

Date: August 16, 2022
To: City Council
From: Glen Pickus, AICP, Director of Planning & Development Services
Subject: Intent to Designate Midtown District as a Residential Targeted Area

SUMMARY: The City Council will consider Resolution 1437 stating its intent to designate the Midtown District as a residential targeted area eligible for the multi-family property tax exemption (MFPTE) as provided for by RCW 84.14 and Chapter 3.50 SMC.

BACKGROUND: At the April 19, 2022 City Council meeting staff presented six tools to incentivize development of affordable housing in the Midtown District. One of those tools was to expand the City's current multi-family property tax exemption program to the Midtown District, pursuant to Chapter 3.50 Snohomish Municipal Code (SMC) and RCW 84.14. The first step in this process is to pass a resolution stating the intention of designating the Midtown District as a "residential targeted area" and setting a time and date for a public hearing to make a decision regarding that. Currently, the Pilchuck District is the only residential targeted area in the City.

On June 7, 2022, the City Council passed Resolution 1437 stating its intent and setting a July 5, 2022 public hearing date. At the public hearing, the City Council heard the staff presentation and public testimony then closed the public hearing without voting on the proposed ordinance. Staff was directed to invite the Snohomish County Auditor's Office to make a presentation to the City Council on the effects of the tax exemption, provide more extensive public outreach about the tax exemption proposal and the Assessor's Office analysis, then schedule a second public hearing.

The MFPTE program was created by the State in 1995 (and amended in 2007 and 2021). The City implemented its program, pursuant to the RCW requirements, in 2019.

The MPPTE program provides for 8- and 12-year temporary exemptions on paying property tax on the value of the construction of new multi-family development. Only development within a residential targeted area is eligible for a temporary exemption in this program.

PROPOSAL: The first step to designate an area as a residential targeted area, as required by RCW 84.14.040(2), is for the City Council to adopt a resolution stating its intention to do so. The resolution must state the time and place of the hearing to be held by the City Council where consideration of the designation will take place.

Resolution 1437, attached at the end of this staff report, has been drafted to comply with the requirements of RCW 84.14.040(2). The resolution simply states the City Council intends to designate the Midtown District as a residential targeted area to establish it for the MFPTE program. It sets a public hearing for 6:00 p.m. Tuesday, September 20, 2022, at the Carnegie Building.

ANALYSIS: The MFPT program is a widely used program implemented by 43 cities in the state (with seven more considering doing so) to incentivize the construction of multi-family development affordable housing units. Statewide in 2021 the MPPT program created 1,058 affordable units and 6,701 market rate units.

Snohomish County jurisdictions that have also adopted the program include Bothell, Edmonds, Everett, Lake Stevens, Lynnwood, and Marysville. Cities large and small have adopted the program including Blaine, Woodinville, Enumclaw, Lake Forest Park, Port Orchard, Ferndale, Federal Way, and Ellensburg, all of which have populations of less than 20,000.

For an area to be designated a residential targeted area the City Council must determine:

1. The area is located in an urban center;
2. The area lacks sufficient available, attractive, convenient, desirable, and livable residential housing to meet the needs of the public who would be likely to live in the urban center if such places to live were available; and
3. That providing additional housing opportunities in the target area will assist in encouraging increased residential opportunities in the targeted area and stimulate the construction of new multifamily housing that will increase and improve residential opportunities within the City's urban centers.

Other factors the City Council can consider in designating a residential targeted area include whether:

- Additional housing in the targeted area will attract and maintain a significant increase in the number of permanent residents;
- Additional housing in the targeted area will help revitalize the City's urban center;
- An increased residential population will help improve the targeted area; and
- An increased residential population in the targeted area will help to achieve the planning goals mandated by the Growth Management Act.

SMC 3.50.030(N) defines "Urban center" as a compact identifiable district designated by the City Council where residents may obtain a variety of products and services. Urban centers shall contain several existing or previous businesses, adequate public facilities, and a mixture of land uses and activities. The Midtown District is consistent with this definition.

Currently, the Midtown District has few residential units; therefore, the second criterion for a targeted residential area is met.

The vision for the Midtown District is for it to be a mixed-use urban center where a significant amount of the development is of various multi-family unit types. Providing more housing opportunities in the Midtown District will both increase housing opportunities in the District as well as stimulate more multi-family development there. Therefore, the requirements of the third criterion are met.

If the vision for the Midtown District is achieved, then all of the "other factors" are met as well, including achieving the Growth Management Act's goal of having higher density development in urban growth areas.

Approving Resolution 1437 does not commit the City to designating the Midtown District as a residential target area. That decision is made at the public hearing when the Council will consider an ordinance amending SMC 3.50.05(F) to add the Midtown District to the list of designated targeted areas.

When the City first considered implementing a multi-family property tax exemption program in 2018-19, staff reached out to the Snohomish School District for their comments. At that time, Executive Director of Accounting and Financing Tom Laufmann said the impacts on School District revenues would be miniscule. Staff also reached out to the Fire District No. 4 Board of Commissioners and Evergreen Health Monroe, neither of which expressed concerns that the temporary tax exemptions would affect their finances in any significant way.

NEXT STEPS: If Resolution 1437 is passed, then the City Council will hold a public hearing on September 20 to consider an ordinance amending SMC 3.50.050(F) to add the Midtown District to the list of target residential areas joining the Pilchuck District.

Staff will also be recommending amending SMC 3.50.060B following previous City Council direction to increase the affordable housing requirements.

Pursuant to the code as it is today, a development does not have to provide any affordable units to qualify for the 8-year exemption. Staff's recommendation will be to amend the code so that to qualify for the 8-year exemption at least 10% of the units must be affordable to low-income households (households that earn 50-80% of the Area Median Income).

Currently, to qualify for the 12-year exemption the code requires at least 20% of the units be affordable to low- and moderate-income households. Staff will be recommending amending the code so that to qualify for the 12-year exemption at least 10% of the units must be affordable to low-income households and 10% of the units must be affordable to very-low-income households (households that earn 30-50% of the Area Median Income). Alternately, a developer could choose to provide at least 25% of the units as affordable to low-income households.

In addition, staff will be recommending code amendments requiring the mix of housing types of affordable units be similar to the mix in the overall development. For example, if a project has 100 units with 33 studio units, 33 one-bedroom units, and 34 two-bedroom units, then to qualify for the 8-year exemption 10 units would have to be affordable to low-income households with three being studio, three 1-bedroom, and four 2-bedroom apartments.

BUDGETARY IMPACTS: Providing temporary exemptions on multi-family development will not result in a decrease in current property tax revenues collected by the City but could affect how much property tax other property owners pay. It is impossible to project precisely what the impact this tax exemption program will have on taxes paid by other property owners. However, the development at 161 Lincoln Avenue provides insight on the scale of that impact. That project is a mixed-use development with 3,660 square feet of commercial space and seven dwelling units. It was completed late last year and in May 2022, a final tax exemption

certificate was issued. Starting in 2023, the property owner will not be paying taxes on the value of the portion of the building used for residential uses for the next eight years.

The Snohomish County Assessor's Office estimates the effect of the 161 Lincoln Avenue \$2 million exemption on the property tax bill for the average value house in Snohomish will be about a \$2.08 increase.

After the temporary exemptions expire, the City will realize increased revenues as the full value of the development becomes taxable. In addition, while property tax revenue may be negatively impacted during the exemption years, other City revenue sources such as utility fees and sales tax receipts will increase due to the increased utility accounts and more people shopping in Snohomish.

COMPREHENSIVE PLAN REFERENCES:

GOAL LU 5: Accommodate a range of housing types and residential densities to provide living options for the spectrum of ages, lifestyles, and economic segments of the City's population.

Policy MF 5.6: Promote a mix of new residential units, sizes and densities and use effective strategies designed to create residences that include those that are affordable to low- and moderate-income households, as defined by the U.S. Department of Housing and Urban Development.

RECOMMENDATION: Motion to **APPROVE** Resolution 1437 stating it is the City Council's intention to designate the Midtown District as a residential target area and setting a public hearing date for September 20, 2022.

ATTACHMENT: Resolution 1437

REFERENCES:

- [Chapter 3.50 SMC, Multifamily Housing Property Tax Deferral](#)
- [RCW 84.14 – New and Rehabilitated Multiple-Unit Dwellings in Urban Areas](#)

**CITY OF SNOHOMISH
Snohomish, Washington**

RESOLUTION 1437

**A RESOLUTION OF THE CITY OF SNOHOMISH, WASHINGTON
NOTIFYING THE PUBLIC OF THE CITY COUNCIL'S INTENT TO
DESIGNATE THE MIDTOWN DISTRICT ZONE AS A RESIDENTIAL
TARGETED AREA FOR THE PURPOSE OF ESTABLISHING A MULTI-
FAMILY PROPERTY TAX EXEMPTION PROGRAM AS PROVIDED FOR
BY RCW 84.14 AND SETTING THE REQUIRED PUBLIC HEARING**

WHEREAS, Chapter 84.14 of the Revised Code of Washington provides for special valuations for eligible improvements associated with multi-family housing and for the purpose of creating additional affordable housing; and

WHEREAS, the City created the Midtown District on Feb. 1, 2022, in order to promote a redevelopment strategy for the area intended to encourage investment and to create an urban village with a variety of housing types including multi-family development, such as townhouses and multi-story residential/mixed-use buildings and promoting higher density development; and

WHEREAS, pursuant to RCW 84.14.010, the Midtown District meets the criteria to be defined as an urban center in that it is a compact area containing several existing or previous business establishments, has adequate public facilities, and has a mixture of land uses and activities in association with commercial uses; and

WHEREAS, pursuant to SMC 3.50.050, the City Council may designate a residential targeted area within an urban center that is consistent with the criteria in RCW 84.14.040; and

WHEREAS, the Midtown District is within an urban center lacking sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live there if there was sufficient such housing available in the Midtown District; and

WHEREAS, RCW 84.14.040(2) states that a governing authority may adopt a resolution of intent to designate one or more areas, thereby notifying the public of its intent; and

WHEREAS, in accordance with RCW 84.14.040(2), the resolution must state the time and place of a hearing to be held by the governing authority to consider the designation of the area(s); and

WHEREAS, notice of the public hearing shall be published once each week for two consecutive weeks, not less than seven days, nor more than thirty days before the date of the hearing in a paper having a general circulation in the City in accordance with RCW 84.14.040(3);

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SNOHOMISH, WASHINGTON, AS FOLLOWS:

Section 1. The City Council intends to designate the Midtown District zone, as shown in Exhibit A attached to this resolution, as a residential targeted area for the purpose of establishing a multi-family property tax exemption program as provided for by RCW 84.14 and Chapter 3.50 SMC.

Section 2. A public hearing to seek public comment on and consider the designation of this zone as a residential targeted areas will be held at a regular meeting of the City Council on September 20, 2022 at 6:00 p.m., or as soon thereafter as possible, at the Snohomish Carnegie Building, 105 Cedar Ave., Snohomish, WA. The hearing will be noticed in accordance with RCW 84.14.040(3).

PASSED by the City Council and **APPROVED** by the Mayor this 16th day of August, 2022.

CITY OF SNOHOMISH

Linda Redmon, Mayor

ATTEST:

Brandi Whitson, City Clerk

APPROVED AS TO FORM:

Emily Guildner, City Attorney

