

STAFF REPORT

Date: July 2, 2024
To: City Council
From: Brad Medrud, Planning Manager



Contract Approval for an Eight-Year Multifamily Tax Exemption for The Rookery Apartments (TUM-24-0714)

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 Multifamily Housing Tax Exemption program to the Town Center and Littlerock Subarea for just the twelve-year exemption to encourage the development of permanent affordable housing as part of its 2019 Housing Affordability Work Plan.

The City received an application for the eight-year exemption program for The Rookery Apartments which is six apartment units as part of a mixed use development in the Capital Boulevard Corridor Subarea (TUM-24-0714). The General Government Committee was briefed on the contract at their June 12, 2024, meeting and recommended approval of the contract.

This memorandum discusses the background and status of the Multifamily Tax Exemption Program and the requirements for the contract for an 8-Year Multifamily Tax Exemption for the Rookery Apartments (TUM-24-0714).

Contents

1. Summary of the Multifamily Property Tax Exemption Program	2
2. Purpose of the Multifamily Property Tax Exemption Program	3
3. Benefits of the Multifamily Property Tax Exemption Program	3
4. City’s 2017 and 2019 Ordinances	4
5. Use of the Multifamily Property Tax Exemption Program to Date.....	4
6. Approval Process.....	6

7. The Rookery Apartments Application	6
A. Target Area and Length of Exemption.....	6
B. Project Eligibility	7
C. Application Procedure	8
D. Application Review	9
E. Application for Final Certificate	10
F. Issuing Final Certificate	11
Appendix A: Multifamily Property Tax Exemption Target Area	12

1. Summary of the Multifamily Property Tax Exemption Program

The state's multifamily property tax exemption program (Chapter 84.14 RCW) provides opportunities for cities and counties to encourage the development of multifamily housing in designated areas. When originally codified by the state in 1995, the program focused on economic development and the creation of new multifamily housing. Over time, the program became an important tool to support the development of affordable housing and implementation of the goals of the Growth Management Act.

The program is intended to encourage the construction of new, rehabilitated, or converted multifamily housing within designated areas. It is limited to multifamily housing developments with four or more housing units.

The City's multifamily property tax exemption program exempts taxes on improvements made for multifamily development to encourage the development of multifamily housing units within designated targeted areas of the City. The multifamily property tax exemption applies to the new housing improvement portion of the property taxes.

Under state law, property owners who make eligible housing improvements are exempt from any tax increases related to those improvements for a period of eight years. An exemption period of twelve years is possible if the property owner or developer commits to renting or selling at least 20 percent of the units to households with an income at or below 115 percent of the area median family income during the same period. Owners continue to pay the pre-improvement taxes on both the land and structure. Once the multifamily property tax exemption lapses, the property owner is free to rent or sell units at market rate.

An approved multifamily property tax exemption 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 multifamily property tax exemption program, that cost is re-distributed to the other property owners in the City. No matter how many multifamily property tax exemption discounts the City provides, the City still collects the same amount of property tax dollars.

2. Purpose of the Multifamily Property Tax Exemption Program

Comprehensive Plan Housing Element Action H-3.3.3 states:

Establish a multi-family tax exemption program that gives financial incentive for developers to create multi-family structures in target areas and to set aside a percentage of units as low-income housing.

The City's multifamily property tax exemption program serves multiple purposes. It is an economic development tool identified in the City's Brewery District Plan and Capitol Boulevard Corridor Plan to spur private investment for redevelopment of these areas. In addition, it is one of the many tools identified in Resolution No. R2018-016 and the Tumwater Housing Action Plan to support the development of more affordable housing in specific areas of the City served by transit.

The program does the following:

- Provides a catalyst to promote development within targeted areas.
- Encourages increased residential opportunities within targeted areas.
- Stimulates new construction or rehabilitation of existing vacant and underutilized buildings for multifamily housing.
- Assists in directing future population growth to designated residential targeted areas, thereby reducing development pressure on existing single-family residential neighborhoods.
- Provides the needed residential densities to support retail and other services within the target areas.
- Helps to achieve residential densities, which are more conducive to transit use in designated residential targeted areas.
- In the case of the twelve-year exemption, 20 percent of the new housing units are affordable to 80 to 115 percent of area median income for the twelve-year exemption.

3. Benefits of the Multifamily Property Tax Exemption Program

There are multiple benefits for the multifamily property tax exemption program. Most generally, the reduction in property taxes is shared among consumers and developers in the form of lower prices or rents and in the form of increased project income, respectively. This will encourage the development of more housing units and make housing more affordable overall.

The program also provides the following benefits:

- Increases housing choice for consumers due to the increase in supply.
- Increases densities in areas suited for higher density.
- Aids sustainability and walkability efforts by locating housing near services and transit.

- Reduces risk, which increases the ability of a developer to secure debt financing.
- Stimulates development by reducing costs, which increases the development return on a marginal project, which increases project feasibility.
- Benefits for the consumer in a competitive market, where savings are passed down.
- Ensures that the tax exemption remains with the property so that it will benefit the right owner in the targeted area regardless of turnover.

4. City's 2017 and 2019 Ordinances

The original purpose of the City Council's adoption of a multifamily property tax exemption program in 2017 (Ordinance No. O2017-004 and Resolution No. R2017-002) was to use residential development to spur the economic redevelopment of the Brewery District and Capitol Boulevard corridor. The City's subarea plans adopted in 2015 were based on studies that indicated that the City needed to consider a variety of financial incentives to see the redevelopment that those plans envisioned. Adding more people living in those areas through the multifamily property tax exemption program was expected in turn to encourage the development of retail, services, and employment. See Appendix 1 *Multifamily Property Tax Exemption Target Area* for a map of the Capitol Boulevard corridor target area.

The expansion of the program to the Littlerock Road Subarea and the Town Center in 2019 (Ordinance No. O2019-023) was done for different reasons. In 2018, the City Council started to focus on how the City should address homelessness and the lack of affordable housing. One of the action items in R2018-016 was to strengthen incentives for affordable housing within the Capitol Corridor and Brewery District and explore extending these incentives to the entire InterCity Transit #13 bus corridor.

Expanding the program to the Town Center and the Littlerock Road area was one of the many code changes and programs that the City started at that time to encourage more housing to be built overall in the City to meet demand and to provide some level of affordable housing. Because of that, in the Town Center and the Littlerock Road Subareas the City's multifamily property tax exemption program was limited to the twelve-year option that required 20 percent of those housing units to be affordable to 80 to 115 percent of area median income. The Planning Commission recommended that 30 percent of the housing units be affordable, but the City Council decided that it wanted to make sure that the program created affordable housing units first and kept the affordable housing unit requirement at 20 percent.

5. Use of the Multifamily Property Tax Exemption Program to Date

In the ten years prior to 2019, multifamily development only accounted for a small portion of the new housing units built in the City. During the COVID-19 related building boom in 2020, the City experienced an increase in new multifamily housing development. By 2022, there were more housing units in multifamily developments than single-family houses being permitted in the City.

Through April 2024, the City has had 441 total multifamily housing units approved at least through the conditional approval process, of which 66 are affordable multifamily housing units and the rest are market rate. The affordable multifamily housing units must comply with the low- to moderate-income levels (80 to 115 percent of area median income) requirements in TMC 3.30.

Table 1. Units by Conditional and Final Approvals Through April 2024

Approvals	All Units	Market Rate Units	Affordable Units
Conditional	300	263	37
Final	141	112	29
Total	441	375	66

Table 2. Units Approved By Target Area Through April 2024

Target Areas	All Units	Market Rate Units	Affordable Units
<i>Eight- and Twelve-Year Options</i>			
Brewery District	119	119	0
Capitol Corridor	0	0	0
<i>Twelve-Year Option Only with 20% Affordable</i>			
Littlerock Subarea	322	256	66
Town Center	0	0	0
Total	441	375	66

- Rockwell Place received final approvals in November 2022 after a Certificate of Occupancy was issued. It is a twelve-year multifamily property tax exemption program project in the Littlerock Road subarea target area. It has three buildings with 141 total housing units of which 29 of which are affordable, and the rest are market rate.
- The 350 North Apartments and Craft District Apartments received conditional approvals in December 2022, and they are under construction. Construction will need to be completed in three years to receive final approvals. Both are eight-year multifamily property tax exemption program projects in Brewery District target area with no affordable housing units. The 350 North Apartments has 24 market rate housing units and Craft District Apartments has 95 market rate housing units.
- The Kingswood Apartments received conditional approval in February 2023, and it is under construction. Construction will need to be completed in three years to receive final approval. It is a twelve-year multifamily property tax exemption program project in

Little Rock Road subarea target area. It has 181 total housing units of which 37 are affordable housing units and the rest are market rate.

6. Approval Process

TMC 3.30 *Multifamily Housing Tax Exemptions* establishes the review and approval process for multifamily property tax exemption 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. The City can issue an extension of an approved Conditional Certificate for up to 24 months subject to City approval.
7. 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.
8. The complete Final Certificate Application is reviewed and approved by the Community Development Director.
9. The Community Development Director files a Final Certificate of Tax Exemption with the Thurston County Assessor.

7. The Rookery Apartments Application

A. Target Area and Length of Exemption

The Rookery Apartments are in the Capital Boulevard Corridor 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.

B. Project Eligibility

The project meets the following requirements:

1. **Location in the Capitol Boulevard Corridor Subarea** – Confirmed.
2. **Tenant Displacement Prohibited** – Confirmed.
3. **Size** – The project has six 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 Attachment B and exhibits.

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.

C. 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, Attachment D, Exhibit B, Attachment E, Exhibit C, 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 and Attachment E, Exhibit C.

3. **A statement acknowledging the potential tax liability when the project ceases to be eligible under this chapter.** Applicant has provided. See Attachment C, Exhibit A.
4. **Verification by oath or affirmation of the information submitted** – Applicant has provided this. See Attachment C, Exhibit A.

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.*

[...]

D. Application Review

Within 90 days of submittal of a complete application on May 8, 2024, 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.*

E. 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.

F. Issuing Final Certificate

Once the Community Development Director has determined the project has met 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.

Elementary School