



Staff Report

Date: November 22, 2022

To: City Council

From: Brad Medrud

Subject: Contract Approval for an Eight-Year Multifamily Tax Exemption for the Craft District Apartments (TUM-22-1393)

In 2014 the City Council adopted the Brewery District Plan. The Brewery District Plan recommended establishing a MFTE program to improve the financial viability of development in the District.

In 2017, the City Council adopted the Multifamily Housing Tax Exemption program to stimulate desired housing development within key areas of the City, such as the Brewery District and Capitol Boulevard Corridor.

The Multifamily Housing Tax Exemption program includes both an eight-year exemption for providing multifamily housing in the designated areas and a twelve-year exemption for development providing a minimum of 20% of units designated for low or moderate-income households.

In 2019, the City Council approved expanding the Twelve-Year Multifamily Housing Tax Exemption program to the Town Center and Littlerock Subarea to encourage the development of permanent affordable housing as part of its 2019 Housing Affordability Work Plan.

The City has received an application for the eight-year exemption program for the 95-unit Craft District Apartments multifamily development in the Brewery District Subarea (TUM-22-1393).

This memorandum discusses the requirements for the Multifamily Tax Exemption Program application for the 95-unit Craft District Apartments in the Brewery District Subarea.

Following the process in TMC 3.30, the Community Development Director has approved the Multifamily Tax Exemption Program application for the Craft District Apartments. To complete the Conditional Certificate approval process, the applicant must enter into a contract with City that is approved by City Council, under which the applicant agrees to complete the development as outlined in the contract.

The General Government Committee was briefed on the contract on November 9, 2022.

MFTE Program Effect on Revenue

An approved MFTE is a shift in revenue from property tax. When the City Council sets the City's property tax levy, the City levies a total dollar amount that will be collected for City operations. When certain property owners get discounts, such as through the MFTE program, that cost is re-distributed to the other property owners in the City. No matter how many MFTE discounts the City provides, the City still collects the same amount of property tax dollars.

Approval Process

TMC 3.30 *Multifamily Housing Tax Exemptions* establishes the review and approval process for MFTE applications:

1. An applicant files a complete Conditional Certificate Application with the City.
2. City staff reviews the application.
3. If the application is complete and meets the requirements of TMC 3.30, the Community Development Director approves the Conditional Certificate.
4. To complete the Conditional Certificate approval process, the applicant must enter into a contract with City that is approved by City Council, under which the applicant agrees to complete the development as outlined in the contract.
5. An approved Conditional Certificate and contract are valid for three years from the date of approval.
6. Upon completion of the improvements agreed upon in the contract and issuance of a certificate of occupancy, the applicant then files a Final Certificate Application.
7. The complete Final Certificate Application is reviewed and approved by the Community Development Director.
8. The Community Development Director files a Final Certificate of Tax Exemption with the Thurston County Assessor.

Craft District Apartments

- Project Number TUM-22-1393
- 4300 Capitol Boulevard, immediately south of the Craft District complex
- 95 units of new multifamily housing

- Eight-year tax exemption



Target Area and Length of Exemption

The Craft District Apartments are in the Brewery District Subarea.

The project will follow the eight-year MFTE requirements below.

3.30.040 Tax exemptions for multifamily housing in residential target areas authorized.

A. Duration of Exemption. The value of improvements qualifying under Chapter 84.14 RCW and this chapter will be exempt from ad valorem property taxation, as follows:

1. For eight successive years beginning January 1 of the year immediately following the calendar year of issuance of the certificate.

The eight-year duration of exemption applies only for projects in the Area 1 – Capitol Boulevard Corridor and Area 2 – Brewery District residential target areas; or

2. For twelve successive years beginning January 1 of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under Chapter 84.14 RCW 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 of the multifamily housing units as affordable housing units to low- and moderate-income households, and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the city. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection may be satisfied solely through housing affordable to moderate-income households.

B. Limits on Exemption. The exemption does not apply to the value of land or to the value of improvements not qualifying under this chapter, nor does the exemption apply to increases in assessed valuation of land and nonqualifying improvements. In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to submission of the completed application required under this chapter. This chapter does not apply to increases in assessed valuation made by the assessor on nonqualifying portions of building and value of land nor to increases made by lawful order of a county board of equalization, the Department of Revenue, or a county, to a class of property throughout the county or specific area of the county to achieve the uniformity of assessment or appraisal required by law.

Project Eligibility

The project meets the following requirements:

1. **Location in the Brewery District Subarea** – Confirmed.
2. **Tenant Displacement Prohibited** – Confirmed.
3. **Size** –The project has 95 dwelling units.
4. **Proposed Completion Date** – The project will need to be completed within three years of application for the MFTE.
5. **Contract with City Approved by City Council** – The applicant must enter into a contract with city approved by City Council. See the attached.

3.30.050 Project eligibility.

A proposed project must meet the following requirements for consideration for a property tax exemption:

A. Location. The project must be located within a residential target area as designated in TMC 3.30.030.

B. Tenant Displacement Prohibited. The project must not displace existing residential tenants of structures that are proposed for redevelopment. Existing dwelling units proposed for rehabilitation must have been unoccupied for a minimum of twelve months prior to submission of an application and must have one or more violations of the International Property Maintenance Code of the city of Tumwater. Applications for new construction cannot be submitted for vacant property upon which an occupied residential rental structure previously stood, unless a minimum of twelve months has elapsed from the time of most recent occupancy.

C. Size. The project must include at least four units of multifamily housing within a residential structure or as part of an urban development. A minimum of four new units must be constructed or at least four additional multifamily units must be added to existing occupied multifamily housing. Existing multifamily housing that has been vacant for twelve months or more does not have to provide additional units so long as the project provides at least four units of new, converted, or rehabilitated multifamily housing.

D. Proposed Completion Date. New construction multifamily housing and rehabilitation improvements must be completed within three years from the date of approval of the application.

E. Compliance with Guidelines and Standards. The project must be designed to comply with the city's comprehensive plan, building, housing, and zoning codes, and any other applicable regulations in effect at the time the application is approved. The project must also comply with any other standards and guidelines adopted by the city council for the residential target area in which the project will be developed.

F. At least fifty percent of the space in a new, converted, or rehabilitated multiple unit must be for permanent residential housing. In the case of existing occupied multifamily development, the multifamily housing must also provide for a minimum of four additional multifamily units. Existing multifamily vacant housing that has been vacant for twelve months or more does not have to provide additional units.

G. The applicant must enter into a contract with city approved by city council under which the applicant agrees to the implementation of the development on terms and conditions satisfactory to the city council.

Application Procedure

Prior to April 1 of any year, the applicant must submit a complete application that includes the following:

1. A **completed city of application form** setting forth the grounds for the exemption. Applicant has provided a completed form. See Attachment C, Exhibit A, and Attachment F, Exhibit D.
2. **Preliminary floor and site plans of the proposed project.** Applicant has provided floor and site plans. See Attachment D, Exhibit B.
3. **A statement acknowledging the potential tax liability when the project ceases to be eligible under this chapter.** Applicant has provided. See Attachment E, Exhibit C, and Attachment F, Exhibit D.
4. **Verification by oath or affirmation of the information submitted –** Applicant has provided this. See Attachment C, Exhibit A, and Attachment F, Exhibit D.

3.30.060 Application procedure.

A property owner who wishes to propose a project for a tax exemption shall complete the following procedures:

A. Prior to April 1 of any year, file with the director the required application along with the required fees as established by resolution of the city council.

B. A complete application shall include:

- 1. A completed city of Tumwater application form setting forth the grounds for the exemption;*
- 2. Preliminary floor and site plans of the proposed project;*
- 3. A statement acknowledging the potential tax liability when the project ceases to be eligible under this chapter; and*
- 4. Verification by oath or affirmation of the information submitted.*

[...]

Application Review

Within 90 days of submittal of a complete application, the Community Development Director determined the project meets the approval criteria.

3.30.070 Application review and issuance of conditional certificate.

A decision to approve or deny an application shall be made within ninety calendar days of receipt of a complete application.

A. Approval. The director may approve the application if he/she finds that:

- 1. A minimum of four new units are being constructed or in the case of occupied rehabilitation or conversion a minimum of four additional multifamily units are being developed;*
- 2. If applicable, the proposed multi-unit housing project meets the affordable housing requirements as described in RCW 84.14.020;*
- 3. The proposed project is or will be, at the time of completion, in conformance with all local plans and regulations that apply at the time the application is approved;*
- 4. The owner has complied with all standards and guidelines adopted by the city under this chapter; and*
- 5. The site is located in a residential targeted area of an urban center that has been designated by the city council in accordance with procedures and guidelines of this chapter.*

B. Before application approval the applicant shall enter into a contract with the city, approved by the city council, regarding the terms and conditions of the project. After city council approval of the contract, and director approval of the application, the director shall issue a conditional certificate of acceptance of tax exemption. The conditional certificate expires three years from the date of approval unless an extension is granted as provided in this chapter.

C. Denial. 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 calendar days of the denial. An applicant may appeal a denial to the city council within thirty days after receipt of the denial. The appeal before the governing authority must be based upon the record made before the administrative official with the burden of proof on the applicant to show that there was no substantial evidence to support the administrative official's decision. The decision of the governing body in denying or approving the application is final.

Application for Final Certificate

Once the conditions of the contract are met and at the time of temporary or permanent certificate of occupancy, the applicant will need to file an application for final certificate following the process below. The Community Development Director has thirty days to review the application.

3.30.090 Application for final certificate.

Upon completion of the improvements agreed upon in the contract between the applicant and the city and upon issuance of a temporary or permanent certificate of occupancy, the applicant must file with the director the following:

- A. A statement of expenditures made with respect to each multifamily housing unit and the total expenditures made with respect to the entire property;*

B. A description of the completed work and a statement of qualification for the exemption;

C. If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020; and

D. A statement that the work was completed within the required three-year period or any authorized extension.

Within thirty calendar days of receipt of all materials required for a final certificate, the director shall determine whether the specific improvements, and the affordability of the units, satisfy the requirements of the contract, application, and this chapter.

Issuing Final Certificate

Once the Community Development Director has determined the project has meet the conditions of the contract, the director will issue the final certificate.

3.30.100 Issuance of final certificate.

If the director determines that the project has been completed in accordance with this chapter and the contract between the applicant and the city has been completed within the authorized time period, the city shall, within ten calendar days of the expiration of the thirty-day review period provided in TMC 3.30.090, file a final certificate of tax exemption with the Thurston County assessor.

A. Denial and Appeal. The director shall notify the applicant in writing that a final certificate will not be filed if the director determines that:

- 1. The improvements were not completed within the authorized time period;*
- 2. The improvements were not completed in accordance with the application or contract between the applicant and the city; or*
- 3. The owner's property is otherwise not qualified under this chapter.*

Within fourteen calendar days of receipt of the director's denial of a final certificate, the applicant may file an appeal with the city's hearing examiner, as provided in TMC Chapter 2.58.