

Multi-Family Housing Property Tax Exemption Workbook



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Version Changes

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- The previous version incorrectly noted that relocation assistance was not required for cities with existing 12-year MFTE programs. This has been corrected in Chapter 8, and Appendix A.
- Sample conditional and final certificates of exemption have been provided in Appendix B and supporting materials.

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Chapter 1: Introduction

Overview

The Multifamily Property Tax Exemption (MFTE) program provides opportunities for cities and counties to encourage the development of multifamily housing in certain areas. Originally, the program was focused on economic development and the creation of new multifamily housing. Over time, MFTE has also become an important tool to support the development of affordable housing and implement the goals of the *Growth Management Act* ([Chapter 36.70A RCW](#)).¹

Under this program, communities may choose to offer an eight-year property tax exemption for qualifying residential improvements that add new housing units in a "residential targeted area" designated by a local council. They may also offer 12- and 20-year exemptions for developments that include income-restricted units. If a property owner chooses to participate, they still pay property taxes on the value of the land and non-residential improvements.

The Washington State Legislature first codified the program in [Chapter 84.14 RCW](#) in 1995, authorizing larger cities to adopt their own MFTE programs. Since then, the statute has been expanded to incorporate a greater focus on affordable housing and allow more jurisdictions to offer the program.

In 2021, [E2SSB 5287](#) amended several elements of the statute, including:

- Allowing a wider number of cities and counties to develop 12-year MFTE programs.
- Permitting 12-year extensions to existing tax exemptions in exchange for the provisions of income and rent-restricted housing units.
- Supplying tenant relocation assistance at the end of the MFTE period for tenants of rent-restricted units in projects approved after July 25, 2021, and projects receiving a 12-year extension.
- Requiring an evaluation of the risk of physical and economic displacement as the result of the program.
- Providing new reporting requirements for communities participating in the program.
- Allowing for a 20-year exemption in exchange for permanently affordable rental and owner-occupied housing.
- Requiring more comprehensive reporting and auditing processes.

In addition to this, a provision was added by the Legislature to [RCW 84.14.100](#) that requires the following:

The Department of Commerce must provide guidance to cities and counties, which issue certificates of tax exemption for multiunit housing that conform to the requirements of this chapter, on best practices in managing and reporting for the exemption programs authorized under this chapter, including guidance for cities and counties to collect and report demographic information for tenants of units receiving a tax exemption under this chapter. ([RCW 84.14.100\(4\)](#))

¹ Note in particular the requirements for the housing element under [RCW 36.70A.070\(2\)](#), which include provisions for both housing in general and units for moderate, low, very low, and extremely low-income households.

Purpose

This workbook helps cities and counties that want to start an MFTE program or change one that is already in place, as per the requirement for guidance on best practices in [RCW 84.14.100\(4\)](#). This includes a discussion on best practices for management and reporting procedures for local programs and state oversight. It is part of a larger approach to review how state agencies manage MFTE, provide the Legislature an evaluation of the key elements of the program, and make suggestions to streamline the program and improve its public benefit.

Objectives

This Workbook is intended to address several different goals:

- **Giving overall information about the program.** This workbook is intended to give general information about MFTE programs to jurisdictions that are interested in creating their own program or managing and updating an existing program. It is meant as a resource for the different audiences involved: city and county employees, elected officials, developers, lenders, non-profit organizations, and the public.
- **Presenting the research and data to support the adoption of an MFTE program.** Tax exemptions can help to increase the number of market-rate and affordable homes in a community and bring new investment to areas that need revitalization. This workbook reviews the elements of an MFTE program that might work best for different situations, as well as how to discuss the program with decision-makers and the public to reach local housing goals.
- **Outlining best practices for the development and management of an MFTE program.** Since the mid-1990s, MFTE has been available in the state. Over time, many communities have developed their own ways to run their MFTE programs. This document brings together the lessons that these communities have learned and gives clear advice on how to manage MFTE programs across their whole life cycle.
- **Identifying potential challenges with using the MFTE program.** While the benefits of giving a tax exemption seem easy to discuss, there may be some challenges. This workbook outlines how potential constraints with MFTE should be considered and how best to review them with stakeholders as you adopt a program.

Workbook Outline

This workbook is intended to guide readers through the key issues surrounding the MFTE program during every stage of its life cycle, from initial conversations about whether a program would be feasible to program development to reviews and updates of long-term administration and processes.

The following chapters cover MFTE across the following steps:

- **About the MFTE Framework.** ([Chapter 2](#)) *What is an MFTE program?* This chapter describes the MFTE program overall, including its purpose, details about the enabling statute, and features a local program can include.
- **Initial Considerations.** ([Chapter 3](#)) *Why should a city or county pursue the development of an MFTE program, or continue one over time?* In this chapter, we define how communities can consider an MFTE program in the context of other housing programs, and whether a program is a viable choice to help meet community housing goals.
- **Program Development.** ([Chapter 4](#)) *If a community decides to pursue or continue an MFTE, what are the major considerations for developing the program?* This chapter includes advice for the overall design of a program based on needs, goals, and intended outcomes.

- **Administering the Program.** ([Chapter 5](#)) *Once the final parameters of a program are decided, how is the program run?* This gives a description of the major considerations for running an MFTE program and integrating it into other local government processes.
- **Monitoring the Program.** ([Chapter 6](#)) *How do you ensure projects follow program requirements?* This chapter discusses best practices with monitoring and reporting, both with respect to requirements for reporting to the state and effective ways of showing the impacts of the program to council, stakeholders, and the public.
- **Evaluating and Updating the Program.** ([Chapter 7](#)) *How do you adjust the program over time to meet changing needs?* After an MFTE program is created, there will be a need to regularly revisit the details of the program to ensure that it is keeping up with local needs and market conditions and to understand the fiscal effects of the program. This section gives more detail about how to define and measure success at the local level.
- **Writing the Ordinance.** ([Chapter 8](#)) *How do you implement an MFTE program through an ordinance?* This section describes the necessary elements of an ordinance, along with examples of various approaches taken on program components by communities.

In addition to above chapters, these supporting materials are attached:

- A **model ordinance** for adopting an MFTE program, summarizing the outputs from the Writing the Ordinance chapter.
- **Sample forms** for project applications, monitoring, and auditing at the local level.
- A **user's guide for the financial tools** developed to help local governments in evaluating potential parameters for MFTE programs.

Sources

The content for this Workbook is based on several sources:

- **Earlier data and reports** about the MFTE program, including:
 - A [2019 JLARC report](#) to the Legislature on the MFTE program.
 - Annual reports, first produced in April 2021.
 - Other data on MFTE programs collected prior to 2021.
- **Engagement with key stakeholders**, including interviews with staff from cities, counties, and the Department of Commerce, as well as small group discussions with developers and county assessors.
- A **comparative review of local programs**, including municipal codes, processes, and supporting materials that show practices currently in use across different communities.

The workbook was developed with the input and cooperation of an Advisory Committee that included staff from cities around Washington involved with MFTE programs, as well as housing developers, Department of Revenue staff, county tax assessors, and other stakeholders.

Workbook Flowchart



Workbook Directory

Chapter	Guide to Questions
<p>Chapter 2: About the MFTE Framework</p>	<ul style="list-style-type: none"> ○ What are the benefits and overall requirements for exemptions under a typical MFTE program? (page 9) ○ How can communities include their own requirements under their MFTE program? (page 11) ○ What types of MFTE programs are available? (page 12) ○ When do the property tax exemptions provided by an MFTE program end? (page 22)
<p>Chapter 3: Initial Considerations</p>	<ul style="list-style-type: none"> ○ What information about the local housing market and can help when developing an MFTE program? (page 26) ○ What existing policies and programs should be considered when communities develop an MFTE program? (page 30) ○ How can an MFTE program help communities meet their housing goals and targets? (page 34) ○ What are the implications for local tax revenue and other financial impacts? (page 37) ○ Who should be consulted when an MFTE program is being developed or updated? (page 42) ○ What resources are needed for a community to run an MFTE program? (page 46) ○ How should the risks of displacement be considered in an MFTE program? (page 48)
<p>Chapter 4: Program Development</p>	<ul style="list-style-type: none"> ○ How do you select Residential Targeted Areas? (page 55) ○ How do the intended goals of an MFTE program affect the kind of exemption to be used? (page 60) ○ What other requirements should be included in an MFTE program? (page 65) ○ How will an MFTE overlap with other housing incentives that are currently provided or may be developed in the future? (page 68)
<p>Chapter 5: Administering the Program</p>	<ul style="list-style-type: none"> ○ What are the best practices for receiving MFTE applications from property owners? (page 73) ○ What are considerations for the approval of initial MFTE applications? (page 77) ○ What is usually included in contracts with property owners for the MFTE after approval? (page 80) ○ What are the best practices for receiving the final certificate and issuing the tax exemption? (page 83) ○ What are the processes for canceling an exemption? (page 85) ○ How can the tax exemption be extended? (page 86) ○ What are best practices to communicate with owners and tenants at the conclusion of the exemption? (page 86)

Chapter	Guide to Questions
<p>Chapter 6: Monitoring the Program</p>	<ul style="list-style-type: none"> ○ What is the typical process for confirming that tenants qualify for income-restricted housing? (page 91) ○ How and when is this information on income updated? (page 93) ○ What information is necessary to receive from property owners on a regular basis? (page 95) ○ What happens if a property owner does not fulfill their reporting requirements under the program? (page 97) ○ What reporting is necessary for a community to provide to the Department of Commerce every year? (page 98) ○ What are the requirements for regular auditing of properties receiving the exemption? (page 99)
<p>Chapter 7: Reviewing and Updating the Program</p>	<ul style="list-style-type: none"> ○ What internal reporting should be done by a community to provide public information about the MFTE program? (page 105) ○ What short-term adjustments to the program may be necessary outside of regular program reviews? (page 109) ○ When should regular MFTE program reviews be scheduled? (page 113) ○ What should be included in a regular program review? (page 114) ○ What kinds of updates should be made on a regular basis to the program? (page 114)

Chapter 2: About the MFTE Framework

Overview

The Multifamily Property Tax Exemption program is authorized by [Chapter 84.14 RCW](#) ("New and Rehabilitated Multiple-Unit Dwellings in Urban Centers"). Under this statute, the findings in [RCW 84.14.005](#) give the intent of the program:

- Addressing the lack of desirable, convenient, attractive, and livable market-rate and affordable housing units in many urban centers to meet needs for growth.
- Adding needed residential units can support a mixed-income community and meet corresponding planning goals under the *Growth Management Act* ([RCW 36.70A.020](#)).
- Promoting housing growth in urban centers can help to reduce urban sprawl by reducing the need for residential development in other areas.
- Encouraging new multiple-unit housing development to support economic investment and recovery, and the creation of family-wage jobs, in urban centers.



This chapter gives a high-level outline of the components of the current enabling legislation to provide a framework for subsequent implementation guidance in later chapters. The elements discussed in this chapter include the following:

- **General provisions for the tax exemption.** What are the general requirements and conditions for MFTE programs under the statute? What elements are necessary for a program developed by the community?
- **Local provisions for the tax exemption.** When communities are developing their own programs, what additional provisions can be provided?
- **Exemption types.** What are the distinct types of MFTE programs? What are the differences between the eight-, 12-, and 20-year tax exemptions?
- **Application process.** How are communities required to manage applications for MFTE programs? What do applicants need to submit?
- **Reporting and auditing requirements.** What information do MFTE projects report to their authorizing jurisdictions? What information do communities need to report to the State about their programs? What are the statutory requirements for individual audits of tax exemptions?
- **Concluding exemptions.** What happens if the property owner wants to cancel their exemption or is out of compliance with the requirements? Once exemptions are complete, what steps need to be taken to end participation in the program?

General Provisions for the Tax Exemption

A local MFTE program provides an incentive for housing production, including production of income and rent restricted units, by granting an exemption for property taxes for an approved property within a designated area.² All exemptions are subject to the following conditions:

- **Only multiple-unit housing developments are eligible for the exemption.**³ This includes only those developments that include four or more units in a building or group of buildings⁴, and specifically excludes hotels, motels, and buildings designed for transient accommodation. A recent change to expand the definition to a "group of buildings" was intended to include structures such as duplexes and triplexes that are found in some affordable housing projects.
- **Tax exemptions are only permitted for projects located in a "residential targeted area".** Residential targeted areas (RTAs) are designated by Councils under the process in [RCW 84.14.040](#), and must meet the following criteria:
 - An area must be in an "urban center," defined as a compact identifiable district with access to products and services from local business establishments, adequate public facilities, and a mixture of uses and activities.⁵
 - There must be a lack of sufficient available, desirable, and convenient residential housing in the area (market-rate and/or affordable housing) as determined by [RCW 84.14.007](#).
 - Providing additional housing in the area will help meet the purpose of the statute.

For counties, there are additional requirements for RTAs, including:⁶

- The RTA must be within an urban growth area ([RCW 36.70A.110](#)).
 - The RTA must be served by frequent transit routes.⁷
 - The risk of displacing existing residents with an MFTE program is assessed as being minimal or otherwise possible to mitigate.
- **Exemptions can apply to new residential construction, conversion, and rehabilitation.** Residential development exempted from taxes can include new housing construction, conversion, and rehabilitation improvements under [RCW 84.14.020\(1\)\(a\)](#). However, in the case of property rehabilitation or conversion, at least four new multifamily units must be created and the exemption would only apply to the new improvements.⁸ This allows certain other projects involving conversions of industrial or commercial properties to residential use, or significant property renovations to obsolete and substandard housing to take advantage of the exemption if they provide new housing options.

² The Department of Revenue provides information about [property taxes](#). The Municipal Research and Services Center also prepares a "[Revenue Guide for Washington Cities and Towns](#)."

³ See the definition included in [RCW 84.14.010\(10\)](#).

⁴ Note that this represents a change under [E2SSB 5287](#), as previous definitions required that four or more units needed to be included within a single building to qualify under the program. Note that this could potentially include triplexes, duplexes, cottage homes, and other comparable development types.

⁵ See the detailed definition provided in [RCW 84.14.010\(17\)](#).

⁶ See [RCW 84.14.040\(1\)\(d\) and \(e\)](#) for more detailed descriptions of these requirements, including the definition of frequent transit service. Note that this section includes other requirements that are not applicable, including a requirement that the county includes a "campus of an institution of higher education" which is a holdover from previous versions of the statute.

⁷ Note that this requirement expires in July 2024. See [RCW 84.14.040\(1\)\(d\)\(iii\)](#).

⁸ See approval requirements under [RCW 84.14.060\(1\)\(a\)](#).

- **The property value exempted from ad valorem taxes only includes the value of new qualifying residential improvements on the site.** As the MFTE program intention is to create new housing, this means that this exemption does not include:
 - The value of land or non-residential improvements constructed on the property ([RCW 84.14.020\(1\)\(b\)](#)).
 - The value of residential improvements that do not meet local guidelines, if the community chooses to limit the exemption to individual dwelling units that meet specific conditions. ([RCW 84.14.020\(2\)](#)).
 - Existing improvement value in the case of rehabilitation ([RCW 84.14.020\(3\)](#)).
- **All ad valorem property taxes are exempted through an MFTE, including those collected by other taxing districts.** Although the MFTE program is run by a city, town, or county, the value of qualifying residential improvements is exempted from all taxation. This means that other taxing districts are also affected by the exemption (e.g., statewide school taxes, county road districts).
- **A portion of exempted property value may be shifted to the rest of the property tax base.** Each year, the completed portion of a new project is assessed as new construction and added to the tax roll. Once the project is completed and the exemption is granted, however, this value remains on the tax roll and is allocated to all taxpayers. This means that property taxes on the rest of the tax base can be raised beyond levy lids established in the community.
- **Exempted property value is added back to the tax roll once the exemption is completed.** Under [RCW 84.14.020\(5\)](#), this value is considered new assessed value when the exemption expires.⁹
- **The statute includes a sunset provision for MFTE programs.** Under [RCW 84.14.020\(9\)](#), no new exemptions may be provided after January 1, 2032, and no program extensions can be provided after January 1, 2046. While the Legislature may extend this, it does mean that regular reauthorization of the program is needed.

Housing Ineligible for MFTE

The MFTE program is a way to encourage the building of both market-rate and affordable housing, but it only works if the owner would otherwise have been paying property taxes.

Some organizations can otherwise receive exemptions for property taxes. This means that MFTE programs will not represent an incentive to encourage development.

These tax-exempt government and non-profit properties generally include:

- Housing owned by housing authorities, including Tribal, city, and county authorities ([RCW 35.82.210](#)).
- Emergency and transitional housing ([RCW 84.36.043](#)).
- Low-income housing for people with developmental disabilities ([RCW 84.26.042](#)).
- Low-income housing for seniors ([RCW 84.36.041](#)).
- Rental housing or group homes for households making 50% AMI or below ([RCW 84.36.560](#)).
- Military housing developed under privatization initiatives ([RCW 84.36.665](#)).
- Limited-equity, low-income cooperative housing ([RCW 84.36.675](#)).

Because of this, MFTE programs are normally directed towards for-profit housing developers and property owners, usually at higher rent levels than what is often managed by housing authorities and other organizations.

⁹ Although this suggests that the exempted improvement value is not considered under the levy lid when the exemption begins, this may not occur in practice. See [Chapter 4](#) for more details about the implications of the resulting "tax shift" on property taxes levied in a jurisdiction. Also note that the value added may change from county to county; contact your assessor to determine the method used for your community.

Local Provisions for the Tax Exemption

Beyond the required program elements indicated above, there are other options that local governments have with local programs. These can be divided into two distinct categories:

- **Conditions specified in the statute.** [RCW 84.14.040\(6\)\(b\)](#) authorizes local governments to add the following requirements to their MFTE program:
 - Prevailing hourly wage rates for construction workers.
 - Payroll record requirements.
 - Use of apprenticeship training programs.¹⁰
 - A contracting inclusion plan developed in consultation with the Washington State Office of Minority and Women's Business Enterprises.¹¹

Including these options is solely at the discretion of the community and is not mandated by the state through the statute.

- **Other conditions specified by the community.** A community can also provide more requirements to qualify for a tax exemption. Under [RCW 84.14.040\(8\)](#), communities are given broad leeway to include other requirements for exemptions that can provide public benefits. These can include elements such as the following:

- Deeper affordability requirements for 12- and 20-year MFTE programs beyond what is specified in the statute.
- Affordability requirements attached to the 8-year exemption.
- Additional standards for construction, such as LEED certification or requirements from comparable programs.
- Requirements for providing other public benefits, such as park space, facilities, or other improvements.

In these cases, adding more requirements will result in increasing the financial impacts on developers and landowners, and can affect the willingness for developers to participate in the program. Additional requirements may also impact the ability for the tax exemption to support affordable housing. These should be weighed carefully when deciding if other requirements should be included.

¹⁰ See [RCW 39.04.300](#), [310](#), and [320](#).

¹¹ See [Inclusion Plans](#) (Office of Minority and Women's Business Enterprises) for more details.

Exemption Types

Under [RCW 84.14.020\(1\)\(a\)\(ii\)](#), three general types of exemptions are possible based on the length of time involved: eight-, 12-, or 20-year exemption periods.¹² Additionally, the provisions under [RCW 84.14.021](#) give an alternate version of the 20-year exemption directed to homeownership opportunities. A community establishes its own program and can decide to accept any of the eligible options available under the statute.

Summaries of each of these exemptions are provided in Exhibit 1. This includes eligible jurisdictions, affordability requirements, and other restrictions on the use of each of these options.

Area Median Income and Housing Costs

There are different ways to determine the limits to housing costs to use for income-restricted housing. Given the need to provide consistent standards, the state relies on measures of "**Area Median Income**" (AMI) (also referenced as "**Median Family Income**", or MFI) provided by the US Department of Housing and Urban Development (HUD).¹³

This measure of "median" income is a metric at which 50% of families can be expected to have incomes greater than this amount and 50% have incomes below this median. However, calculating income limits from this can be complicated for several reasons:

- **The household income information used for these calculations is released with a delay.** Information about household income is based the American Community Survey (ACS) data for a given area, but this dataset has a lag of three years. (For example, 2022 AMI data was calculated with 2019 ACS data.) For the HUS figures, estimates from previous years are projected forward using the Consumer Price Index (CPI), but as a result this may not capture short-term changes.
- **Housing costs and burdens will depend on the number of people in a household.** While median income gives an overall income benchmark, household incomes and expected costs also relate to the size of the household. For example, larger households may have more members of the household earning income. For affordability calculations, it is assumed that the median family income is for a family of four, and adjustments to AMI values are made for smaller or larger households.
- **Cost limits are based on assumed occupancy.** Although AMI calculations are based on the size of the household, the cost limits for housing units themselves need to include an assumption about how many people can be expected in a unit. Therefore, when calculating maximum rents for a unit, each bedroom in a unit is assumed to include 1.5 people, with one person occupying a studio.¹⁴
- **Final thresholds for rent or sale prices are based on estimates of allowable housing costs.** When determining the final maximum rents or sale prices for income-restricted units, it is assumed that 30% of a household's gross annual income should be used for housing-related costs. This usually includes the costs of utilities and other required expenses in addition to rent or mortgage payments¹⁵. This may be simple when figuring out maximum rents, but to determine maximum housing prices, you will need more information about interest rates, payment terms, down payments, insurance, and property taxes.

¹² Original provisions for the MFTE provided for a 10-year exemption, but this is no longer allowed under the statute.

¹³ See [Income Limits](#) (US HUD Office of Policy Development and Research) for these values by county.

¹⁴ For households with an odd number of bedrooms, estimates for household income are based on the midpoint of the two categories. Estimated AMI for a one-bedroom unit with 1.5 people, for example, is assumed to be the average of AMI for one- and two-person households.

¹⁵ Calculations of projected household expenses are typically available from local housing authorities.

Exhibit 1: Summary of Current MFTE Program Characteristics

	Eight-year	12-year	20-year (homeownership)	20-year (rental housing)
Eligible cities	Population ≥15,000; population ≥5,000 in county under Buildable Lands; or largest city/town in county under GMA.	Same as eight-year MFTE. All other cities, under RCW 84.14.010(3)(d) .	Same as eight-year MFTE. All other cities, under RCW 84.14.010(3)(d) .	Same as eight-year MFTE; city/town population must be ≤65,000.
Eligible counties	Counties with unincorporated population ≥170,000	Same as eight-year MFTE.	Same as eight-year MFTE.	None.
Minimum affordability requirements	Cities: None required for cities. Counties: At least 20% of units must be affordable to low- (≤80% AMI) and moderate-income (80–115% AMI) households.*	At least 20% of units must be affordable to low- (≤80% AMI) and moderate-income (80–115% AMI) households.*	At least 25% of units sold as permanently affordable at 80% AMI or less, with ground lease/deed restriction.	At least 20% of units must be affordable to low-income (<80% AMI) households for a 99-year period.**
Density requirements	None.	<i>Cities under RCW 84.14.010(3)(d):</i> Minimum residential density of 15 housing units/ gross acre.	<i>Cities under RCW 84.14.010(3)(d):</i> Minimum residential density of 15 housing units/acre.	None.
Transit requirements	None.	None.	None.	Within one mile of high-capacity transit, 15-min frequency.
Extension by city/county	12-year extension allowed if 20% of units set aside as affordable to low-income households (≤80% AMI) or if local 12-year requirements in place at the time of extension.	12-year extension allowed if 20% of units set aside as affordable to low-income households (≤80% AMI) or if local 12-year requirements in place at the time of extension.	Not applicable.	Not applicable.
Sunset for issuing exemptions	December 31, 2031.	December 31, 2031. <i>Cities under RCW 84.14.010(3)(d):</i> December 31, 2026.	December 31, 2031.	December 31, 2031.

* Note that communities that qualify to provide the eight-year MFTE can fulfill the affordability requirements for owner-occupied MFTE units with moderate-income households (80–115% AMI) only.

** This requirement must have been instituted through a mandatory inclusionary zoning provision by July 25, 2021.

Source: [RCW 84.14](#)

Under [RCW 84.14.010](#), two different income levels are defined:

- "**Low-income households**" are defined as those making **80% of median family income or less**.
- "**Moderate-income households**" are those with incomes **between 80 and 115% of median family income**.

Communities may also set their own affordability levels beyond what is specified under the statute under [RCW 84.14.040\(6\)](#).

This can be done in one of two ways:

- Communities may simply set **lower income limits** than what is specified in the statute, determined as a percent of median family income. This could involve setting income and rent limits at 70% AMI instead of 80% AMI, for instance. This is the most straightforward approach, and what is typically done in practice.
- Communities could also devise a comparable **local household income measure** for an area within a county, which would be dependent on income measures drawn over a smaller area. However, this will require regular updates by the community and may provide a level of uncertainty if they do not align with others used for affordable housing policy. These levels will also need to align with the statutory requirements.

For ease of use, most communities will specify their limits in terms of median family income at the county level and adjust the level according to local needs.

One final note with respect to values for different income levels is that HUD also provides thresholds used for the income limits for housing programs such as Section 8 programs on their website. These include:

- "**Low-income**" households at **80% AMI**.
- "**Very low-income**" households at **50% AMI**.
- "**Extremely low-income**" households, which has a threshold set at **30% AMI or the poverty** guideline from the Department of Health and Human Services, whichever is higher.¹⁶

Why Use Locally Defined Income Limits?

As indicated in the text, the [US Department of Housing and Urban Development](#) gives estimates of the median family income for each county or metro area, based on American Community Survey data.

These estimates are usually sufficient because housing markets are regional. Even though housing prices can be different from one community to the next, regional factors drive these costs over time. Creating new measures may not give better results, and may present inconsistencies with other housing programs and statutory MFTE requirements.

There may be some cases where there is value in providing local measures of affordability! This can depend on the community, but is likely based on:

- Giving clearer information and messaging about housing costs and affordability in a local market.
- Developing a measure that reflects differences between a local market and other communities in the region.

One example of this could be a region where household incomes from new arrivals into one city are giving a significant boost to median income, but these increases are not reflective of the market conditions in other cities.

For those interested in developing these measures, the HUD methodology for developing median income may be of interest.

¹⁶ For 32 out of the 39 counties in Washington, extremely low-income thresholds were set based on the poverty guideline. Note that this also cannot exceed the 50% AMI value, but this is not applicable in Washington.

Although these are nominally based on median family income measures, the values are also adjusted to account for several factors:

- High local housing costs.
- High local median income (greater than 80% of nationwide median family income).
- Statewide minimums for locations outside of metropolitan areas.
- Significant year-to-year increases or decreases.
- Rounding.

According to [RCW 84.14.010](#), however, MFTE income limits are only calculated from median family income. Therefore, there may be cases where calculated AMI for MFTE programs will differ from the values used for other housing programs, such as Section 8 vouchers.¹⁷ This should be kept in mind for the administration of these programs, especially since these are categories specifically referenced by the *Growth Management Act* in [RCW 36.70A.030](#).

¹⁷ For example, in 2022 Yakima County's HUD income limits for low-income thresholds were adjusted upwards to account for low median income as compared to the statewide non-metropolitan median value. See [Income Limits](#) (US HUD Office of Policy Development and Research) for individual threshold levels and more details on the calculations involved.

Eight-Year Exemption

The statute does not have any mandatory requirements for the eight-year exemption, and because of this it is often put in place to promote market-rate housing in RTAs. However, a city or town must meet one of the following requirements to use this exemption ([RCW 84.14.010\(3\)\(a\) through \(c\)](#)):

- The city or town's **population is at least 15,000**.
- It has a **population of at least 5,000** and is **located in a county where the Buildable Lands Program applies** under [RCW 36.70A.215](#) (currently Clark, King, Kitsap, Pierce, Snohomish, Thurston and Whatcom Counties).
- It is the **largest city or town in a county** otherwise planning under the *Growth Management Act*.¹⁸

While these eight-year exemptions are often used for supporting neighborhood revitalization in areas that need new investment, they can also be used to incentivize income-restricted housing as well. Under [RCW 84.14.040\(6\)](#), communities can implement more stringent eligibility requirements, including requirements for set asides of income-restricted housing. This allows local communities to tailor a program to meet their housing production and housing affordability goals.

Note that under [RCW 84.14.040\(7\)](#), counties with an eight-year exemption are mandated to include an affordability component similar to the 12-year option detailed below. This includes a set-aside of **at least 20% of units to be affordable to low- and moderate-income households** (which can be fulfilled with only housing affordable to moderate-income households for owner-occupied units).

¹⁸ See [RCW 36.70A.040](#) for more details.

Twelve-Year Exemption

The 12-year exemption differs from the eight-year option (aside from the period of the exemption) because a certain number of units are required be set aside as income-restricted housing for the length of the exemption. Under [RCW 84.14.020\(1\)\(a\)\(ii\)\(B\)](#), **at least 20% of units** must be:

- **Rented** as affordable housing units to **low-** and **moderate-income** households, or
- **Sold** as owner-occupied housing units that are affordable to **moderate-income** households.

For 12-year exemptions issued after July 25, 2021, there are also requirements to help low-income tenants when the exemption expires. **Property owners must give relocation assistance equal to one month's rent** when the exemption (or any extension) expires. These tenants must be in an income-restricted unit and qualify as a low-income household, earning 80% AMI or lower.

For those cities that do not qualify under the eight-year MFTE program requirements above, they are allowed to grant 12-year tax exemptions under [RCW 84.14.010\(3\)\(d\)](#).¹⁹ This includes many smaller cities in the state where MFTE has not been permitted in the past.²⁰

The 12-year MFTE programs in these smaller cities are subject to additional restrictions under [RCW 84.14.020\(1\)\(a\)\(iii\)](#):

- **Earlier sunset on exemption authority.** Cities providing exemptions under these conditions can only do so until December 31, 2026.
- **More stringent requirements for owner-occupied housing.** The 20% set aside sold as affordable owner-occupied housing must be affordable to low- and moderate-income households, versus permitting the requirement to be fulfilled with only moderate-income housing.
- **Higher-density residential zoning.** The RTA for this type of program must be zoned to have a minimum average density of 15 housing units per gross acre.²¹

¹⁹ Note that while [RCW 84.14.010\(3\)\(d\)](#) includes these cities until 2031, the restrictions on the 12-year MFTE in [RCW 84.14.020\(1\)\(a\)\(iii\)](#) only allow these cities to issue exemptions until 2026.

²⁰ This does not include towns; the definition of "city" in [RCW 84.14.010\(3\)\(d\)](#) specifically excludes "town" from this clause.

²¹ Note that this states that cities with populations of 20,000 or over must have minimum densities of at least 25 units per gross acre, but this provision is not relevant since [RCW 84.14.010\(3\)\(a\)](#) would apply.

Challenges with Using Tax Exemptions with Owner-Occupied Housing

Overseeing the requirements of an MFTE program is hardest with owner-occupied housing. The MFTE requirements must be met over the whole project across all of the individual owners. Therefore, if just one owner violates the requirements of the program, the exemptions for **all** units in the project could be canceled.

This could happen in a few ways:

- After other units are sold, the developer could decide to sell any remaining income-restricted units at market price.
- An owner who bought an income-restricted unit could sell it at the market rate later.
- An income-restricted unit could be rented to someone who would not qualify by their own income.
- An owner could decide to use their unit for some other non-qualifying use, like as an office or a short-stay rental.

These situations are hard for a community to manage. It can be hard to monitor these types of properties, and if there is a violation, other owners could have to pay thousands more per year.

This can be addressed through provisions in the MFTE contract (see page 80) for covenants on title.

For a more detailed discussion on this, please see page 35.

Twenty-Year Exemptions

Recent amendments authorized a 20-year exemption for permanently affordable units. This is implemented through separate provisions in the statute for rental versus owner-occupied housing.

Permanently Affordable Rental Units

Provisions for **permanently affordable rental units** are described in [RCW 84.14.020\(1\)\(a\)\(ii\)\(C\)](#). Under this subsection, a 20-year tax exemption can be granted by a city under the following conditions:

- **Maximum size.** The city granting the exemption has a population of no more than 65,000 as of July 25, 2021.
- **Transit service.** The project must be located within one mile of high-capacity transit of at least 15-minute scheduled frequency.
- **Mandatory inclusionary zoning requirement.** The city has implemented (as of July 25, 2021) a mandatory inclusionary zoning requirement under [RCW 36.70A.540](#) for affordable housing in a project for a period of at least 99 years, with at least 20% of units affordable to low-income households (income at 80% AMI or below).
- **Restriction on title.** These affordability requirements must be recorded with a covenant or deed restriction, which must also include provisions for maintaining the public benefit if the use is changed and permanently affordable low-income housing is no longer provided.

Given these conditions, especially the deadline for the mandatory inclusionary zoning provision, this is not available for communities that have not already implemented this element.

Permanently Affordable Homeownership Units

[RCW 84.14.021](#) authorizes an option for providing a 20-year exemption for **permanently affordable homeownership** opportunities. For an entire property to qualify, **at least 25% of the units** must be built by or sold to a qualified nonprofit or government entity that will assure permanent affordable homeownership for households with incomes at **80% AMI or less**.

A permanent homeownership project in this case is required by [RCW 84.14.021\(6\)](#) to have the following:

- Sponsorship by a **nonprofit organization** or **governmental entity**, which:
 - Executes a new **ground lease or deed restriction** with a duration of **at least 99 years** at the initial sale and with each successive sale.
 - Enforces the ground lease or deed restriction.
- A **ground lease or deed restriction** that includes:
 - A **resale restriction** designed to provide affordability for future low and moderate-income homebuyers.
 - A **right of first refusal** for the sponsor organization to purchase the home at resale.
 - A requirement that the **sponsor must approve any refinancing**, including home equity lines of credit.

Note that the remaining housing units can be rented or sold at market rates under this program, and these units will also receive the tax exemption.

Just as with the 12-year exemption, smaller cities that qualify under [RCW 84.14.010\(3\)\(d\)](#) are also required to have a **minimum average density of 15 dwelling units per gross acre** in the designated RTA for the 20-year exemption.

Twelve-Year Extensions

Recent amendments also allow for existing eight- and 12-year tax exemptions to be extended beyond their initial period. Under [RCW 84.14.020\(6\)](#), properties that qualified for an earlier exemption may receive an additional 12-year exemption, which requires the approval of the city or county within 18 months before expiration.

This extension requires the following:

- **Set asides for low-income households.** At least 20% of the units must be set aside for households making 80% AMI or lower, and the project must fulfill the other affordability requirements of the 12-year MFTE program in the community in place at the time of the application extension.
- **Rental relocation assistance.** Extensions for a 12-year period require that the applicant provide rental relocation assistance to qualified tenants at the end of the period, totaling one month's rent. These tenants must be in an income-restricted unit and qualify as a low-income household, earning 80% AMI or lower. Additionally, under [RCW 84.14.020\(7\)](#), property owners must also provide notification to the tenants of these units that they are eligible to receive this assistance.

Owner-Occupied Housing and MFTE Extensions

Note that the use of these extensions for owner-occupied housing can be difficult! As written, a project with an existing eight-year MFTE would need to identify new affordable units, while project with an existing 12-year exemption would need to keep current income restrictions in place.

Even though this seems simple enough, owners of market-rate units that are affected by the program would benefit financially much more from the exemption, while providing little to no public benefit. Conversely, while income-restricted units would also get the exemption, these owners would not be able to sell at market rate for another 12 years, which could represent a significant financial impact.

Therefore, without clearer benefits for owners of income-restricted units, these extensions are more likely to be used for projects when some or all of the units are being sponsored through a non-profit agency and have ground leases or deed restrictions in place limiting resale prices, but have decided not to pursue a 20-year exemption instead.

Note that in some cases a 12-year extension could possibly provide an exemption of up to 24 years with more flexible requirements than the 20-year exemption. This flexibility may change, however, if the provisions of the 12-year extension change over time, but it can provide an alternative to the 20-year option for property owners.

Application Process

Getting an exemption through an MFTE process is usually a two-step process. This is usually organized around the development process and may be connected to the permit application process.

Conditional Certificate

An **application for a conditional certificate** is usually filed before building and construction permits are issued. Under [RCW 84.14.050](#), this application requires:

- General information about the project setting the grounds for the exemption as defined by the community.
- A description of the project, including a site plan and building floorplans.
- Confirmation that the applicant is aware of potential tax liabilities after the exemption expires.
- Verification of existing property noncompliance with building and housing codes if rehabilitation or demolition is involved with the project.
- Application fees to cover administrative costs, if required by the local community.²²

This application is reviewed and approved either by Council or through an administrative review process within 90 days of receipt. If approved, a conditional certificate of tax exemption is issued. Application denials must provide the rationale for the decision in writing, and an applicant has a 30-day appeal period.

The project must be completed within three years of the application date to qualify for the tax exemption under [RCW 84.14.090\(3\)](#). A city or county can choose to extend the conditional certificate for another 24 months if the property owner has been working in good faith to finish the project, but it will not be completed on time because of circumstances out of their control.²³

Final Certificate

After the project is completed and a certificate of occupancy has been issued, the owner must file an **application for a final certificate**. This requires filing statements of the following:

- Final construction costs.
- Descriptions of the work completed, and that these improvements qualify for the exemption.
- Provision of all affordable housing required (if applicable).
- Completion within the time limit of the conditional certificate.

Upon receipt, the city or county must determine within 30 days if the project was completed within the time limit and consistent with the original application. After this, the community must file the certificate of tax exemption with the county assessor within 10 days of the end of that 30-day period. Once a property owner is issued a final certificate of tax exemption and it is recorded with the county assessor, the tax exemption begins January 1st of the next calendar year.

If this application is denied, the city or county must notify the applicant that the final certificate of tax exemption will not be filed. A local MFTE ordinance may include provisions for an administrative appeal process for denials of tax exemptions.²⁴

²² Authorized by [RCW 84.14.080](#).

²³ For projects with preliminary or final applications submitted on or before February 15, 2020, this period may be extended by five years.

²⁴ If no process exists, an appeal may be filed in Superior Court within 30 days of notification under [RCW 84.14.090\(6\)](#).

Reporting and Auditing Requirements

Under [RCW 84.14.100](#), there are three provisions set up to provide monitoring of MFTE programs in the state:

- **Reporting to the Department of Commerce.** [RCW 84.14.100\(2\)](#) provides requirements for cities and counties to issue reports to the Department of Commerce on the certificates of tax exemptions issued during the previous year. These communities must follow reporting requirements to issue tax exemptions. Required reporting includes the following:
 - The number of tax exemption certificates granted.
 - The total number and type of units produced or to be produced.
 - The number, size, and type of units produced or to be produced meeting affordable housing requirements.
 - The actual development cost of each unit produced.
 - The total monthly rent or total sale amount of each unit produced.
 - The annual household income and household size for each of the affordable units receiving a tax exemption and a summary of these figures for the city or county.
 - The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.
- **Annual recertification of tax-exempt properties.** According to [RCW 84.14.100\(1\)](#), the owners of a tax-exempt property or the authority assuring affordable homeownership under a 20-year exemption must file an annual report with the city or county that includes:
 - A statement of occupancy and vacancy for the past year.
 - A certification by the owner that the property has not changed use and follows affordable housing requirements.
 - A description of any changes or improvements constructed after receiving the exemption.
 - Any additional information requested by the city or county regarding tax-exempt units.
- **Auditing of MFTE properties.** As required by [RCW 84.14.100\(3\)](#), the Department of Commerce is in the process of creating a system for auditing properties that are not otherwise owned or operated by a nonprofit organization. This will include both an auditing program managed by the Department of Commerce, as well as recommendations for independent review/audit programs to be run by individual jurisdictions. Under this approach, private owners/operators of properties must be audited at least once every five years. Properties found to be out of compliance could be levied penalties as an alternative to cancellation under [RCW 84.14.100\(3\)\(b\)](#).

Please see [Chapter 6](#) for more details regarding reporting requirements, including approaches that different communities have used to balance the needs for providing information to decision-makers with requirements for administrative costs and staff time.

Concluding Exemptions

Under an MFTE program, there are three ways that an initial exemption can end:

- **Expiration.** The exemption can be allowed to expire at the end of the period.
- **Extension.** An eight- or 12-year exemption can be extended by an additional 12 years.
- **Cancellation.** Any exemption can be cancelled, either by the city or county, or by the owner.

Note that for 20-year programs, the exemption may end within 20 years, but the affordability requirements are extended over the lifetime of the building.

Expiration of Exemptions

For the eight- and 12-year exemptions, the tax exemption expires at the end of the period if no action is taken. While cities may have individual requirements for notifying property owners at the end of this period, there are no specific requirements within statute when the exemption ends.

For a project receiving a 12-year exemption (or a 12-year extension), there are specific requirements for dealing with the loss of the income-restricted units:

- **Rental relocation assistance.** For 12-year exemptions approved after July 25, 2021 (or any project receiving a 12-year extension), the property owner must provide relocation assistance at the end of the exemption period equal to one month's rent within the final month of a tenant's lease under [RCW 84.14.020\(8\)](#). Tenants must occupy income-restricted units and qualify as low-income households to be eligible for this assistance.²⁵
- **Notification of assistance.** For projects under a 12-year extension, the property owner must provide notice of intent to provide this relocation assistance at the end of both the tenth and eleventh years of the extension. This is not required under a 12-year exemption but could be required by the individual program.

Extending the Exemption

As noted above, an eight- or 12-year exemption may be extended for another 12 years under [RCW 84.14.020\(6\)](#). Applications for an extension must be received within 18 months of the expiration of the exemption. The extension will require that at least 20% of the units must be set aside for households making 80% AMI or lower, and the property must otherwise fulfill the current requirements of the city or county's 12-year MFTE program.

Cancelling the Exemption

The exemption can also be cancelled under [RCW 84.14.110](#) prior to the end of the exemption period. This can occur if:

- The property is out of compliance with affordability requirements.
- The multifamily component of the development is converted to another use.
- Other conditions of the exemption are no longer satisfied (e.g., provision of public benefits).

²⁵ Note that applicants that maintain units as income-restricted, this relocation assistance must be provided one month before affordability requirements are no longer in effect. See [RCW 84.14.020\(8\)\(b\)](#).

A property owner can provide notification to the assessor within 60 days of the change in use. If this does not occur, the city or county can make the determination that the property will no longer comply with the program. In this case, the following occurs:

- **Notification and appeal.** The city or county must provide notification of the cancellation by mail. The owner may file an appeal within 30 days of receipt of the notification to the governing authority or hearing examiner and request a hearing to review the cancellation. This decision may be appealed to the Superior Court.
- **Tax penalty.** The assessor imposes property taxes equivalent to the total property taxes exempted after noncompliance, plus an additional 20% penalty and any interest normally charged for delinquent property taxes. This becomes a specific lien on the property.
- **Correction to the rolls.** The property value previously exempted must be added to the rolls as new construction.

Voluntary Cancellations

Although provisions for canceling the exemption often focus on communities finding that owners are out of compliance subsequently ending the exemption as a result, note that property owners can also decide to end the exemption on their own. Property owners can decide to do this for different reasons, such as:

- They may wish to repurpose or redevelop the property, and as a result it will no longer be considered in residential use.
- They may decide to convert the property for short-stay residential use.
- They may decide that the costs of providing income-restricted units do not balance out the benefits of the exemption and decide to convert these units to market-rate instead.

While these outcomes may seem like they should be actively discouraged as part of an MFTE program, especially with respect to income-restricted housing, they tend to happen much less often in practice. This is in no small part to the social pressure within a community to comply with programs such as these.

Chapter 3: Initial Considerations

Overview

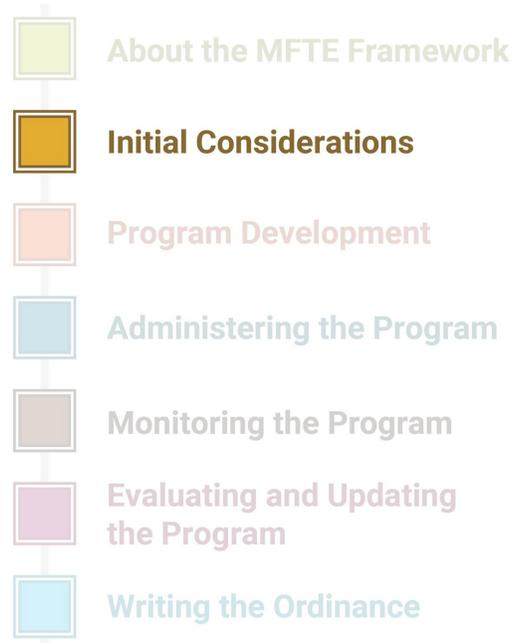
Before deciding if an MFTE program can help meet local housing needs, it is important to understand the overall housing situation in the community and where housing supply and prices may be falling short of local goals, targets, and demand trends. If you know what the biggest problems are with the current housing system, you will have a better idea of what public benefit is most needed from the implementation of an MFTE program.

Local gaps can include the following:

- **Need for overall housing development.** Some communities may have urban centers that have not received a lot of investment or that need wider-scale redevelopment. Incentives can encourage new housing investments that would help revitalize these areas.
- **Not enough housing supply to meet expected growth.** A city or county may need more housing for expected population increases, but it may not be feasible to build new homes where there are locations for new development under expected market conditions.
- **Need for new affordable housing options.** Households with no, very-low, low, or moderate incomes may need affordable workforce units in an area with increasing housing costs, and a community will need to implement incentives to support housing development affordable to these residents.
- **Lack of homeownership opportunities.** Opportunities for attainable homeownership may be desirable in the community, but options for purchase are not affordable for low- and moderate-income households.
- **Lack of alignment between housing needs and household characteristics.** While some affordable housing units may be available, they do not accommodate larger households and families.
- **Lack of housing desired in the community.** The housing being developed may not align with the community's goals, such as denser development to support more walkable communities.

Different gaps require different solutions from an MFTE program. Some locations may need incentives for any kind of development to happen, so a city would look to an eight-year MFTE as an incentive that does not include any affordability requirements. For an area with a "hot" real estate market, on the other hand, incentives might not be needed to build housing in general, but an exemption would incentivize the development of new income-restricted housing or other multi-unit housing types not being constructed without an incentive.

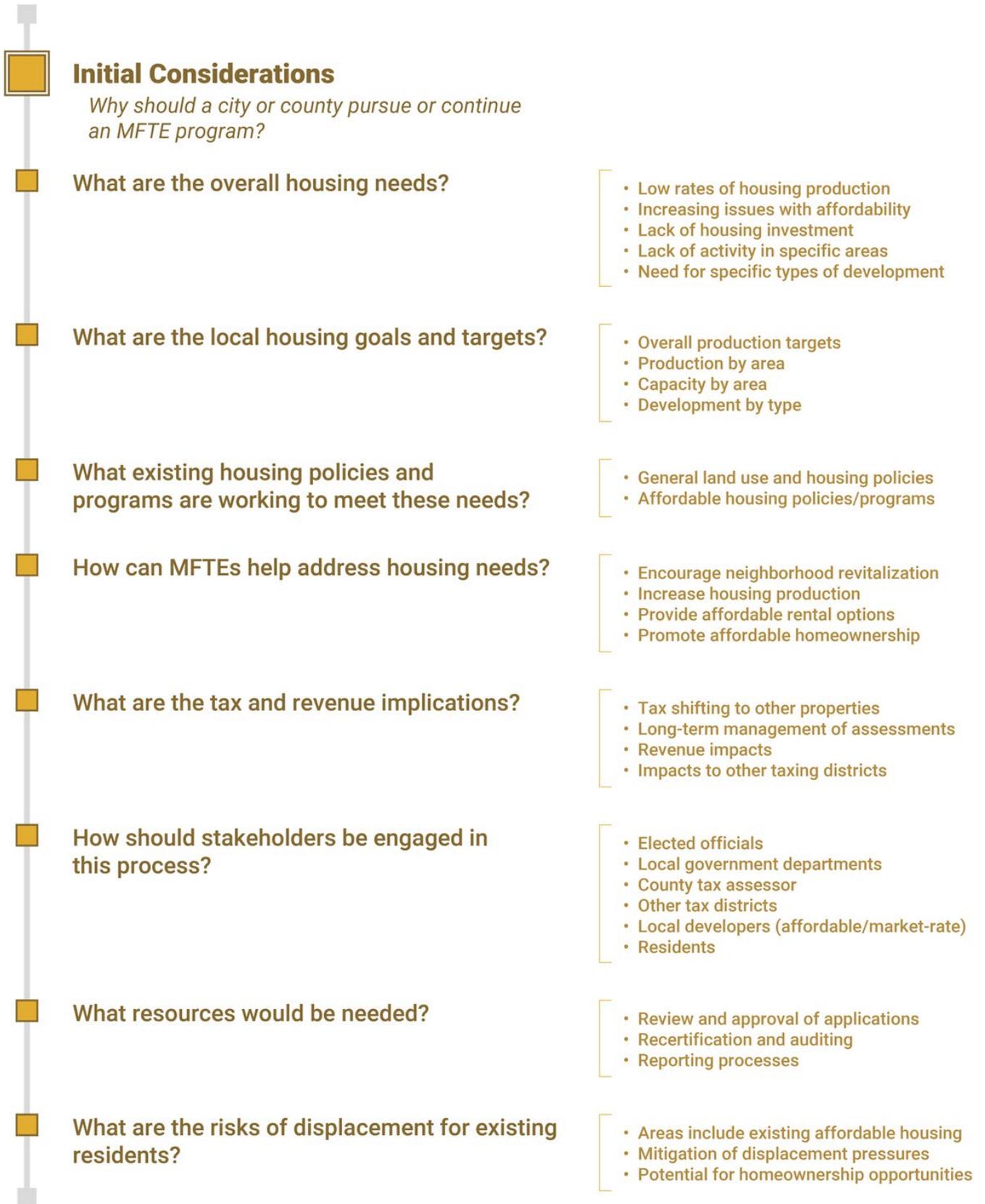
If a city or county has an MFTE program, it is important to schedule regular opportunities to look at how it works and see if it is helping to encourage the type and variety of housing at the pace of production that is needed to meet local needs. [Chapter 7](#) has more information on how to review and update a program, but the steps in this chapter can also help you think about the housing needs of your community when coordinating an update.



This chapter discusses some initial considerations for a city or county interested in either adopting a new MFTE program or changing an existing program. Some important questions include:

- What are the **overall housing needs** in the community?
- What are the community's **housing goals and targets**?
- What existing **housing policies and programs** do you have?
- Where are the **gaps** in housing and the resources to address housing issues? How could MFTE effectively **address these gaps**?
- What are the **potential tax revenue implications** for an MFTE program?
- Who should be **included in the discussion**? How will MFTE affect these **stakeholders**?
- What are the **community resources needed to administer** an MFTE program?
- What will be the potential impacts of MFTE on **displacement risks**?

Research Flowchart



Overall Housing Needs and Market Context

Local governments usually develop a *Housing Needs Assessment* (HNA) to evaluate the factors that affect the supply and demand of housing in a community and the wider area. This can help them understand what types of housing are needed and in what quantities. Cities and counties planning under the *Growth Management Act* are required to conduct an HNA as part of the Housing Element of their Comprehensive Plan as set out in [RCW 36.70A.070\(2\)](#).

An HNA can be organized into five topics, as described in [Guidance for Developing a Housing Needs Assessment](#) from the Department of Commerce:

- **Community profile.** Who lives here and what are their socioeconomic characteristics? How is this expected to change in the future? Are there residents who are vulnerable to displacement risk? See page 17 of the guidance for more detail.
- **Workforce profile.** Who works here and what are their socioeconomic characteristics? Do they live inside the community or commute in? How is this expected to change in the future? See page 46 of the guidance for more detail.
- **Housing inventory.** What types of housing are available here? Where are they located? How much do they cost and are they affordable? What are trends in housing production? See page 51 of the guidance for more detail.
- **Gap analysis.** How does the existing housing stock compare with the community needs now and in the future? Are there groups of people who are not or will not be able to find housing that is safe, affordable, and meets their household needs, now and in the future? If so, how much new housing is needed to accommodate current or future needs? How does that look for different affordability levels? See page 65 of the guidance for more detail.
- **Land capacity analysis.** Are there areas with the land capacity available to accommodate needed growth and housing diversity? Are these areas zoned to meet specific housing needs? See page 73 of the guidance for more detail.

Before a city or county considers starting an MFTE program or changing one they already have, they should learn about these characteristics to understand what their housing needs are and if an MFTE would help with specific concerns. Some questions that should be explored further when developing an MFTE program include the following:

- **Are there low rates of housing production compared to historical or anticipated increases in population and employment, both locally and regionally?** If there is a shortfall, this may mean that more housing of all varieties needs to be incentivized to ensure that gaps between housing supply and demand do not get wider.
- **Are people finding it harder to get affordable housing that fits their needs, both in general and in certain demographics?** Even if there are many new homes being built, current and future residents may have trouble finding affordable, high-quality places to live. This can include both workforce housing and housing with deeper levels of affordability, such as permanent supportive housing.
- **Has there been a lack of housing investment in existing residential neighborhoods that may need replacement housing?** Certain neighborhoods may include housing units that are getting older, more obsolete, and potentially unsafe or unsuitable for residents. These may be in specific areas that have not received a lot of investment in general and could benefit from targeted incentives.
- **Has there been a lack of development activity in other areas zoned for multifamily housing?** In other situations, a community may have areas that allow multifamily housing that have not been developed. This could include areas that are set to be redeveloped or to receive infill, as well as new greenfield areas that

could be used for multifamily housing. If this capacity is needed to meet local goals but is not being developed, a community may need to take action to encourage projects on these sites.

- **Have changes in housing production favored some types of homes over others?** If there is a need for certain types of housing, MFTE programs can be developed to specifically incentivize these housing types. For example, if multifamily housing may be needed but most of the recent housing development has been single-family homes, these projects may have certain financial or regulatory barriers that make them less feasible to develop. Providing more financial incentives like MFTE can help to incentivize this type of development. Similarly, there are ways to develop MFTE incentives that can favor other types of units needed, such as family-sized rental housing.

Housing Goals and Targets

Housing goals and targets are usually included in the Comprehensive Plan's Housing Element. The changes in local housing needed to meet predicted short- and long-term needs are described here, as are objectives for building and preserving various housing types and units at different affordability levels.

Housing Elements must be consistent with Countywide Planning Policies under [RCW 36.70A.210](#) for communities planning under the GMA. For communities not planning under the GMA, evaluating local needs using this framework is helpful.

Although there are general requirements, each community handles targets for housing in their own way. Some important questions for this assessment include the following:

- **Overall production targets.** Over the entire community, how much housing has been developed each year? What type of housing has been developed and how dense is housing development? If this pace of development continues, will housing targets be reached?
- **Production by area.** Are there areas that are receiving more development than others? Are there local neighborhood targets that need to be achieved?
- **Capacity by area.** If there are locations where development is not occurring, do long-term growth targets depend on these areas being developed?
- **Development by type.** Are targets for net new housing by type (e.g., duplexes, townhomes, multi-unit buildings) being reached? Which housing types are being incentivized or might need more incentives to be built?

Questions to consider when evaluating goals and targets and whether an MFTE program may help a community progress towards goals and targets include:

- **How do trends compare with projected housing targets?** If trends are extended forward, are they expected to achieve housing targets, or does it seem necessary to spur more housing development?
- **Are there shortfalls in specific types of housing?** Is the community building enough to support households of all sizes? Are there other types of housing that are needed to meet expected needs?
- **Are there shortfalls in affordable housing production against projected targets?** Is this related to general shortfalls in housing production, or does it seem that income- and rent-restricted housing lacks support in some ways?
- **Where is housing production occurring across the community?** Are there areas where development is desired and there is sufficient capacity, but it is just not occurring? Is affordable housing more challenging to develop in certain areas?

Existing Housing Policies and Programs

Along with considering existing housing goals and targets, a city or county should also understand the current landscape of housing policies and programs. There are several sources for understanding the housing policies and programs that cities and counties manage or help to coordinate. The Department of Commerce has developed policy guidance in developing housing policies as part of Comprehensive Plans and Housing Action Plans, which can be used in this evaluation.²⁶

When considering the adoption of an MFTE program, questions to ask and understand around existing policies and programs include:

- **What are the housing policies and programs in the community overall? What are their specific purposes, and what types of needs are they trying to address? Where are they applicable?**
- **Have they achieved their goals, or are they making progress toward their intended purpose? Do these programs improve yields of new market-rate and income-restricted housing?**
- **Are the housing policies and programs that are already in place in line with the needs that have been identified? Are there gaps that are not being addressed by these programs?**

These policies and programs can be divided into two overall categories:

- **General policies** and programs.
- Policies and programs directed at supporting **affordable housing**.

General Policies and Programs

A community's overall housing policies can cover a range of topics, including elements such as housing types, scale, and density; design requirements; mixed-use developments; accessory dwelling units (ADUs); infill development; and building code considerations. Housing can also connect with related community policies in areas like parks and open space, land use, transportation, infrastructure, and other categories.

Some important areas that can be examined in relation to developing or evaluating an MFTE program can include the following:

- **Zoning and development capacity.** MFTE programs can support new housing construction, but their impact can also depend on the number of projects that can be built in a certain area. Targeted areas for MFTE should be zoned to have enough development capacity to not only encourage redevelopment but also have development requirements that do not limit desirable projects.
- **Infrastructure capacity.** Another concern, especially when MFTE is used in areas that need to be redeveloped, is whether the local infrastructure can support the redevelopment that MFTE encourages. While concurrency requirements are only included in the *Growth Management Act* under [RCW 36.70A.070\(6\)\(b\)](#) for transportation, redevelopment projects will also have an impact on other systems. This should be considered in capital facilities planning²⁷ and other community-wide planning efforts.
- **Impact fees and connection charges.** Impact fees²⁸ and connection charges²⁹ are often levied by communities and other governing bodies (like park, school, and fire districts) to cover the costs of

²⁶ See the Department of Commerce's [Guidance for Developing a Housing Action Plan](#) (2020) and [Housing Guidebook](#) (2018), as well as other sources on the [Growth Management related documents and sources](#) webpage. Other sources include the Puget Sound Regional Council's [Housing Innovations Program](#) (HIP) and the Municipal Research Service Center's [Planning](#) sources webpage.

²⁷ See [RCW 36.70A.070\(3\)](#) for more details on capital facilities plans in the *Growth Management Act*.

²⁸ See [RCW 82.02.050](#) through [110](#).

²⁹ See [RCW 35.92.025](#).

expanding infrastructure to meet the increased needs caused by development. While some communities waive these fees and charges for affordable housing, understanding how this revenue can offset the necessary investments needed to support projects receiving tax exemptions can be important.

- **Neighborhood planning.** Under [RCW 84.14.040\(1\)\(a\)](#), the RTAs where MFTE programs apply must be included in an "urban center". Under the definitions in the statute,³⁰ these urban centers must be compact mixed-use districts that include different activities such as public facilities and retail and service businesses. While communities have wide latitude in defining what that includes, areas designated as RTAs should be supported by other neighborhood planning activities such as subarea plans when possible to support a local mix of uses and activities.

Affordable Housing Policies and Programs

A full review of affordable policies and programs is often coordinated with the development of a Housing Action Plan or updates to the Housing Element of a Comprehensive Plan. Including an MFTE program as part of a package of overlapping incentives can help reach housing goals more quickly and effectively when used in a coordinated way.

Understanding the application of state- and federal-level affordable housing programs is well outside of the scope of this workbook, but programs such as the Federal HOME program³¹, the Washington State Housing Trust Fund (HTF)³², and Low-Income Housing Tax Credit (LIHTC) program³³ can be important in the development of affordable housing projects. While the government authorities and nonprofits that could receive these sources of support are usually exempt from local property taxes, there are for-profit companies that specialize in affordable housing that can also receive funding.

The major sources of local support for affordable housing that may affect the use of MFTEs can be divided into four categories:

- Inclusionary zoning programs.
- Financial support of projects.
- Other development incentives.
- Tax increment financing.

Inclusionary Zoning

Under [RCW 36.70A.540](#), cities and counties planning under the GMA can provide incentives in exchange for income-restricted housing for qualifying households (affordable for household incomes up to 80% AMI for renters and 100% AMI for owner-occupied units) for the next 50 years.³⁴ This type of approach is typically referred to as an "inclusionary zoning" (IZ) program, as it incorporates income-restricted, affordable housing options into areas that would otherwise have market-rate housing.

These incentives can include ([RCW 36.70A.540\(1\)\(a\)](#)):

- Density bonuses.
- Height and bulk bonuses.
- Fee waivers or exemptions.

³⁰ See [RCW 84.14.010\(17\)](#).

³¹ See the [Home Investment Partnerships Program](#) webpage (US HUD).

³² See the [Housing Trust Fund](#) webpage (WA Department of Commerce) for more information.

³³ See the [Multifamily Housing](#) webpage of the Washington State Housing Finance Commission for more details about this program.

³⁴ See [WAC 365-196-870](#) for additional details and guidance.

- Parking reductions.
- Expedited permitting.

Although these IZ programs can be voluntary, with benefits received in exchange for income-restricted units, cities and counties can also establish a minimum amount of affordable housing that must be provided by all residential developments under [RCW 36.70A.540\(3\)\(d\)](#). This would require that new developments provide a minimum amount of income-restricted housing, typically after a rezone or other change in development regulations within an area.

MFTE can be coordinated with IZ programs, but the level of impact depends on how the affordable units are accounted for in each program. A community may allow the requirements for MFTE and IZ programs to overlap, which means that the same income-restricted units can be used for both programs. This "double counting" means that the incentives from both the MFTE and the IZ can be used on the same units, making these projects more likely to be feasible.

In other situations, especially when markets are strong, communities may separate their MFTE and IZ requirements, requiring different units to meet each set of requirements. However, this can make new development projects less likely to happen if the incentives are not large enough to make up for the lost revenue from income-restricted units and other public benefits.

Financial Support of Projects

Communities can also help to financially support projects that create affordable housing. These can help make projects more feasible and encourage more affordable housing to be developed. Some key examples in Washington communities can include:

- **Impact fee waivers ([RCW 82.02.060](#)) and other application and fee exemptions.** Waivers and exemptions can reduce the costs of a project, providing an additional upfront financial incentive for development. Communities typically coordinate these waivers and exemptions to support affordable housing projects, especially nonprofit projects.
- **Surplus public lands.** Vacant, underutilized, or redevelopable land can be released from cities, counties, and other public agencies for public benefit, including affordable housing, under [RCW 39.33.015](#). Making low- or no-cost land available can provide a financial incentive to support income-restricted housing on a site, which can be layered with MFTE if the surplus site is included in the Residential Targeted Area.
- **Direct funding.** Funding allocations for affordable housing can be provided from cities or counties from sources such as the local proceeds from an affordable housing levy ([RCW 84.52.105](#)), or state and federal support from programs like the Low Income Housing Tax Credits (LIHTCs).

These programs will not directly impact the use of MFTE, but for many communities, there may be some implications when managing these programs together:

- **Common oversight and management.** In some situations, local staff may oversee more than one program. Administrative overhead could be coordinated between these programs to cut down on costs.
- **Layering of incentives.** Financial incentives like these can often be used with MFTE units without questions of "double counting" as mentioned above with IZ. This means that these incentives can be layered to make them more useful and able to support greater levels of affordability.
- **Alignment of requirements.** If there are several different policies and programs to help with affordable housing, communities may try to make things easier and clearer by putting common requirements in place.

Other Development Incentives

In some cases, other housing policies and programs may not have a direct effect on the benefits, but they can help make multifamily projects denser and more desirable. Examples would include:

- **Flexibility with parking requirements.** General parking reductions or reductions from mixed uses on a site can cut costs for development and encourage denser, less car-dependent development on a site.
- **Building envelope and density incentives.** Density incentives like upzoning and bonusing can help to add more people to a neighborhood and encourage greater yields of housing. This typically includes programs that give density and height/bulk incentives in exchange for public facilities and benefits like parks, green space, or public art.
- **Form-based codes.** Adopting form-based codes can make it easier to design and build multifamily buildings by increasing predictability for developers while allowing for flexibility in certain elements of design and use. This is especially applicable for mixed-use and higher-density residential projects in urban centers where MFTEs are often used.
- **Alternate development standards.** When applied in planned unit developments and other districts, alternate development standards can give more flexibility in how a site or building is built. In some communities, this flexibility is granted in exchange for a certain amount of affordable housing or some other public benefit.
- **Time-saving measures.** Communities can also use streamlined processes for approvals, administrative review processes for projects that are in line with adopted codes, and SEPA categorical exemptions to incentivize the most desired types of development.

While MFTE would not be linked with these other incentives directly, they may have common requirements for income-restricted units that should be coordinated with an MFTE program.

Tax Increment Financing

One word of warning with coordinating an MFTE program is with the use of Tax Increment Financing, or TIF, under [Chapter 39.114 RCW](#). This is a financing tool used by cities, towns, counties, and port districts to fund public improvements. Under the statute, these improvements can include "purchasing, rehabilitating, retrofitting for energy efficiency, and constructing housing for the purpose of creating or preserving long-term affordable housing" ([RCW 39.114.010\(7\)\(b\)](#)).

While providing additional funding for affordable housing can be a good thing, a TIF secures this funding by designating "increment areas" where increases (or "increments") in assessed value after the development of a site can be diverted to pay for or finance the costs of public improvements. However, because MFTE reduces the taxes paid under [RCW 84.14.020](#) and [021](#), these funds would not be available for use, since there would be no "increment" from the development of the residential portion of the site.

Because of this, communities should make sure that properties in increment areas under a TIF are not also covered under MFTE. Any overlap would mean that the tax increment will be lost while the tax exemption is in place.

Understanding How MFTE Programs Can Address Housing Gaps

After determining housing needs and evaluating the goals, targets, policies, and programs already in place, a city or county should look at the gaps in the local housing system to decide how (and potentially if) an MFTE program can address them.

Implementation Options and Housing Needs

As discussed further in [Chapter 4](#), an MFTE program has various implementation options depending on eligibility (the 8-year, 12-year, and 20-year options for cities eligible prior to 2021 or just the 12- and 20-year options for those newly eligible as of 2021). The type of tax exemption that a community offers should be informed by its overall goals for the program.

For **rental properties**, this breaks out as follows:

- **For the eight-year MFTE**, this incentive is meant to increase the number of homes built overall and support redevelopment in areas with a history of underinvestment. This is a good way to encourage home-building in general if there is little activity in a market, so if an area is already being built up, this type of incentive should not be needed. However, if the costs of building are too high when compared to expected rents, the incentive may not be enough to promote new construction. Note that with the eight-year exemption, communities can include an affordability requirement, in which case it works like the 12-year exemption described below.
- **For the 12-year MFTE**, the savings with the tax exemption will offset losses created by collecting lower rents from income-restricted units. This means that tax savings are partly passed through as a subsidy to provide lower rents for occupants. For market-rate developers to take on this incentive, developers need to expect that the tax savings will be higher than foregone rent, plus administrative costs, costs of other requirements, and some consideration of risk. If these risk-adjusted costs are too high, there will be no incentive for developers to participate.
- The **20-year MFTE** for rentals is limited to a specific set of communities, based on the requirements for maximum population, proximity to transit, and local zoning provided in **Exhibit 1** in [Chapter 2](#). In these cases, the 20-year option operates similarly to the 12-year MFTE, with additional requirements for permanent affordability.

The use of MFTE with **owner-occupied properties** is different, however. Under the statute, the program operates as follows if no additional requirements are included:

- For an **eight-year MFTE**, the future owners of the property will receive the exemption of property taxes, not the developer. For units such as condos, this can mean that the properties can be sold for higher prices up front than if the exemption did not exist.
- With a **12-year MFTE**, income requirements are required for the initial sale of applicable units, and the property must fulfill that commitment during the exemption under [RCW 84.14.020\(1\)\(ii\)\(B\)](#). However, after the exemption expires, a property owner can sell the property at market rate. Other units may be sold at market rate (plus the value of the exemption), comparable to the eight-year MFTE.
- The **20-year MFTE** for affordable homeownership includes specific requirements for permanent affordability for the applicable portion of the units in a project. These include management by a government agency or nonprofit specifically to maintain these units in permanent affordability. The market-rate units in the project will also receive the tax exemption as above.

Challenges with Using MFTEs for Affordable Homeownership

With respect to market-rate units, a tax exemption can translate to higher sale prices and benefits for the owners. However, the characteristics of owner-occupied properties can complicate applications of MFTE for affordable housing, primarily with respect to the 12-year exemption³⁵:

- **Owner-occupied units will increase administrative overhead more than rentals.** Communities providing oversight to individual units sold under an MFTE program can require contact with many more owners than with a rental MFTE program. For reporting purposes, this can require more effort to keep up with yearly reporting requirements under [RCW 84.14.100](#) than other eight-year exemptions.
- **Household incomes are only considered at sale for income-restricted units.** Under the statute, owner-occupied income-restricted units have household income only as a condition of sale. There are no provisions for a cancellation of the exemption if a household's income increases or if other characteristics of the household change.
- **Management of the exemption is treated separately for each unit.** As the cancellation of an exemption can have financial implications for both the market-rate and income-restricted units in a rental property, there is a greater incentive for compliance over the longer term. However, as only individual owner-occupied units can be deemed "out of compliance" under [RCW 84.14.110](#), the penalties for income-restricted units not complying with affordability requirements are not as severe for individual owners.
- **Resale of income-restricted units at market rates can occur before the end of the exemption.** Under the penalties for cancellation under [RCW 84.14.110](#), an owner is only responsible for exempted property taxes after noncompliance with the requirements of the exemption. This provision means that if an affordable unit is sold, the property is no longer in compliance and the new owner would have to pay back any property taxes exempted after the sale. However, if the exemption is cancelled under [RCW 84.14.110](#), the property can be sold without this limitation. Therefore, without other restrictions, an MFTE unit will only likely stay "affordable" if the owner decides to keep the property.
- **Extensions of tax exemptions for owner-occupied units are difficult to coordinate.** While the provisions of [RCW 84.14.020\(6\)](#) do mention the sale of owner-occupied units, applying this exemption in the future can be challenging for existing projects. It is unclear how market-rate units would be included in an extension, and owners could withdraw before resale in much the same way as noted above.

Effective use of an MFTE program for affordable owner-occupied housing options must involve additional work coordinating with outside agencies, including groups like community land trusts (CLTs). This can be the best way to ensure that the subsidies for affordable housing stay with the property. While this is incorporated into the 20-year exemption under [RCW 84.14.021](#), this will be true even for eight- or 12-year programs with affordability requirements. More details on coordinating these programs are discussed in [Chapter 4](#).

Questions to Consider

Guiding questions when considering what types of MFTE programs to adopt to address housing gaps include the following:

- **What types of new units are needed?** Are market-rate units required to boost revitalization of urban centers, or is there a need to build units that are restricted to low-income households as well?
- **Which types of MFTE programs make the most financial sense for developers?** Will a tax exemption spur development projects that would otherwise not take place? Is the loss of revenue from providing income-restricted units less than by the property tax benefits?

³⁵ This would also apply to eight-year tax exemptions that include affordability requirements for sales of owner-occupied units.

- **Which types of MFTE programs make the most fiscal sense for the community?** Are the public benefits from increased housing development and more income-restricted units balanced by the fiscal impacts from the potential losses to property tax revenue? What are expected changes in other local revenue?
- **Will MFTE projects provide momentum for desirable development?** Are there opportunities to spur development of desirable housing types with MFTE? Can the application of MFTE provide catalytic projects that can spur development in areas where it may not otherwise occur?
- **Are there local housing groups that support homeownership programs?** Are organizations such as community land trusts (CLTs) or housing authorities positioned to assist with MFTEs involving homeownership?

Addressing Tax and Revenue Implications

Property tax exemptions in Washington can be challenging to coordinate because of how complex the tax system is in the state. Understanding this entire topic is outside of the scope of this workbook³⁶, but for MFTE programs, some characteristics of the tax system are important to understand to grasp where the funding for the tax exemption actually comes from.

There are several main impacts that MFTEs will have to the local tax system:

- Tax shifting to other non-exempt properties.
- Managing the addition of exempted value at the end of the exemption.
- Impacts to other taxing districts.
- Other fiscal impacts.

These impacts should be clearly identified during the development of the program, and program proponents need to be prepared to discuss the implications.

Tax Shifting

One of the key factors of this is the "levy lid" for local jurisdictions. Under [RCW 84.55.010](#), this lid means that total regular property taxes can only increase up to a limit factor, plus "add-ons", largely consisting of property taxes levied on new construction and improvements.³⁷ These limits apply to most city levies³⁸, and they differ by the size of the community:

- Communities with a population of **less than 10,000** have a limit of 1% over the maximum levied over the past three years.
- Communities with a population of **10,000 or more** have a limit of 1% per year or the rate of inflation based on the implicit price deflator, with either rate applied to the maximum levied over the past three years.³⁹

Management of this levy lid is complex and the administration of MFTEs is challenged by the way that properties under development are assessed during construction by county tax assessors. Under [RCW 84.14.020\(5\)](#) and [021\(5\)](#), exempted value from an MFTE must be considered as "new construction" for the levy lid after the end of the exemption. However, while [RCW 84.14.020\(5\)](#) and [021\(5\)](#) take into account that exempted value under MFTEs should be treated differently for the levy lid, this does not align with how county tax assessors typically manage valuations.

Therefore, this process can result in a shifting of tax burdens:

- A property owner files an application to receive an MFTE under [RCW 84.14.050](#) and the local ordinance. If approved, the owner receives a conditional certificate of acceptance ([RCW 84.14.070](#)) and construction generally must be completed within three years ([RCW 84.14.090\(3\)](#)).
- During construction, and potentially even before an MFTE application is filed, the value of partially complete improvements is added to assessment rolls on a yearly basis. For development projects that may

³⁶ For more information, see the [Revenue Guide for Washington Cities and Towns](#) and [Revenue Guide for Washington Counties](#), both published by MRSC, as well as the [Property Tax Levies Operations Manual](#) provided by the Washington Department of Revenue.

³⁷ Also see [Chapter 458-19 WAC](#) for more details on levy calculations and administration.

³⁸ Levy lids do not apply one-year excess O&M levies, excess levies for the repayment of general obligation bonds, and refund levies.

³⁹ See [RCW 84.55.005](#) for a definition of "inflation" for this purpose. The Department of Revenue calculates the implicit price deflator based on this definition on a yearly basis.

extend between two or more assessment years, this can mean that a substantial part of the assessment value will be added to the rolls, raising the levy lid.

- Once the project is completed and the tax exemption is approved under [RCW 84.14.090](#), the certificate of tax exemption is filed with the county assessor, and the value of residential improvements under the certificate is exempted from taxation.

The statute implies that all the exempted value of MFTE properties from the levy lid should be removed, as it is considered exempt and not subject to taxation. However, in practice much of the value may be added to the levy lid before the project is completed. Since the levy lid is only calculated as "the amount of regular property taxes lawfully levied for such district in the highest of the three most recent years" under [RCW 84.55.010](#), the levy lid will not be reduced once the tax exemption is active.

If the levy lid did not include the exempted property, the expected levy lid would be lower, meaning that taxes would be calculated as if the exempted value did not exist. This would reduce the effective revenue that a community could collect overall, reflecting an implicit cost for the tax exemption.

However, in practice this higher levy lid that includes the value of the partially constructed property distributes the property tax obligation of the MFTE property to the other property owners in the community. This can result in increases in property taxes, with the relative magnitude of the increase depending on:

- The total time taken for construction of the project.
- The timing of the exemption certificate with respect to assessment years and valuation of improvements.
- The size of the local property tax base.
- Adjustments to tax rates to consider this tax shift.

This represents a tax increase above what would otherwise be allowed under the levy lid which would not require voter approval as per [RCW 84.55.050](#). This can be a strong point for public rejection of an MFTE program, especially if the proceeds are not seen by taxpayers as supporting a local public good and should be clearly outlined with any proposal for an MFTE program.

Local Fiscal Effects

It is also important to consider other fiscal impacts to the community as well. While these developments will require services supported by the city, county, and other districts (e.g., parks, fire, school), longer exemptions could result in lower tax revenues which would not cover the costs of services provided.⁴⁰ In these cases, the city or county will need to balance the application of these higher incentives with the public benefit received from the incentives for housing.

Note that any revenue reduction may also be balanced by other revenues received from development that would not otherwise take place:

- **Local real estate excise taxes (REETs).** An increase in real estate development will likely result in a corresponding increase in REETs from property sales.
- **Increased property taxes on land value.** Land usually becomes more valuable with development so communities often realize more tax revenue than if the property had not been developed.
- **Increased property taxes from commercial improvements.** Similarly, there may be taxes realized from non-residential improvements in mixed-use buildings.

⁴⁰ Note that this is complicated by the potential for a "tax shift" under MFTE. See below and [Chapter 4](#) for more details.

- **Impacts fees and connection charges.** New development, unless exempt due to other requirements, also pays impact fees and connection charges at the time of development to mitigate the impact on these services.
- **Increased sales taxes from additional residents.** Future residents will pay more sales tax in the community where the project is located.

It can be difficult at times to evaluate exactly how much additional revenue an MFTE program may be responsible for, versus the revenue effects from growth that would have occurred anyway. However, it is important to recognize that the effects of MFTE on the community are not simply limited to property taxes and housing yields alone.

Adding Exempted Value to the Levy Lid at the End of the Exemption

Closely paralleling the issue of tax shifting, the disposition of value at the end of the exemption can also provide challenges for assessors for the levy lid. These issues may differ from county to county, and communities should consult with their local assessor to determine what may need to be discussed for an MFTE program.

This involves the following elements:

- **A portion of the assessed value may already be added to the levy lid.** Given the levy lid limitations under [RCW 84.55.010](#), a part of the assessed value may have already contributed to the levy lid during construction, resulting in a tax shift. On the other end, it may not be clear the proportion of the improvement value of the property that would need to be added back to the levy lid once the project is returned to the assessment rolls.
- **Exempted value may not change at the same rate as the rest of the levy lid.** Under [RCW 84.14.020\(5\)](#) and [021\(5\)](#), the exempted value is added as "new value" to the assessment rolls. However, increases in this added value will change at a different rate than the maximum 1% levy lid increase per year. This would also mean that the levy lid would increase faster than what would be mandated in the statute.
- **MFTEs need to be managed over a long period.** Programs that provide up to a 24-year exemption (12-year MFTE with a 12-year extension) would be expected to outlast many of the staff and assessors currently working with exemptions. Over that period, programs and processes may change, and institutional knowledge and other records may be lost. This can mean that the final disposition of exemptions could change regardless of current intentions.

The Importance of a Good Relationship with Your County Assessor

Most of the time, a community is in charge of managing the MFTE approvals, but the actual exemption is done by the county assessor. However, according to the law, the actual role of the assessor is usually only limited and reactive. The assessor only gets involved when the community is taking certain actions.

However, there are some steps that communities should take when developing and administering their MFTE programs to include their county assessor in the process:

- Assessors may have standard practices they use with communities to collect information on tax exemptions. This can include required forms, office contacts, and schedules, all of which should be incorporated into the MFTE program.
- Administrative fees for MFTE can also pay for the county assessor's staff time, and as such they should be consulted when these fees are set.
- Coordinating scheduling can be essential, especially when dealing with filings at the end of the year or close to the "freezing" of the rolls to calculate levies. This can impact how long it can take for exemptions to be processed.
- Processes for adding taxable value to the rolls can affect local tax shifts, and the assessor may also be best positioned to discussing the impacts with staff, Council, and other interested stakeholders.

This concern is not intended to dissuade communities investigating MFTEs for their neighborhoods. However, understanding the full long-term property tax effects can be complicated, and communities need to be aware of the full extent of uncertainties when weighing the costs and benefits.

Impacts to Other Taxing Districts

Although cities, towns, and counties can make decisions on approving tax exemptions, [RCW 84.14.020](#) and [021](#) specifically indicate that qualifying improvements are exempt from "ad valorem property taxation". This means that any other district that relies on property taxes will also be affected. This can include (but is not limited to):

- Cemetery districts.
- Community facility districts.
- Road districts.
- Transit districts / regional transit authorities.
- Fire protection districts / regional fire protection service authorities.
- Emergency medical service districts.
- Port/airport districts.
- Library districts.
- Hospital districts.
- Schools.
- Park and recreation districts.
- Public Utility Districts.

Other districts may also be present within given areas as well.⁴¹ Under current law, these districts are not granted any options to object to or influence the creation or administration of an MFTE program. While the tax shifts described above can mitigate revenue losses by shifting the tax burden onto existing taxpayers, any reductions to the levy lid will affect their available revenue. This can be a concern for budgeting, especially for districts like school and park districts where new residents will also have demands for services.

Evaluating these Considerations

It can be important to engage with other taxing districts and the county assessor early in the process of developing or changing an MFTE program. This can ensure that the final program addresses any concerns about the process or impacts on other districts.

In preparation for these conversations, it can be important to review the following questions:

- **What types of projects are expected under a possible MFTE program?** Would they be larger projects that would take over a year to build, or smaller projects that may be less susceptible to a tax shift? Are there general groups of expected projects that could be evaluated?
- **What would be the expected value of new projects to be exempted?** Based on other local development and zoning in the areas where MFTEs might be applied, what would be the assessed value of a new project, and the portion of that value that would be exempted as residential improvement value?
- **How much of the exempted value would be shifted to other properties?** While coordinating a full tax impact analysis to evaluate tax impacts may take significant effort, a quick approach to assess likely tax

⁴¹ See the [Property Tax Levies Operations Manual](#) for more information on levy districts. MRSC estimated that as of January 2012 there were about 1,670 special purpose districts across the state, many of which have local taxation power. Refer to the "[How Many Special Purpose Districts in Washington?](#)" webpage for more details.

shifts is to examine tax assessment rolls for parcels that have seen similar types of development. These records should show taxable value attached to a parcel during construction and suggest how much of this value would be applied to the levy lid before a tax exemption could be received by an owner. These might be useful to estimate as an implicit increase to levy rates (e.g., dollars per thousand dollars of assessed value).

- **What would be the general effect on tax receipts for different tax districts?** Again, a full tax impact assessment is challenging to develop, especially when the final effects can depend on other factors that would be difficult to evaluate at an initial stage. However, using current and historical levy rates to estimate what the initial exemptions would mean for city or county revenue, as well as revenue from other taxing districts can help provide high-level guidance for the magnitude of these effects. Representing these estimates based on a per-unit or per-person basis may also bring into focus what the tax implications of these programs would be.

These assessments may be complicated and can require input from stakeholders (see below). However, collecting general information to support these discussions can be important to provide some high-level information about what an MFTE program will mean for local taxes.

Engaging with Stakeholders

Engaging stakeholders as you are considering whether to create or update an MFTE program is essential. Leveraging available information about the local market and internal processes in a city or county and discussing how an MFTE program can fit into the current context with those potentially impacted can help to outline specific local opportunities and challenges.

Major stakeholders for MFTE that should be engaged include the following:

- **Elected officials**, typically mayor/executive and council.
- **Local government departments** that would be impacted by an MFTE program.
- **County tax assessors**.
- **Other tax districts**, especially junior tax districts that may experience significant effects.
- **Local market-rate developers and property owners** that would be participating in the program.
- **Affordable housing agencies and developers** that may also be participating in MFTEs.
- **Neighborhood associations** that represent the areas where residential targeted areas may be designated.
- **Residents and taxpayers**, who should be informed about the process and potential impacts of the program.

This is by no means an exhaustive list. Different communities may wish to involve other stakeholders as necessary that may reflect participants in the program as well as those that would otherwise be affected.

Elected Officials

For many programs like this, consultation with elected officials is usually a good first step. While documents such as the Comprehensive Plan provide high-level targets, the policy priorities and perspectives of a mayor and council can be important to give direction. Key questions for discussion can include:

- **Current priorities.** What are the current priorities for the city or county with respect to housing and neighborhood revitalization? Do they feel that local housing needs are being met?
- **Potential locations for the program.** Are there neighborhoods they feel would require incentives to promote new development?
- **Preferences for incentives.** What is their desired approach for the city to provide funding and incentives for affordable housing?
- **Understanding and education about the program.** Do they understand the ramifications of the tax exemption, including the potential for a tax shift?

When developing or amending an MFTE program, it can be critical to provide educational materials to elected officials, such as excerpts and factsheets from this Workbook, and given opportunities for comment and discussion. Scheduling Council study sessions or one-on-one meetings can also be important to gauge the interest and perspectives of elected officials on a program like this.

Local Government Departments

City or county staff will have significant involvement in the development of an MFTE program, but there may be cross-department considerations that are necessary to consider too. Creating internal processes to manage an MFTE program will also require input from these units as well. Staff which should be consulted throughout development include representatives from:

- Planning and permit approvals.
- Construction and inspections.

- Economic development.
- Finance.
- Housing and social services.

Internal review may simply involve notification of an interest and circulation of materials for review but could include internal working groups if the MFTE program may require more detailed discussion.

County Tax Assessors

County assessors are typically in charge of many of the administrative elements of MFTE programs, including providing the revised property tax bills that reflect the exemption and the data needed for understanding the program's impact. Engaging with them early can promote more efficient processes with MFTEs and encourage information sharing. Potential questions to ask can include:

- **MFTE processes.** What are the typical processes you have with cities for managing tax exemptions?
- **Timing considerations.** Are there any timing requirements for exemptions? Are there times of the year when it would be difficult to process approved exemptions, such as at the end of the calendar year or when the rolls are used to calculate tax rates? How long will the processing take?
- **Necessary documentation.** What types of documentation will you need to coordinate an exemption?
- **Other considerations.** Are there any special considerations you would have for an MFTE program?

As noted above, tax assessors should also be engaged to review the implications of tax shifting with an MFTE program and provide recommendations to reduce the likely effects on other property owners in the community as needed.

Other Tax Districts

As noted previously, a critical issue with the MFTE program in some locations is that it can exempt a project from all property taxes, not only those charged by a city or county government. This can affect other districts that also rely on property taxes.

As part of engagement about MFTE, it is very important to review which local agencies would be affected and discuss the program to find out what problems they might face if tax revenues are impacted by MFTE. Some parts of an MFTE program, like the types of exemptions that are given and the size of the areas that are targeted, can be changed to help reduce the effects to these other jurisdictions as much as possible.

Local Market-Rate Developers and Property Owners

Understanding how developers and property owners see the market and make decisions about pursuing projects can be important inputs for developing or updating an MFTE program. Tapping into this development experience can be essential in figuring out whether a program will achieve local goals. Questions for developers can include:

- **Feasibility of construction.** Are multifamily housing projects feasible in the current market? Are there challenges with construction and operating costs that are reducing the feasibility of these projects and keeping some projects from being built?
- **Need for incentives.** What kinds of incentives would be necessary in making more projects feasible locally? Would a property tax exemption help to get more projects built?
- **Barriers to housing development.** Are there other barriers present that limit multifamily housing development? Do impact fees or zoning prevent more development from happening?

- **Potential for subsidized income-restricted units.** Would a tax exemption provide enough benefit for you to include income-restricted housing in a market-rate project? What would be an appropriate exchange?
- **Potential locations.** Are there particular areas or neighborhoods in the city or county where tax exemptions could do the most good, because of a need for incentives to get the projects built or a local need for affordable housing (or both)?

While a housing needs assessment can provide broader information about needs and household housing costs, on-the-ground experience with housing can often provide valuable insights that can be used to make the program more effective.

Affordable Housing Agencies and Developers

In addition to market-rate developers, understanding how agencies and developers specializing in affordable housing may be impacted can be important when making these decisions. Some of these stakeholders, such as housing authorities, will not be paying property taxes on rental units that they own. However, for-profit affordable housing developers as well as non-profits providing homeownership opportunities can use MFTEs as well.

Questions for these stakeholders will be the same as for other developers, but can also include the following:

- **Applications of an MFTE program.** What types of projects would you look to use an MFTE to support? What affordability levels do you typically employ for these projects?
- **Other available support.** What other incentives and sources of support do you use for income-restricted projects? Would an MFTE fit in with those sources?
- **Options for homeownership opportunities.** Would the agency be willing to oversee homeownership opportunities that would use a 12- or 20-year MFTE to improve access?

Neighborhood Associations

In cases where MFTE could be used to spur residential development in neighborhoods requiring new investment and revitalization, it can be important to provide regular information to and consultation with neighborhood associations and other groups about the intent and progress of the program.

Aside from keeping these groups updated about city or county programs in general, this coordination can be important for a few reasons:

- **Distribution of information.** These associations can be important sources for information for the broader neighborhood, including local development interests that could be interested in using these programs in the future.
- **Understanding the local context.** Understanding local concerns about development, including issues of displacement (see later in this section), can help to tailor the program to address specific needs that may not otherwise be recognized during development.
- **Complementing local efforts.** Consultation can also help to understand how MFTEs can be used to complement local efforts to encourage affordable housing, especially with efforts that are removed from local government agencies.
- **Building local support.** Regular discussion and consultation can also build local support for a new or amended MFTE, which can be essential when working with a council to create or adjust a program.

Residents and Taxpayers

Engaging the broader public can also be important as part of the development of an MFTE program. This should be approached more as a means of providing regular information and education to the public about the nature of the project and its progress rather than to solicit feedback on specific strategies.

Outreach materials should clearly outline essential elements related to an MFTE program, including:

- The **overall needs for housing**, including income-restricted housing, in the community.
- **Targets set by the community** to address these needs, including estimates for necessary housing production by types and sizes of units.
- **How MFTE can help to meet these targets**, including examples of how MFTE programs have worked in other cases.
- The **potential impacts** to the city and residents/taxpayers, including a discussion of tax shifting and necessary staff resources as discussed above.

During the development stage, these elements may not be completely formed. However, it can be essential to provide clear and honest information about both the pros and cons of the program, especially with respect to tax shifting. There are a lot of concerns that exist in the public about the use of MFTEs and other programs that may give developers incentives, and as a result transparency is critical to keeping public trust about the use of city resources in this way. Not being clear about potential downsides, including tax shifting, can be particularly damaging to achieving desired goals under the program.

Resource Needs

A major consideration when developing or amending an MFTE program is the potential demand on staff time required for the program. Implementation and regular coordination need ongoing effort and staff overhead beyond the initial adoption of the program, this should be a factor considered during the development of the MFTE program.

Major tasks that will need to be managed by local government staff include:

- **Review and approval of applications.** Submitted applications will require a review and approval process, with a minimum of two rounds of application review per project for the conditional certificate and final certificate, respectively. Additionally, necessary agreements will also need to be drafted, reviewed, and approved by Council and/or administration. These applications may require additional rounds of review to address problems with the application. This will require administrative overhead proportional to the number of applications received. Application fees can offset the cost of staff time.
- **Recertification and auditing of properties.** After a project is completed and an exemption is issued, property owner must also meet annual reporting requirements that must be coordinated by the city or county. Under [RCW 84.14.100\(1\)](#), the report to the jurisdiction must be filed every year, and include basic information about the status of the property. There are also statutory provisions for an auditing program under [RCW 84.14.100\(3\)](#) that may be locally administered and would need to be conducted on each unit once every five years, but the details of this process are pending.
- **Reporting to the Department of Commerce.** Communities must also report annually to the Department of Commerce on the status of their MFTE programs under [RCW 84.14.100\(2\)](#). These reports must be completed by April 1 each year, and compliance is needed for the community to continue to issue tax exemption certificates.

The needs for review and reporting will differ based on whether there are ongoing requirements for property owners. All programs will need to review whether MFTE properties are still in residential use. However, if a condition for the exemption includes income-restricted units, more information will need to be collected and reported on the status of these units and whether they comply with program requirements. This may also be applicable for requirements that an individual city may place on the project.

It is important to consider if existing staff can manage this additional workload or if additional resources are needed, which would add to the costs of the program. An eight-year program over a small area would represent a minor increase in effort that might be folded into typical project review process, meaning that overall workloads would not increase. However, providing 12- and 20-year MFTE options in an urban center experiencing significant investment and high construction volumes (or expected to see increased construction in the future) may require significantly more time investment for review, and may even require hiring additional staff.

As the scale of program builds over time, staff needs will also grow. The ongoing workload, particularly around managing annual certifications, will build cumulatively as more projects get approved every year. If usage of the program increases, more resources may be needed to maintain the same level of service.

Precise staff time demands can be hard to fix, especially when elements of the process can be distributed as part of regular permit application and review, and timing can affect these needs. However, a manager for the program should be designated for the program, with the expectation that their time may be increasingly devoted to MFTE administration and monitoring as projects are approved for tax exemptions.

Important questions to ask about resource demands would include the following:

- **Is there available staff capacity to manage an MFTE program?** Is there someone that can serve as a program manager? Would there be the capacity to manage ongoing recertification and reporting needs? Would additional hiring be necessary?
- **Can MFTE applications be integrated into the development permitting process?** Would it be possible to integrate MFTE applications with current processes for permitting and oversight of construction? Are there challenges with this process that would make it difficult?
- **What local systems will help with managing information about the MFTE program?** Are there processes and infrastructure within the city or county that can help to maintain information about the program over the long term? Can information about MFTEs be included in current permitting systems?

Displacement Risks

A final consideration with MFTE during the initial stage of review is with displacement risk. Under the changes to the *Growth Management Act* under HB 1220, it is mandatory that the housing element of Comprehensive Plan ([RCW 36.70A.070\(2\)\(e\) to \(h\)](#)):

- Identifies local policies and regulations that result in racially disparate impacts, displacement, and exclusion in housing, including:
 - Zoning that may have a discriminatory effect.
 - Disinvestment.
 - Infrastructure availability.
- Identifies and implements policies and regulations to address and begin to undo racially disparate impacts, displacement, and exclusion in housing caused by local policies, plans, and actions.
- Identifies areas that may be at higher risk of displacement from market forces that occur with changes to zoning development regulations and capital investments.
- Establishes anti-displacement policies, with consideration given to the preservation of historical and cultural communities as well as investments in low, very low, extremely low, and moderate-income housing; equitable development initiatives; inclusionary zoning; community planning requirements; tenant protections; land disposition policies; and consideration of land that may be used for affordable housing.

While the statute does not define "displacement", it typically includes those processes where households, businesses, and community organizations are forced to move out of an area.⁴² A decline in affordable housing can push lower-income households to other areas, uprooting them from their communities and potentially relocating them to places that are less appropriate for them.

Aside from the loss of affordable housing options, there are a range of other issues that can be involved with housing displacement:

- A history of segregation through "red lining" and restrictive covenants pushed many communities of color to specific areas, many of which are now facing displacement pressures because of historic disinvestment and impacts of discrimination on housing prices.
- Communities of color and other cultural communities are also facing challenges maintaining local businesses and institutions as households are pushed out of the neighborhood and are no longer present in the community to support them.
- Housing that is accessible for people with disabilities can be redeveloped or rents can increase such that appropriate housing may no longer be affordable.

There are a range of sources available that discuss this topic in greater detail and can provide more information about other facets of displacement that should be considered.⁴³ There is also an upcoming guidebook from the Department of Commerce on addressing racially disparate impacts, displacement, and exclusion in housing which will also provide methods and approaches to managing these issues in Comprehensive Plans and other policies.

⁴² See Chapter 5 of [Guidance for Developing a Housing Action Plan](#) for more discussion on displacement in housing.

⁴³ For example, see the PSRC's [Fair Housing Equity Assessment for the Central Puget Sound Region](#) (2014).

MFTE programs can be developed in ways that can make issues with displacement worse, or can provide options for addressing displacement that might otherwise occur:

- **Accelerating displacement with development incentives.** Including a neighborhood at risk for displacement in an MFTE residential targeted area can promote development and the loss of existing affordable housing at a greater rate than what would otherwise be experienced.
- **Setting aside affordable housing to mitigate displacement.** Providing 12-year MFTE options (or 8-year options with local affordability requirements) can help to provide incentives to create new options that may be affordable and could reduce the potential for displacement in a neighborhood. This may be dependent on providing other options for financial support as well, and future options may be necessary once the MFTE lapses.
- **Coordinating options for long-term ownership opportunities.** The 20-year MFTE can present a path for lower-income households to own their own housing within a multi-unit development. Coordinating with local housing agencies to give current residents options for buying housing in the neighborhood can help to reduce displacement pressures.

When considering how MFTE can relate to housing displacement, it is essential to ask the following:

- **Would the MFTE program cover areas which currently include affordable housing options?** This question should consider impacts on naturally occurring and regulated affordable housing options. Are there neighborhoods where lower-income households and/or communities of color live that could be pushed out by development incentives? How much affordable housing could be lost from development promoted by an MFTE program?
- **Are development and displacement pressures already present in potential areas of concern?** Are there locations where incentives to provide affordable housing could be successful at stemming the losses of affordable options for existing residents? How much affordable housing would be provided as compared to the potential losses of existing residents?
- **Could local communities take advantage of homeownership opportunities?** Would there be local interest in affordable homeownership opportunities, such as through the 20-year MFTE option? Are there programs and supporting institutions that can support these efforts?

Conclusion

This chapter includes a wide range of potential considerations when determining if an MFTE is right for a community. While not all these factors may be relevant to every single community, this does outline many of the preliminary steps that local government staff should study when trying to understand how such a program might fit into the current and future housing situation.

This work can also inform the development of the program detailed in the following chapters. Understanding the housing needs in the community and concerns of local stakeholders can help the development of the program ([Chapter 4](#)) for example, while understanding staff capacity can help to coordinate processes to administer and monitor the program (Chapters 5 and 6).

Review Checklist

The questions asked in this Chapter can be presented as a general checklist for an initial review for an MFTE program to think about the role and implications of the program:

Overall Housing Needs and Market Context

- Are there low rates of housing production when compared to historical or projected increases in population and employment, both locally and regionally?
- Are people finding it more difficult to access affordable and appropriate types of housing, both generally and within specific demographics?
- Has there been a lack of housing investment in existing residential neighborhoods that may need replacement housing?
- Has there been a lack of development activity in other areas zoned for multifamily housing?
- Have production trends favored single-family housing over multifamily housing?

Housing Goals and Targets

- How do trends compare with projected housing targets?
- Are there shortfalls in specific types of housing?
- Are there shortfalls in affordable housing production against projected targets?
- Where is housing production occurring across the community?

Existing Housing Policies and Programs

- What are the housing policies and programs in the community overall?
- Have they achieved their goals, or are making progress toward their intended purpose?
- Are existing housing policies and programs aligned with addressing the identified needs?

Selecting the MFTE Program to Address Housing Gaps

- What types of new units are needed?
- Which types of MFTE programs make the most financial sense for developers?
- Which types of MFTE programs make the most sense for the community?
- Are there local housing groups that support homeownership programs?

Addressing Tax and Revenue Implications

- What types of projects are expected under a possible MFTE program?

- What would be the expected value of new projects to be exempted?
- How much of the exempted value would be shifted to other properties?
- What would be the general effect on tax receipts for different tax districts?
- What would be the effects on other types of tax revenue?

Engaging with Stakeholders

- Elected officials
- Local government departments
- County tax assessors
- Other tax districts
- Local market-rate developers and property owners
- Affordable housing agencies and developers
- Neighborhood associations
- Residents and taxpayers

Resource Needs

- Is there available staff capacity to manage an MFTE program?
- Can MFTE applications be integrated into the development permitting process?
- What local systems will help with managing information about the MFTE program?

Displacement Risks

- Would the MFTE program cover areas which currently include affordable housing options?
- Are development and displacement pressures already present in potential areas of concern?
- Could local communities take advantage of homeownership opportunities?

Chapter 4: Program Development

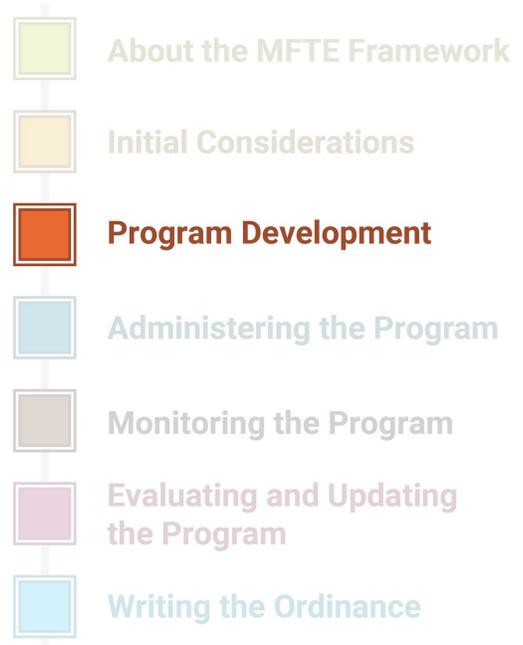
Overview

After a community chooses to create or revise an MFTE program, it needs to decide on certain parts of the program's design. Some are required by law, while the city or county has the flexibility to customize other aspects of the program to fit their needs.

This chapter discusses these elements and gives advice on how a local MFTE program can be developed to meet the needs and fill the gaps discussed in [Chapter 3](#). This includes the following:

- **Choosing Residential Targeted Areas.** What areas should the MFTE program cover? While there are statutory requirements, a city or county may be broad with applying the MFTE and include all areas zoned for multifamily residential projects or be very targeted and select only a small area (or even a single parcel). The goals of the program will suggest where the MFTE should be applied by communities.
- **Deciding the length of the MFTE exemption and affordability requirements.** What type of MFTE program (or programs) should be selected to meet local needs? What affordability requirements should be included?
- **Adopting other requirements for projects eligible for MFTE.** Are there certain other conditions or limitations that individual projects should fulfill to be eligible for the MFTE program, such as the size of projects or the distribution of unit sizes?
- **Coordinating with other local incentives.** Are there other housing-related programs that will have an impact on how the MFTE can be managed and developed? What other considerations should be made in program development?

This chapter gives more detail about the program's main components to expand on the materials from [Chapter 3](#). In [Chapter 5](#), an overview of the administrative elements needed to run the program is given. [Chapter 6](#) discusses how to monitor the program, and [Chapter 8](#) will review how an MFTE can be put into place in local codes.



Program Development Flowchart



Choosing the Residential Targeted Areas

Overview

The first step in developing an MFTE program is to decide where geographically it will be used in a community. As part of this, it will be important to consider the details discussed in [Chapter 3](#) about housing needs, housing goals, and housing targets. This can help determine where these incentives would work best.

According to state law, properties eligible for a tax exemption must be in a "Residential Targeted Area" (RTA) designated by the community. The statutory requirements of the RTA found in [RCW 84.14.040](#) include the following:

- The area must be **within an urban center**⁴⁴, as determined by the governing authority.
- The area must **lack sufficient available, desirable, and convenient residential housing** as determined by the governing authority, including affordable housing, to meet the needs of the public who would be likely to live in the urban center, if the affordable, desirable, attractive, and livable places to live were available.
- Providing of additional housing opportunity, including affordable housing, in the area, as determined by the governing authority, will **assist in achieving one or more of the stated purposes** of [Chapter 84.14 RCW](#).⁴⁵

Additionally, if a county (not a city or town) wants to designate an RTA, the governing body must also evaluate the **potential risk of displacement of residents** currently living in the area under [RCW 84.14.040\(1\)\(e\)](#). In this case, an RTA can only be designated if:

- The evaluation finds that there is **minimal risk of displacement**.
- If the risk is not minimal, this displacement risk will be addressed through **locally adopted mitigation measures**. The statute uses the example of a "first right of refusal" requirement that would allow potentially displaced households currently in the neighborhood to occupy the newly created housing units in an MFTE project. This could include other options for providing affordable housing options elsewhere in the neighborhood as well, but these mitigation measures should be planned and implemented before tax exemptions are considered.

If a proposed RTA meets these requirements, a Council can designate an RTA as per [RCW 84.14.040](#), by:

- **Adopting a resolution of intention** to designate the area, which includes notification of a public hearing and other information related to the designation.
- **Providing notice of the public hearing** once each week for two consecutive weeks, which includes the identification of the area in question.
- **Coordinating a public hearing**, after which a Council can designate all or part of the area described in the resolution of intent as an RTA.
- **Adopting and implementing standards and guidelines** for considering and approving applications.

⁴⁴ An "urban center" is defined in [RCW 84.14.010\(17\)](#) as a "compact identifiable district where urban residents may obtain a variety of products and services and which must contain several existing or previous, or both, business establishments that may include but are not limited to shops, offices, banks, restaurants, governmental agencies; adequate public facilities including streets, sidewalks, lighting, transit, domestic water and sanitary sewer systems; and a mixture of uses and activities that may include housing, recreation and cultural activities in association with either commercial or office, or both, use."

⁴⁵ Under [RCW 84.14.007](#), the purpose of the chapter is focused on encouraging increased residential opportunities, including affordable housing opportunities, in areas where these opportunities are insufficient. This also considers urban growth areas in counties, as well as areas close to college campuses that can be developed as dense, transit-oriented, and walkable communities.

Approaches for Designating RTAs

Communities should decide where MFTEs will be available based on the goals that came out of the process in [Chapter 3](#). Several options for the boundaries of RTAs are described below, including:

- Individual sites.
- Areas targeted for revitalization/redevelopment.
- Areas targeted for mixed-income and affordable housing development.
- Transit-oriented neighborhoods.
- Some or all urban centers.
- Some or all areas zoned for multifamily development.

More information about each potential option is provided below.

Individual sites

As part of an MFTE program, it may make sense in some cases to pick a small number of sites where the exemption can be used:

- For **smaller communities** or **communities with limited multifamily zoning**, there may not be many options for multifamily projects. New projects that qualify for an MFTE may only be able to be built on a few sites.
- Starting with a single site or a small number of sites can also give the chance to **pilot the program** before expanding it to apply over a broader area. Working with one or a few developers to build an effective program through a pilot can help show that the program will work as planned, without the risk that other projects will ask for an exemption if there are issues to be resolved first.
- Finally, an MFTE program can be used by a community to give **specific, targeted incentives to projects that need more support**, even if they are not interested in building a full program. One example might be a large surplus site owned by the community and sold to a private developer for affordable housing. More incentives could increase the interest in developing a project on the site and be provided in exchange for deeper levels of rent restriction or a certain number of income-restricted homes (or other public benefits).

The main problem with only giving MFTE to individual sites is that this **could be seen as unfair by landowners or the public**, especially if there are other development sites nearby that could also use the program. This is also a concern if income-restricted housing or public benefits are not required under the program and the exemption is granted without conditions.

If RTAs are expanded on a site-by-site basis, this can also **add time and administrative costs** to the program and make the program **less predictable and reliable**. Overall, it creates a situation where developers might need to negotiate with a Council well before applying for an exemption. This extra process can reduce the appeal of the incentive since it might not be clear to developers during their due diligence whether or not the exemption will be received for a project. This approach can also waste staff and Council time on actions to expand the RTAs, especially when projects may not go forward with the program.

Areas targeted for revitalization/redevelopment

MFTE programs work well as tools for economic development because they encourage investment in residential and mixed-use neighborhoods that may not support new development under current market conditions. This can include areas such as:

- Neighborhoods with **derelict or underutilized commercial or industrial properties** that could be redeveloped or converted to residential uses, either alone or as part of a wider development initiative.

- Locations with **highly depreciated, low-density housing** that can be developed for new, higher-density residential uses.

In these situations, MFTE programs can help bring in new investment if **market rents are not high enough** to cover the costs of development. This may also be applicable if there are **other development costs that might affect feasibility**, such as site cleanup costs.

This incentive and the resulting investments can also have a **catalytic effect on neighborhood development**: more projects are likely to be drawn to a developing area, neighborhood quality can improve, and local businesses receive more customers from the community. This can boost overall revitalization and reinvestment efforts, such as those supported by subarea plans and other local planning strategies.

One potential issue with the application of MFTE to revitalization is that **naturally occurring affordable housing could be lost to new market-rate development** if they are located in RTAs. This can happen either through the direct loss of units or through rent increases if neighborhood quality improves. If people might be displaced, communities should take steps to minimize this as much as possible. Actions to mitigate displacement should be adopted into the MFTE program by ordinance.

Some revitalizing neighborhoods may also need **infrastructure and service expansions** to deal with systems that do not have enough capacity or do not work well. This can require careful planning and coordination, especially if MFTE and other incentives have an impact on tax revenues.

RTAs that encourage redevelopment can have **significant tax revenue impacts** as growth can increase the need for infrastructure and services. However, note that many MFTE properties still pay more in property taxes after redevelopment. This is because the assessed value of the land and nonresidential improvements can increase in an improving neighborhood even when the residential component is exempted.

Areas targeted for mixed-income and affordable housing development

In contrast to places that need incentives to develop in general, there are other places where private developers can pursue projects under current market conditions. In these situations, communities can look for ways to use MFTEs to support the development of income-restricted housing units so that more people can afford to live there.

Most of the time, these areas are chosen because they are expected to have a strong market for local development. This can happen in places like:

- Downtowns and major service centers.
- Locations close to transit, especially high-capacity transit (see more details below).
- Recently upzoned neighborhoods undergoing significant growth pressures.
- Other areas with strong local markets.

The biggest benefit of using MFTE in these areas is that it will make **more income-restricted housing** available to meet the housing needs of the area through **private projects developed under current market conditions**. These units are likely to be part of mixed-income projects in areas with local amenities, access to jobs, and higher overall quality.

As above with revitalization, RTAs that encourage new mixed-income development can have **significant tax revenue impacts** since more infrastructure and service capacity will be needed. While these impacts should be

considered in planning, especially with coordination of new infrastructure and service capacity, note that total decreases in tax receipts is not usually as sizable as the exemption provided.

Because many of the options for MFTEs result in income-restricted units that are only available for a short time, communities that want to keep mixed-income neighborhoods will need to find other ways to **support income-restricted housing after the exemptions run out**. If the community offers extensions, this can help lessen the effect of expiring exemptions.

Transit-oriented neighborhoods

As a subset of some of the previous categories, MFTEs can also support areas with good access to public transportation. Targeting MFTE as an incentive around transit stations and stops can help **encourage growth and densification supported by transit**, which can in turn **increase the number of people who use transit**.

In places where transit access can be a big draw for new development or redevelopment on its own, building **more affordable housing near stations** can help lower-income households **get to jobs and services more easily** and **save money on transportation costs**. In addition to supporting overall development and housing goals, this can also help to **mitigate displacement** and **promote a mix of household incomes** in these neighborhoods.

Urban centers

A community can opt to apply MFTE to most or all mixed-use urban or neighborhood centers with a blanket designation. In larger communities with several urban centers, MFTEs might be employed in this way to provide for **consistency with the program** and ensure that the **benefits are broadly available**. However, even in smaller cities, MFTEs may be used over all eligible neighborhood centers to promote the use of the incentive without preferring one area over another.

Designating a broader set of RTAs has a strong advantage in that this ensures that **development is promoted across the entire community**, as opposed to only being targeted to specific areas. This can be effective in raising housing development across an entire community. There may be some cases where neighborhoods can support development without incentives; in this case, there may be some adjustments to provide for **tighter affordability requirements if market-rate projects are feasible** in certain locations.

However, establishing broad areas as RTAs can result in **greater property tax impacts** if a substantial number of projects take advantage of the tax exemption. Communities may wish to constrain the geographic scope of the MFTE and the number of potential applicants to the program if these impacts are expected to be large.

Areas zoned for multifamily development

Assigning most or all multifamily zones as RTAs is another option. As with designating urban centers as RTAs, this can be a simple approach that **eliminates perceived preferences between different areas** and **provides the incentive across the community**. This is most suitable in cases where broad housing goals are important, and the objective is to **increase yields of market-rate and affordable housing** over encouraging development in specific areas.

There are disadvantages to this, however. As with designating MFTEs across all eligible urban centers, a blanket designation for all multifamily areas **may not be effective in directing incentives to specific locations that need extra support** for projects to be feasible. This is especially true in larger communities where there may be distinct markets in different neighborhoods and a wide range in the levels of support needed to promote affordable and market-rate development. This can mean that areas with more challenging conditions

have additional requirements that do not provide enough incentives to promote development, or areas with stronger residential markets receive incentives that are not necessary to make projects feasible.

Additionally, note that certain multifamily districts can be difficult to designate as "urban centers" and consequently as RTAs, as per [RCW 84.14.010\(17\)](#). As a mix of uses and sufficient public facilities are required, this may prevent the use of MFTE in certain areas where they would otherwise be eligible.

Finally, as mentioned above, designating all multifamily areas as RTAs may affect property taxes if many new developments use the tax exemption. Residential Targeted Areas may need to be limited to reduce the total tax exemptions issued.

Best Practices

The following practices can be helpful for designating Residential Targeted Areas:

- **Consider pilot areas for a new program.** If there are doubts about the correct size and location for RTAs, start with smaller areas with prospective projects that can be enlarged later if the program is determined to be effective.
- **Examine maps of building activity and developable land.** Many communities have mapping data available on the development capacity of properties. Comparing this data with local building permits and development activity can show which areas are developing without an MFTE program and which may need additional incentives for new development projects to occur.
- **Develop initial boundaries based on identified priorities.** Targeting areas for an MFTE program depends on the policy priorities and gaps discussed in [Chapter 3](#). Policy priorities for neighborhood revitalization and market-rate housing production should focus on places with available capacity and few recent projects, whereas objectives to achieve affordability and mixed-income development should focus on sites where development is feasible and likely to occur without the program.
- **Carefully consider areas with existing affordable housing.** As MFTE is a development incentive, it should be applied where policies suggest new growth should occur. However, naturally occurring affordable housing should be avoided where possible, especially if it would be difficult to include income-restricted units as part of MFTE projects. In cases where this type of development is found in a targeted area, a community should work to minimize the effects in whichever way possible

Examples

Different examples of how RTAs can be defined can be found in the MFTE programs of the following communities:

- [Bellevue Municipal Code 4.52.030\(D\)](#). The City of Bellevue's RTA covers all land use districts where multifamily housing is allowed. For this program, the requirements are consistent across all locations covered by the RTA.
- [Tacoma Municipal Code 6A.110.020](#). Under the MFTE program in Tacoma, all mixed-use centers are designated as RTAs for the purpose of the program. However, under TMC 6A.110.020(E)(8), the Proctor and Point Ruston Mixed-use Centers are not allowed to use the eight-year MFTE option.
- [Issaquah Municipal Code 3.09.050](#). For the City of Issaquah, the Residential Targeted Area covers a single parcel in a transit-oriented development neighborhood. This program was developed as a targeted incentive for one development project and has not to date been expanded.

Deciding the Exemption Length and Affordability Requirements

Overview

Determining the length of the tax exemption and affordability requirements are the primary decisions related to the program parameters. While other requirements can be included (and are discussed below), these parameters are explicitly stated in the statute.

The key step in determining how to specify the right exemption is identifying which specified housing and economic development goals the MFTE program will work to achieve. Focusing on economic development applications, for example, often means that 12- and 20-year options are lower priorities, while support for local housing affordability may require eliminating all incentives that do not include an affordability requirement.

Also note that these exemptions may be developed to be different between designated areas, as noted previously. While communities may not want to create different program parameters for each individual RTA, some communities may look to change some individual requirements to meet different local goals.

Approaches for Determining Exemptions

MFTEs can typically be applied to achieve the following objectives:

- Economic revitalization/reinvestment.
- Increase in multifamily housing production.
- Affordability of rental units.
- Affordability of owner-occupied units.
- Other public benefits.

Achieving each of these elements will require different combinations of MFTE options.

Economic revitalization/reinvestment

If the primary goal of an MFTE program is **attracting any new development** into an area, it is likely that the **focus will need to be on an eight-year exemption** with little or no affordability requirements included. This would be intended to provide incentives to spur development and overcome low rents as compared to the costs of construction and operation for a project. This can be especially important in cases where there are higher than expected costs for development, such as a site with existing development or environmental contamination that would need to be addressed before development occurs.

For these types of areas, 12- and 20-year exemptions and 12-year extensions for income-restricted housing units can be included, as per the discussions below. However, note that in these cases, **longer initial exemption periods may only be taken up by housing projects with income-restricted units**. There may be some cases where "affordable" units may actually be market-rate units in a local market, but in many cases, the restrictions on rents may reduce the revenue and the value of the incentive for market-rate developers.

Communities should also **consider conditions where requirements for the MFTE may be tightened**. Additional requirements for affordable housing or other public benefits may be imposed when development would occur in specific areas without these incentives, and developers could provide these public benefits without impacting the rate of development.

Increases in multifamily housing yields

As with economic revitalization and reinvestment, efforts to simply **increase the overall rate of development** of housing units may also **focus on the eight-year exemption** with minimal additional requirements. Similar considerations as discussed above may apply, including the use of 12- and 20-year options. This can be useful in cases where incentives would be needed just to make construction feasible.

As with using the MFTE for revitalization efforts, **program requirements should change as local conditions can support market-rate development**. This can be challenging as it can require a review of market conditions to understand if it is still needed.⁴⁶ However, if projects can be built without the incentive, keeping the MFTE in place may help developers without giving the public anything in return.

Affordability of rental units

MFTE initiatives that intend to deliver income-restricted units to **promote housing affordability** should **focus on the 12- and 20-year exemptions and the 12-year extension**. This could also potentially include an **eight-year MFTE with locally customized affordability requirements**.

The base requirements for affordability under the statute are that:

- For the **12-year exemption**, at least 20% of units must be income-restricted, with a mix of units affordable to households at 80% AMI or below and units affordable to households at 115% AMI or below.
- For the **12-year extension**, at least 20% of units must be income-restricted to be affordable to households at 80% AMI or below.
- For the **20-year rental option**, at least 20% of units must be income-restricted to be affordable to households at 80% AMI or below.

Note that while these are the minimum requirements, communities may choose to require additional affordability requirements beyond these minimum requirements under [RCW 84.14.040\(6\)](#). Some common variations include the following:

- **A higher set-aside** of required income-restricted units beyond 20% can be required.

⁴⁶ See [Chapter 3](#) to review steps for a market analysis, and [Chapter 7](#) for considerations with reviewing and updating the program in response to factors such as these.

Affordability Requirements and Housing Stability for Existing Tenants

One thing to consider when setting affordability requirements for units with income restrictions is how these requirements will be applied to renters looking to renew their leases. What should happen if their incomes increase over time and exceed the initial limits?

Even though income-restricted units should be reserved for low-income households, housing stability can also be an important goal.

When a tenant wants to renew their lease but no longer qualifies, communities can allow other ways to handle this problem besides not renewing the lease, such as:

- The tenant may be moved to a designated market-rate unit.
- The unit itself may no longer be considered an MFTE unit, with another unit designated as income-restricted to meet the requirements.
- Income requirements for existing tenants may allow for some increases above those for new tenants.

The City of Seattle has an example of the last option, where under [SMC 5.73.105.B](#) households can have an increase in income of 50% over the income restrictions and still be eligible to remain in an income-restricted unit.

For additional discussion, please see the review of income recertification of tenants on page 93.

- **Affordability levels** for designated income-restricted units may be set to lower incomes.
- **Affordability requirements can be based on unit sizes**, with higher levels of affordability (and lower AMI requirements) for smaller units.
- The **mix of affordable units may be required to be proportionate to the overall unit mix** and configuration of all units.
- **The designated affordable units can be required to be intermingled with market-rate units.**

For a voluntary program like this to be taken up by a market-rate developers, **the value of the tax exemption benefit must exceed the costs:** foregone revenue from the affordable units, the costs of providing other public benefits, administrative overhead, and a necessary margin for profit. The Department of Commerce has created an Excel-based model as a supplement to this workbook to help calculate net benefits of MFTE programs, and communities are encouraged to use it or comparable models to decide if the exemption gives enough of an incentive to participate. Communities should also participate in ongoing dialogue with developers, contractors, and property owners to validate the underlying market assumptions.

Affordability of owner-occupied units

MFTE initiatives can also help to **promote affordable owner-occupied units**. This can be implemented in two ways:

- With the **12-year exemption**, at least 20% of units must be income-restricted to be affordable to households at 115% AMI or below.
- With the **20-year homeownership option**, at least 25% of the units must be sold as permanently affordable at 80% AMI or less.

The 20-year option, recently implemented through [SB 5287](#), provides a robust approach for securing long-term affordability. Under [RCW 84.14.021\(6\)](#), a **ground lease or deed restriction to maintain affordability must be put into place**, which ensures that the unit can only be resold at prices affordable to low- and moderate income homebuyers. This is overseen by a nonprofit organization or governmental entity, which takes the responsibility of monitoring the property over the long term.

However, there are **no requirements for maintaining affordability for the 12-year program** under the statute. While initial sales must be to homebuyers that have an income of 115% AMI or less, the current system could allow them to cancel their exemption under [RCW 84.14.110](#) and sell their property at market rate with no penalties to the new owner.

Multiple MFTE Options in One Program

Most MFTE programs offer multiple options, such as the choice of eight-, 12-, and 20-year exemptions. While this is a widespread practice, it can pose some issues when trying to achieve certain goals from the program.

The biggest problem is that developers may not be as motivated to take part in the 12-year program if an eight-year option gives them an exemption that is almost as long without requirements for income-restricted housing. In that case, choosing the 12-year means a property owner will get an extra four years of tax exemption nine years later in exchange for supporting 12 years of income-restricted units.

This preference will not always apply to every project! For instance, for-profit companies that use federal tax credits to build affordable housing may welcome more incentives to build affordable housing. Through corporate social responsibility (CSR) projects, for-profit companies may even decide to pursue projects with affordable housing without additional incentives.

But in order to meet local housing goals in the most effective way, communities should carefully consider whether some MFTE options should be retired over time. When market-rate development can happen even without incentives, any eight-year MFTE option should probably be removed or some extra requirements should be added to make sure the program still gives a public benefit.

Note that even if the exemption is not cancelled, owners are not compelled to sell their property at an affordable price if they no longer qualify as "moderate-income". They can also sell at market rates after the exemption expires and still receive a windfall. This can mean that **the public subsidy provided for affordable units may not be as effective**.

If communities decide to provide the 12-year MFTE for owner-occupied housing, **additional restrictions are recommended to ensure the program works as intended**. This can include conditions like the 20-year option to ensure properties that are resold remain affordable until the exemption ends. This would also require additional oversight, which would **increase the administrative overhead of the program**.

Additionally, over all owner-occupied units, including market-rate units, the **tax exemption benefits are given to the homeowner** over time, and not to the developer or original landowner. While this can be clawed back in part by a developer or seller as a price premium, this is often a **less efficient incentive for development**, especially if mortgage underwriters do not carefully consider the value of the exemption over time.

Other public benefits

Aside from income-restricted housing units, [RCW 84.14.030\(2\)](#) also allows municipalities to **add other conditions to MFTE programs**. This provision can potentially allow communities to implement **incentives for goals separate from increasing housing supplies**. These can include elements such as LEED certification, provision of open space or other facilities, addressing urban blight and other public benefits. While these types of requirements are not considered in the purpose for an MFTE under [RCW 84.14.007](#), some communities have implemented them as part of their programs.

Communities that look to provide these requirements should ensure that **the costs for these public benefits are balanced by the value of the exemption**. Depending on the nature of the benefit, this can be difficult to evaluate, and for benefits such as open space or facilities there may be ongoing operations and maintenance costs that also need to be considered. **Affordability requirements for 12- and 20-year options will also still be mandatory**, which will impact the ability for additional public benefits to be received from these exemptions.

One other consideration with this application is that **ongoing monitoring and oversight will need to be managed by the community**. While regular reporting and auditing under [RCW 84.14.100](#) has clear guidelines for communities, with reporting and guidance provided by the Department of Commerce, there are no clear requirements for overseeing other obligations. Communities should carefully evaluate how best to include these other requirements in regular reporting.

Best Practices

Based on the program options described, there are certain recommended practices to consider when defining an MFTE program:

- **Consider the feasibility of development while determining set-aside requirements for income-restricted units and other parameters.** Developers need a clear motivation to participate in an MFTE with affordability standards. Using the Department of Commerce Excel model or other types of financial models can help determine what exemption requirements and benefits can balance the costs and incentives to using the MFTE. Engaging with developers can also help to assess whether these programs can work in present and future market conditions.
- **Including more than one MFTE option is possible but should be evaluated together in an assessment.** MFTE programs can offer eight-, 12-, and 20-year exemptions for rental and owner-occupied units. For-profit developers and private landowners will choose the option that provides them with the better returns.

Therefore, multiple options need be evaluated together to determine which will be the most attractive in certain situations.

- **Determine conditions where eight-year programs may be retired in favor of other options.** The eight-year MFTE works to encourage private development and investment in places that might not otherwise see it. Once market-rate development can occur without the incentive, the community would be providing this incentive without a demonstrable public benefit. Therefore, communities adopting the eight-year option should consider when it is no longer needed and understand that it should be replaced with other options to provide affordable housing or other public benefits.
- **Deep levels of affordability are difficult to include directly in an MFTE program.** MFTEs can be a significant incentive compared to alternative options, such as inclusionary zoning or density bonusing. However, the exempted taxes must balance with revenue losses from income-restricted housing and other requirements. For most projects, the exemption can provide a significant subsidy, but deeper levels of affordability for very low- (>50% AMI) and extremely low-income (>30% AMI) cannot be supported by this incentive alone. Layering other incentives and additional sources of support such as tax credits will be necessary to reach that level of affordability.
- **Ensure that 12-year owner-occupied MFTE programs have some additional safeguards to consider affordability.** The 12-year MFTE program can help low- and moderate-income households purchase housing that would otherwise be unaffordable. However, there are a limited number of restrictions to keep these units as affordable. Communities should establish extra measures to prevent resale at market rates with this program. This could include deed limitations, non-profit or government management, and resale constraints during the exemption term.

Examples

- [Bellingham Municipal Code 17.82.030](#). The City of Bellingham requires different affordability levels than outlined in state statute, in this case, adjusting affordability requirements for units to be affordable to households making at or below 60% AMI or 80% AMI, depending on unit size.
- [Bellevue Municipal Code 4.52.090](#). The City of Bellevue requires additional affordability requirements, with more complexity. Affordability levels are dependent on unit size, ranging from at or below 45% AMI for small dwelling units up to 80% AMI or below for larger units. Additional requirements are outlined around the minimum number of units that must have two or more bedrooms as well as how to apply the MFTE benefit when it overlaps with other incentive programs.
- [Seattle Municipal Code 5.73.090](#). The City of Seattle is one example of a community that has included permanent housing affordability for owner-occupied units as part of 12- and 20-year exemptions. Affordability requirements include the following:
 - For 12-year exemptions, at least 20% of the units must be affordable at 100% AMI for studio and one-bedroom units, or 115% AMI for two-bedroom and larger units.
 - For 20-year exemptions with permanent affordability, 25% of the units must be affordable to households at 80% AMI or lower.

Adopting Other Requirements

Overview

In addition to affordability requirements and being sited within an RTA, projects eligible for a tax exemption must also:

- Provide at least **50% of space for permanent residential occupancy**.
- Provide a minimum of **four additional housing units**.
- Be completed within **three years of application approval**⁴⁷.
- Comply with **all local rules**.

However, beyond these criteria and additional requirements for income-restricted units, communities can also add other conditions to MFTE programs under the provisions of the statute. While in some cases these are simply intended as supplementary requirements, as noted above these provisions could be focused on receiving other types of public benefits from exemption programs.

Options for Additional Requirements

These additional requirements can be divided into three separate categories:

- Requirements for project characteristics.
- Additional required public benefits separate from affordable housing.
- Contract requirements.

While each may be implemented differently, they will all affect which projects will accept the exemption, what additional costs developers may face to meet these standards, and overall whether the program will be successful in meeting its goals.

Requirements for project characteristics

Under [RCW 84.14.030\(2\)](#), communities can provide additional requirements that would affect the type of project that can apply for an exemption. Examples of potential changes include:

- **Higher minimum number** of new dwelling units for developments, to limit the exemption to larger projects.
- **Higher percentage of space** for permanent residential housing (versus short-stay residential, etc.)
- Projects meeting **minimum density requirements** on a site, to promote higher-density development in targeted areas (which may be especially effective and desirable closer to transit).
- Projects exceeding a **minimum unit count**.
- Requiring **mixed-use development** with ground-floor commercial uses in certain designated areas.
- Requiring **family-sized units** or providing alternate program options for family-sized units.
- Requiring **certification of green building techniques** such as LEED in construction.

Many of these options are intended to limit projects that would be expected to have certain impacts on the community or may not be as effective in meeting the intended goals of the program. For example, if there is a need to encourage more family-sized rental housing in the community, providing additional requirements that encourage the development of these units can be important.

⁴⁷ Under RCW 84.14.090, a community may choose to grant a property owner a 24-month extension to complete the improvements.

These requirements may affect rent revenues, construction expenses, and continuing operations and maintenance expenditures. These impacts should be considered when deciding whether to include these requirements as part of an MFTE program.

Additional required public benefits

Cities can also mandate "public benefit features" in addition to development-specific regulations under [RCW 84.14.030\(2\)](#). These benefits would be intended as features that benefit the community overall. Examples would include the following:

- Additional active and/or passive **open space**.
- **Public art** or **other civic space**.
- Protection of **historic structures**.
- **Public on-site parking**.

Developers using this exemption would incur additional costs of compliance. These elements should be assessed to estimate these costs to determine if they will balance with the incentives provided.

Contract requirements

Communities can also include conditions in contracts for the exemption. These requirements are more about providing benefits from the construction process than the final building or amenities. Under [RCW 84.14.040\(6\)\(b\)](#), these include requirements for:

- Prevailing rates of hourly wages for workers.
- Payroll record-keeping.
- Apprenticeship utilization.
- Contracting inclusion plans developed in consultation with the Office of Minority and Women's Business Enterprises (OMWBE).

These requirements can help to improve wages and promote diversity and inclusion in the construction and development industries. They can correspond with local policy objectives for labor justice, but they may also entail additional costs to developers. As with other requirements, they should be reviewed with local stakeholders to assess projected compliance costs.

Best Practices

- **Constraining MFTEs by development size and type can provide more focus and reduce overall costs.** Minimum required sizes for MFTE projects can help reduce the number of eligible properties, required administrative overhead, and exempted taxable value. These limitations can help focus the incentive if applicable areas cannot be lowered and reserve the incentive for larger projects that would align better with local planning.
- **However, limits on project size may penalize some developers and owners.** Conversely, although it may be beneficial in some areas to restrict tax exemptions by project size, smaller projects are typically pursued by local developers and contractors, and local property owners may possess assets that can support these smaller projects. Minimum project size requirements should enable broader access to this incentive where possible.
- **Recognize that extra criteria rely on the same tax incentive as income-restricted housing requirements.** The obligations described in this section are also supported by the same tax exemption. If the costs of compliance are high, this exemption may not be able to address all requirements while remaining a feasible option. This can impact the ability of an MFTE program to meet housing policy goals.

- **Align other MFTE requirements to community policy priorities.** Since the property tax exemption can only incentivize a certain amount of public benefit, any other requirements included should be clear priorities for the policies and goals of the community. Even though it may be tempting to include requirements for other amenities or contract terms, goals from the Comprehensive Plan and other policy documents should be the focus, especially if adding other requirements would significantly increase costs of compliance.
- **In lieu payments are not recommended.** Requirements for affordable units with MFTEs under the statute are for affordable units to be provided on-site, and there are no conditions where in lieu payments would be acceptable, like what is often established for other incentive programs such as inclusionary zoning. However, the statute does not preclude in lieu payments being accommodated for a "public benefit" in some other way. Despite this, allowing in lieu payments in exchange for a tax exemption would be expected to be more inefficient, either because it would represent a cash payment upfront for deferred taxes, or more problematically, the property owner would be paying to shift taxes from their property to other taxable property in the community.
- **Consult with developers before pursuing these other requirements.** As discussed, while the cost and feasibility implications of providing income-restricted units may be possible to calculate, it can be difficult to determine what some of the costs of other requirements might be for local developers. Consultation with local representatives from the development community can be an essential step in identifying whether certain requirements may increase costs and reduce feasibility for minor public benefits.

Examples

- [Renton Municipal Code 4-1-220\(D\)\(2\)](#). The City of Renton provides different size constraints for eligible MFTE programs based on their location. This ranges from a minimum of ten units in lower-density multifamily residential zones in RTAs, to up to 100 units for projects in the downtown. Note that these higher limits do not apply to projects that are 100% affordable.
- [Vancouver Municipal Code 3.22.040](#). The City of Vancouver has two 8-year exemption options: the income-based option requires 20% of units to be income-restricted and the market-rate option requires a public benefit. Public benefit options include public art, additional structured parking, and significantly enhanced infrastructure. The cost of the features shall collectively be no less than 25% of the estimated tax benefit over the abatement period and shall be completed prior to a certificate of occupancy being issued.⁴⁸ Many developers have chosen the public benefit option, and city employees must sometimes work with them to find a project that fits local guidelines.
- [Washougal Municipal Code 3.58.040](#). The City of Washougal requires all units in a project be provided for permanent residential occupancy rather than the 50% required by state statute, which provides assurances that MFTE properties will not be used for temporary residential uses such as for AirBnB-style short-stay accommodations.

⁴⁸ [Vancouver Municipal Code, Chapter 3.22.040\(D\)](#).

Overlap with Other Incentives

Overview

It is possible to have an overlap between MFTE and other housing or financial incentives such as inclusionary zoning or tax credits. [Chapter 3](#) describes other housing incentives and highlights which ones work well with MFTE. A community may want to consider allowing housing units to count for more than one program and how this might affect overall housing unit production.

As discussed previously, with respect to other existing (or proposed) incentives, MFTE can interact with these programs as follows:

- **Direct financial support** of projects can be provided through funding allocations, such as through local grants or allocations from the Housing Trust Fund, or tax credits such as LIHTCs. With these incentives, MFTEs can help support higher levels of feasibility and/or affordability of housing. However, it is important to determine whether the affordable units required by these programs can also be used to meet the requirements of MFTE programs.
- **Inclusionary zoning**, either mandatory or voluntary, can involve providing development incentives such as increases in density or reductions in parking requirements in exchange for affordable units. As noted above, if affordable units can count for both inclusionary zoning and MFTE programs, these two incentives can work together to make housing more affordable or make projects more feasible (or both).
- **Other development incentives**, from fee waivers to expedited permit processing to other development and density bonusing systems, can also provide for more feasible development, as well as incentives for development projects to occur in targeted locations.
- **Tax increment financing** (TIF) programs, recently implemented under [Chapter 39.114 RCW](#), rely on increases in taxable property values and the diversion of increased property tax revenues to finance public improvements and affordable housing. As MFTEs reduce taxable value, this can impact the revenue that TIF programs can use for these purposes.

As there are many incentives and financial support tools that can be used for affordable housing, it can be helpful to review them as part of MFTE program development to see if the requirements and benefits will affect how a tax exemption can encourage market-rate and income-restricted housing.

Best Practices

- **Make it clear in the code whether units with income restrictions can be used to meet the requirements of multiple programs.** As noted above, programs such as mandatory or voluntary inclusionary zoning programs under [RCW 36.70A.540](#) or funding mechanisms such as LIHTCs also require set-asides for income-restricted units. Determining if these units can be "double counted" for both programs can be important for assessing how these programs will affect each other, and this should be made clear to avoid confusion. Most of the time, this double counting can help make a development more feasible if it would be hard to meet affordability goals with each incentive on its own.
- **Coordinate MFTE programs with all incentives in mind.** In an ideal scenario, communities should work to create a package of incentives that promote market-rate and income-restricted housing aligned with local policy goals. Even though MFTE programs can be developed separately, they should be made while considering how other programs can also help to reach the same goals. Impact fee and connection charge waivers, bonusing from inclusionary zoning, grant and loan programs, the use of surplus lands, and other tools can also be used to support housing development. These methods should be assembled and provided as a collection of incentives to developers who are interested in building in the community.

- **Deeper levels of affordability can be possible to achieve by layering incentive programs.** Even if the income restrictions for units in an MFTE program are high, they can still help projects that try to achieve deeper levels of affordability. Tax exemptions should be coordinated with other programs, potentially with stricter requirements, to try to meet other needs in the community. This would include elements such as contractual requirements as part of surplus land sales, for example.
- **Manage potential conflicts to reduce inefficiencies.** Other incentive programs may be set up in a way that makes it hard to use MFTE with them. For example, programs with affordability requirements that cannot be "double counted" may compete with MFTE programs if the individual incentives are not enough to promote income-restricted housing on their own. MFTE programs can also impact TIF programs by taking away a site's taxable value increments. Examining other potential incentives for these kinds of conflicts can be important to make sure that an MFTE program does not accidentally lead to a less effective way to meet affordability goals.

Examples

- [Bellevue Municipal Code 4.52.090](#). The City of Bellevue's program allows for overlap with other incentive programs, but if the housing units are satisfying both programs, the affordable rents shall be 15 percentage points below the median income level required by the MFTE program. Therefore, rather than building more affordable units to meet the criteria of both programs, the affordability level is lowered.
- [Bellingham Municipal Code 17.82.020](#). The City of Bellingham allows a developer to access any incentives that are available in the project area. Bellingham city code does not include any required adjustments for using multiple incentives.

Conclusion

When developing or updating an MFTE program, many factors need to be considered. These include local policy priorities from the Comprehensive Plan, trends in the residential real estate market, and current housing support systems. Each community and neighborhood may also have different situations that can change how well an MFTE program will work.

When looking overall at setting up the parameters for an MFTE program, the steps for determining the best course of action are the following:

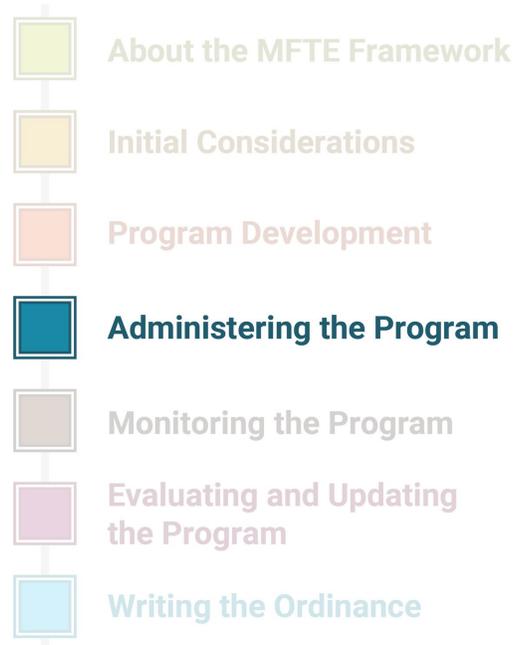
- **Base initial program development on example projects that could be built under a local program.** When following the steps in this chapter, it can be helpful to have an example close to a real-life situation to help figure out what the effects of different policy options could be. Choosing a few distinct types of development that can be supported by an MFTE program is an effective way to review important parameters of the program and to give staff, Council, and other outside stakeholders a concrete way to understand some of the main concepts.
- **Consult with multiple developers at each step of the process.** Several times in this chapter, this advice suggests that local developers should weigh in on how possible it would be to use the tax exemption and other tools to reach policy goals. Programs like this should not be made in response to individual requests from developers who want the exemption, but instead in coordination with local interests that have worked in the community and can give a market-based perspective on whether the resulting incentives would be enough to reach the stated goals.
- **Develop a rough calculation of the potential taxable value that could be exempted by an MFTE program.** When designing a new program or making changes to an existing one, it can be important to know by how much taxable value would change. Rough estimates of the value of what could be built and exempted in potential RTAs can be made, based on current regulations and other construction in the area. When combined with projections of how development activity is changing and what future tax levies may be, this can give a general idea of the total exemptions that may be expected. This can help with budget planning and give guidance about whether RTAs should be made smaller or if other program parameters should be changed.
- **If possible, work to develop or update an MFTE program holistically with other local housing incentives.** An MFTE program should be built in conjunction with other local incentives. This will help to assemble the best package of incentives that can be used together the most effectively. Ideally, these programs would have common definitions for where they can be used, the affordability targets to be applied, and administrative processes used for applications, approvals, and oversight. Changes to MFTEs in the future should also preferably be managed together with updates to other incentive programs.

Chapter 5: Administering the Program

Overview

After the basic elements of a program are established, a community will need a process to grant the tax exemptions to applicants, as well as steps to make sure the requirements for the exemptions are met over time. This chapter discusses the administrative elements of an exemption's life cycle, from the first approval to the end of the exemption, to provide guidance on how to manage these components.

Responsible staff should keep in mind that MFTEs can last for a long time, with exemption elements potentially lasting for almost 30 years from the first application to the retirement of the exemption. Therefore, it is essential to keep good records and keep in communication with property owners and county assessors. Without documentation, project knowledge could be lost with staff turnover at the city/county or new property owners. Note as well that a community may use different versions of the MFTE program over time, meaning that staff will need to track which program rules apply to what projects.



The typical process for an MFTE follows these steps:

- **Application submission.** An initial application is provided to the city or county by a property owner or their representative.
- **Approval of application.** To decide if the exemption should be granted, the city or county reviews the requirements in the statute and local code and decides if the application meets these requirements.
- **Conditional certification.** If the application is approved, a conditional certificate is granted, providing assurance to the applicant that the proposed development will receive the exemption.
- **Final certification and issuance of exemption.** After construction is complete, the property owner provides documentation that the project still fulfills the program requirements. The community must then coordinate with the county tax assessor to initiate the exemption itself.
- **Regular recertification and auditing.** The city or county must collect information from the property owner on a regular basis, evaluate compliance and provide an annual report to the Department of Commerce.
- **Ending an exemption.** There are three different scenarios that communities will need to consider:
 - **Closing** an exemption if the exemption expires (and is not renewed if this is an option).
 - **Extending** an exemption after expiration (if applicable).
 - **Cancelling** an exemption, if the conditions are no longer met or the owner withdraws.

Note that monitoring of tax exemptions through recertification and auditing is covered in detail in [Chapter 6](#), and sample forms are provided in [Appendix B](#).

By creating a straightforward and transparent process, communities can give developers a clear idea of their obligations under MFTE programs. Based on the information and suggestions in this section, communities should develop a "playbook" for their own internal processes. Developers and other stakeholders should be able to refer to this playbook and other supporting materials as needed.

Process Flowchart



Application Submission

Overview

For the beginning of the process, the jurisdiction will need to set up an application submittal, review, and approval process for both the conditional and final certificate of exemption. Providing a process for submitting applications is the first step in this effort.

When developing approaches for application submissions, the following elements should be considered:

- Application form.
- Application fees.
- Staff support.
- Receiving the application.

Communities should consider how long this application process will take, and when the application should be submitted. For example, an application is typically needed before a building permit is issued, meaning that staff will need enough time to look over the application and fill out all the paperwork for elements like the conditional certificate and contract.

Application Form

As outlined under [RCW 84.14.050\(2\)](#), property owners seeking to participate in an MFTE program must complete an application to receive the tax exemption. [RCW 84.14.050](#) states that an application **shall** include the following:

- If rehabilitation or demolition will be involved, certification that the **existing property is not compliant with current building and housing codes**.⁴⁹
- Information about the **grounds for the exemption** as defined by the city or county.
- A **description of the project and site plan**, including the floor plan of units.
- A **statement that the applicant is aware of the potential tax liability** involved when the property is no longer eligible for this incentive.
- A **verification of the application** by oath or affirmation from the property owner.

An example of an application form is provided on page 169 for reference. Typically, communities request the following information on these forms:

- A description of the project.
- Type of project (new construction, rehabilitation, or conversion).
- Tenure of residents (renter or owner-occupied).
- Requested tax exemption option (if multiple options are provided).
- Number and size of units (i.e., studio, 1 bedroom, 2 bedroom, etc.).
- Floor area, total, and by use type (residential, commercial, etc.).
- Projected rent or sales price by unit size.
- Number and percentage of income-restricted units.

⁴⁹ The definition of "compliance" in this context is not defined but is typically defined as substantial compliance with existing building and housing codes in a community. Communities may provide more specific requirements for an MFTE program. Communities also often have requirements that rehabilitated units must be vacant for a specific period (generally 12–24 months) prior to the application being received. See examples from Woodinville ([WMC 3.43.060\(2\)\(f\)](#)) and Seattle ([SMC 5.73.050\(A\)\(4\)](#)) for examples.

- Number of on-site parking spaces.
- Projected project costs.
- Projected construction timeline.

Note that these requirements should also work to be consistent with the regular reporting data to be provided, as described in [Chapter 6](#).

Supporting documents that can be attached to an application can also include:

- Preliminary site plan.
- Preliminary floor plans.
- Elevations/renderings.
- Construction budget.
- Copy of financing agreement/terms.
- Operating pro-forma.
- Acknowledgement of relocation assistance (if required).
- Title report to verify property ownership.

It is a best practice for the MFTE units to be spread out throughout the building and be similar to market-rate units in size, features, layout, floor plan, and amenities. There should also be a comparable number of each type of unit (i.e., a proportional number of 1-bedrooms, studios, etc.). To confirm compliance with these standards, it is important for staff to look at and analyze the developer's choice of units and potentially perform an inspection on-site.

Application Fees

Communities can set a fee under [RCW 84.14.080](#) for processing the application. This fee is usually meant to cover both the time of the community staff and the county assessor. Communities can charge fees both when the first application is submitted and when the application for the final certificate is submitted. When setting a fee, the community should also consider how much staff time will be needed for ongoing monitoring and compliance. However, note that high fees may be a disincentive for participating in the program.⁵⁰

Typical amounts for application fees vary and currently range from around \$1,000 to \$10,000. Note that some cities have a sliding scale, but in most cases, it takes the same amount of time to process an application no matter how big the project is, meaning that staff time and costs may not differ.

Staff Support

Staff involvement can be useful in ensuring that the application is complete and meets all requirements. This support can be provided in different ways:

- **Pre-application meetings.** Pre-application meetings can be an effective way to coordinate the process and make sure all parties know what to expect from the applications. Even though they take time, they can save both the staff and the applicant time if an application would otherwise need to be resubmitted because of miscommunication or an incomplete form.

⁵⁰ Under the statute, it is implied that the portion that would be assigned to the county assessor is waived if the application is not accepted and the assessor is not involved. This should be considered as part of the application documentation.

- **Ongoing support.** There should be some thought given to the fact that potential participants may need help assembling the necessary application materials. There should be a dedicated staff member who can answer emails and/or phone calls from potential applicants to answer any necessary questions.
- **Staff review of applications and additional meetings.** Regardless of the details of the application and approval process, staff time needs to be set aside to check an application to make sure it is complete after submittal. There should also be time set aside for staff to take care of follow-up meetings, written feedback as needed, and staff time to track deadlines for materials.

Receiving the Application

The way MFTE applications are submitted is up to the individual community. Different cities have decided to accept submissions online, by email or mail, or in person. These options can be different for each community, but overall, the methods should be easy to use, accessible to applicants, consistent across application type, and efficient for staff to manage.

Best Practices

With respect to this initial process, there are several best practices to consider during development:

- **Clearly describe the application review timeline and process to applicants.** It is important to explain to applicants how the application for a conditional certificate fits in with land use, building, and construction permit reviews, as well as the different timelines for developments with market-rate housing versus those with income-restricted housing, and other processes. As the conditional MFTE certificate is only good for three years, projects may need to plan around these dates to ensure they receive the exemption. Communities should put information about the application process and requirements on their website where possible.
- **Offer a discussion of MFTE requirements as part of pre-application meetings.** A pre-application meeting can help developers and landowners to learn about the MFTE program requirements early in the process. This can be done as part of a general pre-application meeting or at a separate meeting specifically to review the MFTE requirements. It is important in these meetings to talk about requirements like how rents and utility allowances are set and changed, and whether future changes to the MFTE program are expected.
- **Designate a primary contact for the MFTE application process.** During the application process, there can be some uncertainty, especially when legal or procedural interpretations are needed. Clear roles for staff to answer questions about an MFTE program can help address any confusion, especially if the Department of Commerce or a lawyer needs to be consulted from outside the community. However, even though it is best

Coordinating MFTE Applications with Permitting Processes

One problem that MFTE programs have to deal with is how to work exemption applications into the development process. Even though these applications have to be submitted in before building permits are given out, many MFTE programs have been run by city departments that are not involved with building permits.

An example of this is has been the City of Tacoma, which has included the management of MFTEs in their [Economic Development Services Division](#) because of its ongoing role in sponsoring neighborhood revitalization initiatives.

Tacoma and other communities have moved to make this process more efficient however, especially with the move towards online permitting systems. Coordinating with staff involved with the permitting process and including MFTE applications as part of the regular paperwork submitted for approvals can help to coordinate the process. This can also help to share information between permits and foster a "one-window" approach with developers.

to have a main point of contact, other staff members should know enough about the program to help when needed.

- **Understand that applications may not be complete at first submission.** Even with pre-application meetings, it is important to remember that applications may need to be resubmitted after the first review before they can be considered complete. Staff timelines should consider how much time is expected to be needed for revisions, especially if Council approval is necessary.
- **Application fees should not automatically be set to cover all staff time.** Even though the part of the application fee that goes to the county assessor should be set in consultation with them, it may be harder to find an appropriate fee for staff time, especially with a new program. Fees should be set so that some of the costs of running the program can be covered and so that people do not fill out applications for no reason. But since the goal of the MFTE program is to encourage certain types of housing development, setting fees to get full cost recovery might discourage landowners and developers from participating.

Examples

- [City of Tacoma MFTE Program](#). The MFTE program in Tacoma provides applicants with the ability to submit their initial applications for a tax exemption online, through their [Accela permitting portal](#). This has been a recent addition and ensures that the application is integrated with the permitting process overall.
- [City of Vancouver MFTE Program](#). The City of Vancouver administers its initial MFTE application through its [ZoomGrants portal](#), which can provide a more efficient means of administering and reviewing applications.
- [City of Bellingham MFTE Program](#). The City of Bellingham provides an [online PDF version](#) of the full MFTE application, which includes fillable fields that can help in compiling information about individual projects, as well as clear guidance and a submittal checklist.

Approval of Applications

Overview

After the application is sent in, it will be reviewed by the local approval authority. If the application is accepted, the property owner can enter into a contract with the community and receive a conditional certificate for the MFTE program. Even though this application approval process can be straightforward, there are some steps that can affect the speed of the process.

Approval Authority

Both conditional and final certification for a tax exemption in an MFTE program require approval from the governing authority (e.g., city or county council). However, under [RCW 84.14.070](#) applications can also be approved or denied by "an administrative official or commission authorized by the governing authority".

In practice, this means that the MFTE applications are typically approved in communities in a few different ways:

- **An MFTE program may require that applications be approved by council motion.** A regular motion for approval can be seen as giving council control over the process. However, political pressures may be a factor in this process, which can be difficult if an applicant has met all the statutory requirements for the program.
- **MFTE application approvals may be included in the consent agenda for council meetings.** By putting approvals on the consent agenda for council meetings, these applications can be included in council materials and potentially discussed by council members if needed. However, approvals would be handled as a matter of routine business.
- **An administrative official or commission may be delegated approval authority over MFTE applications.** As part of the enabling ordinance, some MFTE programs give the planning director or a similar official in local government the power to grant approval for a conditional certificate.

As noted above, it can be hard for councils to turn down a request that meets all the other requirements for an exemption. If an application is rejected for reasons that are not in the code, the government could face a legal challenge to their decision. Policy discussions about the MFTE program work best when fair, consistent, and objective standards can be developed, and not on a case-by-case basis.

Constructive Oversight of MFTE

Some councils may have trouble with MFTEs because while they may be in charge of approving these applications, they may not be able to turn them down. This can be hard when public opinion and comments at public hearings are against these incentives, either for certain projects or in general.

For a local MFTE program to be a success, the public benefits should be clearly defined and the requirements should be based on common housing goals and other community values.

If there is the potential for concerns over an MFTE program by members of council, there are several steps that can be taken to constructively engage elected officials on this issue:

- Regular reporting and reviews of the program and its outcomes can help to highlight the public benefits of the program. See page 105 for more details on best practices.
- Ensuring regular, proactive avenues for public and developer feedback and discussion can help to address any misconceptions about the program and identify potential issues to address through future updates.
- Communities can put in place "sunset clauses" that make it necessary to review and reauthorize the program on a regular basis. If there is a clear cutoff date for a discussion about the program, it can defer arguments over individual projects. See page 113 for more details on this, including an example from the City of Renton.

In the same way, staff will usually give a report to council confirming that a project meets (or does not meet) program requirements. Extra council oversight at this step might seem unnecessary and having an administrative review process can help cut down on the time it takes to review and approve an exemption.

Approval Process

Once an application has been submitted, a community may approve an application if the project meets the adopted eligibility criteria, and the application is complete. Under [RCW 84.14.060](#), the minimum eligibility requirements for a project include the following:

- The project is **located within a Residential Target Area**.
- A **minimum of four units are** being constructed or developed.
- The project **meets any affordable housing requirements, if applicable**.
- **The project conforms with all local plans and regulations**.

Other requirements from local MFTE ordinance, as discussed in [Chapter 3](#), must also be met. This can include things like stricter requirements for affordability, requirements for bigger projects, and mandates for more public benefits.

According to [RCW 84.14.070](#), a jurisdiction has **90 days to approve or deny** an application after receipt. If the staff and the applicant have communicated well and the requirements have been made clear from the start, applications that make it to the submission stage should not be turned down based on the program's requirements.

Aside from administrative or judicial review, the statute also includes an appeal process if the power to approve was given to an administrative official or commission instead of a judge. In these situations, denied applications must be sent back to the applicant with a written explanation of why they were turned down within 10 days of the decision. Within 30 days of receiving the decision, the applicant can decide to appeal the decision to council for a final decision.

Note that this timing overall only includes what is discussed in the statute. Each community should produce a process and timeline that also fits with the other steps in their process for approving development.

Best Practices

There are some practices that can help to streamline the approval process:

- **Administrative approval may provide a strong alternative to council action.** Delegating approval authority can be helpful, but if the requirements are not clear or well-defined, there may be a chance that they will be appealed to council. If this method is used, the best choice is to give approval power to an economic development or planning director, since approval from a planning commission or similar body may be subject to the same concerns as approval from a council.
- **Place MFTE approvals on the council consent agenda and provide other opportunities for regular review.** Several communities said that one problem with their MFTE approval process was that council members could have strong concerns about the MFTE program, but they did not have many options for making decisions about a project once they got an application. Since this can feel like a waste of time for staff and the elected officials, the best role for council is to review the MFTE program regularly, such as quarterly or annual reports, regular reviews of the program, or "sunset" clauses in the ordinance.
- **Supporting information should be provided to potential applicants to reduce the likelihood of a denied application.** In an ideal situation, the conversations between staff and potential applicants should be clear

and give enough information and direction to make sure that projects that are not eligible do not apply, and that the actual approval of applications is more a formality. If applications are often turned down, more information may need to be provided to potential applicants.

Examples

- [City of Renton RMC 4-1-220\(F\)](#). The City of Renton grants the authority to the Department of Community and Economic Development Administrator to make approval decisions for the MFTE program.
- [City of Tacoma TMC 6A.110.020\(J\)\(1\)](#). The Tacoma MFTE program allows the Director of the Community and Economic Development Department or an authorized designee to certify the application.

Conditional Certification

Overview

The owner will receive a conditional certificate after a successful review. They will have three years to finish the improvements and receive a certificate of occupancy before the conditional certificate expires. This conditional certificate is meant to demonstrate that a project has met all the requirements and is eligible for the exemption. In some cases, this can be a key step in receiving funding support and financing.

Contract

The city or county must enter into a contract with the landowner before issuing the conditional certificate under [RCW 84.14.030](#). This contract is approved by the approval authority, which is either council or its delegate (as mentioned above), and under this contract the applicant must agree "to the implementation of the development on terms and conditions satisfactory to the governing authority."⁵¹

Most of the time, a community will use this contract to make sure that a property owner will do what is required as part of an MFTE program. This contract typically will run with the land, but there are provisions where future landowners may break the contract if desired. For projects with a long-term affordability requirement, it is best to enter into a covenant that is recorded to title so that the agreement is passed on to future owners.

A contract for an MFTE project typically includes the following:

- **A description of the project**, including information reported in the application.
- **Details about income-restricted units** (if applicable), including the **number and type of income-restricted units** and their affordability limits.
- **Details about additional obligations** as specified by the local program.
- **Future reporting requirements** to confirm that the terms of the contract are being fulfilled.

In addition to these elements, the contract may have other requirements to help manage the program and its obligations. Examples of these additional administrative requirements may include items like:

- Providing written notification to the city or county about any **transfers of interest** in the property.
- Providing **notification about any changes or improvements** to the subject development that were not included in the original application.
- Recording a **note on title regarding participation** in the MFTE program.
- Coordinating a **pre-lease inspection** of participating properties.
- Providing **notice about the availability of income-restricted units** to community organizations.

Before the final certification, the contract can also be changed or added to by the community. There may be options in the enabling code for how changes can be made and sent to an administrative official (such as the designated approval authority as noted above). When changes may be needed, communities usually make a distinction between slight changes that do not change the terms of the contract much, which can be approved by a delegate like a planning director, and larger changes that would need council approval.

⁵¹ Note that this approval is similar to the approval of conditional certification above. For many communities, staff will provide administrative approval of the conditional certificate, while the council will provide approval.

Conditional Certificate

The conditional certificate of tax exemption is referenced in [RCW 84.14.070\(2\)](#). Under the statute, the only requirement for the conditional certificate is to "contain a statement by a duly authorized administrative official of the governing authority that the property has complied with the required findings indicated in [RCW 84.14.060](#)."

To meet these requirements, the conditional certificate can be provided as a standard letter that describes the project and states that it can receive a final certificate once a certificate of occupancy is granted. For more information, this letter should include a copy of the contract as an attachment. This will give more information about the project. As a best practice, when a conditional certificate is issued, the county assessor should be notified.

This conditional certificate can be used to secure a final certificate of tax exemption within three years of the filing of the application once construction is complete, as per [RCW 84.14.090\(1\)\(d\)](#).

Extensions to the Conditional Certificate

Even though it is usually reasonable for developers to finish a project within the three-year time frame of the conditional certificate, there are always situations where construction may not be completed on time. For example, if there are delays in building or problems with financing, especially for bigger projects, the project may take longer than expected. To account for this, the statute allows this deadline to be delayed so that projects that take longer than expected do not have to go through the application and approval processes again.

Under [RCW 84.14.090](#), a community may choose to grant a property owner a **24-month extension** to complete the improvements.⁵² To be eligible for an extension, a property owner must be able to demonstrate:

- The anticipated failure to complete construction or rehabilitation within the three-year term is due to **circumstances beyond the control of the property owner**.
- The property owner has been acting and can reasonably be expected to continue **acting in good faith**.

This allows some latitude to provide communities with options if projects are delayed in this way. However, for many communities the application for an MFTE must be submitted before permits are received, meaning that it may not be possible to reapply if the conditional certificate expires.

See page 173 in [Appendix B](#) for a sample application form for an extension of a conditional certificate.

Best Practices

When developing processes for managing conditional certificates, there are several practices that should be considered:

- **Provide templates for the conditional certificate and contract online.** It can be helpful for communities to ensure that the conditional certificate and contract have the same format and content. This can save time when writing these documents, and if developers can also look at them online, they can be assured of the

⁵² Note that for preliminary or final applications submitted on or before February 15, 2020, a deadline for the final certificate may be granted a five-year extension. This change was made in the 2021 legislative session to accommodate projects delayed by the pandemic.

way the enabling contract and other legal documents for the program are written. Note that the legal staff should always look over MFTE contract templates for the community before they are used.

- **Establish other contract conditions that will help achieve the goals and major requirements of the program.** [Chapter 3](#) describes the statutory requirements to be met to receive an MFTE, but a community should also make sure that there are contract provisions that will help them meet their program requirements as well. This can include elements like reporting requirements, but it can also incorporate steps that help with the administration of the exemption, such as notifying about transfers or putting a note on the title. Staff should also consider how they can make it easier to evaluate and report on the MFTE program through contract terms where possible.
- **Ensure that the processes for resolving amendments and extensions are defined.** The law does not provide much detail about how extensions should be handled, or about how changes to the contract and MFTE should be coordinated after approval. Although many of these decisions may need to be made on a case-by-case basis, an "authorized representative" should be selected (e.g., the planning director or other staff members), and the community should give guidance about the circumstances under which amendments and extensions would be granted, at a pre-application meeting or through other means.

Examples

- [City of Shoreline MFTE Program](#). The City of Shoreline's MFTE program website provides links to a [boilerplate contract](#), the [application for conditional certification](#), and the [application for an extension to the conditional certificate](#).

Issuing a Final Certificate

Overview

When a community issues a certificate of occupancy (or in some places, a temporary certificate) to a project, the property owner can apply for a final certificate of tax exemption. After review and final approval, the community then sends out a second, final certificate (usually in the form of a letter confirming the details of the program) and files the tax exemption with the county assessor's office.

Application Requirements

According to [RCW 84.14.090](#), the following items are required as part of an application for final certificate:

- A statement of the **amount of rehabilitation or construction expenditures** for the total project and for each housing unit.
- A **description of the work that has been completed** and a statement that the improvements qualify for the exemption.
- A statement that the **project meets the affordable housing requirements** set out by the jurisdiction, if applicable.
- A statement that the **work has been completed within the time limit** of the issuance of the conditional certificate of tax exemption, including extensions.

As with the conditional certificate process above, communities have discretion around the information they can request from property owners for a final certificate application. A sample application form is available in Appendix B.

Communities often request the following information as part of the final certificate:

- Number and type of units (i.e., number of studios, 1-bedroom units, etc.).
- Number and percentage of income-**restricted** units.
- Average monthly rent of income- restricted units and market-rate units, by housing unit type.
- Average square footage of housing units, by housing unit type.
- Average development cost per unit, by housing unit type.
- Affordability limits on each of the income-restricted units and the basis of affordability (household income, household size, monthly rent, etc.).

A community may request a title report to verify ownership has not changed and a second application fee. In this case, this fee may include the amount to be remitted to the county assessor under [RCW 84.14.080](#), versus providing it as part of the initial fee and returning a refund if the project does not receive an exemption.

Final Approval

Per [RCW 81.14.090](#), a community has **30 days after receipt of the application** for final certificate to determine whether the completed work and the affordability of the units is consistent with the application and the approved conditional certificate. This needs to be determined by an "authorized representative", as with decision-making regarding the conditional certificate above, but this does not strictly need to be the approval authority.

For the tax exemption to start the following year, all final certificates must be sent to the county assessor by December 31. If a community has a lot of projects, it needs to be ready for this deadline, especially if projects are expecting to receive their certificates of occupancy close to the end of the year.

Jurisdictions must notify owners of a denied application. Appeals of the denial can be processed under [RCW 84.14.090\(6\)](#) or under [judicial review in Superior Court](#).

Filing the Certificate of Tax Exemption

After the final application for the exemption is approved by an authorized representative, the community must file the certificate of tax exemption with the county assessor. Under [RCW 84.14.090\(3\)](#), this must be done within 10 days of the expiration of the 30-day review period noted above.

The tax exemption starts on January 1 of the year after when the final certificate was issued. However, note that county assessors will have other deadlines and time limits that must be taken into account when processing these tax exemption certificates. In some cases where certificates are filed later in the year, the tax exemption may not show up on the first tax bill. In these cases, once the exemption is processed, the owner may need to receive a refund.

Best Practices

- **Provide templates and guidance for the final application online.** Landowners and developers should be able to access a template for the final application to plan to provide the necessary information at this step of the process. Staff time will also be needed to give guidance with assembling the final documentation.
- **Where possible, offer online submission for final certificate application materials.** Allowing the final application to be submitted online can also help to speed up the process and make it easier for the developer or owner to provide the application. If this is coordinated with the receipt of the TCO, the process can be made more efficient and easier to understand, reducing confusion for developers.
- **Coordinate timing of certificate submissions with the county assessor.** Staff should give the assessor's office a notification when a tax exemption certificate will be sent in. Also, exemptions submitted by the community should give the assessor enough time to process exemptions for the next tax year. The statute does not allow deadlines to be set, but staff can work with developers to make sure that exemption certificates are not expected to be received late in the year.

Examples

- [City of Spokane MFTE Program](#). The Spokane MFTE program includes the [application for the final certificate](#) on their web portal.
- [City of Shoreline MFTE Program](#). The City of Shoreline's MFTE Program website also includes a [final certificate application](#) on the main webpage.

Ending an Exemption

Overview

All exemptions provided under [Chapter 84.14 RCW](#) have a limited time period, and the end of an exemption can be managed in different ways depending on the community and the context. There are three cases that should be considered when developing local policies and processes to conclude exemptions:

- An exemption may be **cancelled** before the end of the period if the conditions of the exemption are no longer fulfilled, or the owner decides to withdraw from the program.
- For the eight- and 12-year exemptions, the exemption may be **renewed** for an additional 12 years, when additional requirements are met.
- The exemption may also expire, ending the tax benefits as well as most of the obligations for the property.

In each of these cases, the current contract with the property owner will end, potentially with a new one taking its place.

Canceling an Exemption

The exemption can be cancelled under [RCW 84.14.110](#) prior to the end of the exemption period. Under the statute, the exemption can be cancelled if:

- The property **does not meet affordability requirements**.
- The multifamily component of the development is **converted to another use**.
- **Other conditions of the exemption are no longer satisfied** (e.g., provision of public benefits).

For MFTEs, a cancellation usually occurs for one of two reasons: **withdrawal** or **noncompliance**.

Withdrawal. A property owner usually voluntarily gives up a tax exemption for one of three reasons. First, the owner may want to change the property use from residential to some other use, such as a short-term rental (like Airbnb), and the exemption would no longer apply. Second, other ongoing requirements, especially the need to provide income-restricted units in rental buildings, have been deemed too expensive for the property owner to comply with any longer. Finally, in the case of affordable owner-occupied properties an owner may wish to sell at a market rate instead of complying with affordability requirements.

For a withdrawal, the owner must provide at least 60 days' notice to the community that it will end the contract under RCW 84.14.110(1). While the tax exemption is cancelled, there are no additional penalties required (unless a tax exemption has been applied for that tax year already), but the exemption is removed.

Noncompliance. Communities can also remove an exemption if the property owner decides to stop following the contract's terms. If the community decides that the property owner has not been meeting the requirements of the exemption starting at a certain point or date, they can decide that the tax exemption was effectively cancelled at that point.

Under [RCW 84.14.110\(1\)](#), the total tax penalty from this type of cancellation is equal to the exempted tax prorated to the established date of noncompliance, plus a 20% penalty, plus the interest on delinquent property tax payments. As with any other unpaid property taxes, this can also be considered a lien on the subject property. The exempted property value is also retroactively added back to the property tax rolls under [RCW 84.14.110\(3\)](#), consistent with the process for omitted property.

Regardless of the reasons for the cancellation, under [RCW 84.14.110\(2\)](#), the owner must be notified of the cancellation by an authorized representative. If desired, they may challenge the determination by filing an appeal to the clerk of the city or county within 30 days of the determination. The community, via a hearing with the owner and council or the hearing examiner, can then affirm, modify, or repeal the cancellation decision based on the evidence they receive.

The local MFTE administrator or staff member in charge of record keeping should stay in close contact with the county assessor. At the time of withdrawal or cancellation for noncompliance the local MFTE administrator should share documentation with the county assessor as early in the process as possible.

An important note with the cancellation of exemptions is that **owner-occupied projects are still treated as a single project**, even if individual units have been sold to different owners. Under this interpretation of the statute by the Department of Commerce, if noncompliance by an individual unit results in the project overall falling out of compliance (e.g., if there is a fixed set-aside for affordable housing or requirements for units in permanent residential use), **the exemption will be cancelled for all units**. While this may be interpreted in various ways in different communities, this presents a significant risk for certain types of owner-occupied MFTE units.

Extending an Exemption

Communities can also provide an option in their code to allow an eight- or 12-year exemption to be extended for an additional 12 years under [RCW 84.14.020\(6\)](#). This extension is allowed for properties that are within 18 months of expiration, contingent on approval from the city or county.

To be eligible for this extension, a property must meet the following requirements:

- **All requirements for the 12-year MFTE** that are in place as of the filing of the extension application (not at the time of the original exemption).
- The set-aside of income-restricted units must consist of at least **20% of the units** affordable to households with incomes at least **80% AMI or lower** (with no units allowed at 115% AMI or lower). Note that this may be set lower by the community.
- Income-qualified tenants must be provided with **relocation assistance** equal to one month's rent. At the end of the 10th and 11th years of the extension, applicants must let these tenants know that they will receive rental relocation assistance amounting to one month's rent. This is given in the last month of the lease.⁵³

The extension to the tax exemption will require a new or amended contract, potentially with different provisions to ensure the requirements above and any new requirements are reflected.

Closing an Exemption

For the eight- and 12-year exemptions, the expiration of the exemption may simply mean that it will end, and the property will revert to being taxable again. There are no statutory requirements specifically for cities at this step of the process, except simply the requirement under [RCW 84.14.020\(5\)](#) that the value of the housing construction, conversion, or rehabilitation improvements covered under the exemption must be considered as new construction for the purposes of determining the local property tax levy lid.

⁵³ Note that this may not be the same as the end of the exemption.

Note that for a 12-year exemption approved after July 2021, the property owner must provide relocation assistance at the end of the exemption period equal to one month's rent within the final month of a tenant's lease under [RCW 84.14.020\(8\)](#), similar to what is discussed for the extension above. Tenants must occupy income-restricted units and qualify as low-income households to be eligible for this assistance.

Best Practices

- **Provide for consistent communication with owners during the exemption.** One important recommendation is to give property owners regular reminders about the program. This can help these owners meet the program's requirements and give them clear warning of when the property tax exemption will end. This can be important for new owners, especially households who buy individual units in a building.
- **Create templates for applications for withdrawal and extensions.** Communities should have forms on hand for use by property owners looking to withdraw from an MFTE or, if applicable, to apply for an extension. These forms should be made available online, with sufficient guidance such that they can be completed by property owners as needed.
- **Record to title.** Communities should consider a standard procedure to record a notice to title which notifies any potential owners of the MFTE requirements which continue on with the property. This can offer some protection in owner-occupied programs and provides an easy reference to contracted requirements.
- **Recognize the timing and feasibility of exemptions when developing an extension program.** Including extensions can be an important way to keep housing units affordable, especially when MFTEs are about to expire. But this might not be a top priority if exemptions are not set to end in the next few years. For recent programs, MFTE extensions can be established a few years after initial certificates are issued. Property owners will only look at the state of the market and the requirements of the program when a decision will need to be made to determine if an extension would be feasible.

Conclusion

The steps in this chapter are the basis for managing a local MFTE program on a regular basis. These steps should be easy for the public and potential applicants to understand and use, and communities should look to provide enough information to make this information accessible.

One important thing a community can do to achieve this is to have resources that can be accessed through a website. In this chapter, content that is recommended to be available to the wider public includes templates for applicable forms, applications, and agreements, including:

- The initial application for a conditional certificate.
- The conditional certificate.
- The contract to implement the MFTE with a property owner.
- The application for the final tax exemption certificate.
- Notification of the cancellation of the exemption
- The application for an extension of the tax exemption.
- Regular letters to property owners regarding the status of the exemption, including a letter notifying recipients when the tax exemption expires.

Examples of these forms are provided in Appendix B.

Communities might also want to make their own "playbook" for their MFTE program. This guidance material can include text and graphics from this workbook as well as specific information about local program requirements. This can help local stakeholders and potential applicants learn about the program.

Different communities have made their own materials to walk people through their programs and give them the information they need. Some of these include the following:

- The **City of Seattle** Office of Housing provides the [Affordable Housing Incentive Program Compliance Manual](#) for its MFTE program, as well as other affordable housing programs. This document presents extensive details about the program processes, including an extensive description about tenant eligibility, income certification, rent restrictions, and regular compliance.
- The **City of Vancouver** Economic Prosperity and Housing Department has developed a [Multi-Family Housing Tax Exemption Program Manual](#) for its MFTE program. This manual provides a summary of the program and its processes, provides maps of the RTAs, and includes contact information for involved staff for further information.
- The **City of Bellevue** in coordination with ARCH provides a [factsheet on the MFTE program](#) that outlines the major characteristics of the program, including affordability requirements, the approval process, and contact information for staff.
- The **City of Tacoma** Planning and Development Services provides an [MFTE tip sheet](#) through their webpage which provides information on eligibility, as well as links to the online portal for applications.

Review Checklist

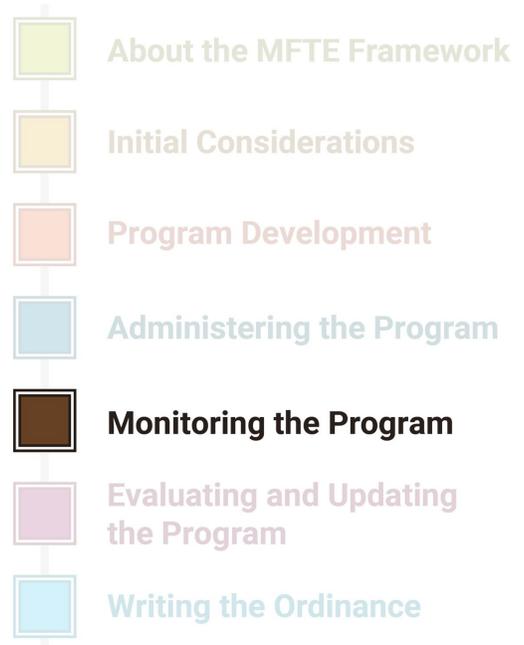
- Develop an application form for the conditional certificate.
- Set fees for the conditional certificate application.
- Determine which staff member will be the main point of contact for applicants.
- Develop a "playbook" for the MFTE program that includes specific local requirements.
- Determine who has application approval authority.
- Develop a boilerplate contract between the city/county and property owner.
- Develop an application form for extensions of the conditional certificate.
- Develop an application form for the final certificate.
- Set fees for the final certificate application.
- Develop an application form for an extension of the exemption.
- Develop a standard letter to the property owner to acknowledge the expiration of the exemption.
- Develop a standard letter to the property owner if cancellation of the exemption is required.

Chapter 6: Monitoring the Program

Overview

After an MFTE program is set up, monitoring compliance is important to ensure the tax exemptions are being used correctly. Under the law, there are several steps that must be completed on a regular basis to confirm that a community is meeting program requirements:

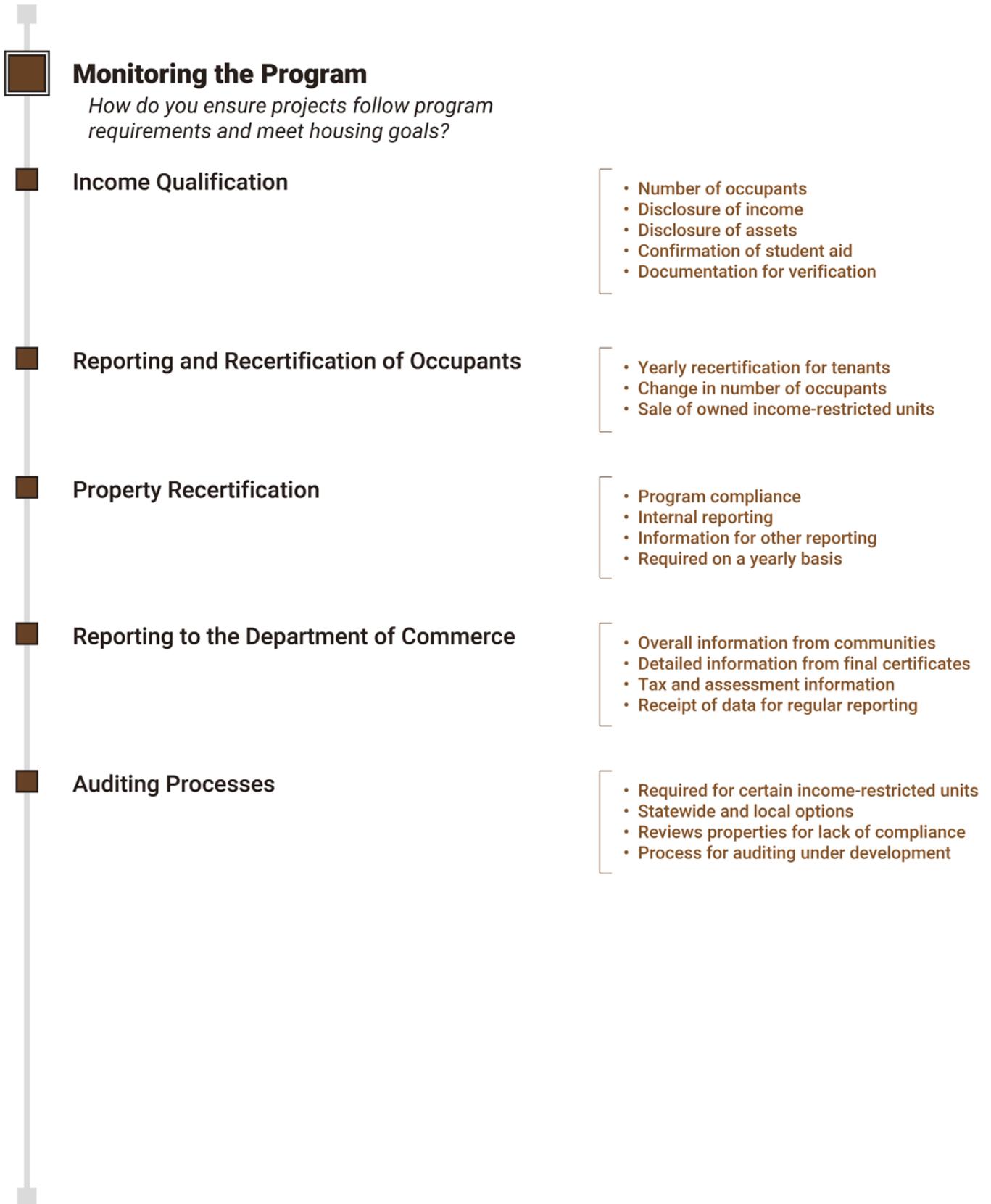
- Property owners must coordinate **income qualification and recertification** to make sure that tenants and buyers meet income restrictions for renting or purchasing a housing unit.
- There are also yearly requirements for **recertification of properties**, and reporting forms must be provided to the city or county that include information from recertification.
- Communities must provide **reports to the Department of Commerce** to submit compiled statistics on the use of their MFTE program and present other data that confirm the local program is complying with state requirements.
- There are also requirements for **statewide and local auditing programs** to provide more detailed reviews of individual properties under the MFTE program.



To this end, this chapter goes into more detail about the monitoring programs that communities should have in place to evaluate their own MFTE programs and state reporting obligations for cities and counties.

Forms for each of the steps in this process are included in [Appendix B](#).

Monitoring Flowchart



Income Qualification

Property owners manage their income-restricted units and must send in reports on a regular basis to confirm their property complies with the requirements under [RCW 84.14.100](#). These obligations for reporting require that owners collect information about individual households.

For units without income restrictions, the reporting necessary from tenants or individual owners is minimal, and typically only requires confirmation that the unit will be occupied by the owner and kept in residential use. However, income-restricted units also require proof that the households buying or renting them are eligible. These conditions should be clearly stated in a purchase and sale agreement or a lease agreement, and the buyers or lessees should be given information about the program's requirements during the transaction.

As a matter of best practice, owners of income-restricted MFTE units should require an eligibility form from buyers or renters before a transaction to confirm that they qualify under the program. While this is not specifically required under the statute, it can ensure that the affordability requirements are met. To be consistent with best practices, this form should include the following:

- **Number of occupants.** Since the rent for restricted units is based on AMI and the size of the household, the form should include the size of the household as a required field. Some jurisdictions require that the number of people living in an MFTE unit should not be less than the number of bedrooms.
- **Disclosure of income.** The form should list sources of income for each person in the household. This can be calculated as a projected value over the coming 12 months based on confirmed sources of income today, as well as other applicable income from the previous year. This would include self-employment income, gifts, and unearned income like Social Security payments or unemployment insurance.
- **Disclosure of assets.** In addition to regular income, expected income from dividends or interest from assets should also be included. This would not include the amount of the asset, however, only the expected income that could be derived from that asset.
- **Confirmation of student aid.** In cases where full-time students are eligible for MFTE units, they may be dependent on need-based financial aid such as grants and student loans to pay for living expenses. In these cases, an applicant may need to provide documentation that they are eligible for aid through a Free Application for Student Aid (FAFSA) or a Washington Application for State Financial Aid (WASFA), as well as documentation about the financial aid received. Note that other student loans are not considered to be income for the purpose of meeting MFTE requirements.
- **Documentation for verification.** In addition to providing information about income sources, the process should also require supporting documents as needed. This could include pay stubs, tax returns, and any other proof needed to back up the income disclosure. There are no specific requirements in state law about how to fulfill this requirement, but cities may provide requirements that are comparable to other monitoring programs in place.

Based on the information given, it should be possible to calculate if someone is eligible for an income-restricted unit. When a potential renter or buyer is not eligible, a property owner should show proof of why they are not eligible. If the information given on the application was wrong, there should be ways to update the submittal and re-evaluate unit eligibility.

Reporting and Recertification of Occupants

After the initial qualification process, there are ongoing reporting requirements that occupants of MFTE units typically need to fulfill. Although there are no specific statutory requirements for reporting by occupants of these units, local requirements are usually necessary to help property owners comply with the regular reporting requirements under [RCW 84.14.100\(1\)](#) and communities with the requirements under [RCW 84.14.100\(2\)](#).

Typically, these requirements differ based on whether the unit is owner-occupied or rented, and if the unit is income restricted. In all cases, however, recertification of units typically requires evidence that the unit is occupied and still in residential use.

Income-Restricted Rental Units

For rental units, recertification is required under two situations:

- **Yearly income recertification for rental properties.** Every year, a household's eligibility for a rental unit should be recalculated based on their income from the previous year. Therefore, they will need to provide updated income reports and documents on a yearly basis.⁵⁴
- **Change in the number of occupants of a rental property.** If the number of household members changes, eligibility for the exemption should be reevaluated. This includes both the ability to qualify based on income and the size of the household.

At minimum, this means that compliance with the MFTE program by a household will be checked once per year to ensure that it meets local income restrictions. This process is typically managed by the property owner or a property management company, which then provides separate reporting to the jurisdiction.

However, a critical question here is: **what happens if a household currently renting an income-restricted unit exceeds the income eligibility limit specified in the program** (e.g., 80% AMI)? In these cases, there are some options available for communities and property owners:

- **Separate income restriction for existing tenants.** In some cases, a community may provide a separate cap on income for existing tenants. For the unit to still qualify as an income-restricted MFTE unit under set-aside requirements, it must still comply with requirements under [RCW 84.14.020](#), which would limit this to 115% AMI (or 80% AMI for 12-year extensions under [RCW 84.14.020\(6\)](#)).⁵⁵ If incomes exceed the initial income limit, communities could set requirements for the rent to be adjusted to 30% of estimated household income, less regular housing expenses.
- **Designation of another unit on the property as income restricted.** If a comparable unit could be provided as an income-restricted unit to meet conditions under the program, the unit in question could be released from restrictions under the program and the comparable unit could be rented to a qualifying household instead. The local authority should review and approve any swapping of units to ensure that the property maintains sufficient comparability and distribution standards, and a review of compliance may be delayed until an appropriate unit becomes vacant.

⁵⁴ This could be managed under different rental periods, although the household would be expected to comply with income restrictions and the annual reporting requirements under [RCW 84.14.100\(2\)\(f\)](#) would still apply.

⁵⁵ Note that under the requirements of [RCW 84.14.020\(1\)\(a\)\(ii\)\(B\)](#) or [RCW 84.14.020\(1\)\(a\)\(iii\)](#), at least one unit must remain affordable at 80% AMI or below.

- **Ending the lease agreement.** In situations where a household is out of compliance based on income limitations and the unit must remain income restricted, the household may be transferred to another unit, or the lease agreement for the tenant could end and not be renewed.

Note that the validity of these options will be based on local conditions. However, where possible, requirements should be developed that minimize disruption and housing instability to households participating in the program by allowing them to stay in their original units where practical. As a best practice, policies that prevent displacement of tenants should be adopted into local MFTE codes.

Income-Restricted Owner-Occupied Units

For owner-occupied units, recertification is managed directly between individual property owners and the community itself.⁵⁶ As noted above, individual owners are required to state on a yearly basis that the unit is still in permanent residential use to maintain the exemption. Additionally, information about the incomes of the occupants of income-restricted MFTE units are also required from cities under [RCW 84.14.100\(2\)\(f\)](#), meaning that regular yearly reporting is required from owner-occupied units as well.

However, the legal elements of compliance with affordability requirements are not managed the same for owner-occupied units. Requirements for income qualifications under [RCW 84.14.020\(1\)\(a\)\(ii\)\(B\)](#), [RCW 84.14.020\(1\)\(iii\)](#), or [RCW 84.14.021\(2\)](#) only state that the sale of the unit must be to a qualifying buyer, not that an income restriction is an ongoing condition of ownership and that an owner could be compelled to sell.

Because of this, while income reporting is still necessary for income-restricted owner-occupied units, only two general conditions will trigger income recertification related to compliance with income restrictions:

- **Renting owner-occupied units.** Units sold to income-qualifying households could potentially be rented separately and kept in "permanent residential use". However, if there are income restrictions on the unit, it would still be held to the same regular recertification process as a rental unit as described in the previous section.
- **Selling owner-occupied units.** As sales of income-restricted MFTE units may only be to qualifying households, keeping the exemption requires that the sale price be set at the threshold determined by the local program, and the sale made to a household below the given income threshold.

As such, more detailed reporting requirements for income, including the provision of supporting documentation, may only be warranted in these cases.

It is important to put in the contract that a notice must be sent to the local government if an income-restricted unit is sold, and to require a covenant to make sure this agreement is provided on the title and known to future owners. This can help ensure that information about these requirements can support compliance over the long term.

It is also important to note that, as mentioned in Chapter 5, the ongoing compliance of a development with an MFTE program is managed as a whole, even if different people own individual units. If an owner decides not to follow the rules about income restrictions and sets up a sale at market price instead, all owners in a development can lose their tax exemptions.

⁵⁶ In the case of permanently affordable owner-occupied housing under [RCW 84.14.021](#), however, reporting and certification are managed by a sponsoring nonprofit organization or governmental entity.

Recertification of Properties

During the time that the tax exemption is in place, the community must work with property owners to make sure that MFTE units still meet the contract terms for the tax exemption. When income-restricted units are available, it is the property owner's job to make sure that the occupants meet the requirements, as noted in the previous section. This information is reported to the community under [RCW 84.14.100\(1\)](#) for the following purposes:

- **Program compliance.** Reporting and recertifying properties can help communities make sure that program requirements are being followed. If a property is not meeting these conditions, the community can take steps to get the owner to follow the contract.
- **Internal reporting.** Regular information from certificates and approvals can help with monitoring, but data from ongoing certification can also show compliance and local levels of affordability from projects. This can be important when talking about how the MFTE program is providing public benefits.
- **Reporting to the Department of Commerce.** Information is also given to the Department of Commerce so that it can oversee programs statewide and provide regular reports and assessments of MFTE programs. (This is covered in more detail below.)

Yearly reporting requirements for the property owner⁵⁷ under [RCW 84.14.100\(1\)](#) include:

- A statement of **occupancy and vacancy** of the property for the past 12 months.
- A certification by the owner that the **property has not changed use** and **follows requirements for income-restricted housing**.
- A description of **changes or improvements** constructed after the certificate of tax exemption was issued.
- **Any other information** requested by the city or county (such as data for reporting to the state noted below).

As noted in the last section, fulfilling the income-restricted housing requirements involves documentation of income, either at the time of the initial lease or renewal for rentals or at sale for owner-occupied housing.

In addition to these requirements, communities also need to provide information to the Department of Commerce on properties that have received certificates of tax exemption. This is described in the next section, but some of this information needs to be collected through recertification forms. This includes:

- The **characteristics of the units** fulfilling the affordable housing requirements (e.g., size, type, square footage, number).
- The **total monthly rent**⁵⁸ or **sale amount** for each unit.
- The verified **annual household income** and **household size** for each of the affordable units receiving a tax exemption and a summary of these figures for the city or county.

Finally, certain jurisdictions also provide the choice for tenants to self-report about other demographic characteristics. While this is not required under the statute, this can help in determining if there are concerns about the distribution of MFTE benefits according to household type, race, ethnicity, and other categories that may be useful for an assessment of the impacts of the program, as well as specific needs for additional resources.

⁵⁷ This requirement can also be fulfilled by the coordinating non-profit or government authority in the case of the 20-year exemption, under [RCW 84.14.100\(1\)](#).

⁵⁸ This may also include information on the other associated housing costs for households, including electricity, water, sewer, and other charges.

Household income and size must be reported for all affordable units regularly, including owner-occupied units, even if regular income qualification is not needed for recertification.

The timing of these reporting requirements can be a challenge. Under [RCW 84.14.100\(1\)](#), yearly filing for an MFTE property must happen 30 days after the anniversary of the date of the certificate of tax exemption and each year for the tax exemption period. However, annual reporting to the Department of Commerce must occur by April 1st under [RCW 84.14.100\(2\)](#). Communities should work to ensure that the receipt of materials from property owners will help them meet the deadlines for reporting accurate numbers to the state. In some cases, communities may shift the reporting deadlines to provide up-to-date data for reporting at the end of the year.

Noncompliance on Certification

There are also times when recertification can show that a property does not meet the program requirements. Most of the time, this is because properties do not meet requirements for income-restricted units or because not enough of the property is kept in permanent residential use. However, there may be other restrictions included in the contract, such as the provision of public space or design criteria, which may also be subject to oversight.

Note that with respect to MFTE projects remaining in residential use, this can cover all types of properties, both market-rate and income restricted. Typically, this means that long-term permanent residential units will be converted either to a business use (such as office space or a retail commercial use), or to a different form of residential development (such as a short-stay rental like an Airbnb).

In cases where a project is not in compliance with a contract, communities have two main tools for enforcement:

- **Penalties after an audit.** If a local auditing and review program has been established under [RCW 84.14.100\(3\)](#), a penalty can be levied if issues during recertification would trigger an audit that would prove noncompliance. This requires an auditing program, however, and the development of a statewide system and guidelines for local implementation are currently in progress.
- **Cancellation of the exemption.** If there are significant violations of the contract established under the program, the tax exemption can be cancelled under [RCW 84.14.110](#).

Both processes can be onerous, especially in situations where property owners are not substantively out of compliance with requirements. Therefore, communities should look to work with owners to help them in fulfilling their requirements under the program before taking more drastic action.

Reporting to Commerce

The requirements for cities and counties to report to Commerce are described in [RCW 84.14.100\(2\)](#). Cities or counties that issue exemptions must report **annually to Commerce by April 1st**. Currently, any city or county with an adopted MFTE program must provide this report to Commerce, which includes:

- **Staff contact information** for the program.
- The **type and requirements** of the local MFTE program, if any.
- Whether the program was **active over the previous year** (final certificates and/or extensions).

A city or county must also provide an additional detailed report if it issued a final certificate of tax exemption or an extension in the prior year. In this detailed report, Commerce requests the following information overall for the tax exemptions issued over the previous year:

- The **number of tax exemption certificates** granted.
- **Identifying information** for each property using tax exemptions (parcel number/address).
- The **total number, size, and type of units** produced.
- The **number, size, and type of units** produced meeting affordable housing requirements.
- The **actual development cost** of each unit produced.
- The **total monthly rent or total sale amount of each unit** produced.
- The **annual household income and household size** for each of the affordable units receiving a tax exemption and a summary of these figures for the city or county.
- The **value of the tax exemption** for each project receiving a tax exemption and the total value of tax exemptions granted.

Commerce also requests the following tax and assessment information for the property, which can be obtained from the county assessor:

- The assessed value of the development that is **exempt from taxation** during the term of the project.
- The assessed value of the development that is **subject to taxation** during the term of the project.
- The **current year levy rate**.
- The **amount of tax exempted and paid** in the first year of the exemption.

This information is provided to support the oversight of the MFTE program in three primary ways:

- This information allows the Department of Commerce to provide a **yearly report** about MFTE programs state, highlighting overall activity in participating communities and key statistics about the use of exemptions.
- Over the longer term, this information is expected to guide the **long-term management of the program**, including future policy changes and adjustments to processes managed by the Department.
- Once the statewide program and local guidance are developed, information on individual properties will be used to **manage the statewide auditing program**, which will provide state-level oversight of compliance on a five-year cycle.

Auditing of Income-Restricted Units

Requirements for auditing are included under [RCW 84.14.100\(3\)](#). The goal of this auditing process is to make sure that the required number of income-restricted units are being provided at affordable rents or prices and that the tenants or owners have been properly screened and recertified as necessary to confirm that they meet the income restrictions. To confirm this, properties that get tax exemptions must be audited at least once every five years, with a minimum percentage of all properties audited each year.

Properties receiving a tax exemption do not need to be reviewed if:

- They **do not include any income-restricted units**.
- They are **managed by a nonprofit** (such as with the 20-year owner-occupied MFTE option).

There are two options that communities have with respect to managing the auditing process:

- **Statewide program.** The Department of Commerce is obligated under the statute to adopt and implement an auditing program for all communities. This program is pending.
- **Local option.** A city or county may provide an alternative, independent auditing and review program and opt out of the statewide auditing process.

In either case, fees may be collected from the property owner to offset the costs of the audit.

If it is determined that a property is out of compliance, either because an improper number of units are being provided or households are not being properly screened, the community is required to provide penalties to the property owner:

- For an **initial infraction**, the community must impose a **sliding scale penalty** up to the difference between actual rents and the rents that would have been charged if the property had been complying with the requirements.
- If **substantial noncompliance** is found with a subsequent review, the **tax exemption must be cancelled** under [RCW 84.14.110](#) (see below for more details).

Although these details are provided under the statute, the Department of Commerce is still in the process of developing both the statewide auditing program and guidance for local auditing programs. This guidance is expected to be completed by 2023.

Best Practices

- **Establish protocols to maintain compliance when households exceed income restrictions.** When it comes to recertification, one of the most important things to think about is what to do if a household's income goes up or if the size of the household changes and existing residents suddenly do not qualify for the exemption. It is important to give property owners guidance during the recertification process to make sure they stay in compliance with the program, maintain housing stability and security, and help the program reach its goals. Allowing some level of increase above the base requirement upon recertification can help with this.
- **Provide templates for eligibility forms to program participants.** The community should put a standard form online that can be used to show whether a household is eligible to rent or buy an MFTE unit. There should be clear instructions on how to fill out the form and what documents are needed to prove household income.
- **Align the schedule for recertification with reporting requirements to the Department of Commerce.** Even though the statute says that property owners must report annually on the anniversary of when the tax exemption was granted, many communities have set a fixed date for all properties to report each year. This can make the process more efficient and ensure that the data sent to the Department of Commerce is up to date. Communities using this approach should make sure that this reporting date is set with enough time to find any late submissions and gather the information they need before the April 1st deadline for reporting.
- **Consider conducting site visits of properties to verify information.** If responsible staff has time available, it can be important to go to a project to verify project information. If there are questions about the property manager's submission or if the information is not complete, staff may want to meet with the property manager.
- **Ensure that requested information from recertification reporting is consistent.** Communities should make sure that the information they ask for on applications and recertification forms is consistent and meets the requirements for reporting to the Department of Commerce.

Examples and Resources

With respect to examples of monitoring for the program, the following sources can be useful:

- [Washington Department of Commerce](#). The Department of Commerce webpage for the Multi-Family Housing Property Tax Exemption provides several forms and templates for use with reporting under the program, including:
 - Example reports and forms from jurisdictions across the state.
 - The [basic summary form](#) to be completed annually by all communities that can issue tax exemptions.
 - The [detailed reporting spreadsheet](#) for individual properties and unit summaries under exemptions.
- [City of Bellingham MFTE website](#). The City of Bellingham describes the income verification process used for income-restricted tax exemptions in its [12-year Multifamily Tax Exemption Compliance Manual](#).
- [City of Seattle MFTE compliance website](#). The City of Seattle provides several forms and resources on its website for MFTE and Incentive Zoning compliance, including:
 - An [annual property certification form](#) in Excel.
 - A [resident eligibility application](#) in Excel.
 - A [household eligibility certification](#) in Excel, including supporting materials such as an [employment verification form](#) and other types of household income and asset verification documentation.
- [City of Shoreline MFTE website](#). The City of Shoreline provides documentation about [compliance guidelines](#) for MFTE properties, which includes more detailed processes for calculating income qualification and recertification for tenants.

Review Checklist

- Develop an annual income verification form for income-restricted households.
- Develop a process to verify income and when it will occur.
- Develop a policy to address when households no longer meet income requirements.
- Develop an annual report form for property owners.
- Develop an internal process to report annually on the program and all projects to Commerce by April 1st.

Chapter 7: Reviewing and Updating the Program

Overview

When an MFTE program is in place in a community, housing needs and the impact of the housing market on the program will change over time. As a result, it can be important to go over program requirements regularly to make sure the exemption is still set up correctly to meet the desired outcomes. Additionally, the goals for an MFTE program will also change over time, and it should be reexamined as necessary to ensure that it is addressing current needs and providing optimal public benefits.

For a community, changes could include the following:

- **Identifying new areas requiring revitalization.** The community may realize that a neighborhood needs new investment in housing, and an incentive could help make that happen. This kind of work should be coordinated with a new subarea plan, infrastructure investment planning, or some other local planning effort.
- **Addressing additional needs for housing.** A city or county may realize that it cannot meet its goals for building housing units under countywide planning policies or other policy targets. This can include the goals for housing affordable at different income levels under the Housing Element of the Comprehensive Plan.⁵⁹ In this case, an MFTE program can be adjusted to help meet these targets.
- **Considering the need for process changes.** The processes used to grant exemptions and monitor the program over time may need to be adjusted. This could be done to provide additional oversight and review, regular reporting of outcomes, or streamlining of application processes.
- **Acknowledging statutory changes.** The enabling legislation under [Chapter 84.14 RCW](#) could be amended, which could remove, change, or add options for MFTE programs, and change requirements under the statute that would need to be incorporated into the local program.

Comprehensive reviews for any of these reasons should reexamine many of the elements referenced in this workbook:

- Reviewing and updating assessments of current conditions ([Chapter 3](#)).
- Adjusting broader program goals and exemption types to meet revised goals ([Chapter 4](#)).
- Addressing administrative process needs and demands for more oversight or streamlining ([Chapter 5](#)).
- Revising regular monitoring and recertification processes, also updating a means to collect relevant data for review and evaluation ([Chapter 6](#)).
- Changing code language in response to statutory and local program updates ([Chapter 8](#)).

However, it is important to note here that one challenge to updating an MFTE program is that new updates will not change previous contracts for exemptions. Also, since applications for MFTEs are submitted prior to the approval of building permits, future exemptions under an updated program will not be finalized for a minimum



⁵⁹ See [RCW 36.70A.070\(2\)\(a\)\(i\)](#).

of several months and likely a few years after program changes are made. Communities will need to keep track of the program requirements of each project and will need to make it clear that any program changes will take time to result in new projects when evaluating outcomes in the future.

This chapter will review three main elements for reviews and updates of the MFTE program:

- **Ongoing processes** for reviewing the program and providing adjustments as needed to the program.
- **Short-term program adjustments** to account for emerging needs.
- **Regular program updates** which should be coordinated at consistent intervals by the community after a comprehensive program review.

Ongoing Program Review

Overview

As part of the regular management of an MFTE program, communities should work to coordinate both short- and long-term reviews. These steps can help show where there may be problems with the program and give information to the council, major stakeholders, and the public about the role and benefits of the program.

As part of regular processes, communities should look to coordinate:

- A system for compiling data about the program.
- Ongoing consultation with participants to identify any needs or challenges.
- Reports with program statistics and indicators that give information about program results.

Even though this information can be useful for oversight, it can also be used to support updates to programs on a regular basis.

Data Collection and Indicators

Information about how the program is working is one of the most important things that can be included in reviews. [Chapter 6](#) shows how the recertification process and reporting to Commerce can give important information about tax exemptions over time. Additionally, the administrative process can also record other data that is useful when tracking MFTE projects.

Communities should look to these sources to track the following:

- Applications for **conditional certification** received, including:
 - Location (parcel number/address/neighborhood)
 - Total housing units (by size and type).
 - Income-restricted housing units (by size, type, and income restriction).
 - Status of the process (e.g., completed, expired, approved, approved with extension, denied).
 - Date of application.
 - Date of issuance of conditional certificate (if applicable).
- Properties with **final certification**, updated yearly, including:
 - **Total monthly rent or total sale amount of each unit** produced.
 - **Occupancy** and **vacancy** of the development.
 - The **estimated value of the tax exemption** for the project.
 - The **estimated cost of construction**.
 - **State of compliance** of the property.
 - Date of tax exemption expiration.
- Information on **tenants** in the program, including:
 - Characteristics of the housing unit.
 - Household size.
 - Annual household income.

This information can be used to calculate key indicators:

- **Total units** created with the tax exemption, including:
 - Unit type
 - Unit size
 - Neighborhood/RTA
 - Rent levels (market and income-restricted)
 - Measures of public benefit
- **Current income-restricted units** supported with the tax exemption, categorized by:
 - Unit type
 - Unit size
 - Neighborhood/RTA
 - Income restriction (% AMI)
 - Expiration year
- **Number of applications received** and corresponding housing units by year, categorized by:
 - Applications denied
 - Applications and total/income-restricted units with conditional certification
 - Applications and total/income-restricted units that have received final certification
- **Distribution of tenant characteristics**, including:
 - Household size
 - Race/ethnicity (optional)
 - Income as percent of AMI
 - Housing costs expressed as percent of income (if applicable)
- **Distribution of project characteristics**, including:
 - Total project costs (by permit or reported value)
 - Projected tax exemption
 - Units demolished for the project

These indicators can be provided as part of regular reporting systems, as detailed below. Other indicators are also possible to track and should be determined on a case-by-case basis in a community.

Regular Stakeholder Feedback

To get a full picture of an MFTE program's effectiveness, communities should also work to capture the perspectives and experiences of property managers, developers, and program staff who use and implement the program. This could be managed in several ways:

- **Feedback surveys** can be provided at key points in the process, such as when the conditional and final certifications are given out, and when annual recertifications are given out. This can find out if there are any immediate procedural issues with the program.
- **Regular interviews** with participants to ensure that they can provide effective feedback on important elements of the program.

- **Focus groups and panels** convened from property managers and developers regularly to provide feedback on the program and any potential changes that should be coordinated.

The questions asked in these different venues would depend on the groups of stakeholders engaged with the process. This could include:

- **Property owners/managers.** What could be improved with the process of complying with monitoring and reporting requirements? Are there challenges associated with leasing units?
- **Developers.** If you have used MFTE, how would you describe your experience with the program? If not, why have you not pursued an MFTE project?
- **Affordable housing providers.** Does the MFTE program support the types of affordable housing needed in the community? Do you use the MFTE program with affordable housing projects?

It can also be practical to work with other interested groups. For example, discussions with other local government departments (like finance, planning, economic development, etc.) can help incorporate an understanding of how the program may affect other aspects of the community. Engagement with the larger public might also be useful to give information about the program, but care should be taken when talking about the program to make sure these discussions focus on public benefits.

Deciding which types of engagement to use depend strongly on internal capacity and existing outreach. Smaller communities with few projects expected over time may do best with one-on-one conversations, while larger volumes may suggest surveys and regular focus groups to ensure proper feedback. Where possible, however, this should be integrated with current efforts to engage with the local real estate community and the public overall.

Reporting

Clear and concise communication is essential when providing information to council, staff, stakeholders, and the broader public about an MFTE program. There are several ways this can be delivered effectively:

- **Yearly reports.** Communities can put together summary statistics and maps in a report to describe the activities in an MFTE program over a reporting period. This can also be an opportunity to highlight potential short- and long-term changes in the program derived from stakeholder feedback. These reports can be provided to councils as well as to the broader public to promote transparency.
- **Online mapping.** Communities can also use online GIS tools to map out the locations of residential targeted areas and MFTE projects for review. This can help to show how these exemptions are being used in the community and be used in economic development marketing materials.
- **Program dashboard.** The indicators from regular data collection can be put into an online dashboard. Even aside from advanced tools such as Tableau or Power BI, communities can provide simple charts and tables on a webpage, or Excel files for download that include key indicators.

Other regular reporting on the MFTE program can be possible, and this process could also be incorporated into reports on other comparable development incentive programs.

Best Practices

When developing systems for providing regular data collection and reporting, the following points should be considered:

- **Managing confidential information carefully.** Care should be taken with information that should remain confidential, such as data on tenants. This information should be recorded separately and appropriately anonymized by staff, and reporting should only be done at an aggregate level.
- **Identifying simple, usable storage options for MFTE data.** Information about MFTE programs can be kept in local databases, such as permit or application management systems. Project information could also be translated into GIS data for display and analysis. However, Excel sheets with data can be enough for most communities. The most important part is keeping a consistent way to record information about projects and units. This is essential for managing the monitoring and recertification data mentioned in [Chapter 6](#) and giving options for developing indicators.
- **Reporting approaches should be simple and transparent.** Communities should focus on reporting materials that are simple and easy to understand. While there may be options to use packages such as Tableau or Power BI, Excel tables and charts on a community's webpage can be more than sufficient to represent many of the indicators included. Any materials should also focus on a limited number of important measures, such as the number of units created and total deferred taxes.
- **Ensuring that there are mechanisms for soliciting feedback about the process.** Even though there are suggestions for feedback described in this section, not all may be practical or appropriate, especially if staff resources are limited. However, a community should provide some regular outreach to find out what works and what does not with a local MFTE program. This should also include ways to incorporate this feedback into regular reporting to Council and the public at large.
- **Providing clear expectations about the timing of data.** It can be important to give clear information about when data and updates will be available. The release date of a document can be made clear in a yearly report, but dashboards and online mapping will need to say when updates are made (or the date of the last update). This can help people understand how old the information is and where there might be gaps in relation to recent projects.

Examples

- [City of Vancouver MFTE website](#). The City of Vancouver maintains an MFTE project dashboard on its website, which includes the location, the number of units, the exemption dates, and the construction cost for each project.

Short-Term Program Adjustments

Overview

An MFTE program needs to be examined at times to update the rules and procedures to meet changing needs. This can happen in situations such as the following:

- There have been **major changes to the state MFTE legislation** which provide new options or require that existing programs be adjusted.
- The housing market is consistently shifting and there is a need to **respond to changing market conditions**.
- A new area is determined to be an **appropriate RTA** for the MFTE program.
- The program is **not incentivizing new development** in a targeted area when market conditions suggest it would help increase development activity.
- The program is **not producing the desired type or size distribution of housing units**, either market-rate or income-restricted units.
- There is a **high administrative burden** on staff or applicants that is inefficient and unsustainable.
- Development promoted by the MFTE program is resulting in **short-term displacement of at-risk populations**, and there are no new supplies of income-restricted housing to accommodate displaced households.
- Affordable housing providers are requesting **changes to allow for the development of new types of projects** (such as the creation of a 20-year option for affordable homeownership).

The nature of these changes may certainly differ on a case-by-case basis. However, short-term changes should ideally focus on clear problems that cannot wait until a scheduled review can be conducted.

In this section, three types of short-term adjustments are discussed:

- **Changes made to state legislation** that may impact the local MFTE program.
- **Including a new RTA** in the program.
- **Providing other adjustments** based on short-term opportunities or issues.

Changes in State Legislation

The state legislature periodically updates the statute under [Chapter 84.14 RCW](#) that authorizes local MFTE programs. Previous updates have included elements such as the new 20-year exemption option, greater oversight and monitoring, and an expansion of the authority that counties have in creating MFTE programs.

Guidance on changes to the legislation will be incorporated into future versions of this workbook and will highlight the steps that communities may explore when looking to implement these changes. These expected adjustments can be divided into three categories:

- **Mandatory adjustments to the program.** In some cases, there may be changes to the program that are required to be made because the enabling statute changes. One example of this is how the MFTE framework was changed to remove the original 10-year exemption and add options for eight- and 12-year exemptions instead. Communities may be forced to make program changes to comply with these new requirements.
- **New program options.** Amendments to the legislation may also provide new program options that better meet local needs. One example of this would include the recent addition of 20-year MFTE option for owner-occupied housing. Certain options should be explored if they would present short-term opportunities or conflicts as noted below, although major changes may require a more comprehensive review.

- **Optional adjustments to program administration.** Finally, there are other potential adjustments that could be made to the program under statutory changes but are not mandatory to implement. An example of this would be creating a local auditing program under [RCW 84.14.100\(3\)](#). Communities should determine if whether these adjustments would provide important short-term benefits or could wait until a regular review.

No matter what changes are being made, communities should talk to county assessors, local developers, and property owners before making these changes to find out how they might affect the costs and benefits of the program. When it is possible, staff should add these changes to the current process while keeping consistency with the existing program and state framework, and keeping key stakeholders aware of the update process.

Including a New RTA in the Program

New and updated plans and policies in a community may indicate that the MFTE program should be used to help meet local goals for building market-rate and/or affordable housing. Examples of this would include:

- A downtown area or neighborhood center that has been identified as needing new investment.
- Areas with extensive underutilized and/or derelict property that has been identified for redevelopment.
- Neighborhoods that have been recently up zoned to take advantage of an active development market, where income-restricted housing options are needed.
- New infrastructure investments and expansions.

The process to designate a new RTA is summarized in [Chapter 4](#), with the statutory requirements included in [RCW 84.14.040](#).

If a new RTA is coordinated outside of a regular review, it should ideally be considered under a new subarea plan.⁶⁰ This can ensure that adding this area to the MFTE program is consistent with the Comprehensive Plan. Also, since a subarea plan is usually developed with the help of supporting data and reports, this information can also be used to support the new RTA designation.

If an area already has a subarea plan or will not be subject to one, there may be other reasons to make an RTA outside of the normal review cycle. For example, a mixed-use neighborhood that already exists may be facing a lot of growth pressure, but there may not be any incentives in place to make sure that there are enough affordable housing options for the people who currently live there. If this designation is made outside of a subarea plan, it should still be made in line with the policies in the Comprehensive Plan and initiated on the recommendation of the Planning Commission and Council.

In either case, the staff should conduct the research and analysis necessary to show that an area will meet the criteria for an RTA:

- The area is a **compact, identifiable, mixed-use district** that can be considered an "urban center".
- There is a **lack of sufficient available, desirable, affordable, and convenient residential housing** in the proposed RTA.
- There is **minimal risk of displacement**, or any displacement can be managed through mitigation measures.⁶¹

⁶⁰ See [RCW 43.21C.420](#) for more details on subarea plans.

⁶¹ Note that this is only mandatory for counties as per [RCW 84.14.040\(1\)\(e\)](#).

Communities may look at other market elements to figure out the probable effects of the MFTE program. This can include some of the steps in [Chapter 3](#)'s evaluation process, such as:

- Identifying expected **local housing development targets**.
- Evaluating **local land capacity** and potential developable sites.
- Determining **tax impacts** on the community and other taxing districts.
- Determining the **likelihood of local displacement** of existing residents and potential mitigation.
- **Engaging with local stakeholders** on the potential use of the MFTE in this area prior to the public hearing.

If this information is not incorporated in the supporting information for a subarea plan, staff should make sure it is included in a separate report that shows why the new RTA would be needed.

Providing Other Adjustments

There may also be other short-term changes that are not part of a regular review. The scale and nature of these changes may be quite different. However, they should incorporate information from regular review processes, specific requests from stakeholders, and changes to the law as noted above.

These adjustments could be expected to include:

- **Minor administrative changes.** Smaller changes can be made to internal administrative tasks to improve efficiency. This could include changing the information asked for on a form or moving the dates for reporting on recertification to make the best use of staff time. If these considerations are not in the ordinance, this may just involve changing internal processes. However, stakeholders who will be affected by these changes should be consulted as needed to avoid confusion.
- **Administrative changes requiring a code amendment.** Other changes over the short term may require new ordinances. One example would be implementing a new MFTE auditing program based on recent changes to the statute. If the changes would be substantive, staff should draft proposed changes and the rationale for them. This draft should then be reviewed with stakeholders, Planning Commission, and Council for feedback.
- **Expanding program options.** It also may be possible to add more options to the MFTE program to allow it to better fulfill local needs. For example, a community land trust might ask the community for a 20-year MFTE option that would make it easier to provide local affordable homeownership options. New program options like this are best explored in this way if they align with the intent of the original ordinance and the housing policies in the Comprehensive Plan.

Overall, Council (with the assistance of the Planning Commission) should decide whether these changes should be made in the short term or delayed until a regular update.

Best Practices

In addition to the advice provided above, communities should also consider the following:

- **Major changes to the program should be delayed until a regular update if possible.** Overall, the MFTE program does need to be flexible to adapt to changes in local conditions. However, short-term program changes will not likely be supported by a full analysis and review of the program. If these changes are large enough to need additional analysis, the community should wait until it can be part of a more thorough process.
- **Additional RTAs should be included as part of the implementation of a subarea plan where possible.** As noted above, adding an RTA to an MFTE program should be in line with the Comprehensive Plan and be

backed by supporting information. When an RTA is expanded outside of a subarea planning process or a regular review, it can take a lot of time to review this information. Additionally, without strong supporting plans and policies, it might be hard to ensure that a new RTA will meet key goals.

- **Impacts of state changes to the MFTE program should be discussed with Council and Planning Commission as soon as possible.** When the state makes changes to the statute that enables local MFTE programs, staff should discuss these changes with Council and Planning Commission as soon as possible. This can help to get everyone on the same page early on and guide any changes that may need to be made to a community's tax exemption program. This early involvement can also give direction to staff about other optional changes to make in the short term.

Regular Program Review and Update

Overview

Even though some minor changes may be provided as needed to keep the program operating efficiently, an MFTE program should also be updated regularly to make sure it works as expected in the long run.

During such a regular review, a community may find that the program is not achieving the intended goals or is otherwise less efficient at meeting these goals than desired. Some concerns can include:

- **Lower production of new housing units overall.** It is possible that the current MFTE program is not giving enough support to boost new housing development in intended areas.
- **Lower production of affordable units.** Income- and rent-restricted housing may not provide enough of an incentive with the exemption to offset lower revenue, and the production of affordable units may be lower than expected.
- **Lower production of the desired type of housing units.** Even though the program may be promoting housing development, the resulting types of units may not meet the community's housing goals for various reasons. This would include producing housing units that are not sized to meet local needs, such as building studios and one-bedrooms in areas where family housing is needed.
- **No further need for incentives.** There may be places where the eight-year program is not needed because development would happen even if there was no incentive. Likewise, areas with minimal development capacity may no longer have a need for an MFTE program.
- **Additional needs for housing production.** The program is currently not supporting enough housing production or is projected not to support enough housing production in the future. This is often due to a lack of new development sites in RTAs.
- **Optimal benefits are not being provided for the impacts.** The effects of the tax exemption on the finances of the community and other taxing districts, as well as the tax shifting to other taxpayers in the community, do not appear to balance the public good that the program provides. This can be a matter of public perception, especially in cases where tax exemptions are applied to higher-end housing products.
- **Development is resulting in displacement of at-risk populations.** The number of people being displaced from areas with MFTE programs has gone up due to the resulting development, and any income-restricted housing provided through the MFTE program is not enough to keep those households in the neighborhood.

An evaluation that includes components of the initial housing needs assessment ([Chapter 3](#)) and policy evaluation ([Chapter 4](#)) can help to give an understanding of how the program works and what changes need to be made. However, an existing program can also give information about how the current exemption is being used and how well it is working to achieve key goals. This can be important when trying to determine policy and programmatic changes to make.

Scheduling a Review and Update

Each community can manage the requirements and timelines for a full review of an MFTE program in its own way. Some guidelines about when a full review of the program should happen to include the following:

- **Sunset provisions in the enabling ordinance.** In certain cases, a community's ordinance may have a "sunset" clause that ends the program after a sunset date if a reauthorizing amendment is not passed. This gives a clear deadline for Council to review and approve the continuation of the program. A full review of the program should be part of this process.

- **Policies for regular updates.** As part of the Comprehensive Plan or other plans or policies, the community can give a clear schedule for a full review of the MFTE program. This can reinforce that a review is needed but provide flexibility about the timing without risking the expiration of the program.
- **Full reviews coordinated as part of other plan and policy reviews.** Another option is to include a full review as part of regular updates and reviews of other policies. This could be managed as part of updates to the Comprehensive Plan, especially with specific reviews of the Housing and Land Use Elements. Additionally, future amendments to local Housing Action Plans could also include this type of review. However, as the Comprehensive Plan is only required to be reviewed every eight years, this may be too long of a time between major changes.
- **Regular reviews and updates triggered by indicators.** The indicators from regular reviews and monitoring, as discussed earlier in this chapter, can also be used to trigger updates. Staff, Planning Commission, and Council could respond if specific indicators suggest that the program is not meeting its goals and provide a full update to allow the program to be evaluated and changed as needed.

For many communities, establishing a specific schedule, either through policy or sunset provisions in the code, can be the best approach to ensure that these reviews will occur.

Coordinating a Review

The content of regular updates to an MFTE program can be different depending on how the program is being used now, how the market is changing, and how often changes are expected:

- Communities can give a **high-level summary** of available indicators and statistics, including overall trends and more detailed breakdowns. This can be compared to housing targets to show how the program is helping the community meet its housing goals.
- If the market is stable but the program is not being used as much as expected or is not supporting the types of housing people need, it may be necessary to coordinate a **financial analysis of the program** in addition to the high-level summary. This could include a pro forma analysis of potential projects in these areas. This can help figure out if the program's incentives need to be changed to help reach certain goals.
- Even if the general market conditions are the same, the community may want to look at whether the current RTAs should be changed. This would require an **analysis of current and candidate RTAs** to determine the probable effects of the program in these areas. This analysis should determine if adding more locations or changing current boundaries could help the program reach its goals.
- When there are broad changes with the local market, housing needs, and overall goals and targets, communities should conduct a full review of their current program and the local context. This would be similar to the analysis described in [Chapter 3](#) but would also include an evaluation of the use of the program since the last full review.

Determining the level of review needed for your MFTE program can be coordinated through policy statements or other guidance or determined by Council or Planning Commission.

Providing Updates to the Program

A regular review should give clear action items for changes to the MFTE program. This would include:

- Revisions to the stated goals and targets of the program.
- Changes to RTA boundaries to include more areas or eliminate some locations as needed.
- Additions or removals of specific MFTE options from the program.
- Changes to affordability levels and set-asides for income-restricted units in the program.

- Changes to the requirements for the residential units (e.g., distribution of unit sizes, provision of ground-floor commercial space).
- Changes to other requirements for public benefits (e.g., LEED certification, open space, etc.)
- Additions or refinements to the administrative process included in the code (e.g., auditing processes, content of contracts, etc.)
- Removal of the program altogether.

These suggestions can result from evaluating effective program elements, as explained in Chapter 4. The actions may need to be carried out in different ways, with the most extensive changes possibly requiring Code changes and amendments to the Comprehensive Plan. Coordinating these local processes will be necessary and planning for a review and update should consider the time and process needs for these changes, and potentially roll these steps into yearly update schedules.

Best Practices

- **Provide clear expectations for regular reviews and updates to the MFTE program.** MFTE programs will need to be regularly amended to consider local market conditions and needs. Therefore, clear guidance will be needed to ensure these reviews will take place. Communities should make it clear when these reviews will happen, what they will include, and what Council may do with the program. In addition to giving a clear idea of what changes need to be made, this can also help the community work together to change the program. A clear and specific timeline for review and changes can help to coordinate feedback from the public and stakeholders and provide transparency about the process.
- **Focus on an appropriate level of detail needed for a review.** It can be a considerable amount of effort to conduct a full analysis of the housing market and housing needs, and it may seem redundant if an MFTE program is working well. Communities should try to choose the right level of detail for regular reviews to make sure that key issues are covered without wasting staff or consultant time on reporting that is not necessary for decisions about program updates.
- **Coordinate MFTE reviews with regular updates to the Comprehensive Plan or Housing Action Plans where possible.** A detailed evaluation of the MFTE program should include evaluations of housing trends, expected needs and gaps in production, and other housing and economic policies in the community. Housing Action Plans and Comprehensive Plan updates require this information as well, and these efforts can be coordinated to reduce the overlap in effort.

Examples

- [Renton Municipal Code 4-1-220](#). The City of Renton has sunset language in its MFTE ordinance under [RMC 4-1-220\(O\)](#), which provides a final date for receiving new applications if left unchanged. As a result, the City Council must reauthorize the program every three years.

Conclusion

For an MFTE program to work well overall, there needs to be a clear way to review the outcomes and decide if changes are necessary over time. Local market conditions, housing needs, and program effectiveness will all change over time, so the community needs to be flexible in making changes to achieve optimal results.

Other tips to make sure the process of reviewing and updating the program works well are:

- **Make sure that review processes provide transparency about the program.** An MFTE program will present costs to the community, and it is important that review processes give accurate public information about how these costs are balanced by benefits from the program. This is essential when discussing how MFTEs are used and why the program exists to ensure that public feedback is supported by clear information about the program.
- **Be patient with the use of an MFTE program, especially if market conditions may be challenging for development.** With many areas, there may not be feasible options for building new income-restricted or even market-rate units under an MFTE project under current conditions. However, even if these programs do not work today, they may be developed for future use as rents, local demand, and other factors change over time, and the market catches up to where MFTEs can be used. This can help to coordinate policies in advance to ensure that they are available when needed.
- **Revise the MFTE program to ensure that public benefits balance incentives.** Housing needs and policy and programmatic goals will change over time as conditions change. However, updates will also be needed over time to ensure that the public benefits keep pace with the incentives provided. Without ongoing updates, tax exemptions could start to outpace the expected public benefits received from the program.

Checklist

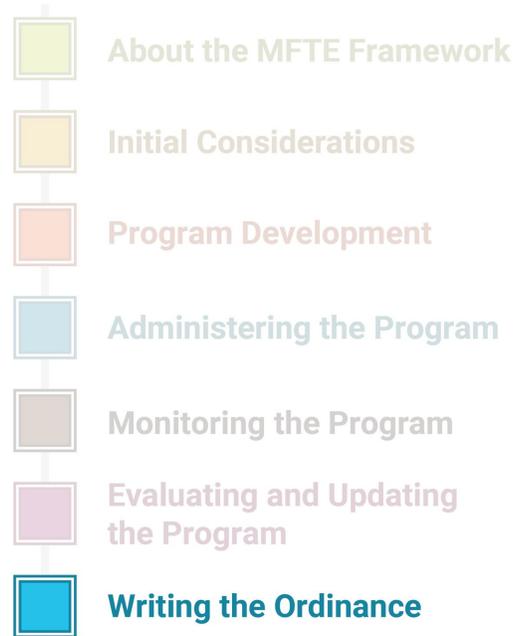
- Develop a plan to collect data about the program.
- Develop a plan to collect stakeholder feedback.
- Develop a template for an annual report on the program.
- Investigate options to visualize program data, such as in an online map or a program dashboard.
- Review the MFTE program if state legislation changes the requirements of the program or the community is updating local plans, such as a subarea plan.
- Determine a schedule for regularly reviewing the program.

Chapter 8: Writing the Ordinance

Overview

This chapter provides guidance on writing an ordinance to adopt an MFTE program. Adopted ordinances typically include the following ten elements:

- **Purpose.** Why is the city implementing an MFTE program? What are the intended goals of the program and what gaps is it intended to address??
- **Definitions.** What are the unique terms that should be defined for this program?
- **Tax Exemption.** What type of MFTE program is being implemented? What does the exemption cover and for how long?
- **Residential Targeted Areas.** Where does the MFTE program apply? What criteria was used to select these areas?
- **Project Eligibility.** What are the project eligibility requirements?
- **Application Procedure.** What is the application process and what information needs to be provided?
- **Application Review.** How will applications be evaluated and what is the anticipated timeline for review?
- **Final Certificate.** How is the final certificate of tax exemption issued to the property owner?
- **Annual Certification.** What are the annual certification and reporting requirements necessary to ensure that the MFTE program is meeting intended goals?
- **Cancellation.** Under what circumstances can jurisdictions cancel an exemption for non-compliance? What happens if the use of the property changes?



In this chapter, each section is described in more detail using the following format:

- A description of the section and its purpose.
- Example language based on typical program components, using a typical code structure.
- Variations to provide potential alternatives to meet local needs.
- References to municipal codes from jurisdictions, which may include examples of unique program components.

In some sections, topics are discussed which are highlighted by **[bracketed]** headers. These callouts are intended to highlight specific content, and in some cases, how optional elements can be applied in individual circumstances.

Note that general language is used where possible in these examples to allow this code to be applied across diverse types of communities. Cities, towns, and counties should work to customize the language as needed to cover specific local situations, such as the title of the persons responsible for overseeing the MFTE program. This section is not legal advice; please consult with a legal professional as part of the development of any ordinance.

A full example of an MFTE ordinance based on typical program components is provided in [Appendix A](#).

Purpose

The ordinance should begin with a purpose section, which is an opportunity for a community to state the intent and the desired outcomes of its MFTE program. Some jurisdictions also include a findings section with this to serve as a statement of the local gaps the MFTE program is intended to address.

Example

XX.XX.010 Purpose

Limited exemptions from ad valorem property taxation for multifamily housing in urban centers are intended to:

- (1) Provide economic incentives enabling increased residential housing choices and opportunities, including affordable housing opportunities, within urban centers designated by the council as targeted residential areas;*
- (2) Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for multifamily housing in targeted residential areas to increase and improve housing opportunities, including affordable housing;*
- (3) Assist in directing future population growth to designated urban centers with existing available infrastructure thereby reducing development pressure on neighborhoods lacking infrastructure capacities;*
- (4) Increase the supply of mixed-income multifamily housing opportunities within the city;*
- (5) Achieve development densities which are more conducive to transit use in designated urban centers; and*
- (6) Accomplish the planning goals required under the Growth Management Act, chapter 36.70A RCW, as implemented from time to time by the City's current and future comprehensive plans.*

It is intended that this chapter meet all required provisions and procedures set forth in Chapter 84.14 RCW to comport with state law.

References

- [Spokane Municipal Code 08.15.010](#). The City of Spokane's municipal code provides the goals of the MFTE program in a bulleted list.
- [Port Angeles Municipal Code 17.46.010](#). The City of Port Angeles's code includes both a section on findings and purpose of its MFTE program.

Definitions

A definitions section should be included in the adopted ordinance to simplify text and provide specific terms used for the program in the enabling text. Examples of definitions to include are provided below.

Some considerations here include the following:

- **Income thresholds.** Note that the use of the terms "low-income" and "moderate-income" may be less important if income restrictions for MFTE units are specified in the ordinance itself. These terms are used in the enabling statute but may be misleading if the community defines tighter affordability conditions than what is provided in the statute.
- **Use of "area median income".** While using area median income / median family income appears straightforward, it can be complicated in three ways:
 - Because information about income from the American Community Survey is delayed by two years, AMI estimates for any given year are based on projections from older available data, and very short-term changes to median incomes may not be captured.
 - There are other measures available from HUD for thresholds for federal programs denoted as "low income", "very low income", and "extremely low income", corresponding to 80%, 50%, and 30% of AMI respectively, but also including adjustments based on rates of change, fair market rents in local areas, and other considerations. These should be used with care, as only the AMI measure is used under the state statute, not adjustments for other elements.
 - Finally, measures of a city's own AMI may not correspond to wider measures of AMI across a metro area or region, and "affordable" housing may not be able to be represented with the same percent AMI thresholds. Conversely, "low-income" housing as defined for a broad region may represent market-rate development in individual communities.
- **Units in multifamily housing.** There may be situations where duplexes and triplexes that are part of multi-building projects could be included as part of an MFTE project, especially with affordable owner-occupied housing developments by nonprofits. This term may need to be adjusted if this is a type of project included in the community.
- **Definition of household eligibility.** The City of Seattle provides a definition of eligible households that can provide some flexibility for household income increases over time. If income restrictions are defined according to a percent of area median income, providing this condition in the definition can help to increase housing stability, ensuring that they will not be removed from their housing if they exceed initial income restrictions for the unit.
- **Responsible authorities.** Aside from the Council, there may be administrative responsibilities for the program to be assigned to specific staff members. MFTE programs are typically managed by the director of a community's economic development, community development, or planning and permitting department. This should be specified in the definitions to reduce confusion. (Note that this example uses "director", but a community should rely on the appropriate title.)

Example

Base Example

XX.XX.020 Definitions

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

- (1) "Affordable housing" means residential housing that is rented by an eligible household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent (30%) of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of income-qualified households.
- (2) "Area median income" means the annual median family income for the metropolitan statistical area, as published from time to time by the United States Department of Housing and Urban Development (HUD), with adjustments according to household size, which adjustments shall generally be based upon a method used by HUD to adjust income limits for subsidized housing, which for purposes of determining affordability of rents or sale prices shall be based on the average size of household that corresponds to the size and type of the housing unit.
- (3) "Contract" means the standard form agreement between the owner or, for permanently affordable homeownership, a qualified non-profit organization and the city that contains the terms and conditions, including for each MFTE unit as designated according to the Final Certificate, for the duration of the compliance period as a condition of eligibility of the property tax exemption according to this Chapter
- (4) "Director" means the director of the planning department, or any other office, department or agency that shall succeed to its functions with respect to this chapter, or their authorized designee.
- (5) "Eligible household" means a household that certifies that their household income does not exceed the applicable percentage of the area median income, adjusted for household size, and who certify that they meet all qualifications for eligibility including, if applicable, any requirements for recertification on income eligibility.
- (6) "Household" means a single person, family, or unrelated persons living together.
- (7) "Low-income household" means a household whose adjusted income is at or below eighty percent (80%) of the area median income adjusted for family size, for the metropolitan statistical area, as reported by the United States Department of Housing and Urban Development.
- (8) "MFTE" means multifamily housing property tax exemption.
- (9) "Moderate-income household" means a single person, family, or unrelated persons living together whose adjusted income is more than eighty percent but is at or below one hundred fifteen percent (115%) of the area median income adjusted for family size, for the metropolitan statistical area, as reported by the United States Department of Housing and Urban Development.
- (10) "Multifamily housing" means buildings having four (4) or more dwelling units designated for permanent residential occupancy resulting from new construction or rehabilitation or conversion of vacant, underutilized, or substandard buildings.
- (11) "Owner" means the property owner of record as filed with the county assessor's office.

- (12) "Permanent residential occupancy" means multifamily housing that provides either rental or owner occupancy for a period of at least one (1) month. This excludes hotels and motels that offer rental accommodation on a daily or weekly basis.
- (13) "Project" means the multifamily housing or portion of the multifamily housing that is to receive the tax exemption.
- (14) "Qualified non-profit organization" means a non-profit organization or any subsidiary or affiliate of such organization.
- (15) "Residential targeted area" means an area designated by the council as a residential targeted area in accordance with, and within the meaning of, Chapter 84.14 RCW.
- (16) "Substantial compliance" means compliance with the applicable building and construction codes and all applicable uniform codes that are typically required for rehabilitation as opposed to new construction.

Variations

- **Accommodating income increases for restricted units.** As noted, some communities have certain rules for re-certification that make it possible for a household's income to go up without making them ineligible for staying in their existing housing unit. Note, however, that this requirement must still comply with income restrictions under [RCW 84.14.020](#) and [RCW 84.14.021](#). Note that for the standard 12-year exemption, households cannot have incomes above 115% of AMI under the statute, while for the 12-year extension and the 20-year permanently affordable rental option, households cannot exceed 80% of AMI while renting an income-restricted unit under an MFTE program.

[Provision for eligible households during recertification]

- (5) "Eligible household" means:
- (a) For owner-occupied housing, a household who certifies as a condition to the purchase of an affordable housing unit that their annual household income does not exceed the applicable percentage of the area median income, adjusted for household size, and that they meet all qualifications for eligibility; or
 - (b) For renter-occupied housing, a household who certifies as a condition to initial occupancy of an affordable housing unit that their annual household income does not exceed the applicable percentage of the area median income, adjusted for household size, and that they meet all qualifications for eligibility upon recertification; or
 - (c) For renter-occupied housing under a twelve-year exemption according to XX.XX.030(2), a household who verifies upon recertification that their annual household income does not exceed one hundred forty percent (140%) of the maximum annual income restriction under XX.XX.030(2), adjusted for household size, and that they meet all qualifications for eligibility.

References

- [Seattle Municipal Code 5.73.020](#). The City of Seattle's definitions list includes a variety of detailed terms not defined in state statute and presents one of the more comprehensive lists of terms.

Tax Exemption

Communities must detail the general terms of the tax exemptions offered through an MFTE program. As explained in [Chapter 4](#), it is important to describe the exemption types and affordability requirements as applicable. Communities can choose to require additional income requirements beyond those outlined in state statute for any exemption, as well as other requirements for public benefits as needed.

Considerations include the following:

- **Provisions for low- and moderate-income housing.** Provisions in the statute require in certain places that housing units must be affordable to "low- and moderate-income households". Note that under this requirement, at minimum at least one unit must be affordable to low-income households at 80% AMI or below.
- **Use of MFTE by counties.** Note that under [RCW 84.14.040\(7\)](#), counties must include provisions for affordability with the eight-year MFTE option. This is discussed in the example below.
- **Use of the permanently affordable rental option for MFTE.** Under [RCW 84.14.020\(1\)\(a\)\(ii\)\(C\)](#), the 20-year option for rental housing can only be used if a mandatory inclusionary zoning requirement has been enacted by July 2021. As such, while this provision has been included in the example below, this cannot be enacted by communities that did not have this requirement in place after that deadline.
- **Tenant notification and relocation assistance.** Communities providing a 12-year exemption under [RCW 84.14.020\(1\)\(a\)\(iii\)](#) are required to provide tenant notification and reimbursement of relocation expenses under [RCW 84.14.020\(8\)\(a\)](#). This should be expressed clearly in the ordinance.

Examples

Base Example

The following example is for a community offering an MFTE program that allows all possible MFTE options at the income limits under the statute.

XX.XX.030 Tax exemption

The value of new housing construction, conversion, and rehabilitation improvements qualifying under this section is exempt from ad valorem property taxation, as follows:

[Eight-year MFTE option]

- (1) *For eight (8) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption.*

[12-year MFTE option]

- (2) *For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twelve-year exemption under this subsection, the applicant must commit to renting or selling at least twenty percent (20%) of the multifamily housing units as affordable housing units to eligible low- and moderate-income households, and the property must satisfy that commitment. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection may be satisfied solely through housing affordable to eligible moderate-income households.*

[20-year MFTE option for permanent rental affordability]

- (3) *For twenty (20) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection:*
- (a) *The property is located within one (1) mile of high-capacity transit of at least fifteen-minute scheduled frequency measured in a straight line from the property line at which access from the property to a public street is provided to the nearest existing or planned high-capacity transit stop or station; and*
 - (b) *The owner must record a covenant or deed restriction acceptable to the city ensuring continued rental of units for at least ninety-nine (99) years and sets forth criteria to maintain public benefit if the property is converted to a use other than permanent affordable housing for eligible low-income households.*

[20-year MFTE option for permanently affordable homeownership opportunities]

- (4) *For twenty (20) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twenty-year exemption under this subsection, at least twenty-five percent (25%) of the units must be built by or sold to a qualified nonprofit or local government partner that will assure permanent affordable homeownership for eligible households and support the residents of these units. The remaining seventy-five percent (75%) of units may be rented or sold at market rates.*

[Additional provisions]

- (5) *Permanently affordable homeownership units or permanently affordable rental units must be sold or rented to eligible low-income households.*
- (6) *If, in calculating the minimum proportion of the multi-family housing units in the project for affordable housing in this section, the number contains a fraction, then the minimum number of multi-family housing units for affordable housing shall be rounded up to the next whole number.*
- (7) *For any affordable units required in this section, the following shall apply:*
- (a) *The mix and configuration of affordable units (e.g., studio, one-bedroom, etc.) shall be substantially proportional to the mix and configuration of the total housing units in the project unless approved by council, or an administrative official or commission authorized by the council;*
 - (b) *Affordable housing units shall be intermingled with all other units in the development; and*
 - (c) *The quality of construction and finish materials in those affordable units used to qualify for the exemption shall be the same as other housing units in the project.*
 - (d) *At the end of both the tenth and eleventh years of a twelve-year exemption under XX.XX.030(2), the applicant or the property owner at that time, must provide eligible tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month.*

- (e) *For any twelve-year exemption authorized under this chapter, at the expiration of the exemption the applicant must provide tenant relocation assistance in an amount equal to one (1) month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an income-restricted unit at the time the exemption expires and must qualify as a low-income household under this chapter at the time relocation assistance is sought.*
- (8) *The exemption does not apply to the value of land or to the value of residential or non-residential improvements not qualifying under this chapter, nor does the exemption apply to increases in assessed valuation of land and nonqualifying improvements.*

Variations

- **Counties using the eight-year MFTE option.** Under [RCW 84.14.040\(7\)](#), the eight-year MFTE option used by counties must include a provision for affordable housing. This will likely mean that the 12-year option will require greater affordability requirements than what is provided in the statute.

[Eight-year MFTE option - counties only]

- (1) *For eight (8) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the eight-year exemption under this subsection, the applicant must commit to renting or selling at least twenty percent (20%) of the multifamily housing units as affordable housing units to low- and moderate-income households, and the property must satisfy that commitment. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection may be satisfied solely through housing affordable to moderate-income households.*

- **Providing alternate affordability requirements.** Communities may provide alternate affordability levels in their MFTE requirements and may include affordability requirements for the eight-year MFTE option.

[Eight-year MFTE option - alternate affordability]

- (1) *For eight (8) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the eight-year exemption under this subsection, the applicant must commit to renting or selling at least ten percent (10%) of the multifamily housing units as affordable housing units to eligible households whose adjusted income is equal to or less than seventy percent (70%) of the area median income, and the property must satisfy that commitment. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection may be satisfied solely through housing affordable to households whose adjusted income is equal to or less than one hundred percent (100%) of the area median income.*

[12-year MFTE option - alternate affordability]

- (2) *For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twelve-year exemption under this subsection, the applicant must commit to renting or selling at least twenty-five percent (25%) of the*

multifamily housing units as affordable housing units to households whose adjusted income is equal to or less than sixty percent (60%) of the area median income, and the property must satisfy that commitment. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection may be satisfied solely through housing affordable to households whose adjusted income is equal to or less than eighty percent (80%) of the area median income.

- **Managing the 12-year option for owner-occupied housing.** As noted earlier, there are often concerns with the application of the 12-year MFTE option for owner-occupied housing because the tax exemption is dependent on preventing sales of affordable units at market value. There are different approaches that can be used to address this concern, including requiring covenants on the property, or even removing the option altogether. The text below provides one approach to manage these concerns if the 12-year option is maintained.

[12-year MFTE option - alternative for owner-occupied housing]

- (2) *For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twelve-year exemption under this subsection:*
 - (a) *the applicant must commit to renting at least twenty percent (20%) of the multifamily housing units as affordable housing units to eligible low- and moderate-income households, and the property must satisfy that commitment; or*
 - (b) *the applicant must commit to selling at least twenty percent (20%) of the multifamily housing units as affordable housing units exclusively for owner occupancy to eligible moderate-income households, and the property must satisfy that commitment. Affordable units intended for owner occupancy must be sold by the applicant with a covenant running with the land that prevents the use of the property as a rental unit and includes a resale restriction designed to maintain affordability for future moderate-income homebuyers prior to the expiration of the exemption.*

- **Providing alternate affordability requirements by unit size.** Communities may also provide alternate affordability requirements by unit size and adjust affordability requirements if the developer provides larger units as part of the project. Note that if the provisions from above are used to allow households with increases to their incomes to stay in their units upon recertification, this provision still needs to comply with overall statutory restrictions on household incomes.

[12-year MFTE option - alternate affordability by unit size]

- (2) *For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twelve-year exemption under this subsection, the applicant must commit to renting at least twenty-five percent (25%) of the multifamily housing units as affordable housing units to households whose adjusted income is equal to or less than:*
 - (a) *Forty percent (40%) of area median income for efficiency units,*
 - (b) *Sixty percent (60%) of area median income for studio units,*

- (c) *Seventy percent (70%) of area median income for one-bedroom units,*
 - (d) *Eighty-five percent (85%) of area median income for two-bedroom units, and*
 - (e) *Ninety percent (90%) of area median income for three-bedroom and larger units.*
- (3) *If at least ten percent (10%) of the total residential units in a project are considered with two (2) or more bedrooms, the applicant may commit to renting at least twenty percent (20%) of the multifamily housing units as affordable housing units to qualify for the twelve-year tax exemption under the provisions of XX.XX.030(2).*

○ **Rent stabilization.** Because income-restricted units are fixed to a percentage of the median income in a community, significant increases in this median can cause rents to spike, which may outpace income growth with eligible households. Some communities put in place requirements to cap rent increases for the rent-restricted units, ensuring that this cannot exceed a general average per year even if overall market rents increase faster.

[12- and 20-year MFTE options - rent stabilization]

- (8) *For the duration of any exemption, any rent increase for any existing household remaining in the same affordable unit, or in a similar type of affordable unit within the same project, shall not exceed an average of three percent (3%) per year as follows:*
- (a) *When area median income increases by more than three percent (3%) from year to year, the project shall be permitted to increase affordable rents up to three percent (3%) that year.*
 - (b) *When area median income increases by three percent (3%) or less from year to year, the project shall be permitted to increase affordable rents by:*
 - (i) *the corresponding percent increase in median income; or*
 - (ii) *three percent (3%), if this increase would result in rents equal to or lower than affordable rents calculated using current area median income.*

Extensions to the Exemption

For communities allowed to provide extensions to the exemption, an extension can be provided as follows. Note that this is allowed under [RCW 84.14.020\(6\)](#), and was implemented as part of [SB 5287](#) in 2021. This example provides this extension for all rental properties that are covered under an eight- or 12-year exemption; while extensions for owner-occupied properties are possible, this is not likely to be used.

XX.XX.040 *Extension of tax exemption*

- (1) *The owner of property that received a tax exemption pursuant to XX.XX.030 may apply for an extension for an additional twelve successive years. No extension will be granted for property that received a twenty-year tax exemption pursuant to XX.XX.030(3) or XX.XX.030(4).*
- (2) *Only one (1) extension may be granted.*
- (3) *Failure to timely apply for an extension shall be deemed a waiver of the extension.*
- (4) *For the property to qualify for an extension:*
 - (a) *The property must have qualified for, satisfied the conditions of, and utilized the eight- or twelve-year exemption sought to be extended;*
 - (b) *The owner must timely apply for the extension on forms provided by the city within eighteen (18) months of expiration of the original exemption;*
 - (c) *The property must meet the requirements of this chapter for the property to qualify for an exemption under XX.XX.030(2) as applicable at the time of the extension application; and*
 - (d) *The property must rent at least twenty percent (20%) of the multifamily housing units as affordable housing units for low-income households for the extension period.*
- (5) *If an extension is granted by the city, at the end of both the tenth and eleventh years of a twelve-year extension, the applicant or the property owner at that time must provide tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month as provided in RCW 84.14.020, as amended.*
- (6) *After the expiration of the extension, the applicant or the property owner must provide tenant relocation assistance in an amount equal to one (1) month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an affordable unit at the time the exemption expires and must qualify as an eligible household under this chapter at the time relocation assistance is sought.*

References

- [Shoreline Municipal Code 3.27.040](#). The City of Shoreline offers a 12-year and 20-year exemption, which includes an example of the 20-year permanently affordable rental exemption.
- [Bellingham Municipal Code 17.82.030](#). The City of Bellingham requires different affordability levels than outlined in state statute, in this case, adjusting affordability requirements for units to be affordable to households making at or below 60% AMI or 80% AMI, depending on unit size.
- [Bellevue Municipal Code 4.52.090](#). The City of Bellevue sets affordability requirements for different unit sizes, ranging from at or below 45% AMI for small dwelling units up to 80% AMI or below for larger units.

Additional requirements are outlined around the minimum number of units that must have two or more bedrooms as well as how to apply the MFTE benefit when it overlaps with other incentive programs.

- [Kenmore Municipal Code 3.65.105](#). The City of Kenmore requires the mix and configuration of affordable housing units be proportional at each affordability level to mix and configuration of all units, that affordable units be intermingled with other dwelling units, and that if the percentage of affordable units results in a fraction that the number of affordable units be rounded up to the next whole number.

Residential Targeted Areas

A section detailing the residential targeted areas for the program and designation criteria must be included in the adopted ordinance. A best practice is adding maps to this section to illustrate area boundaries (or referencing other maps as needed), unless there are blanket designations, and providing the rationale for these designations, including the descriptions from [RCW 84.14.040](#).

The primary variation involved with the designation of residential targeted areas is if there is a blanket designation for all areas that could accommodate multifamily projects that would comply with the requirements of residential targeted areas in the statute.

See [Chapter 4](#) for more detail on residential targeted areas and how jurisdictions should designate them.

Example

Base Example

XX.XX.050 Residential targeted areas

Following notice and public hearing as prescribed in RCW 84.14.040, the council may designate one or more residential targeted areas upon a finding by the council that the residential targeted area meets the following criteria:

[Criteria for designating residential targeted areas by council]

- (1) *The residential targeted area is within an urban center as defined by Chapter 84.14 RCW;*
- (2) *The residential targeted area lacks sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center if affordable, desirable, attractive, and livable residences were available; and*
- (3) *Providing additional housing opportunity in the residential targeted area will assist in achieving one or more of the following purposes:*
 - (a) *Encourage increased residential opportunities within the city; or*
 - (b) *Stimulate the construction of new multifamily housing; or*
 - (c) *Encourage the rehabilitation of existing vacant and underutilized buildings for multifamily housing.*
- (4) *In designating a residential targeted area, the council may also consider other factors, including:*
 - (a) *Whether additional housing in the residential targeted area will attract and maintain an increase in the number of permanent residents;*
 - (b) *Whether providing additional housing opportunities for low- and moderate-income households would meet the needs of citizens likely to live in the area if affordable housing were available;*
 - (c) *Whether an increased permanent residential population in the residential targeted area will help to achieve the planning goals mandated by the Growth Management Act under Chapter 36.70A RCW, as implemented through the City's comprehensive plan; or*

- (d) *Whether encouraging additional housing in the residential targeted area supports significant public investment in public transit or a better jobs and housing balance.*

[Provisions for amending or removing designations as residential targeted areas]

- (5) *At any time the council may, by ordinance, amend or rescind the designation of a residential targeted area pursuant to the same procedural requirements as set forth in this chapter for original designation.*

[Definitions of residential targeted areas]

- (6) *The council has adopted the residential target area as indicated on the map. [figure attached]*

Variations

- **Designation of all multifamily areas.** Note that there are cases in some cities where all eligible areas for MFTE are designated through a blanket statement. This is used in the City of Seattle, for example, where [SMC 5.73.030\(C\)](#) includes all eligible areas in the MFTE program. In this case, all multifamily areas should ideally be considered "urban centers" as per the statute.

[Residential target areas - all eligible areas]

- (6) *All parcels zoned to allow multifamily housing according to Chapter XX.XX are designated as a single residential targeted area under this chapter.*

- **Use of existing centers as RTAs.** As opposed to providing fixed areas, the MFTE ordinance can instead provide for the designation of existing centers as residential targeted areas under the program. This corresponds to the approach used by the City of Tacoma in [TMC 6A.110.020](#). The example below relies on the designation for a subarea plan, but this can be used with other designated boundaries in other sections of the code.

[Residential target areas - areas designated in other sections]

- (6) *All parcels subject to the subarea plan in Chapter XX.XX are designated as a residential targeted area for the purposes of this chapter.*

- **Exclusion of certain MFTE options.** In some cases, communities may allow only some of the potential MFTE options in certain areas. This may be separated out in different ways (see the City of Tacoma's regulations in [TMC 6A.110.020](#)), but for this example, these specifications are included in this section.

[Residential target areas - areas designated in other sections]

- (6) *Residential targeted areas are designated as follows:*

- (a) *All parcels subject to the subarea plan in Chapter XX.XX are designated as a residential targeted area for the purposes of this chapter.*
- (b) *All parcels subject to the subarea plan in Chapter XX.XX are designated as a residential targeted area only for the tax exemptions under XX.XX.030(2) and XX.XX.030(4), and the extension of the tax exemption under XX.XX.040.*

References

- [Kirkland Municipal Code 5.88.030](#). The City of Kirkland has 11 designated targeted areas, which are detailed on maps included in the ordinance.
- [Tacoma Municipal Code 6A.110.020](#). The City of Tacoma has defined its mixed-use neighborhood centers as residential targeted areas for the purposes of their MFTE program.
- [Seattle Municipal Code 5.73.030\(C\)](#). The City of Seattle has designated all multifamily areas as residential targeted areas for their MFTE program.

Project Eligibility

Communities can also outline other project eligibility requirements for an MFTE exemption in the adopted ordinance. As described in [Chapter 4](#), the MFTE program must include specific elements and additional elements may be added in accordance with state statute. A project is eligible for MFTE if it meets the program guidelines. At a minimum, MFTE projects are required to:

- Be within a designated targeted area.
- Provide at least 50% of space for permanent residential occupancy.
- Provide a minimum of four additional housing units.
- Be completed within three years of application approval.
- Comply with all local rules.

Additional requirements beyond baseline requirements as outlined in state statute can also be added here. These can include such things as:

- Higher minimum number of dwelling units for developments, either for additional new units or total units.
- Higher percentage of space for permanent residential housing.
- Requirement to meet minimum density requirements.
- Additional public benefits such as open space or civic space.
- Project construction requirements under [RCW 84.14.040\(6\)\(b\)](#), such as prevailing wage rate requirements or contracting inclusion plans.

Other elements that should be considered here include the following:

- **Provisions for contracts with exemption recipients.** Note that this section places the requirements for the contract between the owner and the community as a requirement for project eligibility. This may also be included as a process step under the review of the application in the following sections.
- **Displacement.** This example provides a clear approach for dealing with rehabilitation projects for properties that are not vacant, which includes providing relocation assistance. This may be removed, however, especially if displacement is a significant concern within a neighborhood.
- **Sunset clause.** A sunset clause can be a useful instrument to include in an MFTE program to encourage council and staff to regularly review the program and decide if the public benefits exceed the costs of the program. This may be included in other parts of an ordinance but providing this as part of project eligibility can keep the requirements for MFTE projects in a consistent location.
- **Costs of compliance for additional requirements.** As noted in earlier sections, additional project requirements may pose further costs to developers and landowners to fulfill these conditions. These elements should be reviewed, even if they are considered minor, to ensure that these costs will not impact the success of the program.

Example

Base Example

XX.XX.060 *Project eligibility*

An owner of property applying under this chapter must meet the following requirements:

[Project eligibility - location]

- (1) *The new or rehabilitated multiple-unit housing must be located in a designated residential targeted area.*

[Project eligibility - construction details]

- (2) *The project must be multifamily housing consisting of at least four (4) dwelling units within a residential structure or as part of a mixed-use development, in which at least fifty percent (50%) of the space within such residential structure or mixed-use development is intended for permanent residential occupancy.*
- (3) *For new construction, a minimum of four (4) new dwelling units must be created; for rehabilitation or conversion of existing occupied structures, a minimum of four additional dwelling units must be added.*

[Project eligibility - requirements for units to be rehabilitated]

- (4) *Property proposed to be rehabilitated must fail to comply with one or more standards of the City's building or housing codes.*
- (5) *Property proposed to be rehabilitated with existing multifamily housing that has been vacant for twelve (12) months or more does not have to provide additional multifamily units.*
- (6) *If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate.*

[Project eligibility - deadlines]

- (7) *The project shall be completed within three (3) years from the date of approval of the contract by the council as provided in XX.XX.080(6) or by any extended deadline granted by the director as provided in XX.XX.080(7).*

[Project eligibility - requirements for contract]

- (8) *As per RCW 84.14.030(6), the applicant must enter into a contract approved by the council, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the council.*

Variations

- **Minimum project size.** In many cases, communities will only permit an exemption to be applied to projects of a specific size. In some cases, different thresholds may be provided in different areas, and the requirements may be waived for affordable housing.

[Project eligibility - minimum project size]

- (2) *The project shall consist of a minimum total of thirty (30) new dwelling units of multi-family housing. If one hundred percent of the housing units in a homeownership project are designated as affordable under the requirements of XX.XX.030(4), the project shall consist of a minimum of ten (10) new dwelling units of multi-family housing.*

- **Smaller buildings in a larger project.** For other situations, potential non-profit developers may look to provide rental or homeownership opportunities in larger projects that include smaller buildings. This reflects recent changes in the statute and under this provision duplexes and triplexes can be incorporated into MFTE projects. It may be restricted specifically to exemptions for affordable units as well. In any case, the project is required to have a minimum of at least four units.

[Project eligibility - smaller individual buildings allowed]

- (2) *The project must be multifamily housing consisting of at least four dwelling units within residential structures or as part of a mixed-use development, in which at least fifty percent (50%) of the space within such residential structures or mixed-use development is intended for permanent residential occupancy. No residential structure in the project qualifying under the exemption may have fewer than two dwelling units.*

- **Minimum densities.** Communities can provide requirements that MFTE projects achieve minimum densities for tax exempt projects, especially in cases where higher densities can help to meet local goals with neighborhood development.

[Project eligibility - minimum densities]

- (9) *The project must achieve a minimum of fifteen (15) residential units per gross acre.*

- **Additional construction requirements.** Communities can also provide other requirements about construction as noted above which would be able to provide some type of public benefit. One example found with the MFTE program maintained by the City of Woodinville is the application of LEED standards to construction under [WMC 3.43.050\(9\)](#).

[Project eligibility - additional construction requirements]

- (9) *The project shall be designed to meet the LEED Certified Standard or higher, as established by the U.S. Green Building Council, unless the council specifically grants the project an exemption from this requirement.*

- **Sunset clause.** Typically, this section is used for the sunset clause for the MFTE program, as it provides a deadline for eligibility that will need to be moved by council through a reauthorization.

[Project eligibility - sunset clause]

- (9) *No new applications may be accepted for inclusion into this program after December 31, 20XX.*

References

- [Everett Municipal Code 3.78.050](#). The City of Everett requires a higher minimum number of dwelling units (eight units) for project eligibility than state statute.

- [Des Moines Municipal Code 3.96.040](#). The City of Des Moines requires a minimum number of dwelling units (60 units) for project eligibility.
- [Washougal Municipal Code 3.58.040](#). The City of Washougal requires all units in a project be provided for permanent residential occupancy rather than the 50% required by state statute.
- [Ferndale Municipal Code 3.38.060](#). The City of Ferndale requires projects meet additional density requirements for eligibility.

Application Procedure

Jurisdictions must establish initial application procedures and requirements for property owners seeking a tax exemption. The application requirements must align with those outlined in the statute under [RCW 84.14.050](#), and is the prerequisite for receiving a conditional certificate.

See [Chapter 5](#) for more detail on application procedures and requirements and see Appendix B for a sample conditional certificate application form.

Two important notes with this procedure:

- **Application deadlines.** While the statute indicates that "verification of property noncompliance" is a necessary step before rehabilitation or new construction, there are no clear requirements as to when an MFTE application is required. Some communities require the application to be submitted prior to permit applications, while others require the application prior to any permits being issued.
- **Fees.** This section typically includes a discussion of the application fees to be charged as part of the process. This example provides a case where fees are set in a separate schedule, but it can be defined in the ordinance itself as well. Some communities specify that part of the fee will be submitted to the county assessor, which may be non-refundable. Additionally, communities may also include fees at other stages, such as with the final approval of the exemption.

Example

Base Example

XX.XX.070 *Application procedure*

A property owner who wishes to propose a project for a tax exemption shall comply with the following procedures as per RCW 84.14.050:

[Application procedure - application package requirements]

- (1) *Prior to the application for any building permit therefor, the applicant shall submit an application to the director on a form established by the director along with the required fees, as established under XX.XX.060(4).*
- (2) *A complete application shall contain such information as the director may deem necessary or useful, and shall include:*
 - (a) *A written description of the project and preliminary schematic site and floor plans of the multifamily units and the structures in which they are proposed to be located setting forth the grounds for the exemption;*
 - (b) *A statement setting forth the grounds for qualification for exemption, and identifying the income-restricted units in the proposed project, if applicable;*
 - (c) *A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this chapter; and*
 - (d) *Verification by oath or affirmation of the information submitted.*

[Application procedure - proof that rehabilitation projects are to be unoccupied]

- (3) *For rehabilitation projects, the applicant shall secure verification of property noncompliance with the building or housing ordinances under XX.XX.040, and shall also submit an affidavit that existing dwelling units have been unoccupied for a period of twelve (12) months prior to filing the application, or that relocation support has been provided to tenants under XX.XX.060(6).*

[Application procedure - application fees]

- (4) *At the time of application, the owner shall pay an initial application fee as established by the by council, or an administrative official or commission authorized by the council.*

Variations

- **Inclusion of unit details.** Certain jurisdictions such as the City of Vancouver also include explicit requirements for descriptions of the units. This may be useful for auditing and reporting but can also be recorded at different points of the process if necessary. Note that later reporting may provide more accurate estimates of projected rents or sales prices, if requested.

[Application procedure - unit details]

(1e) Detailed list of unit size, number of bedrooms and bathrooms and projected rent or sales price.

- **Alternate approach to fees.** Communities may specify fee amounts as part of the ordinance and include a special provision for fees to the county assessor to handle processing of the exemption. This should note that in cases where the exemption is not approved, the fees to be submitted to the assessor should be refunded.

[Application procedure - alternate fee specification]

- (4) *At the time of application, the owner shall pay an initial application fee consisting of a base fee of one hundred fifty dollars (\$150.00), plus twenty-five dollars (\$25.00) per multifamily unit, up to a maximum total fee of three hundred dollars (\$300.00). An additional one-hundred-dollar (\$100.00) fee for the county assessor's administrative costs shall also be paid, which will be refunded if the initial application is denied.*

References

- [Ellensburg Municipal Code 2.30.050](#). The City of Ellensburg lists standard procedures for an MFTE application.
- [Seattle Municipal Code 5.73.050](#). The City of Seattle sets application fee levels based upon the percentage of the dwelling units in the project being rent and income restricted.

Application Review

As part of an MFTE ordinance, a community must also detail the process for application review as per [RCW 84.14.070](#). As outlined in [Chapter 5](#), the outcome should be a signed contractual agreement between the community and the applicant and the issuance of a conditional certificate of tax exemption to indicate that the project will receive an exemption at the successful conclusion of the project. The process for application denial and appeals should also be noted, although note that the required provisions for appeal at this stage are less extensive than for the denial of the final certificate, below.

Example

Base Example

XX.XX.080 Application review

[Application review - conditions]

- (1) *The director may certify as eligible an application which is determined to comply with the requirements of this chapter. An application may be approved subject to such terms and conditions as deemed appropriate by the director to ensure the project meets all applicable land use regulations.*

[Application review - deadline]

- (2) *A decision to approve or deny an application shall be made within ninety (90) days of receipt of a complete application.*

[Application review - requirements for covenant and contract]

- (3) *If an application is approved by the director, the approval, together with a contract and covenant between the applicant and the city regarding the terms and conditions under this chapter, signed by the applicant, shall be presented to the council for action.*
- (4) *The director is authorized to cause the contract to be recorded, or require the owner to record the contract, in the real property records of the county recorder's office.*

[Application review - provision of conditional certificate]

- (5) *Once the contract is approved by the council and fully executed, the director shall issue a conditional certificate of acceptance of tax exemption.*

[Application review - expiration of conditional certificate]

- (6) *The conditional certificate expires three (3) years from the date of approval unless an extension is granted as provided in this chapter.*
- (7) *The conditional certificate may be extended by the director for a period not to exceed twenty-four (24) consecutive months. The applicant must submit a written request stating the grounds for the extension, accompanied by any applicable processing fee. An extension may be granted if the director determines that:*

- (a) *The anticipated failure to complete construction or rehabilitation within the required period is due to circumstances beyond the control of the owner;*
- (b) *The owner has been acting and could reasonably be expected to continue to act in good faith and with due diligence; and*
- (c) *All the conditions of the original contract between the applicant and the City will be satisfied upon completion of the project.*

[Application review - denial and appeal]

- (8) *If the application is denied, the director shall state in writing the reasons for denial and shall send notice to the applicant at the applicant's last known address within ten (10) days of the denial.*
- (9) *An applicant may appeal a denial to the council by filing a written appeal with the city clerk within thirty (30) days of notification that the application has been denied. The appeal will be based upon the record made before the director with the burden of proof on the applicant to show that there is no substantial evidence on the record to support the director's decision. The decision of the council in denying or approving the application is final. All other appeals of the director's decisions shall be made to the hearing examiner.*

Variations

- **Provision for contract amendments.** The ordinance can also include a process for receiving amendments to the original contract for the MFTE between the community and the owner. This can be done to set a process to ensure that the contract can be amended as needed without having to restart the process, which can be important given that the provisions of an MFTE program may exclude a project that has already started construction from resubmitting an application.

[Application review - contract amendment process]

- (10) *An owner may request amendments to the contract by submitting a request in writing to the director, along with the fees established by the council, at any time within three (3) years of the date of the approval of the contract as provided for in subsection (3). The director may approve amendments to the MFTE contract between the owner and the city that are reasonably within the scope and intent of the MFTE contract. The date for expiration of the conditional certificate shall not be extended by contract amendment unless all the conditions for extension set forth in subsection (5) of this section are met.*

References

- [Puyallup Municipal Code 3.70.090](#). The City of Puyallup lists standard procedures for reviewing an MFTE application.
- [Seattle Municipal Code 5.73.060](#). Seattle provides a concise description of the required process for the application review, as well as the potential for appeals.

Final Certificate

After the application review and conditional certificate issuance process, a community should outline the process for requesting and receiving a final certificate of tax exemption. As per state statute, this process begins once construction is complete, and a certificate of occupancy is issued. Just as with the conditional certificate process, the final certificate requires the submission of an application and a review process, and the applicable authority must provide the grounds for approval and denial. See Appendix B for a sample final certificate application form.

Example

Base Example

XX.XX.090 *Final certificate*

[Final certificate - approval]

- (1) *Upon completion of the improvements provided in the contract and issuance of a temporary or permanent certificate of occupancy, the applicant may request a final certificate of tax exemption. The applicant must file with the director such information as necessary or useful to evaluate eligibility for the final certificate and shall include:*
 - (a) *A statement of the amount of rehabilitation or construction expenditures made with respect to each housing unit and the total expenditures made in the rehabilitation or construction of the entire property;*
 - (b) *A description of the work that has been completed and a statement that the rehabilitation improvements or new construction on the owner's property qualify the property for limited exemption under this chapter;*
 - (c) *If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020 and XX.XX.030; and*
 - (d) *A statement that the work was completed within the required three-year period or any authorized extension.*
- (2) *Within thirty (30) days of receipt of all materials required for a final certificate, the director shall determine whether the work completed and the affordability of the units, if applicable, satisfy the requirements of the application and the conditional contract approved by the city and is qualified for a limited tax exemption under Chapter 84.14 RCW. The city shall also determine which specific improvements completed meet the intent of this chapter and the required findings of RCW 84.14.060.*

[Final certificate - issuance of certificate]

- (3) *If the director determines that the project has been completed in accordance with this chapter and the contract between the applicant and the city and has been completed within the authorized period the city shall, within ten (10) calendar days of the expiration of the thirty-day review period above, file a final certificate of tax exemption with the county assessor.*

[Final certificate - denial and appeal]

- (4) *The director shall notify the applicant in writing that a final certificate will not be filed if the director determines that:*
- (a) *The improvements were not completed within the authorized period;*
 - (b) *The improvements were not completed in accordance with the contract between the applicant and the City;*
 - (c) *The owner's property is otherwise not qualified under this chapter; or*
 - (d) *The owner and the director cannot come to an agreement on the allocation of the value of the improvements allocated to the exempt portion of rehabilitation improvements, new construction, and multi-use new construction.*
- (5) *Within thirty (30) days of notification by the city to the owner of the director's denial of a final certificate of tax exemption, the applicant may file a written appeal with the city clerk specifying the factual and legal basis for the appeal. The appeal shall be heard by the hearing examiner.*

Variations

- **Rent or sales data for reporting.** As noted above, application materials may present an opportunity to collect necessary data on projects for reporting purposes, especially if annual certification will not be timed to meet a community's requirements to report to the Department of Commerce. In this case, other information such as rents or sale prices of units may be requested as part of these application, similar to what was noted above for the initial application.

(1e) *A housing market study that includes the comparable rents or sales prices, as applicable, for other multifamily housing in the neighborhood market area, and the market rent or sales price for each of the MFTE units proposed to be designated under XX.XX.030.*

- **Confirmation of ownership.** In some cases, such as with the 20-year affordable homeownership option, it can be useful to include a check to confirm that the required ownership by a nonprofit or housing authority has been managed properly. This can also be a good general check to confirm final ownership of the project.

(1f) *A statement confirming that the documentation on file of the type and organizational structure of the owner, signature block for the owner, and authority of the owner representative that signed the contract is all current and accurate.*

- **Application fees.** Some communities may provide for additional application fees at the final certification stage. As with the conditional certificate application, these fees may be divided between the community and the county assessor to compensate for related administrative expenses.

[Final certificate - approval with required fee]

- (1) *Upon completion of the improvements provided in the contract and issuance of a temporary or permanent certificate of occupancy, the applicant may request a final certificate of tax exemption. The applicant must submit to the director an application fee as established by the by council, and such information as necessary or useful to evaluate eligibility for the final certificate. This information shall include: ...*

References

- [Bellevue Municipal Code 4.52.080](#). The City of Bellevue lists procedures for application, issuance, and denial of a final certificate.
- [Seattle Municipal Code 5.73.080](#). The City of Seattle lists detailed requirements for the final certificate application, including conducting a housing market study on comparable area multifamily projects.

Annual Certification

Communities should describe the annual reporting requirements that are required to maintain the property tax exemption as part of the ordinance. See [Chapter 6](#) for more detail on required and recommended reporting requirements.

There can be different elements for reporting and certification listed here, and some of the data listed below can help to fulfill the requirements for reporting to the Department of Commerce under [RCW 84.14.100\(2\)](#). Other information may assist with internal reporting.

Example

Base Example

XX.XX.100 Annual certification

- (1) *Within thirty (30) days after the first anniversary of the date of filing the final certificate of tax exemption and each year thereafter, for the applicable tax exemption period, the property owner shall file a notarized declaration with the director indicating the following:*
 - (a) *A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve (12) months ending with the anniversary date;*
 - (b) *A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the contract with the City;*
 - (c) *A description of changes or improvements constructed after issuance of the certificate of tax exemption;*
 - (d) *The total monthly rent of each unit;*
 - (e) *Information demonstrating compliance with the affordability requirements of XX.XX.030 and XX.XX.040, and other applicable requirements under XX.XX.060;*
 - (f) *For the affordable units, the income of each household at the time of initial occupancy and their current income; and*
 - (g) *Any additional information requested regarding the units receiving a tax exemption and meeting any reporting requirements under Chapter 84.14 RCW.*

Variations

- **Alternate deadlines for certification.** Some communities specify different reporting periods to provide common reporting data at one point in time across the entire program. This is often defined generally and handled in an administrative way to allow for some flexibility in reporting.
 - (1) *At such times as may be required by the director, but no less than annually for the duration of the compliance period, the property owner shall file a notarized declaration with the director indicating the following: ...*

References

- [Bremerton Municipal Code 3.78.110](#). The City of Bremerton lists requirements for annual certification.

- [Seattle Municipal Code 5.73.100](#). The City of Seattle lists more detailed requirements for annual certification.

Cancellation

The last part of an MFTE ordinance should explain how an exemption can be ended if the project no longer meets the requirements or if the property owner wants to leave the program. This section explains why the tax exemption could be canceled and how to file an appeal. Appendix B has a sample form for canceling the exemption.

Some key notes in this section:

- **"May" versus "shall"**. As it is written now, there is only one way to enforce the conditions of the statute and contract: cancelling the entire exemption. This can be difficult to use if there are problems that can be fixed by working with the property owners, like a failure to keep up with regular reporting or falling out of compliance with building codes. The ordinance should give the community some freedom to decide whether to cancel the exemption under certain conditions in case other alternatives may be more reasonable.
- **Responsibilities for penalties**. Under [RCW 84.14.110](#), the penalties for noncompliance are clearly stated and are the responsibility of the county assessor and not the community. Even though it might be possible to add extra penalties to the contract for property owners who break the conditions, this does not seem to be done in typical MFTE programs. Therefore, ordinances do not usually give more details about the amount of the penalties.
- **Involvement of other organizations**. For programs with the 20-year affordable homeownership option, communities should include provisions to notify the responsible non-profit organization if an MFTE is due to be canceled because of non-compliance. These organizations are typically involved with reporting and management, even if they are not specifically identified as "owners" of the property.
- **Tenant notification and relocation**. If MFTE options have requirements for notifying tenants and paying relocation costs at the end of an exemption, those rules may need to extend to situations where the exemption is canceled as well. While this may technically be included under the provisions of these earlier sections, including this in the section on cancellation of the exemption may be necessary for clarification.

Example

Base Example

XX.XX.110 Cancellation

[Cancellation - conditions]

- (1) *The director may cancel the tax exemption if the property owner breaches any term of the MFTE contract, covenant, or any part of this chapter. Reasons for cancellation include but are not limited to the following:*
 - (a) *The property no longer complies with the terms of the contract or with the requirements of this chapter, including the provision of affordable units;*
 - (b) *The use of the property is changed or will be changed to a use that is other than residential;*
 - (c) *The project violates applicable zoning requirements, land use regulations or building code requirements; or*
 - (d) *The property for any other reason no longer qualifies for the tax exemption.*

[Cancellation - process]

- (2) *Upon determining that a tax exemption shall be canceled, the director shall notify the property owner or qualified non-profit organization, if applicable, by certified mail with a return receipt requested.*
- (3) *The property owner or qualified non-profit organization, if applicable, may appeal the determination within thirty (30) days by filing a notice of appeal with the city clerk, specifying the factual and legal basis on which the determination of cancellation is alleged to be erroneous. The council may hear the appeal pursuant to City's policy.*
- (4) *The director shall notify the county assessor of the cancelation of the tax exemption thirty (30) days after the notification of the property owner or qualified non-profit organization, or upon an unsuccessful appeal under subsection (3).*
- (5) *If the owner intends to convert multifamily housing receiving a tax exemption under this chapter to another use, the owner must notify the director and the county assessor within sixty (60) days of the change in use. Upon such change in use, the tax exemption shall be canceled.*

Variations

- **Non-compliance with reporting requirements.** Communities may include provisions in the code that give the option for canceling the exemption if the annual reporting requirements are not met. This reflects a potentially extreme penalty for non-compliance in this case, but this can give communities some type of enforcement mechanism if property owners do not provide the necessary reporting.
 - (1e) *The property owner fails to submit the annual certification required under XX.XX.100.*
- **Provisions for tenant notification and relocation assistance.** As noted above, there may be cases where requirements for notification and relocation expense reimbursements are maintained even if the exemption is canceled before they are due. This can help prevent disruption in housing security for lower-income tenants, especially in cases where the cancelation would displace them from their current units. Although this provision for relocation expenses may be provided elsewhere, the notification requirements may not be sufficient to provide tenants with information about the availability of this assistance.

[Cancellation - tenant notification and relocation assistance]

- (6) *Upon cancelation of the exemption, the applicant or the property owner at that time must provide qualifying tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month.*
- (7) *After the cancelation of the exemption, the applicant or the property owner must provide tenant relocation assistance in an amount equal to one (1) month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an affordable unit at the time the exemption expires and must qualify as an eligible household under this chapter at the time relocation assistance is sought.*

References

- [Port Townsend Municipal Code 3.15.110](#). The City of Port Townsend lists requirements for cancellation.

- [Wenatchee Municipal Code 5.88.130](#). The City of Wenatchee includes detail on how the County assessor may impose additional property tax on the value of nonqualifying improvements in the amount that would normally be imposed, plus a penalty.
- [Seattle Municipal Code 5.73.110](#). The City of Seattle includes tenant notification and relocation requirements.

Chapter 9: Conclusion

This guidance for the development of local MFTE programs represents one component in a series of products to support the ongoing use of MFTE across the state.⁶² In addition to this workbook, other materials incorporated as part of this project include the following:

- A **financial tool** in Excel that can be used for a high-level evaluation of the feasibility of different MFTE programs and parameters within a community.
- A **series of fact sheets** intended to provide targeted information to stakeholders about key topics, including:
 - An overview of MFTE for Council members, stakeholders, and the broader public.
 - An overview for developers.
 - A description of Area Median Income and how it is calculated.
 - A discussion of tax shift under an MFTE program.
- **Webinars** to train local staff and other stakeholders on the major conclusions from this work, including general implementation considerations, and record-keeping and monitoring.
- A **legislative report** intended for delivery in 2023 to address major concerns with the program and provide recommendations for any further statutory changes to the MFTE framework.
- A **report** on the recommended structure and operation of an auditing program intended for the Department of Commerce.
- A **report** on improvements to reporting and changes to assessors' best practices to address issues identified during this research.

This workbook is intended as a living document and will continue to be edited and adapted as comments are received and statutory changes are made so that it can be maintained as an ongoing reference work.

⁶² See [SB 5287](#) and [SB 5092 \(Section 111, Page 69\)](#) for supporting provisions.

Appendix A: Model MFTE Code

XX.XX.010 Purpose

Limited exemptions from ad valorem property taxation for multifamily housing in urban centers are intended to:

- (1) Provide economic incentives enabling increased residential housing choices and opportunities, including affordable housing opportunities, within urban centers designated by the council as targeted residential areas;
- (2) Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for multifamily housing in targeted residential areas to increase and improve housing opportunities, including affordable housing;
- (3) Assist in directing future population growth to designated urban centers with existing available infrastructure thereby reducing development pressure on neighborhoods lacking infrastructure capacities;
- (4) Increase the supply of mixed-income multifamily housing opportunities within the city;
- (5) Achieve development densities which are more conducive to transit use in designated urban centers; and
- (6) Accomplish the planning goals required under the Growth Management Act, chapter 36.70A RCW, as implemented from time to time by the City's current and future comprehensive plans.

It is intended that this chapter meet all required provisions and procedures set forth in Chapter 84.14 RCW to comport with state law.

XX.XX.020 Definitions

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

- (1) "Affordable housing" means residential housing that is rented by an eligible household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent (30%) of the household's monthly income. For the purposes of housing intended for owner occupancy, "affordable housing" means residential housing that is within the means of income-qualified households.
- (2) "Area median income" means the annual median family income for the metropolitan statistical area, as published from time to time by the United States Department of Housing and Urban Development (HUD), with adjustments according to household size, which adjustments shall generally be based upon a method used by HUD to adjust income limits for subsidized housing, which for purposes of determining affordability of rents or sale prices shall be based on the average size of household that corresponds to the size and type of the housing unit.
- (3) "Contract" means the standard form agreement between the owner or, for permanently affordable homeownership, a qualified non-profit organization and the city that contains the terms and conditions, including for each MFTE unit as designated according to the Final Certificate, for the duration of the compliance period as a condition of eligibility of the property tax exemption according to this Chapter

- (4) "Director" means the director of the planning department, or any other office, department or agency that shall succeed to its functions with respect to this chapter, or their authorized designee.
- (5) "Eligible household" means:⁶³
- (a) For owner-occupied housing, a household who certifies as a condition to the purchase of an affordable housing unit that their annual household income does not exceed the applicable percentage of the area median income, adjusted for household size, and that they meet all qualifications for eligibility; or
 - (b) For renter-occupied housing, a household who certifies as a condition to initial occupancy of an affordable housing unit that their annual household income does not exceed the applicable percentage of the area median income, adjusted for household size, and that they meet all qualifications for eligibility upon recertification; or
 - (c) For renter-occupied housing under a twelve-year exemption according to XX.XX.030(2), a household who verifies upon recertification that their annual household income does not exceed one hundred forty percent (140%) of the maximum annual income restriction under XX.XX.030(2), adjusted for household size, and that they meet all qualifications for eligibility. (6) "Household" means a single person, family, or unrelated persons living together.
- (7) "Low-income household" means a household whose adjusted income is at or below eighty percent (80%) of the area median income adjusted for family size, for the metropolitan statistical area, as reported by the United States Department of Housing and Urban Development.
- (8) "MFTE" means multifamily housing property tax exemption.
- (9) "Moderate-income household" means a single person, family, or unrelated persons living together whose adjusted income is more than eighty percent but is at or below one hundred fifteen percent (115%) of the area median income adjusted for family size, for the metropolitan statistical area, as reported by the United States Department of Housing and Urban Development.
- (10) "Multifamily housing" means buildings having four (4) or more dwelling units designated for permanent residential occupancy resulting from new construction or rehabilitation or conversion of vacant, underutilized, or substandard buildings.
- (11) "Owner" means the property owner of record as filed with the county assessor's office.
- (12) "Permanent residential occupancy" means multifamily housing that provides either rental or owner occupancy for a period of at least one (1) month. This excludes hotels and motels that offer rental accommodation on a daily or weekly basis.
- (13) "Project" means the multifamily housing or portion of the multifamily housing that is to receive the tax exemption.

⁶³ Note that this includes the optional text discussed in [Chapter 8](#) for managing recertification of households.

- (14) "Qualified non-profit organization" means a non-profit organization or any subsidiary or affiliate of such organization.
- (15) "Residential targeted area" means an area designated by the council as a residential targeted area in accordance with, and within the meaning of, Chapter 84.14 RCW.
- (16) "Substantial compliance" means compliance with the applicable building and construction codes and all applicable uniform codes that are typically required for rehabilitation as opposed to new construction.

XX.XX.030 Tax exemption

The value of new housing construction, conversion, and rehabilitation improvements qualifying under this section is exempt from ad valorem property taxation, as follows:⁶⁴

- (1) For eight (8) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption.
- (2) For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twelve-year exemption under this subsection:
 - (a) the applicant must commit to renting at least twenty percent (20%) of the multifamily housing units as affordable housing units to eligible low- and moderate-income households, and the property must satisfy that commitment; or
 - (b) the applicant must commit to selling at least twenty percent (20%) of the multifamily housing units as affordable housing units exclusively for owner occupancy to eligible moderate-income households, and the property must satisfy that commitment. Affordable units intended for owner occupancy must be sold by the applicant with a covenant running with the land that prevents the use of the property as a rental unit and includes a resale restriction designed to maintain affordability for future moderate-income homebuyers prior to the expiration of the exemption.
- (3) For twenty (20) successive years beginning January 1st of the year immediately following the calendar year of issuance of the final certificate if the property otherwise qualifies for the exemption and meets the conditions in this subsection. For the property to qualify for the twenty-year exemption under this subsection, at least twenty-five percent (25%) of the units must be built by or sold to a qualified nonprofit or local government partner that will assure permanent affordable homeownership for eligible households and support the residents of these units. The remaining seventy-five percent (75%) of units may be rented or sold at market rates.
- (4) Permanently affordable homeownership units or permanently affordable rental units must be sold or rented to eligible low-income households.

⁶⁴ Note that this excludes the 20-year permanently affordable rental option but includes provisions for registering a covenant for 12-year owner-occupied housing as discussed in [Chapter 8](#).

- (5) *If, in calculating the minimum proportion of the multi-family housing units in the project for affordable housing in this section, the number contains a fraction, then the minimum number of multi-family housing units for affordable housing shall be rounded up to the next whole number.*
- (6) *For any affordable units required in this section, the following shall apply:*
 - (a) *The mix and configuration of affordable units (e.g., studio, one-bedroom, etc.) shall be substantially proportional to the mix and configuration of the total housing units in the project unless approved by council, or an administrative official or commission authorized by the council;*
 - (b) *Affordable housing units shall be intermingled with all other units in the development; and*
 - (c) *The quality of construction and finish materials in those affordable units used to qualify for the exemption shall be the same as other housing units in the project.*
 - (d) *At the end of both the tenth and eleventh years of a twelve-year exemption under XX.XX.030(2), the applicant or the property owner at that time, must provide eligible tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month.*
 - (e) *For any twelve-year exemption authorized under this chapter, at the expiration of the exemption the applicant must provide tenant relocation assistance in an amount equal to one (1) month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an income-restricted unit at the time the exemption expires and must qualify as a low-income household under this chapter at the time relocation assistance is sought.*
- (7) *The exemption does not apply to the value of land or to the value of residential or non-residential improvements not qualifying under this chapter, nor does the exemption apply to increases in assessed valuation of land and nonqualifying improvements.*

XX.XX.040 Extension of tax exemption

- (1) *The owner of property that received a tax exemption pursuant to XX.XX.030 may apply for an extension for an additional twelve successive years. No extension will be granted for property that received a twenty-year tax exemption pursuant to XX.XX.030(3) or XX.XX.030(4).*
- (2) *Only one (1) extension may be granted.*
- (3) *Failure to timely apply for an extension shall be deemed a waiver of the extension.*
- (4) *For the property to qualify for an extension:*
 - (a) *The property must have qualified for, satisfied the conditions of, and utilized the eight- or twelve-year exemption sought to be extended;*
 - (b) *The owner must timely apply for the extension on forms provided by the city within eighteen (18) months of expiration of the original exemption;*

- (c) *The property must meet the requirements of this chapter for the property to qualify for an exemption under XX.XX.030(2) as applicable at the time of the extension application; and*
- (d) *The property must rent at least twenty percent (20%) of the multifamily housing units as affordable housing units for low-income households for the extension period.*
- (5) *If an extension is granted by the city, at the end of both the tenth and eleventh years of a twelve-year extension, the applicant or the property owner at that time must provide tenants of affordable units with notification of the applicant's or property owner's intent to provide the tenant with relocation assistance in an amount equal to one (1) month as provided in RCW 84.14.020, as amended.*
- (6) *After the expiration of the extension, the applicant or the property owner must provide tenant relocation assistance in an amount equal to one (1) month's rent to a qualified tenant within the final month of the qualified tenant's lease. To be eligible for tenant relocation assistance under this subsection, the tenant must occupy an affordable unit at the time the exemption expires and must qualify as an eligible household under this chapter at the time relocation assistance is sought.*

XX.XX.050 Residential targeted areas

Following notice and public hearing as prescribed in RCW 84.14.040, the council may designate one or more residential targeted areas upon a finding by the council that the residential targeted area meets the following criteria:

- (1) *The residential targeted area is within an urban center as defined by Chapter 84.14 RCW;*
- (2) *The residential targeted area lacks sufficient available, desirable, and convenient residential housing to meet the needs of the public who would be likely to live in the urban center if affordable, desirable, attractive, and livable residences were available; and*
- (3) *Providing additional housing opportunity in the residential targeted area will assist in achieving one or more of the following purposes:*
 - (a) *Encourage increased residential opportunities within the city; or*
 - (b) *Stimulate the construction of new multifamily housing; or*
 - (c) *Encourage the rehabilitation of existing vacant and underutilized buildings for multifamily housing.*
- (4) *In designating a residential targeted area, the council may also consider other factors, including:*
 - (a) *Whether additional housing in the residential targeted area will attract and maintain an increase in the number of permanent residents;*
 - (b) *Whether providing additional housing opportunities for low- and moderate-income households would meet the needs of citizens likely to live in the area if affordable housing were available;*
 - (c) *Whether an increased permanent residential population in the residential targeted area will help to achieve the planning goals mandated by the Growth Management Act under Chapter 36.70A RCW, as implemented through the City's comprehensive plan; or*

- (d) *Whether encouraging additional housing in the residential targeted area supports significant public investment in public transit or a better jobs and housing balance.*
- (5) *At any time the council may, by ordinance, amend or rescind the designation of a residential targeted area pursuant to the same procedural requirements as set forth in this chapter for original designation.*
- (6) *The council has adopted the residential target area as indicated on the map. [figure attached]*

XX.XX.060 Project eligibility

*An owner of property applying under this chapter must meet the following requirements:*⁶⁵

- (1) *The new or rehabilitated multiple-unit housing must be located in a designated residential targeted area.*
- (2) *The project must be multifamily housing consisting of at least four (4) dwelling units within a residential structure or as part of a mixed-use development, in which at least fifty percent (50%) of the space within such residential structure or mixed-use development is intended for permanent residential occupancy.*
- (3) *For new construction, a minimum of four (4) new dwelling units must be created; for rehabilitation or conversion of existing occupied structures, a minimum of four additional dwelling units must be added.*
- (4) *Property proposed to be rehabilitated must fail to comply with one or more standards of the City's building or housing codes.*
- (5) *Property proposed to be rehabilitated with existing multifamily housing that has been vacant for twelve (12) months or more does not have to provide additional multifamily units.*
- (6) *If the property proposed to be rehabilitated is not vacant, an applicant must provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate.*
- (7) *The project shall be completed within three (3) years from the date of approval of the contract by the council as provided in XX.XX.080(6) or by any extended deadline granted by the director as provided in XX.XX.080(7).*
- (8) *As per RCW 84.14.030(6), the applicant must enter into a contract approved by the council, under which the applicant has agreed to the implementation of the development on terms and conditions satisfactory to the council.*
- (9) *The project must achieve a minimum of fifteen (15) residential units per gross acre.*
- (10) *No new applications may be accepted for inclusion into this program after December 31, 20XX.*

XX.XX.070 Application procedure

⁶⁵ Optional provision for density and a sunset to the program are included as discussed in [Chapter 8](#).

A property owner who wishes to propose a project for a tax exemption shall comply with the following procedures as per RCW 84.14.050:⁶⁶

- (1) Prior to the application for any building permit therefor, the applicant shall submit an application to the director on a form established by the director along with the required fees, as established under XX.XX.060(4).
- (2) A complete application shall contain such information as the director may deem necessary or useful, and shall include:
 - (a) A written description of the project and preliminary schematic site and floor plans of the multifamily units and the structures in which they are proposed to be located setting forth the grounds for the exemption;
 - (b) Detailed list of unit size, number of bedrooms and bathrooms and projected rent or sales price;
 - (c) A statement setting forth the grounds for qualification for exemption, and identifying the income-restricted units in the proposed project, if applicable;
 - (d) A statement from the owner acknowledging the potential tax liability when the project ceases to be eligible under this chapter; and
 - (e) Verification by oath or affirmation of the information submitted.
- (3) For rehabilitation projects, the applicant shall secure verification of property noncompliance with the building or housing ordinances under XX.XX.040, and shall also submit an affidavit that existing dwelling units have been unoccupied for a period of twelve (12) months prior to filing the application, or that relocation support has been provided to tenants under XX.XX.060(6).
- (4) At the time of application, the owner shall pay an initial application fee as established by the by council, or an administrative official or commission authorized by the council.

XX.XX.080 Application review

- (1) The director may certify as eligible an application which is determined to comply with the requirements of this chapter. An application may be approved subject to such terms and conditions as deemed appropriate by the director to ensure the project meets all applicable land use regulations.
- (2) A decision to approve or deny an application shall be made within ninety (90) days of receipt of a complete application.
- (3) If an application is approved by the director, the approval, together with a contract and covenant between the applicant and the city regarding the terms and conditions under this chapter, signed by the applicant, shall be presented to the council for action.

⁶⁶ Optional provision included to provide descriptions of proposed units as discussed in [Chapter 8](#).

- (4) *The director is authorized to cause the contract to be recorded, or require the owner to record the contract, in the real property records of the county recorder's office.*
- (5) *Once the contract is approved by the council and fully executed, the director shall issue a conditional certificate of acceptance of tax exemption.*
- (6) *The conditional certificate expires three (3) years from the date of approval unless an extension is granted as provided in this chapter.*
- (7) *The conditional certificate may be extended by the director for a period not to exceed twenty-four (24) consecutive months. The applicant must submit a written request stating the grounds for the extension, accompanied by any applicable processing fee. An extension may be granted if the director determines that:*
 - (a) *The anticipated failure to complete construction or rehabilitation within the required period is due to circumstances beyond the control of the owner;*
 - (b) *The owner has been acting and could reasonably be expected to continue to act in good faith and with due diligence; and*
 - (c) *All the conditions of the original contract between the applicant and the City will be satisfied upon completion of the project.*
- (8) *If the application is denied, the director shall state in writing the reasons for denial and shall send notice to the applicant at the applicant's last known address within ten (10) days of the denial.*
- (9) *An applicant may appeal a denial to the council by filing a written appeal with the city clerk within thirty (30) days of notification that the application has been denied. The appeal will be based upon the record made before the director with the burden of proof on the applicant to show that there is no substantial evidence on the record to support the director's decision. The decision of the council in denying or approving the application is final. All other appeals of the director's decisions shall be made to the hearing examiner.*
- (10) *An owner may request amendments to the contract by submitting a request in writing to the director, along with the fees established by the council, at any time within three (3) years of the date of the approval of the contract as provided for in subsection (3). The director may approve amendments to the MFTE contract between the owner and the city that are reasonably within the scope and intent of the MFTE contract. The date for expiration of the conditional certificate shall not be extended by contract amendment unless all the conditions for extension set forth in subsection (5) of this section are met.⁶⁷*

XX.XX.090 Final certificate

- (1) *Upon completion of the improvements provided in the contract and issuance of a temporary or permanent certificate of occupancy, the applicant may request a final certificate of tax exemption. The*

⁶⁷ This optional provision is included as discussed in [Chapter 8](#).

applicant must file with the director such information as necessary or useful to evaluate eligibility for the final certificate and shall include:⁶⁸

- (a) *A statement of the amount of rehabilitation or construction expenditures made with respect to each housing unit and the total expenditures made in the rehabilitation or construction of the entire property;*
 - (b) *A description of the work that has been completed and a statement that the rehabilitation improvements or new construction on the owner's property qualify the property for limited exemption under this chapter;*
 - (c) *A housing market study that includes the comparable rents or sales prices, as applicable, for other multifamily housing in the neighborhood market area, and the market rent or sales price for each of the MFTE units proposed to be designated under XX.XX.030.*
 - (d) *A statement confirming that the documentation on file of the type and organizational structure of the owner, signature block for the owner, and authority of the owner representative that signed the contract is all current and accurate.*
 - (e) *If applicable, a statement that the project meets the affordable housing requirements as described in RCW 84.14.020 and XX.XX.030; and*
 - (f) *A statement that the work was completed within the required three-year period or any authorized extension.*
- (2) *Within thirty (30) days of receipt of all materials required for a final certificate, the director shall determine whether the work completed and the affordability of the units, if applicable, satisfy the requirements of the application and the conditional contract approved by the city and is qualified for a limited tax exemption under Chapter 84.14 RCW. The city shall also determine which specific improvements completed meet the intent of this chapter and the required findings of RCW 84.14.060.*
 - (3) *If the director determines that the project has been completed in accordance with this chapter and the contract between the applicant and the city and has been completed within the authorized period the city shall, within ten (10) calendar days of the expiration of the thirty-day review period above, file a final certificate of tax exemption with the county assessor.*
 - (4) *The director shall notify the applicant in writing that a final certificate will not be filed if the director determines that:*
 - (a) *The improvements were not completed within the authorized period;*
 - (b) *The improvements were not completed in accordance with the contract between the applicant and the City;*
 - (c) *The owner's property is otherwise not qualified under this chapter; or*

⁶⁸ Optional reporting elements included as discussed in [Chapter 8](#).

- (d) *The owner and the director cannot come to an agreement on the allocation of the value of the improvements allocated to the exempt portion of rehabilitation improvements, new construction, and multi-use new construction.*
- (5) *Within thirty (30) days of notification by the city to the owner of the director's denial of a final certificate of tax exemption, the applicant may file a written appeal with the city clerk specifying the factual and legal basis for the appeal. The appeal shall be heard by the hearing examiner.*

XX.XX.100 Annual certification

- (1) *Within thirty (30) days after the first anniversary of the date of filing the final certificate of tax exemption and each year thereafter, for the applicable tax exemption period, the property owner shall file a notarized declaration with the director indicating the following:*
 - (a) *A statement of occupancy and vacancy of the rehabilitated or newly constructed property during the twelve (12) months ending with the anniversary date;*
 - (b) *A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the contract with the City;*
 - (c) *A description of changes or improvements constructed after issuance of the certificate of tax exemption;*
 - (d) *The total monthly rent of each unit;*
 - (e) *Information demonstrating compliance with the affordability requirements of XX.XX.030 and XX.XX.040, and other applicable requirements under XX.XX.060;*
 - (f) *For the affordable units, the income of each household at the time of initial occupancy and their current income; and*
 - (g) *Any additional information requested regarding the units receiving a tax exemption and meeting any reporting requirements under Chapter 84.14 RCW.*

XX.XX.110 Cancellation

- (1) *The director may cancel the tax exemption if the property owner breaches any term of the MFTE contract, covenant, or any part of this chapter. Reasons for cancellation include but are not limited to the following:⁶⁹*
 - (a) *The property no longer complies with the terms of the contract or with the requirements of this chapter, including the provision of affordable units;*
 - (b) *The use of the property is changed or will be changed to a use that is other than residential;*

⁶⁹ Optional provision for cancellation due to noncompliance with reporting requirements included, as per [Chapter 8](#).

- (c) *The project violates applicable zoning requirements, land use regulations or building code requirements;*
 - (d) *The property for any other reason no longer qualifies for the tax exemption; or*
 - (e) *The property owner fails to submit the annual certification required under XX.XX.100.*
- (2) *Upon determining that a tax exemption shall be canceled, the director shall notify the property owner or qualified non-profit organization, if applicable, by certified mail with a return receipt requested.*
 - (3) *The property owner or qualified non-profit organization, if applicable, may appeal the determination within thirty (30) days by filing a notice of appeal with the city clerk, specifying the factual and legal basis on which the determination of cancellation is alleged to be erroneous. The council may hear the appeal pursuant to City's policy.*
 - (4) *The director shall notify the county assessor of the cancelation of the tax exemption thirty (30) days after the notification of the property owner or qualified non-profit organization, or upon an unsuccessful appeal under subsection (3).*
 - (5) *If the owner intends to convert multifamily housing receiving a tax exemption under this chapter to another use, the owner must notify the director and the county assessor within sixty (60) days of the change in use. Upon such change in use, the tax exemption shall be canceled.*

Appendix B: Sample Forms and Materials

This section includes the following sample documents:

- Staff report.
- Letter for notification of expiration.
- Letter for notification of cancellation.
- Letter for a reminder for a potential extension.
- Letter for notification of tenant relocation assistance.
- Application for a conditional certificate.
- Application for an extension to the conditional certificate.
- Application for a final certificate.
- Application for an extension of the exemption.
- Annual reporting form.
- Annual tenant income verification form.
- MFTE contract.

In these documents, note that any areas with **[bolded formatting surrounded by brackets]** is intended to be filled in with the appropriate values from the community for a given situation.

Please note that these documents are intended to provide examples of the materials that can be used as part of an MFTE program. Consult with a legal professional prior to using these templates to ensure that these will address your needs.

Sample staff report

Background

An overview of the local MFTE program may include such information as:

- The purpose and background for the local program.
- When it was established.
- General requirements for the exemption.

Example:

The MFTE program was established in **[City/County]** in **[Program Start Year]**, as a tool to incentivize the development of affordable multifamily housing in designated residential targeted areas. The current residential targeted areas where MFTE may be used are **[Description of RTAs]**. Based on state statute (Chapter 84.14 RCW), the program allows developers building multifamily housing to gain a property tax exemption on the residential improvements for a period of 12 years in exchange for including income restrictions on 20 percent of the total number of housing units.

Program Accomplishments

Overview of development in the past year and since the program's inception. This can include information such as:

- Number of projects completed.
- Number of new housing units added.
- Number of income-restricted housing units added.

Other items to consider including:

- Number of applications received in the past year.
- Feedback from stakeholders.

Example:

In the past year, **[Number of New Projects]** new projects have been completed and **[Number of Projects with Conditional Certificates]** have received a conditional certificate of tax exemption. In the completed projects, there are **[Total Units in New Projects]** new housing units, of which **[Income-Restricted Units in New Projects]** are income-restricted: **[Income Restriction Provisions]**.

Financial Impact

An overview of the financial effects of the program in the past year can include:

- The amount of new property taxes received if any MFTE projects have come back on the tax roll.
- The value of new construction.
- The financial impacts of the program since its inception.

Example:

In the past year, **[Number of New Projects]** new projects have been completed. This results in **[Total Exempted Revenue Amount]** of lost property tax revenue in the first year and **[Total Estimated Tax Shift Amount]** shifted to other taxpayers. This shift is equivalent to **[Average Estimated Tax Shift Amount]** for the average taxpayer. As the projects have income-restricted units, the city also benefits from **[Total Subsidy Amount]** in rental savings to tenants.

Sample letter for notification of expiration

To **[Property Owner]**:

The property located at **[Location]**, which is currently receiving a multifamily property tax exemption in accordance with **[Local Code Section]** and the contract dated **[Date of Contract]** with the **[City/County]** of **[City/County Name]**, is nearing the end of the exemption period. The tax exemption will end effective **[Date of Expiration]**. The **[City/County]** will notify the county assessor that this property is no longer tax exempt as of this date.

The **[City/County]** thanks you for your investment in new housing development and appreciates your partnership in expanding housing opportunities for our community.

Sincerely,

[MFTE Program Administrator]

cc: **[County Assessor]**

Sample letter for notification of cancellation

To **[Property Owner]**:

The property located at **[Location]**, which is currently receiving a multifamily property tax exemption in accordance with **[Local Code Section]** and the contract dated **[Date of Contract]** with the **[City/County]** of **[City/County Name]**, has been determined to be out of compliance with program requirements as of **[Date of Noncompliance]**. The **[City/County]** of **[City/County Name]** is cancelling the tax exemption effective **[Date of Cancellation]**.

Per state statute Chapter 84.14 RCW, the city/county is required to impose taxes and fees on the property as follows:

- The difference between the property tax paid and the property tax that would have been paid if it had included the value of the nonqualifying improvements dated back to the date that the improvements were converted to a non-multifamily use, plus
- A penalty of 20 percent of the difference, plus
- Interest at the statutory rate on (a) + (b) from the date tax could have been paid without penalty if the improvements had been assessed at a value without regard to the exemption.

The additional tax, interest and penalty amount is **[Amount Due]** and is due by **[Date of Payment Due]**. The total bears interest thereafter at the rate provided for delinquent property taxes.

The additional tax, penalty and interest constitute a lien upon the land which attaches at the time the property is no longer eligible for exemption and has priority to and must be fully paid and satisfied before a recognizance, mortgage, judgment, debt, obligation, or responsibility to or with which the land may become charged or liable.

You are permitted to appeal this cancellation within thirty days by filing a notice of appeal with **[City/County Clerk]**. The notice must specify the factual and legal basis on which the determination of this cancellation is alleged to be in error. **[Governing Authority / Hearing Examiner/ Other]** may hear the appeal. At the hearing, all affected parties may be heard, and all competent evidence received. After the hearing, the deciding body or officer will either affirm, modify, or repeal the decision of cancellation of exemption based on the evidence received. This decision may be appealed to the superior court.

Sincerely,

[MFTE Program Administrator]

cc: **[County Assessor]**

Sample letter as a reminder for a potential extension

To **[Property Owner]**:

The property located at **[Location]**, which is currently receiving a multifamily property tax exemption in accordance with **[Local Code Section]** and the contract dated **[Date of Contract]** with the **[City/County]** of **[City/County Name]**, is nearing the end of the exemption period. This property is eligible for an extension period of twelve years. To receive an extension, please file an application for extension prior to the expiration of the original exemption. This application can be found **[Link / Reference to Attachment]**.

There are two requirements associated with this extension:

- **Set asides for low-income households.** At least 20% of the units must be set aside for households making 80% area median income or lower. To find the area median income information, please visit **[Local MFTE Website]**. **[Other Details on Requirements]**
- **Rental relocation assistance.** You must provide rental relocation assistance equal to one month's rent to qualified tenants, defined as low-income households, at the end of the extension period. Qualified tenants must receive notification of rental relocation assistance at the end of the tenth and eleventh years of the 12-year extension.

The **[City/County]** thanks you for your investment in new housing development and appreciates your partnership in expanding housing opportunities for our community.

Sincerely,

[MFTE Program Administrator]

cc: **[County Assessor]**

Sample letter for notification of tenant relocation assistance (expiration)

To **[Tenant]**:

The property located at **[Location]** currently receives a multifamily property tax exemption, which will expire on **[Date of Expiration]**. As part of receiving this exemption, a portion of units, including yours, have been restricted to households within a certain income range. When the exemption expires on **[Date of Expiration]**, the property will no longer be required to comply with the program requirements, including the income-restrictions on a portion of units. Your unit will change to a market-rate unit. In accordance with state statute and the contract dated **[Date of Contract]** with the **[City/County]** of **[City/County Name]**, you are eligible to receive relocation assistance equal to one month's rent. This relocation assistance will be provided in the final month of your lease.

Sincerely,

[Property Manager]

Sample letter for notification of tenant relocation assistance (cancellation)

To **[Tenant]**:

The property located at **[Location]** currently receives a multifamily property tax exemption, which will expire on **[Date of Expiration]**. As part of receiving this exemption, a portion of units, including yours, are restricted to households within a certain income range. As of **[Date of Cancellation]**, the property will no longer be required to comply with the program requirements, including the income-restrictions on a portion of units. Your unit will change to a market-rate unit. In accordance with state statute and the contract dated **[Date of Contract]** with the **[City/County]** of **[City/County Name]**, you are eligible to receive relocation assistance equal to one month's rent. This relocation assistance will be provided in the final month of your lease.

Sincerely,

[Property Manager]

Multifamily Property Tax Exemption Program

Application for Conditional Certificate

Program Overview

[Include key points of the local program for applicant awareness]

Summary of Process Steps

- 1) **Pre-application meeting:** A meeting with staff to discuss the process and criteria is recommended prior to application.
- 2) **Application:** Complete the attached application and submit the applicable materials listed on the form **[along with the required filing fee]**. This must be submitted prior to applying for a building permit.
- 3) **Review process:**
 - a) The **[Responsible Department]** reviews the application and within 90 days determines whether it is consistent with the program criteria.
 - b) If the proposal is found to be consistent, the **[Director]** may certify the project as eligible for the tax exemption. The applicant shall then enter into a contract with the city regarding the terms and conditions of the project.
 - c) Upon approval of the contract by **[Director]**, **[Director]** issues a Conditional Certificate of Tax Exemption. The Conditional Certificate expires three years from the date of approval unless an extension is granted.
 - d) If the **[Director]** denies the eligibility for tax exemption, the applicant may file an appeal within 30 days of receipt of notice. The **[Governing Body]** decides the appeal.
- 4) **Application for final certificate:** Upon completion of the improvements agreed upon in the contract between the applicant and the city and upon issuance of a temporary or permanent certificate of occupancy, the applicant may request a Final Certificate of Tax Exemption. The applicant must file with the **[Responsible Department]** the following:
 - a) A statement of expenditures made with respect to each multifamily housing unit and the total expenditures made with respect to the entire property.
 - b) A description of the completed work with evidence of final city inspection of all work completed and a statement of qualification for the exemption.
 - c) A statement that the work was completed within the required three-year period or any authorized extension.
 - d) If applicable, a statement that the project meets the affordability requirements.

[Other requirements, if applicable]

Within 30 days of receipt of all materials required for the Final Certificate, the [department director] determines whether the project has been completed in accordance with the contract.

- 5) **Issuance of final certificate.**
 - a) If approved, the [department director] files a Final Certificate of Exemption with the county assessor.
 - b) If denied, [include local option for applicant appeal].
- 6) **Annual compliance review. [Include local annual review requirements]**

Project Eligibility Checklist

The proposed project:

- Is in a designated residential targeted area.
- Does not displace any existing residential tenants from the property proposed for development without providing residents with comparable housing and opportunities to relocate.
- Is a multi-family or mixed-use project, which is at minimum 50% housing and provides at minimum four (4) new dwelling units.
- Will be completed within three years from the effective date of the city council approved Conditional Contract of Tax Exemption, with the possibility of an extension under the ordinance.

Applicant

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Owner

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Project Information

Project Address: _____

Tax Assessor Parcel Number(s): _____

Project Name: _____

Residential targeted area where project will be located: _____

Description of the project, including all uses in the proposed building and on-site amenities:

Total number of dwelling units proposed: _____

Term of tax exemption requested:

- 8-year
- 12-year
- 20-year

Number of units for which a tax exemption is requested: _____

Estimated total project cost: _____

Expected start date: _____ Expected completion date: _____

Type of project:

- New construction
- Conversion of existing structure
- Rehabilitation of multifamily structure

If the project is to rehabilitate existing units:

How long have the units been vacant: _____

If the units are occupied, how will the applicant provide existing tenants with relocation assistance:

Proposed Dwelling Units	Studio	1-BR	2-BR	3-BR+	Total units
Number of income-restricted units					
Number of market-rate units					
Average monthly rent (income-restricted)					
Average monthly rent (market-rate)					
Average unit size (sf)					
Development cost per unit					
Number of units vacant for 12 months or more*					
Number of units that are currently occupied*					

* To complete if applicant will rehabilitate existing units

Total site area: _____

Proposed density: _____

Non-residential floor area: _____

Detail on residential and non-residential parking area: _____

Affordability

For projects seeking a 12-year exemption or any program with affordability requirements:

Proposed Dwelling Units	Studio	1-BR	2-BR	3-BR+	Total units
Number of income-restricted units					
Number of units at or below 80% AMI (low-income)					
Average rent for low-income units					
Number of units at or below 115% AMI (moderate-income)					
Average rent for moderate-income units					

Statement of Potential Tax Liability

As owner of the land described in this application, I hereby indicate by my signature that I am aware of the additional tax liability if and when the property ceases to be eligible for exemption. I am aware that the tax exemption must be cancelled if the property is converted from multifamily to another use. I am aware that if I decide to convert the multifamily housing to another use or intend to discontinue compliance with the affordable housing requirements, I must notify the [city department] and the county assessor within 60 days of the change in use or intended discontinuance.

Owner signature: _____ Date: _____

Affirmation

As taxpayer(s) of the land described in this application, I hereby indicate by my signature that I am aware that the exemption does not begin until after the project is complete and I have applied for a Final Certificate of Exemption. I declare under penalty of perjury under the laws of the State of Washington that this application and any accompanying documents have been examined by me and that they are true, correct, and complete to the best of my knowledge.

Owner signature: _____ Date: _____

Attachments

[Site plan]

[Building floor plan]

Multifamily Property Tax Exemption Program

Application for Extension of Conditional Certificate

Applicant

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Owner

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Grounds for Extension Request

Note: Extensions may only be granted for a maximum of 24 months.

Owner signature: _____ Date: _____

Multifamily Property Tax Exemption Program

Application for Final Certificate

Program Overview

[Include key points of the local program for applicant awareness]

Summary of Process Steps

- 1) **Application for final certificate:** Upon completion of the improvements agreed upon in the contract between the applicant and the city and upon issuance of a temporary or permanent certificate of occupancy, the applicant may request a Final Certificate of Tax Exemption. The applicant must file with the [city department] the following:
 - a) A statement of expenditures made with respect to each multifamily housing unit and the total expenditures made with respect to the entire property.
 - b) A description of the completed work with evidence of final city inspection of all work completed and a statement of qualification for the exemption.
 - c) A statement that the work was completed within the required three-year period or any authorized extension.
 - d) If applicable, a statement that the project meets the affordability requirements.

Within 30 days of receipt of all materials required for the Final Certificate, the [department director] determines whether the project has been completed in accordance with the contract.

- 2) **Issuance of final certificate.**
 - a) If approved, the [department director] files a Final Certificate of Exemption with the county assessor.
 - b) If denied, [include local option for applicant appeal].
- 3) **Annual compliance review.** [include local annual review requirements]

Project Eligibility Checklist

The completed project:

- Is in a designated residential targeted area.
- Does not displace any existing residential tenants from the property proposed for development without providing residents with comparable housing and opportunities to relocate.
- Is a multi-family or mixed-use project, which is at minimum 50% housing and provides at minimum four new dwelling units.
- Was completed within three years from the effective date of the city council approved Conditional Contract of Tax Exemption, with the possibility of an extension under the ordinance.

Applicant

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Owner

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Project Information

Project Address: _____

Tax Assessor Parcel Number(s): _____

Project Name: _____

Residential targeted area where project will be located: _____

Was the project completed within the required three-year period or any authorized extensions?

- Yes
- No

Has this project received a certificate of occupancy?

- Yes, date: _____
- No

Term of tax exemption requested:

- 8-year
- 12-year
- 20-year

Number of units for which a tax exemption is requested: _____

Statement of Potential Tax Liability

As owner of the land described in this application, I hereby indicate by my signature that I am aware of the additional tax liability if and when the property ceases to be eligible for exemption. I am aware that the tax exemption must be cancelled if the property is converted from multifamily to another use. I am aware that if I decide to convert the multifamily housing to another use or intend to discontinue compliance with the affordable housing requirements, I must notify the [city department] and the county assessor within 60 days of the change in use or intended discontinuance.

Owner signature: _____ Date: _____

Affirmation

As taxpayer(s) of the land described in this application, I hereby indicate by my signature that I am aware that the exemption does not begin until after the project is complete and I have applied for a Final Certificate of Exemption. I declare under penalty of perjury under the laws of the State of Washington that this application and any accompanying documents have been examined by me and that they are true, correct, and complete to the best of my knowledge.

Owner signature: _____ Date: _____

Attachments

[Statement of expenditures]

Multifamily Property Tax Exemption Program

Application for Extension of Exemption

Program Overview

[Include key points of the local program for applicant awareness]

Summary of Process Steps

- **Application for extension:** The applicant may apply for a 12-year extension if the applicant received a Final Certificate of Tax Exemption, and this application is submitted within 18 months of the expiration date of that exemption.
- **Issuance of final certificate.**
 - If approved, the [department director] files a Final Certificate of Exemption with the county assessor.
 - If denied, [include local option for applicant appeal].
- **Annual compliance review. [Include local annual review requirements]**

Project Eligibility Checklist

The proposed project:

- Is in a designated residential targeted area.
- Does not displace any existing residential tenants from the property proposed for development without providing residents with comparable housing and opportunities to relocate.
- Is a multi-family or mixed-use project, which is at minimum 50% housing and provides at minimum four (4) new dwelling units.

Applicant

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Owner

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Statement of Potential Tax Liability

As owner of the land described in this application, I hereby indicate by my signature that I am aware of the additional tax liability if and when the property ceases to be eligible for exemption. I am aware that the tax exemption must be cancelled if the property is converted from multifamily to another use. I am aware that if I decide to convert the multifamily housing to another use or intend to discontinue compliance with the affordable housing requirements, I must notify the [city department] and the county assessor within 60 days of the change in use or intended discontinuance.

Owner signature: _____ Date: _____

Affirmation

As taxpayer(s) of the land described in this application, I hereby indicate by my signature that I am aware that the exemption does not begin until after the project is complete and I have applied for a Final Certificate of Exemption. I declare under penalty of perjury under the laws of the State of Washington that this application and any accompanying documents have been examined by me and that they are true, correct, and complete to the best of my knowledge.

Owner signature: _____ Date: _____

Attachments

city/county graphic

Multifamily Property Tax Exemption Program

Conditional Certificate of Tax Exemption

Project: **[Project name]**

Address: **[Project address]**

Property Tax Parcels: **[Project parcel numbers]**

Owner: **[Owner]**

Based on the representations made by the Owner, **[Director]** finds that the requirements for a **[MFTE option]** tax exemption under Chapter 84.14 RCW and **[Reference to local ordinance]** have been or will have been met for the multi-family housing improvements upon the property as described in Exhibit A (attached).

The **[Director]** hereby grants this Conditional Certificate of Acceptance of Tax Exemption, conditioned upon compliance with the terms of that Multi-Family Housing Property Tax Exemption Agreement for the Project between the **[City/County]** and the Owner, dated **[Date of Agreement]**, and filed for record under **[Recording number reference]**.

This Conditional Certificate of Acceptance of Tax Exemption is valid until **[Expiration date]**, unless **[Director]** grants an extension as provided in **[Reference to local ordinance]**.

Signature: _____ Date: _____

[Director / responsible official - name and title]

Attachments

Attachment A: Legal description of property

city/county graphic

Multifamily Property Tax Exemption Program

Final Certificate of Tax Exemption

Project: **[Project name]**

Address: **[Project address]**

Property Tax Parcels: **[Project parcel numbers]**

Owner: **[Owner]**

Based on the representations made by the Owner, **[Director]** of the **[City/County name]**:

- (i) finds that the requirements for tax exemption in Chapter 84.14 RCW and **[Reference to local ordinance]** have been met for multi-family housing improvements upon the property more fully described in Exhibit A (attached) and that such improvements and the commitments of the Owner in connection therewith are in compliance with the terms of the Multi-Family Housing Property Tax Exemption Agreement for the Project between the **[City/County name]** and the Owner, dated **[Date of Agreement]**, and filed for record under **[Recording number reference]**; and
- (ii) hereby grants this Final Certificate of Tax Exemption.

Signature: _____ Date: _____

[Director / responsible official - name and title]

cc: [County Assessor]

Attachments

Attachment A: Legal description of property

Multifamily Property Tax Exemption Program

Annual Report Form

Reporting Requirements

The property owner must file this annual report with the [city department] within thirty (30) days after the first anniversary of the date the Final Certificate of Tax Exemption was filed and recorded with the county assessor, and each year thereafter for the term of the exemption period. [state when annual reports are due if the jurisdiction has a specific date] Failure to submit this annual declaration may result in cancellation of the tax exemption.

Applicant

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Owner

Name: _____

Mailing Address: _____

Phone: _____ Email Address: _____

Project Information

Project Address: _____

Tax Assessor Parcel Number(s): _____

Project Name: _____

Date Final Certificate of Tax Exemption for this property was filed: _____

Has the property changed from multifamily use since the date of filing the Final Certificate of Tax Exemption?

- Yes
- No

Are any units in the property offered as short-term (less than 1 month) rental units?

- Yes
- No

Affirmation

As taxpayer(s) of the land described in this application, I declare under penalty of perjury under the laws of the State of Washington that this application and any accompanying documents have been examined by me and that they are true, correct, and complete to the best of my knowledge.

Owner signature: _____ Date: _____

Attachments

[Annual income certification forms for income-restricted units]

Multifamily Property Tax Exemption Program

Annual Tenant Income Verification Form

This form is to be filled out by the tenant and returned to the property manager by **[Date]**.

Tenant name: _____

Unit number: _____

Monthly rent: _____

Monthly utilities paid by tenant: _____

Number of persons in household: _____

Current annual income: _____

Amount of income received from each source in the past 12 months:

Income source	Amount
Employment	
Payments in lieu of earnings (e.g., unemployment, disability compensation)	
Income from business operations and income from real or personal property	
Periodic payments (e.g., Social Security, pensions, child support)	
Public assistance payments	

I/we certify that the information presented in this form is true and accurate to the best of my/our knowledge and belief. The undersigned further understands that providing false representations herein constitutes an act of fraud. False, misleading, or incomplete information may result in the termination of the lease agreement.

Tenant signature: _____ Date: _____

Tenant signature: _____ Date: _____

Tenant signature: _____ Date: _____

Sample MFTE Contract

The attached sample contract is based on a template provided by the City of Shoreline. Note that this document will need to be adjusted to account for your individual community's program, accounting for differences in requirements for the exemption.

As with the other sample documents, this is intended to provide an example of the MFTE contract that can be used as part of a local program. Consult with a legal professional prior to using this template to ensure that this will address your needs.

WHEN RECORDED, MAIL TO:

[Community Name]

[Community Address 1]

[Community Address 1]

ATTN: [Clerk]

WASHINGTON STATE COUNTY AUDITOR/RECORDER/S INDEXING FORM

<p>Document Title(s) <i>(or transactions contained therein):</i></p> <p>MULTI-FAMILY HOUSING LIMITED PROPERTY TAX EXEMPTION CONTRACT</p>
<p>Reference Number(s) of Documents assigned or released:</p> <p><input type="checkbox"/> Additional reference numbers on page ____ of document.</p>
<p>Grantor(s) <i>(Last name first, then first name and initials):</i></p> <p><input type="checkbox"/> Additional names on page ____ of document.</p>
<p>Grantee(s) <i>(Last name first, then first name and initials):</i></p> <p>1. [Community Name]</p> <p><input type="checkbox"/> Additional names on page of document.</p>
<p>Legal Description <i>(abbreviated form; i.e., lot, block, plat name, section-township-range):</i></p> <p><input type="checkbox"/> Additional legal on Exhibit "A" of document.</p>
<p>Assessor's Property Tax Parcel Account Number(s):</p>

The Auditor/Recorder will rely on the information provided on the form. The staff will not read the document.

MULTI-FAMILY HOUSING LIMITED PROPERTY TAX EXEMPTION CONTRACT

PROJECT NAME

THIS MULTI-FAMILY HOUSING LIMITED PROPERTY TAX EXEMPTION CONTRACT (the "Contract") is made and entered into as of this ____ day of _____, 20____, by and between **[Community Name]**, a Municipal Corporation of the State of Washington (the "City"); _____, a Washington limited liability company (the "Applicant").

WHEREAS, the City has an interest in stimulating new construction or rehabilitation of multi-family housing in Residential Targeted Areas in order to reduce development pressure on single-family residential neighborhoods, increase and improve housing opportunities, provide affordable housing opportunities, and encourage development densities supportive of transit use; and

WHEREAS, the City has, pursuant to the authority granted to it by Revised Codes of Washington (RCW) Chapter 84.14, designated various areas of the City as Residential Targeted Areas for the provision of a limited property tax exemption for new or rehabilitation multi-family housing; and

WHEREAS, the City has, as set forth in **[Code Reference]**, enacted a program whereby property owners may qualify for a Final Certificate of Tax Exemption which certifies to the **[County Assessor Name]** that the owner is eligible to receive a limited property tax exemption; and

WHEREAS, the Owner is interested in receiving a limited property tax exemption for constructing _____ units of NEW multifamily housing ("Project") within the _____ Residential Targeted Area pursuant to **[Code Reference]**; and

WHEREAS, the Owner submitted to the City a complete application for Property Tax Exemption outlining the proposed Project to be constructed on property located at _____ in **[Community Name]** ("Property") and legally described in Exhibit A of this Contract; and

WHEREAS, in consideration of the City's approval of Permit No. _____, the Owner accepts certain conditions affecting the use of the Property and the improvements authorized by Permit No. _____. It is the purpose of this Contract to set forth those conditions and to impose enforceable restrictions on the use and occupancy of the residential portion of the Property; and

WHEREAS, on _____, the **[Responsible Official]** determined that the application met all the eligibility and procedural requirements to qualify for a Conditional Certificate of Acceptance of Property Tax Exemption as provided in **[Code Reference]**, except for entering in to and recording this Contract; and

WHEREAS, on _____, the City Council authorized **[Responsible Official]** to execute this contract; and

WHEREAS, the City has determined that the improvements will, if completed as proposed, satisfy the requirements for a Final Certificate of Tax Exemption.

NOW, THEREFORE, for and in consideration of the mutual promises aforesaid and made and relied upon by the parties hereto, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Owner and the City mutually agree as follows:

SECTION 1 – DEFINITIONS

Unless otherwise expressly provided herein, the following terms shall have the respective meanings set forth below. If a term is not defined herein, then it shall be defined as provided in **[Code Reference]** or given its usual and customary meaning.

“Affordable Units” means the _____ units in the Project designated by the Owner and approved by the City, as set forth in Exhibit B, and reserved for occupancy by Eligible Households with maximum rents pursuant to Section 3.

“City’s Designee” mean that individual(s) authorized by the City to administer this Contract.

“Completion Date” means the date of the first certificate of occupancy issued by the City for the Project.

“Compliance Period” means _____ years from the date of initial occupancy of the Affordable Units.

“Dwelling Unit” means a residential living facility, used, intended, or designed to provide physically segregated complete independent living facilities for one or more persons, including living, sleeping, cooking and sanitation facilities.

“Eligible Household” means one or more adults and their dependents who meet the qualifications for eligibility set forth in Section 3.F. or Section 3.I.

“Household Income” means gross annual income from all household members over the age of 18 residing in the household. Gross annual income consists of all wages, benefits (e.g., military, unemployment, welfare), interest, and other such income. Income of dependents over the age of 18 who reside within a household for less than three (3) months of the year will not be counted toward Household Income.

“Household Size” means all of the persons, related or unrelated, occupying an Affordable Unit. For the purpose of calculating maximum Housing Expenses, studio apartments are assumed to have 1 person, with 1.5 persons per bedroom in larger units.

“Housing Expense” means a tenant’s costs for rent, parking for one motor vehicle if a parking space is available, Utilities or an equivalent Utility Allowance, and any recurring expenses required by the Owner as a condition of tenancy (including but not limited to renter’s insurance, pest control, and sewer system capacity charges). Expenses that the Owner makes optional, such as pet rent, extra storage space, or extra parking, are not considered Housing Expenses for the purpose of this Contract.

“Median Income” means the median family income for the **[Metro Area]** as most recently published by the Secretary of Housing and Urban Development (HUD), as amended. In the event that HUD no longer publishes median family income figures, the City may estimate the Median Income applicable to the City in such manner as the City shall determine in its sole discretion.

“Property” means the real property, together with improvements, legally described in Exhibit A.

“Project” means the Owner’s multi-family residential building containing _____ Dwelling Units, also known as “_____.”

“Utility” or “Utilities” means water, electricity, natural gas, sewer, and garbage collection but not including phone, internet service, or cable or satellite television.

“Utility Allowance” means that portion of Housing Expenses that the City determines, from time to time, is adequate for the reasonable Utility costs of Affordable Units in the event the Owner makes tenants responsible for payment for their own Utilities.

SECTION 2 – THE PROJECT

A. General Description. The Owner will construct the Project for purposes of providing multi-family rental housing, and the Owner shall own, manage, and operate (or cause the management and operation of) the Project. The Owner agrees to construct the Project in compliance with all applicable land use regulations and as approved and permitted by the City. In no event shall such construction provide less than fifty percent (50%) of the space for permanent residential occupancy as required by **[Code Reference]**.

B. The Owner agrees to complete construction of the agreed upon improvements within three (3) years from the date the City issues the Conditional Certificate of Acceptance of Tax Exemption, or within any extension thereof granted by the City.

C. Conversion from Renter-Occupied to Owner-Occupied. In the event the Property is proposed for conversion to a condominium, owner-occupied, or non-rental residential use during the Compliance Period, the Owner must submit to the City for its review a plan for preserving the Affordable Units. The City may consider options which would convert the Affordable Units to owner- occupancy by Eligible Households and are consistent with the provisions of **[Code Reference]**. The Owner must receive authorization from the City prior to conversion to condominium, owner-occupied, or non-rental residential use. This section does not waive the Owner’s obligations to comply with any other law or regulations pertaining to conversion to ownership use.

SECTION 3 – AFFORDABLE UNITS FOR ELIGIBLE HOUSEHOLDS

A. Number of Affordable Units. The Project shall include the number and types of Affordable Units as set forth in the table below.

Dwelling Units in the Project

Unit Type (Bedrooms)	Affordable Units	Total Units
Studio		
Open 1-bedroom		
1-bedroom		
2-bedroom		
3-bedroom		
Total		

B. Location. The location of the affordable housing units shall be approved by the City, with the intent that the units are generally mixed with all other market rate housing in the development. Unless otherwise approved by the City, Affordable Units shall not exceed forty percent (40%) of the dwelling units on any floor of a single building of the Project.

C. Similar Quality Construction. All of the Dwelling Units in the Project shall be constructed of similar quality. The Affordable Unit(s) shall have substantially the same net square footage, equipment, and amenities as other Dwelling Units in the Project with a comparable number of rooms.

D. Designation of Affordable Units. The Owner agrees to designate the Dwelling Units identified in Exhibit B as Affordable Units. The Owner, from time to time, may propose to change the specific Dwelling Units designated as Affordable Units herein, in which case the Owner shall notify the City of the proposed change in writing for the City's approval. The City will review the proposed changes and shall approve or deny the proposed changes based upon the criteria that at all times at least _____ of all of the Dwelling Units in the Project are designated as Affordable Units, and provided that at all times the same unit mix and affordability mix is retained.

E. Maximum Rents for Affordable Units.

(1) The Housing Expense of an Affordable Unit shall not exceed thirty percent (30%) of eighty percent (80%) of Median Family Income, with adjustments for assumed Household Size.

(2) An Affordable Unit's contract rent shall not exceed the unit's maximum Housing Expense less a Utility Allowance, if applicable, and any other recurring expenses required by the Owner as a condition of rental.

(3) No Affordable Unit's tenant shall have more than one rent increase for the same Unit in any twelve (12)-month period; provided, however, that in the event an Affordable Unit's lease expires and said tenant elects to continue leasing the Affordable Unit on a month-to-month tenancy, and the tenant remains an Eligible Household, the Owner may increase the rent for that Affordable Unit up to once every thirty (30) days but no higher than the maximum contract rent as set forth in this section.

F. Renting Affordable Units to Eligible Households. During the Compliance Period, the Owner shall lease or rent, or make available for lease or rental, to Eligible Households all of the Affordable Units in the Project. If at any time the Owner is unable to rent or lease an Affordable Unit, then the Affordable Unit shall remain vacant pending rental or lease to Eligible Households.

G. Income Qualifications for Eligible Households.

(1) To qualify as an Eligible Household for initial occupancy of an Affordable Unit, a household's Household Income may not exceed eighty percent (80%) of Median Family Income, with adjustments for assumed Household Size.

(2) At time of recertification, as provided in Section I below, a tenant will remain an Eligible Household as long as said tenant's Household Income does not exceed the Maximum Income for Recertification.

H. Occupancy Limits for Affordable Units. The Owner shall utilize the following occupancy standards for Affordable Units:

Occupancy Limits

Unit Type (Bedrooms)	Minimum Occupants
Studio	1 person
1-bedroom	1 person
2-bedroom	2 persons
3-bedroom	3 persons
4-bedroom	4 persons

I. Completion of Certificate of Household Eligibility. Prior to allowing any household to occupy any Affordable Unit, the Owner shall require the prospective tenant to complete a Certification of Household Eligibility (“COHE”) that shall be substantially in the form set forth in Exhibit C. The Owner shall also undertake a good faith effort to verify the prospective tenant’s Household Income, as reported on the completed COHE. The Owner’s obligation to verify the reported Household Income shall be limited to requesting copies of and reviewing the prospective tenant’s federal income tax returns, unless the Owner has actual knowledge, or reason to believe, that the information provided by the prospective tenant is materially inaccurate. In the event federal income tax returns are not available, the Owner shall verify Household Income using wage or salary statements, or other income records that the City may consider appropriate.

J. Household Eligibility Recertification. At each renewal of a lease for an Affordable Unit, the Owner shall require all tenants occupying Affordable Units to complete and return to the Owner an updated COHE. The Owner shall undertake a good faith effort to verify the reported Household Income as set forth in Section 3(H). If a tenant’s Household Income exceeds the Maximum Income for Recertification set forth below when the tenant’s lease expires, then within ninety (90) calendar days either (a) the Owner may charge said tenant the current, applicable market rent for the Dwelling Unit and the Owner must designate and rent the next available comparable market rate Dwelling Unit as an Affordable Unit, or (b) the tenant must vacate the Dwelling Unit, unless otherwise prohibited by law, so as to make it available for an Eligible Household.

Maximum Household Income for Recertification

Unit Type (Bedrooms)	Percent of Median Income
Studio	90%
1-bedroom	90%
2-bedroom	100%
3-bedroom	100%
4-bedroom	100%

K. Equal Access to Common Facilities. Tenants of the Affordable Units shall have equal access to all amenities and facilities of the Project, such as parking, fitness centers, community rooms, and swimming pools. If a fee is charged for the use of an amenity or facility, then all tenants in the Project must be charged equally for such use. If the City prohibits a fee for certain amenities or facilities included in the Project, such as parking, the Owner shall include such amenities or facilities in the rent price of an Affordable Unit. Parking is not guaranteed for all units and will be provided on a first-come, first-served basis.

SECTION 4 – MULTI-FAMILY LIMITED PROPERTY TAX EXEMPTION

A. The City agrees to issue the Owner a Conditional Certificate of Acceptance of Tax Exemption (“Conditional Certificate”) once this Contract is approved by the City Council, fully executed, and recorded with the **[County]** Recorder’s Office. The Conditional Certificate shall expire three (3) years from the date the City Manager approved the Owner’s application for tax exemption, unless extended by the City Manager as provided in **[Code Reference]**.

B. The Owner shall, upon completion of the improvements and upon issuance by the City of a temporary or permanent certificate of occupancy, file with the City Manager an application for Final Certificate of Tax Exemption (“Final Certificate”) with the information and fees required by **[Code Reference]**. Required information includes:

- (1) A statement of expenditures made with respect to each multi-family housing unit and the total expenditures made with respect to the entire Property;
- (2) A description of the completed work and a statement of qualification for the exemption;
- (3) A statement that the work was completed within the required three-year period or any authorized extension; and
- (4) A statement that the Project meets affordable housing requirements of **[Code Reference]**.

C. The City agrees, conditioned on the Owner’s successful completion of the improvements in accordance with the terms of this Contract and on the Owner’s filing of the materials described in Section B above, to file a Final Certificate with the **[County Assessor]** within forty (40) days of application.

D. The Owner agrees, by December 15 of the year in which the City issued a Final Certificate for the Project, to provide the City information sufficient to complete the City’s report to the Washington State Department of Commerce as set forth in **[Code Reference]**.

E. If the Owner converts any of the new or rehabilitated multi-family housing units constructed under this Contract into another use, the Owner shall notify the **[County Assessor]** and the City Manager within sixty (60) days of such change in use.

F. Owner agrees that the Contract is subject to the **[Community Name]** Multi-Family Housing Tax Exemption set forth in **[Code Reference]**.

SECTION 5 – ENFORCEMENT

A. Enforcement Provisions. The Owner shall exercise reasonable diligence to comply with the requirements of this Contract and shall correct any such noncompliance within sixty (60) calendar days after such noncompliance is first discovered by the Owner, or would have been discovered by the exercise of reasonable diligence, or within sixty (60) calendar days after the Owner receives notice of such noncompliance from the City, whichever is earliest; provided however, that such period for correction may be extended by the City if the Owner is exercising due diligence to correct the noncompliance. If such noncompliance remains uncured after such period, then the Owner shall be in default and the City on its own behalf may take any one or more of the following actions:

(1) By any suit, action or proceeding at law or in equity, require the Owner to perform its obligations under this Contract, or enjoin any acts or things which may be unlawful or in violation of the rights of the City hereunder; it being recognized that the beneficiaries of the Owner's obligations hereunder cannot be adequately compensated by monetary damages in the event of the Owner's default;

(2) Have access to, and inspect, examine and make copies of, all of the books and records of the Owner pertaining to the Project. Provided, however, the City shall not divulge such information to any third party unless required by law or unless the same is necessary to enforce the City's rights hereunder; and

(3) Take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants, conditions and agreements of the Owner under this Contract.

SECTION 6 – CANCELLATION OF TAX EXEMPTION

A. The City reserves the right to cancel the Final Certificate should the Owner, its successors and assigns, fail to comply with any of the terms and conditions of this Contract, **[Code Reference]**, or for any reason that the Project or that portion of the Property on which the Project is constructed no longer qualifies for the tax exemption.

B. Upon determining that a tax exemption is to be canceled, the City Manager shall notify the Owner by certified mail, return receipt request. The Owner may appeal the determination in accordance with **[Code Reference]**.

C. The Owner acknowledges that, in the event the City cancels the tax exemption, state law requires that an additional real property tax is to be imposed in the amount of (1) the difference between the tax paid and the tax that would have been paid if it had included the value of the non-qualifying improvements, dated back to the date that the improvements became non-qualifying; (2) a penalty of twenty percent (20%) of the difference calculated under (1) of this Paragraph C; and (3) interest at the statutory rate on delinquent property taxes and penalties, calculated from the date the tax would have been due without penalty if the improvements had been assessed without regard to the exemptions provided by Chapter 84.14 RCW and **[Code Reference]**. The Owner acknowledges that, pursuant to RCW 84.14.110, any additional tax owed, together with interest and penalty, become a lien on that portion of the Property on which the Project is constructed and attached at the time the portion of the Property is removed from multi-family use or the amenities no longer meet applicable requirements, and that the lien has priority to and must be fully paid and satisfied before a recognizance, mortgage, judgment, debt, obligation, or responsibility to or with which the Property may become charged or liable. The Owner further acknowledges that RCW 84.14.110 provides that any such lien may be foreclosed in the manner provided by law for foreclosure of liens for delinquent real property taxes.

SECTION 7 – REPORTING REQUIREMENTS

- A. Notice of Occupancy Permit. The Owner shall notify the City’s Designee of receipt of the first occupancy permit for the Project within thirty (30) calendar days of the permit’s issuance.
- B. Initial Project Certification. After the Completion Date and until ninety percent (90%) of all rental units in the Project are occupied, the Owner shall file with the City a Project Certification report, substantially in the form of Exhibit D, attached with copies of the COHE required under Section 3 of this Contract.
- C. Annual Project Certification. The Owner shall file with the City Manager, within thirty (30) days following the first anniversary of the City’s filing of the Final Certificate and each year thereafter for the duration of the property tax exemption, a report substantially in the form of Exhibit D, attached with copies of the COHE and which includes information required by **[Code Reference]**, which includes:
- (1) A statement of occupancy and vacancy of the newly constructed or rehabilitated Project during the past twelve (12) months ending with the anniversary date;
 - (2) A certification by the Owner that the Project has not changed use since the date the City approved the Final Certificate and that Project conforms with affordable housing requirements of **[Code Reference]**; and
 - (3) A description of any subsequent changes or improvements constructed after issuance of the Final Certificate.
- D. Maintain Complete Records. The Owner shall maintain complete and accurate records pertaining to the Affordable Units and shall, during regular business hours, permit any duly authorized representative of the City, including, without limitation, the City’s Designee, to inspect the books and records of the Owner pertaining to the Affordable Units, including the Initial and Annual Project Certifications, and if applicable, income documentation of households residing in Affordable Units in the Project. The Owner’s failure to maintain such records or failure to allow inspection by the City or any duly authorized representative shall constitute a material default hereunder. The Owner shall retain all records pertaining to the Affordable Units for at least six (6) years.
- E. Form of Certification. Notwithstanding anything in this Section to the contrary, the Owner shall submit all documentation required by this Section on the forms designated herein, which may be modified by the City from time to time. Changes to forms by the City shall not increase the Owner’s obligations hereunder.

SECTION 8 – SUBSIDIZED TENANTS

The Owner shall accept as tenants for Affordable Units, on the same basis as all other prospective households, households who receive state or federal rent subsidies, such as Housing Choice Vouchers under Section 8 of the United States Housing Act of 1937, or other rent subsidies. The Owner shall not apply, or permit the application of, management policies or lease provisions with respect to the Project which have the effect of precluding occupancy of any Dwelling Units by rent subsidy recipients.

SECTION 9 – LEASE PROVISIONS

A. It is the Owner’s responsibility to screen and select tenants for desirability and credit worthiness. Except as restricted in this Contract and under state and federal law, such selection is within the Owner’s discretion. If written management policies exist, or exist in the future, with respect to the Project, the City may review such written policies and may require changes in such policies, if necessary, so that the policies comply with the requirements of this Contract.

B. All leases for Eligible Households shall contain clauses wherein each individual lessee: (i) certifies the accuracy of the statements made in the COHE, (ii) agrees that the Household Income and other eligibility requirements shall be deemed substantial and material obligations of the tenancy, and (iii) agrees that misrepresentation in the COHE is a material breach of the lease, entitling the Owner to immediately terminate tenant’s lease for the Affordable Unit.

SECTION 10 – SALE OR TRANSFER OF THE PROJECT

The Owner hereby covenants and agrees not to sell, transfer or otherwise dispose of the Project or any portion thereof without first providing a written statement executed by the purchaser that the purchaser understands the Owner’s duties and obligations under this Contract and will enter into a contract with the City for the continuation of those obligations. Such notice must be received by the City at least ten (10) working days prior to the close of escrow.

SECTION 11 – TERM

This Contract shall become effective upon its execution and shall continue in full force and effect throughout the Compliance Period, unless sooner modified or terminated by the City or property owner consistent with **[Code Reference]**, as adopted on the date of execution of this Agreement.

SECTION 12 – NO DISCRIMINATION

The Owner shall not discriminate on the basis of race, creed, religion, color, sex, sexual orientation, age, national origin, marital status, citizenship or immigration status, honorably discharged veteran or military status, or presence of any mental or physical handicap as set forth in RCW 49.60.030, as now existing and as may be amended, in the lease, use, or occupancy of the Project or in connection with the employment or application for employment of persons for the operation and management of the Project.

SECTION 13 – COVENANTS RUN WITH LAND

A. The City and Owner hereby declare their understanding and intent that the covenants, conditions and restrictions set forth herein directly benefit the land (i) by enhancing and increasing the enjoyment and use of the Project by certain Eligible Households, and (ii) by furthering the public purposes of providing housing for Eligible Households.

B. The City and the Owner hereby declare that the covenants and conditions contained herein shall bind the Owner and all subsequent owners of the Project or any interest therein, and the benefits shall inure to the City, all for the Compliance Period. Except as provided in Section 12 of this Contract, each and every contract, deed or other instrument hereafter executed conveying the Project or any portion thereof or interest therein shall contain an express provision making such conveyance subject to the covenants and conditions of this Contract, provided however, that any such contract, deed or other instrument shall conclusively be held to

have been executed, delivered and accepted subject to such covenants and conditions, regardless of whether or not such covenants and conditions are set forth or incorporated by reference in such contract, deed or other instrument.

C. Hold Harmless. The Owner shall defend, indemnify, and hold the City, its officers, officials, employees, volunteers and its Designee and any other party authorized hereunder to enforce the terms of this Contract, harmless from any and all claims, injuries, damages, losses, or suits, including attorney fees, arising out of or resulting from this Contract. This provision shall survive termination or expiration of this Contract.

D. No Third-Party Beneficiaries. The provisions of this Contract and of the documents to be executed and delivered in connection herewith are and will be for the benefit of the Owner and the City only and, are not for the benefit of any third party (including, without limitation, any tenants or tenant organizations), and accordingly, no third party shall have the right to enforce the provisions of this Contract or of the documents to be executed and delivered in connection herewith.

E. The provisions, covenants, and conditions contained in this Contract are binding upon the parties hereto and their legal heirs, representatives, successors, assigns, and subsidiaries and are intended to run with the land.

SECTION 14 – FORECLOSURE

In the case of any foreclosure, the immediate successor in interest in the Property pursuant to the foreclosure shall assume such interest subject to the lease(s) between the prior Owner and the tenant(s) and to this Contract for Affordable Units. This provision does not affect any state or local law that provides longer time periods or other additional protections for tenants.

SECTION 15 – ESTOPPEL CERTIFICATE

The City agrees, upon the request of the Owner or its successor in interest, to promptly execute and deliver to the Owner or its successor in interest or to any potential or actual purchaser, mortgagor, or encumbrancer of the Project, a written certificate stating, if such is true, that the City has no knowledge of any violation or default by the Owner of any of the covenants or conditions of this Contract, or if there are such violations or defaults, the nature of the same.

SECTION 16 – AGREEMENT TO RECORD

The Owner shall cause this Contract to be recorded in the real property records of King County, Washington. The Owner shall pay all fees and charges incurred in connection with such recording and shall provide the City with a copy of the recorded document.

SECTION 17 – RELIANCE

The City and the Owner hereby recognize and agree that the representations and covenants set forth herein may be relied upon by City and the Owner. In performing its duties and obligations hereunder, the City may rely upon statements and certificates of the Owner and Eligible Households, and upon audits of the books and records of the Owner pertaining to occupancy of the Project. In performing its duties hereunder, the Owner may rely on the Certificates of Household Eligibility unless the Owner has actual knowledge or reason to believe that such Certificates are inaccurate.

SECTION 18 – GOVERNING LAW

This Contract shall be governed by the laws of the State of Washington, except to the extent such laws conflict with the laws of the United States or the regulations of federally insured depository institutions or would restrict activities otherwise permitted in relation to the operation of federally insured depository institutions. Venue for any legal actions shall be in King County Superior Court or, if pertaining to federal laws, the U.S. District Court for Western Washington.

SECTION 19 – NO CONFLICT WITH OTHER DOCUMENTS

The Owner warrants that it has not executed and will not execute, any other agreement with provisions contradictory to, or in opposition to, the provisions hereof, and that in any event the requirements of this Contract are paramount and controlling as to the rights and obligations herein set forth and supersede any other requirements in conflict herewith.

SECTION 20 – AMENDMENTS

This Contract shall be amended only by a written instrument executed by the parties hereto or their respective successors in interest, and duly recorded in the real property records of **[County Name]**, Washington. Amendments to Exhibit B shall be considered approved in writing when the Revised Exhibit B is signed by the Owner and the City without the need for a further written document attaching the revised exhibit and striking prior versions of the exhibit. In the event of conflict between versions of Exhibits B, the version maintained by the City as the then-current version, signed by Owner and City, shall prevail.

SECTION 21 – NOTICE

A. Any notice or communication hereunder, except legal service of process, shall be in writing and may be given by registered or certified mail. The notice or communication shall be deemed to have been given and received when deposited in the United States Mail, properly addressed with postage prepaid. If given otherwise, it shall be deemed to be given when delivered to and received by the party to whom addressed. Such notices and communications shall be given to the Parties' representatives hereto at their following addresses:

If to the City:

[Community Name]
[Community Address 1]
[Community Address 2]

Attn: City Manager

If to the Owner:

Attn:

With a copy to:

Attn:

B. Any party may change its identified representative and address for notices upon ten (10) calendar days prior written notice to the other parties. Legal counsel for a party may deliver notices on behalf of the represented party and such notice shall be deemed delivered by such party.

SECTION 22 – SEVERABILITY

If any provision of this Contract shall be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

SECTION 23 – CONSTRUCTION

Unless the context clearly requires otherwise, words of the singular number shall be construed to include the plural number, and vice versa, when appropriate. All the terms and provisions hereof shall be construed to effectuate the purposes set forth in this Contract and to sustain the validity hereof.

SECTION 24 – TITLES AND HEADINGS

The titles and headings of the sections of this Contract have been inserted for convenience of reference only, are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof or be considered or given any effect in the construing this document or any provision hereof or in ascertaining intent, if any question of intent shall arise.

SECTION 25 – COUNTERPART ORIGINALS

This Agreement may be executed in any number of counterpart originals, each of which shall be deemed to constitute an original agreement, and all of which shall constitute one agreement. The execution of one counterpart by a Party shall have the same force and effect as if that Party had signed all other counterparts.

SECTION 26 – AUTHORITY TO EXECUTE

Each person executing this Agreement on behalf of a Party represents and warrants that he or she is fully authorized to execute and deliver this Agreement on behalf of the Party for which he or she is signing. The Parties hereby warrant to each other that each has full power and authority to enter into this Agreement and to undertake the actions contemplated herein and that this Agreement is enforceable in accordance with its terms.

IN WITNESS WHEREOF, the Owner and City have each executed the Multi-Family Housing Limited Property Tax Exemption Contract on the Date first above written.

[Signature pages follow.]

Attachments

Exhibit A: Legal Description

Exhibit B: Designation of Affordable Units

Exhibit C: Certification of Household Eligibility Form

Exhibit D: Annual Project Certification Form