

ITEM #: 25
DATE: 02-25-25
DEPT: P&H

COUNCIL ACTION FORM

SUBJECT: ANNUAL TAX ABATEMENT CERTIFICATION

BACKGROUND:

The City Council has established Urban Revitalization Areas (URAs) which allow for the granting of tax exemption for the increased valuation of a property for projects that meet the criteria of each URA's Urban Revitalization Plan. Every year, owners who have made improvements to property within the City's URAs during the previous year may apply for tax exemption on the incremental added value of their properties, subject to the criteria of a URA Plan. The City Council must determine if the completed improvements meet the criteria in the Urban Revitalization Plan for the URA in which the property is located. **If the City Council finds that the criteria are met, this approval is forwarded to the City Assessor, who then reviews each request and determines the amount of the exemption based on the increase in incremental valuation.**

All of the applications submitted for approval for 2024 improvements are related to the City-wide URA for ownership housing. This year is the first year that new construction of single-family ownership housing is eligible for partial property tax abatement on the first \$500,000 of value added after April 26 as part of the citywide URA that was approved by Council earlier this year. Eligible properties can take advantage of a 5-year sliding scale of partial abatement.

City Council initiated the City-wide URA in response the low number of housing starts in 2023, with only 61 building permits issued for single family homes. In 2024, there were 59 housing starts. In terms of housing starts after the effective date of the City-wide URA of April 26, there were 47 building permits issued in 2024 compared to 53 permits issued in 2023 for the corresponding time period.

Staff notes that the housing starts are likely lower than anticipated as inflation had moderated in 2024 compared to 2023, but mortgage rates hovered around 7% and were not substantially different than 2023. The upcoming 2025 construction season will be a telltale sign of City-wide URA's value as an incentive after having a year of time for builders and realtors to market the program and encourage more buyers for new home construction.

To apply for tax abatement the home must have had improvements completed after April 26, 2025. Improvements completed before April 26 are ineligible for tax abatement. Staff mailed notice to the 18 known property owners that had not yet filed their application and may qualify for tax abatement as ownership housing. Staff received 25 applications by the filing deadline of February 1 for this tax year. Of the 25 applications, 15 were for partial improvements for homes started before April 26 and 10 were for full new construction started after April 26. **Attached to this report is list of address and the type of improvements eligible for abatement.**

Staff believes that 24 of the 25 can be approved, with one application needing to be filed next year. Note that owners who did not file for abatement this year may still be eligible to file for abatement in 2026 if it is within two years of the first tax year having an improvement value.

Based upon values stated in the applications for both partial and full improvements, \$8.5 million of improvement value is eligible for partial abatement. The final amount will likely be less with the final review of partial improvement value claims. The average new home value claimed was \$471,000 after adjusting for the \$500,000 maximum cap on value.

The most difficult evaluation of the applications has been the value of partial improvements and timing of ownership of the housing to meet the eligibility criteria.

City Council is not determining the value of partial improvements with certification of eligibility. After conferring with the City Assessor, the City Assessor will determine the value of improvements as is normally the case for tax abatement eligibility. The Assessor visited buildings that were in progress near the April 26 date of eligibility and documented the status of those homes. They will compare their records with stated values of applications to make a determination of eligible abatement value. In any event, the maximum abatement value is \$500,000.

The second issue is the final determination related to ownership as a primary residence. A handful of applications were submitted for improvements that received final approvals in early January and under the ownership of the primary residence at the time they filed the application for the 2024 improvements. Staff believes these applications can be certified as meeting the criteria because they are owner occupied at the time of filing the application.

There is one property that was completed in November 2024 at 2011 Ada Hayden Road and is subject to a purchase agreement for closing at the beginning of March. Staff believes that because ownership as a primary residence has not yet occurred, Council should not determine it complies with the criteria and direct the homebuyer to file their application in 2026 if they complete the purchase and are the primary resident. The homebuyer would be eligible for the same tax abatement benefit if filed next year. If Council believes that a purchase agreement is in fact substantial compliance with the criteria it could approve the application this year.

ALTERNATIVES:

1. Approve the following:
 - a. Certify 24 property tax abatement applications as listed in the attachment as meeting the eligibility requirements of the City-wide URA
 - b. Submit the applications to the City Assessor for a determination of improvement value
 - c. Direct staff to notify the purchaser of 2011 Ada Hayden to file their application in 2026
2. Approve a certification of a different number of applications by specifying those that meet the Citywide URA eligibility requirements.

CITY MANAGER'S RECOMMENDED ACTION:

Staff has examined the applications submitted by February 1, 2025, and has found that 24 of the 25 requests for the completed projects substantially conform to criteria of the City-wide URA. All of the applications are eligible for a 5-year sliding scale of partial property tax abatement of Year 1-100%; Year 2-80%; Year 3-60%; Year 4-40%; Year 5- 20% based upon the final determination of improvement value by the City Assessor. Therefore, it is the recommendation of the City manager that the City Council approve Alternative #1A-C.

ATTACHMENT(S):

Applications Submitted

Example Citywide Housing URA Application Form with Criteria