

June 15, 2015

## CITY COUNCIL AGENDA MEMORANDUM

### **SUBJECT**

Ordinance No. 6231 authorizing execution of Bellevue City Code Chapter 4.52 Multifamily Housing Property Tax Exemption.

### **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 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 role.

### **STAFF CONTACTS**

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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.

## **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 proposed as a voluntary, affordable housing incentive.

### **MFTE Study Sessions and Public Hearing - Previously Provided**

Tonight's consideration follows Council Study Sessions held on June 2 and October 20, 2014 and January 10 and May 26, 2015; and a Council public hearing on March 16, 2015. The June 2 Study Session was a high level introduction to the program, which has proven to be an effective tool in other jurisdictions. Council reviewed program options that 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.

At the March 16 public hearing there was public and written comments 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.

### **May 26 Study Session – New Section**

At the May 26 Study Session Council provided direction on seven topic areas. Bellevue City Code Chapter 4.52 Multifamily Housing Property Tax Exemption included as Attachment A reflects the changes shown below.

1. ***Residential Targeted Areas (RTAs)*** These RTAs are to be included in the program: (1) Bel-Red Area; (2) Downtown Bellevue; (3) Eastgate Planning Area; (4) Crossroads Village; and (5) Wilburton Commercial. Council can add or remove RTAs at any time.
2. ***Housing Quality.*** Specify in the code and in the covenant that affordable units will be of similar quality as other project units:

4.52.040 (F) Project eligibility. The mix and configuration of housing units (e.g., studio, one-bedroom, two-bedroom, etc.) used to meet the requirement for affordable units under Section 4.52.090 shall be substantially proportional to the mix and configuration of the total housing units in the project unless otherwise approved by the director. The affordable units will be constructed of similar quality as the other units in the project.

3. ***Duration of Affordability.*** Twelve years as follows:

4.52.040 Project eligibility (E). ... Affordable units that are provided under this section shall continue to be made available to eligible households as affordable units for a minimum of twelve years from the date of initial occupancy.

4. ***Balanced Public Benefit.*** Majority of Council favored affordability levels at a mix of 60% and 70% median with the twelve year exemption to balance program cost benefit ratios. Council also favored some of the affordable units guaranteed to be larger, 2 -3 bedroom.

**4.52.090 Exemption-Duration-Affordability requirements-Limits (A)(1)**

For the 20% affordable units, require the affordability levels at 60% to 70% median income, adjusted for household size.

- a. ten percent (10%) of the units are affordable units with affordable rents at or below sixty percent (60%) of King County median income;
- b. an additional ten percent (10%) of the units are affordable units with affordable rents at or below seventy percent (70%) of the King County median household income

**4.52.040 Project eligibility (F)** The project must have a minimum of 15% of the housing units with two or more bedrooms.

5. ***Small Dwelling Units.*** Any dwelling unit that is less than 300 square feet is characterized as a very small dwelling unit, and any affordable unit that is a very small dwelling unit must be affordable at 45% median income.

6. ***Only for Rental Housing.*** Clarify in code language that only rental housing is eligible for program, as follows:

**Section 4.52.040 Project eligibility (B)** The project must be new construction multifamily rental housing consisting of at least four dwelling units within a residential structure or as part of a mixed use development, in which at least fifty percent of the space within such residential structure or mixed use development is intended for permanent residential occupancy.

7. ***Other Incentives.*** New incentives are not proposed, however **Section 4.52.090 Exemption—Duration—Affordability requirements (A.2)** includes special affordability requirements to account for in the Bel-Red area being able to combine the MFTE program with existing incentives including 20.25D.090 Bel-Red FAR Amenity Incentives.

## **Application Fees**

The draft Ordinance includes changes related to program application fees. The earlier draft Ordinance required the Council to adopt an additional Ordinance to set MFTE application fees. The changes allow the director to establish the initial application fee (4.52.050 B), amendment application fee (4.52.065 C), and extension fee (4.52.070 A), rather than having these fees established by ordinance. Section 4.52.025 Director's Authority also adds new language:

4.52.025 E. Power to adopt procedures, fees. The director may develop, adopt, and carry out procedures as needed to implement this code, including, but not limited to, setting fees and charges imposed pursuant to this code and developing procedures for periodic adjustment of these fees and charges.

Application fees will be established consistent with the requirement that fees not exceed the cost to administer the program. Establishing application fees by the director allows the program to move forward immediately upon Council adoption, and allows flexibility if needed to adjust fees up or down as experience is gained under the new program.

## **EFFECTIVE DATE**

If approved, this Ordinance becomes effective immediately.

## **OPTIONS**

1. Adopt the Ordinance authorizing execution of Bellevue City Code Chapter 4.52 Multifamily Housing Property Tax Exemption.
2. Do not adopt Ordinance and provide alternative direction to staff.

## **RECOMMENDATION**

Option 1.

## **MOTION**

Adopt Ordinance No. 6231 authorizing execution of Bellevue City Code Chapter 4.52 Multifamily Housing Property Tax Exemption.

## **ATTACHMENTS**

Proposed Ordinance No. 6231