

**CITY COUNCIL AGENDA TOPIC**

Multifamily Tax Exemption (MFTE) Code Amendments.

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**EXECUTIVE SUMMARY****DIRECTION**

Council consideration of amendments to the MFTE code relating to increasing the maximum size of the Very Small Dwelling Units (VSDUs) from 300 square feet to 320 square feet and adjusting the Area Median Income (AMI) level for these types of units.

**RECOMMENDATION**

Direct staff to develop specific program update language that aligns with staff's recommendation for triuing up the square footage threshold for VSDUs from 300 to 320 square feet and changing the current AMI level for VSDUs from 45 percent to 50 percent.

**BACKGROUND/ANALYSIS****Background**2021 MFTE Program Updates

In 2021, the Bellevue MFTE code was updated to garner increased participation. These updates were intended to significantly raise utilization of the MFTE program and create more affordable units. The updated code expanded eligible properties to include all areas zoned to allow multifamily use within the City and simplified the program to focus on the affordability level of 80 percent AMI, with provisions for deeper affordability for overlapping units using both land use density incentives and MFTE. The 2021 MFTE code updates also provided alternate pathways for providing family-sized units, a 3 percent cap on annual rent increases, and a parking discount for MFTE tenants.

Separate from the MFTE program, a Land Use Code Amendment (LUCA) was made to micro-apartments standards this past June with the goal of removing barriers and encouraging micro-apartment developments.

Key Land Use Code (LUC) changes related to micro-apartments included a definition for micro-apartments and maximum size threshold set at 320 square feet, a reduction of the minimum parking requirement, an increase in the bicycle parking requirement, and an exemption from providing multifamily play areas.

**MFTE Code Updates**

In June, during the adoption of the micro-apartments LUCA, there was direction by Council to analyze two potential updates to the MFTE code:

**1. Increasing the 300 square feet MFTE threshold for VSDUs to 320 square feet to be consistent with the new micro-apartment size limit.**

When the micro-apartment LUCA was adopted in June, there was concern from Council regarding inconsistency between the maximum size of a micro-apartment at 320 square feet and the definition of VSDUs at 300 square feet in the MFTE code (BCC 4.52.090). Per the current MFTE code, the rent for VSDUs must be at or below 45 percent AMI. The inconsistency between the two codes created a potential opportunity for developers to build units ranging from 301-319 square feet that would qualify for the 12-year tax exemption while receiving market-rate rents. Aligning the square footage thresholds would remove this risk and allow the City to receive the benefit of deeper affordability for micro-developments if a developer opted to pursue the MFTE program.

Based on feedback from the developers that were interviewed and staff analysis, there are only positive outcomes expected by increasing the very small dwelling unit size limit to 320 square feet to be consistent with the micro-apartments LUC size limit. Staff recommends making this change.

**2. Analyze the 45 percent AMI level for VSDUs with consideration of utilization of MFTE code and the AMI of MFTE units.**

The 300 square-foot definition of VSDUs and associated 45 percent AMI level were established in the City's initial MFTE code in 2015. Since that time, no VSDUs have participated in the MFTE program.

For this MFTE code amendment staff sought input from three micro-apartment developers. Staff received feedback from the developers that a higher AMI level (50-65 percent AMI) for this unit type, as opposed to 45 percent AMI, would encourage more micro-apartment/VSDU production and MFTE program participation.

City staff worked with ARCH staff to study the economic incentive of the MFTE program for micro-apartments/VSDUs. The analysis indicated the MFTE incentive is likely to offset the rent loss from keeping the VSDUs affordability level at 45 percent AMI. Bellevue's 2022 Housing Needs Assessment (HNA) concluded there is a clear gap of affordable units available for those households with incomes at or below 50 percent AMI. However, the lack of activity and the feedback from developers indicate that increasing the AMI level would make the incentive more attractive to developers and potentially create more units. Increasing the AMI to 50 percent is consistent with previous policy direction from Council to maximize use of the MFTE program, including for micro-apartments/VSDUs. It is also important to note that rents could increase to market rate for the MFTE units once the exemption expires.

## **POLICY & FISCAL IMPACTS**

### **Policy Impact**

This MFTE code amendment would sync up the VSDU size definition in the MFTE code with the micro-apartment size definition in the LUC. This will benefit the implementation of both codes. A change to the

affordability level for VSDUs would seek to balance the quantity of affordable units produced by the programs and the depth of affordability provided.

### **Fiscal Impact**

Increased utilization of the program would result in an increased number of tax exemptions. These represent taxes that would have been collected on the new residential construction had the project been constructed without utilizing the MFTE program.

### **OPTIONS**

1. Direct staff to develop specific program update language that aligns with staff's recommendation for triuing up the square footage threshold for VSDUs from 300 to 320 square feet and to increase the current AMI level for VSDUs to 50 percent.
2. Provide alternate direction to staff on the MFTE code amendments.

### **ATTACHMENTS**

- A. Strike draft of Bellevue City Code 4.52, Multifamily Housing Property Tax Exemption

### **AVAILABLE IN COUNCIL LIBRARY**

N/A