CITY OF SNOHOMISH
Snohomish, Washington

RESOLUTION 1272

A RESOLUTION OF THE CITY OF SNOHOMISH, WASHINGTON AUTHORIZING ECONOMIC INCENTIVES FOR LONG-TERM CAPITAL INVESTMENT

WHEREAS, Goal #1 in the City's Strategic Plan is to "Grow and Diversify the City's Economy and Employment Base," and the City seeks to promote economic growth with long-term sustainability; and

WHEREAS, the City has several areas that could benefit substantially from new investment of private development capital to create new jobs, housing, and revenue-generating businesses; and

WHEREAS, the City recognizes the need to maintain a business environment that offers competitive returns for investments that promote the economic interests of the Snohomish community; and

WHEREAS, the City's Economic Development Committee has created an economic incentive program to attract long-term capital investment known as ***Build Snohomish***, a copy of which is attached hereto and the terms of which are incorporated herein; and

WHEREAS, the City Council finds the ***Build Snohomish*** program to be well-suited for facilitating beneficial economic development and for implementing the City's Strategic Plan goals;

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

The City Manager is authorized to negotiate with private entities for development investments within the City of Snohomish utilizing the ***Build Snohomish*** economic incentive program, or any individual section(s) thereof, subject to final approval by the City Council prior to entering into binding legal or financial obligations.

PASSED by the City Council and **APPROVED** by the Mayor this 19th day of April, 2011.

CITY OF SNOHOMISH

By Karen Guzak
Karen Guzak, Mayor

ATTEST:

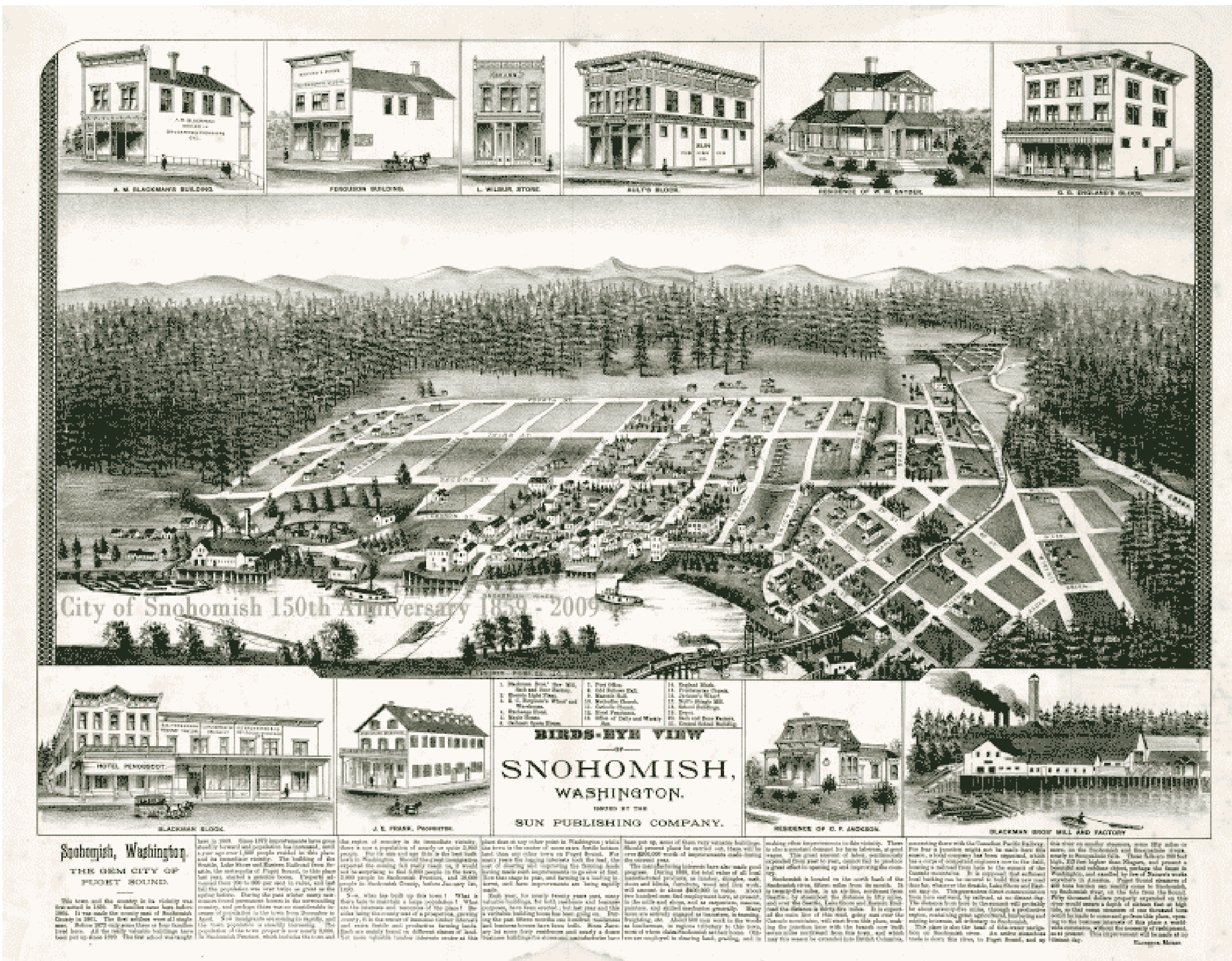
By Torchie Corey
Torchie Corey, City Clerk

APPROVED AS TO FORM:

By Grant K. Weed
Grant K. Weed, City Attorney

BUILD SNOHOMISH

AN ECONOMIC INCENTIVE PROGRAM FOR LONG-TERM CAPITAL INVESTMENT IN THE SNOHOMISH COMMUNITY



(*Comehomesnohomish.com*)

CITY OF SNOHOMISH ECONOMIC DEVELOPMENT COMMITTEE

APRIL 2011

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BUILD SNOHOMISH PROGRAM OVERVIEW

Build Snohomish consists of four financial incentives for long-term private capital investment:

1. Multi-Unit Housing Development Tax Credit: Facilitating state-authorized property tax credits for creation of new housing within a mixed-use center such as the Pilchuck District.

2. Hotel/Motel Tax Waiver: Following creation of a new hotel within the City limits, reduction or elimination of the current hotel/motel tax for a specified period.

3. Qualified Small Issue Bond Sponsorship: Assisting manufacturing businesses (such as Wineries, Craft Distilleries, and Micro Breweries) in obtaining financing via the Washington Economic Development Finance Authority's private bond funding program.

4. Single-Source LTGO Bonds For Infrastructure Improvements: Financing improvements needed for private development, using sales tax revenue generated solely from those developments.

These incentives can be utilized individually or in combination to facilitate desired new development investments.

MULTI-UNIT HOUSING DEVELOPMENT TAX CREDIT

Development Goal: New multi-family housing and mixed-use retail facilities in the Pilchuck District and other desired locations.

Incentive Description: Washington state law encourages increased residential development, including affordable housing opportunities, in cities that are required to plan or choose to plan under the Growth Management Act. The goal is to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing in urban centers, and increase and improve residential opportunities -- particularly affordable housing opportunities -- within these urban centers.

To achieve these goals, RCW 84.14 authorizes cities such as Snohomish to provide 8-or-12-year property tax exemptions for new multiple-unit housing developments. "Multiple-unit housing" means a building having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from new construction or rehabilitated or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

The property tax exemption may be for 8 years if the new development contains no affordable housing units, and may run for 12 years if the development contains at least 20% affordable housing. "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of low (<80% of mean) or moderate (80-115% of mean) income households.

In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to the submission of the application required under this chapter. The incentive provided by this chapter is in addition to any other incentives, tax credits, grants, or other incentives provided by law.

A primary goal of the City's new land use designations for the Pilchuck District is to create new multi-unit housing that will facilitate a walkable community area centered on attractions such as the extended Centennial Trail. The Multi-Unit Housing Development Tax Credit will provide a useful incentive for attracting private development capital for this purpose, as it offers an enhanced multi-year cash flow profile for projects meeting the necessary criteria.

Legal Authority: RCW 84.14 -- New and Rehabilitated Multiple-Unit Dwellings in Urban Centers

HOTEL/MOTEL TAX WAIVER

Development Goal: New hotel(s) within City limits.

Incentive Description: Pursuant to RCW 67.28 the City currently assesses a hotel/motel tax for overnight stays at lodging facilities within the City limits. State law authorizes the tax in a maximum amount of 2%. This is a discretionary tax, which the City can assess or waive. For the past few years, the tax has brought Snohomish $10-15,000 in annual revenue, which is spent on tourism-related programs.

Attracting the development of new lodging facilities in Snohomish will require the City to fulfill numerous financial criteria desired by hotel operators. The EDC is currently partnering with the UW Bothell School of Business to create a feasibility study that will detail the City's positive environment for new lodging. Offering to waive the City's current lodging tax would provide an immediate 2% boost to a hotel operator's bottom line, which is particularly useful for new facilities that are paying down capital investments and building the initial client base.

The trade-off in using a tax waiver to attract new lodging facilities is the loss of the $10-15,000 in annual revenue the tax currently provides. The EDC views that loss as worthwhile in light of the expected total financial gain to be realized from new hotel development. Considering that tens of thousands of people visit Snohomish for weekend events such as Kla Ha Ya Days and the Bigfoot soccer tournament – and then travel elsewhere to stay overnight – the gain in sales tax revenue from increased local shopping and food/beverage consumption by overnight guests should substantially exceed the loss of current lodging tax revenue.

The EDC recommends the lodging tax waiver be negotiated for a set period (e.g. five years) and be contingent upon the actual opening of a new hotel within the City limits.

Legal Authority: RCW 67.28.180

QUALIFIED SMALL ISSUE BOND SPONSORSHIP

Development Goal: Creation of Craft Distillery industry cluster, or other local manufacturing enterprises.

Incentive Description: Recent changes in Washington law have authorized the creation of "Craft Distilleries", which produce and sell high-quality distilled spirits using locally-grown agricultural products. Snohomish has already attracted the interest of several potential distillery developers – and has organic feedstock farms already in operation nearby. The City has set a goal of creating an industry cluster for Craft Distilleries within Snohomish, wherein a critical mass of these businesses will comprise a tourist destination for connoisseurs.

One of the biggest challenges for any startup business is obtaining the initial capital necessary to open shop. This is particularly true in the current economic climate, where commercial lending by banks to small businesses is still significantly diminished relative to pre-2007 levels. To assist with financing for new manufacturing businesses, the Washington Economic Development Finance Authority has a specialized program that helps companies issue tax-free Qualified Small Issue Bonds to raise capital for operations up to $10M (higher amounts may be financed with taxable bonds).

WEDFA has an extremely broad definition for eligible businesses: "If your project will change physical material into something different and more valuable, it probably constitutes a manufacturing or processing facility." See Appendix Tab 2. Since Craft Distilleries take raw agricultural products such as rye and potatoes and change them into significantly more valuable distilled spirits, they will qualify for WEDFA bond financing.

To help attract new Craft Distilleries to Snohomish, the City can offer to "sponsor" a company's private bond issue through WEDFA. This is in essence a technical assistance program, whereby the EDC and City staff would help the company organize its application materials and provide needed data for the bond issue offering statements. The goal is to help the company create an investment offering package that will be attractive to bond buyers, and thereby produce capital that will be used to create new Craft Distilleries in Snohomish. This type of assistance need not be limited just to Craft Distilleries, but can be offered to any manufacturing concern the City views as desirable.

"Sponsorship" of a Qualified Small Issue Bond in this context does not require the City to assume or guarantee any debt, or otherwise undertake any financial obligation. The private company assumes all risk and responsibility for repayment of the bonds. The City is simply offering its support and detailing the advantages of opening a new facility within Snohomish, to help the borrowing company attract sufficient investor interest for a successful bond issue.

Legal Authority: Washington Economic Development Finance Authority program regulations

SINGLE-SOURCE LTGO BONDS FOR INFRASTRUCTURE IMPROVEMENTS

Development Goal: New Hotels(s) and Major Mixed-Use Retail/Commercial Facilities

Incentive Description: New private developments of significant size typically create the need for accompanying public infrastructure improvements. Streets, sidewalks, sewer/drainage, and various other public facilities must be improved in order to accommodate the new structures, and the cost of doing so in an urban center can easily reach millions of dollars. Traditionally, the cost of these public improvements has been borne one of two ways: 1) the private developer paid the costs itself; or 2) the municipality used its own funds to cover the costs.

The first option is not favorable to the private developers the City wishes to attract, and the City does not possess the funds to implement the second option. A third option the City can use is designed to provide a financial incentive to developers without impacting the City's General Fund: utilizing a single-source Limited Tax General Obligation Bond (LTGO) to finance the improvements using the developer's money, then paying back the developer with interest using solely the sales tax revenue generated from the new facility.

EXAMPLE: Assume the cost of public improvements to facilitate a new mixed use facility in the Pilchuck District is $1 million. The City agrees to issue a LTGO bond to fund the necessary improvements – and the developer agrees to purchase the entire bond issue itself. The developer has now paid the $1M the City will use for the needed improvement, and the City owes the developer back the $1M plus the stated rate of interest on the bond. THE KEY: The City's LTGO bond issue states that the sole source of repayment for the bonds will be the sales tax revenue generated from the new facility after it opens. Once the facility opens, the City services the LTGO bond debt on a pay-as-you-go basis using only the sales revenue the new facility is generating each year.

For the City, this method provides a no-risk method of paying for public improvements needed to accommodate private development – if the sales tax revenues don't meet expectations (or cease), the City's repayment obligation to the developer is adjusted (or obviated) accordingly. For developers, while not providing the same immediate benefit as if the City paid for the improvements with its own money, this method can ultimately reimburse them for their initial cost outlay plus provide a profit in the form of interest paid on the bonds. In essence, the developer is betting on its own success, with new sales tax revenue providing the payback.

The financial trade-off for the City is the loss of some or all of the sales tax revenue from the new facility until the bonds are repaid. However, since the desired facilities do not currently exist and thus generate no revenue, this does not represent a true "loss". Further, in the case of a hotel or mixed-use development, the presence of the new facilities will almost certainly result in additional sales tax revenue from consumers patronizing other businesses within the City.

Legal Authority: RCW 35A.40.080; RCW 35.37.040; RCW 35.81.100