

Multifamily Housing Property Tax Exemption Study



Pursuant to the 2021-2023 biennial operating budget, Chapter 334, Laws of 2022 (SB 5092, Section 129 (111))

**LOCAL GOVERNMENT DIVISION
GROWTH MANAGEMENT
SERVICES**

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Report to the Legislature

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Executive summary

Authorizing legislation

Section 129(111) of Chapter 334, Laws of 2021 (the [2021-2023 biennial operating budget](#)) provided funding for the Department of Commerce (Commerce) to conduct a study and report on city and county implementation of Multifamily Property Tax Exemption (MFTE) programs in the state. Though not required by the authorizing statute, this report also aims to highlight opportunities to improve the efficiency of the MFTE framework, which will allow it to strengthen a communities' ability to meet their housing goals. Specifically, the Legislature directed:

\$250,000 of the general fund—state appropriation for fiscal year 2022 and \$250,000 of the general fund—state appropriation for fiscal year 2023 are provided solely for the department to conduct a study and report to the legislature on city and county implementation of the multifamily housing property tax exemption. The report must:

- (a) Review whether cities have practices in five areas:
 - (i) Evaluating the financial feasibility and total costs of proposed developments under the exemption;
 - (ii) Monitoring rent, occupancy, and demographics of tenants of exempt housing;
 - (iii) Identifying direct or indirect displacement risks, and changes in income and rent distributions associated with new housing development, and plans and approaches;
 - (iv) Identifying practices that encourage permanent affordable rental opportunities; and
 - (v) Monitoring whether the exemption assists cities in meeting goals under the growth management act;
- (b) Identify at least five case studies on a range of cities and provide analysis:
 - (i) Comparing the rent in income restricted units to market rate units in the same development and to the surrounding area;
 - (ii) Comparing the anticipated impact on rents and project budgets, and on public benefit under eight-year, 12-year, and 20-year property tax exemption scenarios;
 - (iii) Looking at permanent affordable rentals; and
 - (iv) Evaluating changes in income distribution, rent distribution, commute/location, and displacement risks in areas with exempt housing; and
- (c) Estimate other state and local tax revenue generated by new housing developments and how it compares to the property tax exemption.

Several sources of information supported this work.

- Local MFTE data submitted to Commerce
- Data and program information from individual programs
- Interviews and focus groups with major stakeholders
- Feedback from a project Advisory Committee that included staff from cities around Washington that considered or adopted MFTE programs
- Feedback from other stakeholders, such as housing developers, Department of Revenue staff, county tax assessors, and others

Key findings

This report presents key findings based on the primary legislative directives to review city and county practices in the implementation of MFTE programs, and to compare the exemption under MFTE to state and local tax revenues generated by the development.

○ Financial feasibility and proposed cost

- Current programs often include some review of potential fiscal impacts to municipal finances, and might include review of the impacts on private developers.
- Many of the staff responsible for MFTE programs do not have expertise in real estate finance, which limits complete evaluations of the financial feasibility of a development.
- There are no consistent methodologies available to evaluate the financial impacts of MFTE programs, and communities might take different approaches to assess these effects.
- Reviews infrequently consider the effects on other taxing districts.
- More information: [Evaluating the financial feasibility and total costs of proposed developments under the exemption.](#)

○ Assessing neighborhood demographics under MFTE

- Communities do not complete regular monitoring of the demographics of tenants of market-rate and income-restricted units developed under MFTE.
- Communities may contract for assessments of neighborhood economic and demographic shifts, but largely only as a component of a comprehensive review of their MFTE programs.
- Any changes to reporting requirements or recommendations should be consistent with reporting for other purposes and clearly tied to other requirements.
- More information: [Monitoring rent, occupancy, and demographics of tenants of exempt housing.](#)

○ Identifying potential changes and displacement risks

- At present, only counties have explicit requirements to examine displacement risks associated with MFTE.
- This is an emerging field of practice for jurisdictions under the Growth Management Act (GMA).
- Anti-displacement strategies can be incorporated into MFTE programs.
- MFTE programs are typically developed to encourage investment while other measures are implemented to mitigate displacement risks.
- More information: [Identifying direct or indirect displacement risks, changes in income and rent distributions associated with new housing development, as well as plans and approaches.](#)

○ Encouraging affordable rental opportunities

- The 20-year MFTE options and 12-year extension are new.
- There are limitations and complexity in the 20-year MFTE options that restrict their widespread use.
- There is potential for 12-year extensions to help with long-term affordability.
- Applications of MFTE can be used in tandem with other housing incentives and programs to boost length and depth of affordability.
- More information: [Identifying practices that encourage permanent affordable rental opportunities.](#)

○ Evaluating effectiveness of meeting Growth Management Act goals

- Overall, MFTE programs have been effective in incentivizing housing production.
- Communities use MFTE in different ways to meet their goals, including new requirements under the GMA.
- Different communities have used MFTE successfully in meeting local housing and economic development goals.
- Seattle is a MFTE dominant user, but MFTE use by other communities is growing.
- Although changes in the statute have adjusted how communities can use MFTE, these changes will take time to be reflected in available data.
- More information: [Monitoring whether the exemption assists cities in meeting goals under the Growth Management Act.](#)

○ Estimating other tax revenue and comparing it to the property tax exemption

- There are broad potential tax impacts for MFTE programs, when they increase the likelihood that a development will occur.
- Positive and negative tax impacts could be accrued by jurisdictions outside of an individual MFTE city.
- While tax shifting¹ can reduce the impacts on the finances of impacted jurisdictions, this still represents public money raised from taxpayers.
- Revitalization of mixed-use neighborhoods is the most effective use of the eight-year MFTE program.
- Tax exemptions appear to provide the best incentives for providing low-income, rent-restricted housing.
- More information: [Estimate other state and local tax revenue generated by new housing developments and how it compares to the property tax exemption.](#)

Case studies

Summaries of the MFTE programs in six cities are provided to highlight both program successes and opportunities for improvement with the state statute. The full case studies are available in [section D](#) of this report. The cities detailed in these case studies include:

- Covington
- Port Orchard
- Renton
- Shoreline
- Tacoma
- Vancouver

We selected these cities with consideration for how long their programs have been in place and representation of other program elements. Each case study provides a summary of the program and important highlights to consider with respect to the statewide MFTE framework. These local case studies provide important insights and lessons learned that could be considered part of future improvements to the MFTE program.

Case study lessons learned

- Exemptions can help to direct new residential development to targeted areas.
- Cities use options for different affordability limits to meet different policy goals.
- Calculations of income-restricted rents can differ between communities.

¹ In an MFTE program, "tax shifting" happens when the value of an exempted project is calculated and added to the tax rolls while the project is being built. Because the property tax levy lid increases but the property in question is now exempt, other property owners may pay more in taxes to make up this difference.

- Communities have relied on MFTE as a primary tool for stimulating local economic development through neighborhood revitalization.
- Coordination of income-restricted housing requirements for MFTE programs should include a consideration of supporting services.
- The success of MFTE programs is often related to community- and market-specific factors, such as increased demand for housing and transit investments. However, MFTE cannot encourage new development in all areas.

Recommendations for program improvement

Based on the research coordinated under the authorizing legislation, as well as feedback received from stakeholders, there are several recommendations for change with the current state-level MFTE framework. These recommendations are focused specifically on changes at the state level, which would help support more efficient and effective MFTE programs, including amendments to [Chapter 84.14 RCW](#), supporting provisions in the WAC, and other programming and budgetary changes.

These recommendations focus primarily on minor program changes to address specific issues with the current program. The effects of recent amendments in 2021 from [Chapter 187, Laws of 2021 \(SB 5287\)](#) have not been fully realized, and it will take time for communities to make program changes and developers to build projects under these revised programs. All stakeholders will need to evaluate the effects of these changes over the next few years to more fully understand what other changes should be made to the program.

We organized the 27 recommendations from [Table 1](#) into five different categories:

- 1) **Consistency in access.** Recent amendments under [SB 5287 \(2021\)](#) expanded the number of jurisdictions that can use MFTE programs, but some categories of communities have different restrictions. To eliminate confusion and make it easier for interested communities to adopt MFTE programs, these conditions should be made more consistent between larger cities, smaller cities, and counties.
- 2) **Tax impacts.** Tax exemptions under MFTE programs affect the local property tax system, and some of these effects should be considered more explicitly. Specifically, the impacts on other tax districts and shifts in tax obligations to other property owners are important issues.
- 3) **Program streamlining and consistency.** Ambiguous or inconsistent provisions in [Chapter 84.14 RCW](#) can often cause confusion or unintended consequences with program administration. Managing these challenges can help increase certainty about the use and application of local programs.
- 4) **Housing stability and displacement.** Even when MFTE programs work as intended, these development incentives can increase displacement pressures on existing residents and prevent some households from moving into neighborhoods due to rising rents. Assisting communities in examining and mitigating these effects when implementing MFTE programs can improve outcomes with housing stability and racially disparate impacts.
- 5) **Program compliance.** Recent changes to expand reporting and monitoring with MFTE programs are significant, but some administrative issues remain. The recommendations found in [Table 1](#) support ways to improve local program reviews and property compliance monitoring.

Introduction

Background

Multifamily Housing Property Tax Exemption (MFTE) programs are property tax waiver programs enacted by cities and counties to [encourage](#) urban housing development, including affordable housing. Under [Chapter 84.14 RCW](#), local governments can give exemptions for new construction, conversion, and rehabilitation of multifamily residential improvements with at least four units. Under these exemptions, a property owner does not have to pay property taxes on the residential improvements for a given number of years. The property owner still pays tax on the land and on non-residential improvements, such as the commercial portion of a mixed-use building. For MFTE, affordable housing means that the costs for rental housing, including utilities, do not exceed 30% of a household's monthly income. For units created for the purpose of homeownership, affordable means that the costs are within the means of low or moderate-income households.

After the Washington State Legislature enacted the [Growth Management Act](#) (GMA) in 1990, the Legislature found that planning solutions to solve problems of urban sprawl often lacked the incentive and implementation techniques needed to encourage residential redevelopment in urban centers. To remedy this, the Legislature authorized the MFTE program in 1995, as codified under [Chapter 84.14 RCW](#). The original program authorized a 10-year property tax exemption and focused on property tax exemptions for new and rehabilitated multiple-unit housing in urban centers. The statute was amended in 2007 to add a focus on affordable housing. The amendments included the creation of the eight-year program to encourage housing, the 12-year program to encourage affordable housing, clarification that improvements unrelated to housing did not qualify for property tax exemptions, and lowered the population threshold so more cities could offer the program.

In 2010, the Department of Commerce (Commerce) prepared a report to evaluate the uses and effects of the MFTE incentive as amended by the 2007 update.² The 2010 analysis focused on whether tax exemptions generate new multi-unit housing, whether tax exemptions generate new affordable housing, whether the 2007 changes increased the number of cities participating, and whether coordination in MFTE decision making with counties is necessary. The report included a note that due to long development periods, a three-year window was likely insufficient to evaluate the efficacy of the code changes.

In 2019, the Joint Legislative Audit Review Committee (JLARC) issued a report on the MFTE program.³ Within the report were significant findings on the impacts of the program. The report found that between 2007 and 2019, the program was used in the production of 34,885 new housing units, with 21% of these units designated as affordable. The report analysis indicated some issues around a potential tax shift, inconsistent application of the program across jurisdictions, and problems with reporting and monitoring.

In 2021, [Chapter 287, Laws of 2021 \(SB 5287\)](#) made significant amendments to [Chapter 84.14 RCW](#), and required Commerce to:

- Adopt and implement a program to effectively audit or review that the owner or operator of each certified tax exempt property, with some exceptions, is offering the number of units at the rents committed to in the approved application.

² See [Department of Commerce Report to the Governor, Multi-Unit Housing Tax Incentives 2007–2010](#).

³ See [JLARC 19-08 Final Report: Property Tax Exemption for Multifamily Housing in Urban Areas](#).

- Provide guidance to cities and counties on best practices in managing and reporting for the exemption program, including guidance to collect and report demographic information for tenants of units receiving a tax exemption under [Chapter 84.14 RCW](#).
- Develop a template for permanent affordability for home or condo ownership through deed restriction that can be used by a city or local government to ensure compliance with [RCW 84.14.021](#).

It is within this context that the Washington State Legislature directed Commerce to conduct a study and report on city and county implementation of the MFTE programs in the state.⁴ We intend this study to inform how local MFTE programs are operating, and based on community feedback during this study, to recommend program improvements for the overall efficiency of the MFTE framework so that it can better assist communities in meeting their housing goals. This study capitalizes on more than a year of engagement with MFTE administrators and both meets the legislative requirements and offers observations and opportunities for program process improvements.

Study approach

- A) Recommendations.** To get the full benefit of public investment in the MFTE program, this report includes recommendations based on the study and stakeholder engagement.
- B) Assessment of existing programs.** This report reviews whether cities have current practices in the following five areas and provides conclusions that inform the recommendations for action:
- Evaluating the **financial feasibility** and total costs of proposed developments under the exemption.
 - **Monitoring rent, occupancy and demographics** of tenants of exempt housing.
 - **Identifying direct or indirect displacement risks, changes in income and rent distributions** associated with new housing development, and plans and approaches.
 - Identifying practices that encourage **permanent affordable rental opportunities**.
 - Monitoring whether the exemption **assists cities in meeting goals** under the [GMA](#).
- C) Tax impacts.** The report estimates other state and local tax revenue generated by new housing developments and how it compares to the property tax exemption.
- D) Case studies.** This report provides case studies of six communities across the state to give a perspective of how MFTE programs function in practice. These summaries provide descriptions of each program and their outcomes, and include information to:
- Compare the rent in income-restricted units to market-rate units in the same development and to the surrounding area.
 - Compare the anticipated impact on rents, project budgets, and public benefit for eight-, 12-, and 20-year property tax exemption scenarios.
 - Examine permanent affordable rentals.
 - Evaluate changes in income distribution, rent distribution, commute/location, and displacement risks in areas with exempt housing.

This document also discusses recommendations for potential changes to the enabling legislation ([Chapter 84.14 RCW](#)), as well as other process changes that would address potential concerns or issues within the MFTE framework. These recommendations are informed by the robust engagement conducted for the

⁴ See Section 111, [Engrossed Substitute Senate Bill 5092](#), 67th Legislature, 2021 Regular Session.

development of [Commerce's MFTE Workbook](#) and this report. Engagement included input from an advisory committee, interviews with 19 jurisdictions, and focus groups with developers and county tax assessors. Stakeholders identified best practices and challenges, which are incorporated into the findings and recommendations in this report.

Report data sources

The content for this report is based on several sources:

- **Data submitted annually to Commerce.** [RCW 84.14.100](#) requires communities to submit information on projects receiving final certificates in the previous year.
- **Outreach to MFTE communities.** This project incorporated engagement with key stakeholders, including interviews with staff from cities, counties, and Commerce; as well as small group discussions with developers and county assessors.
- **Review of existing program materials.** A comparative review of local programs, including municipal codes, sections, and supporting materials that show practices currently in use across different communities.
- **Advisory Committee feedback.** The Advisory Committee included employees from cities around Washington that have MFTE programs, housing developers, Department of Revenue staff, county tax assessors and other stakeholders.
- **Other background data sources.** Information on housing costs, construction activity and other general statistics was drawn from available sources, which are annotated in this document.

MFTE program basics

Some counties and all cities in Washington are eligible to adopt MFTE programs. The first considerations for a jurisdiction interested in adopting an MFTE program is to decide what type of MFTE program to adopt based on their local housing needs and where the program will apply within their community.

Determining qualifications to offer MFTE

Determining what program a community is qualified to offer is a complex process. [Exhibit 1](#) provides a summary of available MFTE options for communities. MFTE programs are usually divided according to the length of the program:

- For an **eight-year MFTE program**, there are no requirements for affordable housing, although some cities provide their own requirements. Many communities use this to promote market-rate housing construction in neighborhoods where new housing investment is needed.
- A **12-year MFTE program** must set aside at least 20% of housing units for low- and moderate-income households. Under the statute, household income is based on Area Median Income (AMI), with households earning 80% of AMI or less considered "low income," and households earning 115% of AMI or lower "moderate income." This MFTE is used for providing affordable rental housing options, including choices in market-rate private housing projects.
- A **20-year MFTE program** for owner-occupied housing requires that 25% of units be sold as permanent affordable housing for households earning 80% AMI or below, with a nonprofit or government agency sponsoring the sale and restrictions in place for resale to ensure long-term affordability. This is a new option implemented in 2021 and is intended to be used to encourage affordable housing homeownership. There is an option for permanent affordable rentals (20% of units for 99 years at 80% AMI or less) but the deadline for this program prevents new programs and only the city of Shoreline currently offers this option.

Note that communities can also choose to impose higher affordability requirements and include other requirements for MFTE projects as well.

Exhibit 1. Summary of available MFTE options for communities

	Eight-year	12-year	20-year (homeownership)	20-year (rental)
Eligible cities	Cities and towns with populations $\geq 15,000$; with populations $\geq 5,000$ in a county under Buildable Lands Program; or largest city or town in county planning under GMA.	Same as eight-year MFTE. All other cities, under RCW 84.14.010(3)(d) .	Same as eight-year MFTE. All other cities, under RCW 84.14.010(3)(d) .	Same as eight-year MFTE; city/town population must be $\leq 65,000$.
Eligible counties	Counties with unincorporated population $\geq 170,000$	Same as eight-year MFTE.	Same as eight-year MFTE.	None.
Minimum affordability requirements	None required, although communities may set their own requirements.	At least 20% of units must be affordable to low- ($\leq 80\%$ AMI) and moderate-income (80–115% AMI) households for the duration of the exemption.	At least 25% of units sold as permanently affordable at 80% AMI or less, with ground lease/deed restriction.	At least 20% of units must be affordable to low-income ($< 80\%$ AMI) households for a 99-year period.
Density requirements	None.	Cities under RCW 84.14.010(3)(d) : Minimum density of 15 housing units/ gross acre.	Cities under RCW 84.14.010(3)(d) : Minimum density of 15 housing units/acre.	None.
Transit requirements	None.	None.	None.	Within one mile of high-capacity transit, 15-min frequency.
Extension by city/county	12-year extension allowed if 20% of units set aside as affordable to low-income households ($\leq 80\%$ AMI) or if local 12-year requirements are met.	12-year extension allowed if 20% of units set aside as affordable to low-income households ($\leq 80\%$ AMI) or if local 12-year requirements are met.	Not applicable.	Not applicable.

	Eight-year	12-year	20-year (homeownership)	20-year (rental)
Sunset for issuing exemptions	December 31, 2031.	December 31, 2031. Cities under RCW 84.14.010(3)(d) : December 31, 2026.	December 31, 2031.	December 31, 2031.

Designating a Residential Targeted Area (RTA)

Under [RCW 84.14.040](#), the designation of RTAs in cities where MFTEs can be granted requires the following:

- A location within an "urban center" (as determined by council).
- A lack of sufficient available, desirable, and convenient residential housing, including affordable housing, to meet the needs of the public who would be likely to live in the urban center if appropriate housing were available.
- That additional housing would help to revitalize urban centers and address housing affordability by increasing the supply of units in an area.
- Standards and guidelines for basic program requirements, including:
 - Income and rent standards for affordable units.
 - Requirements for the demolition of existing structures and site utilization.
 - Development requirements for elements such as parking, height, density, environmental impact, and compatibility with the surrounding area.

Even though there are no clear requirements about how councils should confirm these findings, this step can confirm the housing and [GMA goals](#) that will be met through a tax exemption program. This can also allow stakeholders and the broader public to comment on the rationale and need for the exemption.

A jurisdiction then adopts their local program by ordinance. They review applications for compliance; if approved, they issue a conditional certificate of tax exemption. To continue to qualify, the project enters into a contract or agreement with the jurisdiction and has three years to complete construction or rehabilitation.

After construction, the project applies for a final certificate of tax exemption. The year that this certificate is issued is considered year zero. During year zero, the owner may be renting or selling at an income-restricted amount and pays property taxes. The tax exemption begins on January 1 of the next calendar year.

Reporting requirements

Reporting requirements under [RCW 84.14.100](#) indicate that communities must acquire only the following from property owners on a yearly basis:⁵

- A statement of **occupancy and vacancy**
- Certification by the owner that the property **has not changed use and is in compliance with the affordable housing requirements**

⁵ In the case of 20-year permanently affordable owner-occupied units, this may also be provided from housing agencies responsible for administering these projects.

- A **description of changes or improvements constructed** after issuance of the certificate of tax exemption

Communities providing tax exemptions must provide the following information to Commerce on a yearly basis:

- The **number of tax exemption certificates** granted
- The **total number, and type of units** produced
- The number, size and type of units produced that meet **affordable housing requirements**
- The **actual development cost** of each unit produced
- The **total monthly rent** or **total sale amount** of each unit produced
- The **annual household income and household size** for each of the affordable units receiving a tax exemption, and a summary of these figures for the city or county
- The **value of the tax exemption** for each project receiving a tax exemption and the total value of tax exemptions granted

While several communities have expressed uncertainty about the use of this information after it is sent to the state, many cities have used the information gathered as part of this process to keep their councils informed about how their MFTE program is working.

A. Recommendations for program improvement

Overview

Based on the research coordinated under the authorizing legislation, as well as feedback received from stakeholders during the process of assembling this material, there are several recommendations for change with the current state-level MFTE framework. A summary of these recommendations is found in [Table 1](#) below.

Overall, these recommendations focus specifically on changes at the state level to support more efficient and effective MFTE programs, including amendments to [Chapter 84.14 RCW](#), supporting provisions in the WAC, and other programming and budgetary changes. They have been developed to consider the following:

- **The recommended changes are directly related to the project research findings.** The foundation for these recommendations was the research involved to fulfill the requirements of the authorizing legislation, including development of the legislative report and the MFTE workbook for communities. This excludes topic areas outside the scope of Commerce's legislative directive and this project.
- **Clarity and flexibility are primary considerations.** The importance of program flexibility in helping communities fulfill their individual housing goals emerged often during the work on this project. Aside from this, clear requirements and conditions are important, as ambiguous elements of the statutory framework often causes uncertainty among communities, developers, and property owners. This can affect the appeal of the program and likelihood that it will be used to support future projects.
- **We need to understand the impacts of recent amendments before more comprehensive changes are made.** The results of earlier amendments from [Chapter 187, Laws of 2021 \(E2SSB 5287\)](#) are not yet fully known. It will take time for communities to make the applicable changes to their MFTE programs and for developers to build the projects that use exemptions under local programs. Because of this, the effects of these changes should be evaluated over the next few years before making more comprehensive program amendments.
- **Recommendations are provided that would have a substantive impact.** The statute enabling local MFTE programs, created in 1995, requires some cleanup in the text of the law itself. In some cases, there are redundant or unnecessary definitions and requirements that do not reflect the current state of the framework. However, while these elements might increase confusion with interpretation, changes would not make substantive improvements to the functionality of the program.

The recommendations listed here can be divided into five different categories based on their general focus:

- **Consistency in access.** Recent amendments under E2SSB 5287 (2021) expanded the number of jurisdictions that can use MFTE, but some categories of communities have different restrictions. To eliminate confusion and make it easier for interested communities to adopt MFTE, these conditions should be made more consistent between larger cities, smaller cities, and counties.
- **Tax impacts.** Tax exemptions under MFTE programs affect the local property tax system, and some of these effects should be considered more explicitly. Specifically, the impacts on other taxation districts and shifts in tax obligations to other property owners are important issues.
- **Program streamlining and consistency.** Ambiguous or inconsistent provisions in [Chapter 84.14 RCW](#) can often cause confusion or unintended consequences with program administration. Managing these challenges can help increase certainty about the use and application of local programs.
- **Housing stability and displacement.** Even when MFTE programs work as intended, these development incentives can increase displacement pressures on existing residents and prevent some households from moving into neighborhoods due to rising rents. Assisting communities in examining and mitigating these

effects when implementing MFTE programs can improve outcomes with housing stability and racially disparate impacts.

- **Program compliance.** Recent changes to expand reporting and monitoring with MFTE programs are significant, but some administrative issues remain. The recommendations included below support ways to improve local program reviews and property compliance monitoring.

Recommendations by category

Guide to recommendation icons:



RCW/statutory changes. These changes will require adjustments to existing statutes. This will primarily focus on the enabling legislation for MFTE ([Chapter 84.14 RCW](#)), but might also include amendments to the [Growth Management Act](#) and other laws.






Rulemaking. These changes will require adjustment to existing rulemaking from relevant departments (primarily the Department of Revenue), or new rulemaking abilities related to identified issues.








Implementation. These recommendations are related to budgetary actions or statewide policies and programs that need adjustments to achieve the identified objectives.

Table 1. Challenges and recommendations for program improvement

Challenge	Recommendations
<p>1. Consistency in access</p> <p>1.1 MFTE program requirements depend on the type of community. RCW 84.14.020 includes different requirements for larger cities versus smaller cities and counties. The additional requirements can limit the use of MFTE in these communities.</p>	<p> 1.1.1 Update definition of cities in RCW 84.14.010(3) to remove distinctions with smaller cities as defined in RCW 84.14.010(3)(d).</p> <p> 1.1.2 Remove the requirements for zoning minimums and transit proximity under RCW 84.14.020(1)(iii), and instead require a minimum development density of 15 units per net acre to qualify for MFTE for smaller communities.</p> <p> 1.1.3 Remove the condition included under RCW 84.14.040(7) that requires qualifying counties to impose affordable housing requirements for the eight-year MFTE that are comparable to the 12-year option.</p>

Challenge	Recommendations
<p>1.2 Restrictive requirements are included for the 20-year rental housing program. The 20-year MFTE program for permanently affordable rental housing allowed under RCW 84.14.020(1)(ii)(C) can help make housing affordable for the long term. However, a deadline for passing inclusionary zoning requirements to qualify for the program has restricted its wider use.</p>	<ul style="list-style-type: none"> <li data-bbox="787 247 1503 344">  1.2.1 Remove the inclusionary zoning deadline in RCW 84.14.020(1)(ii)(C) to enable more communities to enact this program. <li data-bbox="787 373 1479 470">  1.2.2 Amend RCW 84.14.020(1)(ii)(C) to allow counties and cities with a population greater than 65,000 to use the program. <li data-bbox="787 499 1503 627">  1.2.3 Amend RCW 84.14.020(1)(ii)(C) to relax restrictions on the use of this program to areas within one mile of high-capacity transit to authorize adoption in more locations.
<p>2. Tax impacts</p>	
<p>2.1 Tax obligations may be shifted to other property owners. In an MFTE program, "tax shifting" happens when the value of an exempted project is calculated and added to the tax rolls while the project is being built. Because the property tax levy lid increases but the property in question is now exempt, other property owners may pay more in taxes to make up this difference.</p>	<ul style="list-style-type: none"> <li data-bbox="787 837 1503 997">  2.1.1 Amend RCW 84.14.070 to require conditional certificates of tax exemption to be submitted to county assessors so that projects can be flagged as potentially exempted projects for clearer record keeping. <li data-bbox="787 1026 1503 1152">  2.1.2 Include recommendations in WAC 458-12-342 for county assessors to provide guidance to cities about levy rates to highlight tax-shifting impacts from MFTE.
<p>2.2 Junior taxing districts can also be impacted by exemptions. While cities and counties manage tax exemptions under MFTE, these exemptions affect all taxing districts, including park districts, school districts, etc. Some of these districts might lose tax revenue because of exemptions (depending in part on shifted tax obligations as noted above).</p>	<ul style="list-style-type: none"> <li data-bbox="787 1262 1511 1358">  2.2.1 Amend RCW 84.14.040 to require consultation with affected taxing districts when residential targeted areas are designated. <li data-bbox="787 1388 1511 1484">  2.2.2 Amend RCW 84.14.040 to require consultation with affected taxing districts when program requirements are changed.

Challenge	Recommendations
<p>3. Program streamlining and consistency</p>	
<p>3.1 Short-term funding will be needed to support mandatory auditing. The auditing program required by RCW 84.14.100(3) will increase oversight and monitoring of MFTE programs across the state. However, the state did receive funding in FY24-F25 to cover short-term budget needs for state-level auditing until user fees can support the program. Fee collection is anticipated to begin in 2024. Depending on the number of entities that adopt self-audit programs, which would pay lower fees, the program may be self-sufficient in 2026.</p>	<div data-bbox="787 359 868 443">  </div> <p>3.1.1 Provide initial funding to support at least 3 FTE for the statewide auditing program under RCW 84.14.100(3). This is based on the experience of the City of Seattle, which has 3 FTE to manage half of the state's MFTE units.</p> <div data-bbox="787 579 868 663">  </div> <p>3.1.2 Coordinate budget planning after the initial start-up period for the auditing program to transition to full support through program fees.</p>
<p>3.2 Reporting requirements and expectations are not clear in the statute or policy. RCW 84.14.100 provides clear requirements for property owners and communities to submit annual reporting. However, the rationale and purpose of this program is not clear. To improve compliance, participants should have a better idea of how this information will be used to monitor and improve the program over time.</p>	<div data-bbox="787 793 868 877">  </div> <p>3.2.1 Create a clear policy connection between ongoing reporting efforts and rulemaking by the Department of Revenue on tax exemptions.</p> <div data-bbox="787 919 868 1003">  </div> <p>3.2.2 Provide expanded requirements for information to be included in reporting under RCW 84.14.100 that are clearly connected with policy performance and possible program adjustments.</p> <div data-bbox="787 1077 868 1161">  </div> <p>3.2.3 Provide additional guidance for yearly reporting on owner-occupied housing units if individual owners are presented with further reporting requirements.</p>

Challenge	Recommendations
<p>3.3 Property owners may have unclear requirements for designating affordable units. There are often local MFTE requirements that are not specified in the statute but can affect how developers and property owners comply with local programs. Ensuring that local jurisdictions set clear program requirements in their statutes for designating MFTE units and identifying thresholds for affordable owner-occupied housing can help to improve clarity and transparency.</p>	<ul style="list-style-type: none"> <li data-bbox="787 247 1502 472">  <p>3.3.1 Require communities managing MFTE programs to provide clear guidelines about how units should be generally designated as affordable housing. This includes parameters such as the calculation of the total number of units, the distribution of those units by size and location, and similar provisions.</p> <li data-bbox="787 504 1502 693">  <p>3.3.2 For owner-occupied housing units intended for affordable homeownership, require communities to provide clear definitions of what it means under RCW 84.14.010(1) for units to be "within the means" of low- or moderate-income households for homeownership.</p> <li data-bbox="787 724 1502 829">  <p>3.3.3 Amend RCW 84.14.020 which refers to both "low- or moderate-income households" when setting thresholds for income-restricted units.</p>
<p>4. Housing stability and displacement</p>	
<p>4.1 Communities need flexible but consistent ways to set program requirements. Many communities want to set requirements for affordability in ways that reflect their own needs, but local capacity to set these measures can be limited. Providing guidance about how these income thresholds can be set and clarifying the income measures used can help to meet these needs.</p>	<ul style="list-style-type: none"> <li data-bbox="787 1066 1502 1260">  <p>4.1.1 Clarify in Chapter 84.14 RCW that other income measures can also be used for limits in local MFTE programs, including local measures of median income or alternative measures used by the US Department of Housing and Urban Development (HUD) that control for housing cost inflation.</p> <li data-bbox="787 1291 1502 1512">  <p>4.1.2 Provide consistency between the measures of income used for the exemption in RCW 84.14.020 (median family income for the city, county, or metropolitan area), and the affordability requirements under the 20-year exemption in RCW 84.14.021 ("average median income" for the city or local jurisdiction).</p> <li data-bbox="787 1543 1502 1764">  <p>4.1.3 Amend RCW 36.70A.610(1)(a) to require the Washington Center for Real Estate Research (WCRER) to provide jurisdiction-specific median family income measures for communities using MFTE as part of regular reporting. These measures should be based on existing methods used by the US HUD and local housing agencies.</p>

Challenge	Recommendations
<p>4.2 Modest income increases can lead to eviction from MFTE units. The income of qualifying households can increase over time, especially once their housing situation is stable under the MFTE program. However, tenants of MFTE units can be evicted from their units if their income increases slightly beyond the statute's income limits. This can penalize these households and reduce their housing security.</p>	<p> 4.2.1 Update the income requirements in RCW 84.14.020 to allow annual household incomes of renters currently occupying income-restricted units under an MFTE program to increase to up to 150% of income limits without requiring eviction or penalties upon lease renewal.</p>
<p>5. Program compliance</p>	
<p>5.1 Noncompliant owner-occupied units can risk tax exemptions for other participants in the same project. When evaluating compliance under an MFTE program, all owner-occupied units in a project are treated as a single unit under requirements. This means that the tax exemption can be canceled for all owners if some owners do not comply with requirements. For example, the owner of an affordable unit could sell it at market price by canceling their participation with the program, but all owners in the project could lose their exemption as a result.</p>	<p> 5.1.1 Require deed restrictions for eight- and 12-year exemptions under RCW 84.14.020 to ensure that all owner-occupied units are compliant with restrictions under the MFTE program during the period of the exemption.</p> <p> 5.1.2 Provide revisions to the exemption cancellation process in RCW 84.14.110 to allow tax exemptions for individual owner-occupied units to be canceled for noncompliance without affecting the other owners in the project in compliance.</p> <p> 5.1.3 Amend the statute to allow communities to levy additional penalties under RCW 84.14.110 to individual owners of income-restricted units that sell their units at market rate before the conclusion of the exemption. This may be combined with the recommendations under 5.2.</p>
<p>5.2 Options are not available to local governments to assess penalties for noncompliance. Outside of the auditing process, communities do not have many ways to penalize noncompliance or early withdrawal from an MFTE program. Tougher penalties would make the program less appealing, but communities should have greater flexibility to set their own penalties short of cancellation under RCW 84.14.110(1).</p>	<p> 5.2.1 Allow a sliding scale penalty, comparable to what is provided in RCW 84.14.100(3)(b), to give communities an alternative to the full cancellation of the exemption under RCW 84.14.110(1).</p> <p> 5.2.2 Provide authority for additional rulemaking to Department of Revenue to provide other requirements for penalties or cancellation of the exemption. This may be done in conjunction with the recommendations in 5.1.</p>

B. Assessment of practices

Overview

The proviso identified certain practices for review, including whether communities conduct the following steps regularly:

- Evaluating the **financial feasibility** and **total costs of proposed developments** under the exemption
- **Monitoring of rent, occupancy, and demographics** of tenants of exempt housing
- Identifying **direct or indirect displacement risks, changes in income and rent distributions** associated with new housing development, and plans and approaches
- Identification of practices that encourage **permanent affordable rental opportunities**
- Monitoring of whether the exemption **assists cities in meeting goals** under the [Growth Management Act](#)

Many of these components could be effective in supporting MFTE programs. There are also local considerations involved with their implementation. This section provides an overview of why we think these practices were highlighted by the Legislature, how they connect to practices required by the enabling legislation, and how these elements are incorporated into local MFTE programs.

In addition to the discussions about how these elements could be included in local MFTE programs, this review includes conclusions supported by data and the state of the practice that identify several broader considerations for change to the statewide framework.

General considerations

Commerce convened a group of experienced MFTE administrators and analyzed the five areas of practice to understand why they were highlighted as important for study. This analysis of current practice recognizes that [Chapter 84.14 RCW](#) includes several requirements for MFTE administration that do not align with the proviso's list of study practices. Many of the practices listed in the proviso reflect recent changes to the enabling legislation, which were developed to remedy shortfalls in monitoring and consistency and implement changes in the statewide housing policy.⁶ It is too soon to understand the impacts of those code changes. Future study will likely be necessary.

Communities can choose to develop their own processes, and several cities have created MFTE programs that incorporate some effective practices beyond what is required in the statute. Though the state established the MFTE program in 1995, there has been no broad, formal consensus about "best practices," and the state had no resources to provide technical assistance at a statewide level. This has changed recently, as the budget provision for this report also supported Commerce to develop and publish a guidance workbook on MFTE.⁷ This, paired with technical assistance staff, provides a clear resource for communities that want to start or change their MFTE programs in the future.

The advisory committee of experienced MFTE administrators also highlighted the following areas as being essential to increasing effectiveness and uptake of the MFTE program:

⁶ [E2SSB 5287](#) (2021) has provided the most recent changes to [Chapter 84.14 RCW](#) directly, but note that there are recent changes to the [Growth Management Act](#) under [HB 1220](#) that may present certain additional considerations related to housing policy.

⁷ See the Department of Commerce [Multi-Family Housing Property Tax Exemption Program website](#) for access to the MFTE Workbook.

- **The state needs to provide additional support for the MFTE programs managed by local communities.** Expanded monitoring requirements for communities will require additional staff time and expertise that may not be available. If requirements are put in place without corresponding support, this can make the program less effective as a local incentive, especially for smaller communities.
- **Further requirements for MFTE programs should maintain program flexibility.** Communities value the ability to tailor their programs to local needs, meaning that they may benefit more from guidance and technical advice on how to meet their own policy goals, rather than additional statutory requirements.
- **Communities need clear and explicit guidance on the rationale for new requirements.** Although new reporting requirements have provided more state-level oversight, many stakeholders have been unsure about the need and use for this information, especially for local operations. Additional reporting and monitoring requirements under the statute should be paired with clear direction and guidance about the use of this information. It should also recognize that different communities may have individual needs and policy goals to consider in monitoring their MFTE programs.

Areas of study

Evaluating financial feasibility and total costs under the exemption

With respect to this practice, highlighting assessments of feasibility and costs can be important because this type of financial analysis can help jurisdictions understand the overall benefits of the program. This includes the benefit to property owners, including the value of the exemption and its impact on the decision to build, as well as public benefits such as reductions in rents for qualifying households, the production of multifamily units, and the uptake of new projects in residential targeted areas. Overall, this can provide an understanding of how the program would work in local markets.

As discussed later in this report, this review indicates that there are no standard practices for cities to evaluate the financial feasibility of MFTE projects on a case-by-case basis:

- For larger communities with sufficient staff resources, a more detailed analysis may be possible and performed on a regular basis.
- Smaller communities may have insufficient capacity and resources to assess development feasibility under an MFTE program. In these cases, evaluating financial feasibility is often done when the projects are updated, often by consultants with this capacity.

If evaluating feasibility becomes standard practice, cities need tools and templates that can provide a general assessment of the financial impacts of MFTE. Commerce has published a financial tool that allows cities to understand if their program design will support financially feasible MFTE projects. Additional tools and supporting assessments may be possible to develop in the future.

While there are additional needs to provide support to communities on evaluating the feasibility of MFTE programs, technical expertise from Commerce can support effective local use of the tax exemption to support housing goals.

Monitoring rent, occupancy, and demographics of tenants of exempt housing

It is likely that the Legislature highlighted this practice because this type of analysis can help jurisdictions understand whether the units created are meeting overall objectives for increasing housing supplies. This can include assessing whether MFTE units are occupied, what types of households are living in income-restricted units, and if rents are affordable to their occupants in practice. Collecting this information can also allow

jurisdictions to understand whether MFTE is affecting racially disparate impacts in the housing market, and how these programs align with other housing programs in a community.

Many jurisdictions lack the staff time and resources necessary to complete more than a basic, statutorily required collection of information for reporting to Commerce. While ongoing collection can be useful for ensuring compliance and making sure an MFTE program is meeting local housing goals, stakeholders have expressed that they would need additional resources to provide more data collection and analysis. This is a role that the state would be well positioned to support, especially more detailed quantitative evaluations to understand trends in the use of the exemption.

Identifying displacement risks, changes in income and rent distribution

Under this requirement, the Legislature expressed interest in identifying direct or indirect displacement risks, changes in income, rent distributions associated with new housing development, and plans and approaches. This theme was likely highlighted because an analysis would allow jurisdictions to understand how new housing units and new housing development were changing local housing markets and potentially increasing local risks for displacement of existing residents (or increasing housing supplies to reduce long-term rent impacts from scarcity).⁸

Recent changes to the [Growth Management Act](#) have required communities to identify current and future displacement risks under the Housing Element of their comprehensive plans.⁹ Many communities, especially larger communities in the central Puget Sound region where comprehensive plan updates are due by 2024, have worked to evaluate local displacement risks. Most of these communities focus on broader measures of affordability and more detailed assessments of displacement risk that include a range of social and demographic characteristics over a local area.¹⁰ However, none of the jurisdictions specifically examined changes in income and rent distribution as it applied to areas where MFTE applied.

While it is important to understand what new development supported by MFTE can have on displacement risks and rents, there are requirements in the MFTE program that can help address these considerations. Similarly, the ability to increase local housing supplies can help to address many issues with displacement of lower-income households.

Monitoring whether the exemption assists in meeting GMA goals

There are two important reasons why monitoring whether MFTE can assist in meeting GMA goals. First, the history of the MFTE framework enabled by statute was focused on providing local government incentives to encourage development in urban centers instead of sprawl. Many of these goals to bring development into urban centers overlap with the intent of the [Growth Management Act](#).

Second, this approach is the major way that communities can determine whether an MFTE program is achieving its intended outcome and supporting local housing goals. Effectively, this would be a clear way to determine whether the exemption "works."

⁸ A comprehensive discussion of general issues with housing and affordability is provided in [America's Rental Housing 2022](#), a report provided by the Joint Center for Housing Studies of Harvard University. This study (and others) highlight the positive benefits on market-rate rents with higher production of housing units.

⁹ See [RCW 36.70A.070\(2\)](#).

¹⁰ For example, see the [PSRC Displacement Risk Mapping](#) website and related resources.

Many communities view MFTE as effective in incentivizing multifamily housing, including "middle housing"¹¹ types, and several communities are planning to implement, expand or adjust their local MFTE programs because of the findings and recommendations from local Housing Action Plans. As many communities are placing a greater focus on affordable housing options, this has been seen as a more viable local alternative to promote desired housing. Incentives through this program can also support other affordable housing programs, and overall MFTE programs can present options for addressing local issues with displacement.

From the perspective of individual communities, MFTE is not always the perfect solution for every context. For example, in cases where rents cannot support new development, this incentive may not help achieve housing goals. However, based on an assessment of available data and reports from MFTE jurisdictions, there are clear indications that tax exemption programs can support goals in achieving market-rate and affordable housing options.

Required practices

The MFTE framework provided in [Chapter 84.14 RCW](#) gives communities a structure to follow for a MFTE program. There are three statutory requirements that are most directly related to practices communities are required to follow:

- **The designation of "Residential Targeted Areas" (RTAs) where the MFTE program will apply.** Under [RCW 84.14.040](#), cities may choose where to set RTAs based on their location in an urban center," a lack of adequate housing, and efforts to address neighborhood revitalization and local housing needs. This would also involve setting income and rent standards for affordable units for the RTAs, as well as other requirements as determined by the community.
- **Regular reporting requirements from both property owners and the community to Commerce.** Every spring, communities must submit information to Commerce for each project that received a final certificate in the previous year. This includes the amount of market-rate and affordable housing produced, rents and household incomes for affordable units, and the value of the tax exemption. Property owners are in turn required to provide a report to the community specifying that they are still in compliance with the terms of the exemption.¹²
- **Considerations of housing displacement in the community.** When MFTE programs are used to encourage redevelopment in neighborhoods that need investment but have existing housing options with relatively affordable rents for low-income households, there is a risk that people will be displaced from their homes and potentially their neighborhood. Different community types have different statutory requirements for review of displacement risk:
 - **Counties** are required to review potential risks of displacement under [RCW 84.14.040\(1\)\(e\)](#), and an RTA may only be designated if the risks are minimal or mitigated through measures under the program (such as a first right of refusal).
 - **Cities** are required under provisions of the [Growth Management Act](#), specifically [RCW 36.70A.070\(2\)\(h\)](#), mandating that anti-displacement policies must be included in the housing element of comprehensive plans.

¹¹ Middle housing is a term for homes that are at a middle scale between detached single-family houses and large multifamily complexes. Examples include: duplexes, triplexes, fourplexes, fiveplexes, sixplexes, courtyard apartments, cottage clusters, and townhomes.

¹² In the case of 20-year permanently affordable owner-occupied units, this may also be provided from responsible housing agencies.

Note that there are also existing safeguards in place to mitigate some of the impacts of displacement from MFTE. Under [RCW 84.14.030\(5\)](#), properties being rehabilitated must provide existing tenants with "housing of comparable size, quality and price, as well as a reasonable opportunity to relocate" to qualify for an exemption.

Program use to date

As of the 2021 reporting cycle, 55 communities in the state have adopted MFTE programs, and 31 of these communities permitted projects under the MFTE that received final certificates. See the map in Exhibit 2.

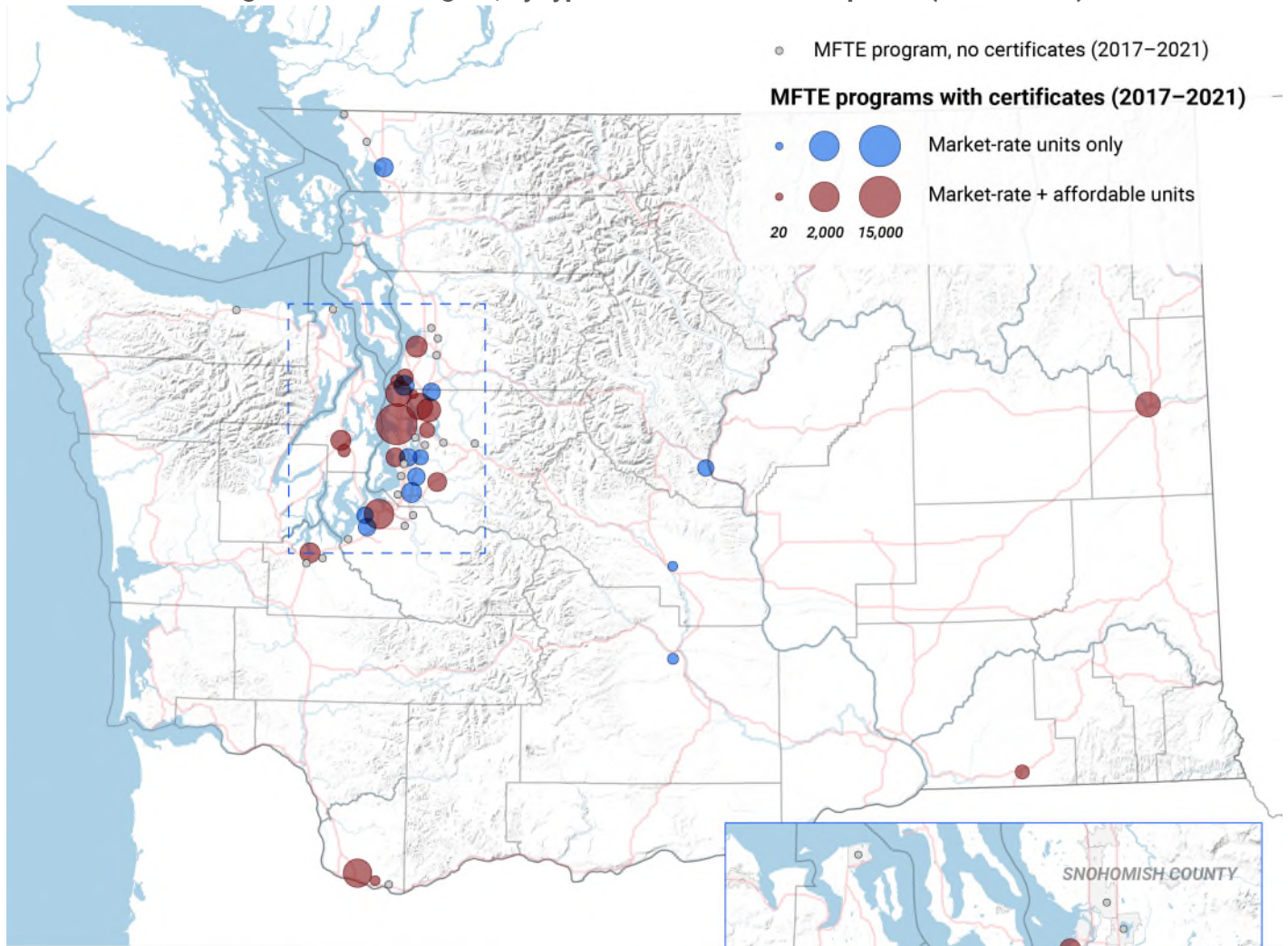
Overall, the MFTE program is most popular in the central Puget Sound region, and the City of Seattle has permitted about half the MFTE projects in the state. Of the 55 communities that have adopted MFTE programs over the 15 years the program has been available, there are 37 programs within King, Pierce, Snohomish, and Kitsap counties. However, Commerce is actively working to encourage more jurisdictions to adopt MFTE into housing goals (including those outside of the central Puget Sound region). Many communities have recently adopted housing action plans that included the adoption or expansion of MFTE programs as part of their goals. Recent efforts to promote medium-density/middle-housing types might encourage the uptake of MFTE in other areas of the state to help achieve this type of development.

Overall considerations

MFTE programs are one of the most effective housing incentives communities can provide to encourage the private sector to provide affordable housing, and they can be a flexible tool to meet local development goals. However, they can be challenging to fine-tune and use effectively, and monitoring and tracking of outcomes can be difficult, especially with communities facing resource limitations.

More guidance from the state will help to manage problems related to the complexity of the program and make local programs more transparent and effective. To increase program effectiveness, this state-level work should also include ongoing efforts to monitor and study the outcomes of MFTE and adjustments as needed.

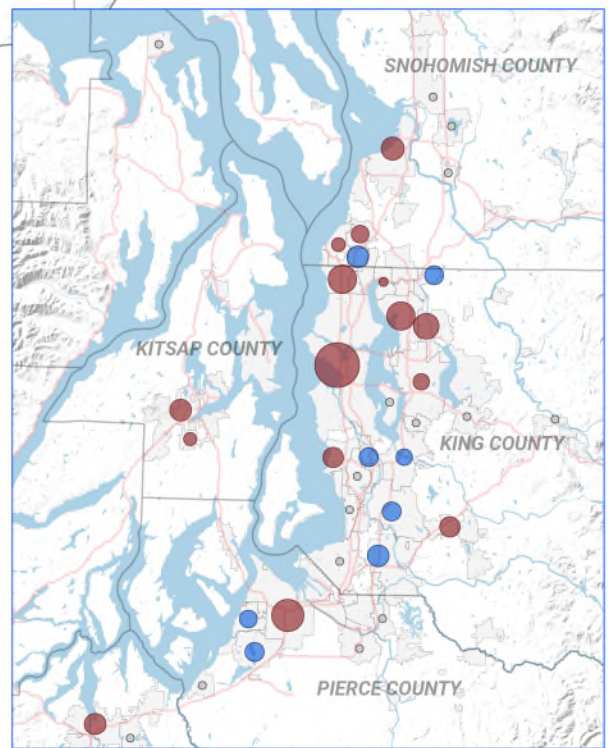
Exhibit 2. MFTE Programs in Washington, by type and number of exemptions (2017–2021)



Communities with MFTE programs (2021):

Auburn	Kirkland	SeaTac
Bellevue	Lacey	Seattle
Bellingham	Lake Stevens	Shoreline
Blaine	Lakewood	Snohomish
Bremerton	Lynnwood	Snoqualmie
Burien	Marysville	Spokane
Camas	Mercer Island*	Sumner
Covington	Mountlake Terrace	Tacoma
Des Moines*	Newcastle	Tukwila
DuPont	Olympia	Tumwater
Edmonds	Pierce County	University Place
Ellensburg	Port Angeles	Vancouver
Everett	Port Orchard	Walla Walla
Federal Way	Port Townsend	Washougal
Ferndale	Puyallup	Wenatchee
Issaquah	Redmond	Woodinville
Kenmore	Renton	Yakima
Kent		

* Communities that have ended their MFTE programs, 2017–2021



Guiding considerations

This assessment is an important step in the future MFTE program's future success statewide. To adapt this information as a guide for future work, it is important to consider the following:

- **Technical assistance from the state has been well received.** Investment in practical supports for the MFTE program should continue. The most recent MFTE administrator meeting hosted by Commerce's technical assistance staff had 38 attendees. A webinar on how to complete annual reporting forms had 41 attendees. In just three months, the MFTE Workbook was downloaded 98 times from Commerce's webpage. Jurisdictions are positively responding to new resources and engaging meaningfully in conversations to streamline and improve local programs.
- **Additional requirements for MFTE programs should work to maintain program flexibility.** Discussions with communities have made it clear that they value being able to tailor their programs to meet local needs through different requirements and program parameters. Since the housing issues related to these tax exemptions are not always a one-size-fits-all approach, communities may respond better with more guidance and technical advice on how to use this program to meet policy goals than with additional statutory requirements.
- **Communities need clear and explicit guidance on the rationale for new requirements.** Many stakeholders do not understand how MFTE reporting data will be used in the future, and whether monitoring data will be used as justification to change the program. Although Commerce gives ongoing advice to communities on how to monitor and evaluate programs, any new state-level reporting requirements should be paired with a clear explanation about how this information would be used to help run and manage MFTE programs in the future.
- **The state needs to provide additional support for local communities to evaluate the public benefits of their MFTE programs.** MFTE programs explicitly offer a tax break in exchange for public benefits, such as more market-rate and income-restricted housing production. Communities need to be able to oversee these projects to confirm they are successfully balancing public and private benefits. Any changes at the state level should consider this and provide opportunities for rule making and financial and technical assistance to meet local needs for monitoring and oversight.

Evaluating financial feasibility and total costs of proposed developments under the exemption

Overview

The financial effects of the MFTE program can be complicated, and at times hard to calculate. Administrators need to know the expected financial effects on their community and private sector developers to assess the likelihood that developers will choose to participate in their MFTE program.

For **developers**, the benefits include:

- The tax exemption on the residential improvement value of the property, which could tip the return on investment to a project that can "pencil" and will develop.
- Some developers and property owners may look at providing affordable units on-site as a means of fulfilling corporate social responsibility (CSR) goals.

Costs to developers include:

- The costs to submit a program application and coordinate the receipt of a tax exemption.
- Foregone rental revenue from income-restricted units (if applicable).
- Other costs to meet local requirements under the program.¹³
- Ongoing compliance costs to monitor the income of tenants in income-restricted units.

For **communities**, the benefits include:

- An increase in the amount of multifamily housing in the community.
- Increased availability of affordable units in mixed-income developments.
- Other public amenities provided by the developer through the program, if required of the developer.
- Increased receipts of other taxes and fees associated with development that would not have otherwise occurred without the incentives.

Direct costs to communities include:

- The potential for reduced tax revenue from the exemption, both for regular and special levies for the duration of the exemption.
- Staff time and resources associated with project administration, such as application processing and mandatory reporting to Commerce.

Calculating the costs and benefits of an MFTE program can be challenging, especially when determining if it makes financial sense for developers to participate, and whether the costs of the program will be worth the public benefits received. A developer's financial assessment typically includes projections for rent and property taxes, which can be reasonably straightforward to estimate. However, many of the benefits to the public can be indirect and less quantifiable. Evaluating and weighing these broader effects can be a major part of determining if an MFTE program is the best way to reach local housing policy goals.

¹³ This may include such things as the cost of LEED certification, construction costs for public amenities such as parks, or other requirements under the program.

With respect to the local financial effects, four of the most significant factors that can complicate a straightforward calculation of costs and benefits include the following:

- Local fiscal analysis
- Impacts to other taxing districts
- Indirect impacts from new development
- Shifting of property tax obligations from exempt to non-exempt properties

Local fiscal analysis

Many communities conduct their own financial evaluations of MFTE programs to help decision makers understand how the program can implement local housing goals in exchange for a tax exemption. The costs and benefits to developers are typically examined less often, especially as part of regular monitoring, although they are often examined as part of more thorough evaluations of these programs.

Three of the six cities examined in the case studies typically prepare a fiscal impact analysis for a proposed MFTE project when it is presented to their city council. This analysis may be simple, comparing the projected sales tax to the total property tax exempted; or more detailed, including estimated one-time and ongoing city revenues during the life of the exemption and the estimated property tax after the exemption ends. At times, staff include the financial impact of the tax shift and estimate how the exemption affects other taxpayers, but this can be a challenge because of the availability of information about the actual amount of the exemption and impacts of tax shifting.

A detailed analysis like this might include an estimate of the public benefit. For affordable housing, this is typically characterized as the difference between market rate and income-restricted unit rents or purchase prices in a project. Communities may also evaluate the costs of providing other public benefits required through the MFTE program, although some benefits, such as Leadership in Energy and Environmental Design (LEED) certification, may be more difficult to quantify in this way.

For example, in the City of Shoreline, staff typically conduct a fiscal analysis when bringing a MFTE project to the city council for approval. This analysis includes an assessment of the one-time and ongoing revenues, costs for the city, and an estimate of the public benefit. Staff estimate the ongoing revenues based on the number of new residents, using an approximate amount of revenue generated per capita. The analysis also includes an estimate of the taxes shifted to other households in the city.

In Exhibit 3, Shoreline prepared a fiscal analysis for an approved project with 215 units, of which 43 are income restricted. The report stated that over the 12 years of the exemption, the city will forego between \$876,000 and \$926,000 in property tax revenue. Staff anticipated the project will pay over \$2 million in one-time revenues to the city, as shown in the table below.¹⁴

¹⁴ City of Shoreline, City Council Agenda Item 7(f), "Approval of Multi-Family Tax Exemption Program Contract with Geo Properties LLC for the Geo 2 Project Located at 1122 N. 180th Street", June 13, 2022.

Exhibit 3. Sample fiscal assessment (112 N. 180th St.), City of Shoreline

Fiscal impact	Value
REET on Land Sale	\$20,000
Sales Tax of 1.05% (Construction)	\$441,000
Impact Fees (215 Units x \$7,446)	\$1,600,900
Total	\$2,061,900

Among the other cities engaged as part of this report, staff prepare a summary of program outcomes that include total estimated foregone or shifted tax revenue when the program is reviewed or updated by the city council.

These assessments can also be done as part of regular reporting. For example, the City of Seattle prepares an annual report for its MFTE program, which includes the annual and total tax impacts of the program, including the total amounts of the tax revenue foregone and shifted to other taxpayers for the upcoming tax year and for the prior decade as part of these calculations.

Impact to other taxing districts

MFTE programs exempt ad valorem taxation of residential improvements. While much of the focus of MFTE programs is on the effects to municipal governments, this can also affect revenue for the state, school districts, fire departments, and other special districts.

The effects of MFTE projects on other taxing districts can be similar to the effects on communities. These districts can see both shifted and foregone revenue impacts. There are other considerations when it comes to the effects on taxing districts:

- **There may be greater relative impacts for smaller districts.** Both tax shifting and deferred tax revenue may affect smaller taxing districts with smaller levies more than larger communities. This could result in larger increases in tax obligations and/or greater impacts to the budgets of these districts, depending on the location and value of these exemptions.
- **Calculating these effects as part of an analysis can be complex.** Providing a full assessment of the tax impacts across all tax districts can be complex given the different levy calculations required for each tax district, especially since this may require distinguishing the specific locations of individual MFTE projects within a community.
- **There are no requirements to consider other tax districts as part of an MFTE program.** Under the statute, districts are not required to consult with other tax districts about the effects of an MFTE program on their operations, nor are there continuing requirements to monitor the impacts on their operations. In many cases, this means that the program evaluation might not include these other exempted taxes.

Because of these challenges, many communities might provide a high-level assessment of potential impacts to other districts, but typically present the implications to local municipal budgets only.

Indirect effects from new development

The final MFTE evaluation component is the downstream fiscal and economic effects provided by projects that would not otherwise be built if an MFTE program were not in place. This can include the following:

- **Increased property tax revenue on land and non-exempt improvements** (such as commercial development)
- **Increased property taxes from other properties** benefitting from new development (such as catalytic effects from neighborhood redevelopment)
- **Sales tax from construction**
- **Real estate excise tax revenue** from expected sales
- **Impact fees** and other development charges
- **Retail and utility taxes** from new local residents
- **Increased local spending** from new residents
- **Increases in state-shared revenues** calculated from population (or potentially total assessed value)
- **Increases in service provision costs**

These impacts can be a challenge to evaluate because they involve asking the broader question: **What would have occurred if the MFTE program were not in place?** In some situations, this can be an easy answer to evaluate, while in others it can be more complex.

For example, these increases could be linked to an eight-year MFTE program that worked effectively to encourage redevelopment and new housing investment in a targeted neighborhood. This would be especially true if these areas would not have changed in the short term or even in the long term without incentives through a MFTE program. However, if local conditions for development would support new projects even without the tax exemption from a MFTE program, it can be harder to be certain that tax exemptions under an MFTE program would clearly lead to tax revenue increases that would not be possible to receive otherwise.

This cause-and-effect relationship is also challenging when it comes to exemptions for affordable housing with the 12- and 20-year options. The main goal of these alternatives is explicitly to use a portion of the tax exemption to encourage the development of affordable housing, not to make new projects more feasible in general. Because it is likely in these cases that fewer incentives (or no incentives at all) are needed for any development to happen, these indirect tax effects would likely have happened whether or not the MFTE program was in place.

Tax shifting

Under [RCW 84.55.010](#), the levy limit for city or county in a given year must be based on the valuation of properties on July 31 of the previous year.¹⁵ This includes the partial valuation of properties that are under construction but not yet complete.

However, [Chapter 84.14 RCW](#) does not provide strong guidance for assessors related to the timing of valuation on MFTE properties. There is a blanket statement about the exemption from "all ad valorem taxation" on the property, but [RCW 84.14.020](#) and [.021](#) simply note that the exemption begins January 1 of the calendar year following the issuance of the final certificate of tax exemption. Under [RCW 84.14.020\(5\)](#), "the value of the new

¹⁵ See also [WAC 458-12-342](#).

housing construction, conversion, or rehabilitation improvements must be considered as new construction," suggesting that the value of the property is not included when calculating levy limits.

Because of this uncertainty, assessor practices vary from county to county. Current rules for assessors mean that MFTE properties will likely contribute an amount to levy limits under [Chapter 84.55 RCW](#) equal to the valuation during construction.¹⁶ This means that the residential improvement value assessed for the July prior to the issuance of the final certificate will be added to the levy limits for the community as a whole, but the property receiving the tax exemption will not be contributing their portion after the following January.

This means that part or all of the tax obligation of the exempted property will be "shifted" to other taxpayers instead of lost or foregone municipal revenue. The nature and magnitude of this shift will depend on several factors:

- The **size of the project**, with smaller projects more likely to have a smaller proportion of the total improvement value assessed during construction, because it can be constructed more quickly, and may finish before the partial valuation occurs.
- The **timing of construction**, with the completion of the project and the issuance of the final certificate related to the July 31 deadline for assessments affecting whether the value is included in the levy limit.
- The **total amount of the tax exemptions** and **size of the broader tax base**, which will affect how these costs are distributed to other taxpayers.
- **Individual practices of county assessors**, where case-by-case management of exemptions could affect how tax shift occurs in practice.

In practice, the costs of providing the tax exemption itself are borne through higher tax rates for non-exempt property owners in the community rather than completely through deferred or foregone revenue from local budgets. This can be a concern, as this relationship is difficult to explain and calculate, and many staff and elected officials do not have the level of information needed to make decisions and understand the connection.

Although these calculations can be challenging, rough estimates of tax shifting calculated for King County suggest that the total increase in property taxes for typical homeowners for a community MFTE program amount to around \$30 to \$40, substantially lower than other property tax components. Although this might vary by community and the supporting tax base, it is likely, given the popularity of MFTE in King County, that this is probably a high-end estimate for expected tax shifting in a community.

This can also make it difficult to evaluate the costs and implications of a program for a community. While the value of the tax exemption to a property owner can be calculated, the split between the tax revenue collected from other property owners versus revenue reductions with local budgets is not as clear.

Other considerations

From the interviews and research conducted, there have also been other considerations identified for evaluating financial feasibility and total costs:

¹⁶ Under [RCW 84.55.010](#) and [0101](#), jurisdictions can only increase their regular tax levy for existing property by 1% per year or the rate of inflation, whichever is less. However, new construction is added separately to the levy in addition to this increase at full value. As noted below, if the total levy increases because a property using MFTE is added, but then the tax obligation for that property is removed, the jurisdiction can charge higher taxes on other property owners because the total levy can be higher.

- **Evaluating developer costs and benefits can be challenging.** As noted, cities are far less likely to regularly monitor the costs and benefits of program participation to developers. In part, this is because the market is complex and many smaller jurisdictions do not have the staff capacity to evaluate real estate financial decisions without additional support. As such, assessments of the net incentives under an MFTE program are often coordinated during regular reviews when program adjustments or amendments are needed and third-party consultants, with expertise in the field, can be used for these evaluations.
- **The estimated cost of an MFTE program also needs to include the overhead for running the program.** An MFTE program can require funding and staff resources, which need to be considered when evaluating the program. Staff time is necessary to run the program, even though some cities have not added new positions for that purpose and assigned responsibility to existing staff in the planning or economic development department. Even when these responsibilities are passed to current staff, MFTE program management and oversight is not a small amount of staff time.
- **Additional support and technical assistance is also important to communities looking to monitor feasibility and impacts.** Communities that considering starting MFTE programs have noted that technical help is critical for regular assessments. Determining the costs and financial effects of a proposed project often requires specialized knowledge; there may not be enough resources, staff time, and in-house expertise to conduct the regular assessments that could provide clear guidance for decision-makers, especially in small communities.

Conclusions

This review of how jurisdictions evaluate financial feasibility and total costs of proposed developments highlights key findings:

- **Current programs often include some review of potential fiscal impacts.** Many communities evaluating individual MFTE projects, or the impacts of overall MFTE programs, typically provide reviews of the costs of the program and the costs per unit. These are often incorporated into multiple steps of the process.
- **Many of the staff responsible for MFTE programs do not have expertise in real estate finance.** This means that assessments of development feasibility can be limited without additional support and guidance to evaluate financial feasibility of proposed developments.
- **The methodologies used by these reviews might be different.** While these assessments provide some findings regarding expected impacts of MFTE projects, they may provide different assessments of financial benefits from community to community. Some will only focus on the direct costs associated with construction and exemptions, while others could include more detailed assessments of broader impacts from new residential uses. Jurisdictions also may consider tax shifting, but can be limited by information available from the assessor.
- **Reviews infrequently consider the effects on other taxing districts.** Depending on the magnitude of tax shifting, the costs for MFTE might be borne by jurisdictions as well as other taxing districts and taxpayers in the community. While cities and counties have additional options for raising other tax revenue, many of these other districts do not. These tax jurisdictions are not always considered or consulted in a consistent way as part of program development and implementation.

Based on these conclusions, we make the following recommendations (see [section A](#) for more details):

- **2.1.1.** Amend [RCW 84.14.070](#) to require conditional certificates of tax exemption to be submitted to county assessors so projects can be flagged as potentially exempt and valuations paused until the end of the exemption period, where the projects is assessed as a new project.
- **2.1.2.** Include recommendations in [WAC 458-12-342](#) for county assessors to provide guidance to cities about levy rates to highlight tax-shifting impacts from MFTE.
- **2.2.1.** Amend [RCW 84.14.040](#) to require consultation with affected taxing districts when MFTE programs are considered.

Monitoring rent, occupancy and demographics of tenants

Introduction

Understanding the use of new housing units developed under an MFTE program can be useful in assessing different elements of policy at the state level, including:

- Identifying how housing units supported by the MFTE program perform in comparison to the rest the market, including market-rate units without income restrictions
- Understanding local vacancy rates and how they change over time
- Considering equity in the distribution of units created by MFTE programs

MFTE programs have helped address prior racially disparate impacts in the community and region. There are some requirements that communities must meet under state law, but more information may be collected independently from statutory requirements to evaluate these programs over time. Many communities have expressed concern that without a clear purpose for this information, additional monitoring requirements might only be an additional burdens on tenants, property owners, and city employees. This has meant that, as a standard practice, many communities have not committed to collecting data that is not required by law.

Rent and occupancy

Jurisdictions receive MFTE monitoring information in two primary ways:

- **Application information.** Under [RCW 84.14.050](#), communities must provide forms for conditional certificate applications to an MFTE program that provide specific information, including the grounds for the exemption, information about the project (including floor plans), and a statement on tax liability. This is supplemented with filing requirements upon project completion in [RCW 84.14.090](#).

Altogether, this provides a level of information consistent with other permit data. However, as this is one source of data for reporting by communities to Commerce under [RCW 84.14.100\(2\)](#), staff will typically compile the following information from these applications:

- The number of tax exemption certificates granted
 - The total number and type of units produced
 - The number, size, and type of units produced meeting affordable housing requirements
 - The actual development cost of each unit produced
 - The value of the tax exemption for each project receiving a tax exemption, and the total value of tax exemptions granted
- **Annual reporting.** Under [RCW 84.14.100\(1\)](#) building owners or coordinating housing organizations (in the case of the 20-year owner-occupied exemption) must submit reports to the city or county each year on properties currently receiving a property tax exemption. This information includes:
 - A statement of occupancy and vacancy
 - Certification by the owner that the property has not changed use and has been in compliance with the affordable housing requirements
 - A description of changes or improvements constructed after issuance of the certificate of tax exemption

As stated above, the reporting requirements for communities under [RCW 84.14.100\(2\)](#) mandate that cities collect additional information at this stage, largely to ensure compliance with affordable unit requirements. This includes:

- The total monthly rent or total sale amount of each unit produced
- The annual household income and household size for each of the affordable units receiving a tax exemption, and a summary of these figures for the city or county

However, this information is not required to be reported to Commerce, and is not included in monitoring data available at the state level.

This information can be used to highlight key performance indicators to stakeholders and councils. Many communities have used it to evaluate how their MFTE programs are operating in practice.

Demographic data

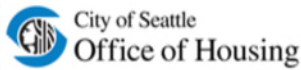
There are a limited number of MFTE programs that use demographic assessments, but these are not common in practice. The main example from the communities studied for this report is the City of Seattle, which provides a voluntary form for participants in all of its low-income housing programs. Exhibit 4 provides an illustration of such a form. This form asks households that buy or rent MFTE units with income restrictions about their race or ethnicity, disabilities, and their general age category.

Many communities do not coordinate regular monitoring beyond the statutory requirements, especially when it comes to collecting additional information from renters and buyers. Typically, communities believe it will cost more to gather and track of this kind of information; without a clear purpose, collecting this data is not viewed as a good investment of time and resources.

However, this may change as the result of new mandates to understand racially disparate impacts, displacement, and exclusion in housing from both historical and current policies. Requirements recently included under the [Growth Management Act](#) for housing elements of comprehensive plans will likely increase the need to assess how cities and counties are working to address issues of displacement of historical and cultural communities and other types of exclusion in the housing market.

Jurisdictions that use MFTEs are also very dependent on data from county assessors to complete their reporting to Commerce. While county assessors do not often keep track of exemptions beyond their impacts on tax levies and taxes on individual properties, this information and more general property and valuation data can be essential in reporting on the effects of the program. Further coordination, potentially through new regulations or legislation, could help to strengthen this relationship and ensure broader consistency in the administration of the program.

Exhibit 4. Demographics form, City of Seattle



City of Seattle Resident Demographic Form for Affordable Housing Incentive Programs

You have applied for, or currently reside in, a rental housing unit that participates in an Affordable Housing Incentive Program administered through the City of Seattle's Office of Housing. The Office of Housing requests that participating properties collect race, ethnicity, disability, and age data from all eligible households, using categories predefined by the U.S. Census Bureau. The data provides critical information to policy makers to help ensure equitable access to affordable housing opportunities for all. There is no penalty for those households who do not wish to provide the requested information, however, you must be offered the opportunity to disclose your household's race and ethnicity.

See instructions and definitions on page 2.

Tenant Demographic Profile					
RACE (Select all applicable)	HHM #1	HHM #2	HHM #3	HHM #4	HHM #5
American Indian or Alaskan Native	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Asian	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Black/African American	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Hawaiian or Other Pacific Islander	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
White	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decline to respond	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

ETHNICITY (Choose one option)	HHM #1	HHM #2	HHM #3	HHM #4	HHM #5
Hispanic	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Not Hispanic	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decline to respond	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Disability (Choose one option)	HHM #1	HHM #2	HHM #3	HHM #4	HHM #5
Yes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Age Groups (Choose one option)	Yes	No
Children (under 18 years old)	<input type="radio"/>	<input type="radio"/>
Seniors (62 and older)	<input type="radio"/>	<input type="radio"/>

How did you find out about the apartment you are applying for (Please circle one)?

Online Advertising (Please list): _____ Drive/Walk by
 Service Provider (Please list): _____ Resident Referral

Initial/date _____
 (HH Mbr#) Date 1 2 3 4 5

Source: City of Seattle Office of Housing, 2022.

Other considerations

Regular monitoring of rent, occupancy, and demographics was discussed with the case study staff (listed at the end of this document). Considerations drawn from these and other discussions with stakeholders include:

- **Program evaluation has typically only been conducted on an as-needed basis, usually with assistance from third parties.** While many communities collect and report the required data, the use of this information for detailed monitoring is often limited to presenting high-level reporting of the results to council and stakeholders. Additionally, this information is not often used to provide guidance about specific changes to the program. Instead, many communities have decided to evaluate the long-term success of their MFTE programs as part of housing action plans (HAPs) or preparation for comprehensive plan updates. This allows communities to seek outside assistance in certain areas of expertise (such as real estate finance and housing anti-displacement policies) that can provide more comprehensive advice about the program.¹⁷
- **Standard, state-level reporting through Web-Based Annual Reporting (WBARS) provides an example of a successful approach to collect demographic data.** The [Web-Based Annual Reporting System](#) (WBARS), was developed by the Washington State Housing Finance Commission and the Housing Trust Fund, which fund affordable housing in Washington. WBARS supports project compliance, asset management and property inspection. This platform also provides a means by which participants can submit information on demographics, such as race/ethnicity, disability status, age, and household type. While MFTE programs do not currently use WBARS for reporting directly, projects using MFTE might also use other funding programs such as the Low-Income Housing Tax Credit (LIHTC),¹⁸ where they are required to report to WBARS.

¹⁷ Note that several cities in Washington, including Bellevue, Everett, Olympia, Vancouver and Lakewood, recently worked with consultants to examine their MFTE programs to provide advice on potential changes to help meet community housing goals.

¹⁸ See the Washington State Housing Finance Commission websites for the [9% Housing Credit](#) and the [Bond/Tax Credit Program](#) for more information about LIHTC programs.

Conclusions

From this review of whether MFTE programs have regular practices related to monitoring rent, occupancy and demographics, we draw the following conclusions:

- **Communities do not complete regular monitoring of the demographics of tenants of market-rate and income-restricted units developed under MFTE.** Many communities have worked to fulfill the statutory requirements under [Chapter 84.14 RCW](#) and collect information on occupancy, rent and tenant incomes, but do not extend it to collecting and monitoring other characteristics. This is primarily related to lack of staff capacity, but in many cases, there have been no local policy goals or targets for MFTE programs that would require evaluating these elements.
- **Other assessments of neighborhood economic and demographic shifts are only conducted for comprehensive reviews of local MFTE programs.** Monitoring other factors, including market rents and changes in local income distributions, are not typically conducted by communities. They are usually only developed as part of a comprehensive review and update to MFTE programs. These broader reports are often created with support from third-party consultants and are typically only developed when changes to the program are expected.
- **Any changes to reporting requirements or recommendations should be consistent with reporting for other purposes and clearly tied to other requirements.** Future changes to MFTE requirements under the law could provide requirements for regular collection of demographic data, but any changes should be coordinated with reporting supports like a relational database similar to the Web-based Annual Reporting System (WBARS). Any future advice to communities looking to add monitoring processes to their MFTE programs should also encourage them to use the same methods for reporting demographic information for consistency.

Based on these conclusions, we make the following recommendations (see [section A](#) for more details):

- **2.1.1.** Amend [RCW 84.14.070](#) to require conditional certificates of tax exemption to be submitted to county assessors so projects can be flagged as potentially exempt for clearer record-keeping.
- **3.2.1.** Create a clear policy connection between ongoing reporting efforts and rulemaking by the Department of Revenue on tax exemptions.
- **3.2.2.** Expand requirements for information to be included in reporting under [RCW 84.14.100](#) to include those that are clearly connected with policy performance and possible program adjustments.
- **3.2.3.** Provide additional guidance for yearly reporting on owner occupied housing units if individual owners are presented with further reporting requirements.

Identifying direct or indirect displacement risks and changes in income and rent distributions associated with new housing development

Introduction

There are few explicit requirements to address displacement as part of MFTE, except in one specific case: the designation of RTAs by counties per [RCW 84.14.040\(1\)\(e\)](#). Under this requirement, a county (but **not** a city) must "conduct an evaluation of the risk of potential displacement of residents currently living in the area" if an MFTE program were to be imposed. An RTA can only be designated if the risk of displacement is minimal, or if this risk is mitigated with measures such as first rights of refusal and the provision of affordable units. An amendment in [Chapter 187, Laws of 2021 \(E2SSB 5287\)](#) created this new requirement, so much of the work on MFTE and displacement risk has been voluntary and guided by local needs and policy objectives.

The MFTE statute also includes displacement mitigation within [RCW 84.14.030\(5\)](#). When rehabilitated properties apply for the MFTE, the applicant must provide existing tenants with "housing of comparable size, quality, and price and a reasonable opportunity to relocate" to qualify for the exemption. Some communities have extended this to include redevelopment on sites with existing housing, as well.¹⁹

Note that MFTE programs can incorporate several additional elements to help address and mitigate displacement risks, including:

- **Providing for a first right of refusal or community preference** for existing residents that might be displaced or priced out of the neighborhood. They would have preferred access to new units to replace their lost units. These can often be affordable units provided through the MFTE program.
- **Extending relocation support** to existing tenants in buildings to be demolished for a project using MFTE.
- **Incentivizing family-sized affordable units** that might better meet the space needs of displaced households.

Overall, both the role of MFTE in causing displacement and the use of MFTE to reduce the risk of displacement have not been examined in the broader context of other housing policies and incentives in a community.

Given the lack of specific and long-term requirements to address displacement in MFTE, the assessment of practices considered displacement risks focuses on two different elements:

- **Recent guidance from Commerce** for cities and counties working to meet new comprehensive plan anti-displacement policy requirements given impending updates over the next cycle.
- **Examples** of how cities have **considered displacement and needs for new housing investment** in MFTE policies.

Guidance from Commerce to assess displacement risk

Recent changes to the [Growth Management Act](#) require that communities consider displacement. [RCW 36.70A.070\(2\)\(h\)](#) requires that housing elements:

¹⁹ See [City of Lakewood Municipal Code 3.64.020\(G\)\(2\)\(d\)](#) and [City of Seattle Municipal Code 5.73.040\(A\)\(3\)](#) for examples of these types of expanded requirements.

Establish antidisplacement policies, with consideration given to the preservation of historical and cultural communities as well as investments in low, very low, extremely low, and moderate-income housing; equitable development initiatives; inclusionary zoning; community planning requirements; tenant protections; land disposition policies; and consideration of land that may be used for affordable housing.

Thus, under the GMA, a housing element must examine past displacement that might have occurred, or the potential for displacement as development occurs. New zoning could consider the areas where existing residents or businesses might be displaced, and communities must consider policies such as tenant protections or preserving existing naturally occurring affordable housing before they adopt new zoning. To help fulfill the new requirements of the [Growth Management Act](#), Commerce developed guidance for communities updating their comprehensive plans to include anti-displacement policies.²⁰ These recommendations include several sections relevant to communities working to evaluate and mitigate displacement risk, including:

- **Data sources** that can highlight populations that might be at risk in the community
- **Sociodemographic factors and changes in these factors** that are consistent with populations vulnerable to displacement and negative impacts associated with displacement
- **Trends in local housing markets** that highlight increased housing affordability challenges and pressures on existing populations
- **Other elements that could increase the likelihood of new development and displacement**, including desirable local amenities and incentives for redevelopment

One concern is that the level of geographic detail can be a limitation. Key sources of data for this type of displacement analysis are usually only available at the U.S. Census tract level or higher, which is often a much larger area than many individual neighborhoods in communities. Smaller cities might only be in one tract or split one or more tracts with other nearby communities. This means that more qualitative assessments, as well as evaluations with other local data sources, are needed to understand the dynamics of displacement.

Guidance from Commerce also highlights that if displacement risks cannot be avoided as part of policy, there are several categories of approaches that can be used to mitigate these effects on sensitive populations:

- **Increasing affordable housing production** through additional sources of funding or other incentives (including through the MFTE program)
- **Preserving existing housing** through purchases of existing affordable housing and development of long-term ownership models such as community land trusts
- **Protecting existing communities and households** through rental assistance and other tenant protections.
- **Ensuring the benefits of investment and development are equitably distributed** by removing exclusionary policies in local land use codes and providing fair access to high-quality neighborhood amenities

Guidance and data from other sources

For general measures of displacement risk, the Puget Sound Regional Council (PSRC) developed two metrics used by many communities in the central Puget Sound region to evaluate areas of concern for displacement:

- A broad [Opportunity Index](#) has been developed to identify areas with opportunity, defined as "a situation or condition that places individuals in a position to be more likely to succeed and excel." In this case, a range of socioeconomic and demographic characteristics representing opportunities with education, economic

²⁰ For more information, see the "Racially Disparate Impacts" section of the [Updating GMA Housing Elements](#) webpage from the Department of Commerce.

health, housing and neighborhood quality, mobility and transportation, and health and environment are combined into a single index score. This score is divided into quintiles characterized by levels of opportunity from "very low" to "very high."²¹

- The PSRC developed a targeted [Displacement Risk Index](#) in 2019 that relied on similar methods with a more focused dataset. The variables used for this metric include many that are comparable to those used in the Opportunity Index, although the Displacement Risk Index also includes measures of local civic engagement and local development capacity, which might also impact risks of local displacement.²²

There are other social vulnerability metrics that communities have used to identify places where populations might be more sensitive to issues with housing affordability and displacement.²³ These types of indices typically work towards the same objective: To combine multiple data sources into a single score to figure out whether one or more factors would cause people to be displaced from a local area.

[Sound Communities](#) developed additional tools to assess displacement risks and equity concerns with development. Sound Communities developed a [Station Area Knowledge Base](#) with funding support from the Legislature. The knowledge base provides demographic, housing, land, opportunity and displacement risk data in a unified dashboard to allow for comparisons of characteristics in transit station areas and to inform equitable transit-oriented development.

Balancing displacement risk and needs for investment

One element to consider when evaluating displacement risk in MFTE programs is that the main goal of the tax exemption is usually to encourage new housing development, especially in areas that need new investment. This can actively encourage the renovation and redevelopment of existing housing, including affordable housing that could be "naturally occurring," such as depreciated housing that may be more affordable and accessible options for lower-income households.

Additionally, because more incentives may be needed to support new development in neighborhoods with lower rents, MFTE requirements in lower rent neighborhoods might need to be less stringent than in areas where rents could likely support market-rate development with reduced incentives or no incentives at all. Two recent examples of this include the following:

- **City of Spokane.** In tandem with other changes in planning and development regulations, the City of Spokane expanded its MFTE Residential Targeted Areas in 2022 to include all areas where multifamily residential development is allowed in the city. These areas are divided into two categories under [SMC 08.15.030](#):
 - The **Spokane Targeted Investment Area (STIA)**, which is defined as 34 economically distressed census tracts that qualify for New Market Tax Credits (NMTCs).²⁴

²¹ See [Equity, Opportunity, And Sustainability In The Central Puget Sound Region: Geography Of Opportunity In The Central Puget Sound Region](#) (2012) from the PSRC and the Kirwan Institute for more information about the concept and implementation. Note that a 2018 update from the PSRC is available; see [Opportunity Mapping 2018 Update: Technical Addendum](#) for more information.

²² See [Displacement Risk Mapping: Technical Documentation](#) (2019) for more information on this methodology.

²³ See, for example, Bates (2013), [Gentrification and Displacement Study: implementing an equitable inclusive development strategy in the context of gentrification](#), and the [Social Vulnerability Index](#) developed by the CDC's Agency for Toxic Substances and Disease Registry.

²⁴ Generally, census tracts qualify for NMTCs in this case if the poverty rate for that tract is at least 20% or the median family income for the tract does not exceed 80% of the greater of statewide median family income or the metropolitan area median family income. Additional areas may also be designated under other categories of the statute as well. Mapping of eligible Census tracts under the NMTC program is available at the [CDFI CIMS Mapping Tool](#) webpage.

- The **Affordable Housing Emphasis Area**, which includes all areas outside of the STIA. For the purposes of the exemption, both 8- and 12-year exemptions are allowed in the STIA, while only 12-year exemptions with affordability requirements are permitted in the Affordable Housing Emphasis Area. This is specifically done with the understanding that housing development is likely to be more feasible outside of the STIA, meaning that incentives should only be allowed in exchange for affordable housing, while overall investment in market-rate housing is incentivized for the STIA.
- **City of Tacoma.** Amendments to the MFTE program made by the City of Tacoma in 2021 made several changes. One significant change was that the city identified two neighborhoods (Point Ruston and Proctor) as being within areas of "very high" opportunity, according to the PSRC Opportunity Index. For these mixed-use centers, the eight-year MFTE option was removed, meaning that new development and rehabilitation projects could only use the program if income-restricted units were provided with developments.

In these types of areas, the MFTE program and other housing programs can help to promote affordable housing in the community. However, because the main goal of the MFTE program is often to attract more housing investment, cities usually try to encourage more housing to be built through MFTE programs while reducing the effects of displacement that could happen with separate programs. The next section discusses communities with MFTE programs with more aggressive long-term affordability requirements, which could be more effective with addressing broader neighborhood displacement.

Changes in income and rent distribution

The impacts of MFTE on income and rent distribution in a community are difficult to tease out. When considering the full life cycle of a MFTE program, the tax exemption can potentially affect local income and rent trends in several ways:

- **Reinvestment.** If the eight-year exemption is used to encourage revitalization and reinvestments in a local area, new development can replace depreciated real estate (which potentially includes old, naturally occurring affordable housing) with market-rate units. This can result in higher-income households moving into an area, and could increase average local rents.
- **Revitalization.** If these efforts continue and more investment is drawn to the neighborhood, this can increase the number of higher-income households moving into the neighborhood and further increase average rents. This can support new development without the need for housing incentives, but increases the likelihood that increases in local rents will result in more rapid displacement.
- **Affordability/stability.** As local market-rate development becomes more feasible, local affordability can become more of a concern. Transitioning the MFTE program away from promoting development in general and towards supporting housing access by lower-income households can help to prevent displacement and reduce effective local rents.
- **Promoting housing supply.** Across the entire cycle, encouraging more local housing development with an MFTE program — both market-rate and rent-restricted units — can increase available housing supply and reduce the potential that scarcity will result in broader rent increases that force lower-income households out of the community.

Generally, this highlights that MFTE policies are often tailored to support higher residential rents and bring new investment, and then to address the potential impacts of those higher rents on lower-income households. Although MFTE can also be used to support other types of projects, such as owner-occupied housing accessible to lower-income households and 100% income-restricted housing in the private market, the focus of policies will largely be on increasing mixed-income, private-sector development.

Note: this approach can have additional benefits for lower-income households if the program considers equity specifically in its design:²⁵

- Lower-income households with access to income-restricted housing options in a mixed-income neighborhood will have **more equitable access to higher levels of local amenities**.
- Income-restricted housing through MFTE can provide **more stable housing options** that are less subject to future physical displacement or significant rent increases through the term of affordability.
- Combining MFTE with other housing supports, such as rental assistance and inclusionary zoning, can provide **more affordable units for households** that cannot afford market rents. This can also be supported by tightening affordability requirements in "hot" local markets with higher rents that can support greater levels of support.
- Under MFTE programs, **options for homeownership** can provide opportunities to **increase household wealth and credit, as well as housing stability**.

While the trends discussed above can occur under MFTE programs, understanding how individual programs may specifically contribute to local real estate dynamics can be challenging. Depending on the circumstances, this can be for a variety of reasons:

- **Broad RTAs.** Some of the largest cities in the state (such as Seattle, Tacoma and Spokane) have designated extensive areas as residential targeted areas for their MFTE programs, and in some cases this can comprise most or all of the opportunities for local multifamily development. In these cases, it can be difficult to identify the effects of the program since it can apply almost universally.
- **Minimal uptake of MFTE.** For other MFTE programs, especially in smaller cities, there may be little or no uptake of the program. In other cases, such as in Covington,²⁶ there may be program uptake by affordable housing projects but the resulting projects are not representative of private-sector, mixed-income development.
- **Recent programmatic changes.** Other programs may have made recent changes to their programs that impact efficacy and use in real estate development. The result of such changes is yet to be known.

One example of the effects of MFTE on incomes and rents over time is the City of Renton.²⁷ Renton was an early adopter of the MFTE program, and the South Lake Washington RTA includes former industrial areas that were targeted for mixed-use redevelopment, including residential, office, retail, institutional, hotel and park uses. The City's MFTE program also includes portions of downtown, which received some new housing investment through the MFTE program.

To track how areas covered by MFTE have changed over time in Renton, U.S. Census data for Census Tract 253 (2000) between 200, 2010 and 2020 can be compared. This Census Tract is overlaid with the current boundaries for the City's residential targeted areas in Exhibit 5 below. Although the boundaries of the Tract also include the Kennydale neighborhood and other residential areas that would not have seen benefits from the MFTE program over time, this can still provide some context about neighborhood changes that may have been promoted by the tax exemption program.

²⁵ For a more detailed discussion on the role of affordable housing options on better outcomes for lower-income households, see [Why Housing Matters for Upward Mobility: Evidence and Indicators for Practitioners and Policymakers](#) (2021), published by the Urban Institute.

²⁶ See the City of Covington case study in section C, page 79 for more details on this.

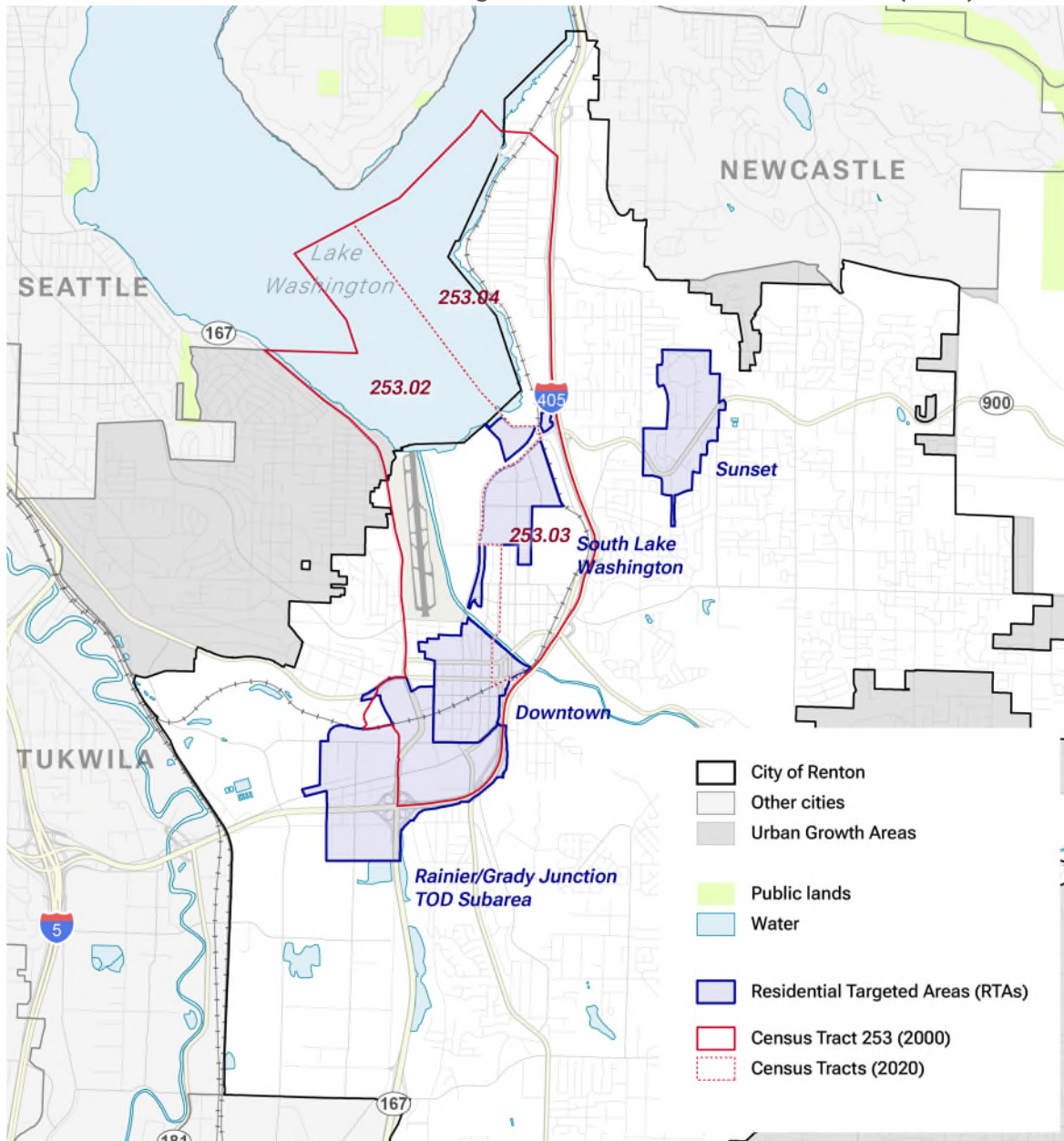
²⁷ For more program details, see the City of Renton case study in section C, page 87.

To understand the shifts in demographics, the following datasets from the U.S. Census Bureau have been examined for the tract and area:

- Exhibit 6 provides the **number of households** in Tract 253 as defined in 2000, and highlights growth in this area between 2000 and 2020. This is compared to broader growth in King County overall for context.
- Exhibit 7 presents **household tenure**, dividing the total number of households between homeowners and renters. (Note that the proportion of owners that have mortgages versus no mortgages are also included for 2010 and 2020.)
- Exhibit 8 presents **average household income**, which is compared between Tract 253 and King County.
- Exhibit 9 shows the **distribution of household incomes** in Tract 253, and shows how this distribution changes from the 2000 Census to 2010 and 2020.
- Exhibit 10 includes **effective rents** from CoStar for the central neighborhoods generally aligned to Tract 253.03 and the South Lake Washington RTA.²⁸
- Exhibit 11 includes **gross rent data** reported from U.S. Census Bureau data for 2000 to 2020.

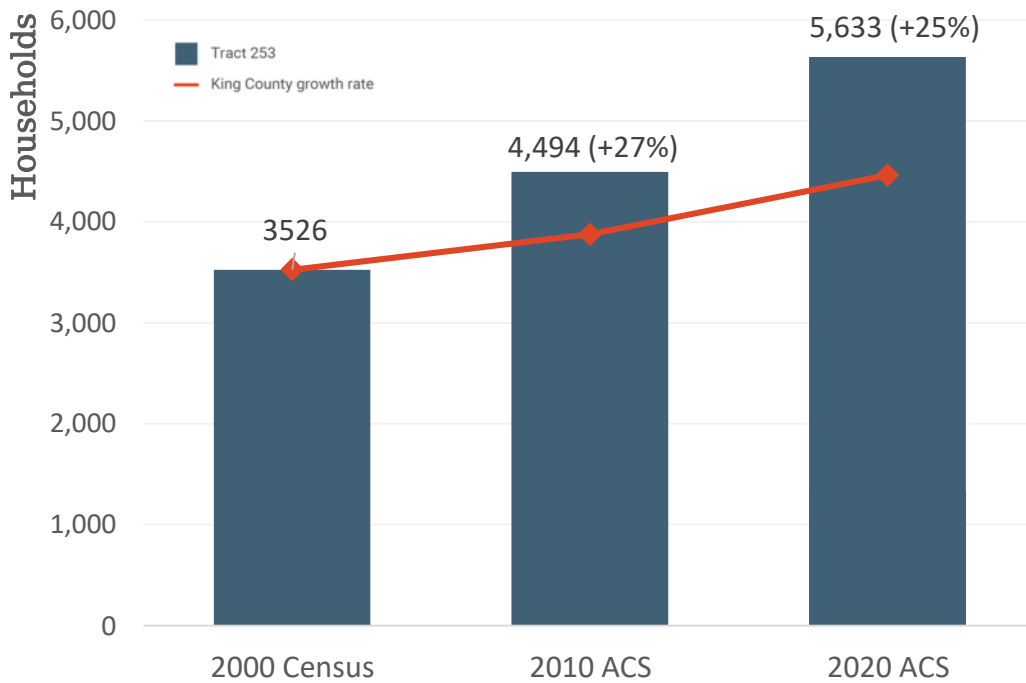
²⁸ This is defined as the North Renton, South Lake Washington, and Paccar Renton Campus submarkets in CoStar.

Exhibit 5. Renton MFTE Residential Targeted Areas and Census Tract 253 (2000)



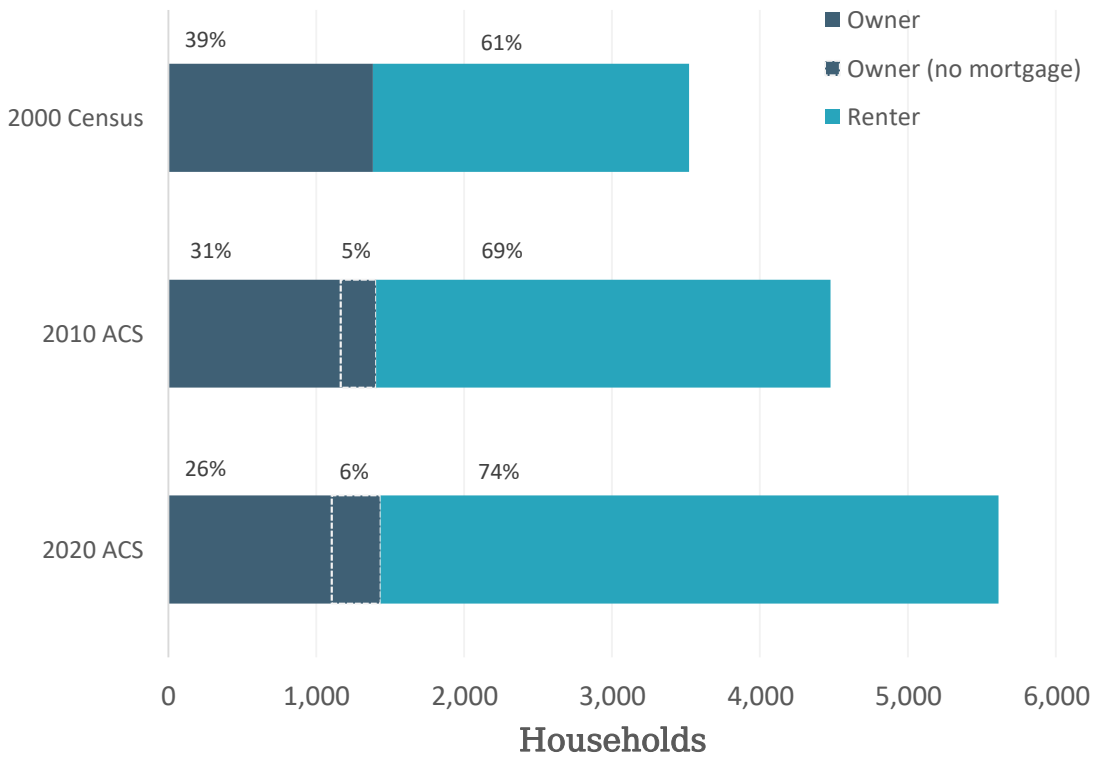
Sources: City of Renton, 2022; US Department of Census, 2023

Exhibit 6. Households, Tract 253 (2000) and county comparison, 2000–2020



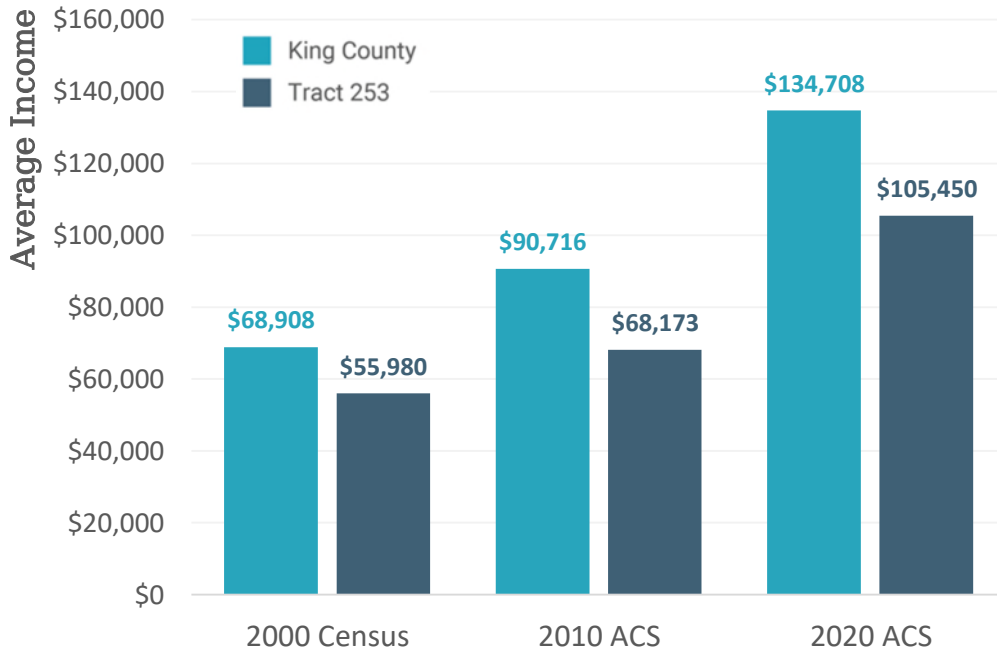
Sources: US Census Bureau - 2000 Decennial Census, 2010 5-Year ACS, 2020 5-Year ACS.

Exhibit 7. Household tenure, Tract 253 (2000), 2000–2020.



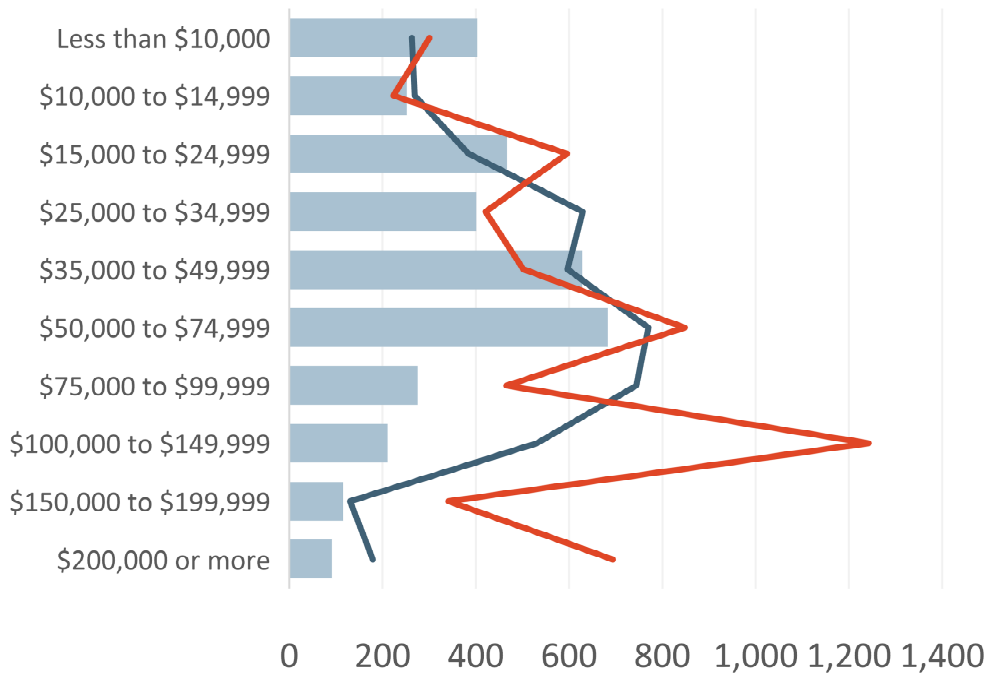
Sources: US Census Bureau - 2000 Decennial Census, 2010 5-Year ACS, 2020 5-Year ACS.

Exhibit 8. Average household income, King County and Tract 253 (2000), 2000–2020



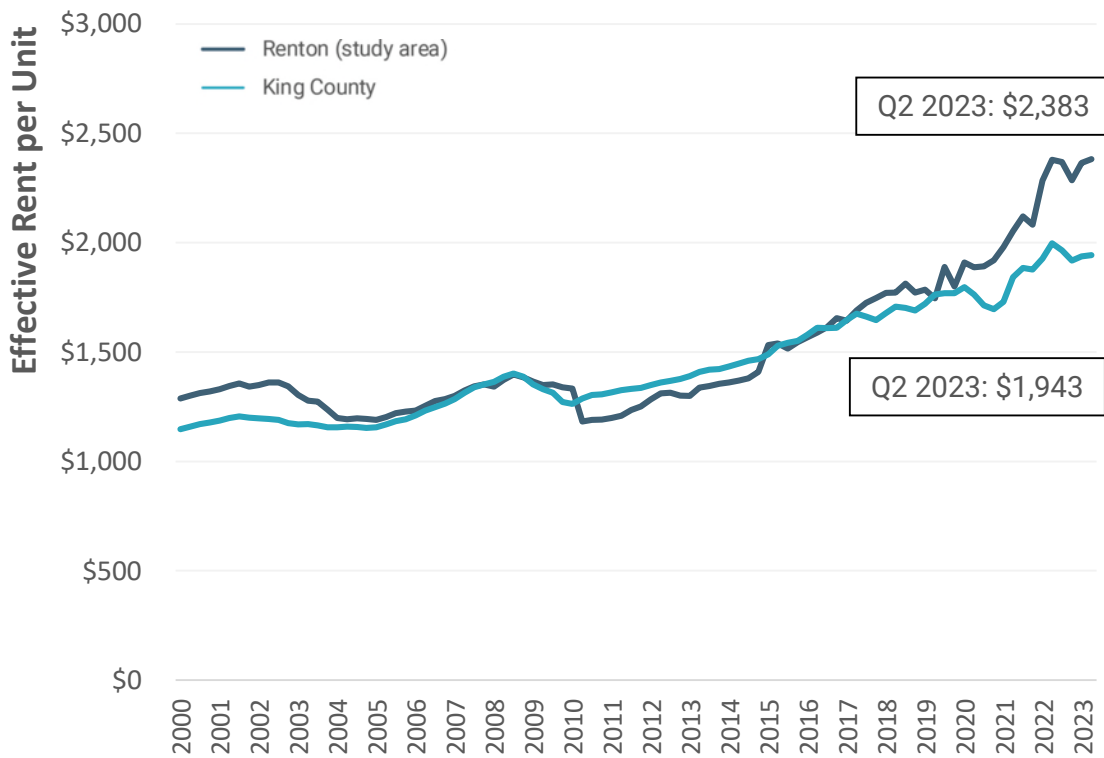
Sources: US Census Bureau - 2000 Decennial Census, 2010 5-Year ACS, 2020 5-Year ACS.

Exhibit 9. Household income distribution, Tract 253, 2000–2020



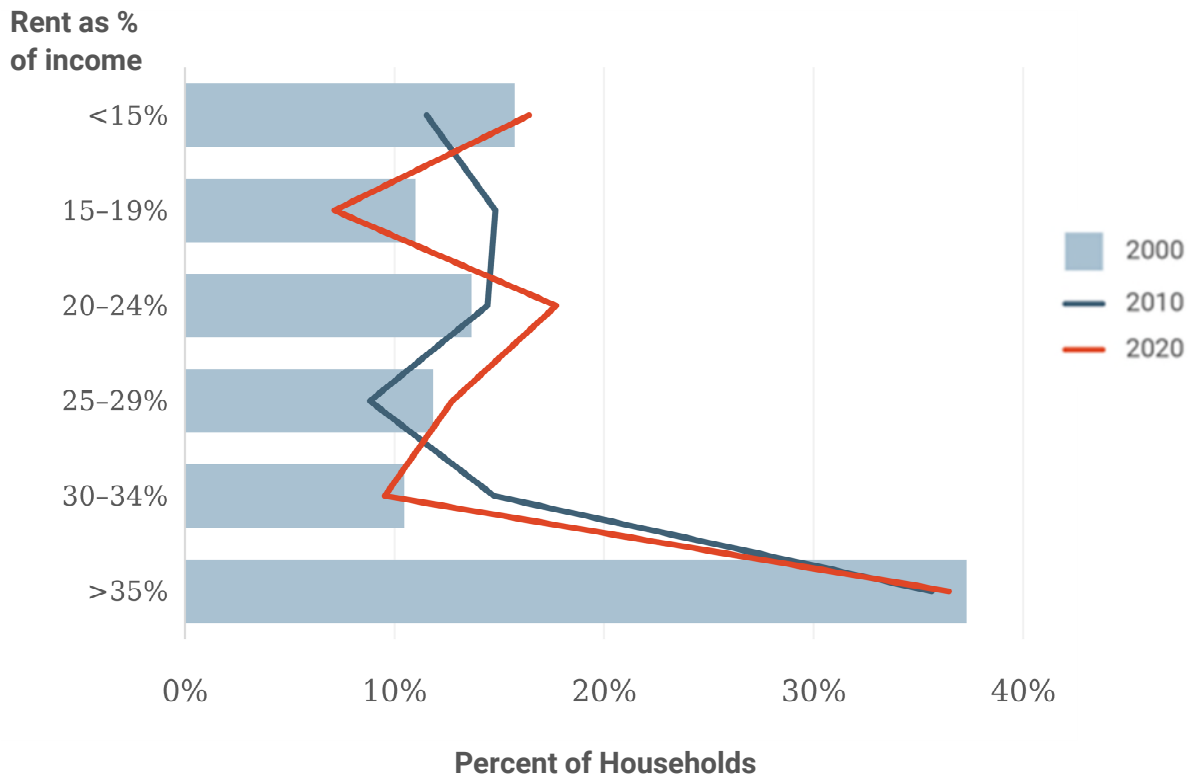
Sources: US Census Bureau - 2000 Decennial Census, 2010 5-Year ACS, 2020 5-Year ACS.

Exhibit 10. Effective rent, Renton study area and King County, 2000–2023



Sources: CoStar, 2023.

Exhibit 11. Gross rent as a percent of income by percent of households, Tract 253 (2000), 2000–2020



As this area has been the focus of local MFTE activity in Renton, evaluating the trends in this neighborhood compared to other benchmarks can help to characterize how an area that has relied heavily on MFTE for redevelopment has changed over time. These statistics highlight the following:

- **This area has seen significant local growth in renters.** Generally, the growth of households in the area studied has increased at a rate greater than general growth in the county. This has been largely composed of new renters in this area. This is consistent with the mix of housing types in the area; aside from redevelopment, much of the area covered by Tract 253 also includes single-family neighborhoods that have not substantively changed over the period examined. This growth is consistent with a program that provides incentives to promote new multifamily housing development.
- **There have been some significant increases in local household incomes.** Generally, the average incomes for the area have been lower in the study area in Renton than in King County as a whole, with the 2020 average income amounting to \$105,450 in the study area versus \$134,708 in the county. Although this still represents a gap, this has largely kept up with countywide growth in incomes. However, when evaluating the changes in distribution of household incomes in Exhibit 9, there has been an especially significant increase in the number of households making \$75,000 or more, especially since 2010. While this is likely in part due to the single-family housing options in the neighborhood, the distribution suggests that many of the new entrants to the area have been higher-income households, meaning that this may have accommodated much of the growth in renters as noted above.
- **Rents have increased to keep pace with the rise in local household incomes.** Based on the rent data drawn from CoStar, rents in this area have largely aligned with county averages, with some divergence starting in 2020, consistent with higher suburban rent growth starting with the COVID-19 pandemic. In looking at the distribution of gross rent from U.S. Census data provided in Exhibit 11, it appears that almost half of all renting households in this area are cost-burdened, paying more than 30% of their income on gross rent. As there has been a substantive increase in what are likely to be higher-income renters, it is likely that the distribution of local rents has increased significantly (and kept pace with broader countywide trends).

This example provides a strong demonstration of how MFTE can be employed as a neighborhood revitalization tool. In this case, while there are some other dynamics in place with the local real estate market, there are trends with the redevelopment of this area that have implications for the local MFTE program. A significant increase in renters in this area is a sign that some of the early attempts to promote development in the downtown and South Lake Washington area have been reasonably successful, and provided a net draw of new renters into the area. This has been paired with efforts to promote commercial and mixed-use development in these areas, which can be positioned in part to take advantage of the economic activity associated with neighborhood residents and visitors to the revitalized area.

To provide greater context about the potential relationships between MFTE, rents and vacancy, Exhibits 12 and 13 present comparisons between individual property characteristics and information provided by the property owner as part of the first reporting after an MFTE final certificate is issued. This includes:

- **Rent differences.** Comparisons between the restricted rent of MFTE units issued final certificates in 2022 and asking market rents in May 2023 by unit size (

- Exhibit 12).
- **Vacancy rate differences.** May 2023 vacancy rates for properties which received MFTE final certificates in 2020 and 2021, compared with the vacancy rates for multifamily properties in the respective city (Exhibit 13).

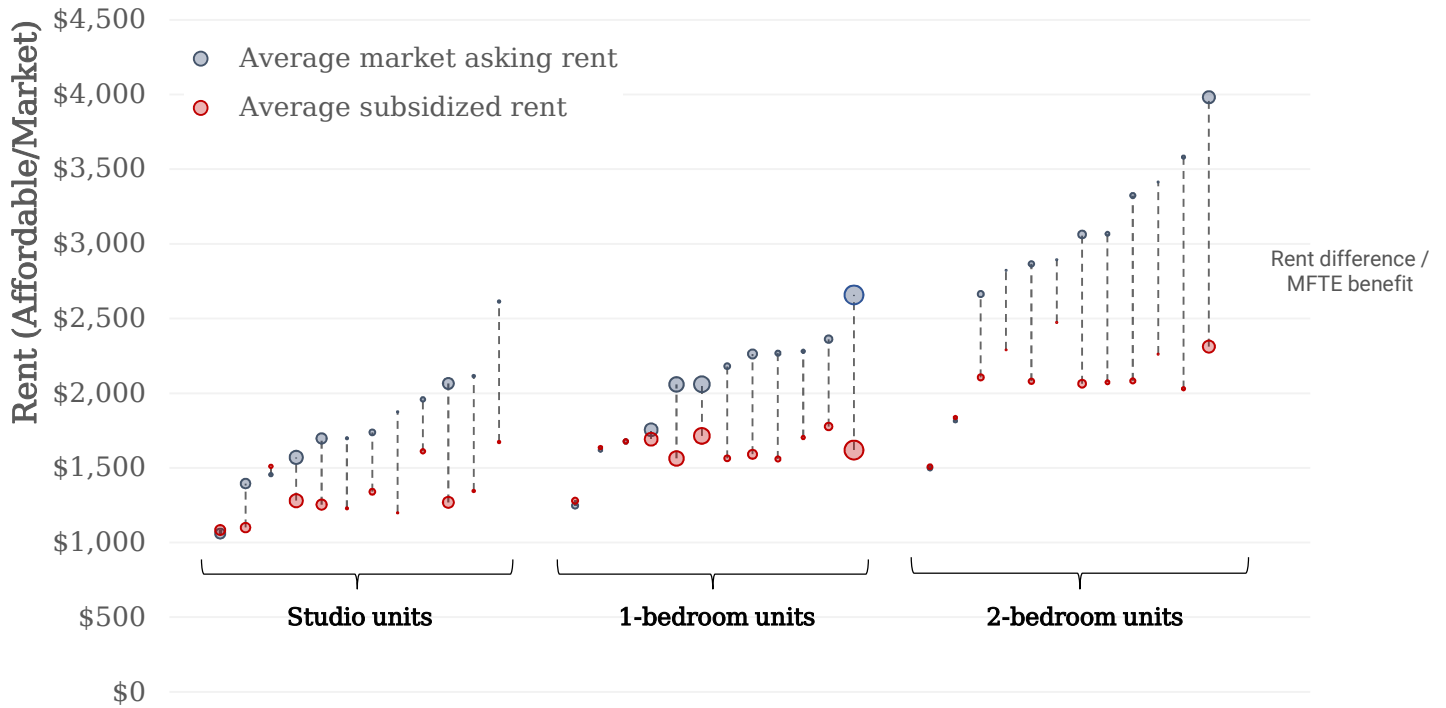
In both Exhibits 12 and 13, the size of the symbol is generally proportional to the size of the project. Only 12-year MFTE rental properties with new final certificates are included here, specifically to understand the differences between different rents. Values are aggregated here for ease of reporting, with average asking rents provided by CoStar for May 2023 and average MFTE rents provided in 2023 reporting of 2022 final certificates. Note: there are some differences in monthly rents due to differences in calculations of utility costs and eligible rents between communities.

Exhibits 12 and 13 highlight the following:

- **Tax exemptions under MFTE programs can provide significant rent reductions, especially in high-cost areas with high-end housing.** As noted in

- Exhibit 12, restricted rents for most of the MFTE properties examined represent a significant reduction from asking rents for the market. The greatest differences are often associated with buildings that have high-end luxury units, with the most significant reduction being an almost \$1,700 reduction for a two-bedroom unit in an apartment building in First Hill in Seattle.
- **For vacancy rates, many properties with MFTE are close to or significantly less than prevailing vacancy rates.** The data in Exhibit 13 shows a wide range of reported vacancy rates for properties that received MFTE final certificates in 2020 and 2021, especially for the City of Seattle. This may be due to delays in leasing properties after construction, or possibly due to incomplete data from the real estate information service. However, many properties exhibit vacancy rates noticeably below the broader vacancy rates in the local market. From a qualitative examination of reporting to Commerce, the affordable units tend to lease up faster, and given these units reflect new units on the market, they will likely have strong appeal for eligible households.
- **Some properties report market rate rents that are close to restricted MFTE rents.** As the real estate dataset used is aggregated, it can be difficult to identify how distributions of rents in a property could be affected by MFTE. While there can be a clear delineation between market-rate and affordable units at the high end, there are some market-rate units reported at lower rents that align with reported MFTE rents. Note that although these market rate units could have reported rents comparable to "affordable" levels (especially at the 80%-115% median family income (MFI) levels in certain neighborhoods), this may also be due to data coverage gaps and limited data from the real estate data service.

Exhibit 12. Average market rents (May 2023) versus MFTE rents, projects with 2022 MFTE final certificates



Sources: Department of Commerce, 2023; CoStar, 2023.

Exhibit 13. Property vacancy rates, projects with 2020–2021 MFTE final certificates



Sources: Department of Commerce, 2023; CoStar, 2023.

Conclusions

Based on the review of whether MFTE jurisdictions have practices to identify direct or indirect displacement risks, changes in income and rent distributions associated with new housing development, and plans and approaches, there are several conclusions:

- **At present, only counties have explicit requirements to examine displacement risks associated with MFTE.** There are new requirements for counties to evaluate displacement risks for MFTE programs associated with designating new Residential Targeted Areas under [RCW 84.14.040\(1\)\(e\)](#). However, as counties have not created or expanded MFTE programs as of 2022, no displacement risk assessments have been conducted under the statute.
- **This is an emerging field of practice for jurisdictions under the GMA.** Available measures and analyses for vulnerability to displacement are starting to be used by cities for a variety of policy applications, including future compliance required for racially disparate impacts and displacement risks under [RCW 36.70A.070\(2\)\(g\)](#). While many of these tools are available only in aggregate at the Census tract level, cities have also been exploring other ways to assess displacement risk in the community, sometimes as part of regular review and updates to their MFTE program.
- **Anti-displacement strategies can be incorporated into MFTE programs.** At present, few communities include discussions of displacement risks as a direct discussion in their MFTE ordinances. However, communities will likely be engaging with this idea more in-depth due to new requirements for Housing Elements under the [Growth Management Act](#).
- **MFTE programs are typically developed to encourage investment while other measures are put into place to mitigate displacement risks.** In several cases, communities have adjusted their MFTE programs to account for the fact that in higher-rent areas, the incentive from the tax exemption may not be needed for improving development feasibility, but could instead be employed to create income-restricted housing units. In these cases, communities can include other requirements to consider the need to mitigate displacement risks, such as community preference for new units.

Based on these conclusions, we make the following recommendation (see [section A](#) for more details):

- **4.2.1.** Update the income requirements in [RCW 84.14.020](#) to allow annual household incomes of renters currently occupying income-restricted units under an MFTE program to increase to up to 150% of income limits without requiring eviction or penalties upon lease renewal.

Practices that encourage permanently affordable rental opportunities

Introduction

One of the affordability challenges with MFTE is the time limited nature of most income restriction requirements.²⁹ Generally, the affordable housing requirement only extends for a period equal to the length of the exemption, and the recipients of exemptions are allowed under [RCW 84.14.110](#) to withdraw from the program and to stop providing income-restricted units. This means that the capacity for the base MFTE program to provide long-term options for income-restricted units is extremely limited.

Additionally, it provides communities with the option to include further requirements for affordability that go beyond the minimum requirements in the statute. This could include such conditions as requiring projects under the eight-year MFTE option to provide income-restricted units, even though there are no income and rent restrictions included under the current law for this option.

In the process of this assessment, communities across the state determined that naming these income-restricted housing opportunities as affordable is a misnomer. Instead, they requested we use the term "income-restricted" housing in this report and other communications about the MFTE program.

This assessment highlighted an inconsistency in the understanding of the RCW definitions of affordable housing and the requirements of the MFTE program. Some jurisdictions allow MFTE developers to establish rent levels at the highest amount possible, effectively assuming all households in the income-restricted units are at the highest income-level to qualify for the unit. Other jurisdictions require MFTE developers to establish rent levels at 30% of the actual income of the household in the unit. It is unclear which of these practices best represents the intent of the enabling legislation.

Additionally, Commerce has been tasked with issuing the guidance for home ownership affordability. [RCW 43.185A.010](#) states: "The department must adopt policies for residential homeownership housing, occupied by low-income households, which specify the percentage of family income that may be spent on monthly housing costs, including utilities other than telephone, to qualify as affordable housing."

The definition published in response to this requirement has typically been applied only to the Housing Trust Fund, and may not be appropriate to apply to the MFTE homeownership units. The Housing Trust Fund handbooks defines homeownership affordability as follows: "affordability occurs when a household's monthly housing costs are generally no more than 38% of monthly household income and total debt is no more than 45% of monthly household income. Housing costs include mortgage principal, interest, property taxes, homeowner insurance, homeowner association fees, and land lease fees, as applicable. Total debt includes other debt and utilities."

Given the confusion in defining affordability and the initial concerns expressed by jurisdictions in using the term "affordable," this section provides a discussion of the current state of the practice in setting rent limits and a discussion of how recent changes to the MFTE enabling legislation may impact the future of the program.

²⁹ It should be noted that under the statute could create a program which required permanent affordability in exchange for an eight- or 12-year exemption as per [RCW 84.14.040\(6\)\(a\)](#). However, this option has not been explored by any jurisdiction in the state.

MFTE has supported permanent affordable housing, or could potentially do so in the future in three main ways:

- Recent changes to the RCW that provide options for permanent affordability.
- 12-year extensions of existing MFTE exemption projects.
- Combining the MFTE with other housing affordability programs to incentivize long-term affordability.

Recent changes to provide permanent affordability options

The MFTE can provide permanent affordability directly through the new 20-year MFTE options. This includes two specific types of exemptions:

- Exemptions for permanently affordable rental properties, which provides an exemption in exchange for a covenant or deed restriction that provides for affordability for no less than 99 years ([RCW 84.14.020\(1\)\(C\)](#)).
- Exemptions for permanently affordable owner-occupied housing, which requires that at least 25% of the units be sold to a qualified nonprofit or government partner that would be in charge of maintaining units as affordable through restrictions on sale ([RCW 84.14.021](#)).

These options are relatively new and were added to the statute as part of [E2SSB 5287](#) in 2021. According to 2021 annual reporting to Commerce, the following communities have developed 20-year MFTE programs (either owner-occupied or rental):

- Renton
- Seattle
- Shoreline
- Tacoma

As such, few projects have applied for these long-term exemptions to date. However, there are some things to consider for communities relying on these options to encourage permanent affordability in the community:

- **Their application is much more constrained than other types of exemptions.** Under the requirements in statute, the 20-year MFTE may not be applicable to many of the areas where other exemptions are allowed. For both options, only areas zoned for minimum average densities greater than 25 units per gross acre can permit projects with permanent exemptions. The rental option also requires that the community has a population no greater than 65,000, and the project is located within one mile of high-capacity transit of at least 15-minute scheduled frequency. Additionally, a mandatory inclusionary zoning requirement must have been in place by July 2021 to be eligible, meaning that many communities effectively cannot create new 20-year rental MFTE options.
- **Long-term management can be more complex.** While projects can provide permanently affordable units under an MFTE, these projects need to maintain these units as income-restricted over the very long term. This can mean that new property owners that may purchase the property decades in the future will still be subject to these restrictions. This will require consistent and long-term oversight to ensure these projects remain income-restricted and in good condition. This may also be complicated by the involvement of a nonprofit or government partner, especially if they are only partly responsible for the overall management of a building or project.
- **Future needs for improvements may also be complicated by program conditions.** Certain limitations associated with the MFTE may also complicate future efforts to refurbish the units or even redevelop the site after the structure is physically depreciated. As these exemptions are still relatively new, the long-term issues with management are still unknown, but it is likely that additional support may be necessary to ensure that projects with covenants in place can be rehabilitated after they become depreciated and less suitable for habitation.

The feasibility of these 20-year MFTE programs is unclear, which correlates to the limited uptake of this option. This will need to be re-examined after initial program results can be observed.

Extending affordable rental opportunities

In addition to providing a new 20-year option that provides for permanent affordability, communities have an option to allow an eight-year or 12-year exemption to be extended for an additional 12 years under [RCW 84.14.020\(6\)](#). The property must meet the requirements for the 12-year program in place at the time of the filing of the extension application, and at minimum, the property must include at least 20% of units as affordable to households with income levels at 80% of median family income or lower.

This does not provide clear assurances of permanently affordable rentals, as does the 20-year option.³⁰ When the original exemption runs out, a property owner may decide not to ask for an extension if it will not increase the financial returns from the property. Since market conditions can change a lot over the course of an exemption, it can be hard to tell today if these units will continue to be income restricted through an extension over a decade in the future.

Additionally, even if an exemption were extended, this would only result in affordable units set aside in a project for up to 24 years. This is definitely a long period to maintain affordable units in a mixed-income project, but upon expiration of the exemption, owners may charge market-rate rents and reduce the stock of affordable units in the community accordingly.

Even with these constraints, the 12-year extension may help to retain some affordable units over the long term. As these extensions are relatively new, it can be difficult to determine how much uptake they will have over time. When extensions are granted and are managed over this extended period, however, there should be some attention placed on how to manage these projects once the extension expires to maintain this affordability. In the medium- to long-term, these units could be kept affordable beyond the period of the extension in a few possible ways:

- Providing for an **additional extension of the exemption** beyond the first, allowing for tax exemptions in exchange for up to 36 years of affordability (or more).
- Providing **financial support for rehabilitation and refurbishment** of the development in exchange for maintaining income-restricted units.
- **Exploring the purchase of the development** by a nonprofit or government agency to maintain affordability over time.

As with the 20-year option, the 12-year extension is new and there are no projects that will be facing the expiration of an extension for more than a decade. However, as more projects extend their exemptions, the need to develop policies to manage developments with expiring extensions will increase.

Combining the MFTE with other programs

Although the 8- and 12-year MFTE options alone cannot provide for permanent affordability, they can be combined with other available incentives to increase the feasibility and improve the potential affordability of

³⁰ Note that extensions to eight- or 12-year owner-occupied MFTE projects are expected to be rare, as market-rate units would not be subject to additional requirements to receive a longer tax exemption, but income-restricted units would have sales restrictions in place for an additional 12 years.

projects that may have additional requirements beyond what the MFTE program provides. This can be applicable in two ways.

External funding

One approach is that projects can also receive other **external sources of support with more stringent affordability requirements**, where the MFTE could be considered an additional incentive to supplement those increased requirements. Note that this would not apply to rental properties owned by nonprofit housing providers or government agencies, as these projects are exempt from property taxes and would not gain any benefit from the MFTE.³¹

Private-sector projects that rely on the LIHTC, for example, have minimum requirements that households below 60% of area median income (AMI) are supported.³² This means that private LIHTC projects in the community may receive additional benefits from an MFTE program simply because they may already meet the requirements for providing affordable units through the LIHTC program. Because the potential compliance period for LIHTC projects is 30 years, this can serve as an additional means to provide for long-term affordability.

Private-sector developers and property owners could also be obliged to provide on-site affordable units through other programs as well. However, outside of LIHTC and a limited selection of other programs, the ability for private-sector developers and property owners to receive funding can be more limited. Additionally, the scale of funding and administration by agencies outside of the community can mean that while MFTE can help to support these projects, these are often managed on a case-by-case basis.

Other local housing programs

The second approach provides a more consistent effort, where **communities can layer the MFTE benefits with other incentives** for the community and boost affordability and feasibility of projects. These incentives would have other, more extensive affordability requirements, and while taking the MFTE would not be required, the tax exemption could provide more incentives without an increase in affordability requirements.

Two primary cases where this can come into play include the following:

- **The sale of surplus municipal property** has been coordinated by several jurisdictions to support the development of affordable housing. Provisions in [RCW 39.33.015](#) allow these properties to be sold specifically for affordable housing. Under these conditions, communities can also provide requirements in sales contracts that require developers to incorporate permanent affordable housing into projects on the site. This can be in exchange for a lower sale price that considers the cost of providing subsidized units in the project.
- **Inclusionary zoning (IZ) requirements** under [RCW 36.70A.540](#) can require that a certain percentage of housing units in a project must be allocated as affordable to households at 80% median family income for renters, or 100% of median income for homebuyers. These affordability requirements are mandated to remain in place for at least 50 years. In exchange, developers are provided bonuses in density, height, and bulk; fee waivers; parking reductions; and/or expedited permitting.

³¹ See [RCW 84.36.560](#).

³² See [2023 Bond / Tax Credit Program Policies](#) from the Washington State Housing Finance Commission for more information.

In both cases, MFTE can present an additional benefit if communities allow units that meet these more stringent requirements to also fulfill the requirements under the MFTE program.³³ While inclusionary zoning or development agreements may provide specific requirements for long-term affordability, the MFTE can provide an additional incentive layered on top of IZ requirements that help to increase the total incentives provided and reduce the impacts of providing affordable housing.

A Regional Coalition for Housing (ARCH) has developed strong examples of approaches with layering different housing incentives and affordability requirements in eastern King County.³⁴ Examples include:

- **City of Kirkland.** Under [KZC 112.15](#), developments of four or more units in Kirkland must generally contain at least 10% of units as affordable to 80–100% median family income (for owner-occupied units), or 50% median income (for rental units) as per the definition of "affordable units" under [KZC 5.10.023](#). These units remain affordable for the "life of the project" for rental projects or fifty years for owner-occupied projects through a covenant. For their MFTE program, [KMC 5.88.090\(b\)\(1\)](#) specifically links the requirements for an eight-year exemption with these mandatory IZ requirements, and provides the 12-year exemption for rentals largely in exchange for an additional 10% of units set aside for households making 80% of median income or lower. Provisions under [KMC 5.88.040\(7\)](#) also mandate that projects receiving the MFTE register a covenant for permanent affordability.³⁵
- **City of Redmond.** As per [RZC 21.20.030](#), the City of Redmond generally provides that at least 10% of units in new residential projects with 10 units or more over most of the city must be affordable at 80% of median income. Note that certain areas such as the Marymoor Design District require this 10% of units to be "low-cost affordable units" affordable at 50% of median income for rentals while others allow these low-cost affordable units to replace affordable units on a 2:1 basis. Under [RMC 3.38.120.A.1](#), the Marymoor Residential Targeted Area provides an eight-year MFTE for the same 10% of units at 50% of median income, allowing the MFTE to be granted as an additional incentive. For other areas in Downtown and Overlake, the eight-year MFTE is granted for providing units affordable at 60% of median income. However, use of the MFTE is more probable given that 10% of units are required to be affordable at 80% of median income, and the additional incentive is likely to be a net benefit above these regulations.³⁶

These cases show that by using the MFTE program, there is a way to make housing affordable over the long term, potentially even for the lifetime of a project. Combining different incentive programs and mandatory IZ requirements can help to surmount the individual limitations of each program and provide an overall package of incentives that can support long-term provision of affordable units.

This approach of overlapping programs can be complicated. The need for specialized staff knowledge and staff time to provide technical assistance and monitor the program increases. The incentives need to be tailored specifically to the local market and monitored to see how they operate over time. They are also much more likely to work in places where local markets can already support affordability requirements and there is no need to encourage general development.

³³ Some cities explicitly prohibit this type of "double counting", or place additional restrictions on subject units. For example, the City of Bellevue allows for units to be used to meet multiple requirements but only with more stringent affordability limits, as per [BCC 4.52.090\(A\)\(3\)](#). The City of Seattle also explicitly excludes MFTE units from counting towards their Mandatory Housing Affordability program under [SMC 23.58B.050.B.1.g](#) and [23.58C.050.C.5](#) when affordable housing is provided on-site.

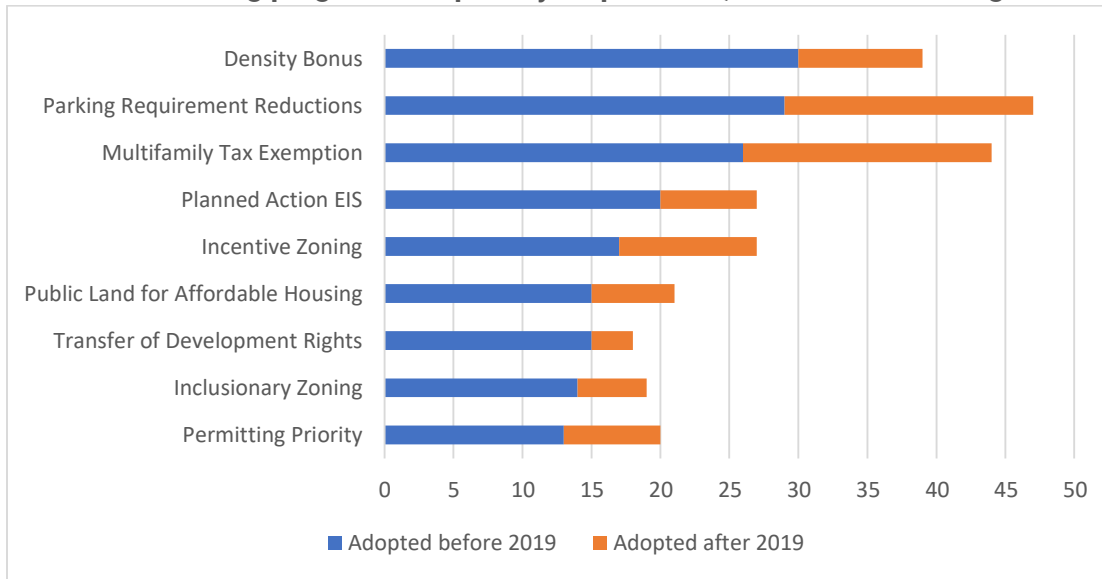
³⁴ For more information, see the ARCH website at: <https://www.archhousing.org/>.

³⁵ Please see the affordable housing requirements under [Chapter 112 KZC](#) and the MFTE program regulations in [Chapter 5.88 KMC](#) for more information about the specific application of the Kirkland MFTE program.

³⁶ For more information, see the City's [Building Housing in Redmond](#) webpage.

As part of their work supporting member communities, the PSRC provided surveys in 2019 and 2022 to review the adoption of certain housing incentives (primarily those included for affordable housing). As shown in Exhibit 1, MFTE programs are popular among respondents, second only to parking requirement reductions and close to density bonus. For many communities, this highlights the potential that these incentives can be layered to allow for greater affordability, higher yields of affordable housing, or both. It also indicates the rise in interest in both MFTE and parking reductions, as adoption of both programs advanced significantly between 2019 and 2022.

Exhibit 14. Housing programs adopted by respondents, 2022 PSRC Housing Incentives and Tools Survey



Source: [PSRC Regional Housing Strategy: 2022 Housing Incentives and Tools Survey](#), 2023.

Trends in achieving permanent affordability with housing

There are other opportunities for tax exemptions under MFTE programs to be combined with other initiatives for permanent affordability. While housing affordability under these programs is primarily provided through other requirements on properties, the tax exemption provides an additional incentive that can help improve the feasibility of affordable housing development and encourage deeper levels of affordability.

Community land trusts

Community land trusts (CLTs) are a type of ownership model that can make it easier for people to buy affordable homes while giving a path to building their housing wealth. Under a CLT, land is owned by an organization like a nonprofit or government agency, but residents own their own homes through a leasehold interest or comparable instrument. The future sale price of the home is limited by a deed covenant or another document on the title. This keeps the property affordable over its lifetime.

MFTE programs can improve the affordability of housing units associated with CLTs by reducing a homeowner's taxes as with other properties.³⁷ However, CLTs can fit in well with the management of MFTE programs:

- **Qualification as "multifamily housing."** Under [RCW 84.14.010](#), MFTEs can be applied to CLTs as long as it applied to projects that include "a building or a group of buildings having four or more dwelling units." This can include housing formats such as duplexes/triplexes, cottage developments, or even individual detached dwellings on a single parcel owned by the CLT.³⁸
- **Use of 20-year exemptions.** CLTs qualify for the new 20-year owner-occupied exemption ([RCW 84.14.021](#)) if they include sale restrictions for affordability to households at 80% of median income. However, CLTs easily meet the requirements included under [RCW 84.14.021\(6\)](#) for ensuring "permanently affordable homeownership," as these conditions are included for homebuyers with CLTs as standard practice.
- **Management of reporting and auditing.** Under [RCW 84.14.100\(1\)](#), CLTs are responsible for reporting income qualifications for new buyers and are the responsible party for audits under [RCW 84.14.100\(3\(a\)\)](#). These requirements can be fulfilled with the documentation used to qualify for CLTs; CLT ownership requirements should be reviewed to ensure they line up with MFTE program requirements.

Many of these considerations also apply to affordable homeownership organizations that operate similarly with resale-restricted housing. Local Habitat for Humanity organizations have shared equity formulas on sales that can recapture some housing appreciation, and can be a good source of information about how these types of programs can work in practice.

Public land strategies for affordable housing

In addition to sales of surplus government land under [Chapter 39.33 RCW](#), municipal agencies can also own and manage surplus land within their boundaries to achieve housing goals.³⁹ This can give opportunities for cities to coordinate responses to future housing needs. They can secure land in strategic locations such as areas around future transit and can release land to private developers to build affordable housing.

³⁷ While the owner is usually only charged property taxes on the improvements, CLTs will often pass through property taxes on land through lease fees. For more information, see Grounded Solutions Network (2011) [Community Land Trust Technical Manual](#).

³⁸ Given the change in this definition from [SB 5287](#), some communities may need to update their definitions to include smaller buildings if these organizations build structures with fewer units.

³⁹ Note that changes implemented in 2018 under [HB 2382](#) allow for no-cost transfers of surplus public property for affordable housing for low- and very low-income households as per [RCW 39.33.015](#).

If communities have a proactive lands strategy supporting affordable housing, MFTE can provide strong financial incentives for mixed-income projects. Communities can require affordable housing in new projects under sale agreements,⁴⁰ and property tax exemptions increase the attractiveness of a deal and enhance the potential affordability of new housing units. This source of financial support is also more reliable and can be used by private developers without the need for competitive applications, and as such can attract developers with expertise in mixed-use and mixed-income developments.

This support is also relevant for other government authorities, nonprofit agencies and religious organizations⁴¹ involved with using land for affordable housing. For example, Sound Transit is required⁴² to release 80% of its surplus property to qualified entities⁴³ for housing where at least 80% of units must be affordable to households making 80% of median income. MFTE programs can also be useful for developers of these properties to give an additional financial incentive for projects, especially if feasible housing development cannot qualify as 100% affordable non-profit housing.⁴⁴

⁴⁰ For example, see the City of Tacoma [Resolution 40429](#), which indicates that land in strategic locations (Tiers 1 and 2) sold to private developers should provide at least 25% of affordable units to households making 50% of median income or lower (at minimum).

⁴¹ Note that religious organizations also qualify for additional density for low-income housing under [RCW 35A.63.300](#).

⁴² See Sound Transit Resolution [No. R2018-10](#) and [RCW 81.112.350\(1\)\(b\)\(i\)](#).

⁴³ Defined as "local governments, housing authorities, and non-profit developers" under [RCW 81.112.350\(2\)\(b\)](#).

⁴⁴ Although note that under [RCW 84.36.560](#), nonprofit housing can qualify for a separate property tax exemption if at least 75% of units are affordable at 50% of median income or below.

Conclusions

Based on the assessment of whether or not jurisdictions have practices that encourage permanent affordable rental opportunities there are several conclusions:

- **The 20-year MFTE options and 12-year extension are new.** Amendments to the MFTE statute in 2021 have resulted in some changes to local programs that could help with long-term affordability. Projects have only started to employ the 12-year extensions and 20-year options, which are expected to support greater long-term affordability in some communities.
- **There are limitations and complexity in the 20-year MFTE options that restrict their widespread use.** Using the 20-year option to support permanently affordable housing can be challenging for some communities. For both the owner-occupied and rental options, minimum densities are required, and for the rental option there are specific requirements for mandatory inclusionary zoning, population (less than 65,000), and proximity to high-capacity transit. This can challenge communities looking to encourage more long-term affordability options that may not have areas that would qualify under these programs.
- **There is potential for 12-year extensions to help with long-term affordability.** The 12-year extension provides an alternative that can result in up to 24 years of income-restricted units in a community. If managed together with incentives to preserve affordable housing in older buildings, this option could boost the long-term availability of affordable units in the community over time. Strategies should be explored before these extensions expire in local communities to preserve these affordable units through other incentive programs.
- **Applications of MFTE can be used in tandem with other housing incentives and programs to boost length and depth of affordability.** Communities have also explored options to increase the availability of affordable units over the long term by coordinating the use of MFTE with other programs, especially with mandatory inclusionary zoning. While these programs can be more complex and require more technical support and oversight, they can demonstrate how these combinations can be successful at reserving units as affordable over an extended period.

Based on these conclusions, we make the following recommendations (see [section A](#) for more details):

- **1.2.1.** Remove the inclusionary zoning deadline in [RCW 84.14.020\(1\)\(ii\)\(C\)](#) to enable more communities to enact this program.
- **1.2.2.** Amend [RCW 84.14.020\(1\)\(ii\)\(C\)](#) to allow counties and cities with a population greater than 65,000 to use the program.
- **1.2.3.** Amend [RCW 84.14.020\(1\)\(ii\)\(C\)](#) to relax restrictions on the use of this program to areas within one mile of high-capacity transit to authorize adoption in more locations.

Does the MFTE assist communities in meeting goals under the GMA?

As stated in the introduction to this report, the Legislature created the MFTE program in 1995 when it found that planning solutions to solve the problems of urban sprawl often lacked incentive and implementation techniques to encourage residential redevelopment in urban centers. Considering the development of MFTE as a tool to implement the GMA, this section can help to highlight whether or not MFTE can be considered a successful program.

One major way of understanding whether MFTE programs can have an impact on housing production is to compare the use of the program with multifamily housing production. Exhibit 14 presents the number of multifamily units constructed by year from 2020 to 2022, and contrasts this with the total number of units receiving support through local MFTE programs from 2019 to 2021. (Note that Seattle is excluded given the disproportionate number of both multifamily housing production and MFTE units versus other cities in the state.)

This data shows that for many communities, MFTE programs can provide support for a considerable amount of local multifamily housing production. Although this may not be used for all multifamily housing in a community, and some communities may experience substantively less uptake of MFTE than others, the frequency of use, especially in communities with high rates of housing production, suggests that it can play an important role in incentivizing greater housing production.

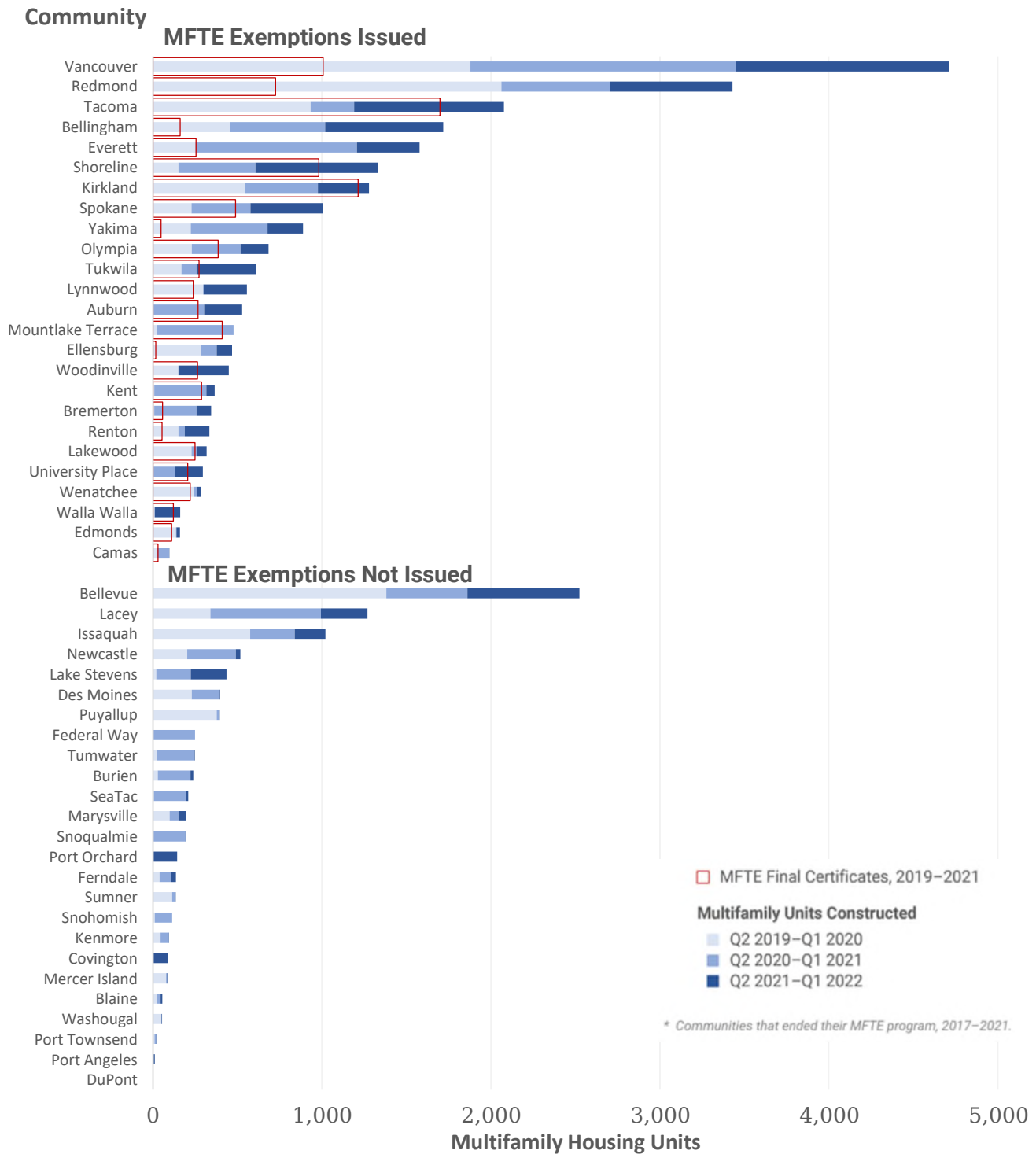
Even considering statewide production, this can still be substantive: from 2019 to 2022, multifamily housing was estimated by the Washington State Office of Financial Management (OFM) to increase by about 77,584 units, or almost 63% of the total increase in housing in the state.⁴⁵ For 2019-2021, MFTE final certificates were issued for 14,906 units, which is about 19% of the increase in multifamily housing in the state. This suggests that a considerable amount of multifamily housing production in the state overall involved the use of MFTE programs.

Under the provisions of the [Growth Management Act](#), there are several goals required for comprehensive plans that can be incentivized through a local MFTE program. The housing element of a comprehensive plan must include the following:

- Provisions for the **preservation, improvement and development of housing**, including single-family and moderate density development, known as "middle housing" ([RCW 36.70A\(2\)\(b\)](#))
- Adequate provisions for **existing and projected needs of all economic segments of the community**, including low, very low, extremely low and moderate-income households ([RCW 36.70A\(2\)\(d\)](#))
- Policies and regulations to **address and begin to undo racially disparate impacts, displacement and exclusion in housing** ([RCW 36.70A\(2\)\(d\)](#))
- **Anti-displacement policies**, with consideration given to the preservation of historical and cultural communities ([RCW 36.70A\(2\)\(h\)](#))

⁴⁵ See WA OFM, [Historical Estimates of April 1 Population and Housing for the State, Counties, and Cities](#).

Exhibit 14. Multifamily units constructed (2020–2022) and units receiving MFTE (2019–2021), excl. Seattle



Source: Washington Office of Financial Management, 2022; Washington State Department of Commerce, 2022.

Equity is should also be considered in MFTE programs. As noted in previous sections, goals related to racially disparate impacts, displacement and exclusion in housing represent new additions to the [Growth Management Act](#) that are likely to be incorporated as part of expected updates to Comprehensive Plans over the next several years. As such, many communities have not incorporated these goals into their plans, nor have they broadly identified approaches by which MFTE programs can help to address long-term inequities in the housing market.

Readers should note that while MFTE can play a role in achieving housing, economic development, and even some equity goals, direct policies for MFTE or guidelines for program performance are not typically incorporated into Comprehensive Plans. For the six communities reviewed for the case studies included in [section D](#), few had direct policies for MFTE, and most references were for implementation of policy. For example:

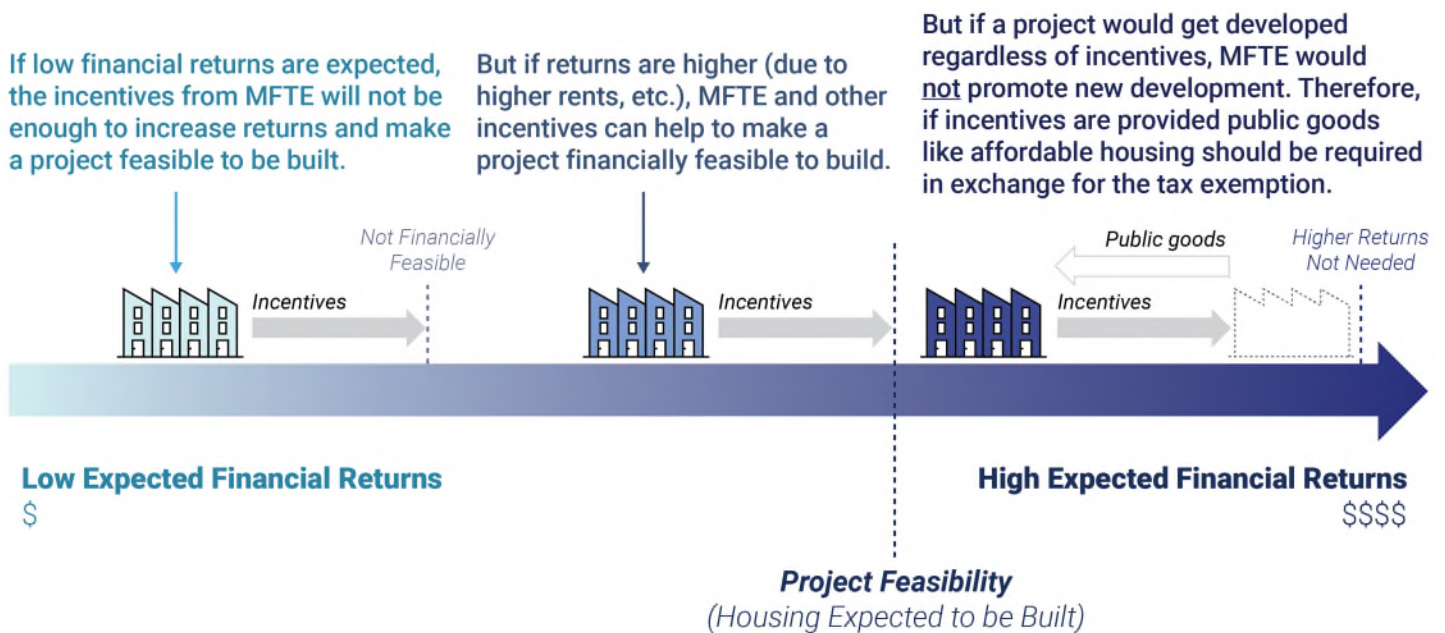
- The [Housing Element](#) for the City of Covington's 2016 Comprehensive Plan notes that monitoring of housing supplies should be coordinated with MFTE reporting to Commerce.
- Shoreline's [2012 Comprehensive Plan](#) notes that different affordability requirements should be explored as part of the MFTE program.
- The [2015 One Tacoma Plan](#) included requirements in its [Housing Element](#) that required projects receiving tax exemptions to "use affirmative marketing in advertising unit availability."

These references highlight that while MFTE is often seen as an important part of implementing housing policy, local programs are not as integrated into the policies themselves, especially in terms of performance measures in helping to achieve housing targets. As such, the success of MFTE programs is either determined through studies coordinated on an as-needed basis, or as part of broader housing goals.

Generally, when considering goals that can be supported by MFTE programs, it is important to keep in mind the relationship between the total incentives available for housing development (including MFTE) and the financial feasibility of a project when it makes enough profit to be attractive to a private developer.

Exhibit 15 below highlights that there can be a spectrum of development feasibility, where the net profits or expected financial returns from a project (calculated as revenue, less construction and operating costs and often expressed as a percent of the equity provided) can range from relatively low to relatively high. Different financial returns can mean different things for an MFTE program and the most effective ways it can be applied:

Exhibit 15. MFTE and project feasibility



- Low development feasibility.** If the revenue an investor would receive from a project would be relatively low, probably because local market rents are low (or potentially because local construction costs are unusually high), the incentives provided by an MFTE program would be nowhere near enough to make up the difference and result in enough of a profit for a project to go forward. In these cases, strategies are required not only to provide incentives, but also to build up the market in the local neighborhood, as well to support new housing development.
- Moderate development feasibility.** When financial returns of housing projects are low but closer to project feasibility, an MFTE program (and other incentives) can be an important tool to bridge this gap and increase housing supply by making more projects in a local market feasible. Additionally, this can also help to reduce broader increases in rent, as shortfalls in housing supplies may otherwise tighten the housing market until rents have increased enough to support new development.
- High development feasibility.** In cases where development would occur regardless of whether incentives are offered or not, the MFTE and other incentives become much less useful as a tool for promoting housing development in general. In these markets, available housing incentives can be used instead to provide subsidies for affordable housing or other public goods in development that would be expected to occur.

For individual communities, this can mean that the role and application of MFTE programs can differ both over time, and across different neighborhoods. In some cases, the focus in a neighborhood can change over time as development becomes more feasible and affordability becomes a greater concern than simply promoting new development overall. Likewise, some neighborhoods may need more of a focus on general housing investment, while other areas that are already receiving that investment could use incentives as a way of providing more public goods for the community.

With this dynamic in mind, communities have largely concentrated efforts with their MFTE programs on three distinct types of goals under the [Growth Management Act](#): **supporting neighborhood revitalization; increasing overall housing yields; and providing for housing needs across different income categories.** The success of MFTE in helping to meet these goals is largely dependent on these characteristics of the local market.

Supporting neighborhood revitalization

For most of the period that MFTE programs have been available in Washington, the main goal of the exemption has been to provide incentives for neighborhood revitalization. Bringing residents back to an area that needs new investment can be an effective strategy for economic development. Increasing the local population can increase local demand for retail and services, and can make these neighborhoods more visible as dynamic, vibrant neighborhoods that can accommodate new growth and activity.

Three cities from the case studies have relied on the MFTE program to provide incentives to encourage new investment: Vancouver, Tacoma and Renton.

- **City of Vancouver.** Vancouver is a good example of applying the MFTE program to assist with the redevelopment of a targeted area in Washington State. The waterfront industrial area previously anchored by the Boise-Cascade Paper Mill before its closure in the 1990s has been the focus of a concerted redevelopment project starting in 2007–2008. This project has sought to reconnect the downtown with the waterfront through the redevelopment of this 32-acre site, and incorporate 3,300 housing units, 1.25 million square feet in office space and 250,000 square feet in restaurant and retail space as part of a new neighborhood. The City's MFTE program has been one important element of the incentives provided to developers to help encourage the development of this mixed community, and has been paired with city investments in park space, infrastructure and transportation.⁴⁶
- **City of Tacoma.** For Tacoma, the MFTE program has been one instrument used to help encourage new development downtown and in other mixed-use centers across the city. While initiatives such as the redevelopment of historic downtown buildings to house the University of Washington Tacoma campus and the completion of the Tacoma Link light rail have drawn more attention to the neighborhood, the MFTE program has helped to facilitate more investment to construct new residential properties and expand the population of downtown.
- **City of Renton.** The City of Renton applied their MFTE program to areas where broader neighborhood redevelopment is intended. Recently, the program has been extended to include the Rainier/Grady Junction area, where a planned bus rapid transit (BRT) line will be the focus of a new transit-oriented district with more intensive development close to the current downtown. MFTE has also been expanded to include the Sunset Area, which has been the location of public housing and WWII-era housing and is currently undergoing coordinated revitalization with partners. While a broad range of planning and investment has been targeted for these areas, MFTE provides another key incentive to help spur interest in drawing new affordable and market-rate housing into these areas.⁴⁷

For these cities, as well as others applying MFTE for spurring revitalization in certain neighborhoods, there are several considerations:

- **MFTE can be an important component of an incentive package, but it must work in tandem with other instruments.** As can be seen in different applications of MFTE for large-scale redevelopment initiatives, the tax exemptions are not the only incentives provided to spur these efforts. In addition to tax exemptions, communities can also provide for investments in new infrastructure, coordination of subarea planning, flexibility with development requirements, and provision of new neighborhood amenities. Therefore, MFTE programs need to be considered in tandem with other ways that communities can support large-scale investment in these areas.

⁴⁶ See [The Waterfront Development Project](#) website for more information.

⁴⁷ See [The Rainier/Grady Junction TOD Subarea Plan](#) and [The Sunset Area Transformation Plan](#) for more information.

- **As catalytic projects emerge, incentives like MFTE will need to be updated.** While it is important to provide consistency with the availability of these incentives, there will be situations where new development will emerge and "prove" the local market as being viable for market-rate development. As this occurs and local development becomes more feasible with fewer incentives, MFTE programs and other incentives need to be re-evaluated to determine how best to adjust them to meet public needs. For example, this could include transitioning the program to requiring affordable housing.
- **Subarea plans should be coordinated to guide revitalization initiatives, including MFTE.** Broad efforts to encourage revitalization should be coordinated in tandem with other incentives, including city investments in infrastructure. Developing a subarea plan is often one way of ensuring that there is a consistent vision and approach in place, and that local incentives align with meeting this vision.

Increasing overall housing yields to meet local needs

Another recognized application of an MFTE program is simply to address insufficient local supplies of housing overall, as per the purpose of the statute as provided in [RCW 84.14.007](#). Under this application of the tax exemption, the total incentive amount can offset the difference between the revenue that can be received under expected rents in the local market, versus the break-even point where equity investors would receive the minimum expected return on their investment.

From the interviews conducted as part of this project, both with developers and communities, there were several findings regarding how communities have used MFTE programs to promote local housing development:

- **Although MFTE is not often a critical incentive for development to move forward, it can help projects to succeed.** With respect to individual projects, interviewees often mentioned that the presence of an MFTE program alone was not the defining reason to select a new project location, and that it could not address certain market fundamentals that would make development completely infeasible. However, the availability of the program was seen as a benefit, and projects were more likely to succeed with the program in place, especially at the point where "sharpened pencils" were required to finalize specific details of project finances.
- **MFTE can be effective at steering new development to occur in targeted areas.** Aside from encouraging broad neighborhood revitalization, communities have noted that MFTE programs have been successful in increasing the likelihood of new projects to succeed in RTAs. In these cases, allocating MFTE to specific areas and even putting some requirements on their use (such as minimum size requirements for projects) can help to encourage desirable projects to locate in certain areas that may align with Comprehensive Plan priorities.
- **While other incentives can also be provided, the eight-year MFTE is the most effective direct incentive to promote housing development.** Communities have a range of options to incentivize desirable development, from targeted infrastructure investments to impact fee waivers to rezoning. However, amongst these options, the MFTE stands out as the most significant direct incentive that cities can provide that does not include statutory requirements for affordable housing or other public benefits. Similarly, the prevalence of MFTE programs in the state means that developers are familiar with the requirements and process. If communities are looking to provide a boost to local housing production, the MFTE is the best option they have available under the current system.

Meeting housing needs across all economic segments

Addressing housing needs at different household income levels is one expressed goal of the current MFTE framework, with affordability requirements incorporated into the 12- and 20-year options and the discretion available for local communities to provide additional affordability requirements beyond these base mandates.

However, because of the nature of MFTE programs, there are distinct limitations associated with using these tax exemptions to help meet all housing needs across economic levels:

- **There are limits to affordability that can be achieved under MFTE programs.** As most of the projects developed under the MFTE program are likely to be mixed-income, for-profit developments in the private sector, there is typically a lower limit to the levels of affordability that can be provided under these programs. This is especially true in markets where financial feasibility may be a concern. For most markets, providing rent-restricted units for extremely low-income (less than 30% of median income) households are typically infeasible, and 50-60% of median income is typically the lowest income threshold used by communities.⁴⁸ Additionally, it can be challenging to coordinate any supportive service needs that may be required for extremely low-income households in a mixed-income project owned by a private company. Overall, this typically provides an effective limit to affordability that can be supported.
- **There are also limits to the length of time when affordable units are provided under an MFTE program.** As mentioned in the previous section with provisions for permanently affordable rentals, many MFTE programs are only designed to support affordable units for a limited amount of time. While this can be changed with more aggressive housing affordability requirements, as noted in the previous section, many MFTE programs are not choosing to require long-term affordability requirements.
- **Competition with shorter tax exemptions can impact whether developers will select a 12-year option.** Many communities have decided to offer both eight- and 12-year MFTE options, with the eight-year exemption requiring no affordable housing, while the 12-year alternatives mandate that program participants provide rent-restricted housing for the entire period. In these cases, it will be rare for developers to select four additional years of a tax exemption for restricting rent revenue for a full 12 years unless affordable units can also fulfill requirements for other projects, such as projects receiving LIHTC.
- **Some communities have extended MFTE programs to enhance their ability to meet more extensive needs for affordability.** Although some MFTE programs have faced some challenges associated with meeting affordable housing needs, certain communities such as Kirkland and Redmond have combined the tax exemption with inclusionary zoning for affordable housing. This provides options that extend affordability requirements beyond the 12-year period under the statute and even provide for permanently affordable units. Although this is specifically supported in these communities through strong local markets with high rents and sale prices, and would not be possible in all other communities, it does highlight that there are options available to extend options beyond what is required under the statute.

Housing yields under MFTE

One question with MFTE is how much of an increase in housing yields, both affordable and market-rate, are directly due to the program being in place in local communities. Although it can be hard to provide clear connections between the program and whether or not local programs can go forward, examining existing statistics can highlight the popularity of these programs and how they are a part of ongoing development.

At present, communities must perform regular reporting of the housing unit production associated with MFTE as per [RCW 84.14.100\(2\)](#), and this information can be used to characterize general volumes of housing production associated with the program. Reporting data from 2021 is highlighted below:

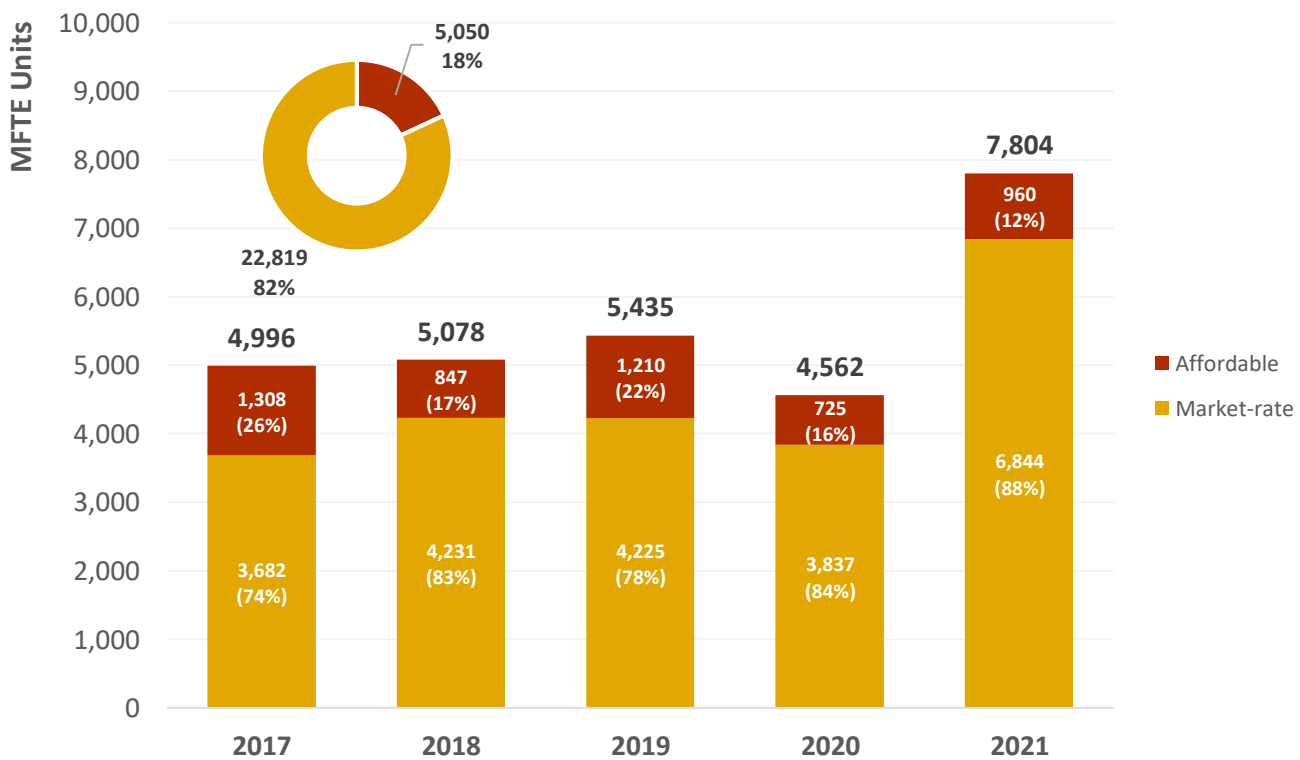
- **Total MFTE units receiving final certificates** from 2017–2021 (Exhibit 16).

⁴⁸ In Washington, the community as of the development of this report that has the lowest income restrictions is the City of Seattle, where compact units (in projects with larger units) are required to be rented to households making 30% of median family income. These limits increase with housing unit size, up to 80% of median income for three-bedroom units and larger.

- **Total housing units receiving MFTE exemptions** issued in 2021, including both affordable and market-rate units (Exhibit 17).
- The **total units receiving MFTE final certificates in 2021 compared to completed multifamily housing units** developed in these communities around this period (Exhibit 14, provided above). Note that Seattle is not included in this because of the differences in scale.
- **Total units receiving MFTE final certificates by type of units** and city from 2017–2021. (Exhibit 18).
- **Assessed value versus taxable value** for units receiving an MFTE final certificate in 2021 (Exhibit 19).
- **Total taxes exempted in 2022 per unit**, expressed in dollars for the first year of the exemption (Exhibit 20).

For historical data on previous use of MFTE, there have been recognized challenges with reporting and tracking data on housing built with support from MFTE programs.⁴⁹ However, Commerce has worked recently to improve information about the use of MFTE, including reviews of reporting systems and previously collected data. Available data from 2017 to 2021 reflects the most accurate numbers currently available statewide on the use of MFTE.

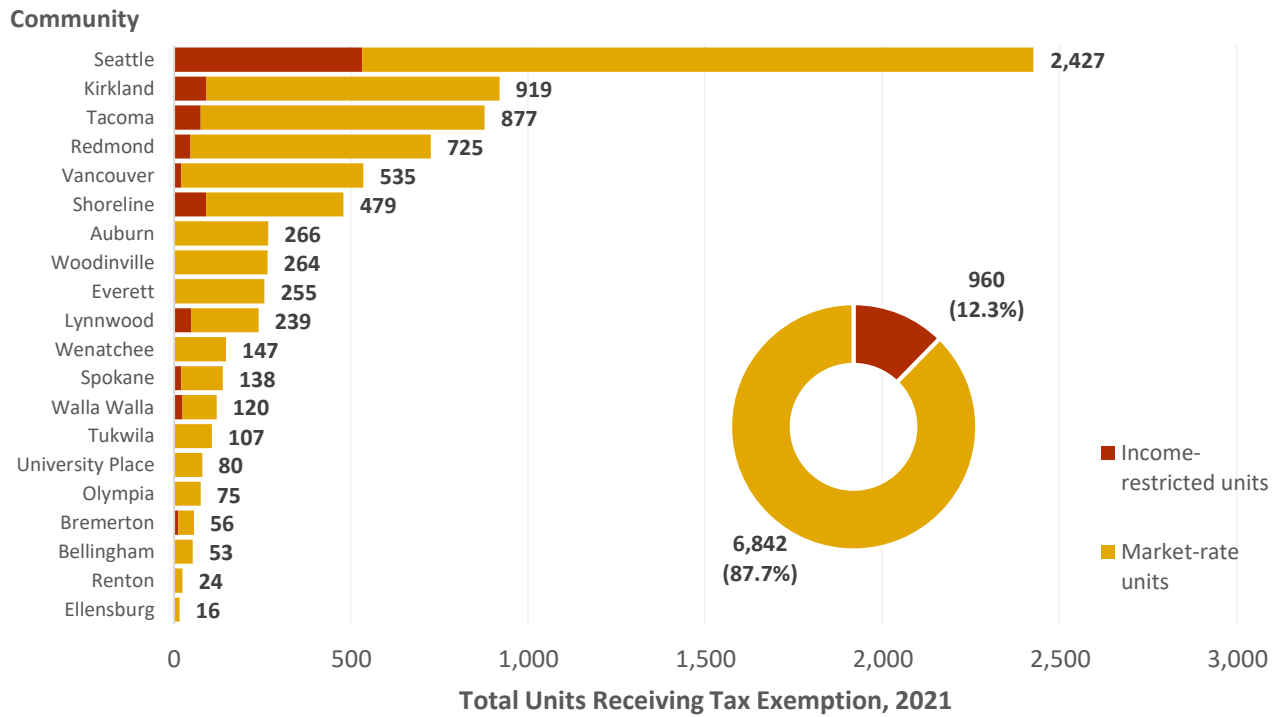
Exhibit 16. Total WA housing units receiving MFTE final certificates, 2017–2021



Source: Washington State Department of Commerce, 2022.

⁴⁹ For more information, see the 2019 JLARC report on the MFTE program, [19-08 Final Report: 2019 Tax Preference Performance Reviews - Property Tax Exemption for Multifamily Housing in Urban Areas](#).

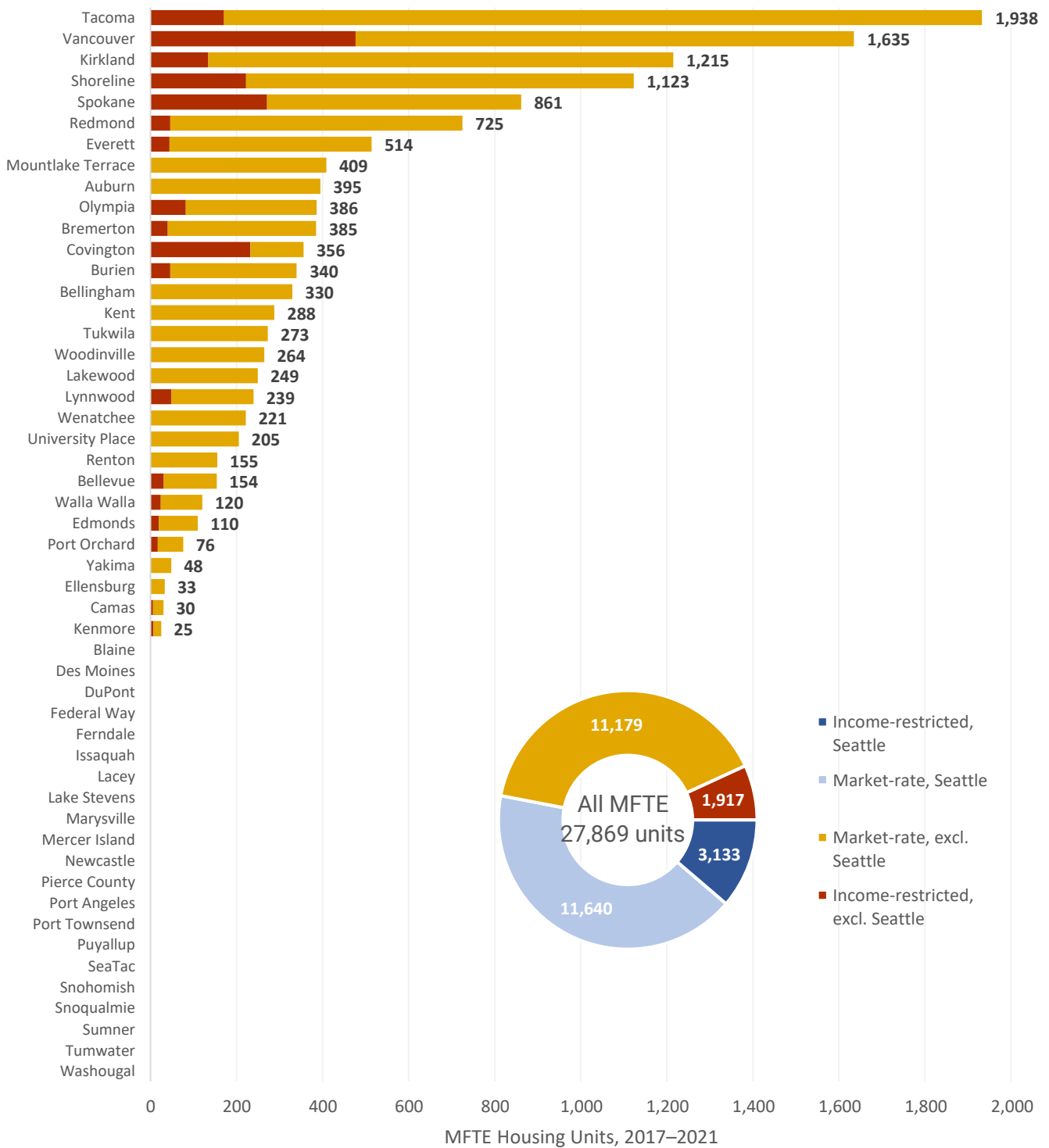
Exhibit 17. Total WA units receiving MFTE final certificates in 2021, by city



Source: Washington State Department of Commerce, 2022.

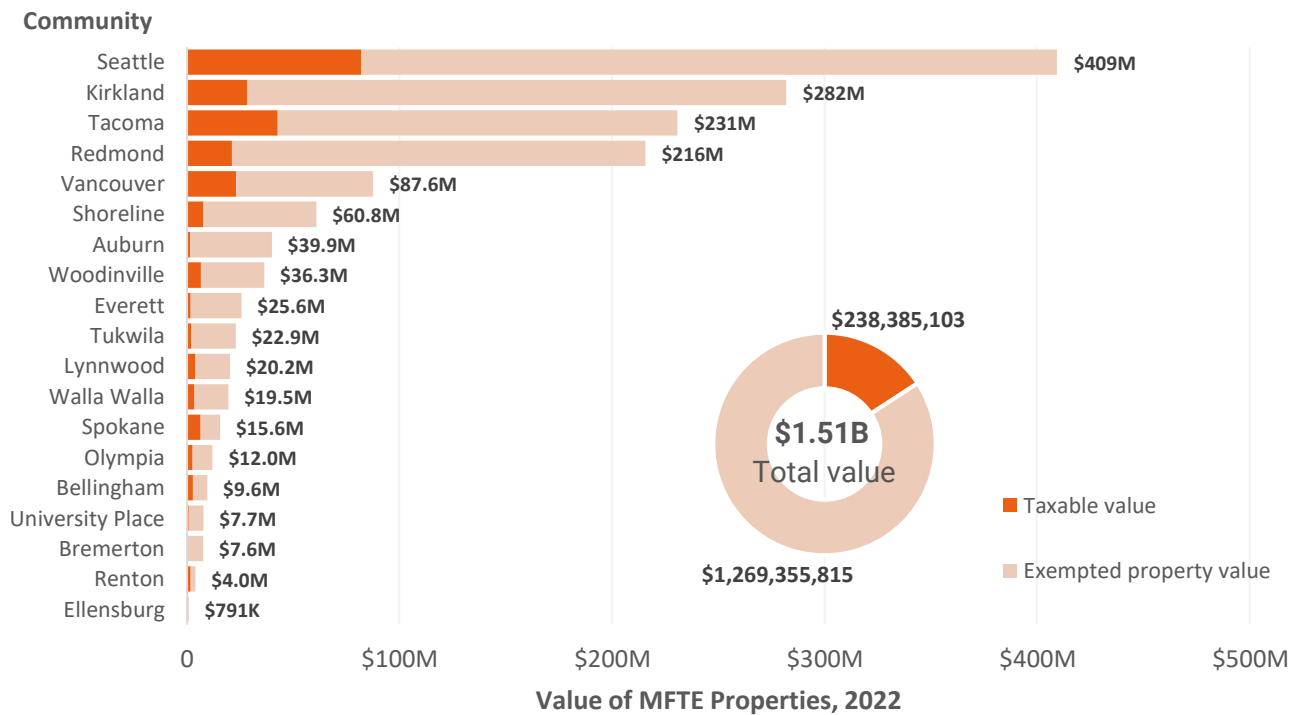
Exhibit 18. Units receiving MFTE final certificates by type (Seattle and other cities), 2017–2021

Community



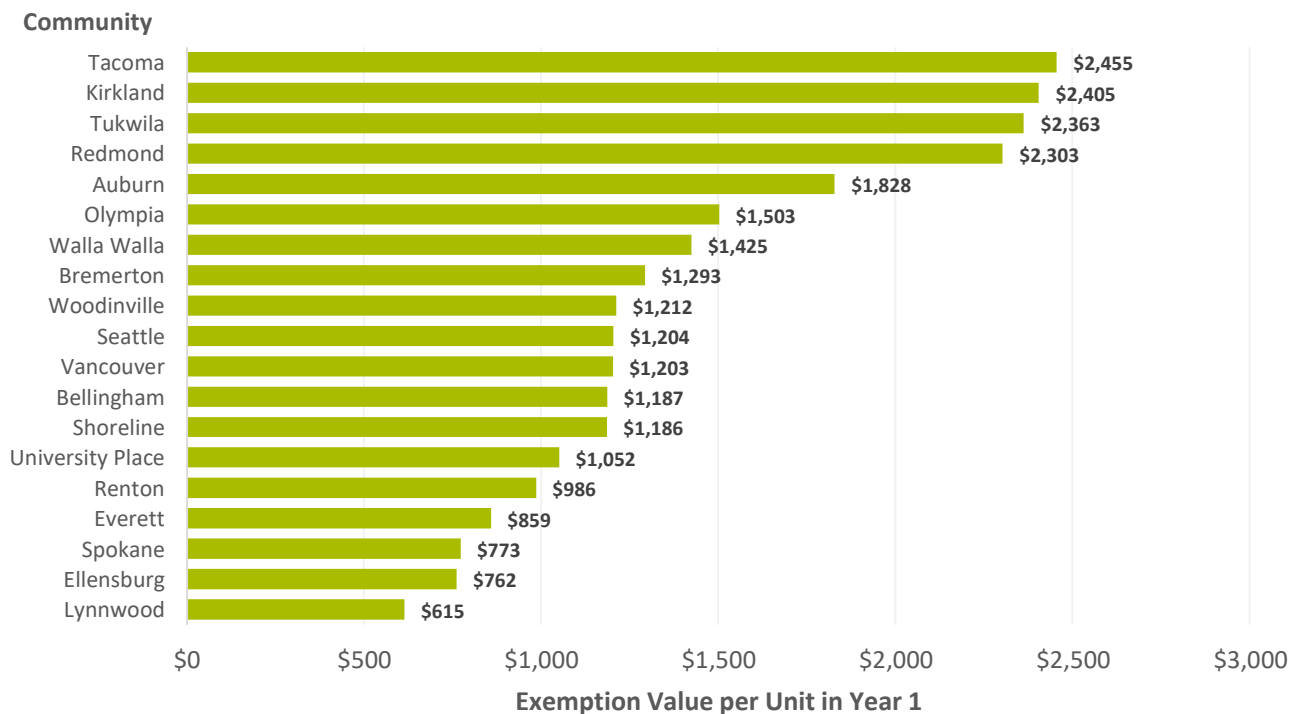
Source: Washington State Department of Commerce, 2022.

Exhibit 19. Total and exempted value for MFTE final certificates issued in 2021



Source: Washington State Department of Commerce, 2022.

Exhibit 20. Estimated exemption value per unit for MFTE final certificates issued in 2021



Source: Washington State Department of Commerce, 2022.

There are several elements to highlight with these figures:

- **The City of Seattle has been the dominant user of MFTE over time, although this trend is shifting.** What is clear from available statistics is that by far the City of Seattle is dominant in its use of MFTE. As shown in Exhibit 18 for the 2017–2021 period, about 53% of the units in the state that have been covered under MFTE programs have been in Seattle. However, this has been shifting; for certificates issued in 2021 shown in Exhibit 17, only 32% of the total units under MFTE were from Seattle. This highlights an increased role for the program in other communities, such as Kirkland, Tacoma, Redmond and Vancouver.
- **In 2021, the value of property tax exemptions for issued MFTE certificates was approximately \$1.27 billion.** The total amount of taxes exempted at any one time can be challenging to calculate given the differences in property tax rates, the need to estimate changes in property values, taxes over time and available reporting data. Exhibit 19 illustrates that residential and mixed-use buildings receiving final certificates in 2021 were valued overall at \$1.51 billion in 2022 (the first year of their exemption). **About 84% of this new value, or \$1.27 billion, was exempted from taxes in 2022.** As a measure of scale, the total of all locally assessed property values in 2021 was approximately \$1.5 trillion statewide.⁵⁰
- **MFTE reflects an incentive ranging from \$615 to \$2,455 per unit on average for the first year of exemptions provided in 2022.** The figure in Exhibit 20 provides a broad estimate of the value of the tax exemption per unit in a project. These values are estimated based on reported assessed values and represent the best available data at the time of filing. Also, the total value of the exemption over time will vary based on several factors, including the final valuation of MFTE properties, local tax rates, and the length of the exemption. For 2021, the value of the exemption to individual projects in communities resulted in average values ranging from \$615 to \$2,455 per unit during the first year of the exemption. As these are averages over all units located in projects, exemptions focused on supporting affordable units in mixed-income projects would be higher (such as up to five times this amount if 20% of units were set aside as affordable).
- **The relationship between multifamily housing production and use of the MFTE varies significantly from community to community.** The proportion of multifamily units that are covered under local tax exemption programs as shown in Exhibit 14 varies significantly from community to community.⁵¹ This can be due to the requirements of MFTE, the locations and capacity of RTAs, and other regulatory and market factors. Considering this context, some communities such as Tacoma and Kirkland are experiencing multifamily housing growth with significant uptake for their MFTE programs, while Bellevue and Lacey have experienced no recent use of their MFTE program despite significant housing production.
- **Impacts of recent changes to MFTE programs will have a delayed response with these statistics.** Note that while these statistics can point to general trends, the full impacts of changes due to [E2SSB 5287](#) have not yet been reflected in these numbers. Considering the gap of up to five years between conditional and final certificates, plus the timing for applications and project planning, as well as the timelines for community updates to their individual programs, the changes due to local program amendments may not be realized for a few years.

⁵⁰ For more information, see Department of Revenue, [Property Statistics 2022](#).

⁵¹ Note that the use of multiple years in Exhibit 14 is intended to address two factors. First, it highlights that there may be a delay between completion of construction and issuance of a final certificate. Second, it acknowledges that OFM data on housing completions is provided as of April 1 of the relevant year, meaning that a majority of construction finished in a year will be reflected in totals for the following year.

Conclusions

Based on this assessment of how MFTE assists jurisdictions in reaching goals under the GMA, we can draw the following conclusions:

- **Overall, MFTE programs have been effective in incentivizing housing production.** Across the state, MFTE programs have generally promoted desired housing development within targeted areas in communities. While not all programs have issued a significant number of exemptions, usually because of local development conditions or program characteristics, the exemptions in other communities have promoted housing growth and secured affordable housing options that can help to address local housing and development concerns.
- **Communities use MFTE in different ways to meet their goals, including new requirements under the *Growth Management Act*.** MFTE programs have usually been associated with promoting neighborhood revitalization and increasing affordable and market-rate housing production. However, with the new requirements under the [Growth Management Act](#) for low-income housing and anti-displacement policies, communities will look to MFTE programs to help achieve a wider range of policy outcomes in the future.
- **Different communities have used MFTE successfully in meeting local housing and economic development goals.** There are examples of communities that have used MFTE to great effect to promote neighborhood revitalization (Vancouver), overall housing development (Tacoma), and affordable housing production (Seattle, Kirkland, Redmond). Succeeding with MFTE in these cases has typically involved coordinating MFTE with other incentives and providing regular updates to consider local market conditions over time.
- **Seattle has been a dominant user of MFTE in the state, but MFTE use by other communities is growing.** Over the past five years, Seattle has been responsible for 53% of the total units in the state supported by a local MFTE program. This is shifting, however, and other cities such as Tacoma, Vancouver, Kirkland, Shoreline, Spokane and Redmond are seeing more units supported by the MFTE program. Recent changes to MFTE programs related to amendments to the statute will also likely support this trend, as communities can be more flexible with the way that MFTE is applied locally.
- **Although changes in the statute have adjusted how communities can use MFTE, these changes will take time to be reflected in available data.** Recent amendments to the enabling statute for MFTE, as well as Commerce guidance for MFTE programs, have provided communities with more flexibility and options for developing programs. These will take time to be integrated with local programs and effects in the yields of new housing observed in the state, monitoring and policy review will need to be coordinated over the next several years to track the longer-term effects of these changes. We recommend another detailed assessment in five years.

Based on these conclusions, we make the following recommendations (see [section A](#) for more details):

- **4.1.1.** Clarify in [Chapter 84.14 RCW](#) that other income measures can also be used for limits in local MFTE programs, including local measures of median income or alternative measures used by the US Department of Housing and Urban Development (HUD) that control for housing cost inflation.
- **4.1.2.** Provide consistency between the measures of income used for the exemption in [RCW 84.14.020](#) (median family income for the city, county, or metropolitan area), and the affordability requirements under the 20-year exemption in [RCW 84.14.021](#) ("average median income" for the city or local jurisdiction).

- **4.1.3.** Amend [RCW 36.70A.610\(1\)\(a\)](#) to require the Washington Center for Real Estate Research (WCRER) to provide jurisdiction-specific median family income measures for communities using MFTE as part of regular reporting. These measures should be based on existing methods used by the US HUD and local housing agencies.

C. Comparison of other tax revenue

Overview

Determining the total net effects of local MFTE programs on state and local tax revenues can be an important consideration for policy development. As noted in Exhibit 19 above, more than \$1.27 billion in property value was exempted in 2021 alone. The [shifting of tax obligations](#) due to standard tax assessment practices may reduce the effective fiscal impact on local governments, including not only city and county governments, but also tax revenues accruing to the state, port districts and other special districts.

While these represent the immediate, direct impacts on tax revenue, there are other potential changes in revenue that can result indirectly from development supported by MFTE:

- **Sales taxes from construction.** Taxable construction activities related to projects supported by MFTE will remit sales taxes to state, city and county governments.⁵²
- **Real estate excise taxes (REETs).** Upon sale, rental and owner-occupied MFTE units will pay excise taxes to state and local governments. This will cover not only initial sales upon the completion of construction, if applicable, but also future sales.⁵³
- **Impact fees, connection charges, and other fees.** While not "tax revenue" per se, MFTE projects will also be responsible for impact fees, connection charges, and other development fees charged by a community. For projects that include affordable housing, local governments may have programs that provide partial or even full waivers of these charges as an additional incentive.⁵⁴
- **Non-exempt property taxes.** While the residential improvements on a site will be exempt, commercial components of buildings and underlying increases in property value will still be taxable. For mixed-use buildings or revitalization projects, this would represent an increase beyond a vacant site or a site with heavily depreciated improvements.
- **Increases in local sales and business and occupation (B&O) taxes from resident spending.** In addition to impacts related to the building itself, there are also local effects from sales taxes paid by the residents of new construction, and additional B&O taxes from new local businesses. Note that while both can be related to an increase in local business activity, higher sales taxes can also be received from online purchases charged at local points of sale.
- **Increases in state-shared revenue.** Certain sources of state funding support for local jurisdictions may depend on local population (or in the case of school funding, local student enrollment).⁵⁵ In these situations, an MFTE program that supports an increase in local population may adjust the results of these calculations.

Although these changes in tax revenue are important to consider, there are factors that can make an assessment of the net state and local tax impacts from MFTE much more complicated:

- **Consideration of the "do nothing" alternative.** The most challenging consideration in an assessment like this is trying to determine what the effects would be in an alternative situation where an MFTE program wasn't in place. If development would go forward regardless of whether an exemption exists, the MFTE

⁵² For more information, see WA Department of Revenue's [Construction Industry Guide](#).

⁵³ Real estate excise taxes are managed under Chapters [82.45](#) and [82.46](#) RCW and [Chapter 458-61A WAC](#).

⁵⁴ Impact fee waiver programs are managed under [RCW 82.02.060](#).

⁵⁵ This includes proceeds from the motor vehicle fuel tax (see [RCW 46.68.090](#)), liquor ([RCW 82.08.170](#)) and cannabis ([RCW 69.50.540](#)) taxes, and criminal justice assistance ([RCW 82.14.300](#)).

would not be responsible for the development or any of its associated impacts. In cases where development would just take longer to appear, the financial effects of MFTE would be more limited in time.

- **Indirect tax impacts from neighborhood revitalization.** If MFTE projects encourage investment and activity within an area where revitalization was needed, there can also be positive tax effects from other commercial development that is encouraged to locate in the neighborhood. Similarly, if a revitalized neighborhood is seen as an attractive destination for visitors, it can also draw in additional consumer spending.
- **Impacts of costs on state and local governments.** Although the focus of this discussion is on changes in gross tax revenue, we also need to consider the costs to communities. Aside from the reduced property tax revenue, more development and new residents will result in increases in both one-time outlays for infrastructure and regular operations and maintenance costs. These costs can be highly variable, depending on characteristics like available infrastructure capacity and current levels of service.
- **Impacts to different agencies and districts.** While the focus of tax effects are on local governments (and to a lesser extent the state), special districts will also be impacted. This can include such entities as ports, parks and cemetery districts. The tax impacts to these other agencies will be different, and it is very likely that for other districts that rely heavily on property taxes for revenue that they will have fewer opportunities to address any impacts with increased taxes from other sources.

Because of these limitations, evaluating the total aggregate tax impacts across the entire state is challenging. However, to understand the potential magnitude of impacts, this section includes two components:

- An **assessment of revenue sources** from different types of jurisdictions based on available data from the State Auditor's Office (SAO), to understand those jurisdictions that may experience more significant effects from direct and indirect tax changes.
- **Scenarios using example projects** to highlight the fiscal and policy implications for the exemptions.

Jurisdiction revenue sources

The SAO provides information on the finances of all public agencies (excluding school districts⁵⁶) across Washington.⁵⁷ This includes breakdowns of all sources of revenue received by each jurisdiction and includes details on the nature of these expenditures over time categorized by Budgeting, Accounting and Reporting System (BARS) codes.⁵⁸

To understand how different jurisdictions may be dependent on different sources of funding, budget data from 2019⁵⁹ is used to provide a breakdown of the relative distribution of revenues:

- Exhibit 21 provides the **distribution of revenue for the categories of jurisdictions** included in the SAO database, divided by general types of revenue.⁶⁰
- Exhibit 22 includes the **relative distribution of revenues by type for all cities** which issued MFTE final certificates from 2019-2021.

From these exhibits, there are several major points to highlight that are important when thinking about the role of MFTE in local fiscal sustainability:

- **The relative changes in property tax revenue from exemptions under MFTE may differ substantially by jurisdiction type.** When examining proportions of revenue by source for different types of jurisdictions, some clearly have much greater relative exposure to potential tax impacts from MFTE. Certain districts heavily dependent on property tax revenues, including library, flood control, parks and recreation, cemetery, and fire protection districts, could be affected by exemptions, especially if these tax obligations are not shifted. Conversely, other districts such as ports, EMS and hospital districts have much less exposure to this type of risk.
- **Conversely, certain districts could see significant positive impacts from other sources of revenue.** In cases where MFTEs result in development that can promote local spending, certain districts such as public facilities districts and transportation benefit districts could experience positive effects from increases in taxable sales, with fewer negative impacts given a much lower dependence on property taxes.
- **Cities issuing MFTE certificates may also have different fiscal impacts relative to others.** Although to some extent, all communities issuing MFTE certificates can face impacts from deferred revenue if tax obligations are not shifted to other taxpayers, overall fiscal effects may be different between communities. Certain communities may have a greater reliance on property taxes in municipal finances, while others depend more on sales and use taxes, or business and occupation taxes. These patterns may have important implications on how MFTE may be managed locally; for example, a lower dependence on sales and B&O taxes may suggest that benefits from increased local economy activity may not be the same as in other communities.

⁵⁶ School district budget information is provided by the Washington Office of Superintendent of Public Instruction (OSPI), which is available on the OSPI [Apportionment, Enrollment, and Fiscal Reports](#) webpage. Tax revenue information from school budgets is not included in this analysis.

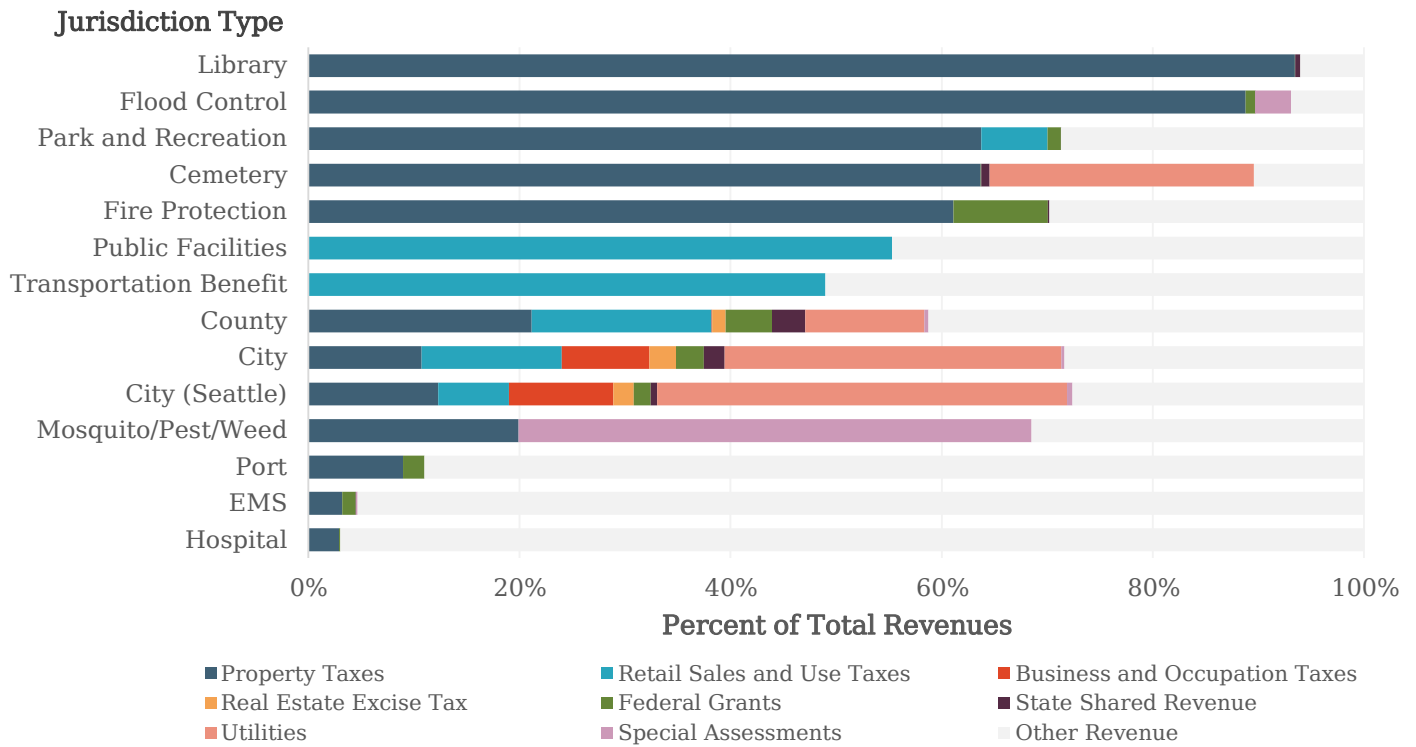
⁵⁷ See the SAO [Financial Intelligence Tool](#) webpage for access to this data set. This information is reported under [RCW 43.09.230](#), and all agencies are required to provide this information annually within 150 days after the close of each fiscal year.

⁵⁸ See the SAO [BARS GAAP Manual](#) for more information.

⁵⁹ Note that 2019 fiscal data is used to account for significant changes in local government support during the COVID-19 pandemic, which may not represent long-term trends.

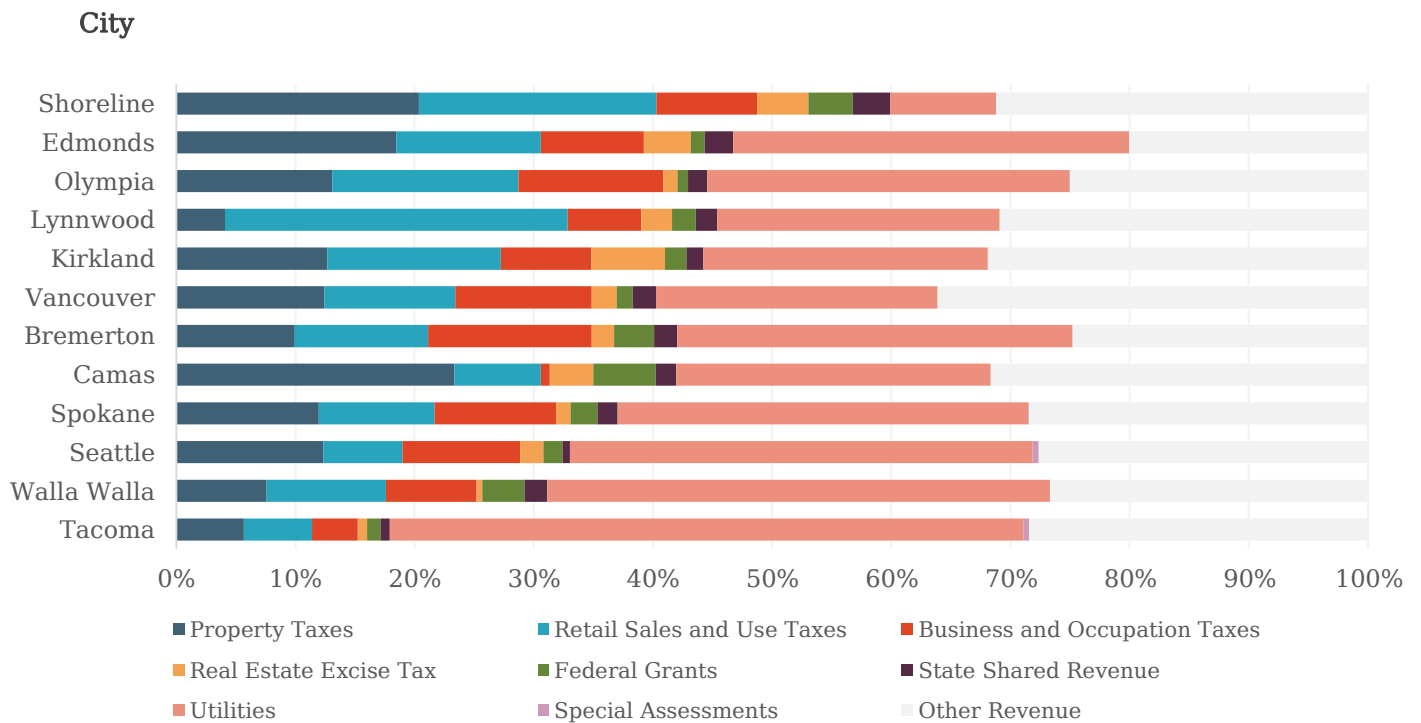
⁶⁰ Note that this separates out the City of Seattle from other jurisdictions for comparison. Also, transportation authorities are not included as 2019 reported FIT data provided no property tax revenue for transportation authorities, even though Sound Transit received over \$150 million in property taxes (see: Sound Transit [2021 Financial Plan and Proposed Budget](#)).

Exhibit 21. Proportions of revenue, by source and jurisdiction type (statewide)



Source: State Auditor's Office Financial Intelligence Tool, 2023.

Exhibit 22. Proportions of revenue, by source and city



Source: State Auditor's Office Financial Intelligence Tool, 2023.

Scenarios

For discussions of the practical fiscal impacts of development under an MFTE program, two different types of projects can be considered:⁶¹

- Market-rate projects receiving an eight-year exemption.
- Affordable housing projects that set aside affordable units in exchange for a 12- or 20-year rental exemption.

These two types of incentives are intended for different purposes and need to be treated differently as part of a fiscal analysis:

- Market-rate projects are intended to promote revitalization of mixed-use urban centers in communities, and support new development to meet overall housing needs that might not otherwise be built under current market conditions.
- Selecting MFTE options with affordable housing requirements for a project provide the tax exemption in exchange for affordable units provided to qualified households, with the incentives largely supporting this subsidy, instead of supporting whether the project will be built in the first place.⁶²

Assessing the fiscal impacts of MFTE program options requires clear comparisons given the different focus:

- For market-rate MFTE projects, the benefits of a project supported by MFTE should be compared to the benefits if a project were to be built later when local markets could support the project without incentives.
- For affordable mixed-income MFTE projects, this assessment assumes that the project would occur regardless of whether the incentive is in place or not, but that the affordable units are being subsidized by the total benefits received.⁶³

Revenue estimates for market-rate housing

This section provides a hypothetical example that can highlight many of the considerations when evaluating how an individual project may have a fiscal impact on different jurisdictions. This market-rate scenario relies on a project with the following characteristics:⁶⁴

- **Project characteristics.** The project is a 200-unit project in a major city in Western Washington, with \$54 million in development costs.
- **Current property valuation.** The parcel is currently valued in its first year at \$62 million, which can be divided between:
 - \$3.5 million in land value;
 - \$1 million in non-exempted site improvements; and
 - \$60.5 million in exempted residential site improvements.

⁶¹ Note that for the purposes of this analysis, the calculations for rental and owner-occupied housing are comparable. For consistency, note that the rental options are used here.

⁶² This can differ between communities and projects, however. In some cases, communities have developed programs with "affordable" rents close to local market rents to allow the program to be used for broader project support. This should also be considered when examining local programs, as 12-year programs under these situations may play a role similar to what is being discussed here as a

⁶³ Note that the property tax exemption is normally not the only source of support received for 100% affordable housing projects receiving MFTE. In these cases, while the incentive can help affordable projects to be built, it is typically part of a broader package of financial support, which can be difficult to assess in this context.

⁶⁴ These assumptions are developed from multiple jurisdictions, and are intended for illustrative purposes only.

- **Previous valuation.** Previously, the site was assumed to be semi vacant with depreciated site improvements, which were not expected to increase in value, and no sources of revenue provided beyond sales taxes. The assessed value of the parcel itself was \$800,000, which included \$750,000 in land value, and \$50,000 of value in assessed improvements.
- **Tax shifting.** The base assessment assumes that 90% of the total exemption is shifted to other taxpayers in the community, as per the discussions of tax shifting in section B(1).
- **Retail spending assumptions.** Each household in the building has an average of 1.75 residents (or a total of 350 residents), which have spending profiles consistent with the average for the jurisdiction. Generally, average per capita retail spending for year 1 in the example amounts to a total of \$12,000 in taxable retail sales per person, with 30% of this spending assumed to be local retail spending in the base scenario.
- **Other revenue.** It can be assumed that other revenue will be received locally from other sources, such as permits and fees, utility taxes, and other charges. However, as this assessment does not include a detailed breakdown of the costs of providing these services, it is assumed that these represent cost recovery only, and are not included directly in this analysis.

For the revenue calculations, there are four main sources of revenue included:

- Property taxes, including taxes on land and exempted and non-exempted improvements.
- Sales taxes on construction.
- Sales taxes on taxable retail sales for residents.⁶⁵
- Real estate excise taxes for property sales.

We assume that other sources of revenue are not included in this direct assessment:

- B&O taxes are not included as it can be challenging at an individual project level to link local business formation to new residential projects.
- Impact fees, connection charges and other local licenses and fees are assumed to represent a pass-through of costs from a community, and not broader sources of revenue for a jurisdiction.
- Increases in state-shared revenue are not included as these formulas depend on the broader funding context, including conditions in other communities.

While these considerations could be useful to examine as part of local fiscal implications, these elements can often be drastically different from one community to another, and would not give a clear understanding about broader trends with the fiscal impacts of MFTE.

Exhibit 23 presents property tax rates for the example, and Exhibit 24 presents hypothetical sales tax rates. When evaluating changes over time, this assessment assumes that property values, costs and revenue will increase at a real rate of 2% per year.⁶⁶ It is also assumed in this analysis for REET 1 and 2 that a property will be sold on average once every 8 years.⁶⁷

⁶⁵ Note that this does include online purchases that consider the resident address to be the point of sale, but excludes many types of exempted groceries.

⁶⁶ Note that this is a very broad assumption. Actual property tax bills are based on broad calculations of levy rates across different districts, and are impacted by new construction and the 1% levy lid. Similarly, property may also appreciate or depreciate over time, voters could approve new levies, and collected revenue can be assumed to be subject to discounting. Spending patterns may also be subject to distinct local changes. However, we intended this as a broad example; these assumptions are only provided to reflect likely general trends.

⁶⁷ However, this is likely to have wide variation between property types and areas. For example, larger housing developments owned by institutional investors may be sold initially after a hold period, while smaller private investors may retain a property for longer periods. Similarly, owner-occupied condos may be sold individually over time, with different lengths of ownership.

Exhibit 23. Example property tax levy rates for scenario development⁶⁸

Property tax component	Levy rate (per \$1,000)
School levy (total)	3.224
State School Fund	2.311
City	0.883
County	1.090
Port	0.094
Fire	0.605
Hospital	0.298
Library	0.262
EMS	0.209
Regional Transit	0.156
Other	0.067
Total	9.20

⁶⁸ This breakdown has been drawn from 2023 property tax levy rates from the City of Renton (area 2100). Note that these values can differ significantly between categories and counties, but are provided here as one example of a possible breakdown of local tax rates.

Exhibit 24. Example sales tax rates for scenario development

Sales tax component	Tax rate
State	6.5%
City	0.85%
County	0.15%
Transit	0.9%
Regional Transit	1.4%
Other Local	0.4%
Total	10.2%

Looking across a 20-year period⁶⁹, we can assume that this development would be responsible for both upfront and long-term revenue. Based on the assumptions provided, the total tax revenues from an MFTE project for this period would amount to about \$3 million for the city. We present a breakdown for all revenue provided to different jurisdictions by source in Exhibit 25.

Although this provides an understanding of what the effects would be for this project alone, this needs to be compared to alternatives where a project would potentially be delayed without the tax exemption. These five comparisons for impacts to the example city include the following:

- A scenario where **immediate development** can occur as development would happen regardless of the incentives provided.
- A "**short-term redevelopment**" scenario with development occurring without the incentive within 5 years.
- A "**mid-term redevelopment**" scenario with development occurring without the incentive within 10 years.
- A "**long-term redevelopment**" scenario where new development would only be expected within 15 years without the incentive.
- A "**no development**" scenario where the site is not expected to change without the incentive within the next 20 years.

The results from this evaluation are provided in Exhibits 26 and 27, showing the changes in sources of revenue and revenue accrued by individual jurisdiction types, as well as the shift of tax obligations to other taxpayers.

⁶⁹ Note that additional property taxes during construction for the year prior to year 1 are also included.

To show the sensitivity to a range of changes in inputs, Exhibit 28 highlights how revenue to jurisdictions change. This includes changes in revenue if:

- All or no property tax obligations under MFTE shift to other taxpayers.
- Local taxable retail spending accounts for different proportions of total taxable retail sales (ranging from zero to 60% of potential spending).

Exhibit 25. Scenario tax revenue by source and jurisdiction type, base MFTE scenario

	Sales tax (construction)	Sales tax (residential)	Property tax	REET	Total	Tax shift
State	\$3,510,000	\$2,653,273	\$3,663,162	\$4,803,480	\$14,629,915	\$1,080,029
City	\$459,000	\$346,966	\$1,399,642	\$810,730	\$3,016,338	\$412,664
County	\$81,000	\$61,229	\$1,727,757	-	\$1,869,986	\$509,404
Transit	\$1,242,000	\$938,850	\$247,275	-	\$2,428,126	\$72,905
School	-	-	\$5,110,356	-	\$5,110,356	\$1,506,713
Other	\$216,000	\$163,278	\$2,433,126	-	\$2,812,404	\$717,371
Total	\$5,508,000	\$4,163,597	\$14,581,318	\$5,614,210	\$29,867,126	\$4,299,085

Exhibit 26. Scenario tax revenue by source

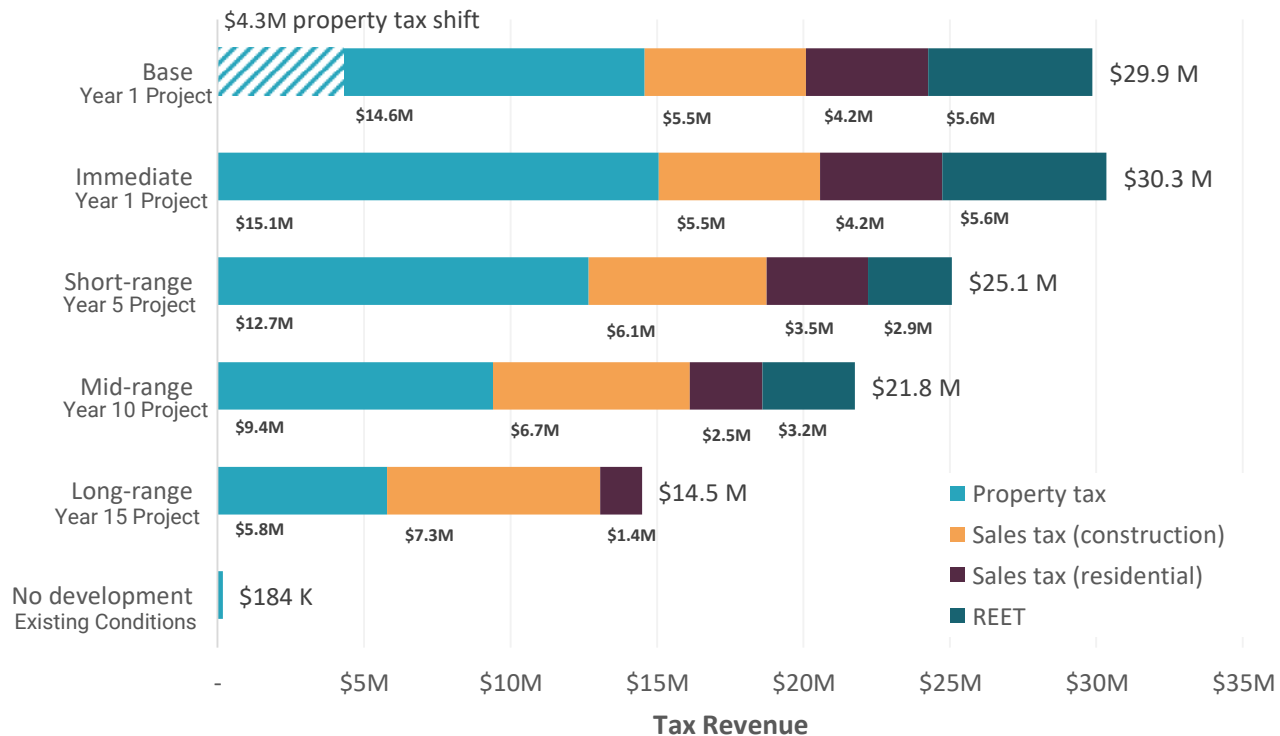


Exhibit 27. Scenario tax revenue by jurisdiction

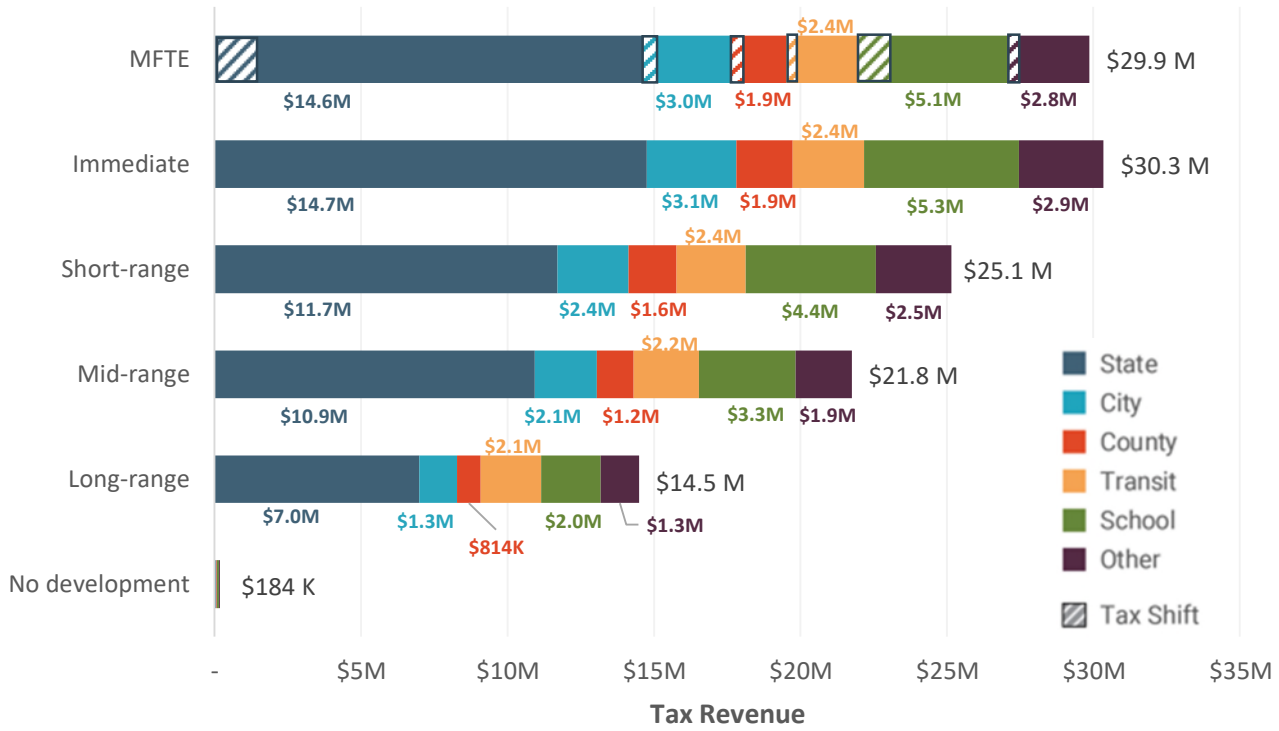
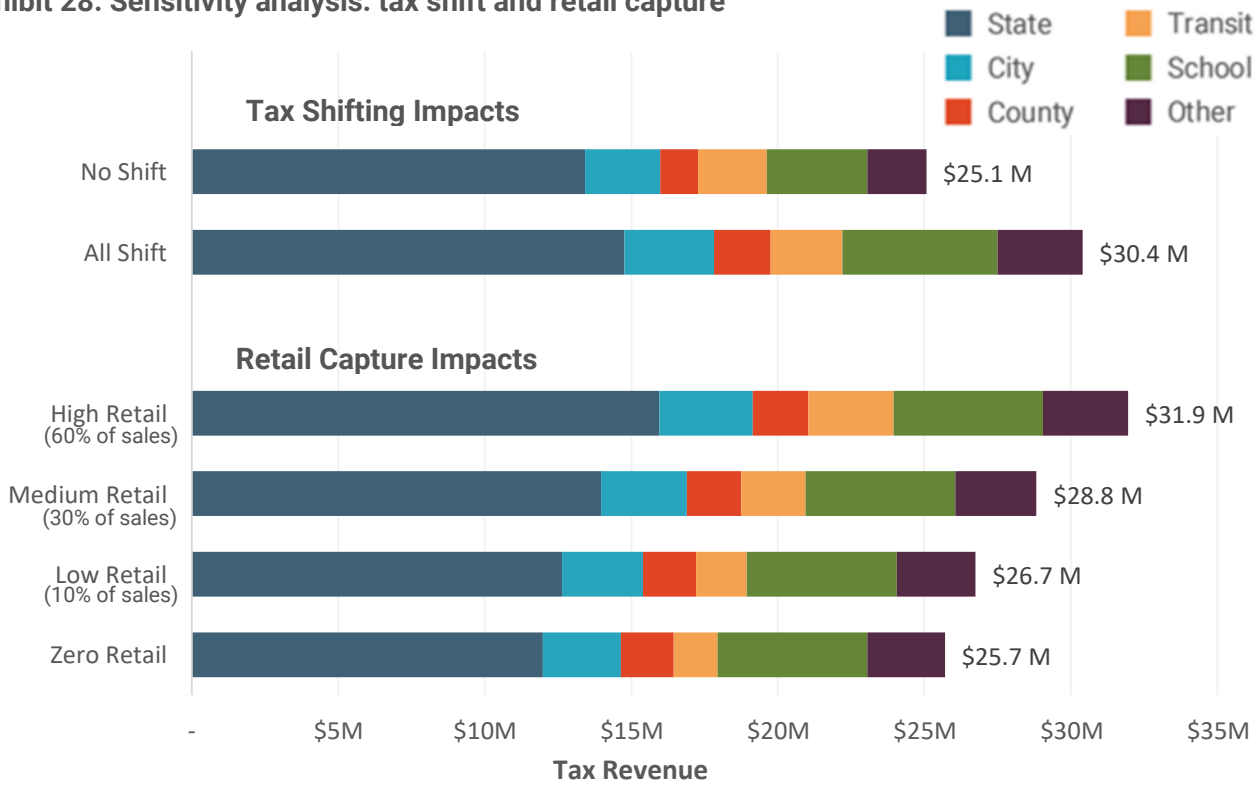


Exhibit 28. Sensitivity analysis: tax shift and retail capture



These figures highlight the following:

- **For MFTE to be fiscally sustainable, it needs to incentivize projects that would otherwise not be feasible in the short term.** The example shows that when looking at a single site, the net tax revenue from a development that receives MFTE is significant. However, if this project could be built without the tax exemption, this can cost both local governments and taxpayers money without giving much benefit in return. Even if these projects would not be feasible for another five years, the total shifted tax obligations and deferred tax revenues would only break even with other revenue received from the project.
- **MFTE programs are productive in areas that support greater local retail activity.** When examining the role of different types of taxes in overall fiscal benefits from MFTE, the amount of local taxable retail spending can make somewhat of a difference. Sales taxes on construction costs can have a considerable impact, but the spending of new residents can also affect how much revenue can result from new development. While it can be complicated to determine how much revenue a project would actually be responsible for bringing into a jurisdiction, linking these projects with healthy local commercial districts can help to boost local tax revenues as well.
- **Different jurisdictions will be impacted differently by the exemption and changes in project timing.** Under the scenarios tested, school districts had the most dramatic differences in receipts with different project timing and the exemption. This is because these districts have the strongest reliance on property taxes, which will either be deferred (for MFTE projects) or collected on the vacant/underutilized site before development (for projects over the longer term). On the other hand, transit agencies in this example receive more from sales taxes (both for initial housing construction and retail spending) than property taxes, meaning that their receipts are less sensitive to the exemption or delays in the project (as long as the project is built).
- **The fiscal effects from tax shifting can be significant.** When you evaluate how sensitive these results are to the amount of tax shifting, the resulting fiscal effects can change significantly. There is a \$5.3 million difference between the revenue collected if all taxes were shifted to other taxpayers versus the revenue lost if the whole incentive were supported by deferred tax receipts. The current system typically supports greater tax shifting, although smaller projects might experience less of a shift. However, note that regardless of the source, taxpayer money still pays for these incentives, even if the net fiscal effects are different.
- **Other effects also need to be considered for a full fiscal assessment.** Although this assessment focuses on the direct fiscal impacts of MFTE, there can also be other impacts that communities need to consider. Note that this only includes the revenue impacts from direct taxation, but does not include other costs, such as local government services, school enrollment, or capital facilities expansion. Conversely, using MFTE to promote redevelopment within a certain neighborhood could attract other sources of funding and draw in long-term support for neighborhood revitalization and increases in associated tax receipts.

Assessment of affordable housing impacts

As noted above, when MFTE is used to set aside affordable units in a mixed-income project, the implication is that the benefits provided by the tax exemption are not used to make the project more feasible, but instead will offset the reduced rents and associated costs. In this case, the project will likely be developed regardless of whether an incentive is provided for affordable housing, as some fiscal impacts will no longer apply. Given the same characteristics of a project:

- The same sales taxes will be received from project construction, even if MFTE is not used.
- As households will be accommodated in the project either way, there will not be a significant increase in local retail spending.⁷⁰
- Sales of property and resulting excise taxes would be expected regardless of the use of a 12-year MFTE.

In some cases, the fiscal impacts of projects that receive MFTE through a 12- or even a 20-year exemption could go beyond these considerations:

- Some cities provide exemptions from impact fees under [RCW 82.02.060](#), which could be applied and would reduce the revenue received from these fees specifically for these units.
- For privately-owned affordable housing that receives additional support for deeper levels of affordability⁷¹, lower-income households could place greater demands for social services on local governments, leading to greater costs than would otherwise be expected.
- If certain communities have lower local market rents, the "affordable" option could be used to provide a greater incentive for new market-rate development than the eight-year option and would need to be compared as per the previous section.
- For some communities such as Redmond and Kirkland, MFTE programs are integrated into broader housing programs that incorporate inclusionary zoning and other requirements.⁷²

As with the market-rate project incentives, these depend heavily on local conditions. However, since the main goal of the 12-year option is to help people find affordable housing in the community, the broader consideration with fiscal sustainability may be to understand if MFTE is an effective way to use tax resources to provide housing subsidies.

To this end, the following information has been drawn from reporting on new mixed-income⁷³ 12-year MFTE projects in the Puget Sound area⁷⁴ reporting between 2019 and 2021:

- Exhibits 29 and 30 provide estimates of the value of the tax exemption per affordable unit for new exemptions in 2019-2021, with Exhibit 29 providing a histogram for each year, and Exhibit 30 providing a three-year average.
- Exhibit 31 provides effective rents per month in the local market for projects built after 2010.
- Exhibits 32 through 34 estimate the yearly subsidies needed to achieve affordability to households at 115%, 80% and 60% MFI, respectively. (Note that this factors in estimates of utility costs into gross rents.)

⁷⁰ This is subject to several assumptions about household spending patterns, and it is possible that there may even be a slight decrease in local spending if lower-income households locate in a project instead of higher-income households because of MFTE. However, understanding this effect is well beyond the scope of this assessment.

⁷¹ For example, LIHTC-funded projects targeting 60% MFI households could also receive the MFTE as well. There were some local concerns expressed regarding these types of projects in the interviews conducted.

⁷² See section B(4), page 36 for a broader discussion of this topic.

⁷³ This excludes MFTEs granted to projects that are 100% affordable.

⁷⁴ King, Kitsap, Snohomish, Pierce, and Thurston Counties.

Exhibit 29. Year one tax exemption value per affordable unit, mixed-income 12-year MFTE, 2019-2021

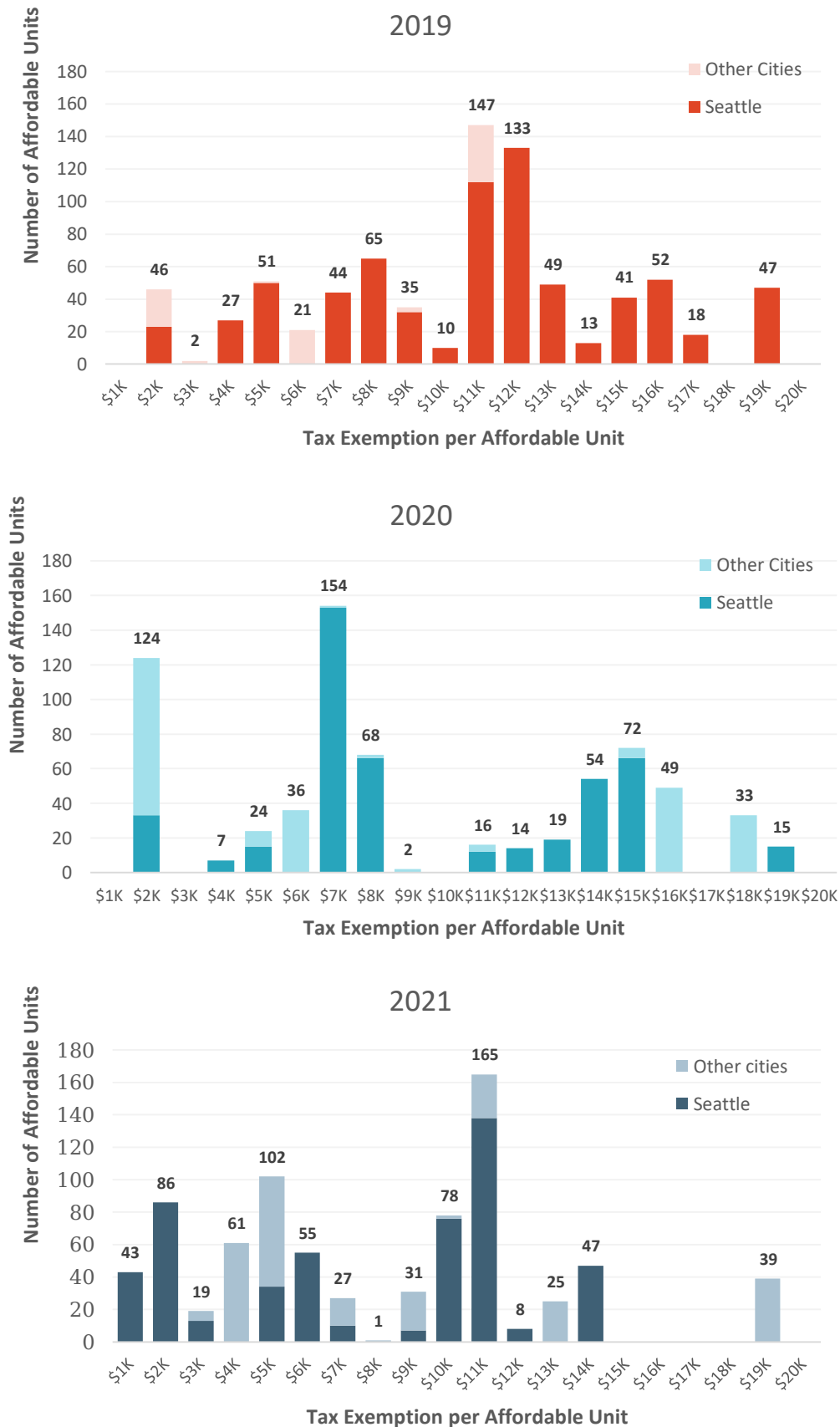


Exhibit 30. 2019-2021 average exemption per unit by city, 12-year exemptions, mixed-income projects

City	Average Exemption/Unit	12-Year MFTE Affordability Requirements	Reference
Bremerton	\$6,162	20% units: 80–115% MFI ⁷⁵	BMC 3.78.040(a)(2)
Edmonds	\$10,984	10% units: 80% MFI 10% units: 115% MFI	ECC 3.38.030(A)
Kirkland	\$1,738	10% units: 70% MFI 10% units: 80% MFI ⁷⁶	KMC 5.88.090(a)(1)(A) and (b)(4)
Lynnwood	\$3,756	20% units: 80–115% MFI ⁷⁷	LMC 3.82.060(B)
Olympia	\$1,374	20% units: 80–115% MFI	OMC 5.86.040(A)(2)(b)
Seattle	\$9,064	20% units: ranging from 40–90% MFI based on unit size	SMC 5.73.040.B
Shoreline	\$11,436	20% units: 70% MFI for studio/1-BR, 80% MFI for 2+ BR ⁷⁸	SMC 3.27.040(A)(4)
Tacoma	\$9,396	20% units: 70% MFI ⁷⁹	TMC 6A.110.020(F)(3)

Source: Washington State Department of Commerce, 2022.

Exhibit 31. 2021 effective rents per month by size and city, multifamily housing units built after 2010

City	Studio	1-bedroom	2-bedroom	3-bedroom
Bremerton	\$1,751	\$1,687	\$1,950	\$2,257
Edmonds	\$1,417	\$1,650	\$2,144	\$4,027

⁷⁵ Prior to 2022, this MFTE program allowed exemptions for units affordable to households up to 150% of MFI.

⁷⁶ See section B(4) for more details on the Kirkland program.

⁷⁷ Note that no income restrictions are provided specifically in the code; this limit is provided from RCW [84.14.020](#).

⁷⁸ Note that mandatory inclusionary zoning is in place in station areas to comply with the requirements for the 20-year MFTE option.

⁷⁹ This was changed from 80–115% MFI in 2021.

City	Studio	1-bedroom	2-bedroom	3-bedroom
Kirkland	\$1,727	\$2,198	\$3,307	\$4,344
Lynnwood	\$1,514	\$1,523	\$1,992	\$2,356
Olympia	\$1,327	\$1,603	\$1,917	\$2,116
Seattle	\$1,492	\$2,108	\$3,200	\$4,275
Shoreline	\$1,425	\$1,687	\$2,109	\$1,857
Tacoma	\$1,497	\$1,604	\$2,168	\$2,056

Source: CoStar, 2023.

Exhibit 32. Estimated yearly subsidy to achieve affordability at 115% MFI, by city and size

City	Studio	1-bedroom	2-bedroom	3-bedroom
Bremerton	-	-	-	-
Edmonds	-	-	-	\$8,011
Kirkland	-	-	\$4,539	\$11,815
Lynnwood	-	-	-	-
Olympia	-	-	-	-
Seattle	-	-	\$3,255	\$10,987
Shoreline	-	-	-	-
Tacoma	-	-	-	-

Exhibit 33. Estimated yearly subsidy to achieve affordability at 80% MFI, by city and size

City	Studio	1-bedroom	2-bedroom	3-bedroom
Bremerton	\$5,623	\$3,906	\$3,854	\$4,797
Edmonds	-	-	\$1,517	\$20,645
Kirkland	\$1,706	\$6,150	\$15,473	\$24,449
Lynnwood	-	-	-	\$593
Olympia	\$1,190	\$3,600	\$4,301	\$4,078
Seattle	-	\$5,070	\$14,189	\$23,621

City	Studio	1-bedroom	2-bedroom	3-bedroom
Shoreline	-	\$18	\$1,097	-
Tacoma	\$3,079	\$3,450	\$7,118	\$3,133

Exhibit 34. Estimated yearly subsidy to achieve affordability at 60% MFI, by city and size

City	Studio	1-bedroom	2-bedroom	3-bedroom
Bremerton	\$9,575	\$8,141	\$8,936	\$10,668
Edmonds	\$2,846	\$4,781	\$7,765	\$27,865
Kirkland	\$6,566	\$11,357	\$21,721	\$31,669
Lynnwood	\$4,010	\$3,257	\$5,941	\$7,813
Olympia	\$4,979	\$7,659	\$9,172	\$9,707
Seattle	\$3,746	\$10,277	\$20,437	\$30,841
Shoreline	\$2,942	\$5,225	\$7,345	\$1,825
Tacoma	\$6,905	\$7,550	\$12,038	\$8,818

There are some considerations to make when examining these exhibits:

- **The effective subsidies calculated from available data can be highly variable.** As can be seen in Exhibit 29, the exemption value can differ significantly between projects. The final amounts can depend on many things: the quality and characteristics of development projects, the timing of the project, and whether the exemption applies to new construction or rehabilitation.
- **Requirements for qualifying for the 12-year MFTE vary between communities.** Many communities align with the requirements in RCW [84.14.020\(1\)\(a\)\(ii\)\(B\)](#) that require that subsidized units must be accessible to low- and moderate-income households. However, other requirements exist; for example, Seattle provides

different MFI targets that can range between 40 and 90% of median income.⁸⁰ This can mean that the actual subsidies provided for individual communities will differ.

- **These effective subsidies will change over time.** While these represent information on year 1 subsidies for new projects, market and affordable rents, property values and tax rates will change over time. This can mean that over a longer period, each of these values will change in significant ways, many of which are hard to project for individual communities.
- **Some communities will have additional incentives available.** Although these subsidies often provide significant local support for affordable housing, communities may provide other incentives such as parking benefits or fee waivers that can also support these projects. These are not included in the exhibits above, but would affect the affordability that could be achieved locally.

With these factors in mind, there are some conclusions that we can draw from this information:

- **Incentives for low-income households generally align with the benefits received for low-income housing.** Although there are wide distributions of implicit value for both the rent subsidies and the tax incentives in MFTE programs, these values generally appear to be aligned. Although there are cases where no incentives would be needed to bring market rents to be affordable to households making 80% MFI, the magnitudes in other cases are similar. While developers and property owners may work to get some financial benefit from these incentives, these appear to be generally effective at providing some levels of subsidy.
- **While there may be a rationale for including moderate-income housing incentives, differences between moderate-income and market-rate rents appear to be minimal.** Exhibit 32 highlights that in many cases, market-rate rents may be equivalent or even lower than calculated values for moderate-income affordability at 115% of median family income. While there may be individual projects where incentives targeting moderate-income households could help meet local housing goals, these results suggest that the incentives may not be needed to address affordability, especially with smaller unit sizes.
- **Conversely, providing deeper levels of affordability can be challenging with MFTE and may require additional sources of support.** For many communities, the necessary subsidies to support 60% MFI households can be very close to, or exceed what is available from the exemption, even for smaller unit sizes. Unless other funding sources or incentives are available from communities, achieving deeper levels of affordability can be much more difficult to balance with the incentives provided to property owners.

⁸⁰ See SMC 5.73.040(B)

Conclusions

Based on this assessment of overall tax receipts, we can draw the following conclusions:

- **There are broad potential tax impacts for MFTE programs when they increase the likelihood that a development will occur.** Although the focus of tax exemptions is often on the direct effects on property tax receipts, there are potential tax effects from the construction and future sales of the project, as well as from the local economic activity resulting from new residents in a community. Additional effects may also be present, especially if MFTE projects can promote new local development. However, these additional effects should only be considered if the tax exemption is directly related to promoting development earlier than it would have otherwise happened. If the incentive is provided to encourage housing affordability and not production, additional tax benefits will not accrue.
- **Positive and negative tax impacts may be accrued by jurisdictions beyond an individual MFTE city.** Although the MFTE program is created and managed by a city (or county), other jurisdictions may experience changes in tax receipts from the exemption. For example, transit authorities, counties and the state may all depend on both property and sales taxes, while school districts are dependent on local property tax levies. This means that there are tax ramifications for all of these jurisdictions from an MFTE program, and not every district may be impacted in exactly the same way.
- **While tax shifting can reduce the impacts on the finances of impacted jurisdictions, this still represents public money raised from taxpayers.** The examples provided demonstrate that there can be some significant shifting of tax obligations due to MFTE, given current property tax assessment practices. However, while this tax shifting will likely result in minimal impacts to property tax revenue and the incentive does not provide a direct outlay of public funding, these resources still represent public money. This should be considered when weighing the overall costs and benefits of the program.
- **Revitalization of mixed-use neighborhoods is the most effective use of the eight-year MFTE program.** If an MFTE program does not include affordability components, it can receive the greatest return on public investment through promoting residential development (and redevelopment) that would not otherwise happen over at least the next five to 10 years. Similarly, greater tax benefits can be received from projects that encourage greater local business activity, especially as part of local mixed-use neighborhoods. Additional benefits can also be received by encouraging broader redevelopment, including projects that may not be residential but are promoted by new activity in a growing neighborhood.
- **Tax exemptions appear to provide the best incentives for providing low-income rent-restricted housing.** In communities where development would likely occur without the need for the eight-year MFTE, the use of the tax incentive should shift to providing support for income-restricted housing. From a general assessment of the incentives provided by the exemption and the differences from market and affordable rents that these incentives would need to support, it appears that the most effective use of these incentives would be for low-income households making around 80% MFI. At higher income levels, affordable rents are much closer to market rates and the incentive is not necessary. Conversely, at lower income levels the incentives may not be able to cover the lower rents for mixed-income projects.

Based on these conclusions, we make the following recommendations (see [section A](#) for more details):

- **2.1.2** Include recommendations in [WAC 458-12-342](#) for county assessors to provide guidance to cities about levy rates to highlight tax-shifting impacts from MFTE.

- **2.2.1** Amend [RCW 84.14.040](#) to require consultation with affected taxing districts when residential targeted areas are designated.
- **2.2.2** Amend [RCW 84.14.040](#) to require consultation with affected taxing districts when program requirements are changed.
- **3.3.3** Amend [RCW 84.14.020](#) which refers to both "low- or moderate-income households" when setting thresholds for income-restricted units.

D. Case studies

Introduction

This section provides summaries of the MFTE programs in six cities. In addition to highlighting program successes and challenges, the interviews with these jurisdictions informed the entire assessment of practices and the collection of best practices for the MFTE administrators' workbook. To capitalize on this opportunity, the challenges faced in these communities were used to develop potential changes to the statewide MFTE framework. Readers will find these potential changes at the end of this document.

The cities detailed in these case studies are:

- Covington
- Port Orchard
- Renton
- Shoreline
- Tacoma
- Vancouver

We selected these cities to provide variety in the following characteristics:

- Geographic location
- Length of MFTE program
- Representation of diverse program elements

Interviews with city staff and local developers, analysis of program characteristics and details of the completed projects informed this study. Overall, the case studies explore topics such as impacts on city finances, yields of multifamily housing, and fulfillment of overall planning goals under the [Growth Management Act](#).

Key statistics for each city include the following:

City	Year of adoption	Exemption types	Number of final certificates	Number of units created
Covington	2012	eight-year, 12-year	2	356
Port Orchard	2016	eight-year, 12-year (rental only)	2	76
Renton	2003	eight-year, 12-year, 20-year (ownership only), 12-year extension	11	1,849
Shoreline	2002	12-year, 20-year (rental only), 12-year extension	13	1,613
Tacoma	1997	eight-year, 12-year, 20-year (ownership only), 12-year extension	173	6,231
Vancouver	1997	eight-year, 10-year, 12-year	25	2,200

Case study structure

Each case study provides the following information:

- Summary of the local program
- Purpose of the program as stated in the enabling ordinance
- Description of the residential targeted areas
- Summary of the program parameters
- Program outcomes, including examples of successful projects
- Other highlights and challenges with the program
- Program analysis to highlight other findings

Summary of findings

- **Exemptions can help direct new residential development to targeted areas.** Cities have found MFTE to be an effective tool to guide where multifamily units are developed in the community. To this end, communities often use the program to incentivize multifamily housing around high transit areas and in specifically targeted areas of a city requiring additional investment. Cities can adjust these program parameters if the resulting location of development would not align with community goals.
- **Cities use options for different affordability limits to meet different policy goals.** Cities might specify lower income and rent limits than required in the statute for different reasons. One of the most common reasons is that the median family income for the county or the metro area are higher than in an individual city, and housing opportunities are needed that align with more locally defined income and rent limits. Note that there are also situations that may allow affordability requirements for 12-year exemptions that include moderate-income households, which can represent local rent levels that are closer to market rates and would likely incentivize housing at rents that would be close to what otherwise would be charged.
- **Calculations of income-restricted rents can differ community to community.** The case studies also demonstrate that even aside from using different limits for incomes, calculations of rents themselves can vary from the standard use of median family income. Renton, for example, fixes rents under the 12-year option at 30% of household incomes, instead of relying on the median family income to calculate rent levels. In other cases, rents can be calculated with additional local household income measures, or include year-to-year restrictions on rent increases.
- **Communities have relied on MFTE as a primary tool for stimulating local economic development through neighborhood revitalization.** This helps revitalize areas but does not necessarily guarantee affordable housing units are being built. Cities that have had a program for many years have shifted to offering only the 12-year exemption in certain cases, or are evaluating how to adjust the program to incentivize the development of affordable units in other ways.
- **Coordination of income-restricted housing requirements for MFTE programs should include a consideration of supporting services.** While affordable housing is an important potential outcome from the MFTE program, there may be additional needs for services for new residents. While this can depend strongly on the income limits and household characteristics, cities may need to be aware of these potential increases in service demands and coordinate with developers and property owners on options.
- **The success of MFTE programs is often related to community and market-specific factors, such as increased demand for housing and transit investments, but MFTE cannot encourage new development in all areas.** MFTE is most successful in cities where other factors also facilitate development, such as increased demand for housing, transit investments, or pairing with additional development incentives.

City of Covington

Summary

The City of Covington is a city in southern King County, neighboring Kent, Auburn, and Maple Valley. In 2022, the estimated population is 21,417 and the estimated number of housing units is 7,398. The population increased by 21% from 2010 to 2022.

Covington adopted an MFTE program in 2012 under [Chapter 3.80 CMC](#) and offers eight- and 12-year exemptions. In 2021, the city updated the program to add two elements ([CMC 3.80.040](#)):

- To promote environmentally sustainable development, eligible projects must achieve LEED Silver certification.
- A requirement was also added for 12-year projects to require 20%-30% of the total units to be income-restricted for low- and moderate-income households. Projects may contain up to 40% of the total number of housing units as income-restricted if the development includes supportive services on site.⁸¹

Note that the city has found that projects with income-restricted units have been developed on the edges of downtown without on-site supportive services like daycare or employment counseling. In response, the city placed specific requirements to limit the number of income-restricted units on a site, which can be increased if these types of services are provided.

Key MFTE statistics

Year established:	2012
Number of final certificates:	2
Total units:	356
Total income-restricted units:	232

Program purpose

The specified goals of the program under [CMC 3.80.010](#) are to:

- Encourage multifamily housing opportunities within the city
- Stimulate new construction for multifamily housing in specified zoning districts to increase and improve housing opportunities
- Accomplish the planning goals required under the [Growth Management Act, Chapter 36.70A RCW](#), as implemented by the city's Comprehensive Plan

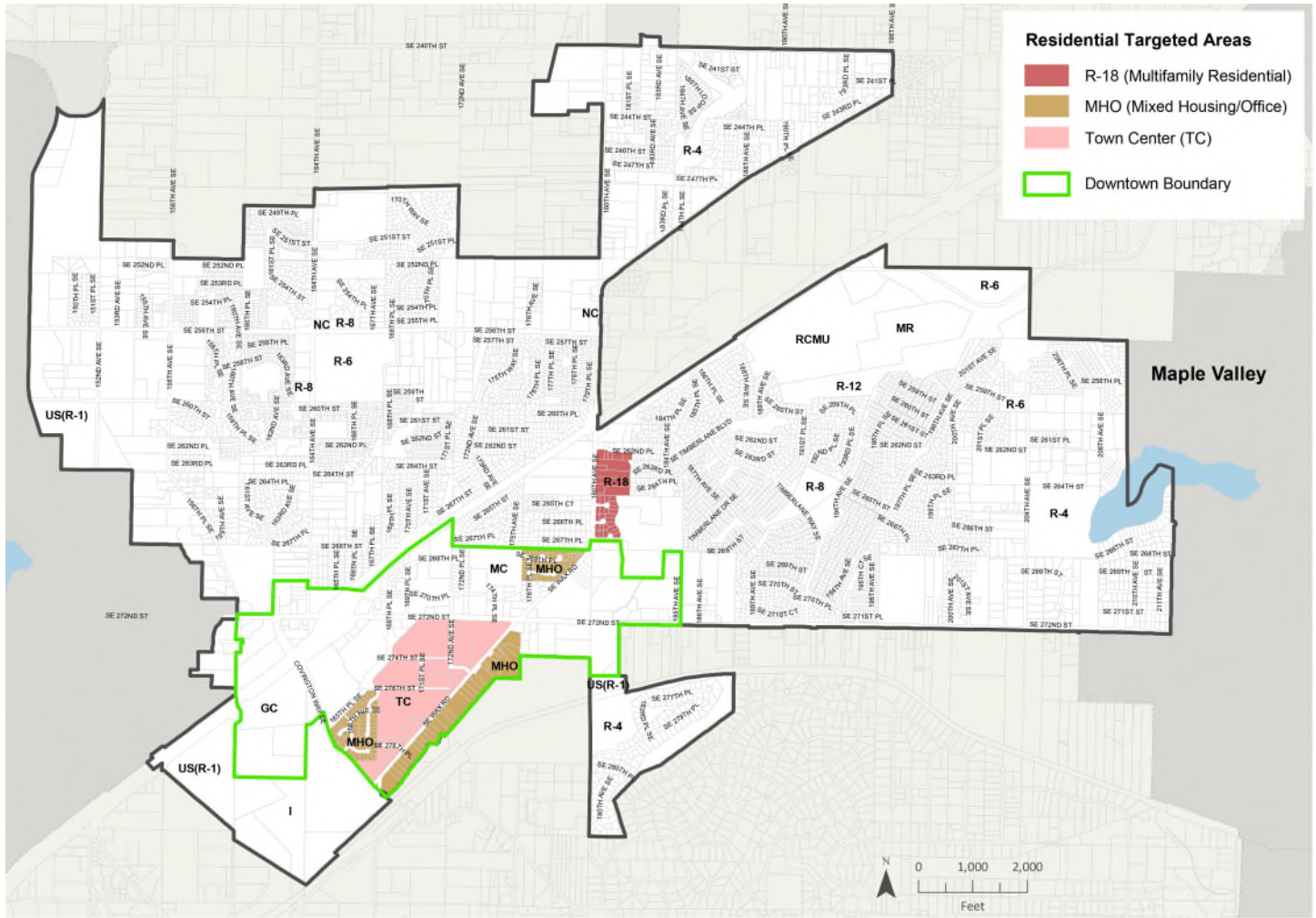
⁸¹ According to [CMC 3.80.040\(2\)\(b\)](#), buildings under the 12-year exemption can only provide up to 30% of the total units as affordable, or 40% if the development includes on-site services, including "daycare, health care, employment counseling, business incubator space, or other supportive services."

Residential targeted areas

Covington has three RTAs based on zoning, as seen in the map below:

- Downtown Zone: Town Center (TC) zone as defined in [CMC 18.15.080\(1\)](#).
- Downtown Zone: Mixed Housing/Office (MHO) zone as defined in [CMC 8.15.080\(4\)](#).
- Urban Residential 18 (R-18) zone as defined in [CMC 18.15.050\(1\)\(b\)](#), which is specifically targeted to "a mix of higher densities and greater variety of housing uses."

Exhibit 35. Covington Residential Targeted Areas



Source: City of Covington, 2023.

Program parameters

A summary of major parameters for the program includes the following:

	Program parameters
Exemption types	<ul style="list-style-type: none"> ○ eight-year (rental/ownership) ○ 12-year (rental/ownership)
Affordability requirements	<ul style="list-style-type: none"> ○ 12-year projects must have at least 20% units affordable to low- and moderate-income households under definitions from RCW 84.14.010
Residential targeted areas	<ul style="list-style-type: none"> ○ Downtown Zone: Town Center (TC) zone ○ Downtown Zone: Mixed Housing/Office (MHO) zone ○ Urban Residential 18 (R-18) zone
Other project requirements	<ul style="list-style-type: none"> ○ For the TC district, projects need to be multistory, mixed-use projects that "provide a mix of apartment types and sizes for a variety of household types" (CMC 3.80.040(1)(d)) ○ Under the program, 12-year projects may only include up to 30% of income-restricted units. However, they may contain up to 40% income-restricted units if supportive services are provided on site (CMC 3.80.040(2)(b)). ○ LEED Silver certification (CMC 3.80.040(1)(e) and (2)(e))
Regular program review	No requirement included.

Program outcomes

- Two total projects
- 356 new housing units, including 232 income-restricted units

The Inland Group, a development firm based in Eastern Washington that specializes in high-density residential development and construction, developed both MFTE projects in the Town Center district in 2016. These projects included:



Polaris at Covington (RL Miller Photography)

- **Polaris at Covington**, a 200-unit project that has set aside all units for low-income households. The \$24.5 million project includes 45 one-bedroom, 100 two-bedroom, and 55 three-bedroom units, which can support a broader mix of household types. (Note that Polaris also received a 4% LIHTC as a private entity to support this development.)
- **Affinity at Covington**, a \$21 million senior (55+) community with 156 units, with 32 units set aside for affordable housing targeted at moderate income households. The Affinity includes 10 studio apartments, 54 one-bedroom units, and 92 two-bedroom units.

While these two projects presented an opportunity to utilize the tax exemptions through the MFTE program, concerns about the availability of support services resulted in limitations to the maximum set-aside of affordable units under the 12-year MFTE being passed in 2021.⁸²

Highlights and challenges

- **Impact on development.** Between Q2 2005 and Q1 2021, Covington added 539 units of multifamily housing, with 356 (66%) of these units receiving the tax exemption.⁸³ While this points to relatively low multifamily housing development during this period, projects under the MFTE program represent about 5% of all housing in the city, or 24% of their 2006-2031 housing growth targets under its current Comprehensive Plan. For property owners who have used the program, the exemption has helped make the cost of development feasible and has supported these projects going forward. However, the size of the city, high local levels of homeownership,⁸⁴ and project sizes likely to be taken up by larger regional/national multifamily developers means that this type of development is likely to be infrequent in Covington.
- **Program updates.** Amendments to the city's MFTE program in 2021 include a requirement for mixed-income housing development to include supportive services if a development pursues a 12-year tax exemption and wants to provide up to 40% of units as income-restricted. Another requirement is LEED Silver green building standards for both the 8- and 12-year exemptions. Covington adopted these changes

⁸² See [City of Covington Ordinance 08-2021](#); this was incorporated into broader efforts to provide downtown form-based codes and provide a SEPA infill exemption.

⁸³ Note that there have been 89 multifamily housing units completed in Covington in 2021-2022, as per data from the Washington State Office of Financial Management.

⁸⁴ Owner-occupied housing comprises over 80% of the housing in Covington, as determined by [Table S2502](#) of the 2017–2021 American Community Survey.

as part of broader changes to the Code to incentivize higher-quality, mixed-income development and ensure that supportive services would be in place for residents as needed.⁸⁵

Program analysis

- **Rent comparison.** Comparing rents in the same development is difficult because Covington only has two MFTE projects at present and the city overall only has a small number of rental units available.
- **Permanent affordable rentals.** Covington does not have permanent affordable rentals and has not adopted the 20-year exemption option. When this was discussed with staff, there were concerns about the limited length of the current exemptions. For Covington, exemptions will be ending for the two current MFTE projects by 2028.⁸⁶ Once this occurs, rents will likely increase for these units, which will push out the current tenants. As one of the MFTE projects is senior living, the rent-restricted tenants in this project likely have a fixed income and would clearly be unable to manage significant increases in rents. As a result, the city is looking to work with the property owners on long-term planning for the affordable MFTE units in these projects to determine if these units can be kept affordable in some other way.
- **Characteristics of areas with MFTE projects.** A city concern has been that there are not enough services for households with lower incomes, and incentives that could be used for projects that target levels of affordability that are lower than required could overload local capacity to provide those services. This is certainly part of a bigger conversation, and it highlights that the location of services that help low-income households should be considered when designing targeted areas and the characteristics of MFTE programs.

⁸⁵ [Letter from the City of Covington to the Washington State Department of Commerce, June 9, 2021.](#)

⁸⁶ Note that under LIHTC requirements, the 15-year compliance period for Polaris at Covington will end in 2030.

City of Port Orchard

Summary

The City of Port Orchard is in Kitsap County and serves as the county seat. In 2022, the estimated population was 16,400 and the estimated number of housing units was 6,526. The population increased by 46% from 2010 to 2022. This is the smallest jurisdiction, by population size, included in these case studies.

Port Orchard adopted an MFTE program in 2016, which is codified in [Chapter 3.48 POMC](#). In 2020, the city amended the program to add further residential targeted areas and increase affordability requirements for projects receiving a 12-year exemption.⁸⁷ However, as the median household income for Port Orchard is less than the median household income in Kitsap County, affordable rents as designated by median family incomes in the county may not be significantly below market rate, and as such, may not be addressing local needs for affordability. Because of this, staff have been working to determine the best approaches to align these income limits to local household characteristics.

Key MFTE statistics

Year established:	2016
Number of final certificates:	2
Total units:	76
Total income-restricted units:	17

Program purpose

The goals of the program under [POMC 3.48.010](#) are to:

- Encourage increased residential opportunities, including affordable housing units, within areas of the city designated by the City Council as RTAs.
- Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for multifamily housing in designated residential targeted areas to increase and improve housing opportunities, including affordable housing.
- Accomplish the planning goals required under the [Growth Management Act, Chapter 36.70A RCW](#), as implemented by the city's Comprehensive Plan.

Residential targeted areas

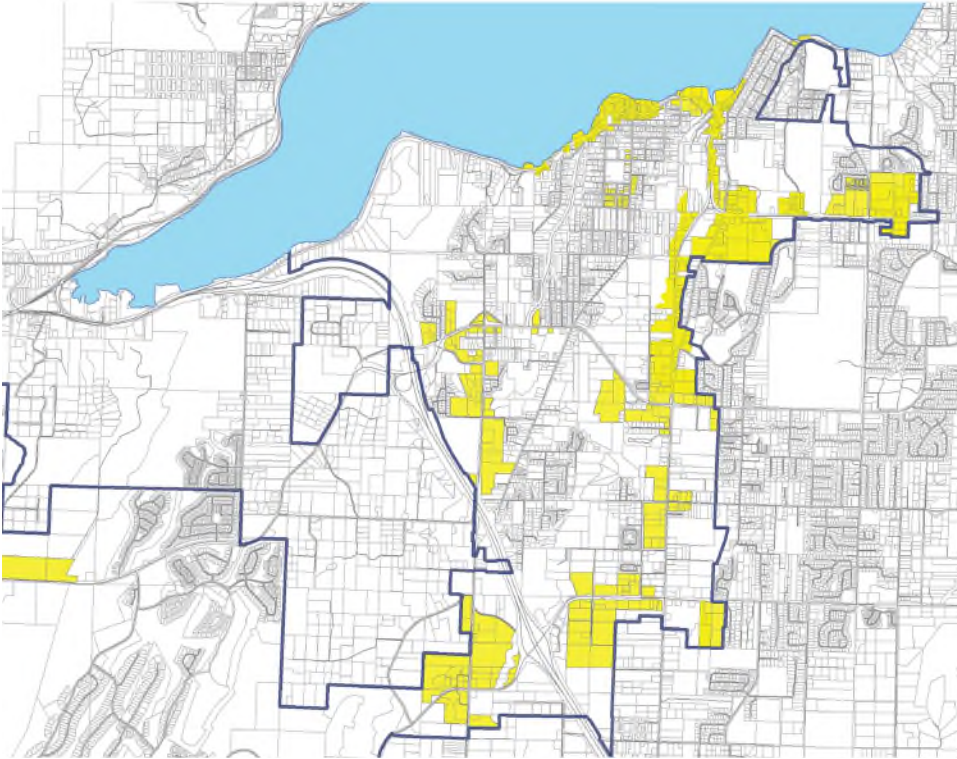
In accordance with [POMC 3.48.030](#), the city includes all parcels zoned multifamily or mixed-use in centers under the Comprehensive Plan as RTAs. However, the ordinance categorizes different "residential targeted areas" based on local site criteria (see Exhibit 36):

- Type 1 areas (**affordable housing with transit access**) include parcels within one-half mile of a transit route or ferry terminal.
- Type 2 areas (**redevelopment areas**) include parcels that are encouraged to redevelop because they have abandoned or underutilized buildings, or contain existing structures and improvements with an assessed building value to land ratio of two-to-one or more. (Note that this can also include areas that may be rezoned to include residential development.)

⁸⁷ See [City of Port Orchard Ordinance 029-20](#).

Exhibit 36. Port Orchard Residential Targeted Areas

a.) Type 1: Affordable housing with transit access



b.) Type 2: Redevelopment areas

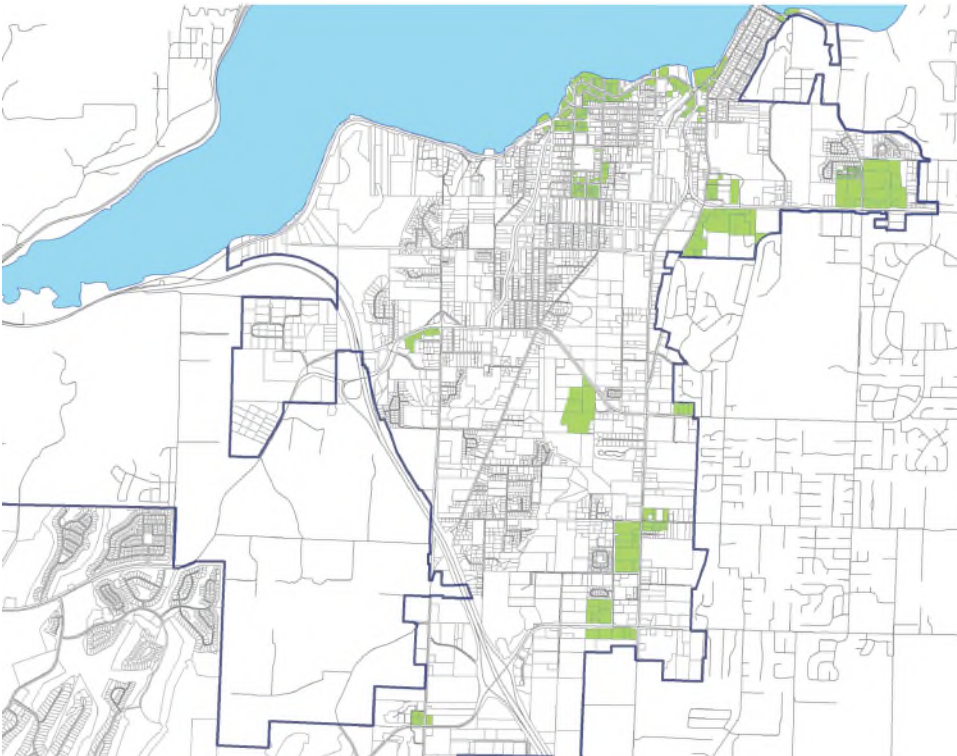
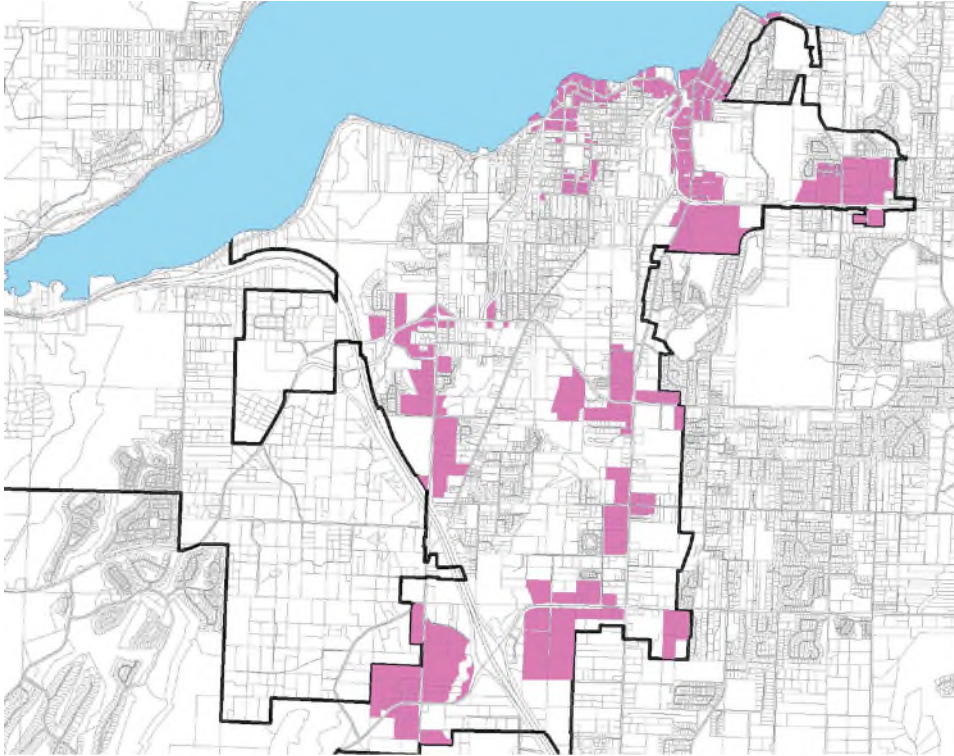


Exhibit 36 (continued)

c.) Type 3: Mixed-use development with structured parking and/or transfer of development rights



Source: City of Port Orchard, 2023.

- Type 3 areas (**mixed-use development with structured parking and/or transfer of development rights**) include all parcels zoned for multifamily or mixed-use development in centers.

As these individual types depend on both location within designated centers and property/project characteristics, sites may be covered under more than one of these designations.

Program parameters

A summary of major parameters for the program includes the following:

	Program parameters
Exemption types	<ul style="list-style-type: none"> ○ Eight-year (rental/ownership) - Type 2/3 ○ 12-year (rental) - Type 1 only
Affordability requirements	<ul style="list-style-type: none"> ○ Type 1: 20% of units shall be rented for at least 10% below fair market rent to households at 40-80% median family income (depending on unit size). ○ Type 2/3: none
Residential targeted areas	<p>All multifamily and mixed-use parcels in centers are eligible, with different types based on site characteristics:</p> <ul style="list-style-type: none"> ○ Type 1: Multifamily/mixed-use parcels within one-half mile of a transit route or ferry terminal. ○ Type 2: Multifamily/mixed-use parcels with abandoned, underutilized, or depreciated buildings on-site. ○ Type 3: All parcels zoned multifamily/mixed-use.
Other project requirements	<ul style="list-style-type: none"> ○ All projects must include at least 10 units. ○ Type 3: Project must do one of the following: <ul style="list-style-type: none"> • Include at least 50% of on-site parking in the building footprint and achieve a density of at least 50 units per net developable acre. • Include ground-floor shopfront commercial amounting to at least 40% of the total building footprint (which may include live-work space). • Purchase at least one additional story of height through the city's transfer of development rights program.
Regular program review	No requirement included.

Program outcomes

- 1 total project
- 38 new housing units, including 8 income-restricted units

The **Olympic View Apartment Homes** is the one completed multifamily project in the city that has received a final certificate as of 2021. This project opened in 2018 and consists of two 19-unit apartment buildings on a 2-acre site. It includes a mix of one-, two-, and three-bedroom units, and has provided eight affordable units under the 12-year option. The location has good access to the fast ferry to Bremerton, which is an amenity promoted to potential tenants.

More recently, two other projects have been approved as of 2022 for the use of the exemption.⁸⁸ This includes **Plisko Apartments/Cedar Cove Commercial**, which includes a 57-unit apartment building close to an existing commercial district that has received approval for the use of the 12-year exemption, and **Pottery Creek Apartments**, a 136-unit project that applied for the eight-year exemption.

Highlights and challenges

- **Impact on development.** It has not been clear from development activity up to 2021 that the original MFTE program has resulted in a substantive number of new projects. Only one project of 38 units had utilized the program by that time, and the 12-year exemption requirements provided units that were close to market rate for the area. The changes provided in 2020 provided for significant expansions to the areas where MFTE may be applied, and there have been a notable recent increase in applications. Still, it is not clear yet whether these new applications will represent significant increases in housing (both market-rate and affordable) but given that only about 441 housing units have been built in the city between 2012 and 2022, projects with the MFTE may reflect a greater proportion of total multifamily units built into the future.
- **Impact on planning goals.** The City is working to encourage the development of designated centers through the MFTE program, as well as support for housing affordability and redevelopment of previously occupied sites. There are some distinct questions about the effectiveness of the MFTE program to meet these goals, however. Overall, it is not clear whether the eight-year has provided an incentive that would encourage housing development projects to move forward that would otherwise not be feasible. It is also not clear if the 12-year affordability requirements provide rents that are significantly below local market values, which suggests that these requirements may need to be adjusted to provide more support for low-income households in the community.
- **Incentivizing certain types of housing.** The parameters for the Port Orchard MFTE specify development types with the Type 3 eight-year option, where developers are required to include parking and at least 50 units per acre in the building, or include commercial uses in the ground floor.⁸⁹ However, the other two options (focused on affordable housing and redevelopment) do not have comparable requirements. In these cases, many of the projects where MFTE has been proposed have included smaller garden-style apartments, which may not support either smaller-scale "missing middle" housing options or the levels of density necessary to support development of local centers.

⁸⁸ Note as well that at least three projects have had applications approved for tax exemptions by City Council as of 2023, including one project with 108 units under the eight-year MFTE, and two projects under the 12-year MFTE totaling 216 units.

⁸⁹ A third option is to purchase additional height through the City's Transfer of Development Rights (TDR) program.

Program analysis

- **Rent comparison.** Market-rate rent in Port Orchard is significantly below the market rate in Kitsap County's other cities, and the median household income in Port Orchard is also below the county levels. As the city's MFTE program is oriented in part to provide affordable housing, city staff has identified the need to adjust these limits to ensure that the units provided from the exemption provide a discount in rent that can help lower-income households.
- **Permanent affordable rentals.** Port Orchard does not have permanent affordable rentals and has not adopted the 20-year exemption option or the 12-year exemption.⁹⁰
- **Characteristics of areas with MFTE projects.** While the MFTE program provides tax incentives for multiple goals, including development of multiple centers, recent projects have been centered on the Bethel South (Salmonberry) and Sedgwick Bethel local centers.⁹¹ These areas do provide transit access, including access to the fast ferry to Bremerton. However, these areas are strongly auto-oriented with respect to local access, and the community recognizes that subarea plans are needed for these areas. Additionally, while the city has identified that a downtown revitalization is a priority, no MFTE projects have been built in this neighborhood.

⁹⁰ As the first exemption issued is not due to expire for several years, this may not be a priority until around 2030.

⁹¹ Note that this is a shift from the first MFTE project, which was located in the Mile Hill neighborhood.

City of Renton

Summary

The City of Renton is located south of Seattle and is the fourth-largest city in King County. In 2022, the estimated population was 107,500, and the estimated number of housing units was 43,733. The population increased by 18% from 2010 to 2022.

The City of Renton adopted the MFTE program in 2003 as a tool to encourage investment in specific areas of the city, which is included under [RMC 4-1-220](#). This had been amended over time amended in 2018 to lower the maximum household income requirements.⁹² Recent changes in 2021 included:

- Adopting two new residential targeted areas.
- Adding the 20-year exemption option for permanently affordable homeownership.
- Providing the 12-year extension option for MFTE projects meeting affordability requirements.

One element that differs from many other communities is that Renton includes a sunset date within the MFTE program. Every three years, staff reviews the program with the City Council to extend the sunset date of the program. This provides a chance to work with the council and the planning commission to determine if any changes are necessary.

Key MFTE statistics

Year established:	2003
Number of final certificates:	11
Total units:	1,849
Total income-restricted units:	19

Program purpose

No explicit purpose to the program is provided in the enabling Municipal Code section itself⁹³, but the program includes provisions for both the redevelopment of targeted areas in the city and housing affordability in these areas to help increase housing opportunities.

Residential targeted areas

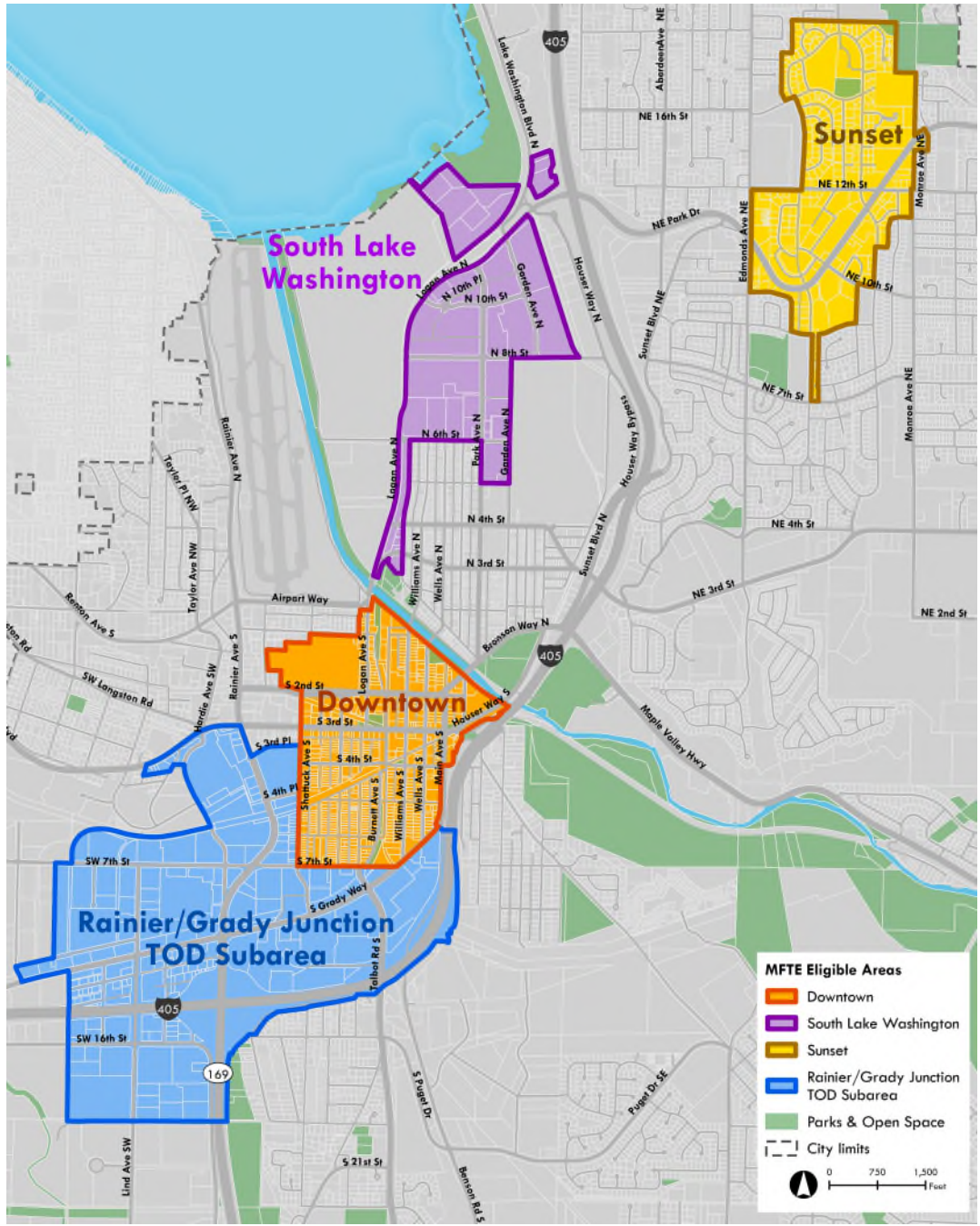
Renton has established four RTAs as seen in the map below, two of which (Sunset and Rainier/Grady) were added in 2022:

- **Sunset Area:** In the Sunset Area and within the Center Village (CV), Residential Multi-Family (RMF), or the Residential-14 (R-14) Zone.
- **Downtown:** In the Downtown and within the Center Downtown (CD) Zone or Residential-14 (R-14) Zone.
- **Rainier/Grady Junction TOD Subarea:** In the Rainier/Grady Junction TOD Subarea and within the Commercial Arterial (CA) or Commercial Office (CO) Zone.
- **South Lake Washington:** In the South Lake Washington and within the Urban Center-1 (UC-1), or the Urban Center-2 (UC-2) Zone.

⁹² See [City of Renton Ordinance 5911](#). This reduced the income threshold for the 12-year exemption to 60% AMI for rental properties and 80% AMI for owner-occupied properties.

⁹³ See [RMC 4-1-220](#).

Exhibit 37. Renton Residential Targeted Areas



Source: City of Renton, 2023.

Program parameters

A summary of major parameters for the program includes the following:

	Program parameters
Exemption types	<ul style="list-style-type: none"> ○ eight-year (rental/ownership) ○ 12-year (rental/ownership) ○ 20-year (ownership only) ○ 12-year extensions
Affordability requirements	<ul style="list-style-type: none"> ○ For rental projects, 20% of units must be rented as affordable housing to households making 60% of median family income. ○ For ownership projects, 20% of units must be sold as affordable to households at 80% of median family income. ○ Note that an alternate affordability requirement may apply for smaller owner-occupied projects (noted below).
Residential targeted areas	<ul style="list-style-type: none"> ○ Sunset Area ○ Downtown ○ Rainier/Grady Junction TOD Subarea ○ South Lake Washington
Other project requirements	<ul style="list-style-type: none"> ○ Under the MFTE ordinance, projects must be mixed-use and of a minimum size in certain areas: <ul style="list-style-type: none"> • For mixed-use zones in the Sunset Area and Downtown RTAs, projects must be mixed-use and include at least 30 units. • For the Rainier/Grady and South Lake Washington RTAs, projects must be mixed-use and include at least 100 units. ○ For homeownership projects that sell at least 50% of their units as affordable at 80% AMI and the remaining units as affordable at 120% AMI, projects can be 10 units or above.
Regular program review	<ul style="list-style-type: none"> ○ The program has a sunset clause and must be reauthorized by the City Council every three years.

Program outcomes

- 11 completed projects and two projects in progress as of December 2022
- 1,849 new housing units, including 19 income-restricted units⁹⁴

One example of a project that has used MFTE in Renton is the Solera project.⁹⁵ The project is in the Center Village (CV) zone and is included as part of the Sunset Area RTA. The project received a Conditional Certificate of Exemption in 2022 and is expected to be completed in 2024.

Solera will include two mixed-use buildings with 590 new multi-family housing units (313 market-rate and 277 affordable), ground floor retail storefronts, and a childcare facility. By providing almost half the units as affordable, the project exceeds the city's requirement that projects rent at least 20% of the units to households at or below 60% of median income to qualify for a 12-year property tax exemption. Solera is financed through a unique combination of private capital, public funding and the Evergreen Impact Housing Fund.⁹⁶



Solera Renderings

Highlights and challenges

- **Promoting more housing types.** There is a concerted effort to increase density in certain areas of the city through larger projects and increasing the multifamily supply of housing. As such, minimum size requirements and the specific exclusion of townhomes established for certain areas place a greater focus on larger apartment flats in projects. The requirements for affordable homeownership projects and development in other zones do allow for smaller developments, which can potentially incorporate other "missing middle" type developments.⁹⁷ While larger "missing middle" projects with multiple buildings may be possible in certain locations, this places a greater focus on larger projects.
- **Affordability.** One of the differences in the MFTE program in Renton is that rent-restricted units are specifically related to the tenant's income. While qualifying for a unit will depend on meeting the 60% AMI requirements, monthly housing costs charged to tenants cannot exceed 30% of their income.⁹⁸ This provides a benefit in that the rents charged are more aligned with affordability than measures relying on median incomes. However, this can be a distinct challenge for developers that are looking for consistent estimates of the income-restricted rents that will be charged into the future.
- **Impact on development.** The MFTE program in Renton has historically been used as an economic development tool to revitalize targeted areas in the city. The main example of this is with the South Lake

⁹⁴ Note that projects in process that have received conditional certificates will add 698 new housing units.

⁹⁵ [Solera Apartments Overview](#).

⁹⁶ ["Mixed-income housing project breaks ground in Renton Highlands neighborhood." Renton Reporter. September 1, 2021.](#)

⁹⁷ See [RMC 4-1-220\(D\)\(2\)](#) for these requirements. Note that developments between 10 and 30 units and market-rate townhome units can only be granted an exemption if the project is in the Downtown and within the Residential-14 (R-14) Zone, in the Sunset Area and within either the Residential Multi-Family (RMF) Zone or the Residential-14 (R-14) Zone. Projects between 10 and 30 units are also allowed if an owner-occupied housing project that is 100% affordable.

⁹⁸ See [RMC 4-1-220\(B\)\(2\)](#). Note that there are some other communities that also do this; for example, Spokane also provides a comparable framework ([SMC 08.15.020](#)).

Washington area, which has received significant mixed-use development over time on former industrial lands. However, the uptake of the program in certain areas has slowed as the requirements of the program have changed and certain areas such as Southport in the South Lake Washington area have been built out. While 1,075 of the total 1,694 housing units developed under MFTE in Renton between 2007 and 2011 have been in this targeted area, exemptions for only 155 units have been issued between 2012 and 2021. However, the expectation is that planned development in the Sunset Area as well as the Rainier/Grady Junction TOD Subarea, especially after the completion of the Stride BRT line in 2026⁹⁹, may result in more uptake for the MFTE program, including as a way of encouraging affordable homeownership.

- **Impact on planning goals.** As noted, the initial focus of the Renton MFTE program was on revitalization of key neighborhoods in need of new investment and, especially for the South Lake Washington RTA, this has been an important component of overall efforts to redevelop these areas. However, this focus has shifted and changes in local needs and strategic planning have caused the program to be reoriented to focus on transit-oriented development and redevelopment of existing areas to support lower-income households. Through recent planning for the Sunset Area and Rainier/Grady Junction TOD Subarea, there will be more of a focus to encourage the use of MFTE in these areas to achieve these goals.

Program analysis

- **Rent comparison.** With respect to affordable housing units, the only recent MFTE project with affordability requirements was Liberty Square Apartments, a project that received LIHTC funding in addition to the tax exemption. However, the exemption for this property expired in 2021. The Solera project described above will have income-restricted units for households up to 60% AMI. Rents set at the maximum amount for 60% of AMI will be \$1,456 to \$1,747, which is significantly below market rent for the city.
- **Impact on rents, project budgets, and public benefit.** Historically, the primary public benefit of the MFTE program for Renton has been support for significant revitalization of the South Lake Washington area and some additional development in the downtown. This has included the provision of more market-rate housing alternatives for these areas, which has encouraged other development as well. Affordable housing has been less of a focus, and usually only coordinated with other sources of funding that also require affordability.
- **Permanent affordable rentals.** The city adopted the 20-year exemption option for permanently affordable homeownership, and the 12-year extension option for MFTE projects meeting affordability requirements. No projects have yet applied for the 20-year exemption.
- **Characteristics of areas with MFTE projects.** The initial development of the MFTE program focused on areas where revitalization was a key focus, and the South Lake Washington area was characterized by a change from industrial land uses to a new mixed-use neighborhood. The shift in focus to the Downtown, Sunset Area, and Rainier/Grady Junction is focused more on the redevelopment and renewal of existing areas. However, note that these areas, especially the Downtown and Sunset areas, are expected to be at risk for displacement, given the likely presence of existing housing with relatively affordable rents.¹⁰⁰ The Solera project will be along transit lines and near retail establishments, a library and a neighborhood park.

⁹⁹ See Sound Transit's [Stride Bus Rapid Transit website](#) for more details.

¹⁰⁰ See the [City of Renton 2021 Housing Action Plan](#) for more information on this.

City of Shoreline

Summary

The City of Shoreline is a small city north of Seattle, which is currently planning for future stops on the northward Sound Transit light rail extension. In 2022, the estimated population was 60,320 and the existing stock of housing included 25,241 units. The city population grew by 14% from 2010 to 2022.

The Shoreline MFTE program is included under [Chapter 3.27 SMC](#). The city first adopted an MFTE program in 2002, which was in turn simplified into a 12-year affordable program in 2015. In 2021, the city adopted changes to their program, which included providing a 20-year exemption for rental units in exchange for a 99-year covenant to maintain a set-aside of units as affordable. This 20-year option was allowed through the mandatory inclusionary zoning requirements for the Mixed-Use Residential zones in light rail station subareas.¹⁰¹ For projects nearing the end of an initial 12-year exemption, a 12-year extension was also made available.

The city initially designated light rail station subareas as residential targeted areas for the MFTE program in 2017 but established a sunset date of December 31, 2021 for conditional certificates. The intent of this was to provide a short-term incentive to spur development close to future light rail stations. As several factors hindered this development, City Council extended the designation for these subareas and expanded them to match current zoning and expected future rezones.

Key MFTE statistics

Year established:	2002
Number of final certificates:	13
Total units:	1,613
Total income-restricted units:	308

Program purpose

Under [SMC 3.27.010](#), the purpose of the Shoreline MFTE program is to:

- Encourage increased residential opportunities within the residential targeted area.
- Stimulate new construction, or rehabilitation or conversion of existing vacant, underutilized or substandard buildings to multifamily housing for revitalization of the designated targeted areas.
- Assist in directing future population growth to the RTA, thereby reducing development pressure on single-family residential neighborhoods.
- Achieve development densities that stimulate a healthy economic base and are more conducive to transit use in the designated RTA.

¹⁰¹ See [SMC 20.40.235](#).

Residential targeted areas

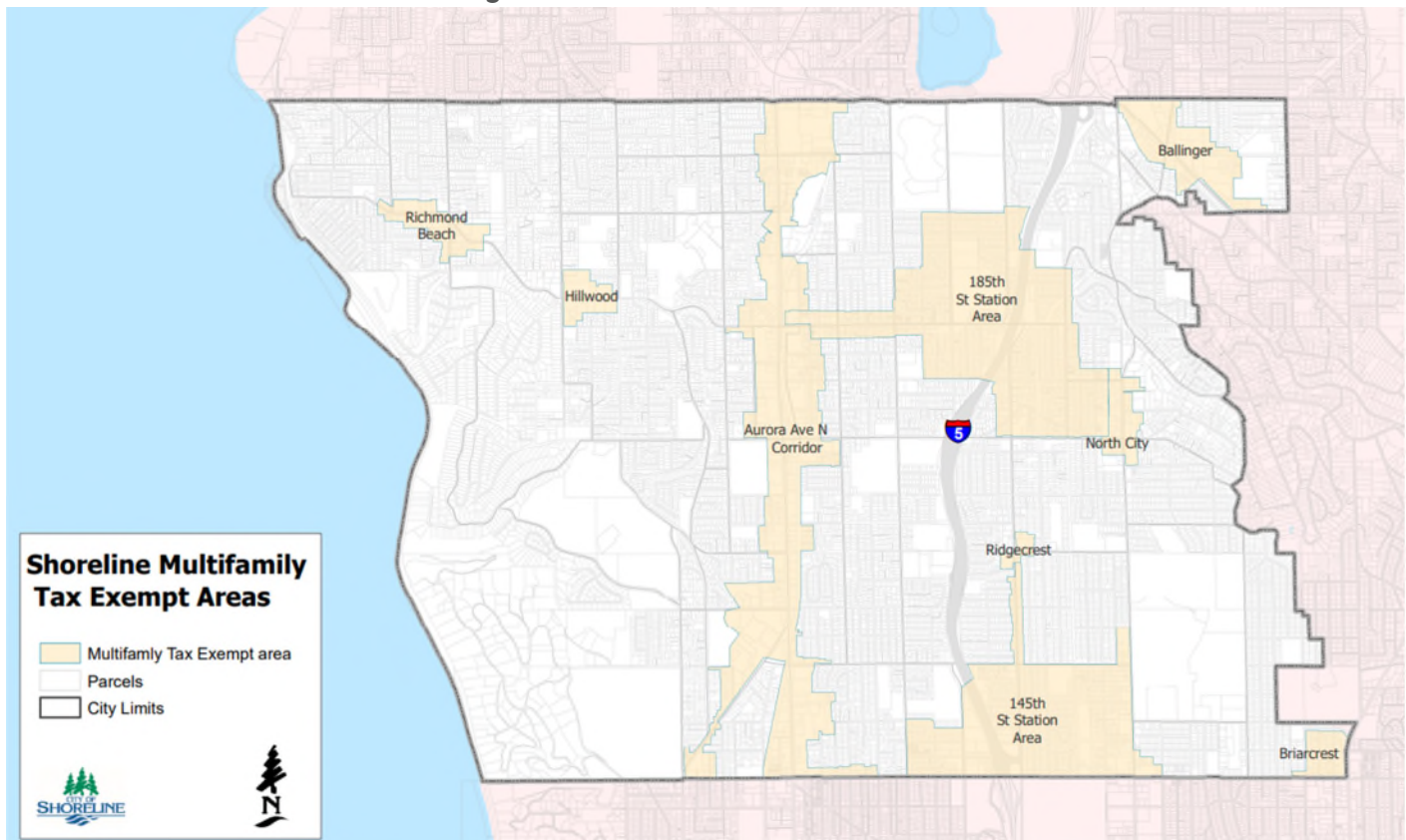
Shoreline currently offers MFTE programs in nine areas (Exhibit 38):

- 145th Street Station Sub-Area
- 185th Street Station Sub-Area
- Aurora Ave N Corridor
- Ballinger Way NE Commercial Area
- Hillwood Commercial Area
- North City Business District
- Richmond Beach Commercial Area
- Ridgecrest Commercial Area
- Southeast Neighborhoods Commercial Area

Altogether, these RTAs cover almost all of the areas where multifamily development is allowed (with some minor exceptions). Residential-4 (R-4), Residential-6 (R-6), and Campus zones associated with major institutions in the city (CCZ/FCZ/PHZ/SCZ) are largely excluded, except in cases where rezoning is expected in the future. Some multifamily areas are excluded, however, which are typically smaller areas disconnected from other multifamily zones.

Note that within the 145th Street Station and the 185th Street Station subareas, there are mandatory affordable housing requirements provided in [SMC 20.40.235](#) for the Mixed-Use Residential zones (70' and 45' height limits). This enables the 20-year permanently affordable rental option included in [SMC 3.27.040\(B\)\(2\)](#).

Exhibit 38. Shoreline Residential Targeted Areas



Source City of Shoreline, 2023.

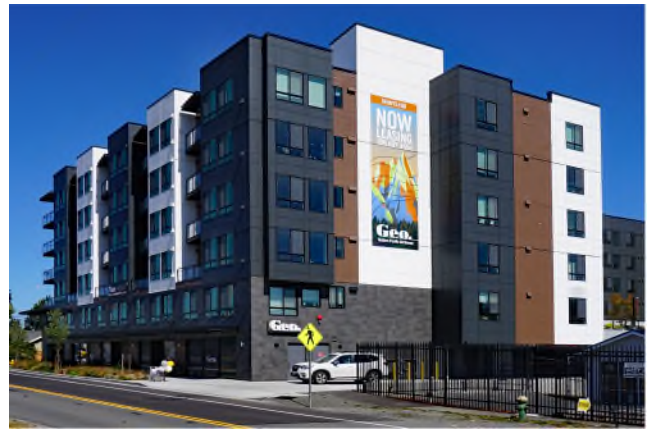
Program parameters

	Program parameters
Exemption types	<ul style="list-style-type: none"> ○ 12-year (rental/ownership) ○ 20-year (rental only) ○ 12-year extension
Affordability requirements	<ul style="list-style-type: none"> ○ For the 12-year option, 20% of units must be affordable at 70% median family income for studio and one-bedroom units, or 80% median family income for larger units. ○ For the 20-year option, 20% of units must be affordable at 70% of median family income for Mixed-Use Residential (45' and 70') zones, or 60% of median income for areas allowing heights above 70 feet.
Residential targeted areas	<ul style="list-style-type: none"> ○ Nine residential targeted areas, located in: <ul style="list-style-type: none"> • Aurora Ave N corridor (1) • Commercial areas (5) • Business district (1) • Light rail station subareas (2)
Other project requirements	<ul style="list-style-type: none"> ○ 20-year projects must be within one mile of high-capacity transit
Regular program review	No requirement included.

Program outcomes

- 13 total projects completed.
- 1,613 new housing units created, including 308 income-restricted units.
- 2 projects with a conditional certificate, plus 13 projects in the pipeline.
- 3,294 units in the pipeline, including 668 income-restricted units.

An example of the use of MFTE in Shoreline is with the Geo I and II projects. Geo I was completed in 2020 and Geo II is under construction on an adjacent site. Geo I has 164 units, including 33 income-restricted units. The project has 141 parking stalls and 3,000 square feet of commercial space. It is located on a major corridor and has good transit access, including the light rail under construction. The development cost was \$38 million.



Geo I Apartments (Shoreline Area News)

Highlights and challenges

- **Impact on development.** The MFTE program has been actively utilized in the development of multifamily housing in Shoreline. Over the past five years, 1,123 housing units have been covered by a tax exemption, with 22 units (20%) set aside as affordable. This amounts to about 59% of the total multifamily units developed in the city over the past five years, or almost half of the total housing units developed. While this is due in part to the broad extent of the RTAs in Shoreline, it has provided a significant set-aside of affordable units for the community.
- **Transit-oriented development.** The city has a program for mandatory affordable housing in all light rail station subareas. With this provision, development in Mixed-Use Residential zones (at 45' heights or higher) in a light rail station subarea must provide mandatory affordable housing and may use the MFTE program to achieve this requirement. This ensures that there will be affordable units located in areas supported by transit, which can be effective in reducing housing costs further for low-income households.
- **Layering of incentives.** The use of mandatory inclusionary zoning paired with the MFTE program demonstrates approaches that can be used to achieve deeper levels of affordability. New development in these areas is more feasible than in the past due to up-zoning, and the MFTE provides an additional financial incentive beyond what can be provided from this increased development capacity alone. Additionally, other programs such as impact fee waivers can provide financial incentives, and the city's Deep Green Incentive program can give developers who build efficient structures access to increased density, taller buildings and reduced fees.¹⁰² When layered, these incentives together can form a package that can provide greater public benefits than with MFTE acting alone.

Program analysis

- **Rent comparison.** As an example, one project in Shoreline that received a final exemption in 2021 has income-restricted units with rents between \$1,462 and \$2,011 and market-rate units with rents between \$1,790 and \$3,369. The rent for an income-restricted one-bedroom unit in this case is 22% below the market-rate units in the same project. For a two-bedroom unit, the income restricted rent is 3% below the lowest market-rate rent.
- **Permanent affordable rentals.** The city adopted the 20-year exemption option for permanently affordable homeownership and has one project has received a conditional certificate for this exemption. Staff noted most property owners plan to use the 12-year exemption and then potentially the 12-year extension rather than the 20-year exemption. However, providing this option can present alternatives for extending affordability further for some projects, especially where other sources of funding may be compatible with long-term affordability requirements.

¹⁰² [Deep Green Incentive Program Overview.](#)

- **Characteristics of areas with MFTE projects.** While the city has extended MFTE projects across areas that allow for multifamily development, the city's MFTE projects have been primarily along the Aurora Ave corridor through the city. However, the city recently extended the RTA designation for light rail station subareas to encourage use of MFTE along the light rail corridor, and an increase in the use of MFTEs in these areas is expected.

City of Tacoma

Summary

The City of Tacoma is the largest city in Pierce County, and serves as the county seat. In 2022, the estimated population of Tacoma was 220,800, and there were an estimated 93,658 housing units. The population of the city has increased by 11% from 2010 to 2022.

Tacoma was instrumental in the state legislature adopting MFTE in 1995 and adopted its own MFTE program soon after this legislation was passed in 1997. This program is codified in [Chapter 6A.110 TMC](#)¹⁰³, and was initially focused on incentivizing housing investment in the established Mixed-use Centers around the city. This was of particular interest for downtown, as new housing had not been developed for several decades. The adoption of the MFTE program was one element that spurred significant growth in the development of Tacoma's downtown area, and increased housing investment across the city.

The city adopted a 12-year program with a focus on affordable housing in 2008. In 2021, significant amendments were provided based on the amendments to the statute, including¹⁰⁴:

- Creating a 20-year program option for permanent homeownership.
- Lowering the 12-year program income requirement to 70% AMI.
- Removing the eight-year market-rate housing option from two mixed-use centers that were noted as "high opportunity" on the city's equity index map (Proctor and Point Ruston).
- Expanding the RTAs to include transit corridors where multifamily housing is already permitted and allowing the 12-year and 20-year options to be used in these locations.

Key MFTE statistics¹⁰⁵

Year established:	1997
Number of final certificates:	173
Total units:	6,231
Total income-restricted units:	228

Program purpose

Under [TMC 6A.110.020\(A\)](#), the intent of the program is to:

- Encourage additional affordable housing including permanently affordable housing opportunities and market rate workforce housing within areas of the city designated by the City Council as RTAs.
- Achieve development densities that are more conducive to transit use within areas of the city designated by the City Council as RTAs.
- Promote economic investment and recovery and create family-wage jobs.
- Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for multifamily housing in RTAs to increase and improve housing opportunities.

¹⁰³ Note that Residential Targeted Areas are specified in [Chapter 13.17 TMC](#).

¹⁰⁴ See [City of Tacoma Ordinance 28798](#).

¹⁰⁵ Note that these statistics also include expired exemptions.

Residential targeted areas

According to [TMC 13.17.020](#), three main types of RTAs are included in the city's MFTE program:

- The 16 mixed-use centers indicated on the Mixed-use Centers Map of the Comprehensive Plan.¹⁰⁶
- Designated Neighborhood Commercial Nodes along Transit.
- Existing Mid-Scale Residential on Corridors.

The latter two designations are specified on a map included in [TMC 13.17.020](#), which is provided in

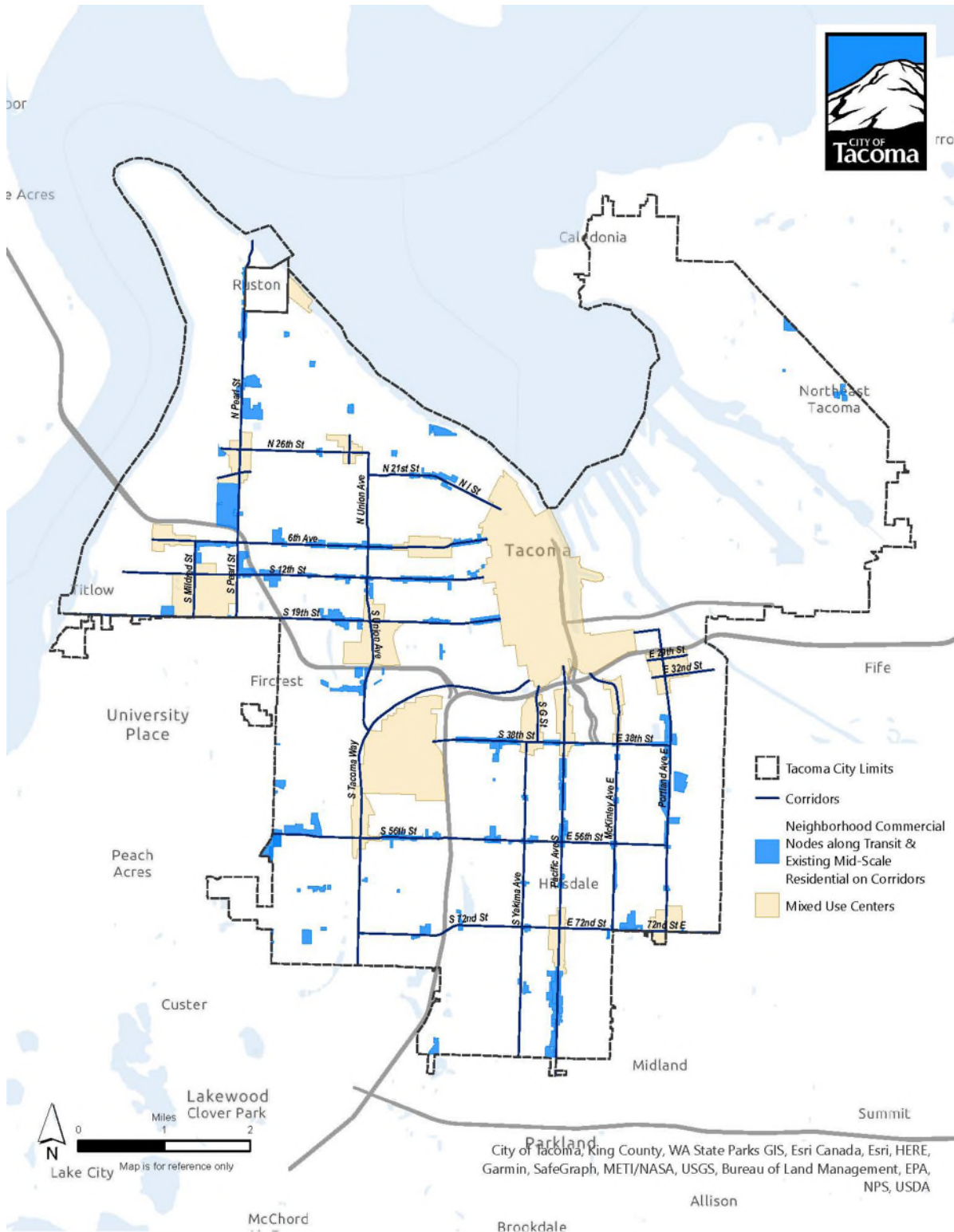
¹⁰⁶ Note that the eight-year MFTE option is not provided for the Proctor and Point Ruston Mixed-use Centers.

Exhibit 39 below. This expansion was based on recommendations made by the Home in Tacoma Program process.

Program parameters

	Program parameters
Exemption types	<ul style="list-style-type: none"> ○ eight-year (rental/ownership) ○ 12-year (rental/ownership) ○ 20-year (ownership) ○ 12-year extension
Affordability requirements	<ul style="list-style-type: none"> ○ For the 12-year option at least 20% of units must be affordable, based on tenure: <ul style="list-style-type: none"> • Rental units must be affordable to households at 70% of median family income or below. • Owner-occupied units must be affordable to households at 115% of median family income or below. ○ For the 20-year ownership option, at least 25% of units must be affordable to households at 80% of median family income or below.
Residential targeted areas	<ul style="list-style-type: none"> ○ 17 designated mixed-use centers (two do not permit the eight-year option) ○ Designated Neighborhood Commercial Nodes along Transit ○ Existing Mid-Scale Residential on Corridors
Other project requirements	<ul style="list-style-type: none"> ○ Projects in Neighborhood Commercial Nodes along Transit & Existing Mid-Scale Residential on Corridors, which are located on a corner, must include at least 30% of the ground-floor space as commercial space. ○ 20-year projects must have a minimum density of 25 units per acre.
Regular program review	<ul style="list-style-type: none"> ○ The program is reviewed by the City Council every three years. (Note that this does not require reauthorization.)

Exhibit 39. City of Tacoma MFTE Residential Targeted Areas



Source: City of Tacoma, 2023.

Program success

One project in Tacoma that has utilized the MFTE program is the Koz-on-MLK Apartments in the downtown area. Koz Development LLC used the 12-year exemption to build a 156-unit development with 31 income-restricted units. This project was completed in 2022, and it includes ground-floor retail as part of the mixed-use development. It is located between Tacoma's two hospital districts and along the streetcar line. It is also within walking and biking distance of Tacoma's University of Washington Campus.



Koz on MLK

Highlights and challenges

- **Impact on development.** The most significant benefit in Tacoma from the MFTE program has been the number of multifamily properties developed. Before the program started in the 1990s, Tacoma had not had any new multifamily projects in the downtown area, and little multifamily development in general. However, between 2017 and 2021, the city has provided tax exemptions that cover 1,938 units, amounting to about two-thirds of all multifamily development in the city. Additionally, there was a period where the program was paused in certain areas of Tacoma, and development effectively ceased in this area until this pause ended.
- **Income limits adjusted to address local needs.** Recent changes to the MFTE program have set the affordability level under the 12- and 20-year options to be 70% of the county's median family income. Through the city's efforts in assessing local housing needs, the city established that a reduction in this value was necessary to scale income-restricted rents to better align with the needs of city residents.
- **Connection to planning goals.** The city's [Home in Tacoma](#) program has been established as part of its Affordable Housing Action Strategy. For Phase 1 of this program, the city has been working to adjust its housing growth strategy, policies, and programs to increase housing supply, affordability, and choice for current and future residents. As such, there has been a conscious effort to adjust the program to match local needs, including adjustments to income requirements, RTAs, and program options, and tie this program directly with efforts to reach housing goals.
- **Other adjustments to meet needs.** The city is looking to modify single-family zoning to allow for more duplexes, triplexes and accessory dwelling units (ADUs). This may be accompanied by future adjustments to address needs for affordable housing in these areas.

Program analysis

- **Rent comparison.** One example project that received a final exemption in 2021 has income-restricted units with rents between \$1,385 and \$1,635 and market-rate units with rents between \$2,030 and \$3,509. The rent for an income-restricted one-bedroom unit is 47% below the market rate units in the same project. For a two-bedroom unit, the income restricted rent is 44% below the lowest market rate rent.
- **Permanent affordable rentals.** In an effort to expand permanent and long-term affordability through the MFTE program, the city has adopted the 20-year exemption option and allows 12-year extensions. While these have not experienced any immediate uptake, the city expects that they will be important elements of providing affordable housing options.
- **Characteristics of areas with MFTE projects.** Overall, the RTAs in the city are focused on areas served by transit and either within, or with good access to mixed-use neighborhood centers. Generally, the city's RTAs are in areas that rank "moderate" or "high" on the city's equity index, which means that there is good access to services in these areas. Most of the current eight-year projects are in the city's downtown, while most of

the current 12-year projects are in other RTAs. The city removed the eight-year exemption as an option for the Proctor and Point Ruston areas as the equity index indicated that these were "very high" opportunity areas that could support development without the incentive. In these areas, the city recognized that the exemption should be in place specifically to provide an incentive for affordable housing.

City of Vancouver

Summary

The City of Vancouver is the fourth-largest city in Washington and is located on the north bank of the Columbia River. It is part of the Portland-Vancouver metropolitan area. In 2022, the estimated population is 197,600, and the estimated number of housing units is 85,511. The population increased by 22% from 2010 to 2022.¹⁰⁷



Source: City of Vancouver

The City of Vancouver adopted an MFTE program in 1997 to stimulate the construction or rehabilitation of multifamily housing and create a more active and vibrant downtown. Vancouver codified the MFTE Program in [Chapter 3.22 VMC](#). The MFTE program was a major part of the city's downtown redevelopment strategy and provided an incentive to attract more residents to the downtown area. In 2017, the city added exemption options and included affordability requirements for all options, including the eight-year MFTE.¹⁰⁸

A unique feature of Vancouver's program is that in lieu of the additional affordability requirements for the eight-year option, a project can include a public benefit such as a public plaza, a park, or additional parking spaces instead. This was adjusted in 2021 to ensure that the public benefit must amount to at least a quarter of the developer's savings over the life of the tax exemption, and to include other performance requirements such as minimum size.

Note that the Vancouver MFTE program also includes a 10-year option as well. While this is in part a holdover from the original statute, it is permitted through a modification to the 12-year MFTE option as per [RCW 84.14.040\(6\)\(a\)](#), which allows broad leeway to provide more stringent requirements to the exemption.

The city has been working with a consultant to review the program and affordability limits to determine how best to address changes in the local market and household incomes in the community. One complication is that because the median household income for the Portland metropolitan area is higher than in Vancouver, using the baseline affordability requirements from the statute can place even the income-restricted units out of reach of many low-income households in the city.

¹⁰⁷ OFM 2022.

¹⁰⁸ See [VMC 3.22.040\(8\)\(a\)](#) for these requirements.

Key MFTE statistics

Year established:	1997
Number of final certificates:	25
Total units:	2,200
Total income-restricted units:	188

Program purpose

Under [VMC 3.22.010](#):

"It is the purpose of this ordinance to encourage new private multi-housing development and redevelopment within designated urban centers to accommodate future population growth, provide places to live close to employment, shopping, entertainment, and transit services and encourage affordable housing where appropriate."

[VMC 3.22.040](#) also provides the goals for the exemption, which is intended to:

- Encourage increased residential opportunities within urban centers designated by the city council as RTAs.
- Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for multi-family housing in RTAs to increase and improve housing opportunities.
- Assist in directing future population growth to designated urban centers, thereby reducing development pressure on single-family residential neighborhoods.
- Achieve development densities that are more conducive to transit use in designated urban centers.
- Encourage new construction or rehabilitation of owner-occupied multi-family housing where it is identified as desirable.
- Encourage income-based housing.

Residential targeted areas

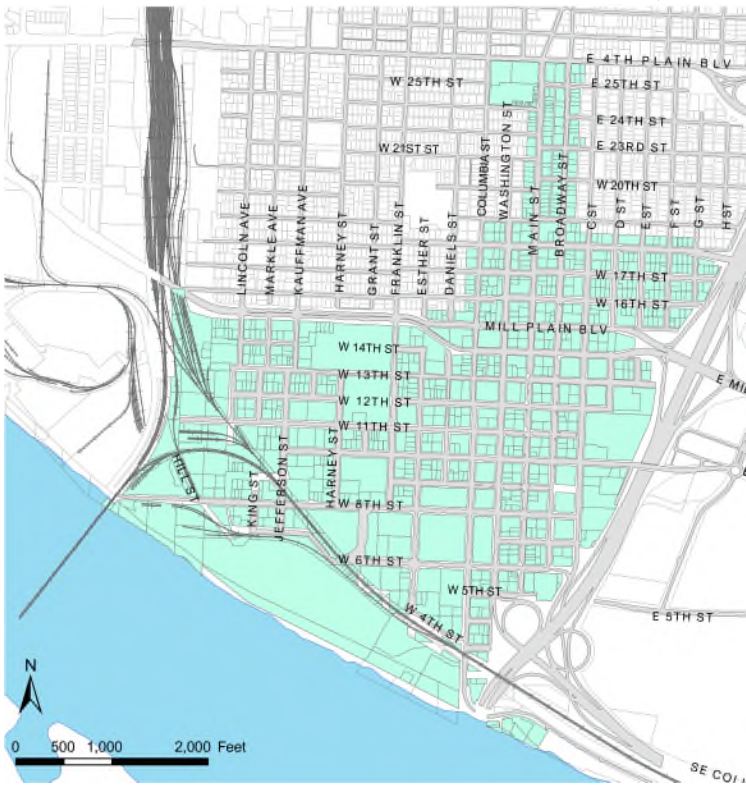
Vancouver has established two RTAs:

- **Vancouver City Center Vision (VCCV) Subarea** (Exhibit 40). This is an approximately 130-block area in the city center of Vancouver, which has been targeted for new investment. One of the primary components of this redevelopment has been the Waterfront Redevelopment Project, which has been an effort to redevelop and reconnect a 35-acre site that was the site of a pulp and paper mill through a \$1.5 billion project that has included both public and private investment.¹⁰⁹
- **Fourth Plain Corridor Subarea** (Exhibit 41). This is an area known as Vancouver's "international business district," which has been designated to encourage the construction or rehabilitation of owner-occupied and rental multi-family housing needed for this area.¹¹⁰

¹⁰⁹ See the City's website for [The Waterfront Development Project](#) and the [corporate project website](#) for more details.

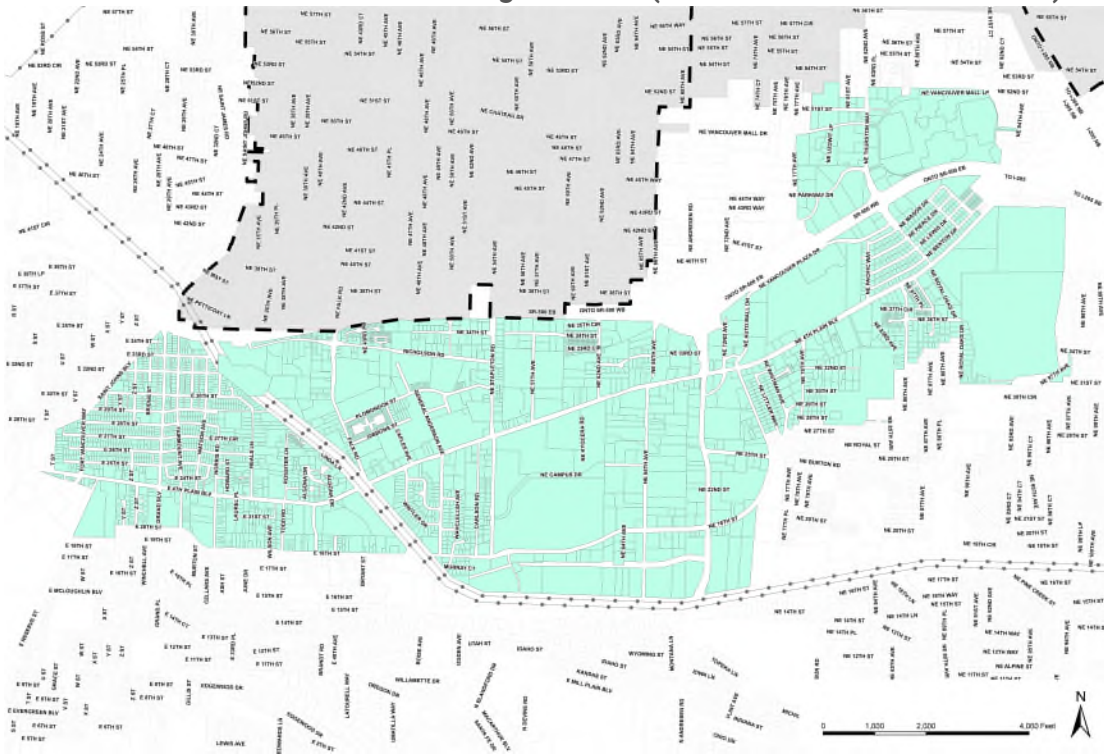
¹¹⁰ [City of Vancouver Fourth Plain Forward Project](#).

Exhibit 40. Vancouver Residential Targeted Area (Vancouver City Center Vision Subarea)



Source: City of Vancouver, 2023.

Exhibit 41. Vancouver Residential Targeted Area (Fourth Plain Corridor Subarea)



Source: City of Vancouver, 2023.

Program parameters

	Program parameters
Exemption types	<ul style="list-style-type: none"> ○ Eight-year (rental/ownership) ○ 10-year (rental/ownership) ○ 12-year (rental/ownership)
Affordability requirements	<ul style="list-style-type: none"> ○ Eight-year option: 20% of the units affordable at 100% of median family income (or a development agreement providing other public benefits). ○ 10-year option: 20% of the units affordable at 80% of median family income. ○ 12-year option: 20% of the units affordable at 60% of median family income.
Residential targeted areas	<ul style="list-style-type: none"> ○ Vancouver City Center Vision Area ○ Fourth Plain Corridor Subarea
Other project requirements	<ul style="list-style-type: none"> ○ As an alternative to the affordable housing option, an eight-year MFTE can be provided in exchange for public benefits costing 25% or more of the estimated tax benefit.
Regular program review	No requirement included.

Program outcomes

- 25 total projects.
- 2,200 new housing units, including 188 income-restricted units.
- 14 projects in construction, under land use review, or pending application.
- Projects in progress will add 1,800 housing units, of which 154 will be income-restricted.

At a broad level, the MFTE program has been one component of public financial support for private-sector residential development in the Waterfront Project. This project started in 2008 with the purchase of the site by Columbia Waterfront LLC, a consortium of local investors. The property owner worked with the city to create a master plan that included plans for 3,300 housing units, as well as 1.25 million square feet in office space and 250,000 square feet of restaurant and retail space. The options for receiving tax exemptions have been one component of the public incentives provided for development, and by 2021, 306 units have been completed.

Examples of successful individual MFTE projects in Vancouver are the 13 West Apartments and 15 West Apartments. Both projects are in the VCCV RTA close to the downtown and have a 12-year exemption with income-restricted units set at 115% AMI. Together, these projects provide 212 units with 43 set aside as income restricted. The 15 West Apartments was completed in 2016 for \$17.4 million, and the 13 West Apartments was completed in 2017 for \$15 million. DBG Properties, a developer who previously focused on projects in the Portland, Oregon area, completed both projects.



13 West Apartments



15 West Apartments

Highlights and challenges

- **Choice of eight-year program options.** Staff noted that the use of the public benefit option is more common in downtown. This indicates that this option, which is limited in cost to 25% of the total value of the exemption, would generally outperform providing affordable units at 100% AMI on the site. The preference is likely due to higher market rents possible for new development in this area.
- **Rent comparison.** In Vancouver, many of the affordable units have restricted rents under the 12-year option that are close to current market rents, especially with the eight-year option. Because the AMI of the community is based on the median income in the Portland metro area, the restricted rent levels mandated by the statute may not reflect the needs of low-income households in the city. This is a major topic of the recent review being coordinated by the city, and future changes could include reducing the maximum income thresholds for rent-restricted housing.
- **Impact on development.** Vancouver has a total of 39 projects that are active or in development. A majority of these projects have been focused on the downtown, with 1,423 of the 1,635 units granted a tax

exemption between 2017 and 2021 found in the VCCV Subarea. A significant portion of the planned units and units with conditional certificates are also located in the downtown area. This highlights that the main appeal for the Vancouver program has been in encouraging new residential investment in areas where rents are likely to be higher or expected to be higher in the future.

- **Potential program expansion.** Vancouver is exploring modifications to the program including creating more RTAs, implementing a per unit cost for the MFTE to support the city's Affordable Housing Fund, and a fee-in-lieu¹¹¹ option for the eight-year exemption. The city is also exploring the addition of the 12-year extension option.
- **Connection to other affordable housing programs.** In addition to the MFTE program, Vancouver also has its Affordable Housing Fund, which has been supported a seven-year levy, set to expire in 2023. This program has been instrumental in producing and preserving affordable housing in the community, and providing rental assistance to households. While the focus of these programs is on very low-income households making 50% AMI or less, this program provides one potential source of support, and the funding can be accessed by for-profit providers of affordable housing.

Program analysis

- **Rent comparison.** An example project that received a final exemption in 2021 has income-restricted units with rents between \$1,508 and \$1,823 and market rate units with rents between \$1,708 and \$1,872. The rent for an income restricted one-bedroom unit is 13% below the market rate units in the same project. For a two-bedroom unit, the income restricted rent is 3% below the market rate rent.
- **Permanent affordable rentals.** Vancouver does not have provisions for permanently affordable housing included in its MFTE program, and to date it has not adopted the 20-year exemption option. However, options for adjusting the MFTE program are currently being explored.
- **Characteristics of areas with MFTE projects.** With respect to the two RTAs currently found in the city:
 - The **Fourth Plain Corridor RTA** includes a primary transportation corridor that connects downtown to East Vancouver. This area is part of a multiyear initiative by the city to strengthen and grow small business, create opportunities for entrepreneurs, and improve the corridor's safety and appearance. This area has a higher percentage of people of color and a higher percentage of renters than other parts of the city. While investment will benefit the community, there are concerns that it could increase local property values and rents, and push out current residents and businesses.
 - The **Vancouver City Center Vision area** incorporates the entire downtown, and extends out to the waterfront redevelopment along the river. This area has been undergoing significant residential investment, and it is one of the reasons why multifamily development in Vancouver is proceeding at such a significant pace. There are concerns, however, that many of the projects in this area are receiving an eight-year exemption in exchange for public benefits only, and that the use of property tax resources to support luxury developments may not be meeting local housing goals.

¹¹¹Fee-in-lieu is an optional program that allows the payment of a fee instead of meeting a specific development regulation requirement. In this example the fee-in-lieu program is a fee which is paid into an affordable housing fund instead of providing income-restricted units.