

# EUGENE CITY COUNCIL

## AGENDA ITEM SUMMARY



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Action: Resolution Approving a Multiple-Unit Property Tax Exemption for Residential Property Located at 17<sup>th</sup> Avenue and Alder Street  
(Sheldon Terrace LLC/Alder Park Apartments)

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Meeting Date: July 25, 2011  
Department: Planning and Development  
[www.eugene-or.gov](http://www.eugene-or.gov)

Agenda Item: 3  
Staff Contact: Denny Braud  
Contact Telephone Number: 541-682-5536

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### ISSUE STATEMENT

The council is asked to consider approval of a Multiple-Unit Property Tax Exemption (MUPTE) for Sheldon Terrace LLC's Alder Park Apartments project located at 17<sup>th</sup> Avenue and Alder Street. (Resolutions for approval and denial are included in Attachments A and B, respectively.)

### BACKGROUND

In 1975, the Oregon Legislature adopted the enabling statutes for the MUPTE and Transit-Oriented District Tax Exemption program. Since that time, both the State statutes and Eugene's implementation ordinance has been amended. The council most recently amended Eugene's code provisions and boundary in November 2008. To assist both staff and council in evaluating a MUPTE application, the code amendments included 1) adoption of approval criteria and 2) direction to the City Manager to adopt a public benefit scoring system (described below).

Sheldon Terrace LLC proposes to build Alder Park Apartments, with 12 units and parking. (See Attachment C for the Report and Recommendation of the Planning and Development Director.) The project would be constructed using sustainable building practices and green building materials, with the goal of qualifying for Earth Advantage – gold or platinum certification. The project would have three stories (14,000 square feet), 34 bedrooms, parking (15 at-grade spaces), common areas and open space with pathways, patios, and trees. The target market for the apartments would be students.

The property currently has four older rental homes containing seven total units, with little to no reuse potential. The buildings are not city landmarks nor are they on the National Historic Register.

This MUPTE application was received after the May 9, 2011, council meeting at which a work session was requested to discuss the MUPTE program. The work session was scheduled on July 20, 2011.

### Public Comments

A display advertisement was published in *The Register Guard* on June 1, 2011, soliciting comments for 30 days. The period ended on July 1, 2011. Other than the letter of support from the West University Neighborhood association included in Attachment D, no public comments were received.

### Public Benefits

After reviewing the Paradigm on Pearl application against the public benefit scoring criteria in the Standards and Guidelines, staff determined that the proposed development earned 110 points. (A minimum of 100 points is required for the City Manager to recommend that council approve an application.) Points were awarded for the project through the following benefits:

- *Density*: 50 points (10 points per unit in excess of the minimum code requirement; 50 point max)
- *Green Building Features and Quality of Building Materials*: 50 points for Earth Advantage-gold certification
- *Parking*: 10 points (10 points per code space in excess of the minimum code requirement)

The project is contiguous to a historic structure. The applicant has a mitigation plan but it was not accepted by Planning and Development Department staff to receive public benefit points because the plan lacked sufficient information.

### Impact and Need for Tax Exemptions to Encourage Housing

The City and other local taxing districts forgo revenue when property is exempted from taxes. Alder Park Apartments will continue to generate property tax revenue on the land. The submitted application indicates that the 2010 property tax was \$5,762. After ten years, the entire development will be taxable, generating an estimated \$24,850 on the housing portion in year 11. The applicant also indicates that MUPTE is vital to the development and, if it is denied, the property will be developed without the green building features and with features not preferred by the neighborhood association (more bedrooms per unit and reconfigured parking/garbage).

### Financial Analysis

The applicant has demonstrated that the project as proposed could not be built but for the benefit of the tax exemption. Staff and the Loan Advisory Committee reviewed the pro-forma and confirmed this conclusion. (See Attachment F for more information.)

### Timing

This application was submitted on May 20, 2011. The City Manager has 90 days (until August 18) to make a recommendation to the council; if the council has not acted in 180 days, the application is deemed approved. Additionally, the existing MUPTE ordinance expires for all projects unable to be constructed by January 1, 2012. In order to qualify for the exemption, the applicant is required to complete construction prior to January 1, 2012. If the project fails to be completed by the deadline due to circumstances beyond the applicant's control (such as a natural disaster, bankruptcy of key vendors, or dissolution of the related financial institution), the council has the option to grant a one-year extension.

The applicant provided a construction timeline showing that construction is expected to be complete on or before January 1, 2012. However, some question remains about the ability to meet this timeline. In light of this possibility, should the council decide to grant the exemption, the resolution approving the exemption states explicitly that if the applicant is unable to complete the project and obtain a temporary or final certificate of occupancy for the residential portion of the project prior to the deadline, that the applicant will not receive the tax exemption and will have no expectation of being granted an extension. The applicant is aware of the deadline and implications of not meeting it.

## **RELATED CITY POLICIES**

MUPTE is enabled by state statute. The City of Eugene has participated in the MUPTE program since 1978. Encouraging housing in the core area is consistent with numerous adopted planning and policy documents. Examples include:

### Growth Management Policies

- Policy 1 Support the existing Eugene Urban Growth Boundary by taking actions to increase density and use on existing vacant land and under-used land within the boundary more efficiently.
- Policy 2 Encourage in-fill, mixed-use, redevelopment, and higher density development.
- Policy 3 Encourage a mix of business and residential uses downtown using incentives and zoning.

### West University Refinement Plan

- V.9 The City will encourage residential uses in all parts of the plan area.
- V.11 The City and the neighborhood shall study ways to encourage a variety or mix of structure types providing both owner and rental opportunities and appealing to a diverse population.

Additionally, the MUPTE program is consistent with the current Envision Eugene work and, specifically, the “Promote compact urban development and efficient transportation options” pillar.

## **COUNCIL OPTIONS**

The council may approve the exemption, deny the exemption, or delay approval in order to request additional information from the developer.

## **CITY MANAGER’S RECOMMENDATION**

No recommendation is provided at this time. The City Manager will consider the input from the council received at the July 20 work session prior to making a recommendation.

## **SUGGESTED MOTION**

Move to adopt the resolution in Attachment (A or B), (approving/denying) the tax exemption.

## **ATTACHMENTS**

- A. Resolution Approving the Property Tax Exemption
- B. Resolution Denying the Property Tax Exemption
- C. Resolution Exhibit A – Property Legal Description
- D. Report & Recommendation of the Planning and Development Director
- E. WUN Letter of Support
- F. Financial Analysis
- G. Image of the Current Site and Proposed Development

*A copy of the MUPTE application for Alder Park Apartments is available in the council office for review.*

**FOR MORE INFORMATION**

Staff Contact: Denny Braud

Telephone: 541-682-5536

E-mail: [denny.braud@ci.eugene.or.us](mailto:denny.braud@ci.eugene.or.us)

**Resolution to Approve**

**RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION APPROVING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED AT 725 EAST 17<sup>TH</sup> AVENUE, EUGENE, OREGON (SHELDON TERRACE LLC, APPLICANT).**

**The City Council of the City of Eugene finds that:**

**A.** Sheldon Terrace LLC is the owner of real property located at 725 East 17<sup>th</sup> Avenue, Eugene, Oregon, more particularly described in Exhibit A attached to this Resolution, and has submitted an application pursuant to the City's Multiple-Unit Property Tax Exemption Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to residential units to be constructed on the property.

**B.** The Alder Park Apartment project ("the project") consists of the development of 2 studio-bedroom units, 2 two-bedroom units, 4 three-bedroom units, and 4 four-bedroom units, for a total of 12 residential units.

**C.** The project is located within the boundaries of the core area as described in subsection (2)(a) of Section 2.945 of the Eugene Code, 1971.

**D.** The project could not financially be built "but for" the tax exemption.

**E.** The applicant solicited comments from city-recognized affected neighborhood associations.

**F.** The requirements in the Standards and Guidelines for Multiple-Unit Housing Property Tax Exemptions adopted by Administrative Order No. 53-09-01-F related to proximity to historic resources have been satisfied.

**G.** The applicant has complied with the provisions of the Standards and Guidelines as described in the Report and Recommendation attached as Exhibit B to this Resolution which was prepared by the Executive Director of the Planning and Development Department ("the Director") as designee of the City Manager. The applicant provided a construction timeline showing that construction is expected to be complete on or before January 1, 2012. However, some question remains about the ability to meet this timeline. If the applicant is unable to complete the project and obtain a temporary or final Certificate of Occupancy prior to January 1, 2012, the applicant will not receive the tax exemption and will have no expectation of being granted an extension.

**H.** The applicant has agreed to include in the construction one or more public benefits.

**I.** The proposed project will be at the time of completion, in conformance with all local plans and planning regulations, including special or district-wide plans developed and adopted pursuant to ORS chapters 195, 196, 197, 215 and 227, that are applicable at the time the application is approved.

**J.** The project is not designed for, and will not be used as transient accommodations.

**K.** Granting the application is in the public interest. In making this determination, the City Council has considered the number of points awarded to the project based on the public benefit scoring system contained in the Standards and Guidelines.

**L.** The Report and Recommendation attached as Exhibit B recommends that the application be approved and the exemption granted. In making that recommendation, the Director found that the applicant submitted all required materials, documents and fees as set forth in Section 2.945 of the Eugene Code, 1971, and the Standards and Guidelines, and the applicant is in compliance with the policies contained therein.

**NOW, THEREFORE,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EUGENE, a Municipal Corporation of the State of Oregon, as follows:**

**Section 1.** Based upon the above findings which are adopted, and the City Council's review of the Executive Director of the Planning and Development Department's Report and Recommendation which is attached as Exhibit B, the City Council approves the application of Sheldon Terrace LLC for an ad valorem property tax exemption under the City's Multiple-Unit Property Tax Exemption Program for the residential units to be constructed at 725 East 17<sup>th</sup> Avenue, Eugene, Oregon, and more particularly described in Exhibit A, subject to the following conditions:

1. The project shall consist of development of 2 studio-bedroom units, 2 two-bedroom units, 4 three-bedroom units, and 4 four-bedroom units, for a total of 12 residential units
2. The project shall be completed on or before January 1, 2012. No extension shall be expected if the project is not completed by January 1, 2012.
3. No later than 18 months after receiving a Certificate of Occupancy, the applicant shall submit to the City's Planning and Development Department documentation of Earth Advantage certification.
4. The project shall be in conformance with all local plans and planning regulations, including special or district-wide plans developed and adopted pursuant to ORS Chapters 195, 196, 197, 215 and 227.

**Section 2.** The residential units to be constructed on the property described in Section 1 above (100% of the building) are declared exempt from local ad valorem property taxation beginning July 1 of the year following issuance of a Certificate of Occupancy and continuing for a continuous period of ten years unless earlier terminated in accordance with the provisions of Section 2.947 of the Eugene Code, 1971.

**Section 3.** The City Manager, or the Manager's designee, is requested to forward a copy of this Resolution to the applicants within ten days, and to cause a copy of this Resolution to be filed with the Lane County Assessor on or before April 1, 2012.

**Section 4.** This Resolution shall become effective immediately upon its adoption.

**The foregoing Resolution adopted and effective the \_\_\_\_ day of July, 2011.**

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**Deputy City Recorder**

Resolution to Deny

RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION DENYING A MULTIPLE-UNIT PROPERTY TAX EXEMPTION FOR RESIDENTIAL PROPERTY LOCATED AT 725 EAST 17<sup>TH</sup> AVENUE, EUGENE, OREGON (SHELDON TERRACE LLC, APPLICANT).**

**The City Council of the City of Eugene finds that:**

**A.** Sheldon Terrace LLC is the owner of real property located at 725 East 17<sup>th</sup> Avenue, Eugene, Oregon, more particularly described in Exhibit A attached to this Resolution, and has submitted an application pursuant to the City’s Multiple-Unit Property Tax Exemption Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to residential units to be constructed on the property.

**B.** The Alder Park Apartment project (“the project”) consists of the development of 2 studio-bedroom units, 2 two-bedroom units, 4 three-bedroom units, and 4 four-bedroom units, for a total of 12 residential units.

**C.** The project is located within the boundaries of the core area as described in subsection (2)(a) of Section 2.945 of the Eugene Code, 1971.

**D.** The Report and Recommendation which was prepared by the Executive Director of the Planning and Development Department (“the Director”) attached as Exhibit B to this Resolution recommends that the application be approved and the exemption granted. In making that recommendation, the Director found that the applicant submitted all required materials, documents and fees as set forth in Section 2.945 of the Eugene Code, 1971, and the Standards and Guidelines, and the applicant is in compliance with the policies contained therein.

**E.** Notwithstanding the recommendation to approve the application, the City Council has determined that granting the application is not in the public interest.

**NOW, THEREFORE,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EUGENE, a Municipal Corporation of the State of Oregon, as follows:**

**Section 1.** Having considered the above findings and the Director’s Report and Recommendation attached as Exhibit B, the City Council finds that it would not be in the public interest to grant the application of Sheldon Terrace LLC for an ad valorem property tax exemption under the City’s Multiple-Unit Property Tax Exemption Program for the residential units to be constructed at 725 East 17<sup>th</sup> Avenue, Eugene, Oregon. Therefore, the application is denied.

**Section 2.** The City Manager, or the Manager’s designee, is requested to forward a copy of this Resolution to the applicant within ten days.

**Section 3.** This Resolution shall become effective immediately upon its adoption.



**The foregoing Resolution adopted and effective the \_\_\_\_ day of July, 2011.**

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**Deputy City Recorder**

**Resolution Exhibit A – Property Legal Description**

**LOT 8, BLOCK 3, R.F. SCOTT'S ADDITION TO EUGENE, AS PLATTED AND RECORDED IN BOOK 2, PAGE 51, LANE COUNTY OREGON PLAT RECORDS, IN LANE COUNTY, OREGON.**

**REPORT AND RECOMMENDATION  
of the Planning & Development Department**

**Alder Park Apartments Application for Multiple-Unit Property Tax Exemption**

The Executive Director of the Planning & Development Department of the City of Eugene Finds that:

1. Sheldon Terrace LLC is the owner of real property located at 725 West 17<sup>th</sup> Avenue, Eugene, Oregon (Assessor's Map17-03-32-34; Tax Lot 4600). Sheldon Terrace LLC submitted an application pursuant to the City's Multiple-Unit Property Tax Exemption Program (Sections 2.945 and 2.947 of the Eugene Code, 1971), with respect to residential units to be constructed on the property.
2. As the City Manager's designee, I have reviewed the application and find that:
  - 2.1 The project will provide 2 studio-bedroom units, 2 two-bedroom units, 4 three-bedroom units, and 4 four-bedroom units, for a total of 12 residential units.
  - 2.2 In order to qualify for the exemption, the applicant is required to complete construction prior to January 1, 2012. The applicant provided a construction timeline showing that construction is expected to be complete on or before January 1, 2012. However, some question remains about the ability to meet this timeline. In light of this possibility, should the Council decide to grant the exemption, the resolution approving the exemption should state explicitly that if the applicant is unable to complete the project and obtain a temporary or final certificate of occupancy prior to January 1, 2012, that the applicant will not receive the tax exemption and will have no expectation of being granted an extension. The applicant is aware of the deadline and implications of not meeting it.
  - 2.3 The project is located in the core area described in subsection (2)(a) of Section 2.945 of the Eugene Code, 1971.
  - 2.4 The applicant has submitted all materials, documents, and fees required by the City as set forth in Section 2.945 of the Eugene Code, 1971, and the Standards and Guidelines for Multiple-Unit Housing Property Tax Exemptions adopted by Administrative Order No. 53-09-01-F.

2.5 The applicant has responded to the public benefit criteria as follows:

2.5.1 Public Benefits

- Density. The project will be built in the R-4 zone and is allowed a minimum of four units and a maximum of 27 units. This project exceeds the minimum density by eight units.
- Green Building Features. The applicant plans to attain Earth Advantage certification and submitted the Earth Advantage Worksheet, which demonstrated an award of Platinum and a narrative describing the project's green elements. (The applicant is conservatively projecting Gold because the worksheet total was only three points over the Platinum threshold.)
- Mixed Income. Alder Park Apartments will not include housing dedicated to controlled income.
- Homeownership. No units are designated for home ownership.
- Accessibility. All of the residential units will be ADA adaptable. None of the units will be ADA accessible.
- Historic Sensitivity. The project is immediately adjacent or contiguous to a historic structure. The applicant has a mitigation plan. The plan was lacked sufficient information and was not accepted by the PDD staff, so no points could be awarded.
- Location. The project is not located in the Downtown Plan Area.
- Parking. The project is in a Residential Parking Permit Zone and will have 15 parking spaces. The project will provide one residential parking space beyond the 14 required by code.

2.5.2 Longevity of Public Benefits. All of the public benefits listed above will extend beyond the period of the tax exemption.

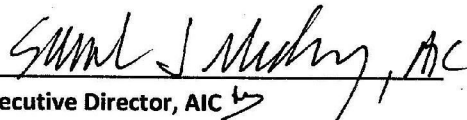
2.5.3 Points Awarded. The applicant scored 110 public benefit points.

2.6 The applicant demonstrated that the project as proposed could not be built but for the benefit of the tax exemption. City staff and the City's Loan Advisory Committee have reviewed the pro-forma and confirmed this conclusion.

- 2.7 Presentations concerning Alder Park Apartments were made to the West University Neighborhood Association on May 5, 2011. The Association Board voted in favor of the project and submitted a letter.
3. A display ad soliciting recommendations or comments from the public regarding this project was published in the Register-Guard on June 1, 2011. The period for comment expired on July 1, 2011. No comment was received in response to the ad.

**Therefore,** based upon the above findings, the project is, or will be at the time of completion, in conformance with all applicable local plans and provisions of the Eugene Code, 1971, planning regulations, the Metropolitan Area General Plan, and the criteria set forth in the City's adopted Standards and Guidelines. However, no recommendation is given at this time given pending City Council discussions related to the future of the MUPTC program scheduled to occur at the July 20, 2011 City Council worksession.

Dated this 20<sup>th</sup> day of July, 2011.

  
Executive Director, AIC  
Planning & Development Department

**West University Neighbors  
The Eugene Neighborhood Association for West University  
280 E. 11th Avenue, Eugene Oregon 97401**

Stephanie Jennings  
Planning and Development Department  
City of Eugene  
99 W. 10th Avenue  
Eugene, OR 97401

May 23, 2011

Dear Ms Jennings:

The West University Neighbors, a City of Eugene neighborhood association, met with Corey Dingman and Gordon Anslow to discuss their proposed development at 725 E. 17th. They are requesting that this development be granted a multiple unit property tax exemption (MUPTE). With the financial benefit that MUPTE provides, they say that they will be able to create a building that is more in keeping with the rest of the neighborhood in terms of height and density. With the current design, they will be able to provide open space. Open space is sorely lacking in most West University developments. It will also consist of a mixture of apartment sizes from studios to 4-bedroom units.

The West University Neighbors Board voted unanimously to support the MUPTE application at the May 5, 2011 general meeting, subject to the following conditions:

1. There will be 12 units, with no more than 4 4-bedroom units and 4 3-bedroom units.
2. Building height will be no more than 3 stories.
3. A minimum of 15 parking spaces will be included.
4. Street trees will be maintained.
5. There will be a pitched roof and balconies.
6. Open space will be included, as required by code. More than the minimum would be better.
7. The building should achieve Earth Advantage gold or very close to it.
8. If there is not an on-site building manager, the property manager will have someone come by the apartments regularly to check on them.

Our Board feels that this is an appropriate use of MUPTE funding, as long as the design features remain in the project.

Yours,



Steven Bennett  
WUN Chair

**Financial Analysis**

The Pro-Forma for Alder Park Apartments (below) shows three key reasons that the project would not be built without MUPTE. First, the debt coverage ratio (Net Operating Income (NOI) divided by debt service) is 1.07, below the amount needed to qualify for conventional financing. (The common bank preference is for 1.25 or higher.) Second, the perceived risk is high demonstrated by the Cash on Cash return (Cash Flow divided by the equity that is invested by the developer) well below the market-expected 10% to 15% level. The Cash on Cash only reaches 4% by year 10. Third, the project valuation is below the amount needed to qualify for conventional financing. (The value is determined by NOI divided by the capitalization rate.) At project stabilization, the projected value of the property is \$2.5 million. The total cost of the project is \$2.6 million. At 75% loan to value, the project needs to be valued over \$2.7 million to qualify for \$2.04 million in bank debt.

**Sources**

	Total Cost	
<b>EQ</b>	\$ 575,000	22%
<b>Conventional Debt</b>	\$ 2,040,000	78%
<b>Total project</b>	\$ 2,615,000	

**Pro-Forma**

<i>Without MUPTE</i>	Year 1	Year 2	Year 10
Rent Income	\$ 248,400	\$ 250,884	\$ 271,671
- Vacancy (5%)	\$ 12,420	\$ 12,544	\$ 13,584
<b>= Effective Gross Rent</b>	\$ 235,980	\$ 238,340	\$ 258,088
- Operating Exp (25%)	\$ 58,995	\$ 62,721	\$ 67,918
<b>= NOI</b>	\$ 176,985	\$ 175,619	\$ 190,170
- Debt Service	\$ 165,291	\$ 165,291	\$ 165,291
<b>= CF</b>	\$ 11,694	\$ 10,328	\$ 24,879
<b>Cash on Cash Return</b>	2%	2%	4%
<b>Value</b>	\$ 2,528,000	\$ 2,509,000	\$ 2,717,000
dsc	1.07		

The pro-forma uses conservative assumptions for property value growth and market assumptions for vacancy and operating expenses. The model assumes that assessed property values increase by 2% per year. The vacancy rate is assumed at 5% of rental income and operating expenses are estimated at 25% of rental income, both standard assumptions in financial underwriting. The financial information is based on projections prior to financing, tenancing, and construction. The cap rate was estimated at 7%.

<b>With MUPTE</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 10</b>
Rent Income	\$ 248,400	\$ 250,884	\$ 271,671
- Vacancy (5%)	\$ 12,420	\$ 12,544	\$ 13,584
<b>= Effective Gross Rent</b>	\$ 235,980	\$ 238,340	\$ 258,088
- Operating Exp	\$ 58,995	\$ 62,721	\$ 67,918
- Property Tax (saved by MUPTE)	\$ (20,385)	\$ (20,793)	\$ (24,362)
<b>= NOI</b>	\$ 197,370	\$ 196,412	\$ 214,532
- Debt Service	\$ 165,291	\$ 165,291	\$ 165,291
<b>= CF</b>	\$ 32,079	\$ 31,121	\$ 49,241
<b>Cash on Cash Return</b>	6%	5%	9%
<b>Value</b>	\$ 2,820,000	\$ 2,806,000	\$ 3,065,000
dsc	1.19		

The Pro-Forma below shows that the project improves with the MUPTE. The debt service coverage is 1.19. The Cash on Cash return reaches 9% by year 10, only slightly below the market expectation. The project valuation is 72% loan to value.



**ATTACHMENT G**

**Image of the Current Site & Proposed Development**

