



Legislative Department Seattle City Council Memorandum

Date: February 18, 2011
To: Housing, Human Services, Health, and Culture (HSHHC) Committee Members
From: Sara Belz, Legislative Analyst, Council Central Staff
Subject: **Council Bill (CB) 117110– Renewal of the City of Seattle’s Multifamily Tax Exemption (MFTE) Program**

On February 23, 2011, HSHHC will discuss CB 117110. This legislation, which was Council-generated, would reauthorize the City’s MFTE Program through 2015. Seattle’s MFTE Program expired on December 31, 2010, and renewal of the Program requires Council action via ordinance. HSHHC most recently discussed the MFTE Program at its December 8, 2010, meeting.

Background

The City of Seattle’s MFTE Program was created in 1998 via Ordinance 119237. The Program was amended and readopted in 2004 and further amended in 2008. OH articulates the three goals of the MFTE Program as follows:

- 1) To help make residential projects feasible in transitional urban villages with little market rate housing;
- 2) To help produce affordable units in market rate, mixed-use projects in urban centers and villages with more robust private developer interest and activity; and
- 3) To assist with project economics for nonprofit housing that serves low-and moderate-wage working people but does not qualify for the State’s low-income housing property tax exemption.

To qualify for a 12-year tax exemption under the MFTE Program, at least 20% of the housing units in a rental or homeownership project must be classified as “affordable.” Prior to expiring on December 31, Seattle’s MFTE Program defined affordable units as follows:

Rental properties

- Studio and one-bedroom units affordable to households earning below 80% of area median income (AMI).
- Two-bedroom and larger affordable to households earning below 90% AMI.

Homeownership properties

- Studios or one-bedroom units affordable to households earning below 100% AMI.
- Two-bedroom and larger units affordable to households earning below 120% AMI.

The multifamily residential projects that participate in the City’s MFTE Program are overwhelmingly rental properties. Over the past 12 years, the City’s MFTE Program has

contributed to development of more than 3,800 housing units, about 1,300 of which are affordable.

Summary of Legislation

CB 117110 would make the following amendments to Seattle Municipal Code (SMC) Chapter 5.73:

- 1) ***Adjust the affordability requirements for residential units in rental properties in order to increase housing opportunities for lower income households.***

CB 117110 would reduce the affordability thresholds for rental projects that participate in the MFTE Program. The table below compares the Program’s previous affordability thresholds with those that are proposed in the legislation.

Table 1: Previous and Proposed Affordability Levels, City of Seattle MFTE Program

	Affordability Levels Prior to Dec. 31, 2010 (applied to 20% of units in qualifying project)		Proposed Affordability Levels, CB 117110 (applies to 20% of units in qualifying project)	
	% AMI:	Maximum rent, including utilities:	% AMI:	Maximum rent, including utilities:
Studios	80%	\$1,199	65%	\$974
1 Bedrooms	80%	\$1,370	70%	\$1,199
2 Bedrooms	90%	\$1,734	80%	\$1,541

CB 117110 does not propose any changes to the affordability requirements for MFTE homeownership projects.

- 2) ***Remove the requirement that a Council resolution be generated for every MFTE project and reduce program fees consistent with this change.***

Existing language in SMC Chapter 5.73 requires the Council to take action on individual resolutions that approve the forms of contract for each MFTE project. However, State law recently changed to provide City departments (in Seattle’s case, the Office of Housing) with full authority to approve MFTE projects that meet the requirements of Chapter 84.14 of the Revised Code of Washington (RCW). As a result, CB 117110 would remove the Council resolution requirement from SMC 5.73. CB 117110 would also reduce the application fees associated with MFTE projects by 50%. This change is intended to reflect the City staff time savings that would result from not having to process legislation for each MFTE project. Prior to December 31, application fees for MFTE projects ranged from \$6,000 for residential-only projects to \$6,800 for mixed-use developments. Under CB 117110, these fees would be reduced to \$3,000 for residential-only and \$3,400 for mixed-use.

- 3) ***Expand the Office of Housing’s reporting requirements.***

CB 117110 would retain the requirement that the Office of Housing provide the Council with an annual written report on the outcomes of the MFTE Program. The legislation would also oblige the Office of Housing to report to the Council three times per year on recently approved applications to the MFTE Program. These periodic reports would be shorter than the annual report and provide basic

information about new projects (e.g. location, unit count, affordability, estimated value of tax exemption). With the removal of the resolution requirement as proposed in CB 117110, these reports would also help Councilmembers and staff to monitor MFTE Program results and identify emerging multifamily development trends.

4) *Renew the MFTE Program through December 31, 2015*

CB 117110 would extend the MFTE Program for five years; however, the Council would still have the ability to make amendments to the program (e.g. affordability thresholds, reporting requirements) via ordinance prior to the end of 2015.

Amendment – Affordability Requirements

Councilmember Clark has proposed one amendment to CB 117110. A complete copy of the amendment is attached to this memorandum and printed on green paper. The amendment would revise the affordability requirements for affordable rental units in MFTE projects as shown in the following table:

Table 2: Proposed Affordability Levels, City of Seattle MFTE Program

	CB 117110 (applies to 20% of units in qualifying project)		CM Clark’s Amendment (applies to 20% of units in qualifying project)	
	% AMI:	Maximum rent, including utilities:	% AMI:	Maximum rent, including utilities:
Studios	65%	\$974	65%	\$974
1 Bedrooms	70%	\$1,199	75%	\$1,285
2 Bedrooms	80%	\$1,541	85%	\$1,638

Councilmember Clark’s amendment would allow participating property owners to charge slightly more rent for one and two bedroom units that are classified as affordable. The amendment would also increase the share of such tax exemptions that could be retained by individual property owners. The following tables, prepared by the Office of Housing, illustrate how the affordability thresholds proposed in CB 117110 and by Councilmember Clark might impact the share of the tax exemption retained by property owners under two different scenarios. The Office of Housing anticipates that private developer interest in the MFTE Program would likely decline if they are not able to retain at least 50% of the tax exemption on one of their projects.

**Table 3: Share of MFTE retained by property owner, Scenario A
100 unit building with 45 studios, 45 one-bedrooms, and 10 two-bedrooms**

	CB 117110 (applies to 20% of units in qualifying project)	CM Clark’s Amendment (applies to 20% of units in qualifying project)
3% annual market rent increase, 2011-2012	49%	58%
5% annual market rent increase, 2011-2012	39%	48%

**Table 4: Share of MFTE retained by property owner, Scenario B
100 unit building with 10 studios, 80 one-bedrooms, and 10 two-bedrooms**

	CB 117110 (applies to 20% of units in qualifying project)	CM Clark’s Amendment (applies to 20% of units in qualifying project)
3% annual market rent increase, 2011-2012	43%	56%
5% annual market rent increase, 2011-2012	34%	46%

Central Staff has identified two primary options for the Committee’s consideration:

Option 1: Retain the affordability requirements established in CB 117110.

- Maintaining lower affordability thresholds could help to create new residential options for households earning no more than 80% AMI.
- The affordability requirements proposed in CB 117110 could prove too low to maintain private developer interest in the MFTE Program.

Option 2: Amend CB 117110 to include the affordability requirements proposed by Councilmember Clark.

- Increasing the affordability requirements for one and two bedroom units could help to preserve private developer interest in the MFTE Program, thereby increasing the number of affordable rental units that are constructed over time.
- Private developers that participate in the MFTE Program often charge the maximum allowable rent for their affordable units. If the affordability thresholds for one and two bedroom units are increased and a greater number of private developers decide to participate in the program, the rental rates charged for many affordable units may be beyond the reach of some moderate income households.

Next Steps

If HSHSC does not take action on CB 117110 on February 23, the Committee’s next opportunity to discuss the renewal of the MFTE Program will likely be on March 9. If you have questions about the content of CB 117110 or the MFTE Program more generally, please feel free to contact me at any time (4-5382 / sara.belz@seattle.gov).