

CITY COUNCIL AGENDA TOPIC

Multifamily Tax Exemption Program Update

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EXECUTIVE SUMMARY**DIRECTION**

Staff will present the draft Multifamily Tax Exemption (MFTE) code update. Following discussion, staff seeks Council direction to prepare the Ordinance for final action at a future meeting.

RECOMMENDATION

Consider directing staff on the proposed updates to the Multifamily Tax Exemption program and to prepare the necessary 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. The purpose of the 2025 program update is to align the City's MFTE program with new land use code updates in the Wilburton Transit-Oriented Development (TOD) area, to implement MFTE options for more development types, and to clarify program standards. These updates will provide additional incentives for the production of affordable housing, with a focus on the Wilburton TOD area.

On October 21, 2025, staff presented information on the MFTE program's impact to date, technical background on the 2025 update scope, and recommendations for specific program changes. Councilmembers provided a range of feedback on the recommendations and raised additional questions for staff consideration. Staff will discuss these items tonight and provide additional information regarding proposed changes. The proposed strikethrough draft for the Bellevue City Code amendment is included in Attachment A.

Following the October 21, 2025 study session, staff have continued to discuss key items with stakeholder groups, including the Bellevue Chamber and Housing Development Consortium. This has resulted in certain new MFTE policy updates for Council consideration. Staff has also conducted additional analysis regarding MFTE's fiscal impacts and its role alongside upcoming land use code amendments (LUCAs).

2025-2026 MFTE Update Scope		
State Authorizations for Expanded Program Scope	Alignment with Mandatory Affordability in Wilburton	Administrative Updates and Code Alignment
<ul style="list-style-type: none"> • Consider 20-year exemption for homeownership projects • Consider eligibility for conversion of nonresidential buildings • Consider 12-year extension 	<ul style="list-style-type: none"> • Examine overlapping requirements with mandatory affordability, as introduced with the Wilburton land use code amendment • Consider the 12-year “Supercharger” and a potential 8-year program in Wilburton • NEW: Consider a city-wide 8-year program paired with mandatory affordability 	<ul style="list-style-type: none"> • Coordinate with Development Services to align city-wide affordable housing standards and improve processes related to affordable units • NEW: Consider extending the parking discount exemption to all TOD areas.

October 21 Study Session Feedback

On October 21, 2025, Council received information regarding the City’s MFTE program performance to date and technical analysis of potential changes and program costs and benefits. Staff presented MFTE policy recommendations, summarized as follows:

1. Adopt a new 20-year homeownership program.
2. Allow MFTE for conversion projects.
3. Adopt a new 8-year program option in Wilburton.
4. Align affordable housing standards between the MFTE code and Land Use Code.
5. Allow for the Supercharger in Wilburton only, with a “look-back” within 4 years to evaluate its impact.
6. Do not adopt the 12-year extension at this time. Re-evaluate this option as part of a “look-back” within 4 years.

Councilmembers provided feedback and asked questions on a range of MFTE-related issues. Councilmembers generally indicated support for the first four items listed above, and for the Wilburton Supercharger. The bulk of the discussion centered on the last two items, regarding the potential to expand the Wilburton Supercharger to other areas of the city and to offer the 12-year extension option. Additional analysis and explanation regarding these recommendations are detailed in Attachment B.

Councilmembers asked questions about the structure of the 12-year Supercharger compared to the 8-year program option and discussed the possibility of expanding the Supercharger program beyond Wilburton. Staff’s recommendation to limit the Supercharger to Wilburton at this time is driven by a number of considerations regarding the City’s affordable housing goals, housing production goals, and the public costs of the program. A city-wide Supercharger program could be applied to further incentivize development but would not be needed as a subsidy for mandatory affordability requirements, which are offset by accompanying land use code changes. Additionally, the existing MFTE rules continue to provide a strong development incentive. On the other hand, an expanded Supercharger would increase fiscal impacts and reduce MFTE’s impact as an affordable housing tool.

Furthermore, the Wilburton Supercharger concept is tied to mandatory affordability, which has not yet

been adopted outside of Wilburton. Without clarity on the structure of mandatory affordability citywide, it is difficult to assess the potential impact of a Supercharger program at this time. However, staff will continue to evaluate MFTE where new mandatory affordability requirements are considered. As MFTE is a voluntary program outside of the land use code, it has historically not been factored into the balance of incentives and requirements that guide new land use code amendments. Going forward, staff's intent is to include MFTE in these studies so the program may potentially play a role in this broader alignment. If and when changes to MFTE are being recommended alongside a broader LUCA, the intent is to pair a strike-through draft code with the LUCA Council item. Where staff does not recommend changes to MFTE alongside a broader LUCA, the agenda materials will include analysis regarding the recommendation.

Councilmembers also offered a range of perspectives on the role a 12-year extension could play as an affordable housing tool, including the appropriate timing for adoption and the affordability levels that should be required in exchange for the extension. Staff have further evaluated the fiscal impact of a potential extension, which is expected to significantly increase the tax burden on other Bellevue property taxpayers and affect the City's ability to collect and pass other levies. This is demonstrated in Attachment C. Given the tax implications and limited benefit for affordable unit preservation, staff continues to recommend holding off on a potential 12-year extension option at this time.

Additionally, Councilmembers requested information on several items separate from the program changes identified by staff. These are listed below and addressed in Attachment D:

1. Opportunities to incentivize the production of 3-bedroom units through MFTE.
2. Parking requirements for MFTE.
3. Workforce requirements for MFTE projects.
4. Third party tenant verification challenges.
5. Introducing the Supercharger as a catalyst program rather than a permanent change.

Summary of MFTE Code Changes

The Draft MFTE Code update (Attachment A) includes the following program changes:

1. Wilburton Supercharger

Within the Wilburton TOD area, the existing rules regarding the overlapping of MFTE with other affordability requirements will be adjusted, consistent with prior discussions during the Wilburton LUCA process. Currently, any units used to simultaneously satisfy both MFTE and another affordability requirement are required to be 15% deeper in affordability. The Supercharger would eliminate that rule in Wilburton so that units can overlap without this deeper affordability. For the 12-year program, developers can offer 20% of units at 80% AMI to satisfy the mandatory and MFTE requirements, instead of 10% of units at 80% AMI plus 10% at 65% AMI. At the end of the 12-year period, the additional units required under the MFTE program will revert to market rate.

2. New 8-year program option in Wilburton.

A new 8-year MFTE program in Wilburton would provide an additional option for developers to receive a tax exemption. Under this option, developers must permanently restrict either 8% of units at 60% AMI or 6.5% of units at 50% AMI, in exchange for 8 years of property tax exemption. These units are eligible to double count with the requirements for mandatory affordability compliance (7%

at 60% AMI and 5% at 50% AMI, respectively). All other program requirements shall apply, including unit mix configuration and minimum family-sized unit requirements.

3. 20-year homeownership program.

A new 20-year MFTE program would provide a tax exemption for projects that sell at least 25% of units to households earning at or below 80% area median income (AMI). Units must be sponsored by a nonprofit or governmental entity to ensure affordability for at least 99 years. The remaining 75% can be rented or sold at market rate.

4. MFTE for conversion projects.

The MFTE code will explicitly allow for conversion projects in addition to “new construction” projects to use the program. Residential conversion projects, whereby an existing non-residential 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 without these code changes.

5. Aligning the MFTE code and Land Use Code; Additional revisions and reorganizations.

Development Services is in the process of finalizing a Director’s Rule regarding affordable housing standards. The Rule will govern the construction, repair, modification, and operation of affordable dwelling units created under the Land Use Code. While already largely in agreement, adjustments to the MFTE code have been made to align more explicitly with the Director’s Rule requirements. For example, bedroom definitions, unit mix configurations, and unit distribution requirements are updated to reflect the exact language per the Director’s Rule. This exercise is meant to resolve discrepancies and clarify areas of confusion between the City Code and Land Use Code. The adjustments do not remove the MFTE-specific rent stabilization and parking discount requirements.

Furthermore, sections of the MFTE code have been reorganized for clarity. New definitions and provisions have also been added to refine existing code language and support new programs. This includes language regarding relocation assistance, monitoring fees, and reporting requirements.

6. NEW: 8-year program paired with mandatory affordability city-wide.

There have been continued requests from some stakeholders for a citywide version of the Wilburton Supercharger to be tied to any future affordability requirements in the Land Use Code. A city-wide version of the Wilburton Supercharger has limited benefit for the City’s affordable housing goals due to its focus on temporarily affordable units at AMI levels inconsistent with MFTE tenant needs. Furthermore, the program poses significant additional public costs due to tax shifts. In comparison, a city-wide 8-year program paired with mandatory affordability provides a strong incentive for housing development and encourages the creation of additional permanently affordable units at deeper AMI levels. Based on further analysis since the October 21 Council meeting, staff therefore recommend adopting a city-wide 8-year program that would be available in land use districts subject to mandatory affordable housing requirements.

This city-wide 8-year program would require developers to restrict either 8.5% of units at 60% AMI or 7.0% of units at 50% AMI permanently, in exchange for 8 years of property tax exemption. The restriction requirements are purposely 0.5% greater than the proposed 8-year in Wilburton, which were calibrated to be competitive with the 12-year Supercharger program. This proposed citywide program assumes that any new mandatory affordability requirements will continue to include the

compliance options for 7% of units at 60% AMI and 5% at 50% AMI, which would overlap with the proposed 8-year program.

7. NEW: Removing MFTE parking discounts within TOD Areas

To further incentivize the use of MFTE among transit-oriented development projects in Wilburton and other TOD areas, and in recognition of close access to light rail, all MFTE projects within a half mile of frequent transit service will no longer be required to offer a 30% parking discount for MFTE residents who choose to rent a parking space. Currently, only Downtown projects are exempt from the parking discount.

8. NEW: Aligning MFTE and Land Use Contract/Covenant Process

Currently, MFTE applications are due within 60 days of building permit issuance, and there is no set deadline for the execution of the MFTE contract and covenant. In comparison, the covenant for the mandatory land use units is due *prior* to building permit issuance. As such, there are two separate sets of documents on two different timelines, which creates additional work for applicants and City staff. This issue has been identified by staff and developers alike.

Staff recommends aligning the MFTE process with the land use process such that there is one set of documents to be executed prior to building permit issuance. This will streamline administrative processes and guarantee MFTE units earlier in the development process. The Director has the flexibility to amend contracts or accept late MFTE applications, so any projects that may need to adjust their unit mix or decide to use MFTE later in the development process can still be eligible.

Next Steps

This is the second of two planned Council meetings on the MFTE Update. Council is asked to consider the strikethrough draft code language in Attachment A for direction. The strikethrough draft includes revisions that allow for the Wilburton Supercharger and a new 8-year program in Wilburton, a city-wide 8-year program, a new 20-year homeownership program, a reduction in MFTE parking requirements for TOD projects, and the expansion of MFTE to conversion projects. The draft also includes administrative enhancements to harmonize language and processes between MFTE and the Land Use Code. Depending on Council direction, staff will return with the code for final adoption or schedule an additional study session. As the MFTE program 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 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.

The direct fiscal impact to the City varies by project, depending primarily on construction timing as it relates to property value assessment. While the overall shifted and foregone tax impacts are currently limited, these costs will continue to rise as additional properties enroll in the program. Adoption of a new 12-year Wilburton Supercharger program and 8-year MFTE option in Wilburton may increase program participation, thus potentially increasing the cost of the program. The adoption of a 12-year extension would be expected to prolong and increase the impact of the tax shift as more properties benefit from the exemption at any given time. These costs are further illustrated in Attachment C.

MFTE has a real, measurable fiscal impact on other property owners and taxing jurisdictions that will grow as program participation increases. Taxes exempted under MTFE result in higher property taxes for other Bellevue property owners. Taxes foregone under MFTE result in lower City collections, including those that fund public improvements that residents have previously voted for. Staff will continue to evaluate the fiscal impact and bring this information back to Council as part of a proposed “look back” by 2029. Separately, the expansion of MFTE options may result in increased administration and staff costs.

OPTIONS

1. Direct staff to finalize the MFTE code update for final action at a future meeting.
2. Provide alternate direction to staff on the MFTE Program Update.

ATTACHMENTS

- A. MFTE Strike Draft
- B. Additional Analysis: Wilburton Supercharger and 12-year Extension
- C. MFTE Fiscal Impact Analysis
- D. Additional Requested Information
- E. BERK MFTE Technical Analysis Report

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N/A