Item		Discussion Notes	Issue Status
1.	**Background on 12-Year extension and 20-Year TOD MFTE programs** Prakriya	**Council Discussion** Councilmember asked for further explanation of the 12-year extension and 20-year TOD MFTE programs in Washington state. **Staff Comments** Washington's state provides multiple Multifamily Property Tax Exemption (MFTE) options, authorized under Chapter 84.14 RCW. MFTE provides a property tax exemption for qualifying multifamily housing developments in exchange for meeting program requirements established by state law and local ordinance. Different exemption options have different affordability requirements. • Washington Department of Commerce 2025 MFTE Legislative Fact Sheet **8-Year MFTE Standard** The standard 8-year MFTE program is primarily intended to encourage new multifamily housing development. State law does not require affordable housing units as a condition of the 8-year exemption, although local jurisdictions may adopt additional requirements. Many communities use this option to encourage market-rate housing production in areas where additional residential investment is desired. Redmond has enjoyed local market conditions that are conducive to development. As such, MFTE was adopted locally to help support the creation of more affordable housing. • Redmond adopted 8-year MFTE program options in 2017. • Redmond's 8-year MFTE program options have always required *some* amount of affordable housing units. **12-Year MFTE Standard** The standard 12-year MFTE program is designed to encourage the production of affordable housing within private multifamily developments. Under state law, at least 20% of the housing units must be reserved for income-qualified households. Household income limits are established using Area Median Income (AMI), with	Opened 6/16/26 Closed X.XX.XX

households earning up to 80% of AMI generally considered low-income and households earning up to 115% of AMI considered moderate-income for purposes of the program.

- Redmond also adopted 12-year MFTE program options in 2017.
- These were largely removed (except for the Downtown RTA) as part of Redmond 2050, because development activity demonstrated a strong preference for the 8-year program.

12-Year MFTE Extension

State law also allows an existing MFTE project to receive an additional 12-year exemption if it meets the affordability requirements in effect at the time of the extension. Projects participating in either the original 8-year or 12-year MFTE program may qualify for this extension; however, developments must satisfy the applicable affordability standards to do so.

- For Redmond, this is particularly relevant because the City's existing 8-year MFTE program requires fewer affordable units than the current state standard.
- As a result, an 8-year MFTE project seeking the additional 12-year extension in Redmond would need to increase the number of affordable housing units to satisfy the applicable statutory and local requirements.

20-Year Transit-Oriented Development (TOD) MFTE

In 2025, the Legislature created a new 20-year MFTE option through HB 1491. Unlike the other MFTE programs, which typically apply within locally designated Residential Targeted Areas (RTAs), the 20-year TOD MFTE applies to qualifying developments located within designated transit station area. Station areas are defined by RCW 36.70A.030 and mapped on Commerce's transit-oriented development webpage.

The program includes its own affordability requirements and long-term affordability commitments. Jurisdictions subject to the 2024 comprehensive plan update schedule, including Redmond, are required to implement the applicable TOD provisions by December 31, 2029.

The proposed amendments do not include a 20-year Transit-Oriented Development (TOD) MFTE program option. Staff believe it is prudent to defer consideration of that option until additional guidance is provided by the Washington State Department of Commerce or any potential legislative revisions are finalized, due to ambiguity in the existing text of state law.

2.	**2023 12-Year MFTE Pilot Program** Kritzer	**Council Discussion** Councilmember asked for more information about the 2023 12-year MFTE pilot program, including participation rate and lessons learned. **Staff Comments** The 2023 12-year MFTE pilot program was developed as part of a broader review of Redmond's housing policies funded through a $100,000 grant from the Washington State Department of Commerce. The grant supported consultant analysis and implementation of the City's adopted Housing Action Plan, with one required deliverable being legislative action to update the City's MFTE program. Redmond adopted its first MFTE program in 2017 to encourage the production of affordable housing. The program included both an 8-year and a 12-year MFTE option. Under the original 12-year program, developments were required to reserve 20% of units as affordable housing, consistent with state law. In the Downtown and Overlake Residential Targeted Areas, the affordability requirements were split between 10% of units affordable at 65% of Area Median Income (AMI) and 10% at 85% AMI. In the Marymoor Residential Targeted Area, the requirements were 10% of units at 60% AMI and 10% at 80% AMI. By June 2023, the 8-year MFTE program had proven successful, with six completed and occupied market-rate projects providing 230 affordable homes. In contrast, no market-rate development had utilized the standard 12-year MFTE program. Through the consultant's analysis and community partner outreach, staff concluded that the affordability requirements associated with the 12-year program limited its financial feasibility under then-current market conditions. To evaluate whether participation could be improved, the City adopted a temporary pilot program in 2023 that adjusted the affordability mix while maintaining the 20% affordable housing requirement established by state law. Under the pilot, developments were still required to provide 20% affordable units, but the affordability levels were revised to require 10% of units at 80% AMI and 10% of units at 90% AMI.	Opened 6/16/26 Closed X.XX.XX

3.38.125 Temporary pilot program – 12-year exemption required minimum affordability levels.

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A. *Pilot Program.* The Minimum Affordability Levels for the 12-year exemption, identified in Table 3 of this section, shall supersede the 12-year exemption Minimum Affordability Levels identified in Table 1 and Table 2 of this chapter.

B. The value of new housing construction qualifying under this chapter shall be exempt from ad valorem property taxation as follows:

1. *In All Residential Targeted Areas.*

a. *Length of Exemption.* For 12 successive years beginning January 1 of the year immediately following the calendar year of issuance of the certificate for rental projects where at least the required minimum number of units are affordable units as specified in Table 3.

b. *Table 3: Required Minimum Affordability Levels.* Affordable Rents as indicated:

Table 3. Marymoor, Downtown, and Overlake Village Residential Targeted Areas

Length of Exemption	Number of Units	Affordability Level
12 years	First 10%	80% AMI
	Second 10%	90% AMI

C. *Termination.* This section shall expire on December 31, 2024. (Ord. 3125 § 2, 2023).

The objective was to test whether a modified affordability structure would increase utilization of the 12-year MFTE program. And, if utilization increased, was that increased participation an acceptable tradeoff to the opportunity cost of fewer, more deeply affordable housing units.

This approach was informed by extensive community partner engagement conducted during the consultant's analysis. Developers consistently cited rapidly increasing construction and labor costs, slower rent growth, uncertainty in capital markets, and the cumulative impact of development requirements on project feasibility.

The pilot was in effect from summer 2023 through December 31, 2024, after which it automatically expired. During the approximately 18-month pilot period, two of four eligible developments participated in the program. As such, the pilot achieved a participation rate of 50%.

Given the relatively small number of eligible projects and the challenging development environment following the COVID-19 pandemic, the pilot produced mixed results and did not provide a definitive basis for broader policy conclusions.

		• However, the experience demonstrated that participation in the 12-year program remained limited despite modifications to the affordability requirements. • This informed the City's subsequent policy direction in Redmond 2050, which emphasized expanding opportunities through the more widely utilized 8-year MFTE program with affordability set-asides below the 20% minimum required for the 12-year program under state law.	
3.	**Development Partner Community Engagement** Kritzer	**Council Discussion** Councilmember asked about other staff perspectives on the major themes of private development partner community engagement. Specifically, the input that the proposed 12-year Extension MFTE program would not sufficiently improve project financial feasibility to make projects viable under current conditions. **Staff Comments** Development partner engagement highlighted four central themes: 1. Current macroeconomic conditions present significant headwinds for development feasibility. 2. Concern that the proposed MFTE amendments will not sufficiently improve project financial feasibility to incentivize new development. 3. Recent MFTE legislation has introduced legal ambiguity in key areas of implementation and applicability, specifically for the 20-year TOD MFTE. 4. Predictability and longer-term certainty in exemptions are increasingly critical to underwriting and project planning. Overall, the feedback received should be viewed in the context of today's challenging development environment. While developers identified several considerations that influence project feasibility and investment decisions, staff did not interpret the feedback as indicating that the proposed MFTE amendments are fundamentally unworkable for future development. Nor are the proposed MFTE amendments fundamentally barriers for future development because the proposed 12-year MFTE extension programs are **voluntary**. Rather, the comments consistently reflected that the MFTE program is one of many factors considered when underwriting projects and should be viewed as a tool that can improve project economics, rather than one that is expected to overcome broader market conditions on its own. The four primary themes are summarized below.	Opened 6/16/26 Closed X.XX.XX

		1. Current macroeconomic conditions present significant headwinds for development feasibility. Developers consistently shared that current macroeconomic conditions remain the most significant challenge affecting new residential development. Construction costs for both labor and materials have increased substantially over the past several years, while rental revenue has generally not kept pace. These market conditions extend well beyond factors that local government can directly influence. Interest rates, inflation, tariffs, global supply chain disruptions, geopolitical events, and other national and international economic forces all affect project feasibility. While these conditions are significant today, they have historically fluctuated over time. The City's long-range planning efforts under Redmond 2050 are intended to support housing production across multiple economic cycles, recognizing that development activity naturally expands and contracts as market conditions change. **2. Concern that the proposed MFTE amendments will not sufficiently improve project financial feasibility to incentivize new development.** Developers generally agreed that the proposed 12-year MFTE extension, by itself, is unlikely to move many projects across the threshold from financially infeasible to feasible under current market conditions. Staff agree with that with the developer assessment of the MFTE financial feasibility findings. Staff notes that closing the entire feasibility gap that exists in the current challenging macroeconomic conditions was never the intended purpose of the proposed MFTE amendments. Nor was that the intended purpose of the broader MFTE program in the City of Redmond. The objective of the MFTE program is not to eliminate the substantial feasibility gap created by today's macroeconomic environment. Rather, the 12-year MFTE extension program is intended to improve project financial performance in exchange for development providing affordable housing beyond the City's baseline inclusionary housing requirements. This approach is consistent with the purpose of Washington's MFTE statute (Chapter 84.14 RCW), which authorizes local governments to encourage the construction of multifamily housing and secure affordable housing benefits through time-limited property tax exemptions. The MFTE is one incentive among many that may influence development decisions, but it is not designed to offset all market conditions or guarantee project feasibility. The MFTE is also just one tool in the toolbox that the City of Redmond has implemented to help support development. Accordingly, staff views this feedback as an acknowledgment of the current economic environment rather than a criticism of the proposed amendments themselves.	

3. Recent MFTE legislation has introduced legal ambiguity in key areas of implementation and applicability, specifically for the 20-Year TOD MFTE.

Several community partners noted that recent amendments to state MFTE legislation have introduced uncertainty regarding implementation of the 20-year TOD MFTE option. During community partner discussions, multiple parties expressed differing interpretations of the statutory language and its application.

For this reason, the proposed amendments do not include a 20-year TOD MFTE option at this time. Staff believes it is prudent to defer consideration of that program until additional guidance is provided by the Washington State Department of Commerce or any future legislative revisions clarify the statutory language. This approach helps reduce implementation risk while allowing the City to move forward with those portions of the MFTE program that are more clearly established under state law. The City can return to considering the 20-year TOD MFTE later.

4. Predictability and longer-term certainty in exemptions are increasingly critical to underwriting and project planning.

Developers also emphasized that predictability is an important factor in project underwriting. Some noted that, in general (not targeted at Redmond specifically), uncertainty regarding how jurisdictions interpret and administer MFTE programs can make it more difficult to incorporate future tax exemptions into baseline financial models.

Staff believe the risks underlying those concerns are mitigated in the City of Redmond. Redmond administers its MFTE program through a streamlined, objective, compliance process using a clear yes-or-no checklist. When an application satisfies the adopted eligibility requirements, approval by the Planning and Community Development Director is largely administrative in nature. Although the Mayor's Office executes the required legal documents, eligibility determinations are made through the objective administrative process and approved by the Planning and Community Development Director.

There were comments that Redmond's MFTE program is viewed as providing a relatively high degree of consistency and predictability. Concern was less about the City's current practices than the broader possibility that future changes in elected leadership, departmental leadership, or administrative practices over time could affect how programs are implemented. While staff acknowledge that long-term certainty is an important consideration for investment decisions, staff believe Redmond's codified eligibility standards and established administrative procedures help reduce that risk.