



## CITY COUNCIL MEETING STAFF REPORT

<b>Meeting Date:</b> May 2, 2022		<b>Subject: Resolution No. 2971</b> Vertical Housing Development Zones (VHDZ)	
		<b>Staff Members:</b> Kimberly Rybold, AICP, Senior Planner and Matt Lorenzen, Economic Development Manager	
		<b>Department:</b> Community Development	
<b>Action Required</b>		<b>Advisory Board/Commission Recommendation</b>	
<input checked="" type="checkbox"/> Motion <input type="checkbox"/> Public Hearing Date: <input type="checkbox"/> Ordinance 1 <sup>st</sup> Reading Date: <input type="checkbox"/> Ordinance 2 <sup>nd</sup> Reading Date: <input checked="" type="checkbox"/> Resolution <input type="checkbox"/> Information or Direction <input type="checkbox"/> Information Only <input type="checkbox"/> Council Direction <input type="checkbox"/> Consent Agenda		<input checked="" type="checkbox"/> Approval <input type="checkbox"/> Denial <input type="checkbox"/> None Forwarded <input type="checkbox"/> Not Applicable  <b>Comments:</b>	
<b>Staff Recommendation:</b> Staff recommends that Council adopt Resolution No. 2971, establishing a Vertical Housing Development Zone program in the City of Wilsonville.			
<b>Recommended Language for Motion:</b> I move to approve Resolution 2971.			
<b>Project / Issue Relates To:</b>			
<input checked="" type="checkbox"/> Council Goals/Priorities: Equitable Housing Strategic Plan Implementation	<input checked="" type="checkbox"/> Adopted Master Plan(s): Villebois Village Master Plan, Town Center Plan	<input type="checkbox"/> Not Applicable	

### ISSUE BEFORE COUNCIL:

Adoption of a Vertical Housing Development Zone (VHDZ) program to incentivize the development of multi-story, mixed-use projects in Villebois Village Center and Town Center.

## **EXECUTIVE SUMMARY:**

A Vertical Housing Development Zone (VHDZ) offers a partial property tax exemption on building improvement value for mixed-use developments that include housing with non-residential use on the ground floor. The amount of tax exemption increases based on the number of residential floors above the ground floor of the project. The partial abatement lasts for a period of 10 years, beginning with the first tax year in which, as of the assessment date, the project is occupied or ready for occupancy following its approval by the City. On a market-rate project, the partial abatement applies only to vertical improvements—that is, no portion of the assessed value of the land under an eligible project is exempted from any amount or percentage of taxation. Additional assessed value associated with land may be exempted where the project has an affordable housing component.

Two recent planning processes, the Town Center Plan and Equitable Housing Strategic Plan (EHSP), identified the use of VHDZ as a tool to incentivize multi-story, mixed-use development in specific locations in Wilsonville. The 2019 Town Center Plan included a short-term implementation action (ED.10 – Consider Adopting a VHDZ) to explore locations in Town Center where this may be a suitable tool to help achieve the Plan’s goals by stimulating targeted construction of vertical mixed-use buildings. The 2020 Equitable Housing Strategic Plan included VHDZ as one of the tax abatements to explore (Action 1D: Create Housing Tax Abatement Programs to Achieve Housing Diversity and Affordability) to promote the development of housing with access to services and amenities in the Villebois Village Center and Town Center. In support of these recommendations, City Council’s 2021-23 Goals direct staff to continue implementation of the ESHP, including exploration of VHDZ.

Over the course of the past year, the project team held five work sessions with Council to answer questions about how VHDZ could promote the development of mixed-use buildings in Town Center and Villebois Village Center, gather input on specific boundary alignment, and discuss local criteria that aim to create active ground floors. Based upon input received at these work sessions, the proposed boundary in the Villebois Village Center is limited to the two remaining undeveloped tax lots where mixed-use development is anticipated. In Town Center, the proposed boundary focuses on the areas generally within the Main Street subdistrict (MSD), where active ground floor uses are focused in the Town Center Plan. Maps and a listing of tax lots located within the proposed VHDZ area are included in Attachment 1, Exhibit A.

Oregon Revised Statute (ORS) 307.844 allows for cities adopting VHDZ programs to include additional local criteria beyond minimum state eligibility requirements, provided they do not conflict with these requirements. To reflect Council’s direction that eligible projects provide ground floor spaces that are accessible to the public, the local criteria included as part of the proposed VHDZ program (Attachment 1, Exhibit A) require projects to meet applicable design requirements for commercial and/or mixed-use buildings, provide direct street entrances, include at least one tenant space per building, and, if live/work units are included, meet minimum standards regarding the location of the non-residential portion of the unit. These criteria, along with the minimum state requirements, will be used to determine a project’s eligibility for the tax abatement.

Since the last work session on February 24, the project team completed all necessary requirements of ORS 307.844 prior to adoption of a VHDZ program. The state statute requires cities to consider the potential for displacement of households within a proposed VHDZ prior to designating the zone. As noted in the Displacement Risk Memo (Attachment 2), there are no residential units currently within the proposed VHDZ boundaries; therefore there is no risk of direct physical displacement as a result of adopting a VHDZ program. The memo also assesses displacement risks to adjacent properties, concluding that there are no major displacement risks due to the age and renovation status of nearby residential units.

The state statute also requires cities to send notification of proposed zone designation to affected taxing districts whose revenues may be impacted by the establishment of a VHDZ. On March 2, 2022, the City sent this notice, which described the location of the proposed zones, discussed the nature of the tax abatement, and provided information about the process by which a local taxing district may elect to option out of the tax abatement. Notification that a taxing district wished to opt out must have been received within 30 days of when the notice was received, and no taxing districts provided a notice to the City that they would opt out within the 30-day timeframe. No sooner than 60 days from the date of the taxing district notice, the City may adopt a resolution adopting VHDZ. Therefore, the City is able to adopt a VHDZ program at this meeting.

The tentative process for fielding an application and project certification is as follows:

1. **Eligibility Determination:** Applicant contacts Community Development staff to discuss basic program parameters and eligibility criteria.
2. **Application:** Applicant submits \$1,000 application fee, completes and submits Application for Certification with supporting documents.
3. **Pre-certification:** Staff review Application for Certification and supporting documents to confirm project meets both state and local VHDZ threshold criteria.
4. **Conditional Confirmation:** If staff determine project meets threshold criteria, a conditional confirmation letter will be issued detailing the potential property tax exemption and next steps.
5. **Construction:** Applicant proceeds with construction of their project as planned.
6. **Final Certification:** Following completion of project construction, applicant submits an updated Application for Certification form reflecting any updated project information; an updated site plan and architectural pages that show the final “as built” square footages; and Certificate of Occupancy, sent within 10 days of receipt. City staff will use this to reconfirm project meets threshold criteria.
7. **County Tax Assessor notified:** Once all of the above steps are completed, Staff will inform the County Tax Assessor’s office in writing that the project is occupied (or ready for occupancy) and has been certified by the City, providing any documentation required by the Assessor’s offices.
8. **Abatement period begins:** Abatement begins in the first tax year in which, as of the assessment date, a vertical housing development project is occupied or ready for occupancy following certification, and for the next nine consecutive tax years.

**EXPECTED RESULTS:**

City Council will establish a locally tailored VHDZ program that will provide an incentive for the construction of mixed use development in Town Center and Villebois Village Center.

**TIMELINE:**

The program will be effective upon adoption of this resolution. Upon adoption of the VHDZ program, staff will notify the Clackamas County Assessor of the designation of the zone consistent with state statute requirements. Staff will be prepared with necessary forms and any other administrative items to field an application for processing on or before July 1, 2022.

**CURRENT YEAR BUDGET IMPACTS:**

Total project scope for the development of the VHDZ program is approximately \$45,000. Funding for consultant services will be partially funded by professional services funds from the Planning Division budget, supplemented by funding from CIP project #3004 for Town Center related VHDZ work. The amended budget for FY2021-22 includes approximately \$280,000 for Town Center Implementation. Staff time will be required to administer the VHDZ program. The proposed application fee is intended to cover a portion of the costs associated with staff time review.

**COMMUNITY INVOLVEMENT PROCESS:**

The Town Center Plan included a robust and inclusive public outreach process where VHDZ was identified as an implementation action. The priorities identified in the Equitable Housing Strategic Plan, including tax abatements for housing, were generated through a community input process that included focus groups, surveys, and Task Force input. Any mixed-use development qualifying for VHDZ will go through the typical City development review process before the Development Review Board, which allows for public comment from residents, neighbors and property owners. Adoption of the City's VHDZ program is occurring through a public process that welcomes input from citizens and taxing districts.

**POTENTIAL IMPACTS OR BENEFIT TO THE COMMUNITY:**

Adoption of VHDZ will provide a targeted incentive for active and publicly accessible ground-floor uses to support the community's vision for more vibrant, walkable, mixed-use places as called for in the Villebois Village Master Plan and Town Center Plan. Ultimately, adoption of VHDZ can create long-term community wealth through the construction of mixed-use buildings that will be fully taxed after the partial abatement ends.

**ALTERNATIVES:**

City Council can request modifications to the proposed Wilsonville VHDZ program and the attached implementing resolution, limited to local project eligibility criteria, zone boundaries, and administrative processes and fees, or choose to not adopt a VHDZ program. State threshold criteria (ORS 307.841 to 307.867) cannot be amended.

**CITY MANAGER COMMENT:**

**ATTACHMENTS:**

1. Resolution No. 2971
  - A. Wilsonville Vertical Housing Development Zone—Local Criteria
  - B. Displacement Analysis