

**CITY COUNCIL STUDY SESSION ITEM**

**SUBJECT**

Direction for Multi-Family Tax Exemption (MFTE) program

**STAFF CONTACTS**

Mac Cummins, Director, 452-6191  
Terry Cullen, Comprehensive Planning Manager, 452-4070  
Deborah Munkberg, Senior Planner, 452-2898  
Arthur Sullivan, ARCH Program Manager, 861-3676  
*Planning and Community Development Department*

**POLICY ISSUES**

Should Bellevue’s MFTE program be adjusted to increase developer participation?

Under Bellevue’s MFTE program, participating developers who set aside 20 percent of the units as affordable to low- and moderate-income households are allowed a 12-year property tax exemption of residential improvements. Action C-3 of Bellevue’s Affordable Housing Strategy directs that the program should be updated to increase developer participation.

At the November 13 City Council study session, Council directed staff to analyze whether a graduated affordability approach, as used in the Seattle MFTE program, would improve Bellevue’s MFTE participation and support development of affordable family housing in the form of two-bedroom MFTE units.

**DIRECTION NEEDED FROM COUNCIL**

**ACTION**

**DIRECTION**

**INFORMATION ONLY**

Staff is requesting direction on (1) whether and how to adjust MFTE affordability levels and requirements for two-bedroom units; (2) administrative flexibility for application submittal; and (3) updated language for the administrative fee charged by the King County Department of Assessments.

**BACKGROUND/ANALYSIS**

At the November 13 study session, staff provided an overview of the MFTE program (Attachment A). Major findings included:

- Developer feedback and financial feasibility analysis suggest that the downtown MFTE affordability requirements should be adjusted to increase participation in the program. Based on the feasibility analysis, staff recommended a change from 10 percent of units at 60 percent of median income and 10 percent at 70 percent of median income to 20 percent of units affordable at 70 percent of median income.<sup>1</sup>

<sup>1</sup> Median income refers to median King County income.

- In the remaining residential target areas (RTAs), there has not been enough MFTE-eligible development to determine whether changes are needed. However, affordability requirements will be considered as part of ongoing planning initiatives, including the BelRed Look Back, Wilburton commercial area planning, and East Main station area implementation. The remaining areas will be monitored as development occurs.

At the study session, Council discussed efforts to encourage two-bedroom units. Two potential approaches were discussed: (1) Bellevue’s existing provision that requires two-bedroom units make up at least 15 percent of total units in all MFTE developments and (2) Seattle’s approach based on graduated affordability requirements that correspond to the size of the rental unit, as shown in Table 1. Council asked that staff analyze this approach to see if it would be effective in Bellevue.

**Table 1.** Seattle MFTE Graduated Affordability Requirements

Unit Type	Affordability Requirements <i>(as a percentage of median income)</i>
Studio	65 percent
1-bedroom	75 percent
2-bedroom	85 percent
3-bedroom +	90 percent

*Source: City of Seattle Municipal Code, Chapter 5.72*

**Graduated Rents.** To test the question of whether the Seattle graduated affordability requirements would work in Bellevue, staff prepared feasibility analyses for the downtown, BelRed and the other RTAs using Seattle’s requirements (Table 1). The analyses assume that the costs and benefits of participating in MFTE are generally in balance when property owners receive between \$1.10 and \$1.50 in reduced property tax payment for every dollar lost in rent. Below \$1.10, the combined cost of lost rent and program administration may exceed the property tax gain and the property owner has no incentive to participate. Above \$1.50, the City has historically concluded that the gain by the property owner is high compared to the public benefit provided. Within this range, Bellevue’s MFTE affordability requirements are generally set to achieve roughly \$1.30 in reduced property tax payment for every dollar lost in rent. Based on the analysis, staff found that the Seattle affordability requirements applied in Bellevue result in a high public cost (i.e. foregone revenue) compared to the public benefit provided (Attachment B). This is likely because Seattle implements MFTE and applicable land use requirements independently – an affordable unit used to meet a land use requirement cannot also be used to meet MFTE requirements. In contrast, Bellevue allows implementation in an integrated manner – one affordable unit can be used to both meet land use incentive and MFTE requirements. If the affordability assumptions are adjusted to reflect this difference in approaches, as shown in Table 2, the analysis results in a more proportional balance between costs and benefits (Attachment B).

**Table 2.** Revised MFTE Graduated Affordability Requirements

Unit Type	Affordability Requirements <i>(as a percentage of median income)</i>
Studio	60 percent
1-bedroom	70 percent
2-bedroom +	80 percent

For the downtown RTA, two approaches for establishing MFTE affordability requirements have been identified: (1) 20 percent of units at 70 percent median income as discussed at the November 13 study session, and (2) 20 percent of units at differing affordability levels according to unit type, as shown in Table 2. Both approaches could be economically feasible in the downtown. As described in the discussion of two-bedroom units below, Seattle's experience is that the graduated approach does not have a significant impact on two-bedroom unit production. The first approach is comparatively simpler than the second approach and matches the existing structure of MFTE in Bellevue and other eastside cities. For these reasons, staff continues to recommend amending the MFTE ordinance to require 20 percent of units at 70 percent median income for the downtown RTA only (Attachment C).

For the Wilburton, BelRed and potential future East Main RTAs, MFTE affordability requirements are planned for consideration as part of ongoing planning initiatives; the remaining RTAs will continue to be monitored and changes recommended to ensure continued program effectiveness.

***Two-bedroom units.*** With respect to two-bedroom units and MFTE, Seattle staff made the following observations:

- Seattle's graduated affordability approach is designed to equalize the gap between market rate and affordable rents across unit types. Although it also may indirectly encourage a mix of units, Seattle staff believe that, compared to the impact of market demand, this approach has not significantly affected production of two bedroom units.
- In late 2015, Seattle adopted a new requirement that establishes that the minimum number of units restricted to MFTE affordability levels may be reduced from 25 to 20 percent of the total units if a minimum threshold of two-bedroom or larger units are provided in the project. The minimum threshold is scaled according to the project size, and generally corresponds to two-bedroom units comprising four to six percent of the total units in the development. This provision was adopted in 2015 and, according to Seattle staff, has not yet resulted in a noticeable change in the number of two-bedroom units being produced.

Bellevue requires that two-bedroom units make up at least 15 percent of total units in the development. To assess whether the 15 percent requirement is consistent with what the market is providing, downtown developments were reviewed as a conservative proxy for two-bedroom development citywide. A review of five recent downtown residential developments found that, on average, two-bedroom units comprise 22 percent of the total units in these developments.<sup>2</sup> Staff also reviewed other recent projects in other parts of Bellevue and east King County, which further supported these findings. It should be noted that recent developer interviews did not find that the two-bedroom requirement was a factor in decisions about whether to participate in MFTE. Bellevue's requirement for two-bedroom units appears to be consistent with what is being provided by the private market and the City's intent for affordable family housing. No change to the MFTE program requirement for two-bedroom units is recommended.

***Timing of project applications.*** After the November 13 meeting, a developer of a downtown multifamily project currently under construction met with staff to express interest in participating in

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2. Four of the five developments meet the 15 percent MFTE threshold, with two-bedroom units ranging from 19 to 29 percent of total units. The one development that does not meet the 15 percent threshold has a total of 57 units with four two-bedroom units.

MFTE. The City's Ordinance requires that the deadline for application shall be any time before, but no later than, issuance of the first building permit for the project. Under the existing Ordinance, the project in question would not be able to participate in the MFTE program. An amendment to the Ordinance to allow the Director of Planning and Community Development discretion to accept MFTE applications after building permits are issued would allow flexibility to respond to unique circumstances and could increase overall participation (Attachment C). Staff recommends this amendment, together with criteria for review as described below.

***Housekeeping Amendment.*** This housekeeping amendment would revise language in 4.52.050.B to more accurately reflect the administrative fee charged by the King County Department of Assessments, as shown in Attachment C.

### **OPTIONS**

1. Direct staff to prepare amendments to the MFTE Ordinance for the following:
  - a. Adjust the requirement for affordable units in the downtown from 10 percent of units affordable at 60 percent of King County median income and 10 percent of units at 70 percent of median income to 20 percent of units at 70 percent of median income; and
  - b. Establish that, if requested by the property owner or their representative, the Director of Planning and Community Development may allow an exception to 4.52.040.D subject to the following criteria:
    - i. the project meets all requirements established in BCC 4.52.040 for project eligibility; and
    - ii. commitment by the applicant to submit a complete application no less than 60 days prior to issuance of a certificate of occupancy for the project; and
    - iii. submittal of the application has substantial merit and value for the community as a whole.
  - c. Amend BCC 4.52.050.B to state that the owner shall pay to the city a fee as set by the King County Department of Assessments to cover county administrative costs.
2. Provide alternative direction to staff.
3. Take no action.

### **RECOMMENDATION**

Option 1

### **ATTACHMENTS**

- A. November 13, 2017 study session agenda memo and attachments
- B. MFTE Feasibility Analysis
- C. Draft MFTE Ordinance amendments

### **AVAILABLE IN COUNCIL DOCUMENT LIBRARY**

N/A