



Meeting Agenda

Land Use & Environment Committee

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8244

Thursday, June 18, 2020

5:00 PM

Online and via phone

Register to attend:

https://us02web.zoom.us/webinar/register/WN_PiSrkgg4Q2ODiaStJzW5g

1. CALL TO ORDER

2. ROLL CALL

3. APPROVAL OF AGENDA

4. PUBLIC COMMENT

Please submit public comment via email to citycouncil@ci.olympia.wa.us

5. APPROVAL OF MINUTES

5.A [20-0482](#) Approval of May 21, 2020 Land Use & Environment Committee Meeting Minutes

Attachments: [Minutes](#)

6. COMMITTEE BUSINESS

6.A [20-0467](#) Briefing on Multi-Family Tax Exemption Program

Attachments: [Olympia Municipal Code 5.86](#)

[Map](#)

[Joint Legislative Audit and Review Committee Report](#)

[Supply Skepticism Research](#)

6.B [20-0444](#) 2020 Engineering Design and Development Standards Update

6.C [20-0465](#) Parking Strategy Implementation Update

Attachments: [Parking Strategy Implementation Schedule](#)

6.D [20-0462](#) South Capitol Neighborhood Parking Strategy

Attachments: [Summary of Changes](#)

[Parking Strategy Report](#)

[Zone Maps](#)

7. REPORTS AND UPDATES**8. ADJOURNMENT**

The City of Olympia is committed to the non-discriminatory treatment of all persons in employment and the delivery of services and resources. If you require accommodation for your attendance at the City Council Committee meeting, please contact the Council's Executive Assistant at 360.753.8244 at least 48 hours in advance of the meeting. For hearing impaired, please contact us by dialing the Washington State Relay Service at 7-1-1 or 1.800.833.6384.



City Hall
601 4th Avenue E.
Olympia, WA 98501
360-753-8244

Land Use & Environment Committee
**Approval of May 21, 2020 Land Use &
Environment Committee Meeting Minutes**

Agenda Date: 6/18/2020
Agenda Item Number: 5.A
File Number:20-0482

Type: minutes **Version:** 1 **Status:** In Committee

Title

Approval of May 21, 2020 Land Use & Environment Committee Meeting Minutes



Meeting Minutes - Draft

Land Use & Environment Committee

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8244

Thursday, May 21, 2020

4:30 PM

Online or via phone

**Register to attend: [https://us02web.zoom.us/j/83756491108?](https://us02web.zoom.us/j/83756491108?pwd=Z2FNOVMzKy9TR0xSY2gvMXNnYjBpQT09)
[pwd=Z2FNOVMzKy9TR0xSY2gvMXNnYjBpQT09](https://us02web.zoom.us/j/83756491108?pwd=Z2FNOVMzKy9TR0xSY2gvMXNnYjBpQT09)**

1. CALL TO ORDER

Chair Gilman called the meeting to order at 4:30 p.m.

2. ROLL CALL

Present: 3 - Chair Clark Gilman, Committee member Dani Madrone and
Committee member Jessica Bateman

2.A OTHERS PRESENT

Jay Burney, City Manager
Michael Young, Assistant City Attorney

Community Planning and Development Staff:
Leonard Bauer, Director
Amy Buckler, Strategic Projects Manager
Cary Retlin, Home Fund Program Manager
Joyce Phillips, Senior Planner

Public Works Staff:
Rich Hoey, Director
Susan Clark, Engineering & Planning Supervisor

Alison Osterberg, Thurston Regional Planning Council

3. APPROVAL OF AGENDA

The agenda was approved.

4. PUBLIC COMMENT

Public comment was accepted via email only.

5. APPROVAL OF MINUTES

5.A [20-0401](#) Approval of April 16, 2020 Land Use & Environment Committee Meeting

Minutes

The minutes were approved.

6. COMMITTEE BUSINESS**6.A** [20-0387](#) Follow-up Discussion: Just Cause and Vacate Notice Extensions for Rental Housing

Mr. Retlin provided a briefing on the "Just Cause and Vacate Notice Extensions for Rental Housing".

The Committee wants staff to clarify the problem they are trying to solve, using data and input from stakeholders. Also, clarify how proposed draft changes will impact existing code and analyze potential unintended consequences possibly through outreach to both landlords and tenant groups. Lastly, identify how needs have changed and if there are any urgent issues that need to be addressed due to the COVID crisis.

6.B [20-0199](#) Thurston Climate Mitigation Plan Project Update

Mr. Hoey, Ms. Clark and Ms. Osterberg gave a PowerPoint presentation on the Thurston Climate Mitigation Plan.

The discussion centered around. Refining the data that has been collected to find out where are some of primary sources of emissions coming from such as commercial or residential buildings before the City goes to the state legislature with specific requests. Also, will Olympia be able to reach its goal of carbon neutrality by 2040 and how do we get there. Lastly, what were the lessons learned from Sustainable Thurston? It was stated that a draft implementation plan could be ready by late summer and that the City could start a public discussion about potential priority actions in fall.

The information was received.

6.C [20-0386](#) Housing Action Plan Briefing

Ms. Buckler provided a PowerPoint briefing on the Housing Action Plan.

The report was received.

6.D [20-0267](#) Shoreline Master Program Periodic Review - Briefing

Ms. Phillips provided a PowerPoint briefing on the Shoreline Master Program update.

The information was received.

7. REPORTS AND UPDATES

Mr. Bauer updated the committee members on the planned agenda items for the next meeting. Committee member Madrone requested additional information on the Multi-Family Tax exemption program before the next meeting.

8. ADJOURNMENT

The meeting was adjourned at 6:33 p.m.



Land Use & Environment Committee

Briefing on Multi-Family Tax Exemption Program

Agenda Date: 6/18/2020
Agenda Item Number: 6.A
File Number:20-0467

Type: discussion **Version:** 1 **Status:** In Committee

Title

Briefing on Multi-Family Tax Exemption Program

Recommended Action

Committee Recommendation:

Staff report and discussion of the current Multi-Family Tax Exemption (MFTE) Program and opportunities for program changes.

City Manager Recommendation:

Provide staff with feedback and direction on the MFTE program.

Report

Issue:

Whether to receive a briefing on the current status of Olympia's Multi-Family Tax Exemption Program (MFTE), recent state research, and consideration and timing of potential changes to the program.

Staff Contact:

Cary Retlin, Housing Programs Manager, Community Planning and Development, 360.570.3956.

Presenter(s):

Cary Retlin, Housing Programs Manager

Background and Analysis:

Recently several Multi-Family Tax Exemption applications for downtown housing developments came to Council for approval. As a result, Council's Land Use and Environment Committee added this briefing to their work plan.

This presentation will provide a briefing for the committee on the state context of the MFTE and the current City program, housing developments with current exemptions in the city, and potential opportunities for changes to the program. Staff will also touch on the recent state MFTE recommendations.

Discussion of Potential MFTE Program Changes

The staff briefing will suggest areas where the Committee may consider changes - specially to

stimulate more affordable housing through the MFTE program in the future. Staff feel that Olympia's MFTE has been one of several tools that have resulted in new transit-oriented housing downtown (currently 284 units in five MFTE projects) and helped incentivize the first private unsubsidized affordable housing development in Olympia (84-unit Merritt Manor). Staff will also explore the link between market rate development and affordable housing supply overall. Olympia's Comprehensive Plan set the goal of 25% of the new development in our community occurring in downtown. The MFTE has played a role in helping to build market rate and affordable housing. Staff would like to see that continue so we can continue to make progress on our Comprehensive Plan goals.

State MFTE Program

The first version of the state MFTE program was created in 1995 that allows a period of property tax exemption for the residential portion of new or rehabilitated developments. Since 1995 the program was revised to have two elements: the 8-year program to encourage new multifamily housing in urban areas to make progress on Comprehensive Plan goals like density and transit-orientation, and a 12-year program to increase affordable housing. The affordable housing program must ensure that at least 20 percent of the units serve households at or below 80 percent of area median income. The program is authorized under RCW 84.14.

Olympia's MFTE Program

Olympia's MFTE program tracks very closely with the basic provisions of the state law. It allows for 8-year and 12-year exemptions in an area of downtown and our high-density corridors that spread up Harrison Ave and Martin Way. Olympia's program has been more successful than many other cities are size - perhaps because of other housing incentives like parking exemptions in the downtown. Olympia's program is authorized under OMC 5.86.

Neighborhood/Community Interests (if known):

The MFTE has been of high interest to some members of the community. Affordable housing is of high interest to a majority of Olympia residents based on the passage of the Home Fund Levy in 2017.

Options:

1. Hear staff briefing and provide feedback and direction for next steps in considering revisions to the MFTE program.
2. Hear the staff briefing at another time

Financial Impact:

None at this time.

Attachments:

Olympia Municipal Code 5.86

Map

Joint Legislative Audit and Review Committee Report

Supply Skepticism Research

Chapter 5.86 MULTI-FAMILY DWELLING TAX EXEMPTIONS

5.86.000 Chapter Contents

Sections:

- [5.86.010](#) Definitions.
- [5.86.020](#) Residential target area, hearing on resolution.
- [5.86.030](#) Residential target area designation and standards.
- [5.86.040](#) Tax exemption for multi-family housing in residential target areas authorized.
- [5.86.050](#) Project eligibility.
- [5.86.060](#) Application procedure.
- [5.86.070](#) Application review and issuance of conditional certificate.
- [5.86.080](#) Extension of conditional certificate.
- [5.86.090](#) Application for final certificate.
- [5.86.100](#) Issuance of final certificate.
- [5.86.110](#) Annual compliance review.
- [5.86.120](#) Cancellation of tax exemption.

5.86.010 Definitions

When used in this chapter, the following terms shall have the following meanings, unless the context indicates otherwise:

- A. "Multi-family housing" means building(s) having four or more dwelling units designed for permanent residential occupancy resulting from new construction or rehabilitation or conversion of vacant, underutilized, or substandard buildings to multi-family housing.
- B. "Owner" means the property owner of record.
- C. "Urban center" means a compact identifiable district where urban residents may obtain a variety of products and services.
 - a. Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies;
 - b. Adequate public facilities including streets, sidewalks, lighting, transit, domestic water, and sanitary sewer systems; and
 - c. A mixture of uses and activities that may include housing, recreating, and cultural activities in association with either commercial or office, or both, use.

D. "Director" means the Director of the City of Olympia Community Planning and Development Department or other city official designated by the City Manager to carry out this chapter.

E. "Permanent residential occupancy" means multi-unit housing that provides either rental or owner occupancy on a nontransient basis. This includes owner-occupied or rental accommodation that is leased for a period of at least one month. This excludes hotels and motels that predominately offer rental accommodation on a daily or weekly basis.

F. "Rehabilitation improvements" means modifications to existing structures that are vacant for twelve (12) months or longer, or modification to existing occupied structures which convert nonresidential space to residential space and/or increase the number of multi-family housing units.

G. "Residential target area" means an area within an urban center that has been designated by the City Council as lacking sufficient, available, desirable, and convenient residential housing to meet the needs of the public.

H. "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of low or moderate-income households.

I. "Household" means a single person, family, or unrelated persons living together.

J. "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below eighty percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States department of housing and urban development. For cities located in high-cost areas, "low-income household" means a household that has an income at or below one hundred percent of the median family income adjusted for family size, for the county where the project is located.

K. "Moderate-income household" means a single person, family, or unrelated persons living together whose adjusted income is more than eighty percent but is at or below one hundred fifteen percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States department of housing and urban development. For cities located in high-cost areas, "moderate-income household" means a household that has an income that is more than one hundred percent, but at or below one hundred fifty percent, of the median family income adjusted for family size, for the county where the project is located.

(Ord. 6618 §1, 2009; Ord. 5713 §1, 1997).

A. For the purpose of designating a residential targeted area or areas, the City Council may adopt a resolution of intention to designate an area described in the resolution. The resolution must state the time and place of a hearing to be held by the City Council to consider the designation of the area and may include such other information pertaining to the designation of the area as the City Council determines to be appropriate to apprise the public of the action intended.

B. The City Council shall give notice of a hearing held under this ordinance by publication of the notice once each week for two consecutive weeks, not less than seven days, nor more than thirty days before the date of the hearing in a paper having a general circulation in the city. The notice must state the time, date, place, and purpose of the hearing and generally identify the area proposed to be designated as a residential targeted area.

(Ord. 5713 §1, 1997).

5.86.030 Residential target area designation and standards

A. Criteria. Following a public hearing, with notice given by resolution pursuant to RCW [84.14.040](#) , the City Council may, in its sole discretion, designate one or more residential target areas. Each designated target area must meet the following criteria, as determined by the City Council:

1. The target area is located within an urban center;
2. The target area lacks sufficient available, desirable, and convenient residential housing, including affordable housing, to meet the needs of the public who would likely live in the urban center if affordable, desirable, attractive, and livable places were available; and
3. The providing of additional housing opportunity, including affordable housing, in the target area will assist in achieving the following purposes:
 - a. Encourage increased residential opportunities within the target area; or
 - b. Stimulate the construction of new multi-family housing and the rehabilitation of existing vacant and under-utilized buildings for multi-family housing.

In designating a residential target area, the City Council may also consider other factors including, but not limited to: whether additional housing in the target area will attract and maintain a significant increase in the number of permanent residents; whether an increased residential population will help alleviate detrimental conditions and social liability in the target area; and whether an increased residential population in the target area will help to achieve the planning goals mandated by the Growth Management Act under RCW [36.70A.020](#) . The City Council may, by ordinance, amend or rescind the designation of a residential target area at any time pursuant to the same procedure as set forth in this chapter for original designation.

B. Target Area Standards and Guidelines. For each designated residential target area, the City Council shall adopt basic requirements for both new construction and rehabilitation, including the application process and procedures. These requirements may include the following:

1. Requirements that address demolition of existing structures and site utilization; and
2. Building requirements that may include elements addressing parking, height, density, environmental impact, and compatibility with the existing surrounding property and such other amenities as will attract and keep permanent residents and that will properly enhance the livability of the residential targeted area in which they are to be located.

Area 1 - Downtown Residential Target Area

All of that portion of the City of Olympia, Washington described as beginning at the intersection of the East shoreline of Capitol Lake with the Westerly extension of centerline of 15th Ave extended Westerly; thence Easterly along said centerline and its extension to the centerline of Capitol Way; thence southerly along said centerline to the centerline of 16th Ave.; thence Easterly along said centerline and its extension to the Northwesterly boundary line of Interstate 5; thence Northeasterly along said line to its intersection with the centerline of Eastside St. thence Northerly along said centerline to the centerline of State Ave.; thence Westerly along said centerline to the centerline of East Bay Dr.; thence Northerly along said centerline of East Bay Dr. to Olympia Ave; thence Westerly along said centerline to the centerline of Indian/Moxlie Creek Culvert; thence Northerly along said creek centerline to the shoreline of Budd Inlet; thence along said shoreline and the shoreline of Capitol Lake to the point of beginning; EXCEPTING THEREFROM that area lying Westerly of Water Street and Northerly of 5th Ave and Southerly of Budd Inlet.

Area 2 - Eastside Residential Target Area

All properties located along State Ave. and 4th Ave. which are bounded by Eastside St. on the West and Fir St. on the East; said area limited to a half block North of State Ave. and a half block south of 4th Ave.; ALSO all properties located North of State Ave between East Bay drive and Eastside St. and South of Olympia Ave.; EXCEPTING THEREFROM the North half of the block which lies between Pear Street and Quince St., and Olympia Ave. and State St.; ALSO EXCEPTING THEREFROM the three lots located at the Southwest corner of Eastside St. and Olympia. Ave.

Area 3 - Westside Residential Target Area

All properties located along Harrison Avenue which is currently bounded by: Cushing Street on the west; Foote Street on the east; extending only two lots deep both north and south of Harrison Avenue. Also included is the third lot north, located at the northeast corner of Harrison Avenue and Milroy Street; the third and fourth lot north, located at the northeast corner of Harrison Avenue and Decatur Street; the third and fourth lots south, located at the southwest corner of Harrison Avenue and Decatur Street; and the block bounded by Perry Street

on the west, Garfield Street on the north, Plymouth Street on the east and Harrison Avenue on the south; EXCEPT any portion lying within Woodruff Park.

(Ord. 6643 §1, 2009; Ord. 6618 §1, 2009; Ord. 5734 §1; Ord. 5713 §1, 1997).

5.86.040 Tax exemptions for multi-family housing in residential target areas authorized



A. Duration of Exemption. The value of improvements qualifying under this chapter will be exempt from ad valorem property taxation, as follows:

1. For properties for which applications for certificates of tax exemption eligibility are submitted under Chapter [84.14](#)  RCW before the effective date of Chapter 430, Laws of 2007, the value is exempt for ten (10) successive years beginning January 1 of the year immediately following the calendar year after issuance of the Final Certificate of Tax Exemption.
2. For properties for which applications for certificates of tax exemption eligibility are submitted under Chapter [84.14](#)  RCW on or after the effective date of Chapter 430, Laws of 2007, the value is exempt:
 - a. For eight successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate; or
 - b. For twelve successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under chapter [84.14](#)  RCW and meets the conditions in this subsection. For the property to qualify for the twelve-year exemption under this subsection, the applicant must commit to renting or selling at least twenty percent of the multi-family housing units as affordable housing units to low and moderate-income households, and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the City. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection may be satisfied solely through housing affordable to moderate-income households.

B. Limits on Exemption. The exemption does not apply to the value of land or to the value of improvements not qualifying under this ordinance, nor does the exemption apply to increases in assessed valuation of land and nonqualifying improvements. In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to submission of the completed application required under this ordinance. This chapter does not apply to increases in assessed valuation made by the assessor on nonqualifying portions of building and value of land nor to increases made by lawful order of a county board of equalization, the department of revenue, or a county, to a class of property throughout the county or specific area of the county to achieve the uniformity of assessment or appraisal required by law.

(Ord. 6618 §1, 2009; Ord. 5713 §1, 1997).

5.86.050 Project eligibility

A proposed project must meet the following requirements for consideration for a property tax exemption:

- A. Location. The project must be located within a residential target area as designated in 5.86.030.
- B. Tenant Displacement Prohibited. The project must not displace existing residential tenants of structures that are proposed for redevelopment. Existing dwelling units proposed for rehabilitation must have been unoccupied for a minimum of twelve (12) months prior to submission of an application and must have one or more violations of the City's minimum housing code. Applications for new construction cannot be submitted for vacant property upon which an occupied residential rental structure previously stood, unless a minimum of twelve (12) months has elapsed from the time of most recent occupancy.
- C. Size. The project must include at least four (4) units of multi-family housing within a residential structure or as part of an urban development. A minimum of four new units must be constructed or at least four (4) additional multi-family units must be added to existing occupied multi-family housing. Existing multi-family housing that has been vacant for twelve (12) months or more does not have to provide additional units so long as the project provides at least four (4) units of new, converted, or rehabilitated multi-family housing.
- D. Proposed Completion Date. New construction multi-family housing and rehabilitation improvements must be completed within three (3) years from the date of approval of the application.
- E. Compliance with Guidelines and Standards. The project must be designed to comply with the City's comprehensive plan, building, housing, and zoning codes, and any other applicable regulations in effect at the time the application is approved. The project must also comply with any other standards and guidelines adopted by the City Council for the residential target area in which the project will be developed.
- F. At least fifty percent (50%) of the space in a new, converted, or rehabilitated multiple unit must be for permanent residential housing. In the case of existing occupied multi-family development, the multi-family housing must also provide for a minimum of four additional multi-family units. Existing multi-family vacant housing that has been vacant for twelve months or more does not have to provide additional units;
- G. The applicant must enter into a contract with City approved by City Council under which the applicant agrees to the implementation of the development on terms and conditions satisfactory to the City Council.

(Ord. 6618 §1, 2009; Ord. 5713 §1, 1997).

5.86.060 Application procedure

A property owner who wishes to propose a project for a tax exemption shall complete the following procedures:

A. Prior to April 1 of any year, file with the Director the required application along with the required fees. The application fee to the City shall be One Hundred Dollars and No Cents (\$100).

B. A complete application shall include:

1. A completed City of Olympia application form setting forth the grounds for the exemption;
2. Preliminary floor and site plans of the proposed project;
3. A statement acknowledging the potential tax liability when the project ceases to be eligible under this chapter; and
4. Verification by oath or affirmation of the information submitted.

For rehabilitation projects, the applicant shall also submit an affidavit that existing dwelling units have been unoccupied for a period of twelve (12) months prior to filing the application and shall secure from the City verification of property noncompliance with the City's applicable building or housing codes.

(Ord. 5713 §1, 1997).

5.86.070 Application review and issuance of conditional certificate

The Director may certify as eligible an application which is determined to comply with the requirements of this chapter. A decision to approve or deny an application shall be made within ninety (90) calendar days of receipt of a complete application.

A. Approval. The Director may approve the application if he/she finds that:

1. A minimum of four new units are being constructed or in the case of occupied rehabilitation or conversion a minimum of four additional multifamily units are being developed;
2. If applicable, the proposed multiunit housing project meets the affordable housing requirements as described in RCW [84.14.020](#) .
3. The proposed project is or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;
4. The owner has complied with all standards and guidelines adopted by the city under this ordinance; and

5. The site is located in a residential targeted area of an urban center that has been designated by the City Council in accordance with procedures and guidelines of this ordinance.

B. If an application is approved, the applicant shall enter into a contract with the City, approved by the City Council, regarding the terms and conditions of the project. Upon City Council approval of the contract, the Director shall issue a Conditional Certificate of Acceptance of Tax Exemption. The Conditional Certificate expires three (3) years from the date of approval unless an extension is granted as provided in this chapter.

C. Denial. The Director shall state in writing the reasons for denial and shall send notice to the applicant at the applicant's last known address within ten (10) calendar days of the denial. An applicant may appeal a denial to the City Council within thirty (30) calendar days of receipt of notice by filing an appeal with the Director with a \$100 fee. The appeal will be based on the record made by the Director. The Director's decision will be upheld unless the applicant can show that there is no substantial evidence on the record to support the Director's decision. The City Council's decision on appeal will be final.

(Ord. 6618 §1, 2009; Ord. 5713 §1, 1997).

5.86.080 Extension of conditional certificate

The Conditional Certificate and time for completion of the project may be extended by the Director for a period not to exceed a total of twenty-four (24) consecutive months. The applicant must submit a written request stating the grounds for the extension, accompanied by a Fifty Dollar (\$50) processing fee. An extension may be granted if the Director determines that:

A. The anticipated failure to complete construction or rehabilitation within the required time period is due to circumstances beyond the control of the owner;

B. The owner has been acting and could reasonably be expected to continue to act in good faith and with due diligence; and

C. All the conditions of the original contract between the applicant and the City will be satisfied upon completion of the project.

(Ord. 5713 §1, 1997).

5.86.090 Application for final certificate

Upon completion of the improvements agreed upon in the contract between the applicant and the City and upon issuance of a temporary or permanent certificate of occupancy, the applicant may request a Final Certificate of Tax Exemption. The applicant must file with the Director the following:

- A. A statement of expenditures made with respect to each multi-family housing unit and the total expenditures made with respect to the entire property;
- B. A description of the completed work and a statement of qualification for the exemption; and
- C. If applicable, a statement that the project meets the affordable housing requirements as described in RCW [84.14.020](#) ; and
- D. A statement that the work was completed within the required three-year period or any authorized extension.

Within thirty (30) calendar days of receipt of all materials required for a Final Certificate, the Director shall determine whether the specific improvements, and the affordability of the units, satisfy the requirements of the contract, application, and this ordinance.

(Ord. 6618 §1, 2009; Ord. 5713 §1, 1997).

5.86.100 Issuance of final certificate



If the Director determines that the project has been completed in accordance with this ordinance and the contract between the applicant and the City has been completed within the authorized time period, the City shall, within ten (10) calendar days of the expiration of the thirty-day review period above, file a Final Certificate of Tax Exemption with the Thurston County Assessor.

- A. Denial and Appeal. The Director shall notify the applicant in writing that a Final Certificate will not be filed if the Director determines that:
 - 1. The improvements were not completed within the authorized time period;
 - 2. The improvements were not completed in accordance with the contract between the applicant and the City; or
 - 3. The owner's property is otherwise not qualified under this chapter.

Within fourteen (14) calendar days of receipt of the Director's denial of a Final Certificate, the applicant may file an appeal with the City's Hearing Examiner, as provided in Chapter [18.82](#) of the Olympia Municipal Code upon payment of a \$100 fee. No appeal is provided from the Hearing Examiner to the City Council. The applicant may appeal the Hearing Examiner's decision to the Thurston County Superior Court if the appeal is filed within thirty (30) calendar days of his/her receiving notice of that decision.

(Ord. 5713 §1, 1997).

5.86.110 Annual compliance review

Within thirty (30) calendar days after the first anniversary of the date of filing the Final Certificate of Tax Exemption and each year thereafter for the tax exemption period, the property owner shall file a notarized declaration with the Director indicating the following:

- A. A statement of occupancy and vacancy of the multi-family units during the previous year;
- B. A certification that the property continues to be in compliance with the contract with the City and this ordinance and, if applicable, that the property has been in compliance with the affordable housing requirements as described in RCW [84.14.020](#)  since the date of the approved certificate; and
- C. A description of any subsequent improvements or changes to the property; and
- D. Any additional information requested by the City in regards to the units receiving a tax exemption.

City staff may also conduct on-site verification of the declaration. Failure to submit the annual declaration shall result in a review of the exemption per RCW [84.14.110](#) .

(Ord. 6618 §1, 2009; Ord. 5713 §1, 1997).

5.86.120 Cancellation of tax exemption

If the Director determines the owner is not complying with the terms of the contract or this ordinance, the tax exemption will be canceled. This cancellation may occur in conjunction with the annual review or at any other time when noncompliance has been determined. If the owner intends to convert the multi-family housing to another use, the owner must notify the Director and the Thurston County Assessor within sixty (60) calendar days of the change in use.

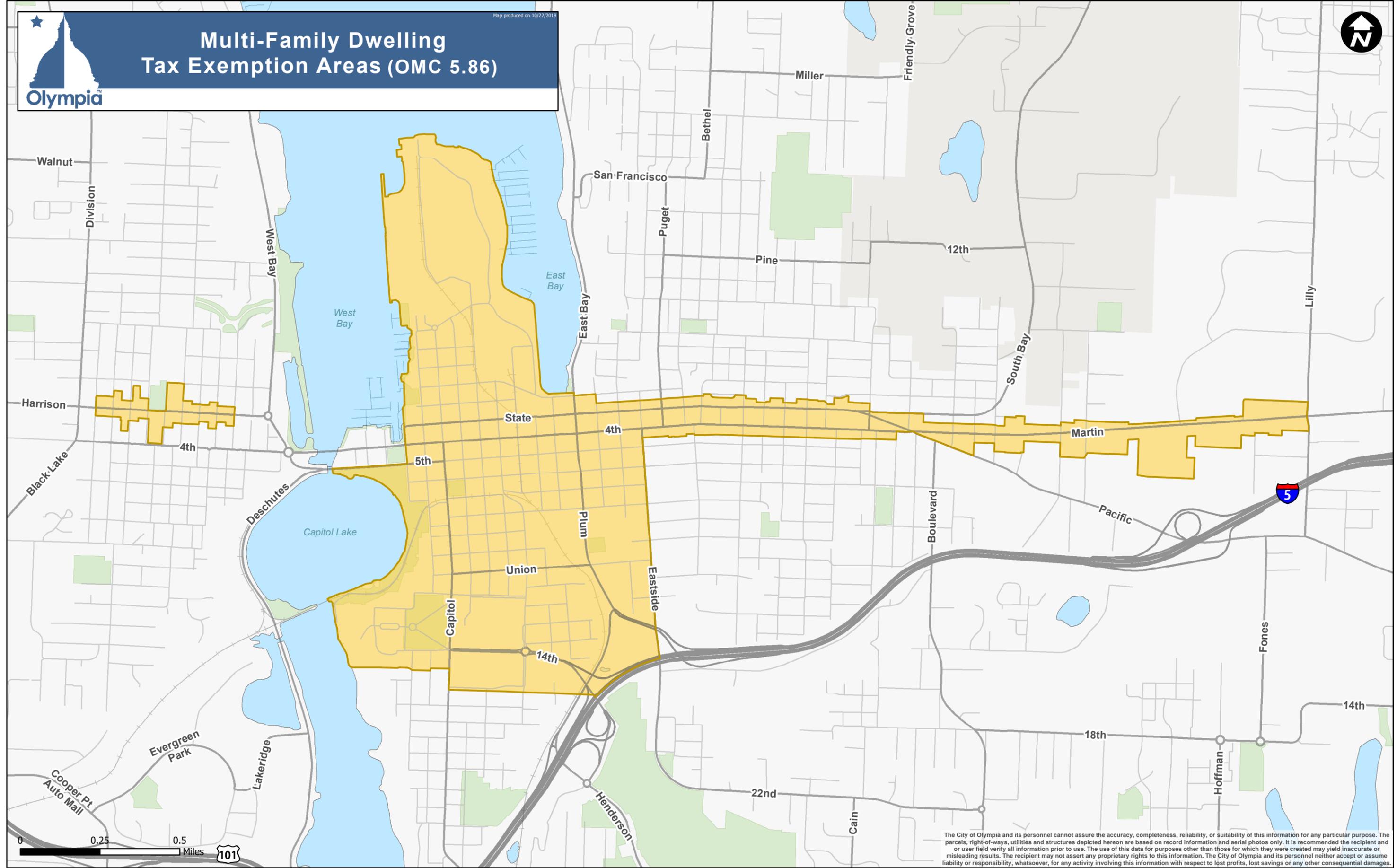
- A. Effect of Cancellation. If a tax exemption is canceled due to a change in use or other noncompliance, the provisions of RCW [84.14.110](#) (1) will apply.
- B. Notice and Appeal. Upon determining that a tax exemption is to be canceled, the Director shall notify the property owner by mail, return receipt requested. The property owner may appeal the determination by filing a notice of appeal with the Director within thirty (30) calendar days, specifying the factual and legal basis for the appeal. The Hearing Examiner will conduct a hearing at which all affected parties may be heard and all competent evidence received. The Hearing Examiner will affirm, modify, or repeal the decision to cancel the exemption based on the evidence received. An aggrieved party may appeal the Hearing Examiner's decision to the Thurston County Superior Court.

(Ord. 5713 §1, 1997).

Map produced on 10/22/2019



Multi-Family Dwelling Tax Exemption Areas (OMC 5.86)



The City of Olympia and its personnel cannot assure the accuracy, completeness, reliability, or suitability of this information for any particular purpose. The parcels, right-of-ways, utilities and structures depicted hereon are based on record information and aerial photos only. It is recommended the recipient and/or user field verify all information prior to use. The use of this data for purposes other than those for which they were created may yield inaccurate or misleading results. The recipient may not assert any proprietary rights to this information. The City of Olympia and its personnel neither accept or assume liability or responsibility, whatsoever, for any activity involving this information with respect to lost profits, lost savings or any other consequential damages.

19-08 FINAL REPORT:
2019 TAX PREFERENCE PERFORMANCE
REVIEWS

Property Tax Exemption for Multifamily Housing in Urban Areas

LEGISLATIVE AUDITOR'S CONCLUSION:

Developers have created housing using the Multifamily Housing Tax Exemption. It is inconclusive whether this use represents a net increase in development. Cities have opportunities to maximize the impact of the exemption and improve reporting on results.

December 2019

Property tax exemption offered by cities for multifamily housing

The Multifamily Housing Tax Exemption (MFTE) is a property tax exemption program that allows eligible cities to target specific areas for multifamily housing development. Pierce County also is eligible. If a city or Pierce County chooses to create a program, it may create additional requirements or restrictions.

Property owners may apply for an 8-year or 12-year property tax exemption for building or rehabilitating multifamily housing. The 12-year exemption requires owners to offer at least 20% of their units as affordable housing, as defined by statute. Cities have the authority to approve and reject individual projects.

The preference has no expiration date.

JLARC staff reviewed a similar preference for [multifamily housing in Mason County in 2018](#).

The preference is intended to encourage multifamily housing development

The preference was intended to stimulate development of new and rehabilitated multifamily housing – including affordable housing – in cities that plan under the Growth Management Act. It also aimed to allow unincorporated areas within urban growth areas to stimulate housing development near college campuses.

**Estimated Biennial
Beneficiary Savings**
\$262 million in Calendar
Years 2022-23

Tax Type
Property Tax
RCW 84.14.007
Applicable Statutes

424

Developments have received an exemption

34,885

New housing units have been created

82%

Units located in Seattle, Tacoma, Spokane or Renton

21%

Units designated as affordable

Cities have opportunities to maximize the impact of the exemption

Cities may adopt additional requirements for the exemption so that it meets local planning goals.

- Models indicate that the preference can increase the financial performance of developments. It's unclear how often MFTE provides an incentive to projects that would not otherwise be built. At least 12 cities include financial analysis as a factor when deciding whether to offer or approve an exemption.
- Even with statutory rent limits, households earning less than 80% of the area median income (AMI) in their county could pay more than 30% of their income on housing. At least ten cities have adopted income requirements that are lower than the statutory limits (e.g., 60% instead of 80% AMI).

Without reporting improvements, the Legislature will continue to lack critical information for monitoring the program

Statute requires cities and Pierce County to report information to the Department of Commerce each year. At least 11 cities have failed to report in one or more years, while others submitted incomplete reports that make the data unreliable overall. While reports must include information such as number of housing units, rental prices, and tenant income, Commerce's required reporting, even if followed, lacks the detail needed to evaluate compliance with affordability and other requirements.

JLARC staff collected data from multiple other sources (e.g., city staff, county assessors) to provide the information in this report.

Recommendations

Legislative Auditor's Recommendation: Modify

The Legislature should modify the preference to direct cities to include analysis of profitability as a consideration in offering or approving exemptions.

The Department of Commerce should report annually to JLARC and the relevant policy committees on city compliance with the requirements, as well as the metrics in statute and affordability measures.

The Department of Revenue should report to JLARC and the relevant policy committees on which statutory ambiguities can be resolved through guidance and which require statutory changes.

Commerce and Revenue do not concur. View the Legislative Auditor's response to agency comments. More information is available on the Recommendations Tab.

Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. The Legislature should pay particular attention to reporting guidelines as it applies to low-income units and residents. In particular, the lack of reporting means the actual number of low-income units and associated rents are difficult to identify. This makes it impossible to analyze how the tax preference is impacting the low-income housing supply. Testimony regarding the City of Olympia's use of the preferences strongly highlights the current reporting problems.

The Legislature may want to review how rent limits for low-income households are set. In particular, the Legislature may want to include in the formula an adjustment for a low-income household's actual income, rather than relying only on a county's median income.

Finally, public testimony raised the important question of whether the introduction of MFTEs in Washington communities has had the unanticipated consequence of increasing rental costs and squeezing out existing affordable housing. More research is needed to investigate the impacts of this preference on housing affordability in Washington.

While the commission endorses the intent of the Legislative Auditor's recommendations to Commerce and Revenue to improve reporting and clarify ambiguities, both departments did not concur and cite resource and authority issues to act on this without further legislative action. However, without improvements in clarity and allowable use, the Legislature will continue having difficulty determining the preference's success. The commission suggests the Legislature could begin with a workgroup to provide options to improve reporting and consistency of use.

Committee Action to Distribute Report

On December 4, 2019 this report was approved for distribution by the Joint Legislative Audit and Review Committee.

Action to distribute this report does not imply the Committee agrees or disagrees with the Legislative Auditor recommendations.

REVIEW DETAILS

1. Preference to stimulate multifamily housing development

Tax preference was created to stimulate multifamily housing development. Projects have been approved by Pierce County and 26 of 102 eligible cities.

The law has a broad goal: increase multifamily housing, including affordable housing, in urban centers that need it

The Multifamily Housing Property Tax Exemption (MFTE) provides an 8- or 12-year property tax exemption on new, expanded, or updated multifamily housing.

- The exemption applies only to the residential portions of newly constructed improvements, not the value of the land, retail space, or existing improvements.
- For mixed-use development, permanent housing¹ must make up at least 50% of the space.
- The housing must have at least four units, which may be rented or sold.
- The 8-year exemption does not require affordable housing, while the 12-year exemption requires that at least 20% of the units are affordable to low- and moderate-income households, as defined in statute (see Section 4 for explanation).
- Cities and one county may adopt MFTE programs.

The preference was enacted in 1995 and was modified to its present form in 2007. It is not scheduled to expire.

Since 2007, 26 cities and one county have approved exemptions for 424 developments

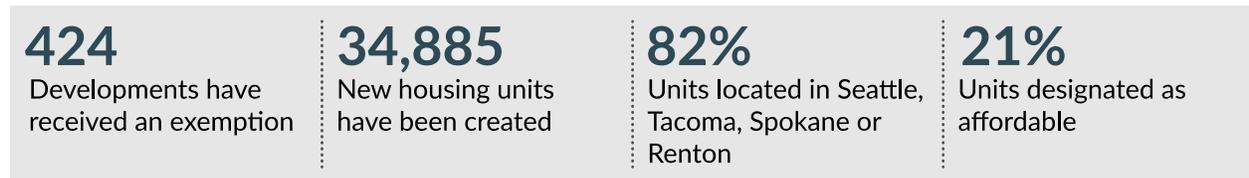
Cities that meet population thresholds set in statute are eligible to offer the exemption. Of the 102 cities that are eligible, 49 have adopted an MFTE program and 26 have approved exemptions. Pierce County also is eligible and has approved exemptions. A map and list of participating local governments are in Appendix A.

These local governments must designate a targeted area where they will offer the exemption. These areas must be within an urban center and lack housing to meet the needs of households who would likely live there. The established targeted areas range in size from 5 acres to 19 square miles. At least 22 cities have designated more than one targeted area.

¹owner-occupied housing or rental housing that is leased for a period of at least one month

Use of the preference has increased – in 2009, developments with 2,457 units were approved. There were 5,337 units approved in 2018. A development can remain eligible for the exemption for 8 to 12 years.

Exhibit 1.1: Developers have created at least 34,885 housing units, including affordable units, using the MFTE



Source: JLARC staff analysis of information compiled from the Department of Commerce, county assessors, and cities. The data is not maintained by one agency. See Section 5 for more detail.

2. Local MFTE programs vary

Local MFTE program requirements and characteristics vary

Cities may adopt additional requirements for the exemption and vary the program characteristics

State statute outlines the baseline requirements for developments built with the exemption. A development must add at least four new housing units, be in a targeted area, and comply with all local rules. In addition, to qualify for the 12-year exemption, the developments must meet affordability requirements for 20% of the units.

Statute also requires developments to meet additional requirements that the city or county deems necessary. These requirements typically come from three sources:

1. **Municipal code.** These include specifications on parking, height, density, environmental impact, amenities, and compatibility with surrounding properties. Some also have more stringent affordable housing requirements than state law.
2. **Contracts.** Statute requires owners to enter into a contract with the cities. The contract may add further requirements specific to the development.
3. **Zoning regulations.** These regulations may prohibit some types of development that would otherwise qualify for the preference. For example, while low-rise housing may qualify, it may not be allowed in certain areas based on city zoning.

Exhibit 2.1: Variations in city programs include size of targeted area, focus on affordable housing, which exemption(s) is offered, and building requirements

Program Characteristic	Examples of Variation
Size of targeted area	<ul style="list-style-type: none"> • 1 property (Issaquah). • 3.9 square miles (Vancouver). • 19 square miles (Seattle).
Affordable housing focus	<ul style="list-style-type: none"> • All units must be affordable (Snoqualmie). • No more than 30% of units may be affordable (Lacey). • Affordable rent limits vary by unit size and neighborhood (Bellevue).
Exemption offered	<ul style="list-style-type: none"> • 8-year exemption only (Ferndale). • 12-year exemption only (Edmonds). • Both 8- and 12-year exemption (Spokane).
Building requirements	<ul style="list-style-type: none"> • LEED certification required (Woodinville). • Include public civic or cultural use (Newcastle). • Invest at least \$25,000 per unit (Yakima).

Source: JLARC staff analysis of information compiled from the Department of Commerce, county assessors, and cities.

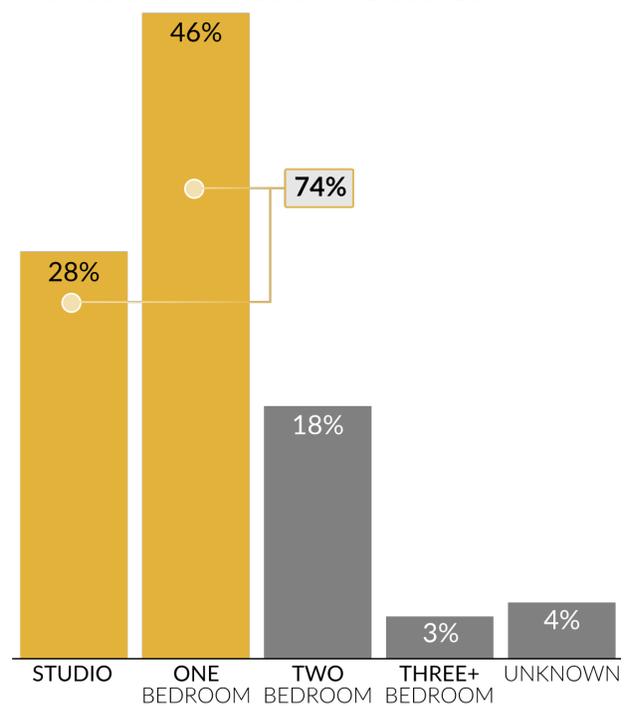
Majority of housing units appear intended for small families or individuals

State law does not limit the type or size of units that may qualify. About 75% of the units created between 2007 and 2018 are studios or one bedroom. The median Washington household is 2.6 people.

At least four cities have enacted local policies to encourage larger units:

- Bellevue requires at least 15% of units to have two or more bedrooms.
- Seattle, Bellingham, and Shoreline encourage large units by applying stricter affordability requirements for smaller units:
 - All three require that units with fewer than two bedrooms be affordable at lower income thresholds. This has the effect of lowering the maximum monthly rental price for smaller units.

Exhibit 2.2: 75% of the 34,885 units created are studios or one bedroom



Source: JLARC staff analysis. Total may not equal 100% due to rounding.

- Seattle also requires that a development that does not have at least four larger units² out of every hundred must include more affordable units overall.

3. MFTE has inconclusive effect on development

MFTE's effect on the decision to build varies by development.

All cities should include an analysis of a development's profitability as one of the factors they consider when determining whether to approve an exemption.

Real estate economists developed a model to evaluate how the preference might affect a hypothetical development's profitability

The Multifamily Housing Property Tax Exemption (MFTE) aims to stimulate housing development by lowering operating costs and thereby improving profitability. JLARC staff did not have access to approved developments' actual costs and rental income needed to test this. Given this limitation, JLARC staff sought assistance from consultants with housing finance expertise at Community Attributes, Inc. (CAI).

The consultants developed a model to test the potential impact the preference may have on profitability for a variety of potential development types, costs, and rents charged in local markets where the preference is used.

The premise is that a given development would be built only if it is sufficiently profitable, as measured by the rate of return on investment. The model assumed that most developments must generate a rate of return between 15-20% to be financially feasible.

Consultants modeled scenarios with varying rental income and land costs

Detailed information about the methods and definitions are in Appendix B.

For the rental models:

- Four multifamily development types are considered in the model: low-rise, mid-rise (residential), mid-rise (mixed use), and high-rise.
- The consultant developed scenarios that represent a combination of development type, land cost, and rental income.
- Each scenario was tested without the MFTE, with the 8-year exemption, and with the 12-year exemption as described in statute (i.e., not reflecting city-level variation).

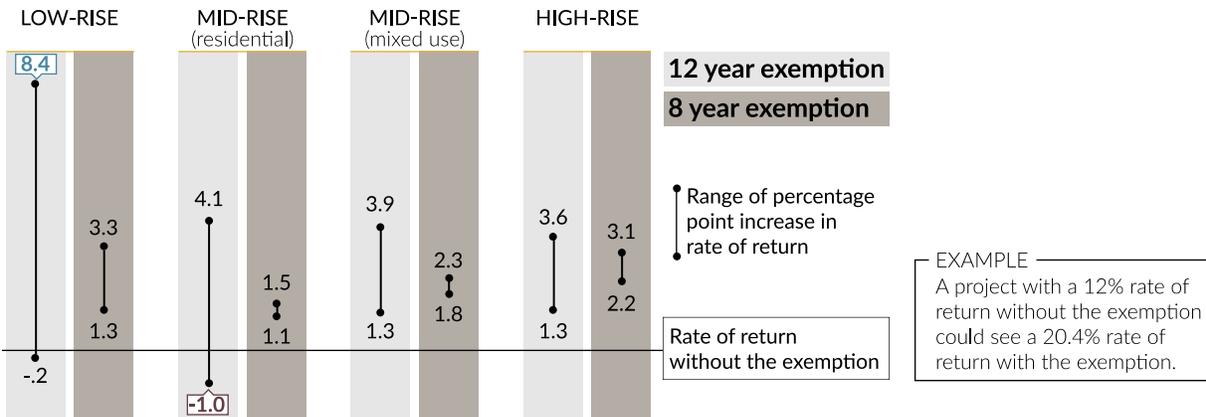
²2 or more bedrooms

Model indicates that MFTE can improve a development's financial performance, as measured by the rate of return on investment

The model identified a range of possible increases in profitability for each category of exemption (blue shading in the exhibit below). The range varied depending on the development type, and was a function of land acquisition costs and local market rental prices.

- **8-year exemption (market rate units):** The model showed that overall, the 8-year exemption increases rate of return by between 1.1 and 3.3 percentage points.
- **12-year exemption (market rate and affordable units):** Overall, the 12-year exemption changes rate of return by between -1.0 and 8.4 percentage points. For each development type, this exemption increases profitability most at lower rent levels where operating income would be lowest.
- Which exemption is more attractive depends on rental prices. When affordable rent limits are close to market rate rent, the 12-year exemption is more profitable than the 8-year exemption. As market rent increases, the 12-year exemption becomes less profitable.

Exhibit 3.1: Rate of return may change between -1.0 and 8.4 percentage points with MFTE



Source: JLARC staff analysis of CAI multifamily housing development financial models.

The model indicates it is inconclusive how often the increase in profitability made developments feasible

Assuming that most developments must generate a rate of return between 15-20% to be financially feasible:

- If a development had a 12% rate of return without the exemption, the 8-year exemption could increase it to 13.1-15.3%. On the low end of this range, the project may be financially infeasible, but on the high end it may be feasible.

- For a similar development, the 12-year exemption could change the rate of return to 11-20.4%. On the low end of this range, the project would also likely be financially infeasible, but on the high end it may be feasible.
- In both of these examples, it is possible the preferences made the project feasible. However, it is also possible that it was insufficient to spur the development to take place.
- The model also indicated examples where development in the eligible areas may already be financially feasible without the incentive.

The model found enough variation across these examples in each jurisdiction that a definitive answer on feasibility is inconclusive. Without more specific information on the actual projects built in the eligible areas, it's not possible to be more conclusive about the effect the preference has had on causing an increase in development that would not otherwise occur.

At least 12 cities use financial analysis when offering or approving exemptions

Statute does not require that cities analyze the impact of the exemption on a development's profitability. However, some cities incorporate the evaluation into their approval process. In interviews with JLARC staff, city planners reported the following:

- Lakewood performs a detailed analysis on each proposed project. The analysis uses assumptions similar to those used by the consultants on this report.
- Seattle recognizes that many projects would be built without the preference, so it uses MFTE to improve the profitability of developments that will include affordable housing units.
- Cities that are part of A Regional Coalition for Housing (ARCH) assess the tax benefit in comparison to the reduction in rent.
- Auburn requires audited expense records before granting the exemption.

As noted in Section 2, cities have different requirements for MFTE programs. Other considerations also may influence either a developer's decision to build or a city's decision to approve an exemption.

- A city may need to offer the exemption to attract development to the targeted area. For example, some locations may be perceived as riskier for development, and therefore require greater profitability to attract developers.
- Housing markets differ in zoning restrictions and city planning goals. For instance, some cities and some markets require developers to include parking. This can increase building costs and affect a developer's decision to build.

In 2018 JLARC staff reviewed a similar preference for Mason County and found no multifamily construction had occurred since that preference had been enacted in 2013. Staff noted at the time that this review may provide further information. CAI included the city of Shelton in their

modeling work and found market rents were too low to support any of their modeled development types, with or without the MFTE.

4. Statutory rent limits may not improve affordability

The statutory rent limits may not improve affordability for low- and moderate-income households. Ten cities have adopted lower rent limits.

Statutory affordable rent limit is based on each county's area median income, adjusted for household size

The statutory affordable rent limit is a formula that sets the maximum rental price for an affordable housing unit.

The limit states that the maximum rental price of an affordable housing unit may not exceed 30% of the monthly income of a

hypothetical low- or moderate-income household. To qualify for these units, a household's income must be at or below these qualifying levels:

- Low-income level: 80% of the county's area median income (AMI) or 100% of AMI in high cost counties³.
- Moderate-income level: 115% of the county AMI, or 150% of AMI in high cost counties.

The Department of Housing and Urban Development (HUD) calculates each county's AMI and adjusts it for family size.

Statutory affordable rent limits are based on a county's median income and are not adjusted down to an individual household's actual income

Within a county, all low-income households have the same affordable rent limit, adjusted for family size. Continuing the example from Exhibit 4.1, this means that in a housing unit designated for low-income households, a family making 60% AMI (\$3,230 per month) has the same maximum rental price as a family of the same size making 80% AMI (\$4,307 per month). The same is true for moderate-income households. As a result, the maximum rental price calculated

Exhibit 4.1: Sample Affordable Rent Calculations

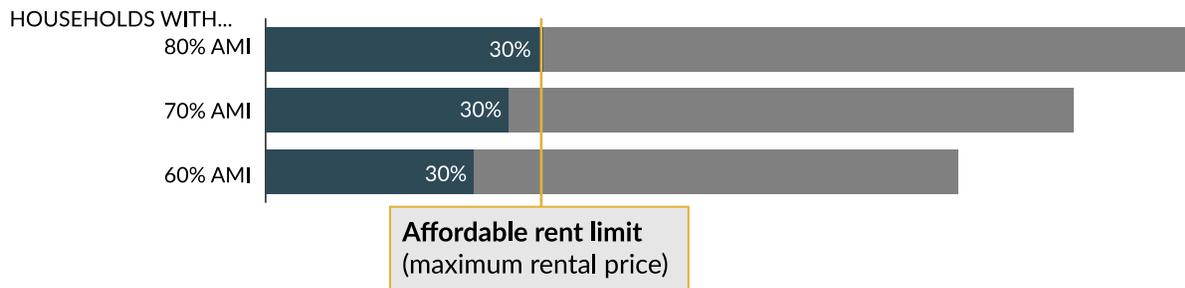
	AREA MEDIAN INCOME (AMI) \$64,600	
	Low income	Moderate income
Qualifying annual income level	\$51,680	\$74,290
Maximum rental price (30% monthly income)	\$1,290	\$1,860

Source: JLARC staff analysis. Calculations reflect a 3-person household in Spokane County.

³Counties with particularly high median housing prices, as reported by the Washington Center for Real Estate Research

in statute can exceed 30% of income for certain low- and moderate-income renters. A household earning less than 60% AMI may be eligible for other housing assistance programs. It is unclear the degree to which this affects renters in the targeted areas.

Exhibit 4.2: The maximum rental price does not change, so households earning less than the qualifying income level could pay a greater percentage of income for housing



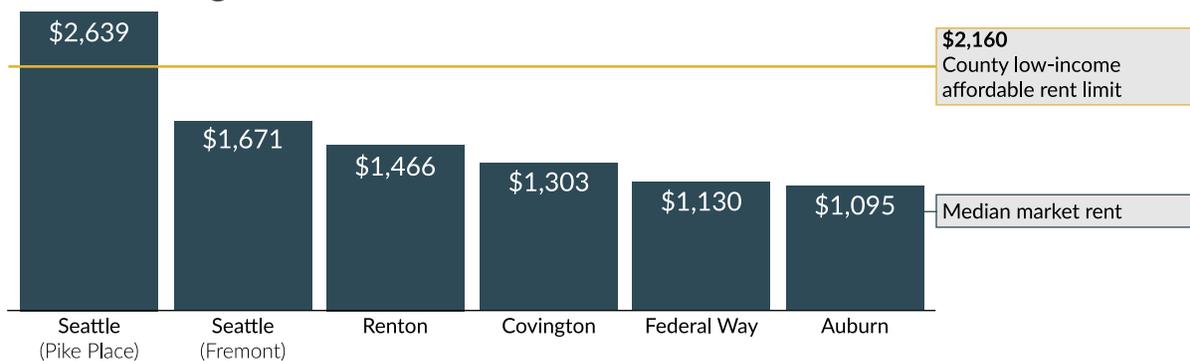
Source: JLARC staff analysis of RCW 84.14.020 and HUD guidance.

Statutory maximum rental prices may be higher than median market rents

To qualify for the 12-year exemption, 20% of new units must be affordable to low- and moderate-income households. Because of the way affordable rent limits are calculated, some property owners are receiving the preference for units that can be rented at or above median market rent.

Cities in King County offer a clear example. The higher household income in Seattle increases the county median income. As a result, median market rents in other communities are below the statutory affordable rent limits. The below exhibit details the low-income affordable rent limit and median market rent of a two-bedroom unit by zip code in 2017, the most recent year for which data was available. The rent limit for a two-bedroom unit is calculated for a three-person household.

Exhibit 4.3: Example of how high-cost cities increase the maximum rent limits for surrounding communities



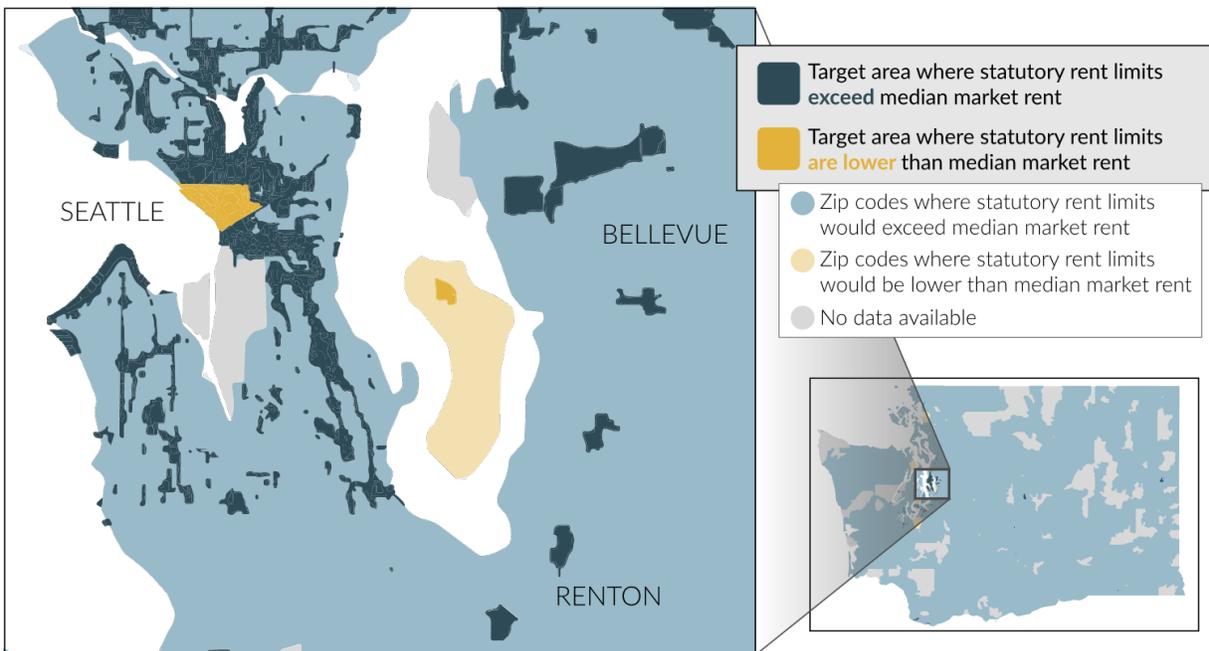
Source: JLARC staff analysis of American Community Survey (ACS) data, HUD 2017 Income Limits, and city ordinances.

The statutory maximum rental price for low-income households exceeded market rent in all targeted areas except downtown Seattle, downtown Tacoma, and Mercer Island

Data does not exist to determine how frequently this occurs across the entire state. However, JLARC staff analysis of American Community Survey (ACS) data shows the potential for this situation in targeted areas and statewide, including cities that have not yet adopted an MFTE program. Data was available for 512 of the 685 zip codes in Washington.

- The statutory maximum rental price for **low-income households** was higher than the median market rent in at least 498 zip codes statewide.
- The statutory maximum rental price for **moderate-income households** was higher than the median market rent in all targeted areas and at least 512 zip codes.

Exhibit 4.4: The statutory maximum rental price for low-income households was higher than median market rent in at least 498 zip codes statewide, including all but three targeted areas



Source: JLARC staff analysis of ACS data 2017, HUD 2017 income limits and city ordinances.

Ten cities in King County use lower qualifying income levels than those in statute

Of the 19 King County cities with an MFTE program, 10 have adopted stricter income requirements that allow fewer households to qualify for affordable housing. For example:

- Seattle uses a range of income limits, depending on the number of bedrooms. The lowest limit is 40% of AMI for a small efficiency dwelling unit⁴, while the highest is 90% of AMI for a three bedroom unit.
- Kirkland also uses a range of income limits. Its lowest limit is 50% of AMI and its highest is 100% of AMI.
- Bellevue uses a range of income limits, between 45% of AMI and 70% of AMI depending on the location of the project and unit size.
- Bellingham, Issaquah, Mercer Island, Redmond, Shoreline, Snoqualmie, and Woodinville also have income requirements lower than 80% of AMI.

However, statute also allows cities in counties with high median housing prices to use higher qualifying income levels (e.g., 100% AMI for low-income households). Ten cities – Marysville, Snoqualmie, Tukwila, Auburn, Burien, Everett, Federal Way, Lynnwood, SeaTac, and Covington – have incorporated this provision into their programs.

5. Tax savings may be shifted to other taxpayers

Savings are estimated to grow from \$80 million to \$137 million by 2023 as cities exempt more developments. The amount shifted to other taxpayers ranged from 0% to 100% depending on levy limits and differing county assessor practices.

In calendar year 2018, beneficiaries saved \$19 million in state property taxes and \$61 million in local property taxes

The owners of exempt multifamily housing properties are the direct beneficiaries of this preference. JLARC staff estimate their savings in calendar year 2018 was \$80 million. As shown in the table below, this amount is expected to increase each year. Over the past four years, an average of \$1.1 billion in new property value became exempt each year. In 2020, approximately \$232 million in property value will lose the exemption and become taxable. If the development trend continues, JLARC staff expect new exemptions to outpace expiring exemptions.

Exhibit 5.1: Estimated beneficiary savings are expected to increase annually

Calendar Year	Est. Direct Beneficiary Savings (State)	Est. Direct Beneficiary Savings (Local)	Total Direct Beneficiary Savings
2018	\$19 million	\$61 million	\$80 million

⁴Also known as micro-housing, with a minimum size of 150 square feet

Calendar Year	Est. Direct Beneficiary Savings (State)	Est. Direct Beneficiary Savings (Local)	Total Direct Beneficiary Savings
2019	\$20 million	\$70 million	\$90 million
2020	\$25 million	\$79 million	\$105 million
2021	\$28 million	\$88 million	\$116 million
2022	\$30 million	\$95 million	\$125 million
2023	\$32 million	\$105 million	\$137 million

Source: JLARC staff analysis of county assessor data.

The beneficiary savings per housing unit varies by city, depending on policy choices and the size and type of developments.

As shown above, most of the beneficiary savings comes from local property taxes. Statewide, on developments that are fully market rate, beneficiaries save an average of \$2,096 per unit, per year for the life of the exemption. For developments that include affordable housing, beneficiaries save an average of \$10,651 per affordable housing unit per year. The amount varies widely by city. For example, the savings per affordable unit in Spokane is \$2,269 while the savings per unit in Tacoma is \$6,091. This is due in part to the different proportions of market rate and affordable units. See Appendix C for detail on each city.

Beneficiary savings could result in a property tax shift or forgone revenue

- A property tax shift means that the amount that would have been collected on the exempt property is paid by other taxpayers.
- Forgone revenue means that the tax is not collected from any taxpayers.

Until 2021, the state portion of the beneficiary savings will be forgone revenue. This is due to temporary legislative changes in school funding that changed state property taxes to a rate-based system for four years. After 2021, state property tax will shift back to a budget-based system and some of the savings will increase taxes paid by other property owners.

The amount of local tax savings that will be shifted to other taxpayers cannot be determined

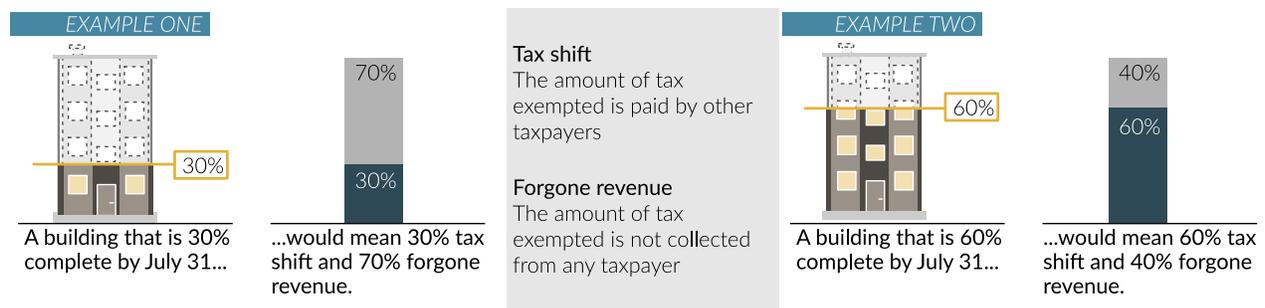
The degree to which this preference led to a local tax shift or a revenue loss depends on multiple factors including local levy limits and the timing of assessment.

- **Local levy limits:** State law limits both the levy amount and levy rate that a taxing district may impose. It also limits the amount by which a taxing jurisdiction may increase its levy each year, excluding new construction values. If a jurisdiction is already at its highest possible levy rate, the exemption results in forgone revenue rather than a tax shift.

- Assessment timing:** Per RCW 84.14.020, the exemption begins on January 1 after the year in which the city approves it. The Department of Revenue (DOR) notes that RCW 36.21.080 requires county assessors to value all new construction each year. Under the DOR's interpretation of these statutes, assessors should value the completed portions of the property as new construction, as of July 31, and add them to the tax rolls for calculating levy limits for the year. After the exemption is approved, the beneficiary savings would include both forgone revenue and a tax shift.

Because many local taxing jurisdictions extend beyond city limits, some of the impact—both shift and loss—happens outside the cities granting exemptions.

Exhibit 5.2: The tax savings shifted onto other taxpayers depends on the timing of construction and assessment for each development



Source: JLARC staff analysis.

6. Reporting improvements needed for accountability

Without reporting improvements, the Legislature will continue to lack critical information for monitoring the program (e.g., exemption value, units created, participating cities)

Reporting does not meet statutory requirements and is unreliable for program evaluation and compliance monitoring

RCW 84.14.100(2) requires that Pierce County and cities report information to the Department of Commerce each year. However, because of inconsistent reporting and unclear forms, Commerce lacks the information required by statute.

JLARC staff conducted independent data collection

Due to the data problems identified in this section, JLARC staff did not rely solely on Commerce reports for this report. Additional collection methods include:

- Phone interviews** with county assessors and city staff.
- Compiling data** from assessor and apartment web sites.
- Requesting MFTE-related data** from county assessors, cities, and Commerce.

- At least five cities have not submitted a report during the period reviewed, and at least 11 failed to report in one or more years. Statute does not grant Commerce the authority to compel cities to submit reports, and it cannot identify all participating jurisdictions.
- Most reports were incomplete. Cities used different calculations in the reports, making the overall data unreliable. As a result, Commerce cannot provide reliable information about the number of exempt properties, the number of affordable units, the total value of exemptions granted, or other metrics listed in statute.
- The reporting form created by Commerce lacks some of the detail required by statute (e.g., monthly rent by unit).

Because of these reporting problems, Commerce cannot report critical information to the Legislature such as confirmation that affordable housing units were rented or sold to qualifying households.

Exhibit 6.1: Commerce lacks information required by statute

Cities must report	Data status	JLARC analysis
Number of tax exemptions granted	Partial	At least 11 of the 26 cities have failed to report at some point.
Total number and type of units produced or to be produced	Partial	At least 11 of the 26 cities have failed to report at some point.
Number and type of units meeting affordable housing requirements	Partial	Form does not provide for unit type.
Income of each renter household for each unit	Partial	Form asks only for income on affordable units and some cities did not report this information.
Value of tax exemption for each development	Unreliable	Some cities report for one year, others for the length of the exemption. Four cities reported they did not know the value of the exemption.
Actual development cost of each unit	Unreliable	Some cities reported by unit and others by development. The methodologies vary and it is unclear what costs are included.
Total monthly rent or total sale amount of each unit	Not available	Form allows for only one rent/sale amount per development.

Source: RCW 84.14.100; JLARC staff analysis.

The state lacks detailed data to monitor the program and ensure compliance

Statute does not require cities to report detailed data that would be needed to monitor the program or assess compliance with affordability requirements. For example:

- Cities must report tenant incomes. However, whether the income reported satisfies affordability requirements depends on household size and unit size, which is not reported.
- Cities are not required to link their data to records in the county assessors' offices. As a result, the data used to evaluate the tax impact of the exemption is difficult to compare with the housing impact. JLARC staff relied on internet searches and property sales histories to connect the records.

In 2010, Commerce produced a report to the Governor's office that identified some of these issues.

Local government oversight of the programs varies

Statute grants cities and Pierce County the authority to implement and manage their programs. Local oversight varies. For example:

- After an internal audit in 2012 revealed a lack of internal controls and cases of noncompliance with state and city policies, Seattle established a compliance and monitoring programs that requires substantial documentation and on-site audits. The city's audit report found that 8 of the 16 properties it reviewed were not renting the required number of affordable units, and 9 of the 9 properties it reviewed had inconsistencies between their annual property certification reports and the documents used to assess renters' income.
- In contrast, at least one city has never collected the compliance reports that property owners are required to file annually.
- Longview requires on-site verification of compliance annually.

Cities and Pierce County have implemented some provisions of the exemption in ways that may differ from statutory intent or state guidance

Both Commerce and the Department of Revenue (DOR) provide guidance to cities and county assessors upon request. Some statutory provisions have been interpreted differently by cities.

- To qualify for a twelve-year exemption, a project must make at least 20% of its units affordable to "low- and moderate-income households." According to DOR, the requirement may be satisfied if at least one unit is affordable to low-income households, as long as the rest of the 20% are affordable to moderate-income households. However,

at least one city allows the requirement to be satisfied if units are affordable only to moderate-income households.

- According to DOR, assisted living facilities are not eligible for the exemption. At least two properties that provide assisted living are receiving the exemption.
- Exempt rental housing must provide “permanent residential occupancy,” excluding hotels and motels that provide daily or weekly rental accommodations. At least one property claiming the exemption has rented out units on Airbnb, the short-term rental platform. At the time of this report, the city stated it was investigating the matter and that the question of short-term rentals was not clearly addressed by statute.

7. Applicable statutes

RCW 84.14

Findings

84.14.005

The legislature finds:

- (1) That in many of Washington's urban centers there is insufficient availability of desirable and convenient residential units, including affordable housing units, to meet the needs of a growing number of the public who would live in these urban centers if these desirable, convenient, attractive, affordable, and livable places to live were available;
- (2) That the development of additional and desirable residential units, including affordable housing units, in these urban centers that will attract and maintain a significant increase in the number of permanent residents in these areas will help to alleviate the detrimental conditions and social liability that tend to exist in the absence of a viable mixed income residential population and will help to achieve the planning goals mandated by the growth management act under RCW 36.70A.020; and
- (3) That planning solutions to solve the problems of urban sprawl often lack incentive and implementation techniques needed to encourage residential redevelopment in those urban centers lacking a sufficient variety of residential opportunities, and it is in the public interest and will benefit, provide, and promote the public health, safety, and welfare to stimulate new or enhanced residential opportunities, including affordable housing opportunities, within urban centers through a tax incentive as provided by this chapter.

[2007 c 430 § 1; 1995 c 375 § 1.]

Purpose

84.14.007

It is the purpose of this chapter to encourage increased residential opportunities, including affordable housing opportunities, in cities that are required to plan or choose to plan under the

growth management act within urban centers where the governing authority of the affected city has found there is insufficient housing opportunities, including affordable housing opportunities. It is further the purpose of this chapter to stimulate the construction of new multifamily housing and the rehabilitation of existing vacant and underutilized buildings for multifamily housing in urban centers having insufficient housing opportunities that will increase and improve residential opportunities, including affordable housing opportunities, within these urban centers. To achieve these purposes, this chapter provides for special valuations in residentially deficient urban centers for eligible improvements associated with multiunit housing, which includes affordable housing. It is an additional purpose of this chapter to allow unincorporated areas of rural counties that are within urban growth areas to stimulate housing opportunities and for certain counties to stimulate housing opportunities near college campuses to promote dense, transit-oriented, walkable college communities.

[2014 c 96 § 2; 2012 c 194 § 1; 2007 c 430 § 2; 1995 c 375 § 2.]

Definitions

84.14.010

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

- (1) "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of low or moderate-income households.
- (2) "Campus facilities master plan" means the area that is defined by the University of Washington as necessary for the future growth and development of its campus facilities for campuses authorized under RCW 28B.45.020.
- (3) "City" means either (a) a city or town with a population of at least fifteen thousand, (b) the largest city or town, if there is no city or town with a population of at least fifteen thousand, located in a county planning under the growth management act, or (c) a city or town with a population of at least five thousand located in a county subject to the provisions of RCW 36.70A.215.
- (4) "County" means a county with an unincorporated population of at least three hundred fifty thousand.
- (5) "Governing authority" means the local legislative authority of a city or a county having jurisdiction over the property for which an exemption may be applied for under this chapter.
- (6) "Growth management act" means chapter 36.70A RCW.
- (7) "High cost area" means a county where the third quarter median house price for the previous year as reported by the Washington center for real estate research at Washington State

University is equal to or greater than one hundred thirty percent of the statewide median house price published during the same time period.

(8) "Household" means a single person, family, or unrelated persons living together.

(9) "Low-income household" means a single person, family, or unrelated persons living together whose adjusted income is at or below eighty percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States department of housing and urban development. For cities located in high-cost areas, "low-income household" means a household that has an income at or below one hundred percent of the median family income adjusted for family size, for the county where the project is located.

(10) "Moderate-income household" means a single person, family, or unrelated persons living together whose adjusted income is more than eighty percent but is at or below one hundred fifteen percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States department of housing and urban development. For cities located in high-cost areas, "moderate-income household" means a household that has an income that is more than one hundred percent, but at or below one hundred fifty percent, of the median family income adjusted for family size, for the county where the project is located.

(11) "Multiple-unit housing" means a building having four or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from new construction or rehabilitated or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

(12) "Owner" means the property owner of record.

(13) "Permanent residential occupancy" means multiunit housing that provides either rental or owner occupancy on a nontransient basis. This includes owner-occupied or rental accommodation that is leased for a period of at least one month. This excludes hotels and motels that predominately offer rental accommodation on a daily or weekly basis.

(14) "Rehabilitation improvements" means modifications to existing structures, that are vacant for twelve months or longer, that are made to achieve a condition of substantial compliance with existing building codes or modification to existing occupied structures which increase the number of multifamily housing units.

(15) "Residential targeted area" means an area within an urban center or urban growth area that has been designated by the governing authority as a residential targeted area in accordance with this chapter. With respect to designations after July 1, 2007, "residential targeted area" may not include a campus facilities master plan.

(16) "Rural county" means a county with a population between fifty thousand and seventy-one thousand and bordering Puget Sound.

(17) "Substantial compliance" means compliance with local building or housing code requirements that are typically required for rehabilitation as opposed to new construction.

(18) "Urban center" means a compact identifiable district where urban residents may obtain a variety of products and services. An urban center must contain:

(a) Several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies;

(b) Adequate public facilities including streets, sidewalks, lighting, transit, domestic water, and sanitary sewer systems; and

(c) A mixture of uses and activities that may include housing, recreation, and cultural activities in association with either commercial or office, or both, use.

[2017 c 52 § 16; 2014 c 96 § 3. Prior: 2012 c 194 § 2; prior: 2007 c 430 § 3; 2007 c 185 § 1; 2002 c 146 § 1; 2000 c 242 § 1; 1997 c 429 § 40; 1995 c 375 § 3.]

Exemption - Duration - Valuation.

84.14.020

(1)(a) The value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation, as follows:

(i) For properties for which applications for certificates of tax exemption eligibility are submitted under chapter 84.14 RCW before July 22, 2007, the value is exempt for ten successive years beginning January 1 of the year immediately following the calendar year of issuance of the certificate; and

(ii) For properties for which applications for certificates of tax exemption eligibility are submitted under chapter 84.14 RCW on or after July 22, 2007, the value is exempt:

(A) For eight successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate; or

(B) For twelve successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under chapter 84.14 RCW and meets the conditions in this subsection (1)(a)(ii)(B). For the property to qualify for the twelve-year exemption under this subsection, the applicant must commit to renting or selling at least twenty percent of the multifamily housing units as affordable housing units to low and moderate-income households, and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the local government under this chapter. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection (1)(a)(ii)(B) may be satisfied solely through housing affordable to moderate-income households.

(b) The exemptions provided in (a)(i) and (ii) of this subsection do not include the value of land or nonhousing-related improvements not qualifying under this chapter.

(2) When a local government adopts guidelines pursuant to RCW 84.14.030(2) and includes conditions that must be satisfied with respect to individual dwelling units, rather than with respect to the multiple-unit housing as a whole or some minimum portion thereof, the exemption

may, at the local government's discretion, be limited to the value of the qualifying improvements allocable to those dwelling units that meet the local guidelines.

(3) In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to the submission of the application required under this chapter. The incentive provided by this chapter is in addition to any other incentives, tax credits, grants, or other incentives provided by law.

(4) This chapter does not apply to increases in assessed valuation made by the assessor on nonqualifying portions of building and value of land nor to increases made by lawful order of a county board of equalization, the department of revenue, or a county, to a class of property throughout the county or specific area of the county to achieve the uniformity of assessment or appraisal required by law.

(5) At the conclusion of the exemption period, the new or rehabilitated housing cost shall be considered as new construction for the purposes of chapter 84.55 RCW.

[2007 c 430 § 4; 2002 c 146 § 2; 1999 c 132 § 1; 1995 c 375 § 5.]

Application - Requirements

84.14.030

An owner of property making application under this chapter must meet the following requirements:

(1) The new or rehabilitated multiple-unit housing must be located in a residential targeted area as designated by the city or county;

(2) The multiple-unit housing must meet guidelines as adopted by the governing authority that may include height, density, public benefit features, number and size of proposed development, parking, income limits for occupancy, limits on rents or sale prices, and other adopted requirements indicated necessary by the city or county. The required amenities should be relative to the size of the project and tax benefit to be obtained;

(3) The new, converted, or rehabilitated multiple-unit housing must provide for a minimum of fifty percent of the space for permanent residential occupancy. In the case of existing occupied multifamily development, the multifamily housing must also provide for a minimum of four additional multifamily units. Existing multifamily vacant housing that has been vacant for twelve months or more does not have to provide additional multifamily units;

(4) New construction multifamily housing and rehabilitation improvements must be completed within three years from the date of approval of the application;

(5) Property proposed to be rehabilitated must fail to comply with one or more standards of the applicable state or local building or housing codes on or after July 23, 1995. If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate; and

(6) The applicant must enter into a contract with the city or county approved by the governing authority, or an administrative official or commission authorized by the governing authority, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the governing authority.

[2012 c 194 § 3; 2007 c 430 § 5; 2005 c 80 § 1; 1997 c 429 § 42; 1995 c 375 § 6.]

Designation of residential targeted area—Criteria—Local designation—Hearing—Standards, guidelines.

84.14.040

(1) The following criteria must be met before an area may be designated as a residential targeted area:

- (a) The area must be within an urban center, as determined by the governing authority;
- (b) The area must lack, as determined by the governing authority, sufficient available, desirable, and convenient residential housing, including affordable housing, to meet the needs of the public who would be likely to live in the urban center, if the affordable, desirable, attractive, and livable places to live were available;
- (c) The providing of additional housing opportunity, including affordable housing, in the area, as determined by the governing authority, will assist in achieving one or more of the stated purposes of this chapter; and
- (d) If the residential targeted area is designated by a county, the area must be located in an unincorporated area of the county that is within an urban growth area under RCW 36.70A.110 and the area must be: (i) In a rural county, served by a sewer system and designated by a county prior to January 1, 2013; or (ii) in a county that includes a campus of an institution of higher education, as defined in RCW 28B.92.030, where at least one thousand two hundred students live on campus during the academic year.

(2) For the purpose of designating a residential targeted area or areas, the governing authority may adopt a resolution of intention to so designate an area as generally described in the resolution. The resolution must state the time and place of a hearing to be held by the governing authority to consider the designation of the area and may include such other information pertaining to the designation of the area as the governing authority determines to be appropriate to apprise the public of the action intended.

(3) The governing authority must give notice of a hearing held under this chapter by publication of the notice once each week for two consecutive weeks, not less than seven days, nor more than thirty days before the date of the hearing in a paper having a general circulation in the city or county where the proposed residential targeted area is located. The notice must state the time, date, place, and purpose of the hearing and generally identify the area proposed to be designated as a residential targeted area.

(4) Following the hearing, or a continuance of the hearing, the governing authority may designate all or a portion of the area described in the resolution of intent as a residential targeted area if it

finds, in its sole discretion, that the criteria in subsections (1) through (3) of this section have been met.

(5) After designation of a residential targeted area, the governing authority must adopt and implement standards and guidelines to be utilized in considering applications and making the determinations required under RCW 84.14.060. The standards and guidelines must establish basic requirements for both new construction and rehabilitation, which must include:

- (a) Application process and procedures;
- (b) Requirements that address demolition of existing structures and site utilization; and
- (c) Building requirements that may include elements addressing parking, height, density, environmental impact, and compatibility with the existing surrounding property and such other amenities as will attract and keep permanent residents and that will properly enhance the livability of the residential targeted area in which they are to be located.

(6) The governing authority may adopt and implement, either as conditions to eight-year exemptions or as conditions to an extended exemption period under RCW 84.14.020(1)(a)(ii)(B), or both, more stringent income eligibility, rent, or sale price limits, including limits that apply to a higher percentage of units, than the minimum conditions for an extended exemption period under RCW 84.14.020(1)(a)(ii)(B). For any multiunit housing located in an unincorporated area of a county, a property owner seeking tax incentives under this chapter must commit to renting or selling at least twenty percent of the multifamily housing units as affordable housing units to low and moderate-income households. In the case of multiunit housing intended exclusively for owner occupancy, the minimum requirement of this subsection (6) may be satisfied solely through housing affordable to moderate-income households.

[2014 c 96 § 4; 2012 c 194 § 4; 2007 c 430 § 6; 1995 c 375 § 7.]

NOTES: Tax preference performance statement—2014 c 96: "This section is the tax preference performance statement for the tax preference contained in RCW 84.14.040 and 84.14.060. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The legislature categorizes this tax preference as one intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(2) It is the legislature's specific public policy objective to stimulate the construction of new multifamily housing in urban growth areas located in unincorporated areas of rural counties where housing options, including affordable housing options, are severely limited. It is the legislature's intent to provide the value of new housing construction, conversion, and rehabilitation improvements qualifying under chapter 84.14 RCW an exemption from ad valorem property taxation for eight to twelve years, as provided for in RCW 84.14.020, in order to provide incentives to developers to construct new multifamily housing thereby increasing the number of affordable housing units for low to moderate-income residents in certain rural counties.

(3) If a review finds that at least twenty percent of the new housing is developed and occupied by households making at or below eighty percent of the area median income, at the time of occupancy, adjusted for family size for the county where the project is located or where the housing is intended exclusively for owner occupancy, the household may earn up to one hundred fifteen percent of the area median income, at the time of sale, adjusted for family size for the county where the project is located, then the legislature intends to extend the expiration date of the tax preference.

(4) In order to obtain the data necessary to perform the review in subsection (3) of this section, the joint legislative audit and review committee may refer to data provided by counties in which beneficiaries are utilizing the preference, the office of financial management, the department of commerce, the United States department of housing and urban development, and other data sources as needed by the joint legislative audit and review committee." [2014 c 96 § 1.]

Application - Procedures

84.14.050

An owner of property seeking tax incentives under this chapter must complete the following procedures:

(1) In the case of rehabilitation or where demolition or new construction is required, the owner must secure from the governing authority or duly authorized representative, before commencement of rehabilitation improvements or new construction, verification of property noncompliance with applicable building and housing codes;

(2) In the case of new and rehabilitated multifamily housing, the owner must apply to the city or county on forms adopted by the governing authority. The application must contain the following:

(a) Information setting forth the grounds supporting the requested exemption including information indicated on the application form or in the guidelines;

(b) A description of the project and site plan, including the floor plan of units and other information requested;

(c) A statement that the applicant is aware of the potential tax liability involved when the property ceases to be eligible for the incentive provided under this chapter;

(3) The applicant must verify the application by oath or affirmation; and

(4) The application must be accompanied by the application fee, if any, required under RCW 84.14.080. The governing authority may permit the applicant to revise an application before final action by the governing authority.

[2012 c 194 § 5; 2007 c 430 § 7; 1999 c 132 § 2; 1997 c 429 § 43; 1995 c 375 § 8.]

Approval - Required findings

84.14.060

- (1) The duly authorized administrative official or committee of the city or county may approve the application if it finds that:
- (a) A minimum of four new units are being constructed or in the case of occupied rehabilitation or conversion a minimum of four additional multifamily units are being developed;
 - (b) If applicable, the proposed multiunit housing project meets the affordable housing requirements as described in RCW 84.14.020;
 - (c) The proposed project is or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;
 - (d) The owner has complied with all standards and guidelines adopted by the city or county under this chapter; and
 - (e) The site is located in a residential targeted area of an urban center or urban growth area that has been designated by the governing authority in accordance with procedures and guidelines indicated in RCW 84.14.040.
- (2) An application may not be approved after July 1, 2007, if any part of the proposed project site is within a campus facilities master plan, except as provided in RCW 84.14.040(1)(d).
- (3) An application may not be approved for a residential targeted area in a rural county on or after January 1, 2020.

[2014 c 96 § 5; 2012 c 194 § 6. Prior: 2007 c 430 § 8; 2007 c 185 § 2; 1995 c 375 § 9.]

Processing - Approval - Denial - Appeal

84.14.070

- (1) The governing authority or an administrative official or commission authorized by the governing authority must approve or deny an application filed under this chapter within ninety days after receipt of the application.
- (2) If the application is approved, the city or county must issue the owner of the property a conditional certificate of acceptance of tax exemption. The certificate must contain a statement by a duly authorized administrative official of the governing authority that the property has complied with the required findings indicated in RCW 84.14.060.
- (3) If the application is denied by the authorized administrative official or commission authorized by the governing authority, the deciding administrative official or commission must state in writing the reasons for denial and send the notice to the applicant at the applicant's last known address within ten days of the denial.
- (4) Upon denial by a duly authorized administrative official or commission, an applicant may appeal the denial to the governing authority within thirty days after receipt of the denial. The appeal before the governing authority must be based upon the record made before the administrative official with the burden of proof on the applicant to show that there was no substantial evidence to support the administrative official's decision. The decision of the governing body in denying or approving the application is final.

[2012 c 194 § 7; 1995 c 375 § 10.]

Fees

84.14.080

The governing authority may establish an application fee. This fee may not exceed an amount determined to be required to cover the cost to be incurred by the governing authority and the assessor in administering this chapter. The application fee must be paid at the time the application for limited exemption is filed. If the application is approved, the governing authority shall pay the application fee to the county assessor for deposit in the county current expense fund, after first deducting that portion of the fee attributable to its own administrative costs in processing the application. If the application is denied, the governing authority may retain that portion of the application fee attributable to its own administrative costs and refund the balance to the applicant.

[1995 c 375 § 11.]

Filing requirements for owner upon completion—Determination by city or county—Notice of intention by city or county not to file—Extension of deadline—Appeal.

84.14.090

(1) Upon completion of rehabilitation or new construction for which an application for a limited tax exemption under this chapter has been approved and after issuance of the certificate of occupancy, the owner must file with the city or county the following:

- (a) A statement of the amount of rehabilitation or construction expenditures made with respect to each housing unit and the composite expenditures made in the rehabilitation or construction of the entire property;
- (b) A description of the work that has been completed and a statement that the rehabilitation improvements or new construction on the owner's property qualify the property for limited exemption under this chapter;
- (c) If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020; and
- (d) A statement that the work has been completed within three years of the issuance of the conditional certificate of tax exemption.

(2) Within thirty days after receipt of the statements required under subsection (1) of this section, the authorized representative of the city or county must determine whether the work completed, and the affordability of the units, is consistent with the application and the contract approved by the city or county and is qualified for a limited tax exemption under this chapter. The city or county must also determine which specific improvements completed meet the requirements and required findings.

(3) If the rehabilitation, conversion, or construction is completed within three years of the date the application for a limited tax exemption is filed under this chapter, or within an authorized extension of this time limit, and the authorized representative of the city or county determines that improvements were constructed consistent with the application and other applicable requirements, including if applicable, affordable housing requirements, and the owner's property is qualified for a limited tax exemption under this chapter, the city or county must file the certificate of tax exemption with the county assessor within ten days of the expiration of the thirty-day period provided under subsection (2) of this section.

(4) The authorized representative of the city or county must notify the applicant that a certificate of tax exemption is not going to be filed if the authorized representative determines that:

(a) The rehabilitation or new construction was not completed within three years of the application date, or within any authorized extension of the time limit;

(b) The improvements were not constructed consistent with the application or other applicable requirements;

(c) If applicable, the affordable housing requirements as described in RCW 84.14.020 were not met; or

(d) The owner's property is otherwise not qualified for limited exemption under this chapter.

(5) If the authorized representative of the city or county finds that construction or rehabilitation of multiple-unit housing was not completed within the required time period due to circumstances beyond the control of the owner and that the owner has been acting and could reasonably be expected to act in good faith and with due diligence, the governing authority or the city or county official authorized by the governing authority may extend the deadline for completion of construction or rehabilitation for a period not to exceed twenty-four consecutive months.

(6) The governing authority may provide by ordinance for an appeal of a decision by the deciding officer or authority that an owner is not entitled to a certificate of tax exemption to the governing authority, a hearing examiner, or other city or county officer authorized by the governing authority to hear the appeal in accordance with such reasonable procedures and time periods as provided by ordinance of the governing authority. The owner may appeal a decision by the deciding officer or authority that is not subject to local appeal or a decision by the local appeal authority that the owner is not entitled to a certificate of tax exemption in superior court under RCW 34.05.510 through 34.05.598, if the appeal is filed within thirty days of notification by the city or county to the owner of the decision being challenged.

[2012 c 194 § 8; 2007 c 430 § 9; 1995 c 375 § 12.]

Report - Filing

84.14.100

(1) Thirty days after the anniversary of the date of the certificate of tax exemption and each year for the tax exemption period, the owner of the rehabilitated or newly constructed property must

file with a designated authorized representative of the city or county an annual report indicating the following:

- (a) A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve months ending with the anniversary date;
- (b) A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the affordable housing requirements as described in RCW 84.14.020 since the date of the certificate approved by the city or county;
- (c) A description of changes or improvements constructed after issuance of the certificate of tax exemption; and
- (d) Any additional information requested by the city or county in regards to the units receiving a tax exemption.

(2) All cities or counties, which issue certificates of tax exemption for multiunit housing that conform to the requirements of this chapter, must report annually by December 31st of each year, beginning in 2007, to the department of commerce. The report must include the following information:

- (a) The number of tax exemption certificates granted;
- (b) The total number and type of units produced or to be produced;
- (c) The number and type of units produced or to be produced meeting affordable housing requirements;
- (d) The actual development cost of each unit produced;
- (e) The total monthly rent or total sale amount of each unit produced;
- (f) The income of each renter household at the time of initial occupancy and the income of each initial purchaser of owner-occupied units at the time of purchase for each of the units receiving a tax exemption and a summary of these figures for the city or county; and
- (g) The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.

[2012 c 194 § 9; 2007 c 430 § 10; 1995 c 375 § 13.]

Cancellation of exemption—Notice by owner of change in use—Additional tax—Penalty—Interest—Lien—Notice of cancellation—Appeal—Correction of tax rolls.

84.14.110

(1) If improvements have been exempted under this chapter, the improvements continue to be exempted for the applicable period under RCW 84.14.020, so long as they are not converted to another use and continue to satisfy all applicable conditions. If the owner intends to convert the multifamily development to another use, or if applicable, if the owner intends to discontinue

compliance with the affordable housing requirements as described in RCW 84.14.020 or any other condition to exemption, the owner must notify the assessor within sixty days of the change in use or intended discontinuance. If, after a certificate of tax exemption has been filed with the county assessor, the authorized representative of the governing authority discovers that a portion of the property is changed or will be changed to a use that is other than residential or that housing or amenities no longer meet the requirements, including, if applicable, affordable housing requirements, as previously approved or agreed upon by contract between the city or county and the owner and that the multifamily housing, or a portion of the housing, no longer qualifies for the exemption, the tax exemption must be canceled and the following must occur:

(a) Additional real property tax must be imposed upon the value of the nonqualifying improvements in the amount that would normally be imposed, plus a penalty must be imposed amounting to twenty percent. This additional tax is calculated based upon the difference between the property tax paid and the property tax that would have been paid if it had included the value of the nonqualifying improvements dated back to the date that the improvements were converted to a nonmultifamily use;

(b) The tax must include interest upon the amounts of the additional tax at the same statutory rate charged on delinquent property taxes from the dates on which the additional tax could have been paid without penalty if the improvements had been assessed at a value without regard to this chapter; and

(c) The additional tax owed together with interest and penalty must become a lien on the land and attach at the time the property or portion of the property is removed from multifamily use or the amenities no longer meet applicable requirements, and has priority to and must be fully paid and satisfied before a recognizance, mortgage, judgment, debt, obligation, or responsibility to or with which the land may become charged or liable. The lien may be foreclosed upon expiration of the same period after delinquency and in the same manner provided by law for foreclosure of liens for delinquent real property taxes. An additional tax unpaid on its due date is delinquent. From the date of delinquency until paid, interest must be charged at the same rate applied by law to delinquent ad valorem property taxes.

(2) Upon a determination that a tax exemption is to be canceled for a reason stated in this section, the governing authority or authorized representative must notify the record owner of the property as shown by the tax rolls by mail, return receipt requested, of the determination to cancel the exemption. The owner may appeal the determination to the governing authority or authorized representative, within thirty days by filing a notice of appeal with the clerk of the governing authority, which notice must specify the factual and legal basis on which the determination of cancellation is alleged to be erroneous. The governing authority or a hearing examiner or other official authorized by the governing authority may hear the appeal. At the hearing, all affected parties may be heard and all competent evidence received. After the hearing, the deciding body or officer must either affirm, modify, or repeal the decision of cancellation of exemption based on the evidence received. An aggrieved party may appeal the decision of the deciding body or officer to the superior court under RCW 34.05.510 through 34.05.598.

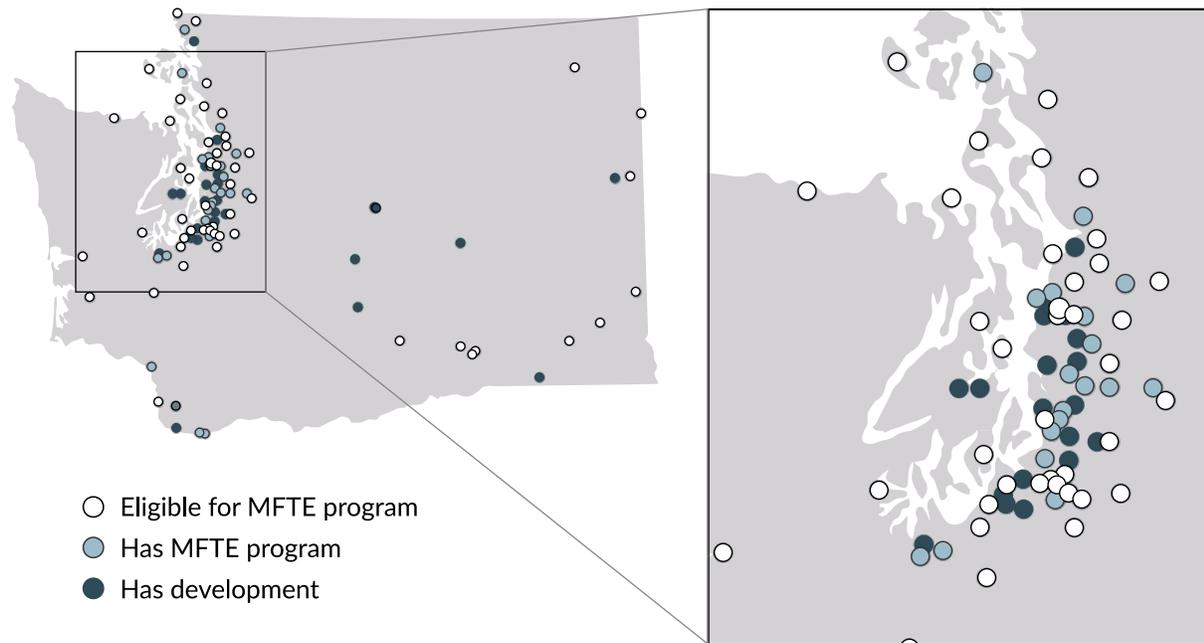
(3) Upon determination by the governing authority or authorized representative to terminate an exemption, the county officials having possession of the assessment and tax rolls must correct the rolls in the manner provided for omitted property under RCW 84.40.080. The county assessor must make such a valuation of the property and improvements as is necessary to permit the correction of the rolls. The value of the new housing construction, conversion, and rehabilitation improvements added to the rolls is considered as new construction for the purposes of chapter 84.55 RCW. The owner may appeal the valuation to the county board of equalization under chapter 84.48 RCW and according to the provisions of RCW 84.40.038. If there has been a failure to comply with this chapter, the property must be listed as an omitted assessment for assessment years beginning January 1 of the calendar year in which the noncompliance first occurred, but the listing as an omitted assessment may not be for a period more than three calendar years preceding the year in which the failure to comply was discovered.

[2012 c 194 § 10; 2007 c 430 § 11; 2002 c 146 § 3; 2001 c 185 § 1; 1995 c 375 § 14.]

Appendix A. Overview of MFTE Programs

Of the 102 cities that are eligible, 49 have adopted an MFTE program and 26 have approved exemptions. Pierce County also is eligible and has approved exemptions.

Exhibit A1: Pierce County and 27 cities have approved (exempt) developments (2019 data)



Source: JLARC staff analysis.

Exhibit A2: Sortable list of cities eligible to create MFTE programs

City Name	Has MFTE program?	Has Development?	City Name	Has MFTE program?	Has Development?
Seattle	Yes	Yes	Edgewood	No	No
Aberdeen	No	No	Edmonds	Yes	No
Anacortes	Expired in 2015	No	Ellensburg	Yes	Yes
Arlington	No	No	Enumclaw	No	No
Auburn	Yes	Yes	Everett	Yes	Yes
Bainbridge Island	No	No	Federal Way	Yes	No
Battle Ground	No	No	Ferndale	Yes	No
Bellevue	Yes	Yes	Fife	No	No
Bellingham	Yes	Yes	Fircrest	No	No
Blaine	No	No	Friday Harbor	No	No
Bonney Lake	No	No	Gig Harbor	No	No
Bothell	No	No	Issaquah	Yes	No
Bremerton	Yes	Yes	Kenmore	Yes	Yes
Brier	No	No	Kennewick	No	No
Burien	Yes	Yes	Kent	Yes	Yes
Camas	Yes	No	Kirkland	Yes	Yes
Centralia	No	No	Lacey	Yes	No
Colville	No	No	Lake Forest Park	No	No
Covington	Yes	Yes	Lake Stevens	No	No
Dayton	No	No	Lakewood	Yes	Yes
Des Moines	Yes	No	Longview	Yes	No
DuPont	No	No	Lynden	No	No
Duvall	No	No	Lynnwood	Yes	No
East Wenatchee	No	No	Maple Valley	No	No

City Name	Has MFTE program?	Has Development?
Marysville	Expired in 2018	No
Mercer Island	Yes	No
Mill Creek	No	No
Milton	No	No
Monroe	Yes	No
Moses Lake	Yes	Yes
Mount Vernon	No	No
Mountlake Terrace	Yes	Yes
Mukilteo	No	No
Newcastle	Yes	No
Newport	No	No
Normandy Park	No	No
North Bend	No	No
Oak Harbor	No	No
Olympia	Yes	Yes
Orting	No	No
Pacific	No	No
Pasco	No	No
Pierce County	Yes	Yes
Pomeroy	No	No
Port Angeles	No	No
Port Orchard	Yes	Yes
Port Townsend	Yes	No
Poulsbo	No	No
Pullman	No	No

City Name	Has MFTE program?	Has Development?
Puyallup	Yes	No
Raymond	No	No
Redmond	Yes	No
Renton	Yes	Yes
Richland	No	No
Ridgefield	No	No
Sammamish	No	No
SeaTac	Yes	No
Shelton	No	No
Shoreline	Yes	Yes
Snohomish	No	No
Snoqualmie	Yes	No
Spokane	Yes	Yes
Spokane Valley	No	No
Stanwood	No	No
Steilacoom	No	No
Sultan	No	No
Sumner	No	No
Sunnyside	No	No
Tacoma	Yes	Yes
Tukwila	Yes	Yes
Tumwater	Yes	No
University Place	Yes	Yes
Vancouver	Yes	Yes
Walla Walla	Yes	Yes
Washougal	Yes	No

City Name	Has MFTE program?	Has Development?	City Name	Has MFTE program?	Has Development?
Wenatchee	Yes	Yes	Yakima	Yes	Yes
Woodinville	Yes	No	Yelm	No	No

Source: JLARC staff analysis.

Appendix B. Methodology

JLARC staff worked with real estate economists to determine the effect of the MFTE on development

JLARC staff contracted with Community Attributes, Inc. (CAI) to conduct an analysis of the effect of the multifamily tax exemption on a development's financial performance as measured by the rate of return on investment. The consultants developed financial models that estimated the rate of return for different development types, in different markets across the state.

Download

[Link to CAI methodology](#)

[Link to CAI assumptions and limitations](#)

Appendix C. Interactive project statistics

JLARC staff compiled data from the Department of Commerce, cities, and county assessors

This interactive dataset allows users to see:

- Where housing has been built in participating cities.
- The size of units created.
- The number of affordable units created.
- The savings per unit.

As noted in the report, cities have discretion in how they implement the program. The interactive data shows the variation between cities in each of the factors listed above. While this dataset represents the most complete accounting of housing created by MFTE, not all data is available for all cities due to the data problems reported in Tab 6.

Click on image to enable interactive data filtering (clicking on image will take you to another website called Tableau Public).



Source: JLARC staff analysis of data from Commerce, cities, and county assessors.

RECOMMENDATIONS & RESPONSES

Legislative Auditor's Recommendation

Legislative Auditor recommends modifying the preference to direct cities to include analysis of profitability as a consideration in offering or approving exemptions

This will help ensure the exemption targets developments that fulfill state and local housing objectives and minimize unnecessary subsidization. The appropriate type of analysis may vary depending on the city, and should include:

- Analysis of a development's profitability with and without the exemption.
- For affordable housing, city-specific income and rent limits.

The Department of Commerce should report annually to JLARC and the relevant policy committees on city compliance with the requirements, as well as the metrics in statute and affordability measures. The report should include the metrics needed to assess affordability, such as income, household size and rent at the per unit level. In its first report in July 2020, in addition to providing data on compliance and metrics, if Commerce believes it needs additional resources or authority to ensure this takes place, Commerce should report back to the Legislature on what it needs.

The Department of Revenue should report to JLARC and the relevant policy committees on which statutory ambiguities can be resolved through guidance and which require statutory changes. These include items such as the timing of new construction, eligibility of assisted living facilities, composition of low- and moderate-income households in affordable units, and inclusion of short-term rental units.

Legislation Required: Yes

Fiscal Impact: Depends on Legislation

Agency Responses: Commerce and Revenue do not concur

View the Legislative Auditor's response to agency comment

Letter from Commission Chair

State of Washington
Citizen Commission for Performance Measurement of Tax Preferences

COMMISSION MEMBERS

Dr. Grant Forsyth Chair
Avista Corp.
Ronald Bueing Vice Chair
Diane Lourdes Dick
Seattle University School of Law

Dr. Justin Marlowe
Evans School of Public Policy and Governance
University of Washington
Andi Nofziger-Meadows
Edmonds Education Association

NON-VOTING MEMBERS

Senator Mark Mullet
Chair, Joint Legislative Audit and Review Committee
Pat McCarthy
State Auditor

106 11th Ave SW, PO Box 40910, Olympia, WA 98504-0910 | Phone: 360-786-5171 | Fax: 360-786-5180
E-mail: JLARC@leg.wa.gov | Website: www.citizen taxpref.wa.gov | Twitter: @WALegAuditor

October 30, 2019

The Honorable Representative Timm Ormsby
The Honorable Representative Drew Stokesbary
The Honorable Representative Cindy Ryu
The Honorable Representative Bill Jenkin
The Honorable Representative Zack Hudgins
The Honorable Representative Norma Smith
The Honorable Representative Gael Tarleton

The Honorable Representative Ed Orcutt
The Honorable Senator Patty Kuderer
The Honorable Senator Hans Zeiger
The Honorable Senator Mark Mullet
The Honorable Senator Lynda Wilson
The Honorable Senator Christine Rolfe
The Honorable Senator John Braun

Re: 2019 Tax Preference Reviews

Dear Senators and Representatives,

I am pleased to forward to you the comments that the Citizen Commission for Performance Measurement of Tax Preferences unanimously adopted for this year's review of tax preferences. The Citizen Commission consists of five voting members, with a member appointed by each of the four caucuses and the Governor's office. Notably, reviews this year included the \$569M aerospace preferences that were expanded and extended in 2013, as well as a \$262M preference to encourage development of multifamily and affordable housing.

We adopted positions similar to the Legislative Auditor for eight of the nine recommendations issued this year. I would like to call your attention to a recommendation from the Citizen Commission to the Legislature to form a taskforce to improve the information available to the Legislature on the use and consistency of the multifamily tax preference.

The full text of our Commissioner recommendations, summaries of the JLARC staff's analysis and recommendations, and brief video summaries of each preference are available on the 2019 Tax Preference Reviews overview page linked [here](#).

Tax preference reviews provide valuable information as the Legislature considers whether specific preferences are meeting the Legislature's policy objectives. With this year's report, there are now 13 years of tax preference evaluations available to the Legislature, comprising over 296 individual reviews.

I urge you to consider this year's and previous years' recommendations and comments on tax preference statutes in the upcoming legislative session. An interactive summary of legislative action on prior reviews is available [here](#).

As Chair of the Citizen Commission, I would be pleased to discuss the Commission's position and comments with you and any interested legislators. Please feel free to contact me (grant.forsyth@leg.wa.gov) or the Legislative Auditor, Keenan Konopaski (keenan.konopaski@leg.wa.gov or 360-786-5187).

Sincerely,



Grant D. Forsyth, Chair
Citizen Commission for Performance Measurement of Tax Preferences

Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. The Legislature should pay particular attention to reporting guidelines as it applies to low-income units and residents. In particular, the lack of reporting means the actual number of low-income units and associated rents are difficult to identify. This makes it impossible to analyze how the tax preference is impacting the low-income housing supply. Testimony regarding the City of Olympia's use of the preferences strongly highlights the current reporting problems.

The Legislature may want to review how rent limits for low-income households are set. In particular, the Legislature may want to include in the formula an adjustment for a low-income household's actual income, rather than relying only on a county's median income.

Finally, public testimony raised the important question of whether the introduction of MFTEs in Washington communities has had the unanticipated consequence of increasing rental costs and squeezing out existing affordable housing. More research is needed to investigate the impacts of this preference on housing affordability in Washington.

While the commission endorses the intent of the Legislative Auditor's recommendations to Commerce and Revenue to improve reporting and clarify ambiguities, both departments did not concur and cite resource and authority issues to act on this without further legislative action. However, without improvements in clarity and allowable use, the Legislature will continue having difficulty determining the preference's success. The commission suggests the Legislature could begin with a workgroup to provide options to improve reporting and consistency of use.

Department of Commerce



STATE OF WASHINGTON
DEPARTMENT OF COMMERCE
 1011 Plum Street SE • PO Box 42525 • Olympia, Washington 98504-2525 • 360-725-4000
www.commerce.wa.gov

September 19, 2019

Via email: keenan.konopaski@leg.wa.gov
 Keenan Konopaski, Legislative Auditor
 Joint Legislative Audit and Review Committee
 106 11th Avenue Southwest Suite 2500
 PO Box 40910
 Olympia, WA 98504-0910

Re: JLARC 2019 Tax Preference Reviews

Dear Mr. Konopaski:

Thank you for the letter of August 29, 2019 regarding the Joint Legislative Audit and Review Committee's (JLARC) 2019 Tax Preference Reviews. We appreciate the opportunity to respond to JLARC's recommendations for Commerce.

We concur that an annual report could be a useful tool to help share information around the state about the use of the multifamily tax exemption (MFTE) program. Such a report could help cities understand where the program is being used and under what circumstances. It could also help inform programs to be more effective. However, our response to the JLARC recommendation is as follows.

RECOMMENDATION/AGENCY	AGENCY POSITION	COMMENTS
<i>Commerce should report annually to the JLARC and relevant policy committees on city compliance with the (multi-unit tax exemption) requirements, as well as metrics in statute and affordability measures. The report should include the metrics needed to assess affordability, such as income, household size and rent at the per unit level. In first report, in July 2020, in addition to providing data</i>	At this time, we do not concur with the recommendation. Commerce will need additional resources and authority to provide the recommended report.	Although RCW 84.14.100 states that cities "must report annually" to Commerce, we have no authority to compel local governments to submit complete reports each year. RCW 84.14 does not currently require Commerce to create annual reports summarizing this information, and no funding is currently available to do so. An

Keenan Konopaski
 September 19, 2019
 Page 2

RECOMMENDATION/AGENCY (continued)	AGENCY POSITION (continued)	COMMENTS (continued)
<i>on compliance and metrics, if Commerce believes it needs additional resources or authority to ensure this takes place, Commerce should report back to the Legislature on what it needs.</i>		annual report to JLARC and the legislature represents a significant body of work, especially in the first year. Commerce would need to identify additional staff resources (approximately 0.2 FTE) to compile and review the data, develop the draft report, coordinate external and internal review as required, and issue the report.

In summary, we currently lack the authorization and funding to support the development of an annual report. For now, Commerce is considering revisions to the MFTE reporting form to request additional information from reporting cities for the 2019 reports. Should the Legislature consider amendments to the MFTE program in the upcoming legislative session, Commerce will work to engage and build understanding about a path forward on this issue.

Thank you again for the opportunity to comment. If you have questions, please contact Ike Nwankwo at (360) 725-3056 or Anne Fritzel at (360) 725-3064.

Sincerely,



Connie Robins
 Deputy Director

- cc: Mark Barkley, Assistant Director, Local Government
 Diane Klontz, Assistant Director, Community Services and Housing
 Jasmine Vasavada, Legislative Director
 Dave Andersen, Managing Director, Growth Management Services, Commerce
 Ike Nwankwo, Financial and Technical Assistance Manager, Growth Management Services
 Anne Fritzel, Senior Planner, Growth Management Services
 David Duvall, Department of Revenue
 John Ryse, Department of Revenue
 Kathy Oline, Department of Revenue
 Marc Baldwin, Office of Financial Management
 Jim Schmidt, Office of Financial Management
 Rachel Murata, Research Analyst, JLARC
 Josh Karas, Research Analyst, JLARC
 Aaron Cavin, Research Analyst, JLARC
 Eric Thomas, Audit Coordinator, JLARC

Department of Revenue



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
 OFFICE OF THE DIRECTOR

P.O. Box 47454 • Olympia, Washington 98504-7454 • (360) 534-1600 • FAX (360) 534-1606

September 11, 2019

TO: Keenan Konopaski, Legislative Auditor
 Joint Legislative Audit & Review Committee

FROM: Vikki Smith, Director
 Department of Revenue *VKS*

SUBJECT: JLARC Preliminary Report on the 2019 Tax Preference Performance Reviews

The Washington State Department of Revenue (Department) appreciates the opportunity to review and comment on the Joint Legislative Audit and Review Committee's (JLARC) 2019 Tax Preference Reviews.

We believe that continuous review of state tax preferences is important to help the state of Washington maintain a fair and equitable tax system. However, because of the limited time provided for the review, this response is limited to JLARC's request that the Department formally respond to its recommendation regarding the property tax exemption for multifamily housing in urban areas (MFTE).

RECOMMENDATION/AGENCY	AGENCY POSITION	COMMENTS
<p>The Department of Revenue should report to JLARC and the relevant policy committees on which statutory ambiguities can be resolved through guidance and which require statutory changes. These include items such as the timing of new construction, eligibility of assisted living facilities, composition of low- and moderate-income households in affordable units, and inclusion of short-term rental units.</p>	<p>The Department does not concur with JLARC's recommendation.</p>	<p>The Department believes local jurisdictions that have implemented the MFTE are in the best position to report to JLARC and the Legislature on which statutory ambiguities can be resolved through guidance and which require statutory changes.</p> <p>Responsibility for implementing the MFTE lies solely with eligible local jurisdictions. While the Department, upon request, will</p>

		<p>provide guidance to local jurisdictions and county assessors regarding the MFTE, we do not approve applications, audit taxpayers' claiming this exemption, or audit the local authority's administration of the exemption program.</p> <p>For these reasons, the Department suggests that JLARC recommend local authorities report on any interpretive or administrative issues they have encountered and the best methods for resolving them.</p>
--	--	---

Thank you again for the opportunity to review and comment on JLARC's recommendation regarding the MFTE program.

Sincerely,

Vikki Smith
Director

cc: David Schumacher, Director, Office of Financial Management
 Lisa Brown, Director, Department of Commerce
 David Duvall, Legislative and External Affairs Liaison, Department of Revenue
 Jasmine Vasavada, Legislative Director, Department of Commerce

Association of Washington Cities



1076 Franklin Street SE • Olympia, WA 98501-1346

September 20, 2019

Keenan Konopaski
Legislative Auditor
Joint Legislative Audit and Review Committee
Washington State Legislature

Mr. Konopaski,

Thank you for the invitation to provide comments in response to the preliminary 2019 Tax Preference Performance Review for the Property Tax Exemption for Multifamily Housing in Urban Areas. We appreciate the efforts of your office and your staff to evaluate the effectiveness of this program, and your recommendations for areas of potential improvement.

As the citizen's commission and ultimately the legislature considers their response to the report and potential changes to the operation of this program, we wanted to share some thoughts based on feedback over the years from our members on multifamily tax exemption (MFTE) program.

We have consistently heard support for this program as a critical tool for cities to influence housing development. There has been much conversation in recent years about the role of cities in promoting housing development and a desire for cities to do more, through revisiting zoning, regulations, fees etc. Those approaches can only go so far. As you know, as much as cities may crave and attempt to set the table for development – we are generally dependent on the private sector to choose to build in our cities.

Despite some of the lowest vacancy rates in the country, Washington has a number of cities that struggle to attract even market rate multifamily development, let alone rent-restricted affordable housing. As the report notes, there are cities where rents will not support multifamily development even with this property tax abatement. In cities on the margins, we hear statements like: "We have permitted about 1,200 housing units with the program, and each developer has indicated they could not have built the project without it." As an illustrative example of how many cities feel about this tool, the multifamily tax exemption program was described to us by one member as the most effective tool that the legislature has provided cities to promote housing development.

It is important to cities that we do not lose access or make impossible to utilize one of the few tools we have to directly affect the bottom line of housing development and therefore make it more likely that building will occur. It is also important to our members that this program remain, as it was originally created, eligible to promote market-rate development.

We appreciate the identification of possible areas of improvement in this program, and the thorough review of how different cities have chosen to operate their programs within the statute. One challenge that cities always face is developing and maintaining the staffing capacity and expertise to effectively operate programs. Different cities have varying capacity, both financial and institutional, to administer all programs and these are no different. Providing access to a profitability assessment tool would allow for greater information for local decisionmakers when deploying this program. How to make that available for cities who would like that information is worthy of further conversation. We believe it would be most effective and most likely to utilized if the state assisted cities by developing and promulgating the means to assess these factors.

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We would like to be involved in conversations about how to improve consistency and accuracy of reporting under this program. Over the years we have also wished that there was more readily available information on these programs. There may be opportunities to improve and provide clarity to the reporting process.

We appreciate the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter B. King". The signature is fluid and cursive, with a small mark at the end.

Peter B. King
Chief Executive Officer
Association of Washington Cities

Legislative Auditor's Response to Agency Comment

I am disappointed that the Departments of Commerce and Revenue did not concur with my recommendations to them for improving the information available to the Legislature on the use and consistency of the MFTE program. That said, I am encouraged that Revenue has noted they will provide advice to cities upon their request.

Both Departments cited resource and authority issues. In spite of these concerns, increasing housing accessibility and ensuring consistency in local property tax assessments are central to the missions of these departments. Without improvements in information and consistency, the Legislature cannot monitor how much housing has been developed or whether the program is applied consistently. While this program is administered by local jurisdictions, the state has policy and financial interests as well. Beneficiaries saved \$19 million in state property taxes in calendar year 2018, in addition to \$61 million in local property taxes.

The Citizen Commission offers a path forward by suggesting that the Legislature convene a workgroup to propose ways to improve reporting and consistency of use for MFTE. That workgroup should include Commerce, Revenue, and the Association of Cities. Without such action, the Legislature will continue to lack critical information to monitor this program, which is estimated to grow to over \$100 million per year.

MORE ABOUT THIS REVIEW

Study questions



Proposed Study Questions: Property Tax Exemption for Multifamily Housing in Urban Areas

State of Washington Joint Legislative Audit and Review Committee

7/23/2018

Citizen Commission scheduled a JLARC study of the property tax exemption for multifamily housing in urban areas

The 2006 Legislature directed the staff of the Joint Legislative Audit and Review Committee (JLARC) to conduct performance audits of tax preferences. This preference is included in the 10-year review schedule set by the Citizen Commission for Performance Measurement of Tax Preferences.



The Multifamily Housing Tax Exemption (MFTE) is a property tax exemption program that allows eligible cities and counties to target specific areas for more multifamily housing development. Eligibility is based on population and certain urban planning requirements. Property owners may apply for an 8-year or 12-year property tax exemption for building or rehabilitating multifamily housing. The 12-year exemption requires owners to offer at least 20% of their units as affordable housing (i.e., costs no more than 30% of a household's income). The 8-year exemption may or may not require affordable housing, depending on the jurisdiction. If a city or county chooses to create a program, it may create additional requirements or restrictions.

Property tax exemption to encourage multifamily housing development or redevelopment

The preference has three stated public policy objectives for eligible jurisdictions:

1. Encourage more residential options by stimulating development of new and rehabilitated multifamily housing in jurisdictions that plan under the Growth Management Act.
2. Encourage affordable housing in areas where local jurisdictions have found a need for it.
3. Allow unincorporated areas within urban growth areas to stimulate housing development near college campuses.

At this time, 102 cities and one county are eligible to create programs using the preference. Twenty cities reported that at least one project was built using the program.

Study Questions

This study will seek answers to the following questions:

1. How much multifamily housing has been created using the program, where is it located, and how much of it meets affordability requirements?

Joint Legislative Audit & Review Committee, 106 11th Ave SW, Olympia, WA 98501
(360) 786-5171 • (360)786-5180 (fax) • JLARC@leg.wa.gov • www.jlarc.leg.wa.gov
Keenan Konopaski, Washington State Legislative Auditor

Proposed Study Questions: Multifamily Property Tax Exemption in Urban Areas

2. In jurisdictions where the program is used, how much estimated multifamily housing would exist without the program?
3. Do the new units meet the housing needs of the local population?
4. Why is the MFTE program used in some cities but not in others?
5. What is the value of the exemption, and how does it impact state and local tax revenue and the tax burden on other property owners?

Study Timeframe

Preliminary Report: July 2019

Proposed Final Report: December 2019

Study Team

Team Lead:	Rachel Murata	360-786-5293	rachel.murata@leg.wa.gov
Research Analyst:	Joshua Karas	360-786-5298	joshua.karas@leg.wa.gov
Project Coordinator:	Eric Thomas	360-786-5182	eric.thomas@leg.wa.gov



More about 2019 reviews

Audit authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in [Chapter 44.28 RCW](#), requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

Timeframe for the study

A preliminary audit report will be presented at the July 2019 JLARC meeting and at the August 2019 meeting of the Commission. A final report will be presented to JLARC in December 2019.

Committee Action to Distribute Report

On December 4, 2019 this report was approved for distribution by the Joint Legislative Audit and Review Committee.

Action to distribute this report does not imply the Committee agrees or disagrees with the Legislative Auditor recommendations.

More about 2019 reviews

Study process

What is a tax preference?

Tax preferences are defined in statute (RCW [43.136.021](#)) as exemptions, exclusions, or deductions from the base of a state tax; a credit against a state tax; a deferral of a state tax; or a preferential state tax rate. Washington has approximately 600 tax preferences.

Why a review of tax preferences?

Legislature creates a process to review tax preferences

In 2006, the Legislature stated that periodic reviews of tax preferences are needed to determine if their continued existence or modification serves the public interest. The Legislature enacted

Engrossed House Bill 1069 to provide for an orderly process for the review of tax preferences (RCW [43.136](#)).

Statute assigns specific roles to two different entities:

- The Citizen Commission for Performance Measurement of Tax Preferences ("The Commission") creates a schedule for reviews, holds public hearings, and comments on the reviews.
- Staff to the Joint Legislative Audit and Review Committee (JLARC) conduct the reviews.

Citizen Commission sets the schedule

The Legislature directed the Commission to develop a schedule to accomplish an orderly review of most tax preferences over ten years. The Commission is directed to omit certain tax preferences from the schedule, such as those required by constitutional law. The Commission may also exclude preferences from review that the Commission determines are a critical part of the tax structure.

The Commission conducts its reviews based on analysis prepared by JLARC staff. In addition, the Commission may elect to rely on information supplied by the Department of Revenue.

In 2019, JLARC staff reviewed 17 preferences compiled into nine reports (similar preferences may be combined into one report). The Commission's website includes analysis of preferences completed in previous years: See <http://www.citizentaxpref.wa.gov/>.

JLARC staff's approach to the tax preference reviews

Statute guides the main topics typically covered in the reviews.

Public policy objectives:

1. What are the public policy objectives that provide a justification for the tax preference? Is there any documentation on the purpose or intent of the tax preference? (RCW 43.136.055(b))
2. What evidence exists to show that the tax preference has contributed to the achievement of any of these public policy objectives? (RCW 43.136.055(c))
3. To what extent will continuation of the tax preference contribute to these public policy objectives? (RCW 43.136.055(d))
4. If the public policy objectives are not being fulfilled, what is the feasibility of modifying the tax preference for adjustment of the tax benefits? (RCW 43.136.055(g))

Beneficiaries:

5. Who are the entities whose state tax liabilities are directly affected by the tax preference? (RCW 43.136.055(a))
6. To what extent is the tax preference providing unintended benefits to entities other than those the Legislature intended? (RCW 43.136.055(e))

Revenue and economic impacts:

7. What are the past and future tax revenue and economic impacts of the tax preference to the taxpayer and to the government if it is continued? (This includes an analysis of the general effects of the tax preference on the overall state economy, including the effects on consumption and expenditures of persons and businesses within the state.) (RCW 43.136.055(h))
8. If the tax preference were to be terminated, what would be the negative effects on the taxpayers who currently benefit from the tax preference and the extent to which the resulting higher taxes would have an effect on employment and the economy? (RCW 43.136.055(f))
9. If the tax preference were to be terminated, what would be the effect on the distribution of liability for payment of state taxes? (RCW 43.136.055(i))
10. For those preferences enacted for economic development purposes, what are the economic impacts of the tax preference compared to the economic impacts of government activities funded by the tax? (RCW 43.136.055(j))

Other states:

11. Do other states have a similar tax preference and what potential public policy benefits might be gained by incorporating a corresponding provision in Washington? (RCW 43.136.055(k))

JLARC staff's analysis process

JLARC staff carefully analyze a variety of evidence in conducting these reviews:

- Legal and public policy history of the tax preferences.
- Beneficiaries of the tax preferences.
- Government and other relevant data pertaining to the utilization of these tax preferences.
- Economic and revenue impact of the tax preferences.
- Other states' laws to identify similar tax preferences.

Key: understanding the purpose of the preference

The Legislature now requires that any legislation creating a new preference, or expanding or extending an existing preference, must include a tax preference performance statement. The performance statement must contain a statement of legislative purpose as well as metrics to evaluate the effectiveness of the preference (RCW [82.32.808](#)).

Some of the preferences included in this report were passed before the 2013 legislation that requires performance statements. When a preference's purpose or objective is identified in statute, staff are able to affirmatively state the public policy objective. Sometimes the objective may be found in intent statements or in other parts of statute if there is no tax preference performance statement.

When the Legislature did not state the public policy objective of a preference, JLARC staff may be able to infer what the implied public policy objective might be. To arrive at this inferred policy objective, staff review the following:

- Legislative history, including
 - Final bill reports for any statements on the intent or public policy objectives.
 - Bills prior to the final version and legislative action on bills related to the same topic.
 - Bill reports and testimony from various versions of the bill.
 - Records of floor debate.
- Relevant court cases that provide information on the objective.
- Department of Revenue information on the history of tax preferences, including rules, determinations, appeals, audits, and taxpayer communication.
- Press reports during the time of the passage of the bill which may indicate the intention of the preference.
- Other historic documents, such as stakeholder statements, that may address the issue addressed by the tax preference.

JLARC staff also interview the agencies that administer the tax preferences or are knowledgeable of the industries affected by the tax. Agencies may provide data on the value and usage of the tax preference and the beneficiaries. If the beneficiaries of the tax are required to report to other state or federal agencies, JLARC staff will also obtain data from those agencies.

If there is sufficient information in this evidence to infer a policy objective, JLARC staff state that in the reviews. In these instances, the purpose may be a more generalized statement than when there is explicit statutory language.

More about 2019 reviews

Contact information

JLARC staff members

[Dana Lynn](#), Research Analyst - 360-786-5177

[Rachel Murata](#), Research Analyst - 360-786-5293

[Pete van Moorsel](#), Research Analyst - 360-786-5185

[Eric Whitaker](#), Research Analyst - 360-786-5618

[Zack Freeman](#), Research Analyst - 360-786-5179

[Josh Karas](#), Research Analyst - 360-786-5298

[Aaron Cavin](#), Research Analyst - 360-786-5194

Eric Thomas, Audit Coordinator

Keenan Konopaski, Legislative Auditor

JLARC members on publication date

Senators

Bob Hasegawa
Mark Mullet, *Chair*
Rebecca Saldaña
Shelly Short
Dean Takko
Lynda Wilson, *Secretary*
Keith Wagoner

Representatives

Jake Fey
Noel Frame
Larry Hoff
Christine Kilduff
Vicki Kraft
Ed Orcutt, *Vice Chair*
Gerry Pollet, *Assistant Secretary*
Drew Stokesbary

Citizen Commission for Performance Measurement of Tax Preferences

Voting members

Dr. Grant D. Forsyth
Ronald L. Bueing
Diane Lourdes Dick
Dr. Justin Marlowe
Andi Nofziger-Meadows

Non-voting members

Mark Mullet, JLARC Chair
Pat McCarthy, State Auditor

Washington Joint Legislative Audit and Review Committee

106 11th Avenue SW, Suite 2500
PO Box 40910
Olympia, WA 98504-0910

Phone: 360-786-5171

Fax: 360-786-5180

Email: JLARC@leg.wa.gov





Supply Skepticism: Housing Supply and Affordability

Vicki Been, Ingrid Gould Ellen, and Katherine O'Regan
August 20, 2018

furmancenter.org

This research does not represent the institutional views (if any) of NYU,
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Supply Skepticism: Housing Supply and Affordability

Vicki Been
Ingrid Gould Ellen
Katherine O'Regan

NYU Furman Center
NYU Wagner School and NYU School of Law*

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ABSTRACT

Growing numbers of affordable housing advocates and community members are questioning the premise that increasing the supply of market-rate housing will result in housing that is more affordable. Economists and other experts who favor increases in supply have failed to take these supply skeptics seriously. But left unanswered, supply skepticism is likely to continue to feed local opposition to housing construction, and further increase the prevalence and intensity of landuse regulations that limit construction. This article is meant to bridge the divide, addressing each of the key arguments supply skeptics make and reviewing what research has shown about housing supply and its effect on affordability. We ultimately conclude, from both theory and empirical evidence, that adding new homes moderates price increases and therefore makes housing more affordable to low- and moderate-income families. We argue further that there are additional reasons to be concerned about inadequate supply response and assess the evidence on those effects of limiting supply, including preventing workers from moving to areas with growing job opportunities. Finally, we conclude by emphasizing that new market-rate housing is necessary but not sufficient. Government intervention is critical to ensure that supply is added at prices affordable to a range of incomes.

In the face of rising prices, growing numbers of advocates and community members are seeking to defeat development proposals and arguing for policies to restrict new development in popular urban areas. These groups question the premise that increasing the supply of market rate housing will improve housing affordability. Indeed, many advocates oppose development of new affordable housing as well, unless it serves the households at the very lowest end of the income distribution currently in place in the neighborhood. In those arguments, advocates and

* Professor Been is the Boxer Family Professor of Law at NYU School of Law; Professor Ellen is the Paulette Goddard Professor of Urban Policy and Planning at NYU Wagner; Professor O'Regan is a Professor of Public Policy and Planning at NYU Wagner. The three of them are the faculty directors of the NYU Furman Center. We would like to thank Paavo Monkkonen, Vincent Reina, Richard Revesz, Michael Suher, Carl Weisbrod, participants in the Florida State University College of Law faculty workshop series, and an anonymous reviewer for very helpful comments on prior drafts of this article. Dana Scott and Nicholas Phillips provided excellent research assistance. Professor Been is grateful for the support provided by the Filomen D'Agostino and Max E. Greenberg Research Account. Although this research was conducted by the faculty directors of the Furman Center, which is affiliated with NYU's School of Law and Wagner Graduate School of Public Service, it does not purport to present the institutional views (if any) of NYU or any of its schools.

community members often find themselves on the same side as those who oppose development for reasons having nothing to do with affordability, but are focused instead on protection of historic streetscapes, low density character, individual viewsheds, or other traditional not-in-my-backyard concerns. This confluence of opposition is becoming a powerful block against development in many cities.

Opposition to new development has long been expected from homeowners who benefit from the higher housing prices they believe will result from limits on supply (Fischel, 2005). But opposition to new development now also comes from renters and others who advocate for *lower* rents and housing prices. Those opponents share what we call ‘supply skepticism’ – or disbelief that additional market rate housing helps make housing more affordable, and indeed a view that it may increase rents and prices.¹ Skeptics argue, first, that land in many high-cost cities is such a constrained good that it should be devoted to affordable housing, because any market rate housing will come at the direct expense of affordable homes. Second, skeptics dispute the notion that new market rate housing causes other housing to filter to lower income households, at least in a reasonable time frame, and argue that adding supply at the top end will do little or nothing to alleviate affordability challenges in lower-priced segments of the market. Third, skeptics worry about ‘induced’ demand, fearing that the more you build, the more they’ll come, and the more that wealthier people in particular will come.² In a dynamic system, they argue, any decreases in price resulting from additional supply will be fully offset by additional demand resulting from the lower cost. Fourth, skeptics seize on potential localized spillover effects from newly constructed housing, and assert that even if increasing supply might slow the growth in housing costs across the city, new housing will increase rents and trigger displacement in the immediately surrounding neighborhood.

Economists and other experts who favor allowing for increases in supply to mitigate rising prices and rents have not provided adequate answers to such arguments. They have tended to dismiss local costs to growth, have often ignored or discounted the benefits that may flow from regulations that may also hinder growth, and more generally, have failed to take the supply skeptics seriously. Local elected officials, along with housing and land use agencies, accordingly struggle to offer persuasive arguments to garner support for the increased production of housing. Not surprisingly, then, local residents and other supply skeptics continue to oppose the creation of new housing, and the prevalence and intensity of land use regulations that limit construction continue to increase (Gyourko & Molloy, 2015; Gyourko, Saiz & Summers, 2008; Schuetz, 2009).

This paper is meant to bridge the divide between the arguments made by supply skeptics and what research has shown about housing supply and its effect on affordability. In the following section, we address each of the key arguments that increasing supply does not improve affordability. Many of the arguments are plausible, and research does not fully counter all of

¹ Undoubtedly, renters, other community members, and advocates have reasons for opposing development that are not based in supply skepticism. People often worry that proposed developments will overcrowd their children’s schools or their preferred form of transit, change their favorite retail or entertainment venues, or take away their sense of belonging and community (Freeman, 2006; Hutson, 2016). Those concerns may sometimes lie behind expressions of supply skepticism, but we focus in this essay only on arguments development opponents are making about how adding supply will affect housing affordability.

² A related notion is that “if you can’t build it, they won’t come.” See, e.g., Newman (2008).

them, but the preponderance of evidence suggests that easing barriers to new construction will moderate price increases and therefore make housing more affordable to low and moderate income families. Moreover, supply restrictions inhibit the ability of workers to move to areas with growing job opportunities. Allowing more new housing thus is critical both to ease affordability pressures and to reduce other negative results of constricted supply. But more new housing will not fully address affordability challenges; efforts to increase supply must be paired with subsidies and other tools to ensure that communities remain (or become) economically diverse as they grow. In addition, there are crucial gaps to be addressed in future research to help move the policy discussion forward. In the final section, we recommend that new development include housing rented or sold at a variety of price points (using subsidies as needed), so that growth is balanced among the various income levels in the community. We also outline the research needed to better understand the relationship between supply and affordability, and to ensure that efforts to increase supply are most effective.

I. The Relationship Between Land Use Regulations, Supply and Affordability: Assessing the Arguments

Despite the arguments raised by supply skeptics, there is a considerable body of empirical research showing that less restrictive land use regulation is associated with lower prices.³ The evidence takes many forms. A large number of cross-sectional studies show that stricter (less strict) local land use regulations are associated with less (more) new construction and higher (lower) prices. Glaeser and Gyourko (2003), along with Gyourko and Molloy (2015), survey that literature and conclude that “[t]he vast majority of studies have found that locations with more regulation have higher house prices and less construction.” (Gyourko & Molloy, 2015, p. 42). For example, Kok, Monkkonen and Quigley (2014) find that in California’s San Francisco Bay Area, the stringency of regulation and number of approvals needed to obtain permits or zoning changes strongly correlate with the value of land, and thereby lead to higher house prices.

A few studies use panel data and find that the imposition of more stringent land use controls leads to lower supply and higher prices. Jackson (2016) uses longitudinal data from California’s cities to assess the effect a city’s adoption of additional land use regulations has on the number of new construction permits issued, and finds that each additional land use regulation adopted reduced multifamily and single-family permits by an average of more than 6% and 3%, respectively, and that regulations reducing allowable density had even larger effects. Zabel and Dalton (2011) use longitudinal data from localities in Massachusetts and find that increases in minimum lot sizes are followed by significant increases in prices. Looking at longitudinal data on municipalities in the Boston metropolitan area, Glaeser and Ward (2009) find that the adoption of stricter local regulations leads to higher house prices, but the coefficient falls in magnitude and loses significance once they control for population demographics. They point out that this is expected, if homes in other jurisdictions are seen as perfect substitutes. Thus, whereas supply restrictions may increase prices in a market as a whole, they may not increase

³ Most of the studies are framed as assessing whether stricter land use regulations are associated with higher prices, as Landis and Reina note (in this volume), but the studies could just as easily be framed as examining whether relaxing regulations is associated with lower prices. See Furman (2015) for a review.

them disproportionately in the particular locality where they are imposed due to spillover effects across jurisdictions.

Several other researchers use instrumental variables to try to more clearly assess the causal effects regulatory restrictions have on housing supply and prices. Ihlanfeldt (2007) uses such an approach to study regulation in localities in Florida and finds that predicted regulations significantly increase the price of single-family homes. Saks (2008) instruments for increases in demand and shows that increases in labor demand lead to less residential construction and larger increases in housing prices in metropolitan areas with more restrictive housing supply. Hilber and Vermulen (2016) show that changes in demand lead to increases in local house prices rather than increases in supply in municipalities in England with greater regulatory restrictions, measured by the refusal rate of proposed residential projects and the number of project approvals delayed more than 13 weeks.

In sum, the preponderance of the evidence shows that restricting supply increases housing prices and that adding supply would help to make housing more affordable. Despite this evidence, skepticism that increases in housing supply will improve affordability appears only to be growing. Part of the issue is that observers in many cities see prices rising despite new construction. What they do not see is the greater price increases that research suggests would have taken hold if less construction had occurred. Below, we analyze four of the commonly voiced arguments that undergird supply skepticism, drawing on both basic economic theory and empirical evidence.

A. Housing Is Bundled with Land, but Still Is Ruled by the Laws of Supply and Demand

Some argue that the normal rules of supply and demand don't apply to housing because housing is tied to a specific plot of land, and unlike other inputs into the production of housing that may be in plentiful supply, the supply of land is limited in many jurisdictions by existing development and by geographical constraints like coasts or mountains (Angotti & Morse, 2016). Indeed, critics argue that because land is inherently limited, the development of market rate housing consumes scarce land that could otherwise be used for affordable housing.⁴ The argument often is accompanied by demands that high percentages (such as 50 percent or more) of all housing developed on private sites should be restricted as affordable housing (Durkin, 2016).

Whereas land is limited in supply, it is not necessarily the case that the land where market-rate housing (or a mixture of market rate and affordable housing) is proposed would otherwise be used entirely for affordable housing. The land might continue to be too costly to support affordable housing, even if the land could not be used for housing for higher income households, because there are other uses competing for the land. Also, the reasons affordable

⁴ A variant on this argument is the claim that luxury apartments are left empty as owners travel or live elsewhere and that land used for such properties should instead be used for affordable housing. (Booth & Adam, 2017, reporting on Britain Labour leader Jeremy Corbyn's statement that requisitioning "empty" homes might be necessary because "It can't be acceptable that in London we have luxury buildings and luxury flats left empty as land banking for the future while the homeless and the poor look for somewhere to live.")

housing is not provided in larger quantities go far beyond the lack of land and include the inadequacy of funding to pay for construction, financing costs and operating costs. Further, programs like mandatory affordable housing can ensure that developments using land for market-rate housing also include some affordable housing, although no inclusionary program imposes requirements as high as 50 percent of the units (Thadden & Wang, 2017).

More fundamentally, although it is surely true that land is constrained, especially in certain markets (Saiz 2010), land can be used more intensively to allow for more housing. The limits on the land with which housing is bundled make housing different from many goods, but the difference is one of degree: the supply of housing can and does increase even in constrained markets, and prices should generally fall in response (see the review by DiPasquale, 1999; Mayer & Somerville, 2000).

B. Housing Is Heterogeneous, but Adding Supply in One Market Will Affect Prices in Another

A second argument raised by supply skeptics is that additions to housing supply tend to be luxury housing, but that “[t]he *only* increase in housing supply that will help to alleviate . . . [the] affordable housing crisis is housing that is truly affordable to low-income and working-class people” (Aguirre, Benke, Neugebauer & Santiago, 2016, p. 1). They reject the idea that building housing at one price point has any significant effect on the price of housing in other submarkets (Council of Community Housing Organizations, 2016). Even if they acknowledge that these units may age and filter down to lower-priced market segments over time, critics note that it will take many decades for them to do so.

It is true that housing is more heterogeneous than most other goods, and that housing markets are more segmented as a result. Housing comes in many different forms, ages and sizes. Rather than having one unified housing market, it is more accurate to think of a city as having numerous housing submarkets, each with its own demand, supply and price. It is also true that when first produced, housing tends to supply the medium- and high-end segments of a housing market, because housing is so expensive to build. Further, homes depreciate in value relatively slowly, and the direct filtering of new homes down to lower-priced submarkets therefore can take decades.

Still, although housing is heterogeneous, additions to the housing stock in one submarket can fairly quickly affect prices and rents in other submarkets by alleviating competition that would otherwise be diverted to those other submarkets. Imagine a city with no new construction. As demand increases and prices or rents rise for higher-end housing, some homeseekers who would otherwise have searched in that submarket will be priced out. They will either leave the jurisdiction altogether or turn instead to somewhat less expensive housing in the same city, increasing demand for housing in the next submarket. Unless there have been offsetting declines in demand for housing in those other submarkets, the failure of supply to respond to increased demand at the higher end will ripple through other submarkets as demand spills into these markets and increases their prices and rents.

What is more, these ripple effects may be compounded by owners' decisions to upgrade their buildings. As prices increase in the higher end of the market, owners will find it more attractive to maintain or upgrade existing housing units that would otherwise have aged out of this submarket, slowing the movement of units to less expensive submarkets through downward filtering.⁵ Indeed, if price increases are large and persistent enough, upgrading of existing units (and perhaps entire neighborhoods) will occur in other submarkets, further decreasing supply in less-expensive submarkets. Research provides some evidence that *filtering up* occurs in tight markets. Looking at 38 metropolitan areas, Somerville and Mayer (2003) find that units affordable to those with incomes at or below 35 percent of area median income are more likely to *filter up* or become unaffordable in metropolitan areas where housing supply is less responsive to demand (has lower elasticity), as proxied both by new single-family housing permits and by measures of land use restrictions in the metropolitan area.

Finally, policymakers should not be so short-sighted as to overlook long-term effects. Over the longer run, increases in supply at the medium or higher end of the market should also increase supply in lower-priced markets as older units that are now less valuable work their way down to lower-priced sub-markets.⁶ Housing lasts for many years, but most housing filters down, or loses value as it ages, representing *new* supply in submarkets at lower price points.⁷ In this way, newly constructed units at the high-end of the market have a ripple effect across connected submarkets. As demand is met at the high-end, the older units that are now less valuable work their way down to other submarkets. Although luxury apartments in the most desirable locations may never become part of the stock affordable to low-income households, their creation should help to increase supply and reduce prices in the next submarket, which over time, should trigger some downward filtering of housing through various submarkets to lower-priced submarkets.⁸

Empirical research shows that filtering is not just a theory posited on the pages of economic textbooks, but it in fact occurs in real housing markets. Indeed, recent research shows that filtering was the primary source for additions to the affordable rental stock between 2003 and 2013, whereas new construction was the largest contributor for the higher priced rentals and tenure conversion was the largest source for moderately priced rentals (Joint Center for Housing,

⁵ The durability of housing means that at any point in time, newly constructed housing will comprise only a small portion of the housing market and most of the increase in demand in any submarket must initially be absorbed by existing housing. For example, in 2015, only 3.2 percent of owner-occupied housing had been constructed within the prior five years (American Housing Survey, 2015).

⁶ In some cases, the high-end housing may be created through the demolition of older, lower-priced homes. If so, then the high-end housing will have the immediate effect of reducing supply and potentially increasing prices in the lower-priced submarket. But see Bachrach, Monkkonen and Lens (2017) (examining a sample of multifamily construction in Los Angeles between 2014 and 2016, and finding “the vast majority of new multifamily units — both market-rate and income-restricted affordable apartments — have replaced single-family houses or been built on land not previously used for residential development”).

⁷ Of course, some older housing might command a premium if consumers value its unique features.

⁸ It may be that housing advocates belittle arguments about filtering not because (or not just because) they are skeptical that it works, or impatient for more immediate results, but because they object to the notion that poorer people should be housed in older units than wealthier households. That discussion is beyond the scope of this paper, but opposing market rate development in the hope that more new construction will be devoted to affordable housing ignores the cost differential between rehabbing existing units and building new, and fails to reckon with the role rehab can play in stabilizing and improving neighborhoods.

2015, figure 14). Further, Weicher, Eggers, and Moumen (2016) report that 23.4 percent of the rental units that were affordable to very low-income renters in the U.S. in 2013 had filtered down from higher rent categories in 1985. Another 21.8 percent were conversions from formerly owner-occupied homes or seasonal rentals.⁹ Most of the higher priced rental units that filtered down to become affordable in 2013 were moderate rent units in 1985, but 15 percent of those that filtered down were high-rent units in 1985.¹⁰ Note that filtering occurs over a shorter time frame too; among affordable units in 2013, 19 percent had been higher rent units as recently as 2005.

Recent research analyzing the incomes of successive occupants of homes also suggests substantial downward filtering, particularly of the rental stock due to tenure conversion; as the owner-occupied stock ages, a portion converts to rental. (Rosenthal, 2014).¹¹ Rosenthal also finds, however, that filtering rates are considerably lower in areas with high house price inflation, though downward filtering still occurs.

In short, new construction is crucial for keeping housing affordable, even in markets where much of the new construction is itself high-end housing that most people can't afford. A lack of supply to meet demand at the high end affects prices across submarkets and makes housing less affordable to residents in lower-cost submarkets.

It is worth underscoring, however, that allowing more market-rate construction will not address the housing needs of all households. For at least the lowest income households, even the moderation of rent increases that results from expanded supply will likely be insufficient to make homes affordable to them. Housing subsidies, of some form, are still needed as well. However, as increases in housing supply moderate housing prices and rents overall, the gap between what a jurisdiction's lowest-income households can afford and available prices and rents will be smaller, which will allow any government subsidies to go further.

C. Easing Price Pressure through Additional Supply May Attract some Demand— but Not Enough to Completely Offset the Supply Increase

Some skeptics argue that even if additional supply could help make housing more affordable in the short run, it won't in the long run because the additional supply will induce more demand, especially among buyers or renters wealthier than the existing residents in the neighborhood (Redmond, 2015). The claim is analogous to the argument that building more highways will not reduce congestion because the lower cost of travel will simply cause more people to drive or to take that particular route (Gorham, 2009). In this case, the argument is that by making the jurisdiction more affordable, adding housing supply will attract new demand – both from current residents who would otherwise leave, and from people living elsewhere who will now choose to move to the jurisdiction. Further, the argument goes, lower rents and prices

⁹ About 32 percent of the units affordable in 2012 were also affordable in 1985.

¹⁰ Again, there may be an interaction between demand spillovers and filtering: if supply at the high end of the market is limited, demand for that housing will spill over to other submarkets, making it less likely that housing in that submarket will filter down.

¹¹ Specifically, Rosenthal finds that the real income of an occupant moving into a rental home in a 30-year old building in the United States is on average 50 percent of the income of an occupant moving into a newly built rental unit.

may also induce *latent* demand –people who are living with roommates or family members may choose to form their own households (Ellen & O’Flaherty, 2007) or people may choose to invest in pied-a-terres in a city. That additional demand will drive prices back up until supply can again respond, causing housing to be more affordable, at best, only cyclically, according to the argument, and increasing the density of the jurisdiction, with the attendant costs of congestion.

Although building additional highways does appear to induce more demand (Duranton & Turner, 2011), in the case of housing, additional demand is unlikely to completely offset the new supply. Such an offset requires demand curves to be perfectly elastic, or in other words, it assumes that neighborhoods and jurisdictions are perfect substitutes and that there are no constraints on the ability and willingness of households to move. That is unrealistic.¹² Moving homes is not like driving a few extra miles (Lewyn, 2016), and costs associated with moving may be high.¹³ Any additional demand induced by new housing is limited by personal and economic constraints on the ability and willingness of households to move, restrictions on immigration, and uncertainty and other factors that might inhibit renters and buyers from buying or renting in the market in which housing supply increases. Indeed, mobility rates have fallen sharply over the past several decades, and although the reasons for the decline are being debated, the decline reveals significant constraints on the ability and willingness to move.¹⁴

Thus, in the long-run, whereas some additional households may be drawn from outside (or from within the city) to buy or rent homes as supply increases, it is highly unlikely that prices will end up at the same level they would have reached absent any new supply. Finally, as noted above, the empirical evidence shows that allowing more supply leads to lower housing prices; if adding supply induced sufficient additional demand to offset the increased supply, the studies would not find an association between supply and prices.

D. Adding Supply May Raise Neighborhood Rents in some Cases, But Neither Theory nor Empirical Evidence Suggest that Will Be the Norm

Many renters in neighborhoods where market rate housing is proposed express concern that the construction of new housing will actually make their affordability problems worse by raising rents or house prices, fueling gentrification, and potentially displacing existing residents (Atta-Mensah, 2017; Savitch-Lew, 2017).¹⁵ Hankinson (2017) theorizes that renters’ opposition to local additions to supply is driven by such worries; he argues that it is plausible that the

¹² Kok, Monkkonen and Quigley (2014) argue, for example, that the large positive association they find between land use regulations and land prices in the San Francisco Bay Area is due in part to the fact that jurisdictions in the Bay Area are not close substitutes.

¹³ Demand from foreign investors is likely to be more elastic, but even here there are limits and some cities have raised revenues by imposing tax surcharge on non-resident buyers. Favilukis & Van Nieuwerburgh (2017).

¹⁴ Schleicher (2017) provides a recent review of the evidence about changing mobility rates, and explores the causes and consequences of those changes. Some blame the decline on land use restrictions that make it hard to buy or rent in markets with job opportunities (Ganong & Shoag, 2017); others point to such factors as the aging of the population (Karahana & Li, 2016) and changes in the labor market (Molloy, Smith & Wozniak, 2017).

¹⁵ Residents also express concerns about the costs that additional development might impose upon the neighborhood’s quality of life, by exacerbating traffic congestion, competition for parking, school over-crowding, and other strains on public services. That broader issue of local costs for broader societal benefits in the land use context is addressed most recently by Monkkonen (2016); see also the review by Schively (2007).

construction of an attractive new building will increase prices locally (by improving the physical landscape, bringing new amenities to the neighborhood, and signaling that the neighborhood is improving), even as it reduces them citywide.

Testing this proposition empirically is quite challenging, given that developers will naturally be attracted to areas where prices and rents are rising. There is evidence that improvements to blighted housing can, in some circumstances, increase surrounding property values, even when the new or improved housing is subsidized, low-income housing (Diamond & McQuade, 2016; Schwartz, Ellen, Voicu & Schill, 2006).¹⁶ The new housing studied, however, typically replaced vacant, abandoned buildings and littered vacant lots, in essence removing a disamenity.

Theoretically, we might also expect positive localized spillover effects for market-rate housing, even when it does not replace a source of blight, as it may bring new retail amenities and/or signal that an area has features that buyers or renters find attractive. But there are multiple forces potentially at work when new housing is constructed in a neighborhood facing increased demand. On the one hand, the construction could spur additional investment and demand, placing upward pressure on prices. On the other hand, the unpleasantness of construction may depress demand. Further, the newly constructed units in the neighborhood will absorb some of the new demand and dampen pressure on prices. (In the absence of new construction, the unsatisfied demand will go somewhere. Some may be diverted to other neighborhoods or jurisdictions; but some will likely remain, bidding up rents and prices for the existing stock, and making it profitable for owners to upgrade the stock to accommodate new entrants rather than existing residents.) Thus, even in those cases where construction spillovers are positive, the net effect of new construction on price is unclear.

There is little empirical evidence about the net effects new market rate housing has on the prices or rents of nearby homes, and what exists may not be causal. One recent study examines the effect of market rate single family homes newly constructed on infill sites, and finds that newly constructed single-family homes can have positive impacts on the sales price of other single-family homes nearby, but the effect varies with context (Zahirovich-Herbert & Gibler, 2014). A study of multifamily high rise infill developments in Singapore found positive price effects on nearby houses (Ooi & Le, 2013), as did a study of single multi-story apartment buildings constructed in Helsinki (Kurvinen & Vihola, 2016). These studies all consider property values and not rents, and none is able to prove a causal relationship given that market-rate developments aim to target neighborhoods where they expect property values to improve. Unfortunately, we found no study examining impacts on rents, though one study by the California Legislative Analyst Office concluded that additional market rate construction is linked to *lower* displacement rates (Taylor, 2016). Examining low-income neighborhoods in the Bay Area between 2000 and 2013, the researchers found that the production of market rate housing was associated with a *lower* probability that low-income residents in the neighborhood would experience displacement.¹⁷ Although a singular study, the findings suggest that for

¹⁶ See also Aarland, Osland, and Gjestland (2017).

¹⁷ Displacement was defined as either (i) a decline in the absolute number of low income household in census tracts that were otherwise growing, or (ii) larger declines in low income households than households overall in the tract.

neighborhoods in high-demand cities, blocking market-rate construction may place greater pressures on the existing stock.¹⁸

In short, although it is clear that the construction of new homes will moderate price and rent increases citywide, neither theory nor empirical evidence provides clear guidance about when localized spillover effects might occur and when they might actually cause an increase in the prices and rents of immediately surrounding homes.

II. Broader Effects of Limiting Housing Supply

Of course, regulatory barriers that restrict supply also may provide benefits—by preventing congestion, protecting environmental resources, ensuring health and safety, delaying construction until necessary infrastructure improvements are made, and providing certainty to the market.¹⁹ Indeed, those benefits may increase demand: Been and her colleagues point out that land use regulations can make an area more attractive to homebuyers because they offer greater certainty that an area’s buildings (and potentially their residents) will not change much over time, and thereby increase prices (Been, Ellen, Gedal, Glaeser & McCabe, 2016).²⁰

But often the benefits secured by regulatory restrictions are enjoyed by a relatively small number of existing property owners and/or existing residents, whereas costs are borne by a larger set of households who either rent or would like to live in the area. Further, the higher housing prices caused by constrained supply have consequences beyond affordability for households and communities. The effects are intertwined: supply constraints raise housing prices, and increases in housing prices in turn have a variety of other negative consequences, including interference with the functioning of regional and national economies. After all, interdependencies in housing markets are not limited to submarkets of a given city. As housing prices continue to increase in a city as a result of supply restrictions, some of those who are priced out will opt to live elsewhere, perhaps in surrounding suburbs, or perhaps in exurban areas or other markets altogether. If many choose to live further away but in the same metropolitan area, commute times are likely to increase, and income and racial segregation in the region could potentially rise as lower income and minority households disproportionately move further away from the central city. If many choose to live in other metropolitan areas altogether, this could undermine both local and national economic growth and fuel inequality. We summarize the evidence on these various effects below.

¹⁸ Badger (2016) usefully collects views of economists and advocates on the issues raised by the California Legislative Office study; see also Zuk and Chapple (2016).

¹⁹ Buntun (2017), for example, models zoning decisions to assess both the costs and the benefits of density restrictions, and finds that the optimal level of restrictions would increase aggregate output by 2.1 percent, with one-third of those gains negated by the increased congestion felt by residents of productive locations, for a net gain of 1.4 percent. See also Turner, Haughwout & van der Klaauw (2014), who find that the benefits of land-use regulations are less than the costs they impose.

²⁰ Of course, by providing protection against change, land-use regulations benefit those who don’t want change, but impose costs on those who do want change.

A. Restricting Supply Imposes Environmental and Other Costs Related to Automobile Dependence

Restrictions on supply often are associated with lower density and less compact development because they divert housing demand to lower density suburban or rural areas, leading to longer commutes and more driving, which results in increased air pollution and greenhouse gas emissions.²¹ Research shows that living in areas with higher population densities and other features of compact urban form decreases the harmful emissions associated with personal automobile travel by those households (for reviews of the vast literature, see Ewing & Cervero, 2010; Stevens, 2017; and the debates those reviews generated, e.g., Ewing & Cervero, 2017; Handy, 2017). Similarly, a variety of research shows that higher density and more compact urban forms result in less energy use for heating and cooling buildings, and therefore fewer greenhouse gas emissions (Estiri, 2015; Ewing & Rong, 2008; Resch, Bohne, Kvamsdal, & Lohne, 2016). Higher residential density is also associated with lower per capita impacts on water quality from development (Jacob & Lopez, 2009), and with lower rates of destruction of critical habitat and open space (Ewing, Kostyack, Chen, Stein, & Ernst, 2005).

B. Restricting Supply May Exacerbate Income and Racial/Ethnic Segregation

It is difficult to test whether density restrictions heighten segregation, and the little empirical work that does exist is cross-sectional and therefore cannot prove causation. But the research does suggest an association between land use restrictions and segregation. For example, one recent study suggests that such restrictions are statistically associated with higher levels of segregation of the affluent, although *not* of low-income households (Lens & Monkkonen, 2016). As for racial segregation, more stringent restrictions on density are associated with greater segregation in large U.S. metro areas (Rothwell & Massey, 2009), and smaller minority populations in individual jurisdictions (Pendall 2000; Quigley, Raphael & Rosenthal, 2004). Finally, in Massachusetts, blocks zoned for multifamily housing have black population shares 3.4 percentage points higher and Hispanic population shares 5.8 percent higher than the blocks directly across the border from them that are zoned for single family use (Resseger, 2013).

C. Restricting Supply Reduces Economic Productivity and Increases Inequality

Supply restrictions also likely hinder economic growth. If people who are priced out of a particular city choose to live in another metropolitan area altogether, that city's work force will shrink and productivity may decline. Supply restrictions that prevent people or businesses from locating in the neighborhood they prefer also can result in lower productivity and other deadweight losses (Rodriguez & Schleicher, 2012). There is strong empirical evidence that businesses thrive and workers are more productive when they are located in large, dense cities with lots of diverse economic activity (Glaeser, 2011; Kolko, 2010; Quigley, 1998). Constraints on housing supply in a city inhibit the growth and diversity that is essential to productivity. Raven Saks Molloy shows that increases in demand for workers in cities with more restrictive land use regulations lead to less new housing construction, higher prices, and lower levels of long-run employment as compared to areas with less restrictive regulations (Saks, 2008).

²¹ Other factors, such as availability of large amounts of undeveloped land, also contribute to lower density. The key point here is that, to the extent that regulations lower density of development, they impose additional costs.

Further, to the extent that land use regulations restrict the supply of housing and raise prices, they make it more difficult for workers to move to the cities with more productive businesses. Interstate mobility rates have fallen significantly since the 1980s (Frey, 2009; Kaplan & Schulhofer-Wohl, 2017; Molloy, Smith, & Wozniak, 2011), even from areas with declining employment opportunities (Autor, Dorn, Hanson & Song, 2014), and especially for those with the lowest incomes and skills (Notowidigdo, 2013). Areas that are seeing especially high productivity gains, like New York, San Francisco, San Jose, and Boston, have not seen population growth to match those gains (Glaeser, 2011).

Chang-Tai Hsieh and Enrico Moretti (2017) show that this reduced mobility is not only harmful to individual workers or cities but also to national productivity. They estimate that if workers and capital had been able to move freely between 1964 and 2009 to respond to higher wages, national output would have been 10 percent higher in 2009. Further, they find that much of the drag on productivity stems from just a few metropolitan areas, because less restrictive land use practices in the South have allowed housing supply to keep up with the increased productivity of most of the southern cities. Although other researchers estimate that the effects of reduced mobility are lower than Hsieh and Moretti predict, the effects are nonetheless significant (Bunten, 2017; Glaeser & Gyourko, 2017; Parkhomenko, A., 2017).

Ganong and Shoag (2017) argue that the reduced mobility resulting from the constrained supply of housing is also exacerbating inequality and locking in economic differences across states. They point out that the relative gains in income and housing costs achieved by moving to high-cost regions vary with occupations. For workers in low-wage occupations, the increases in housing costs they would have to endure when moving to a state with restricted housing supply are larger than the gains in income they would enjoy. The calculus differs for workers in high-wage occupations, however, for whom income gains have continued to outpace housing cost increases. In other words, highly educated workers may still find it profitable to move to supply-restricted places, whereas less-educated workers do not, which is exacerbating inequality across cities and states. The differential mobility also may have very long term effects on inequality, because many of the areas to which more highly educated workers may be more likely to move have higher levels of intergenerational mobility than the areas in which less-educated workers remain (Schleicher, 2017).

III. Moving Forward?

We are not suggesting that local officials should focus exclusively on relaxing regulations and facilitating the construction of market-rate housing. First, some level of regulation is needed for the reasons described above. Second, building more market rate housing alone will not solve the deep affordability problems faced by low-income households. The key point is that efforts to create and support housing affordable to low- and moderate-income households and efforts to make the supply of housing more elastic are complementary.

The arguments skeptics advance in opposing increases in the supply of housing are inconsistent with the evidence, and if skeptics are successful in defeating many proposals for

additional housing (and density), their arguments are likely to result in significant harms. The arguments do, however, underscore the need for some governmental intervention in housing markets to require or incentivize a balanced approach to new development. Because the price effects of market-rate construction may be slow to materialize and are unlikely to be sufficient to address the needs of very low-income households, it is important for local governments to seek to ensure that new supply comes on line at a range of price points, so that growth is balanced among the various income levels in the community. Even in cities that have robust affordable housing programs, the supply usually is far less than the need, and may be fairly narrowly targeted to households making 50 to 60 percent of Area Median Income because of the structure of the Low Income Housing Tax Credit program. Households with incomes below that level are often left out, as are those with incomes just above, many of whom also face affordability challenges in high-cost cities. To ensure that a range of income groups are seeing the benefits of the jurisdictions' growth through new housing, local governments may want to use subsidies, together with a variety of housing policy tools such as density bonuses or mandatory inclusionary zoning, to achieve visible additions to supply at a variety of price points.²²

Getting out of the way to allow additions to supply, and adopting and implementing tools to ensure that supply is provided for a range of incomes, is not an easy policy or political task. Stakeholders may see moderate- or middle-income housing as coming at the expense of housing for low- and very low-income households. Communities are unlikely to trust that the housing for anyone other than the wealthiest buyers will actually be provided, so they may be reluctant to support additions to supply that are not specifically committed to particular income groups. Policymakers thus will need tools like inclusionary zoning that tie approvals for market rate housing to commitments to ensure that housing affordable at a range of incomes also is provided.

Gaps in Research:

The considerable body of research described above shows that additions to supply are critical to moderate price increases, allow workers to move to areas with growing job opportunities, and help subsidy dollars serve more low-income families. But there are still a number of research gaps, both on the relationship between specific features of housing markets, changes in supply, and affordability, and on the efficacy of various policy responses to limited supply. Most fundamentally, the lack of good data on rents makes it difficult to assess how changes in housing supply affect rents (as opposed to home prices). It is critical that we find better ways to track rents so that researchers can rigorously analyze the effects that adding supply has on both the local neighborhood and on the jurisdiction and region.

Second, there is a lack of research on how, and the extent to which, housing filters up or down in various submarkets. Skeptics rightly are wary because of the time the filtering process takes, and because high-end housing rarely filters down to become affordable to those with very low incomes. We need more facts about the extent to which housing filters down to lower price

²² Inclusionary zoning programs have to be designed and calibrated carefully to ensure that they increase the supply of affordable housing without increasing the costs of market-rate housing. See, for example, Mukhija, Das, Regus & Tsay (2015); Schuetz, Meltzer & Been (2011); see also the reviews by Sturtevant (2016) and Thadden & Wang (2017). Regulatory relief measures, such as design flexibility and fast-track permitting programs, may need to accompany inclusionary zoning mandates (see, e.g., Garde, 2016).

points, or up to higher-income buyers or renters, and at what pace. Much more research also is needed about how to protect the supply of existing unsubsidized affordable housing from deterioration or upward filtering.

Third, concerns that new development will spur gentrification or local price and rent increases suggests that additional research on the local costs and benefits of new development (and of changes in neighborhoods more generally) is necessary.²³ Neighbors of proposed new developments fear displacement from rent increases, but there is little hard evidence of displacement (for summaries of the research, see Ding, Hwang & Divringi, 2016; Florida, 2015). We need more research to learn what happens to rents, and how residents fare when their neighborhoods see new development, either through uncoordinated additions to supply or through comprehensive neighborhood redevelopment.

Fourth, many opponents of new supply argue that most of the new supply is luxury housing, and much of that is bought by people who do not reside in the city and whose competition drives up the cost of housing (Francis, 2016). Some recent research suggests that an increase in the share of out-of-town buyers is associated with an increase in house prices (Favilukis & van Nieuwerburgh, 2017; Sá, 2016). But other research finds no association (Cvijanovic & Spaenjers, 2017), and finds that at least some of those out-of-town buyers are not competing with the median homebuyer, but are aiming at the most expensive properties, where supply is most likely to be sufficient to meet demand (Terrazas, 2017). Additional research is needed on how much of the new construction in different cities in the United States is built at different price points, how new construction at different price points affects the demolition or other loss of lower income housing, who is buying in each price range, how competition at the very highest end of the market affects the propensity of housing units to *filter up*, and whether any price effects associated with out-of-town buyers vary at different price points.

There are also research gaps on the policy front. More rigorous research also is needed on the efficacy of the various ways states have sought to encourage additional supply – from state laws like Massachusetts 40B (which allows affordable housing developers to override local zoning rules in municipalities in which less than 10% of the housing stock meets specified affordability thresholds) to California’s efforts to discourage sprawl and encourage additions to supply at higher density. The assessment of fair housing requirements of the Affirmatively Furthering Fair Housing regulation²⁴ provide opportunities to identify strategies to link school, transit, park, and other improvements to new housing that includes affordable units, and research will be needed to measure whether those assessments help reduce barriers to increasing supply.

Additional thought is also required about creative solutions to balance local concerns about new development against the need for affordable housing. Hills and Schleicher (2011) have proposed a zoning budget, where downzonings have to be matched by upzonings, for example; fair share allocations of needed new supply may achieve similar purposes.

23 Kinahan’s study of the neighborhood effects of federal historic preservation tax credits (in this volume) is an example of the type of analysis needed to identify how particular kinds of investment, in specific types of markets, affect neighborhood change.

24 Early in 2018, the Trump Administration effectively rescinded the AFFH regulation, but that action is being litigated.

Environmental impact review processes may need to be refined to better take into account the costs of not building, to more accurately consider the potential for localized costs of new development, and to more precisely assess the infrastructure and other needs the development may create both locally and city-wide. Local officials must commit to making the investments needed to ensure that local infrastructure is adequate to serve the additional population.

Finally, adding supply in surrounding jurisdictions would likely help to alleviate demand pressures in a locality, especially if accompanied by transportation improvements. Not all the supply needs to be added in the specific jurisdiction facing increased demand. The demand pressures faced in urban areas are part of larger housing and labor market pressures that may best be addressed at a larger geography. More research is needed, however, about how effective different forms of regional housing efforts have been in moderating price increases in the face of increasing demand, and in providing housing affordable to households of different incomes.

Answers to the rich set of research questions surfaced by supply skepticism could contribute directly and concretely to efforts to make housing more affordable and to make local housing policy more effective. Supply skepticism is a useful reminder that researchers and policymakers must provide more specific and concrete answers to concerns that communities have about the costs, benefits, and distributional effects of development in their neighborhoods and communities. Supply skeptics have also focused attention on an important end-goal—economically diverse, vital cities. Our disagreement is simply that this goal will not be accomplished without additions to supply. But policymakers should be frank that adding supply is unlikely ever to meet the housing needs of the very lowest income households in our communities, and will have to be paired with subsidies or other incentives or inclusionary zoning requirements.

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Land Use & Environment Committee

2020 Engineering Design and Development Standards Update

Agenda Date: 6/18/2020
Agenda Item Number: 6.B
File Number:20-0444

Type: information **Version:** 1 **Status:** In Committee

Title

2020 Engineering Design and Development Standards Update

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Move to accept staff recommendations on the 2020 proposed topics to be addressed in the annual update of the Engineering Design and Development Standards (EDDS), and forward to the full Council.

Report

Issue:

Whether to approve staff recommendations on the proposed topics to be addressed in the 2020 EDDS update.

Staff Contact:

Stephen Sperr, P.E., Assistant City Engineer, Public Works Engineering, 360.753.8739

Presenter(s):

Stephen Sperr, P.E., Assistant City Engineer, Public Works Engineering

Background and Analysis:

The EDDS guide the design and construction of transportation, drinking water, reclaimed water, sewer, stormwater and solid waste collection systems. They are also the technical interpretation of the City's Comprehensive Plan and various utility master plans. The City Engineer is responsible for approving and administering the EDDS.

The EDDS are updated annually to:

- Implement Goals and Policies established in the City's Comprehensive Plan and other Council -approved plans such as the Downtown Strategy.
- Reflect changes to the Olympia Municipal Code (OMC), particularly Titles 12-18,

- Help implement policies established in approved Utility Master Plans.
- Address changes in equipment and materials.
- Enable the use of improvements in technology.
- Clarify information and requirements described in the text and shown on standard drawings.

A few topics of particular interest will be presented including street connectivity, downtown sidewalk standards, thresholds for frontage improvements and private streets in mobile home parks. These topics implement Comprehensive Plan goals and policies consistent with reducing housing and development costs while maintaining public safety. Some of these topics will require significant staff time and public input before being finalized. This will likely result in a 12-18 month time frame to fully develop and approve some of these changes.

Neighborhood/Community Interests (if known):

The EDDS provide predictability and consistency in how the City's infrastructure is built. Making timely changes to the EDDS ensures that infrastructure installed meets the most current standards and builds the foundation for the City's vision.

Information related to the proposed changes is available on the City webpage dedicated to the EDDS. Stakeholders are engaged throughout the review and approval process.

Options:

1. Accept staff recommendations on the 2020 proposed topics to be addressed in the annual update of the Engineering Design and Development Standards. Staff will move forward with developing the changes to the proposed topics.
2. Recommend additional topics to be addressed through the 2020 annual update process. Staff will engage stakeholders and develop specific text and drawing changes to include in the draft 2020 EDDS.

Financial Impact:

Most of the proposed changes should not result in notable increases to the costs of private development or public work projects. However, those addressing street connectivity, downtown sidewalk standards, thresholds for frontage improvements and private streets in mobile home parks, should end up costing less to owners and developers.

Attachments:

None



Land Use & Environment Committee

Parking Strategy Implementation Update

Agenda Date: 6/18/2020
Agenda Item Number: 6.C
File Number:20-0465

Type: discussion **Version:** 1 **Status:** In Committee

Title

Parking Strategy Implementation Update

Recommended Action

Committee Recommendation:

Briefing only. No action requested.

City Manager Recommendation:

Briefing only. No action requested.

Report

Issue:

Update on the parking strategy implementation.

Staff Contact:

Max DeJarnatt, Parking Program Analyst, Community Planning & Development, 360.584.3535

Presenter(s):

Max DeJarnatt, Parking Program Analyst

Background and Analysis:

The Downtown Parking Strategy provides short, mid and long-term actions to support downtown goals.

Strategies include:

1. Implementing tools to manage the Parking Program and enforcement and improve customer convenience
2. Improving on-street parking
3. Reinvigorating off-street parking
4. Improving access to downtown
5. Addressing residential and employee parking
6. Addressing parking for arts, culture, and entertainment uses
7. Improve disabled parking management

Since its adoption in April 2019, staff has advanced implementation of the strategy and will update

the committee on the progress to date, including parking fee increases and technology improvements. Staff will also provide a forecast of future actions including a recommendation for addressing complimentary 15 minute and holiday parking.

A schedule of implementation actions from the Parking Strategy is attached.

Neighborhood/Community Interests (if known):

A 2015 survey of downtown businesses revealed that parking is a top concern for businesses and customers.

Options:

1. Receive the briefing.
2. Schedule the briefing for another time.

Financial Impact:

Costs to implement the parking strategy varies by action item.

Attachments:

Implementation Schedule

Action Item	Timeline	Implementation Approaches	Lead	Target Year	Capital/ Initial Expense	Annual Operating Expense	Annual Revenue	Progress
<i>Adopt Parking Strategy</i>	<i>Phase 1</i>	<i>Council formally adopts Parking Strategy</i>	<i>Policy</i>	<i>2019</i>				<i>Done</i>
1.1 Implement enforcement tools including NuPark, LPR, PayByPhone, and Barnacle	Phase 1	Maintain Software	Operations	Continual	\$ -	\$ 60,000		Doing
		Add Pay-By-Phone to South Capitol parking, lease lots, downtown on-street	Operations	2020	\$ 5,000	\$ -	\$ 10,000	Doing
		Incorporate multi-space meters	Operations	2020	\$ 15,000	\$ -	\$ 3,000	Ready
		<i>Amend code to allow barnacle</i>	<i>Policy</i>	<i>2020</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ -</i>	<i>Done</i>
2.1 Consider price increases to prioritize short term parking	Short-Term	Collect data supporting future rate adjustment (annually)	Policy	annual	\$ -	\$ -	\$ -	Doing
		Adjust hourly parking rates	Operations	2022				
		<i>Adjust hourly parking rates</i>	<i>Operations</i>	<i>2020</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ 246,000</i>	<i>Done</i>
2.2 Expand enforcement hours to include Saturdays and Evenings	Mid-term	Collect Evenings and Saturdays data	Policy	2020	\$ -	\$ -	\$ -	Doing
		Amend OMC 10.16.050	Policy	2021	\$ -	\$ -	\$ -	Ready
		Hire new FTE(s) and launch enforcement hours	Operations	2021	\$ -	\$ 70,000	\$ 233,000	Ready
2.3 Convert 9 hour meters within core area to shorter term parking	Phase 1	Replace 9 hour meters with Multispace meters/PbP in expanded core	Operations	2020	\$ 41,000		\$ 32,500	Ready
2.4 Collect data on free 15 minute and holiday parking to ensure program is meeting the goals	Short to Mid-Term	Collect data to assess program's impact	Policy	2020	\$ -	\$ -	\$ -	Doing
		Present LUEC/Council with recommendation	Policy	2020	\$ -	\$ -	\$ -	
		Implement Council direction	Operations	2021		\$ -	\$ 59,000	
3.1 Develop a signage and wayfinding plan by character area to better identify off-street parking facilities including City-owned facilities in the Downtown Core.	Mid-term	Hire consultant to develop wayfinding plan	Communications	2021		\$ -	\$ -	Ready
		Contribute parking dollars to updated signs	Operations	2021	\$ 5,000	\$ -	\$ -	
		Integrate smart occupancy sign into parking structure(s)	Policy	2022	\$ 20,000		\$ -	
3.2 Design and manage a voluntary City-led shared parking program that has common branding, signage, and accessible information on available short and long-term parking.	Phase 1	Develop and execute formal agreements with private owners	Policy	2020	\$ -		\$ -	Doing
		Develop branded signage	Policy	2020		\$ -	\$ -	Ready
		Update maps, wayfinding, website	Policy	2020	\$ -	\$ -	\$ -	Ready
		Education campaign	Policy	2020	\$ -	\$ -	\$ -	
		Integrate PayByPhone/Enforcement permitting software	Operations	2021				
<i>Enter into first formal shared parking agreement</i>	<i>Policy</i>	<i>2019</i>	<i>\$ 2,500</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ -</i>	<i>Done</i>	
3.3 Conduct a feasibility study to determine whether to consolidate parking resources in a City-owned parking garage(s).	Mid to Long-Term	Develop team charter	Policy	2020	\$ -	\$ -	\$ -	Doing
		Hire consultant through RFQ process	Policy	2020	\$ 500,000	\$ -	\$ -	
3.4 Consider the use of service agreements and partnerships with private developers for the use of city-owned land (existing surface parking lots)	Mid-term	Pending results of RFQ, leverage city owned land for financing of parking structure	Policy	2021	\$ -	\$ -	\$ -	

Action Item	Timeline	Implementation Approaches	Lead	Target Year	Capital/Initial Expense	Annual Operating Expense	Annual Revenue	Progress
3.5 Reevaluate parking requirements for new non-residential development to ensure the standards are appropriate for a Downtown.	Mid-term	Engage CP&D planning staff, planning commission	Planning-Policy	2021-2022	\$ -	\$ -	\$ -	Ready
		Use LPR for occupancy studies to support Planning staff work	Planning-Policy	2021-2022	\$ -	\$ -	\$ -	
3.6 Examine possible building or development code revisions to require or encourage EV charging infrastructure.	Mid-term	Engage CP&D planning staff, planning commission	Planning-Policy	2021-2022	\$ -	\$ -	\$ -	
3.7 Look for opportunities to partner with EV charging providers and introduce fast chargers in the public setting including potentially on-street parking for short-term/visitor use.	Mid-term	Coordinate with PW	Planning	2022	\$ -	\$ -	\$ -	Ready
3.8 Consider allowing parking validation through local businesses.	Mid-term	Update lots with turnstiles, parking structure	Operations	2022	\$ -	\$ -	\$ -	
		Update website, enforcement software	Operations	2022	\$ -	\$ -	\$ -	
4.1 Improve pedestrian and bicycle connections to and from Downtown to reduce future parking demand.	Long-term	Engage PW transportation planning staff	Transportation-Po	Continual	\$ -	\$ -	\$ -	Doing
4.2 Expand secure bike parking Downtown using a systematic, data-driven approach.	Mid-term	Engage PW transportation planning staff	Transportation-Po	2021	\$ -	\$ -	\$ -	
4.3 Encourage carsharing in public and private parking facilities.	Mid-term	Engage carsharing firms and remove barriers.	Transportation-Po	2021	\$ -	\$ -	\$ -	
4.4 Collaborate with local and regional transit agencies to improve service to and from Downtown.	Mid to Long-Term	Engage IT, PW transportation staff	Transportation-Po	Continual	\$ -	\$ -	\$ -	Doing
4.5 Implement the street and public space improvements from the 2016 Downtown Strategy to improve pedestrian comfort, mobility, and compliance with the Americans with Disabilities Act (ADA), focusing on the Downtown Core.	Mid to Long-Term	Engage PW transportation planning staff	Transportation	Continual	\$ -	\$ -	\$ -	Doing
4.6 Explore alternatives that provide angled parking for Downtown street projects.	On-going	Engage PW transportation planning staff	Transportation-Po	Continual	\$ -	\$ -	\$ -	Doing
5.1 Convert current residential and employee on-street permits to temporary access permits with a monthly fee.	Short-Term	Engineer monthly residential permit through enforcement software	Operations	2021				
		Amend OMC 10.16.055 to reflect change	Policy	2021				

Action Item	Timeline	Implementation Approaches	Lead	Target Year	Capital/ Initial Expense	Annual Operating Expense	Annual Revenue	Progress
5.2 Provide residential and employee off-street parking options through the shared parking program to provide predictable parking options.	Short-Term	Secure multiple off-street privately owned lots, with potential revenue sharing	Policy	2021			See 3.2	Doing
		Expand enforcement hours to ensure compliance	Operations	2021			See 2.2	
5.3 Implement a downtown employee parking education program	Phase 1	Keep website updated with parking and transportation options	Policy	Continual				Doing
		Engage Downtown Alliance, PBIA, and specific businesses by producing materials easily shareable with staff	Policy	Continual				Doing
5.4 Increase the price of on-street residential and 9-hour meter permits to incentivize the use of off-street parking options.	Mid-term	Gather data justifying price adjustment	Policy	Continual				Doing
		Develop and implement South Capitol Neighborhood sub-strategy	Policy	2020			\$ 8,000	Doing
		<i>Amend OMC 10.16.055</i>	<i>Policy</i>	<i>2020</i>			<i>\$ 60,000</i>	<i>Done</i>
5.5 Establish parking user priorities based on the street-fronting ground floor land use for on-street parking.	Short-Term	Continually review land use changes and match meter times and loading areas to ground floor use	Policy	Continual	\$ -	\$ -	\$ -	Doing
5.6 Review boundaries, time limits, and enforcement of the residential parking zones in the SE Neighborhood Character Area	Mid-term	Perform occupancy study to determine what mix of users occupy which spaces	Policy	2020	\$ -	\$ -	\$ -	Ready
6.1 Develop shared use parking agreements to support major entertainment and culture events focused in the Downtown Core, including disabled parking stalls.	Mid to Long-Term	Obtain long-term and short-term contracts for temporary lot usages	Policy	2020			See 3.2	Doing
		Develop temp signage directing visitors to event parking	Policy	2020	\$ -	\$ -	\$ -	Ready
		Coordinate with event managers to promote parking options	Policy	Continual	\$ -	\$ -	\$ -	
		Align Pay By Phone to accommodate pop up parking	Operations	2021	\$ -	\$ -		
7.1 Work with other departments on achieving Downtown Strategy goals around safety, lighting, and cleanliness in Downtown Olympia	Short to Mid-Term	Engage PW transportation planning staff	Policy	2020				Doing
		Improve lighting in parking facilities and along pathways to Downtown attractions	Policy	2020	\$ 8,000	\$ -	\$ -	Doing
7.2 Confirm that all City-owned off-street facilities are compliant with ADA parking requirements.	Short-Term	Evaluate stall counts and widths of lease lots and recommend necessary updates	Policy	2020	\$ -	\$ -	\$ -	Doing
		Coordinate with consultant for city-owned facilities' parking	Policy	2020	\$ -	\$ -	\$ -	Doing
		Repaint stalls, place signs	Operations	2020				Ready

Action Item	Timeline	Implementation Approaches	Lead	Target Year	Capital/Initial Expense	Annual Operating Expense	Annual Revenue	Progress
7.3 Restrict disabled parking to the 4-hour limit allowed by law for on-street parking.	Short-Term	Post limits on designated meters	Operations	2020				Doing
		<i>Pass ordinance</i>	<i>Policy</i>	2020	\$ -	\$ -	\$ -	Done
		<i>Notice public, including residents, employers, apartment managers</i>	<i>Policy</i>	2020	\$ -	\$ -	\$ -	Done
7.4 Review the number and locations of on-street disabled stalls and ensure high demand areas, such as the core, have sufficient disabled parking stalls.	On-going	Track recommendations from Accessboard.gov	Policy	2020	\$ -	\$ -	\$ -	Doing
		Collaborate with PW on DT street improvements to include ADA on-street stalls	Policy	2021	\$ -	\$ -	\$ -	Ready
7.5 Work with State representative to implement reforms that would result in reduced handicap placard misuse.	Long-term	Track State ADA panel recommendations through legislature and testify as necessary.	Policy	Continual	\$ -	\$ -	\$ -	Doing
		Compile data as needed to support statewide effort	Policy	unknown	\$ -	\$ -	\$ -	Ready
		Testify in support of statewide reforms	Policy	unknown	\$ -	\$ -	\$ -	
Total					\$ 91,500	\$ 70,000	\$ 641,500	

*items marked as \$- are incorporated in base budget



Land Use & Environment Committee

South Capitol Neighborhood Parking Strategy

Agenda Date: 6/18/2020
Agenda Item Number: 6.D
File Number:20-0462

Type: recommendation **Version:** 1 **Status:** In Committee

Title

South Capitol Neighborhood Parking Strategy

Recommended Action

Committee Recommendation:

Not Referred to a Committee.

City Manager Recommendation:

Move to approve the recommendation to adopt changes to OMC 10.16.055 and 4.70 related to residential parking and forward to the full City Council for consideration.

Report

Issue:

Whether to accept South Capitol Neighborhood parking recommendations and forward to the full City Council for consideration.

Staff Contact:

Max DeJarnatt, Parking Program Analyst, Community Planning & Development, 360.570.3723

Presenter(s):

Rachel Newmann, South Capitol Neighborhood Committee Member
Max DeJarnatt, Parking Program Analyst

Background and Analysis:

In October 2018, the City proposed increasing fees for residential parking permit holders from \$10 to \$60 per car as part of the Downtown Parking Strategy (DTS). After input from South Capital Neighborhood (SCN) residents, the City removed SCN residential parking from the DTS to separately address the issues of permit fees, enforcement issues and other issues relevant to the SCN.

A committee of four SCN residents, three City employees and two Washington State Department of Enterprise Services employees met throughout Summer and Fall 2019, using an interest-based process to discuss and resolve several issues. The results were compiled into a Parking Strategy Report and a Report Summary, both attached. The Summary outlines various strategies to improve parking enforcement in the area. Some changes require code revisions and others may be implemented administratively.

The changes requiring code revisions are as follows:

- Number of registered cars allowed on each residential permit
- Cost of annual registration
- Reduced cost for low-income seniors or disabled residents
- Increased Fines for Overtime Parking by Non-Registered Vehicles
- Changes to Numbered Parking Zones One and Three (see attached map)

Other strategies (e.g. on-street metered parking) may be implemented administratively.

Neighborhood/Community Interests (if known):

The South Capitol Neighborhood is uniquely impacted by visitor overflow parking due to its proximity to the Capital Campus.

Options:

1. Move to approve the recommendation to adopt changes to OMC 10.16.055 and 4.70 related to residential parking and forward to Council for consideration.
2. Modify - make changes to recommendations and forward to council for consideration
3. Don't approve - do not forward to council for consideration at this time

Financial Impact:

Incorporating metered parking and increasing permit fees and citations for the residential parking program in the SCN helps sustain the costs of enforcement in the area.

Attachments:

Summary of Changes
Parking Strategy Report
Map of parking zone changes

In the summer and fall of 2019, a committee consisting of City, State and South Capitol Neighborhood representatives met to discuss potential changes to the City's residential parking program in the South Capitol Neighborhood (SCN), with an emphasis on keeping the cost to neighbors as low as possible. Outlined below are the basic changes agreed to by all parties.

CHANGES PROPOSED FOR THE SCN RESIDENTIAL PARKING PROGRAM

Number of registered cars allowed on each residential permit:

Current program: Maximum of four cars per legal postal address

Proposed change: Maximum of three cars per legal postal address

Cost of annual registration:

Current program: \$10 per car

Proposed change: \$25 each for first and second cars; \$35 for third car

Reduced cost for low-income residents

Current program: None

Proposed change: Reduced fees for qualifying households to be determined by City Council

Fines for Overtime Parking by Non-Registered Vehicles

Current citation fine: \$20 per offense

Proposed change: \$25 per offense

Fines for "Chain" Overtime Parking (multiple offenses in a single day)

Current citation fine: \$40

Proposed change: \$50

Cost of Street Parking for Non-Registered Vehicles (registered vehicles exempt)

Current program: Free one- or two-hour street parking throughout SCN

Proposed change: Paid short-term public parking along the neighborhood boundary with the Washington State Capitol Campus

- Zone 1: \$2/hour for up to 2 hours on 16th Ave SE
- Zone 2: \$2/hour for up to 3 hours on 15th Ave SW and the 1400 block of Columbia Street
- Other streets in all three zones will continue as free one- and two-hour timed parking, as currently posted

Changes to Numbered Parking Zones One and Three (see map)

Current program: Zone One straddles Capitol Way
Zone Three extends south to 20th Ave SW

Proposed changes: Zone One is restricted to the east side of Capitol Way
Zone Three annexes the portion of Zone One west of Capitol Way

No boundary changes are proposed for Zone Two.

Ongoing Parking Discussion and Evaluation

Beginning in the fall of 2020, a regular annual review of the SCN parking program will take place between representatives of the South Capitol Neighborhood Association, the City of Olympia, and the State of Washington, to determine what is working, what isn't working, and what needs further refinement. There will be no further increase in fees without a thorough interest-based process and analysis of costs.

CHANGES ALREADY ADOPTED

Proof of Residence for annual permit renewals:

Pre-2020: All documents required annually (by ordinance), but leniency shown to residents whose information remains constant from year to year.

Post-2020: All proof-of-residence documents to be shown by participating households at time of renewal.

Strategic enforcement of timed parking during the annual Legislative Session and on days of anticipated high demand throughout the year (Committee Week, Campus events, training days at 1500 Jefferson Building, etc.).

**PRESENTATION TO TRIAD
December 6, 2019**

Purpose of this Briefing

In Spring 2019, a group that included representatives of the South Capitol Neighborhood, City of Olympia and State of Washington (DES) was formed to use an interest-based process to resolve conflicts over parking enforcement costs, permit fees and associated issues. The Triad concurred with this process at its last meeting, June 3, 2019. This briefing is intended to inform the Triad of the outcomes of that process.

Background

Parking by non-residents in the South Capitol Neighborhood (SCN) increases significantly during the legislative session because the neighborhood is so close to the Capitol. This issue has been contentious among the State, City of Olympia and SCN for decades. In 1972, when the East Campus was being developed, increasing the number of state employees on Campus, and the State began charging parking fees to support debt service payments on the garage bond, parking demand was pushed out to the SCN. This led the City to establish a two-hour parking limit on the street for both residents and non-residents in the SCN.

In 1989, the City of Olympia implemented a courtesy notice for the first parking violation. Shortly thereafter, the residential parking permit system was implemented, modeled after what had been done in Seattle. This program allowed residents of SCN to purchase residential parking permits with which they could avoid parking time limits. Up to four permits per household were allowed.

The interest-based process was suggested to address neighborhood concerns resulting from the City of Olympia's 2018 update of the downtown parking strategy and proposal to increase residential parking permit fees in the SCN from \$10/year/vehicle to \$60/year/vehicle. In a meeting on December 13, 2018, a number of issues were raised by SCN residents that could not be sufficiently explained or resolved. It was agreed to form a work group that included representatives of the City, the SCN and the State of Washington who would use an interest-based process to try to resolve the conflicts over this issue and to develop an on-going system to address issues as they arise.

Each group of representatives reflects different elements of the problem.

- SCN residents need parking enforcement in the neighborhood to assure that they have access to their homes from the street to perform basic daily activities or accommodate visitors.
- City of Olympia provides parking enforcement and manages that program similarly to an Enterprise Fund, originally established for downtown parking.
- The State of Washington has an impact on the SCN as a result of visitors to the Capitol doing business with the Legislature and state agencies as well as state employees parking in the residential area. Although the State's policies support commute trip reduction programs, these do not affect the public doing business with the Legislature and State agencies or sufficiently incentivize employees to not bring their personal vehicles to the campus. Thus, State business creates parking problems in the SCN.

Process

The Interest-Based Group began meeting in June 2019. The first meeting was an orientation to the proposed process. There were 11 subsequent meetings which were used to:

- Understand the background of the issues;
- Identify interests of each party and issues for discussion;
- Propose options to address each issue; and

- Identify potential solutions from among the options.

It was understood that this process might take more time at the beginning but resolution through the process would likely be more durable than a conventional public engagement process. The interests that would need to be addressed in any final recommendation and the standards for making decisions about recommendations are attached in Attachment 3.

Conclusions & Recommendations

A wide range of options was identified and discussed based on a review of:

- Background data from each party, including history of the issue dating back to 1972;
- Impacts of state activities on the SCN, particularly activities surrounding the legislative process;
- Impacts of employee parking in the SCN, particularly east of Capitol Way;
- Capacity and limitations of State-provided parking facilities;
- DASH and shuttle services, past and present;
- Capacity of on-street parking in the SCN residential area;
- How parking enforcement is conducted; and
- Data about the cost of enforcement

After applying interests and pros and cons, and considering other factors, the conclusions and recommendations are as follows:

Conclusions

There are several changes that should be made to City Code that would benefit both the SCN and the City. These are reflected in the recommendations below.

The State’s parking impact on the SCN is harder to address because of the complexity of the State system. The majority of impacts to the SCN on the west side of Capitol Way are related to Legislative business. Parking facilities are limited, some parking spaces have been eliminated and not adequately replaced, and the Legislature has not funded additional parking in recent construction projects. As a result, there are not enough parking spaces on the west side of Capitol Way to adequately handle visitor parking during the Legislative Session, during committee days or for some special events at the campus. Parking at the Deschutes Parkway is available but not frequently used. Intercity Transit is not likely to add DASH service to that area because of the cost and because there are two regular transit routes from that area to downtown, allowing transfer to routes serving the campus.

Parking impacts in the SCN on the east side of Capitol Way are year-round.

Recommendations

The following consensus recommendations will be made to the Olympia City Council in the form of amendments to existing City ordinances:

- South Capitol Neighborhood Parking Zones. These should be renamed in city code as “South Capitol Neighborhood Parking Zones” and the boundaries of these zones should be redefined consistent with the map in Attachment 1.
- Addition of Paid Parking at Specific Areas Abutting SCN. Parking spaces should be added at areas shown in Attachment 2, utilizing mobile/phone payment parking at \$2.00/hour, for up to three hours parking maximum in the SCN parking zones west of Capitol Way and up to two hours parking maximum in SCN areas east of Capitol Way. Residents with permits and their visitors may park in those areas without paying parking fees or having overtime parking penalties, consistent with current City Code.

- Residential Parking Permit Fees. Residential permit fees should be raised to \$25 each for the first two vehicles, and \$35 for the third, with no provision for additional vehicles. The fee for qualified low-income residents should remain at \$10/vehicle.
- Fines for Parking Citations. Fines for overtime parking should be raised to \$25 for the first violation and \$50 for chain violations. The rate should be increased after a certain number of multiple citations. The City will develop a proposal for repeat offenders.
- Affidavits for Residential Parking Permits. The affidavit stating that off-street parking will not be leased or reserved for non-residents should be continued and renewed annually. The affidavit for home-based businesses should also be continued and required annually.

The following consensus recommendations will be made to the City of Olympia parking program staff:

- Enhanced Enforcement on Days with High Volume Parking Needs Associated with State Activities. City parking program staff should be trained in reviewing the legislative calendar to alert enforcement staff of periods in which there is a need for increased enforcement patrol in the SCN. Additionally, DES Visitor Services weekly event schedules and high volume training schedules at Jefferson Building should be provided to the parking staff for similar consideration.
- Neighborhood Education Process. The South Capitol Neighborhood Association (SCNA) and City will jointly prepare and present an education program to the SCN residents so that they will be well-informed of regulations, how the enforcement system works, what their options are, etc. The program will also be provided to the State for employee and visitor information. Planning to develop this program should start no later than February 28, 2020.
- Future Issue Resolution Process. Continuing issues related to parking will be addressed as follows:
 - These recommendations for parking program changes will be considered a pilot program for which the assumptions need to be validated. The City will reach out to the SCNA and State to set up a meeting to discuss parking issues in Fall 2020. At this meeting there will be insufficient data about the new system but the meeting will serve to keep communication open.
 - Thereafter, an annual meeting between the City, the State, and the SCNA to address parking issues of mutual interest will be held in the Fall of each year, beginning in Fall 2021, prior to the Triad meeting.
 - At the Fall 2021 meeting, the City will report to the State and SCNA whether or not the assumptions used in this process were validated in the first year. The same cost analysis model as was used in this process will be used for the one-year review. There will be an annual report-out from the City when no changes are needed in fees and fines and also when there are changes in parking demand. There will not be any change in the residential permit fee without resuming an interest-based process.
 - During the interest-based discussions summarized in this report, the possibility of designating part or all of the SCN as a “resident only” parking zone was suggested. City staff expressed support for the proposal, as it would make parking enforcement easier. Given the progress on other issues, the group agreed to set this option to the side and raise it in the future, should the agreed actions fail to address the parking issues at hand.

The following consensus recommendations will be made to the State:

- Staff at parking booths on the west Capitol campus and the DES Visitor Services should be provided with maps showing appropriate alternative parking locations and rules about parking in the neighborhood and they in turn provide such material to visitors to Capitol Campus.
- The State will identify a person/position responsible for providing City Parking staff with timely information about events and high volume training schedules at the Jefferson Building.

- The State will identify an appropriate person(s)/position to participate in the Annual Parking Meetings with the City and SCNA.

One issue that was discussed did not arrive at a consensus. There is consensus that the State's activities are creating parking impacts in the SCN and that some form of strategic parking solutions are needed. Although the State is committed to commute trip reduction strategies with regard to the Capitol campus, this does not affect visitors to the Legislature who are impacting the SCN. Thus the following proposal was made but did not achieve full agreement among the group.

- The State should participate in some form of mitigation of the impacts on the SCN. There also should be long- and short-term strategies employed by the State consistent with the State's Capital Master Plan to increase parking capacity and/or reduce the need for parking and accommodate parking needs generated by the State's business adjacent to the SCN.

Submitted by Participants:

George Carter, DES
Max DeJarnatt, City of Olympia
Mark Lane, City of Olympia
Collum Liska, SCNA
Heather Lockman, SCNA
Joan Marchioro, SCNA
Rachel Newmann, SCNA
Keith Stahley, City of Olympia
Michael Van Gelder, DES

Facilitator: Cynthia Stewart

ATTACHMENT 1: South Capitol Neighborhood Parking Zones

(to be added)

ATTACHMENT 2: Paid Parking at Specific Areas abutting SCN

(to be added)

ATTACHMENT 3: INTERESTS & STANDARDS FOR DECISIONS

The list of interests that would need to be addressed in final recommendations included these:

- Fairness
- Equity in Service Delivery
- Transparency
- Consistent law enforcement (everyone treated the same)
- Recognition of limitations
- Maintain neighborhood character
- Burden sharing
- Efficiency
- Safety
- Improved relationships
- Commitment to this process and the outcome

Additionally, standards for decisions were approved, including these. Any final recommendation from the group would need to meet these standards:

- Legal
- Effective
- Cost-Effective (return on investment)
- Feasible
- Fair (to all parties)
- Ratifiable

Current Parking Zones



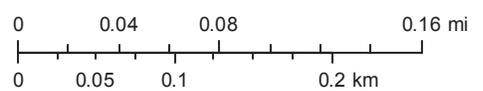
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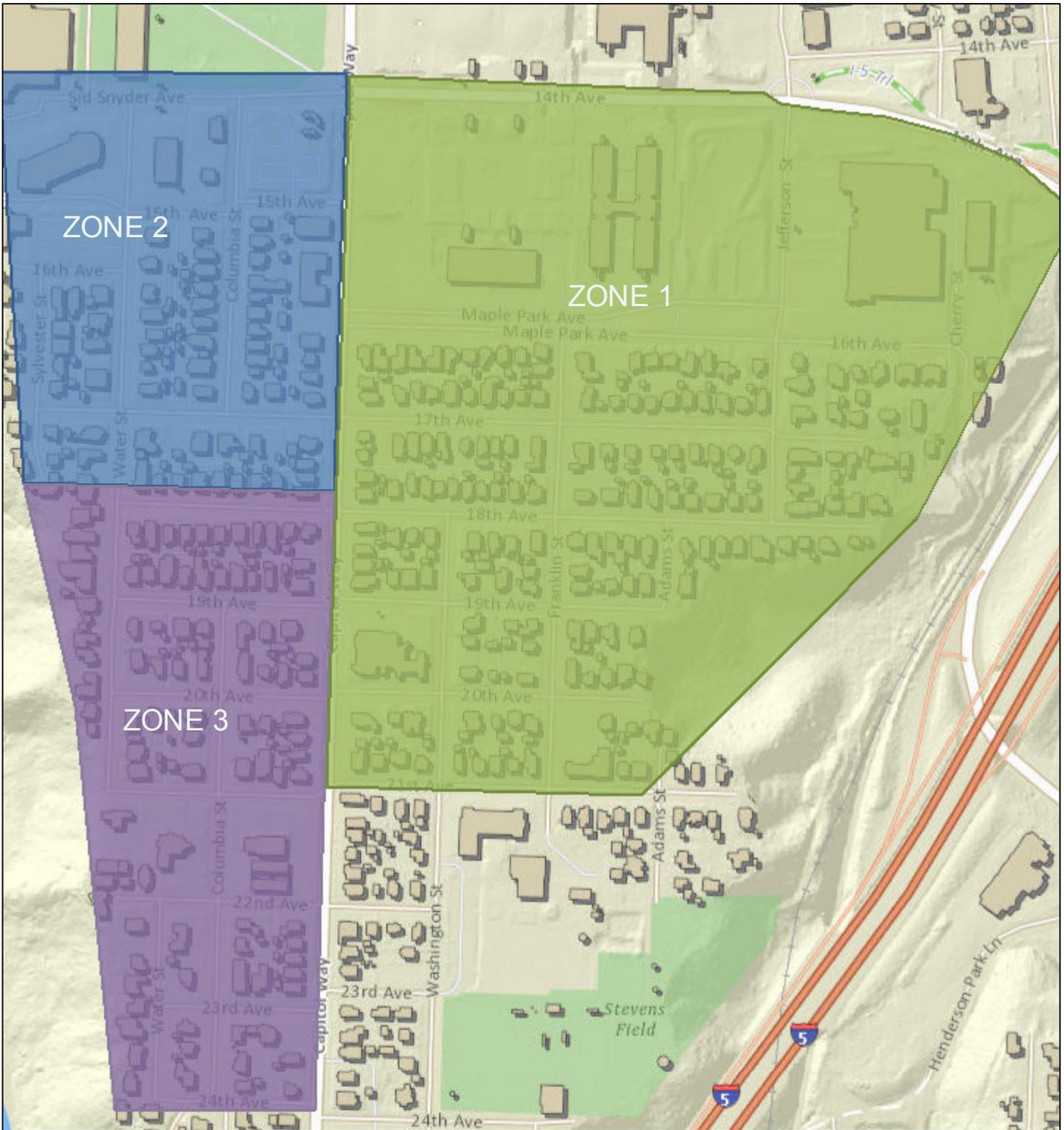
Parking Zones

	1		4		8
	2		5		6
	3		7		



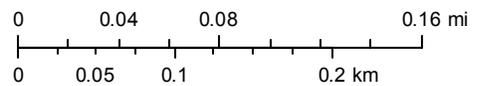
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Proposed Parking Zones (1-3)



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