



**DEPARTMENT OF  
COMMUNITY DEVELOPMENT**

**MEMORANDUM**

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To: City Council  
From: Kelli Lambert  
Date: May 2, 2016  
Re: Multifamily Tax Incentive – Expansion of the Residential Target Area

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**EXECUTIVE SUMMARY**

The proposed revision expands and implements the Multifamily Tax Exemption (MFTE) to expand the current MFTE Residential Target Area boundaries to include Growth Centers as adopted in the 2016 Comprehensive Plan.

**HISTORY**

The Multifamily Tax Exemption is allowed by state law (RCW 84.14) to be enacted by local jurisdictions with a population over 15,000 people for the purpose of providing an available market of desirable and convenient residential units, including affordable units. Residential target areas must be within an Urban Center as defined by the City's Comprehensive Plan and must lack sufficient available, desirable, and convenient residential housing, including affordable units, to meet the needs of the public who would be likely to live in the residential target area if attractive, affordable, and livable places were available.

The state regulation for the multi-family tax exemptions (Chapter 84.14 RCW) provides for:

- 1) An 8 year tax exemption for market value housing units, and
- 2) A 12 year tax exemption for affordable housing units to low and moderate-income households.

As noted in the 2007 House Bill Report of HB1910: "Cities must adopt and implement an affordable housing requirement for properties applying for property tax exemptions. The requirement must provide for mixed-income housing that includes a percentage of units that are affordable to low and moderate-income households." Based on this language it would appear that governmental entities implementing the program are required to adopt and implement affordable housing requirements and therefore must apply the 12 year tax exemption along with the 8 year tax exemption.

In October 2006, through Ordinance No. 4968 the City of Bremerton adopted the Multifamily Tax Exemption Program, with amendments in 2007, 2010, and 2014 expanding the target areas to include all of the territory in the Downtown Regional Center Plan and the Wheaton-Riddell Center.

The City of Bremerton has approved four MFTE applications so far: the 606 Apartments, Evergreen Pointe, Spyglass Hill apartments on Highland Avenue; and Inhabit Burwell, the apartments proposed at the location of the former Nite Shift Tavern. Please see the attached "Frequently Asked Questions" for how the program works.

## **STAFF RECOMMENDATION**

It is in the best interests of the City to provide this incentive, therefore giving an equal opportunity for the use of these incentives for redevelopment and thereby encouraging creation of new housing units throughout the City's centers. By approving this ordinance, the City will remain consistent by offering the MFTE in all Centers. This includes the Downtown Regional Subarea and the Wheaton-Riddell District Center, which were already within the MFTE target area; and would add the Wheaton-Sheridan District Center, Eastside Employment Center, Manette Neighborhood Center, Charleston District Center, and the Bay Vista Subarea.

## **PROGRAM BENEFITS**

The discussion below reiterates reasons why the Multifamily Tax Incentive Program is in the best interest of the City of Bremerton, and how this proposal still meets the intent of the enabling State law. Please note that this ordinance would not change the MFTE, except to expand the target area and increase opportunities to utilize it throughout the City.

**Implements Growth Strategy** - The Multifamily Tax Incentive is one tool the legislature made available for implementation of the GMA. Bremerton and other cities' growth strategies are based on strong centers-based land use concepts, which reduce sprawl pressure on rural lands. The tax incentive is meant in part to increase the viability of dense development in centers. Creating a vibrant and active downtown and centers districts where people live is a key goal of the City's Comprehensive Plan. The intent and purpose of the law is to apply to full centers districts where carefully considered and appropriate.

**Economic Need** – An additional state requirement is that an economic need for the incentive must be present to make new multi-family development viable. The Housing element of the 2016 Comprehensive Plan include Housing Goal H3: *Support access to quality and affordable housing for all Bremerton residents*; and policy H4 (C) *Target and enhance the use of tax incentives to improve affordable housing throughout the City, and particularly in Centers where housing is intended to be in close proximity to public transportation.*

**Urban Centers** - The State Law also includes language requiring that the Tax Incentive must be applied only in urban centers which lack sufficient available, desirable, and convenient residential housing, including affordable housing. All the areas proposed to be included in the target areas fit these criteria.

**Stay Competitive With Peer Cities** - Most of Bremerton's peer cities in the region and state have similar programs. Like Bremerton, Tacoma and Spokane apply the incentive to their entire downtown areas, including all of their center districts. Bellingham and Vancouver, WA apply the incentive to the full extent of their greater downtowns. Seattle currently has 39 targeted residential areas. Most of these cities have extensively used the program for more than 10 years. Without a strong incentive program, Bremerton is at a competitive disadvantage in capturing new urban development in the region.

**Positive Fiscal Impact** - The fiscal impacts of implementing the Incentive are complex. While the City foregoes additional near term property tax revenues for 8 or 12 years, a range of other revenue sources balance the reduction. On any new development, significant sales tax and Real Estate Excise Tax (REET) are collected. Utility hookup fees are collected, and other taxes on utility usage by new residents (e.g. phone and cable) are collected. Sales taxes generated by new resident spending at local businesses will also increase. It should also be noted that as a revenue source, the city's share of property taxes are small relative to the portion going to Kitsap County. Finally, after 8 or 12 years the exemption ends. Most major multifamily buildings have much longer (40 – 50 year) lifespans.

**Adjustable Program** - It is important to note that the Incentive is an adjustable program that can and should be revisited and modified over time. State law revisions call for periodic monitoring to ensure the program is still needed, and is serving

its stated purpose. The Council may choose to cease, or change the boundaries of the residential target area at any future time based on shifts in economic and development conditions.

**Encourage Affordable Housing** - A purpose of the program in state law is to encourage construction of quality affordable housing. Bremerton's Comprehensive and Consolidated Plans and other policies also call for provision of affordable housing. The Incentive program reduces prices for buyers and rental rates in new buildings. New rental construction can help upgrade and modernize the rental stock – making new quality rental construction more feasible.

Please see Attachment I for more detailed information about the MFTE program, including eligibility and process for administration.

**BMC 3.78 MULTIFAMILY PROPERTY TAX EXEMPTION  
FREQUENTLY ASKED QUESTIONS**

The Multifamily Tax Exemption (MFTE, see regulations in BMC 3.78) was established by state law (RCW 84.14) to help cities attract residential development, by offering a limited exemption from *ad valorem* property taxes on the value of improvements only, for 8 or 12 years. The exemptions do not include the value of land or non-housing-related improvements.

What projects are eligible?

- Create at least 10 new Multifamily (MF) housing units
- Located within a Targeted Residential Area
- New housing, or rehabilitated existing housing
- If rehabilitated, must not displace any tenants
- If rehabilitating occupied units, must create an additional 4 units
- At least 50% of space is for permanent residential occupancy (if mixed use)
- Conform to applicable local plans and regulations

How do you determine whether the project is eligible for the 8-year or the 12-year exemption?

To be eligible for the 8 year exemption, the project only needs to meet the criteria listed above. In order to be eligible for the 12 year exemption, the project must, in addition, make at least 20 percent of the units *affordable* to low\*- and moderate\*\*-income families, for the duration of the exemption (12 years).

\*Low income = income at or below 80% of Bremerton-Silverdale Adjusted Median Income (AMI)<sup>1</sup>

\*\*Moderate income = income 80-115% of AMI

Affordable = rent, including utilities, does not exceed 30% of gross income

<sup>1</sup> As of 2016, the AMI for a family of four in the Bremerton-Silverdale area is \$78,100, adjusted for family size.

How does it work?

The application is submitted before the building permit. DCD has 90 days to determine whether the application meets the criteria. If the project is approved, the applicant enters into an agreement with the City, and a Conditional Certificate of Tax Exemption is issued along with the building permit. This Conditional Certificate expires 3 years from the date of approval. If something happens to delay the project and it can't have final occupancy within the 3 years, one extension can be granted.

When the project is completed (per the agreement), the applicant files for a Final Certificate of Tax Exemption, by providing:

- Statement of expenditures made with respect to each MF housing unit and total expenditures made with respect to the entire property
- Description of the completed work and statement of qualification for the exemption

- Statement that work was completed within the 3-year period, or any authorized extension

The Director has a 30-day review period in which to approve or deny; if approved, the City issues the Final Certificate of Tax Exemption and records it with the Kitsap County Assessor. Developments that violate the terms of the exemption are required to pay back the exempted tax amounts, plus interest, and a penalty fee.

The owner is responsible for annual compliance review – they need to file (within 30 days of first anniversary of the date of filing of Final Certificate of Tax Exemption) a notarized declaration that the property is in compliance with the provisions. DCD will send an annual reminder letter to applicants, reminding them when required documentation is due. The City is responsible to report on tax exemptions to CTED by 12/31 of each year.

- Annual reporting – DCD reports to WA Dept of Commerce:
  - Statement of occupancy & vacancy for the previous 12 mos.
  - Certification that the property has not changed use
  - Description of changes/improvements constructed after issue of the Cert of Tax Exemption
  - For 12-year exemption, income eligibility of tenants reviewed each year the exemption is in effect

#### Financial Considerations

- 8-year or 12-year exemption from tax on *improvements only* (not land); sales tax and Real Estate Excise Tax (REET) are still collected, plus utility hookup fees, and other taxes on utility usage by new residents. The City's share of property taxes is small relative to the portion that goes to Kitsap County. Taxes to school districts are not affected by the exemption.
- Other local spending would be expected to increase, due to new residents