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Land Use & Environment Committee

Multi-Family Tax Exemption - Residential Target Area Boundaries

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Title

Multi-Family Tax Exemption - Residential Target Area Boundaries

Recommended Action

Council referred this topic to the Land Use and Environment Committee for a recommendation.

City Manager Recommendation:

Direct staff to draft, for City Council consideration, a resolution of intention to adopt expanded or additional residential target areas for Multi-family Tax Exemption Program, according to the Land Use and Environment Committee's selected option.

Report

Issue:

Whether to recommend expanded or additional residential target areas for the City's Multi-family Tax Exemption Program.

Staff Contact:

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Presenter(s):

Leonard Bauer, Deputy Director, Community Planning & Development

Background and Analysis:

State law authorizes the City of Olympia to adopt a multi-family housing tax exemption program (RCW 84.14). Olympia's Multi-Family Tax Exemption provisions are codified in Olympia Municipal Code Chapter 5.86 (See Attachment).

The City Council first adopted the Multi-Family Tax Exemption (MFTE) provisions contained in August 1997 (Ordinance 5713) with a 10-year property tax exemption for downtown multi-family projects. The code provisions were amended in December 1997 (Ordinance 5734) to add new residential target areas: Eastside (4th/State corridor between Eastside and Fir Streets) and Westside (Harrison Avenue corridor between Cushing and Foote Streets)(See Attached Target Area Map). After the State Legislature revised the 10-year exemption into an eight-year market rate or 12-year affordable housing tax exemption, the City Council adopted the eight- and 12-year provisions on

January 26, 2009, along with refinements to the residential target areas (Ordinance 6618).

The primary purpose for the law is to provide added incentives to promote construction of housing in designated residential target areas. Designated areas must, as determined by the City:

1. Be within an urban center (with mixed commercial/residential uses);
2. Lack sufficient available, desirable and convenient housing opportunities, including affordable housing, to meet the needs of the public desiring to live in the urban center; and
3. Be appropriate for the encouragement of construction of new multifamily housing and the rehabilitation of new vacant or underutilized buildings for multifamily housing.

Based on Olympia's Comprehensive Plan policies and future land use map, areas that are most consistent with the above criteria are:

1. The high-density neighborhood in the vicinity of Cooper Point Road-Harrison Avenue-Black Lake Boulevard;
2. The high-density neighborhood in the vicinity of Pacific Avenue-Lilly Road-Martin Way; and
3. The Kaiser Road-Harrison Avenue opportunity area.

These locations are shown generally in red on the Comprehensive Plan future land use map (See Attachment). The options below describe potential approaches for MFTE target areas within these three locations.

For projects approved by the City Council under this program, the increased value of new housing units is exempt from Ad Valorum tax for a defined period of time after completion of construction (eight years for market-rate housing, or 12 years for affordable housing units). The value of the underlying land, previously-existing residential units, and any non-housing improvements (for example, the commercial portion of a mixed use development) are not exempted and remain subject to Ad Valorum tax.

Housing units are defined as affordable if their monthly rental cost, including utilities, does not exceed thirty percent of the monthly income of a low or moderate-income household in Thurston County. Low and moderate-income households are defined as below 80 percent and 115 percent, respectively, of Thurston County's median income, as reported by the U.S. Department of Housing and Urban Development (HUD).

New housing construction must meet the following requirements to be eligible for a tax exemption:

- The housing is located in a designated residential target area adopted by the City Council;
- 50 percent or more of the project's space is for permanent residential occupancy;
- Four or more new housing units are created;
- The project complies with the City's comprehensive plan, building and zoning codes;
- The construction/rehabilitation is completed within three years of approval of the MFTE application;
- The applicant must enter into a contract with the City approved by Council; and
- The project does not displace existing residential tenants.

The City may adopt additional eligibility requirements that are more stringent than those above related to height, density, public benefit features, number or size of proposed developments, parking, income limits for occupancy, limits on rent or sales prices, or other requirements deemed necessary by the City. These requirements may be applied to all or a percentage of residential units within a

project.

Since its adoption in 1997, Olympia has approved 10 projects for the MFTE program, with two additional projects currently in process. These 12 projects provide 680 new residential units with a total construction value of \$75,746,577. All of the projects are located in the Downtown target area, except one 4-unit project in the Eastside target area currently in process. A summary of the City's MFTE projects is attached.

Neighborhood/Community Interests (if known):

The entire community is interested in production of additional residential housing in Olympia, especially affordable housing. The Olympia Comprehensive Plan calls for focusing the majority of future residential growth in designated high-density neighborhoods in close proximity to commercial services, frequent transit and other amenities. The City has adopted 'stepback and setback' zoning restrictions along urban corridors to improve transition of higher-density buildings to adjacent medium and low-density neighborhoods, and those neighborhoods are keenly interested in development in those corridors and high-density neighborhoods.

Options:

1. Direct staff to draft, for City Council consideration, a resolution of intention to adopt expanded or additional MFTE residential target areas focused on one or more of the following:
 - a. High-density neighborhoods designated in the Olympia Comprehensive Plan, shown in cross-hatch in attached Future Land Use Map;
 - b. Areas designated as Urban Corridors in the Olympia Comprehensive Plan adjacent to the high-density neighborhoods, shown in red in attached Future Land Use Map;
 - c. The area designated as Urban Corridor adjacent to Harrison Avenue in the Kaiser-Harrison Opportunity Area in the Olympia Comprehensive Plan, shown in red at the far left side of the map in attached.
2. Direct staff to provide additional specific information to assist the Committee in considering additional MFTE residential target areas.
3. Recommend to City Council that no additional areas be designated as MFTE residential target areas.

Financial Impact:

Property taxes continue to be paid on the underlying property, previously-existing residential units, and the non-residential portion of new construction. The value of new residential improvements is exempt from Ad Valorum tax for eight years (market-rate units) or twelve years (affordable units) after completion of construction.

Attachments:

MFTE Code (OMC 5.86)

Map of Existing MFTE Target Areas

Comprehensive Plan Future Land Use Map

Summary of MFTE Projects