

CITY COUNCIL STUDY SESSION

Multifamily Tax Exemption (MFTE) Program Update, Study Session 2

Mac Cummins AICP, Director, 452-6191

Emil King AICP, Assistant Director, 452-7223

Thara Johnson, Comprehensive Planning Manager, 452-4087

Elizabeth de Regt AICP, Senior Planner, 452-2890

Community Development Department

DIRECTION NEEDED FROM COUNCIL**DIRECTION**

Direct staff on remaining policy questions regarding the MFTE Program Update. In particular, provide direction on the family-sized unit alternative, parking approach, introduction of an 8-year program, and future hearing on the expansion of the Residential Targeted Area.

RECOMMENDATION

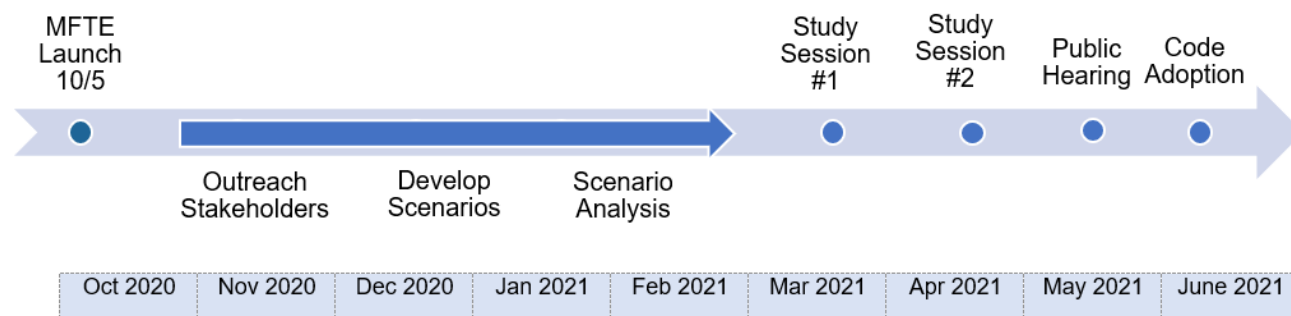
Move to direct staff to (1) develop specific program update language regarding the MFTE Program Update's family-sized unit alternative and parking approach, and (2) schedule a Public Hearing on the proposed expansion of the Residential Targeted Area.

BACKGROUND & ANALYSIS**Program Update Schedule**

Council launched an update to the MFTE program on October 5, 2020. The stated goal was to increase utilization of the program in order to increase the availability of affordable housing throughout Bellevue.

On March 15, Council directed staff on a number of issues, including affordability levels, layering of Land Use Code affordable housing incentives with MFTE, and the introduction of an alternate pathway to the current family-sized unit requirement. In addition, Council gave staff feedback to inform the upcoming discussions on MFTE parking approach and the introduction of a new MFTE program for life-of-project affordability.

Staff is returning tonight to receive direction on remaining portions of the MFTE program update. A subsequent Public Hearing is required by state law (RCW 84.14) to review any alteration of the geographic area where MFTE may be used. Staff plans to include information on affordability level updates in this Public Hearing notice as well. Since the MFTE program lies within the City's Finance Code (BCC 4.52), Planning Commission review and recommendation is not required. Code adoption by Council is targeted for June 2021.



Previous Council Direction: Affordability Levels

In the March study session, Council directed staff on a number of policy issues as follows:

1. Expand the program to all multi-family-zoned areas of the City.
2. Apply an 80 percent AMI affordability baseline to all MFTE areas of the City
3. Require MFTE units that overlap with (i.e. are simultaneously used to satisfy) Land Use Code affordability requirements to be affordable at 50 percent AMI for the 12 years of the MFTE program. This still allows an owner to choose not to overlap units, maintaining 80 percent AMI for both MFTE and Land Use Incentive units, but requiring those units to be counted separately, resulting in a higher total count of affordable units than if the programs were overlapped.

Family-sized Unit Alternative

In addition to the above direction, Council directed staff in March to come back with specific recommendations for an alternate pathway for projects that do not meet the existing family-sized unit requirement that 15 percent of an MFTE project be two-bedroom units or larger.

Attachment A outlines staff's recommendation that an option between deeper affordability or more affordable units be provided to these projects. Projects that do not meet the existing family-sized unit requirement will include all or primarily studio and one-bedroom units, which have a smaller gap between market rent costs and affordable rent costs. This makes either deeper affordability or a higher quantity of affordable units viable for these projects. **Staff recommends that the requirement include the following two options for a developer seeking to use MFTE without 15 percent of units two-bedrooms or larger:**

1. Offer an additional five percent of units, totaling 25 percent of units, affordable at 80 percent AMI; or
2. Maintain the existing 20 percent of units but drop the AMI level down to 70 percent AMI.

Any requirements, if adopted, prescribing deeper affordability when overlapping MFTE with land use incentive units, would require any double-counted units to be provided at 50 percent AMI, even if the second option is chosen. The existing micro-unit requirement that units under 300 square feet in size be offered at 45 percent AMI would remain.

Parking

The City of Bellevue, along with other ARCH members, have included parking or any costs to the renter regarding parking, in the “affordable rent” since implementing the first affordable housing programs in the early 1990s. This was considered to be reasonable when and where the City requires on-site parking of one or more spaces per dwelling unit. Now that the City allows parking ratios below one space per unit, the affordable housing practice should adapt.

Affordable rents are based on a standard 30 percent of the maximum eligible household income, and this standard was set in an era when on-site parking and utilities were generally included in rent. Since then, most landlords have unbundled utilities and parking from contract rent, which reduces market rents. Developers have expressed a need to unbundle parking from affordable rents as well. Affordable rents account for unbundled utilities by providing a fixed utility allowance; tenants then pay a separate utility bill according to their actual usage. Likewise, affordable housing residents could pay separately for parking if maximum rents are adjusted accordingly. Without a rent reduction or other mitigation, tenants who need cars to get to/from employment would become more cost burdened by added parking fees beyond the 30 percent income calculation upon which their affordable rent is calculated.

Previous Council Direction: Parking Approach

During the March study session on this topic, staff provided data showing that parking is still utilized by a majority of affordable tenants. That data is repeated as Attachment B of tonight’s materials.

Council requested additional information on the City’s existing MFTE approach to parking, which is included in Attachment C. That approach has been consistent across all ARCH cities and includes, as a baseline, one parking stall’s monthly cost within the affordable rent totals. This baseline has been adjusted in certain instances where the owner has provided the Director with unique circumstances warranting a decrease in or elimination of this cost from the affordable rent totals.

Following staff’s explanation of a need for an adjustment to this approach for projects that have fewer than one parking space per unit, Council also provided direction for staff to explore a new parking approach. Council expressed interest in providing some level of transportation support to affordable renters while working to lessen the burden currently put on project owners to provide a full parking space to affordable tenants. A specific request to look at providing tenants with a free monthly transit pass was given by numerous Councilmembers.

Parking Approach Recommendation

Staff initially looked at adjusting the City’s MFTE parking approach by allocating a proportionate number of parking stalls to the affordable units. For example, a 100-unit MFTE project with 80 parking stalls would have to provide 16 parking stalls to the 20 MFTE units free of charge. This approach is not recommended by staff due to the difficulty in equitably distributing these stalls in the instance where more than 16 affordable tenants desire parking spaces. In addition, this approach has the potential to incentivize unnecessary use of free parking spaces by affordable tenants, increasing the demand for parking by affordable tenants and impacting the overall ratio of stalls available to market tenants. Staff’s primary concern relates to cost burdening affordable renters; rather than requiring physical access to a parking stall.

Staff have provided four options for parking for Council consideration, as outlined in Attachment D and summarized below.

1. The first approach provides a discount on parking costs to affordable tenants. This would allow affordable tenants to purchase parking at a lower rate than the standard rate offered to market-rate tenants. While this would be simple for the owner to administer, it has the potential for the same issue as the above approach for dedicated stalls included in affordable rent. Staff would prefer not to incentivize the use of parking by discounting it directly. In addition, discounting parking does not incorporate parking costs into the 30 percent income maximum calculation for affordable rent. Any tenant who purchased a parking space would be further cost burdened by that purchase.
2. The second approach was created in response to Council's request to explore the distribution of transit passes. Physically distributing transit passes can be difficult to implement due to differing needs among tenants for parking, light rail transit, bus transit, or other transportation needs that may not all be addressed with the same pass. **Instead, staff recommends that a transportation allowance be implemented in a similar manner to the utilities allowances that are already used by MFTE programs to ensure that typical utilities costs are included in affordable rent totals.** This allowance could be used by tenants to purchase parking or transit passes. It could be set annually, just as utilities allowances are, to adjust to current transit rates and expected parking ratios. This would be consistent with the planned ARCH-wide parking approach.
3. The third option was brought forward by the development community as an alternative approach that would remove any distribution of parking costs from the affordable rent calculation. Because the 80 percent AMI initial calculation for updating the MFTE system was based on including 75 percent of the cost of a parking stall in the affordable rent calculation, removing this allows for the AMI levels to be lowered to maintain total costs to both the affordable tenant and the owner. This would set the baseline affordability levels at 70 percent AMI but retain 50 percent AMI as the layering affordability level in order to incentivize the layering of programs. This option is not preferred by staff due to its inconsistency with other local MFTE programs and the possibility that it could disqualify tenants from those units who otherwise would have qualified under the other options.
4. The final option is similar to the third, removing all distribution of parking costs from the affordable rent calculation. However, it would maintain the 80 percent AMI level as the baseline. Option four would in most cases appeal to the same owners as option three, but it would require less deep affordability in exchange for the same tax exemption. The development community has also expressed an interest in this option.

Extension Opportunities

In the March study session, Council directed staff to return with more information on potential options to extend the affordability of the MFTE program. While state legislation will soon provide the ability to extend the existing 12-year program by 12 years, this will not be usable by any Bellevue MFTE project for nearly a decade.

In addition, staff looked into options to offer affordability for the life of the project as an alternative method of extending affordability. This would remove the abrupt end of affordability that exists after 12 years with the current program and might be achieved by adopting a new eight-year MFTE program, which is permitted under existing state code. Possible requirements for such a program are outlined in Attachment A.

However, **staff recommends waiting to implement any 8-year exemption or 12-year extension at this time, believing the City should evaluate the success of the recommended changes to the 12-year program as discussed on 3/15/2021 and within this memorandum.** As part of a future discussion to evaluate the success of the MFTE program, the City can also consider whether it should provide for an 8-year exemption and/or extensions to the 12-year exemption.

Summary of Recommendations

Attachment E summarizes the staff's proposed recommendations to date, including those from the March 15 study session and those discussed herein.

POLICY & FISCAL IMPACTS

Policy Impact

A shift in the MFTE program will likely result in a different quantity and affordability level of units produced through the program. The affordability levels and layering strategies chosen by Council in March should yield a large increase in utilization, perhaps to up to 75 percent of eligible projects. The remaining projects are likely to be luxury projects with the highest market rents or projects planned for conversion to condos within less than 12 years of completion. This utilization could yield around 100-150 MFTE units per year, some of which may overlap with other affordable housing programs for deeper affordability levels.

Fiscal Impact

Increased utilization of the program would result in an increased number of tax exemptions. The fiscal impact of these tax exemptions is difficult to predict but is outlined in Attachment F. Generally speaking, the City Council has previously determined that the need to create affordable housing in the community has offset the need for the tax revenue which is forgone by allowing owners to participate in the program.

OPTIONS

1. Direct staff to (1) develop specific program update language regarding the MFTE Program Update's family-sized unit alternative and parking approach, and (2) schedule a Public Hearing on the proposed expansion of the Residential Targeted Area.
2. Provide alternate direction to staff on the MFTE Program Update, and direct staff to schedule a Public Hearing on the geographic expansion and affordability levels.
3. Provide alternate direction to staff on the MFTE Program Update, and direct staff to schedule another study session.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. Family-sized Unit Alternative + 8-year Program
- B. Parking Demand and Cost-burden
- C. Parking Administration
- D. Parking Approaches
- E. Proposed Edits Summary
- F. Fiscal Analysis

AVAILABLE IN COUNCIL LIBRARY

Bellevue Affordable Housing Strategy, June 5, 2017