

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

The multifamily tax exemption is a State authorized, short-term exemption from property taxes paid on the housing portion of new development within mixed-use urban areas. The multifamily tax exemption is being explored as a voluntary, affordable housing incentive within transit-served mixed-use districts and neighborhood commercial areas.

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POLICY ISSUES

RCW 84.14.007 states the purpose of that chapter is to encourage and stimulate the construction of affordable multifamily housing in urban centers having insufficient affordable housing opportunities. To achieve these purposes, the statute provides for special valuations in residentially deficient urban centers for eligible improvements associated with affordable multiunit housing.

Should the City amend the Bellevue City Code per RCW 84.14 to implement a property tax exemption for new development that provides affordable housing and/or other public benefit?

Comprehensive Plan Direction:

The multifamily tax exemption (MFTE) addresses city-wide housing policies #HO-33: *Explore financial incentives to encourage affordable housing such as partial exemptions from city permit fees and use of the state property tax exemption program.*

The MFTE is also consistent with the Bel-Red Subarea Plan direction that a significant share of new Bel-Red housing be affordable to low-and-moderate income residents, and that affordability be achieved through a variety of tools (Bel-Red Subarea Plan Housing Goal and Bel-Red Housing Policy S-BR-41).

DIRECTION NEEDED FROM COUNCIL

<u> </u>	Action
<u> X </u>	Discussion
<u> X </u>	Information

On February 3, 2014, Councilmembers requested this presentation on the MFTE. Based on Council direction, staff could return with additional information on potential principles, program options, and designated residential target areas.

BACKGROUND

MF Tax Exemption: RCW 84.14 / Synopsis

The State legislature enacted the Multi-Family Tax Exemption (MFTE) in 1995, granting authority to a limited number of cities in the state for ten-year tax exemptions on the improvement value of multifamily projects in targeted mixed-use areas. Cities could choose to adopt the tax exemption to increase multifamily housing to promote economic development or other public benefits, including affordable housing.

In 2006, the legislature updated this code to allow more cities to use the program and to provide greater incentives for affordable housing. Residential development that provides at least 20% affordable units could receive a 12-year tax exemption on all new housing units within the project. Residential development that provides some other public benefit, which may include affordable housing with less than 20% affordable units, receives an 8-year exemption. The key provisions of RCW 84.14 include:

- Exemption is for either 8 or 12 years. A 12-year exemption must include 20% affordable housing units, the minimum threshold established by the State.
- Exemption is only on the improvement value of the residential portion of a property. Taxes are still paid on the land and on the improvement value of any non-residential uses.
- Housing that receives an exemption must be located in a locally designated Residential Target Area (RTA) which is generally defined as an area with a mixture of uses, activities and businesses. Cities can establish one or more RTAs in their city, so long as each meets certain minimum requirements.

The MFTE program exempts eligible multifamily housing from all ad valorem (value added) property taxation for the exemption period. This would include the City, State and other special district valuations that, in 2014, total \$9.52 per \$1,000 AV (of this total, \$1.0748 is the Bellevue valuation). Thus, every dollar the City exempts to support affordable housing leverages \$7.86 from State and special district valuations. As proposed, the MFTE would have limited impact on City revenues. This program impacts the City by reducing future growth of assessed value of new construction, which in turn reduces growth in property tax revenue collected on new construction. The growth in new construction of projects participating in this program is added to the tax rolls at the end of the program's exemption period. Also, the City may realize economic benefits from initiating new development, such as development contributions to infrastructure, sales tax and business revenue that help to offset any detriment from the delay in adding these units to the tax roll. Analysis on how the MFTE might impact City revenues and revenues to other taxing districts, such as schools, is found in Attachment 1.

Washington cities that have adopted the MFTE include Burien, Everett, Kenmore, Kirkland, Mercer Island, Renton, Seattle, Shoreline, Spokane, and Tacoma. See Attachment 2 for summary information on these programs.

Program Options - Balancing the Incentive

Bellevue seeks to achieve an incentive that works for developers while providing meaningful, long-term affordability or other public benefit. In discussions with local developers it was emphasized that the MFTE cannot be an effective tool without providing developers adequate return that considers impacts to financing and long-term operating costs. Seattle has offered a MFTE Program since 1998, and has adjusted the program's affordability levels four times to balance the incentive to the developer and the public benefit (Attachment 3).

Cities that adopt the State authorized MFTE must establish program requirements within the thresholds established in RCW 84.14. However, the RCW gives cities flexibility in the program incentives and requirements to develop a program that meets a community's specific needs, including:

- The affordability level provided
- The percent of affordable units provided
- Length of property tax exemption – 8 or 12 years
- Length of affordability
- Ability to layer MFTE with other incentives
- Residential targeted areas
- Potential variation in requirements by targeted areas
- What projects qualify, e.g. threshold number of new units
- Phased approach with different affordability level established for initial projects
- Capping the program at a certain number of tax-exempted units and/or a period of time.

Residential Target Areas

Eligible Residential Target Areas (RTAs) are compact identifiable districts that are multifamily mixed use or multifamily with access to mixed use. RTAs must lack, as determined by the governing authority, sufficient residential housing, including affordable housing. The City may adopt one or more RTAs, adopt different eligibility requirements to achieve different program objectives for each RTA, or expand the MFTE program by adopting additional RTAs over time.

Mixed Use: The MFTE can be used to encourage housing, including affordable housing, in mixed use centers such as Bel-Red, Downtown, Eastgate, and Wilburton. In Bel-Red the MFTE could layer on Bel-Red's Tier 1 FAR (Floor Area Ratio) affordable housing incentive to provide financial motivation for development to include more affordable units than would be achieved by the FAR amenity incentive system alone. This would support Bel-Red Housing Policy S-BR-41 that sets aggressive targets for affordable housing that *"will be addressed through a combination of development regulations and incentives, public investments, and other public and private strategies, such as employer-assisted housing and short-term property tax exemptions for multifamily housing."*

Neighborhood Commercial Areas: Over time, some of the City's neighborhood shopping centers have experienced decline as they have struggled with competition from larger centers and changing consumer patterns. In certain Neighborhood Business and Community Business districts the MFTE could be used as a residential development incentive. The MFTE could be adopted with a lower affordability requirement as determined by the center's economic need. While the situation has generally improved in most neighborhood shopping centers, Newport Hills is still struggling with high vacancy rates and lower investment levels.

NEXT STEPS

This overview provides Council the opportunity to provide comment and direction on the multifamily tax exemption program. As directed by Council, staff will return with additional information on program principles, program options, and designated residential target areas.

Basic Questions:

1. Should the City consider a MFTE program as a voluntary, affordable housing incentive within transit-served mixed-use districts and neighborhood commercial areas?
2. If yes, would the program allow 12-year exemptions and/or 8-year exemptions?
3. What areas of the city should be considered for a MFTE program?
Should the City encourage use of the MFTE in combination with other incentives such as the Bel-Red FAR amenity incentive or federal tax exempt bond financing and tax credits?

ALTERNATIVES

1. Direct staff to return with additional information on potential program principles, program options, and designated residential target areas.
2. Provide alternative direction.

RECOMMENDATION

Alternative 1.

ATTACHMENTS

1. Fiscal Impacts of MFTE
2. MFTE Experience in Other Communities
3. Seattle's MFTE Program (10-8-2013 DT Livability Advisory Committee Memo, updated)
4. Summary of MFTE Provisions under State Law RCW 84.14 / Issaquah Planning

Fiscal Impacts for MFTE - Example

This table lists all the various taxing districts that receive property tax revenue and the assessment rate for each district. It also includes an estimate of the amount of improvement tax revenue that 100 units of housing might generate.

Levy Area	Levy Description	Levy Rate 2013 (Per/\$1,000)	Potential Revenue 100 unit building \$24,000,000 Improvement value	
330	BELLEVUE	1.07485	25,796.40	
	Regular	0.96248		
	Park Lid lift	0.11237		
	Consolidated	4.20182	100,843.68	
	King County	1.51605		
	Port of Seattle	0.21533		
	State School Fund	2.47044		
405	Bellevue School Dist	3.1939	76,655.28	
	Library	0.5617	13,482.00	
EM-1	EMS	0.3350	8,040.00	
	King County Flood Dist	0.1537	3,688.56	
	Ferry District	0.0035	83.76	
	TOTAL	9.52457	\$228,590	Net Present Value (2.06% for 12 years)
	12-YEAR TOTAL REVENUE		\$2,743,076	\$2,408,780
	12-YEAR BELLEVUE REVENUE		\$309,557	\$271,831

Source:

King County Department of Assessments. *2014 Codes and Levies King County Taxing Districts, 1/22/2014*

www.kingcounty.gov/assessor/reports/levyrateinformation.aspx

then choose 2014 King County Taxing Districts Codes and Levies

Multifamily Tax Exemption Experience in Other Communities

Examples of Washington cities that have adopted the Multifamily Tax Exemption (MFTE) are shown below. Many cities initially adopted the MFTE as an economic development incentive, but after the 2006 state update programs were revised to include an affordable housing incentive. All the cities shown offer a choice between the 8 year and 12 year exemptions. Seattle, Shoreline and Kirkland require affordable housing with both the 8 year and 12 year exemptions. Shoreline also offers a 5 year exemption with no affordable housing requirement.

The table below shows units receiving a MFTE as reported to the Washington State Department of Commerce over a four year period, 2007 to 2010.*

2007 – 2010 Multifamily Tax Exemption Annual Report Summaries*

City	Adopting Year	Code	MFTE Certificates Issued	Affordable Units	Market Units	Exempted Units
Burien	2004	Ch. 19.45	1	0	124	124
Everett	1998	Ch. 3.78	3	8	63	71
Kenmore*	2007	Ch. 3.65	1	55	165	220
Kirkland*	2004	Ch. 5.88	4	71	339	410
Moses Lk	2004	Ch. 18.23	1	96	0	96
Renton	2003	Ch. 4-1-220	7	92	1385	1477
Seattle	1998	Ch. 5.72	20	1346	1627	2973
Shoreline	2002	Ch. 3.27	1	0	88	88
Spokane	2000	Ch. 8.15	117	78	365	453
Tacoma	1996	Ch. 6A-110	41	0	968	968
Wenatchee	1999	Ch. 5.88	1	0	23	23

* Kirkland and Kenmore updated by ARCH to include all MFTE program units.

Source: Washington Department of Commerce Multi-Unit Housing Tax Incentives 2007-2010
<http://www.commerce.wa.gov/Documents/GMS-2010-Multi-Unit-Housing-Tax-Incentives-Report.pdf>



Downtown Livability

Date: October 8, 2013 (Updated March 2014. Updated information underlined.)
 To: Downtown Livability Advisory Committee
 From: City of Bellevue Staff
 Subject: Seattle Homes Within Reach - Multifamily Tax Exemption Program

This summary of Seattle's Multifamily Property Tax Exemption program is being provided to supplement the previous materials given to the committee on the topic of housing affordability. Since 1998 the City of Seattle has offered short-term tax exemptions on multifamily residential development in exchange for affordable units. In 2008 Mayor Greg Nickels expanded the program and called it the "Mayor's Homes Within Reach" program. Seattle has returned to calling the program the Multifamily Property Tax Exemption (MFTE) Program.

As described on the Seattle Office of Housing webpage www.seattle.gov/housing/incentives/mfte Seattle's MFTE Program provides a tax exemption for up to 12 years for multifamily projects in exchange for setting aside 20% of the units for moderate-wage workers. Projects must be located in one of Seattle's 39 residential targeted areas. The tax exemption is on residential improvements; the land and any non-residential component of the project (retail, commercial, office space, etc.) will be taxed on full assessed value.

Consistent with the state enabling legislation (RCW Chapter 84.14) jurisdictions may adopt a short term tax exemption on multifamily development as an incentive for affordable housing, economic development or other public benefit. The legislation requires that the public benefit be commensurate to the tax benefit received. Seattle has periodically adjusted affordability levels in order to maintain a program that offers an incentive to the developer and a commensurate public benefit. For rental units affordability levels have been set within the range of 60% to 90% of area median income. Seattle's affordability requirements and rent limits were last updated in 2011, as follows:

For rental projects; a twelve year tax exemption is available for all units, and a minimum of 20% of the units must be rented to households with incomes:

- At or below 65% of median for studio units
- At or below 75% of median for 1-bedroom units
- At or below 85% of median for 2-bedroom and larger units

For homeownership projects; an eight year tax exemption is available only for those units occupied by income-eligible households. The units must be sold to households with income at time of purchase that do not exceed:

- 100% of median income for studio and 1-bedroom units
- 120% of median income for 2-bedroom and larger units

Since 1998 146 multifamily projects including 6 condominium projects received approved applications for Seattle's MFTE. Each of these projects included a minimum of 20% affordable units. Distribution of affordable units by size and program date is as follows:

Distribution of Affordable Units (both Rental and For-Sale) by Size, 1998-2012 - Based on approved applications

	Program 1 1998-2002	Program 2 2004-2008	Program 3 2008-2010	Program 4 2011	Program 4 2012	Program 4 2013	TOTAL
Studio	41	201	354	138	393	<u>330</u>	<u>1457</u>
1BR	79	529	619	197	289	<u>293</u>	<u>2006</u>
2BR	33	424	206	67	87	58	<u>875</u>
3+BR	16	38	18	1	5	12	<u>90</u>
Total	169	1192	1197	403	774	<u>693</u>	<u>4,428</u>

Source: City of Seattle MFTE Program: 2013 Status Report to City Council (2013 totals draft)

Multifamily Tax Exemption / RCW 84.14

BACKGROUND

Authorization: RCW 84.14 authorizes cities to exempt the improvement value of new housing (or the rehabilitation of qualifying existing housing) from the ad valorem property tax for a period of 8 or 12 years. The exemption does not include the value of land or non-residential improvements, such as ground floor retail in a mixed use housing development.

Purpose: The purpose of this exemption is to:

1. Stimulate the construction of new multifamily housing and the rehabilitation of vacant or underutilized buildings for multifamily housing;
2. Increase the supply of housing for low and moderate income households; and,
3. Increase additional housing in certain areas to support investment in public transit.

Public Benefit: Tax exempt housing must meet guidelines adopted by the city that may include height, density, parking, income limits for occupancy and/or other public benefits. State law requires that the public benefit be comparable to the value of the property tax exemption.

Eligibility Requirements: The following minimum eligibility requirements are established by the state:

- (a) At least fifty percent of the building is for permanent residential use [RCW 84.14.030(3)];
- (b) Construction is completed within three years of application unless extended by the City [RCW 84.14.030(4)]; and,
- (c) The project includes at least four units [RCW 84.14.010(9)].

LENGTH OF PROPERTY TAX EXEMPTION & AFFORDABILITY REQUIREMENTS (RCW 84.14.020A & B)

The length of the property tax exemption may be for eight or twelve successive years.

Eight Year Exemption: The percentage of affordable units, the minimum affordability requirements and / or other public benefit(s) provided in exchange for the tax exemption are determined by the City.

Twelve Year Exemption: State law requires that at least *twenty percent* of the units be affordable at up to 100 percent of the County median income, though the City may establish more stringent income or affordability requirements [RCW 84.14.040(6)].

RESIDENTIAL TARGETED AREA (RTA) (RCW 84.14.030(1) and 84.14.040)

Residential development receiving a tax exemption must be located in a residential targeted area designated by the City. The target area must be within an *urban center* and lack sufficient housing, including affordable housing. Urban center is defined as a compact identifiable district with several business, adequate public facilities and a mixture of uses and activities. *Note: This definition is not the same as the "Urban Center" requirements for designation under the County and PSRC policies.*

ADOPTION PROCESS

State law requires the following steps to establish a multifamily property tax exemption:

1. Council approval of a resolution designating the *residential targeted area* [RCW 84.14.040(2)].
2. A public hearing by the Council on the proposed residential targeted area. Notice requirements for the hearing are specified in RCW 84.14.040(3).
3. Council adoption of an Ordinance establishing:

- (a) An application process and procedures including administrative review authority, an appeal process [RCW 14.14.090(6)] and fees [RCW 84.14.080];
- (b) Requirements for the demolition of existing structures and site use;
- (c) Building requirements and amenities that will attract and keep permanent residents and enhance the livability of the area [RCW 84.14.040(5)].

ADMINISTRATIVE PROCESS

The process for receiving a tax exemption includes:

1. Submittal of an initial application and fees to the City by the applicant.
2. Application review by the City. A *Conditional Certificate of Acceptance* [RCW 84.14.070(2)] is issued by the City if the application is approved. Denial of an application may be appealed.
3. Submittal of a statement of construction expenditures and documentation by the applicant that the project qualifies for the property tax exemption. This request for final approval is made upon completion of construction and receipt of a Certificate of Occupancy [RCW 84.14.090(1)].
4. Statement and documentation review by the City.
5. Upon final approval, the City files the Certificate of Tax Exemption with the County Assessor within 40 days of receiving the statement and documentation [RCW 84.14.090(3)]. The applicant may appeal if final approval is denied.

MONITORING & REPORTING

Property Owner: RCW 84.14.100(1) requires the property owner to file an annual statement with the City:

- (a) Documenting the occupancy and vacancy of the project during the previous 12 months;
- (b) Certifying that the property has not changed use and has been in compliance with the affordable housing requirements; and,
- (c) Describing any changes/improvements after issuance of the certificate of tax exemption.

City: The City is required to submit an Annual Report to the State each December. Following is some of the information to be provided in the report: the number of tax exemption certificates granted, the number and type of units produced, the number and type of affordable units and the value of the tax exemption for each project and the total value of all exemptions.

GENERAL FINANCIAL IMPLICATIONS OF THE PROPERTY TAX EXEMPTION

Impact to City Revenues: The financial impact to the City depends on several factors including:

- (a) The number and size of the projects receiving the property tax exemption;
- (b) The value of the building(s) being replaced/rehabilitated for housing compared to the value of the non-residential portion of the new project(s);
- (c) The increase in land values over time (if any) from redevelopment.

In some cases, the property tax paid by a new project using the exemption may be less than that paid by the current use, in others it may not. The City, County and State will receive less revenue if the property tax for the redeveloped property after the exemption is lower than the tax paid by the prior use. This unrealized revenue is not made up by other property owners and is "lost" for each year of the exemption (eight or twelve years).

Impact to Other Taxing Districts: *Special districts* like the School District, EMS and Library District receive a set amount of property tax revenue each year. Generally, new development adds to / increases the total property value in the district. Because the revenue for the district remains constant, an increase in property values results in a decrease in the *amount* of property tax paid by other property owners. Therefore, the multifamily

property tax exemption will not reduce the amount of revenue raised for a special district, but it may mean that other property owners will see a smaller reduction in their own property tax assessment.

Impact on Other Property Owners: The Multifamily tax exemption does not redistribute the “deferred” property tax to other property owners (i.e. increase the taxes paid by others).

3/28/2014

Source: Issaquah Planning, January 2012