

EDMONDS BUSINESS INVESTMENT PROGRAM OVERVIEW

The Edmonds Business Investment Program consists of financial incentives for long-term private capital investment:

- Qualified Small Issue Bond Sponsorship: Assisting manufacturing businesses (such as Micro Breweries, Craft Distilleries, and Winery Operations) in obtaining financing via the Washington Economic Development Finance Authority's private bond funding program.
 - Hotel/Motel Tax Waiver: Reduction or elimination of the current hotel/motel tax for a specified period following creation of a new boutique hotel within Edmonds downtown zones (BD1 & BD2) and/or a new hotel within City limits in the proximity of Swedish Edmonds, Edmonds District Stadium (Sea Wolves -Premier Development League Soccer-Home Stadium), and Washington Olympicview Ice Hockey Arena (UW Husky/Pac 8 Home Rink; Montlake Terrace).
 - Multi-Unit Housing Development Tax Credit: Facilitating state-authorized property tax credits for creation of new housing within a mixed-use center(s) such as Westgate that is consistent with comprehensive and sub-area master plans (that may also include incentive zoning).
 - 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.

Additional incentives for consideration that require more information...

- *Impact and System Development Fee Deferral and Charge Credits/Waivers: Strengthen developers/builders pro forma by deferring and providing credits for System Development Charges (SDC).*
- *Incentives to attract Food Trucks to Designated Areas (or as part of Sub-Area Plans)*
- *Storefronts Art Program: Bring art installations and artist into vacant retail space*

Qualified Small Issue Bond Sponsorship

Development Goal: Create Micro Breweries, Craft Distilleries, Winery Operations, or other local manufacturing enterprises within Edmonds, particularly supporting a critical mass of these businesses thereby facilitating tourism.

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. Edmonds already has attracted two Micro Brewery businesses to the Harbor Square area. The City has interest in creating an industry cluster that may include Micro Brewery, Craft Distillery, Winery Operations, and related/supporting businesses within Edmonds, 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 (WEDFA) 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.” Since Micro Breweries, Craft Distilleries, and Winery Operations each take raw agricultural products and change them into significantly more valuable spirits, they will qualify for WEDFA bond financing.

To help attract new Micro Breweries, Craft Distilleries, and Winery Operations to Edmonds, the City can offer to “sponsor” a company’s private bond issue through WEDFA. This is in essence a technical assistance program, whereby the City Staff and EDC 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 the new “processing facilities” in Edmonds. This type of assistance is not limited to those described herein, but could be offered to any manufacturing concern that the City views as desirable; particularly those consistent with a tourist destination.

“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 Edmonds (or designated Edmonds sub-areas), to help the borrowing company attract sufficient investor interest for a successful bond issue.

Legal Authority: Washington Economic Development Finance Authority program regulations.

Hotel/Motel Tax Waiver

Development Goal: Facilitate establishment of new hotel(s) within City limits: 1) A new boutique hotel within Edmonds downtown zones (BD1 & BD2) and/or 2) A new hotel within Edmonds city limits in the proximity of Swedish Edmonds, Edmonds District Stadium (Sea Wolves -Premier Development League Soccer- Home Stadium), and Washington Olympicview Ice Hockey Arena (UW Husky/Pac 8 Home Rink; Montlake Terrace).

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 a maximum tax of 2%. This is a discretionary tax, which the City can assess or waive. For the past few years, the tax has brought Edmonds an average of \$70,000 in annual revenues, which is spent on tourism-related programs.

Currently, the Harbor Inn –located within Harbor Square– is the only hotel/motel style lodging facility within downtown Edmonds. A boutique hotel in downtown Edmonds would provide a different experience for family visitors and Edmonds’ tourists than the Harbor Inn. Boutique hotels often contain luxury facilities of varying size in unique or intimate settings with full service accommodations; and are focused on offering their services in a comfortable, intimate, and welcoming setting, so they are very unlikely to be found amongst the homogeneity of large hotel. A boutique hotel in downtown Edmonds (BD1 or BD2 zones) would support the tourist destination appeal consistent with our small town charm and character, waterfront, ferry, and train proximity, as well as our many festivals and events at the Edmonds Center for the Arts.

Similarly, a new hotel within proximity of Swedish Edmonds, Edmonds District Stadium, and Washington Olympic Ice Hockey Arena would support hospital visitation as well as tourist stays attracted by these sporting events that otherwise go to neighboring communities.

Note: A feasibility study detailing the City’s positive environment for new or specialized lodging could help attract the development of new lodging facilities in Edmonds by providing necessary financial criteria required by hotel operators; the City of Snohomish had recently partnered with the UW Bothell School of Business to create such a study. Also, the Chairs of the Highway 99 Task Force and the Chamber’s Economic Development Committee are currently soliciting input from the Hotel Group regarding attracting a hotel to the Highway 99 corridor. And Staff has reached out to Swedish Edmonds soliciting demographics for the possibility of an extended stay facility near the hospital and exploring sites between the Kruger Clinic and 220th; the outreach was well received by Swedish and is timely considering they are in the process of developing a Medical Campus/Activity Center sub-area master plan.

The trade-off in using a tax waiver to attract lodging facilities is the loss of the \$XX – XX,000 in annual revenues for the specified time period. The loss may be viewed as worthwhile in light of the expected total financial gain to be realized from new hotel development, including secondary business activity. The gain in sales tax revenue from increased local shopping, food/beverage consumption, etc. by overnight guests should substantially exceed the loss of current lodging tax revenue for the specified period.

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 the new hotel(s) within the City limits.

Legal Authority: RCW 67.28.180

Multi-Unit Housing Development Tax Credit

Development Goal: Facilitate creation of new multi-family housing within a mixed-use center(s) –such as Westgate– that is consistent with comprehensive/sub-area master plans (that may also include incentive zoning) and surrounding neighborhoods.

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 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 help realize these goals, RCW 84.14 authorizes cities such as Edmonds 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 exemptions may run 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.

Edmonds is currently exploring long-term renewal opportunities for sub-area business districts including Westgate and 5-Corners. It is anticipated that each of these plans will include mixed-use centers that are scaled with surrounding neighborhoods in terms of current housing composition, transportation access, and building mass/bulk. It is also recognized that density and mass bulk allowances for Westgate and 5-Corners will be different reflecting the nature of surrounding neighborhoods and current business activity. But it is anticipated that each will include some additional multifamily housing supporting business renewal opportunities. And that incentive zoning may be specified to address neighborhood amenities/open space, facilitate walkable communities, environmental programs, alternative transportation/parking, etc.

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. The property tax exemption wouldn’t represent a loss of current revenue. But near-term revenue benefits of facilitating business district renewal, secondary business activity from increased residences, as well as long-term property tax revenue (when the tax credit period terminates) are anticipated.

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

Single-Source LTGO Bonds For Infrastructure Improvements

Development Goal: Finance improvements needed for private development, using sales tax revenue generated solely from those developments.

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 the public improvements to facilitate a new mixed use facility 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 will owe the developer back the \$1M plus the stated rate of interest for the bond. **THE KEY:** The City's LTGO bond issue states that the sole source for repayment of the bond will be the sales tax revenue generated from the new facility when it opens. Once the facility opens, the City services the LTGO bond debt on a pay-as-you-go basis using only 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 paid. However, since the desired facilities do not currently exist and/or might not be possible without the infrastructure improvements, 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.

Additional incentives for consideration that require more information...

- *Impact and System Development Fee Deferral and Charge Credits/Waivers: Strengthen developers/builders pro forma by deferring and providing credits for System Development Charges (SDC).*
 - *Deferring Impact and System Development Fees (SDC) till just prior to Occupancy of projects as opposed to collecting fees at Building Permit Issuance ... Which fees?*
 - *Apply charge credits for prior site/building uses ... What charge credits? How is prior site/building defined (i.e. adjacent properties?, similar businesses within business district?)*
 - *Fees waived in return for public amenities provided with development ... Which fees?*
 - *Reduction in Development Fees to help with the start up, or relocation, costs for small businesses of 20 or fewer full time employees by reducing the costs of certain development related fees by a rate of 50%. See Auburn Resolution 4793 for additional information (<http://weblink.auburnwa.gov/External/0/doc/202201/Page1.aspx>).*
- *Incentives to attract Food Trucks to Designated Areas (or as part of Sub-Area Plans)*
 - *Consider designated areas for food trucks as appropriate for sub-area plans (i.e. Medical Campus/Activity Center; proximity to largest Edmonds Employer and Park & Ride)*
- *Storefronts Art Program: Bring art installations and artist into vacant retail space*
 - *Contact Manya Vee, Edmonds Mural Society (others?) to organize?*