

Multi-Family Tax Exemption Program

Refresher Presentation

City Council
July 2, 2019

History

- 1995 – State Legislature created the Multi-Family Tax Exemption (MFTE) program
- RCW 84.14



- To help spur redevelopment in lagging urban centers
- Fulfill GMA goals to encourage in-fill development in existing urban centers, thereby reducing sprawl and promoting “smart growth”
- Provide for affordable housing



How it works

- MFTE provides incentive to developers to invest in “residential targeted areas” and include affordable housing
- Residential targeted areas – mixed-use centers designated and planned by cities in Comp Plans or Subarea Plans to receive greater density of multifamily and commercial development

Residential targeted areas

Often called “urban villages” or “urban centers” –

- Walkable
- Amenity-rich
- Transit-supportive
- Mixed-use areas

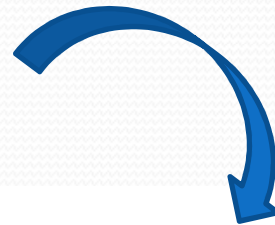


Intended to accommodate future growth in housing and employment

Designated by cities through Comp Plans or Subarea Plans per GMA

Barriers to redevelopment

Notwithstanding a city's plans, transformation to “urban village” can be fraught with challenges





Barriers to redevelopment

Challenges include:

- Competition from higher-rent locales (e.g., Seattle, Bellevue)
- Complications with urban redevelopment:
 - Unwilling property sellers
 - Need to aggregate multiple properties
 - Existing long-term leases
 - Environmental remediation
- Provision of below-market-rate housing requires some subsidy or incentive, especially in new development

These factors can stall planned-for redevelopment and provision of affordable housing for decades!

One small tool

- The MFTE program is one small tool to provide an incentive to developers and investors to overcome these challenges and encourage development of multifamily and mixed-use projects that include affordable housing





Program's reach

Many cities in Washington have implemented MFTE:

Near Edmonds

Seattle	Lynnwood
Everett	Kenmore
Shoreline	Marysville
Mountlake Terrace	

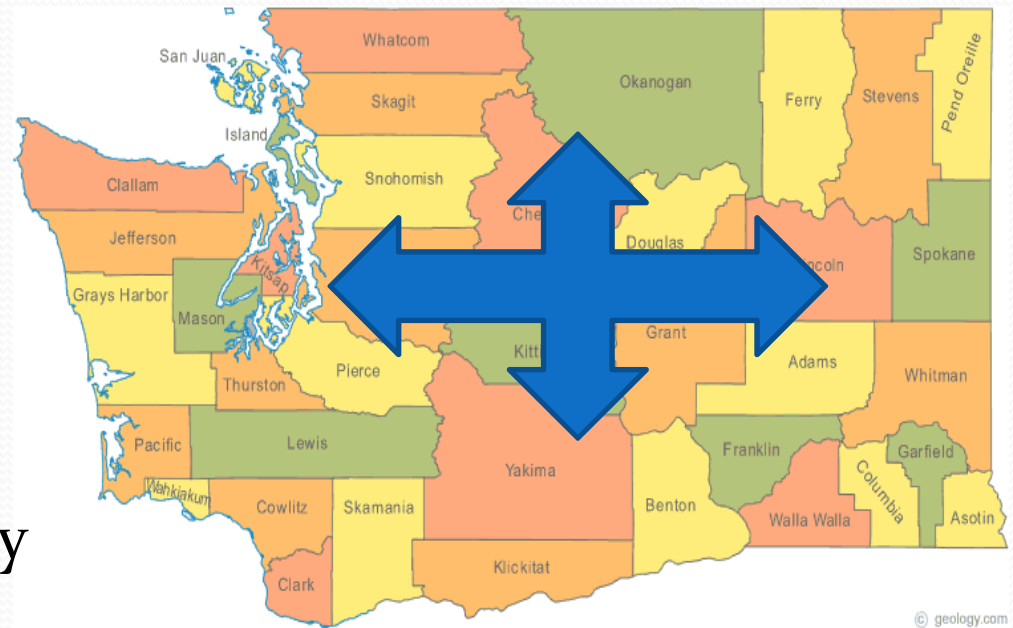
Program's reach

Statewide

Tacoma	Puyallup	Wenatchee
Spokane	SeaTac	Walla Walla
Yakima	Bellingham	Moses Lake
Bellevue	Auburn	Anacortes
Renton	Olympia	Issaquah
Kirkland	Vancouver	Tukwila
Burien	Federal Way	Des Moines
Bremerton	Kent	Covington
University Place		

Program's reach

In fact, because of program's widespread application Statewide, many developers have come to consider the MFTE program as a necessary tool to help overcome the challenges of urban redevelopment and affordable housing in all but the highest-rent housing markets





MFTE in Edmonds

- In July 2016 Edmonds City Council implemented the MFTE in Edmonds
- Starting with Westgate Mixed-Use Zone
- Extended the provision to Highway 99 Corridor in 2017 and made minor amendments



Program basics

MFTE Program is applicable to:

- Projects containing at least 20 dwelling units
- Exempts residential improvement value **ONLY**
- Nonresidential (commercial, e.g.) improvement value is **NOT** exempt
- Land value is **NOT** exempt
- 12-year exemption for projects including at least 20% of units as affordable to low- and moderate-income households

Program basics

Edmonds program provides:

- 10% for low-income and 10% for moderate-income¹
 - Low-income \leq 80% of County median income²

\$53,200 - 1 person	\$60,800 - 2 person
\$1,330/mo rent+util	\$1,520/mo rent+util

- Moderate-income \leq 115% of County median income

\$76,475 - 1 person	\$87,400 - 2 person
\$1,912/mo rent+util	\$2,185/mo rent+util

NOTES: 1. 10%-10% split and 2. use of County median income unique to Edmonds, as per 2017 amendments.



Tax revenue implications

Start with review of property tax basics:

- City property tax rate is product of Council-approved annual tax levy (amount to be raised) divided by City's total Assessed Valuation (AV).
- The Council approved 2019 levy amount of \$10,548,203
- The City's AV was \$9,107,284,679
- Therefore, the City's property tax rate is approx. \$1.1582 per \$1000 of property value.
- \$500,000 house pays \$579.10 in City property taxes



Tax revenue implications

How does partially exempted building fit into the equation?

- Assume \$5,000,000 mixed-use development.
 - \$1,000,000 – land and commercial component
 - \$4,000,000 – residential component, incl affordable housing
- MFTE exempts the residential portion for 12 years.
- This portion is not added to the City's AV and is not taxed.
- However, increased land value and commercial portion are both added to City's AV and are taxed.



Tax revenue implications

Assuming no other changes (incl. same levy amount):

- City's AV goes up by \$1,000,000 to \$9,108,284,679
- City's property tax rate goes down to \$ \$1.1581/\$1,000
- \$500,000 house pays \$579.05 (-\$0.05)
- Project contributes \$1,158.1 in property taxes from land and commercial portion
- Residential portion is not added to the City's AV and is not added to tax rolls. Pays no property tax for 12 years.
- After 12 years residential portion is added to City's AV and contributes property tax revenue



Tax revenue implications

- Even during 12-year partial exemption period, project contributes:
- Initial impact fees (transpo, parks)
- Project's residents and businesses/customers pay:
 - Sales taxes
 - Utility taxes
 - Gas taxes



Tax revenue implications

What if the project were NOT partially exempted?

- All of new value would be added to AV
- City's AV goes up by \$5,000,000 to \$9,112,284,679
- City's property tax rate goes down to \$1.1576/\$1,000
- \$500,000 house pays \$578.80 (-\$0.30)
- Project contributes \$5,788 in property taxes from year 1

Upshot:

- \$500,000 could theoretically pay \$0.30 less in property taxes (instead of only \$0.05 less w/ MFTE exemption)
- But new project, incl. affordable hsg., may not occur



Westgate Village Project Example

- 91 total units
- 14 “moderate-income” households ($\leq 115\%$ of County median income):
 - \$1,445 to \$2,250/mo rent+util*
- 5 “low-income” households ($\leq 80\%$ of County median income):
 - \$1,330 to \$1,710/mo rent+util*
- 72 market-rate units:
 - \$1,490 to \$2,380/mo NOT including utilities

**NOTE: HUD utility allowance is \$172 to \$214 (depending on unit size)*



MFTE impact summary

- MFTE is tool to encourage planned-for development and provide affordable housing (80% to 115% AMI)
- MFTE exempts residential value only for 12 years
- During exemption period project contributes:
 - Initial impact fees for transportation and parks
 - Property taxes from land and commercial component
 - Sales, utility, gas taxes
- After 12 years the project contributes full property taxes
- No additional taxes paid by City taxpayers

Questions?

