Attachment D

October 20, 2014

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

The multifamily tax exemption is a State authorized, short-term exemption from property taxes paid on the housing portion of new development within mixed-use urban areas. The multifamily tax exemption is being explored as a voluntary, affordable housing incentive within transit-served mixed-use districts and neighborhood commercial areas. This discussion follows Council's June 2, 2014 Study Session.

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POLICY ISSUES

Should the City amend the Bellevue City Code per RCW 84.14 to implement a property tax exemption for new development that provides affordable housing and/or other public benefit?

Comprehensive Plan Direction

The multifamily tax exemption (MFTE) addresses city-wide housing policy #HO-33: *Explore financial incentives to encourage affordable housing such as partial exemptions from city permit fees and use of the state property tax exemption program;* and #HO-12: *Provide incentives to encourage residential development for a range of household types and income levels in commercial zones.*

The MFTE is also consistent with Bel-Red Subarea Plan direction that a significant share of new Bel-Red housing be affordable to low-and-moderate income residents, and that affordability be achieved through a variety of tools (Bel-Red Subarea Plan Housing Goal and Bel-Red Housing Policy S-BR-41).

Council Priorities and Economic Development Plan Direction

Earlier this year the Council added Priority #7 *"Promote housing opportunities for the needs of our diverse population"* and included in this priority *"Bring forward a multifamily property tax exemption for Council's consideration"*. In addition, Bellevue's Economic Development Plan includes Direct Strategy E *Encourage a variety of housing choices within the city* and calls out the multifamily tax exemption program as a tool to be explored:

> *To support a thriving economy, there is a need for workers at all income levels; however, the limited range of housing options in Bellevue challenges the availability of a varied workforce. Bellevue needs a city-wide approach to housing options for different income levels – in different growth areas of the city.*
>
> *E.1 Develop a city-wide strategy to expand workforce housing options by exploring all manner of tools, including a multifamily tax exemption program, a revolving fund for transit-oriented development, zoning changes, and other options*

E.2 Create opportunities for workforce housing in the redevelopment of Bel-Red and other major employment centers

Over the years, Bellevue has supported various strategies to develop affordable housing in the community, including funding for affordable housing through the ARCH Trust Fund, affordable housing land use density incentives in Bel-Red, and support for winter shelters. While review of the Multifamily Tax Exemption program is before Council at this time, it is seen as a potential key element of an overall city housing program and may be incorporated into an overall housing strategy work program.

DIRECTION NEEDED FROM COUNCIL

____ Action
X Discussion
X Information

Council direction is requested on a) potential principles for the MFTE program and b) parameters for a draft ordinance (See Attachments A and B).

Based on issues identified by Council at their earlier Study Session, state legislation requirements, and the experience of other cities, Attachment A includes potential principles that would guide drafting a MFTE ordinance. Staff is requesting the Council review and affirm or modify the principles.

Attachment B includes a chart that is intended to illustrate different approaches that could be used for a program in Bellevue. For each principle, the chart shows prototype examples of how the program could be used in different neighborhoods. Staff is seeking comment from Council on the overall neighborhood prototypes or elements of the prototypes.

Staff will use the input from Council to prepare a draft ordinance for Council's review. This could include using prototypes as presented or mixing and matching elements of different prototypes, and/or additional items raised by Council.

BACKGROUND

June Study Session

The June 2 Study Session on the MFTE was a high level introduction to the program, which has proven to be an effective tool in other jurisdictions. Council members noted that affordable housing is part of the City's economic development plan and an MFTE program could help address these needs. Many questions were raised on the impacts of the program—these questions are addressed in Attachment C and are organized as follows:

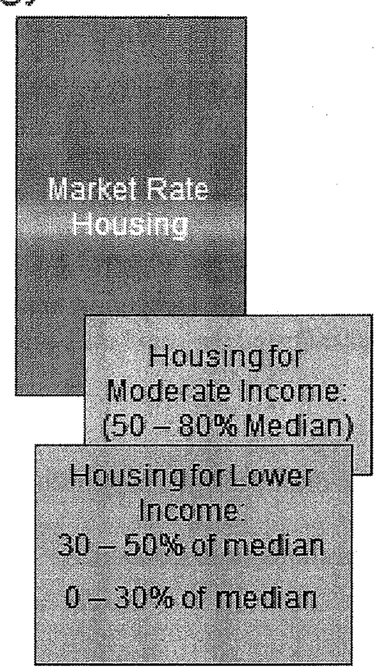
1. What are the potential impacts to residential and commercial development?
2. Does the MFTE address local affordable housing need?
3. How would the MFTE program complement other affordable housing programs, including housing funded through the ARCH Housing Trust Fund?
4. What are the potential impacts to public revenues?

In addition, because of the Council's questions related to meeting local housing needs Attachment D Affordability Options illustrates ways to potentially set affordability levels for an MFTE program, and how an MFTE program could be combined with other incentives to generate greater affordability or address other community needs.

Part of an Overall Housing Program

The Housing Needs Analysis done for the Housing Element update shows significant areas of need especially for affordable housing. These conditions, as well as recognizing the linkage of having a range of housing options with the availability of a varied workforce and a thriving economy, have prompted the Council to make housing opportunities a priority. The update to the Housing Element includes a proposed policy to develop a housing strategy work program. This will provide an opportunity in the coming year to develop strategies and a work program to address a range of housing issues. Issues expected to be part of these strategies include efforts to create a more stable siting of homeless shelters and day centers in East King County, and efforts to create a range of housing opportunities in the Bel-Red area through tools such as a land acquisition fund. The table below illustrates how the MFTE program may fit within this broader housing strategy.

Part of a Broader Housing Strategy



HOUSING STRATEGY PROGRAM

A. Market increase diversity and general affordability

- Housing Capacity to accommodate growth
- Allow diversity of housing – multifamily/ small single family

B. Incentive to create affordability through market (generally moderate income).

- Accessory Dwelling Units
- Land Use density incentives: (Bel-Red / Downtown / Other)
- Multifamily Tax Exemption Program

C. Direct assistance program for lower income housing (generally lower income).

- ARCH Housing Trust Fund
  - Leverages other public fund sources
- Surplus Land
- Home Repair Program
- Human Services Funding
- Winter Shelter

MF Tax Exemption: RCW 84.14 / Synopsis

The State legislature enacted the Multi-Family Tax Exemption (MFTE) in 1995, granting authority to a limited number of cities in the state for ten-year tax exemptions on the improvement value of multifamily projects in targeted mixed-use areas. Cities could choose to adopt the tax exemption to increase multifamily housing to promote economic development or other public benefits, including affordable housing. In 2006, the legislature updated this code to allow more cities to use the program and to provide greater incentives for affordable housing. Residential development that provides at least 20% affordable units may receive a 12-year tax exemption on all new housing units within the project. Residential development that provides some other public benefit, which may include affordable housing with less than 20% affordable units, receives an 8-year exemption. Key provisions of RCW 84.14 are summarized in Attachment E.

Program Options – Balancing the Incentive

While there are certain state-required thresholds, the RCW gives cities flexibility in the program incentives and requirements to tailor programs to a community's specific needs, including:

- Potential variation in requirements by targeted areas
- Residential targeted areas (RTA) – can create multiple RTAs, with different requirements
- The affordability level provided
- The percent of affordable units provided
- Length of property tax exemption – 8 or 12 years
- Length of affordability
- Ability to layer MFTE with other incentives
- What projects qualify, e.g. threshold number of new units
- Phased approach with different affordability level established for initial projects
- Capping the program at a certain number of tax-exempted units and/or a period of time.

As well as considering community needs, a local program also needs to account for the economic impact of the program in terms of both benefits and costs to projects. Attachment F provides an analysis of the costs and benefits for a prototype, sample development. Finally, it is noted that cities can modify program requirements over time based on changing local conditions and needs. Seattle has offered a MFTE Program since 1998, and has adjusted the program's affordability levels four times.

NEXT STEPS

Assuming Council provides direction to staff based on the draft Principle and Prototypes, next steps would include the following:

- Staff prepare responses to additional follow-up questions from Council.

- Draft Ordinance for Council review
  - Affordability/public benefit provisions
  - Identify applicable neighborhoods (Residential Target Areas (RTAs)
  - Other items raised by Council

- After Council review, set public hearing for Ordinance.

ALTERNATIVES

1. Establish "Principles for Multifamily Tax Exemption in Bellevue" and parameters for the draft ordinance to set program direction.
2. Provide alternative direction.

RECOMMENDATION

Alternative 1, establish "Principles for Multifamily Tax Exemption in Bellevue" and parameters for the draft ordinance to set program direction.

ATTACHMENTS

Attachment A: Proposed MFTE principles
Attachment B: MFTE prototype provisions
Attachment C: Responses to Council questions from June 2, 2014
Attachment D: Affordability Options
Attachment E: MFTE Summary / RCW 84.14 (included in June 2 packet)
Attachment F: Sample Developer Benefit and Cost Analysis

Attachment A

Attachment A:
Council Direction - Proposed MFTE Principles

Potential Principles for Multifamily Tax Exemption in Bellevue

State Legislation RCW 84.14 gives cities flexibility in establishing local program objectives; for example, using the MFTE to incent new multifamily development; to incent housing over other allowed uses; or to help create affordable housing. Based on state legislation requirements, the experience of other cities, and issues identified by Council at their earlier study session, following are potential principles (objectives) that could guide development of a program.

1. A tax exemption to development should result in a clear public benefit.
   The public benefit should be relative to the size of the tax benefit to be obtained, while also providing an economically feasible incentive. The primary public benefit of the program shall be increasing affordable housing opportunities in the community.

2. The incentive should be voluntary, and not all projects are expected to use it.

3. Consideration should be given to having limits on the number of tax exempted units.
   One purpose of limiting use of the program is to maintain a balance of housing and other uses within the city's mixed use zones.

4. Leverage the MFTE program when possible to maximize affordable housing opportunities.
   - *Leverage land use incentives such as FAR Amenity Incentives (Bel-Red), fee waivers and density increases.*
   - *Leverage public financing such as federal tax exempt financing, local housing fund.*

5. Affordable housing created through City efforts should remain affordable for the longest possible term (Policy HO-35).
   Affordability is statutorily required only for the term of the exemption (e.g. 12 years) though can be longer. FAR and other incentive programs in Bel-Red and affordable housing incentives for other ARCH members typically require affordability for periods from 30 years to the life of the project – thus adding to the supply of permanent affordable housing.

6. MFTE program requirements in different neighborhoods (targeted residential areas) should be tailored to the unique aspects of the neighborhood:
   - *In Bel-Red and Downtown, program priorities should be to maximize opportunities for affordable housing.*
   - *In neighborhood commercial areas that have seen limited reinvestment and where housing is considered a potential complementary use to commercial development, the tax exemption may be adopted with a lower affordability requirement or with no affordability requirement.*

7. Target the MFTE program in mixed use areas that are well served by transit.

8. Activity should be monitored on a regular basis to ensure program objectives are being achieved and to adjust program requirements as needed.

Attachment B: Prototypes Depicting Program Options

		Examples of approaches that could be used to implement each principle and how they could be applied differently in different neighborhoods			
Principles	Linking Principles to Program Options	Bel-Red (A version)	Bel-Red (B version)	Downtown	Newport Hills
Tailor program to the unique aspects of the neighborhood	What key neighborhood characteristics influence design of the MFTE program for each neighbor-hood?	• Bel-Red planned for significant mixed use development • Limited development to date • Policies for a range of housing affordability	• Bel-Red planned for significant mixed use development • Limited development to date • Policies for a range of housing affordability •	• Address needs of local employees • Relatively high development costs & market rents	• Neighborhood commercial area where redevelopment is desired
Limit the number of tax exempted units	Should there be limitations on the program in order to either limit overall fiscal impact or prevent skewing of land uses?	• Exemption for ___ total units Note: Additional Capacity:* Residential: 12,470 units Commercial: 37,425 jobs	• Exemption available for projects submitting permits through _date	• Exemption for ___ total units Note: Additional Capacity:* Residential: 9,370 units Commercial: 43,600 jobs	• One project
MFTE program area (transit served urban center)	What are the specific areas (RTAs) to apply the MFTE program?	• Properties within 2,000' of light rail stations	• Entire Bel-Red planning area	• All or specific districts of downtown	• Specific designated site
Public benefit	For each RTA, what are the public benefits to be achieved through the MFTE program?	• Affordable Housing • Catalyst for early residential project	• Affordable housing	• Affordable housing • Encourage housing in certain subareas	• Neighborhood redevelopment • Affordable housing
Strategies to leverage MFTE to maximize affordable housing	Are there other specific incentive programs that should be linked with the MFTE public in order to	• Bel-Red affordable housing FAR incentive	• Tax exempt financing/ 4% LIHTC (for 12 year exemption)	• Downtown housing incentive program	• Affordable housing condition of rezone • No explicit objectives

		Examples of approaches that could be used to implement each principle and how they could be applied differently in different neighborhoods			
Principles	Linking Principles to Program Options	Bel-Red (A version)	Bel-Red (B version)	Downtown	Newport Hills
	maximize public benefit?				
Affordable housing provision	What are the affordability requirements for the MFTE program? (May factor in local economics, and other incentives combined with the MFTE program)	• X% at Y% of median income (12 Year exemption) • W% at Z% of median income (8 Year exemption) • For first project affordability defined as X% at (Y+10%)	• 20% at 50% median or 40% at 60% median • Based on tax exempt financing requirement) • Implies only 12 year exemption	• X% at Y% of median income (12 Year exemption) • W% at Z% of median income (8 Year exemption) • Is affordability based on using DT incentives?	• K% at L% of median (12 year exemption) • M% at N% of median(8 year exemption) • (Affordability level more comparable to market for area).
Other	Are there any other program requirements that should apply either citywide or in particular neighborhoods?	• Only for rental housing • Project must be at least 100 Units	• Rental or ownership	• Micro units have a different required affordability level	

* King County Buildable Lands Report, Table 16: Summary of Development Capacity (2012)

The June 2 staff report provided information on other cities using MFTE programs, illustrating the wide range of provisions in local MFTE programs. Some jurisdictions such as Seattle, Tacoma and Kirkland use the program in a number of neighborhoods, while some cities only use a program in one neighborhood or even one site (e.g. Kenmore). Sometimes the same guidelines are used throughout the city (Seattle) and in some different guidelines apply in different neighborhoods (e.g. in Kirkland affordability levels vary depending on availability of land use density incentives). Many cities offer both an 8 and 12 year exemption option, while Seattle provides only a 12 year program. There are a wide range of approaches to affordability requirements. These include: requiring affordability for a 12 year exemption, but no affordability for an 8 year exemption (e.g. Tacoma, Lacy); requiring different affordability levels depending on the neighborhood or the term of the exemption; and the length of time affordability is required.

This chart is intended to illustrate different approaches that could be used for a program in Bellevue. Staff is seeking comment from Council on either the overall prototypes or elements of the prototypes. Staff will then prepare a draft ordinance for Council's review incorporating Council comments and direction. This could include using prototypes as presented or mixing and matching elements of different prototypes, or additional items raised by Council.

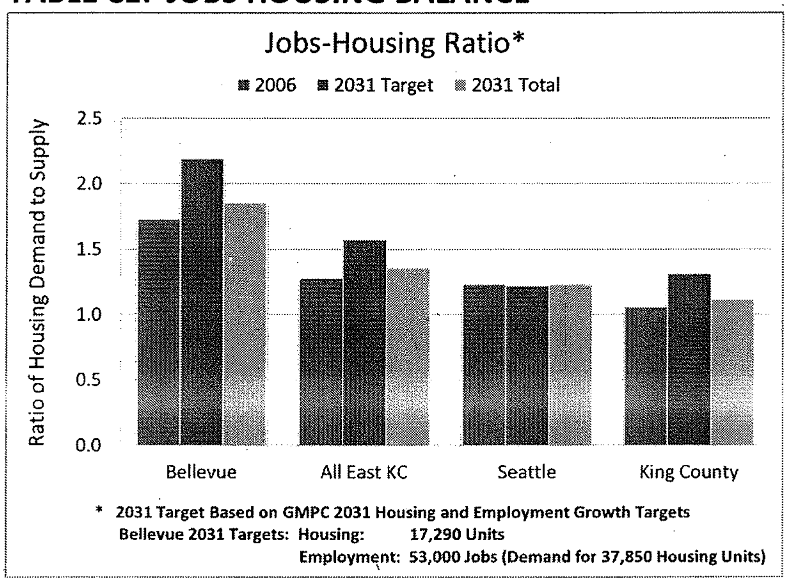
Attachment C

Attachment C: Responses to Council Questions from June 2, 2014

1. What are the potential impacts to residential and commercial development?

At the June 2 study session Council asked if a MFTE program could impact development trends in the City, and result in undesired balance of uses. Cities can identify multiple 'residential target areas' (RTA) within a city and can establish different requirements for different target areas. In some cases, such as Newport Hills, the goal may be to influence the market to invest in types of development the market may not otherwise undertake. In other cases it may be to create a mix of housing types and affordability called for in the comprehensive plan, but is not occurring naturally through the market. MFTE programs not only have the ability to be tailored to different neighborhoods, but also can be changed by councils at any point in time. Both of these not only help to ensure a program continues to meet the council objectives, but it is also a way to manage the overall use of a program. Finally, the Council can place caps on the use of a program either through by limiting the number of units or the program's effective period.

TABLE C1: JOBS HOUSING BALANCE



The City currently generates significantly more demand for housing from its workforce than there is available housing (Table C1). Though not to the same degree, this is also true for East King County as a whole and Seattle. Based on employment and housing growth projections, this ratio is expected to further increase in Bellevue and East King County as a whole.

2. Does the MFTE address local affordable housing need?

Following are several tables and charts providing information regarding local incomes, and local and affordable rent levels. Based on this information the following observations are made:

- Average rents can vary significantly in different cities and neighborhoods (Tables C2 & C3).

  - **West Bellevue** rents are the highest in the City and among the highest in the region. Relative to median income, rents for smaller units are affordable at approximately 80% of median income and larger units affordable at 100% of median income.
  - **East Bellevue** rents are the lowest in the City with smaller units affordable at 60% to 70% of median income and larger units affordable at 70% to just over 80% of median income.
- Rents for newer units are higher than overall average rents. They can range from 110% to 125% of average rents and in some cases higher. They generally are affordable at between 80% and 100% of median income. In some market areas larger units are above 100% of median income (Table C3).
- Rents have tended to increase proportionately to increases in median income (Table C2). However in the past few years, there has been rapid rent increases combined with relatively flat median income resulting in high average rents relative to median income. At this time it is hard to tell if there will be some type of correction in the market, or this is a longer term change in the relative affordability of rental housing.
- Table C4 summarizes salaries relative to median income of a variety of local jobs. This information shows a range of jobs in the 50% income range (retail sales, food preparation, bank teller) and 50 - 80% income levels (entry level teacher, bookkeeping, medical assistants, hairstylist). This is supported by looking at employment of residents in a newer affordable housing development in East King County earning 30% to 60% of median income. The residents are employed at local hospitals and medical clinics; restaurants and retail; at a local school district as an education assistant and custodian; childcare; and office administrative positions.
- Comparing relative need to availability of housing, the greatest need is for very low and low income households (Table C5). Data on cost burdened and severely cost burdened households support this by showing that a much higher proportion of lower income households are housing cost burdened.

TABLE C2: TREND IN MARKET RENTS RELATIVE TO AFFORDABLE RENT LEVELS

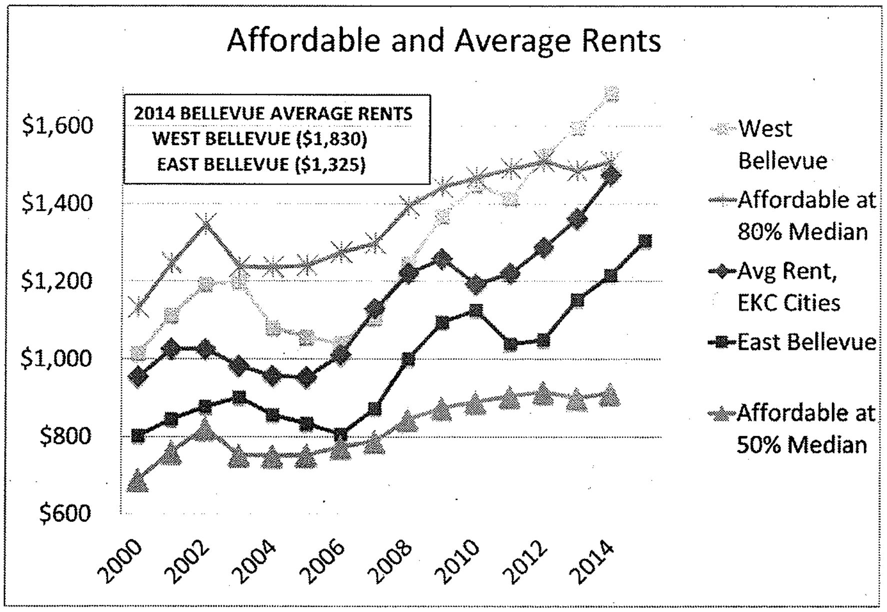


TABLE C3: INCOME AND HOUSING AFFORDABILITY GUIDELINES

	Studio	1 Bdrm	2 Bdrm (1 Bath)	3 Bedrm
Affordable Rent Levels				
30% Median Income	$424	$470	$516	$563
50% Median Income	$733	$823	$913	$1,004
60% Median Income	$887	$999	$1,112	$1,224
70% Median Income	$1,041	$1,176	$1,310	$1,445
80% Median Income	$1,196	$1,352	$1,509	$1,665
100% Median Income	$1,505	$1,705	$1,906	$2,106
Bellevue Rent Levels				
West Bellevue				
Overall	$1,190	$1,583	$1,859	$2,418
Built since 2008	$1,339	$1,773	$2,141	$2,898
East Bellevue				
Overall	$889	$1,167	$1,331	$1,750
Built since 2008		$1,381	1806 (2 ba)	
Factoria				
Overall	$1,142	$1,185	$1,395	$1,868
Built since 2008		$1,454		$2,824
Other Area Rent Levels				
East King County				
Overall	$1,139	$1,281	$1,366	$1,877
Built since 2008	$1,310	$1,600	$1,876	$2,331
Seattle - Ballard				
Overall	$1,159	$1,356	$1,642	$1,865
Built since 2008	$1,232	$1,616	$1,879	
Seattle - South Lake Union				
Overall	$1,222	$1,797	$2,181	$4,202
Built since 2008	$1,337	$2,033	$2,448	$4,758

TABLE C4: SAMPLE OF LOCAL SALARIES RELATIVE TO MEDIAN INCOME

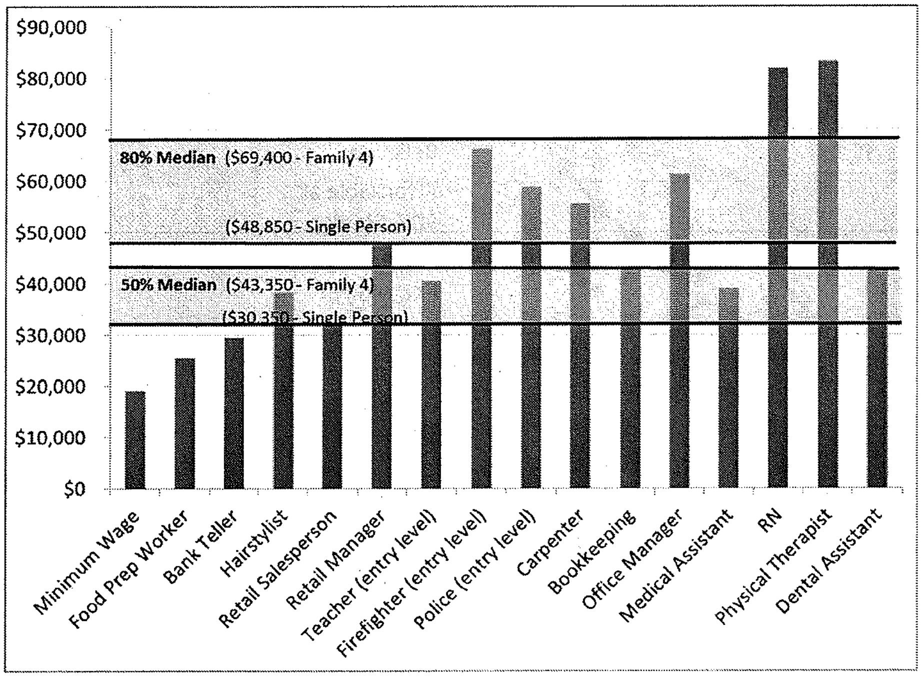
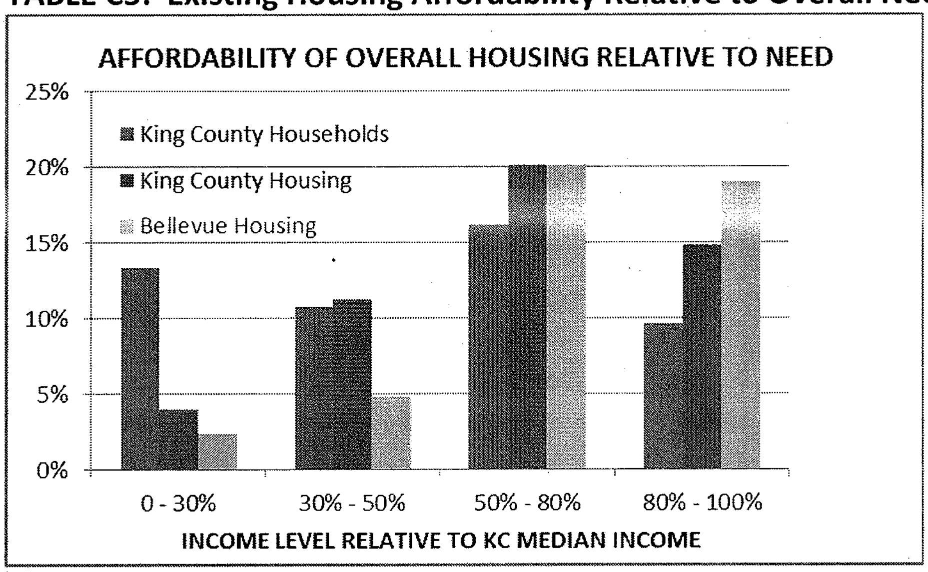


TABLE C5: Existing Housing Affordability Relative to Overall Need



3. How would a MFTE program complement other affordable housing programs, especially housing funded through the ARCH Housing Trust Fund?

As was shown in Table C5, the amount of housing affordable to lower income is less than local needs and affordability goals. Cities have long relied on using a range of strategies to meet housing needs including direct assistance, incentive programs and the private market. Table C6 indicates the latter two approaches are most effective with assisting more moderate income level needs. While City efforts have been more successful at meeting goals for moderate income housing, there are several notable trends. Over the past decade there has been a decrease in the creation of affordable housing in Bellevue compared to the previous decade. This has been true for all three strategies. It is also noted that much of the moderate income housing created by the private market has been smaller rental units that are close to 80% of median income. Based on these results, the use of a MFTE program is seen as a way to supplement other efforts to address local needs for affordable housing.

Note: This memo has focused on rental housing. This is because the way a MFTE program is structured; for ownership housing the benefit accrues to the homeowner and not the developer. The benefit to a developer is primarily to support marketing. Also, if a city requires the provision of affordable housing for either the 8 or 12 year exemption, given potential penalties for non-compliance over time, cities with such programs typically have either not used the program with ownership housing and/or limit the exemption only to units meeting an affordability standard. Both of these circumstances make it less likely the program will be used for ownership housing.

TABLE C6. Housing Goals and Creation of Affordable Housing

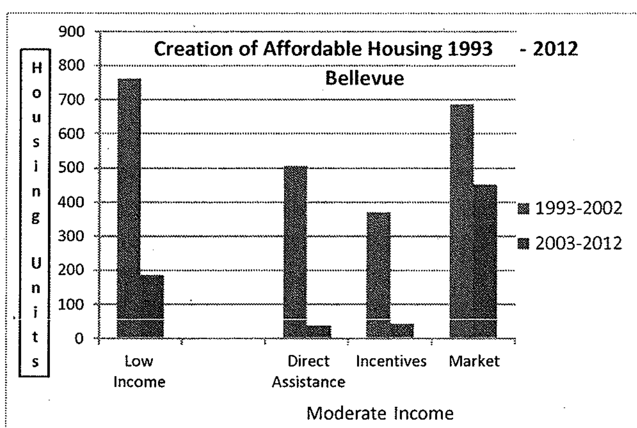
CREATION OF AFFORDABLE HOUSING 1993 - 2012

Bellevue

	Low Income (Up to 50% Median Income)					Moderate Income (50% - 80% Median Income)				
	Direct Assistance	Incentives	Market	Sub-Total	% of Goal	Direct Assistance	Incentives	Market	Sub-Total	% of Goal
1993-2002	754	0	8	762	36%	506	369	686	1561	105%
2003-2012	185	0	0	185	9%	38	44	453	535	36%
1993-2012	939	0	8	947	45%	543	413	1,139	2,095	142%

1992 - 2012 Affordable housing Goals

	20 Year Goal
Low Income	2,100
Moderate Income	1,480



Note: Much of the market rate housing affordable at moderate income are smaller rental units affordable at close to 80% of median income.

4. What are the potential impacts to public revenues?

Impacts to tax base

State legislation allows the value of new housing construction in defined mixed use development areas to be exempt from ad valorem property taxation. The exemption does not include property taxes paid on the value of land, or nonresidential improvements. Tables C7.1 and 7.2 breakout the different components of property taxes for Bellevue properties. It is noted that the impact to individual taxing districts varies depending on how their property taxes are established, which is highlighted in the table.

Impact to Other Taxing Districts- This section describes the potential impact on other taxing districts from a MFTE program. Table C7.2 lists all taxing districts that receive property tax revenue and the assessment rate for each district. The table also includes an estimate of the amount of property tax revenue that a 100 unit project might generate. In evaluating the potential impact of a property tax exemption program on each taxing district it is important to distinguish how revenue is collected from property taxes. Many districts (i.e. Bellevue School District, EMS, Library, Flood District, Ferry), receive a set amount of revenue per year. For these districts there is no explicit increase or decrease in revenue to the district as a result of exempting a property. The impact is that typically new development can help to decrease the amount paid by existing property owners by increasing the overall assessment base for the district (see next section for impact on homeowners).

The second type of districts are those that receive a set increase in property taxes each year based on the amount collected the previous year plus taxes generated from new development. This is essentially the City, County and State (State School Fund). For these districts, the impact is that the district will not receive any new revenue from the improvement value that is exempted. This potential revenue from new construction is not made up from other existing property owners in the district or other new construction. It is essentially non-existent property until that time in which the exemption ends and the value of the improvement is added to the tax role. At that time it is essentially treated as new construction. Table C7.2 indicates which districts fall into each of these two categories.

Impact to Other Property Owners- The MF Tax Exemption is not a redistribution of property tax in the sense that it would cause other property taxes to increase. As described above districts whose levy is based on a set amount of revenue per year (i.e. BSD, EMS, Library, Flood & Ferry) the district would receive the same revenue. For these districts, the impact on existing property owners is that they would not see a reduction in property taxes that typically occurs as a result of adding the value of new construction to the tax roll. Table C8 illustrates this situation. It indicates that for a homeowner of a house valued at $600,000, the impact of exempting a 100 unit residential property is to not realize an annual property tax savings of ~$1.16 on total property taxes of $6,015.

Impacts to City Revenues

For participating MFTE projects, the property taxes on the residential improvements would be deferred for 8 or 12 years; however property taxes would continue to be paid on the land value and the improvement value of the non-residential portion of properties. In many situations the impact of implementing a tax exemption program does not result in a reduction in current property taxes, but defers increases in property tax revenue from new construction. To some extent new development will result in the demolition of some existing improvements, though in areas like Bel Red existing improvement values are relatively low and will likely be offset by overall increases in area land values as well as new non-residential uses. At the conclusion of the exemption period, the new housing cost shall be considered as new construction when added to the tax role.

TABLE C7.1 Property Tax Distribution – City of Bellevue 2014

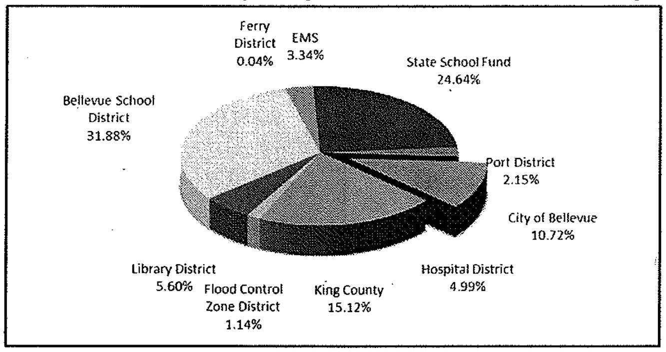


TABLE C7.2 Sample Project- Potential Annual Property Tax Revenue (2014)

SAMPLE PROJECT
POTENTIAL ANNUAL PROPERTY TAX REVENUE (2014):
Mixed Use Residential Property

		Assessed Value
Land Area	40,000 sq. ft	$2,400,000
Residential Units ('Improvements')	100 units	$19,875,000
Non- Residential Space	8,000 sq. ft	$1,600,000

Levy Area	Levy Description	Levy Rate 2014		Annual Property Tax *			TOTAL Annual Property Tax
				Land	Non-Residential 'Improvement'	Residential 'Improvement'	
0381	BELLEVUE	1.07485					
	Regular		0.96248	$2,310	$1,540	$19,129	$22,979
	Voted Bonds (LID Lift)		0.11237	$270	$180	$2,233	$2,683
							$0
	KC CONSOLIDATED	4.20182					
	King County		1.51605	$3,639	$2,426	$30,131	$36,196
	Port of Seattle		0.21533	$517	$345	$4,280	$5,141
	State School Fund		2.47044	$5,929	$3,953	$49,100	$58,982
405	BELLEVUE SCHOOL DISTRICT	3.1940					
	Special Levy		1.2550	$3,012	$2,008	$24,944	$29,964
	Bond Fund Levy		1.52433	$3,658	$2,439	$30,296	$36,393
	Building Fund Levy		0.41461	$995	$663	$8,240	$9,899
	LIBRARY	0.56175		$1,348	$899	$11,165	$13,412
	EMS	0.335		$804	$536	$6,658	$7,998
	KING COUNTY FLOOD DIST.	0.15369		$369	$246	$3,055	$3,669
	FERRY DIST.	0.00349		$8	$6	$69	$83
	OTHER - HOSPITAL	0.5		$1,200	$800	$9,938	$11,938
	TOTAL	**10.02457**		**$24,059**	**$16,039**	**$199,238**	**$239,337**

* In a MFTE property tax exemption program, taxes on the residential improvements would be exempt: $199,238
Property taxes would continue to be paid on the land and non-residential improvements ($32,079 + $16,039)

Potential Revenue foregone during exemption period
o These taxing districts do not lose any revenue as a result of a property tax exemption.
o District foregoes potential additional revenue resulting from new construction.
o Theoretically no change in taxes paid by individual homeowners as a result of exemption (see homeowner chart)

Potential Revenue not lost to district
o These districts typically are set to generate a fixed amount of revenue with tax rate set accordingly.
o Adding new construction to the district overall assessment can allow tax rates to be lowered for existing properties.
o Providing an exemption impacts the amount rates can be lowered for existing properties, but should not raise rates.

TABLE C8 Individual Homeowner Property Taxes

EXAMPLE: PROPERTY TAXES ASSESSED FOR INDIVIDUAL HOMEOWNER

Levy Area	Levy Description	Levy Rate 2014		Property Tax (2014) Home Value $600,000
0381	BELLEVUE	1.07485		
	Regular		0.96248	$577
	Voted Bonds (LID Lift)		0.11237	$67
	0		0	$0
	KC CONSOLIDATED	4.20182		
	King County		1.51605	$910
	Port of Seattle		0.21533	$129
	State School Fund		2.47044	$1,482
405	BELLEVUE SCHOOL DISTRICT	3.19397		
	Special Levy		1.25503	$753
	Bond Fund Levy		1.52433	$915
	Building Fund Levy		0.41461	$249
	LIBRARY	0.56175		$337
	EMS	0.335		$201
	KING COUNTY FLOOD DIST.	0.15369		$92
	FERRY DIST.	0.00349		$2
	OTHER - HOSPITAL	0.5		$300
	TOTAL	**10.02457**		**$6,015**

Potential Reduction in Homeowner Property Taxes resulting from New Development

Project Size	100	Units
Residential Improvement Value	$ 19,875,000	
Foregone Reduction in Homeowner Property	**$1.29**	

Potential Revenue foregone during exemption period

- o District foregoes potential additional revenue resulting from new construction.
- o These taxing districts do not lose any revenue as a result of a property tax exemption.
- o Theoretically no change in taxes paid by individual homeowners as a result of exemption (see homeowner chart)

Potential Revenue not lost to district

- o These districts typically are set to generate a fixed amount of revenue with tax rate set accordingly.
- o Adding new construction to the district overall assessment can allow tax rates to be lowered for existing properties.
- o Providing an exemption impacts the amount rates can be lowered for existing properties, but should not raise rates.

Overall revenue to City. Table C9 illustrates a "ballpark" estimate of potential one time and on-going fees and taxes resulting from new development. One-time revenues include items such as building permit and impact fees and a portion of construction sales tax. Long term sources of revenue include increased sales tax and utility taxes. Table C9 compares types and estimated amount of revenue generated from a development with no housing and a mixed use project assuming full property taxes and with the MFTE program. For projects using a MFTE program there is no impact on one-time fees generated by the project, and such a project could still be expected to generate approximately 66% of the revenue as a property paying full property taxes and about 50% more revenue as a retail only project.

TABLE C9 Evaluation of Impacts on Local Taxes/Fees from a Sample Project

City of Bellevue

100 Unit Mixed Use Property

	WITHOUT HOUSING	WITH HOUSING // WITHOUT EXEMPTION	WITH HOUSING // WITH EXEMPTION
Assumptions			
Site Size (square feet)	40,000	40,000	40,000
Multifamily Units	0	100	100
Retail Square Footage	8,000	8,000	8,000
Construction Value—Total	$1,600,000	$18,100,000	$18,100,000
Land Value	$2,400,000	$2,400,000	$2,400,000
One-time Revenues			
Permits Fees	$2,400	$152,400	$152,400
Sales Tax	$8,976	$103,080	$103,080
Impact Fees (Capital)	$30,400	$166,400	$166,400
REET (Capital)	$20,000	$102,500	$102,500
Subtotal: One-time	$61,776	$524,380	$524,380
On-going Revenues			
Property Tax (City)	$2,623	$23,985	$2,623
Sales Tax—New Residents	$0	$8,800	$8,800
Sales Tax—From New Retail	$20,400	$20,400	$20,400
State-shared	$0	$5,120	$5,120
B & O Taxes	$3,590	$3,590	$3,590
Subtotal: Annual Ongoing	$26,613	$61,896	$40,533
Total: Construction & First Full Year			
Operating	$37,989	$317,375	$296,013
Capital	$50,400	$268,900	$268,900
TOTAL	$88,389	$586,275	$564,913

Assumptions		
Land Value (per square foot)	$60.00	
Construction Value-per unit:	$150,000	
Construction Value Retail per square foot	$200	
Number of Parking stalls	100	
Value of Parking Stall	$15,000	
Property Tax Assessment Rate (City)	1.0749	
Assessment Improvement Value per Unit	$198,750	
Assessment Improvement Value per retail	$5	
Amount of Local Sales Tax	0.85%	
Average Building Permit Fees-housing	$1,500	per unit
Average Building Permit Fees-commercia	$0.30	per sq ft
Average Impact Fees - Housing	$1,360	per unit
Average Impact Fees - Commercial	$3.80	per sq ft
Annual Sales Tax Revenue - New Resider	$55	per capita
Retail space sales (per square foot)	$300	
State Shared Revenue (per capita)	$32	
average household Size	1.6	
Real Estate Excise Tax (REET)	0.50%	Percent per transaction
B & O Tax	0.1496%	

Impact on Property Taxes to City. Another way of analyzing the impact on City revenues is to estimate the amount of property tax revenue that may be foregone from an overall MFTE program. Table C10 estimates the amount of foregone annual property taxes. Variables accounted for in the analysis includes the percentage of all developments that utilize an MFTE program, the amount of property taxes generated from new construction relative to overall existing property taxes and the average value of individual units. Assuming about 30% of new multifamily housing in the mixed used centers utilized a MFTE program, annually approximately 5% of increased property taxes resulting from new construction would be foregone during the exemption period, which is approximately 0.1% of total annual property tax revenue to the city.

TABLE C10 ESTIMATE OF OVERALL PROPERTY TAX EXEMPTION

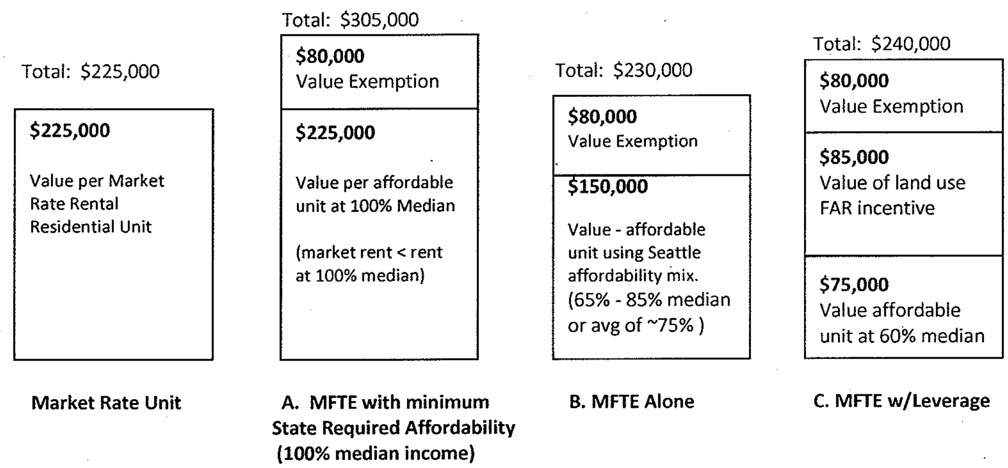
A. EXISTING PROPERTY TAX ASSESSMENT					
BELLEVUE TOTAL ASSESSED VALUATION (2014)				$	36,150,275,635
TOTAL PROPERTY TAXES	Assessment rate	10.02457		$	362,390,969
BELLEVUE PROPERTY TAXES					
Regular	Assessment rate	0.96248		$	34,793,917
Voted Bonds (LID Lift)	Assessment rate	0.11237		$	4,062,206
				$	-
TOTAL	Assessment rate	1.07485		$	38,856,124
B. PROPERTY TAX ASSESSMENT FROM NEW CONSTRUCTION					
ANNUAL PERCENT INCREASE IN ASSESSED VALUATION Due to new construction / additions					**2.0%**
ANNUAL DOLLAR INCREASE IN ASSESSED VALUATION Due to new construction / additions				$	723,005,513
Total Property Taxes	Assessment rate	10.02457		$	7,247,819
Bellevue Property Taxes					
Regular	Assessment rate	0.96248		$	695,878
Voted Bonds (LID Lift)	Assessment rate	0.11237		$	81,244
C. POTENTIAL IMPACT OF 12 YEAR EXEMPTION PROGRAM					
PORTION OF 'URBAN CENTER' HOUSING UTILIZING EXEMPTION			**30%**		
New units per year utilizing MFTE Program			190 units		
Average Improvement Value of Multifamily Units			$ 198,750		
BELEVUE PROPERTY TAXES FOREGONE (Annually)					
Regular			$ 36,300		
Voted Bonds (LID Lift)			**$ 4,243**		
Percent of New Property Taxes from New Construction			**5.2%**		
Percent of Overall Property Tax			**0.1%**		

Attachment D

ATTACHMENT D – AFFORDABLITY OPTIONS

CHART D1 – Summary of Affordability Options

The purpose of this chart is to help illustrate the relative impact of different incentives and affordability levels on the overall economics of a project, and how incentives can offset the impacts of different affordability levels. The values shown here are examples.



A. **Affordability based on the State Minimum Requirements (Case A in chart above).** There is some level of ambiguity in the state legislation but a common interpretation is that for a 12 year exemption program in King County (a high cost county), at least 20% of the units must be affordable at 100% of median income. Given current market rent levels and rents affordable at this level (see Table C3), if this affordability was selected, it appears there would essentially be no public benefit achieved and the value of the exemption results in just a net gain to the developer. There is no explicit affordability required for an eight-year MFTE. However the legislative standard related to public benefit being relative to the tax benefit received still applies. For example, Kirkland and Mercer Island require affordable housing for either an 8-year or 12-year exemption with less affordability required for the 8 year exemption.

B. **Affordability based on the value of the MFTE (Case B in Chart above).** Under this approach, the goal is to set affordability levels based on the value of the exemption to the developer. To act as an 'incentive' this approach typically results in some amount of net gain to the developer (value of exemption somewhat greater than the 'cost' of providing the affordable housing). Seattle's MFTE program is basically designed along these lines and includes the following features:

   Seattle Program Components

   - **Modifying Program over time**. Seattle has modified their program on four occasions. This has included modifying its RTAs as well as the affordability requirements.
   - **Affordability Levels**. Under the current Seattle MFTE program, for a 12 year exemption, 20% of the units must be affordable at the following levels:

Studios	65% of median income
1 Bedroom	75% of median income
2- and 3-Bedroom	85% of median income

   - **Affordable Unit Mix.** The mix of sizes of affordable units is to be comparable to the property's overall unit mix. Part of the reasoning for establishing different affordability levels for different sized units was to encourage development of larger affordable units (i.e. 2 and 3-bedroom units). It is noted however that under the revised program standards there has been no noticeable increase in the proportion of 2 and 3 bedroom units and potentially even a decrease. (This suggests that other factors may be influencing a building unit mix.

- **Duration of Affordability**. Affordability is only required to be provided during the period the property tax exemption is received by a developer (e.g. 12 years). Understanding that each market area can have different land costs and rents levels, it is important with this approach to look at the economics of the neighborhood where the program is being used.

C. **Affordability based on leveraging other resources/incentives (Case C in Chart above).**

- Leverages local land use incentives (fee waivers, density increases (e.g. Kirkland, Mercer Island))
- Leverages public financing sources (e.g. tax exempt financing)

This concept involves combining multiple incentives into one development in order to create either a greater percentage of affordable units, or units at greater affordability levels. The value of different incentives are combined to offset the increased impact to the project's value resulting from further reduced cash flow. Such an approach can involve combining with other local programs (e.g. land use incentives, fee waivers) and/or outside financial assistance (e.g. tax exempt bonds, or low income housing tax credits).

Improve residential opportunities, including affordable housing opportunities. While affordable housing was expressed as an interest of the Council, other cities have used MFTE programs to encourage residential development in mixed use zones where market conditions are limiting development of new housing. In these cases cities may require only limited or no affordable housing. While this may not apply in many areas of Bellevue, there could be select neighborhoods where improving overall opportunities for new residential development may be an additional benefit to providing affordable housing. In such a case, the City could elect to have no affordability requirement (only available for an 8-year exemption) or more limited affordability requirement (8 or 12 year exemption). A related approach would be to allow one or two projects to utilize a property tax exemption program at a less restrictive affordability level. This would be similar to Bellevue's and Redmond's land use incentive programs that set less restrictive affordable housing provisions for a set number of units, or period of time ('pioneer' projects) in new mixed use areas.

Attachment E
(re-printed from June 2 packet)

Multifamily Tax Exemption Summary / RCW 84.14

BACKGROUND

<u>Authorization</u>: RCW 84.14 authorizes cities to **exempt the improvement value of new housing** (or the rehabilitation of qualifying existing housing) **from the ad valorem property tax for a period of 8 or 12 years. The exemption does not include the value of land or non-residential improvements**, such as ground floor retail in a mixed use housing development.

<u>Purpose:</u> The purpose of this exemption is to:

1. Stimulate the construction of new multifamily housing and the rehabilitation of vacant or underutilized buildings for multifamily housing;
2. Increase the supply of housing for low and moderate income households; and,
3. Increase additional housing in certain areas to support investment in public transit.

<u>Public Benefit:</u> Tax exempt housing must meet guidelines adopted by the city that may include height, density, parking, income limits for occupancy and/or other public benefits. **State law requires that the public benefit be comparable to the value of the property tax exemption.**

<u>Eligibility Requirements:</u> The following minimum eligibility requirements are established by the state:

(a) At least fifty percent of the building is for permanent residential use [RCW 84.14.030(3)];
(b) Construction is completed within three years of application unless extended by the City [RCW 84.14.030(4)]; and,
(c) The project includes at least four units [RCW 84.14.010(9)].

LENGTH OF PROPERTY TAX EXEMPTION & AFFORDABILITY REQUIREMENTS (RCW 84.14.020A & B)

The length of the property tax exemption may be for eight or twelve successive years.

<u>Eight Year Exemption</u>: The percentage of affordable units, the minimum affordability requirements and / or other public benefit(s) provided in exchange for the tax exemption are determined by the City.

<u>Twelve Year Exemption</u>: State law requires that at least *twenty percent* of the units be affordable at up to 100 percent of the County median income, though the City may establish more stringent income or affordability requirements [RCW 84.14.040(6)].

RESIDENTIAL TARGETED AREA (RTA) (RCW 84.14.030(1) and 84.14.040

Residential **development receiving a tax exemption must be located in a residential targeted area** designated by the City. The target area must be within an *urban center* and lack sufficient housing, including affordable housing. Urban center is defined as a compact identifiable district with several business, adequate public facilities and a mixture of uses and activities. *Note: This definition is not the same as the "Urban Center" requirements for designation under the County and PSRC policies.*

ADOPTION PROCESS

State law requires the following steps to establish a multifamily property tax exemption:

1. Council approval of a resolution designating the *residential targeted area* [RCW 84.14.040(2)].
2. A public hearing by the Council on the proposed residential targeted area. Notice requirements for the hearing are specified in RCW 84.14.040(3).
3. Council adoption of an Ordinance establishing:

(a) An application process and procedures including administrative review authority, an appeal process [RCW 14.14.090(6)] and fees [RCW 84.14.080];
(b) Requirements for the demolition of existing structures and site use;
(c) Building requirements and amenities that will attract and keep permanent residents and enhance the livability of the area [RCW 84.14.040(5)].

ADMINISTRATIVE PROCESS

The process for receiving a tax exemption includes:

1. Submittal of an initial application and fees to the City by the applicant.
2. Application review by the City. A *Conditional Certificate of Acceptance* [RCW 84.14.070(2)] is issued by the City if the application is approved. Denial of an application may be appealed.
3. Submittal of a statement of construction expenditures and documentation by the applicant that the project qualifies for the property tax exemption. This request for final approval is made upon completion of construction and receipt of a Certificate of Occupancy [RCW 84.14.090(1)].
4. Statement and documentation review by the City.
5. Upon final approval, the City files the Certificate of Tax Exemption with the County Assessor within 40 days of receiving the statement and documentation [RCW 84.14.090(3)]. The applicant may appeal if final approval is denied.

MONITORING & REPORTING

Property Owner: RCW 84.14.100(1) requires the property owner to file an annual statement with the City:
(a) Documenting the occupancy and vacancy of the project during the previous 12 months;
(b) Certifying that the property has not changed use and has been in compliance with the affordable housing requirements; and,
(c) Describing any changes/improvements after issuance of the certificate of tax exemption.

City: The City is required to submit an Annual Report to the State each December. Following is some of the information to be provided in the report: the number of tax exemption certificates granted, the number and type of units produced, the number and type of affordable units and the value of the tax exemption for each project and the total value of all exemptions.

GENERAL FINANCIAL IMPLICATIONS OF THE PROPERTY TAX EXEMPTION

Impact to City Revenues: The financial impact to the City depends on several factors including:
(a) The number and size of the projects receiving the property tax exemption;
(b) The value of the building(s) being replaced/rehabilitated for housing compared to the value of the non-residential portion of the new project(s);
(c) The increase in land values over time (if any) from redevelopment.

Impact to Other Taxing Districts: *Special districts* like the School District, EMS and Library District receive a set amount of property tax revenue each year. Generally, new development adds to / increases the total property value in the district. Because the revenue for the district remains constant, an increase in property values results in a decrease in the *amount* of property tax paid by other property owners. Therefore, the multifamily property tax exemption will not reduce the amount of revenue raised for a special district, but it may mean that other property owners will see a smaller reduction in their own property tax assessment.

Impact on Other Property Owners: The Multifamily tax exemption does not redistribute the "deferred" property tax to other property owners (i.e. increase the taxes paid by others).

Attachment F

ATTACHMENT F – DEVELOPER BENEFIT AND COST ANALYSIS

Developer Benefits and Costs
From a development perspective, the economic issue is evaluating the cost of potential lost revenue resulting from required affordability levels against the value of the property tax exemption. Table F1 provides a general illustration of a framework for evaluating the economic impacts of an MFTE program on individual projects. It calculates the value of the reduced revenue resulting from providing affordable units using a 'cap rate' approach and compares that to the 'present value' of the 12 years of property tax exemption. The general objective is to set the cost of providing the public benefit costs at, or less than, the value of the property tax exemption.

Rents for newer properties are typically higher than overall rents. Therefore the analysis is based on evaluating affordable rent levels against expected rent levels for newer properties. As Table F1 shows, because of these higher rent levels, affordability for a non-layered program may need to be at the higher end of the moderate income range. It is also noted that rent levels and property values can vary significantly in different neighborhoods in Bellevue. Once there is direction from Council on which neighborhoods should be considered for an MFTE program, this analysis should be updated to account for variation in rents and property values in different areas. It is noted that to some extent variations in rents can be offset by corresponding different land values in neighborhoods. Table F1 is also set up to account for the potential value to developers of other forms of incentives.

As was stated above, the initial assessment indicates that if 20% of the units are required to be affordable (state requirement for the 12 year exemption), the affordability levels may need to be at the higher end of moderate income range. If there is a desire to achieve greater affordability levels, there are several ways to modify a program:

- **8 Year Exemption**. Offer an 8 year exemption requiring less than 20% of the units being affordable, but at a greater affordability level (e.g. 5 – 10% at 60% or 70% of median income).
- **Multiple affordability levels**. For the 20% affordable, have two levels of affordability. (e.g. 10% units affordable at 70% of median income and 10% of units affordable at 80% of median income).
- **Account for other Incentives**. Account for the value of other potential incentive programs in setting the affordability requirements.
- **Vary Affordability by Unit Size**. Provide for different affordability levels for different unit sizes. Typically the gap between market rent levels and a set affordability level is less for units with fewer bedrooms. Seattle has set higher rent levels for the affordable units for larger units than for smaller units. One reason this was implemented was to encourage developers to provide larger units (Seattle requires the unit mix for the affordable units to be comparable to the overall mix). However this has not resulted in a greater portion of larger units implying other factors contribute to decisions on a project's unit mix.
- **Micro Units**. Related to the previous point, Seattle has surveyed rents for all the newer properties that are utilizing their MFTE programs. Several properties are providing 'Micro' units and they found that for these properties there is essentially no difference between market rents and the affordable rents. The city may want to consider excluding such properties from any program, or requiring a different affordability level that accounts for their economics.

TABLE F1 SAMPLE DEVELOPER ANALYSIS SUMMARY

Comparison of Value of Incentives to Cost of Affordable Housing

MARKET UNITS ASSUMPTIONS

Units	#	nsf	Rent per nsf	per month per unit
Studios	10	525	$ 2.38	$1,250
1-BR	50	750	$ 2.23	$1,673
2-BR/1-B	40	900	$ 2.12	$1,908
	100			

Assessed Value (Residential Improvements)	$ 19,875,000
Assessment Rate	$ 10.02
Annual Property Tax Savings	$ 199,238
Financial Assumptions	
Cap Rate	5.5%
Discount Rate	7.0%
Current Value of Tax Exemption	
8 Year	$1,189,712
12 Year	$1,582,488
Current Value of other Incentives	
Fee Waivers	$0
Land Incentives	$579,600
Financing (e.g. bonds, tax credits, in-lieu)	$0
Overall Value of Incentives	
8 Year	$1,769,312
12 Year	$2,162,088

Affordability Level (% Median Inc)	% Units Affordable	Present Cost of Reduced Rent	Gain as Percent of Incentives
90%	20%	($679,549)	69%
80%	20%	($1,434,676)	34%
70%	20%	($2,233,287)	-3%
80% / 60%	15% / 5%	($1,727,956)	20%

Affordable Rents (HUD 2014) (Less Utility Allowance) at 30% of household income

Unit Size	60%	70%	80%	90%
0 Bedrooms	$886	$1,040	$1,195	$1,349
1 Bedroom	$993	$1,170	$1,346	$1,523
2 Bedrooms	$1,111	$1,309	$1,508	$1,706