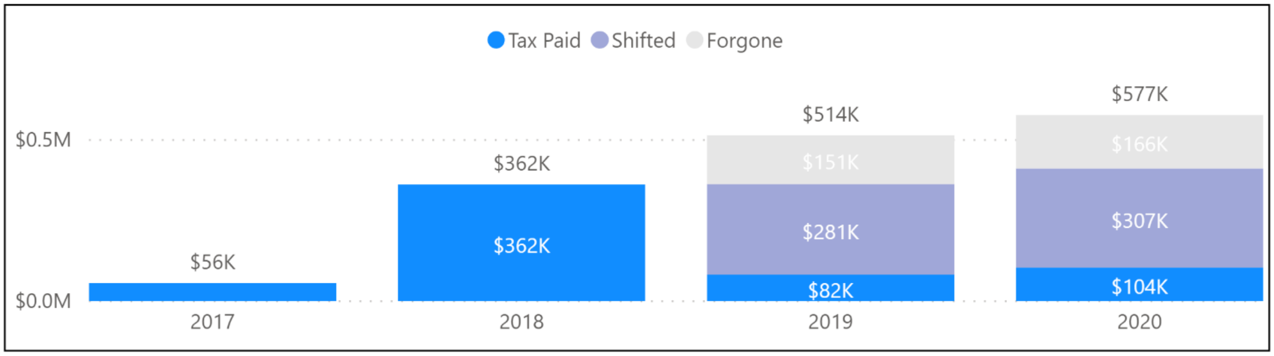
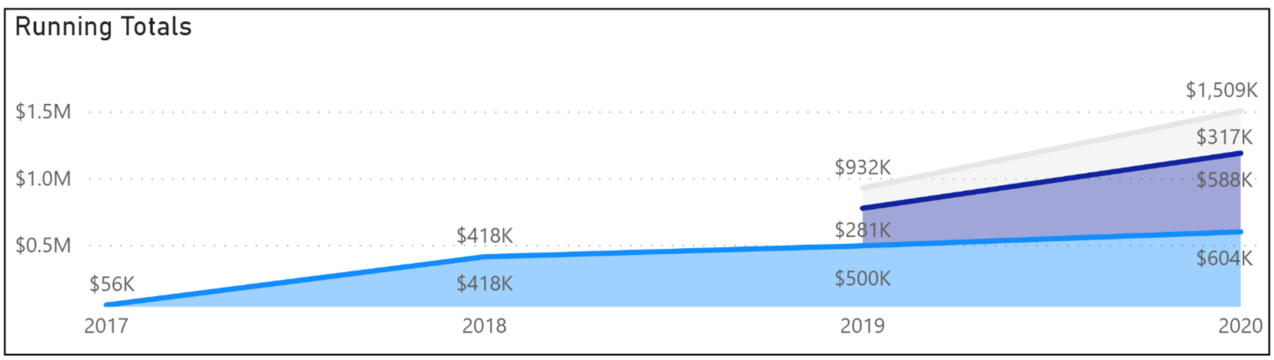
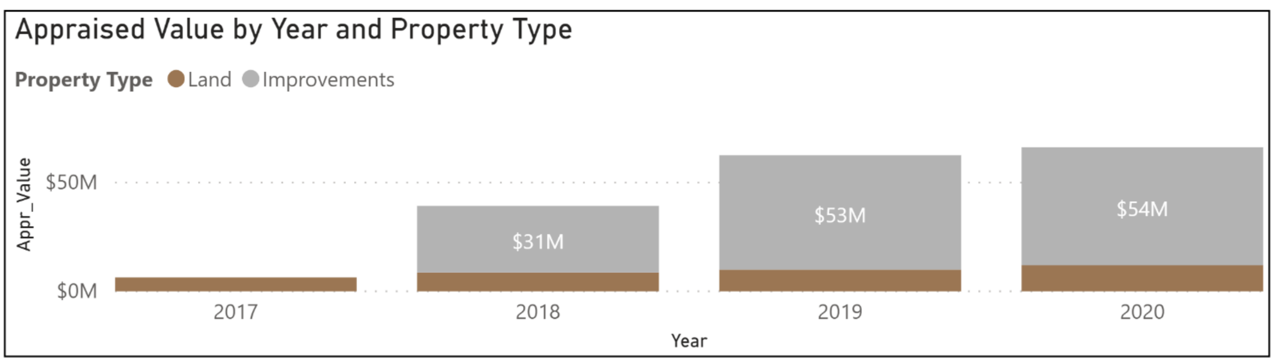
MFTE and property tax impacts

Bellevue's MFTE program provides a property tax exemption on residential improvements for the course of twelve years. Evaluating the impacts of this exemption can be complicated, due to the way in which the timing of the project changes this impact. New, partially completed projects are often taxed on the value of their improvements before they open and begin collecting rent. Tax abatements through MFTE begin on January 1 after a project has opened and the city has certified compliance. Taxes collected before the exemption takes effect are added to the base levy. When the exemption takes effect, the city and other districts can continue to collect that amount, but from other taxpayers. This is referred to as a "tax shift." Staff anticipate that this shift will have minimal impacts on other taxpayers but will include further details at the April study session. The improvements value that was not taxed before becoming tax-exempt is not added to the tax rolls until the exemption expires and is therefore considered "foregone." The below chart shows an example project located in Downtown Bellevue.

Cerasa Apartments: Tracking the Tax Exemption Impact







Cerasa opened in 2018 and their 12-year tax exemption began in 2019. In July 2017, the King County Assessor valued the partially completed building at $31 million. In 2018, they paid $362,000 in property taxes (which includes tax on the land) as a result. In July 2019, the Assessor valued the completed building at $53 million, for which the owner paid no taxes in 2019. This resulted in $281,000 in taxes Cerasa would have paid, on the value of the improvements that was taxed the previous year, was shifted to other taxpayers. The $151,000 of taxes on "new construction", the value of the improvements constructed between July 2018 and July 2019, was foregone.

As a result, a project like Cerasa might expect a total tax exemption of over $8 million over the course of the 12 years of the program, or around $250,000 per affordable unit. In Cerasa's case, only about a third of that money will be foregone. Other projects may have a larger foregone percentage, since Cerasa was largely constructed when it was assessed in 2017. This results in the program costing around $75,000 per unit over the twelve years of the program.