

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

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

On September 15, the City Council reviewed Ordinance No. 520, which would amend the Property Tax Exemption program to increase the tax exempt unit count in the North City Business District to 500 units, 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, and make procedural changes to help streamline the property tax exemption process. The City Council also reviewed comments received from citizens and community members. At the writing of this staff report, Council had not yet discussed Ordinance No. 520 and had not yet provided staff with direction or posed any questions for staff response. Thus, this report provides a placeholder on the agenda.

Immediately following the September 15 Council meeting, any questions posed to staff or direction provided by Council will be provided in a revised staff report. This will be made available on the City's website by Wednesday, September 17. Likewise, comments received from citizens on the amendments to the Property Tax Exemption program will be provided to the Council through Monday, September 22, when adoption of Ordinance No. 520 is scheduled.

For reference, the September 15 staff report, which includes Ordinance No. 520, is attached.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 520, which would amend Ordinance No. 310 as amended by Ordinance No. 479 and No. 496.

Approved By: City Manager  City Attorney ____

Attachment:

- September 15 Staff Report, including proposed Ordinance No. 520

Council Meeting Date: September 15, 2008

Agenda Item:

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AGENDA TITLE:	Ordinance No. 520, amending Ordinance No. 310 as amended by Ordinance No. 479 and No. 496, Property Tax Exemption Program
DEPARTMENT:	CMO
PRESENTED BY:	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 _____

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 15th 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 1st 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 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.

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:

2008 HUD King County Income Guidelines				
King County Area Median Income (KCAMI) for 4 person household = \$81,400				
Effective February 13, 2008				
Family Size	KCAMI (100%)	70% of KCAMI	80% of KCAMI	90% of KCAMI
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

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

2008 Corresponding Ridgecrest Target Area Maximum Monthly Rental Rates*	
Bedroom Count	Maximum Rent
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.

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