but also those assessed by the State, County, School District, and other special districts. Depending on the type of tax levy, there are differing results of the property tax exemption. For example levies, such as those established by the School District, are set at an overall dollar amount. As such the School District will not actually loose revenue, but rather the levy tax rate will be fractionally higher than it would have been if the value of the improved properties were included on the tax rolls in order to collect the full levy that was approved by voters. This is the same for voted general obligation bond levies, i.e., the City's Park Bonds, as the City will continue to collect the required levy amount, but the levy rate necessary to collect the levy will be slightly higher, for the remaining tax payers, than it would be if the value of the new construction were included on the tax rolls.

The primary local taxing districts that have regular levies and that are affected by the PTE program are the City, the Fire District, and the Library District. The City would be forgoing property tax revenue from its general levy on the residential portion of the building for the period of the exemption (8 or 12 years).

Greg Easton used a mixed used development with 97 residential units valued at \$12 million as prototype in his Economic Analysis. Based on the City's 2008 regular property tax rate of \$1.02 the amount of the property tax collected annually on \$12 million of improvements would be approximately \$12,240. Under the property tax exemption program the City will not collect this property tax. Applying the annual 1% property tax levy limitation growth this would equate to \$106,400 over eight years or \$163,000 over twelve years. This does not take into account added retail sales, utility taxes, or the property taxes from any increase in land values and non-residential square footage that included in a mixed-use development.

Without the PTE program, the most likely scenario on the same property would be a maximum 20 townhouses, with an estimated value of \$5 million. (This is based on an assumption of 35,000 square foot property and R-24 zoning.) The amount of revenue that the City would gain from residential property tax is \$5,100 in year one and approximately \$151,000 over 25 years. There would no additional commercial space created and little impact on local retail spending.

Over this same 25 year timeframe, the 97 unit mixed use project with 8-year tax exemption generates \$260,000 in taxes to the City. A mixed use project with a 12-year tax exemption generates \$203,000. As stated above, this is residential property tax alone and does not take into account added retail sales, utility taxes, or the property taxes on land and commercial square footage. These figures also do not include any comparison for cost of government services provided to the residences that occupy the residential units.

SUMMARY

Three categories of changes are recommended for the Property Tax Exemption program. The first adopts changes required by state law that change the length of the exemption to 8 years for market rate housing and 12 years for affordable housing projects. The second category consists of administrative and procedural changes. The third category consists of recommendations for program expansion, specifically, adding the Ridgecrest Commercial area as a designated "target area."

These changes will benefit the city. Tacoma and other cities have experienced that the PTE stimulates new development in target areas both of PTE certified properties and non-PTE eligible properties. The PTE program provides an incentive to multi-family residential housing, public space, green buildings, affordable housing, and more efficient land uses such as structured underground

parking instead of surface parking. Without the incentive, profitability considerations by themselves are likely to drive decisions toward lower residential densities, fewer affordable housing units, less public space and fewer other features of public benefit.

RECOMMENDATION

Staff recommends that Ordinance No. 479 be adopted to modify the PTE program for compliance with state law, clarification of procedures, and adding the Ridgecrest neighborhood as a second target area.

ATTACHMENTS

Attachment A – Proposed Ordinance No. 479

Attachment B – Studies from Other Cities in the Puget Sound Region

- (1) City of Tacoma: Study titled “Property Tax Exemption Program for Multifamily Development 1996-2004 – Program Review for City of Tacoma, April 2005” prepared by Greg Easton, Property Counselors
- (2) City of Federal Way: Memo from Patrick Doherty to Eric Faison dated October 15, 2002 titled “Tax Exemption Program for Multifamily in City Center”

Attachment C – Evaluation of the Shoreline PTE program: Economic Impact Analysis, by Greg Easton, Property Counselors

Attachment A
Proposed Ordinance No. 479

ORDINANCE NO. 479

AN ORDINANCE AMENDING THE PROPERTY TAX EXEMPTION PROGRAM FOR ADMINISTRATIVE CHANGES AND EXPANSION INTO RIDGECREST COMMERCIAL PLANNED AREA 2 AND RESIDENTIAL AREAS DESIGNATED R-18 AND R-24 ADJACENT TO THE RIDGECREST COMMERCIAL PLANNED AREA 2

WHEREAS, on November 25, 2002, the City Council adopted a Property Tax Exemption Program for the North City Business District; and

WHEREAS, on July 22, 2007 Chapter 84.14 RCW changed for new applications to (1) increase the property tax exemption timeframe for affordable housing from ten years to twelve years and decrease the exemption for market rate housing from ten years to eight years; and (2) require annual reporting to the Washington State Department of Community, Trade, and Economic Development; and

WHEREAS, Chapter 84.14 RCW provides that an area designated as a residential target areas must be within an urban center, must lack sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center, if the desirable, attractive, and livable places to live were available; and the providing of additional housing opportunity in the area will assist in achieving one of the stated purposes in RCW 84.14.

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

Section 1. Amendment. Sections 1-10 of Ordinance 310 are amended to read as follows:

Findings

- A. The North City Business District, the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d) are urban centers of the City of Shoreline as defined under RCW 84.14.010 (16). ~~(10).~~
- B. The North City Business District, the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d) lacks sufficient available, desirable and convenient residential housing, including affordable 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, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) if additional desirable, convenient, attractive and livable places were available.

- C. Provision of additional housing opportunities, including affordable housing, 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.

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 Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d). The limited 40-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, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d).
 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 areas.

Designation of Residential Targeted Areas

The North City Business District, as defined in the Shoreline Municipal Code Chapter 20.90.020, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), as defined in Shoreline Municipal Code Chapter 20.91, and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) are is designated as a residential target areas as defined in chapter 84.14 RCW and the boundaries of the target area are coterminous with the North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d)

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, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), or residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) targeted areas 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 or within the first 250 tax exempt units in the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d).
 3. Size. The project must provide for a minimum of fifty percent of the space for permanent residential occupancy. ~~include at least 20 units of multi-family housing within a residential structure or as part of a mixed-use development.~~ At least 20 four additional residential 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 fifty percent of the space for permanent residential occupancy ~~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 Chapters 20.90 and 20.91 of the Shoreline Municipal Code.
 - a. Consistent with SMC 20.90.020(B)(1), projects located on 15th Avenue N.E. and within the property tax exemption program target area must have pedestrian-oriented business uses at the street level fronting on 15th Avenue N.E. The minimum depth of street level pedestrian-oriented business uses shall be 20 feet from the frontage line of the structure on 15th Avenue N.E., and all other requirements of Main Street 1 properties shall apply.
- B. Exemption - Duration. ~~The value of improvements qualifying under this chapter for a Multiple Family Tax Exemption~~ Projects qualifying under this

chapter for a Multiple Family Tax Exemption that rent or sell at least twenty percent of the residential units as affordable housing units as defined by Chapter 84.14 RCW will be exempt from ad valorem property taxation for ten twelve successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption. Projects qualifying under this chapter for a Multiple Family Tax Exemption for market rate housing will be exempt from ad valorem property taxation for eight 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.

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~~ with the Department of Planning and Development Services in substantially the same form as the application set forth in Exhibit A, 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 application 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. 1. A brief written description of the project setting forth the grounds for the exemption;~~
 - ~~3. 2. A site plan, including the floor plan of units;~~
 - ~~4. 3. A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this ordinance; and~~
 - ~~5. 4. Verification by oath or affirmation of the information submitted.~~

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 and the current appeal filing fee 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 equal to the current hourly rate for processing land use permits. 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 within 30 days of receipt of the denial.

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. If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020; and
- D. 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.

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. If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020;
 - 4. The owner's property is otherwise not qualified under this ordinance; or
 - 5. 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~~

Annual Compliance Review

- A. Annual Declaration. 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 12 years for affordable housing projects and 8 years for market rate housing projects, 10 years, the property owner shall file a notarized declaration with the City Manager indicating the following:
- ~~A.~~ 1. A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve months ending with the anniversary date;
 - ~~B.~~ 2. A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the affordable housing requirements as described in RCW 84.14.020 since the date of the certificate approved by the City; and
 - ~~C.~~ 3. A description of any subsequent changes or improvements constructed after issuance of the certificate of tax exemption;
 - 4. The total monthly rent or total sale amount of each unit produced; and
 - 5. The income of each renter household at the time of initial occupancy and the income of each initial purchaser if owner-occupied units at the time of purchase for each of the units receiving a 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.~~

- B. Additional Reporting Requirement: By December 15 of each year, beginning with the first year in which the Final Certificate of Tax Exemption is filed and each year thereafter for a period of 12 years for affordable housing projects and 8 years for market rate housing projects, the property owner shall provide staff with a written report with the following information sufficient to complete the City's report to the department of community, trade and economic development described in Section D below.

- C. Audits. ~~City staff may also conduct audits or on-site verification of the declaration and information provided by the property owner.~~ Failure to submit the annual declaration and annual reports may result in the tax exemption being canceled.

- D. By December 31 of each year, the City shall file a report to the department of community, trade and economic development indicating the following for each approved PTE project:

1. The number of tax exemption certificates granted;
2. The total number and type of units produced or to be produced;
3. The number and type of units produced or to be produced meeting affordable housing requirements;
4. The actual development cost of each unit produced, specifically,
 - i. Development cost average per unit including all costs
 - ii. Development cost average per unit, excluding land and parking
 - iii. Development cost average per structured parking stall
 - iv. Land Cost
 - v. Other Costs
 - vi. Net Rentable Square Footage
 - vii. Gross Square Footage, including common spaces, surface parking and garage
5. The total monthly rent or total sale amount of each unit produced;
6. The income of each renter household at the time of initial occupancy and the income of each initial purchaser if owner-occupied units at the time of purchase for each of the units receiving a tax exemption and a summary of these figures for the city; and
7. The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.

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, or, if applicable, if the owner intends to discontinue compliance with the affordable housing requirements as described in RCW 84.14.020, the owner must notify the City Manager and the King County Assessor within 60 days of the change in use or intended discontinuance. 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 2 – 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 JANUARY 14, 2008

Mayor

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Publication Date:

Effective Date:



**APPLICATION FOR TAX EXEMPTION ON MULTIPLE FAMILY UNITS
WITHIN A DESIGNATED RESIDENTIAL TARGET AREA:
COVER SHEET**

This Application for Tax Exemption must be accompanied by a fee deposit of \$____. The breakdown for this deposit is as follows:

- 1) \$____ for the City's application processing. (\$____ is three times the current \$____ hourly rate for processing land use permits.)
- 2) \$____ for the King County Assessors fee for administering the Multiple Family Tax Exemption program.

Please return the Application for Tax Exemption on Multiple Family Units within a Designated Residential Target Area along with the deposit payable to the City of Shoreline to the Planning and Development Services Department, 17544 Midvale Avenue North, Shoreline, WA 98133.



**APPLICATION FOR TAX EXEMPTION ON MULTIPLE FAMILY UNITS
WITHIN A DESIGNATED RESIDENTIAL TARGET AREA**

(Pursuant to Chapter 84.14 RCW and City of Shoreline Ordinance No. 479)

Application fee required

TO BE FILLED IN BY CITY STAFF:

APPLICATION NUMBER: _____ CITY CLERK FILING NO: _____

DATE APPLICATION RECEIVED: _____

DATE OF STAFF REVIEW: _____ APPROVED: YES ____ NO ____

Comments:

TO BE FILLED IN BY APPLICANT:

NAME OF APPLICANT: _____

BUSINESS NAME OF APPLICANT: _____

MAILING ADDRESS: _____

PHONE: _____ FAX: _____ EMAIL: _____

NAME OF PROJECT: _____

STREET ADDRESS OF PROJECT: _____

DESIGNATED PTE TARGET AREA: _____

INTENDED PROJECT CONSTRUCTION TIMELINE: _____

PROGRAM REQUIREMENTS

Project must meet the following criteria for special valuation on multi-family property:

1. Be located within the residential target area designated for the tax incentive by the City.
2. Be within the designated number of tax exempt units of new or rehabilitated multiple family units having been approved within the approved PTE target area.
3. Be a multiple family or mixed-use project which provides 4 or more additional dwelling units.
4. Be completed within three years from the date of approval of the application, unless extended for good cause by the City.
5. Be designed to comply with all building codes, zoning and other applicable regulations.

Once application is approved, then:

1. The applicant and the City execute a contract to be approved by the City Council under which the Applicant agrees to implementation of the development on terms and conditions satisfactory to the City Council.
2. Once contract is executed, the City will issue a Conditional Certificate of Acceptance of Tax Exemption, based on the information provided by the Applicant. The Conditional Certificate will be effective for not more than three (3) years, but may be extended for an additional 24 months if special circumstances warrant extension. The City will issue, at the Applicant's request, a Final Certificate of Tax Exemption upon completion of the project and satisfactory fulfillment of all contract terms.

Note: Assessor may require owners to submit pertinent data regarding the use of classified land.

PROJECT INFORMATION

Property Description

Interest in Property: ☐ Fee simple: ☐ Contractor Purchaser: ☐ Other (describe) _____

County Assessor's Parcel Account #: _____

Street Address: _____

Abbreviated Legal Description: _____

Term of Exemption

Term of Exemption Applied For: Eight Years: ____ Twelve Years: ____

Type of Construction:

New Construction: ☐ YES ☐ NO Rehabilitation of Existing Units: ☐ YES ☐ NO

If rehabilitated/demolished, Applicant must secure from the City verification of property noncompliance with applicable building codes.

Number and Type of Units:

Number of Units*: New _____ Rehabilitated _____

(*Note: Be sure to specify if the total number of units is more than the number of units for which you are requesting tax exemption.)

Number of Type of Units Expected: Studio: ____ One Bedroom: ____ Two Bedroom: ____ Other: ____

Number or Percentage of Affordable Units: _____

Description of Building Use

Required Preliminary Plans attached: *Site Plan**: ☐ YES ☐ NO *Floor Plan*: ☐ YES ☐ NO

* See SMC 20.20.046

Describe building use and square feet intended for each use: _____

Identify square feet of commercial space: _____

Cost of construction

Projected cost of new construction/rehabilitation: _____

Source of cost estimate: _____

Expected date to start project: _____ Expected date to complete project: _____

NARRATIVE STATEMENT

Provide a brief statement describing the project and setting forth the grounds for qualifications for tax exemptions (continued):

AFFIRMATION

I understand that the value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation for eight (8) successive years for market rate multi-family housing and twelve (12) successive years for qualified affordable housing multi-family projects beginning January 1 of the year immediately following the calendar year of issuance of the certificate of tax exemption eligibility. _____ (initial)

I understand that by December 15 each year and/or within 30 days after the first anniversary of the date of filing of the Final Certificate of Tax Exemption and each year thereafter, I will be required to file a report with the City that provides detailed information concerning rental rates, occupancy, and tenant incomes during the year. _____ (initial)

I understand that at the conclusion of the exemption period, the new or rehabilitated housing cost shall be considered as new construction for the purposes of chapter 84.55 RCW. _____ (initial)

I am aware of the potential tax liability involved when the property ceases to be eligible for the incentive. _____ (initial)

I affirm that the submitted information is true and correct, subject to penalty of perjury under the laws of the State of Washington.

Signed this ____ day of _____, 20__.

Applicant signature

Attachment B
Studies from Other Cities in the Puget Sound
Region

**(1) City of Tacoma: Study titled “Property Tax
Exemption Program for Multifamily
Development 1996-2004 – Program Review for
City of Tacoma, April 2005” prepared by Greg
Easton, Property Counselors**

**(2) City of Federal Way: Memo from Patrick
Doherty to Eric Faison dated October 15, 2002
titled “Tax Exemption Program for Multifamily
in City Center”**

**PROPERTY TAX EXEMPTION PROGRAM
FOR MULTIFAMILY DEVELOPMENT
1996 – 2004**

**PROGRAM REVIEW FOR THE
CITY OF TACOMA
APRIL 2005**

PREPARED BY GREG EASTON, PROPERTY COUNSELORS

SUMMARY

I. INTRODUCTION AND SUMMARY

INTRODUCTION

The City of Tacoma was the first City in Washington to initiate a Property Tax Exemption Program for multifamily housing. The program allows qualifying multifamily housing projects to be exempt from property taxes on the value of housing improvements for a period of ten years. The purpose of the program is to stimulate new multifamily construction and rehabilitation of vacant or underutilized buildings for housing, expand housing opportunities in targeted areas, direct population growth to designated mixed use centers by encouraging higher density development, and achieve densities that are conducive to mass transit use. The program was initiated in 1996 as a tool to implement the State Growth Management Act's direction to accommodate a greater share of population within cities and to achieve Tacoma's own growth strategy as adopted in the Comprehensive Plan. Fourteen areas in the City were designated as eligible. Projects totaling more than 4,000 housing units have been proposed. Almost 1,000 units have been completed through December 31, 2004.

The City is currently reviewing the program to determine its performance, its success relative to the stated objectives, and the economic impact of the program activity. Property Counselors, economic consultants, prepared a study of the program. The findings and conclusions are documented in this report. It is organized in eight sections.

- I. Introduction and Summary
- II. Definitions
- II. Program Description
- III. Benefits to Program Participants
- IV. Multifamily Development Trends
- V. Property Tax Impact
- VI. Other Tax Revenues
- VII. Comparison with Tax Exemption Programs in Other Communities
- VIII. Program Recommendations

The major findings and conclusions of each section are summarized below.

SUMMARY

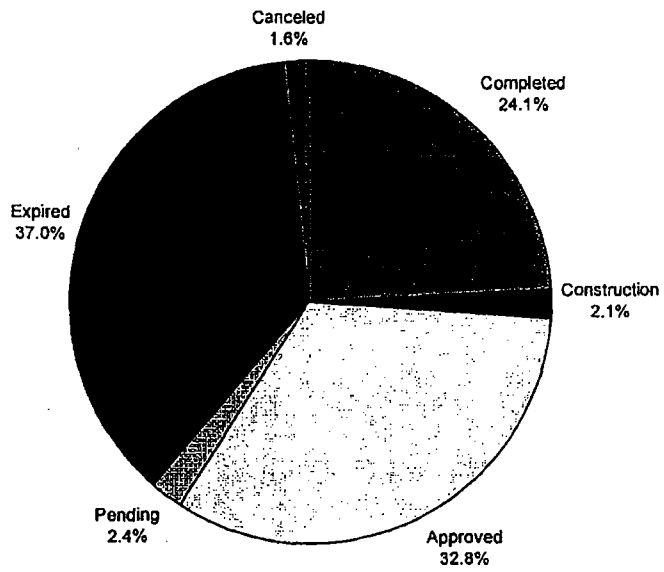
PROGRAM ACTIVITY

The City has processed applications for the tax exemptions for 77 projects having over 4,000 units since 1996. The status of those units is shown in the following table and figure:

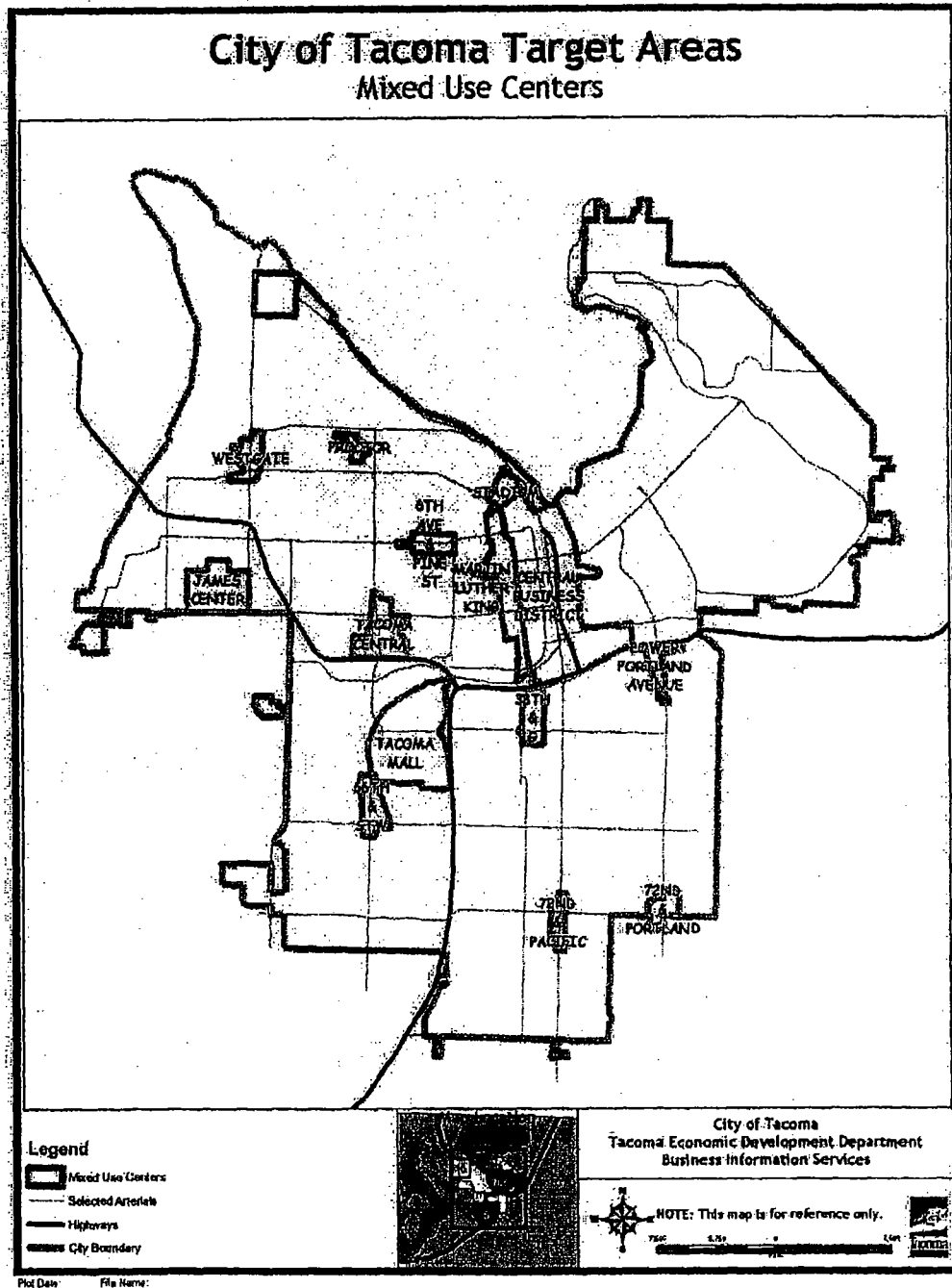
Units by Status*		
Status	Projects	Units
Completed	26	967
Under Construction	4	85
Approved But Not Started	23	1,317
Pending Approval	4	95
Expired	15	1,485
Cancelled	5	63
Total	77	4,012

*As of December 31, 2004

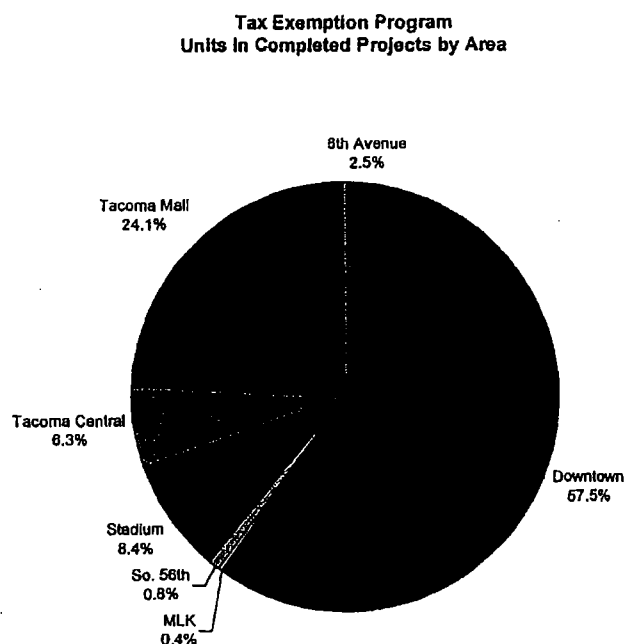
**Tax Exemption Program
Units by Status of Project**



The 14 target areas are shown in the map on the following page.



The geographic distribution of the completed units is as follows:



Overall program activity can be summarized as follows:

- The program has been very active with applications for more than 4,000 units in 77 projects.
- Seven of the 14 designated mixed use centers shown on the map have experienced program activity. Proctor, James Center, Lower Portland Avenue, 38th and G, East 72nd and Portland, 72nd and Pacific Avenue, and Westgate have not experienced any activity. There may be no suitable sites in some of these areas, existing rental units that have not been vacant the required 12 months, or market conditions are not strong enough to support housing development.
- Approved but expired projects represent over 50 percent more units than completed projects and those under construction. Even with the benefits available from the program, many projects don't meet the financial or market requirements to proceed.
- Eighty four percent of units completed to date have been rental units. Considering projects that are under construction or approved as well, the percentage drops to 68

percent. For-sale housing has been increasingly in demand with the continued low interest rates.

- Eighty-two percent of units completed to date have been new units rather than rehabilitated units. Considering projects that are under construction or approved as well, the percentage of new units will be 93 percent. This result can be explained by a shortage of suitable properties for rehabilitation or the restriction that no tenants be displaced. Legislation is pending eliminating the restriction on displacement of tenants.

BENEFITS TO PROGRAM PARTICIPANTS

The reduced property taxes resulting from the exempt value of improvements is shared among consumers in the form of lower prices/rents, and/or developers in the form of increased project income. In either case development is stimulated both by reducing prices and increasing demand, and reducing the cost of development thereby promoting financial incentives. We solicited comments on the program from a variety of participants and identified a series of benefits.

Developer Income and Return. Reduced property tax payments increase the development return on a marginal project to threshold levels, increasing feasibility.

Rent Savings. In a competitive market, all cost savings beyond those required to make the project feasible will be passed on to renters.

Housing Choice. Even when all savings are necessary to make the project feasible, new housing development provides increased housing choice for consumers.

Lender Requirements. Reduced property taxes increase the performance of a project relative to lender underwriting standards, thereby allowing the developer to secure debt financing.

Affordability to Purchaser. The purchaser of a condominium receives the tax exemption, making housing more affordable and improving a buyer's ability to either secure a higher mortgage loan or qualify for any loan.

The impact of the tax savings can be expressed in terms of impact on rents and sales prices.

- In order to provide the same return to the developer, an average rent apartment developed without the program would have to rent for \$684 per month; but only \$625 for the same apartment developed with the program. A high rent unit developed without the program would have to rent for \$1,082; but only \$950 for the same unit developed with the program.

- ✓ • A purchaser could afford to pay \$200,000 for an average price condominium developed with the program; but only \$183,200 for the same unit developed without the program. A purchaser of a high price condominium could afford to pay \$480,000 for a unit developed under the program; but only \$441,100 for the same unit developed with the program.

MULTIFAMILY DEVELOPMENT TRENDS AND PROGRAM IMPACT

A variety of evidence suggests that the program has stimulated development that might not otherwise have occurred.

- There has been a significant level of tax exempt program activity, contributing to building activity that might not have been expected in Tacoma given trends in the county as a whole, and during the economic downturn in the early part of the decade.
- The theoretical economic benefits to developers and consumers are significant. In spite of these benefits, projects with expired approvals exceed the number of units in completed projects and those under construction by 50 percent. Development conditions are such that even with the program, many developments can't overcome hurdles for feasibility. If these projects aren't feasible with the program benefits, it is logical to conclude that completed projects might not have been feasible without it.
- Developers we interviewed all indicated that they couldn't have developed their property without the tax exemption program. Lenders and appraisers indicated that the program enhanced the financibility of the projects. While both groups have an interest in sustaining the program, specific observations that they reported support the theoretical benefits presented in this report.

Based on this evidence, we conclude that much of the development activity that has occurred under the program would likely not have occurred at this time in its absence.

PROPERTY TAX IMPACT

Owners are exempt from taxes on improvements by all taxing jurisdictions during the ten year period. The property tax rate in the City of Tacoma for 2004 taxes was:

Property Tax Rate in Tacoma – 2004

State	\$3.0260/\$1,000 Assessed Valuation
Pierce County	1.6137
Port of Tacoma	0.1863
City of Tacoma	3.8043
Emergency Medical Services	0.4848
Tacoma School District	7.4981
Metropolitan Park District	0.9857
Total	17.5990/\$1,000 Assessed Valuation

Source: Pierce County Assessor

As shown, the total tax rate in the City was \$17.599 per \$1,000 assessed value, of which \$3.80 (21.6 percent of the total) is the City levy. The largest component is the \$7.50 levy by the Tacoma School District.

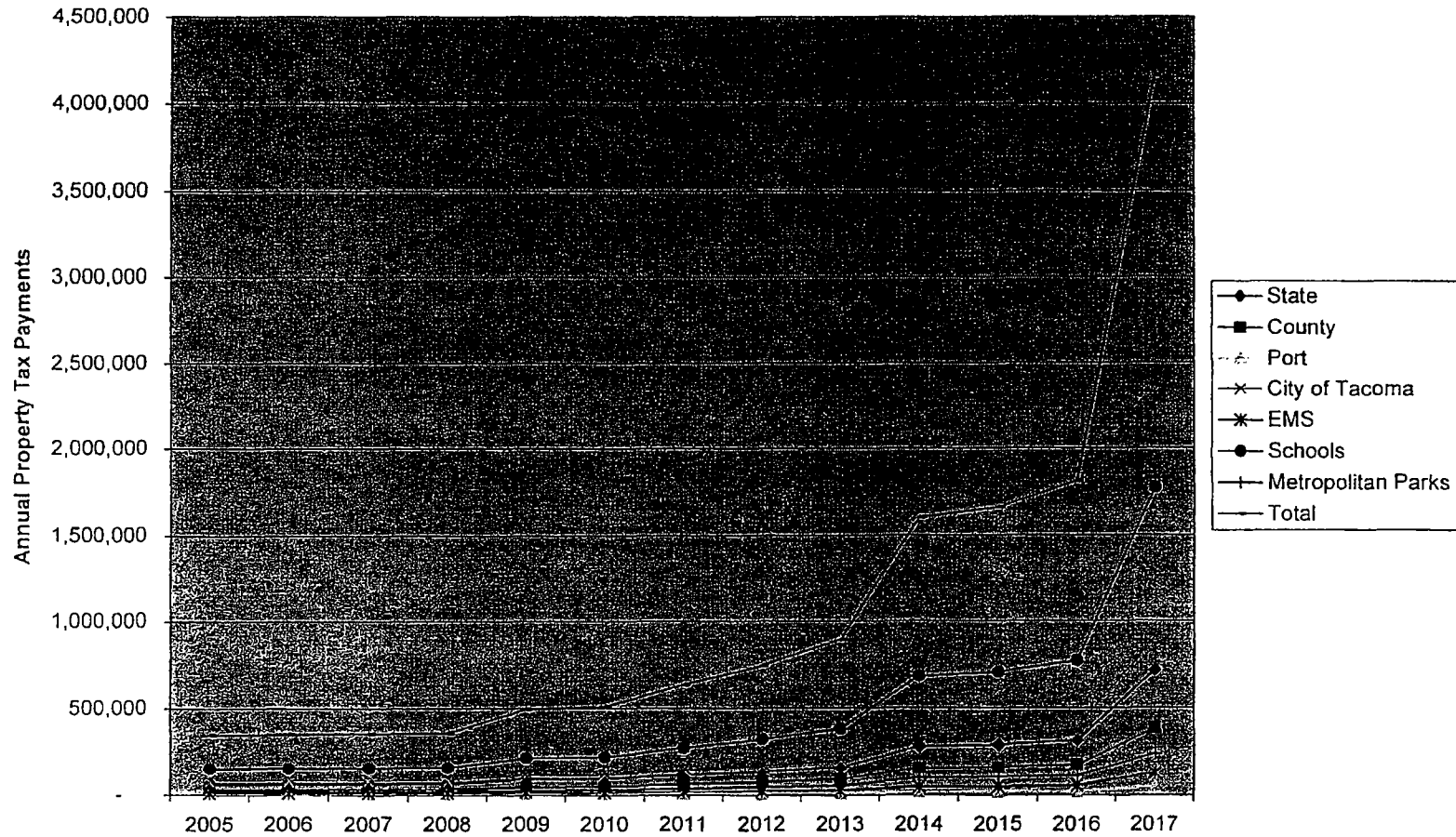
Property taxes are collected on assessed land value throughout the ten year exemption period. Improvement values are exempt from taxes for that period. When the ten year exemption period expires, the full value of land and improvements are taxed. Estimated taxes in each of the categories are summarized in the following table.

Comparison of Property Taxes Paid and Exempt Taxes

	Taxes on Land Completed Projects (Year 2005)	Exempt Taxes Completed Projects (Year 2005)	Exempt Taxes Constr & Appr. Projects (2005 if Compl)	All Taxes Compltd. Constr. Apprvd Projects (2017)
State	32,500	198,400	376,900	715,400
County	17,300	105,800	201,000	381,500
Port	2,000	12,200	23,200	44,000
City of Tacoma	40,900	249,400	473,900	899,400
EMS	5,200	31,800	60,400	114,600
Schools	80,600	491,600	934,000	1,772,700
Metropolitan Parks	10,600	64,600	122,800	233,000
Total	189,200	1,153,700	2,192,300	4,160,900

Property taxes paid on land value for the completed projects was \$189,200 in 2005, with \$40,900 of that paid to the City of Tacoma. The exempt value of taxes from improvements was \$1.2 million for completed projects and would have been \$2.2 million for projects under construction or approved, if all had been completed. After the 10-year exemption period expires for all properties (assuming that they are completed), the annual tax payments will reach \$4.2 million; \$900,000 of that amount would go to the City of Tacoma. Projected tax collections are shown by year in the chart on the following page.

Projected Future Property Tax Payments Completed Under Construction and Approved Projects



The amount of taxes paid on the land is modest compared to the value of exempt taxes on improvements. However, since many of the projects would not have been developed without the program, those taxes would not have been collected by jurisdictions in either case. With the expiration of the ten year exemption period, tax collections will increase significantly and predictably.

OTHER TAX BENEFITS

There are taxes collected by the City on program activity in addition to property taxes. These taxes include one time taxes and recurring annual taxes.

One Time Taxes on Construction for Completed Projects through 12/31/04

Retail Sales Tax	\$684,100
B&O Tax	325,700

One Time Taxes on Construction on Condominium Sales through 12/31/04

Real Estate Excise Tax	\$190,000
------------------------	-----------

Total One Time Taxes: \$1,199,800

Annual Taxes on Resident Purchases

Retail Sales Tax	\$147,900
------------------	-----------

Annual Taxes on Utility Consumption

Utility Tax	\$169,200
-------------	-----------

Annual Per Capita Distribution From State

Distribution	\$60,500
--------------	----------

Total Recurring Annual Taxes: \$377,600

COMPARISON TO TAX EXEMPTION PROGRAMS IN OTHER COUNTIES

The property tax exemption program is available to cities in Washington State with a population of over 30,000 or to the largest city in counties planning under the Growth Management Act. The characteristics of existing programs in Seattle, Everett, Vancouver, and Auburn; and Portland and Eugene in Oregon were compared to those of Tacoma.

Tacoma has few restrictions beyond those specified in Washington State statutes. Programs in all cities were initiated in response to housing market conditions specific to their areas. Tacoma and the Washington cities other than Seattle were interested in stimulating all types of multifamily housing, particularly market rate housing. Cities like Seattle and Portland that were already experiencing strong demand for market rate housing, focused their program efforts on housing for households with incomes below the median.

RECOMMENDATIONS

The City's goal of attracting multifamily housing to its mixed use center areas is being met in some of the centers, but not all. Scarcity of vacant land, insufficient market demand, or lagging interest by developers in certain neighborhoods appear to be the major reasons for absence of activity in certain areas. In the other areas, we conclude, based on the discussion in Section IV, that much of the new development would not have occurred without the Property Tax Exemption Program. Thus, much of the exempt taxes on improvement value would not have been available to taxing jurisdictions either with or without the program. While some of the development might occur in the future as real estate markets mature, in either case the revenues would not be available for several years. With the Property Tax Exemption program the new value will be on the tax rolls at predictable times. We believe that the program has been successful and will generate long-term tax benefits to the City and other taxing jurisdictions.

Regarding potential changes to the program, many of the potential changes considered could offset the financial incentives of the exemption, thereby reducing the stimulative effect of the program. The following options are offered for consideration:

1. **Income limits to assure affordable housing.** Other programs are available to assist low income developers (including total exemption for affordable housing serving those with incomes less than 50% of the local median income and have state housing trust fund money invested, and total exemption for affordable housing serving special needs populations and provide services to the occupants). The Multifamily Tax Exemption Program can, however, be beneficial to a developer of affordable housing serving household incomes between 50% and 80% of the median income. An option would be to require an affordable housing component or off-setting fee. However, this will reduce the benefit to the developer and may discourage new investment. Our experience with affordable

housing developers is that they prefer to use other tax incentives that provide them with greater financial benefit.

2. **Prevailing Wages.** The additional cost to the project of prevailing wages may offset some or all of the incentive provided by the tax exemption according to both developers and lenders
3. **Duration of the Exemption.** Reducing the length of time of the exemption from 10 years to some lesser length of time may reduce the positive effect the program has on financing. Lenders look at the long-term benefits of the tax exemption program when making their lending decisions.
4. **Fewer Target Areas.** The City could eliminate the program in those centers where it is not being utilized, but there would not be any practical effect of this change.
5. **Public Benefits.** Public benefit features such as parks, playgrounds, bike paths, or contribution to a public benefit fund are required in some of the cities. The cost of these features typically can't be recovered through rent or sale price increases and the requirements offset some or all of the incentive provided by the tax exemption.
6. **Elimination of Requirement That Rental Units be Vacant for 12 Months.** Such a change to State statutes is currently being considered by the State legislature. If passed and adopted by Tacoma, it should be coupled with a requirement for the project developer to provide relocation assistance
7. **Three Year Completion Requirement.** There would be no benefit to changing this requirement.
8. **Design Review.** A design review process would impose additional costs on both developers and the City. The City may want to consider this as part of the application review process.
9. **Underutilized Business and Apprentice Program.** The Historically Underutilized Businesses (HUB) and Local Employee Apprentice Program (LEAP) may be encouraged on a voluntary basis by providing lists of qualified HUB/LEAP participants to developers. Requiring the use of HUB/LEAP could drive up prices, thus reducing the benefit of the tax exemption.
10. **Additional Areas.** The City could consider expanding the exemption into other areas of the city such as the business districts, depending on the City's desired residential growth patterns.

**Property Tax Exemption Program
Project Listing**

Key	Projects	Address	Incomes Served	Year	No. of Units	Rental or Condo	New or Rehab	Use	Est. Cost	Status	Mixed-Use Center
1	Armani Investments LLC	2000 Block of South "I" Street	M	2002	4	Rental	New	(R)esidential	\$175,000	1 Completed	MLK
3	Broadview Condos	212 - 220 Stadium Way	M	2004	100		New	(M)ixed-Use	\$18,500,000	3 Approved	Stadium
4	Broadway 5 LLC	200 Block of South Broadway	M	1999	10	Rental	New	(R)esidential	\$635,000	1 Completed	Stadium
5	Broadway Associates I	436 Broadway	M	2004	100		New	(R)esidential	\$11,500,000	3 Approved	Downtown
7	Charles R. Johnson II	612 Tacoma Ave So	M	2004	8		Rehab	(R)esidential	\$800,000	3 Approved	Downtown
8	Cherry Orchard LLC	4046/4050 South Puget Sound	M	2004	8		New	(R)esidential	\$500,000	3 Approved	Tacoma Mall
9	Claude and Claire Remy	4300 Blk South Pine	M	2004	55		New	(R)esidential	\$3,600,000	3 Approved	Tacoma Mall
10	Commencement Place	300 Block of South "G"	L	1997	48	Rental	New	(R)esidential	\$2,850,000	1 Completed	Downtown
11	Conservatory Place	201 South "G"	L	1997	40	Rental	New	(R)esidential	\$2,350,000	1 Completed	Downtown
12	Crest Condos	4th and St. Helens Ave.	M	2001	4	Condo	New	(R)esidential	\$600,000	1 Completed	Downtown
14	Dobler Investments	South 47th & Lawrence	M	1997	91	Rental	New	(R)esidential	\$4,095,000	1 Completed	Tacoma Mall
16	Dobler Limited Partnership	2208 South 45th	M	2002	15	Rental	New	(R)esidential	\$950,000	3 Approved	Tacoma Mall
17	Dobler/School Land	South 48th & Junett/Pine	M	2000	40	Rental	New	(R)esidential	\$2,300,000	1 Completed	Tacoma Mall
18	DRK Development	19th and So. Washington	M	1999	12	Rental	New	(R)esidential	\$480,000	1 Completed	Tacoma Central
24	Fotheringham	609 North Oakes	M	2004	4		New	(R)esidential	\$360,000	3 Approved	6th Avenue
25	Garden Villa Apartments	South 47th & Lawrence	M	1997	83	Rental	New	(R)esidential	\$4,320,000	1 Completed	Tacoma Mall
27	Jeffery Davis	613 1/2 South Oakes	M	2002	4	Rental	New	(R)esidential	\$250,000	1 Completed	6th Avenue
28	Joe and Linda Turner	4300 Block of South Junett	M	2002	6	Rental	New	(R)esidential	\$350,000	1 Completed	Tacoma Mall
29	Marcourt	744 Market Street	M	2003	14	Condo	Rehab	Residential	1,750,000	2 Construction	Downtown
30	Mark and Jodie Lawson	4302 So. Warner	M	2004	8		New	(R)esidential	\$720,000	3 Approved	Tacoma Mall
31	Matthew and Juli Graham	4300 Block of So. Union Ave	M	2002	8	Rental	New	(R)esidential	\$400,000	1 Completed	Tacoma Mall
32	MDC - 435 So. Fawcett	435 So. Fawcett	L	1996	60	Rental	New	(R)esidential	\$2,900,000	1 Completed	Downtown
33	Merit Bldg	951 - 959 Market Street	M	2003	35	Rental	Rehab	Mixed	\$1,400,000	2 Construction	Downtown
34	Metropolitan Towers	225 St. Helens/Brdway	M	1999	88	Rental	New	(M)ixed	\$7,920,000	1 Completed	Downtown
36	Musica	914 - 916 So. 13th	M	2003	10	Rental	Rehab	Residential	\$350,000	2 Construction	MLK
37	New Look, LLC	1102 So. 11th	L	2000	49	Rental	New	(R)esidential	\$6,000,000	1 Completed	Tacoma Central
38	O'Connor & Associates	21st and "G" Street	M	2003	21	Condo	New	Residential	\$3,000,000	3 Approved	Downtown
39	Oak Street Apartments	612-618 South Oakes	M	1996	16	Rental	New	(R)esidential	\$400,000	1 Completed	6th Avenue
40	The Overlook (*)	One Broadway	M	1996	28	Condo	New	(R)esidential	\$1,600,000	1 Completed	Stadium
41	Overlook (Phase II)	100 Block of South Broadway	M	2003	42	Condo	New	Residential	6,300,000	3 Approved	Stadium
43	Pioneer Cay Developing LLC	326 East "D" Street	M	2004	70		New	(M)ixed-Use	\$15,000,000	3 Approved	Downtown
44	Popish, Natalie A./Bob Mickey	4700 Block of So. Puget Sound	M	2002	5	Rental	New	(R)esidential	\$200,000	1 Completed	Tacoma Mall
45	Pulliam	618 North Oakes	M	2003	4	Rental	New	Residential	\$375,000	3 Approved	6th Avenue
47	Simon Marten, LLC	5238 South Tacoma Way	M	2000	4	Rental	Rehab	(R)esidential	\$100,000	1 Completed	So. 56 th
48	Stadium Condos	200 Block of South "G" Street	M	2002	7		New	(R)esidential	\$1,000,000	1 Completed	Stadium
49	Stadium Way Condos (Powell)	200 Block of Stadium Way	M	2003	8	Condo	New	Mixed	2,500,000	3 Approved	Stadium
50	Stewart-Simon	5244 So. Puget Sound	M	2003	4	Rental	Rehab	Residential	\$300,000	1 Completed	So. 56 th

51	Subdivisions West	4032 South Puget Sound	M	2004	6		New	(R)esidential	\$500,000	3 Approved	Tacoma Mall
53	Sun Ranch Partners	245 Tacoma Ave.	M	2003	30	Rental	New	Residential	\$1,850,000	3 Approved	Downtown
54	Talen	4349 South Lawrence	M	2003	8	Rental	New	Residential	\$455,000	3 Approved	So. 56 th
57	Team Tacoma III, LLC	1705 Dock Street	M	2001	189	Rental	New	(R)esidential	\$21,300,000	1 Completed	Downtown
57	Team Tacoma III, LLC	1706 Dock Street	M	2001	46	Condo	New	(R)esidential	\$14,200,000	1 Completed	Downtown
58	The Delin	South 29th & Delin	M	1999	40	Rental	New	(R)esidential	\$2,500,000	1 Completed	Downtown
60	Theater Triangle LLC	410 6th Ave	M	2003	26	Condo	New	Residential	\$7,000,000	2 Construction	Downtown
61	TM Apex	2400 Block of South 41st	M	2002	70	Rental	New	(R)esidential	\$7,500,000	3 Approved	Tacoma Mall
62	TM Apex	2400 Block of South 41st	M	2002	165	Rental	New	(R)esidential	\$16,500,000	3 Approved	Tacoma Mall
63	V & G Services, LLC	816 So. 8th	M	2000	14	Rental	Rehab	(R)esidential	\$130,000	1 Completed	Downtown
64	Vision One - Phase I	1500 - 1700 Tac/Fawcett Av	M	2003	190	Rental	New	Residential	\$31,500,000	3 Approved	Downtown
65	Vision One - Phase II	1500 - 1700 Tac/Fawcett Av	M	2003	260	Rental	New	Residential	\$43,500,000	3 Approved	Downtown
70	Wright Park Condos	6th and "I" Street	M	2001	4	Condo	New	(R)esidential	\$500,000	1 Completed	6th Avenue
71	Yakima Vista	23 rd and Yakima Ave	L/M	2002	27	Condo	New	(R)esidential	\$838,000	1 Completed	Downtown
72	Court 17, LLC	1717 Market Street	M	2004	129		New	(R)esidential	\$9,400,000	3 Approved	Downtown
73	Home Options, Inc.	3119 South 45th	M	2004	8		New	(R)esidential	\$750,000	3 Approved	Tacoma Mall
74	Home Options, Inc.	4301 South Alder	M	2004	8		New	(R)esidential	\$750,000	3 Approved	Tacoma Mall
	The Overlook (*)	One Broadway	M	1999	36		New	(R)esidential	\$2,750,000	1 Completed	Stadium
	Vision Investments	15th and South Yakima	M	2004	14		New	(R)esidential	\$1,000,000	4 Pending	Downtown
	Delin II, LLC	2909 South Fawcett	M	2004	39		New	(R)esidential	\$5,300,000	4 Pending	Downtown
	Condos on Jefferson, LLC	2520 South Jefferson	M	2004	13		New	(R)esidential	\$1,700,000	4 Pending	Downtown
	Dobler Investments	2500 Block of So. 42nd	M	1997	29		New	(R)esidential	\$1,305,000	4 Pending	Tacoma Mall
	Jeffery Davis	613 1/2 South Oakes	M	1999	4		New	(R)esidential	\$150,000	5 Expired	6th Avenue
	Sun Ranch Partners	200 Block of Tacoma Ave S	M	1999	28		New	(R)esidential	\$1,500,000	5 Expired	Downtown
	Team Tacoma	Thea Foss Waterway	M	2000	245		New	(R)esidential	\$16,000,000	5 Expired	Downtown
	Team Tacoma	Thea Foss Waterway	M	2000	174		New	(R)esidential	\$12,000,000	5 Expired	Downtown
	Vision One, LLC (The Place)	1600 Blk-Tacoma Ave South	M	2000	300		New	(M)ixed	\$25,000,000	5 Expired	Downtown
	Foss Waterway Development Auth.	1933 Dock Street	M	2001	174		New	(R)esidential	\$20,000,000	5 Expired	Downtown
	Foss Waterway Development Auth.	1543 Dock Street	M	2001	150		New	(R)esidential	\$25,000,000	5 Expired	Downtown
	Foss Ww Dev Auth/Foss Dev LLC	800 Block - Dock Street	M	2001	25		New	(R)esidential	\$17,000,000	5 Expired	Downtown
	Foss Devel. LLC	800 Block - Dock Street	M	2001	50		New	(R)esidential	\$35,000,000	5 Expired	Downtown
	Metropolitan Towers I, LLC	245 St. Helens	M	2001	60		New	(R)esidential	\$5,700,000	5 Expired	Downtown
	Fawcett LLC	1134 - 1142 Fawcett Avenue	M	2001	65		New	(R)esidential	\$15,500,000	5 Expired	Downtown
	Wilsonian Partners, L.L.C.	400 Block - St. Helens Avenue	M	2001	182		New	(R)esidential	\$14,000,000	5 Expired	Downtown
	Awesome Investment	1 St. Helens Ave.	M	2000	8		New	(M)ixed	\$1,250,000	5 Expired	Stadium
	William Riley	4023 South Puget Sound	M	1999	20		New	(R)esidential	\$1,250,000	5 Expired	Tacoma Mall
	The Dock	535 Dock Street	M	1998	5		New	(R)esidential	\$220,000	6 Canceled	Downtown
	Broadway Center Investors	110 Block of Broadway	M	2002	8		New	(M)ixed	\$1,400,000	6 Canceled	Downtown
	Dobler Investments	4201 South Prospect	M	1997	40		New	(R)esidential	\$2,000,000	6 Canceled	Tacoma Mall
	Remy I	43rd and South Junett	M	2004	10		New	(R)esidential	\$800,000	6 Canceled	Tacoma Mall

Property Tax Exemption Project Applications January – March 2005

Project	Units	Type	MUC
New Urban	52	Condos	Downtown
Tacoma Renaissance	53	Condos	Downtown
Catapult	58	Condos	Downtown
Delin II (in apt proj below)	9	Condos	Downtown
4 Projects / 172 condos			
Delin II (in condo proj above)	30	Apts	Downtown
245 Metropolitan	80	Apts	Downtown
Vision	14	Apts	Downtown
Matt Graham	7	Apts	Downtown
Tracer	5	Apts	Downtown
Paul Warner	4	Apts	Downtown
6 Projects / 140 apts			
Vision	6	Apts	Tacoma Mall
Jim Edwards	10	Apts	Tacoma Mall
Wet Fly	12	Apts	Tacoma Mall
Greg Whitman	10	Apts	Tacoma Mall
Mark Lawson	14	Apts	Tacoma Mall
Jetco	4	Apts	Tacoma Mall
6 Projects / 56 apts			
Proctor Partners	1 Project / 6 condos	Condos	Proctor
Tacoma Townhouses	1 Project / 12 apts	Apts	Lower Portland Ave
DRK	1 Project / 20 apts	Apts	Stadium
19 Applications			
5 Condo Projects	178 condos		
14 Apartment Projects	228 Apts		
Total All	406		

Multi-Family Property Tax Exemption Program

Frequently Asked Questions

April 2005

1. When was the Multi-Family Property Tax Exemption Program (Property Tax Exemption Program) established?

The Property Tax Exemption Program was authorized by the WA State Legislature in 1995 (RCW 84.14.007). The City implemented the program in 1996 (Ordinance #25789) and added the Portland Avenue Mixed-Use Center in 1997 (Ordinance #25823). Tacoma played a key leadership role in the legislative approval of the tax exemption program.

2. What taxing jurisdictions are allowed to use the Property Tax Exemption Program? What other jurisdictions in Pierce County offer the program?

- Eligible cities are those with a population of 30,000 or greater, or the largest city or town within a county planning under the State's Growth Management Act (GMA). The state legislature is considering lowering the population requirement this year to cities and towns with a population of 3,000 or greater.
- Tacoma was the only city in Pierce County offering the program for several years. However with the lowering of the population restriction by the legislature, other cities are beginning to offer the exemption. Lakewood recently created their property tax incentive program for multifamily development, but have not yet implemented until they determine where and how it should be applied, i.e., rentals vs. condos, downtown and/or other locations. Puyallup has just approved its first tax exemption project in its downtown, a eight-unit up-scale condo over a bank and retail space. They are excited to have an incentive to attract additional housing to their downtown core. University Place looked at the program as an economic development tool, but has decided not to implement it at this time.

3. What objectives did the City Council establish for our Property Tax Exemption Program?

- Encourage higher density development in response to mandates of the WA Growth Management Act.
- Direct population growth to designated mixed-used centers, thereby reducing development pressures on single family residential neighborhoods.
- Encourage increased residential development within mixed use centers designated by the City Council as residential target areas.
- Rehabilitate existing substandard, vacant or underutilized buildings.
- Stimulate new construction to increase and improve housing opportunities.
- Achieve densities that are conducive to transit use in mixed-use centers.

4. What does the Property Tax Exemption Program do?

The program allows qualifying multi-family housing projects to be exempt from property taxes on the value of housing improvements for a period of ten years. Property owners continue to pay property taxes on the full assessed value of the land and any non-housing improvements during the ten-year period. Tacoma's experience has been that land values tend to increase when new housing is created. The increased land value is generates more tax revenue than the vacant parcel would have generated.

5. Who gets the benefit of the Property Tax Exemption?

The ten-year property tax savings belongs to the owner of the real property. If the property is sold, the tax exemption is passed on to the new owner. The benefits of the tax exemption are shared by both developers and consumers of the exempted housing. For the developer, it is a financial incentive to offset risk, improves the economic viability of a project, helps projects qualify for necessary financing, can be a hedge against unexpected or increasing costs, and helps make a high-density product & urban location competitive with a lower density suburban product & location. The consumer can benefit from the program in the form of lower rents in a competitive market, diversity and availability of housing, and improved ability to qualify for a mortgage because the tax exemption is passed on to the new buyer.

6. How many mixed-use centers does Tacoma have and where are they located?

There are 14 mixed-use centers:

James Center	East 72 nd and Portland Avenue
North 26 th and Proctor	South 72 nd and Pacific Avenue
6 th Avenue and Pine Street	Tacoma Mall
Stadium	Tacoma Central
South 11 th and Martin Luther King	56 th and South Tacoma Way
South 38 th and G Street	Downtown
Lower Portland Avenue	Westgate

7. How many projects and multi-family units are involved in the program?

As of December 2004, Tacoma's staff had worked with 77 projects representing more than 4,000 multi-family units as follows:

	Projects	Units
Completed	28	967
Under Construction	4	85
Approved but not started	23	1,317
Pending Council Action	4	95
Expired	14	1,485
Cancelled	4	63
	<u>77</u>	<u>4,012</u>

8. What has caused the number of expired projects/units to be so high?

Even with the benefits from the tax exemption program, many projects don't meet the financial or market requirement to proceed. Sometimes the lack of economic viability for the proposed project doesn't become apparent until the latter stages of the consideration when construction bids, environmental studies and loan applications have been finalized. In several cases construction has been delayed beyond the three-year approval period because of inability to obtain financing, or because of significant increases in construction costs with no corresponding increase in rent or sales price. For example, the cost of building materials such as steel has soared in the past three years as more materials are shipped off-shore. Four of the 14 expired approvals (449 units) were sought by the Foss Public Development Authority (PDA) in anticipation of development that has been on a longer timeline than expected. Some of the expired projects may come back into play and will require new application submittals should they wish to use the Multifamily Tax Exemption.

9. What role does the Property Tax Exemption play in the developer's ability to finance projects?

Each and every development must be financially sound to qualify for construction and long-term financing. The Multi-Family Property Tax Exemption approval will not be used by a financial institution to justify a loan that does not meet basic requirements for loan-to-value ratio, net operating income, ability to service debt on the project, etc. Nevertheless, the property tax exemption plays a critical role in supporting economic value established by an appraisal required by a lending institution and can strengthen the equity position of the developer allowing a project to proceed without seeking a partner or investor to allow the project to go forward.

Two examples of how the property tax exemption has been used to support local developments in Tacoma are shown below.

- Apartment developments with the tax exemption are considered to have two streams of cash to pay expenses: the rental income of the apartment building in perpetuity and the value of the tax exemption over a ten-year period. A local commercial lending officer estimated that the availability of the property tax exemption amortized over 10 years would add between \$500,000-\$600,000 to the loan proceeds available to build a rental project and would most likely be used to build more units, include on-site amenities, encourage the use of higher quality materials and finishes, or provide a greater cushion for unexpected or rising costs.
- The property tax exemption is valuable when dealing with for-sale residential developments in that it (a) helps more people financially qualify to purchase a home and therefore broadens the pool of potential buyers; and, (b) can accelerate the rate of sales, thus reducing the amount of financing necessary to carry the project until it is sold out. Conversely, if a residential development does not have the property tax exemption and has nothing to differentiate it within the

marketplace, i.e., views or desirable location, the project could have a longer sell-out and greater risk than a project with tax exemption approval.

10. What would be the impact of reducing the duration of the tax exemption to five years instead of ten? Wouldn't reducing the duration encourage the sale of the real estate with the tax exemption, thereby generating more excise taxes?

The greater the financial risk in the marketplace, the greater the importance of the term of the tax exemption. The apartment market has been depressed for the last several years as low interest rates have allowed consumers to buy rather than rent. Financial institutions providing both construction and long-term financing for multi-family development have considered the 10-year term of the incentive as critical to the financial viability of the proposed development.

The condo market has been healthy during this same period, but not very deep. In other words, there are a limited number of buyers for high density residential projects and the term of the tax exemption is an incentive for both the developer to build the project and the condo buyer to move from the suburbs to a higher density development.

11. What wages and benefits are provided to construction workers on projects using the Property Tax Exemption program?

A survey of the developers shows that most require bidding on their projects and select the most qualified bidders at the best price. The best bidders are sometimes union, sometimes nonunion but pay prevailing wages, and sometimes are nonunion companies paying less than prevailing wages. There is no requirement on the developer to select subcontractors on the basis of pay scale or benefits provided. It is up to the developer to select those subcontractors that can produce the best product at the most reasonable cost.

12. How many out of state/out of area contractors are being utilized on Property Tax Exemption projects? Is the program benefiting local businesses?

Of the ten developers who responded to the survey, all ten reported using only local suppliers and mostly local contractors and sub-contractors. The program has attracted developers, contractors and investors from outside the area, yet employees and vendors typically have remained local. This contributes to the local economy by generating material sales, employment, sales taxes, B&O taxes, and employment taxes. The resale of condos, townhomes or apartment buildings generates excise sales taxes each time the units or buildings are sold.

Many local businesses are benefiting from the increased construction, both directly and indirectly, i.e., materials suppliers, restaurants and fast food, grocery stores, gas stations, Realtors, appraisers, loan officers and title companies, rental management companies, etc.

13. Does the Property Tax Exemption Program require developers to use the Historically Underutilized Businesses (HUB) or Local Employee Apprenticeship Program (LEAP)?

The Tax Exemption program does not require developers to use HUB or LEAP. In 2003, a committee comprised of a developer, a union representative, and city staff including Legal, Public Works, Economic Development, the HUB/LEAP program representatives, and then Assistant City Manager Jim Walton, analyzed the issue of whether or not to require HUB/LEAP participation for a developer to be granted a property tax exemption. The conclusion of the committee was that the developers should be encouraged to use HUB/LEAP but not be required to do so.

14. Has the Property Tax Exemption been used in all the mixed use centers? If not, why? What is the geographic distribution of properties receiving the MF Tax Exemption? Is the program benefiting certain parts of the city more than others?

- Seven of 14 centers have seen multi-family development and the use of the tax exemption program. Those seven areas include: 6th Avenue, Downtown, MLK, South 56th, Stadium, Tacoma Central and Tacoma Mall. Tacoma Mall and Downtown Tacoma have had the greatest number of projects.
- Scarcity of vacant land, insufficient market demand, difficulty of land assembly, or lagging interest by developers in certain neighborhoods appear to be the major reasons for absence of activity in those mixed-use centers that have not had a MF Tax Exemption development.

The following is a summary of factors that contribute to the lack of MF projects in the remaining mixed use centers:

James Center: Scarcity of vacant land is a principal factor. The majority of the land in the center is built-out for commercial and educational uses and their associated parking. Some redevelopment of the commercial and parking areas has occurred resulting in commercial or educational development but not residential redevelopment although allowed by the zoning code. In 2003 a 10 acre track of vacant land owned by Tacoma Public Utilities was removed from the center after the adjoining neighborhood sought to have the property developed as single-family residential. This action significantly reduced the availability of undeveloped land in this center.

Westgate: Lack of vacant land is the principal reason. Similar to James Center, the majority of the land within the center is developed with commercial uses and associated parking. Some new commercial redevelopment has occurred. A large tract of land in the center is owned by Tacoma Public Utilities and at some point may become available for development.

72nd Pacific: Major reasons include lack of available land and developer interest in redevelopment. The majority of the center is built-out with commercial uses and

associated parking. A limited number of small vacant parcel do exist in the center; however, these parcels are mixed within the commercial developments so the development that has occurred in the center has been small commercial redevelopment. Due to market demand, it is anticipated that the remaining vacant parcels will be developed for commercial purposes not residential.

72nd Portland: Land availability and land assemblage and perhaps market demand appear to be the primary factors. Most of the center is built-out in commercial uses and parking. Some land with single family detached housing is located within the center. Lack of demand for multi-family residential and the inability to assemble the single family developed parcels appears to be a significant issue for this center.

Lower Portland: Land assemblage and lack of demand are the principal factors for this mixed use center. The center has a mix of small undeveloped and developed parcels many of which contain a single family detached structure. Land assemblage in this area has been a problem as well as uncertainty relating to the Puyallup Tribe's development plans. Many parcels in the area are either owned by the Puyallup Tribe or held in trust making land assemblage difficult.

South 38th and G: Many opportunities for second story residential redevelopment exist in this center. Building code and other development issues associated with rehabilitating second story residential above existing commercial uses have contributed to the lack of residential investment in this center. Although this center contains properties with downtown views, the majority of the properties with this amenity are built-out with single family detached housing. The assemblage of these properties along with the lack of market demand had contributed to the lack of MF exemption projects.

15. Of the projects completed, how many contain commercial space and of these, how many are occupied and generating revenue?

Since the inception of the program in 1996, there have been applications for five mixed-use projects having both housing and commercial space in the development. Of the five proposed mixed-use projects, only Thea's Landing has been built. There is currently only 500 sq. ft. of retail/commercial remaining for lease at Thea's Landing. Commercial/retail tenants in the building include a sandwich shop, flower shop, specialty pet store, art & framing shop, restaurant/night club, a medical consulting firm, and a marketing& sales center for adjacent multi-family residential development.

16. When will the first Property Tax Exemption development come on the tax rolls?

Taxable improvements for the first MF Property Tax Exemption project will come on the tax rolls in 2008, and is expected to generate \$357,062 in property tax. By 2014, property taxes generated by projects coming back on the tax rolls is expected to exceed \$1 million per year, and by 2017 it is predicted that the projects that have come onto the tax rolls will produce more than \$4 million in tax revenues annually. These projections

are based on projects that have either been completed, are under construction, or have been approved by City Council as of December 31, 2004.

17. How will we know when we are "done"?

The principle purpose of the program is to encourage multi-family housing in areas of the City that have been determined to be residentially deficient. By policy the City of Tacoma has determined that these areas of the City are those areas located within the City's 14 mixed-use centers. The purpose of the mixed-use center designation is to direct high density residential, employment and commercial growth into these areas in order to meet the City's growth obligations under the State Growth Management Act. By directing residential density and employment growth in the mixed-use centers, increased transit use and other pedestrian friendly transportation options are encouraged, decreasing development pressure and congestion in the City's single-family neighborhoods. Under the City's Comprehensive Plan each mixed-use center is designated to develop to a planned residential density and level of commercial activity. The tax incentive program is the primary tool for the City to use to achieve the planned residential activity in the mixed-use centers. Not until the planned residential densities are met and a level of commercial activity is achieved to sustain a vibrant business environment will we know that we are "done".

18. How many applications have been turned down and for what reasons?

Before an application is sent to Council, the staff works closely with the property owner or developer to make sure the project meets program requirements, and to date, no application brought before the Council has been disapproved.

19. Is the Property Tax Exemption Program available to affordable housing developers?

Yes, it is available to both affordable and market-rate housing. In our experience, however, affordable housing developers generally chose to use other tax incentive programs that provide a greater financial benefit than the MF Tax Exemption Program. For example, projects that provide housing for persons at or below 50% of the median income and have State Housing Trust Fund money invested can get a tax exemption on both the land and the improvements from the state. The same is true if a project has low-income housing tax credit money invested and it serves low-income persons and/or persons who have a disability.

20. What is the average price or average rent of housing created using the Property Tax Exemption?

Rental rates have ranged from \$550 for a one bedroom, one bath to \$1,000-\$1500/month or more for a three bedroom, two and one-half bath with garage parking. Sales prices for closed sales range from a low of \$150,000 per unit to a high of \$850,000, depending on location, size and amenities.

Rental and lease-up times have been directly related to unit cost. The less expensive units, \$750 - \$1,000 per month have rented in 2 to 4 months, and tend to have a low vacancy rate (3% - 5%). The more expensive rentals, \$1,000 to \$1,500 per month have taken as long as 2 years to rent. Once rented, they tend to also have low vacancy rates (5% - 7%), but the apartment owner must be able to survive during the initial rent-up period.

Renters in the more expensive units are primarily professionals, retired persons, and military officers. Renters in the market rate units are professionals, blue collar workers, teachers, nurses, police officers, firefighters, and service providers. Renters in the less expensive units are service providers, nurses, teachers, blue collar workers, single parents, and artists.

Purchasers of the market-rate units have been professionals, retired people, military, blue collar workers, teachers, nurses, police officers, firefighters, and service providers. Sales to the high-end condo market have been to professionals, including attorneys, doctors, professors, and administrators.

A serendipitous benefit of the program is that it has caused older multifamily developments to be improved by the owners in order to remain competitive in the market. This has resulted in a substantial improvement in the overall quality of housing in the mixed use centers where new multifamily development has occurred.

NEW AND REHABILITATED MULTIPLE-UNIT DWELLINGS IN URBAN CENTERS

PROPERTY TAX EXEMPTION (Ch. 84.14 RCW/Ch. 13.17 TMC)

FAQ:

1. Does the City Council have the discretion to reject a property tax exemption agreement even though the project may be located within a residential target area?

Answer: Yes, if the City Council finds that the terms and conditions of the agreement do not satisfy state law, city code, or the guidelines established by the City Council.

State law sets forth at Chapter 84.14 RCW ("Act") the minimum eligibility requirements for the tax exemption. The Act further authorizes the City Council to establish guidelines for qualification that the City Council determines are necessary to achieve compliance with the legislative purposes of the Act and that establish basic requirements for new construction and rehabilitation for each project.¹ The current guidelines are embodied within Chapter 13.17 of the Tacoma Municipal Code ("TMC"); however, the City Council may, in its discretion, establish additional guidelines through resolution or amendment to the Tacoma Municipal Code ("City Code").

The Act contemplates that either the governing authority or a designated public official shall approve or deny an application for a property tax exemption. The City Code delegates this authority to the Economic Development Director.² The Act also requires that the approved applicant enter into an agreement with the City on terms and conditions satisfactory to the City Council. This requirement is found at TMC 13.17.030(f)(1) and specifically provides that the City Council, and not the Economic Development Director, must approve the agreement. The City Council, when approving or disapproving an agreement, may reject the agreement if it is not satisfied that the agreement complies with the requirements

¹ The Act lists, at two sections, examples of what the guidelines may include: height, density, public benefit features, number and size of proposed development, parking, low-income or moderate-income occupancy requirements, other requirements indicated necessary by the City (RCW 84.14.030), and requirements that address demolition and site utilization and building requirements that may include elements addressing parking, height, density, environmental impact, and compatibility with the existing surrounding property and such other amenities as will attract and keep permanent residents and that will properly enhance the livability of the residential targeted area in which they are located. RCW 84.14.040(5)(a)&(b)

² The reason for this delegation of authority is likely based upon the statutory requirement that an appeal of the decision to deny or grant an application shall be made to the City Council. RCW 84.14.070(4).

that are imposed through the Act, the City Code, or the guidelines adopted by the City Council. Thus, the City Council may exercise its discretion by undertaking an individualized review of the facts to determine whether or not the terms and conditions of the agreement meet these requirements.³

2. Can the City Council use a low ratio of new housing units to those torn down and replaced as a reason for declining to grant a property tax exemption?

Answer: Yes, if the City Council includes this ratio within the guidelines.

State law already imposes a minimum number of new housing units in certain circumstances and further provides that the purpose of the chapter is to increase residential opportunities. If the City Council determines that a minimum ratio is necessary to achieve a greater number of housing units, this seems well within the purpose and authority of the Act.

3. Can the City Council use the presence or absence of high value or low-cost/affordable condominium or rental units as a reason for declining to grant or for granting only limited property tax exemptions?

Answer: Yes, if the City Council includes these requirements within the guidelines.

The governor explained in his partial veto of the Act that the legislative intent behind the Act was, in part, to provide local governments flexibility to address the public interest in the need to maintain a supply of housing, including low-income housing. Further, the legislation does not preclude and, in fact, encourages cities to consider their housing needs in the context of their growth management plans when implementing the provisions of the Act. Thus, the City Council, when establishing its tax exemption guidelines, may therefore take into account such considerations as the presence or absence of high value condominium or rental units.

4. Does the City Code permit multi-family property tax exemptions in any Mixed-Use Center or only in areas of such centers that qualify or are found to lack "sufficiently available" housing? In this regard, is the City's ordinance consistent with the state's statute?

Answer: Mixed-Use Centers must meet the requirements of the Act to qualify as a residential targeted area, including the requirement that there is insufficient availability of housing. The City Code is not inconsistent with the Act.

³ As always, the City Council must act in a nondiscriminatory manner, cannot be arbitrary or capricious, and, in these circumstances, must exercise its discretion in a manner that is rationally based upon the legislative goals and the guidelines established by the City Council.

The Act requires that new or rehabilitated multiple-unit housing must be located in a residential targeted area, as designated by the City, to qualify for the tax exemption. A residential targeted area must meet three criteria paraphrased as follows: (a) it must be in an "urban center" (same as a Mixed-Use Center), (b) it must lack sufficiently available residential housing, and (c) it must be found that providing additional housing will assist in achieving one or more of the stated purposes of the Act.⁴ Mixed-Use Centers that do not meet all three requirements will not qualify as a residential target area. Thus, a location will not qualify solely because it is a Mixed-Use Center.

The City ordinance mirrors, in substance, the requirements of state law, including the definition of "Mixed-Use Center," which has essentially the same meaning as "urban center" under Chapter 13.17 TMC.

5. Does the City Council have the legal authority to adjust the property tax exemptions it awards in any of the following ways (whether by geography or the circumstances of individual applications)?

- a. By number of years for which the exemption will be allowed?

Answer: No.

The term of the exemption is fixed by state law at ten years, unless the exemption is cancelled, as provided at RCW 84.14.110.

- b. By percentage or dollar amount for which the exemption will be allowed?

Answer: No.

The property to which the exemption applies is fixed by state law; however, the City Council may, through its established guidelines, limit the number of dwelling units to which the property tax exemption will apply.

⁴ The full text of these three requirements is as follows:

(1) The following criteria must be met before an area may be designated as a residential targeted area:

(a) The area must be within an urban center, as determined by the governing authority;

(b) The area must lack, as determined by the governing authority, sufficiently available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center, if the desirable, attractive, and livable places to live were available; and

(c) The providing of additional housing opportunity in the area, as determined by the governing authority, will assist in achieving one or more of the stated purposes of this chapter. RCW 84.14.040.

- c. To some housing units or portions of some housing units within a larger project but not to other units or other portions of units within the same larger project? (e.g., perhaps on basis of sale price, valuation, or rental amount).

Answer: Yes.

See answer to (b) above.

6. Would the state statute or City ordinance--or both--need to be amended to provide the City Council with any of the above discretions to customize property tax exemptions to specific Mixed-Use Centers or projects?

Answer: With regard to (a) and (b) above, the answer is yes. With regard to (c), the answer is no.

As explained above, the City Council does not have authority to change the term of the property tax exemption or the dollar amount. However, it may implement guidelines that would have the effect of limiting application of the property tax exemption to certain types of residential units within a development. To do this, the City Council must find that such guidelines are necessary to further the purposes of the Act.

7. Does the City have the authority to require certain wage levels or average wage levels to be required on construction projects for property tax exempt projects?

Answer: Yes, but only if the City Council can establish a rational relationship between wage levels and the purposes of the Act.

The purpose of the Act is generally to (a) encourage residential opportunities and (b) to stimulate the construction of new multi-family housing and the rehabilitation of existing vacant and under-utilized buildings. If the City Council finds a rational relationship between wage levels on such tax exempt construction projects and one or more purposes of the Act, then the City Council arguably has the authority to impose such conditions as part of the guidelines for project eligibility. However, an argument can be made that the guidelines not only must be rationally based upon achieving one or more of the purposes of the Act, but also must fit within the categories of those guidelines listed in the Act.⁵ The precise scope of what may be included within the guidelines is an open question.

⁵ However, it should be noted that the Act may preclude guidelines that do not fit within the categories listed at RCW 84.14.030 or 040. The statutory rule of construction "expression unius est exclusion alterius" means the expression of one is the exclusion of the other. If applied, this rule of construction means that if the legislature specifically list things upon which the statute operates, there is a presumption that the legislative body intended all omissions. In this case, there may be a presumption that the City Council can only establish guidelines that are within the categories expressed in the statute. On the other hand, this presumption may not prevail because the statute at RCW 84.14.030 also provides that the City Council may consider other requirements. How the courts might interpret the statute and the scope of the guidelines the City Council may adopt is an open question.

8. Does the City have the authority to require applicants, as part of their current applications for property tax exemption projects, to submit data and analysis regarding the construction and sale or rental costs, occupancy, current and past ownership, etc., for past projects?

Answer: Yes, but only if the City Council can establish a rational relationship between these requirements and the purposes of the Act.

If the City Council can find a rational relationship between the foregoing criteria and the purpose of the Act, then the City Council arguably has the authority to impose such conditions as part of the guidelines for project eligibility.

**Property Tax Exemption Program
Bremerton Gardens Expansion
City of Bremerton**

Annual Exempt Property Taxes

Improvement Value		19,000,000
Total Exempt Property Taxes	\$11.62	220,857
City Exempt Property Taxes	\$3.30	62,700

Annual Taxes after 10 Years

Improvement Value (1% / yr.)		20,987,820
Total Annual Property Taxes	\$11.62	243,964
City Annual Property Taxes	\$3.30	69,260

One-time Taxes on Construction

Construction Value		19,000,000
City Sales Tax on Construction	0.84%	159,600

Annual Taxes on Resident Purchases

Housing Units		200
Avg. Household Size		2.0
Total Population		400
Taxable Spending/Capita		9,105
Taxable Sales		3,642,000
Annual City Retail Sales Tax	0.84%	30,593

Annual Utility Tax

Housing Units		200
Avg. Ann. Utility Expense		2,000
Total Utility Expenses		400,000
Annual Utility Tax	7.0%	28,000

Annual Per Capita Distributions from State

Housing Units		200
Avg. Household Size		2.0
Total Population		400
Distributions per Capita		36.00
Annual Distributions		14,400

July 5, 2006

Analysis by Greg Easton, Property Counselors, Seattle

Draft: For Review and Comment Only



DATE: October 15, 2002

TO: Eric Faison, Chair
Land Use and Transportation Committee

FROM: Patrick Doherty, Deputy Director for Economic Development,
Community Development Services Department

VIA: David H. Moseley, City Manager

SUBJECT: *Tax Exemption Program for Multifamily in City Center*

BACKGROUND

On September 17, 2001 The Land Use and Transportation Committee discussed a potential limited tax exemption for multifamily housing in the City Center, pursuant to RCW 84.14.005. At that time the Committee recommended to City Council to pass a resolution of intent to designate the "residential targeted area" in the City Center Core and Frame zones and to hold a public hearing. The Staff memo to LUTC, dated September 12, 2001, is attached for reference.

On November 6, 2001 the City Council held the public hearing to consider public comment on designating the City Center Core and Frame zones as a "residential targeted area." Comments were received from nine members of the public. Those who spoke in favor of the proposal offered the following comments:

- a redevelopment tool that Federal Way should adopt to remain competitive with nearby communities;
- this is a tool that costs very little and can yield a lot of result, and is one of the few tools available to encourage City Center redevelopment;
- this tool fosters GMA-mandated growth and will help lead to more transit-dependent development;
- this program could be a "kick-start" to getting more City Center development to occur

Those who spoke against the proposal offered the following comments:

- concerns over increased demand for service to schools, libraries and fire district without full increase in property taxes;
- taxes seem to go up for everyone else, why should some developers in the City Center have to pay less?
- maybe encouraging more residential at this time in the City Center's development is misguided; shouldn't residential development follow stronger redevelopment in the office and retail/service sectors?
- need to make sure that the multifamily buildings be of substantial, attractive construction,

proper companions to class-A office buildings, etc.

In addition, City Councilmembers also raised questions about the demand for services for schools, libraries and the Fire District and expressed their desire for Staff to work with these jurisdictions to address and/or incorporate their concerns, where possible.

Since last Fall, Staff has conducted a great deal of research pursuant to the Councilmembers' requests and the concerns expressed at last November's public hearing. A summary of Staff's findings is presented below related to each of the three affected districts:

School District

In order best to estimate the potential demand for school services arising from new multifamily buildings in the City Center, Staff made visits to two other redeveloping suburban city centers: Bellevue and Renton. Each of these city centers contains new mixed-use and multifamily buildings of a very similar character to those we would expect in Federal Way. A total of 11 buildings were directly surveyed, with building managers queried as to the numbers of school-aged children residing in each building. The results of this research indicated an average of **0.052 school-aged children per unit**.

Next a comparison was made with the City-wide average student-generation factor (used in the 2001 Federal Way Schools Capital Facilities Plan) of **0.1783 students per unit**.

Secondly an estimate was made of the potential tax revenue generated by a city center mixed-use buildings (multifamily development in the City Center would most likely take the form of mixed-use buildings, given zoning code standards), even given the limited tax exemption. The following table summarizes those estimates:

Sample City Center Mixed-Use Building Balance Sheet

Sample Building	Residtl Imprpv. Value*	Comrc'l Improv. Value**	Sample Land Value***	Total Property Tax	Property Tax on Comrc'l Improv.	Property Tax on Land	Non-Exempt Tax Subtotal	Exempt Tax on Residtl Improv.
100 units w/ 1 st flr comrc'l	\$8,188,500	\$500,000	\$1,129,500	\$122,341 School: \$40,842	\$6225 School: \$2,080	\$14,062 School: \$4,699	\$20,287 School: \$6,779	\$101,947 School: \$34,064

Taxes are expressed per annum

Tax rates are for 2002

* Based on several new multifamily/mixed-use buildings in Bellevue and Renton and converted to average per-unit costs of \$81,885.

** Based on 10,000 sq ft commercial space. Existing values in City Center at approx. \$1M. To be conservative and accounting for unknown market for small new spaces like this, pulled back to \$500,000 value.

*** Based on actual multifamily approx 100-unit building in City Center

As one can see in this hypothetical case, a total of \$101,947 (\$34,064 for School District) per year of potential tax revenue would be exempted for ten years, while a total of \$20,287 (\$6,779 for School District) per year would be generated by the increased land value and commercial improvement value.

This should be compared with the tax revenue balance sheet for a sample multifamily building in the neighborhoods:

Sample Neighborhood Multifamily Building Balance Sheet

Sample Building	Residl Improvement Value*	Comrc Improvement Value**	Sample Land Value***	Total Property Tax	Property Tax on Comrc Improv.	Non-Exempt Property Tax on Land	Exempt Tax on Residl Improv.
100 units	\$3,985,700	\$0	\$1,019,600	\$62,316 School: \$20,822	N/A	\$12,694 School: \$4,241	\$49,622 School: \$16,581

Taxes are expressed per annum

Tax rates are for 2002

* Based on average of several existing multifamily buildings' assessed valuation in FW neighborhoods, converted to per-unit value of \$39,857. This figure is lower than the Sample City Center figure due to the older age of existing MF buildings.

** Based on average of several existing multifamily buildings' assessed land valuation in FW neighborhoods, converted to per-unit value of \$10,196.

As can be seen in these tables, it is clear that new City Center multifamily buildings would have both a higher assessed improvement value and land value (plus they would likely include some commercial space with an additional, taxable improvement value) than the existing multifamily developments in the neighborhoods.

With the average number of students expected in City Center buildings, compared with the average number of students seen City-wide in existing multifamily developments, together with the above-cited tax revenue information, we can summarize the potential financial impact to the School District of this tax exemption proposal:

Sample 100-Unit Bldg	School Tax Revenue Generated	No. of Students Generated	Tax Revenue per Student
Neighborhood	\$20,822	18	\$1156.78
City Center	\$6,779	5	\$1355.80

What we see is that existing neighborhood multifamily developments, with higher numbers of students and lower taxable assessed improvement and land values, **generate less tax revenue per student** than new City Center multifamily/mixed-use buildings would likely generate. This is due to new City Center buildings generating fewer students and having higher assessed land values, plus a commercial component, even though the **substantial residential improvement value would be exempt!**

Fire District

As with the School District-related research, Staff researched the service demands associated with new multifamily buildings in other nearby communities. In this case, however, the newer mixed-use and multifamily developments in other suburban city centers, such as Bellevue and Renton, did not provide a fair source for analysis because these developments were too new. For this reason, Staff identified approximately a dozen 5- to 10-year-old mixed-use/multifamily buildings in Seattle and called the individual Fire Stations where the buildings are located. Due to the vagaries of data collection among Stations, not all Fire Station personnel could access records by address. However, between those personnel could provide records by address and those who knew their Station areas well enough to provide reliable anecdotal information, an adequate generalization could be drawn. In short, Fire Station personnel across Seattle could either verify or reliably opine that these newer mixed-use/multifamily buildings, and others like them, do not present a demand for fire or emergency services

as high as older multifamily buildings. They did not, however, that some new buildings, at initial occupancy can have a flurry of false-alarms as fire detection systems are being installed and wiring or testing mistakes occur.

It is difficult to explain this phenomenon reliably, but it is likely due to two things: 1) new buildings have a certain "shelf life" during which the new construction and building systems may be relied upon without significant failure; and 2) the socioeconomic characteristics of the majority of the occupants of these newer buildings. Given that newer buildings usually command the highest rents, occupants are usually professional singles or couples, as well as recent empty-nesters, with few if any children (as seen in the research mentioned above regarding the numbers of school children). These socioeconomic cohorts usually exhibit a lower percentage of smokers, usually rely less on space heaters, and usually are less prone to fire-inducing accidents that might arise from the sight-impaired, the elderly or children. In addition, medical-related emergencies are usually less among these populations for a variety of reasons.

In summary, while there is no guarantee that new mixed-use/multifamily buildings in the City Center would generate no demand for fire or emergency services during the first ten years of occupancy, it is likely that this demand will be markedly less during this period than later in the building's life. Therefore, although during the initial ten years less tax revenue would accrue to the Fire District, this is the period when a substantially lower demand for services is expected. Then, as the building passes its ten-year mark, full tax revenue would accrue to the Fire District to cover any natural increase in demands for its services.

Libraries

City Staff met with representatives of the King County Library System to discuss the proposal and learn about their concerns. In the case of demand for library services, there was no empirical or anecdotal information that would suggest that residents of City Center mixed-use/multifamily buildings would create lower demand. The Library System representatives recognized this, but stated their impression that this proposal is intended to increase the density and mix of development in the City Center, which would eventually substantially raise the assessed value and therefore tax revenue. Staff concurred.

Summary

In summary, Staff research concluded that direct service and financial impacts of this limited tax exemption proposal to the School and Fire Districts should be minimal during the ten-year exemption period. In fact, it is possible that financial impacts to the School District will be positive even during the exemption period. Of course, after the ten year exemption, substantial new tax revenue would accrue to these jurisdictions, as well as to the City.

This points up an important consequence of this proposal. While the immediate goal of the tax exemption proposal is to spur new residential and mixed-use development in the City Center, in fulfillment of numerous Comprehensive Plan goals and GMA mandates, an important secondary consequence is a much needed increase in the assessed valuation of the City's commercial sector. For the period 1991-2000 the average King County residential assessed valuation rose an average of 172.4%, while the commercial sector only rose 79.7%. These figures are representative of Federal Way, as well. It is obvious that further growth in the commercial assessed value would be very desirable and would help start to shift the bulk of the property tax burden from the residential sector to the commercial sector.

RECOMMENDATION

Due to a mix-up with the City's official newspaper last year, the November 6, 2001 public hearing did not receive the RCW-required published notice for two consecutive weeks. For this reason, the City Council must hold a new public hearing on the intent to designate the "residential targeted area," as well as the proposal in general prior to designating the "residential targeted area" and taking any further action on tax exemption proposal.

For these reasons, Staff recommends that the LUTC recommend that the City Council pass a new resolution of intent to designate the City Center Core and Frame zones as a "residential targeted area" for purposes of potential application of the limited tax exemption for multifamily housing and set a new public hearing at a subsequent City Council meeting.

APPROVAL OF COMMITTEE REPORT:

Eric Faison, Chair

Michael Park, Member

Dean McColgan, Member

cc:

MULTIFAMILY TAX EXEMPTION

EFFECTS ON SCHOOL DISTRICT

SUMMARY

Summary of Proposal: To exempt from property tax assessment the residential improvement value *only* of qualifying residential or mixed use buildings within the City Center Core and Frame zones for a period of ten years. (For mixed-use buildings, only the commercial improvement value would not be exempt.) This exemption would be permitted for an initial five-year pilot period only, extended beyond that time only upon City Council approval after review of the program's performance, public comment, etc.

Concerns/Questions Raised at Last Meeting:

- Financial impact to the School District from potential new dwelling units with school children for which part of the school district taxes would be exempt;
- Excessive reliance on the residential AV sector to generate taxes and the proposal's impact on this

Sample City Center Mixed-Use Bldg Balance Sheet:

Sample Building	Residtl Improv. Value*	Comrc'l Improv. Value**	Sample Land Value***	Total Property Tax	Property Tax on Comrc'l Improv.	Property Tax on Land	Non-exempt Tax Subtotal	Exempt Tax on Residtl. Improv.
100 units w/ 1 st flr comrc'l	\$8,188,500	\$500,000	\$1,129,500	\$122,341 <i>School:</i> \$40,842	\$6,225 <i>School:</i> \$2,080	\$14,062 <i>School:</i> \$4,699	\$20,287 <i>School:</i> \$6,779	\$101,947 <i>School:</i> \$34,064

Taxes are expressed per annum

Tax rates are for 2002

* Based on several new multifamily/mixed-use buildings in Bellevue and Renton and converted to average per-unit costs of \$81,885.

** Based on 10,000 sq ft commercial space. Existing values in City Center at approx. \$1M. To be conservative and accounting for unknown market for small new spaces like this, pulled back to \$500,000 value.

*** Based on actual multifamily building in City Center

Sample Neighborhood Multifamily Bldg Balance Sheet:

Sample Building	Residtl Improv. Value*	Comrc'l Improv. Value	Sample Land Value**	Total Property Tax	Property Tax on Comrc'l Improv.	Tax on Residtl. Improv.	Property Tax on Land
100 units	\$3,985,700	\$0	\$1,019,600	\$62,316 <i>School:</i> \$20,822	N/A	\$49,622 <i>School:</i> \$16,581	\$12,694 <i>School:</i> \$4,241

Taxes are expressed per annum

Tax rates are for 2002

* Based on average of several existing multifamily buildings' assessed valuations in FW neighborhoods, converted to per-unit value of \$39,857. This figure is lower than the Sample City Center figure due to the older age of existing MF bldgs.

** Based on average of several existing multifamily buildings' assessed land valuations in FW neighborhoods, converted to per-unit value of \$10,196.

Students per Unit in Downtown MF Bldgs:

Staff surveyed recently constructed (approx. last 5 years) multifamily and mixed-use buildings in two other suburban downtowns: Bellevue and Renton. A total of 11 buildings were surveyed. Management of each building was asked how many school-age children lived in each of the buildings, as well as how many units were occupied. The results of this research indicated an average of **0.052 school-age children per unit**.

This compares with the 2001 Federal Way Schools Capital Facilities Plan student-generation factor of **0.1783 students per unit**.

The discrepancy between the two figures confirms our belief that the number of households with school-age children that choose to live in downtown multifamily units is substantially lower than those who choose to live in the neighborhoods.

Using these numbers, a prototypical 100-unit building located in one of the Federal Way neighborhoods would generate **18 total students**. While a 100-unit building located in the City Center would likely generate only on the order of **5 total students**.

Impact to School District:

Using the information from above, we can estimate the actual, short-term financial impact of our proposed program on the School District.

100-unit building	School tax revenue generated	# of Students Generated	Tax revenue per student
Neighborhood	\$20,822	18	\$1156.78
City Center	\$6,779	5	\$1355.80

What we see here is that existing **neighborhood buildings**, with higher numbers of students and lower taxable assessed improvement and land values, **generate less tax revenue per student** than new City Center buildings would likely generate. This is due to new City Center buildings generating fewer students and having higher assessed land values and having a taxable commercial component, **even though the substantial residential improvement value would be exempt!**

What's more, once the anticipated new mixed-use buildings have been in place for ten years, then the residential improvement value will also be taxed, and the tax-revenue generation per student will rise substantially, far outpacing the existing neighborhood buildings in their generation of taxes to the City and School District.

Trends in the Assessed Valuation of the Commercial and Residential Sectors:

As the attached figure illustrates, for the ten-year period 1991-2000 the average King County residential assessed valuation rose an average of 172.4%, while the commercial section only rose 79.7%. A quick drive around the Federal Way City Center (or other commercial areas along Pacific Highway) can yield quick observation of many vacant parcels and/or underdeveloped properties. A sample assessment for one vacant City Center parcel showed **no** increase in assessed valuation from 1996 to 2001 – during some of the hottest years in the regional real estate market! Accounting for inflation and the declining actual tax levy rate, that property lost substantial ground in its contribution to the City's and School District's tax revenues.

We believe it is crucially important to continue to develop our commercial land sector for many reasons, not the least of which is to raise its portion of the city's tax revenue and lessen the burden to the voting, resident public.

Summary:

In summary, our research indicates the potential for a net positive impact to the School District as a result of our proposed limited, residential tax exemption program for the City Center even in the short term, and a substantially positive impact in the longer term (after ten years). In addition, by encouraging greater development in our City Center, we could start to increase the tax burden of the commercial sector and provide some relief to the residential sector.

Attachment C
Economic Impact Analysis
By Greg Easton, Property Counselors

Shoreline Multifamily Property Tax Exemption Program

Property Counselors

July 27, 2007

Introduction

The Multifamily Tax Exemption program has allowed qualifying multifamily housing projects to be exempt from property taxes on the value of housing improvements for a period of ten years. The purpose of the program is to stimulate new multifamily construction and rehabilitation of vacant or underutilized buildings for housing, expand housing opportunities in targeted areas, direct population growth to designated mixed use centers by encouraging higher density development, and achieve densities that are conducive to mass transit use. The 2007 Legislature made several significant changes to the program. While these changes will not affect the projects currently approved, they will affect projects approved after July 22. The biggest change is related to the period of the tax exemption. The ten year exemption period is reduced to eight years; however, projects that include at least 20% affordable units will be exempt from taxes on the improvement value for twelve years.

The City of Shoreline must revise its program to be consistent with the legislative changes. In addition to these changes, staff is recommending a requirement that, in exchange for receiving the tax exemption, the developer provide a public neighborhood benefit. The public benefit costs shall be a minimum of 1% of development costs. Development costs are defined as consisting of the money spent to build the building within the footprint. City staff has asked Property Counselors to review the proposed changes and the program in general and address the following questions:

- How do the changes in exemption period affect the feasibility of development?
- How do the public benefit requirements affect feasibility?
- At what point do program requirements become a disincentive for development?

This report addresses these issues and is organized in three sections:

Affordability Assumptions

General Program Benefits

Development Feasibility

Public Benefit Features

Affordability Assumptions

Affordable housing is defined in the program authorization to be units with associated monthly expenditures equal to or less than 30% of between 80% and 115% of median county household income adjusted for family and unit size. The statute also defines affordable housing in high cost areas such as King County to be between 100% and 150% of median. The median household income for two person households in King

County is \$62,300. The associated affordability limits for a one bedroom unit can be calculated to be as follows:

	100% of Median	150% of Median
Monthly Rent	\$1,350	\$2,100
Purchase Price	\$203,400	\$305,100

Average rents for one-bedroom units in Shoreline are reported to by Dupre and Scott to be \$701 as of Fall 2006. Rents for one-bedroom units in the new Arabella Apartments in North City are \$955 per month. Market rents in Shoreline will qualify as affordable according to program definitions. Similarly, average condominium prices in Shoreline were \$247,000 per unit in April 2007. Market prices meet affordability limits at the 150% level.

General Program Benefits

An apartment project participating in the program will experience lower operating costs, and potential higher net income. The potential impact on rental rates is summarized in the table on the following page. Estimated savings are shown as the present value of annual savings over the exemption period. Savings are based on taxes to all jurisdictions. Lost taxes to the City represent 11% of total exempt taxes.

The average unit is assumed to be 700 square feet. Total development cost including land is estimated to be \$175,000 as calculated in the feasibility analysis. The amount of exempt improvement value is estimated to be \$125,000 as calculated in the feasibility analysis. Using the 2007 total tax levy rate to all taxing entities of \$12.03 per \$1,000 valuation, the annual tax savings per unit are calculated as shown. If all the cost savings are passed on to renters, the rent would be reduced from \$1,300 to \$1,175 per month. The value of the savings is discounted at the opportunity cost of capital (assumed at a 6.5% interest rate) to estimate a present value of the savings. The value of the savings represents 5% to 7% of the development cost.

Property Tax Exemption Program Economic Benefits for Rental Projects

Unit Size (square feet)	No Program 700	8 Yr Exmpt 700	12 Yr Exmpt 700
Development Cost	175,000	175,000	175,000
Exempt Value		125,000	125,000
Annual Tax Savings* (@ \$12.03/\$1,000 Valuation)	-	1,504	1,504
Present Value of Savings (@ 6.5% discount rate)	-	9,156	12,269
Savings as % of Develop. Cost		5.2%	7.0%
Annual Foregone Rent			-
Net Annual Impact	-	1,504	1,504
Required Monthly Rental Rate			
Without Program	1,300		
With Program	-	1,175	1,175

A similar analysis is shown for condominiums in the table on the following page. The purchaser receives the benefit of the tax exemption. The purchaser can afford to buy a more desirable unit and will qualify for a higher loan (or perhaps any loan) on the purchase. Total development cost including land is assumed to be \$210,000 given higher finish costs and soft costs. The amount of exempt improvement value is estimated at \$150,000. (The estimated land component of \$60,000 is higher than the assumed land component for the apartment case because the total product is valued higher.) Using the 2007 total tax levy rate to all entities of \$12.03 per \$1,000 valuation, the annual tax savings per unit is estimated and translated into a net present value assuming 6.5 percent interest. The present value of the savings over eight years is \$10,987. A purchaser could afford to pay \$256,000 for a unit developed under the program, compared to \$245,000 for the same unit if it weren't developed under the program.

The present value of the savings over twelve years is \$14,722. The value of the 12 year exemption is higher because of the longer period. However there is also foregone income related to the affordability requirement at the 100% of median level. The value of the foregone income is \$8,400. The benefit to the purchaser of the exemption is partially offset by the foregone income of the developer. A developer is likely to proceed with an eight year exemption project rather than a twelve year one. Again, the value of the savings is approximately 5% to 7% of development cost.

Property Tax Exemption Program Economic Benefits for Condominium Projects

Unit Size (square feet)	No Program 700	8 Yr Exmpt 700	12 Yr Exmpt 700
Development Cost	210,000	210,000	210,000
Exempt Value		150,000	150,000
Annual Tax Savings* (@ \$12.03/\$1,000 Valuation)		1,805	1,805
Present Value of Savings (@ 6.5% discount rate)		10,987	14,722
Savings as % of Develop. Cost		5.2%	7.0%
Foregone Sales Proceeds			(8,400)
Net Impact		10,987	6,322
Affordable Price			
Without Program	245,000		
With Program		255,987	251,322

Development Feasibility

The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the cost of development to completed value to determine the developer profit. Developer profit is considered the compensation to a developer for incurring the risk of undertaking and completing a project. Developer profit for any development plan is compared to a target rate to identify whether that option is feasible. A 15% rate is considered a typical rate falling within a range of 10% to 20%. Such a rate provides adequate incentive for a developer to assume the risk associated with development. While 15% is a preferred rate, 10% is considered a hurdle rate for this analysis. Developer profit as percent of development cost is one measure of financial return. It shouldn't be confused with internal rate of return (IRR). A 10% developer profit as percent of cost may be equivalent to an IRR of 20%.

The value of the completed development is estimated as the net sales proceeds in the case of a residential condominium project, or the capitalized value of the operating income in a stabilized year for a rental project. Developer cost is calculated as the sum of land acquisition, building construction, and soft costs.

Proformas were prepared for six alternatives:

Rental

- No program
- Eight year exemption
- Twelve year exemption with 20% affordable housing

Ownership

- No program
- Eight year exemption
- Twelve year exemption with 20% affordable housing

The same building prototype was used for each alternative. The prototype is based generally on the Arabella and proposed Arabella II Apartments in North City. The project is assumed to include 80,000 gross square feet of development on a 20,000 square foot lot (Floor Area Ratio of 4.0). The average unit size is 700 square feet with one parking space provided per unit. One-half of the parking is in above grade structure and one-half below grade.

The key assumptions are related to development costs and rents sales prices.

Key Financial Assumptions

Construction Cost	
Apartments Market (/ gr. sq. ft.)	120.00
Apartments Affordable (/gr. sq. ft.)	120.00
Condominiums Market (/gr. sq. ft.)	140.00
Condominiums Affordable (/gr. sq. ft.)	120.00
Retail (/gr. sq. ft.)	170.00
Underground Parking (/sp.)	30,000
Aboveground Parking (/sp)	20,000
Soft Costs	
Apartments (% of constr.)	30.0%
Condominiums (% of constr.)	38.0%
Retail (% of constr.)	30.0%
Land Price (/sq. ft.)	50.00
Rents	
Apartment Rent Affordable (/sq. ft./yr.)	21.30
Apartment Rent Market (sq. ft./yr.)	21.30
Retail Rent (\$/gr/yr)	18.00
Apartment Exp. (/sq. ft./yr.)	7.00
Capitalization Rate	
Apartments	5.0%
Retail	6.5%
Condo Sales Price	
Condo Sales Price Affordable (/sq. ft.)	290.00
Condo Sales Price Market (/sq. ft.)	350.00
Condo Sales Costs (% of Price)	8.0%

The financial performance of each alternative is summarized in the following table. As described above, a project is feasible if its developer profit as a percent of cost exceeds 10%.

Comparison of Financial Performance

Description	Apartments			Condominiums		
	No Program	8 Yr Exmpt	12 Yr Exmpt	No Program	8 Yr Exmpt	12 Yr Exmpt
Site Area (Square Feet)	20,000	20,000	20,000	20,000	20,000	20,000
Gross Building Area	80,000	80,000	80,000	80,000	80,000	80,000
Dwelling Units	97	97	97	97	97	97
Parking (Stalls)	97	97	97	97	97	97
Financial Return						
Capitalized Value of Rental Income	17,999,600	18,832,921	19,195,092			
Sales Proceeds	-	-	-	21,085,167	21,896,000	21,382,153
Total Value	17,999,600	18,832,921	19,195,092	21,085,167	21,896,000	21,382,153
Development Cost						
Land	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Construction	12,028,571	12,028,571	12,028,571	13,628,571	13,628,571	13,308,571
Soft Costs	3,368,000	3,368,000	3,368,000	5,042,571	5,042,571	4,924,171
Total	16,396,571	16,396,571	16,396,571	19,671,143	19,671,143	19,232,743
Developer Profit	1,603,029	2,436,349	2,798,521	1,414,024	2,224,857	2,149,410
Profit as % of Development	9.8%	14.9%	17.1%	7.2%	11.3%	11.2%

As shown, development of apartments is not feasible without the program. With the eight year tax exemption, the return does exceed the threshold rate. Since affordable rents are equal to or greater than market rents, a market rate project would meet the affordability requirement and qualify for the twelve year exemption as well.

The condominium projects don't meet the feasibility threshold without the program either. If affordability is defined at the 100% of median case as assumed in the analysis, the foregone income for the 12 year case would offset savings to the purchaser, and a developer would be likely to apply for the eight year exemption.

Benefit Features

On a draft basis, City staff asked for an evaluation of a menu of several hypothetical alternatives of extra amenities that a developer could provide. In essence, the amenities are a form of additional public benefit. These amenities could be required (or a menu of options created) either through the zoning code or directly as a condition of the Property Tax Exemption ordinance.

Each of the proposed benefit features can be evaluated in terms of its impact on development cost and developer profit. In a general sense, the concept that the costs of benefits would not exceed one percent of development cost is conservative in that the value of the tax exemptions is 5% to 7% of development cost. However, as shown the projects aren't feasible without the program, so the full value of the exemption isn't available for investment in public features.

Three proposed requirements and their impacts are summarized in the following table. Affordable housing was not evaluated, because that is already provided for in the State law for the PTE program, by providing a 12 year exemption instead of 8 years.

Analysis of Additional Public Benefit Options

	Public Open Space	Community Center	Public Parking
Requirement	200 sf per 10,000 gsf	150 sf per 10,000 gsf	3 Surface or 1.5 Structure
		One per Target Area	Spaces per 30,000 sf
Cost for 80,000 gsf Building	1,600 sf	2,000 sf	4.0 structured sp.
	\$50 per sf land	\$250 per sf total	\$37,500 per sp. total
	50 per sf constr		
	\$100 per sf total		
Cost of Feature	160,000	500,000	150,000
Base Construction Cost	16,975,000	16,975,000	16,975,000
Base Profit %	14.9%	14.9%	14.9%
Additional Cost as % of Dev.	0.9%	2.9%	0.9%
Impact on Developer Profit	13.8%	11.6%	13.9%

The basis for the cost estimates are as follows:

A public plaza requires the purchase of a site or foregone development opportunities on a site that is already owned. The cost of developing a landscaped open space can vary from \$30 to 60 per square foot construction cost.

A community center is assumed to be at least 2,000 square feet, with a construction cost equivalent to commercial construction.

Public parking is assumed to be provided in an above-grade structure since the cost of land is too high to justify surface parking.

As shown, the cost of the benefit features varies from 1% to 3% of development cost. The cost of the community center is at the high end of the cost factor range, and drives the profit percentage toward the threshold rate. With a 1,200 square foot center, this feature would be comparable to the other options, but such a center is smaller than the minimum. This feature would offer an incentive only for projects larger than 130,000 square feet. The public open space and public parking are at the low end of the cost factor range, and the resulting developer profit rates are well above the minimum threshold.

The analysis does not reflect any costs of maintenance or security for the public open space or the other options. If that cost exceeds any incremental value associated with increased marketability of the property, the impact on profit would be greater.

There is a fourth option for program eligibility. Developers can provide a payment in lieu to the City in the amount of 2% of development costs. At this rate, a payment in lieu is not likely to be the preferred feature except in cases where the other options aren't feasible. However, it would work as a cap on costs and encourage the developer to provide the amenity directly.

Generally, for any additional public benefit option, the 1% factor is supportable based on the analysis. This equates to a return to the public (or City) about 20% of the value of the tax exemption benefits. A higher figure would also provide a developer profit greater than 10% of development costs in some instances. However, for projects likely to be pioneering efforts in an emerging market area, a 10% return threshold may not be attractive.

Hypothetically, a developer could propose a fifth option, which would be a hybrid of the other three benefit options. It would be subject to the same 1% factor.

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Ordinance 479, amending Ordinance No. 310, Property Tax Exemption Program
DEPARTMENT:	Economic Development Program/CMO
PRESENTED BY:	Tom Boydell, Economic Development Manager

PROBLEM/ISSUE STATEMENT:

The Economic Development Strategic Plan adopted by the City Council contains the following work program:

“Review the existing or formulate new development incentives where appropriate to support priority development areas and designated Planned Action areas.”

This report contains recommendations for revising the Property Tax Exemption (PTE) program, which is one tool the City can utilize to provide incentives for targeted economic development.

Ordinance 310 was first adopted by City Council on November 25, 2002. This ordinance established Shoreline’s PTE program for the North City Business District. The PTE program provides a ten-year property tax exemption for development of multi-family residential housing in the North City Business District. Inherent purposes of the incentive are to encourage the development of multi-family housing in areas that would not occur without such an incentive, offset the costs of structured parking, offset the risk of higher density and mixed use development, provide incentives for more affordable housing, and steer development to designated target areas close to transit and neighborhood services to promote sustainable communities.

The proposed changes are to:

- Comply with recently revised state law on property tax exemptions.
- Amend the property tax exemption application requirements, clarify procedures, and add other administrative changes.
- Expand the program to incorporate Ridgecrest Commercial Area.

The economic analysis of developer pro formas indicates that the property tax incentive for affordable housing, as recently adopted by the State Legislature, is significant and likely to lead to a greater variety of housing choices.

FINANCIAL IMPACT:

The PTE program is a partial exemption from property taxes because the value of the new construction is not included on the tax rolls until the end of the exemption period. The exemption does not apply to retail square footage, other commercial space or land, nor does it exempt utility or other fees. The portion of the project that qualifies is basically the housing construction improvements (building). This program provides exemption from all "ad valorem property taxation", which includes the property tax levy for all taxing jurisdictions. Depending on the type of tax levy there are differing results of the property tax exemption.

The primary taxing districts that are directly affected by the property tax exemption program are the City, Fire District, and King County Library District for their regular levies. Under this program the City would be forgoing property tax revenue on the qualifying portions of the program for the period of the exemption (8 or 12 years). Based on the City's 2008 regular property tax rate of \$1.02 the amount of the property tax collected on \$12 million of improvements would be approximately \$12,240. Under the property tax exemption program the City will not collect this property tax. Applying the annual 1% property tax levy limitation growth this would equate to \$106,400 over eight years or \$163,000 over twelve years. This does not take into account added retail sales, utility taxes, or the property taxes from any increase in land values and non-residential square footage that may be included in a mixed-use development. After 8 years for market rate developments or 12 years for affordable housing developments, the residential units become taxable. Residential buildings have useful lives of 25 or more years.

Generally property taxes alone are not sufficient to off-set the cost of government services. However, the City would collect other taxes, such as utility and sales, from occupants of the housing units during this time period to help off-set the cost of government services provided to the occupants.

RECOMMENDATION

Staff recommends that Ordinance No. 479 be adopted to modify the PTE program for compliance with state law, clarification of procedures, and expansion into the Ridgecrest neighborhood.

Approved by:

City Manager



City Attorney

Analysis

INTRODUCTION

The PTE program, adopted by the City Council in 2002, was aimed at increasing the amount of desirable, convenient and attractive residential housing in North City Business District in order to attract additional residents, which in turn would attract new businesses, expansion of existing businesses, and local economic development.

As an incentive to development of multi-family housing in the North City target area, the PTE program offered a ten-year exemption from payment of property taxes, commencing upon completion of the development. The exemption applies to property taxes on the value of the residential improvements alone. The exemption does not apply to land, retail space, other commercial space, or utility or impact fees. Ordinance 310 limited the total amount of units available for the tax exemption to 250 units and to projects that created 20 or more new units of multi-family housing.

Inherent purposes of the incentive are to encourage the development of multi-family housing in areas where this would not occur without such an incentive, offset the costs of structured parking, offset the risk of higher density and mixed use development, and steer development to designated target areas with transit, sidewalks and local services. This is a key strategy in promoting neighborhood and community sustainability.

One project has been built under the PTE program – the 88 unit development formerly known as North City Landing, located at 17763 15th Avenue NE. The project was completed in April 2007.

Staff has reviewed the PTE program at length, in light of the completed project, discussions with developers and other cities, changes in state law, and the experience of Shoreline staff in handling the North City Landing project. The North City Landing project (now known as Arabella Apartments, Phase I) provided useful information about which portions of our program work well and which portions need improvement. In addition, in responding to recent inquiries by developers desiring to use the remaining 162 units under Ordinance No. 310, staff has noted significant deterrents of the PTE program application process.

The PTE program can be a better tool for increasing development, affordable housing, and a more sustainable community, or other amenities. In the long-term, it also creates substantially positive improvements to the City's tax base.

BENEFIT OF TAX EXEMPTION PROGRAMS

The Association of Washington Cities and cities in the Puget Sound region (Seattle, Bellevue, Renton, Kent, Olympia, Bremerton, and Bellingham) have extensive experience with PTE programs.

To assist in our review, staff in Tacoma and Federal Way provided us with copies of their program evaluations. These two studies are summarized below, and copies are provided as an *Attachment*.

City of Tacoma:

Tacoma produced a study titled "Property Tax Exemption Program for Multifamily Development 1996-2004 – Program Review for City of Tacoma, April 2005." This was prepared by Greg Easton, Property Counselors.

Important findings from this study are:

- "Even with the benefits available from the program, many projects don't meet the financial or market requirements to proceed." Page 5
- "In a competitive market, all cost savings beyond those required to make the project feasible will be passed on to renters." Page 6
- The affordability of housing sold as condominiums is improved. Page 7
- "The property tax exemption plays a critical role in supporting economic value established by an appraisal required by a lending institution and can strengthen the equity position of the developer allowing a project to proceed without seeking a partner or investor to allow the project to go forward." FAQ Attachment Page 3.

City of Federal Way:

Federal Way examined and reported on projects in Seattle, Bellevue and Renton in addition to analyzing its own City Center target area. Their findings were reported to Council in a memorandum from Patrick Doherty to Eric Faison, October 15, 2002 titled "Tax Exemption Program for Multifamily in City Center." While the Federal Way study focused on a comparison of multi-family development in neighborhoods vs. those in the City Center area, there are two conclusions that are relevant to Shoreline.

- They conclude that the PTE program will stimulate projects on land that otherwise will stay vacant.
- Their analysis shows that tax increases from land assessed values and commercial construction are significant. They conclude that multi-family projects, even with the PTE, can help to spread out the tax burdens and thereby lesson the tax pressures on single-family residential properties.

Economic Analysis of the Shoreline PTE Program:

An independent consultant (Greg Easton, Property Counselors) was hired to evaluate the Shoreline PTE program. He concluded that the tax exemption incentive is still needed because construction costs are rising and market rents are not keeping up. In particular, mixed use development and development that includes affordable housing remains financially risky. Projects may not be profitable until five years post-development.

Pro forma economic analyses were prepared for six alternatives:

1. Rental Housing
 - No program
 - Eight year exemption
 - Twelve year exemption with 20% affordable housing
2. Ownership as Condominiums
 - No program
 - Eight year exemption
 - Twelve year exemption with 20% affordable housing

The prototype that was used is based generally on the Arabella and proposed Arabella II Apartments in North City. The feasibility analysis concluded that development of apartments is not feasible without the PTE program and that the greater incentive for affordable housing projects would influence developers in that direction. Condominium projects also do not meet the feasibility threshold without the PTE program; however, a developer would be likely to apply for the eight year exemption.¹

Developers and property owners tell staff that, without the PTE, less than half of the same land will be redeveloped, and the rest is likely to be redeveloped as low density townhouses with no associated retail or services.

The Economic Analysis Report is included as an Attachment.

CHANGES TO SHORELINE'S PTE PROGRAM

The proposed changes:

- Comply with the recently revised state law on property tax exemptions

¹ Land is assumed to be approximately 20% of total post-construction property value for rental buildings and 30% for condominiums. Values are discounted by the developers cost of capital (assumed as 6.5%), in order to show how a bank or developer would view costs, risks, and the value of the tax exemption. Property values are slightly higher than the values used by Finance Dept staff in the Financial Impact Analysis.

- Amend the property tax exemption application requirements, clarify procedures, and add other administrative changes
- Expand the program to incorporate Ridgecrest

A. State law changes

Affordable Housing

Recent changes in state law encourage affordable housing by increasing the exemption period to 12 years for affordable housing developments and reducing the exemption period to 8 years for market rate housing developments. To qualify as an affordable housing development, at least 20% of the multifamily housing units must be rented or sold as affordable housing. "Affordable housing" is defined as residential housing that is rented by a person or household whose monthly housing costs do not exceed 30% of the household's monthly income. Our current Ordinance No. 310 provides a 10 year exemption for all types of projects. In order to comply with state law, our ordinance needs to reduce the exemption to 8 years for market rate housing and extend it to 12 years for affordable housing projects.

The state law amendments were effective on July 22, 2007, and thus no new applications can be received or processed until the City's program is amended to be in compliance with new state law.

Reporting Requirement Added

An annual report to the Washington State Department of Community, Trade, and Economic Development is now required.

B. Procedural changes

Application process

Under the current ordinance, a developer must submit a North City Business District Planned Action Development submittal checklist and a building permit submittal checklist for Planned Action in North City, a brief written description of the project, a site plan, a statement from the owner acknowledging the tax liability after the exemption period expires, and verification by oath.

Submitting the items on the two checklists (which includes engineering plans, landscaping plans, and parking and vehicular access plans) has proven to be an unexpected deterrent to developers. Developers do not want to spend significant time and money on preparing extensive development plans if the tax exemption

is not guaranteed. In addition, lenders will not consider a project loan application until the tax exemption application is approved or they will increase the equity requirements. Finally, in the financial mind of a developer, equity is five to ten times costlier than capital from an approved and leveraged project.

In order to remedy this deterrent, the application submittal has been amended (attached to Ordinance 479). The City will now only require the PTE application form, the description of the project, the site plan, the statement and the verification. The City will not require the building permit and planned action submittal.

C. Program Expansion

Expansion of PTE Program Geographical Area

Staff recommends expansion of the PTE program into the Ridgecrest Commercial area in order to encourage developments that incorporate the principles of sustainability, on the ground and in the buildings. Ridgecrest has significant potential mixed use development, green buildings, public spaces, affordable housing opportunities, and pedestrian improvements. PTE is an important tool in negotiating these types of improvements and public benefits. Underground parking is essential to making new development work, in order to serve the residents and businesses of a site and without creating problems of parking spilling over to the neighborhood.

Staff recommends that the PTE program be amended to include the Planned Action zones on the southwest, southeast, and northwest corners, and adjacent zoning of R18 and R24. The incentive would not be available for the NW corner where the movie theater is located, because residential development on that site would not be compatible with a movie theater.

Requirements for things like public space and other amenities or design features are to be delineated in the zoning code for the Planned Action areas.

D. Program Limits

Limit the program by continuing the unit cap and by delineation of business protection areas consistent with zoning code

Unit Cap

The current cap on units limits the potential use of the PTE program and the benefit to the City's citizens and taxpayers. Currently, the PTE Program is limited to 250 residential units for North City, of which 162 units remain.

In Ridgecrest, a vision plan was recently developed by the University of Washington working in collaboration with the City and community. Several properties may be redeveloped under this plan. Staff requests that a unit cap of 250 residential units be established for this target area.

First Floor Commercial Space (Business Protection Areas)

In Ridgecrest, one of the key design elements proposed by University of Washington student design team and encouraged by the public and Planning Commission is that the first floors of buildings fronting commercial streets be reserved for "pedestrian-oriented business activity" (e.g., retail, restaurant, service, entertainment). This idea is already incorporated into North City Main Street 1 standards that are in SMC 20.90. In Ridgecrest, these requirements are specified by the Planned Action Zone standards.

For North City, staff proposes one change in the PTE ordinance. In order to ensure that new development is mixed use and does not result in a loss of spaces for businesses, staff proposes that Main Street 1 be extended to all 15th Avenue NE frontages, with respect to the PTE incentive,. In other words, if a developer's property is located on a property in the North City Main Street 2 area, and if he wants to receive the tax incentive, then the developer would have to meet the higher standards of the code for Main Street 1.

FINANCIAL IMPACT ANALYSIS

The PTE program is a partial exemption from property taxes; the value of new residential construction is not included on the tax rolls until the end of the exemption period. The exemption does not apply to retail square footage, other commercial space or land, nor does it exempt utility or other fees. The portion of the project that qualifies is basically the housing construction improvements (building). This program provides exemption from all "ad valorem property taxation", which includes the property tax levy for all taxing jurisdictions. This includes not only the City's property tax levies, but also those assessed by the State, County, School District, and other special districts. Depending on the type of tax levy, there are differing results of the property tax exemption. For example levies, such as those established by the School District, are set at an overall dollar amount. As such the School District will not actually loose revenue, but rather the levy tax rate will be fractionally higher than it would have been if the value of the improved properties were included on the tax rolls in order to collect the full levy that was approved by voters. This is the same for voted general obligation bond levies, i.e., the City's Park Bonds, as the City will continue to collect the required levy amount, but the levy rate necessary to collect the levy will be slightly higher, for the remaining tax payers, than it would be if the value of the new construction were included on the tax rolls.

The primary local taxing districts that have regular levies and that are affected by the PTE program are the City, the Fire District, and the Library District. The City would be forgoing property tax revenue from its general levy on the residential portion of the building for the period of the exemption (8 or 12 years).

Greg Easton used a mixed used development with 97 residential units valued at \$12 million as prototype in his Economic Analysis. Based on the City's 2008 regular property tax rate of \$1.02 the amount of the property tax collected annually on \$12 million of improvements would be approximately \$12,240. Under the property tax exemption program the City will not collect this property tax. Applying the annual 1% property tax levy limitation growth this would equate to \$106,400 over eight years or \$163,000 over twelve years. This does not take into account added retail sales, utility taxes, or the property taxes from any increase in land values and non-residential square footage that included in a mixed-use development.

Without the PTE program, the most likely scenario on the same property would be a maximum 20 townhouses, with an estimated value of \$5 million. (This is based on an assumption of 35,000 square foot property and R-24 zoning.) The amount of revenue that the City would gain from residential property tax is \$5,100 in year one and approximately \$151,000 over 25 years. There would no additional commercial space created and little impact on local retail spending.

Over this same 25 year timeframe, the 97 unit mixed use project with 8-year tax exemption generates \$260,000 in taxes to the City. A mixed use project with a 12-year tax exemption generates \$203,000. As stated above, this is residential property tax alone and does not take into account added retail sales, utility taxes, or the property taxes on land and commercial square footage. These figures also do not include any comparison for cost of government services provided to the residences that occupy the residential units.

SUMMARY

Three categories of changes are recommended for the Property Tax Exemption program. The first adopts changes required by state law that change the length of the exemption to 8 years for market rate housing and 12 years for affordable housing projects. The second category consists of administrative and procedural changes. The third category consists of recommendations for program expansion, specifically, adding the Ridgecrest Commercial area as a designated "target area."

These changes will benefit the city. Tacoma and other cities have experienced that the PTE stimulates new development in target areas both of PTE certified properties and non-PTE eligible properties. The PTE program provides an incentive to multi-family residential housing, public space, green buildings, affordable housing, and more efficient land uses such as structured underground

parking instead of surface parking. Without the incentive, profitability considerations by themselves are likely to drive decisions toward lower residential densities, fewer affordable housing units, less public space and fewer other features of public benefit.

RECOMMENDATION

Staff recommends that Ordinance No. 479 be adopted to modify the PTE program for compliance with state law, clarification of procedures, and adding the Ridgecrest neighborhood as a second target area.

ATTACHMENTS

Attachment A – Proposed Ordinance No. 479

Attachment B – Studies from Other Cities in the Puget Sound Region

- (1) City of Tacoma: Study titled “Property Tax Exemption Program for Multifamily Development 1996-2004 – Program Review for City of Tacoma, April 2005” prepared by Greg Easton, Property Counselors
- (2) City of Federal Way: Memo from Patrick Doherty to Eric Faison dated October 15, 2002 titled “Tax Exemption Program for Multifamily in City Center”

Attachment C – Evaluation of the Shoreline PTE program: Economic Impact Analysis, by Greg Easton, Property Counselors

Attachment A
Proposed Ordinance No. 479

ORDINANCE NO. 479

AN ORDINANCE AMENDING THE PROPERTY TAX EXEMPTION PROGRAM FOR ADMINISTRATIVE CHANGES AND EXPANSION INTO RIDGECREST COMMERCIAL PLANNED AREA 2 AND RESIDENTIAL AREAS DESIGNATED R-18 AND R-24 ADJACENT TO THE RIDGECREST COMMERCIAL PLANNED AREA 2

WHEREAS, on November 25, 2002, the City Council adopted a Property Tax Exemption Program for the North City Business District; and

WHEREAS, on July 22, 2007 Chapter 84.14 RCW changed for new applications to (1) increase the property tax exemption timeframe for affordable housing from ten years to twelve years and decrease the exemption for market rate housing from ten years to eight years; and (2) require annual reporting to the Washington State Department of Community, Trade, and Economic Development; and

WHEREAS, Chapter 84.14 RCW provides that an area designated as a residential target areas must be within an urban center, must lack sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center, if the desirable, attractive, and livable places to live were available; and the providing of additional housing opportunity in the area will assist in achieving one of the stated purposes in RCW 84.14.

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

Section 1. Amendment. Sections 1-10 of Ordinance 310 are amended to read as follows:

Findings

- A. The North City Business District, the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d) are urban centers of the City of Shoreline as defined under RCW 84.14.010 (16). ~~(10).~~
- B. The North City Business District, the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgcrest Commercial Planned Area 2(a), 2(c), and 2(d) lacks sufficient available, desirable and convenient residential housing, including affordable 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, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) if additional desirable, convenient, attractive and livable places were available.

- C. Provision of additional housing opportunities, including affordable housing, 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.

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 Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d). The limited 40-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, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d).
 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 areas.

Designation of Residential Targeted Areas

The North City Business District, as defined in the Shoreline Municipal Code Chapter 20.90.020, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), as defined in Shoreline Municipal Code Chapter 20.91, and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) are is designated as a residential target areas as defined in chapter 84.14 RCW and the boundaries of the target area are coterminous with the North City Business District, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d)

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, the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d), or residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) targeted areas 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 or within the first 250 tax exempt units in the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d) and residential areas designated R-18 and R-24 adjacent to the Ridgecrest Commercial Planned Area 2(a), 2(c), and 2(d).
 3. Size. The project must provide for a minimum of fifty percent of the space for permanent residential occupancy. ~~include at least 20 units of multi-family housing within a residential structure or as part of a mixed-use development.~~ At least 20 four additional residential 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 fifty percent of the space for permanent residential occupancy ~~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 Chapters 20.90 and 20.91 of the Shoreline Municipal Code.
 - a. Consistent with SMC 20.90.020(B)(1), projects located on 15th Avenue N.E. and within the property tax exemption program target area must have pedestrian-oriented business uses at the street level fronting on 15th Avenue N.E. The minimum depth of street level pedestrian-oriented business uses shall be 20 feet from the frontage line of the structure on 15th Avenue N.E., and all other requirements of Main Street 1 properties shall apply.
- B. Exemption - Duration. ~~The value of improvements qualifying under this chapter for a Multiple Family Tax Exemption~~ Projects qualifying under this

chapter for a Multiple Family Tax Exemption that rent or sell at least twenty percent of the residential units as affordable housing units as defined by Chapter 84.14 RCW will be exempt from ad valorem property taxation for ten twelve successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption. Projects qualifying under this chapter for a Multiple Family Tax Exemption for market rate housing will be exempt from ad valorem property taxation for eight 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.

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~~ with the Department of Planning and Development Services in substantially the same form as the application set forth in Exhibit A, 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 application 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. 1. A brief written description of the project setting forth the grounds for the exemption;~~
 - ~~3. 2. A site plan, including the floor plan of units;~~
 - ~~4. 3. A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this ordinance; and~~
 - ~~5. 4. Verification by oath or affirmation of the information submitted.~~

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 and the current appeal filing fee 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 equal to the current hourly rate for processing land use permits. 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 within 30 days of receipt of the denial.

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. If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020; and
- D. 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.

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. If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020;
 - 4. The owner's property is otherwise not qualified under this ordinance; or
 - 5. 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~~

Annual Compliance Review

- A. Annual Declaration. 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 12 years for affordable housing projects and 8 years for market rate housing projects, 10 years, the property owner shall file a notarized declaration with the City Manager indicating the following:
- ~~A.~~ 1. A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve months ending with the anniversary date;
 - ~~B.~~ 2. A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the affordable housing requirements as described in RCW 84.14.020 since the date of the certificate approved by the City; and
 - ~~C.~~ 3. A description of any subsequent changes or improvements constructed after issuance of the certificate of tax exemption;
 - 4. The total monthly rent or total sale amount of each unit produced; and
 - 5. The income of each renter household at the time of initial occupancy and the income of each initial purchaser if owner-occupied units at the time of purchase for each of the units receiving a 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.~~

- B. Additional Reporting Requirement: By December 15 of each year, beginning with the first year in which the Final Certificate of Tax Exemption is filed and each year thereafter for a period of 12 years for affordable housing projects and 8 years for market rate housing projects, the property owner shall provide staff with a written report with the following information sufficient to complete the City's report to the department of community, trade and economic development described in Section D below.

- C. Audits. ~~City staff may also conduct audits or on-site verification of the declaration and information provided by the property owner.~~ Failure to submit the annual declaration and annual reports may result in the tax exemption being canceled.

- D. By December 31 of each year, the City shall file a report to the department of community, trade and economic development indicating the following for each approved PTE project:

1. The number of tax exemption certificates granted;
2. The total number and type of units produced or to be produced;
3. The number and type of units produced or to be produced meeting affordable housing requirements;
4. The actual development cost of each unit produced, specifically,
 - i. Development cost average per unit including all costs
 - ii. Development cost average per unit, excluding land and parking
 - iii. Development cost average per structured parking stall
 - iv. Land Cost
 - v. Other Costs
 - vi. Net Rentable Square Footage
 - vii. Gross Square Footage, including common spaces, surface parking and garage
5. The total monthly rent or total sale amount of each unit produced;
6. The income of each renter household at the time of initial occupancy and the income of each initial purchaser if owner-occupied units at the time of purchase for each of the units receiving a tax exemption and a summary of these figures for the city; and
7. The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.

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, or, if applicable, if the owner intends to discontinue compliance with the affordable housing requirements as described in RCW 84.14.020, the owner must notify the City Manager and the King County Assessor within 60 days of the change in use or intended discontinuance. 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 2 – 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 JANUARY 14, 2008

Mayor

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

Publication Date:

Effective Date:



**APPLICATION FOR TAX EXEMPTION ON MULTIPLE FAMILY UNITS
WITHIN A DESIGNATED RESIDENTIAL TARGET AREA:
COVER SHEET**

This Application for Tax Exemption must be accompanied by a fee deposit of \$____. The breakdown for this deposit is as follows:

- 1) \$____ for the City's application processing. (\$____ is three times the current \$____ hourly rate for processing land use permits.)
- 2) \$____ for the King County Assessors fee for administering the Multiple Family Tax Exemption program.

Please return the Application for Tax Exemption on Multiple Family Units within a Designated Residential Target Area along with the deposit payable to the City of Shoreline to the Planning and Development Services Department, 17544 Midvale Avenue North, Shoreline, WA 98133.



**APPLICATION FOR TAX EXEMPTION ON MULTIPLE FAMILY UNITS
WITHIN A DESIGNATED RESIDENTIAL TARGET AREA**

(Pursuant to Chapter 84.14 RCW and City of Shoreline Ordinance No. 479)

Application fee required

TO BE FILLED IN BY CITY STAFF:

APPLICATION NUMBER: _____ CITY CLERK FILING NO: _____

DATE APPLICATION RECEIVED: _____

DATE OF STAFF REVIEW: _____ APPROVED: YES ____ NO ____

Comments:

TO BE FILLED IN BY APPLICANT:

NAME OF APPLICANT: _____

BUSINESS NAME OF APPLICANT: _____

MAILING ADDRESS: _____

PHONE: _____ FAX: _____ EMAIL: _____

NAME OF PROJECT: _____

STREET ADDRESS OF PROJECT: _____

DESIGNATED PTE TARGET AREA: _____

INTENDED PROJECT CONSTRUCTION TIMELINE: _____

PROGRAM REQUIREMENTS

Project must meet the following criteria for special valuation on multi-family property:

1. Be located within the residential target area designated for the tax incentive by the City.
2. Be within the designated number of tax exempt units of new or rehabilitated multiple family units having been approved within the approved PTE target area.
3. Be a multiple family or mixed-use project which provides 4 or more additional dwelling units.
4. Be completed within three years from the date of approval of the application, unless extended for good cause by the City.
5. Be designed to comply with all building codes, zoning and other applicable regulations.

Once application is approved, then:

1. The applicant and the City execute a contract to be approved by the City Council under which the Applicant agrees to implementation of the development on terms and conditions satisfactory to the City Council.
2. Once contract is executed, the City will issue a Conditional Certificate of Acceptance of Tax Exemption, based on the information provided by the Applicant. The Conditional Certificate will be effective for not more than three (3) years, but may be extended for an additional 24 months if special circumstances warrant extension. The City will issue, at the Applicant's request, a Final Certificate of Tax Exemption upon completion of the project and satisfactory fulfillment of all contract terms.

Note: Assessor may require owners to submit pertinent data regarding the use of classified land.

PROJECT INFORMATION

Property Description

Interest in Property: ☐ Fee simple: ☐ Contractor Purchaser: ☐ Other (describe) _____

County Assessor's Parcel Account #: _____

Street Address: _____

Abbreviated Legal Description: _____

Term of Exemption

Term of Exemption Applied For: Eight Years: ____ Twelve Years: ____

Type of Construction:

New Construction: ☐ YES ☐ NO Rehabilitation of Existing Units: ☐ YES ☐ NO

If rehabilitated/demolished, Applicant must secure from the City verification of property noncompliance with applicable building codes.

Number and Type of Units:

Number of Units*: New _____ Rehabilitated _____

(*Note: Be sure to specify if the total number of units is more than the number of units for which you are requesting tax exemption.)

Number of Type of Units Expected: Studio: ____ One Bedroom: ____ Two Bedroom: ____ Other: ____

Number or Percentage of Affordable Units: _____

Description of Building Use

Required Preliminary Plans attached: *Site Plan**: ☐ YES ☐ NO *Floor Plan*: ☐ YES ☐ NO

* See SMC 20.20.046

Describe building use and square feet intended for each use: _____

Identify square feet of commercial space: _____

Cost of construction

Projected cost of new construction/rehabilitation: _____

Source of cost estimate: _____

Expected date to start project: _____ Expected date to complete project: _____

NARRATIVE STATEMENT

Provide a brief statement describing the project and setting forth the grounds for qualifications for tax exemptions (continued):

AFFIRMATION

I understand that the value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation for eight (8) successive years for market rate multi-family housing and twelve (12) successive years for qualified affordable housing multi-family projects beginning January 1 of the year immediately following the calendar year of issuance of the certificate of tax exemption eligibility. _____ (initial)

I understand that by December 15 each year and/or within 30 days after the first anniversary of the date of filing of the Final Certificate of Tax Exemption and each year thereafter, I will be required to file a report with the City that provides detailed information concerning rental rates, occupancy, and tenant incomes during the year. _____ (initial)

I understand that at the conclusion of the exemption period, the new or rehabilitated housing cost shall be considered as new construction for the purposes of chapter 84.55 RCW. _____ (initial)

I am aware of the potential tax liability involved when the property ceases to be eligible for the incentive. _____ (initial)

I affirm that the submitted information is true and correct, subject to penalty of perjury under the laws of the State of Washington.

Signed this ____ day of _____, 20__.

Applicant signature

Attachment B
Studies from Other Cities in the Puget Sound
Region

**(1) City of Tacoma: Study titled “Property Tax
Exemption Program for Multifamily
Development 1996-2004 – Program Review for
City of Tacoma, April 2005” prepared by Greg
Easton, Property Counselors**

**(2) City of Federal Way: Memo from Patrick
Doherty to Eric Faison dated October 15, 2002
titled “Tax Exemption Program for Multifamily
in City Center”**

**PROPERTY TAX EXEMPTION PROGRAM
FOR MULTIFAMILY DEVELOPMENT
1996 – 2004**

**PROGRAM REVIEW FOR THE
CITY OF TACOMA
APRIL 2005**

PREPARED BY GREG EASTON, PROPERTY COUNSELORS

SUMMARY

I. INTRODUCTION AND SUMMARY

INTRODUCTION

The City of Tacoma was the first City in Washington to initiate a Property Tax Exemption Program for multifamily housing. The program allows qualifying multifamily housing projects to be exempt from property taxes on the value of housing improvements for a period of ten years. The purpose of the program is to stimulate new multifamily construction and rehabilitation of vacant or underutilized buildings for housing, expand housing opportunities in targeted areas, direct population growth to designated mixed use centers by encouraging higher density development, and achieve densities that are conducive to mass transit use. The program was initiated in 1996 as a tool to implement the State Growth Management Act's direction to accommodate a greater share of population within cities and to achieve Tacoma's own growth strategy as adopted in the Comprehensive Plan. Fourteen areas in the City were designated as eligible. Projects totaling more than 4,000 housing units have been proposed. Almost 1,000 units have been completed through December 31, 2004.

The City is currently reviewing the program to determine its performance, its success relative to the stated objectives, and the economic impact of the program activity. Property Counselors, economic consultants, prepared a study of the program. The findings and conclusions are documented in this report. It is organized in eight sections.

- I. Introduction and Summary
- II. Definitions
- II. Program Description
- III. Benefits to Program Participants
- IV. Multifamily Development Trends
- V. Property Tax Impact
- VI. Other Tax Revenues
- VII. Comparison with Tax Exemption Programs in Other Communities
- VIII. Program Recommendations

The major findings and conclusions of each section are summarized below.

SUMMARY

PROGRAM ACTIVITY

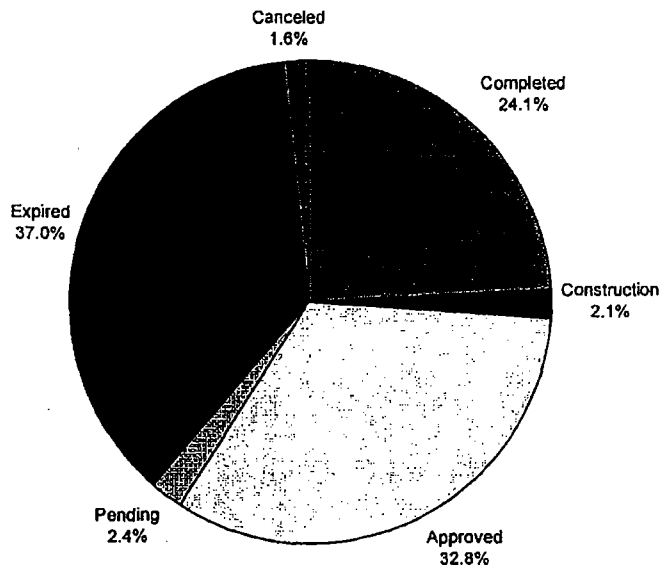
The City has processed applications for the tax exemptions for 77 projects having over 4,000 units since 1996. The status of those units is shown in the following table and figure:

Units by Status*

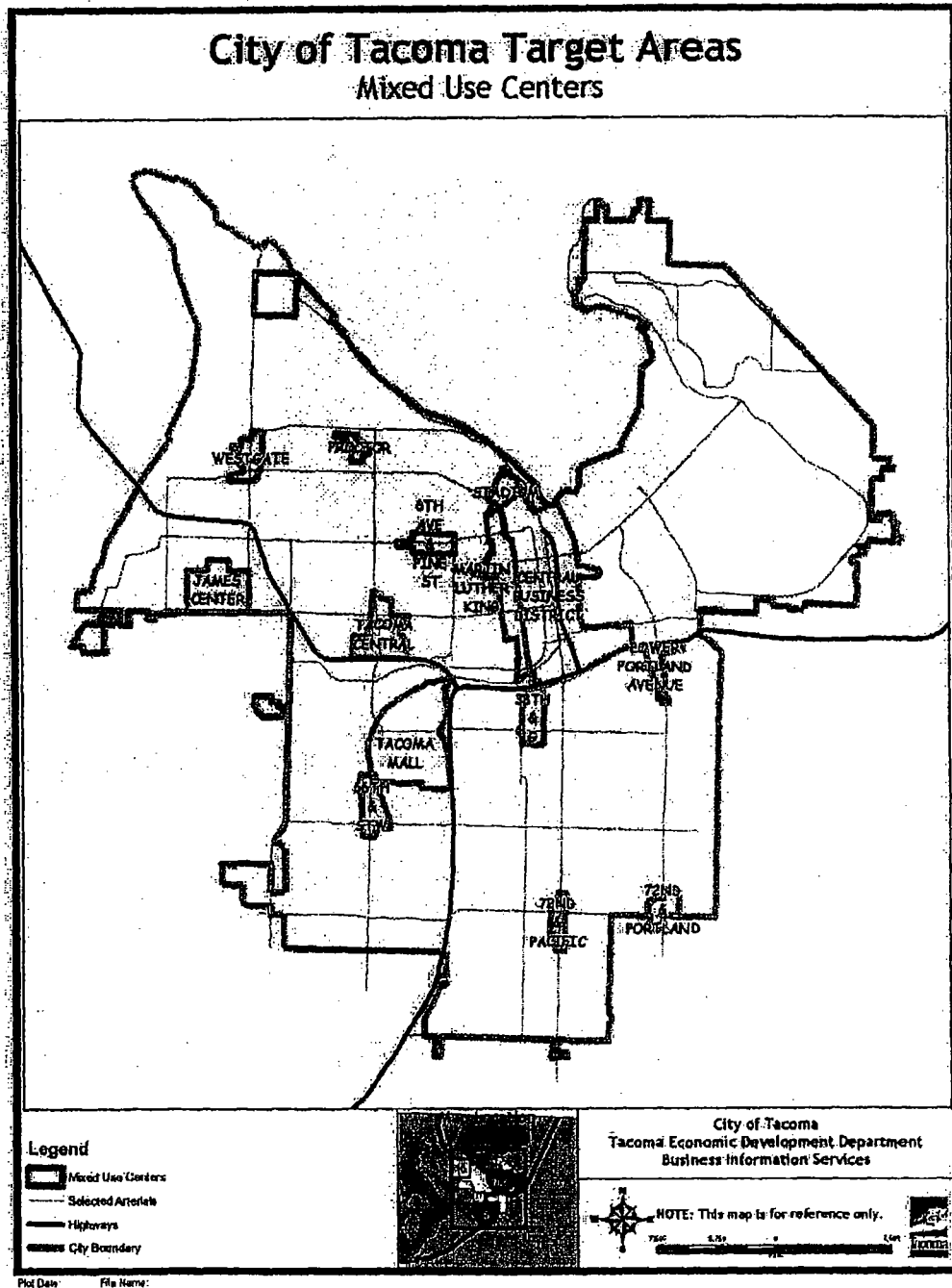
Status	Projects	Units
Completed	26	967
Under Construction	4	85
Approved But Not Started	23	1,317
Pending Approval	4	95
Expired	15	1,485
Cancelled	5	63
Total	77	4,012

*As of December 31, 2004

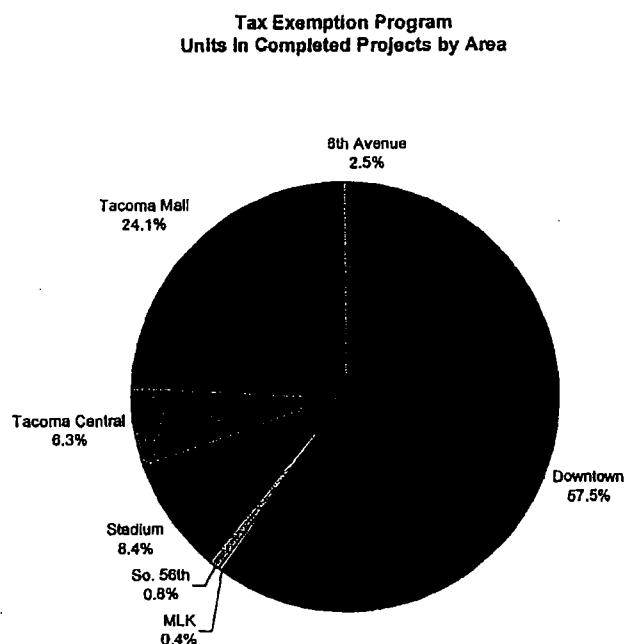
**Tax Exemption Program
Units by Status of Project**



The 14 target areas are shown in the map on the following page.



The geographic distribution of the completed units is as follows:



Overall program activity can be summarized as follows:

- The program has been very active with applications for more than 4,000 units in 77 projects.
- Seven of the 14 designated mixed use centers shown on the map have experienced program activity. Proctor, James Center, Lower Portland Avenue, 38th and G, East 72nd and Portland, 72nd and Pacific Avenue, and Westgate have not experienced any activity. There may be no suitable sites in some of these areas, existing rental units that have not been vacant the required 12 months, or market conditions are not strong enough to support housing development.
- Approved but expired projects represent over 50 percent more units than completed projects and those under construction. Even with the benefits available from the program, many projects don't meet the financial or market requirements to proceed.
- Eighty four percent of units completed to date have been rental units. Considering projects that are under construction or approved as well, the percentage drops to 68

percent. For-sale housing has been increasingly in demand with the continued low interest rates.

- Eighty-two percent of units completed to date have been new units rather than rehabilitated units. Considering projects that are under construction or approved as well, the percentage of new units will be 93 percent. This result can be explained by a shortage of suitable properties for rehabilitation or the restriction that no tenants be displaced. Legislation is pending eliminating the restriction on displacement of tenants.

BENEFITS TO PROGRAM PARTICIPANTS

The reduced property taxes resulting from the exempt value of improvements is shared among consumers in the form of lower prices/rents, and/or developers in the form of increased project income. In either case development is stimulated both by reducing prices and increasing demand, and reducing the cost of development thereby promoting financial incentives. We solicited comments on the program from a variety of participants and identified a series of benefits.

Developer Income and Return. Reduced property tax payments increase the development return on a marginal project to threshold levels, increasing feasibility.

Rent Savings. In a competitive market, all cost savings beyond those required to make the project feasible will be passed on to renters.

Housing Choice. Even when all savings are necessary to make the project feasible, new housing development provides increased housing choice for consumers.

Lender Requirements. Reduced property taxes increase the performance of a project relative to lender underwriting standards, thereby allowing the developer to secure debt financing.

Affordability to Purchaser. The purchaser of a condominium receives the tax exemption, making housing more affordable and improving a buyer's ability to either secure a higher mortgage loan or qualify for any loan.

The impact of the tax savings can be expressed in terms of impact on rents and sales prices.

- In order to provide the same return to the developer, an average rent apartment developed without the program would have to rent for \$684 per month; but only \$625 for the same apartment developed with the program. A high rent unit developed without the program would have to rent for \$1,082; but only \$950 for the same unit developed with the program.

- ✓ • A purchaser could afford to pay \$200,000 for an average price condominium developed with the program; but only \$183,200 for the same unit developed without the program. A purchaser of a high price condominium could afford to pay \$480,000 for a unit developed under the program; but only \$441,100 for the same unit developed with the program.

MULTIFAMILY DEVELOPMENT TRENDS AND PROGRAM IMPACT

A variety of evidence suggests that the program has stimulated development that might not otherwise have occurred.

- There has been a significant level of tax exempt program activity, contributing to building activity that might not have been expected in Tacoma given trends in the county as a whole, and during the economic downturn in the early part of the decade.
- The theoretical economic benefits to developers and consumers are significant. In spite of these benefits, projects with expired approvals exceed the number of units in completed projects and those under construction by 50 percent. Development conditions are such that even with the program, many developments can't overcome hurdles for feasibility. If these projects aren't feasible with the program benefits, it is logical to conclude that completed projects might not have been feasible without it.
- Developers we interviewed all indicated that they couldn't have developed their property without the tax exemption program. Lenders and appraisers indicated that the program enhanced the financibility of the projects. While both groups have an interest in sustaining the program, specific observations that they reported support the theoretical benefits presented in this report.

Based on this evidence, we conclude that much of the development activity that has occurred under the program would likely not have occurred at this time in its absence.

PROPERTY TAX IMPACT

Owners are exempt from taxes on improvements by all taxing jurisdictions during the ten year period. The property tax rate in the City of Tacoma for 2004 taxes was:

Property Tax Rate in Tacoma – 2004

State	\$3.0260/\$1,000 Assessed Valuation
Pierce County	1.6137
Port of Tacoma	0.1863
City of Tacoma	3.8043
Emergency Medical Services	0.4848
Tacoma School District	7.4981
Metropolitan Park District	0.9857
Total	17.5990/\$1,000 Assessed Valuation

Source: Pierce County Assessor

As shown, the total tax rate in the City was \$17.599 per \$1,000 assessed value, of which \$3.80 (21.6 percent of the total) is the City levy. The largest component is the \$7.50 levy by the Tacoma School District.

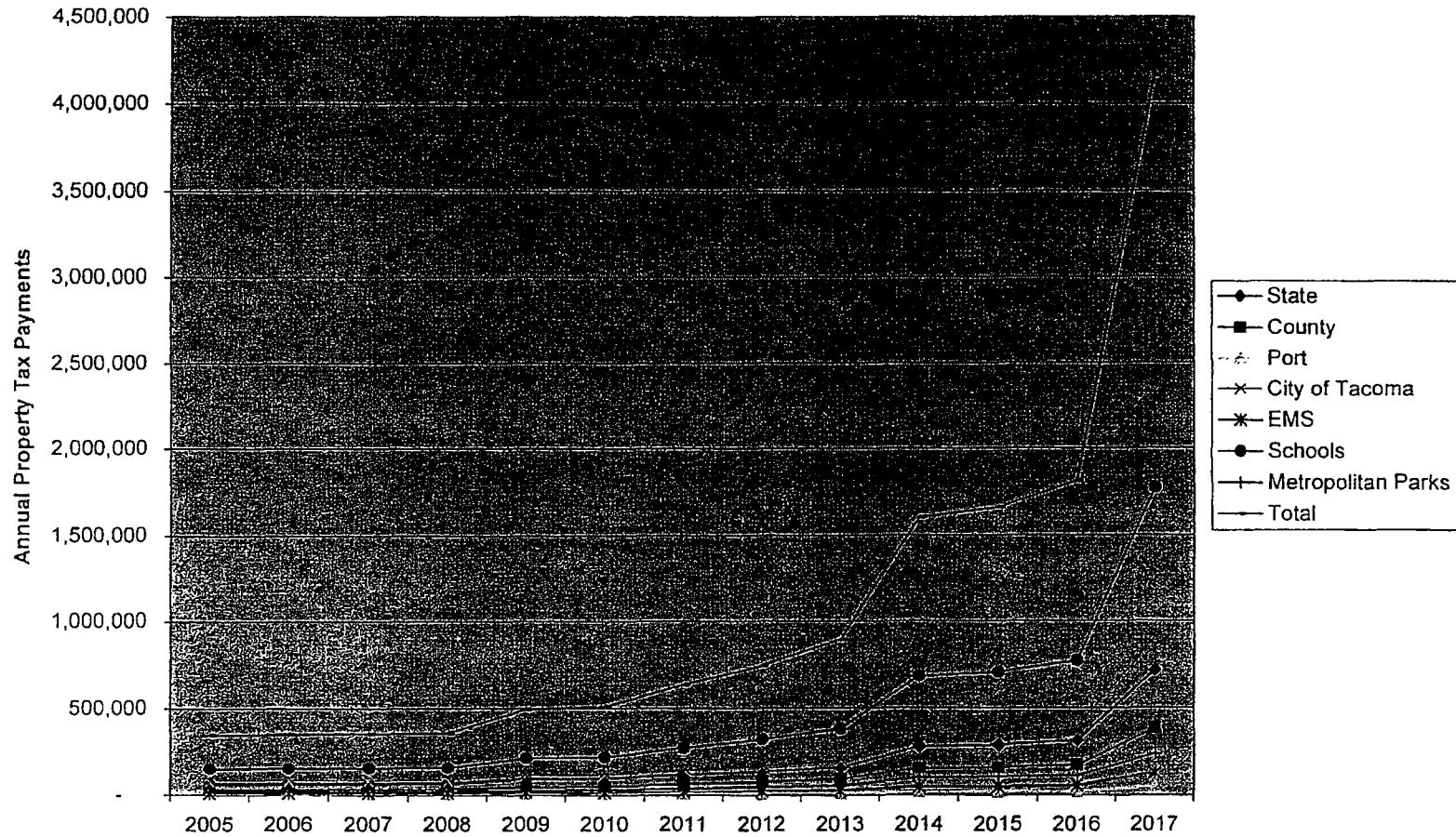
Property taxes are collected on assessed land value throughout the ten year exemption period. Improvement values are exempt from taxes for that period. When the ten year exemption period expires, the full value of land and improvements are taxed. Estimated taxes in each of the categories are summarized in the following table.

Comparison of Property Taxes Paid and Exempt Taxes

	Taxes on Land Completed Projects (Year 2005)	Exempt Taxes Completed Projects (Year 2005)	Exempt Taxes Constr & Appr. Projects (2005 if Compl)	All Taxes Compltd. Constr. Apprvd Projects (2017)
State	32,500	198,400	376,900	715,400
County	17,300	105,800	201,000	381,500
Port	2,000	12,200	23,200	44,000
City of Tacoma	40,900	249,400	473,900	899,400
EMS	5,200	31,800	60,400	114,600
Schools	80,600	491,600	934,000	1,772,700
Metropolitan Parks	10,600	64,600	122,800	233,000
Total	189,200	1,153,700	2,192,300	4,160,900

Property taxes paid on land value for the completed projects was \$189,200 in 2005, with \$40,900 of that paid to the City of Tacoma. The exempt value of taxes from improvements was \$1.2 million for completed projects and would have been \$2.2 million for projects under construction or approved, if all had been completed. After the 10-year exemption period expires for all properties (assuming that they are completed), the annual tax payments will reach \$4.2 million; \$900,000 of that amount would go to the City of Tacoma. Projected tax collections are shown by year in the chart on the following page.

Projected Future Property Tax Payments Completed Under Construction and Approved Projects



The amount of taxes paid on the land is modest compared to the value of exempt taxes on improvements. However, since many of the projects would not have been developed without the program, those taxes would not have been collected by jurisdictions in either case. With the expiration of the ten year exemption period, tax collections will increase significantly and predictably.

OTHER TAX BENEFITS

There are taxes collected by the City on program activity in addition to property taxes. These taxes include one time taxes and recurring annual taxes.

One Time Taxes on Construction for Completed Projects through 12/31/04

Retail Sales Tax	\$684,100
B&O Tax	325,700

One Time Taxes on Construction on Condominium Sales through 12/31/04

Real Estate Excise Tax	\$190,000
------------------------	-----------

Total One Time Taxes: \$1,199,800

Annual Taxes on Resident Purchases

Retail Sales Tax	\$147,900
------------------	-----------

Annual Taxes on Utility Consumption

Utility Tax	\$169,200
-------------	-----------

Annual Per Capita Distribution From State

Distribution	\$60,500
--------------	----------

Total Recurring Annual Taxes: \$377,600

COMPARISON TO TAX EXEMPTION PROGRAMS IN OTHER COUNTIES

The property tax exemption program is available to cities in Washington State with a population of over 30,000 or to the largest city in counties planning under the Growth Management Act. The characteristics of existing programs in Seattle, Everett, Vancouver, and Auburn; and Portland and Eugene in Oregon were compared to those of Tacoma.

Tacoma has few restrictions beyond those specified in Washington State statutes. Programs in all cities were initiated in response to housing market conditions specific to their areas. Tacoma and the Washington cities other than Seattle were interested in stimulating all types of multifamily housing, particularly market rate housing. Cities like Seattle and Portland that were already experiencing strong demand for market rate housing, focused their program efforts on housing for households with incomes below the median.

RECOMMENDATIONS

The City's goal of attracting multifamily housing to its mixed use center areas is being met in some of the centers, but not all. Scarcity of vacant land, insufficient market demand, or lagging interest by developers in certain neighborhoods appear to be the major reasons for absence of activity in certain areas. In the other areas, we conclude, based on the discussion in Section IV, that much of the new development would not have occurred without the Property Tax Exemption Program. Thus, much of the exempt taxes on improvement value would not have been available to taxing jurisdictions either with or without the program. While some of the development might occur in the future as real estate markets mature, in either case the revenues would not be available for several years. With the Property Tax Exemption program the new value will be on the tax rolls at predictable times. We believe that the program has been successful and will generate long-term tax benefits to the City and other taxing jurisdictions.

Regarding potential changes to the program, many of the potential changes considered could offset the financial incentives of the exemption, thereby reducing the stimulative effect of the program. The following options are offered for consideration:

1. **Income limits to assure affordable housing.** Other programs are available to assist low income developers (including total exemption for affordable housing serving those with incomes less than 50% of the local median income and have state housing trust fund money invested, and total exemption for affordable housing serving special needs populations and provide services to the occupants). The Multifamily Tax Exemption Program can, however, be beneficial to a developer of affordable housing serving household incomes between 50% and 80% of the median income. An option would be to require an affordable housing component or off-setting fee. However, this will reduce the benefit to the developer and may discourage new investment. Our experience with affordable

housing developers is that they prefer to use other tax incentives that provide them with greater financial benefit.

2. **Prevailing Wages.** The additional cost to the project of prevailing wages may offset some or all of the incentive provided by the tax exemption according to both developers and lenders
3. **Duration of the Exemption.** Reducing the length of time of the exemption from 10 years to some lesser length of time may reduce the positive effect the program has on financing. Lenders look at the long-term benefits of the tax exemption program when making their lending decisions.
4. **Fewer Target Areas.** The City could eliminate the program in those centers where it is not being utilized, but there would not be any practical effect of this change.
5. **Public Benefits.** Public benefit features such as parks, playgrounds, bike paths, or contribution to a public benefit fund are required in some of the cities. The cost of these features typically can't be recovered through rent or sale price increases and the requirements offset some or all of the incentive provided by the tax exemption.
6. **Elimination of Requirement That Rental Units be Vacant for 12 Months.** Such a change to State statutes is currently being considered by the State legislature. If passed and adopted by Tacoma, it should be coupled with a requirement for the project developer to provide relocation assistance
7. **Three Year Completion Requirement.** There would be no benefit to changing this requirement.
8. **Design Review.** A design review process would impose additional costs on both developers and the City. The City may want to consider this as part of the application review process.
9. **Underutilized Business and Apprentice Program.** The Historically Underutilized Businesses (HUB) and Local Employee Apprentice Program (LEAP) may be encouraged on a voluntary basis by providing lists of qualified HUB/LEAP participants to developers. Requiring the use of HUB/LEAP could drive up prices, thus reducing the benefit of the tax exemption.
10. **Additional Areas.** The City could consider expanding the exemption into other areas of the city such as the business districts, depending on the City's desired residential growth patterns.

**Property Tax Exemption Program
Project Listing**

Key	Projects	Address	Incomes Served	Year	No. of Units	Rental or Condo	New or Rehab	Use	Est. Cost	Status	Mixed-Use Center
1	Armani Investments LLC	2000 Block of South "I" Street	M	2002	4	Rental	New	(R)esidential	\$175,000	1 Completed	MLK
3	Broadview Condos	212 - 220 Stadium Way	M	2004	100		New	(M)ixed-Use	\$18,500,000	3 Approved	Stadium
4	Broadway 5 LLC	200 Block of South Broadway	M	1999	10	Rental	New	(R)esidential	\$635,000	1 Completed	Stadium
5	Broadway Associates I	436 Broadway	M	2004	100		New	(R)esidential	\$11,500,000	3 Approved	Downtown
7	Charles R. Johnson II	612 Tacoma Ave So	M	2004	8		Rehab	(R)esidential	\$800,000	3 Approved	Downtown
8	Cherry Orchard LLC	4046/4050 South Puget Sound	M	2004	8		New	(R)esidential	\$500,000	3 Approved	Tacoma Mall
9	Claude and Claire Remy	4300 Blk South Pine	M	2004	55		New	(R)esidential	\$3,600,000	3 Approved	Tacoma Mall
10	Commencement Place	300 Block of South "G"	L	1997	48	Rental	New	(R)esidential	\$2,850,000	1 Completed	Downtown
11	Conservatory Place	201 South "G"	L	1997	40	Rental	New	(R)esidential	\$2,350,000	1 Completed	Downtown
12	Crest Condos	4th and St. Helens Ave.	M	2001	4	Condo	New	(R)esidential	\$600,000	1 Completed	Downtown
14	Dobler Investments	South 47th & Lawrence	M	1997	91	Rental	New	(R)esidential	\$4,095,000	1 Completed	Tacoma Mall
16	Dobler Limited Partnership	2208 South 45th	M	2002	15	Rental	New	(R)esidential	\$950,000	3 Approved	Tacoma Mall
17	Dobler/School Land	South 48th & Junett/Pine	M	2000	40	Rental	New	(R)esidential	\$2,300,000	1 Completed	Tacoma Mall
18	DRK Development	19th and So. Washington	M	1999	12	Rental	New	(R)esidential	\$480,000	1 Completed	Tacoma Central
24	Fotheringham	609 North Oakes	M	2004	4		New	(R)esidential	\$360,000	3 Approved	6th Avenue
25	Garden Villa Apartments	South 47th & Lawrence	M	1997	83	Rental	New	(R)esidential	\$4,320,000	1 Completed	Tacoma Mall
27	Jeffery Davis	613 1/2 South Oakes	M	2002	4	Rental	New	(R)esidential	\$250,000	1 Completed	6th Avenue
28	Joe and Linda Turner	4300 Block of South Junett	M	2002	6	Rental	New	(R)esidential	\$350,000	1 Completed	Tacoma Mall
29	Marcourt	744 Market Street	M	2003	14	Condo	Rehab	Residential	1,750,000	2 Construction	Downtown
30	Mark and Jodie Lawson	4302 So. Warner	M	2004	8		New	(R)esidential	\$720,000	3 Approved	Tacoma Mall
31	Matthew and Juli Graham	4300 Block of So. Union Ave	M	2002	8	Rental	New	(R)esidential	\$400,000	1 Completed	Tacoma Mall
32	MDC - 435 So. Fawcett	435 So. Fawcett	L	1996	60	Rental	New	(R)esidential	\$2,900,000	1 Completed	Downtown
33	Merit Bldg	951 - 959 Market Street	M	2003	35	Rental	Rehab	Mixed	\$1,400,000	2 Construction	Downtown
34	Metropolitan Towers	225 St. Helens/Brdway	M	1999	88	Rental	New	(M)ixed	\$7,920,000	1 Completed	Downtown
36	Musica	914 - 916 So. 13th	M	2003	10	Rental	Rehab	Residential	\$350,000	2 Construction	MLK
37	New Look, LLC	1102 So. 11th	L	2000	49	Rental	New	(R)esidential	\$6,000,000	1 Completed	Tacoma Central
38	O'Connor & Associates	21st and "G" Street	M	2003	21	Condo	New	Residential	\$3,000,000	3 Approved	Downtown
39	Oak Street Apartments	612-618 South Oakes	M	1996	16	Rental	New	(R)esidential	\$400,000	1 Completed	6th Avenue
40	The Overlook (*)	One Broadway	M	1996	28	Condo	New	(R)esidential	\$1,600,000	1 Completed	Stadium
41	Overlook (Phase II)	100 Block of South Broadway	M	2003	42	Condo	New	Residential	6,300,000	3 Approved	Stadium
43	Pioneer Cay Developing LLC	326 East "D" Street	M	2004	70		New	(M)ixed-Use	\$15,000,000	3 Approved	Downtown
44	Popish, Natalie A./Bob Mickey	4700 Block of So. Puget Sound	M	2002	5	Rental	New	(R)esidential	\$200,000	1 Completed	Tacoma Mall
45	Pulliam	618 North Oakes	M	2003	4	Rental	New	Residential	\$375,000	3 Approved	6th Avenue
47	Simon Marten, LLC	5238 South Tacoma Way	M	2000	4	Rental	Rehab	(R)esidential	\$100,000	1 Completed	So. 56 th
48	Stadium Condos	200 Block of South "G" Street	M	2002	7		New	(R)esidential	\$1,000,000	1 Completed	Stadium
49	Stadium Way Condos (Powell)	200 Block of Stadium Way	M	2003	8	Condo	New	Mixed	2,500,000	3 Approved	Stadium
50	Stewart-Simon	5244 So. Puget Sound	M	2003	4	Rental	Rehab	Residential	\$300,000	1 Completed	So. 56 th

51	Subdivisions West	4032 South Puget Sound	M	2004	6		New	(R)esidential	\$500,000	3 Approved	Tacoma Mall
53	Sun Ranch Partners	245 Tacoma Ave.	M	2003	30	Rental	New	Residential	\$1,850,000	3 Approved	Downtown
54	Talen	4349 South Lawrence	M	2003	8	Rental	New	Residential	\$455,000	3 Approved	So. 56 th
57	Team Tacoma III, LLC	1705 Dock Street	M	2001	189	Rental	New	(R)esidential	\$21,300,000	1 Completed	Downtown
57	Team Tacoma III, LLC	1706 Dock Street	M	2001	46	Condo	New	(R)esidential	\$14,200,000	1 Completed	Downtown
58	The Delin	South 29th & Delin	M	1999	40	Rental	New	(R)esidential	\$2,500,000	1 Completed	Downtown
60	Theater Triangle LLC	410 6th Ave	M	2003	26	Condo	New	Residential	\$7,000,000	2 Construction	Downtown
61	TM Apex	2400 Block of South 41st	M	2002	70	Rental	New	(R)esidential	\$7,500,000	3 Approved	Tacoma Mall
62	TM Apex	2400 Block of South 41st	M	2002	165	Rental	New	(R)esidential	\$16,500,000	3 Approved	Tacoma Mall
63	V & G Services, LLC	816 So. 8th	M	2000	14	Rental	Rehab	(R)esidential	\$130,000	1 Completed	Downtown
64	Vision One - Phase I	1500 - 1700 Tac/Fawcett Av	M	2003	190	Rental	New	Residential	\$31,500,000	3 Approved	Downtown
65	Vision One - Phase II	1500 - 1700 Tac/Fawcett Av	M	2003	260	Rental	New	Residential	\$43,500,000	3 Approved	Downtown
70	Wright Park Condos	6th and "I" Street	M	2001	4	Condo	New	(R)esidential	\$500,000	1 Completed	6th Avenue
71	Yakima Vista	23 rd and Yakima Ave	L/M	2002	27	Condo	New	(R)esidential	\$838,000	1 Completed	Downtown
72	Court 17, LLC	1717 Market Street	M	2004	129		New	(R)esidential	\$9,400,000	3 Approved	Downtown
73	Home Options, Inc.	3119 South 45th	M	2004	8		New	(R)esidential	\$750,000	3 Approved	Tacoma Mall
74	Home Options, Inc.	4301 South Alder	M	2004	8		New	(R)esidential	\$750,000	3 Approved	Tacoma Mall
	The Overlook (*)	One Broadway	M	1999	36		New	(R)esidential	\$2,750,000	1 Completed	Stadium
	Vision Investments	15th and South Yakima	M	2004	14		New	(R)esidential	\$1,000,000	4 Pending	Downtown
	Delin II, LLC	2909 South Fawcett	M	2004	39		New	(R)esidential	\$5,300,000	4 Pending	Downtown
	Condos on Jefferson, LLC	2520 South Jefferson	M	2004	13		New	(R)esidential	\$1,700,000	4 Pending	Downtown
	Dobler Investments	2500 Block of So. 42nd	M	1997	29		New	(R)esidential	\$1,305,000	4 Pending	Tacoma Mall
	Jeffery Davis	613 1/2 South Oakes	M	1999	4		New	(R)esidential	\$150,000	5 Expired	6th Avenue
	Sun Ranch Partners	200 Block of Tacoma Ave S	M	1999	28		New	(R)esidential	\$1,500,000	5 Expired	Downtown
	Team Tacoma	Thea Foss Waterway	M	2000	245		New	(R)esidential	\$16,000,000	5 Expired	Downtown
	Team Tacoma	Thea Foss Waterway	M	2000	174		New	(R)esidential	\$12,000,000	5 Expired	Downtown
	Vision One, LLC (The Place)	1600 Blk-Tacoma Ave South	M	2000	300		New	(M)ixed	\$25,000,000	5 Expired	Downtown
	Foss Waterway Development Auth.	1933 Dock Street	M	2001	174		New	(R)esidential	\$20,000,000	5 Expired	Downtown
	Foss Waterway Development Auth.	1543 Dock Street	M	2001	150		New	(R)esidential	\$25,000,000	5 Expired	Downtown
	Foss Ww Dev Auth/Foss Dev LLC	800 Block - Dock Street	M	2001	25		New	(R)esidential	\$17,000,000	5 Expired	Downtown
	Foss Devel. LLC	800 Block - Dock Street	M	2001	50		New	(R)esidential	\$35,000,000	5 Expired	Downtown
	Metropolitan Towers I, LLC	245 St. Helens	M	2001	60		New	(R)esidential	\$5,700,000	5 Expired	Downtown
	Fawcett LLC	1134 - 1142 Fawcett Avenue	M	2001	65		New	(R)esidential	\$15,500,000	5 Expired	Downtown
	Wilsonian Partners, L.L.C.	400 Block - St. Helens Avenue	M	2001	182		New	(R)esidential	\$14,000,000	5 Expired	Downtown
	Awesome Investment	1 St. Helens Ave.	M	2000	8		New	(M)ixed	\$1,250,000	5 Expired	Stadium
	William Riley	4023 South Puget Sound	M	1999	20		New	(R)esidential	\$1,250,000	5 Expired	Tacoma Mall
	The Dock	535 Dock Street	M	1998	5		New	(R)esidential	\$220,000	6 Canceled	Downtown
	Broadway Center Investors	110 Block of Broadway	M	2002	8		New	(M)ixed	\$1,400,000	6 Canceled	Downtown
	Dobler Investments	4201 South Prospect	M	1997	40		New	(R)esidential	\$2,000,000	6 Canceled	Tacoma Mall
	Remy I	43rd and South Junett	M	2004	10		New	(R)esidential	\$800,000	6 Canceled	Tacoma Mall

Property Tax Exemption Project Applications January – March 2005

Project	Units	Type	MUC
New Urban	52	Condos	Downtown
Tacoma Renaissance	53	Condos	Downtown
Catapult	58	Condos	Downtown
Delin II (in apt proj below)	9	Condos	Downtown
4 Projects / 172 condos			
Delin II (in condo proj above)	30	Apts	Downtown
245 Metropolitan	80	Apts	Downtown
Vision	14	Apts	Downtown
Matt Graham	7	Apts	Downtown
Tracer	5	Apts	Downtown
Paul Warner	4	Apts	Downtown
6 Projects / 140 apts			
Vision	6	Apts	Tacoma Mall
Jim Edwards	10	Apts	Tacoma Mall
Wet Fly	12	Apts	Tacoma Mall
Greg Whitman	10	Apts	Tacoma Mall
Mark Lawson	14	Apts	Tacoma Mall
Jetco	4	Apts	Tacoma Mall
6 Projects / 56 apts			
Proctor Partners	1 Project / 6 condos	Condos	Proctor
Tacoma Townhouses	1 Project / 12 apts	Apts	Lower Portland Ave
DRK	1 Project / 20 apts	Apts	Stadium
19 Applications			
5 Condo Projects	178 condos		
14 Apartment Projects	228 Apts		
Total All	406		

Multi-Family Property Tax Exemption Program

Frequently Asked Questions

April 2005

1. When was the Multi-Family Property Tax Exemption Program (Property Tax Exemption Program) established?

The Property Tax Exemption Program was authorized by the WA State Legislature in 1995 (RCW 84.14.007). The City implemented the program in 1996 (Ordinance #25789) and added the Portland Avenue Mixed-Use Center in 1997 (Ordinance #25823). Tacoma played a key leadership role in the legislative approval of the tax exemption program.

2. What taxing jurisdictions are allowed to use the Property Tax Exemption Program? What other jurisdictions in Pierce County offer the program?

- Eligible cities are those with a population of 30,000 or greater, or the largest city or town within a county planning under the State's Growth Management Act (GMA). The state legislature is considering lowering the population requirement this year to cities and towns with a population of 3,000 or greater.
- Tacoma was the only city in Pierce County offering the program for several years. However with the lowering of the population restriction by the legislature, other cities are beginning to offer the exemption. Lakewood recently created their property tax incentive program for multifamily development, but have not yet implemented until they determine where and how it should be applied, i.e., rentals vs. condos, downtown and/or other locations. Puyallup has just approved its first tax exemption project in its downtown, a eight-unit up-scale condo over a bank and retail space. They are excited to have an incentive to attract additional housing to their downtown core. University Place looked at the program as an economic development tool, but has decided not to implement it at this time.

3. What objectives did the City Council establish for our Property Tax Exemption Program?

- Encourage higher density development in response to mandates of the WA Growth Management Act.
- Direct population growth to designated mixed-used centers, thereby reducing development pressures on single family residential neighborhoods.
- Encourage increased residential development within mixed use centers designated by the City Council as residential target areas.
- Rehabilitate existing substandard, vacant or underutilized buildings.
- Stimulate new construction to increase and improve housing opportunities.
- Achieve densities that are conducive to transit use in mixed-use centers.

4. What does the Property Tax Exemption Program do?

The program allows qualifying multi-family housing projects to be exempt from property taxes on the value of housing improvements for a period of ten years. Property owners continue to pay property taxes on the full assessed value of the land and any non-housing improvements during the ten-year period. Tacoma's experience has been that land values tend to increase when new housing is created. The increased land value is generates more tax revenue than the vacant parcel would have generated.

5. Who gets the benefit of the Property Tax Exemption?

The ten-year property tax savings belongs to the owner of the real property. If the property is sold, the tax exemption is passed on to the new owner. The benefits of the tax exemption are shared by both developers and consumers of the exempted housing. For the developer, it is a financial incentive to offset risk, improves the economic viability of a project, helps projects qualify for necessary financing, can be a hedge against unexpected or increasing costs, and helps make a high-density product & urban location competitive with a lower density suburban product & location. The consumer can benefit from the program in the form of lower rents in a competitive market, diversity and availability of housing, and improved ability to qualify for a mortgage because the tax exemption is passed on to the new buyer.

6. How many mixed-use centers does Tacoma have and where are they located?

There are 14 mixed-use centers:

James Center	East 72 nd and Portland Avenue
North 26 th and Proctor	South 72 nd and Pacific Avenue
6 th Avenue and Pine Street	Tacoma Mall
Stadium	Tacoma Central
South 11 th and Martin Luther King	56 th and South Tacoma Way
South 38 th and G Street	Downtown
Lower Portland Avenue	Westgate

7. How many projects and multi-family units are involved in the program?

As of December 2004, Tacoma's staff had worked with 77 projects representing more than 4,000 multi-family units as follows:

	Projects	Units
Completed	28	967
Under Construction	4	85
Approved but not started	23	1,317
Pending Council Action	4	95
Expired	14	1,485
Cancelled	4	63
	<u>77</u>	<u>4,012</u>

8. What has caused the number of expired projects/units to be so high?

Even with the benefits from the tax exemption program, many projects don't meet the financial or market requirement to proceed. Sometimes the lack of economic viability for the proposed project doesn't become apparent until the latter stages of the consideration when construction bids, environmental studies and loan applications have been finalized. In several cases construction has been delayed beyond the three-year approval period because of inability to obtain financing, or because of significant increases in construction costs with no corresponding increase in rent or sales price. For example, the cost of building materials such as steel has soared in the past three years as more materials are shipped off-shore. Four of the 14 expired approvals (449 units) were sought by the Foss Public Development Authority (PDA) in anticipation of development that has been on a longer timeline than expected. Some of the expired projects may come back into play and will require new application submittals should they wish to use the Multifamily Tax Exemption.

9. What role does the Property Tax Exemption play in the developer's ability to finance projects?

Each and every development must be financially sound to qualify for construction and long-term financing. The Multi-Family Property Tax Exemption approval will not be used by a financial institution to justify a loan that does not meet basic requirements for loan-to-value ratio, net operating income, ability to service debt on the project, etc. Nevertheless, the property tax exemption plays a critical role in supporting economic value established by an appraisal required by a lending institution and can strengthen the equity position of the developer allowing a project to proceed without seeking a partner or investor to allow the project to go forward.

Two examples of how the property tax exemption has been used to support local developments in Tacoma are shown below.

- Apartment developments with the tax exemption are considered to have two streams of cash to pay expenses: the rental income of the apartment building in perpetuity and the value of the tax exemption over a ten-year period. A local commercial lending officer estimated that the availability of the property tax exemption amortized over 10 years would add between \$500,000-\$600,000 to the loan proceeds available to build a rental project and would most likely be used to build more units, include on-site amenities, encourage the use of higher quality materials and finishes, or provide a greater cushion for unexpected or rising costs.
- The property tax exemption is valuable when dealing with for-sale residential developments in that it (a) helps more people financially qualify to purchase a home and therefore broadens the pool of potential buyers; and, (b) can accelerate the rate of sales, thus reducing the amount of financing necessary to carry the project until it is sold out. Conversely, if a residential development does not have the property tax exemption and has nothing to differentiate it within the

marketplace, i.e., views or desirable location, the project could have a longer sell-out and greater risk than a project with tax exemption approval.

10. What would be the impact of reducing the duration of the tax exemption to five years instead of ten? Wouldn't reducing the duration encourage the sale of the real estate with the tax exemption, thereby generating more excise taxes?

The greater the financial risk in the marketplace, the greater the importance of the term of the tax exemption. The apartment market has been depressed for the last several years as low interest rates have allowed consumers to buy rather than rent. Financial institutions providing both construction and long-term financing for multi-family development have considered the 10-year term of the incentive as critical to the financial viability of the proposed development.

The condo market has been healthy during this same period, but not very deep. In other words, there are a limited number of buyers for high density residential projects and the term of the tax exemption is an incentive for both the developer to build the project and the condo buyer to move from the suburbs to a higher density development.

11. What wages and benefits are provided to construction workers on projects using the Property Tax Exemption program?

A survey of the developers shows that most require bidding on their projects and select the most qualified bidders at the best price. The best bidders are sometimes union, sometimes nonunion but pay prevailing wages, and sometimes are nonunion companies paying less than prevailing wages. There is no requirement on the developer to select subcontractors on the basis of pay scale or benefits provided. It is up to the developer to select those subcontractors that can produce the best product at the most reasonable cost.

12. How many out of state/out of area contractors are being utilized on Property Tax Exemption projects? Is the program benefiting local businesses?

Of the ten developers who responded to the survey, all ten reported using only local suppliers and mostly local contractors and sub-contractors. The program has attracted developers, contractors and investors from outside the area, yet employees and vendors typically have remained local. This contributes to the local economy by generating material sales, employment, sales taxes, B&O taxes, and employment taxes. The resale of condos, townhomes or apartment buildings generates excise sales taxes each time the units or buildings are sold.

Many local businesses are benefiting from the increased construction, both directly and indirectly, i.e., materials suppliers, restaurants and fast food, grocery stores, gas stations, Realtors, appraisers, loan officers and title companies, rental management companies, etc.

13. Does the Property Tax Exemption Program require developers to use the Historically Underutilized Businesses (HUB) or Local Employee Apprenticeship Program (LEAP)?

The Tax Exemption program does not require developers to use HUB or LEAP. In 2003, a committee comprised of a developer, a union representative, and city staff including Legal, Public Works, Economic Development, the HUB/LEAP program representatives, and then Assistant City Manager Jim Walton, analyzed the issue of whether or not to require HUB/LEAP participation for a developer to be granted a property tax exemption. The conclusion of the committee was that the developers should be encouraged to use HUB/LEAP but not be required to do so.

14. Has the Property Tax Exemption been used in all the mixed use centers? If not, why? What is the geographic distribution of properties receiving the MF Tax Exemption? Is the program benefiting certain parts of the city more than others?

- Seven of 14 centers have seen multi-family development and the use of the tax exemption program. Those seven areas include: 6th Avenue, Downtown, MLK, South 56th, Stadium, Tacoma Central and Tacoma Mall. Tacoma Mall and Downtown Tacoma have had the greatest number of projects.
- Scarcity of vacant land, insufficient market demand, difficulty of land assembly, or lagging interest by developers in certain neighborhoods appear to be the major reasons for absence of activity in those mixed-use centers that have not had a MF Tax Exemption development.

The following is a summary of factors that contribute to the lack of MF projects in the remaining mixed use centers:

James Center: Scarcity of vacant land is a principal factor. The majority of the land in the center is built-out for commercial and educational uses and their associated parking. Some redevelopment of the commercial and parking areas has occurred resulting in commercial or educational development but not residential redevelopment although allowed by the zoning code. In 2003 a 10 acre track of vacant land owned by Tacoma Public Utilities was removed from the center after the adjoining neighborhood sought to have the property developed as single-family residential. This action significantly reduced the availability of undeveloped land in this center.

Westgate: Lack of vacant land is the principal reason. Similar to James Center, the majority of the land within the center is developed with commercial uses and associated parking. Some new commercial redevelopment has occurred. A large tract of land in the center is owned by Tacoma Public Utilities and at some point may become available for development.

72nd Pacific: Major reasons include lack of available land and developer interest in redevelopment. The majority of the center is built-out with commercial uses and

associated parking. A limited number of small vacant parcel do exist in the center; however, these parcels are mixed within the commercial developments so the development that has occurred in the center has been small commercial redevelopment. Due to market demand, it is anticipated that the remaining vacant parcels will be developed for commercial purposes not residential.

72nd Portland: Land availability and land assemblage and perhaps market demand appear to be the primary factors. Most of the center is built-out in commercial uses and parking. Some land with single family detached housing is located within the center. Lack of demand for multi-family residential and the inability to assemble the single family developed parcels appears to be a significant issue for this center.

Lower Portland: Land assemblage and lack of demand are the principal factors for this mixed use center. The center has a mix of small undeveloped and developed parcels many of which contain a single family detached structure. Land assemblage in this area has been a problem as well as uncertainty relating to the Puyallup Tribe's development plans. Many parcels in the area are either owned by the Puyallup Tribe or held in trust making land assemblage difficult.

South 38th and G: Many opportunities for second story residential redevelopment exist in this center. Building code and other development issues associated with rehabilitating second story residential above existing commercial uses have contributed to the lack of residential investment in this center. Although this center contains properties with downtown views, the majority of the properties with this amenity are built-out with single family detached housing. The assemblage of these properties along with the lack of market demand had contributed to the lack of MF exemption projects.

15. Of the projects completed, how many contain commercial space and of these, how many are occupied and generating revenue?

Since the inception of the program in 1996, there have been applications for five mixed-use projects having both housing and commercial space in the development. Of the five proposed mixed-use projects, only Thea's Landing has been built. There is currently only 500 sq. ft. of retail/commercial remaining for lease at Thea's Landing. Commercial/retail tenants in the building include a sandwich shop, flower shop, specialty pet store, art & framing shop, restaurant/night club, a medical consulting firm, and a marketing& sales center for adjacent multi-family residential development.

16. When will the first Property Tax Exemption development come on the tax rolls?

Taxable improvements for the first MF Property Tax Exemption project will come on the tax rolls in 2008, and is expected to generate \$357,062 in property tax. By 2014, property taxes generated by projects coming back on the tax rolls is expected to exceed \$1 million per year, and by 2017 it is predicted that the projects that have come onto the tax rolls will produce more than \$4 million in tax revenues annually. These projections

are based on projects that have either been completed, are under construction, or have been approved by City Council as of December 31, 2004.

17. How will we know when we are "done"?

The principle purpose of the program is to encourage multi-family housing in areas of the City that have been determined to be residentially deficient. By policy the City of Tacoma has determined that these areas of the City are those areas located within the City's 14 mixed-use centers. The purpose of the mixed-use center designation is to direct high density residential, employment and commercial growth into these areas in order to meet the City's growth obligations under the State Growth Management Act. By directing residential density and employment growth in the mixed-use centers, increased transit use and other pedestrian friendly transportation options are encouraged, decreasing development pressure and congestion in the City's single-family neighborhoods. Under the City's Comprehensive Plan each mixed-use center is designated to develop to a planned residential density and level of commercial activity. The tax incentive program is the primary tool for the City to use to achieve the planned residential activity in the mixed-use centers. Not until the planned residential densities are met and a level of commercial activity is achieved to sustain a vibrant business environment will we know that we are "done".

18. How many applications have been turned down and for what reasons?

Before an application is sent to Council, the staff works closely with the property owner or developer to make sure the project meets program requirements, and to date, no application brought before the Council has been disapproved.

19. Is the Property Tax Exemption Program available to affordable housing developers?

Yes, it is available to both affordable and market-rate housing. In our experience, however, affordable housing developers generally chose to use other tax incentive programs that provide a greater financial benefit than the MF Tax Exemption Program. For example, projects that provide housing for persons at or below 50% of the median income and have State Housing Trust Fund money invested can get a tax exemption on both the land and the improvements from the state. The same is true if a project has low-income housing tax credit money invested and it serves low-income persons and/or persons who have a disability.

20. What is the average price or average rent of housing created using the Property Tax Exemption?

Rental rates have ranged from \$550 for a one bedroom, one bath to \$1,000-\$1500/month or more for a three bedroom, two and one-half bath with garage parking. Sales prices for closed sales range from a low of \$150,000 per unit to a high of \$850,000, depending on location, size and amenities.

Rental and lease-up times have been directly related to unit cost. The less expensive units, \$750 - \$1,000 per month have rented in 2 to 4 months, and tend to have a low vacancy rate (3% - 5%). The more expensive rentals, \$1,000 to \$1,500 per month have taken as long as 2 years to rent. Once rented, they tend to also have low vacancy rates (5% - 7%), but the apartment owner must be able to survive during the initial rent-up period.

Renters in the more expensive units are primarily professionals, retired persons, and military officers. Renters in the market rate units are professionals, blue collar workers, teachers, nurses, police officers, firefighters, and service providers. Renters in the less expensive units are service providers, nurses, teachers, blue collar workers, single parents, and artists.

Purchasers of the market-rate units have been professionals, retired people, military, blue collar workers, teachers, nurses, police officers, firefighters, and service providers. Sales to the high-end condo market have been to professionals, including attorneys, doctors, professors, and administrators.

A serendipitous benefit of the program is that it has caused older multifamily developments to be improved by the owners in order to remain competitive in the market. This has resulted in a substantial improvement in the overall quality of housing in the mixed use centers where new multifamily development has occurred.

NEW AND REHABILITATED MULTIPLE-UNIT DWELLINGS IN URBAN CENTERS

PROPERTY TAX EXEMPTION (Ch. 84.14 RCW/Ch. 13.17 TMC)

FAQ:

1. Does the City Council have the discretion to reject a property tax exemption agreement even though the project may be located within a residential target area?

Answer: Yes, if the City Council finds that the terms and conditions of the agreement do not satisfy state law, city code, or the guidelines established by the City Council.

State law sets forth at Chapter 84.14 RCW ("Act") the minimum eligibility requirements for the tax exemption. The Act further authorizes the City Council to establish guidelines for qualification that the City Council determines are necessary to achieve compliance with the legislative purposes of the Act and that establish basic requirements for new construction and rehabilitation for each project.¹ The current guidelines are embodied within Chapter 13.17 of the Tacoma Municipal Code ("TMC"); however, the City Council may, in its discretion, establish additional guidelines through resolution or amendment to the Tacoma Municipal Code ("City Code").

The Act contemplates that either the governing authority or a designated public official shall approve or deny an application for a property tax exemption. The City Code delegates this authority to the Economic Development Director.² The Act also requires that the approved applicant enter into an agreement with the City on terms and conditions satisfactory to the City Council. This requirement is found at TMC 13.17.030(f)(1) and specifically provides that the City Council, and not the Economic Development Director, must approve the agreement. The City Council, when approving or disapproving an agreement, may reject the agreement if it is not satisfied that the agreement complies with the requirements

¹ The Act lists, at two sections, examples of what the guidelines may include: height, density, public benefit features, number and size of proposed development, parking, low-income or moderate-income occupancy requirements, other requirements indicated necessary by the City (RCW 84.14.030), and requirements that address demolition and site utilization and building requirements that may include elements addressing parking, height, density, environmental impact, and compatibility with the existing surrounding property and such other amenities as will attract and keep permanent residents and that will properly enhance the livability of the residential targeted area in which they are located. RCW 84.14.040(5)(a)&(b)

² The reason for this delegation of authority is likely based upon the statutory requirement that an appeal of the decision to deny or grant an application shall be made to the City Council. RCW 84.14.070(4).

that are imposed through the Act, the City Code, or the guidelines adopted by the City Council. Thus, the City Council may exercise its discretion by undertaking an individualized review of the facts to determine whether or not the terms and conditions of the agreement meet these requirements.³

2. Can the City Council use a low ratio of new housing units to those torn down and replaced as a reason for declining to grant a property tax exemption?

Answer: Yes, if the City Council includes this ratio within the guidelines.

State law already imposes a minimum number of new housing units in certain circumstances and further provides that the purpose of the chapter is to increase residential opportunities. If the City Council determines that a minimum ratio is necessary to achieve a greater number of housing units, this seems well within the purpose and authority of the Act.

3. Can the City Council use the presence or absence of high value or low-cost/affordable condominium or rental units as a reason for declining to grant or for granting only limited property tax exemptions?

Answer: Yes, if the City Council includes these requirements within the guidelines.

The governor explained in his partial veto of the Act that the legislative intent behind the Act was, in part, to provide local governments flexibility to address the public interest in the need to maintain a supply of housing, including low-income housing. Further, the legislation does not preclude and, in fact, encourages cities to consider their housing needs in the context of their growth management plans when implementing the provisions of the Act. Thus, the City Council, when establishing its tax exemption guidelines, may therefore take into account such considerations as the presence or absence of high value condominium or rental units.

4. Does the City Code permit multi-family property tax exemptions in any Mixed-Use Center or only in areas of such centers that qualify or are found to lack "sufficiently available" housing? In this regard, is the City's ordinance consistent with the state's statute?

Answer: Mixed-Use Centers must meet the requirements of the Act to qualify as a residential targeted area, including the requirement that there is insufficient availability of housing. The City Code is not inconsistent with the Act.

³ As always, the City Council must act in a nondiscriminatory manner, cannot be arbitrary or capricious, and, in these circumstances, must exercise its discretion in a manner that is rationally based upon the legislative goals and the guidelines established by the City Council.

The Act requires that new or rehabilitated multiple-unit housing must be located in a residential targeted area, as designated by the City, to qualify for the tax exemption. A residential targeted area must meet three criteria paraphrased as follows: (a) it must be in an "urban center" (same as a Mixed-Use Center), (b) it must lack sufficiently available residential housing, and (c) it must be found that providing additional housing will assist in achieving one or more of the stated purposes of the Act.⁴ Mixed-Use Centers that do not meet all three requirements will not qualify as a residential target area. Thus, a location will not qualify solely because it is a Mixed-Use Center.

The City ordinance mirrors, in substance, the requirements of state law, including the definition of "Mixed-Use Center," which has essentially the same meaning as "urban center" under Chapter 13.17 TMC.

5. Does the City Council have the legal authority to adjust the property tax exemptions it awards in any of the following ways (whether by geography or the circumstances of individual applications)?

- a. By number of years for which the exemption will be allowed?

Answer: No.

The term of the exemption is fixed by state law at ten years, unless the exemption is cancelled, as provided at RCW 84.14.110.

- b. By percentage or dollar amount for which the exemption will be allowed?

Answer: No.

The property to which the exemption applies is fixed by state law; however, the City Council may, through its established guidelines, limit the number of dwelling units to which the property tax exemption will apply.

⁴ The full text of these three requirements is as follows:

(1) The following criteria must be met before an area may be designated as a residential targeted area:

(a) The area must be within an urban center, as determined by the governing authority;

(b) The area must lack, as determined by the governing authority, sufficiently available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center, if the desirable, attractive, and livable places to live were available; and

(c) The providing of additional housing opportunity in the area, as determined by the governing authority, will assist in achieving one or more of the stated purposes of this chapter. RCW 84.14.040.

- c. To some housing units or portions of some housing units within a larger project but not to other units or other portions of units within the same larger project? (e.g., perhaps on basis of sale price, valuation, or rental amount).

Answer: Yes.

See answer to (b) above.

6. Would the state statute or City ordinance--or both--need to be amended to provide the City Council with any of the above discretions to customize property tax exemptions to specific Mixed-Use Centers or projects?

Answer: With regard to (a) and (b) above, the answer is yes. With regard to (c), the answer is no.

As explained above, the City Council does not have authority to change the term of the property tax exemption or the dollar amount. However, it may implement guidelines that would have the effect of limiting application of the property tax exemption to certain types of residential units within a development. To do this, the City Council must find that such guidelines are necessary to further the purposes of the Act.

7. Does the City have the authority to require certain wage levels or average wage levels to be required on construction projects for property tax exempt projects?

Answer: Yes, but only if the City Council can establish a rational relationship between wage levels and the purposes of the Act.

The purpose of the Act is generally to (a) encourage residential opportunities and (b) to stimulate the construction of new multi-family housing and the rehabilitation of existing vacant and under-utilized buildings. If the City Council finds a rational relationship between wage levels on such tax exempt construction projects and one or more purposes of the Act, then the City Council arguably has the authority to impose such conditions as part of the guidelines for project eligibility. However, an argument can be made that the guidelines not only must be rationally based upon achieving one or more of the purposes of the Act, but also must fit within the categories of those guidelines listed in the Act.⁵ The precise scope of what may be included within the guidelines is an open question.

⁵ However, it should be noted that the Act may preclude guidelines that do not fit within the categories listed at RCW 84.14.030 or 040. The statutory rule of construction "expression unius est exclusion alterius" means the expression of one is the exclusion of the other. If applied, this rule of construction means that if the legislature specifically list things upon which the statute operates, there is a presumption that the legislative body intended all omissions. In this case, there may be a presumption that the City Council can only establish guidelines that are within the categories expressed in the statute. On the other hand, this presumption may not prevail because the statute at RCW 84.14.030 also provides that the City Council may consider other requirements. How the courts might interpret the statute and the scope of the guidelines the City Council may adopt is an open question.

8. Does the City have the authority to require applicants, as part of their current applications for property tax exemption projects, to submit data and analysis regarding the construction and sale or rental costs, occupancy, current and past ownership, etc., for past projects?

Answer: Yes, but only if the City Council can establish a rational relationship between these requirements and the purposes of the Act.

If the City Council can find a rational relationship between the foregoing criteria and the purpose of the Act, then the City Council arguably has the authority to impose such conditions as part of the guidelines for project eligibility.

**Property Tax Exemption Program
Bremerton Gardens Expansion
City of Bremerton**

Annual Exempt Property Taxes

Improvement Value		19,000,000
Total Exempt Property Taxes	\$11.62	220,857
City Exempt Property Taxes	\$3.30	62,700

Annual Taxes after 10 Years

Improvement Value (1% / yr.)		20,987,820
Total Annual Property Taxes	\$11.62	243,964
City Annual Property Taxes	\$3.30	69,260

One-time Taxes on Construction

Construction Value		19,000,000
City Sales Tax on Construction	0.84%	159,600

Annual Taxes on Resident Purchases

Housing Units		200
Avg. Household Size		2.0
Total Population		400
Taxable Spending/Capita		9,105
Taxable Sales		3,642,000
Annual City Retail Sales Tax	0.84%	30,593

Annual Utility Tax

Housing Units		200
Avg. Ann. Utility Expense		2,000
Total Utility Expenses		400,000
Annual Utility Tax	7.0%	28,000

Annual Per Capita Distributions from State

Housing Units		200
Avg. Household Size		2.0
Total Population		400
Distributions per Capita		36.00
Annual Distributions		14,400

July 5, 2006

Analysis by Greg Easton, Property Counselors, Seattle

Draft: For Review and Comment Only



DATE: October 15, 2002

TO: Eric Faison, Chair
Land Use and Transportation Committee

FROM: Patrick Doherty, Deputy Director for Economic Development,
Community Development Services Department

VIA: David H. Moseley, City Manager

SUBJECT: *Tax Exemption Program for Multifamily in City Center*

BACKGROUND

On September 17, 2001 The Land Use and Transportation Committee discussed a potential limited tax exemption for multifamily housing in the City Center, pursuant to RCW 84.14.005. At that time the Committee recommended to City Council to pass a resolution of intent to designate the "residential targeted area" in the City Center Core and Frame zones and to hold a public hearing. The Staff memo to LUTC, dated September 12, 2001, is attached for reference.

On November 6, 2001 the City Council held the public hearing to consider public comment on designating the City Center Core and Frame zones as a "residential targeted area." Comments were received from nine members of the public. Those who spoke in favor of the proposal offered the following comments:

- a redevelopment tool that Federal Way should adopt to remain competitive with nearby communities;
- this is a tool that costs very little and can yield a lot of result, and is one of the few tools available to encourage City Center redevelopment;
- this tool fosters GMA-mandated growth and will help lead to more transit-dependent development;
- this program could be a "kick-start" to getting more City Center development to occur

Those who spoke against the proposal offered the following comments:

- concerns over increased demand for service to schools, libraries and fire district without full increase in property taxes;
- taxes seem to go up for everyone else, why should some developers in the City Center have to pay less?
- maybe encouraging more residential at this time in the City Center's development is misguided; shouldn't residential development follow stronger redevelopment in the office and retail/service sectors?
- need to make sure that the multifamily buildings be of substantial, attractive construction,

proper companions to class-A office buildings, etc.

In addition, City Councilmembers also raised questions about the demand for services for schools, libraries and the Fire District and expressed their desire for Staff to work with these jurisdictions to address and/or incorporate their concerns, where possible.

Since last Fall, Staff has conducted a great deal of research pursuant to the Councilmembers' requests and the concerns expressed at last November's public hearing. A summary of Staff's findings is presented below related to each of the three affected districts:

School District

In order best to estimate the potential demand for school services arising from new multifamily buildings in the City Center, Staff made visits to two other redeveloping suburban city centers: Bellevue and Renton. Each of these city centers contains new mixed-use and multifamily buildings of a very similar character to those we would expect in Federal Way. A total of 11 buildings were directly surveyed, with building managers queried as to the numbers of school-aged children residing in each building. The results of this research indicated an average of **0.052 school-aged children per unit**.

Next a comparison was made with the City-wide average student-generation factor (used in the 2001 Federal Way Schools Capital Facilities Plan) of **0.1783 students per unit**.

Secondly an estimate was made of the potential tax revenue generated by a city center mixed-use buildings (multifamily development in the City Center would most likely take the form of mixed-use buildings, given zoning code standards), even given the limited tax exemption. The following table summarizes those estimates:

Sample City Center Mixed-Use Building Balance Sheet

Sample Building	Residtl Imprpv. Value*	Comrc'l Improv. Value**	Sample Land Value***	Total Property Tax	Property Tax on Comrc'l Improv.	Property Tax on Land	Non-Exempt Tax Subtotal	Exempt Tax on Residtl Improv.
100 units w/ 1 st flr comrc'l	\$8,188,500	\$500,000	\$1,129,500	\$122,341 School: \$40,842	\$6225 School: \$2,080	\$14,062 School: \$4,699	\$20,287 School: \$6,779	\$101,947 School: \$34,064

Taxes are expressed per annum

Tax rates are for 2002

* Based on several new multifamily/mixed-use buildings in Bellevue and Renton and converted to average per-unit costs of \$81,885.

** Based on 10,000 sq ft commercial space. Existing values in City Center at approx. \$1M. To be conservative and accounting for unknown market for small new spaces like this, pulled back to \$500,000 value.

*** Based on actual multifamily approx 100-unit building in City Center

As one can see in this hypothetical case, a total of \$101,947 (\$34,064 for School District) per year of potential tax revenue would be exempted for ten years, while a total of \$20,287 (\$6,779 for School District) per year would be generated by the increased land value and commercial improvement value.

This should be compared with the tax revenue balance sheet for a sample multifamily building in the neighborhoods:

Sample Neighborhood Multifamily Building Balance Sheet

Sample Building	Residl Improv. Value*	Comrc Improv. Value**	Sample Land Value***	Total Property Tax	Property Tax on Comrc Improv.	Non-Exempt Property Tax on Land	Exempt Tax on Residl Improv.
100 units	\$3,985,700	\$0	\$1,019,600	\$62,316 School: \$20,822	N/A	\$12,694 School: \$4,241	\$49,622 School: \$16,581

Taxes are expressed per annum

Tax rates are for 2002

* Based on average of several existing multifamily buildings' assessed valuation in FW neighborhoods, converted to per-unit value of \$39,857. This figure is lower than the Sample City Center figure due to the older age of existing MF buildings.

** Based on average of several existing multifamily buildings' assessed land valuation in FW neighborhoods, converted to per-unit value of \$10,196.

As can be seen in these tables, it is clear that new City Center multifamily buildings would have both a higher assessed improvement value and land value (plus they would likely include some commercial space with an additional, taxable improvement value) than the existing multifamily developments in the neighborhoods.

With the average number of students expected in City Center buildings, compared with the average number of students seen City-wide in existing multifamily developments, together with the above-cited tax revenue information, we can summarize the potential financial impact to the School District of this tax exemption proposal:

Sample 100-Unit Bldg	School Tax Revenue Generated	No. of Students Generated	Tax Revenue per Student
Neighborhood	\$20,822	18	\$1156.78
City Center	\$6,779	5	\$1355.80

What we see is that existing neighborhood multifamily developments, with higher numbers of students and lower taxable assessed improvement and land values, **generate less tax revenue per student** than new City Center multifamily/mixed-use buildings would likely generate. This is due to new City Center buildings generating fewer students and having higher assessed land values, plus a commercial component, even though the **substantial residential improvement value would be exempt!**

Fire District

As with the School District-related research, Staff researched the service demands associated with new multifamily buildings in other nearby communities. In this case, however, the newer mixed-use and multifamily developments in other suburban city centers, such as Bellevue and Renton, did not provide a fair source for analysis because these developments were too new. For this reason, Staff identified approximately a dozen 5- to 10-year-old mixed-use/multifamily buildings in Seattle and called the individual Fire Stations where the buildings are located. Due to the vagaries of data collection among Stations, not all Fire Station personnel could access records by address. However, between those personnel could provide records by address and those who knew their Station areas well enough to provide reliable anecdotal information, an adequate generalization could be drawn. In short, Fire Station personnel across Seattle could either verify or reliably opine that these newer mixed-use/multifamily buildings, and others like them, do not present a demand for fire or emergency services

as high as older multifamily buildings. They did not, however, that some new buildings, at initial occupancy can have a flurry of false-alarms as fire detection systems are being installed and wiring or testing mistakes occur.

It is difficult to explain this phenomenon reliably, but it is likely due to two things: 1) new buildings have a certain "shelf life" during which the new construction and building systems may be relied upon without significant failure; and 2) the socioeconomic characteristics of the majority of the occupants of these newer buildings. Given that newer buildings usually command the highest rents, occupants are usually professional singles or couples, as well as recent empty-nesters, with few if any children (as seen in the research mentioned above regarding the numbers of school children). These socioeconomic cohorts usually exhibit a lower percentage of smokers, usually rely less on space heaters, and usually are less prone to fire-inducing accidents that might arise from the sight-impaired, the elderly or children. In addition, medical-related emergencies are usually less among these populations for a variety of reasons.

In summary, while there is no guarantee that new mixed-use/multifamily buildings in the City Center would generate no demand for fire or emergency services during the first ten years of occupancy, it is likely that this demand will be markedly less during this period than later in the building's life. Therefore, although during the initial ten years less tax revenue would accrue to the Fire District, this is the period when a substantially lower demand for services is expected. Then, as the building passes its ten-year mark, full tax revenue would accrue to the Fire District to cover any natural increase in demands for its services.

Libraries

City Staff met with representatives of the King County Library System to discuss the proposal and learn about their concerns. In the case of demand for library services, there was no empirical or anecdotal information that would suggest that residents of City Center mixed-use/multifamily buildings would create lower demand. The Library System representatives recognized this, but stated their impression that this proposal is intended to increase the density and mix of development in the City Center, which would eventually substantially raise the assessed value and therefore tax revenue. Staff concurred.

Summary

In summary, Staff research concluded that direct service and financial impacts of this limited tax exemption proposal to the School and Fire Districts should be minimal during the ten-year exemption period. In fact, it is possible that financial impacts to the School District will be positive even during the exemption period. Of course, after the ten year exemption, substantial new tax revenue would accrue to these jurisdictions, as well as to the City.

This points up an important consequence of this proposal. While the immediate goal of the tax exemption proposal is to spur new residential and mixed-use development in the City Center, in fulfillment of numerous Comprehensive Plan goals and GMA mandates, an important secondary consequence is a much needed increase in the assessed valuation of the City's commercial sector. For the period 1991-2000 the average King County residential assessed valuation rose an average of 172.4%, while the commercial sector only rose 79.7%. These figures are representative of Federal Way, as well. It is obvious that further growth in the commercial assessed value would be very desirable and would help start to shift the bulk of the property tax burden from the residential sector to the commercial sector.

RECOMMENDATION

Due to a mix-up with the City's official newspaper last year, the November 6, 2001 public hearing did not receive the RCW-required published notice for two consecutive weeks. For this reason, the City Council must hold a new public hearing on the intent to designate the "residential targeted area," as well as the proposal in general prior to designating the "residential targeted area" and taking any further action on tax exemption proposal.

For these reasons, Staff recommends that the LUTC recommend that the City Council pass a new resolution of intent to designate the City Center Core and Frame zones as a "residential targeted area" for purposes of potential application of the limited tax exemption for multifamily housing and set a new public hearing at a subsequent City Council meeting.

APPROVAL OF COMMITTEE REPORT:		
Eric Faison, Chair	Michael Park, Member	Dean McColgan, Member

cc:

MULTIFAMILY TAX EXEMPTION

EFFECTS ON SCHOOL DISTRICT

SUMMARY

Summary of Proposal: To exempt from property tax assessment the residential improvement value *only* of qualifying residential or mixed use buildings within the City Center Core and Frame zones for a period of ten years. (For mixed-use buildings, only the commercial improvement value would not be exempt.) This exemption would be permitted for an initial five-year pilot period only, extended beyond that time only upon City Council approval after review of the program's performance, public comment, etc.

Concerns/Questions Raised at Last Meeting:

- Financial impact to the School District from potential new dwelling units with school children for which part of the school district taxes would be exempt;
- Excessive reliance on the residential AV sector to generate taxes and the proposal's impact on this

Sample City Center Mixed-Use Bldg Balance Sheet:

Sample Building	Residtl Improv. Value*	Comrc'l Improv. Value**	Sample Land Value***	Total Property Tax	Property Tax on Comrc'l Improv.	Property Tax on Land	Non-exempt Tax Subtotal	Exempt Tax on Residtl. Improv.
100 units w/ 1 st flr comrc'l	\$8,188,500	\$500,000	\$1,129,500	\$122,341 <i>School:</i> \$40,842	\$6,225 <i>School:</i> \$2,080	\$14,062 <i>School:</i> \$4,699	\$20,287 <i>School:</i> \$6,779	\$101,947 <i>School:</i> \$34,064

Taxes are expressed per annum

Tax rates are for 2002

* Based on several new multifamily/mixed-use buildings in Bellevue and Renton and converted to average per-unit costs of \$81,885.

** Based on 10,000 sq ft commercial space. Existing values in City Center at approx. \$1M. To be conservative and accounting for unknown market for small new spaces like this, pulled back to \$500,000 value.

*** Based on actual multifamily building in City Center

Sample Neighborhood Multifamily Bldg Balance Sheet:

Sample Building	Residtl Improv. Value*	Comrc'l Improv. Value	Sample Land Value**	Total Property Tax	Property Tax on Comrc'l Improv.	Tax on Residtl. Improv.	Property Tax on Land
100 units	\$3,985,700	\$0	\$1,019,600	\$62,316 <i>School:</i> \$20,822	N/A	\$49,622 <i>School:</i> \$16,581	\$12,694 <i>School:</i> \$4,241

Taxes are expressed per annum

Tax rates are for 2002

* Based on average of several existing multifamily buildings' assessed valuations in FW neighborhoods, converted to per-unit value of \$39,857. This figure is lower than the Sample City Center figure due to the older age of existing MF bldgs.

** Based on average of several existing multifamily buildings' assessed land valuations in FW neighborhoods, converted to per-unit value of \$10,196.

Students per Unit in Downtown MF Bldgs:

Staff surveyed recently constructed (approx. last 5 years) multifamily and mixed-use buildings in two other suburban downtowns: Bellevue and Renton. A total of 11 buildings were surveyed. Management of each building was asked how many school-age children lived in each of the buildings, as well as how many units were occupied. The results of this research indicated an average of **0.052 school-age children per unit**.

This compares with the 2001 Federal Way Schools Capital Facilities Plan student-generation factor of **0.1783 students per unit**.

The discrepancy between the two figures confirms our belief that the number of households with school-age children that choose to live in downtown multifamily units is substantially lower than those who choose to live in the neighborhoods.

Using these numbers, a prototypical 100-unit building located in one of the Federal Way neighborhoods would generate **18 total students**. While a 100-unit building located in the City Center would likely generate only on the order of **5 total students**.

Impact to School District:

Using the information from above, we can estimate the actual, short-term financial impact of our proposed program on the School District.

100-unit building	School tax revenue generated	# of Students Generated	Tax revenue per student
Neighborhood	\$20,822	18	\$1156.78
City Center	\$6,779	5	\$1355.80

What we see here is that existing **neighborhood buildings**, with higher numbers of students and lower taxable assessed improvement and land values, **generate less tax revenue per student** than new City Center buildings would likely generate. This is due to new City Center buildings generating fewer students and having higher assessed land values and having a taxable commercial component, **even though the substantial residential improvement value would be exempt!**

What's more, once the anticipated new mixed-use buildings have been in place for ten years, then the residential improvement value will also be taxed, and the tax-revenue generation per student will rise substantially, far outpacing the existing neighborhood buildings in their generation of taxes to the City and School District.

Trends in the Assessed Valuation of the Commercial and Residential Sectors:

As the attached figure illustrates, for the ten-year period 1991-2000 the average King County residential assessed valuation rose an average of 172.4%, while the commercial section only rose 79.7%. A quick drive around the Federal Way City Center (or other commercial areas along Pacific Highway) can yield quick observation of many vacant parcels and/or underdeveloped properties. A sample assessment for one vacant City Center parcel showed **no** increase in assessed valuation from 1996 to 2001 – during some of the hottest years in the regional real estate market! Accounting for inflation and the declining actual tax levy rate, that property lost substantial ground in its contribution to the City's and School District's tax revenues.

We believe it is crucially important to continue to develop our commercial land sector for many reasons, not the least of which is to raise its portion of the city's tax revenue and lessen the burden to the voting, resident public.

Summary:

In summary, our research indicates the potential for a net positive impact to the School District as a result of our proposed limited, residential tax exemption program for the City Center even in the short term, and a substantially positive impact in the longer term (after ten years). In addition, by encouraging greater development in our City Center, we could start to increase the tax burden of the commercial sector and provide some relief to the residential sector.

Attachment C
Economic Impact Analysis
By Greg Easton, Property Counselors

Shoreline Multifamily Property Tax Exemption Program

Property Counselors

July 27, 2007

Introduction

The Multifamily Tax Exemption program has allowed qualifying multifamily housing projects to be exempt from property taxes on the value of housing improvements for a period of ten years. The purpose of the program is to stimulate new multifamily construction and rehabilitation of vacant or underutilized buildings for housing, expand housing opportunities in targeted areas, direct population growth to designated mixed use centers by encouraging higher density development, and achieve densities that are conducive to mass transit use. The 2007 Legislature made several significant changes to the program. While these changes will not affect the projects currently approved, they will affect projects approved after July 22. The biggest change is related to the period of the tax exemption. The ten year exemption period is reduced to eight years; however, projects that include at least 20% affordable units will be exempt from taxes on the improvement value for twelve years.

The City of Shoreline must revise its program to be consistent with the legislative changes. In addition to these changes, staff is recommending a requirement that, in exchange for receiving the tax exemption, the developer provide a public neighborhood benefit. The public benefit costs shall be a minimum of 1% of development costs. Development costs are defined as consisting of the money spent to build the building within the footprint. City staff has asked Property Counselors to review the proposed changes and the program in general and address the following questions:

- How do the changes in exemption period affect the feasibility of development?
- How do the public benefit requirements affect feasibility?
- At what point do program requirements become a disincentive for development?

This report addresses these issues and is organized in three sections:

Affordability Assumptions

General Program Benefits

Development Feasibility

Public Benefit Features

Affordability Assumptions

Affordable housing is defined in the program authorization to be units with associated monthly expenditures equal to or less than 30% of between 80% and 115% of median county household income adjusted for family and unit size. The statute also defines affordable housing in high cost areas such as King County to be between 100% and 150% of median. The median household income for two person households in King

County is \$62,300. The associated affordability limits for a one bedroom unit can be calculated to be as follows:

	100% of Median	150% of Median
Monthly Rent	\$1,350	\$2,100
Purchase Price	\$203,400	\$305,100

Average rents for one-bedroom units in Shoreline are reported to by Dupre and Scott to be \$701 as of Fall 2006. Rents for one-bedroom units in the new Arabella Apartments in North City are \$955 per month. Market rents in Shoreline will qualify as affordable according to program definitions. Similarly, average condominium prices in Shoreline were \$247,000 per unit in April 2007. Market prices meet affordability limits at the 150% level.

General Program Benefits

An apartment project participating in the program will experience lower operating costs, and potential higher net income. The potential impact on rental rates is summarized in the table on the following page. Estimated savings are shown as the present value of annual savings over the exemption period. Savings are based on taxes to all jurisdictions. Lost taxes to the City represent 11% of total exempt taxes.

The average unit is assumed to be 700 square feet. Total development cost including land is estimated to be \$175,000 as calculated in the feasibility analysis. The amount of exempt improvement value is estimated to be \$125,000 as calculated in the feasibility analysis. Using the 2007 total tax levy rate to all taxing entities of \$12.03 per \$1,000 valuation, the annual tax savings per unit are calculated as shown. If all the cost savings are passed on to renters, the rent would be reduced from \$1,300 to \$1,175 per month. The value of the savings is discounted at the opportunity cost of capital (assumed at a 6.5% interest rate) to estimate a present value of the savings. The value of the savings represents 5% to 7% of the development cost.

Property Tax Exemption Program Economic Benefits for Rental Projects

Unit Size (square feet)	No Program 700	8 Yr Exmpt 700	12 Yr Exmpt 700
Development Cost	175,000	175,000	175,000
Exempt Value		125,000	125,000
Annual Tax Savings* (@ \$12.03/\$1,000 Valuation)	-	1,504	1,504
Present Value of Savings (@ 6.5% discount rate)	-	9,156	12,269
Savings as % of Develop. Cost		5.2%	7.0%
Annual Foregone Rent			-
Net Annual Impact	-	1,504	1,504
Required Monthly Rental Rate			
Without Program	1,300		
With Program	-	1,175	1,175

A similar analysis is shown for condominiums in the table on the following page. The purchaser receives the benefit of the tax exemption. The purchaser can afford to buy a more desirable unit and will qualify for a higher loan (or perhaps any loan) on the purchase. Total development cost including land is assumed to be \$210,000 given higher finish costs and soft costs. The amount of exempt improvement value is estimated at \$150,000. (The estimated land component of \$60,000 is higher than the assumed land component for the apartment case because the total product is valued higher.) Using the 2007 total tax levy rate to all entities of \$12.03 per \$1,000 valuation, the annual tax savings per unit is estimated and translated into a net present value assuming 6.5 percent interest. The present value of the savings over eight years is \$10,987. A purchaser could afford to pay \$256,000 for a unit developed under the program, compared to \$245,000 for the same unit if it weren't developed under the program.

The present value of the savings over twelve years is \$14,722. The value of the 12 year exemption is higher because of the longer period. However there is also foregone income related to the affordability requirement at the 100% of median level. The value of the foregone income is \$8,400. The benefit to the purchaser of the exemption is partially offset by the foregone income of the developer. A developer is likely to proceed with an eight year exemption project rather than a twelve year one. Again, the value of the savings is approximately 5% to 7% of development cost.

Property Tax Exemption Program Economic Benefits for Condominium Projects

Unit Size (square feet)	No Program 700	8 Yr Exmpt 700	12 Yr Exmpt 700
Development Cost	210,000	210,000	210,000
Exempt Value		150,000	150,000
Annual Tax Savings* (@ \$12.03/\$1,000 Valuation)		1,805	1,805
Present Value of Savings (@ 6.5% discount rate)		10,987	14,722
Savings as % of Develop. Cost		5.2%	7.0%
Foregone Sales Proceeds			(8,400)
Net Impact		10,987	6,322
Affordable Price			
Without Program	245,000		
With Program		255,987	251,322

Development Feasibility

The feasibility analysis provides a proforma projection of development performance to determine whether a project provides an adequate return to justify the capital investment. The proforma feasibility analysis compares the cost of development to completed value to determine the developer profit. Developer profit is considered the compensation to a developer for incurring the risk of undertaking and completing a project. Developer profit for any development plan is compared to a target rate to identify whether that option is feasible. A 15% rate is considered a typical rate falling within a range of 10% to 20%. Such a rate provides adequate incentive for a developer to assume the risk associated with development. While 15% is a preferred rate, 10% is considered a hurdle rate for this analysis. Developer profit as percent of development cost is one measure of financial return. It shouldn't be confused with internal rate of return (IRR). A 10% developer profit as percent of cost may be equivalent to an IRR of 20%.

The value of the completed development is estimated as the net sales proceeds in the case of a residential condominium project, or the capitalized value of the operating income in a stabilized year for a rental project. Developer cost is calculated as the sum of land acquisition, building construction, and soft costs.

Proformas were prepared for six alternatives:

Rental

- No program
- Eight year exemption
- Twelve year exemption with 20% affordable housing

Ownership

- No program
- Eight year exemption
- Twelve year exemption with 20% affordable housing

The same building prototype was used for each alternative. The prototype is based generally on the Arabella and proposed Arabella II Apartments in North City. The project is assumed to include 80,000 gross square feet of development on a 20,000 square foot lot (Floor Area Ratio of 4.0). The average unit size is 700 square feet with one parking space provided per unit. One-half of the parking is in above grade structure and one-half below grade.

The key assumptions are related to development costs and rents sales prices.

Key Financial Assumptions

Construction Cost

Apartments Market (/ gr. sq. ft.)	120.00
Apartments Affordable (/gr. sq. ft.)	120.00
Condominiums Market (/gr. sq. ft.)	140.00
Condominiums Affordable (/gr. sq. ft.)	120.00
Retail (/gr. sq. ft.)	170.00
Underground Parking (/sp.)	30,000
Aboveground Parking (/sp)	20,000

Soft Costs

Apartments (% of constr.)	30.0%
Condominiums (% of constr.)	38.0%
Retail (% of constr.)	30.0%

Land Price (/sq. ft.) 50.00

Rents

Apartment Rent Affordable (/sq. ft./yr.)	21.30
Apartment Rent Market (sq. ft./yr.)	21.30
Retail Rent (\$/gr/yr)	18.00
Apartment Exp. (/sq. ft./yr.)	7.00

Capitalization Rate

Apartments	5.0%
Retail	6.5%

Condo Sales Price

Condo Sales Price Affordable (/sq. ft.)	290.00
Condo Sales Price Market (/sq. ft.)	350.00
Condo Sales Costs (% of Price)	8.0%

The financial performance of each alternative is summarized in the following table. As described above, a project is feasible if its developer profit as a percent of cost exceeds 10%.

Comparison of Financial Performance

Description	Apartments			Condominiums		
	No Program	8 Yr Exmpt	12 Yr Exmpt	No Program	8 Yr Exmpt	12 Yr Exmpt
Site Area (Square Feet)	20,000	20,000	20,000	20,000	20,000	20,000
Gross Building Area	80,000	80,000	80,000	80,000	80,000	80,000
Dwelling Units	97	97	97	97	97	97
Parking (Stalls)	97	97	97	97	97	97
Financial Return						
Capitalized Value of Rental Income	17,999,600	18,832,921	19,195,092			
Sales Proceeds	-	-	-	21,085,167	21,896,000	21,382,153
Total Value	17,999,600	18,832,921	19,195,092	21,085,167	21,896,000	21,382,153
Development Cost						
Land	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Construction	12,028,571	12,028,571	12,028,571	13,628,571	13,628,571	13,308,571
Soft Costs	3,368,000	3,368,000	3,368,000	5,042,571	5,042,571	4,924,171
Total	16,396,571	16,396,571	16,396,571	19,671,143	19,671,143	19,232,743
Developer Profit	1,603,029	2,436,349	2,798,521	1,414,024	2,224,857	2,149,410
Profit as % of Development	9.8%	14.9%	17.1%	7.2%	11.3%	11.2%

As shown, development of apartments is not feasible without the program. With the eight year tax exemption, the return does exceed the threshold rate. Since affordable rents are equal to or greater than market rents, a market rate project would meet the affordability requirement and qualify for the twelve year exemption as well.

The condominium projects don't meet the feasibility threshold without the program either. If affordability is defined at the 100% of median case as assumed in the analysis, the foregone income for the 12 year case would offset savings to the purchaser, and a developer would be likely to apply for the eight year exemption.

Benefit Features

On a draft basis, City staff asked for an evaluation of a menu of several hypothetical alternatives of extra amenities that a developer could provide. In essence, the amenities are a form of additional public benefit. These amenities could be required (or a menu of options created) either through the zoning code or directly as a condition of the Property Tax Exemption ordinance.

Each of the proposed benefit features can be evaluated in terms of its impact on development cost and developer profit. In a general sense, the concept that the costs of benefits would not exceed one percent of development cost is conservative in that the value of the tax exemptions is 5% to 7% of development cost. However, as shown the projects aren't feasible without the program, so the full value of the exemption isn't available for investment in public features.

Three proposed requirements and their impacts are summarized in the following table. Affordable housing was not evaluated, because that is already provided for in the State law for the PTE program, by providing a 12 year exemption instead of 8 years.

Analysis of Additional Public Benefit Options

	Public Open Space	Community Center	Public Parking
Requirement	200 sf per 10,000 gsf	150 sf per 10,000 gsf	3 Surface or 1.5 Structure
		One per Target Area	Spaces per 30,000 sf
Cost for 80,000 gsf Building	1,600 sf	2,000 sf	4.0 structured sp.
	\$50 per sf land	\$250 per sf total	\$37,500 per sp. total
	50 per sf constr		
	\$100 per sf total		
Cost of Feature	160,000	500,000	150,000
Base Construction Cost	16,975,000	16,975,000	16,975,000
Base Profit %	14.9%	14.9%	14.9%
Additional Cost as % of Dev.	0.9%	2.9%	0.9%
Impact on Developer Profit	13.8%	11.6%	13.9%

The basis for the cost estimates are as follows:

A public plaza requires the purchase of a site or foregone development opportunities on a site that is already owned. The cost of developing a landscaped open space can vary from \$30 to 60 per square foot construction cost.

A community center is assumed to be at least 2,000 square feet, with a construction cost equivalent to commercial construction.

Public parking is assumed to be provided in an above-grade structure since the cost of land is too high to justify surface parking.

As shown, the cost of the benefit features varies from 1% to 3% of development cost. The cost of the community center is at the high end of the cost factor range, and drives the profit percentage toward the threshold rate. With a 1,200 square foot center, this feature would be comparable to the other options, but such a center is smaller than the minimum. This feature would offer an incentive only for projects larger than 130,000 square feet. The public open space and public parking are at the low end of the cost factor range, and the resulting developer profit rates are well above the minimum threshold.

The analysis does not reflect any costs of maintenance or security for the public open space or the other options. If that cost exceeds any incremental value associated with increased marketability of the property, the impact on profit would be greater.

There is a fourth option for program eligibility. Developers can provide a payment in lieu to the City in the amount of 2% of development costs. At this rate, a payment in lieu is not likely to be the preferred feature except in cases where the other options aren't feasible. However, it would work as a cap on costs and encourage the developer to provide the amenity directly.

Generally, for any additional public benefit option, the 1% factor is supportable based on the analysis. This equates to a return to the public (or City) about 20% of the value of the tax exemption benefits. A higher figure would also provide a developer profit greater than 10% of development costs in some instances. However, for projects likely to be pioneering efforts in an emerging market area, a 10% return threshold may not be attractive.

Hypothetically, a developer could propose a fifth option, which would be a hybrid of the other three benefit options. It would be subject to the same 1% factor.

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Plan Area 2 Legislative Rezone for the Ridgecrest Commercial Area
DEPARTMENT:	Planning and Development Services
PRESENTED BY:	Joseph W. Tovar, FAICP, Director

PROBLEM/ISSUE STATEMENT:


The small Ridgecrest commercial area currently has few uses that serve the neighborhood. In addition, there is a large vacant building, surrounded by a chain link fence that is unsightly. The Council directed staff to go out to the community last year and develop ideas about redevelopment of the business area that would serve the neighborhood. The Planning Commission has developed a proposal for a zoning change that would accomplish these goals.

FINANCIAL IMPACT:

If the neighborhood business district becomes more vibrant, it will serve the community and increase the attraction of the Ridgecrest neighborhood as a place to live. This would maintain the property values in the neighborhood resulting in the maintenance of existing property tax collections. In addition, new construction and new retail business development would result in increased tax revenues.

RECOMMENDATION

This item is on the agenda for City Council review and discussion and no action is required at this meeting.

Approved By: City Manager  City Attorney ____

INTRODUCTION

This proposal implements many of the Council goals— the Economic Development Goal (Goal 2), the Housing Goal (Goal 5), the Environmentally Sustainability Goal (Goal 6), and the Land Use/Transportation Goal (Goal 7). It has been the result of numerous public meetings and a great deal of public interaction.

In addition to supporting citywide goals, the proposal will provide a number of benefits to the Ridgecrest community. It will encourage the development of vacant and under-utilized sites and encourage increased vibrancy of a neighborhood commercial district. It will provide moderate income housing options for those who want to stay in or move to the Ridgecrest neighborhood. It encourages neighborhood walkability and viability by providing someplace for people to walk to and a “third place” to meet neighbors.

Due to market forces, the community amenities or moderate income housing that the community desires are not likely to occur without incentives. The incentives incorporated in the proposed regulations include

- Relaxation of the current housing density limit if parking demand is met
- An additional floor for housing units (allowing a 6-story building on a portion of the site)
- Protection of the single-family neighborhood by increasing the transition standards. Additional building stepbacks are required on upper floors if the building is higher than 35' tall in areas that abut single-family homes.

If the zoning is not modified, staff's understanding of the current development market is that commercially zoned properties in the Ridgecrest area will either a) remain underdeveloped or b) develop as townhomes. In either case, the community is not likely to see development of a “third place”, moderate income housing, or additional neighborhood-serving retail uses.

BACKGROUND

The proposal creates a new zoning category for the commercial area in the Ridgecrest neighborhood (See **Attachment A**). The zone will be named Planned Area 2 (PLA2). To implement the new zone, the Commission recommends a set of development standards to implement the vision of the residents of Ridgecrest (**Attachment B**). The new development regulations encourage the construction of mixed-use, mid-rise buildings in order to transition the commercial area from its current suburban form (one story buildings surrounded by parking) to a more urban form that includes ground floor retail, public spaces, and underground parking. The proposal represents an initial attempt to develop a form-based code, including regulations about building size, building bulk, setbacks/stepbacks and architectural treatments.

The impetus that spurred the creation of the new zoning category was the community desire to accomplish the following:

- Redevelopment of a large site with a vacant building.
- Development of a “third place” that encourages the community to gather and have interactions with others
- A development that includes neighborhood sustainability features. These include features such as: encouraging walkable neighborhoods and environmental

sustainability features, such as use of solar energy and “green” construction techniques.

- A development offers an opportunity to provide housing choice options for people who wanted to move from their nearby single-family home but stay in the neighborhood.

In early 2007, the City retained a University of Washington Urban Design class to create and illustrate development concepts on two sites in the Ridgecrest Commercial Area. The class visited the sites, presented preliminary findings to the community, refined ideas, and then presented the concepts in a community forum.

The students’ work with the community is the basis for the staff proposal for a new zone on the four corners of the Ridgecrest Commercial Area.

The students concluded that this commercial area is viewed as an important asset in the Ridgecrest community. There is a strong desire to encourage development on these sites that benefit the community.

The staff proposal not only supports the outcomes of the UW student work; it also supports the core ideas of Council Goal 6 (Environmental Sustainability Strategy) and the concepts about walkability, mixed-use, and community connectivity discussed at the speakers series by Mr. Hinshaw, Mr. Sher, and Mr. Burden.

The Planned Area 2 (PLA-2) zoning map and Development Code proposal has had a strong public participation component. Since the end of the summer, staff met twice with the public and six times with the Planning Commission to discuss the proposals and their subsequent revision.

On January 3, the Commission adopted the recommendation on a 7-0 vote (two Commissioners were absent).

Key elements of the proposed zoning district

There are some several aspects of the development regulations that deserve additional discussion: building heights, transitional requirements from single-family residential, sustainability features, architectural standards and review, and parking management. They are discussed below.

Building heights

This area is currently zoned NB (Neighborhood Business). The district’s Comprehensive Plan designation would also permit a zoning of either Community Business (CB) or Regional Business (RB). The existing zoning would permit a 50 foot height in a mixed-use building. A CB zone would permit 60-foot heights and an RB zone would permit 65-foot heights. With the one exception noted below, existing development regulations do not require design review or any public amenities to attain the increased height.

In the proposal, building heights are tied to specific incentives. For example; to achieve a building of 4 stories, the building must contain a mix of commercial and residential uses. (This is the same requirement that currently exists in Neighborhood Business zones)

To achieve 5 stories, the development must provide additional benefits to the residents and the surrounding community. These include requirements for active recreation space, public art, fountain or other water element, public plaza, and a requirement that the development to be “built green”.

To achieve the maximum height of 6 stories, the building must contain at least 20% affordable housing units.

In addition to the maximum height limit on the entire site, heights for individual structures are further restricted through the use of a Floor-Area Ratio (FAR) provision. A floor-area ratio limits height by limiting the development potential on a site. PLA-2 has an FAR of 4.75 which limits the average building height to less than 5 stories. Therefore, if part of the property is developed with 6 story structures, other parts of the property will be effectively limited to 4 story structures.

Transition requirements

Since three of the corners of the Ridgecrest Commercial Area abut single-family zoned property, the community and the Commission wanted to be certain that the development code addressed the transition between new development and existing homes.

The transition requirements differ somewhat depending on whether development is directly adjacent to single-family zones, across the street from single-family zones or adjacent to multifamily zones.

When the PLA-2 zone directly abuts R-6 zones, a 20 foot setback is required when the building reaches 35 feet in height. Above 35 feet, the setback to height ratio becomes 1:1 (1 foot in height equals a 1 foot setback) until the maximum height of 65 feet is reached.

When the PLA-2 zone abuts 5th Ave NE, NE 165th Street, or parcels zoned for multifamily, the building must setback 10 feet above the fourth story.

When the PLA-2 zone fronts a local street but is across from R-6 zoning, the building is permitted to go up to 35 feet high at the property line. Above 35 feet, a 1:1 setback ratio is required

In addition to the setback/stepback standards, buildings that directly face single-family residential must use architecture to resemble townhome type development. The point of this requirement is provide additional visual mitigation from the more intense development and create a natural transition from single-family. Also, the regulations require façade articulation (breaks in the façade) to break up the building mass.

In comparison to the proposal, the existing NB zoning would permit a 50 foot high structure if it is setback 20 feet from the property line adjacent to single-family residential zoning. The NB zoning would require an 8-foot setback above the fourth story. There is no requirement for façade articulation to buffer the effects of new development.

Sustainability features

In order to meet the City Council's Goal 6, the Planning Commission proposed new regulations regarding sustainability. Items such as green streets, Flexcar (or other car sharing programs), and "built green" requirements are all new to the City's development code in the PLA-2 zoning district.

One aspect of sustainability is that the regulations envision and encourage development of an urban form, not a suburban form in PLA-2. It is expected that there will be little, if any, on-grade parking. Most parking will be in structures or underground. In an urban form, there is not likely to be a grass lawn or a hedge between the building and the street. More likely there will be street trees, as required by code. More impervious service is permitted, but water runoff will be strictly controlled by a combination of the City's Engineering Development Guide as well as requirements identified in the Built Green Manual. In addition, the regulations envision a green-street treatment for 163rd Street that utilizes some of the existing vegetation and treatments such as rain gardens, bio-swales and other measures to control ground water runoff.

Architectural review

New to the zoning code will be an administrative review process (ADR). Built into the new language of the PLA-2 is the requirement for greater design standards than currently required. An ADR process allows staff to review a proposal and approve it if it meets the intent of the district. The ADR process will have a public comment component built into it.

Parking Management Plan

Throughout the PLA-2 discussions before the community and the multiple Planning Commission hearings, it was clear that the residents of the Ridgecrest area are concerned about the lack of parking around the commercial center. The Crest Theater does not provide enough parking for its patrons, so at times during the week, movie goers park along several streets near the theater. This situation has existed for many years.

Because of this, when new development is proposed in the PLA-2, a parking management plan will be required. The plan will analyze the parking demand of the proposed development and show where the parking will be accommodated. This analysis will occur as part of the ADR process.

The parking requirements in this zone are slightly less than those required in most other commercial areas in the city. The requirement in PLA-2 is for 1 car for each studio and one bedroom unit and 1.5 cars for each larger unit. The Commission believes that, even though this ratio is somewhat less than requirements in other multi-family residential zones, it will be workable because of the emphasis on the parking management plan and the requirement for a car sharing program.

DISCUSSION

The Commission discussed the proposal over the course of six meetings. The Commission heard from many people and has concluded that the negative comments largely fall into one of two areas:

1. Concerns about building mass (height and bulk)
2. Concerns about parking overflow into neighborhoods

The Commission agrees that the proposal will likely result in structures that are taller and larger than the one-story structures that currently exist in the neighborhood business area. However, it is almost a certainty that any redevelopment occurring in this area will be taller than one story and larger than the existing development. A townhouse option, the most likely development scenario under the current zoning, will be approximately 35 feet tall. If a mixed use development is constructed, the existing zoning would permit a 50-foot building.

The proposed zoning would permit a building that is 65 feet tall on a portion of the site, and a building could only attain that height if the community receives the following amenities: a mixed use building, sustainability features, third place features and provision of moderate income housing. In addition, the building would be required to meet transition standards that are more stringent than those in the current code. The Commission believes that the benefits that accrue to the community, if redevelopment occurs, are worth the tradeoffs of a taller structure on the site.

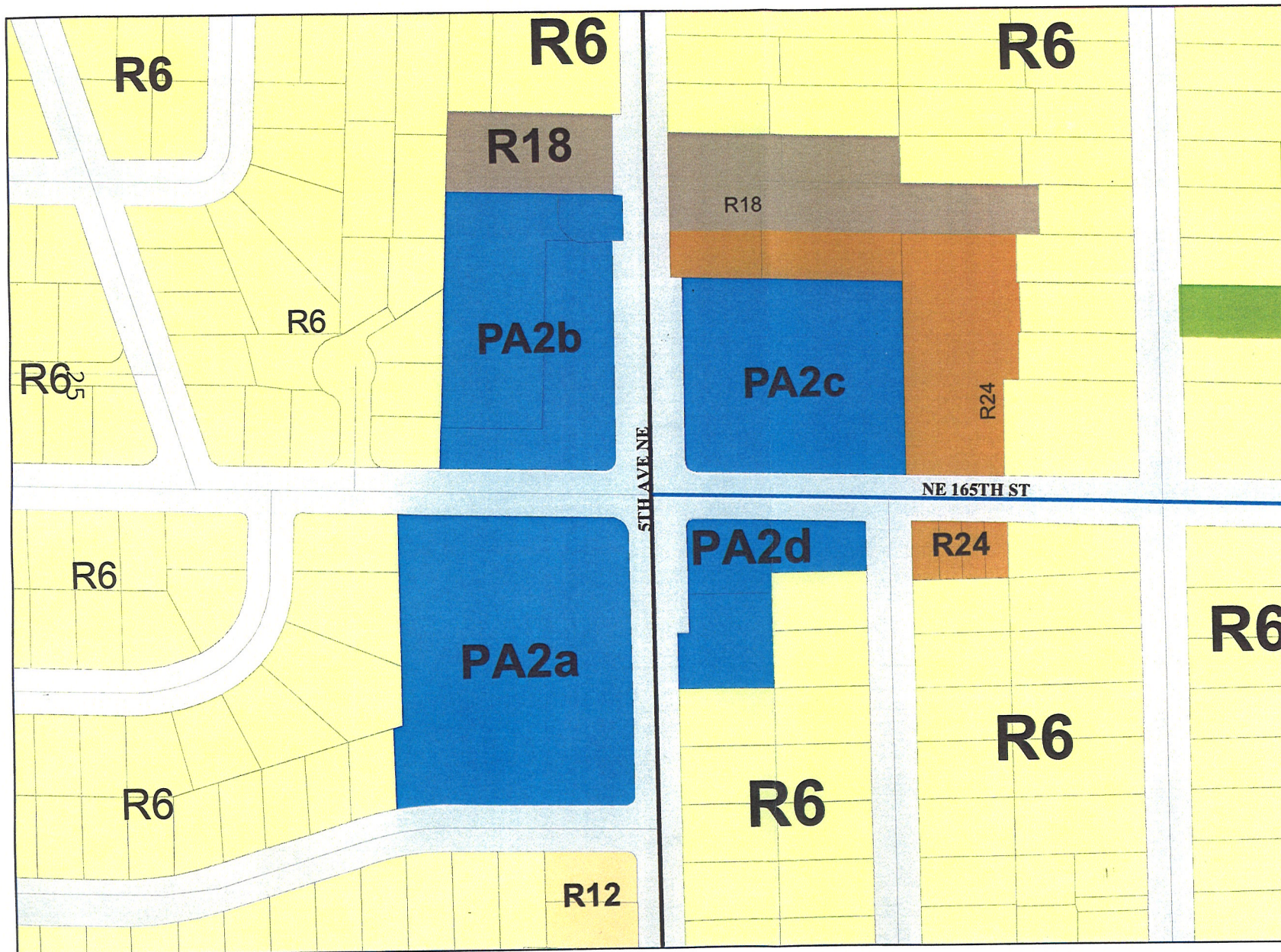
The issue of parking is important to the community and to the Commission. The Commission concluded that the issue of Crest parking overflow and the parking that will be required by a new development are two separate issues. Both issues need to be addressed at some point but the only parking issue that can be addressed in this zoning change is the issue of parking for new development. The Commission believes that the parking ratio proposed in the regulations, together with an approved parking management plan, will provide enough spaces to serve the residents of the structure and patrons who will want to use the retail services that will locate within the structure.

RECOMMENDATION

No action is required. An ordinance adopting the regulations will be on the January 28 Council agenda for action.

ATTACHMENTS

- A. Proposed Zoning Map with New Zoning Designations
- B. Proposed Development Code Section 20.91 – Planned Area 2
- C. Drawing of Single-Family Residential (R-6) Transition Standards



SHORELINE
 Geographic Information System
**Proposed Zoning
 Planned Area 2**
 Representation of Official
 Zoning Map Adopted By
 City Ordinance No. 292.
 Shows amendments through
 April 3, 2007.

Zoning Designation

- PA2; Planned Area 2
- R-4; Residential, 4 units/acre
- R-6; Residential, 6 units/acre
- R-8; Residential, 8 units/acre
- R-12; Residential, 12 units/acre
- R-18; Residential, 18 units/acre
- R-24; Residential, 24 units/acre
- R-48; Residential, 48 units/acre
- O; Office
- NB; Neighborhood Business
- CB; Community Business
- NCBD; North City Business District
- RB; Regional Business
- I; Industrial
- CZ; Contract Zone
- Regional Business-Contract Zone

Other Map Features

- City Boundary
- Open Water
- Outside Shoreline
- Interstate
- Principal Arterial
- Minor Arterial
- Collector Arterial
- Neighborhood Collector
- Local Street
- Park
- Tax Parcel Boundary
- Unclassified Right of Way

1 inch equals 119 feet
 0 30 60 120 180 240 Feet

No warranties of any sort,
 including accuracy,
 fitness, or merchantability,
 accompany this product.

CITY OF SHORELINE

Filename: j:\gis\maps\pads\Zoning_PlanArea1.mxd
 Updated: 8/10/2007

Chapter 20.91

Ridgecrest Commercial Planned Area 2

Sections:

- 20.91.010 Purpose and Scope
- 20.91.020 Planned Area Zones and Permitted/Prohibited Uses
- 20.91.030 Density and Dimensional Standards
- 20.91.040 Administrative Design Review
- 20.91.050 Design Standards
- 20.91.060 Height Incentives
- 20.91.070 Parking
- 20.91.080 Signs
- 20.91.090 Outside Lighting

20.91.010 Purpose and Scope

- A. The purpose of this chapter is to establish development standards for Ridgecrest Commercial Planned Area 2. These standards are intended to implement a new vision for this area by replacing or modifying the regulations of SMC Chapter 20.50 – General Development Standards and revising permitted uses. The Ridgecrest Commercial Planned Area 2 standards are designed to:
 - 1. Be a form based code which provides flexibility, yet ensures the character of a project's building and site design is supportive of the adjacent public spaces and uses.
 - 2. Create lively mixed use and retail frontage in a safe, walkable, transit-oriented neighborhood environment.
 - 3. Provide for human scale building design.
 - 4. Contribute to the development of a sustainable neighborhood.
- B. If provisions of this chapter conflict with provisions elsewhere in the Shoreline Municipal Code, the provisions of this chapter shall apply. When it is unclear which regulations apply, then the presumption shall be that the regulations of this chapter take precedence with the ultimate determination to be made by the Director.

20.91.020 Permitted/Prohibited Uses

- A. In order to implement the vision of the Comprehensive Plan and the neighborhood visioning project, the Ridgecrest Commercial Planned Area 2 is adopted as shown on the official zoning map.
- B. NB uses shall apply in Ridgecrest Commercial Planned Area 2 for developments less than 1.5 acres.
- C. All uses provided for under Chapter 20.40 SMC are permitted for developments 1.5 acres or more in Ridgecrest Commercial Planned Area 2 except the following:

DRAFT

Planning Commission Recommendation
January 14, 2008 version

1. Adult use facilities;
2. Gambling uses;
3. Vehicle repair, service and/or sales unless entirely within an enclosed building;
4. Wastewater treatment facilities;
5. Wrecking yards;
6. Warehousing, self-storage warehouses and wholesale trade;
7. Outdoor material storage, including vehicles. Material storage shall be allowed only within a fully-enclosed structure.
8. Shipping containers;
9. Other uses the Director determines to not comport with the intent of the district as expressed in SMC 20.91.010(A).

20.91.030 Density and Dimensional Standards

- A. Developments in Ridgecrest Commercial Planned Area 2 that are less than 1.5 acres shall apply the density and dimensional standards for NB zones.
- B. Developments in Ridgecrest Commercial Planned Area 2 that are 1.5 acres or more shall apply the following density and dimensional standards:

1. Setback, Height, and Floor Area Ratio Standards

Table 20.91.030B –Dimensional Standards

Standards	Planned Area 2
Setback for building base	5' adjacent to Residential zones, 0' abutting the public right-of-way.
Setback/stepbacks from property line for buildings	Buildings must be 20' from property lines at 35' building height abutting all R-6 zones. After 35', building to setback ratio shall be 1:1
	Buildings must be 10' from all property lines above the 4th story abutting 5 th Ave NE, NE 165 th Street and all other MF zones.
	Buildings on NE

DRAFT

January 14, 2008
Page 2 of 13

	163 rd , across from R-6 zoning, can be 35' high at the property line; above 35' the building to setback ratio shall be 1:1.
Building Height, Min	2 Stories
Building Height, Max	Up to 6 Stories or 65' if public bonus features are provided ^{1,2}
Floor Area Ratio (FAR)	4.75 ²
Density	Unit total limited by height, FAR and parking requirements ²

¹ See 20.91.060 for building height incentives.

² Only for Planned Area 2a. NB standards for height, FAR and density shall apply to development 1.5 acres or more in 2b, 2c and 2d.

2. **Impervious Area.** Impervious area is 100 percent.

3. **Additional Height Provisions.**

- a. Mechanical penthouses, stair/elevator overruns and antennae (not including WTF's) may be excluded from building height calculation, provided they are no more than 15 feet above the roof deck and satisfy the criteria in SMC 20.19.050(B)(2)(g).
- b. Wireless Telecommunication Facilities ("WTF") may be excluded from building height calculation, provided they are no more than 15 feet above the roof deck, are entirely shrouded and satisfy the criteria SMC 20.19.050(B)(2)(g).
- c. Roof elements such as pitched roofs, gables and dormers may be excluded from building height calculations.
- d. Features providing environmental sustainability such as solar panels, wind turbines, and associated equipment are excluded from height standards, provided they are no more than 10 feet above the roof deck.

20.91.040 Administrative Design Review

- A. **Applicability.** Administrative design review shall be required for developments in Ridgcrest Commercial Planned Area 2 that are 1.5 acres or more and that meet one of the thresholds in SMC 20.50.125.

DRAFT

January 14, 2008
Page 3 of 13

- B. **Standards for Approval.** When design review is required, the applicant shall demonstrate that plans satisfy the criteria in SMC 20.91.050 unless approved as a design departure by the Department Director consistent with the intent of each subsection.
- C. **Design Departures.** A permit applicant wishing to modify any of the standards in this chapter may apply for a design departure. A design departure will be approved if it is consistent with the intent of each subsection and it meets or exceeds the standard design objective. The Director's decision may be appealed to the Hearing Examiner with substantial weight given to the Director's decision.

20.91.050 Design Standards

- A. Developments in the Ridgecrest Commercial Planned Area 2 that are less than 1.5 acres shall apply the design standards for NB zones.
- B. Developments in the Ridgecrest Commercial Planned Area 2 that are 1.5 acres or more shall apply the following design standards:

- 1. **Site Design.**

- a. **Accommodation of Street Level Commercial**

- i. Intent: To provide commercial services to the residents of the Ridgecrest Neighborhood by requiring first floors adjacent to the street be constructed to accommodate commercial services.
 - ii. Buildings fronting 5th Avenue NE are required to build to the specifications for ground level commercial. Ground level commercial may include live/work units that satisfy the criteria in SMC 20.91.050(2)(i). There may be non commercial occupation of the ground level.

- b. **Facades - 5th Avenue NE, NE 165th Street**

- i. Intent: To create frontage which encourages pedestrian use, promotes a sense of security by providing "eyes on the street" and creates visual connections between activities inside and outside of buildings.
 - ii. Facades fronting on the 5th Avenue NE and NE 165th shall include a minimum of 50 percent of the façade area 2 feet -12 feet above grade, comprised of windows with clear nonreflective glass allowing visual penetration of at least 2 feet into the building if used for commercial uses.

- c. **Buffering**

- i. Intent: To soften the visual impact of multi-use buildings adjacent to single-family homes.
 - ii. Decorative features such as plantings and/or trellises are to cover at least 50 percent of the building base on the side at the time of construction;

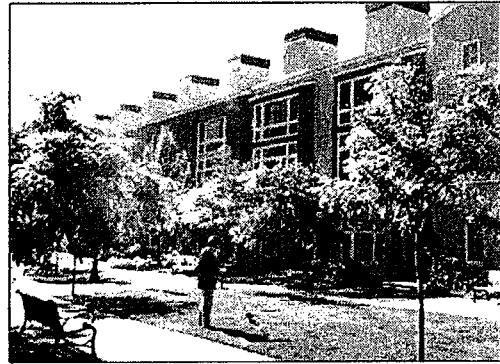
DRAFT

January 14, 2008
Page 4 of 13

iii. Stamped and painted concrete (decorative treatments to the building base) shall be used on building fascia not covered by plantings to provide a visual relief to single-family residences.

iv. Mature trees and shrubs shall be used on portions of the property abutting the right-of-way to soften the appearance of the building.

v. Retaining existing vegetation is encouraged to create a visual buffer to existing single-family residential



d. Driveway Access

- i. Intent: To ensure development reduces potential automobile conflicts on adjacent residential properties. Design ingress and egress points in a manner to reduce automobile impacts to adjacent residential uses.
- ii. Limit egress to NE 165th and 5th Avenue NE.

e. Transit stops

- i. Intent: To ensure development of sites adjacent to transit stops is designed to support, complement and accommodate the stop and promote use of the stop.
- ii. Development on parcels that front locations on 5th Avenue NE designated for a public transportation stop shall be designed and furnished to accommodate the intent in a manner approved by the Director. Weather protection shall be included in the design.

f. Entry Courtyard

- i. Intent: To provide a distinctive, safe and readily identifiable main pedestrian entry for the complex with a public right-of-way frontage.
- ii. Entry courtyards shall:
 - 1) Abut and be visibly prominent from a public sidewalk by including at least two of the following design elements:
 - recess
 - overhang
 - portico/porch
 - stone, masonry or patterned tile paving in entry
 - ornamental building name or address
 - landscape pots or boxes
 - fixed seating
 - 2) Be at least 100 square feet in area with dimensions no less than 10 feet.

DRAFT

January 14, 2008
Page 5 of 13

- 3) Provide weather protection on at least two sides or overhead with walls, canopies, awnings, or landscaping.

2. **Building Design** All of the following elements of building design will be approved through the administrative design review process under SMC 20.91.040.

a. **Pedestrian enhancements and transparency**

- i. Intent: To provide pedestrians with protection from the elements, visual connections between activities inside and outside of buildings, and visual interest.
- ii. All street fronting buildings over 35 feet tall shall provide overhead weather protection for pedestrians with a marquee, awning, building

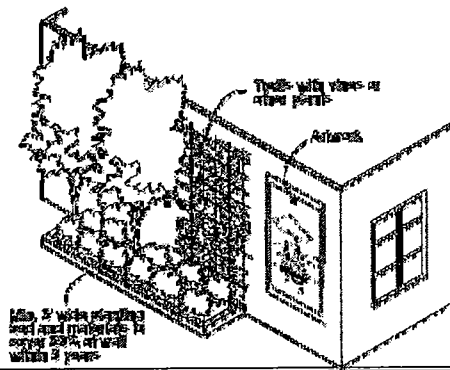


projection or other permanent structural element, over approximately 80 percent of the frontage of the subject property. The weather protection must cover at least 6 feet of the width of the sidewalk and be located a minimum of 10 feet above the walkway. The width may vary (not less than 3 feet) to accommodate street trees, streetlights, etc.

- iii. Ground floor facades of all structures facing a public sidewalk shall be transparent nonreflective glass windows.
- iv. Ground floor building facades fronting public sidewalks shall use planters, signage, architectural details and other techniques to create variety and interest.

b. **Blank walls**

- i. Intent: To reduce the negative visual impact of walls without openings or windows by ensuring there are features that add visual interest and variety to the streetscape.
- ii. Blank walls more than 30 feet in length shall be treated to provide visual interest. Treatment includes installing trellises for vine and plant materials, providing landscaped planting beds that screen at least 50 percent of the wall, incorporating decorative tile or masonry, or providing artwork on the wall.



DRAFT

January 14, 2008
Page 6 of 13



c. Facade Articulation

- i. Intent: To reduce the apparent bulk of multistory buildings by providing visual variety.
- ii. All facades shall be articulated with projections, recesses, covered doorways, balconies, covered box or bay windows and/or similar features to divide them into human scale proportions.
- iii. All facades longer than 30 feet shall be broken down into smaller units through the use of a combination of projections, offsets, recesses, covered doorways, balconies, covered box or bay windows, staggered walls, stepped walls and overhangs. Changing materials and colors may be used to embellish the articulation but alone are not enough to provide the required amount of articulation.
- iv. Projections and recesses shall be 3-5 feet in depth, 10 feet long and occupy at least 20 percent of the length of the façade.

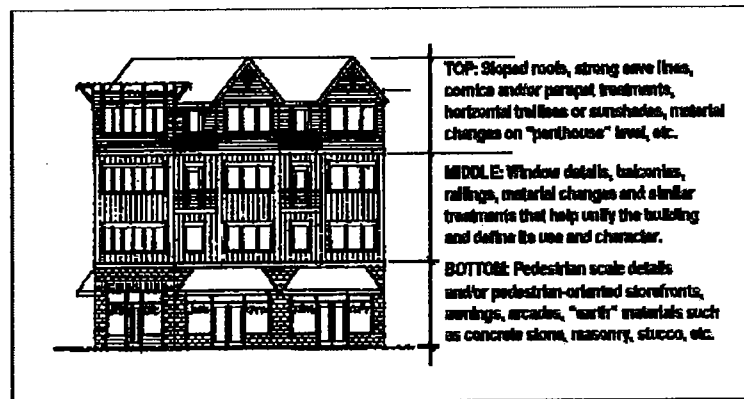
d. Vertical Differentiation

- i. Buildings shall distinguish a “base” through the use of:
 - pedestrian scale details;
 - articulation;
 - overhangs;
 - masonry strips and cornice lines; and
 - “earth” materials such as stone, masonry, or decorative concrete.
- ii. Buildings shall distinguish a “top” by emphasizing a distinct profile or outline with a:
 - parapet;
 - cornice, upper level set-back;
 - pitched roofline;
 - strong eave lines;

DRAFT

January 14, 2008
Page 7 of 13

- horizontal trellises; and
 - different facade material then that used predominantly in the “middle.”
- iii. Buildings with more than 2 stories above elevation of the nearest public sidewalk shall also distinguish a “middle” through:
- material and/or color changes that differ from the base and top;
 - windows details, treatments and patterns;
 - balconies or alcoves; and
 - decks and/or railings.
- iv. The “base” shall be the first story above grade. The “middle” shall be stories between the base and top and the “top” is the highest story.
- v. All applications for new construction are required to submit detailed building elevations.



- e. **Street Frontage Standards**
- i. Intent: To provide pedestrian relief from the elements, provide special enclosure and add design interest on 5th Avenue NE and 165th Street NE.
 - ii. Buildings shall occupy at least 75 percent of the street front.
 - iii. Buildings shall have their principal entrance on the street frontage line.
- f. **Buildings adjacent to R-6 zones**
- i. Intent: To provide additional visual relief from more intense development adjacent to R-6 zones.
 - ii. Buildings facades within 30 feet of adjacent R-6 zones shall incorporate townhouse design elements for those portions facing R-6 zones.
 - iii. If building is separated by a local street, building facades within 20 feet of adjacent R-6 zones shall incorporate townhouse design elements.
 - iv. Townhouse design elements are bay windows, stoops, stairways up to entry doors from public sidewalks, porches, patios, balconies, railings,

DRAFT

January 14, 2008
Page 8 of 13

sloped roofs, cornices, and other elements that meet the intent of this section as approved by the Director.



- g. **Service areas and mechanical equipment**
- i. Intent: To screen rooftop mechanical and communications equipment from the ground level and from other structures. On-site service areas, loading zones, garbage collection, recycling areas, and similar activities shall be located in an area that minimizes unpleasant views from adjacent residential and commercial uses.
 - ii. Utility vaults, ground mounted mechanical units, satellite dishes, and other similar structures shall be screened on all sides from adjacent streets and public view. This does not include pedestrian-oriented trash receptacles along walkways.
 - iii. Fences designed for privacy, security, and/or screening shall be made of material that is compatible with the building design.
 - iv. Fences for screening and security purposes that are adjacent to the public right-of-way may be used only in combination with a trellis, landscaping,

DRAFT

January 14, 2008
Page 9 of 13

or other design alternatives to separate such fences from the pedestrian environment.

v. Mechanical units, utility equipment, elevator equipment, and wireless telecommunication equipment (except for the antennae) located on the roof shall be:

- Incorporated into the roof design; and
- Thoroughly screened, including from above when not in conflict with International Building Code or equipment specifications, by an extended parapet wall or other roof forms that are integrated with the architecture of the building. Environmental features do not have to be screened.

h. Parking Structures

- i. Intent: To reduce the visual impact of above-ground parking structures.
- ii. Parking structures at ground-level shall be fully enclosed except for vehicle entrances.
- iii. Parking levels above ground level shall have openings totaling no more than 65 percent of the façade area. All openings shall be screened with garden walls (structures designed to support vegetation growing across the opening); vegetation designed to grow on the façade and over the openings, louvers, expanded metal panels, decorative metal grills, opaque glass, or other devices approved by the Director that meet the intent of this section.

i. Live/Work Units

- i. Intent: To accommodate retail/office space and living units fronting on public right-of-way. Live/work units provide flexibility to business owners who want to live where they work.
- ii. Ground floor units facing a public sidewalk are required to be plumbed and built to be adapted for commercial use.

20.91.060 Height Incentives

The following height incentives shall only apply to developments in the Ridgcrest Commercial Planned Area 2a:

- A. Intent: To require installation of features that benefit the public by creating a more inviting and livable community.
- B. Building height may be modified based on the following criteria:
 1. The building may increase to 4 stories if approximately 80 percent of the building base fronting 5th Avenue NE is developed with nonresidential uses and/or live/work units.
 2. The building may increase to 5 stories if the standards in SMC 20.91.060(B)(1) and SMC 20.91.060(C)(1)-(5) are provided.

DRAFT

January 14, 2008
Page 10 of 13

3. The building height may increase to 6 stories if the standards in SMC 20.91.060(B)(1) and SMC 20.91.060(C)(1)-(5) are provided, and 20 percent of the total numbers of units are affordable housing, as defined in RCW 84.14.010.

C. Height Incentive Requirements:

1. Active recreation area

- a. Intent: To provide recreational opportunities for residents in an area of the City that has little public park space in support of high density development.
- b. Shall not be used for parking or storage.
- c. May be located out of doors, on top of, or within a structure.
- d. Shall include an area of at least 600 contiguous square feet with a minimum dimension of 20 feet.

2. Art, Public

- a. Intent: To add stimulating and aesthetically pleasing elements to the built environment.
- b. Must be displayed near the main pedestrian entrance to a building and be visible and accessible from a public sidewalk or within a public plaza.
- c. The scale of the artwork shall be appropriate for the space occupied and large enough to be appreciated in full from at least 10 feet away.

3. Fountain or other water element

- a. Intent: To add stimulating and aesthetically pleasing elements to the built environment.
- b. Shall be located outside of the building.
- c. The sum of the dimensions of the smallest possible cube surrounding the water when in motion shall be at least 30 feet.
- d. Shall be publicly visible and accessible from the main pedestrian entrance to a building or along a perimeter sidewalk or pedestrian connection.
- e. Water shall be maintained in a clean and noncontaminated condition.
- f. Water shall be in motion during daylight hours.

4. Plaza, public

- a. Intent: To provide for public gathering places supportive of a pedestrian-friendly environment.
- b. Shall be accessible to the public.
- c. Shall be readily accessible from a public sidewalk.
- d. Shall provide protection from adverse wind.
- e. Shall be signed to identify the enclosed plaza is available for public use.
- f. Shall include permanent and substantial sitting areas for at least 5 people.
- g. Shall be coordinated with or connected to the site's primary pedestrian entrance.
- h. Shall be at least 2,000 square feet in area (1600 sq. ft in contiguous area with a minimum dimension of 20 feet).

DRAFT

January 14, 2008
Page 11 of 13

- i. Shall be enclosed on at least two sides by a structure or by landscaping which creates a wall effect.
- j. Shall provide opportunities for penetration of sunlight.
- k. Shall be lighted at night.
- l. The property owner must grant the public a permanent easement ensuring public access over the plaza during normal business hours. The owner must record the easement with the county.

5. Sustainability Features

- a. Intent: To ensure that new construction incorporates new and innovative building techniques to reduce demand on energy and stormwater systems. Development shall be Built Green, as amended, or other sustainability standards approved by the Director that meet the sustainability intent of the King County Built Green program at a minimum of the three-star standard.

20.91.070 Parking

- A. Intent: To provide adequate parking for a mix of uses on and around the Ridgecrest Commercial Planned Area 2. The parking management plan shall make reasonable provisions to accommodate parking demand generated by on-site uses.
- B. All development proposals in the Ridgecrest Commercial Planned Area 2 require a parking management plan.
- C. The parking management plan shall address parking impacts, ways to reduce parking demand and incentives for alternative transportation such as bike racks, bike lockers, and a minimum number of transit passes available for residents.
- D. Parking spaces may be shared:
 - 1. When different uses share a common parking facility;
 - 2. The uses have peak parking demand periods that do not overlap more than 2 hours; and
 - 3. Shared parking areas shall be appropriately designated and signed.
- E. Minimum parking spaces required for residential uses are 1 space for studio and 1-bedroom units and 1.5 spaces for 2-bedroom units. Reductions to parking requirements up to 30 percent may be applied for in developments in 1.5 acres or more and approved by the Director.
- F. Provisions shall be made for a car sharing program (like Flexcar), as approved by the Director, and include a car on-site as well as car-sharing only parking spaces.
- G. Parking areas in developments 1.5 acres or more shall conform to the all of the parking design standards under SMC 20.50.410-.420

DRAFT

January 14, 2008
Page 12 of 13

H. On-site surface parking lot shall be screened from public right-of-way and adjacent residential land uses. Screening can consist of locating parking behind buildings or by opaque landscaping.

I. A majority of the parking area shall be located on-site. The remaining parking shall be on-site or within 1000 feet of the site on private property not used as single-family residential.

J. No more than 50 percent of the required minimum number of parking stalls may be compact spaces.

20.91.080 Signs

Development proposals in the Ridgecrest Commercial Planned Area 2 that are 1.5 acres or more require submittal and approval of a master sign plan through the administrative design review process set forth in SMC 20.91.040.

20.91.090 Outside lighting

A. Intent: To create a walkable human scale neighborhood environment by providing adequate and appropriate lighting for pedestrians.

B. The standards for outdoor lighting apply to all development proposals in the Ridgecrest Commercial Planned Area 2.

C. The outdoor lighting shall:

1. Accent structures or provide security and visibility;
2. Be shielded to confine emitted light to within the site ; and
3. Be located so it does not have a negative effect on adjacent properties or rights-of-way.

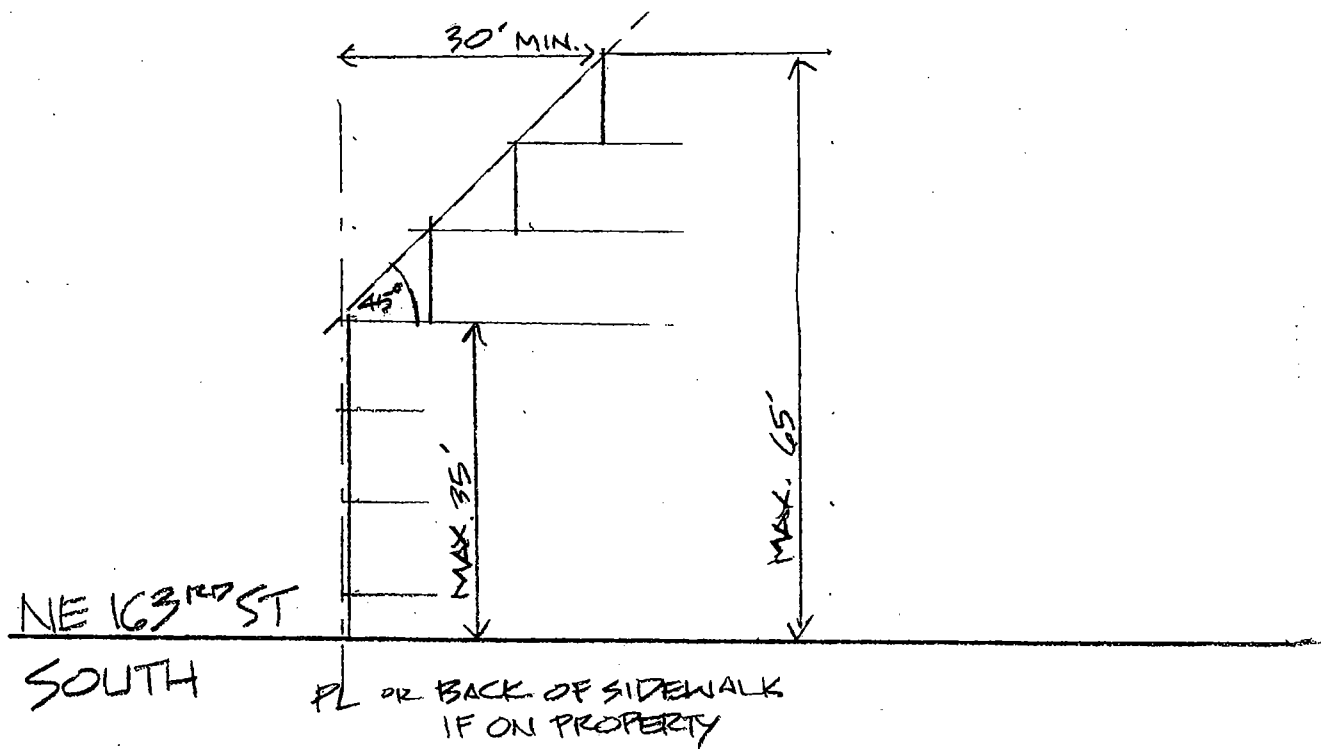
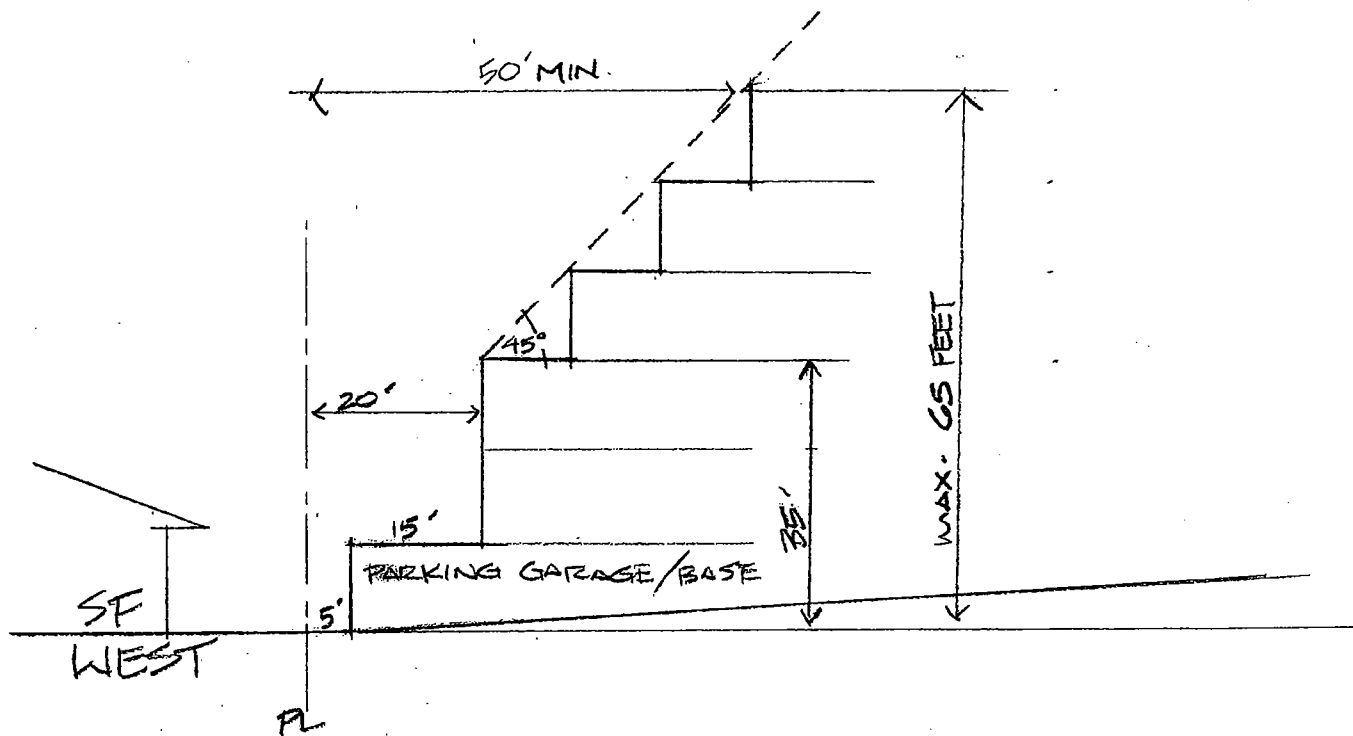
D. All building entrances shall be well lit to provide inviting access and safety. Building-mounted lights and display window lights shall contribute to lighting of pedestrian walkways and gathering areas.

E. Parking area light post height shall not exceed 25 feet.

F. Outside lighting shall be minimum wattage metal halide or color corrected sodium light sources which emit "natural" light. Non-color-corrected low-pressure sodium and mercury vapor light sources are prohibited.

DRAFT

January 14, 2008
Page 13 of 13



This page intentionally left blank.