



CITY OF KIRKLAND
Department of Planning and Community Development
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Dawn Nelson, Planning Supervisor
Eric Shields, Planning Director
Arthur Sullivan, ARCH Program Manager

Date: May 26, 2011

Subject: **EXPANSION OF MULTIFAMILY HOUSING PROPERTY TAX EXEMPTIONS, KIRKLAND MUNICIPAL CODE CHAPTER 5.88 (FILE MIS11-00015)**

RECOMMENDATION

Staff recommends that the City Council receive a presentation on the proposed amendments to the Multifamily Housing Property Tax Exemption regulations and provide direction to staff for any modifications in preparation for a public hearing to be held at the June 21, 2011 Council meeting.

The amendments would serve the following three purposes:

- Expand the area where the exemption is available in the southern part of the Lakeview neighborhood; and
- Create unique requirements for the exemption in the new zoning district being proposed for the South Kirkland Park and Ride to address the Council's guiding principles for development of the site and to help increase the economic feasibility; and
- Expand the area where the exemption is available to include properties in the recently annexed portions of the City where multifamily housing is allowed and there is capacity for further multifamily development.

BACKGROUND

The City of Kirkland first adopted the Multifamily Housing Property Tax Exemption program in May 2004. It was initially part of the package of incentives developed to encourage the creation of affordable housing in multifamily and mixed use projects. With the mandatory affordable housing regulations created in December 2009, it is now a key part of the regulations that offset the cost of providing required affordable housing. In zones where affordable

housing is not required, it remains as an incentive to encourage the creation of affordable housing.

The regulations allow projects that include a minimum of four new multifamily units in defined geographic areas to request an exemption from the ad valorem taxes on the residential improvement value as long as affordable housing is provided. The City allows an eight year exemption if at least 10 percent of the units in a project are affordable and a twelve year exemption if at least 20 percent of the units are affordable. The length of the exemption is established by RCW 84.14. The current regulations are included in [KMC 5.88](#).

Expansion of the geographic areas where the tax exemption is available is currently proposed because the exemption fills the gap between the cost of providing an affordable housing unit and the value of the land use and fee incentives allowed in the Zoning regulations that require affordable housing.

The two expansion areas, the financial impacts of the proposed amendments and the process for adopting amendments are described below.

1. *South Kirkland Expansion*

The expansion of the tax exemption for the southern part of the Lakeview neighborhood has two components – the geographic area to be covered and the unique requirements for the exemption for the Park and Ride site.

a. *Geographic Area* – Attachment 1 shows the existing portion of the Lakeview neighborhood where the exemption is currently available, along with the area that would be added. The additional area was not originally included because residential uses were not allowed in the PO and FC III zoning districts and the density allowed in the PR 8.5 zone was too low to expect redevelopment from the existing offices to multifamily development.

The Lakeview neighborhood plan update that is underway includes reclassifying the area shown in Attachment 1 to allow for mixed office, retail and residential uses. RCW 84.14, which enables the exemption program, requires that areas designated for the tax exemption include a mix of residential and commercial uses. The South Kirkland Park and Ride property is shown at the southwest corner of the expanded area.

b. *Exemption Requirements* – To date, the City has used the property tax exemption program as a tool only to require a minimum amount of affordable housing. That amount has been 10 percent of units for an eight year exemption and 20 percent of units for a 12 year exemption. The proposed approach for the South Kirkland Park and Ride site would establish both a minimum and a maximum amount of affordable housing in order to address City Council and community concerns that market rate housing be a majority of the overall housing developed at the site.

The proposed tax exemption requirements for the Park and Ride site are outlined in Attachment 2. The affordability provisions that are unique for this site are summarized in this chart:

	8 Year Exemption	12 Year Exemption
<i>Renter-Occupied Project</i>		
Minimum # Affordable Units	20% of units in zone	25% of units in zone
Maximum # Affordable Units	50% of units in zone	50% of units in zone
Affordability Definition	Between 50% and 70% of KC Median Income	Between 50% and 70% of KC Median Income
Affordability Restrictions	At least 10% of units at 50% of KC Median Income	At least 15% of units at 50% of KC Median Income
<i>Owner-Occupied Project</i>		
Minimum % Affordable Units	20% of units in zone	N/A
Maximum % Affordable Units	50% of units in zone	N/A
Affordability Definition	Maximum 80% of KC Median Income	N/A
Affordability Allowances	Higher income limit for affordability allowed (up to 100% of KC Median) if greater percentage of units is affordable	N/A

A higher percentage of affordable housing units is being proposed in exchange for the tax exemption than is required elsewhere in the City (20% versus 10% elsewhere) in order to mirror the new zoning regulations for the property to allow the transit oriented development.

Staff is not recommending that a 12 year exemption option be made available for owner-occupied projects. The value of the exemption accrues to the owner of the property and, in the case of owner-occupied units, the exemption only applies to the affordable units. The developer of the owner-occupied units would not see any additional benefit in creating more affordable housing in exchange for a longer term exemption. In addition, due to the existence of the public park and ride structure on the site, it is unlikely that an ownership project would be proposed for the site. However, we are including the 8 year exemption for owner-occupied units to keep all options open. If a development were to be proposed that wanted to pursue a 12 year

exemption for owner-occupied units, staff would analyze the appropriate affordability requirements and bring an amendment to Council for consideration.

Because we do not know how the final development of the TOD will be physically or financially structured, Staff is recommending that flexibility for phasing be included in the tax exemption regulations for this zone. Normally, all of the residential improvements in a project would need to receive a certificate of occupancy before the tax exemption would begin. However, it is conceivable that this project could include separate buildings that would be ready for occupancy at different times.

Phasing would allow the tax exemption to be based on the overall affordability provided on the entire parcel and begin at occupancy of each building regardless of the status of any other building. In no case would any improvement receive a longer exemption than would otherwise be allowed. For example, if there are two separate phases, each phase would receive an exemption starting from the date that phase is completed. In the event the affordable units were not in the first phase that is developed, the contract with the City that establishes the tax exemption for the first phase would include a provision to ensure that they get built in the next phase. This would include provisions that allow the City to cancel an exemption for non-compliance with the contract and require payment of back taxes, interest and penalties.

2. Juanita, Finn Hill and Kingsgate Expansion

The expansion of the multifamily tax exemption program is also proposed to include the properties in the recently annexed area where:

- Affordable housing is required with multifamily development of four or more units **and** there is capacity for additional multifamily development (RMA, TLA 6A, BC1 and BC2 zones); or
- Multifamily housing is allowed but affordable housing is not required by the zoning (BNA zone). The exemption would be an incentive to create affordable housing, as it is in other zoning districts in the City.

The areas that would be included are shown in Attachment 3. Allowing the multifamily tax exemption would make the regulations in this area consistent with the rest of the City.

3. Financial Impacts

The tax exemption program does result in forgone taxes for the City for the duration of the exemption, summarized for the existing program areas and the proposed new areas for eight year exemptions in the following chart.

	Existing Program Areas	South Kirkland Park and Ride Expansion	Juanita, Finn Hill and Kingsgate Expansion	Total
Estimated New Units per Year Using Exemption	61	N/A	10	71
Estimated TOD Units Using Exemption	N/A	200	N/A	200
Estimated Foregone Taxes ¹ – Year One	\$19,212	\$62,550	\$2,971	\$84,733
Estimated Percent of New Taxes from New Construction – Year One	4.6%	14.9%	0.7%	20.2%
Estimated Foregone Taxes ¹ – Year Eight	\$153,697	\$62,550 ²	\$23,769	\$240,016
Estimated Percent of Total Regular Levy Taxes – Year Eight	0.7%	0.29%	0.11%	1.1%

¹ Includes both regular and excess levy taxes.

² Year eight amount is same as year one amount because all units assumed to receive exemption at same time.

The spreadsheets in Attachments 4 and 5 show the logic for the analysis of the expected impacts. While the annual exemption for the South Kirkland Park and Ride is relatively large, it can be viewed not only as a City investment in affordable housing, but also as a catalyst for the success of the project. It is roughly equivalent to three years worth of exemption coming on line at one time, with the benefit of at least twice as many affordable units as would be required of other projects.

One 52 unit rental project in the North Rose Hill Business District is the only project that is currently using the tax exemption. However, multifamily development has been extremely slow in the last five years. There are several projects in the presubmittal and permit review process that will likely use the exemption in the next year.

4. Process

Chapter 84.14 RCW requires that the City hold a public hearing to establish areas where the Multifamily Housing Property Tax Exemption will be available. The hearing is scheduled to occur during the City Council meeting on June 21, 2011. Staff will present an Ordinance identifying the amendments to the regulations in KMC Chapter 5.88 for Council consideration at the conclusion of the hearing.

On June 7th, staff is requesting Council direction on the proposed:

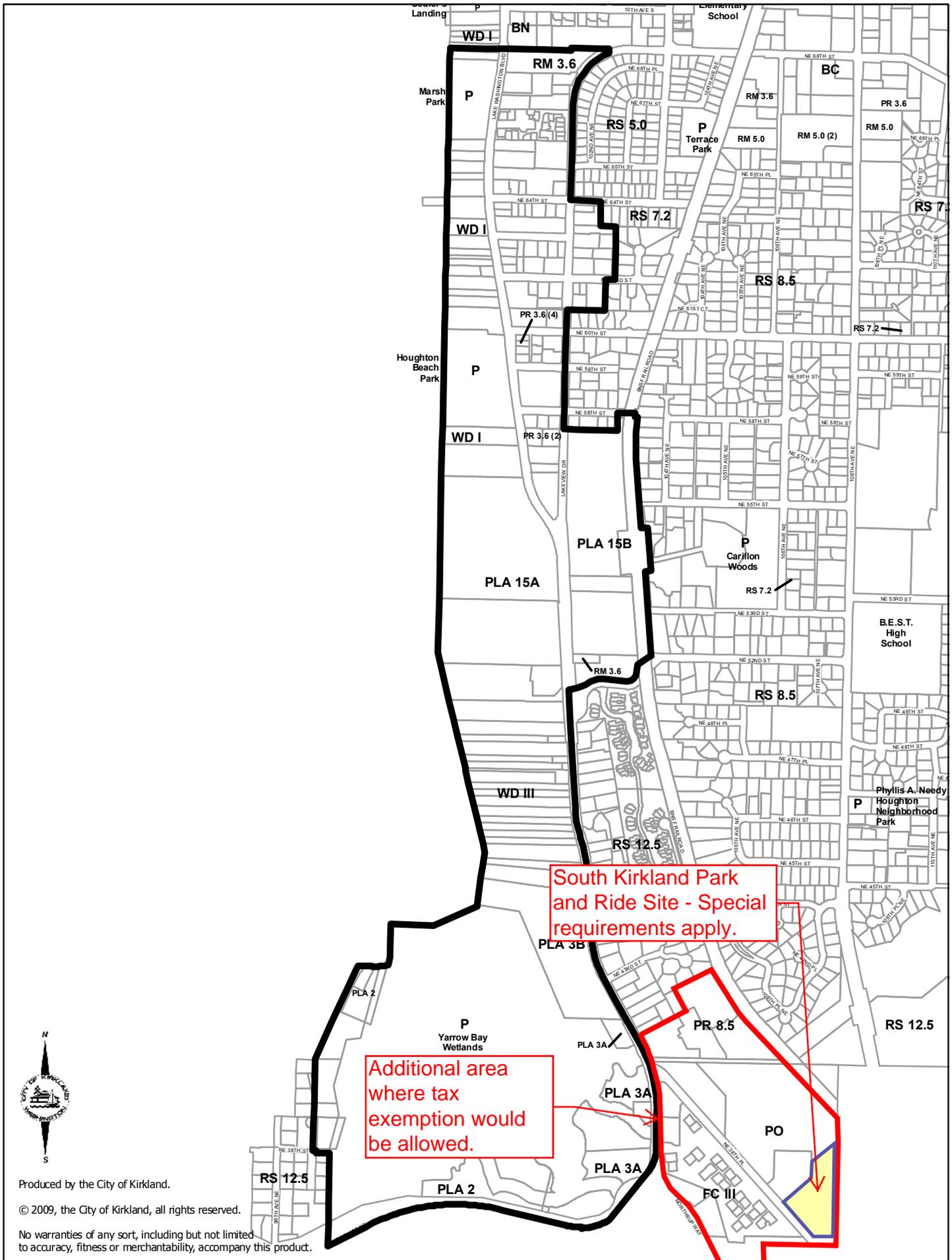
- Expansion of the tax exemption program to include the southern part of the Lakeview neighborhood; and
- Creation of unique requirements for the use of the exemption at the South Kirkland Park and Ride; and
- Expansion of the tax exemption program to include properties in the recently annexed portions of the City, both where affordable housing is required as part of the zoning regulations and where the exemption would provide an incentive for the creation of affordable housing.

ATTACHMENTS

1. Proposed Amendments to Lakeview Residential Targeted Area
2. Proposed Additions to KMC 5.88.090
3. Proposed Areas for Expansion of MFTE in Juanita, Finn Hill and Kingsgate
4. Estimate of Multifamily Property Tax Exemption – Existing Areas
5. Estimate of Multifamily Property Tax Exemption – Potential New Areas

Lakeview Residential Targeted Areas

ATTACHMENT 1
EXPANSION OF MULTIFAMILY HOUSING
EXEMPTION



South Kirkland Park and Ride Site - Special requirements apply.

Additional area where tax exemption would be allowed.



Proposed new language for KMC Section 5.88.090(a). All existing subsections to remain and be renumbered.

(a) The value of all new housing construction in the YBD 1 zoning district shall be exempt from ad valorem property taxation for eight years if not less than 20 percent nor more than 50 percent of the residential units in the zoning district are affordable, as defined in Section 5.88.090(a)(1), below. For owner-occupied projects, the exemption shall apply only to those units that are affordable. For renter-occupied projects, a minimum of 10 percent of the total residential units shall be affordable at 50 percent of the King County median household income. For renter-occupied projects, the exemption shall extend to twelve years if at least 25 percent of the residential units in the zoning district are affordable, with no less than 15 percent of the residential units affordable at 50 percent of the King County median household income. The following standards apply to exemptions in this zoning district:

(1) "Affordable" means housing reserved for occupancy by eligible households and affordable to households whose household annual income meets the following percentages of the King County median household income, adjusted for household size, as determined by the United States Department of Housing and Urban Development (HUD), and no more than thirty percent of monthly household income is paid for monthly housing expenses:

(A) For renter-occupied dwelling units, not less than 50 percent nor more than 70 percent; and

(B) For owner-occupied dwelling units, not more than 80 percent, or that have such other comparable level of affordability as provided for in Section 56.10 of the Kirkland Zoning Code.

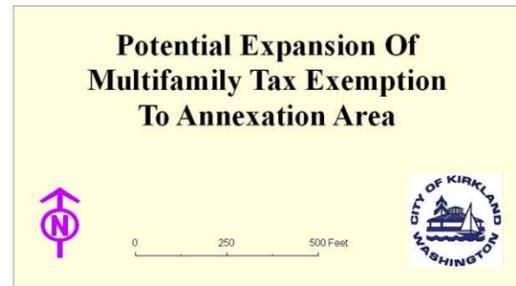
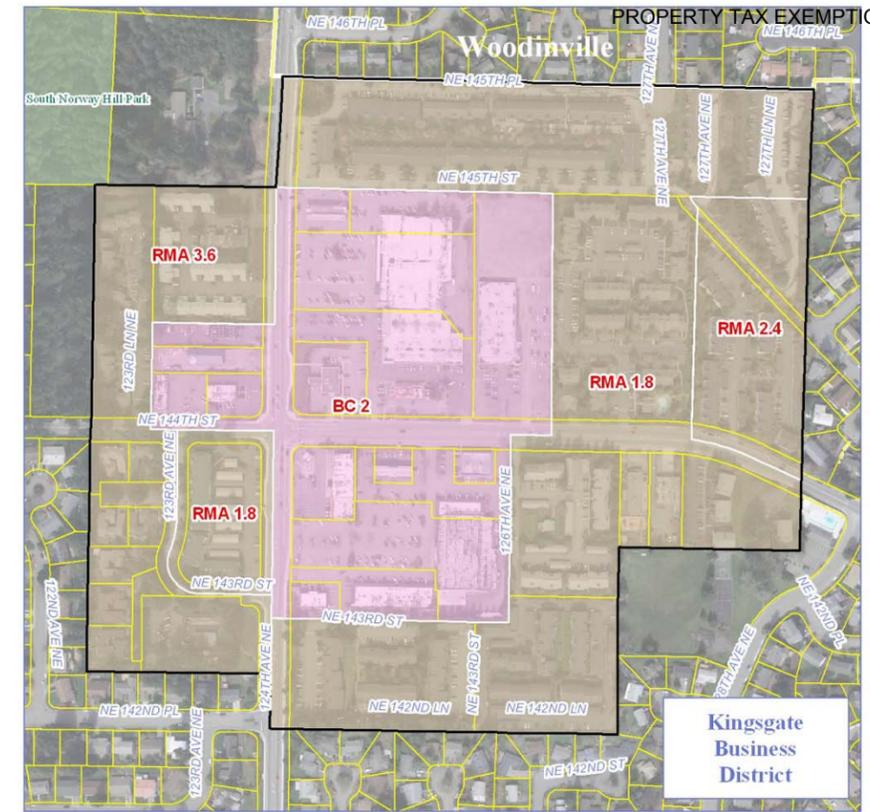
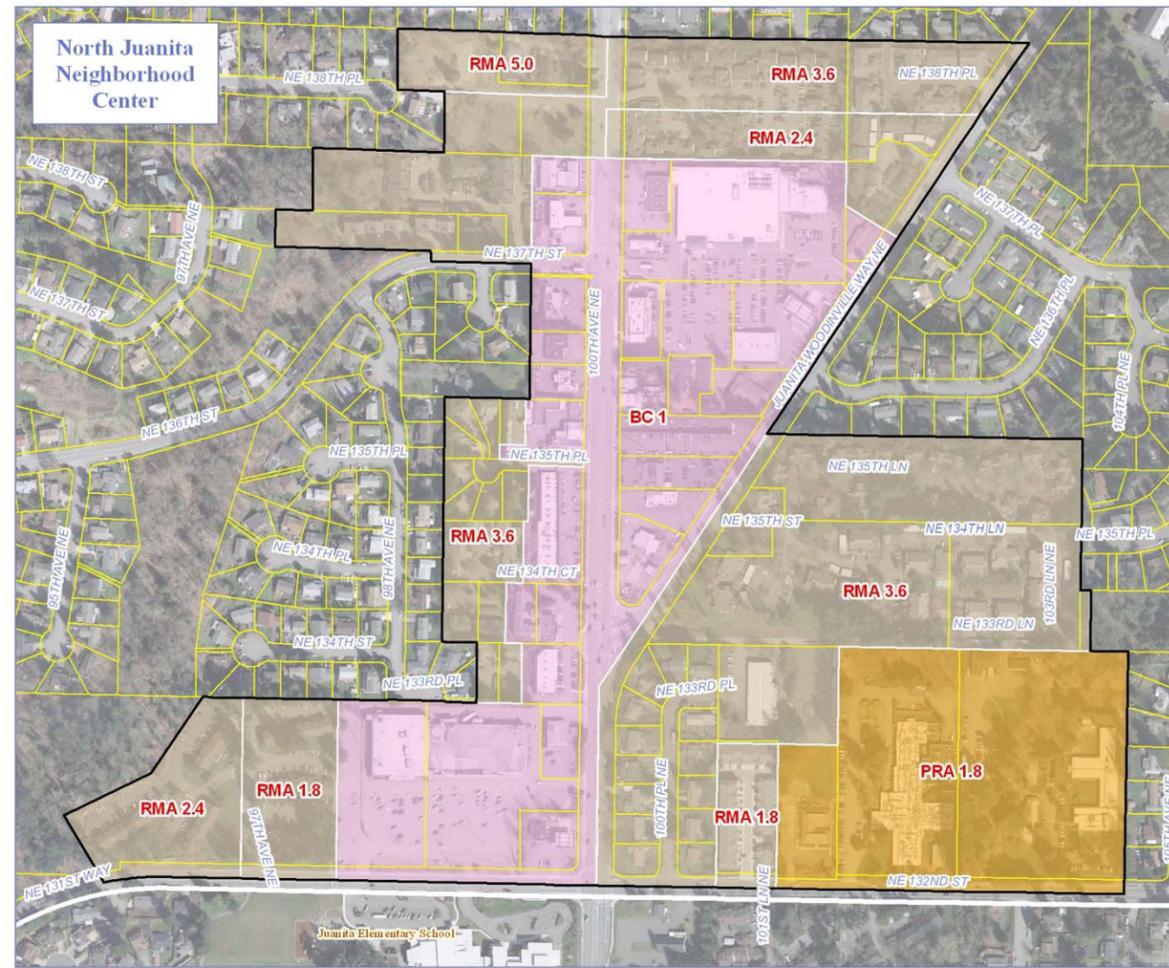
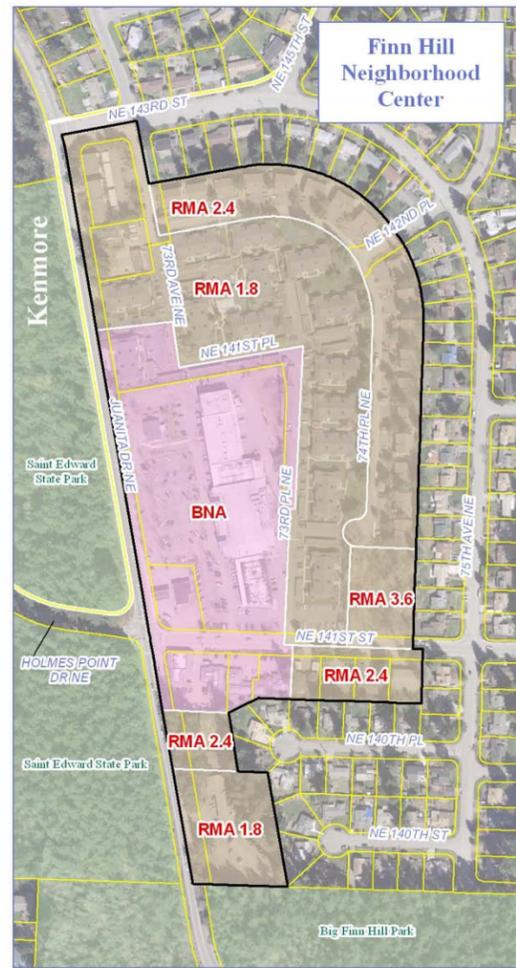
In the event that HUD no longer publishes median income figures for King County, the city may use another method to determine the King County median income, adjusted for household size.

(2) "Monthly housing expenses" includes rent and an appropriate utility allowance for renter-occupied dwelling units. It includes mortgage, mortgage insurance, property taxes, property insurance and homeowners' dues for owner-occupied dwelling units.

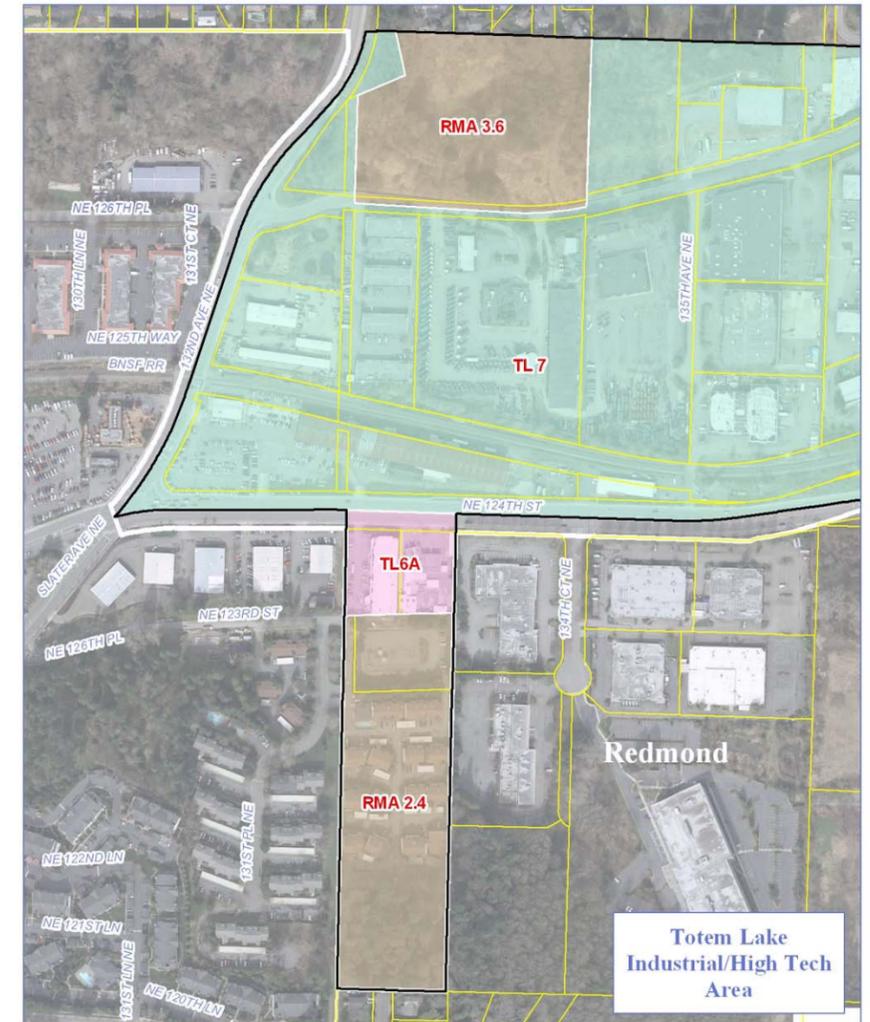
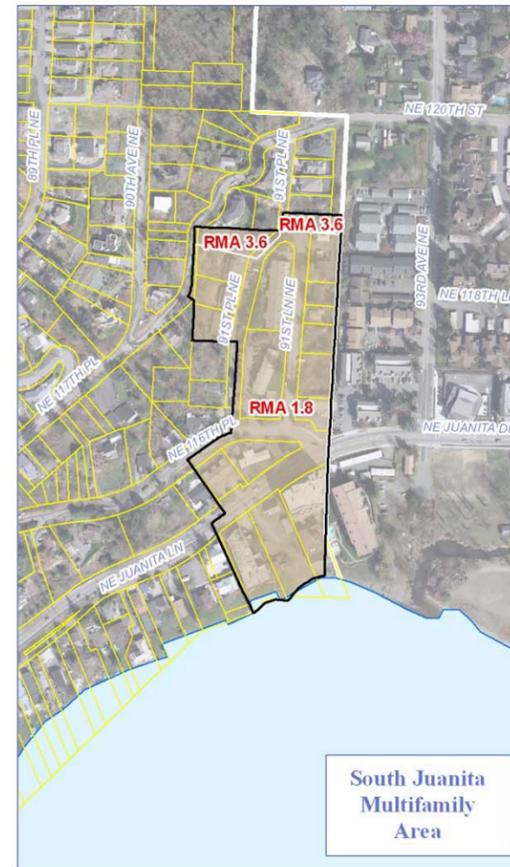
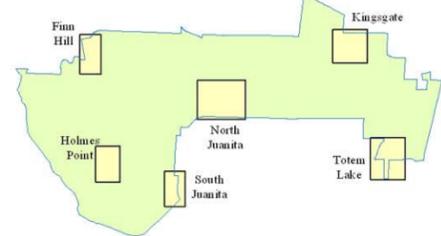
(3) If the percentage of affordable units in the project required is a fraction, then the number of required affordable units shall be rounded up to the next whole number (unit) if the fraction of the whole number is at least 0.66.

(4) The residential units may be developed in phases and, subject to the approval of the director, the affordable units may all be located in one of the phases. If phasing is approved, the director may allow separate contracts for each phase.

(5) The exemption begins January 1st of the year immediately following the calendar year of issuance of the certificate.



- Industrial
- Commercial
- Office/multi-family
- Multi-family
- Park



ESTIMATE OF MULTIFAMILY PROPERTY TAX EXEMPTION: EXISTING AREAS

A. PROJECTED PROPERTY TAX ASSESSMENT

		<u>2011 Rate</u>	<u>Total Dollars</u>
KIRKLAND ESTIMATED ASSESSED VALUATION (2011)			\$ 15,059,950,883
Existing Kirkland Assessed Valuation (2011)			\$10,709,950,883
Annexation Area (AA) Estimate			\$4,350,000,000
TOTAL PROPERTY TAXES	Assessment rate/ \$1,000 value	\$ 9.66	\$ 145,483,041
KIRKLAND PROPERTY TAXES			
Regular Levy	Assessment rate/ \$1,000 value	\$ 1.30	\$ 19,577,936
Excess Levy	Assessment rate/ \$1,000 value	\$ 0.09	\$ 1,355,396
TOTAL	Assessment rate/ \$1,000 value	\$ 1.39	\$ 20,933,332

B. PROPERTY TAX ASSESSMENT FROM NEW CONSTRUCTION

ANNUAL PERCENT INCREASE IN ASSESSED VALUATION		2.0%	
Due to new construction / additions			
ANNUAL DOLLAR INCREASE IN ASSESSED VALUATION		<u>2011 Rate</u>	<u>Total Dollars</u>
Due to new construction / additions			\$ 301,199,018
Total Property Taxes	Assessment rate/ \$1,000 value	\$ 9.66	\$ 2,909,661
Kirkland Property Taxes			
Regular Levy	Assessment rate/ \$1,000 value	\$ 1.30	\$ 391,559
Excess Levy	Assessment rate/ \$1,000 value	\$ 0.09	\$ 27,108
TOTAL	Assessment rate/ \$1,000 value	\$ 1.39	\$ 418,667

C. POTENTIAL IMPACT OF 8 YEAR EXEMPTION PROGRAM

EXISTING TOTAL CITYWIDE HOUSING CAPACITY	4646 units
(Based on 2007 Buildable Land Report)	
PROJECTED AVERAGE ANNUAL CITYWIDE GROWTH	290 units
(2006 - 2022 Using Buildable Land Capacity)	

	AFFORDABLE HOUSING MANDATED BY KZC (e.g. Totem Lake)	AFFORDABLE HOUSING NOT MANDATED BY KZC (e.g. CBD, NRHBD)	TOTAL
PROPOSED 'URBAN CENTER' RESIDENTIAL CAPACITY	1361 units	1780 units	3141
As Percent of total residential capacity	29%	38%	
As Percent of total multifamily capacity	43%	57%	
PORTION OF 'URBAN CENTER' HOUSING UTILIZING EXEMPTION	46%	20%	
New units per year utilizing 8 year exemption	39 units	22 units	61
IMPACT ON PROPERTY TAXES (Property Taxes Foregone)			
Kirkland Property Taxes (Estimated Annual Impact)			
Regular Levy	\$11,460	\$6,508	\$17,968
Excess Levy	\$793	\$451	\$1,244
TOTAL	\$12,253	\$6,959	\$19,212
Percent of New Taxes from New Construction	2.9%	1.7%	4.6%
Percent of Total Regular Levy Taxes	0.06%	0.03%	0.09%
PEAK ANNUAL TOTAL PROPERTY TAX EXEMPTION AFTER 8 YEARS	\$98,028	\$55,670	\$153,697
Percent of Total Regular Levy Taxes	0.46%	0.26%	0.72%

Assumptions for Analysis:

- 1) 'Urban Center' as defined under property tax exemption law, not GMA 'Urban Center Definition' and includes mixed use and multifamily zones around the Downtown, Rose Hill, Totem Lake, and Juanita
- 2) For Per Unit assessment calculation, average assessment of a new multifamily unit is \$225,000.

ESTIMATE OF MULTIFAMILY PROPERTY TAX EXEMPTION: POTENTIAL NEW AREAS

A. PROJECTED PROPERTY TAX ASSESSMENT: 2012 - AFTER ANNEXATION

		<u>2011 Rate</u>	<u>Total Dollars</u>
KIRKLAND TOTAL ASSESSED VALUATION ESTIMATE (2011)			\$15,059,950,883
Existing Kirkland Assessed Valuation (2011)			\$10,709,950,883
Annexation Area (AA) Estimate			\$4,350,000,000
TOTAL PROPERTY TAXES	Assessment rate/ \$1,000 value	\$ 9.66	\$ 145,483,041
KIRKLAND PROPERTY TAXES			
Regular Levy	Assessment rate/ \$1,000 value	\$ 1.30	\$ 19,577,936
Excess Levy / Fire Dist. 41	Assessment rate/ \$1,000 value	\$ 0.09	\$ 1,355,396
TOTAL	Assessment rate/ \$1,000 value	\$ 1.39	\$ 20,933,332

B. PROPERTY TAX ASSESSMENT FROM NEW CONSTRUCTION

ANNUAL PERCENT INCREASE IN ASSESSED VALUATION		2.0%	
Due to new construction / additions			
ANNUAL DOLLAR INCREASE IN ASSESSED VALUATION		<u>2011 Rate</u>	<u>Total Dollars</u>
Due to new construction / additions			\$ 301,199,018
Total Property Taxes	Assessment rate/ \$1,000 value	\$ 9.66	\$ 2,909,661
Kirkland Property Taxes			
Regular Levy	Assessment rate/ \$1,000 value	\$ 1.30	\$ 391,559
Excess Levy / Fire Dist. 41	Assessment rate/ \$1,000 value	\$ 0.09	\$ 27,108
TOTAL	Assessment rate/ \$1,000 value	\$ 1.39	\$ 418,667

C. POTENTIAL IMPACT OF 8 YEAR EXEMPTION PROGRAM

	JUANITA, FINN HILL, KINGSGATE	SOUTH KIRKLAND PARK & RIDE
Kirkland Annexation Area (AA) Housing Target 2006-2031*	1370 units	
Projected AA Annual Average: All Housing	55 units	
Projected AA Annual Average: Multifamily Housing	19 units	
PORTION OF 'ANNEXATION AREA' HOUSING UTILIZING EXEMPTION	50%	
New units per year utilizing exemption	10 units	
New units utilizing exemption		200 units
IMPACT ON PROPERTY TAXES (Property Taxes Foregone)		
Kirkland Property Taxes (Estimated Annual Impact)		
Regular Levy	\$2,779	\$58,500
Excess Levy / Fire Dist. 41	\$192	\$4,050
TOTAL	\$2,971	\$62,550
Percent of New Taxes from New Construction	0.7%	14.9%
Percent of Total Regular Levy Taxes	0.01%	0.29%
PEAK ANNUAL TOTAL PROPERTY TAX EXEMPTION AFTER 8 YEARS	\$23,769	\$62,550 **
Percent of Total Regular Levy Taxes	0.11%	0.29%

Assumptions for Analysis:

For Per Unit assessment calculation, average assessment of a new multifamily unit is \$225,000.

*2011 King County Countywide Planning Policies Public Review Draft

**Same as annual total because all units receive exemption in year 1