

**Proposed Local Infrastructure Project Area (LIPA) (aka “TIF for TDR”)  
For South Lake Union and Downtown  
October 17, 2012**

**Background on South Lake Union Rezone**

The South Lake Union rezone proposal has been under development since 2008. Key points about the rezone process relating to LIPA include:

1. From the beginning, a guiding principal of this effort has been that any increase in height and density would be through an incentive zoning program that would provide affordable housing and neighborhood amenities consistent with the 2007 South Lake Union Urban Center Neighborhood Plan.
2. DPD’s zoning recommendation is based on locational criteria set out in the municipal code, information learned through an intensive and ongoing community engagement process, and information gained through the South Lake Union Height and Density EIS. The extent of public amenities that could be gained through incentive zoning was not a factor in developing the zoning recommendations.
3. During development of the height and density rezone alternatives, new state legislation established a program that offers the potential to make the non-housing portion of the public amenities more flexible (by allowing a broader range of amenities) and beneficial (by supporting regional priorities as well as local ones) than existing approaches.
4. Once the zoning recommendation was developed, Heartland LLC was hired to conduct a market analysis to determine if there would be enough demand for regional TDR’s to support such a program in South Lake Union. Based on this analysis, the City worked with PSRC to reduce the allocated share of TDR’s necessary to make a TIF district work and expanded the geography of the program to include downtown. The rezone recommendation itself was not adjusted based on this work.

**Summary of Proposed LIPA Program**

DPD is proposing to use new state legislation that allows the creation of Local Infrastructure Project Areas to provide revenue for local infrastructure investments while also supporting preservation of regional farm and forest land. This program allows areas that use incentive zoning to obtain transferable development rights (TDR) from farm and forest land to capture a portion of the additional increment of future County property tax revenue generated from new development to fund local improvements. This program would be implemented concurrently for South Lake Union and Downtown through changes proposed in the South Lake Union rezone legislation and follow up legislation which is anticipated to be submitted to Council in early 2013. While this proposal will provide public amenities to support proposed additional development capacity in South Lake Union area, it was not considered as a factor in developing the current proposal for allowed height and floor area ratios.

### Transfer of Development Rights

Under this program, a portion of the floor area allowed through incentive zoning in South Lake Union and Downtown would be obtained through the purchase of regional TDR credits. This portion represents 25% of commercial incentive zoning floor area and 40% of residential incentive zoning floor area in South Lake Union and the increment of incentive zoning that previously went to the expired LEED bonus in certain Downtown zones. Developers could obtain regional TDR from farm or forest land in King, Snohomish, or Pierce counties; however, different types of TDR would be valued at different rates based on specified exchange ratios. In the beginning of the program, developers could only use farm credits or forest and rural credits where the proceeds of the sale were reinvested in farm credits in order to develop the local farm credit market to the point where it can compete with the more developed forest credit market.

It is anticipated that this program would result in developers purchasing 800 regional development credits over 15 years, resulting in the permanent protection of over 25,000 acres of working farm and forest land.

### Infrastructure Funding

In exchange for establishing a regional TDR program, the City will receive up to 20% of City and County property tax generated on new development in Downtown and South Lake Union for infrastructure projects. The exact amount of revenue generated from this program is contingent on meeting certain thresholds for acquiring regional TDR and will vary with market conditions. The City is proposing to reinvest all money received from City property tax in planned maintenance to avoid any impact to the General Fund or diversion of revenue from one neighborhood to another. It is anticipated that revenue from King County property tax will contribute \$27.0M to fund local projects over 25 years (about \$16.5M in 2012 dollars using a 3% discount rate). This money will be invested in South Lake Union and Downtown in proportion to the amount of TDR that is expected to come from each area (60% South Lake Union, 40% Downtown), although the funds may be pooled to support projects that benefit both areas such as a North Downtown Community Center.

DPD will be working with City departments to develop a project list for how this money should be spent. This project list will not include any stipulation about when the money should be spent and will include more projects than can be accomplished with this funding source alone in order to allow leveraging of other funding sources. It is anticipated that this money will go to a range of transportation and open space investments including green streets, 3<sup>rd</sup> avenue improvements, ped/bike/transit investments, development of a north downtown community center, and/or park acquisition and improvements.

### Effects on City's General Fund

The state legislation authorizing Local Infrastructure Project Areas requires that a portion of City property tax revenue generated from new development also go to funding local improvements. However, this money is proposed to be directed to existing maintenance and operations funding such that no impact to the general fund is anticipated.