

Attachment A

Financial Analysis: MFTE and HOMA Catalyst Program

Background: Shifted and Foregone Taxes

The tax exemption provided by the MFTE program results in two direct costs – shifted taxes and foregone taxes. Shifted taxes are taxes that would have been paid by the property but are instead “shifted” and paid by other property taxpayers during the length of the tax exemption. Foregone taxes are taxes that would have been collected by taxing districts if not for the exemption.

Shifted Taxes: New projects are taxed annually on the value of their improvements, even before the project is fully complete and the MFTE exemption takes effect. By the time a project does receive its tax exemption, the county has therefore already assessed a portion of its value and added it to the base levy. Once added to the base levy, taxing districts can continue to collect taxes based on that value going forward– even if the property owner receives a tax exemption. Therefore, that burden is “shifted” to other taxpayers. This includes not only City of Bellevue residents, but property owners across the state.

Foregone Taxes: Once the MFTE tax exemption does take effect, any additional assessed value is not added to the tax rolls until the exemption expires. This is “foregone” tax revenue that taxing jurisdictions do not collect for the length of the exemption. This affects collections for the City of Bellevue as well as King County, Washington State, Sound Transit, and other taxing authorities. Once the exemption ends, taxes are no longer shifted or foregone, and the property assumes its full share of taxes.

The ratio between shifted and foregone taxes varies from project to project depending on the timing of construction, making it difficult to forecast. In Bellevue, historically around 70% of the property’s value is assessed prior to the MFTE exemption and therefore shifted rather than foregone. Additionally, as mentioned above, shifted and foregone tax impacts are not only felt within the jurisdiction the MFTE property is located, but by residents and taxing districts all across the state. As a result, the City of Bellevue is further impacted indirectly by other MFTE programs across the state.

MFTE + HOMA Catalyst Program Analysis Approach

As new properties enroll into the MFTE program and receive property tax exemptions, the fiscal impact increases. A catalyst program is expected to increase participation in the MFTE program, therefore increasing the value of shifted and foregone taxes compared to the existing program.

The fiscal impact from a given MFTE project is the same, regardless of the specific affordability rules required to receive the incentive. In other words, the cost of the program is relatively constant, while the benefits provided under the program, in terms of MFTE renter savings, can vary significantly.

These two attributes form the basis for the evaluation of the catalyst program. Staff evaluated the existing 12-year MFTE program baseline against a 6-year catalyst scenario, as recommended by the Bellevue Chamber. Three key metrics between 2026-2044 were

measured under both scenarios:

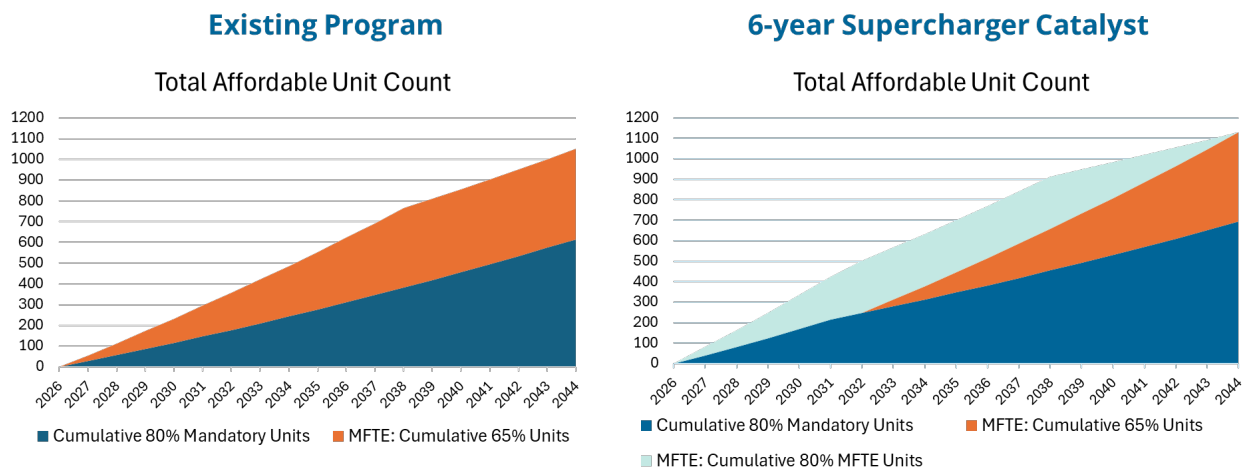
1. Quantity and income level of affordable units produced
2. Fiscal impacts to the City (shifted and foregone taxes)
3. Distribution of benefits between MFTE renters and developers

To best approximate the expected impact of these scenarios, staff made several key assumptions based on historical information, as follows:

Input	Assumption
MFTE Participation Rate during catalyst	100%
MFTE Participation Rate after catalyst	70%
Appraised Imps. Value per unit	\$400,000
Units Built	Varies – based on historical production and expected share built in HOMA areas based on comp plan housing targets
% of Value Assessed prior to MFTE Exemption Certificate	70.0%
Bellevue Tax Burden per \$1 taxed	\$0.43
Bellevue Tax Foregone per \$1 taxed	\$0.12
Annual Tax Rate Growth	0%
Annual Multifamily Value Growth	3%
Annual Home Value Growth	3%
Annual Bellevue Total AV Growth	3%

MFTE + HOMA Catalyst Program Analysis Findings

Quantity and income-level of affordable units produced

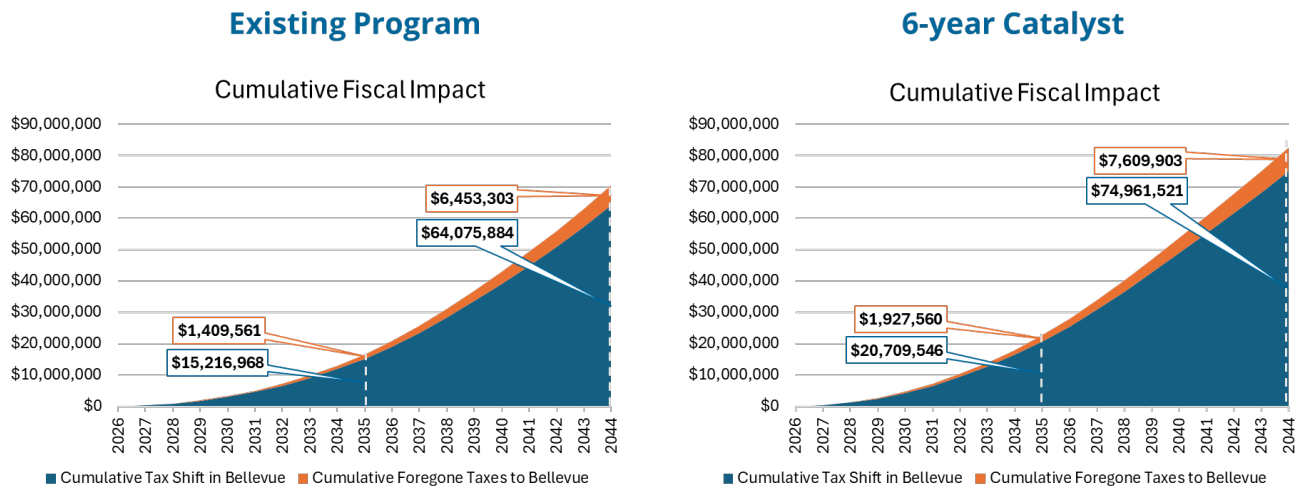


Under the existing MFTE program baseline, any additional affordable units created as a result of MFTE (i.e., excluding the 80% AMI units that would otherwise be created under the mandatory requirement) would be at the 65% AMI level. With a 6-year catalyst program, any additional

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 decreases in favor of additional units at the 80% AMI level.

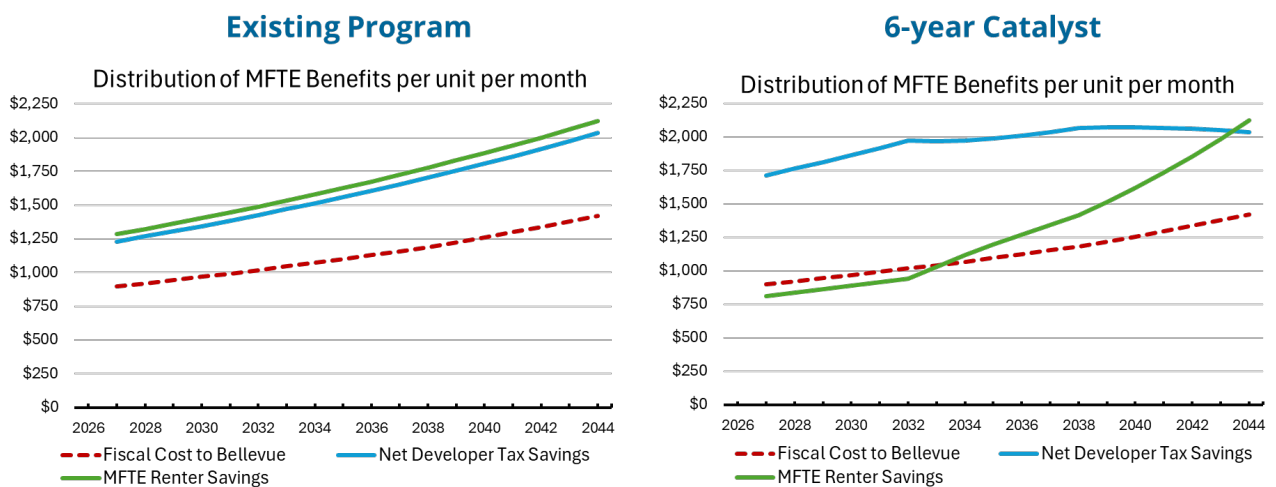
Fiscal impacts to the City (shifted and foregone taxes)



Under the existing MFTE program baseline, staff projects that the City of Bellevue would 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.

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 between MFTE renters and developers



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 6-year 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.

Overall Findings

The implementation of a 6-year catalyst program primarily represents a trade-off between the number of affordable units and the impact of those affordable units for MFTE renters. A catalyst program would be a strong development incentive and add more MFTE units overall, although at higher AMI levels. Meanwhile, the existing program may not see as much participation, producing less MFTE units overall, but all at the 65% AMI level. Ultimately, if the goal is to increase participation and improve development feasibility, a catalyst program would accomplish those objectives. If the goal is to balance the distribution of benefits between MFTE renters and developers, and exercise fiscal discipline, the existing program is more favorable.

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