

CITY COUNCIL STUDY SESSION

Initiate work to update the Multifamily Tax Exemption (MFTE) Program.

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DIRECTION NEEDED FROM COUNCIL**DIRECTION**

Staff seeks direction to initiate work on updating the existing Multifamily Housing Property Tax Exemption (MFTE) program. The work program would include analysis of geographic expansion where MFTE may be used and updates to the Bellevue City Code (Chapter 4.52 BCC) and associated project covenants and agreements associated with the MFTE program.

RECOMMENDATION

Direct staff to initiate work on updating the MFTE Program consistent with the work program as detailed in this memo.

BACKGROUND/ANALYSIS**MFTE: Existing Program**

In 2015, the City of Bellevue first adopted the MFTE Program. Based on state law (Chapter 84.14 RCW), this City program allows developers building multifamily housing to gain a 12-year tax exemption on the multifamily improvements in exchange for providing 20 percent of the total number of housing units in the project at affordable rates for a period of 12 years. The current Residential Target Areas (RTAs) where MFTE may be used include the Bellevue growth corridor (Downtown, BelRed, Wilburton) and mixed-use centers of Eastgate and Crossroads, all of which anticipate mixed-use growth in coming years.

The state law allows for variability on a number of factors to be determined at the local level, including where those RTAs are located, what the target percentage of Area Median Income (AMI) is for each RTA, how long the units must remain affordable, and a number of other details. Bellevue's program includes an additional requirement for 15 percent of the units to be two bedrooms or greater. While Bellevue had been gaining multifamily housing development, this program was initially adopted as a way to target a growing affordable housing need: 50-70 percent AMI levels. Lower AMI levels are generally targeted by non-profit partnerships due to the additional cost associated with greater affordability. Higher AMI levels are often achieved through land use incentives (80 percent AMI) and partnerships with philanthropic entities, such as Microsoft's recent commitment to workforce housing on the Eastside. Bellevue's program allows an overlap between the incentive programs and the MFTE program, allowing the MFTE program to require lower AMI requirements than the 80 percent AMI incentive programs in order to achieve greater affordability on the same units. The MFTE program is

located in Title 4, Revenue and Finance of the Bellevue City Code (Chapter 4.52 BCC) and is used as a financial incentive to gain affordable housing in Bellevue. It was not adopted as a development incentive alone.

Due to differences in the land use incentives for affordable housing in Bellevue's growth areas (e.g. Downtown, BelRed, Eastgate), there is some variation in the application of MFTE across the RTAs regarding AMI levels for the affordable units. This system was updated in early 2018 to increase program use in accordance with the 2017 Affordable Housing Strategy Action C-3 ("Update existing tax exemption programs for affordable housing to increase participation by developers of new housing"). The resulting and current program is outlined in Attachment A alongside nearby cities' programs for comparative purposes.

MFTE: Participation and Expansion Opportunities

Attachment A also highlights Bellevue's MFTE participation to date, including two projects that total 63 affordable units. These projects have been approved since the program update in early 2018, meaning that this updated program has produced less than half of the 65 units per year anticipated in the 2017 Affordable Housing Strategy. Bellevue's MFTE program allows for overlap with land use incentive programs for affordable housing, so 24 of the 63 units will revert to 80 percent AMI levels at the end of the 12-year period while the rest will revert to market-rate housing. These two projects represent a 9.4 percent participation rate since the program's adoption in 2015. Two additional projects totaling 102 affordable units have also expressed a strong interest in using the MFTE program in the coming year.

In the hopes of continuing to increase program participation in accordance with AHS Action C-3, Council has expressed an interest in expanding the program geographically. Attachment B highlights areas outside the existing RTAs where multifamily development is permitted. Any of these areas could be added as new RTAs to expand the geographic reach of the MFTE program. This map also shows all permits approved since 2015 that include multifamily units. The circles are sized by number of units. 85.6 percent of these units are within the existing RTA boundaries, meaning that nearly all multifamily development is already occurring within the areas that allow MFTE use today. While new areas are worthy of consideration for addition to the program, increased utilization will likely require additional actions to be taken, such as those listed below under the description of the proposed program update.

MFTE: Proposed Program Update

A multi-pronged approach is proposed for updating the MFTE program. This approach will lay out an understanding of how the current program is functioning and what barriers may exist. Staff will follow with proposed solutions to provide additional affordable housing under the program while ensuring that housing remains commensurate with the tax exemption provided. Staff has held initial discussions with developers regarding their perspectives and decision making process relating to utilizing the program. With Council direction, staff will initiate an update to the MFTE program, including the technical work and outreach effort to further these discussions toward a series of concrete proposed changes to the MFTE program.

The proposed work program would include the following:

- Analysis of the existing MFTE program, including financial impacts on developers, financial impacts on the City, and the program's overall perception. This would be achieved through

public outreach specifically aimed at developers who have considered or might consider using the program in the future as well as affordable housing managers at ARCH and interested organizations, such as the Bellevue Downtown Association;

- Analysis of expansion of existing program to new RTAs across the City where multifamily is allowed; and
- Examination of existing MFTE program details for potential modification including but not limited to AMI thresholds, overlap with other affordable housing incentive programs, unit mix requirements, program administration, and requirements for substantive similarity of units with market rate units.

Staff proposes continuing work on the update through the end of 2020 and returning to Council in early 2021 for a study session to review proposed changes and receive direction for the MFTE code update.

MFTE Schedule



POLICY & FISCAL IMPACTS

Policy Impact

The purpose of the Affordable Housing Strategy Implementation Program is to improve affordable housing opportunities across the City. This is consistent with City Council Priorities, Comprehensive Plan Housing Policy, and Economic Development Plan Strategies.

The 2017 Affordable Housing Strategy outlines Action C-3, "Update existing tax exemption programs for affordable housing to increase participation by developers of new housing." While this action was addressed in the 2018 update to the program, the continued low utilization calls for additional action under Action C-3.

In addition to its direct impacts, the MFTE program also interacts with other affordable housing policies, most notably the existing incentive programs available throughout the city. Because the two programs are currently permitted to be used simultaneously on the same units, any alterations to one program may impact the utilization of the other program. These potential impacts will be carefully monitored throughout the update process.

Fiscal Impact

No new or different fiscal impacts are anticipated as a result of a proposed program update. Fiscal impacts were identified when the MFTE program was originally adopted in 2015 and under the updates

adopted in 2018. The impact on City budgets varies by project, depending primarily on construction timing as it relates to property value assessment.

Additional program utilization would increase the magnitude of taxes exempted and may have an impact on resources invested in program management. The expected fiscal impact will be evaluated and brought back to Council as part of the work program.

OPTIONS

1. Direct staff to initiate work on updating the MFTE Program consistent with the work program as detailed in this memo.
2. Provide alternate direction to staff regarding a potential update to the MFTE Program.
3. Provide feedback to staff on additional information needed to continue discussion and schedule another study session.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. MFTE Summary: Bellevue and Nearby Cities
- B. MFTE Potential Expansion Map

AVAILABLE IN COUNCIL LIBRARY

Bellevue Affordable Housing Strategy, June 5, 2017