



BUSINESS OF THE CITY COUNCIL CITY OF SNOQUALMIE

AB23-023
August 7, 2023
Committee Report

AGENDA BILL INFORMATION

TITLE:	Multi Family Property Tax Exemption	<input checked="" type="checkbox"/> Discussion Only
PROPOSED ACTION:	Draft amendments to SMC Chapter 3.10 Multifamily Property Tax Exemption	<input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

REVIEW:	Department Director/Peer	Emily Arteche	7/10/2023
	Finance	Drew Bouta	7/31/2023
	Legal	Outside Counsel	8/3/2023
	City Administrator	Choose an item.	Click or tap to enter a date.

DEPARTMENT:	Community Development		
STAFF:	Emily Arteche, Director		
COMMITTEE:	Community Development	COMMITTEE DATE: August 7, 2023	
MEMBERS:	Jo Johnson	Cara Christensen	James Mayhew
EXHIBITS:	N/A		

AMOUNT OF EXPENDITURE	\$ 0
AMOUNT BUDGETED	\$ 0
APPROPRIATION REQUESTED	\$ 0

SUMMARY

INTRODUCTION

The Multifamily Housing Property Tax Exemption (MFTE) is a state law providing an 8 or 12-year property tax exemption on new, expanded, or updated multifamily housing. The exemption applies only to the residential portions of newly constructed improvements, not the value of the land, retail space, or existing improvements. No exemptions are identified in the SMC Chapter 3.10 MFTE. The recently approved Mill Site development agreement requires that the residential area identified in the approved Planned Commercial/Industrial, PCI permit be eligible to apply for an MFTE.

LEGISLATIVE HISTORY

Ordinance 1113, June 24, 2013

BACKGROUND

In 2021, the state legislature adopted significant amendments to RCW 84.14, i.e., the MFTE program. The new amendments authorize 3 tax exemptions (8-year, 12-year and 20-year exemptions), limit the scope of a property tax exemption by excluding the value of land and non-housing components of a project (thereby expanding the exemption's availability to mixed-use projects), and make other changes. SMC Chapter 3.10 MFTE program has not been amended since 2013. The City Council approved a PCI Plan and a Development Agreement (DA) with Snoqualmie Mill Ventures LLC in October 2022. The DA, (Section 7), requires that the city adopt a Multi-Family Tax Exemption (MFTE) by the end of 2023 in order to ensure that the development includes affordable housing at the 60% AMI level.

In February of 2023 the City Council requested that draft amendments be presented directly to the Community Development Committee followed by city council review and adoption.

Although the draft amendments are intended to foster compliance with specific provisions in the Snoqualmie Mill DA, all potential residential targeted areas for the MFTE program should be considered by the council as part of the city Comprehensive Plan, Housing Strategy Plan.

ANALYSIS

The 160 units of multi-family housing will be situated on the upper floors of the mixed-use buildings of the residential component. As described in the project's development agreement, affordable housing units shall be provided within each mixed-use building in Planning Area 1 according to the following percentage ranges and affordability requirements:

- 7.1. 10% of the total number of units in each building at 80% AMI; and
- 7.2. 12% of the total number of units at 60% AMI;

However, the DA also states that if there is not an adopted and effective Multifamily Property Tax Exemption ("MFTE") resolution and/or ordinance prior to January 1, 2024, designating the property as a residential targeted area pursuant to Ch. 84.14 RCW and amending Ch. 3.10 SMC as necessary to allow the value of new housing construction in mixed-use buildings with the specific affordable units required by this Section to qualify for the 12-year property tax exemption under RCW 84.14.020(1)(a)(ii)(B), then the affordable housing requirement in Section 7.1 shall automatically be modified to require 15% of the total units in Planning Area 1 (i.e., 24 units) at 80% AMI, and the requirement in Section 7.2 above (regarding units at 60% AMI) shall be null and void.

"AMI" means that an affordable unit shall be limited to rental to households earning less than the specified King County area median income (AMI), based on income figures provided annually by Puget Sound Regional Council.

As provided in the DA, the number of affordable units of each type of rental unit developed (i.e., studios, 1-, 2- and 3-bedroom units) shall be proportional to the total number of that type of market rate unit. Rental prices must be set at levels that are no more than 30% of the income of a household earning the specified AMI. Additionally, income eligibility must be verified for each tenant household on application for rental, and an annual report must be filed with the Community Development Director on or before the first business day of each calendar year, identifying the affordable units, their rental prices, and their occupancy by qualified

households. Prior to approval of final civil engineering plans or building permit for the buildings in which residential units are proposed, the Owner is required to record against the Planning Area 1 property an affordable housing rental covenant substantially in the form approved by the City Attorney, assuring that:

(a) the property will be developed with and used for rental apartment housing, with rental rates priced to be affordable to households earning less than the specified median income for King County for a period of at least 50 years from the date of first occupancy; and

(b) any rental rate increases will be limited to the same percentage increases as the annual median income for King County as a whole during the period of the affordable housing rental covenant.

BUDGET IMPACTS

The approval of this agenda bill does not result in any expenditures.

While the City will not spend any funds should Council approve proposed amendments to Snoqualmie Municipal Code (SMC) Chapter 3.10, there are some potential tax implications Council should know. An amended Chapter 3.10 would give the City of Snoqualmie the ability to exempt the construction, conversion, and rehabilitation of multifamily residential units from property taxes. A property owner would not have to pay property taxes on the residential improvements for a given number of years. The property owner would still however pay property taxes on land and non-residential improvements like the commercial portion of a mixed-use building.

Because the property owner with an MFTE would not have to pay property taxes on the residential improvements, the assessed valuation of the residential improvements would not be added to the City of Snoqualmie's total assessed valuation. However, the amount the City collects from property taxes would still increase with respect to the new MFTE construction. According to the King County Assessor's Office and depending on the timing of the exemption and the subtraction of its assessed valuation from the "rolls", any new residential improvement with an MFTE will result in a property tax shift. The "shift" implies that any property taxes an MFTE property owner would normally pay would be shared with other property owners throughout the City. The MFTE is an effective way of incentivizing and producing market-rate and affordable housing options.

On October 24, 2022, Council adopted Resolutions 1630 and 1631 approving a Development Agreement for the Snoqualmie Mill project and the Snoqualmie Mill Planned Commercial/Industrial Plan. As stated previously, 160 units of multi-family housing will be situated on the upper floors of the mixed-use buildings of the residential component. It is relatively uncertain when the multi-family housing will be built or what the assessed valuation of the units will be. Therefore, it is currently unknown what the tax impact of any Snoqualmie Mill MFTE could be on other property owners throughout the City. However, when the Snoqualmie Mill MFTE goes into effect, the City will have options, including reducing the levy rate equal to the amount of increase shared by the other property owners, until the exemption expires, so that their property tax burden remains neutral.

NEXT STEPS

Review and discuss draft amendments to SMC Chapter 3.10, Multifamily Property Tax Exemption, including a resolution designating the Mill Site proposed multi-family housing development as a MFTE designated target area for review and approval.

PROPOSED ACTION

Recommend approval of implementing ordinance and associated resolution designating the Mill Site housing development as a MFTE target area to the city council on August 28, 2023.