



TO: Elizabeth Pauli, City Manager
FROM: Council Member John Hines and Council Assistant Claire Goodwin
COPY: City Council and City Clerk
SUBJECT: Ordinance - Amending TMC 6A.110 to Eliminate Eight-Year MFTE in Very High Opportunity Areas - June 22, 2021
DATE: June 14, 2021

SUMMARY AND PURPOSE:

An ordinance amending TMC 6A.110 to eliminate the eight-year Multi-Family Property Tax Exemption (MFTE) in residential target areas completely designated “very high” opportunity based on the City’s Equity Index, effective 90 days after adoption. Given the market-driven high demand for housing in Tacoma, the City does not need to offer incentives in “very high” opportunity areas that do not include affordability requirements because they are the most desirable places for developers to build. This proposal would create more affordable housing in the areas of the city that have historically been the most expensive to live – opening the doors to making even the “very high” opportunity areas a possibility for any resident of Tacoma.

COUNCIL SPONSORS:

Council Member John Hines and Council Member Kristina Walker

BACKGROUND:

Tacoma has one of the most competitive real estate markets for housing in the country.¹ After years of stalled housing development, the City is seeing much-needed investment and construction of large, multi-family housing projects in areas designated by the City Council as residential target areas for growth under the City’s *One Tacoma* Comprehensive Plan. These residential target areas for growth are called Mixed-Use Centers (MUCs) and are identified in TMC 13.17.020. Tacoma has eighteen MUCs located throughout the city.

The City uses the Multi-Family Property Tax Exemption (MFTE) to encourage growth in the MUCs (see TMC 6A.110). Over the past five years, nearly 2,000 units have been added through this program, with another 4,300 units in the construction pipeline currently. The MFTE financially incentivizes development in these areas by exempting property taxes for eight or twelve years on the assessed improvements that create four or more additional housing units. The eight-year MFTE is the standard exemption with no affordable housing requirement, while the twelve-year MFTE requires that at least 20% of the units built be reserved for households that earn 80% or less than Area Median Income (AMI). AMI is published annually by the Department of Housing and Urban Development (HUD). For the affordability requirement, the annual rents charged are to be no more than 30% of the 80% median income – rents are set by HUD each year.² While the City provides the tax exemption, this investment pays dividends over the life of the housing project and the City recuperates more than it invests through increased sales and construction taxes.

Even with these incentives offered for housing development, Tacoma continues to lack affordable housing for low-income individuals. According to the *Home in Tacoma: Housing Action Plan (2021)*, in 2019 there was an estimated 7,159 households with incomes of less than 50% AMI, (or \$35,000 and less per year), that cannot find rental units

¹<https://www.redfin.com/news/near-record-14-pct-home-price-gains/>

²[https://www.cityoftacoma.org/UserFiles/Servers/Server_6/File/CEDD/PTE%20Summary%20\(July%202019\).pdf](https://www.cityoftacoma.org/UserFiles/Servers/Server_6/File/CEDD/PTE%20Summary%20(July%202019).pdf)



they can afford.³ Of the 2,000 units created through the MFTE in the past five years, only 130 were required to be affordable. Of the 4,300 in the construction pipeline, only 264 will be required to be affordable. The City's highest opportunity areas, most notably those in the North End, are the most challenging to access for low and moderate income households. Opportunity is defined as a situation or condition that places individuals in a position to be more likely to succeed or excel. Affordable housing is needed across the city, but especially in areas where the wealth-gap is greatest and where opportunity is highest.

The Equity Index is a tool used by the City of Tacoma to identify disparities in the city based on census block group data.⁴ The Equity Index uses 29 indicators within five social determinant categories based on the Tacoma 2025 Strategic Plan to determine where the greatest community needs are located. Census block groups' score are labeled on a scale from "very high" to "very low." Areas with the highest opportunity are labeled "very high" and areas with the lowest opportunity are labeled "very low." Tacoma's Equity Index was generated by the Kirwan Institute for the Study of Race & Ethnicity for Tacoma's Office of Equity and Human Rights and is applied across all City Departments, including being considered in every legislative proposal.

Given the market-driven high demand for housing in Tacoma, the City does not need to offer incentives in "very high" opportunity areas that do not include affordability requirements because they are the most desirable places for developers to build. This proposal would create more affordable housing in the areas of the city that have historically been the most expensive to live. The analysis done in the *Home in Tacoma: Housing Action Plan (2021)* shows that high rent areas of the City can absorb mandatory inclusionary zoning requirements without compromising financial feasibility for developers.⁵ This proposal does not address inclusionary zoning, but this analysis does suggest that if these "very high" opportunity areas can continue to thrive with inclusionary zoning requirements, then the removal of the eight-year MFTE in these areas will likely not deter development.

Currently, the only MUCs (or residential target areas) completely located in "very high" opportunity areas is the Proctor District and Point Ruston. These can be viewed by selecting the Equity Index layer on the City's public, interactive DART map.⁶ A map showing the Equity Index and MUCs is included as an attachment to this proposal. MUCs with a portion designated "very high" opportunity but not completely "very high" opportunity, such as Westgate, are excluded from this policy.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

The City's relationships with housing developers is very important for the mutual success of the community and these key partners. Those developers most impacted by this proposal have been engaged and understand the need of the City to create more affordable housing units, this includes engagement with the Master Builders Association. Countless emails and phone calls with residents indicate the need for housing projects that better meets the needs of the neighborhood and to either require an affordability set-aside (as the 12-year MFTE option provides) or withhold financial incentives for housing developers in these "very high" opportunity areas. The policy was introduced at the North End Neighborhood Council in June 2021 and was well received.

³https://www.cityoftacoma.org/UserFiles/Servers/Server_6/File/cms/Planning/Affordable%20Housing/AHAS%20Planning%20Actions/Tacoma%20Housing%20Action%20Plan%20full%206-8-2021.pdf (p. 6)

⁴<https://www.cityoftacoma.org/cms/One.aspx?portalId=169&pageId=175030>

⁵https://www.cityoftacoma.org/UserFiles/Servers/Server_6/File/cms/Planning/Affordable%20Housing/AHAS%20Planning%20Actions/Tacoma%20Housing%20Action%20Plan%20full%206-8-2021.pdf (p.30)

⁶<https://dart.cityoftacoma.org/#20210121>



2025 STRATEGIC PRIORITIES:

Equity and Accessibility: (Mandatory)

This policy will reduce inequities by increasing the amount of affordable housing in high rent areas of the City, assuming housing developers choose to pursue the 12-year MFTE rather than no tax incentive. Even if housing developers forgo the MFTE and build market-rate housing, this benefits renters by taking some of the pressure off residents due to housing scarcity.

Livability: Equity Index Score: Moderate Opportunity

Decrease the percentage of individuals who are spending more than 45% of income on housing and transportation costs.

Improve access and proximity by residents to diverse income levels and race/ethnicity to community facilities, services, infrastructure, and employment.

Explain how your legislation will affect the selected indicator(s).

This proposal will decrease the percentage of individuals who are spending more than 45% of income on housing and transportation costs by nudging developers towards taking advantage of the 12-year MFTE and including the affordable housing set-aside. This proposal will also improve access and proximity by residents to diverse income levels and race to community facilities, services, infrastructure, and employment by increasing the likelihood that affordable housing will be built in “very high” opportunity areas where these important amenities are readily available.

ALTERNATIVES:

Alternative(s)	Positive Impact(s)	Negative Impact(s)
1. No action	None	Developers may take advantage of the eight-year MFTE in the “very high” opportunity areas and no additional affordable housing would be provided in these projects.
2. Eliminate eight-year MFTE citywide	Potentially increase the number of affordable housing units citywide. Several cities have already taken this approach.	Development may stagnate in “low” or “very low” opportunity areas because the standard MFTE exemption is needed to encourage development in these areas.
3. Add affordable housing requirement to eight-year MFTE	Potentially increase the number of affordable housing units citywide. Several cities have already taken this approach.	Development may stagnate because developers may argue that a project is too expensive to build with the additional requirements.



EVALUATION AND FOLLOW UP:

The proposal anticipates continued housing development in the mixed-use centers designated “very high” opportunity after passage of this ordinance. There are opportunities for the Community and Economic Development Department to present to Council when the Equity Index is updated in the future should there be any change in the mixed-use centers designated “very high” opportunity.

STAFF/SPONSOR RECOMMENDATION:

Sponsors recommend passage of this ordinance authorizing the elimination of the eight-year multi-family housing tax exemption in residential target areas designated “very high” opportunity based on the City’s Equity Index, effective 90 days after adoption. Applications filed for the MFTEs later than 90 days from the adoption of this ordinance shall adhere to the new rules.

FISCAL IMPACT:

There is no direct cost to implement this ordinance. The fiscal impacts of the ordinance are unknown, however housing projects utilizing the MFTE during the exemption result in a net positive fiscal impact for the City in the form of increased sales tax, including construction sales tax.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
1. NA	NA	NA	NA
TOTAL			NA

What Funding is being used to support the expense?

NA

Are the expenditures and revenues planned and budgeted in this biennium’s current budget?

NA

Are there financial costs or other impacts of not implementing the legislation?

YES.

Will the legislation have an ongoing/recurring fiscal impact?

No

Will the legislation change the City’s FTE/personnel counts?

No

Eliminating the eight-year MFTE in areas designated “very high” opportunity based on the Equity Index, has no impact on the City’s FTE count.

ATTACHMENTS:

- Map: Tacoma Mixed-Use Centers and Equity Index
- Ordinance language