

CITY COUNCIL AGENDA TOPIC

Multifamily Tax Exemption Catalyst Program for Housing Opportunities in Mixed-Use Areas

Bianca Siegl, Director, Office of Housing

Linda Abe, Affordable Housing Planning Manager

Hannah Bahnmiller, Senior Affordable Housing Planner

City Manager's Office

EXECUTIVE SUMMARY**DIRECTION**

Staff will present analysis and recommendations regarding temporary adjustments to the city's Multifamily Tax Exemption (MFTE) program requirements in certain locations. These adjustments are designed to support the recent adoption of the Housing Opportunities in Mixed-Use Areas (HOMA) Land Use Code Amendment (LUCA).

Following discussion, staff is seeking City Council direction to prepare the Ordinance for consideration at a future meeting.

RECOMMENDATION

Consider directing staff to finalize amendments to the Multifamily Tax Exemption program consistent with staff recommendations and prepare legislation for consideration at a future meeting.

BACKGROUND/ANALYSIS**Purpose of this Program Update**

Bellevue's MFTE program, consistent with allowances in state law, provides incentives in the form of significant property tax exemptions for new multifamily residential developments that provide a certain amount of on-site affordable housing. On February 3, 2026, the council adopted several amendments to the MFTE program meant to increase utilization of the program and promote the construction of new housing. As part of this update, council also directed staff to evaluate updates to MFTE alongside any future LUCAs that propose mandatory affordable housing requirements.

On February 24, 2026, staff presented analysis regarding potential changes to the MFTE program alongside the HOMA LUCA. Staff determined that changes to MFTE are not needed to offset the costs of mandatory requirements under HOMA and did not recommend any amendments. However, some stakeholders have expressed interest in a catalyst MFTE "Supercharger" program to be paired with HOMA, which would allow developers to double-count mandatory affordable units towards the MFTE requirements without the typical 15% required reduction in Area Median Income (AMI) level served. AMI levels are established by the U.S. Department of Housing and Urban Development (HUD) as a metric to guide housing affordability. The Bellevue Chamber specifically recommended a 6-year time-limited catalyst program whereby any project that enrolls in the MFTE program within that time would benefit from the revised MFTE rules. Other stakeholders have suggested no or a more limited "Supercharger" program based on the analysis that it shifts from equal benefits across renters and developers towards developers' benefit.

A temporary loosening in MFTE program rules, although not strictly needed to offset costs, can be helpful in promoting residential development amidst difficult market conditions. As such, council provided direction to explore potential catalyst options and their fiscal impacts.

Staff Analysis and Findings

Staff evaluated the existing 12-year MFTE program baseline against a 6-year catalyst scenario, forecasting several key metrics between 2026-2044 under both scenarios:

1. Quantity and income level of affordable units produced
2. Fiscal impacts to the City (shifted and foregone taxes)
3. Distribution of benefits between MFTE renters and developers

The forecast relies on several high-level assumptions, including unit production, MFTE participation rates, rent growth, and tax rates. Assumptions remain consistent with previous MFTE analysis and are based on comprehensive plan targets, historical trends, and existing MFTE properties. Findings are summarized below, with detailed analysis in Attachment A.

	Existing Program (Baseline)	6-year Catalyst Net Change
80% AMI MFTE Units Created	0 ¹	+ 255
65% AMI MFTE Units Created	615	- 179
Total MFTE Units Created	615	+ 76
Cumulative Shifted Taxes	\$64.1M	+ \$10.9M
Cumulative Foregone Taxes	\$6.5M	+ \$1.2M
Cumulative Total Fiscal Impact	\$70.5M	+ \$12.0M
Avg. Monthly Renter Savings per unit	\$1,671	- \$368
Avg. Monthly Developer Savings per unit	\$1,601	+ \$368

Affordable Housing Production

Under the existing MFTE program baseline, any additional affordable units created as a result of MFTE (i.e., excluding the 80% AMI units that would otherwise be created under the mandatory requirement) would be at the 65% AMI level. With a 6-year catalyst program, any additional units from MFTE would be at the 80% AMI level during the catalyst period, and at the 65% AMI level thereafter.

The 6-year catalyst program is expected to create a greater overall number of MFTE units between 2026-2044 due to a greater rate of participation during the catalyst period. However, the number of units at the 65% AMI level decrease in favor of additional units at the 80% AMI level.

Fiscal Impacts

Under the existing MFTE program baseline, staff projects that the city and Bellevue property owners could experience a cumulative fiscal impact of \$70.5 million between 2026-2044, consisting of both shifted and foregone taxes. This excludes any fiscal impact that would apply outside of the City of Bellevue. Under a 6-year catalyst, the fiscal impact would increase by 17% or \$12 million.

¹ For the purposes of this analysis, the 615 units at 80% AMI that would otherwise be created under the mandatory requirement are excluded as they remain constant across the scenarios.

In the baseline scenario, the median homeowner is projected to experience an average annual increase in their taxes of \$53.50, compared to \$60.90 under the 6-year catalyst scenario.

Distribution of Benefits

The benefits of the MFTE tax exemption are split between MFTE renters, who receive lower rents, and the property developer, who benefits from savings on property taxes less the revenue lost as a result of leasing units at affordable rents. Under the existing MFTE program baseline, the benefits of the MFTE tax exemption are allocated fairly evenly between MFTE renters and the developer, with a slightly greater benefit to the renter.

Under the 6-year catalyst program, developers will see a greater share of the MFTE benefits in the near-term. Over time, as units created under the catalyst program drop off and as more units are created under the MFTE program baseline rules, the distribution returns to a more even allocation. Notably, throughout the catalyst period, the benefit provided to MFTE renters is projected to be lower than the fiscal cost to the City of Bellevue, consistent with previous analysis findings.

Catalyst Program Considerations

The above forecast estimates a fiscal impact of \$12 million from a 6-year catalyst program. However, any time-limited catalyst program presents a challenge from a financial planning perspective, as the fiscal impact will vary significantly depending on the number of units that are ultimately created under the catalyst program. Additional foregone taxes impact the city's budget and ability to provide services. At the same time, additional shifted taxes create a larger burden for other property owners, including homeowners, and may reduce the feasibility of introducing new revenue tools to support the deepest affordability needs as identified in the Affordable Housing Strategy.

Assuming the MFTE catalyst helps unlock new development, those new projects would likely begin applying for MFTE in 3 years, following entitlements and prior to building permit issuance. Consistent with the city's historical pace of 1 to 2 MFTE applications per year, a 6-year catalyst program would likely accommodate between 4 and 8 projects.

Staff Recommendation

Following discussions with key stakeholders, including the Bellevue Chamber and the Housing Development Consortium, staff recommends adopting an MFTE catalyst program bounded by both a 6-year time limit and a 1,500-unit limit, with the program expiring at the earlier of the two milestones. The unit limit would apply to the total number of units within a project.

This recommendation addresses several considerations as follows:

1. Known and Bounded Fiscal Impact: While a time-limited catalyst introduces additional uncertainty around fiscal impacts, adding a corresponding unit cap reduces that uncertainty by establishing a predictable ceiling that the city's Finance and Asset Management Division can plan for.
2. Housing Production: A 1,500-unit limit would accommodate six 250-unit projects, in line with the expectation for MFTE participation over a six-year period.
3. Market Conditions: At the same time, a unit limit incentivizes near-term development and benefits first-movers amidst a challenging market cycle. Whereas a six-year time-limited catalyst provides a longer runway to begin development, the unit-limit would encourage developers to

use MFTE as a tool to advance projects today.

4. Affordable Housing Outcomes: Based on projections, a 1,500 unit limit is expected to result in the creation of 468 MFTE units at the 65% AMI level and 210 MFTE units at the 80% AMI level, providing a more balanced mix of affordability levels compared to the 6-year catalyst alone.

	Existing Program (Baseline)	6-year Catalyst Net Change	1,500 units / 6-year Catalyst Net Change
80% AMI MFTE Units Created	0	+ 255	+210
65% AMI MFTE Units Created	615	- 179	-147
Total MFTE Units Created	615	+ 76	+63
Cumulative Shifted Taxes	\$64.1M	+ \$10.9M	+ \$8.8M
Cumulative Foregone Taxes	\$6.5M	+ \$1.2M	+ 0.9M
Cumulative Total Fiscal Impact	\$70.5M	+ \$12.0M	+ \$9.8M
Avg. Monthly Renter Savings per unit	\$1,671	- \$368	- \$325
Avg. Monthly Developer Savings per unit	\$1,601	+ \$368	+ \$325

Next Steps

Following city council direction, staff seeks to return with strikethrough draft code language for review and consideration.

POLICY & FISCAL IMPACTS

Policy Impact

The purpose of the MFTE Supercharger catalyst program is to encourage dense residential development following the recent upzoning of the city’s mixed-use areas, with the goal of unlocking development feasibility in an otherwise prohibitive market environment. The update aligns with HO-13 in the Comprehensive Plan’s Housing Element to “provide incentives to encourage residential development for a wide range of household types and income levels in mixed use areas throughout the city.”

Fiscal Impact

The adoption of a catalyst MFTE “Supercharger” is expected to increase the fiscal cost of the program in the form of taxes shifted and foregone within the City of Bellevue. The direct impact to the City will vary by project, but the recommended catalyst program rules are projected to result in an additional 14% or \$9.8 million of shifted and foregone taxes between 2026 and 2044. The addition of a unit limit to the proposed catalyst program will help moderate this effect.

OPTIONS

1. Direct staff to finalize amendments to the Multifamily Tax Exemption program consistent with staff recommendations and prepare legislation for consideration at a future meeting.
2. Provide alternate direction to staff.

ATTACHMENTS

- A. Fiscal Analysis

AVAILABLE IN COUNCIL LIBRARY

N/A