

## **ACTION: Multifamily Tax Exemption (MFTE) (B.1)**

### **Proposed Action(s):**

- B.1. Review/recalibrate the Multifamily Tax Exemption (MFTE) for affordable housing requirements and expand in additional multifamily and transit-oriented development areas.**

In June 2015, the City of Bellevue adopted an MFTE program that can be used in Bel-Red, Downtown, Eastgate, Crossroads Village, and Wilburton. In exchange for a 12-year property tax exemption on the residential improvement, participating developers are required to set aside 20% of units as affordable to households at certain income levels. The specific AMI limits vary by geography and unit size.

To date, Bellevue's MFTE program has not produced any units of affordable housing. The proposed action is to review and recalibrate Bellevue's MFTE to make participation more financially feasible for developers if needed, while maximizing public benefit. As a voluntary, incentive-based program, MFTE is only effective at creating affordable units if developers choose to participate.

### **Application:**

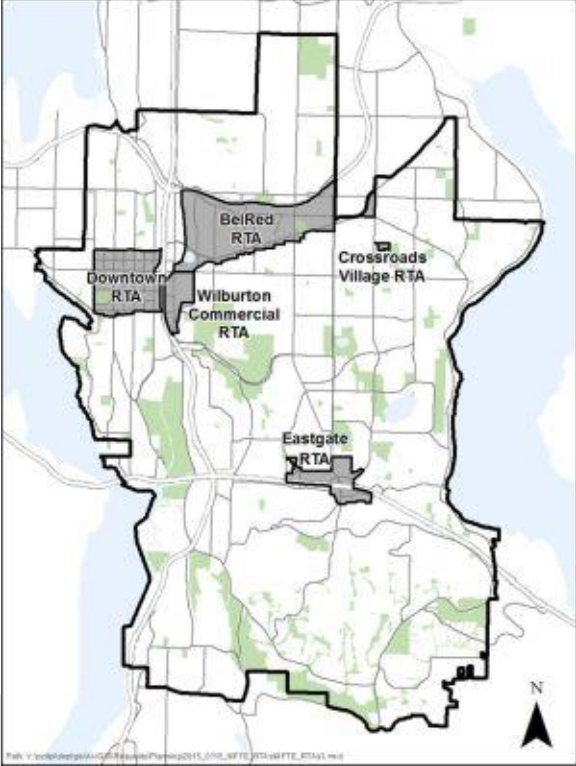
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*Exhibit 1* summarizes key characteristics of Bellevue’s MFTE program, and identifies possibilities for adjusting the program to increase participation.

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*Exhibit 1. Current MFTE program and ideas for consideration*

	<b>Current</b>	<b>Ideas for Consideration</b>	
<b>Eligible locations</b>	Downtown, Eastgate, Crossroads, Wilburton, Bel-Red 	Expand to include multifamily and mixed-use zones within 0.5 miles of planned light-rail stations (e.g., East Main)	
<b>Set-aside</b>	20% of units <i>(minimum required under state law)</i>	20% of units if 2-bedroom threshold is met Higher % of units if 2-bedroom threshold is not met	
<b>Share of 2-bedrooms</b>	15% of total units (required)	No unit size requirement. Set affordability level or % of affordable unit requirement by unit size	
<b>Affordable units required to mirror market-rate units</b>	Yes	No	
<b>Affordability requirements</b>	<b>Downtown, Eastgate, Crossroads, Wilburton</b> <ul style="list-style-type: none"> <li>• 10% of units affordable at 60% of AMI</li> <li>• 10% of units affordable at 70% of AMI</li> <li>• Any unit &lt;300 SF must be affordable to 45% of AMI</li> </ul>	<b>Bel-Red</b> <ul style="list-style-type: none"> <li>• 10% of units affordable at 50% of AMI</li> <li>• 10% of units affordable at 70% of AMI</li> <li>• Any unit &lt;300 SF must be affordable to 45% of AMI</li> </ul>	TBD based on modeling results  Different affordability thresholds by unit sizes

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Specific adjustments to Bellevue’s MFTE program (as suggested by TAG) might include:

- **Adjust the required AMI thresholds.** Lack of developer participation in MFTE since June 2015 suggests that the benefits in reduced property tax are not large enough to offset the decreased rent revenue. Preliminary modeling by consultants confirms this finding. Raising the required affordability level—for example, from an average of 60% of AMI in Bel-Red to 70%—will make it more financially viable for developers to participate in MFTE. Further modeling is needed to determine what the AMI thresholds should be.
- **Expand MFTE to apply to additional transit-accessible multifamily zones.** Under state law, only projects located in areas designated by the City as “targeted residential areas” are eligible to participate in MFTE. One proposed change is to designate all multifamily and mixed-use zones within 0.5 miles of light-rail stations as targeted residential areas. Any future mixed-use upzones, including East Main Station Area, should be considered for designation as a targeted residential area.
- **Revisit 2-bedroom requirement.** In order to encourage production of family-size affordable units in MFTE projects, Bellevue’s MFTE program requires that 15% of market and affordable units have 2 or more bedrooms. This requirement may be counterproductive if it results in lower developer participation in the MFTE program. One option would be to allow a higher AMI target for larger units (such as 80% AMI) in order to narrow the gap between lost rental revenue and the value of tax exemption. Another option is to increase minimum percent of affordable units from 20% to 25% for projects that provide less than 15% of 2-bedrooms.

Analysis of housing unit production trends in Bellevue indicates that a calibrated MFTE program to policy goals could produce 40-100 affordable units per year, or 400-1,000 units over a 10-year period. This estimate is based on the following assumptions:

- **Over the next 10 years, about 700 new multifamily units will be built per year.** Between 2006 and 2015, Bellevue saw an average of 684 (and a median of 709) new multifamily units per year, in projects with 20 or more units.
- **95% of multifamily units will be built in areas that are eligible for MFTE.** According to the 2014 Buildable Lands Inventory, 94% of Bellevue’s housing capacity is located in mixed use zones in Bel-Red (54% of total capacity) and Downtown (40%).
- **Not all eligible projects will participate in MFTE.** If 30% of eligible projects participate—as assumed in the City’s 2015 analysis—then unit production would be about 40 units per year. If 75% of eligible projects participate, then MFTE could generate about 100 units per year. This participation rate is plausible; between 2011-2015, 78% of new multifamily units in Seattle were in MFTE projects.

Under MFTE, affordability restrictions remain in place for 12 years.

### **Policy Evaluation:**

- **Legal considerations.**

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MFTE is legal in Washington State (RCW 84.14.020) and is currently in place in Bellevue. Cities can offer either an 8- or 12-year property tax exemption. The 12-year exemption requires a minimum level of 20% of units to be affordable. The 8-year exemption has no affordable housing requirement; the public benefit requirement is at the jurisdiction's discretion.

- **Consistency with Council guiding principles for strategy.** This action is primarily related to three of Council's guiding principles:
  - 6. **Build upon ongoing and recent tools the City has developed while strengthening partnerships with relevant organizations.** This action will build upon the existing MFTE program.
  - 8. **Tailor affordable housing approaches to different areas of the City.** MFTE only applies to targeted areas, as designated by the City.
  - 10. **Monitor results and adjust as needed.** Lack of participation in the current MFTE program suggests that it may need to be adjusted.
- **Coordination with existing programs (e.g. ARCH) and other proposed actions**  
MFTE can be used in conjunction with other, complimentary affordable housing programs such as density bonus or micro-units.
- **Administrative ease**  
Given Bellevue currently has an MFTE program, additional resources required for permit review are not anticipated to be considerable.
- **Fiscal considerations.**  
The City's foregone property tax revenue from the MFTE program was estimated to be about 0.1% of the total annual property tax revenue to the City, based on the City of Bellevue's analysis conducted to inform the 2014 MFTE program. However, the overall fiscal impact of MFTE programs is not widely understood for two reasons: 1) housing developments generate one-time and on-going tax revenues beyond property taxes that include sales and utility taxes; and 2) MFTE incentives may also support overall project viability allowing a development to be viable at all or to occur sooner.

### **Support/Opposition:**

- **Public support.** In other communities, there has typically been broad public support for actions that tie the delivery of affordable units with market rate development. In 2015 MFTE there was some concern over increased affordable housing in districts adjacent to residential neighborhoods. As this action would adjust the existing program—rather than change it substantially—public support would likely be similar to 2015.
- **Stakeholder support.** Affordable housing advocates generally are in favor of policies that tie delivery of affordable housing to market-rate housing, both in terms of location and timing. In 2015 MFTE there was some concern over increased affordable housing in districts adjacent to residential neighborhoods. As this action would adjust the existing program—rather than change it substantially—stakeholder support would likely be similar to 2015.

**CATEGORY: DIRECT & INDIRECT PUBLIC SUPPORT**

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### **Effective Practices Research:**

Bellevue's MFTE program specifications appears to align with other local programs, which are all based on Washington State law (RCW 84.14.020). The main difference is that many other cities in the Puget Sound offer 8-year exemptions on multi-family units that have no affordability set-aside requirement. Puget Sound cities with MFTE programs include: Bremerton, Burien, Everett, Kirkland, Lynnwood, Puyallup, SeaTac, Seattle, Shoreline, and Tacoma.

Seattle's current MFTE program offers a 12-year property tax exemption for developers and owners of rental and for-sale multi-family residential projects. First enacted in 1998, the program was renewed and expanded in 2015 to encompass new areas of the city and introduce additional incentives for family-sized units.

In its most recent iteration, to qualify for Seattle's MF property tax exemption at least 20% of units must be rent-restricted (if a minimum number of 2-bedroom or larger units are provided) or 25% of units (if the minimum number of larger units is not met). The MFTE program imposes "affordability restrictions for rental projects set at 40% AMI for small efficiency dwelling units and housing units in congregate residences, 50% AMI for replacement units in Tenant Relocation Assistance-mandated projects, 65% AMI for studios, 75% AMI for 1-bedroom units, 85% AMI for 2-bedroom units, and 90% AMI for 3-bedroom and larger units."<sup>1</sup>

- Between 2008 and 2011, Seattle's MFTE program created nearly 4,000 units affordable at 85% AMI or below. During that time period, 78% of all new multifamily units were in an MFTE project.
- At end of 2015 Seattle had 3,963 units participating in the MFTE program. With 90 projects in the pipeline, another 2,124 units have been approved and could be brought to market over the next few years. The Office of Housing anticipates that more than 6,000 units will provide affordable housing as part of the MFTE program by 2018<sup>2</sup>.

Portland, OR offers three limited tax exemption (LTE) programs. The Multiple-Unit Limited Tax Exemption (MULTE) (most similar to Bellevue's MFTE) is a 10-year property tax exemption for properties in designated plan areas, within a half mile radius of Max Transit areas, or a quarter mile from specified transit corridors. To qualify, 20% of total rental units must be affordable at 60% AMI or less (or at 80% AMI or less in areas where market rate rents are 120% AMI or higher). At least 5% of units must be ADA accessible. And affordable units must have an even distribution of bedroom sizes. In FY 2014-15, 937 units received tax exemptions in the MULTE program.

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<sup>1</sup><http://www.seattle.gov/Documents/Departments/Housing/HousingDevelopers/MultifamilyTaxExemption/2015%20MFTE%20Annual%20Report.pdf>

<sup>2</sup> Seattle Office of Housing as reported [www.theurbanist.org/2016/02/03/seattles-mfte-program-has-strong-showing-at-end-of-2015/](http://www.theurbanist.org/2016/02/03/seattles-mfte-program-has-strong-showing-at-end-of-2015/)

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### **Productivity Potential:**

Total Capacity – Potential Number of affordable units	0 –1,000 units
Timing – When would majority of units be realized within next 10 years (0-5, 5-10, >10)?	5 – 10+ years
Income affordability level and for what length of time	Current policy targets 50 to 70% AMI, exemption and affordability are for 12 years.
Estimated cost per unit	\$300,000-\$350,000 <i>Based on pro-forma construction cost</i>
Who pays?	The MF Tax Exemption is not a redistribution of property tax in the sense that it would cause other property taxes to increase. For Districts that receive a set increase in property taxes each year based on the amount collected the previous year plus taxes generated from new development (City, County and State/State School Fund) the impact is that the district will not receive any new revenue from the improvement value that is exempted. Districts that receive a set amount of revenue a year (i.e. BSD, EMS, Library, Flood & Ferry) would receive the same revenue. For these districts, the impact on existing property owners is that they would not see a reduction in property taxes that typically occurs as a result of adding the value of new construction to the tax roll.