

CITY COUNCIL STUDY SESSION

Multifamily Tax Exemption (MFTE) Program Update, Study Session #3

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DIRECTION NEEDED FROM COUNCIL**DIRECTION**

Staff will review Council's previous direction and provide some follow-up information on the MFTE Program Update package from the April 19 study session. Following any discussion, staff will seek direction to prepare for a public hearing and final action.

RECOMMENDATION

Direct staff to prepare for a public hearing and final action on the MFTE Program Update.

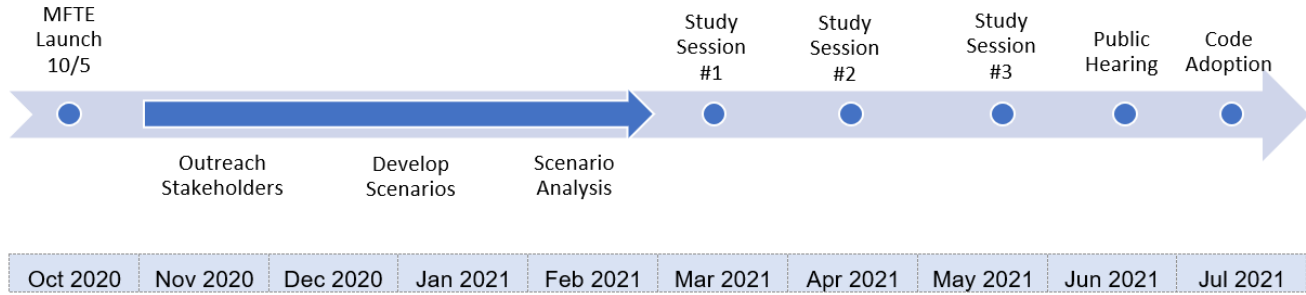
BACKGROUND & ANALYSIS**Program Update Schedule**

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, staff shared the results of stakeholder outreach and scenario analysis with Council. Council directed staff on a number of issues, including affordability levels, overlapping 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 provided feedback on parking and life-of-project affordability.

On April 19, Council reviewed a package of potential MFTE program elements from the above list, which also introduced a new rent stabilization provision as part of that package.

Tonight, staff will review the status of the initiative, review the direction given by Council at the March 15 and April 19 study sessions, and following discussion, seek direction to prepare for a public hearing and final action at a subsequent meeting. Additionally, staff has provided some additional technical information that individual members of the Council asked about during the April 19 study session. A public hearing is required by state law (RCW 84.14.040) to review any alteration of the geographic area where MFTE may be used. Staff plans to include other program update information in this public hearing notice as well. Based on the updated schedule to accommodate Study Session #3, Code adoption (BCC 4.52) by Council is targeted for July.



Potential Program 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 new state legislation now provides 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 increasing the required affordability from 12 years to the life of the project as an alternative method of extending affordability. This could be achieved by adopting a new eight-year MFTE program, which is permitted under existing state code. Under state code, an eight-year program does not require a minimum of 20 percent of units be designated as affordable units similar to the 12-year program. It could, therefore, be utilized to require a smaller percentage of units, around eight percent, to be affordable for the life of the project.

Staff subsequently recommended that the Council wait to implement any program extension until the updates to the 12-year program can be evaluated. Any extensions to the MFTE program can be considered as part of a future update.

Previous Council Direction: Affordability Levels

In the March and April study sessions, 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 a deeper AMI level (package reviewed at the April study session considered a 65 percent AMI baseline) for the 12 years of the MFTE program. This would allow 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.

Previous Council Direction: Family-sized Unit Alternative

In March, Council directed staff 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. Staff subsequently recommended 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. The package reviewed by Council in April amended this option to only apply the lower AMI level to studios and one-bedroom units, allowing two-bedroom units and larger to remain at 80 percent AMI.

The requirements around overlapping MFTE with land use incentive units would remain, requiring deeper affordability for those units that are double-counted or overlapped between programs. The existing micro-unit requirement that units under 300 square feet in size be offered at 45 percent AMI would also remain.

April MFTE Package Contents and Analysis

On April 19, Council directed staff to return with an analysis of the MFTE Program Updates as a whole. This request included a comparison of the existing program with the staff recommendations outlined in the April 19 packet materials and the several iterations of the package discussed at the April 19 study session (including 60 percent AMI, 65 percent AMI, and 70 percent AMI requirements for the overlapped units). Attachment A outlines the program elements and anticipated utilization for each. It also includes a diagram showing the relationship between the expected tax exemption and the anticipated cost of providing affordability under MFTE.

Interest in the existing MFTE program has increased over the past year and is expected to result in about 40 percent utilization under the existing requirements, based on current project activity and interest. Both the April 19 packet material approach and the package discussed with Council would roughly double this utilization. The remaining 20 percent of projects are not likely to utilize the MFTE program under any update due to either the owner's disinclination to manage affordable units or, most likely, the owner's intent to leave open the option to transition the apartments to condos within the first 12 years of operation.

Staff supports the package discussed with Council on April 19 and summarized herein. In addition to the analysis of this whole package, staff have provided some additional information about the individual program elements that had not yet been individually directed by Council prior to April 19.

Parking Discount

The original April 19 staff recommendation for parking was a transportation allowance for all MFTE tenants. At the April 19 study session, Council discussed a different alternative, which would be a 30 percent discount on parking stall rental costs for MFTE tenants outside Downtown. The parking would be made available to both affordable and market-rate tenants on a first-come, first-served basis. The primary difference compared with the April 19 staff recommendation is that the entire cost of parking would be in addition to the affordable rent totals. The parking allowance staff recommended on April 19 meant that those affordable tenants who chose to purchase parking would have about half of the cost of parking covered within the affordable rent total and an additional half would be beyond that total. The 30 percent parking discount included in the package discussed by the Council on April 19 would lower the cost of parking by 30 percent for affordable tenants outside of Downtown. That full cost would then

be in addition to the affordable rent totals. This would disincentivize car ownership by charging a significant fee for the rental of a parking space.

The parking discount will require a new administrative procedure for the property managers and staff to ensure compliance with the requirements. This would be unique to Bellevue as other ARCH cities are not using this approach.

Rent Stabilization

The new element offered as part of the package discussed on April 19 is a cap on rent increases for MFTE tenants re-leasing the same sized unit within a project. Under this package, those tenants would have a 3 percent cap on rent increases in any given year. Thus, their rent may increase up to 3 percent each year, not to exceed the baseline rent calculated using HUD's AMI calculations. This provides some level of stability for MFTE tenants who in recent years have seen annual increases up to nearly 8 percent. In years when HUD's AMI calculations increase by less than 3 percent, rent for affordable units would be permitted to increase a full 3 percent in order to catch up with HUD's AMI calculation. Attachment B lists the annual increases over the last 20 years.

Current tenancy data for affordable units shows that about 40 percent renew their lease each year and would benefit from the rent stabilization in the years where it would apply. A small percentage of these tenants (around 15 percent of the total units) would re-lease the following year and get a compounding effect in times of high rent increases.

This rent stabilization provision would be new to Bellevue. Because of the variability in re-lease statistics and catch-up provisions, this program would result in new administrative procedures/costs for the property managers and staff to ensure program compliance. Each MFTE unit may have slightly different rents each year and across different projects.

Staff are examining Seattle's rent stabilization provisions for administration best practices, acknowledging it is different from the package discussed on April 19. Specifically, all Seattle MFTE units under their current program are included (i.e. both re-leases and new leases), meaning all units at the same AMI level in a particular project would have the same affordable rents.

POLICY & FISCAL IMPACTS

Policy Impact

Amendments to the MFTE program will likely result in a different quantity and affordability level of units produced through the program. The anticipated utilization impact and resulting affordable unit production are outlined in Attachment A alongside descriptions of the potential packages.

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 it was outlined in the packet materials for April 19. Generally speaking, the Council has previously determined that the need to create affordable housing in the community offsets the need for the tax revenue which is forgone by allowing owners to participate in the program.

OPTIONS

1. Direct staff to prepare for a public hearing and final action on the MFTE Program Update.
2. Provide alternate direction to staff on the MFTE Program Update.

ATTACHMENTS & AVAILABLE DOCUMENTS

- A. Program Update Packages and Analysis
- B. MFTE Affordable Rent Increase History

AVAILABLE IN COUNCIL LIBRARY

Bellevue Affordable Housing Strategy, June 5, 2017