July 10, 2009

Members of the City of Tukwila City Council
c/o City of Tukwila City Clerk
6200 Southcenter Blvd.
Tukwila, WA 98188

EXHIBIT 17 DATE 7-13-09
PROJECT NAME PC Recommended SMP
FILE NO L06-088

Re: Shoreline Master Program Update

Dear Council Members:

The undersigned constitute the Association of Tukwila Shoreline Property Owners, which is submitting the following comments on the City of Tukwila's proposed Shoreline Master Program ("SMP"). The undersigned members are all owners of commercial or industrial properties along the shoreline of the Green/Duwamish River in the City of Tukwila that are impacted by the provisions of the proposed SMP. All have participated, and continue to participate, in the SMP update process on an individual basis.[1] However, we have joined together to present these comments in hopes that this will assist the City in addressing a number of key issues prior to adoption of the SMP.

Our joining together in an association reflects our belief that the issues raised by the SMP are of tremendous economic importance both to us and to the City as a whole. We believe there are "win-win" solutions to many of these issues that make economic sense for both us and the City, and that also can help achieve the City's other goals for the SMP. We believe that by associating we can maximize the chance of working together with the City to find those solutions, as well as be prepared to advocate in later stages of the process should those solutions not be found.

We are encouraged and gratified by the Council's representations, at its initial work session last week, that the Council desires to receive public comment and to foster genuine public participation in the SMP update process as the Council works through the key issues associated with the SMP. We note that the issues that we believe are most critical largely correspond to the issues on which the Council intends to focus in its work sessions. We believe we have relevant expertise and perspective on these issues and are optimistic that, during the upcoming weeks and months, we can provide genuinely useful input as the Council weighs different approaches to these issues.

[1] We incorporate by reference the individual letters submitted by the undersigned property owners.

From our perspective, an overarching issue is the need for the City to consider the negative economic impacts of the proposed SMP and ways in which the SMP could be revised to reduce those impacts. We are, of course, disappointed that the City did not commission an economic impact study. We felt strongly enough about this issue that we commissioned a highly respected private economist, Matthew Gardner of Gardner Economics, to prepare a report that we hope will help the Council understand the magnitude of the negative impacts that are likely to result from the SMP as currently drafted, particularly the impacts on the City's own revenues.

We are submitting that report tonight. As you will see, Mr. Gardner concludes that the SMP will have a significant negative impact on the City's revenues from property taxes, sales taxes, and other sources. We emphasize that, given our resources and the available time (as well as the fact that critical information is proprietary and only available to the City), it was not possible for us to undertake the kind of comprehensive study that we still believe needs to be done before the Council makes decisions that stand to so significantly affect the economic future of the City and owners of property within it. We hope that the Gardner report will convince the Council of the importance of the City undertaking such a study.

In addition to the issue of economic impacts, our key substantive concerns with the SMP are as follows (more detailed discussion of these issues is attached at the end of this letter):

• We believe the proposed 100 to 125 foot buffers in commercial and industrial areas fail to be sufficiently tailored to the circumstances of, and impacts of development occurring on, specific shoreline properties. Other jurisdictions, such as the City of Auburn, have included provisions allowing buffers of this type to be substantially reduced where a lesser buffer would protect shoreline ecological functions – and the State Department of Ecology has accepted this approach. With due respect, we do not concur with staff's representation, at the initial work session, that the SMP as currently drafted provides sufficient flexibility to respond to site-specific circumstances. We also disagree with the conceptual basis of the proposed buffers in levee areas, which impose on riverside property owners the overwhelming burden of addressing valley-wide issues of flood protection.

• We do not believe the SMP provides sufficient protection for existing uses and structures within the proposed buffer, which will become nonconforming upon adoption of the SMP. We cannot see any benefit to the City from precluding the continued operation, under commercially reasonable conditions, of existing developments that generate jobs and tax revenues for the City. However, that is what the SMP would do. We are particularly concerned with provisions mandating that, when space in the buffer becomes vacant, the owner must refill the space within 24 months with the same type of business as before, or lose essentially any ability to use the space.

• We believe the SMP's vegetation and landscaping requirements are unduly onerous. The thresholds at which these requirements are triggered are far too low, and the requirements are imposed without regard to legal mandates that they be proportional to the impacts of development.

• We also believe the required proportionality is lacking in the case of the SMP's public access requirements.

• Finally, we believe the SMP's height limitations in nonresidential areas are too restrictive.

We believe there are revisions that can resolve many if not all of these issues while complying with applicable regulatory requirements and achieving the key goals of all of the parties, thus avoiding difficulties later on. While we are not in this letter providing specific language changes, many of the undersigned have previously proposed such changes, and we encourage the Council to consult the pertinent letters (which should be in the Councilmembers' binders). We are hopeful that, as the Council works through these issues, there will be an opportunity for us to provide input on the various approaches considered by the Council, and that we may thereby assist the Council in crafting solutions that work for all concerned. Thank you for your consideration of these comments.

Very truly yours,

ASSOCIATION OF TUKWILA SHORELINE PROPERTY OWNERS

Members:

N C Machinery Co., a subsidiary of Harnish Group Inc.

By ______________________

Its President/CEO

James Campbell Company LLC

By ____________________
Its ____________________

Clyde A. Skeen
Vice President
Regional Manager

Walton CWWA Tukwila 1, LLC

By

Its MANAGING DIRECTOR

Tukwila Terminal LLC

By ______________________

Its Member

John B. and Louise M . Strander Trust

By Louise M. Strander

Its Trustee

Baker Commodities, Inc.

By Richard D. [illegible]

Its General Manager, NW

Desimone Trust

By Joseph R. Desimone
Joseph R. Desimone
Co-Trustee

Richard Desimone partnership

By Joseph R. Desimone
Joseph R. Desimone
Co-Managing Partner

Innkeepers USA Trust

By ______________________

Its VP

ATTACHMENT A
DETAILED STATEMENT OF ISSUES

1. The SMP's proposed buffers are legally impermissible.

In the commercial and industrial areas along the Green River, the SMP imposes uniform buffers of 100 or 125 feet. We believe these buffers are legally impermissible for a variety of reasons and incorporate by reference the discussions of the buffer issue contained in the various comment letters submitted by the members individually. A number of points bear particular emphasis.

a. Non-levee areas.

In areas without levees, the SMP imposes a uniform buffer of 100 feet. This buffer width does not relate to the specific impacts (if any) of development on particular properties. Indeed, in many cases the existing buffer is completely adequate and any increase beyond the currently required buffer width serves no ecological purpose. Under Washington law, a "one-size-fits-all" approach like that taken in the SMP is not permissible. *Citizens' Alliance for Property Rights v. Ron Sims*, 145 Wn. App. 649 (2008), *review denied*, 203 P.3d 378 (2009).

We believe the City should scrap the proposed uniform buffers. However, even if the City believes it must impose the proposed buffers as a starting point, we urge the City to adopt a provision allowing the Director to reduce the required buffer width for particular properties upon a showing by the applicant that a lesser buffer would ensure no net loss of shoreline ecological functions.

The City's proposed SMP, as currently drafted, does not contain an acceptable buffer reduction provision. In non-levee areas, the City's SMP provides an alternative to the 100 foot buffer by which the property owner may reslope the river bank to 2.5 to 1 (or 3 to 1 in some cases) and provide an additional 20 foot setback. However, such resloping may or may not be what is required to achieve no net loss of shoreline ecological function in a given case. In addition, it is unfair and contrary to law to impose on the property owner the burden of actually resloping the bank in order to adjust the buffer width.[2]

There is precedent for allowing reduction of buffer widths based on site-specific ecological impacts. The City of Auburn recently adopted its SMP update. Auburn's SMP imposes a 100 foot buffer in the Urban Conservancy designation but provides that "[b]uffer widths may be reduced by up to 35% provided the applicant demonstrates that a reduction will not result in any adverse impact to the stream." ***The Washington State Department of Ecology has approved Auburn's SMP update including this buffer reduction provision.***

[2] Finally, it is questionable whether the City's provision would provide any significant reduction in the buffer width, since the City set the 100 foot width based on the area required for resloping the bank.

b. Levee areas.

In areas with levees, the SMP imposes a uniform buffer of 125 feet. This buffer width is based on the amount of land that the City believes will be required to reconstruct the levees in accordance with the City's preferred levee profile. For a variety of reasons as expressed in the individual comments of the members, we believe this approach is contrary to law. The proposed buffer appears to represent an attempt to reduce the government's land acquisition costs at the time of levee reconstruction. This is impermissible. The levees protect a huge area in the valley and the City cannot impose on riverside property owners the entire burden of providing space for levee reconstruction.

The proposed buffer violates RCW 82.02.020 and the substantive due process doctrine, and gives rise to claims of inverse condemnation and regulatory taking. The City is not allowed to impose such a buffer but in any event riverside property owners are entitled to just compensation for the value lost due to such a buffer.

2. The SMP does not provide sufficient protections for nonconforming uses and structures.

The SMP's proposed buffers would render numerous existing uses and structures nonconforming. Indeed, in many cases, the proposed buffers would run right through existing buildings.

Rendering existing uses and structures nonconforming will have a substantial, immediate negative impacts on the value of developed shoreline properties and on property owners' ability to finance and market their properties. Putting aside the specific defects of the proposed buffers, we cannot see a defensible rationale for imposing buffers at all prior to redevelopment of shoreline properties. In similar cases, other jurisdictions have adopted provisions designed to avoid creating large-scale nonconformance prior to redevelopment.

However, if the City insists on imposing buffers now, the SMP as currently drafted does not provide sufficient protections for nonconforming uses and structures (or "pre-existing" uses and structures, in the Planning Commission's terminology). A detailed discussion of these provisions is contained in the various comment letters submitted by the members, which we incorporate by reference. The following issues are of particular concern:

•The SMP allows a pre-existing use to be changed only to a use that complies with the SMP's buffer provisions. Unfortunately, the SMP defines a change of use such that any change between use categories in the zoning code constitutes a change in use. Since the use categories in the zoning code are very narrow, this effectively precludes a property owner from making virtually any change of use within the buffer area. This approach is unduly harsh. It means, for example, that when a tenant in a building vacates space that lies within the buffer, the property owner must find a new tenant engaged in essentially the same business, or else the "grandfathered" use rights are lost and the space within the buffer becomes unusable. We request that the SMP provide that a pre-existing use within the buffer may be changed to any use that is allowed by the SMP in the portion of the shoreline area lying outside of the buffer.

•The SMP allows expansion of pre-existing uses only to comply with public health and safety regulations. Again, this approach is unduly harsh and inconsistent with commercial realities. Many buildings affected by the proposed buffer have multiple tenants. When one tenant vacates, the SMP would prevent a tenant in the adjacent space from expanding into the vacated space. We request that the SMP allow expansion of pre-existing uses in such situations as long as the pre-existing use complies with the use regulations that apply in the portion of shoreline area lying outside of the buffer.

•An overarching issue is the length of time that a pre-existing use may be ceased before any new use must comply with the SMP, as well as the similar limitation on the amount of time that a pre-existing structure may be vacant before that structure must be brought into compliance with the SMP. The SMP provides that, if a pre-existing use ceases, or a pre-existing structure is vacated, for more than 24 months, the "grandfathered" rights are lost and the structure and use thereof must comply with the current SMP. A 24-month time limit does not reflect commercial realities, particularly in the current economic downturn. Under current circumstances, it is quite likely that 24 months will be insufficient for owners to re-fill space that becomes vacant.

While the SMP allows the City Council to grant an extension beyond the 24 months, a discretionary extension provision is insufficient to address the concerns that lenders and buyers will have with the usability of existing developments affected by the buffer. Thus, we request that the SMP provide for an automatic minimum 24-month extension where a property owner is actively attempting to find a tenant but has been unable to do so within the initial 24-month period.

3. **The SMP's provisions regarding vegetation and landscaping, as well as the SMP's public access requirements, do not comply with applicable legal limitations.**

The SMP requires that for any new development or redevelopment (except single family residential development of 4 or fewer lots), invasive vegetation must be removed (by hand where feasible) and native vegetation planted in the buffer area. Moreover, there are substantial planting requirements both within the buffer area and in the balance of shoreline jurisdiction. All of these requirements are imposed without reference to constitutional and statutory mandates that they be proportional to the impacts of development. We request that the City revise the SMP to ensure that vegetation and landscaping requirements are imposed only to the extent that they relate to the specific impacts of particular developments.

Similarly, we believe the required proportionality is also lacking in the case of the SMP's public access requirements, and request that the City revise the SMP to impose public access requirements only to the extent that they relate to the specific impacts of particular developments.

4. **The SMP's height limitations in nonresidential areas are too restrictive.**

While we recognize and appreciate that the SMP allows increased height in some cases in exchange for public access improvements, as a general matter we do not see any public policy basis for the SMP to impose height limits that are lower than those provided in the underlying zoning. In particular, there is no evidence that the SMP's height limits in nonresidential areas are necessary to protect views from a substantial number of residences. Thus, we request that the SMP's height limits in nonresidential areas be revised to be the same as apply in the underlying zone.

Gardner Economics

Friday, July 10, 2009

Tukwila City Council
City of Tukwila
6200 Southcenter Blvd.
Tukwila, WA 98188

RE: CITY OF TUKWILA SHORELINE MASTER PROGRAM UPDATE

Dear City Council Members:

We have been retained by Gordon Derr LLP to prepare this study on behalf of an association of owners of shoreline properties within the City of Tukwila.

It is our understanding that, under the Shoreline Management Act, the City of Tukwila is required to prepare an update to its Shoreline Master Program to further regulate activities along the Green/Duwamish River. We understand that the City's Shoreline Master Program update proposes buffers in commercial/industrial areas of 100 feet from the ordinary high water mark in areas without levees and 125 feet in areas with levees, which more than doubles and, in the case of the 125 foot buffer, triples the buffer provided in existing regulations.

It is our conclusion that this proposed policy change will have negative economic consequences not only to our clients and all those who own real estate that would fall inside the new buffer but also on the city itself in the following ways:

1. **The proposed buffer will negatively impact the value of the affected real estate;**

2. **The proposed buffer will have a direct, negative impact on the City through a reduction in the revenues derived from property taxes; and**

3. **The proposed buffer will negatively impact the City through potential reduction in local employment and revenues generated for the city in the form of sales taxes, and other indirect and induced revenue streams.**

This paper sets out to qualify the above statements.

1. **The proposed buffers will negatively impact the value of the affected real estate.**

This section is best framed through consideration of the current real estate environment.

THE CURRENT COMMERCIAL/LIGHT INDUSTRIAL MARKET

National economic conditions have at last taken their toll on the South King County Commercial market, which posted negative absorption for the first time since 2002. With Tiger Mountain vacating 204,000 square feet (SF) at the Northwest Corporate Park in Kent, net absorption reached -180,000 SF and vacancy rose to 4.8%.

Economics have forced many businesses to downsize or consolidate. While asking rents have, thus far, remained stable, bigger tenant concessions have significantly lowered the effective rental rates achieved by landlords.

We expect lethargic leasing activity to continue. Construction of new product has almost come to a standstill that will, for the moment, help keep vacancy rates from plunging further. This has provided little relief to real estate owners as it has become an excellent time to be tenants in the market, with motivated landlords increasing concessions and offering even lower lease rates to entice them.

The market experienced negative absorption (1,375,369 s.f.) and 411,620 s.f. of industrial space completed for the first time since 2002, there are very few tenants looking for space. Many have either downsized or closed their doors. The south King county market, one that saw positive absorption of 1.29M square feet in 2008 saw negative absorption of 98,129 square feet in the first quarter of this year alone; a sad reflection of the economy as a whole and specifically our local industrial marketplace.

CITY OF TUKWILA

The following represents our analysis of the overall study area.

CURRENT INVENTORY STATISTICS
TUKWILA MARKET AREA

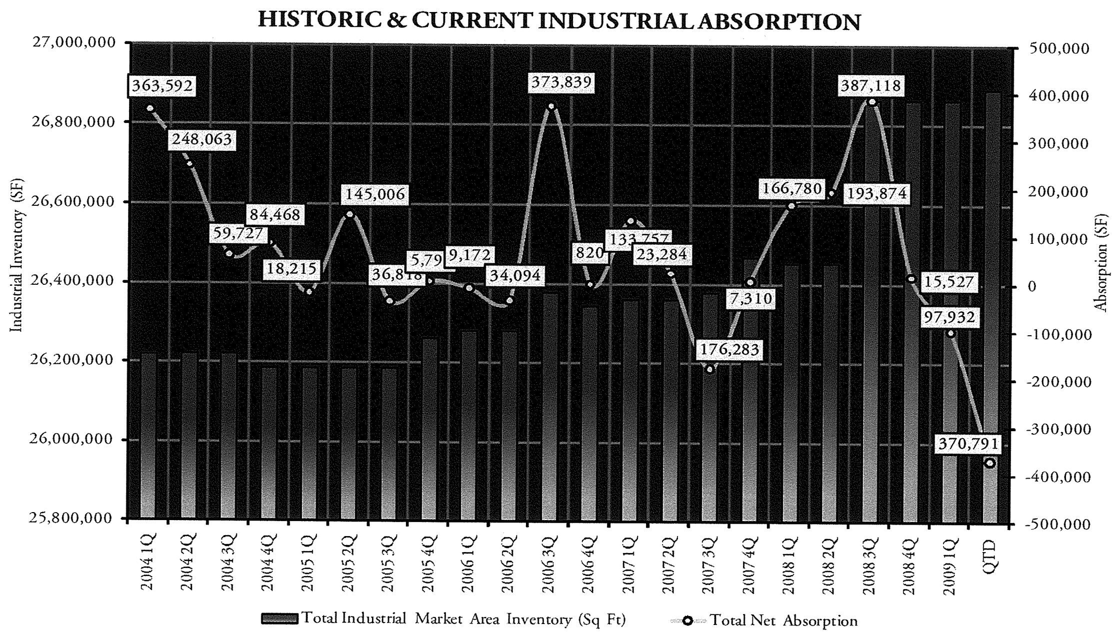
Number of Buildings	Inventory	Available Space	Vacancy (to date)
568	**26,890,019**	**1,665,111**	**6.19%**

SOURCE: Costar/CB Richard Ellis/Gardner Economics, LLC

As can be seen from the above, and in a similar vein to the general discussion of the South King County market, the commercial market in Tukwila is not unsubstantial by any means. The chart on the following page demonstrates the current market relative to industrial space.

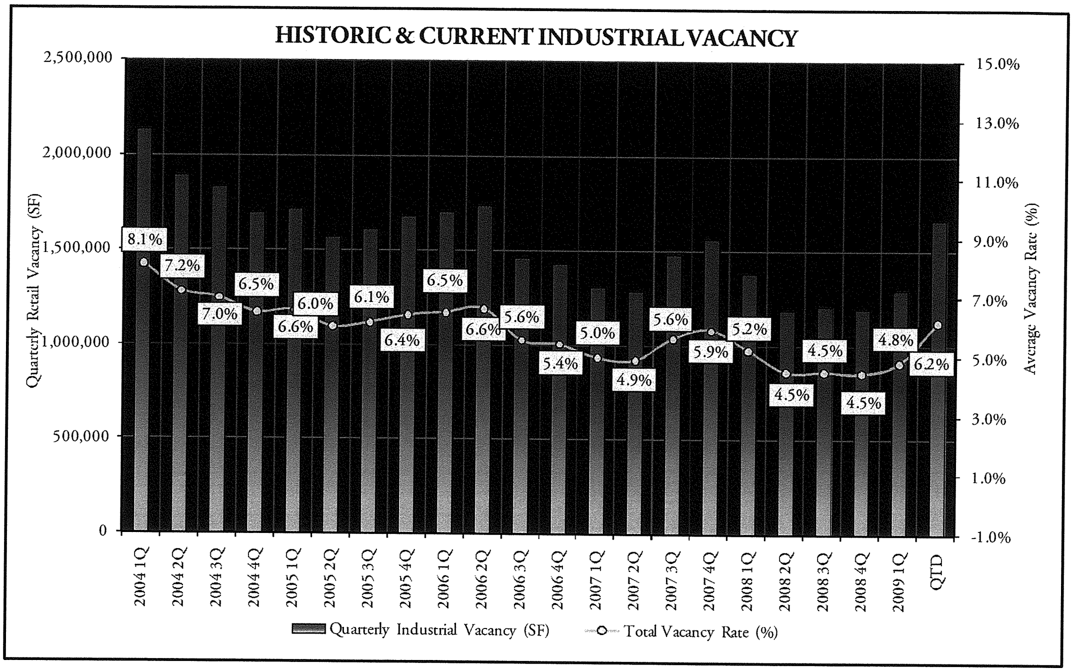
Absorption has plummeted since the third quarter of 2008, and shows no signs of improvement at all irrespective of the fact that inventories have remained relatively static.

HISTORIC & QTD INDUSTRIAL INVENTORY & ABSORPTION OF NEW PRODUCT
TUKWILA MARKET AREA
2004 1Q - Current



SOURCE: Costar/CB Richard Ellis/Gardner Economics, LLC

Demand in the marketplace has fallen and that has been matched by little in the way of new supply in recent quarters. With negative absorption comes an increase in vacancy rates. Shown on the following page are vacancy rate trends that show a marked upward trend that is a function of the declining economic environment in our area irrespective of little in the way of new supply.



Consideration of the above clearly demonstrates that the local real estate markets are in disarray as a function of declining overall economic conditions. This is no more evident than in the commercial/light industrial market where vacancy rates continue to rise and leasing activity is at historic lows.

Market participants that do not add to their stock of leasable space hope that this will allow their markets to stabilize as any new demand becomes net demand for existing space.

IMPACT OF THE PROPOSED BUFFERS ON SHORELINE PROPERTIES INCLUDING EXISTING DEVELOPMENTS

The foregoing gloomy economic realities play directly into evaluation of the economic impacts of the proposed buffers on shoreline properties. Based on the City's mapping and other publicly available documentation, it is clear that the proposed buffers will have within them a vast amount of pre-existing development, both in the form of buildings that lie wholly or partly within the proposed buffers, as well as other uses that lie within the buffer. Indeed, from our review, based on the City's mapping, there are 64 commercial/industrial parcels along the river within the City where an existing structure will lie wholly or partly within the proposed buffer. The structures and uses within the proposed buffer will almost invariably be rendered non-conforming under the proposed buffer regulations given the extremely limited uses that will be allowed within the buffers. We note the following provision of the draft Master Program:

14.6.A.2 If any such pre-existing use ceases for any reason for a period of more than 24 consecutive months, any subsequent use shall conform to the regulations specified by this SMP for the shoreline environment in which such use is located. . .

(A similar provision exists for structures at 14.6.B.4.) Given current commercial realities, this period of time is extremely short. It is no longer unusual, and may certainly be projected to become (unfortunately) relatively common, for commercial developments that become vacant to require more than 24 months to re-tenant. While we understand that the draft Master Program allows a discretionary extension, the mere fact that the extension is discretionary largely eliminates its value from a commercial perspective.

Our concern here is that, should a specific tenant leave space that falls within the new proposed buffer, there is a high likelihood that landlords will add to the overall existing stock through their inability to backfill vacant space due to their inability to find suitable replacement tenants.

It is Gardner Economics' opinion that we expect no improvement in the industrial market in the area any time in the near future. As such, if a tenant were to vacate space that falls within the proposed buffer, it will be highly unlikely that a replacement will be found within the prescribed time as the criteria for allowable uses at 14.6.A.4 states that a replacement be an essentially identical one per the Tukwila Zoning Code. Such a requirement is entirely inconsistent with commercial realities and constitutes an arbitrary and unreasonable restraint on the ability of an owner to re-tenant his property.

We believe that it is appropriate, at this juncture, to provide a specific example of a possible scenario that could well take place should the Master Program Update be implemented as currently drafted. A current tenant of one of the association members operates a printing facility in one of the buildings that lies within the proposed new buffer zone. Should this tenant vacate the building, for whatever reason, the likelihood of finding another printing operation to fill the newly vacated space is highly unlikely as this type of business is almost extinct. There are other examples of industries that are in decline because of operations being moved to more economically competitive locations offshore. It is only logical that a City, to be competitive, should provide as even a playing field as possible.

Additionally, the Master Program as currently drafted also negates the potential for existing tenants that may be adjacent to such space, from expanding into it as they would represent a non-conforming use and are thus precluded from any such expansion. Again, this negatively affects owners of real estate in the proposed buffer, as they collectively become unable to offer expansion opportunities to existing tenants who may then start to look for alternative space that does not encroach on the proposed buffer. Such a scenario will function to reduce the revenues generated from that space, and impacts substantially owners' business models.

For the foregoing reasons, we believe the proposed buffers, in conjunction with the nonconforming use and structure provisions as currently drafted, will have a substantial negative impact on the value of properties where existing structures and/or uses fall within the proposed buffers. Moreover, that negative impact will be immediate, since the risk to the owner's revenue stream will immediately be incorporated into the valuation of the property, even before a particular use is lost.

We have identified one of the association members' buildings as an example where the new buffer would run through the entire western side of the building. With the configuration of this particular building, even though only half of it is impacted, it effectively makes the balance of the space redundant. Should the owner wish to dispose of this asset, it is certain that the value of the building will be substantially negatively impacted.

One must also consider a situation where that owner, or others impacted by the buffer change, consider refinancing their impacted buildings. In such instances, from a financing perspective, there is substantial consideration paid to the revenues that a property generates when considering its value. If this has been impacted in any way, the ability to borrow against the building is substantively impaired, if not negated entirely, as the risk model changes dramatically.

An additional type of economic impact that must be considered is the impact of the proposed buffer on the potential redevelopment of shoreline properties. It is self-evident that, should the property be viewed as having redevelopment potential, the buffer will significantly impact its value as it increases dramatically the area that is required to be set aside and, therefore, reduces the buildable area of a property. Quantifying the reduction in value on this score obviously depends on a wide variety of factors and we have not attempted to do so here, but the impact is real and in some cases can be expected to be severe.

WE CONCLUDE THAT THE PROPOSED BUFFER WILL HAVE A CONSIDERABLE NEGATIVE IMPACT TO PROPERTY VALUES THROUGH POTENTIAL LOSS OF INCOME FROM EXISTING STRUCTURES/USES AS WELL AS THE FUTURE VIABILITY FOR REDEVELOPMENT OF ANY SITE THAT ENCROACHES THE NEW BOUNDARY LINE.

2. **The proposed buffers will negatively impact the City through a reduction in the revenues derived from property taxes.**

Item One discusses the reduction in value that will undoubtedly occur to a property impacted by the proposed buffer, particularly where existing structures and/or uses fall within the buffer. This has an intrinsic impact on the real estate holder but also on the City itself. Using Income, Market, or Cost approaches relative to the valuation of real estate, we believe that the value of impacted real estate will be reduced and, therefore, so will the revenue generated by property taxes that are paid to the jurisdiction.

It bears emphasis that the area that will be burdened by the increased buffer is extremely substantial. Through spatial analysis, we have calculated the net loss of real estate should the proposed buffer be adopted. Our calculations estimate that there will be a net loss of 6,293,000 square feet of land and any buildings that encroach into the proposed buffer which was calculated by applying 100/125 foot buffer, as appropriate, to all the identified commercial parcels versus the buffer that applies under current regulations.

We are already noting an increased number of appeals of assessed valuations set by the County Assessors for residential property. Thus far, in 2009, there has been a threefold increase in appeals in King County alone.[3] We have no doubt that this will start to affect the commercial markets as well given current market conditions. We would anticipate that, in the current economic climate, many commercial/industrial property owners will seek to have the assessed values of their properties reduced to reflect the negative impact on value of the proposed buffers.

For the reasons discussed in the preceding section, we believe the Shoreline Master Program buffer provisions, along with the preexisting use and structure provisions, will result in a decrease in the value of the properties impacted by the proposed buffer, both because of the negative effect on the continued use of existing buildings/sites and because of the negative effect on development potential, which should be reflected in assessed value reductions. We expect this will be perceived by sophisticated property owners, who can be expected to bring assessment appeals if the County does not independently reduce assessed values.[5]

It is difficult to quantify the exact amount of revenue loss that the City will suffer as a result of decreased property values stemming from the proposed buffers, as this requires evaluations and predictions of a variety of factors. However, our research indicates that there is the potential for a quite significant revenue loss. Based on the City's mapping, we have identified 72 nonresidential parcels will be impacted by the proposed buffers. 64 of these parcels have existing structures that will be impacted by the proposed buffers. Excluding government owned parcels, the 2009 property taxes levied for these 72 parcels amounts to

[3] Seattle Times – Property Taxes: Appeals Shoot Up in King, Snohomish Counties (Lynn Thompson (July 5, 2009)

[5] Obviously, when owners experience an actual inability to re-fill space in compliance with the Master Program's provisions regarding preexisting uses and structures, there will be a heightened likelihood of appeals.

$5.97M. The City's share of these revenues amounts to $1.36M. This income would certainly be reduced through downward adjustments in assessed values that will follow implementation of an increased buffer zone.

It should be noted that, following review of City documents, in FY 2007 property taxes accounted for 21% of City revenues[6]. We would, therefore, contend that adjustment in the buffers will have a significant negative fiscal impact on the City.

Finally, it is very reasonable to expect that there will be substantial impacts to the City relative to Excise Taxes that are paid on the disposition of any real estate asset. Reduced values will lead to reduced revenues through any disposition of non-performing assets.

THE PROPOSED BUFFERS WILL NEGATIVELY IMPACT REVENUES GENERATED THROUGH PROPERTY TAXATION.

[6] City of Tukwila Comprehensive Financial Report; Year End 2007 Pp 17

3. **The proposed buffer will negatively impact the City through potential reduction in local employment and revenues generated for the city in the form of sales taxes, and other indirect and induced revenue.**

Gardner Economics analyzed the economic and fiscal impacts of the proposed buffers on commercial lands along the river within the City of Tukwila. This was prepared utilizing the ImPlan Input-Output model described below.

Input-output accounting describes the commodity flows from producers to intermediate and final consumers. The total industry inputs of commodities, services, employment compensation, value added and imports are equal to the value of the commodities produced. Purchases for final use (final demand), drive the model as producers purchase goods and services from other producers who, in turn, must purchase commodities to provide for the producers who are selling to final demand.

There are direct economic benefits to the City economy generated by businesses that are in place. Additionally, there will be indirect and induced economic benefits (ripple/catalyst effects) for the City generated by such businesses. These include annual indirect impacts, or growth in jobs and income and taxable business revenues for industries indirectly affected by direct business spending. There will be annual induced impacts, or growth in jobs, income and taxable business revenues for industries benefiting from business spending by current businesses as well as those indirectly benefiting from new commerce.

It is a commonly accepted theorem that, holding other important casual factors constant, a given change in industry employment such as a reduction driven by changes in allowable uses or zoning, results in an expected change in a chosen measure of economic activity.

We considered the land under commercial zoning. Such an analysis drove the following data.

Currently developed projects on shoreline parcels within commercial zones generate $14.7M in revenues relative to Indirect Business Taxes.[7] Any reduction in occupancy as a function of imposition of the proposed buffers in conjunction with the restrictive nonconforming use/structure provisions as described above will have substantial effects on City revenue streams.[8]

Additionally, for every job created in the study area, there are an additional 5.7 indirect jobs created elsewhere as well as an additional 2.47 induced jobs. As can be seen, loss of any businesses within the study area has a substantial impact on the economy from a labor perspective.

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[7] This Figure excludes hotels as our data for hotels combines casinos, therefore skewing the numbers substantially. Additionally, there are no casinos within the study area.

[8] **Indirect business taxes** consist primarily of excise and sales taxes paid by individuals to businesses. These taxes occur during the normal operation of these businesses but do not include taxes on profit or income.

Looking further at the revenue side of the equation, we have found that $8.42M of labor income has the possibility to be negated, as well as $26.9 M in output.

Also of consequence are any one-time revenues that will be derived from the development of new space. These come in the form of sales tax revenues, as well as fees that are generated from the creation of additional development. Such revenues will be negated should new development be precluded from occurring as a function of increased buffers.

We attempted to obtain sales tax revenues generated to the City by collective businesses that may be impacted by the proposed buffers; however, we were informed that this information was proprietary and, therefore we cannot comment specifically on the negative impacts caused by any company being lost from a location within the proposed buffer zone and not replaced. However, given the magnitude of the economic activity that will be affected by the proposed buffers, we believe the City could face a significant revenue loss.

The City may contend that, as space that becomes vacant within the buffer, there will be no impact as businesses that might otherwise fill them will take down vacant space elsewhere in the city. This is a short sighted theory as it is our opinion that if tenants are given options, they will look for the best deals in the marketplace. To arbitrarily assume that they will stay in Tukwila is an argument that relies substantially on the belief that businesses have limited options in the greater Seattle marketplace and would be, therefore, limited to consideration of developments within the City, whereas this is far from the case.

WE CONTEND THAT AMENDMENT TO THE CURRENT BUFFER HAS THE POTENTIAL TO HAVE SUBSTANTIAL NEGATIVE IMPACTS ON CITY, COUNTY AND STATE REVENUES.

In sum, while a reasonable regulatory environment is crucial for the owners of developments and properties that will be impacted by the proposed buffer, ensuring that shoreline regulations are consistent with commercial realities is also of great importance to the City. For the foregoing reasons, our judgment is that proposed Shoreline Master Program is likely to have a substantial negative impact on the City's revenues.

There is undoubtedly further information and evaluation that could be brought to bear in a more comprehensive economic impact study and we would suggest the City undertake such a study to understand the effects of the decisions it is making regarding shoreline regulation. While we understand that the City must look at a variety of factors in crafting those regulations, a full understanding of the economic impacts can help the City minimize those impacts.

It is responsible to consider all the above mentioned economic impacts in light the City's economic goals and plans.

Moreover, we note that, particularly with the nonconforming use and structure provisions, there are changes that the City could easily make to the Shoreline Master Program as currently drafted that would help bring those provisions into line with commercial realities and thereby reduce (though not eliminate) the negative impacts to the City's revenues of the current buffer proposal.

Thank you for the opportunity to make these points.

Respectfully yours,
GARDNER ECONOMICS LLC

Matthew Gardner
Principal

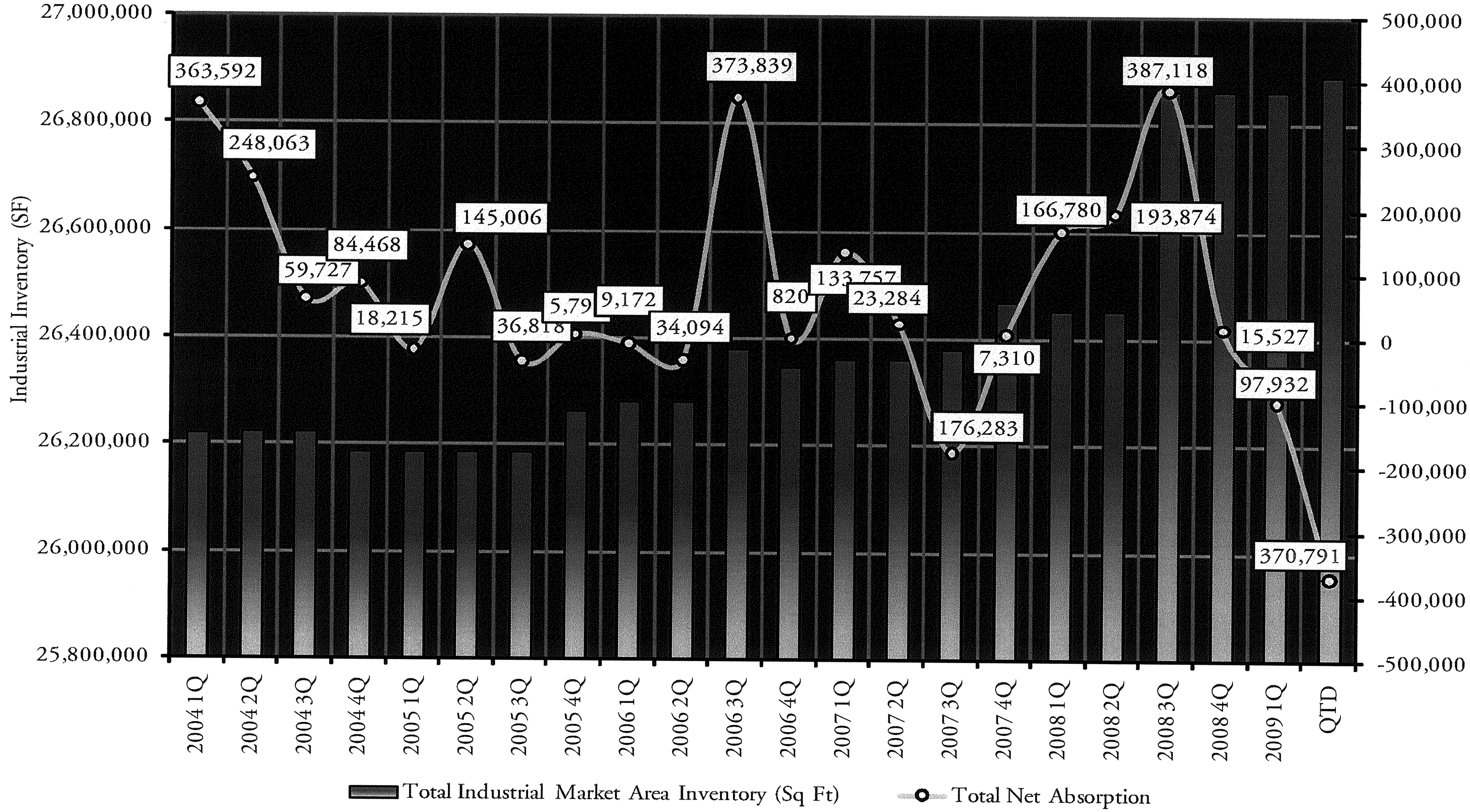
<u>Exhibit One – Representative Property – Arial View Showing the effect of Proposed 125" Buffer Versus Existing Buffer</u>

EXHIBIT TWO – REPRESENTATIVE PROPERTY INDICATING PROPOSED 125' BUFFER AREA RELATIVE TO THE BUILDING

EXHIBIT 2.1

HISTORIC & QTD INDUSTRIAL INVENTORY & ABSORPTION OF NEW PRODUCT
TUKWILA MARKET AREA
2004 1Q - Current

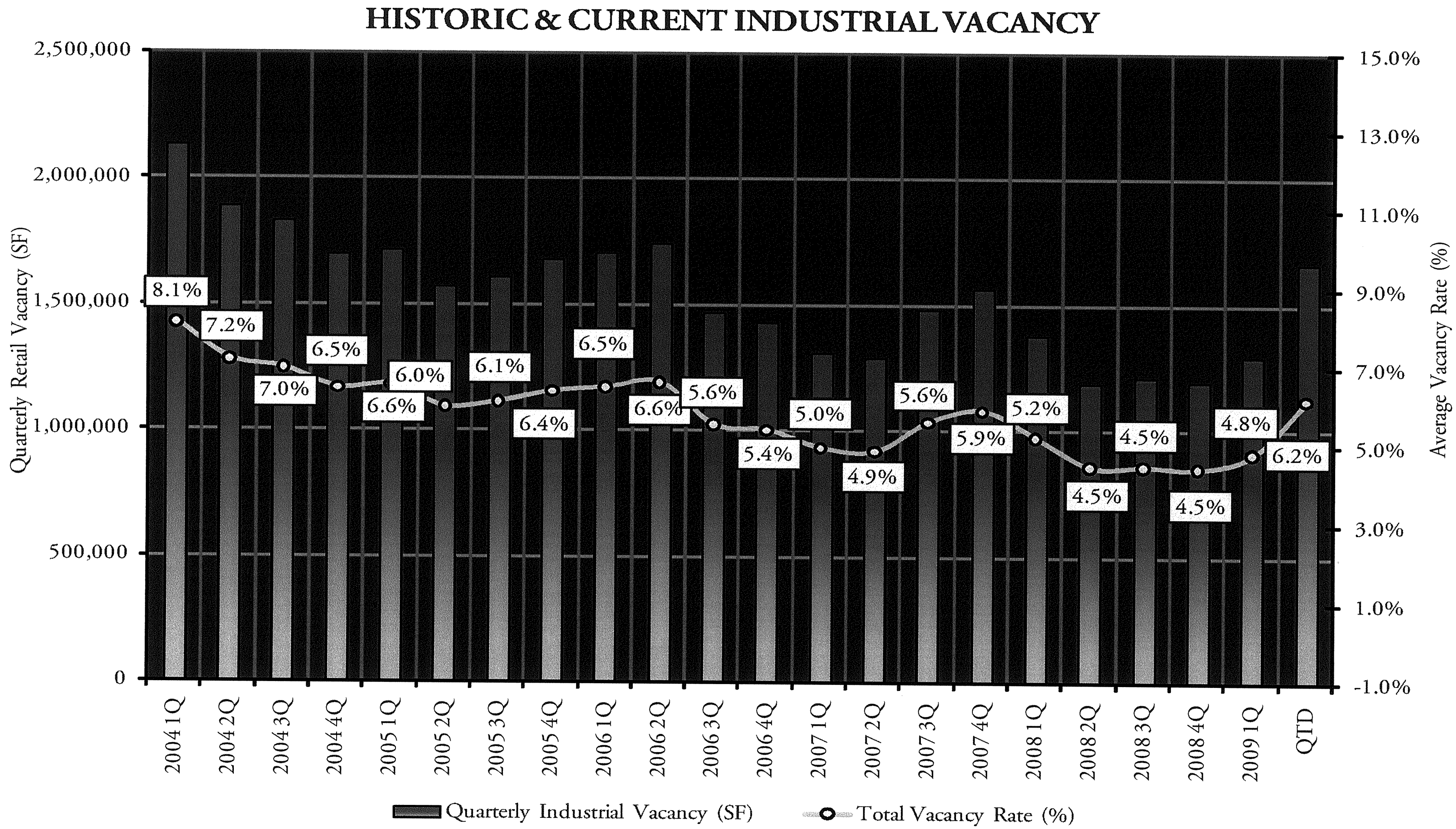
HISTORIC & CURRENT INDUSTRIAL VACANCY



SOURCE: Costar/CB Richard Ellis/Gardner Economics, LLC

EXHIBIT 2.2

HISTORIC & CURRENT INDUSTRIAL MARKET AVERAGE VACANCT SPACE AND VACANCY RATES (%)
TUKWILA MARKET AREA
2004 1Q - Current

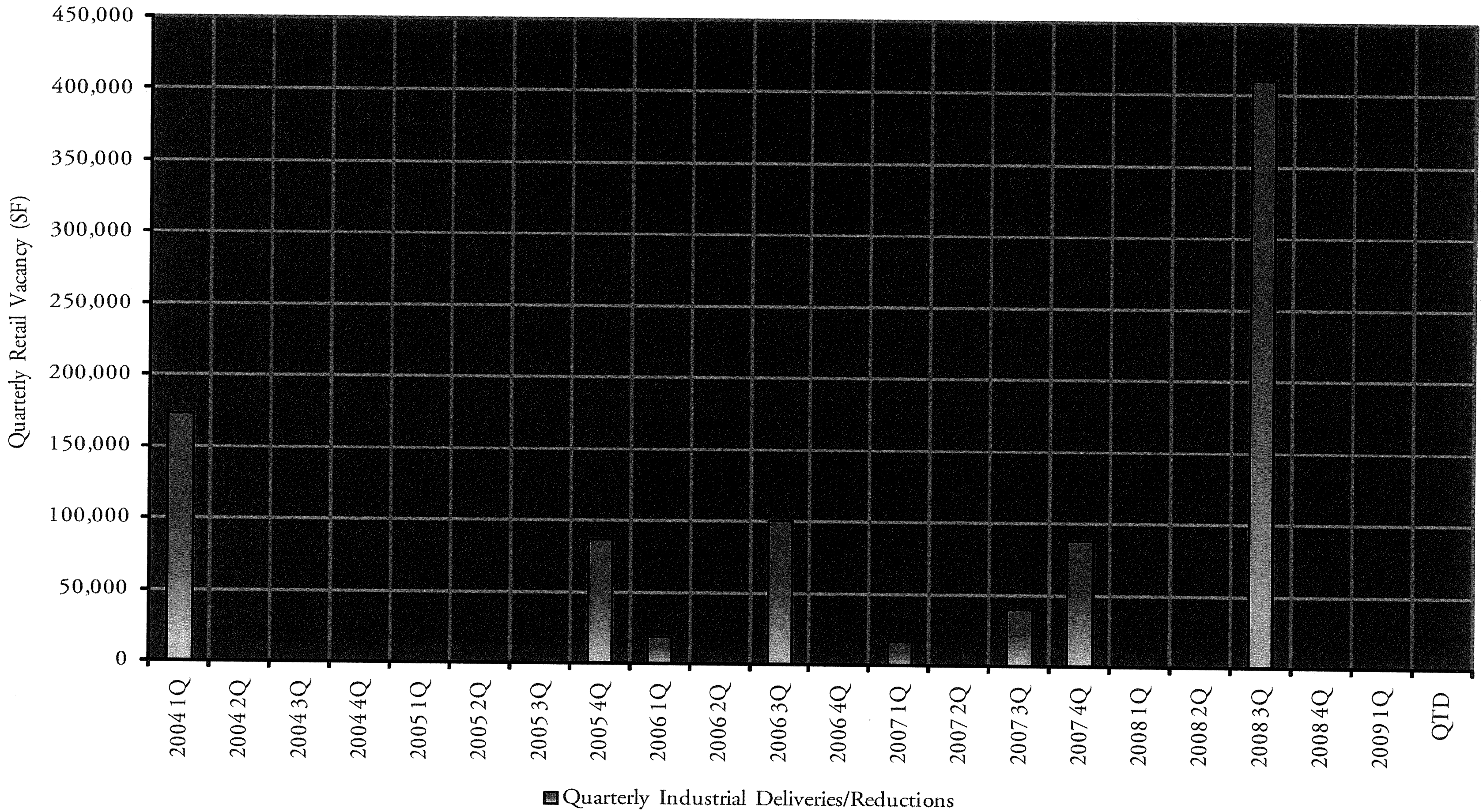


SOURCE: Costar/CB Richard Ellis/Gardner Economics, LLC

EXHIBIT 2.3

MARKET AREA INDUSTRIAL DELIVERIES
TUKWILA MARKET AREA
2004 1Q - Current

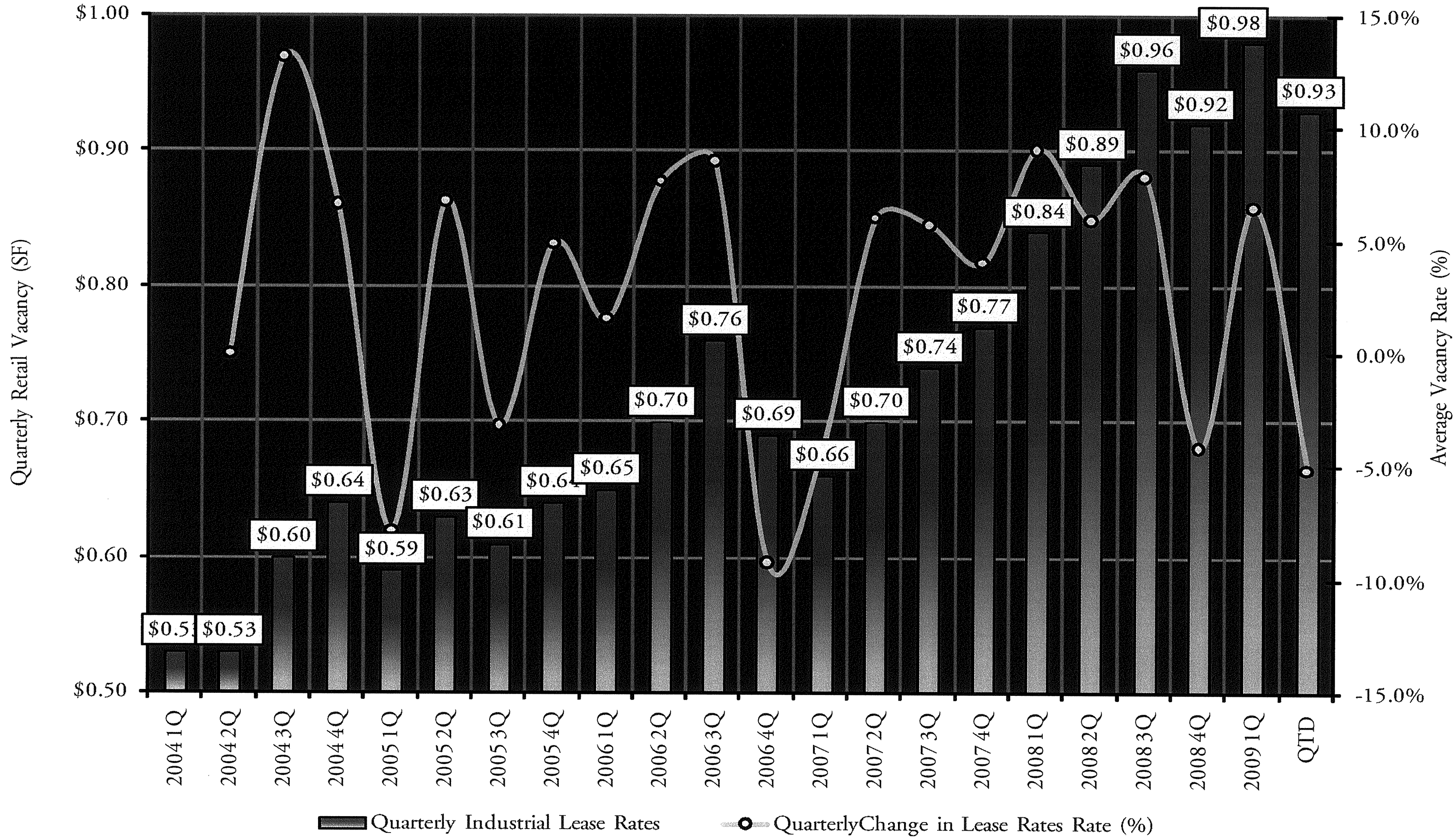
HISTORIC & CURRENT DELIVERIES



SOURCE: Costar/CB Richard Ellis/Gardner Economics LLC

EXHIBIT 2.4

HISTORIC & CURRENT INDUSTRIAL MARKET AVERAGE LEASE RATES (%)
TUKWILA MARKET AREA
2004 1Q - Current



SOURCE: Costar/CB Richard Ellis/Gardner Economics, LLC

Company Background

GARDNER ECONOMICS, LLC offers a full range of real estate and economic advisory services, and has extensive experience in a wide range of land uses and development forms. The firm offers a highly qualified staff of professionals, whose principal has over 21 years of industry experience. The Firms' experience includes land use and regional economics, residential market analysis, commercial and industrial market analysis, periodic economic and market forecasting and financial analysis. Experience includes the following types of projects:

Land Use and Regional Economics

- *Economic Development Plans;*
- *Economic Impact Analysis;*
- *Fiscal Impact Analysis;*
- *Housing Need Assessment;*
- *Public Need Analysis;*
- *Litigation Support/Expert Witness Testimony;*
- *Target Industry Analysis.*

Residential Market Analysis

- *Rental Apartments;*
- *Urban mid-rise and high-rise;*
- *Redevelopment;*
- *Mixed-use development programs;*
- *Detached Single Family;*
- *Condominiums/Townhomes;*
- *Public policy advisory*
- *Retirement Communities;*
- *Master Planned Communities; and*
- *Public-private Partnerships;*

Periodic Economic and Market Forecasting

Commercial/Industrial Market Analysis

- *Speculative Office Space;*
- *Retail Shopping Centers;*
- *Business Parks, Including Flex Space;*
- *Hotel/Motel & Conference Center*

Financial Analysis

- *Financial Feasibility Analysis;*
- *Tax Credit Underwriting;*
- *Residual Land Value Analysis;*
- *Highest and Best Use Analysis; and*

Strategic Planning

Fiscal & Economic Impact Analysis

The Firm has been actively involved in the development of many of the largest and most complex developments in the Pacific Northwest, and we are regularly retained by the region's most prominent developers to complete market and financial feasibility studies. In addition, we work for many of the region's lenders on a retainer basis to monitor local real estate markets.

GARDNER ECONOMICS has extensive experience forecasting land needs for jurisdictions as well as private-sector clients. The Firm has developed a series of proprietary models that allow for land demand forecasts to reflect market realities. These are used for land use forecasting, as well as for short-term forecasting by our institutional and banking clients. Our models are dynamic, and allow for variation in the profile of growth and development activity as a result of policy inputs and inter-regional shifts.

MATTHEW J. D. GARDNER, NABE.

Matthew Gardner heads all residential, commercial, economic and litigation support assignments dealing with market evaluation, market positioning, economic base assessment, financial feasibility and fiscal implications of residential and commercial real estate projects. He has over twenty years of professional experience in the U.K. and U.S.

PROFESSIONAL AFFILIATIONS

Washington State University Center for Real Estate Research – Trustee
Building Industry Association of Washington – Director
Urban Land Institute – Technical Assistance Panel Member
Pacific Real Estate Institute - Member

AREAS OF SPECIALIZATION:

- ***Land Use and Regional Economic***
  - *Housing Needs Assessment;*
  - *Supply & Demand Analysis;*
  - *Project Feasibility Analysis; and*
  - *Product and Positioning Analysis.*

- ***Financial Analysis***
  - *Financial feasibility analysis;*
  - *Residual land value analysis and highest and best use analysis; and*
  - *Tax Credit Analysis.*

- ***Exit Strategies***

EXPERIENCE:

- Advising developers, builders, lending institutions and real estate companies in the arena of real estate acquisitions and developments.
- Performed highest and best use studies; advised on disposal of holdings and value of proposed developments.
- Author of numerous white papers concerning affordable housing, inclusionary zoning and other topics.
- Prepared market analyses for proposed income restricted (tax credit) apartment developments for numerous clients.
- Lecturer in Real Estate Forecasting & Economics at Bellevue Community College & the Master Builders Association of King & Snohomish Counties.
- Regular guest speaker at industry related events.

EDUCATION:

University of Oxford
BACHELOR OF ARTS IN ECONOMICS & ENGLISH
England, U.K.