

Issue	Discussion Notes
<p>1. “Cost” of program – the value of abated taxes from the 8-year MFTE developments to date.</p> <p>Councilmember Fields</p>	<p><u>Council Discussion</u></p> <p>What is the total cost to Redmond budget funds due to the MFTE 8-year projects to date?</p> <p>What is the benefit or return for paying that cost?</p> <p><u>Staff Comments</u></p> <p>The Redmond Multifamily Property Tax Exemption (MFTE) program was adopted in 2017. Due to the time involved with the entire development process, the first year of realized exemptions for a MFTE 8-year project occurred for 2021.</p> <p>\$7,478,177: Total Taxes Abated (the actual cost to Redmond budget funds) for all the 8-year MFTE projects, from 2021 to date.</p> <ul style="list-style-type: none"> • Note that the total tax abatement varies by project and year due to factors like the changes in appraised values and tax rates. • For context, the Redmond adopted biennial budget for 2023-24 is approximately \$1 Billion. <ul style="list-style-type: none"> ○ The multiple years of tax abatement is roughly 0.75% of the 2023-24 budget. <p>\$22,000 to \$32,000: The range of Taxes Abated per Affordable Unit (per year).</p> <ul style="list-style-type: none"> • Due to the variety of factors listed previously, there is a range of abatement per affordable unit. • \$216,000: Total Taxes Abated per Affordable Unit over 8-Years. <ul style="list-style-type: none"> ○ Assuming \$27,000 taxes abated per affordable unit per year. <p>80% AMI units become 60% AMI affordable units: This is the benefit which Redmond received for the cost of the abatements.</p> <ul style="list-style-type: none"> • The 8-year MFTE affordable units in these projects are cost-controlled for households earning 60% AMI. If the 8-year MFTE was not pursued, then these affordable units would be cost-controlled at 80% AMI due to the City’s mandatory inclusionary zoning requirements. • Effectively, the 8-year MFTE program “buys down” the AMIs of the affordable units. • For context, the 2022 AMI limits for a 2-person household: <ul style="list-style-type: none"> ○ Income (annual) limits: <ul style="list-style-type: none"> ▪ \$86,000 (80% AMI) ▪ \$64,500 (60% AMI) ▪ Difference between 80% and 60%: <ul style="list-style-type: none"> • \$21,500 ○ Rent (2-bedroom) limits:

Issue	Discussion Notes
	<ul style="list-style-type: none">▪ \$2,400 / month (80% AMI)▪ \$1,800 / month (60% AMI)▪ Difference between 80% and 60%:<ul style="list-style-type: none">• \$600 / month• \$7,200 / year <p>Note: the tax exemptions are temporary (length of the MFTE program), but the affordable units remain affordable in perpetuity.</p>
<p>2. “Cost” of the proposed 12-year MFTE pilot program (value of abated taxes).</p> <p>Councilmember Fields</p>	<p><u>Council Discussion</u></p> <p>What would be the total cost to Redmond budget funds due to the MFTE 12-year pilot program?</p> <p><u>Staff Comments</u></p> <p>The 12-year MFTE pilot program provides the same level of annual property tax exemption as the existing 8-year program.</p> <ul style="list-style-type: none">• The difference of the programs is the length of exemptions:<ul style="list-style-type: none">○ 12-year pilot program would provide exemptions for a total of 12-years.○ 8-year program provides exemptions for a total of 8-years.• As such, the actual cost to Redmond budget funds due to abated taxes for the 12-year program is about 50% more than the 8-year program. <p>Assuming \$27,000 taxes abated per affordable unit per year.</p> <ul style="list-style-type: none">• \$216,000: Total Abated Taxes per unit for the 8-Year MFTE Program• \$324,000: Total Abated Taxes per unit for the 12-Year MFTE Program• Difference:<ul style="list-style-type: none">○ \$108,000
<p>3. Pilot Program promotes relatively high AMI levels.</p> <p>Multiple Councilmembers</p>	<p><u>Council Discussion</u></p> <ul style="list-style-type: none">a. Council interest in why the 12-Year Pilot Program targets higher AMI levels.b. Concern that this creates “less expensive” housing, rather than “affordable housing”c. Interest in addressing 30% AMI levels.

Issue	Discussion Notes								
	<u>Staff Comments</u>								
	Redmond’s affordable housing needs span the income spectrum as shown in the table below from the King County Countywide Planning Policies.								
		≤30% AMI		AMI		AMI		AMI	
		Non-PSH	PSH	>30 - ≤50%	>50 - ≤80%	>80 - ≤100%	>100 - ≤120%	>120%	
KC CPP Net New Housing Needed: 2019-2044	20,000	7,025	3,694	3,870	2,765	348	394	1,904	
	Housing at the deepest levels of affordability (0-50% AMI) typically requires significant public subsidy to make financially feasible. Strategies to achieve financial feasibility at those AMI levels include the Housing Trust Fund, Low Income Housing Tax Credits, and offering public land at a discount. While the MFTE benefit is helpful for projects targeting 0-50% AMI households, by itself it does not make such developments financially feasible.								
	If Redmond were to adopt a pilot program requiring a portion of units be affordable between 0% and 50% AMI, the likely result would be that no market-rate developer would participate in the program. Because zero participation in the 12-year program is the status quo, staff did not see value in proposing that as a pilot.								

4. Relationship between mandatory inclusionary and optional MFTEs.
Multiple Councilmembers

Council Discussion
Interest in relationship between the mandatory inclusionary zoning and optional MFTE.

Staff Comments
The table below shows the basic parameters of Redmond’s mandatory inclusionary zoning and optional MFTE programs.

	Inclusionary Zoning	MFTE
Status	Required	Optional
Geography	Citywide	Downtown, Overlake, Marymoor Village only
AMI Targeted	80%	Marymoor Village <ul style="list-style-type: none"> • 8-year: 50% • 12-year: 60-80% Downtown and Overlake <ul style="list-style-type: none"> • 8-year: 60%

Issue Discussion Notes

		<ul style="list-style-type: none"> 12-year: 65-85%
Units Required to be Affordable	10%	8-year: 10% 12-year: 20%
Duration of Affordability	Life of project	Life of project

When a developer builds 10 or more units in Redmond, the City’s mandatory inclusionary zoning program ensures that 10% of those units will be affordable to households earning up to 80% AMI. The effect of layering-in the MFTE program makes the units more affordable (8-year program) or provides a higher quantity of affordable units (12-year program). A sample project in Downtown could look like this:

	Inclusionary Zoning Alone	Inclusionary Zoning with 8-year MFTE program	Inclusionary Zoning with 12-year MFTE program
<i>Total units</i>	200	200	200
<i>Units affordable at 60% AMI</i>	--	20	--
<i>Units affordable at 65% AMI</i>	--	--	20
<i>Units affordable at 80% AMI</i>	20	--	--
<i>Units affordable at 85% AMI</i>	--	--	20
<i>Market-rate units</i>	180	180	160

5. What value is provided to the resident household of a MFTE Unit.

Council Discussion

What is the benefit to the household occupying a MFTE unit?

Issue	Discussion Notes
Councilmember Anderson	<p><u>Staff Comments</u></p> <p>The principal benefit to tenants of MFTE units is that the unit is cost controlled. As described above, the MFTE program creates units at deeper levels of affordability (8-year program), or a higher quantity of affordable units (12-year program – currently not used). So relative to inclusionary zoning requirements, MFTE units either serve households with relatively lower incomes or serve a greater total quantity of households who need affordable units. The quality of affordable units is comparable to market-rate units per the provisions of RMC 3.38.060.</p>
6. Interest in stakeholder discussions with developers. Councilmember Kritzer	<p><u>Council Discussion</u></p> <p>Interest in the discussions with Development Community Stakeholders as part of the grant-funded consultant work.</p> <p><u>Staff Comments</u></p> <p>Community Attributes Inc. (consultants) conducted a series of stakeholder interviews with developers experienced with building in Redmond. The developer interviews aimed to vet inputs used in the feasibility modeling and to discuss Redmond’s current building conditions.</p> <p>12 Firms Interviewed: McCullough Hill Leary, Mill Creek Residential Trust, Nelson Legacy Group, Quarterra Real Estate (formerly LMC), Tri Pointe Homes (formerly Quadrant Homes), KG Investments, White Oak/Voyager, Hines, Avalon Bay, Stream, Johnson Carr, and Carmel.</p> <p>Key themes:</p> <ul style="list-style-type: none">• Current IZ/MFTE and Deeper Affordability<ul style="list-style-type: none">○ Multiple developers noted the success Redmond has experienced to date with the existing IZ/MFTE.○ Interviewees noted Redmond has done a good job incentivizing affordable housing to date, but the margins on their incentive programs are perceived as thin.○ Interviewees dislike that Redmond’s IZ/MFTE units remain affordable for the life of the project.○ Noted the value impact that permanent affordability has on a project and how this can influence the sale of a development after a short-term holding period due to the expected drop in net operating income.○ Resistance to lowering affordability levels. Strong resistance to 30% AMI. Resistance to 50% AMI.○ Expressed their philosophy that a high level of supply is the best way to ensure market rate rents remain at reasonable levels, something they felt that requiring deeper affordability can impede.○ Mentioned preference and support for payment in-lieu of affordable units is a good approach to encourage the production of deeply affordable units, as it helps secure funds for non-profit developers that specialize in affordable developments.• Parking Requirements<ul style="list-style-type: none">○ When asked whether they would still build parking if the City of Redmond were to remove minimum parking requirements, nearly all interviewees expressed that they would build parking to a ratio between

Issue	Discussion Notes
	<p>0.75 to one parking units per unit. This is more directly relevant to parking requirements across the City than to MFTE Pilot Program regulations.</p> <ul style="list-style-type: none">○ Desire to keep parking rents uniform, rather than tapering costs depending on whether the user is in an affordable unit or market rate unit.● Bonuses for Affordable Units<ul style="list-style-type: none">○ Interviewees expressed interest in flexibility between height and FAR bonuses; citing anything to help blend the cost of affordable units with a larger number of market rate units is desirable.○ Other non-density bonus incentive ideas to help encourage affordable housing production shared by developers included:<ul style="list-style-type: none">▪ Setback incentives▪ Reduction in retail requirements▪ Reduction in parking requirements▪ Unit finish requirements▪ Reducing green building requirements▪ Permit fee and impact fee waivers▪ Expedited permitting process● Changes to Residential Target Areas (areas where developments are eligible for MFTE)<ul style="list-style-type: none">○ No strong reaction to the potential for Redmond's residential target areas to be expanded.○ Most developers interviewed have built midrise projects in Redmond and expressed that they would not likely build outside of Redmond's Overlake, Marymoor, or Downtown centers.○ However, none were opposed to broadening the residential target areas.● Market Conditions<ul style="list-style-type: none">○ Expressed difficulty in building new development projects given the current market conditions.○ Construction costs for goods and labor have increased drastically in the past few years and rent growth has struggled to keep up.○ A few developers expressed concern with future conditions as construction costs have never meaningfully decreased but rather just flattened.○ Concerns about current market conditions and the potential combination of green building requirements and affordability requirements in Redmond.
