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Land Use & Environment Committee

Multi-Family Tax Exemption Program Requirements

Agenda Date: 3/21/2019
Agenda Item Number: 6.A
File Number: 19-0254

Type: discussion **Version:** 1 **Status:** Filed

Title

Multi-Family Tax Exemption Program Requirements

Recommended Action

City Manager Recommendation:

Not referred to a committee

City Manager Recommendation:

Discuss potential options for revising the Multi-Family Tax Exemption program requirements, and provide staff direction on next steps

Report

Issue:

Whether to discuss revising requirements for the City's Multi-family Tax Exemption Program.

Staff Contact:

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Presenter(s):

Leonard Bauer, Deputy Director, Community Planning & Development

Cary Retlin, Home Fund Manager, Community Planning & Development

Background and Analysis:

State Law

RCW 84.14 authorizes the City of Olympia to adopt a multi-family housing tax exemption program.

The primary purpose for the 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 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 under the MFTE program's 12-year option 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).

City of Olympia MFTE Program

Olympia's Multi-Family Tax Exemption (MFTE) provisions are codified in Olympia Municipal Code Chapter 5.86.

The City Council first adopted the Multi-Family Tax Exemption (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). On March 5, 2019, the City Council adopted on first reading additional revisions to the Eastside Residential Target Area, extending it along Martin Way east to Lilly Road.

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.

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.

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.

City Councilmembers expressed interest in discussing additional potential affordability requirements for both the 8-year and 12-year program, including an upper limit on value or rents for eligible projects, and restrictions on short-term rentals in eligible projects. Staff will provide additional information regarding these and other options at the Committee meeting.

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. Discuss potential options for revising MFTE program requirements, and direct staff to conduct additional research.
2. Discuss potential options for revising MFTE program requirements, and direct staff to draft an ordinance for consideration by City Council.
3. Discuss potential options for revising MFTE program requirements, and recommend no changes.

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:

Map of Existing MFTE Target Areas
Summary of Past MFTE Projects