



## AGENDA

### SHORELINE CITY COUNCIL STUDY SESSION

Monday, September 15, 2008  
6:30 p.m.

Shoreline Conference Center  
Highlander Room

	<u>Page</u>	<u>Estimated Time</u>
<b>1. CALL TO ORDER</b>		6:30
<b>2. FLAG SALUTE/ROLL CALL</b>		
(a) Proclamation of "Emergency Preparedness Month"	<u>1</u>	
<b>3. CITY MANAGER'S REPORT AND FUTURE AGENDAS</b>		
<b>4. COUNCIL REPORTS</b>		
<b>5. GENERAL PUBLIC COMMENT</b>		6:40
<i>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. Speakers may address Council for up to three minutes, depending on the number of people wishing to speak. If more than 15 people are signed up to speak each speaker will be allocated 2 minutes. When representing the official position of a State registered non-profit organization or agency or a City-recognized organization, a speaker will be given 5 minutes and it will be recorded as the official position of that organization. Each organization shall have only one, five-minute presentation. The total public comment period under Agenda Item 5 will be no more than 30 minutes. Individuals will be required to sign up prior to the start of the Public Comment period and will be called upon to speak generally in the order in which they have signed. If time is available, the Presiding Officer may call for additional unsigned speakers.</i>		
<b>6. STUDY ITEMS</b>		
(a) 2008 Citizen Satisfaction Survey	<u>3</u>	6:55
(b) 2009 Budget and City Long-Term Financial Projection Update	<u>7</u>	7:25
(c) Interim Report of the Community Priorities/Long Range Financial Planning Citizen Advisory Committee	<u>19</u>	8:35
(d) Ordinance No. 520, amending the Property Tax Exemption Program	<u>21</u>	9:20
<b>7. ADJOURNMENT</b>		9:50

*The Council meeting is wheelchair accessible. Any person requiring a disability accommodation should contact the City Clerk's Office at 801-2231 in advance for more information. For TTY service, call 546-0457. For up-to-date information on future agendas, call 801-2236 or see the web page at [www.cityofshoreline.com](http://www.cityofshoreline.com). Council meetings are shown on Comcast Cable Services Channel 21 Tuesdays at 12 noon and 8 p.m., and Wednesday through Sunday at 6 a.m., 12 noon and 8 p.m. Online Council meetings can also be viewed on the City's Web site at <http://cityofshoreline.com/cityhall/citycouncil/index.cfm>.*

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b> Proclamation of "Emergency Preparedness Month"
<b>DEPARTMENT:</b> CMO/CCK
<b>PRESENTED BY:</b> Gail Marsh, Emergency Management Coordinator

**PROBLEM/ISSUE STATEMENT:**

Every year disasters disrupt hundred of thousands of lives, and being prepared for such emergencies can reduce fear, anxiety and losses that might otherwise occur. The month of September has been declared "National Preparedness and Weather Radio Awareness Month," and this proclamation declares September 2008 as "Emergency Preparedness Month" in the City of Shoreline.

Citizens are encouraged to implement emergency preparedness measures at home, at work, and in their vehicles as part of the overall emergency preparedness programs of our community and state. Citizens who have pets are asked to include them in your planning process. They are also encouraged to start a Ready Neighborhood program in their neighborhood. Information on this can be obtained from visiting the City's Web site or contacting our Emergency Management Coordinator, Gail Marsh.

**RECOMMENDATION**

No action is required.

Approved By: City Manager \_\_\_\_ City Attorney \_\_\_\_



# PROCLAMATION

WHEREAS, every year disasters disrupt hundred of thousands of lives, and being prepared for such emergencies can reduce fear, anxiety and losses that might otherwise occur; and

WHEREAS, September has been declared "National Preparedness and Weather Radio Awareness Month"; and

WHEREAS, all Shoreline residents should increase their knowledge and awareness of emergency preparedness actions they can take to make themselves and their families self-sufficient for at least three days following a natural or man-made disaster or an act of terrorism; and

WHEREAS, the use of information from National Oceanic and Atmospheric weather radios, which are available for purchase commercially, can reduce the loss of life and property from all hazards by sounding a warning alarm at any time around the clock; and

WHEREAS, the City is a source of information about how citizens can prepare themselves for an emergency; and

WHEREAS, individual preparedness leads to local, state and national preparedness;

NOW, THEREFORE, I, Cindy Ryu, Mayor of the City of Shoreline, on behalf of the Shoreline City Council, do hereby proclaim the month of September, 2008 as

## EMERGENCY PREPAREDNESS MONTH

in the City of Shoreline and urge all our citizens to implement emergency preparedness measures at home, at work, and in their vehicle as part of the overall emergency preparedness programs of our community and our state.

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Cindy Ryu  
Mayor of Shoreline

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	2008 Citizen Satisfaction Survey
<b>DEPARTMENT:</b>	City Manager's Office
<b>PREPARED BY:</b>	Eric Bratton, CMO Management Analyst
<b>PRESENTED BY:</b>	Rob Vine, Vice President, ETC Institute

**PROBLEM/ISSUE STATEMENT:**

The City has recently completed its fourth citizen satisfaction survey (2002, 2004, 2006, and 2008). Beginning in 2002, the City has measured public perception about the City and its services by conducting a scientific survey of a random sampling of households in the City. In addition to measuring citizens' level of satisfaction with services, the survey helps determine priorities for the community as part of the City's ongoing strategic planning process.

The release of the survey results is timed to help inform the Council and staff prior to the 2009 budget review and adoption process. The results will be publicized on the City's website and through its monthly newsletter, *Currents*, as well as presented to various boards, commissions, and committees.

Ron Vine, Vice President of ETC Institute, who conducted the 2008 survey as well as the 2004 and 2006 surveys, will present the results of the survey at tonight's meeting.

**RECOMMENDATION**

No action is required at this time. The report is for information purposes only.

Approved By:      City Manager  City Attorney \_\_\_\_\_

**Attachment A:** 2008 DirectionFinder® Survey Executive Summary.

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# *DirectionFinder®* Survey

## Executive Summary

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### **Overview and Methodology**

ETC Institute administered the *DirectionFinder®* survey for the City of Shoreline during the summer of 2008 to assess citizen satisfaction with the delivery of major city services and to help determine priorities for the community as part of the City's ongoing strategic planning process. This is the third time the City of Shoreline has conducted the survey. The survey was previously administered in 2004 and 2006.

In July a seven-page survey was mailed to a random sample of 2,500 households in the City of Shoreline. Approximately three days after the surveys were mailed, each household that received a survey also received an automated voice message encouraging them to complete the survey. In addition, about two weeks after the surveys were mailed, ETC Institute began contacting households by phone. Those who indicated they had not returned the survey were given the option of completing it by phone.

The goal was to obtain a total of at least 500 completed surveys. This goal was accomplished, with a total of 511 surveys having been completed. The results of the random sample of 511 households have a 95% level of confidence with a precision of at least  $\pm 4.4\%$ .

***Interpretation of "Don't Know" Responses.*** The percentage of persons who provide "don't know" responses is important because it often reflects the level of utilization of city services. The percentage of "don't know" responses has been excluded from the graphs shown in this report to facilitate valid comparisons with the survey that was conducted in 2006. The number of "don't know" responses for each question is provided in the Tabular Data Section of this report.

## Major Findings

- **Overall Quality of Services and Facilities.** Residents are significantly more satisfied with the flow of traffic and congestion in 2008 (52%) than in 2006 (38%). The major areas that residents feel should receive the most emphasis from City leaders over the next two years are: flow of traffic and congestion (50%), effectiveness of sustaining environmental quality (33%), and quality of police services (32%).
- **City Maintenance.** Residents are more significantly more satisfied with the overall cleanliness of City streets and other public areas in 2008 (71%) than in 2006 (60%). Residents were also significantly more satisfied with the adequacy of street lighting in their neighborhood 2008 (52%) than in 2006 (42%).
- **Code Enforcement.** Overall residents are more satisfied with the enforcement of city codes and ordinances in 2008 (52%) than in 2006 (46%). The areas of code enforcement that residents feel should receive the most emphasis from City leaders over the next two years are enforcing the clean up of litter and debris (52%) and enforcing the removal of abandoned autos (45%).
- **City Communication.** Eighty-six percent (86%) of residents get information about City issues, services and events from the City Newsletter "CURRENTS", which is a slight decrease from 2006 (90%). However, more residents get information from the Parks and Recreation Guide (60%) in 2008 than in 2006 (54%). More residents also get information from the local newspaper (56%) in 2008 than in 2006 (47%).
- **Public Safety.** Residents are significantly more satisfied with the enforcement of local traffic laws in 2008 (67%) than in 2006 (57%). Residents are also more satisfied with the enforcement of drug and vice laws in 2008 (55%) than in 2006 (47%).
- **Level of Safety in Shoreline.** The overall feeling of safety in Shoreline is about the same among residents in 2008 (83%) as in 2006 (82%). There was a slight increase in the level of safety in residences' neighborhood during the day and at night in 2008 as compared to 2006.
- **Leadership and Quality of Life.** Residents are more satisfied with the overall image of the City in 2008 (74%) than in 2006 (69%). There was also an increase in satisfaction with the overall effectiveness of the city manager and staff and the overall quality of leadership of elected officials.
- **Shoreline as a place to live, work, and raise children.** Residents are slightly more satisfied with the overall quality of life in the City in 2008 (85%) than in 2006 (83%). There was also a slight increase in satisfaction with Shoreline as a place to live, but there was a slight decrease in satisfaction in Shoreline as a place to raise children and as a place with a variety of housing choices.

- **Environment.** Residents are significantly more satisfied with City efforts supporting alternative means of transportation in 2008 (52%) than in 2006 (40%). Residents are also significantly more satisfied with City efforts regarding recycling in 2008 (84%) than in 2006 (75%).
- **Parks and Recreation.** Residents are significantly more satisfied with walking and biking trails in the City in 2008 (67%) than in 2006 (48%). The areas that residents feel are most important to emphasize over the next two years are the maintenance of City parks and walking and biking trails in the City.
- **Transportation.** Residents are slightly more satisfied with the availability of public transportation, the availability of bicycle lanes, and the availability of sidewalks near their residence in 2008 than in 2006. There was a slight decrease in satisfaction with the availability of sidewalks on major streets.
- **Overall Value of Services Received from City Taxes.** Forty-one percent (41%) of residents feel they receive either excellent or good value from City taxes, which is lower than in 2006 (50%).

#### **Other Findings:**

- 48% of residents rated the quality of customer service as excellent (16%) or good (32%), compared to 55% who rated customer service as excellent (20%) or good (35%) in 2006.
- 60% of residents think that the City of Shoreline is moving in the right direction, compared to 59% in 2006.
- 62% of residents rated the condition of their neighborhood as excellent (15%) or good (47%) in 2006, compared to 58% who rated their neighborhood as excellent (13%) or good (45%) in 2006.
- 19% of residents feel the condition of their neighborhood is getting better, which is lower than in 2006 (26%); 63% of residents feel the condition of their neighborhood is about the same, which is higher than in 2006 (60%).
- 62% of residents would pay some amount of additional property taxes per month to maintain the types of City services they feel are most important to emphasize over the next two years.

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b> 2009 Budget and City Financial Long-Term Projection Update
<b>DEPARTMENT:</b> Finance
<b>PRESENTED BY:</b> Debbie Tarry, Finance Director

**PROBLEM/ISSUE STATEMENT:**

Staff is currently in the process of finalizing the 2009 Proposed Budget. The purpose of this discussion will be to provide the City Council with an update of the City's long-term financial projections and some of the primary policy issues that will need to be addressed during the 2009 budget deliberations. This report focuses on the City's operating budget which includes the General and City Street Funds. The Surface Water Fund is an enterprise fund supported by the surface water utility fees and therefore the budget is reflective of the needs that were considered as part of the Surface Water Master Plan. The Council recently completed a review of the capital budget through the 2009-2014 Capital Improvement Program (CIP) process. The 2009 Proposed Capital Budget may differ slightly from the 2009 plan in the adopted 2009-2014 CIP. Primarily these differences will be linked to changes in grant revenues related to Cromwell and Hamlin parks since the City was notified that they will not be awarded RCO grants for these projects and adjustments to the projected real estate excise tax collections in 2008.

**FINANCIAL IMPACT:**

As of September 5, the City's 2009 preliminary operating budget has a budget gap of approximately \$194,000. The budget gap represents expenditures in excess of revenues within the City's base operating budget. The base budget is to provide the current level of services with the exception of any new maintenance needs related to capital projects that have been completed, such as the 145<sup>th</sup> to 165<sup>th</sup> Aurora Avenue improvements, park improvements, and the new City Hall. The base budget does not include any new personnel positions, programs or services. The current budget gap is still preliminary and subject to change as more revenue and expenditure information is gathered during the finalization of the proposed 2009 budget. Staff anticipates that the 2009 budget will be balanced within currently available resources. The base budget will need to be balanced before the City Manager determines if any service level changes or program changes should be included in his recommended budget. The City Manager will present his recommended balanced 2009 budget to the City Council on October 13, 2008.

The Council last reviewed the City's long-term financial projections earlier this year. At that time staff was projecting that the 2009 operating budget would be balanced with current revenue sources. At the same time, as was projected at that time, budget gaps are projected for 2010 and beyond. As the Council is aware, the City Council



implemented short-term budget strategies to address anticipated budget gaps that were projected to start in 2008. This strategy included reductions in base budget items and the phased implementation in increases in the City's cable utility tax and the Seattle City Light contract payment. As a result of the implementation of this strategy the City has been able to balance its budget for 2008 and 2009.

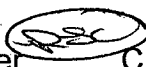
Although the City Council will be focused on a review of the 2009 budget later this year, it is important that we continue to monitor our long-term financial position and consider policy decision impacts on the City's long-term financial health. The purpose of the long-term projections is to provide information so that staff and the City Council can make resource allocation decisions that provide sustainable public services to the Shoreline community. Staff will be providing the Council an update of the long-term financial forecast during the Council meeting of September 15, 2008.

### **RECOMMENDATION**

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2009 budget information.

Approved By:

City Manager



City Attorney

## INTRODUCTION

Staff is preparing the 2009 Proposed Budget and updating financial indicators and projections as part of the process. This workshop will provide an opportunity for staff to share with the City Council the latest financial projections, along with a discussion on some of the major policy issues that will need to be discussed during the 2009 budget workshop reviews. The Council 2009 budget schedule is as follows:

Preliminary 2009 Budget Update	September 15
Transmittal of Proposed 2009 Budget	October 13
Department Budget Review	October 20
Public Hearing & Department Reviews	October 27
Public Hearing on Revenue Sources & 2009 Property Tax Levy	November 17
Adoption of 2009 Property Tax Levy	November 24
Adoption of 2009 Budget	November 24

## BACKGROUND

Earlier this year staff provided Council with an update of the City's long-term financial projections. At that time, staff projected that the 2009 budget would be balanced with current resources, but that budget gaps were anticipated for 2010 and into the future. Council appointed a citizen's committee of 18 individuals to develop an advisory recommendation to the City Council on the long-term financing strategy to provide City services to the Shoreline community. This committee began meeting in March 2008 and will be providing an interim report to the City Council tonight, September 15, 2008.

The most recent update of the City's long-term projections are similar to those reviewed earlier this year. The table below compares the projections for 2010 through 2014 developed in March 2008 and the recent update.

Year	March 2008 Projected Budget Gap	September 2008 Projected Budget Gap
2009	\$0	Current Preliminary Budget Gap \$194,000
2010	\$1 Million	\$1.2 Million
2011	\$1.1 Million	\$1.35 Million
2012	\$2 Million	\$2.2 Million
2013	\$2.7 Million	\$2.9 Million
2014	\$3.5 Million	\$3.75 Million

Since March staff has continued to evaluate revenue and expenditure trends and updated the City's long-term financial model. Also departments have submitted their 2009 budget requests and 2009 revenue estimates. Some of the major changes that have occurred since the March projections include:

- **Gambling Tax:** Punch-card and pull-tab related gambling tax revenue has continued to decline. As a result revenue from this source has been decreased by an additional \$18,000 for 2009. Card room gambling tax has declined in 2008 more than had originally been anticipated. As was discussed with the City Council during

the second quarter financial update, it is anticipated that card room gambling tax collections will be \$225,000 below budget. As there is no additional information at this time to increase projections for 2009 beyond those anticipated in 2008, the 2009 preliminary budget assumes collections of \$1.9 million for 2009, \$225,000 below those in the March long-range update. Staff will continue to evaluate card room gambling tax throughout 2008 to determine if further adjustments should be made.

- **Sales Tax:** Currently 2008 sales tax collections are approximately 2.5% ahead of 2007 collections. It appears that most of the growth is in the retail sector. The first installment of streamlined sales tax will be received by the City in September. The changes in the economy have caused some concern whether sales tax collections will slow. At the same time, when reflecting on the sales tax growth during the recession of 2002-2003, the City's sales tax collections continued to grow, although at a very minimal rate. As a result, staff is currently projecting that sales tax collections in 2009 will grow approximately by 2.5% compared to 2008. In addition to this growth the Washington State Department of Revenue has projected that Shoreline will receive approximately \$119,000 in streamlined sales tax revenue in 2009. This combined with the 2.5% projected growth results in an additional \$300,000 of revenue compared to 2008 projected collections.
- **Utility Tax Adjustments:** Recently Puget Sound Energy (PSE) requested a rate increase in natural gas rates to be effective October 1, 2008. Although approval of this rate will not occur until later in September, it is likely that this increase will be approved. Council may recall that last year PSE adopted a 13% rate decrease that was effective October 1, 2007, as a result of lower natural gas costs. As such this rate increase is projected to put rates back to a level that existed prior to the 2007 reduction. This rate increase is projected to generate \$89,000 more utility tax revenues in 2009 compared to the 2008 budget

Utility taxes from garbage and cable are expected to increase in 2009. Primarily the growth from garbage reflects a full year of the cost increases implemented by the King County transfer station, which is a component of the City's garbage rates. Comcast has also requested a rate increase, which will result in an increase of cable utility tax of approximately \$28,000 above projected 2008 collections. Utility taxes from telephone (land lines and wireless) appears to have peaked, and as such staff is recommending that the 2009 utility tax from telephone remain the same as those collected in 2008, approximately \$1.8 million.

- **Public Employee Retirement System (PERS) Contribution Rates:** In the March forecast PERS employee and employer contribution rates were projected to continue to increase through 2011. The legislature recently approved rates that will peak in 2009 and then hold steady or decline slightly in future years. The following table shows the most recent projected rate changes:

PERS Employer Contribution	Effective 7-1-08	Effective 7-1-09	Effective 7-1-10	Effective 7-1-11	Effective 7-1-12
September 2008 Projected Rate	8.31%	8.00%	8.00%	7.51%	7.51%

As a result of these legislative changes, the City's PERS contribution will increase by approximately 18%, \$105,000, from 2008 to 2009. The increase from 2007 to 2008 was 30.3%. The bright spot is that the long-term rates (2010 through 2012) are approximately 1.5% less than those projected in the March forecast. Prior to 2005, rates had been as low as 1.8%.

- **Health Benefits:** Preliminary information from AWC shows that they anticipate medical premium rates to increase between 9% and 10% for 2009, while dental and vision increases will be less. As a result, we have estimated that the City's contribution towards health benefits will increase by approximately 8.3% in 2009 or approximately \$115,000 within the operating budget. The AWC Board will review health premium recommendations at the end of September and adopt final rates at that time.
- **Market Rate Adjustment:** The preliminary 2009 budget anticipates a salary market rate adjustment of 5.22%. This is based on 90% of the June Seattle-Tacoma CPI-W. This CPI figure was 5.8%. Historically the City has based its market adjustment on the median market adjustment awarded by the City's comparable jurisdictions, as outlined in the City's compensation policy. This median has been very close to 90% of the Seattle-Tacoma CPI-W. Overall the City's salaries and wages budget, for regular staff, are anticipated to increase by 6.3% from 2008 to 2009.

2008 has seen inflation rise to higher levels than have been experienced in previous years. Although this is the case, economists are still projecting that inflation rates will decline in 2009 and be closer to 3%.

- **Salary Survey:** The City's compensation policy includes a routine salary survey of classifications every three years to ensure that the City's salaries are at the median of the City's comparable cities. During 2008 staff is completing a salary survey on classifications 54 through 73. Any changes recommended as a result of this review will be included in the proposed 2009 budget.
- **Lease Costs and City Hall:** The 2009 budget allocates \$300,000 in lease savings, since the City now owns the Annex, towards the funds for the City Hall/Civic Center project. The 2009 budget includes the City's lease obligations for the current City Hall based on the agreement with the landlord. It is anticipated that the City will not have a debt service payment on the new City Hall until 2010, as usually the first debt service payment is not due until six months after the long-term financing has been issued. Currently the City is anticipating issuing the long-term financing for City Hall by August 2009.

The 2009 preliminary budget contains anticipated operating costs related to the new City Hall, such as utilities, janitorial, system maintenance, etc., for 4 months. Basically this represents the time period of September through December.

The 2009 budget will most likely contain some one-time monies for moving from the Annex and City Hall to the new City Hall.

- **Jail Activity:** 2008 jail activity is projected to be slightly lower than 2007 activity. The following chart summarizes the actual jail activity for 2005 through 2007, along with projections for 2008.

Jail Overview								
Facility	2005		2006		2007		2008 Estimate	
	Jail Usage	Cost	Jail Usage	Cost	Jail Usage	Cost	Jail Usage	Cost
King County Bookings	673	\$ 118,583	790	\$ 134,270	719	\$ 141,808	602	\$ 125,854
King County Jail Days	3,909	\$ 360,723	4,543	\$ 430,543	4,251	\$ 438,576	3,816	\$ 417,318
Yakima Jail Days + Medcal	7,262	\$ 468,276	8,487	\$ 576,222	5,042	\$ 408,402	5,527	\$ 424,801
Issaquah/Renton	387	\$ 25,948	1,233	\$ 81,391	817	\$ 60,760	752	\$ 62,488
Total	12,231	\$ 973,530	15,053	\$ 1,222,426	10,829	\$ 1,049,546	10,697	\$ 1,030,462

As the City Council is aware, jail usage had a significant increase beginning in August 2005. The City continues to maximize its contract with Yakima County and is working with the Jail Advisory Group to monitor the activities at the Yakima jail. Staff continues to evaluate the ability to process prisoners through the Issaquah/Renton jails in order to meet the savings goal used to justify the additional Street Crime Officer added in 2007.

King County has asked to renegotiate jail rates starting in 2009, but at this time staff has used the existing contract to base projected 2009 costs. If jail rates were to increase beyond those in the current contract, then the current \$1.3 million projected for 2009 would increase.

As was stated earlier in this report, the King County Prosecutor is raising the threshold for felony property crimes. This means that there will be some shift of cases that were previously charged as felonies to now be misdemeanor crimes. The City is responsible for misdemeanor crimes. The City's Prosecuting Attorney has projected that this could result in a 700 day increase in City jail days. This cost is estimated at \$72,000 and is included in the 2009 preliminary budget.

- **Police Contract:** The 2009 police contract with King County is expected to increase by 8%, \$858,000, as compared to the 2008 budget. This is higher than in past years. This is primarily related to anticipated increases in salaries and wages. King County is in the midst of settling a contract with the union that represents the County's deputies. The contract expired on December 31, 2007. As a result the new contract is expected to raise salaries higher than originally anticipated for 2008, with wages increasing higher than originally projected for 2009 and 2010. As a result staff has raised the projected cost increase in 2010 to 6.5%.
- **Human Service Funding:** Currently the 2009 budget includes the first year of allocation of the 2009-2010 Human Services Funding Plan approved by the City Council. The Senior Center has requested an additional \$18,000 in funding for 2009 and 2010, although these funds were not included in the adopted 2009-2010 Human Service Funding Plan. The 2009 budget also includes \$25,000 in funding for utility assistance as authorized by Council during the approval of the Seattle City Light contract payment on electric distribution revenues.

- **Street Lights:** The 2009 projected budget includes \$285,000 for street light charges. The City has been working with Seattle City Light to identify street lights that the City has assumed responsibility for payment. In 2008 Seattle City Light completed its inventory of street lights and transferring all of the appropriate lights to the City.
- **YMCA Contribution:** The 2009 projected budget includes \$40,000 as per the Council's decision in 2007 to contract with the YMCA for \$80,000 for future services. It is anticipated that the City will receive \$10,000 in services in 2008, with the remaining \$70,000 spread between 2009 and 2010.

## **DISCUSSION**

Some of the primary factors affecting the 2008 proposed budget and the 2008-2013 long-range forecasts include:

### **GENERAL FUND**

#### **Revenues**

General Fund operating revenues, excluding interfund operating transfers and the use of fund balance for one-time expenditures, are projected to increase by approximately 3.9% from the 2008 current budget to 2009. This is approximately a \$1.15 million increase.

A description of the most significant revenue trends for 2009 are discussed below.

*Property Tax Revenues:* Property tax revenues are projected to grow by 2% in 2009. Approximately 1% of this growth is a result of projected new construction within the City, which results in increased valuation. A 1% increase in levy accounts for the remaining increase in property tax for 2009. The 2% increase in property tax revenue equates to approximately \$170,000. The projected 2009 property tax levy rate is \$0.98, down approximately 4% from the 2008 levy rate of \$1.02.

*Sales Tax Revenues:* The current projection for 2008 is for sales tax to grow by 2.5% over the 2007 levels, or \$165,000, for a total of \$6.79 million. At the current time we are projecting a 4.4% increase from 2008 to 2009 for total sales tax collections of \$7 million. Staff is continuing to monitor sales tax collections in 2008 before finalizing the 2009 projections. The increase in sales tax represents growth from local retail sales and sales tax anticipated to be received as a result of the streamlined sales tax implementation.

The City also receives criminal justice sales tax, which is collected county-wide and then distributed on a per capita basis. These revenues are projected to increase by 3.1% over 2008 collections.

*Utility Contract Payments, Utility Taxes & Franchise Fees:* Overall utility tax, franchise fees, and interlocal utility contract agreement revenues are projected to increase by 7.8%, \$555,000, when compared to anticipated 2008 collections. The primary reason for this increase is:

- The Seattle City Light contract payment will increase from 4.5% of revenues to 6% of revenues effective January 1, 2009. This increase is projected to generate approximately \$367,000 in additional revenue or 66% of the total increase in projected revenues in this category. .

*State Shared Revenues:* Liquor Board Profits and Liquor Excise taxes are two sources of revenue collected by the State of Washington and then distributed to cities on a per capita basis. It appears that these revenue sources will increase by \$35,000 from 2008 to 2009.

*Recreation Revenues:* Participation in the City's recreation programs has continued to increase in 2008. Actual revenues in 2008 are projected to exceed those budgeted by \$87,000, or 6.8%. The increased revenues are primarily a result of higher participation at the City's pool, in the summer day camps, and additional field rental fees. Revenues in our recreation programs are expected to be 11.4% greater in 2009 than compared to the 2008 budget. This equates to approximately \$146,000. This is approximately \$59,000 higher than projected 2008 revenues. This revenue projection includes recommended increases in fees for summer programs and other recreation programming along with anticipated revenue increases related to field rentals as a result of the turf improvements made at Twin Ponds. Any revenues received in excess of the rental revenue base that existed prior to the field improvements will be allocated to the General Capital Projects Fund to help restore some of the City's contribution towards these improvements.

*Development Revenues:* It is anticipated that activity levels will remain fairly constant between the 2008 and 2009.

*Investment Interest:* Investment interest rates have been declining since August 2007. Currently the City is able to get a rate of return close to 3.5% on a new two year investment. In 2002-2003 the rate had fallen to close to 1%, while prior to the current decline the City could get in excess of 5%. As a result we are projecting that investment interest revenue will decrease by 11% to \$350,000 in 2009. If interest rate trends change, staff will need to reevaluate the projected investment interest.

## **Expenditures**

Overall expenditures, excluding one-time interfund operating transfers that were budgeted in 2008 and carry-overs, are projected to increase by approximately 7.2% in 2009 as compared to the adopted 2008 budget.

A discussion of the most significant expenditure trends follows.

*Personnel:* Personnel expenditures represent approximately 34% of the City's operating budget. Excluding any new personnel positions, personnel costs are projected to increase by approximately 7.2%, \$824,000. This is primarily based on anticipated step increases for employees who are not at the top of their salary range, an anticipated market rate adjustment of up to 5.22%, a projected 8.3% increase in the City's health benefit costs, and a 19% increase in the employer PERS contribution. The City's long-term financial forecast projects personnel costs to increase by approximately

5% annually, as future PERS rate increases are not going to be as large as those that occurred in 2006 through 2009 and economists project that inflation will remain under control and be closer to 3% for the next few years.

Overall salaries for regular and extra-help employees are expected to increase by \$558,000, or approximately 6.4%. \$55,000 of this increase is related to an increase in extra-help budget related to recreation programs. The remaining \$266,000 (\$824,000 less \$558,000) in increased personnel costs are primarily related to the benefit changes. The largest increases are in the PERS contribution (\$105,000), social security replacement (\$34,000) and health benefits (\$115,000).

*Police Contract:* The 2009 police contract with King County is expected to increase by 8.2%, \$858,000, as compared to the 2008 budget. This is higher than in past years. This is primarily related to anticipated increases in salaries and wages. King County is in the midst of settling a contract with the union that represents the County's deputies. The contract expired on December 31, 2007. As a result the new contract is expected to raise salaries higher than originally anticipated for 2008, with wages increasing higher than originally projected for 2009 and 2010. As a result staff has raised the projected cost increase in 2010 to 6.5%.

*Jail:* We are currently anticipating that the 2009 budget to be \$1.3 million, equal to the 2008 budget. The 2008 actual expenditures are projected to be \$1.1 million. The 2009 projection includes approximately \$72,000 in costs related to the King County Prosecutor raising the threshold for felony property losses. The City's prosecutor has estimated that this change will increase the City's annual jail days by approximately 700 days.

*New Maintenance Costs:* As capital projects are completed the City must absorb any related on-going maintenance costs. In 2009 this includes the maintenance costs related to the improvements completed on Aurora 145<sup>th</sup> through 165<sup>th</sup> project and park improvements completed as part of the bond projects. The City anticipates these costs in its long-term financial projections. The preliminary cost estimate for the maintenance related to these projects is still being evaluated.

*Capital Funding:* The City will allocate approximately \$830,000 of general fund revenues in 2009 to the capital project funds. This funding is primarily for long-term facility repair/replacement and road surface management. This allocation is included in the City's long-term projections and the preliminary 2009 budget. In addition to this \$130,000 of field rental revenue is being transferred to provide funding for future turf replacement.

### **Future Needs**

Evaluating future financing options will be key in determining any future service enhancements the City may consider. Given our long-term financial projections the 2009 budget instructions to departments were that any service enhancement requests had to be funded by new on-going revenues, reductions in existing programs that are a lower priority or reductions that can be made as a result of efficiencies. Although this was the case, some needs were identified that would require either new one-time or on-going resources. Some of the departmental requests that have been identified include:



- *Financial Software Upgrade:* The vendor which provides the City's financial software (IFAS) is doing a major upgrade in the software's base operating system. The current software version will only be maintained through 2009. As a result the City must update software versions. In 2008 the City completed the first phase of the upgrade with an approximate cost of \$101,000. The second phase to be completed in 2009 is projected to cost \$62,000.
- *Human Services and Youth Services Plan:* The City Council adopted a major Council goal to update the City's plans in these areas. The cost to develop these plans is estimated at \$65,000.
- *Development of a Design Review Process and Design Standards for Commercial Areas:* Staff has estimated that the cost to complete this process would be \$25,000.
- *Senior Center Support:* The Senior Center has requested an additional \$18,000 annual support for 2009 and 2010.
- *Traffic Signal Analyst:* This position would have the responsibility to coordinate the City's signal synchronization efforts. The expected cost for this position would be \$104,500 for on-going costs and \$64,300 in one-time costs for required equipment.
- *Vehicle Needs:* The Street and Traffic Services division have each requested new trucks to meet some of their operating needs.
- *Increase in City's Scholarship Funding for Recreation Programs:* The Parks Department has requested to increase their scholarship funds from \$35,000 to \$45,000.
- *Public Arts Coordination:* Currently services related to art coordination is being funded through the 1% for arts allocation. Enhanced services could be provided if some general funds were provided to help fund these needs.

As the City Manager finalizes his recommended 2009 budget it will be determined which, if any, of the requests should be included in the proposed 2009 budget.

## **2009 AND BEYOND**

Staff will be finalizing the proposed 2009 budget during the next month and the City Manager will present a balanced budget to the Council in October. In making budget recommendations we continue to monitor our long-term forecasts.

Staff will continue to monitor the long-term projections as the 2009 budget is finalized. Staff anticipates providing additional updates on the long-term projections during the September 15, 2008, Council presentation.

## **SUMMARY**

As Council has continued to monitor future financial projections, it has followed conservative financial planning. This has allowed the City to carefully plan service enhancements, and maintain a stable financial position through good and bad economic cycles. The purpose of the long-term projections is to provide information so that staff and the City Council can make resource allocation decisions that provide sustainable public services to the Shoreline community. As the Council continues to plan for 2009 and beyond, it will be a necessary to monitor financial trends and follow a plan that will allow for the long-term provision of public services.

### **RECOMMENDATION**

No action is required by the City Council. This item is for informational purposes and to provide the City Council with preliminary 2009 budget information.

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## CITY COUNCIL AGENDA ITEM

### CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	Community Priorities/Long-Range Financial Planning Citizen Advisory Committee
<b>DEPARTMENT:</b>	Finance
<b>PRESENTED BY:</b>	Debbie Tarry, Finance Director

#### PROBLEM/ISSUE STATEMENT:

The City Council and the community have identified a vision of the City that includes safe neighborhoods, active partnerships, diverse culture, quality businesses, natural resources, and responsive government. This can be accomplished if the City provides services that promote the following:

- Safe and attractive neighborhoods and business districts
- Quality services, facilities, and infrastructure
- Safe, healthy and sustainable environment
- Government excellence
- Economic vitality and financial stability
- Human services
- Effective citizen communication and engagement

The City's long-term financial forecasts indicate that by 2010 the City's current resources will not be adequate to continue to provide the services that are currently being provided to the Shoreline community.

On March 19, 2008, the City Council appointed 18 individuals to serve on an advisory committee to develop a recommendation to the City Council on the long-term strategy to provide community services and the funding mechanisms to provide those services.

The following individuals were appointed to the committee:

Gary Batch	William Bear	Gloria Bryce
Keirdwyn Cataldo	Bill Clements	Kathie Crozier
Walt Hagen	Paul Herrick	Bill Hickey
Carolyn Hope	Dick Pahre	Rebecca Partman
Renee Pitra	Mary Lynn Potter	Rick Stephens
Paul Sutphen	Shari Tracey	Hiller West

This evening a subcommittee of these individuals will present an interim report to the Council. The subcommittee is currently drafting a written interim report, and it is anticipated that this written report will be distributed at the City Council meeting.

**RECOMMENDATION**

No action is required by the City Council, as this item is for informational purposes.

Approved By:      City Manager  City Attorney \_\_\_\_\_

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	Ordinance No. 520, amending Ordinance No. 310 as amended by Ordinance No. 479 and No. 496, Property Tax Exemption Program
<b>DEPARTMENT:</b>	CMO
<b>PRESENTED BY:</b>	John Norris, Management Analyst

**PROBLEM/ISSUE STATEMENT:**

Ordinance No. 310 was first adopted by the City Council on November 25, 2002. This ordinance established Shoreline's Property Tax Exemption (PTE) program for the North City Business District. More recently, the City Council adopted Ordinance No. 479 and Ordinance No. 496, which amended Ordinance No. 310. Ordinance No. 479 amended Ordinance No. 310 to comply with the revised state law on property tax exemptions, adjust the property tax exemption application requirements, clarify procedures, and add other administrative changes, while Ordinance No. 496 expanded the PTE program to include 350 tax exempt units in the Ridgcrest Commercial Area.

Ordinance No. 520 would further amend Ordinance No. 310 to increase the tax exempt unit count in the North City Business District to 500 units. It would also adjust the low-income household definition for the percentage of affordable housing units in projects in the North City Business District for both the 12-year and 8-year property tax exemption. Finally, Ordinance No. 520 proposes a few procedural changes to help streamline the property tax exemption process. This agenda item will be an opportunity to provide input to the City Council on proposed Ordinance No. 520, which is attached. The Council will then have the opportunity to discuss the proposal, ask staff questions, and provide direction for future adoption.

**RECOMMENDATION**

No action is required for this agenda item, as it is for discussion purposes only. However, staff recommends that Ordinance No. 520 be adopted when this item is proposed for Council adoption on September 22

Approved by:

City Manager



City Attorney

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## **INTRODUCTION:**

The Property Tax Exemption (PTE) program, initially adopted by the City Council in 2002 per Ordinance No. 310, is an incentive program aimed at increasing the amount of desirable, convenient and attractive residential housing in the North City Business District and Ridgecrest Commercial District. The additional residents who will occupy this housing will in turn help create an expanded market that attracts new businesses, fosters the expansion of existing businesses, and promotes local economic development.

Inherent purposes of the PTE program are to encourage the development of multi-family housing in the two target areas where development may not occur without such an incentive, offset the costs of structured parking, offset the risk of mixed use development, provide incentives for more affordable housing, and steer development to designated target areas close to transit and neighborhood services. Based on this, the PTE program is seen as a key strategy to help promote neighborhood, community, and environmental sustainability, in addition to being a key economic development strategy.

The PTE program initially offered a ten-year exemption from payment of property taxes commencing upon completion of the development. However, Ordinance No. 479, which was adopted in March of 2008 to primarily comply with the revised state law on property tax exemptions, amended the program to encourage affordable housing. This was accomplished by increasing the exemption period to twelve years for projects that included an affordable housing component and reducing the exemption period to eight years for market rate housing developments. To qualify as an affordable housing development, at least 20% of the multifamily housing units needed to be rented or sold as affordable housing, which was defined as residential housing that is rented or bought by low and moderate-income households (households making between 100% and 150% of the area family median income, adjusted for family size) whose monthly housing costs do not exceed 30% of the household's monthly income. The property tax exemption for both exemption periods applies to property taxes on the value of the residential improvements alone and does not apply to land, retail space, other commercial space, or utility or impact fees.

The PTE Program was also amended a second time in March of 2008 to expand the program to the Ridgecrest Commercial Planned Area. Although this expansion was initially proposed as part of Ordinance No. 479, the City Council removed all sections of Ordinance No. 479 that pertained to the Ridgecrest Commercial Planned Area as part of their discussion. Ordinance 496 added back these removed sections of Ordinance No. 479 and increased the number of Tax Exempt Units in the program in the Ridgecrest Commercial Planned Area from 250 units as originally proposed to 350 units. Ordinance 496 also adjusted the low-income household definition for developments seeking the 12-year property tax exemption in the Ridgecrest Commercial Area. To qualify as an affordable housing development in Ridgecrest, at least 20% of the multifamily housing units needed to be rented or sold as affordable housing to households making no more than 90% of the area median family income, adjusted for family size.

Currently, only one project has been built under the PTE program – the 88 unit development formerly known as the North City Landing, located at 17763 15<sup>th</sup> Avenue NE. This project was completed in April 2007 and is currently called Phase I of the Arabella Apartment Homes. The owner of the Arabella Apartment Homes has also submitted a PTE application for their Phase II development, which is adjacent to their Phase I development. The application for Arabella Phase II is currently pending, although the PTE development contract should be scheduled for Council action in the near future. This project is seeking a 12-year property tax exemption for 109 studio and one bedroom residential apartment units. In addition to Arabella II, the City has also received a PTE application from the owner of the Bingo Hall site on the southwest corner of the Ridgecrest Commercial Planned Area. This application, which is seeking a 12-year property tax exemption for 286 studio, one bedroom and two bedroom residential apartment units, is also pending.

#### **FINANCIAL IMPACT:**

The PTE program provides an exemption from all “ad valorem property taxation” of the value of new construction for the duration of the exemption period, which is either eight or twelve years. The exemption affects the property tax levies for all taxing jurisdictions, including the State, County, School District, Port of Seattle and other special districts. Depending on the type of tax levy however, there are differing results for property tax revenue loss incurred by local jurisdictions.

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 lose property tax revenue on an exempt project, but rather the tax levy rate will be fractionally higher than it would have been if the value of the improved property were included on the tax rolls. This is the same for voter approved general obligation bond levies, such as the City’s Parks Bond. The City will continue to collect the required levy amount, but the levy rate necessary to collect the levy will be slightly higher than it would be if the value of the new construction were not exempt. The primary taxing districts that are directly affected by the property tax exemption program are the regular property tax levies of the City of Shoreline, Shoreline Fire District, and King County Library District.

Under the PTE program, a property tax exemption would take effect starting January 1<sup>st</sup> of the calendar year following the year in which the final certificate of tax exemption is issued. As stated earlier, the exemption does not apply to retail square footage, other commercial space or land, or utility or other fees. The only portion of a project that would qualify for an exemption is the newly constructed or improved residential housing units.

In 2007, an independent consultant, Greg Easton/Property Counselors, was hired to evaluate the Shoreline PTE program. As part of his analysis report dated July 27, 2007, he provided a feasibility analysis on North City development. The feasibility analysis concluded that development of apartments is not feasible without the PTE program and



that the greater incentive for affordable housing projects (utilizing the twelve-year tax exemption as opposed to eight) would influence developers in that direction. Condominium projects also do not meet the feasibility threshold without the PTE program.

Also included in the consultant's report was a pro forma economic analysis that used a mixed used development with 97 residential units valued at \$12 million in residential improvements as a prototype for North City development. Based on the City's 2008 regular property tax rate of \$1.02 per \$1,000 of assessed property value, the amount of the property tax collected annually on \$12 million in 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 collection growth rate, and assuming that the tax levy rate is not reset to a higher rate by voter approval, the impact to the City would equate to \$101,400 over an eight year exemption period or \$155,200 over a twelve year exemption period. However, 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 is included in a mixed-use development.

Without the PTE program, a potential development scenario on the same property would be the development of 20 townhouses with an estimated value of \$5 million, instead of a multi-family residential building. This is based on an assumption of 35,000 square foot property and with densities of 24 units per acre. The amount of revenue that the City would gain from residential property tax for this development would be \$5,100 in year one, and approximately \$144,000 over 25 years. There would be no additional commercial space created and less impact on local retail spending than if a larger multi-family housing project were to be development.

Over this same 25 year timeframe however, the 97 unit multi-family project with an 8-year tax exemption would generate \$244,300 in taxes to the City, and \$190,500 in taxes with a 12-year tax exemption. As stated above, these amounts are residential property tax only, and do not include additional retail sales tax revenue, utility taxes, or the property taxes on land and commercial square footage.

#### **CHANGES TO SHORELINE'S PTE PROGRAM AS CURRENTLY OUTLINED IN PROPOSED ORDINANCE NO. 520:**

Ordinance No. 520 proposes amendments to Ordinance No. 310, as amended by Ordinance No. 479 and 496, that would increase the tax exempt unit count in the North City Business District to 500 units and adjust the low-income household definition for the percentage of affordable housing units in projects in the North City Business District for both the 12-year and 8-year property tax exemption. Ordinance No. 520 also proposes a few procedural changes to help streamline the property tax exemption process. The major amendments outlined in Ordinance No. 520 are noted below:

### Program Limits – Tax Exempt Unit Cap in the North City Business District

The current cap on tax exempt residential 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 in the North City Business District and 350 units in the Ridgecrest Commercial District. In the North City Business District, 88 residential units have already been constructed and are utilizing the PTE program, and an additional 109 units have been set aside as a pending application for tax exemption has been submitted to the City. This leaves 53 available units in the PTE program in the North City target area.

In gauging demand for development utilizing the Property Tax Exemption program in the North City Business District target area, staff believes that demand exceeds the remaining number of tax exempt units that were originally adopted in Ordinance No. 310. An additional 250 units of tax exempt housing, which would bring the total unit limit in North City to 500, would allow for additional development projects in the North City target area based on the sizes of the development projects and proposed development projects in both North City and Ridgecrest. This would also allow for more concentrated growth in an identified urban center/target area that is close to transit and neighborhood services while providing an incentive for more affordable housing.

It should be noted that parking impacts from new multi-family housing developments have been identified as an issue by some residents in the North City area. The tool the City is using to address parking impacts is a parking management plan. The Shoreline Development Code section that pertains to the North City Business District, section 20.90.30, mandates that all planned action development proposals in North City, whether utilizing the PTE incentive or not, must prepare a parking management plan to ensure efficient and economic use of parking. The parking management plan shall include at a minimum a program for sharing residential and nonresidential spaces, encouraging use of transit and other forms of transportation, and providing incentives for commute trip reduction. Planning and Development Services (P&DS) staff have also stated that they would require all parking management plans for North City development projects to include the total number of off-street parking stalls, the number of units in the development by bedroom, plans for bicycle storage and racks, examples of where similarly situated development has dealt with proposed parking standards and can show that there are no on-street parking impacts, and quarterly reports detailing off-street parking stall usage and the status and use of transit and other commute reduction techniques for three years after occupancy.

In addition to the parking management plan, the City Council amended the P&DS' work plan on July 14 to add a work item to have staff perform further parking analysis in the North City Business District. This analysis may lead to amendments to the parking standards for North City. These amendments would be for the Shoreline Development Code, not the Property Tax Exemption Program. Although these potential parking standard amendments will not affect any development vested under the current development code, future development in North City, which may potentially utilize the

Property Tax Exemption Program as an incentive to develop, may be required to build to a higher parking standard than is currently in place.

*Affordability Adjustment for Workforce Housing Units in the North City Business District*

As per Ordinance No. 479, in order to be eligible for a 12-year tax exemption, at least 20% of the multifamily housing units must be rented or sold as affordable housing to low and moderate-income households as defined in RCW 84.14. This state statute defines affordable housing 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. The statute goes on to define "low-income households" for high cost areas, such as Shoreline, as household whose adjusted income is at or below 100% of the King County area median income (KCAMI), adjusted for family size, and "moderate-income households" as a households whose adjusted income is between 100% and 150%, adjusted for family size.

In Ordinance No. 496, the City Council adopted a low-income household definition of 90% of KCAMI, adjusted for family size, for the Ridgecrest target area only. This was done to make the 20% of units that are defined as affordable housing more affordable to a larger pool of renters and owners, even though the units may not provide significant affordability in the near term of the tax exemption period. Furthermore, the low-income household definition for the North City target area was not adjusted and remained at the rate as defined in the state statute.

Market data developed for the Ridgecrest Planned Area 2 rezone indicates that the market rate for new multi-family housing in the Ridgecrest area is pegged to households at roughly 75% of KCAMI. Thus, affordable workforce housing units in the geographic vicinity of Ridgecrest, including the North City Business District, that have a low-income household requirement of greater than 75% of KCAMI most likely will not provide any affordability benefit in the near term over what the market already provides. Additionally, the 2007 Greg Easton/Property Counselors program evaluation also stated that market rents in Shoreline will qualify as affordable according to the current program definitions. However, if the market rate for multi-family apartments and condominiums rises, the current low-income household definition may provide affordable workforce housing that is below the market rate.

In order to provide more affordable workforce housing that is rented or sold below the market rate now while still providing saleable projects for developers, which ensures their willingness to build, the low-income household definition for the North City target area should be decreased from the state standard the City currently uses. Ordinance No. 520 would amend the low-income household definition for projects seeking the 12-year tax exemption in the North City target area so that household income may in no case exceed:

- 70% of the King County area median income, adjusted for family size, for studio and one bedroom units, and
- 80% of the King County area median income, adjusted for family size, for two or more bedroom units.

The 8-year tax exemption program would also be amended so that the proposed low-income household definition for the North City target area and the current low-income household definition for the Ridgecrest target area would be the same as the 12-year program, although the requirement for the number of affordable units in a project would be 10% rather than 20%. This would mandate that an affordability component would be included in all projects receiving a tax exemption from the City.

This change in the definition of a low-income household would have an impact on the rental rates and sale price that could be charged for the percentage of affordable units in a project seeking the property tax exemption. Attachment B, which highlights the 2008 King County Income Guidelines and the corresponding North City and Ridgecrest target Area maximum monthly rental rates, provides a breakdown of what a developer could charge by unit size for the percentage of affordable housing units in a rental project. Although a similar table is not provided for sale prices, this can be provided at Council's request.

It should also be noted that the reason the Ridgecrest target area and the North City target area have different low-income household requirements for the PTE Program is the number of additional amenities that are required in the Ridgecrest Planned Area 2 zone. These amenity requirements, which are mandated by the development code, include a green building requirement, an open space/plaza requirement, a mixed use requirement, and a bus pass requirement. In addition to parking requirements and housing affordability requirements for projects utilizing the PTE Program, these public amenity requirements affect a developer's profit margin and their overall willingness to build. As there are fewer public amenity requirements in the development code for the North City Business District than the Ridgecrest Planned Area 2 zone, requiring greater affordability in North City Business District projects utilizing the PTE Program will provide for equity across the two PTE target areas.

#### Procedural Changes - Application Processing

Under the current ordinance, once the City Manager has deemed that an application for a Conditional PTE Certificate is complete and that the application complies with all the requirements of the PTE Program, the manager may certify the application as eligible. The current ordinance also states that a decision to approve or deny application certification must be made within 90 days of receipt of the application. Once the certification process is complete, the City Manager then forwards a development contract regarding the terms and conditions of the project, which is signed by the applicant, to the City Council for final approval. After the City Council has approved the development contract, a Conditional Certificate of Property Tax Exemption is issued to the applicant by the City Manager.

In reviewing the state statute that governs property tax exemptions, RCW 84.14, it has been determined that the intent of this law is for application certification and the development contract approval process to take place within 90 days, as opposed to just the certification process. Thus, this proposed ordinance would amend the current PTE ordinance by removing language related to application certification and stating, "A decision to approve or deny an application and contract shall be made within 90 days of receipt of a complete application".

Another minor procedural change in this proposed Ordinance relates to the timing of the collection of the current King County Assessors fee for administering the PTE Program. Currently, City staff collects the King County Assessors fee when a Conditional PTE Certificate is applied for. This fee is retained by the City until a Final PTE Certificate is issued, which may take up to three years, and then sent to the King County Assessors Office with the Final Certificate to signify the commencement of the tax abatement period. This ordinance would amend this process so that the King County Assessors fee for administering the PTE Program is submitted by the applicant along with the application for the Final PTE Certificate, as opposed to the Conditional PTE Certificate.

**RECOMMENDATION:**

No action is required for this agenda item, as it is for discussion purposes only. However, staff recommends that Ordinance No. 520 be adopted when this item is proposed for Council adoption on September 22.

**Attachments:**

- Attachment A: Proposed Ordinance No. 520
- Attachment B: 2008 King County Income Guidelines and Corresponding North City and Ridgecrest Target Area Maximum Monthly Rental Rates

**Attachment A:**

**ORDINANCE NO. 520**

**AN ORDINANCE AMENDING THE PROPERTY TAX EXEMPTION PROGRAM TO INCREASE THE LIMIT ON THE NUMBER OF TAX EXEMPT UNITS IN THE NORTH CITY TARGET AREA AND ADJUST THE AFFORDABILITY REQUIREMENT FOR PROJECTS SEEKING TO UTILIZE THE 8-YEAR AND 12-YEAR PROPERTY TAX EXEMPTIONS**

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

WHEREAS, on March 3, 2008, the City Council amended the Property Tax Exemption Program to comply with State mandates that increased the property tax exemption timeframe for affordable housing from ten years to twelve years and decreased the exemption for market rate housing from ten years to eight years; and

WHEREAS, on March 31, 2008, the City Council amended the Property Tax Exemption Program again to expand the Shoreline Property Tax Exemption Program to the Ridgcrest target area (portions of Planned Area 2 (PA2) and R-18 and R-24 zoning districts adjacent to PA2); and

WHEREAS, demand for development utilizing the Property Tax Exemption Program in the North City Business District target area has exceeded the initial limit of the number of tax exempt units that was originally created; and

WHEREAS, there is a desire to make the affordable tax exempt units in the North City Business District target area more affordable to eligible sections of the population; and

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

**Section 1. Amendment.** Sections 1-10 of Ordinance 310 as amended by Ordinance No. 479 and Ordinance No. 496 are further amended to read as follows:

**Section 1. 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).

- B. 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) lack 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.

## Section 2. *Purpose*

- A. It is the purpose of this ordinance to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for revitalization of the North City Business District, the 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 exemption from ad valorem property taxation for multifamily housing in the residential targeted area is intended to:
  - 1. Encourage increased residential opportunities, including affordable housing 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.

## Section 3. *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 designated as 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).

Section 4.     *Standards and Guidelines*

- A. Project Eligibility. A proposed project must meet the following requirements for consideration for a property tax exemption:
1. Location. The project must be located within the North City Business District, 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 500 250 tax exempt units of new or rehabilitated multi-family housing applied for and approved within the North City Business District residential targeted area or within the first 350 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. At least four additional residential 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 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 15<sup>th</sup> Avenue N.E. and within the property tax exemption program target area must have pedestrian-oriented business uses at the street level fronting on 15<sup>th</sup> 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 15<sup>th</sup> Avenue N.E., and all other requirements of Main Street 1 properties shall apply.



B. Exemption - Duration.

1. Twelve Year Tax Exemption: Projects qualifying under this chapter for a Multiple Family Tax Exemption that rent or sell at least twenty percent (20%) of the residential units as affordable housing units as defined by Chapter 84.14 RCW will be exempt from ad valorem property taxation for twelve successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption; provided, however, that for the North City Business District target area, the household income may in no case exceed 70% of the area median family income adjusted for family size for studio and one bedroom units, and may in no case exceed 80% of the area median family income adjusted for family size for two or more bedroom units, and for the Ridgecrest target area, the household income may in no case exceed 90% of the area median family income adjusted for family size, regardless of bedroom count in the unit.
2. Eight Year Tax Exemption: Projects qualifying under this chapter for a Multiple Family Tax Exemption that rent or sell at least ten percent (10%) of the residential units as affordable housing units as defined by Chapter 84.14 RCW 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; provided, however, that for the North City Business District target area, the household income may in no case exceed 70% of the area median family income adjusted for family size for studio and one bedroom units, and may in no case exceed 80% of the area median family income adjusted for family size for two or more bedroom units, and for the Ridgecrest target area, the household income may in no case exceed 90% of the median family income adjusted for family size, regardless of bedroom count in the unit. 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.

Section 5.     *Application Procedures*

- A. A property owner who wishes to propose a project for a tax exemption shall file an application for Multiple Family Tax Exemption 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 shall include:
  - 1. A brief written description of the project setting forth the grounds for the exemption;
  - 2. A site plan, including the floor plan of units;
  - 3. A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this ordinance; and
  - 4. Verification by oath or affirmation of the information submitted.

Section 6.     *Application Review and Issuance of Conditional Certificate*

- ~~A. Certification. Once a development project application is deemed complete, 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. A. Approval of Application. Once a development project application is deemed complete, the City Manager or designee may approve an application which is determined to comply with the requirements of this ordinance and enter findings consistent with RCW 84.14.060. If approved 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. A decision to approve or deny an application and contract shall be made within 90 days of receipt of a complete application.

- C. B. 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. C. 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 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. D. 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 days of the denial. An applicant may appeal the denial to the City Council within thirty days after receipt of the denial 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. 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.

#### Section 7. *Application for Final Certificate*

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

- A. A statement of expenditures made with respect to each multi-family housing unit and the total expenditures made with respect to the entire property;
- B. A description of the completed work and a statement of qualification for the exemption;
- C. If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020 and this ordinance; and
- D. A statement that the work was completed within the required three-year period or any authorized extension.

The application shall be submitted together with the current King County Assessors fee for administering the Multiple Family Tax Exemption program. Within 30 days of receipt of all materials required for a Final Certificate of Tax Exemption, the City Manager shall determine whether the improvements satisfy the requirements of this ordinance.

Section 8. *Issuance of Final Certificate*

- A. Approval. If the City Manager determines that the project has been completed in accordance with the contract between the applicant and the City and has been completed within the authorized time period or within an authorized extension of this time limit, 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~~ The affordable housing requirements as described in RCW 84.14.020 and this ordinance were not met;
  - 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.

Section 9. *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 the applicable exemption period a period of 12 years for affordable housing projects and 8 years for market rate housing projects, the property owner shall file a notarized declaration with the City Manager indicating the following:
  - 1. A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve months ending with the anniversary date;
  - 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 and this ordinance since the date of the certificate approved by the City;

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.
- 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 the applicable exemption period ~~a period of 12 years for affordable housing projects and 8 years for market rate housing projects~~, the property owner shall provide the City Manager staff with a written report containing ~~with the following~~ information sufficient to complete the City's report to the Washington State Department of Community, Trade and Economic Development described in Section D below.
- C. Audits. City staff may 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 Washington State Department of Community, Trade and Economic Development indicating the following for each approved tax exempt ~~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:
    - a. Development cost average per unit including all costs
    - b. Development cost average per unit, excluding land and parking
    - c. Development cost average per structured parking stall
    - d. Land Cost
    - e. Other Costs
    - f. Net Rentable Square Footage
    - g. 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.

Section 10. *Cancellation of Tax Exemption*

- A. Cancellation. If at any time during the 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 and this ordinance, 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 may be 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 within thirty days after receipt of the determination.

**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 SEPTEMBER 22, 2008**

\_\_\_\_\_  
Mayor Cindy Ryu

**ATTEST:**

**APPROVED AS TO FORM:**

\_\_\_\_\_  
Scott Passey  
City Clerk

\_\_\_\_\_  
Ian Sievers  
City Attorney

Publication Date: XXX  
Effective Date: XXX

**Attachment B:**

<b>2008 HUD King County Income Guidelines</b>				
<b>King County Area Median Income (KCAMI) for 4 person household = \$81,400</b>				
<b>Effective February 13, 2008</b>				
<b>Family Size</b>	<b>KCAMI (100%)</b>	<b>70% of KCAMI</b>	<b>80% of KCAMI</b>	<b>90% of KCAMI</b>
1	\$56,980	\$39,886	\$45,584	\$51,282
2	\$65,120	\$45,584	\$52,096	\$58,608
3	\$73,260	\$51,282	\$58,608	\$65,934
4	\$81,400	\$56,980	\$65,120	\$73,260
5	\$87,912	\$61,538	\$70,330	\$79,121

<b>2008 Corresponding North City Target Area Maximum Monthly Rental Rates*</b>	
<b>Bedroom Count</b>	<b>Maximum Rent</b>
Studio	\$997
1	\$1,140
2	\$1,465
3	\$1,628
4	\$1,758

<b>2008 Corresponding Ridgecrest Target Area Maximum Monthly Rental Rates*</b>	
<b>Bedroom Count</b>	<b>Maximum Rent</b>
Studio	\$1,282
1	\$1,465
2	\$1,648
3	\$1,832
4	\$1,978

**\*Note:** As per RCW 84.14, monthly housing costs must include utilities, other than telephone.

**Assumptions:** Studio unit assumes a family size of 1, one bedroom unit assumes a family size of 2, two bedroom unit assumes a family size of 3, three bedroom unit assumes a family size of 4, and a four bedroom unit assumes a family size of 5.