

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

Multifamily tax exemption (MFTE)

FISCAL IMPACT

RCW 84.14 allows a short-term exemption from property taxation for the value of new housing construction in designated residential target areas (RTAs). The exemption does not include property taxes paid on the value of land or nonresidential improvements. Taxing districts including the city, county and state (state school fund) receive a set increase in property taxes each year based on the amount collected the previous year plus taxes generated from new development. For these districts, the impact is that the district will not receive any new revenue from the improvement value that is exempted through the MFTE program. For taxing districts that receive a set amount of revenue each year (e.g. school district, EMS, library, flood district) the impact is that exempted new development will not increase the overall assessment base, and other property owners would not see any reduction in property taxes that typically occurs as a result of adding the value of improvements to the tax roll.

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POLICY CONSIDERATION

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.*

Council Priorities and Economic Development Plan Direction:

The MFTE also promotes Council Priority #7 *“Promote housing opportunities for the needs of our diverse population”* and related direction to *“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.

Over the years, Bellevue has supported various strategies to develop affordable housing in the community, including the establishment of ARCH, funding for affordable housing through the Trust

Fund, affordable housing land use incentives, and other strategies. The Multifamily Tax Exemption program is one potential key element of a broader City housing program and may be incorporated into an overall housing strategy update.

DIRECTION NEEDED FROM COUNCIL

	Action
<u>X</u>	Discussion
<u>X</u>	Information

Council feedback is requested on the draft MFTE code section and Residential Target Areas, and if ready, direction to schedule this matter for action at a future meeting.

- Based on Council direction at previous MFTE Study Sessions, state legislation requirements, and the experience of other cities, Attachment A presents a draft MFTE code section to establish the Multifamily Housing Property Tax Exemption consistent with state enabling legislation RCW 84.14. **This draft is unchanged from the March 16 public hearing version, pending further discussion from Council.**
- Attachment B presents responses to Council comments and questions on the MFTE program, primarily from the Council discussion following the March 16, 2015 MFTE public hearing. State enabling legislation gives local jurisdictions flexibility to establish program incentives and requirements that meet a community's specific needs. Staff is seeking Council direction on these program questions and for any potential revisions to the draft MFTE code. It is also noted that Council has discretion to modify program requirements at any time. Section 4.52.120 includes provisions for annual monitoring and reporting to council. Therefore, issues can be revisited and updated as warranted.
- Attachment C includes maps of six potential Residential Target Areas (RTAs) where the MFTE would be applicable. Staff is seeking Council direction on these RTAs to confirm important sections of the draft MFTE code.

BACKGROUND

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.

Previous Study Sessions

This discussion follows Council Study Sessions held on June 2 and October 20, 2014 and January 5, 2015; and a Council public hearing on March 16, 2015. The June 2 Study Session provided a high level introduction to the program, which has proven to be an effective tool in other jurisdictions. Council reviewed program options that would allow flexibility to develop a program that meets the City's specific needs.

At the October 20 Study Session Council reviewed and provided direction on MFTE principles and prototype approaches to guide the development of a draft MFTE code section. Staff also addressed Council questions on the potential impacts of the program, particularly to public revenues.

At the January 5 Study Session Council received draft MFTE code language and reviewed key policy questions related to the code language. Council generally agreed with the key policy proposals in the draft, except for the issue of how long MFTE program housing should remain affordable--the Seattle model of a 12-year term or a longer, 50-year term. Council reviewed potential RTAs and how different program objectives could be targeted in different areas. Council requested that two additional RTAs be considered and included in the notice for public hearing: the Crossroads Commercial RTA, and the Wilburton Commercial RTA. There was Council support to move to the next step in developing a MFTE program, noting that there will be opportunities for public input on the proposed program before Council action.

March 16 Public Hearing

Based on Council direction, notice of public hearing was made for these residential target areas:

- 1) Bel-Red RTA
- 2) Downtown Bellevue RTA
- 3) Eastgate Planning RTA
- 4) Newport Hills Commercial RTA
- 5) Crossroads Targeted Commercial RTA (former Top Foods)
- 6) Wilburton Commercial RTA.

At the March 16 public hearing public and written comments were received, both in opposition to and support for including the Newport Hills commercial area RTA. No other public comment was received on any of the other proposed RTAs. Letters were received from two persons with real estate interests supporting the program, and supporting specific program components including the duration of affordability matching the duration of the tax exemption, allowing the MFTE to layer with other affordability incentives, and consideration of size of household in determining income levels.

Additional Council Questions and Potential Refinements to the Draft Ordinance

Council discussion on March 16 followed the public hearing, and raised a number of additional questions about potential refinements to the MFTE ordinance. These comments and questions are catalogued in Attachment B. At tonight's meeting staff will summarize each of these questions, along with potential modifications to the Ordinance, and seek Council direction on each of these remaining issues. This will then be incorporated into the final Ordinance to be brought back for Council action at a future meeting.

Outreach to Neighborhoods, Housing Developers

When several Newport Hills residents raised concerns about including the Newport Hills commercial area as an RTA, staff met with community association leaders and residents. These meetings took place before the March 16 public hearing. The primary purpose of the MFTE proposal as applied in Newport Hills is to catalyze redevelopment of the declining neighborhood shopping center, with a potential mixed use development that may include a combination of housing and neighborhood-serving retail and services.

Staff also met with two local housing developers. A key take-away was that defining an MFTE program that works for every developer is challenging, as developers work with different financing approaches and models for development.

NEXT STEPS

Should Council direct staff to proceed, state law requires these next steps to establish a multifamily property tax exemption:

1. Council adoption of an Ordinance establishing:
 - a. An application process and procedures, including administrative review authority, an appeal process [RCW 84.14.090(6)] and fees [RCW 84.14.080]; and
 - b. A monitoring and reporting process that addresses annual statements by the property owner [RCW 84.14.100(1)], and the City's Annual Report to the state.

These requirements of RCW 84.14 are addressed in the Draft MFTE Code Section Attachment A. Tonight, staff is seeking Council direction on this Code section, on the issues addressed in Attachment B, and on Residential Target Areas found in Attachment C.

ALTERNATIVES

1. Accept the draft MFTE Code language, with edits in response to Council direction on Attachment B, and direct that legislation be prepared for Council action at a future meeting.
2. Accept the draft MFTE Code language without modification and direct that legislation be prepared for Council action at a future meeting.
3. Provide alternative direction to staff

RECOMMENDATION

Alternative 1.

MOTION

Move to accept the draft MFTE Code language and direct that legislation be prepared for Council action at a future meeting.

ATTACHMENTS

Attachment A: Draft MFTE Code Section

Attachment B: Comments and questions on the MFTE program

Attachment C: Proposed MFTE Residential Target Areas (RTAs)

- C1) BelRed RTA
- C2) Downtown Bellevue RTA
- C3) Eastgate Planning RTA
- C4) Newport Hills Commercial RTA (RTA not proposed)
- C5) Crossroads Village RTA (former Top Foods)
- C6) Wilburton Commercial RTA

Attachment D: Previous MFTE Council memos from 2015 (March 16, January 5) and 2014 (October 20, June 2)