

Memo

Date: July 28, 2021

To: Councilmember Mosqueda, Councilmember Herbold, Councilmember González, Councilmember Lewis and Councilmember Strauss

From: Emily Alvarado, Director, Office of Housing

Subject: Preview of Proposed MFTE Legislation

OH is proposing MFTE legislation to implement recent changes in state law, specifically to address required or time sensitive changes to the RCW, including a 12-year extension option for properties expiring prior to program renewal in 2023. OH is also proposing a resolution to address labor equity standards and other issues.

Background

This spring, the state legislature passed SB5287, which amended the RCW authorizing the MFTE program. The main changes include:

- Authorizes local jurisdictions to offer a 12-year extension for expiring properties
- Authorizes local jurisdictions to require prevailing wage, apprenticeship, and contractor inclusion requirements as a condition of the property tax exemption.
- Provides a 20-year tax exemption for permanently affordable homeownership projects and allows smaller detached projects to participate.
- Requires property owners to provide financial assistance to some MFTE tenants when affordability provisions expire.

Proposed Legislation

The proposed legislation, to be discussed in more detail at the August 17 committee meeting, would make the following changes to the SMC in order to accommodate required and time sensitive changes to the RCW. This proposed legislation is in addition to CB 120113, which provided projects impacted by COVID-19 additional time to complete and was passed by City Council passed on July 19, 2021.

Extend Affordability Provisions. Provide properties expiring in 2021 and 2022 an opportunity to participate in the program for another 12 years. There are nine such properties with about 350 MFTE units.

Right-Size Affordability Limits for Older Buildings. The RCW requires that projects receiving the 12-year extension must provide, at minimum, the same affordability limits and set-asides that are currently required for new developments. However, due to program fairness and market realities, extending the tax exemption for older buildings requires reducing affordability levels, since average rents are lower for older buildings as compared to newer

buildings. The proposed income limits for receiving an extension are 10% below what is currently required if the same units were located in a new development.

OH's analysis indicates that the tax exemption will continue to be viable for all but one property at these lower affordability limits. The analysis used conservative assumptions, including use of higher pre-pandemic market-rate rents.

Rent Buy Down for Nine Expiring Properties Under Proposed Income Limits			
Unit Type	# of MFTE Units	Proposed Income Limits for 12-Year Extension	Proposed Rent Buy-Down (Using Q1 2020 Market Rents & MFTE Rents Based on 2020 HUD-published median income)
< 400 S	9	30% AMI	\$589
0-BDR	108	50%	\$767
1-BDR	182	60%	\$694
2-BDR	59	75%	\$1,029

Transition to lower income limits and annual income recertification requirements without displacing existing MFTE tenants. Extending properties will now be required to do annual income recertifications, consistent with current program requirements. Existing MFTE tenants who are over income for the new, lower limits but within the older, higher limits will keep their MFTE unit designation at the higher MFTE rents. When the unit turns over, the new income and rent limits will apply.

The table below shows the difference between current MFTE rents for the expiring properties, all of which vested under Program 3, and proposed rents for the extension.

	Current Affordability Limits for Expiring Properties (Program 3)	Current MFTE Rents for Expiring Properties (Program 3)	Proposed Affordability Limits for Extensions	Proposed MFTE Rents for Extensions
< 400 NSF	N/A	N/A	30%	\$607
Studio	80% AMI	\$1,619	50%	\$1,012
1 bedroom	80% AMI	\$1,815	60%	\$1,388
2 bedroom	90% AMI	\$2,343	75%	\$1,952

Tenant Protections. Tenant at or below 80% will receive tenant relocation assistance equal to one month's rent within 90 days of the MFTE rent restriction ending. Per the RCW, only tenants in projects authorized after July 2021 or projects opting for the extension are eligible.

Support new permanently affordable homeownership projects. These projects will receive the newly authorized 20-year tax exemption. Projects must meet a specific definition of permanently affordable homeownership in the RCW, including a 99 renewable ground lease and re-sale restrictions limiting sales to households at or below 80% AMI.

Other minor technical changes. The legislation proposes other minor changes of a technical nature.

Resolution to Address Labor Equity Standards & Other Issues

The proposed legislation will be accompanied by a resolution that states the City's intent to address affordable housing outcomes, labor equity standards and additional extensions for other expiring properties in 2023, when the program is up for renewal consideration.