

City of Othello

Multifamily Tax Exemption Overview

A recommendation in the 2021 Housing Action Plan



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Summary

The city of Othello adopted a [Housing Action Plan](#) on June 28, 2021. Major findings in the Housing Action Plan include the following:

- Housing supply is limited, and homeownership is unaffordable for many households
- Rental housing costs are rising and restricting options for low- and moderate-income households
- There is a lack of diversity in the housing options available to local households and a misalignment between the size of housing units and the size of households
- There are limited affordable housing options large enough for families with children
- There is a lack of both permanent and seasonal housing for farmworkers, especially for low-income households

Based on these findings, the review suggested that Othello's current and future housing needs can be supported through four objectives:

1. Make it easier to build affordable ownership and rental housing
2. Increase housing variety and choices
3. Ensure opportunities for affordable and properly sized housing for families with children
4. Promote housing for seasonal and permanent workers supporting the agriculture-based economy

The objectives would be reached if the following four Housing Action Plan strategies are accomplished:

1. Revise Zoning and Building Standards
2. Parking and Transportation Standards
3. Affordable Housing Incentives
4. Process Improvements

This report focuses on one of the affordable housing incentives in the Housing Action Plan – “Explore the use of a Multifamily Tax Exemption (MFTE) program for affordable housing”.

The [Multifamily Tax Exemption program](#) began in 1995 to incentivize residential development in urban centers. The program was originally limited to Washington State's largest cities. Over the years, the program's success in encouraging housing development prompted the State Legislature to offer it in smaller urban areas. In 2021, the Legislature amended the statute, making it available to all cities in the state, including Othello.

The City is considering adoption of this tax exemption program. Initial briefings with the Planning Commission and City Council were held early fall 2022 and the City is now considering whether to move forward with an ordinance to offer the property tax incentive starting in 2023.

What is the MFTE Program?

Othello could offer property tax exemptions for new construction, conversion, and rehabilitation of multifamily residential improvements. Projects that qualify do not pay property taxes on the residential improvements for either 12 or 20 years, depending on the program. The project would still pay taxes on the land and any nonresidential development, such as the commercial portion of a mixed-use building.

12-year program

To be eligible for the 12-year program, a project would have to build at least 4 units of multiple unit housing in an area Othello targets for this program. 20% of the units must be set aside for low- and moderate-income households (see income and rent limits below). The remaining units (80%) can be rented at market rate. At the end of the 12 years, the income and rent restrictions are removed and property taxes on the improvements would be required going forward.

20-year program

Like the 12-year program, a project in the 20-year program would also have to build at least 4 units of multiple unit housing in a target area. To qualify for this program, 25% of the units must be sold to a qualified nonprofit or local government partner that will assure permanent affordable homeownership (99 years). The nonprofit or local government must sell or rent to households earning no more than 80% of the area median income (AMI). The remaining units (75%) can be rented or sold at market rate. At the end of the 20 years, property taxes on the improvements would be required unless owned by a nonprofit or local government.

What are the Income and Rent Restrictions Required for MFTE?

Income Restrictions

The MFTE legislation requires a portion of the units be set aside for low- and moderate-income households (see above). Under this legislation, a low- and moderate-income household is defined as follows:

- “Low-income household” means a single person, family, or unrelated persons living together whose adjusted income is **at or below eighty percent** of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development (“HUD”).
- “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** of the median family income adjusted for family size, for the county, city, or metropolitan statistical area, where the project is located, as reported by the United States department of housing and urban development (“HUD”).

HUD doesn’t report income limits for Othello, so the income limits for Adams County are used. See the following table for the 2022 income limits:

Table 1: 2022 Income Limits for Adams County

	Household Size							
	1 PER-SON	2 PER-SONS	3 PER-SONS	4 PER-SONS	5 PER-SONS	6 PER-SONS	7 PER-SONS	8 PER-SONS
80% AMI (Low Income)	44,240	50,560	56,880	63,120	68,240	73,280	78,320	83,360
100% AMI	55,300	63,200	71,100	78,900	85,300	91,600	97,900	104,200
115% AMI (Moderate Income)	63,595	72,680	81,765	90,735	98,095	105,340	112,585	119,830

Source: Based on the HUD Published Income Limits for 2022 available in the Rent & income calculator available from Novogradac & Company <https://ric.novoco.com/tenant/rentincome/calculator/z1.jsp>

Rent Restrictions

Housing that must be made available to low- and moderate-income households must be “affordable” to those households. “Affordable housing” means housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty percent (30%) of the household’s monthly income. HUD sets rent limits based on bedroom size as set forth below.

Table 2: 2022 Rent Limits for Adams County

Income	Bedrooms (People)				
	Efficiency (1.0)	1 Bedroom (2.0)	2 Bedrooms (3.0)	3 Bedrooms (4.0)	4 Bedrooms (5.0)
80% AMI (Low Income)	1,106	1,264	1,422	1,578	1,706
100% AMI	1,382	1,580	1,777	1,972	2,132
115% AMI (Moderate Income)	1,589	1,817	2,044	2,268	2,452

How would the 20-year homeownership program work?

If a developer wanted a 20-year property tax exemption, they would be required to sell 25% of the housing units to a nonprofit or local government, who in turn would be obligated to ensure that the units are “permanently affordable homeownership” for low-income households. Permanent affordability is enforced through the sponsor (nonprofit or local governmental entity), subject to a ground lease or deed restriction, includes resale restrictions, and has a duration of at least 99 years at the initial sale and with each successive sale.

The developer or owner would still benefit from the 20-year exemption on the 75% of homes not sold to the nonprofit or local government, and there would not be any sale or income restrictions on the units that are retained.

The median value of homes for sale in August 2022 was \$338,800; the lowest price on the market in August 2022 was \$280,000. Assuming a 20% down payment, a household would need an annual income

of approximately \$81,600 to afford the median value and \$67,320 for the lowest priced home on the market.

Can existing units be rehabilitated and qualify?

Conversion of a non-residential building or rehabilitation of existing buildings may qualify for the Multifamily Tax Exemption program. As with other aspects of the program, the two major requirements begin with the creation of at least four new residential units and setting aside at least 20% of the units for affordable housing, or 25% of the units for permanent homeownership in the 20-year program.

In the case of rehabilitation of existing buildings, the exemption does not include the value of improvements constructed prior to the submission of the application.

Where would these multifamily units be allowed?

Othello will be required to designate areas where this program would be offered. The state legislation requires the following:

1. The property tax exemption would only be available where the zoning and development standards allow multifamily units (at least 4-units) and in an area zoned for a minimum density of 15 units per gross acre.
2. The area designated must be a compact identifiable district where urban residents may obtain a variety of products and services. It must contain:
 - several existing or previous business establishments;
 - 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.

What are the potential property taxes that will be foregone for approved projects?

It is important to emphasize that the exemption is **not a reduction** in the amount of property tax that is currently collected by the City or other taxing districts; it is property tax that is foregone in exchange for new housing being constructed. The value of the land and any non-residential improvements will continue to be subject to property tax and any increase/decrease in valuation or levies assessed by the taxing districts.

The levy rate for property taxes for Othello in 2022 is \$12.663571501 per thousand of assessed value. For example, a property valued at \$200,000 would have a property tax levy assessment in 2022 of \$2,533.

A hypothetical development that adds \$1.25 million in construction value would save \$15,829 in annual property taxes based on 2022 levy rates. This exemption would be extended for 12- or 20-years, depending on the project and program. Cumulatively, this property tax exemption could amount to \$200,757 in foregone property taxes over 12 years for the project.

Other tax benefits from construction

While property taxes on the new housing construction are foregone, the construction is subject to sales tax. The city of Othello collects 1.6% of the sales tax collected. On a \$1.25 million construction project, the City could anticipate collecting \$19,875 in sales tax, which is more than five years of the city's share of property tax.

New housing development in the City can be a catalyst for other housing and economic development. In this incentive program, new housing construction must be in areas that have at least 15 units per gross acre and in an urban center that includes business establishments, adequate public facilities, and a mixture of uses and activities that may include housing, recreation, and cultural activities. Existing and new businesses should benefit from housing development in the urban center.

What other taxing districts are affected?

There are multiple taxing districts which receive portions of the property taxes levied, including State Schools, City of Othello, Adams County, Othello School District, Hospital District, Library, EMS Levy, Port of Othello, and the Parks and Recreation District. None of these districts would receive a reduction in the amounts collected but they would not see an increase in their collection from the residential improvement portion of an approved project until the end of the exemption period (12 or 20 years).

Residential Target Areas

The incentives must be offered in a compact identifiable district where residents may obtain a variety of products and services; there must be adequate public facilities; there must be a mixture of uses and activities; and the zoning must allow for multifamily units and achieve a minimum density of 15 units per gross acre.

Based on the foregoing, the following figures show options for Othello to consider in setting Residential Target Area based on existing zoning that allows for multifamily at the minimum densities required.

Figure 1: Area A (North) Residential Target Area (Draft)

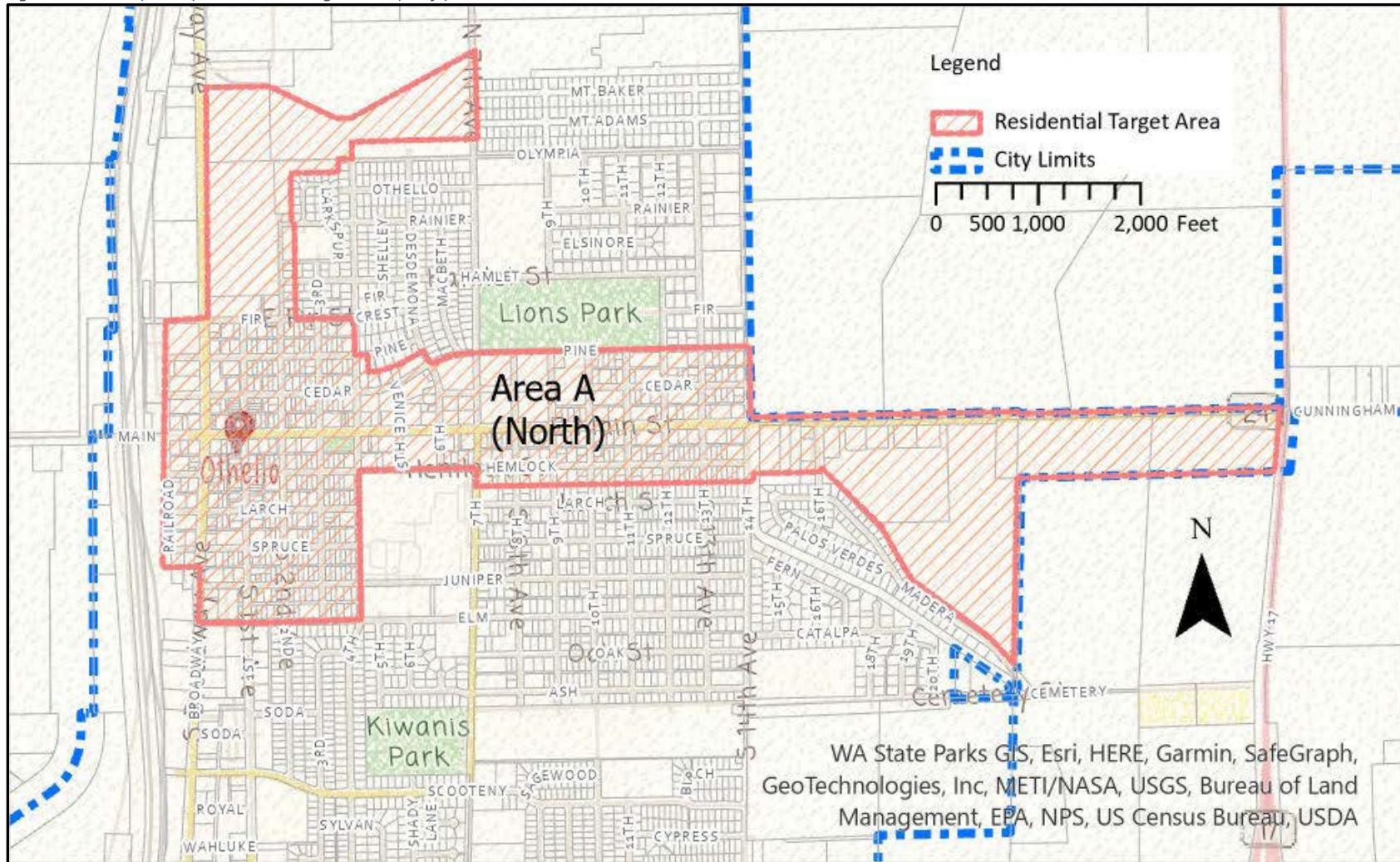


Figure 2: Area B (South) Residential Target Area (Draft)

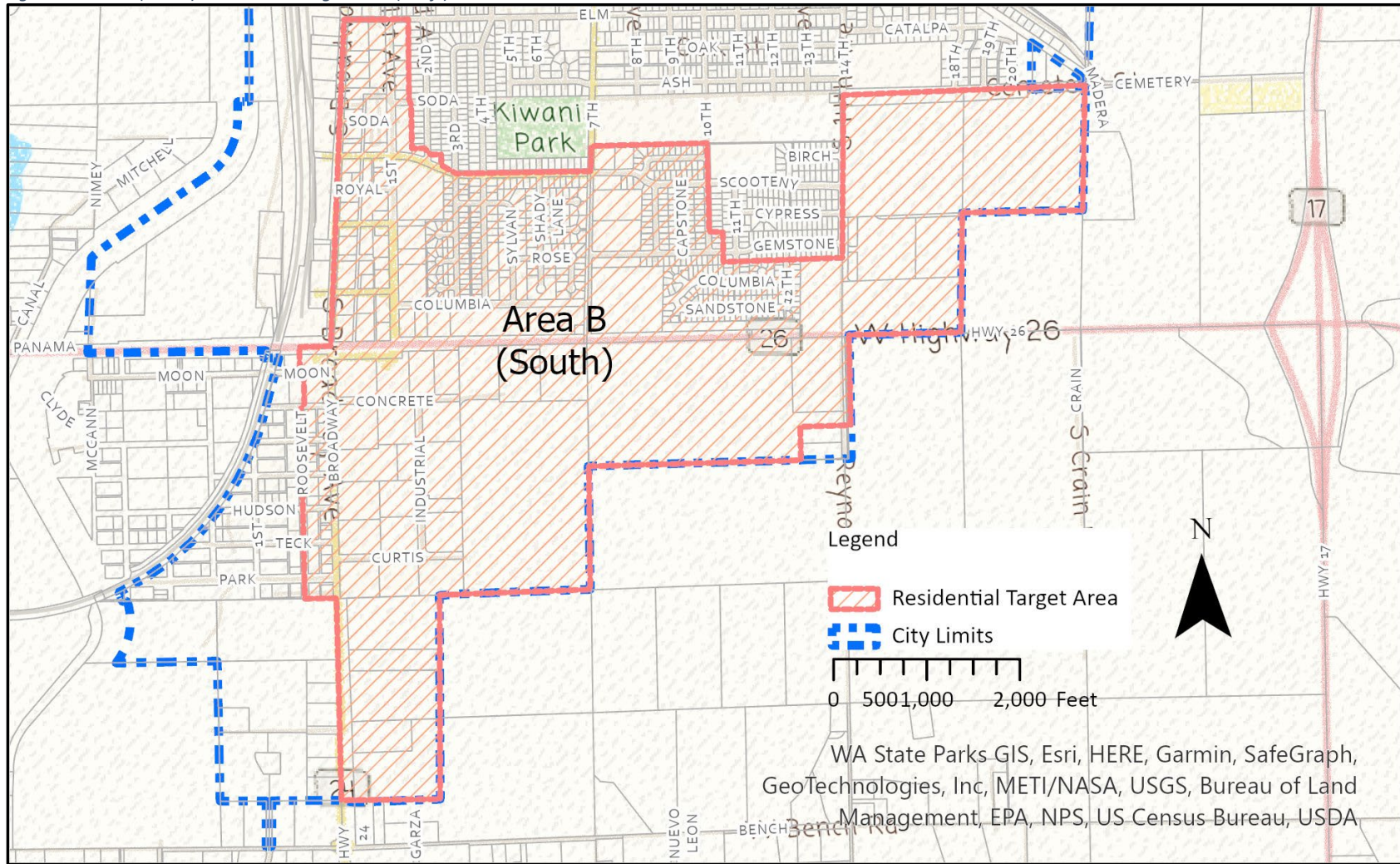


Figure 3: Area C Residential Target Area (Draft)

