



City Council

Approval of an Ordinance Adjusting Multi-Family Tax Exemption Area Boundaries

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Type: ordinance **Version:** 2 **Status:** Passed

Title

Approval of an Ordinance Adjusting Multi-Family Tax Exemption Area Boundaries

Recommended Action

Committee Recommendation:

Land Use and Environment Committee recommends adoption of the ordinance adding territory to the Eastside Residential Target Area eligible for multi-family tax exemption as authorized in Chapter 5.86 OMC.

City Manager Recommendation:

Move to approve an ordinance adding territory to the Eastside Residential Target Area for the Multi-family Tax Exemption Program on second reading.

Report

Issue:

Whether to approve an ordinance adding territory to the Eastside Residential Target Area for the City's Multi-family Tax Exemption Program.

Staff Contact:

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Presenter(s):

None - Consent Calendar Item

Background and Analysis:

Background and analysis have not changed from first to second reading.

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 (MFTE) provisions are codified in Olympia Municipal Code Chapter 5.86.

The City Council first adopted the MFTE provisions 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 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 Land Use and Environment Committee discussed potential additional MFTE areas at its April and December 2018 meetings. At this time, the Committee recommends that the Eastside target area be extended eastward along Martin Way to Lilly Road (see attached map).

The Committee also directed staff to prepare options for its consideration regarding additional affordability requirements for development projects to qualify for the MFTE program. The Committee will consider these options for recommendation to City Council later in 2019.

Notice of the public hearing has been published in The Olympian newspaper on February 20 and 26, 2019, in accordance with RCW 84.14 requirements.

Additional Background on MFTE Program Requirements

The primary purpose for the MFTE statute 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.

For projects approved by the City Council under this program, the increased value of new housing units is exempt from Ad Valorem 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 Valorem tax.

Housing units are defined as affordable under the MFTE program's 12-year option if their monthly rental cost, including utilities, does not exceed 30 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.

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. Approve the ordinance as written on second reading.
2. Modify the ordinance as desired and approve on second reading.
3. Do not approve the ordinance.

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 Valorem tax for eight years (market-rate units) or twelve years (affordable units) after completion of construction.

The total value of the 12 projects provide 680 new residential units with a total construction value of \$75,746,577. It is indeterminate whether these residential units would have been constructed without the MFTE program available.

Attachments:

Ordinance
Map