City of Bellevue

10/21/2025

CITY COUNCIL AGENDA TOPIC

Multifamily Tax Exemption Program Update

Bianca Siegl, Director, Office of Housing, 452-4382
Linda Abe, Affordable Housing Planning Manager, 452-4853
Robin Xiao, Affordable Housing Development Program Manager, 452-4356
City Manager's Office

EXECUTIVE SUMMARY

INFORMATION ONLY

This item presents discussion of recommended updates to the City's Multifamily Exemption (MFTE) program, background information, and analysis.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS

Purpose of this Program Update

As identified in the Housing Element within the 2044 Comprehensive Plan, the City seeks to prioritize the quantity and depth of affordable housing when considering the use of financial incentives. The MFTE program is a tool to incentivize multifamily residential development in the form of a reduction in property taxes for projects that include a certain number of affordable units within a market-rate building. The City has had an MFTE program in place since 2015, and the updated program will continue to play a key role in reaching the City's affordable housing production goals, particularly for moderately affordable units. The purpose of the 2025 program update is to align the City's MFTE program with new land use code updates in Wilburton and expand MFTE programs as allowed by the state. Ultimately, these updates will expand the scope of MFTE and provide additional incentives for the production of affordable housing throughout the city, with a focus on the Wilburton Transit-Oriented Development ("TOD") area.

MFTE Program History

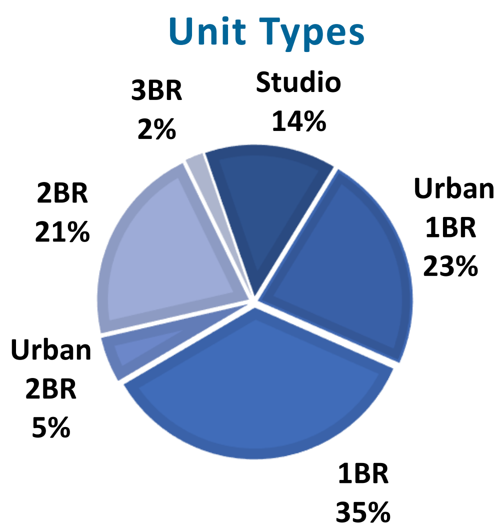
In 2015, the City of Bellevue first adopted an MFTE Program. Based on state law (Chapter 84.14 RCW), this program incentivizes the creation of affordable housing units in market rate multifamily buildings by allowing jurisdictions to offer a temporary property tax exemption. The program therefore serves a dual purpose as an affordable housing tool and a general housing development tool. The tax exemption lowers the operational costs of a project, incentivizing new development in exchange for affordable units.

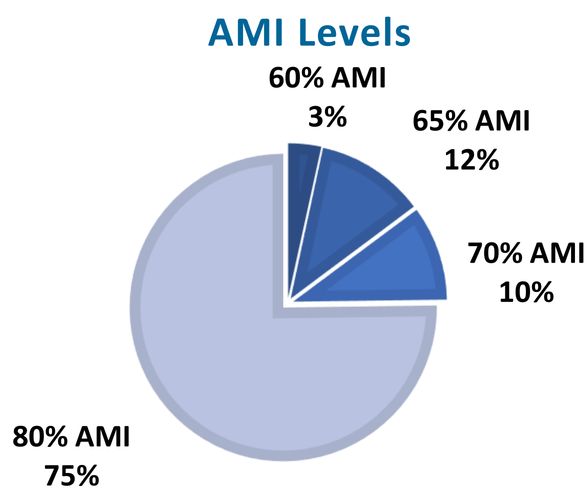
The 12-year MFTE program provides developers building multifamily housing a 12-year tax exemption on the total value of the multifamily improvements in exchange for providing 20 percent of the total number of housing units in the project at affordable rates for a period of 12 years.

In 2021, the City adopted several updates to the MFTE program, including an expansion to allow all multifamily zoned areas to use MFTE, and the introduction of an 80% Area Median Income (AMI) baseline for MFTE units across the City. AMI levels are established by the U.S. Department of Housing and Urban Development (HUD) as a metric to guide housing affordability; currently in Bellevue, 80% AMI represents an annual income of approximately $88,000 for a single person and $101,000 for a household of two. Projects with fewer than 15% family-sized units (2 bedrooms and above) and units smaller than 320 square feet are subject to deeper AMI requirements or greater set asides. This amendment also established new “overlapping” rules requiring projects that seek MFTE incentives for affordable units produced under the Land Use Code requirements to offer those overlapping units at a 15% deeper affordability level (i.e., 65% AMI rather than 80% AMI). The City also established rules regarding parking discounts, rent stabilization, and unit mix under this update.

MFTE Program Production

The current MFTE program has been well utilized in Bellevue. Attachment A highlights Bellevue’s MFTE participation to date. Since its initial adoption in 2015, eleven projects have applied to the MFTE program. Six of those projects have received their final tax exemption certificates, providing 253 units. The remaining five projects, providing an additional 219 units, are pending final certification. Of these 472 total units, 117 are rented between 60-70% AMI, with the remainder at the 80% AMI level. The average Bellevue MFTE household income is only 56% AMI, indicating that many MFTE households remain cost-burdened, spending over 30% of their income on housing expenses. MFTE unit types mirror the overall unit mix for each property. In total, 14% of the City’s units are studios, 58% are 1-bedrooms, 26% are 2-bedrooms, and 2% are 3-bedrooms.





Since July 2021, the last major program update, seven out of nine permitted market-rate multifamily rental projects have applied or intend to apply to the MFTE program. This equates to a participation rate of 78% and resulted in the creation of 301 affordable units out of a total of 1,802 new rental units. This high participation rate indicates that the MFTE program is a meaningful incentive for market-rate developers to produce moderately affordable housing units.

MFTE Program Affordable Housing Impact

The City's MFTE program has played an important role in providing affordable housing within new multifamily rental buildings. The average 80% AMI MFTE household spends $2,227 per month on rent. This is approximately 25% less per month than comparable market rate renters, a savings of nearly $9,500 annually. In 2025, the MFTE program helped buy down over $2.5 million in rents across all active MFTE units in Bellevue. Additionally, the City's MFTE program contributes to housing stability by limiting MFTE rent increases to 3% annually. This certainty helps protect renters from large annual increases in their housing costs while allowing them to plan for rent increases ahead of time.

As a program aimed at producing housing for moderate income households, the MFTE program will continue to play a vital role in meeting the City's 10-Year Affordable Housing Target of producing 5,700 affordable units – specifically the 1,550 units needed between 50-80% AMI. Renters within this range include retail salespersons, healthcare aides, teachers, firefighters, and nurses. The MFTE program helps encourage a range of professionals to continue or choose to live and work in the City. Furthermore, MFTE projects are typically located near transit, storefronts, and other amenities. The MFTE program therefore helps moderate income households access vibrant neighborhoods that they may otherwise be priced out of.

The MFTE program supports the City's High Quality Built and Natural Environment strategic target area in promoting diverse housing options that meet a range of needs and affordability levels, ultimately fostering vibrant communities. As the City's primary incentive for creating affordable housing within market-rate developments, the program plays a central role in advancing Comprehensive Plan objectives for promoting housing affordability through financial incentives.

MFTE Program Fiscal Impact

The cost of the MFTE program is equal to the value of the tax exemption provided. Due to the Washington State tax code, taxes that would have been paid by the property owner are instead shifted to other taxpayers across the state or foregone from taxing jurisdictions' collections. The amount shifted vs. foregone varies from each property and depends largely on the timing of the tax exemption relative to the construction of the building. At the time the tax exemption takes effect, taxes on the current value of improvements are shifted, having already been added to the overall WA state levy base. Taxes on any additional value assessed after the tax exemption has taken effect will then be foregone.

In 2025, the City's MFTE program provided tax exemptions to six properties, resulting in a total tax exemption of approximately $3.5 million. Of this, $2.6 million was shifted to other taxpayers across the state and $900,000 was foregone by taxing jurisdictions. This can be further broken down into taxes shifted and foregone within the City of Bellevue specifically. Of the $2.6 million shifted, $1.1 million was shifted directly to other Bellevue property taxpayers, with the remaining distributed to taxpayers across the state. Of the $900,000 foregone, approximately $122,000 was foregone directly by the City of Bellevue. This represents 0.13% of 2025 City property tax collections.

Altogether, for each dollar of tax exempted under the MFTE program in 2025, Bellevue property taxpayers paid an additional 32 cents in taxes, and the City of Bellevue forewent 3 cents in revenue. Bellevue therefore collectively bears a total cost of 35 cents per dollar exempted. The remaining 65 cents are paid and foregone by other WA state property owners and tax authorities.

MFTE Program Update Context and Scope

Several factors have informed the analysis and recommendations regarding MFTE program updates.

2025 MFTE Update Scope		
State Authorizations for Expanded Program Scope	**Alignment with Mandatory Affordability in Wilburton**	**Administrative Updates and Code Alignment**
• 20-year exemption for homeownership projects • Eligibility for conversion of nonresidential buildings • 12-year extension	• Examine overlapping requirements with mandatory affordability, as introduced with the Wilburton LUCA. • Consider the 12-year "Supercharger" and a potential 8-year program	• Coordinate with Development Services to align city-wide affordable housing standards

1. **Recent state legislation has expanded options for local MFTE programs.** In 2021, the Washington State Legislature passed SB 5287, which authorized local jurisdictions to implement a 12-year extension as well as a new 20-year MFTE program for properties that sell or rent 25 percent of units to non-profit organizations or local government partners that assure permanently affordable homeownership.

   In 2025, the State Legislature passed HB 1491 ("TOD bill") and HB 1494 ("MFTE bill"). HB 1494 consists of mostly administrative adjustments, with which the City of Bellevue is already in compliance. HB 1491 establishes a new mandatory MFTE program in transit-oriented development areas along with broader land use requirements regarding parking, density, and impact fees. These changes must be adopted by December 2029, and the Office of Housing will work closely with Development Services in adjusting the new MFTE program as part of future land use code changes.

2. **In 2025, the City adopted Ordinance 6846, establishing the Wilburton Transit-Oriented Development (TOD) area.** During the community engagement process regarding the land use code amendment (LUCA), stakeholders advocated for changes to the MFTE program as a key component of the new mandatory affordable housing approach in Wilburton.

   In particular, the Eastside Housing Roundtable and Bellevue Chamber of Commerce requested that the City eliminate the current unit-overlapping provisions for projects in Wilburton such that units produced under the mandatory land use requirement can count towards the MFTE program without the currently required 15% reduction in AMI level (referred to as a "Supercharger" program). For most projects, this would mean loosening the MFTE program incentives from requiring 10% of units at 80% AMI plus 10% of units at 65% AMI to allowing all 20% of units to be affordable to residents earning 80% AMI. This change is considered under the current MFTE program update rather than as part of the Wilburton LUCA, as the MFTE program lies within the City's Finance Code (BCC 4.52) and not the land use code.

Existing Overlapping Rule	Proposed "Supercharger"

10% of units at 80% AMI, plus 10% of units at **65%** AMI	10% of units at 80% AMI, plus 10% of units at **80%** AMI

3. **Consistent Standards.** During the Wilburton LUCA outreach, stakeholders also requested that affordable housing unit standards be aligned across the city, noting that some MFTE requirements differ from the proposed land use requirements under the LUCA. The Development Services (DS) department has drafted a Director's Ruling that would address key affordable housing standards, and the Office of Housing is collaborating to align the final rule with proposed updates to the MFTE code.
4. **Technical analysis.** In early 2025, as the Wilburton LUCA advanced through the Planning Commission, the Office of Housing initiated the MFTE program update and incorporated the proposed MFTE Supercharger as a key focus area. Along with a targeted engagement effort, staff engaged a technical consultant, BERK Consulting, to assist in their analysis of these potential amendments. The project team studied the impact of the proposed Supercharger on development feasibility in Wilburton, the benefit of a potential 8-year program option to be offered alongside the Supercharger, and the benefit of a city-wide 12-year extension. City staff used these findings to separately analyze the fiscal impact of the MFTE program in the form of shifted and foregone taxes, as well as the distribution of benefits between renters and property owners.

Stakeholder Outreach and Engagement

Staff conducted a targeted outreach effort with developers and community-based affordable housing organizations. Organizational stakeholders included the Bellevue Chamber's Permitting, Land Use, Sustainability, and Housing (PLUSH) Committee, Bellevue Development Committee (BDC), the Eastside Affordable Housing Coalition (EAHC), and the Eastside Housing Roundtable (EHR). Staff gave seven presentations to provide information on the project scope and solicit feedback on specific changes. Staff also reached out to existing MFTE developers and other active developers in Bellevue to hold individual phone interviews or collect feedback via email. A broader public engagement effort was not conducted specifically for MFTE but has been ongoing as part of the Affordable Housing Strategy Update.

Initial feedback focused on developers' interest level and perceived feasibility of the specific changes identified within the update scope. Staff hosted a series of three technical workshops to inform the refinement of the consultant's feasibility analysis. Stakeholders were additionally asked to comment on the administration of the MFTE program and any additional improvements they would like to see.

The project team conducted 15 interviews with developers, affordable housing organization members, ARCH, and other cities using MFTE.

<u>MFTE Policy Changes</u>. Developers generally expressed interest in using a 12-year extension but varied in their responses regarding whether they would be willing to use the program if it required a deeper AMI level. Regarding the use of MFTE for conversion projects, respondents noted that such conversion opportunities are likely limited in Bellevue, but that it would be a welcome incentive for those projects. Non-profit homebuilders are supportive of the proposed 20-year MFTE homeownership program.

Stakeholders varied in their support for the Supercharger program, specifically regarding whether it should be applied outside of Wilburton. While many developers supported its expansion, other stakeholders noted that the Supercharger should be kept in Wilburton since it was part of a broader package of affordable housing updates specific to the neighborhood.

MFTE Administration. General feedback on the MFTE program and its administration indicated positive experiences in Bellevue, particularly in comparison to other jurisdictions. Developers felt that the 80% AMI level works well and is neither too detrimental nor too generous to the property owner. Some noted reporting requirements and tenant verification as pain points that can add additional staff time and operational costs. However, developers who have used MFTE in Bellevue were complimentary of A Regional Coalition for Housing (ARCH), who helps administer the City's MFTE program.

Tenant Experience. Staff did not directly interview MFTE tenants as part of this engagement effort but discussed the application process with ARCH. Outside of a brief MFTE eligibility form, ARCH staff noted that the application process for tenants is generally consistent with typical property rental screening requirements. For example, ARCH does not evaluate assets as part of the screening process. ARCH has not heard recent direct complaints from tenants regarding the screening and annual recertification requirements but continues to identify areas for process improvement. One noted difficulty is that some renters seeking studios and urban one-bedrooms may choose not to rent MFTE units, as market rate rents are relatively close to the 80% AMI rents and don't require the additional application and compliance processes.

Additional key themes are summarized in Attachment B.

Policy Overview

Technical analysis and stakeholder outreach have informed a comprehensive set of recommendations for updating the MFTE program. This study session focuses on four key issues, each of which is covered in the following sections.

1. The adoption of the proposed Wilburton Supercharger program along with a new 8-year MFTE program in Wilburton.
2. The adoption of a 12-year extension option city-wide.
3. The adoption of the 20-year MFTE homeownership program and an expansion of MFTE eligibility for conversion projects city-wide.
4. Alignment of MFTE language with the Wilburton Director's Rule regarding affordable housing standards.

1. Wilburton Supercharger and New 8-Year MFTE Program

Throughout the Wilburton LUCA engagement process, staff heard a strong consensus to implement the proposed Wilburton Supercharger program. The consultant team evaluated the 12-year MFTE incentive under both the existing overlapping rules and the proposed Supercharger rules, seeking to measure how the different rules impact development feasibility for a potential project. These MFTE scenarios were then compared to the baseline mandatory compliance requirements – 10% at 80% AMI during the post-catalyst period.

In addition to development feasibility, staff examined how the benefit of the tax exemption is split between property owners and MFTE renters under the different MFTE scenarios. For every dollar of tax exemption provided, staff evaluated how much goes towards incentivizing owners and how much goes towards buying down affordable rents. This data allows the City to evaluate the public cost of the program alongside the benefits provided.

Key findings are summarized below:

- The Supercharger program increases development feasibility to a moderate extent compared to the existing 12-year program, with a stronger benefit once the phase 1 catalyst period expires.
- The 12-year MFTE program, even under the existing overlapping rules, remains a strong incentive compared to the baseline performance requirement under the land use code.
- For some projects, MFTE has the potential to spur development that is otherwise infeasible under current market conditions.
- During the post-catalyst period in Wilburton, the existing 12-year program rules provide a greater benefit to renters. The Supercharger program, however, provides a greater benefit to the property owners. Notably, the rent saved for each dollar of tax exempted is lower than the cost of the program to Bellevue (35 cents).

During Standard/Post-Catalyst Period		
For Every $1 of Exemption Provided	Existing 12-Year Program	12-Year MFTE Supercharger
The Property Gains:	$0.35	$0.56
MFTE Renters Save:	$0.53	$0.33

Understanding the desire to catalyze development in the new Wilburton TOD area, **staff recommends implementing a permanent Supercharger in Wilburton, with a look-back within four years.** As part of the look-back, staff will analyze the program's usage, fiscal impact, and the ratio of benefits provided to MFTE renters and developers. At that time, staff may recommend program updates based on this assessment.

The 8-year MFTE program, originally adopted by the state as an economic development tool, provides local jurisdictions flexibility in determining affordability requirements that projects must satisfy in exchange for an 8-year tax exemption on the value of property improvements. For example, whereas the 12-year MFTE program statutorily requires 20% of units to be affordable, the 8-year program does not specify a set-aside. The City has not yet implemented this program.

Staff evaluated the 8-year program in the context of the Wilburton Supercharger proposal. While the Supercharger provides a strong incentive for the production of 80% AMI units to overlap with the mandatory land use requirement (10% at 80% AMI), there are currently no incentives for the deeper affordability options provided in the land use code (7% at 60% AMI or 5% at 50% AMI). The 8-year program can therefore be applied locally and designed in a way to encourage the production of these units.

Based on technical analysis, **staff recommends adopting an 8-year MFTE program requiring either 8% of units at 60% AMI or 6.5% of units at 50% AMI permanently in exchange for 8 years of property tax exemption in the Wilburton TOD area**. The impact of this option is calibrated to be competitive with the Supercharger option while addressing stakeholder feedback and City production goals to increase units below 80% AMI. Additionally, compared to the 12-year MFTE program, this would produce permanent rather than temporary affordable units.

Staff does not recommend applying the Supercharger program on a city-wide basis at this time. Based on the analysis summarized above, the cost of the program to the City of Bellevue and its residents is expected to outweigh the benefit provided to affordable renters for the average MFTE project. Additionally, the City is still assessing whether mandatory affordability should be adopted in other neighborhoods and what form that might take. Advancing the Supercharger more broadly would preempt these processes and potentially widen the fiscal impact. As mandatory affordability is considered across the city, staff will continue to take a phased approach in assessing the program and provide any additional recommendations as appropriate. Because the 8-year options are calibrated to the Wilburton Supercharger program and the specific mandatory performance options in Wilburton, staff similarly recommends allowing for these options in Wilburton only at this time.

2. 12-Year Extension

Staff explored the possibility of implementing a 12-year extension, which would allow projects to apply for an additional 12 years of tax exemption upon the expiration of the initial term, for a total of 24 years. The technical consultant analyzed whether a reduction in AMI levels as part of an extension period would be warranted, analyzing how rents at older Bellevue properties compare to newly built properties. As buildings age, the value of taxable improvements typically increases, resulting in additional foregone taxes. Meanwhile, if market rents remain flat or decrease over the years, the value of the benefit to MFTE renters decreases, indicating that deeper affordability requirements would be needed to achieve the same level of public benefit.

While the consultant found a lack of existing data on the Eastside to inform this analysis, initial findings suggest that an extension would provide a more modest but nonetheless positive benefit to property owners. Depending on property-specific tax and rent growth trends, however, deeper affordability requirements would be warranted. Without more comprehensive data on local rent and tax growth trends, it is difficult to draw general city-wide conclusions regarding the extension option.

The 12-year extension option requires careful consideration of the public benefit generated from its use. While an extension may preserve affordable units, it no longer serves as a tool to create new housing. Furthermore, the foregone tax impact grows over time, resulting in additional lost collections to the city. Given the high participation rate of the program so far, this could have a significant fiscal impact.

As the first 12-year project MFTE expiration does not occur until the end of 2031, **staff recommends revisiting the 12-year extension as part of the future look-back.** At that time there will be additional data available from existing MFTE buildings in Bellevue regarding market conditions, taxes, and rent levels to update the consultant's analysis and guide the policy decision.

3. Expanded MFTE Program Options

Staff recommends adopting a 20-year MFTE program for permanently affordable homeownership and extending the existing 12-year MFTE program to conversion projects city-wide. The 20-year homeownership program would provide a tax exemption for projects that sell 25% of units to households earning below 80% AMI. Units must be sponsored by a nonprofit or governmental entity to ensure permanent affordability. Residential conversion projects whereby an existing nonresidential structure (e.g., an office building) is converted to a residential building are currently allowed in Bellevue but are unable to benefit from the MFTE program.

Both the 20-year homeownership program and the extension of the MFTE program to conversion projects, while only applicable to a few projects, may provide extra support for projects that are typically difficult to pursue. Stakeholders were generally supportive of both expansion opportunities, while noting the limited opportunities to use these options.

4. Affordable Housing Standards

Staff recommends aligning MFTE code language regarding affordable housing standards with the land use code and forthcoming Director's Ruling. Stakeholders have noted that certain rules regarding affordable housing standards are currently not perfectly aligned between the MFTE code and land use code. Areas of difference include rules regarding unit distribution, bedroom mixes, and finishes/amenities. The Development Services department is finalizing a Director's Rule that will apply to units created under the mandatory affordable housing provision in Wilburton. The updated MFTE code will be written to align language regarding affordable housing standards with the Director's Rule to ensure consistency.

Next Steps

This is the first of two planned Council meetings on the MFTE Update. Staff plans to return in early December with a program update recommendation in response to feedback received from Council. As the MFTE program code lies within the City's Finance Code (BCC 4.52), Planning Commission review and recommendation is not required. A public hearing is not required as no new residential target areas are identified as part of this update.

POLICY & FISCAL IMPACTS

Policy Impact

The purpose of the 2025 MFTE update is to expand program options, clarify how MFTE interacts with the mandatory affordability provisions introduced in Wilburton, and ensure that language regarding affordable housing standards is consistent city-wide. This update aligns with HO-46 in the Comprehensive Plan's Housing Element: "Create financial incentives to encourage affordable housing. Explore opportunities to utilize multiple programs simultaneously to attain deeper affordability or otherwise meet unique needs."

Fiscal Impact

The direct fiscal impact to the City varies by project, depending primarily on construction timing as it relates to property value assessment. Adoption of a new 12-year Supercharger program and 8-year MFTE option would be expected to increase the cost of the program in the form of taxes shifted and foregone within the City of Bellevue. Staff will continue to evaluate the fiscal impact and bring this information back to Council as part of a proposed "look back" by 2029.

OPTIONS

N/A

ATTACHMENTS

A. MFTE Production Summary
B. MFTE Engagement Summary

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N/A