Bellevue's MFTE program offers a financial incentive to include affordable housing as part of new residential development projects. To assist with the analysis of potential MFTE program changes, staff developed a financial model with input from the development community. The model is based off a typical year approach, using 2019 market and affordable rents to mimic a full typical year of changes. The inputs in this model include:

- If an overlap with the Land Use Incentive is permitted
- What percent of units are affordable through the Land Use Incentive
- Length of affordability (12 years vs life of project)
    - Cap rate (used for calculating life of project affordability)
- Assumed market rents (based on quartiles related to Bellevue market rents for recent projects)
- Assumed improvement value (for estimating the tax exemption)
- Parking ratio (for estimating tax exemption)
- Inclusion of parking in affordable rent (including partial stall discount or allowance options)
- Percent of units affordable at…
- … required AMI level(s)
- Unit sizes
- Mix of unit types

The model accounts for the expected staggered end to the MFTE program as leases are generally one year long and end after the MFTE end date, requiring additional affordability to be offered by the owner to cover this staggered release of dates.

In order to evaluate the likelihood of any particular program updates resulting in the use of the program by a developer on a sample project, a Feasibility Index was used. The number is calculated by dividing the 12 years of tax exemption by the anticipated cost in affordable rent gaps over those 12+ years (accounting for that staggered lease ending mentioned above). A higher Feasibility Index therefore represents a higher likelihood that a project would use MFTE. This target is higher than 0 because there are a number of complicating factors that add risk to the analysis. The main factors that are difficult to model but must be considered as risk are listed below.

1. Risk regarding the assessed value of the residential improvements. The exact value of the exemption cannot be perfectly predicted, incorporating risk into the analysis.
2. Risk regarding the gap between market and affordable rent shifting over 15 years (3 years of design/construction, 12 years of affordability).
3. Discounted future benefit when comparing cost of providing affordable units in one year and not receiving the exemption until the following. In effect, this results in a 12-year gap in the exemption provided for the year 1 affordability that is not seen until year 13.
4. Additional time/management costs associated with managing the applicants and annual reporting requirements.

As a partial balance to the above risks, there are a few elements that would likely shift the numbers in the developer's favor, such as the tendency for owners to locate MFTE units in slightly less desirable parts of the buildings, such as lower levels or those without a view. In addition, the market rents used in the financial analysis reflect asking rents, not necessarily the rents that would actually be received for the MFTE units were they offered at market rate. Conditions like these help balance out the above risks, but ultimately a Feasibility Index between 20 and 40 would be the ideal target range for the program to get predictably increased utilization.