

DATE: August 14, 2015

TO: Committee on Housing Affordability, Human Services and Economic Resiliency
Councilmember John Okamoto, Chair
Councilmember Tom Rasmussen, Vice-Chair
Councilmember Kshama Sawant
Councilmember Mike O'Brien

FROM: Steve Walker, Director
Office of Housing

SUBJECT: MFTE Renewal- Program Background Briefing

At the August 20 meeting of the Committee on Housing Affordability, Human Services and Economic Resiliency, the Office of Housing will present information on the current performance, costs, and benefits of the Multifamily Housing Tax Exemption Program (MFTE). This briefing will serve as background for MFTE program renewal legislation that will be presented to the Committee on September 17.

Program Background: Seattle adopted its MFTE program in 1998 and has renewed it three times. Under the program, properties receive a tax exemption on residential improvements' value for up to 12 years and in exchange must simultaneously set aside at least 20% of units at affordability levels determined by the City. Program participation is voluntary.

Current Program Snapshot: Both market-rate and publicly subsidized properties participate in MFTE. Currently, 88 market-rate projects provide 1,981 MFTE affordable units, and another 97 market-rate projects are in development, which will create 1,918 MFTE affordable units. Fifteen subsidized properties currently participate in MFTE and provide 1,419 total affordable units. Two subsidized projects are in development and will provide 178 affordable units. About 40% of potentially eligible market-rate projects citywide opt to participate in MFTE. MFTE is available in 39 residential targeted areas, which generally overlap with urban centers and villages.

Current Affordability Requirements: Properties approved since the 2011 renewal are required to set aside 20% of units as affordable. Studios are restricted at 65% of AMI, 1BRs at 75% of AMI, and 2+BRs at 85% of AMI. Earlier in 2015, Council approved legislation requiring that 25% of all small efficiency dwelling units (SEDUs) in participating buildings be set aside at 40% of AMI. In projects with multiple unit types, a proportionate amount of each unit type must be made affordable.

MFTE Program Costs: Since 2005, \$7 million in tax revenue has not been captured by the Assessor and thus deferred until properties' new construction value is added back to tax roll after MFTE completion. Six-million dollars in tax revenue was captured by Assessor and redistributed to other taxpayers.

MFTE Program Benefits: MFTE is creating thousands of homes affordable to low- to moderate-income earners, harnessing new development for affordable housing. The program achieves significant rent buy-down citywide.

MFTE Renters: In June 2015, the Office of Housing designed and deployed an electronic survey to all current MFTE tenants to better understand who the program serves. To date, the Office of Housing has received over 160 survey responses that can help to inform program refinement. Responses demonstrate that: MFTE renters overwhelmingly work full-time and in a variety of jobs; tenants' annual household incomes are low to moderate; and tenants' racial demographics generally reflect those of the city at large.

Reponses to City Audit: In 2012, the City Auditor identified 19 recommendations, including action items for OH and Council. OH has made substantial progress in tightening compliance and has implemented most administrative recommendations, such as improved oversight, better documentation, and streamlined processes. For legislative changes, the upcoming renewal presents a fresh opportunity to reconsider program goals, add income requalification requirements, and tighten definitions to eliminate gray areas.

Thank you for your consideration.