

MFTE: How taxes might be shifted to other properties

Bellevue's MFTE program provides a property tax exemption on residential improvements for the course of twelve years. Evaluating the impacts of this exemption can be complicated, due to the way in which the timing of the project changes this impact. New, partially completed projects are often taxed on the value of their improvements before they open and begin collecting rent. Tax abatements through MFTE begin on January 1 after a project has opened and the city has certified compliance.

- Taxes collected before the exemption takes effect are added to the base levy and are therefore shifted to other taxpayers once the exemption takes effect. No fiscal impact for taxing jurisdictions.
- Taxes that would have been levied, if not for the MFTE exemption, on the portion of the building that was completed in the final year are "foregone." Taxing jurisdictions do not "lose" revenue but they don't collect as much as they would have, and this affects their tax bases in the future.

Both shifted and foregone taxes are distributed amongst local, County, State, and other mixed regions (such as that applying to Sound Transit funding), meaning that MFTE exemptions impact all of these areas.

Because of this, an MFTE project located in Bellevue will result in taxes being shifted to other properties in Bellevue, King County, and Washington State. The amount of the shift will depend on both what percentage of the taxes are collected for each jurisdiction and when the building was constructed. Similarly, the City, County, and State are all impacted by the foregone taxes, ultimately receiving less money in property taxes than they would have had the exemption not taken place.

Bellevue's MFTE: Estimated fiscal impact on the City

This all means that, for a typical project that was initially assessed at around \$400,000 per unit in value, ***between \$30,000 and \$220,000 per affordable unit would be foregone*** (in today's dollars) over the course of the 12 years of affordability. This includes money that would otherwise have gone to the City, local schools, County, State, and other entities like Sound Transit.

Bellevue's MFTE: Estimated fiscal impact on the taxpayers

In order to estimate a robust Bellevue MFTE program's expected impact on the average taxpayer, a number of assumptions have to be made. Projects vary from a 0% shift in taxes to a 100% shift, with the foregone taxes being the inverse. Staff have therefore estimated that, on average, about 50% of the exempted taxes will be shifted and 50% will be foregone in year 1.

Assuming around 1000 eligible units are permitted each year, and Bellevue's MFTE program has a 75% utilization rate for twelve successive years, staff can estimate an approximate impact on a typical single-family homeowner (median Bellevue home value is around \$960,000). Twelve years of exemptions would all be in effect simultaneously, meaning that 9000 units (750 units a year for 12 years) of exemptions would be impacting the City, County, and State. While the shifted taxes can not be perfectly calculated, they are likely to mean around ***\$60-\$100 in increased annual property taxes*** for the median single-family homeowner in Bellevue.