

Exhibit A

Chapter SMC 3.10

MULTIFAMILY PROPERTY TAX EXEMPTION

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SMC 3.10.010 Purpose

As provided for in Chapter [84.14](#) RCW, the purpose of this chapter is to provide limited eight (8), twelve (12), or twenty (20) - year exemptions from ad valorem property taxation for qualified multifamily housing located in residential target areas to:

- A. Encourage increased opportunity for multifamily affordable housing for low-income and very low-income households, within the city;
- B. Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for multifamily housing in targeted residential areas to increase and improve affordable housing opportunities;

- C. Increase the supply of mixed-income multifamily housing opportunities within the city;
- D. Accomplish the planning goals required under the Growth Management Act, chapter 36.70A RCW, as implemented from time to time by the City's current and future comprehensive plans.

SMC 3.10.020 Definitions

- A. "Affordable housing" means residential housing that is rented by an eligible household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent (30%) of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of income-qualified households.
- B. "Area median income" means the annual median family income for the metropolitan statistical area, as published from time to time by the United States Department of Housing and Urban Development (HUD), with adjustments according to household size, which adjustments shall generally be based upon a method used by HUD to adjust income limits for subsidized housing, which for purposes of determining affordability of rents or sale prices shall be based on the average size of household that corresponds to the size and type of the housing unit.
- C. "Contract" means the standard form agreement between the owner or, for permanently affordable homeownership, a qualified non-profit organization and the city that contains the terms and conditions, including for each MFTE unit as designated according to the Final Certificate, for the duration of the compliance period as a condition of eligibility of the property tax exemption according to this Chapter
- D. "Director" means the director of the Community Development department, or his or her designee.
- E. "Eligible household" means a household that certifies that their household income does not exceed the applicable percentage of the area median income, adjusted for household size, and who certify that they meet all qualifications for eligibility including, if applicable, any requirements for recertification on income eligibility.
- F. "Household" means a single person, family, or unrelated persons living together.
- G. "Low-income household" means a household whose adjusted income is at or below eighty percent (80%) of the area median income adjusted for family size, for King County, as reported by the United States Department of Housing and Urban Development.
- H. "MFTE" means multifamily housing property tax exemption.

- I. “Moderate-income household” means a single person, family, or unrelated persons living together whose adjusted income is more than eighty percent (80%) but is at or below one hundred fifteen percent (115%) of the area median income adjusted for family size, for King County, as reported by the United States Department of Housing and Urban Development.
- J. “Multifamily housing” means buildings having four (4) or more dwelling units designated for permanent residential occupancy resulting from new construction or rehabilitation or conversion of vacant, underutilized, or substandard buildings.
- K. “Owner” means the property owner of record.
- L. “Permanent residential occupancy” means multifamily housing that provides either rental or owner occupancy for a period of at least one (1) month. This excludes hotels and motels that offer rental accommodation on a daily or weekly basis.
- M. “Project” means the multifamily housing or portion of the multifamily housing that is to receive the tax exemption.
- N. “Residential targeted area” means an area within an urban center or urban growth area that has been designated by the council as a residential targeted area in accordance with, and within the meaning of, Chapter 84.14 RCW.

SMC 3.10.030 Tax exemption

The value of new housing construction, conversion, and rehabilitation improvements qualifying under this section is exempt from ad valorem property taxation, as follows:

A. Eight-year MFTE option

- 1. For eight (8) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption.

B. 12-year MFTE option

- 1. For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twelve-year exemption under this subsection, the applicant must commit to renting or selling at least twenty percent (20%) of the multifamily housing units as affordable housing units to eligible low- and moderate-income households, and the property must satisfy that commitment. In

the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection may be satisfied solely through housing affordable to eligible moderate-income households.

C. Additional provisions

1. Permanently affordable homeownership units or permanently affordable rental units must be sold or rented to eligible low-income households.
2. If, in calculating the minimum proportion of the multi-family housing units in the project for affordable housing in this section, the number contains a fraction, then the minimum number of multi-family housing units for affordable housing shall be rounded up to the next whole number.
3. For any affordable units required in this section, the following shall apply:
 - a. The mix and configuration of affordable units (e.g., studio, one-bedroom, etc.) shall be substantially proportional to the mix and configuration of the total housing units in the project unless approved by council, or an administrative official or commission authorized by the council;
 - b. Affordable housing units shall be intermingled with all other units in the development; and
 - c. The quality of construction and finish materials in those affordable units used to qualify for the exemption shall be the same as other housing units in the project.
 - d. At the end of both the tenth and eleventh years of a twelve-year exemption under SMC 3.10.030(2), the applicant or the property owner at that time, must provide eligible tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month.
 - e. For any twelve-year exemption authorized under this chapter, at the expiration of the exemption the applicant must provide tenant relocation assistance in an amount equal to one (1) month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an income-restricted unit at the time the exemption expires

and must qualify as a low-income household under this chapter at the time relocation assistance is sought.

4. The exemption does not apply to the value of land or to the value of ~~residential~~ or non-residential improvements not qualifying under this chapter, nor does the exemption apply to increases in assessed valuation of land and nonqualifying improvements.

SMC 3.10.040 Extension of tax exemption

- A. The owner of property that received a tax exemption pursuant to SMC 3.10.030 may apply for an extension for an additional twelve successive years. No extension will be granted for property that received a twenty-year tax exemption pursuant to SMC 3.10.030(C) or SMC 3.10.030(D).
- B. Only one (1) extension may be granted.
- C. Failure to timely apply for an extension shall be deemed a waiver of the extension.
- D. For the property to qualify for an extension:
 1. The property must have qualified for, satisfied the conditions of, and utilized the eight- or twelve-year exemption sought to be extended;
 2. The owner must timely apply for the extension on forms provided by the city within eighteen (18) months of expiration of the original exemption;
 3. The property must meet the requirements of this chapter for the property to qualify for an exemption under SMC 3.10.030(B) as applicable at the time of the extension application; and
 4. The property must rent at least twenty percent (20%) of the multifamily housing units as affordable housing units for low-income households for the extension period.
- E. If an extension is granted by the city, at the end of both the tenth and eleventh years of a twelve-year extension, the applicant or the property owner at that time must provide tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month as provided in RCW 84.14.020, as amended.

- F. After the expiration of the extension, the applicant or the property owner must provide tenant relocation assistance in an amount equal to one (1) month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an affordable unit at the time the exemption expires and must qualify as an eligible household under this chapter at the time relocation assistance is sought.

SMC 3.10.050 Residential targeted areas

Following notice and public hearing as prescribed in RCW 84.14.040, the council may designate one or more residential targeted areas upon a finding by the council that the residential targeted area meets the following criteria:

- A. The residential targeted area is within an urban center as defined by Chapter 84.14 RCW;
- B. The residential targeted area lacks sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center if affordable, desirable, attractive, and livable residences were available; and
- C. Providing additional housing opportunity in the residential targeted area will assist in achieving one or more of the following purposes:
 - 1. Encourage increased residential opportunities within the city; or
 - 2. Stimulate the construction of new multifamily housing; or
 - 3. Encourage the rehabilitation of existing vacant and underutilized buildings for multifamily housing.
- D. In designating a residential targeted area, the council may also consider other factors, including:
 - 1. Whether additional housing in the residential targeted area will attract and maintain an increase in the number of permanent residents;
 - 2. Whether providing additional housing opportunities for low- and moderate-income households would meet the needs of citizens likely to live in the area if affordable housing were available;

3. Whether an increased permanent residential population in the residential targeted area will help to achieve the planning goals mandated by the Growth Management Act under Chapter 36.70A RCW, as implemented through the City's comprehensive plan; or
4. Whether encouraging additional housing in the residential targeted area supports significant public investment in public transit or a better jobs and housing balance.

E. Provisions for amending or removing designations as residential targeted areas

1. At any time the council may, by ordinance, amend or rescind the designation of a residential targeted area pursuant to the same procedural requirements as set forth in this chapter for original designation.

F. Definitions of residential targeted areas

1. The council has adopted the residential target area as indicated on the map. [figure attached]

SMC 3.10.060 Project eligibility

An owner of property applying under this chapter must meet the following requirements:

- A. Location. The new or rehabilitated multiple-unit housing must be located in designated residential targeted area.
- B. Construction details
 1. The project must be multifamily housing consisting of at least four (4) dwelling units within a residential structure or as part of a mixed-use development, in which at least fifty percent (50%) of the space within such residential structure or mixed-use development is intended for permanent residential occupancy.
 2. For new construction, a minimum of four (4) new dwelling units must be created; for rehabilitation or conversion of existing occupied structures, a minimum of four additional dwelling units must be added.
- C. Requirements for units to be rehabilitated

1. Property proposed to be rehabilitated must fail to comply with one or more standards of the City's building or housing codes.
2. Property proposed to be rehabilitated with existing multifamily housing that has been vacant for twelve (12) months or more does not have to provide additional multifamily units.
3. If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate.

D. Deadlines

1. The project shall be completed within three (3) years from the date of approval of the contract by the council as provided in SMC 3.10.080(D) or by any extended deadline granted by the director as provided in SMC 3.10.080(E)(2).

E. Requirements for contract

1. As per RCW 84.14.030(6), the applicant must enter into a contract approved by the council, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the council.

SMC 3.10.070 Application procedure

A property owner who wishes to propose a project for a tax exemption shall comply with the following procedures as per RCW 84.14.050:

A. Application package requirements

1. Prior to the application for any building permit therefor, the applicant shall submit an application to the director on a form established by the director along with the required fees, as established under SMC 3.10.070(C).
2. A complete application shall contain such information as the director may deem necessary or useful, and shall include:
 - a. A written description of the project and preliminary schematic site and floor plans of the multifamily units and the structures in which they are proposed to be located setting forth the grounds for the exemption;

- b. A statement setting forth the grounds for qualification for exemption, and identifying the income-restricted units in the proposed project, if applicable;
- c. A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this chapter; and
- d. Verification by oath or affirmation of the information submitted.

B. Proof that rehabilitation projects are to be unoccupied

- 1. For rehabilitation projects, the applicant shall secure verification of property noncompliance with the building or housing ordinances, and shall also submit an affidavit that existing dwelling units have been unoccupied for a period of twelve (12) months prior to filing the application, or that relocation support has been provided to tenants under SMC 3.10.030(E) or SMC 3.10.030(E) and (F).

C. Application fees

- 1. At the time of application, the owner shall pay an initial application fee as established by the by council, or an administrative official or commission authorized by the council.

3.10.80 Application review

A. Conditions

- 1. The director may certify as eligible an application which is determined to comply with the requirements of this chapter. An application may be approved subject to such terms and conditions as deemed appropriate by the director to ensure the project meets all applicable land use regulations.

B. Deadline

- 1. A decision to approve or deny an application shall be made within ninety (90) days of receipt of a complete application.

C. Requirements for covenant and contract

- 1. If an application is approved by the director, the approval, together with a contract and covenant between the applicant and the city regarding the terms and conditions under this chapter, signed by the applicant, shall be presented to the council for action.

2. The director is authorized to cause the contract to be recorded, or require the owner to record the contract, in the real property records of the county recorder's office.

D. Provision of conditional certificate

1. Once the contract is approved by the council and fully executed, the director shall issue a conditional certificate of acceptance of tax exemption.

E. Expiration of conditional certificate

1. The conditional certificate expires three (3) years from the date of approval unless an extension is granted as provided in this chapter.
2. The conditional certificate may be extended by the director for a period not to exceed twenty-four (24) consecutive months. The applicant must submit a written request stating the grounds for the extension, accompanied by any applicable processing fee. An extension may be granted if the director determines that:
 - a. The anticipated failure to complete construction or rehabilitation within the required period is due to circumstances beyond the control of the owner;
 - b. The owner has been acting and could reasonably be expected to continue to act in good faith and with due diligence; and
 - c. All the conditions of the original contract between the applicant and the City will be satisfied upon completion of the project.

F. Denial and appeal

1. If the application is denied, the director shall state in writing the reasons for denial and shall send notice to the applicant at the applicant's last known address within ten (10) days of the denial.
2. An applicant may appeal a denial to the council by filing a written appeal with the city clerk within thirty (30) days of notification that the application has been denied. The appeal will be based upon the record made before the director with the burden of proof on the applicant to show that there is no substantial evidence on the record to support the director's decision. The decision of the council in denying or approving the application is final.

SMC 3.10.090 Final certificate

A. Final certificate – approval

1. Upon completion of the improvements provided in the contract and issuance of a temporary or permanent certificate of occupancy, the applicant may request a final certificate of tax exemption. The applicant must file with the director such information as necessary or useful to evaluate eligibility for the final certificate and shall include:
 - a. A statement of the amount of rehabilitation or construction expenditures made with respect to each housing unit and the total expenditures made in the rehabilitation or construction of the entire property;
 - b. A description of the work that has been completed and a statement that the rehabilitation improvements or new construction on the owner's property qualify the property for limited exemption under this chapter;
 - c. If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020 and SMC 3.10.030; and
 - d. A statement that the work was completed within the required three-year period or any authorized extension.
2. Within thirty (30) days of receipt of all materials required for a final certificate, the director shall determine whether the work completed and the affordability of the units, if applicable, satisfy the requirements of the application and the conditional contract approved by the city and is qualified for a limited tax exemption under Chapter 84.14 RCW. The city shall also determine which specific improvements completed meet the intent of this chapter and the required findings of RCW 84.14.060.

B. Issuance of certificate

1. If the director determines that the project has been completed in accordance with this chapter and the contract between the applicant and the city and has been completed within the authorized period the city shall, within ten (10) calendar days of the expiration of the thirty-day review period above, file a final certificate of tax exemption with the county assessor.

C. Denial and appeal

1. The director shall notify the applicant in writing that a final certificate will not be filed if the director determines that:
 - a. The improvements were not completed within the authorized period;
 - b. The improvements were not completed in accordance with the contract between the applicant and the City;
 - c. The owner's property is otherwise not qualified under this chapter; or
 - d. The owner and the director cannot come to an agreement on the allocation of the value of the improvements allocated to the exempt portion of rehabilitation improvements, new construction, and multi-use new construction.
2. Within thirty (30) days of notification by the city to the owner of the director's denial of a final certificate of tax exemption, the applicant may file a written appeal with the city clerk specifying the factual and legal basis for the appeal. The appeal shall be heard by the hearing examiner.

3.10.100 Annual certification

- A. Within thirty (30) days after the first anniversary of the date of filing the final certificate of tax exemption and each year thereafter, for the applicable tax exemption period, the property owner shall file a notarized declaration with the director indicating the following:
 1. A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve (12) months ending with the anniversary date;
 2. A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the contract with the City;
 3. A description of changes or improvements constructed after issuance of the certificate of tax exemption;
 4. The total monthly rent of each unit;

5. Information demonstrating compliance with the affordability requirements of SMC 3.10.030 and SMC 3.10.040, and other applicable requirements under SMC 3.10.060;
6. For the affordable units, the income of each household at the time of initial occupancy and their current income; and
7. Any additional information requested regarding the units receiving a tax exemption and meeting any reporting requirements under Chapter 84.14 RCW.

3.10.110 Cancellation

A. Conditions

1. The director may cancel the tax exemption if the property owner breaches any term of the MFTE contract, covenant, or any part of this chapter. Reasons for cancellation include but are not limited to the following:
 - a. The property no longer complies with the terms of the contract or with the requirements of this chapter, including the provision of affordable units;
 - b. The use of the property is changed or will be changed to a use that is other than residential;
 - c. The project violates applicable zoning requirements, land use regulations or building code requirements; or
 - d. The property for any other reason no longer qualifies for the tax exemption.

B. Process

1. Upon determining that a tax exemption shall be canceled, the director shall notify the property owner or qualified non-profit organization, if applicable, by certified mail with a return receipt requested.
2. The property owner or qualified non-profit organization, if applicable, may appeal the determination within thirty (30) days by filing a notice of appeal with the city clerk, specifying the factual and legal basis on which the determination of cancellation is alleged to be erroneous. The council may hear the appeal pursuant to City's policy.

3. The director shall notify the county assessor of the cancelation of the tax exemption thirty (30) days after the notification of the property owner or qualified non-profit organization, or upon an unsuccessful appeal under subsection (2).
4. If the owner intends to convert multifamily housing receiving a tax exemption under this chapter to another use, the owner must notify the director and the county assessor within sixty (60) days of the change in use. Upon such change in use, the tax exemption shall be canceled.