



INFORMATIONAL MEMORANDUM

TO: Planning and Community Development Committee

FROM: Derek Speck, Economic Development Administrator
Brandon Miles, Business Relations Manager

CC: Mayor Ekberg

DATE: April 7, 2022

SUBJECT: Multi-Family Property Tax Exemption Program
Tukwila International Blvd

ISSUE

Creation of a limited Multi-Family Tax Exemption program for owner occupied affordable housing along Tukwila International Blvd.

BACKGROUND

Revised Code of Washington (RCW) 84.14 allows municipalities planning under the Growth Management Act to provide a property tax exemption to qualifying residential developments within their cities. The Multi-Family Tax Exemption (MFTE) reduces the property taxes owed on a development by exempting the value of the multi-family residential improvements¹ over a specific period. In theory, an MFTE program stimulates the creation or rehabilitation of multi-family housing. The housing can be rental or owner-occupied and market-rate or affordable.

Overview of State Law Requirements

As outlined in RCW 84.14.007, the purpose of the MFTE is:

...[T]he 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.

RCW 84.14 allows municipalities to create MFTE programs for up to 8, 12 and/or 20 years, subject to certain requirements.

- Market Rate: A municipality can create an MFTE program that allows for a project to have a property tax exemption for up to eight years if the project does not include affordability requirements. The project could be rental or owner-occupied.
- 12-Year Affordability: A municipality can create an MFTE program that allows for a project to have a property tax exemption for up to 12 years if it meets certain affordability requirements. To be eligible for the 12-year exemption, a project must commit that at

¹ The land is still subject to being assessed property taxes as is space used for commercial activities.

least 20 percent of the units in the project be affordable to low- and moderate-income households (if rental) or moderate-income households (if owner-occupied).

RCW 81.14.010 (1) defines 'affordable housing' as, "...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.

'Low-income household' is defined as, "...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, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development (RCW 84.14.010 (8))."

Moderate-income household is defined as, "...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, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development (RCW 84.14.010 (9)).

- 20-Year Affordability: A municipality can create an MFTE program that allows for a project to have a property tax exemption for up to 20 years if it meets certain requirements. To be eligible for the 20-year exemption, a project must commit that at least 25% of the units will be made available for affordable homeownership, with a local government or non-profit overseeing long term compliance with affordability restrictions. The zoning where the units are constructed must allow a minimum density of at least 25 units per acre. The affordability requirements are the same as for the 12-year exemption (see above).

Around 50 cities and one county in the State have in place or have had in place a MFTE program. Most of these cities are located along the I-5 corridor between Olympia and Marysville. Many cities provide additional requirements on their MFTE programs, which may vary by city. Some cities required greater affordability than the State's minimum. Some cities have other types of requirements. For example, the City of Woodinville requires that a building be built to LEED standards in order to get the MFTE; the City of Newcastle requires a public or cultural use for the building; and the City of Yakima requires that there be an investment of least \$25,000 in each unit constructed. Several cities, such as Seattle, require that all MFTE projects have an affordability component and do not offer the 8-year exemption option for market rate units.

Tukwila's MFTE Program

In 2014 the City adopted an MFTE program for a portion of the Southcenter District. It is the portion of the Transit Oriented Development District in the Tukwila Urban Center (Southcenter District) that is west of the Green River (see attached map).

At the time, the City's goal of adopting an MFTE program for the Southcenter District was to encourage the development of new multi-family housing to help fulfill the City's vision for the neighborhood and meet the City's regional growth targets for new housing units. Because of the lack of new housing development in that District for many years, staff recommended the incentive as a temporary way to show the private sector that the market rents for new housing was significantly higher than the comparable rents in the adjacent neighborhoods which reflected older housing stock. The incentive also made multi-family housing financially feasible

for the developer, especially given the market demand for other types of land uses, specifically one-story retail.

The City's MFTE program provided for both an 8- and 12-year exemption period². In order to be eligible for the MFTE, a project was required to meet additional City criteria, which included:

1. The units must be in the residential targeted areas (see attached map)
2. The units must be within a residential or mixed-use structure containing at least four dwelling units.
3. The units must have an average size of at least 500 square feet per unit.
4. A minimum of 15 percent of the units must be at least 900 square feet in area and contain at least two bedrooms.
5. The units must be designed and used for permanent residential occupancy.
6. Each unit must have its own private bathroom and private kitchen. Projects that utilize common kitchens and/or common bathrooms are not eligible.

Because the City's goal was to provide a temporary incentive to stimulate the private development without becoming a long-term subsidy, the City's Southcenter District MFTE program included a limited application period which sunset at the end of 2017. After that the City no longer accepted MFTE applications.

The following projects utilized the MFTE program within the Southcenter District.

1. AirMark Apartments (2018 MFTE Effective Date, 8-Year Exemption).

AirMark Apartments is a mixed use, 19 story building located along Andover Park East. The project features 371 market rate apartments and the Hotel Interurban. Only the residential portion of the project is eligible for the MFTE. The land (entire parcel) and hotel portion of the building is still subject to property taxes.

2. Marvelle Southcenter (2021 MFTE Effective Date, 8-Year Exemption)

Marvelle Southcenter is active senior housing at the corner of Baker Blvd and Andover Park East.

3. Holden at Southcenter (2022 MFTE Effective Date, 8-Year Exemption)

Holden at Southcenter includes five floors of assisted living units and one floor of memory care units. Only the assisted living units qualified for the MFTE.

Note: All projects submitted their MFTE applications to the City prior to the end of 2017 and were completed within the required period.

The City Council reenacted the program at the end of 2021 and projects can now submit their request for the MFTE in the Southcenter District through 2022.

2021 Housing Discussion and the MFTE

The Housing Element of the City's Comprehensive Plan mentions multi-family property tax exemptions as a potential strategy to achieve Tukwila's housing goals. The incentive was also included as a potential strategy in the Transit-Oriented Development Housing Strategies Action

² The 20-year exemption was not permitted under State law at the time.

Plan adopted by the Council in September 2021. At the November 22, 2021, Committee of the Whole meeting the City Council was briefed on the MFTE and options for Tukwila. Staff outlined and the City Council supported a four-step process for studying and possibility updated the City's MFTE program. As part of the discussion on the MFTE the Council noted the importance of increasing the housing options for community members.

The City Council provided staff with the following direction regarding the MFTE.

Step 1, December 2021, Southcenter District (COMPLETED, Ordinance adopted December 6, 2021)

Amend the City's current MFTE program to accept applications through 2022. This amendment would retain the current program boundaries and other criteria. The City Council adopted an ordinance on December 7 addressing the Southcenter District MFTE. The Southcenter MFTE will expire at the end of 2022.

Step 2, First Quarter of 2022, Tukwila International Blvd (Current phase)

Amend the City's MFTE program to create a second and new Residential Targeted Area along Tukwila International Blvd (TIB) with eligibility criteria allowing owner occupied, affordable housing. At this step, rental apartments would not be included in the program due to more complex considerations such as affordability limits, boundaries of eligible areas, design criteria, redevelopment criteria, displacement risk, market necessity, and other issues. This provision allows the City to expand owner-occupied, affordable housing opportunities in the City and new development along TIB.

As the Council is aware, Forterra is considering moving forward with the Wadajir project at the old Knight's Inn property. Wadajir will consist of 100 units of affordable, *owner-occupied* housing within the Tukwila International Blvd neighborhood. Forterra has indicated that the MFTE is needed in order to secure financing from the US Department of Housing and Urban Development. Owner-occupied multi-family housing is very rare in Tukwila. In addition to making the project more financially feasible, the MFTE would enable the developer to make the units more affordable for the households living in the units. The developer has requested the 20-year exemption.

Step 3, 2022, Tukwila South (Later in 2022)

Per the discussion at the November 1, 2021, PCD meeting, the committee recommends that staff examine the creation of a MFTE program for the Tukwila South area prior to the comprehensive Citywide examination outlined below. This work would also occur in 2022.

Step 4, 2022, Comprehensive (Later in 2022)

Conduct a more comprehensive review to consider expansions of the MFTE program. This review would include multi-family rental housing, other geographic areas, housekeeping items, and other considerations and criteria such as:

4. Where would the City like to see more multi-family housing (rental and/or ownership)?
5. Where would the City like to see renovation of multi-family housing?
6. Where would the City like to see preservation of existing affordable housing?
7. What levels of affordability would the City like?
8. What levels of affordability are feasible given the value of the incentive, other financing, and development costs?

9. How would the MFTE prioritize multi-family housing as a land use compared to other land uses in that area.
10. Is the MFTE necessary and/or sufficient as an incentive?
11. What project design standards should be included (e.g. structured parking, public amenities, etc.)?
12. What are the financial implications to the City, Tukwila School District, and other taxing districts?
13. How will the City manage and monitor ongoing affordability requirements and reports?

DISCUSSION

Staff would like to move forward with step 2 of the MFTE review process and have the City Council consider a limited MFTE program for owner occupied housing along Tukwila International Blvd. Again, as outlined to the City Council in November and December of 2021 staff believes this MFTE program should be limited until the City has completed the more comprehensive review (step 4).

The goal with adopting a limited program along Tukwila International Blvd. is to help demonstrate that owner occupied, affordable housing is possible in the neighborhood.

The following are general criteria staff is considering for this step in the MFTE.

1. Applications for the MFTE must be submitted prior to December 31, 2024.
2. The project must include a parcel that directly fronts along Tukwila International Blvd.
3. All units must be owner occupied. The units cannot be used for rentals or Airbnb's.
4. Only those units that meet the affordability requirement of RCW 84.14 will qualify for the property tax exemption. All other units will still be subject to the property tax.
5. Include a mix of unit types and sizes.
6. To qualify for the 20-year exemption, the project must:
 - a. Have a government entity or non-profit that agrees to monitor and manage the affordability requirements over the life of exemption and agree to provide annual reports to the City.
 - b. Have a zoning that allows for a least 15 units per acre.

FINANCIAL IMPACT

Step 2 outlined above would have minimal financial impacts to the City primarily because they are small relative to the amount of development already in the City. New development does bring additional city costs to provide services but affordable, ownership housing may stimulate other development that would bring additional revenues.

RECOMMENDATION

Forward to the April 25 Committee of the Whole meeting for a discussion by the full council. Staff is asking that the City Council indicate its general consensus support for creating a limited MFTE, for owner-occupied affordable housing along Tukwila International Blvd as outlined above. Staff will then bring a draft ordinance through PCD for consideration by the full council.

ATTACHMENTS

- Southcenter District, Multi-Family Property Tax Exemption Residential Targeted Area.

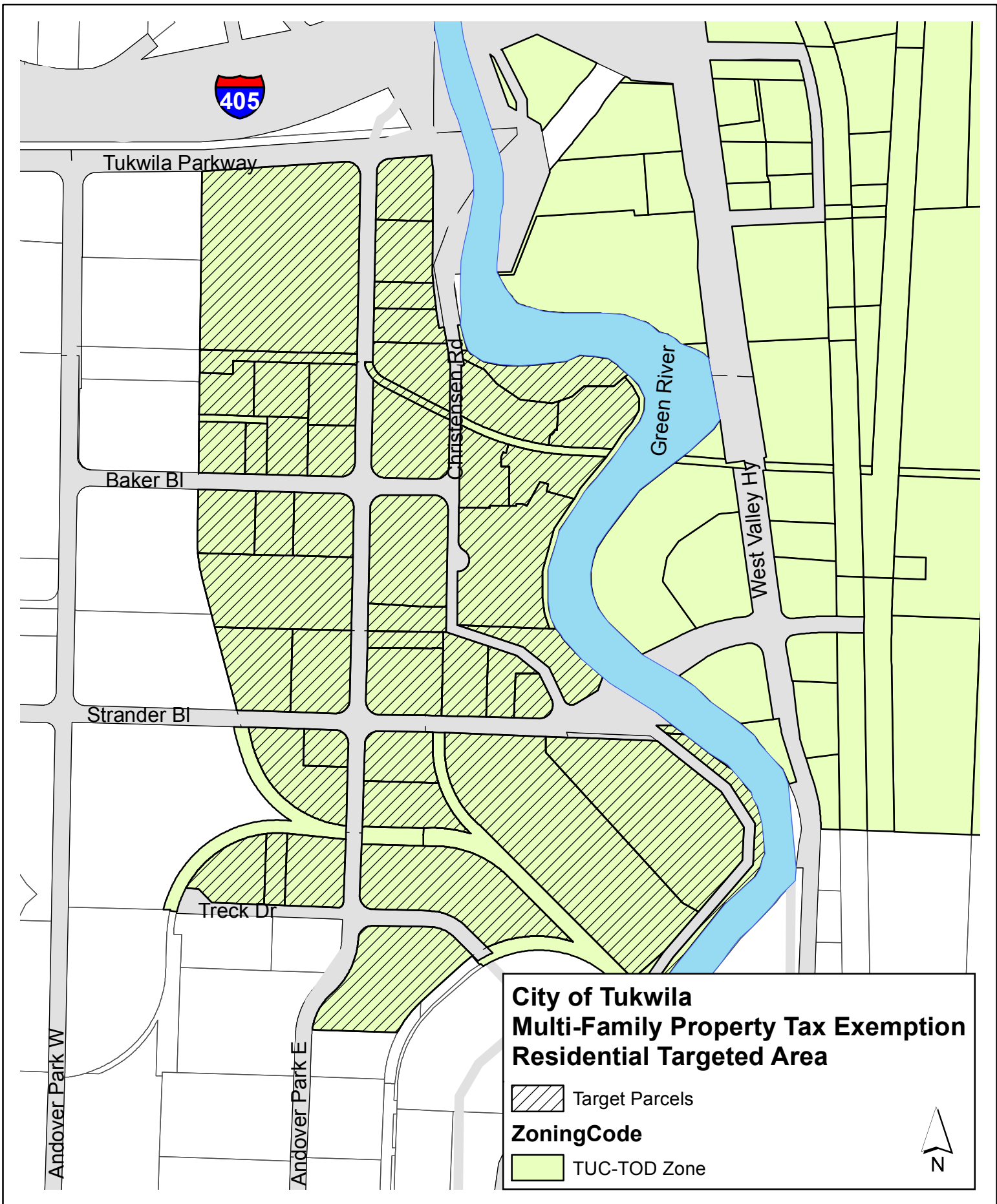


Figure A
7