

## SUMMARY and FISCAL NOTE

<b>Department:</b>	<b>Dept. Contact:</b>	<b>CBO Contact:</b>
Office of Housing	Kelli Larsen	Nick Tucker

### **1. BILL SUMMARY**

**Legislation Title:** AN ORDINANCE relating to the Multifamily Housing Property Tax Exemption Program; allowing partial property tax exemptions for commercial to multifamily housing conversion projects; allowing the property tax exemption period to be extended to 24 years for properties with Multifamily Housing Property Tax Exemption expiring end of 2025; changing the MFTE Program’s sunset date to September 10, 2025; and amending Sections 5.73.010, 5.73.020, 5.73.040, 5.73.050, 5.73.070, 5.73.090, and 5.73.120 of the Seattle Municipal Code.

#### **Summary and Background of the Legislation:**

This legislation changes the sunset date for the City of Seattle’s Multifamily Housing Property Tax Exemption program (“MFTE program” or “MFTE”) to September 10, 2025. Absent adoption of this ordinance, the Office of Housing would not be authorized to accept additional MFTE P6 applications from developers for full exemption of residential improvements from property taxes between April 1<sup>st</sup> and the effective date of future MFTE P7 reauthorization legislation. The legislation also amends SMC Chapter 5.73 to: (1) streamline MFTE rehabilitation requirements to incentivize commercial to multifamily housing conversion projects, which was newly authorized as an MFTE eligible project type with the State legislature’s passage of SB 6175 in 2024; and (2) allow an additional 12 years of tax-exempt status for multifamily properties with MFTE scheduled to expire on December 31, 2025.

The City of Seattle’s MFTE program provides property tax exemptions to owners of multifamily rental properties where housing costs for a share (20% or 25%) of the apartments are limited for income-qualified tenant households. MFTE also provides property tax exemptions to income-eligible buyers of affordable homes with long-term resale restrictions.

This legislation enables the City to increase its volume of P6 multifamily tax exemption applications beyond March 31<sup>st</sup> rather than pausing application intake for part of the year. In 2024, the Office of Housing gathered feedback from MFTE property developers, investors, managers, and renters, contracted researchers at the University of Washington to conduct a program evaluation, analyzed MFTE portfolio and market data, and worked closely with program staff to develop proposals for the next iteration of Seattle’s MFTE program, commonly referred to as P7. That process of evaluating and recalibrating program costs and benefits, improving administrative processes, and tailoring MFTE requirements to respond more effectively to housing needs and market conditions will be ongoing in 2025.

## 2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project?  Yes  No

## 3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation have financial impacts to the City?  Yes  No

### 3.d. Other Impacts

**Does the legislation have other financial impacts to The City of Seattle, including direct or indirect, one-time or ongoing costs, that are not included in Sections 3.a through 3.c? If so, please describe these financial impacts.**

The MFTE program creates two primary costs to the City of Seattle and its taxpayers: forgone revenue and shifted taxes.

While this legislation will not affect 2025 adopted revenues, the way properties are assessed results in some amount of foregone revenue. The King County Assessor does not add 100% of MFTE properties' new construction value to the City's property tax levy amount and the exclusion of that value causes ongoing and compounding revenue losses for the City and other local, county, and state taxing jurisdictions for the duration of the exemption. The current assessment approach is dictated by Chapter 84.14 RCW and would require changes by the State legislature.

In 2024, \$4.1 billion of new construction value was excluded from the City's property tax levy growth. This meant that Seattle's MFTE program resulted in forgone taxes of approximately \$39.4 million for taxing jurisdictions in 2024. The City of Seattle alone lost about \$11.8 million of that amount. Seattle's MFTE program-related revenue losses total \$330.3 million to date.

Shifted taxes are the MFTE program's second category of costs. Shifted taxes have no effect on total receipts of the City of Seattle and are not in any way related or sensitive to the revenue losses described above. Non-exempt property owners must pay the taxes on Seattle's MFTE properties' residential improvements (e.g., apartments, structured parking, and amenities like gyms and community rooms), which are currently assessed at almost \$9 billion. This means that non-exempt taxpayers have a higher tax burden than they otherwise would absent the MFTE exemptions.

The Office of Housing must also pay for the majority of staffing costs to administer the MFTE program.

**If the legislation has costs, but they can be absorbed within existing operations, please describe how those costs can be absorbed. The description should clearly describe if the absorbed costs are achievable because the department had excess resources within their existing budget or if by absorbing these costs the department is deprioritizing other work**

**that would have used these resources.**

While MFTE forgone revenue represents actual lost revenue potential for the City and other taxing jurisdictions, it does not impact the Adopted Budget because it is not included in current revenue projections.

**Please describe any financial costs or other impacts of *not* implementing the legislation.**

There are no financial costs of not implementing the legislation.

#### **4. OTHER IMPLICATIONS**

- a. Please describe how this legislation may affect any departments besides the originating department.** MFTE reduces and shifts property taxes, and any forgone taxes reduce City General Fund revenue.
- b. Does this legislation affect a piece of property? If yes, please attach a map and explain any impacts on the property. Please attach any Environmental Impact Statements, Determinations of Non-Significance, or other reports generated for this property.**  
No.
- c. Please describe any perceived implication for the principles of the Race and Social Justice Initiative.**

**How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response please consider impacts within City government (employees, internal programs) as well as in the broader community.** In November, University of Washington (UW) professor, Gregg Colburn, and two PhD students finalized an evaluation of Seattle’s MFTE program. That report includes a section focusing on MFTE’s stated purpose to affirmatively further fair housing (“AFFH”). Per the U.S. Department of Housing and Urban Development, AFFH requires communities to take meaningful actions to overcome patterns of segregation and foster inclusive communities. The UW report notes that the City’s zoning code ultimately determines where multifamily development can be built in Seattle, limiting the City’s ability to use MFTE to affirmatively further fair housing. Regarding displacement, the UW documents that many MFTE projects are in areas of high displacement risk. However, there is significant correlation between zoning, land values, and displacement risk and they point out that underlying market fundamentals make development more attractive in areas of high displacement risk. Demographic data for MFTE renter households are collected inconsistently (the Office of Housing received demographic information for approximately 60% of MFTE renter households in 2023). For that reason, the UW was unable to draw conclusions about benefits of MFTE for historically disadvantaged populations. The Office of Housing estimates that, based on the limited demographic data provided for heads of households living in MFTE apartments in 2023, roughly one-half are persons of color. (Of *all* renter households in Seattle, based on available data, approximately 44 percent have a household head

who is a person of color.) The Office of Housing hopes to see improved collection and reporting of required demographic data for 2024 annual property certifications to better inform MFTE’s impact on vulnerable and historically disadvantaged communities.

- i. Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation. N/A**
  - ii. What is the Language Access Plan for any communications to the public? N/A**
- d. Climate Change Implications**
  - i. Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response. No impact**
  - ii. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle’s resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects. No impact**
- e. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program’s desired goal(s)? What mechanisms will be used to measure progress towards meeting those goals? Not applicable**

**5. CHECKLIST**

- Is a public hearing required?**
- Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required?**
- If this legislation changes spending and/or revenues for a fund, have you reviewed the relevant fund policies and determined that this legislation complies?**
- Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization?**

**6. ATTACHMENTS**

**Summary Attachments:**

Summary Attachment A – UW MFTE Evaluation Final Report for City of Seattle