

AGENDA BILL
CITY OF BREMERTON
CITY COUNCIL

SUBJECT: Public Hearing and Ordinance
No. to amend Bremerton Municipal
Code Chapter 3.78 entitled "***Multifamily
Property Tax Exemption***"

Study Session Date: 6/13/18

COUNCIL MEETING Date: 6/20/18

Department: DCD

Presenter: Kelli Lambert

Phone: (360) 473-5245

SUMMARY: At the request of Mayor Wheeler, the following amendments are proposed to the Terms of the Multifamily Property Tax Exemption (MFTE) program (BMC 3.78.)

- 1) Discontinue the eight (8) Year MFTE
- 2) Require affordable units for the 12-year MFTE to be affordable to Low Income households only (current program allows low and moderate income households to qualify), with a revised formula to calculate Low Income as those earning 60 percent of Area Median Income (AMI) – see Attachment A
- 3) Add requirements regarding tenant displacement
 - ☐ Mandatory 12 month notification to current tenants
 - ☐ Relocation costs paid to low income households
- 4) Clarification of requirements for affordable units to be distributed proportionally across the unit types available.

Mayor Wheeler requests that the City Council hold a public hearing on June 20, 2018 and gather public testimony on the proposed amendments. The City Council will then determine if it is appropriate to act on the amendments, modify the proposed amendments, and/or establish a schedule for review and adoption of changes to the MFTE program as necessary.

ATTACHMENTS: 1) Ordinance No. 2) Attachment A, Affordable Rent Calculations

FISCAL IMPACTS (Include Budgeted Amount): The MFTE program is currently in place and the

amendments are not likely to affect the fiscal impacts of the city.

STUDY SESSION AGENDA: Limited Presentation Full Presentation

STUDY SESSION ACTION: Consent Agenda General Business Public Hearing

RECOMMENDED MOTION:

It is recommended that the City Council conduct a public hearing on June 20, 2018 to gather input on the proposed changes to the MFTE program. The City Council will determine a future date, if any, for adoption of changes to the MFTE program.

COUNCIL ACTION: Approve Deny Table Continue No Action

Form Updated 01/02/2018

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ATTACHMENT A

Table 1 below shows the 2018 HUD income guidelines for the Bremerton-Silverdale Municipal Service Area (MSA)

which includes all of Kitsap County:

Table 1. HUD Income Levels for the Bremerton-Silverdale MSA

1 Person 2 Person 3 Person 4 Person

Area Median Income

(AMI)

\$51,800 \$59,200 \$66,600 \$82,600

Moderate = 115% of AMI \$59,570 \$68,080 \$76,590 \$94,900

Low = 80% of AMI \$46,300 \$52,900 \$59,500 \$66,100

2016 Census data (the most current available specifically for Bremerton) indicates that Bremerton's median income is about 73% of the median income of Kitsap: Bremerton \$47,358 vs. Kitsap County \$65,017. The State Law requires that we use the HUD income guidelines for the Bremerton-Silverdale MSA. The RCW also has provisions in 84.14.040(6) that allow the City to adopt more stringent income eligibility, rent or sales price limits, as long as the basis is the AMI. It is desirable at this time to modify the City's program to institute these more stringent eligibility requirements. Staff has calculated that a low income rate for Bremerton would be 60% of the

Bremerton-Silverdale AMI. EXISTING

Table 2. Monthly Housing Costs* for Low and Moderate Income

CURRENT MFTE PROGRAM

1 Person 2 Person 3 Person 4 Person

Area Median Income (AMI) \$1,447 \$1,653 \$1,859 \$2,065

Moderate = 115% of AMI \$1,664 \$1,901 \$2,138 \$2,375

Low = 80% of AMI \$1,157 \$1,322 \$1,487 \$1,652

*Housing Costs = 30% or less of household income, not including utility costs

The table above shows that under the current MFTE program, the monthly rent for a one-person household can range from \$1,157 to \$1,664 (the housing allowance for households at 80% to 115% AMI). PROPOSED

Table 3. Monthly Housing Costs* for Low Income

PROPOSED MFTE PROGRAM

1 Person 2 Person 3 Person 4 Person

Area Median Income (AMI) \$1,447 \$1,653 \$1,859 \$2,065

Low = 60% of AMI \$868 \$992 \$1,115 \$1,239

*Housing Costs = 30% or less of household income, not including utility costs

The table above shows that under the revised proposal for the MFTE program, the monthly rent for a one-person

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ORDINANCE NO. _____

AN ORDINANCE of the City Council of the City of

Bremerton, Washington, amending certain provisions of Chapter

3.78 of the Bremerton Municipal Code related to the terms and

eligibility requirements, eliminating the eight (8) year exemption,

and changing the project eligibility requirements for the twelve

(12) year exemption to provide housing affordable to low income

households and relocation assistance.

WHEREAS, exemptions from ad valorem property taxes for multifamily housing

encourage increased residential opportunities within designated residential targeted areas,

stimulate new construction and rehabilitation of existing buildings, assist in directing future

population growth and helps to achieve development densities which are more conducive to transit use in designated residential targeted areas; and

WHEREAS, on October 4, 2006, the City Council of the City of Bremerton, Washington, passed Ordinance No. 4968 adopting Chapter 3.78 of the Bremerton Municipal Code (“BMC”) establishing exemptions from ad valorem property taxation for new multifamily housing in designated residential targeted areas of the City and established a residential targeted area for the multifamily property tax exemption within the Downtown Regional Center; and

WHEREAS, on April 9, 2007, the State Legislature passed House Bill 1910 amending Chapter 84.14 RCW relating to multifamily tax exemptions; and

WHEREAS, on December 19, 2007, the City Council passed Ordinance No. 5036 amending Chapter 3.78 BMC to be consistent with House Bill 1910, and expanded and added additional residential targeted areas; and

WHEREAS, on March 3, 2010, the City Council passed Ordinance No. 5105 amending Chapter 3.78 BMC to further expand the Downtown Regional Center Residential Target Area; and

WHEREAS, on December 19, 2012, the City Council passed Ordinance No. 5202 amending Chapter 3.78 BMC to include three parcels located at 1008, 1016, and 1018 Burwell Street into the Downtown Regional Center; and

WHEREAS, on November 5, 2014, the City Council passed Ordinance No. 5260 amending Chapter 3.78 BMC to include all of the newly expanded Downtown Regional Center in the boundaries of the residential targeted area for multifamily tax exemption; and

WHEREAS, on May 18, 2016, the City Council passed Ordinance No. 5302 amending Chapter 3.78 BMC to expand the residential targeted area for the multifamily tax exemption to include all of the City of Bremerton urban centers (as designated in the City’s comprehensive plan); and

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WHEREAS, the City desires to encourage the development of affordable

multifamily housing units which is supported by the City's Comprehensive Plan's Housing goals and policies; and

WHEREAS, the proposed revisions eliminate the eight (8) year exemption, removes the moderate income allowance for the twelve (12) year exemption, amends the definition of low-income housing, amends language relating to tenant displacement, and makes other related changes, in order to focus on the low income households; and

WHEREAS, the proposed revisions to the requirements for the multifamily property tax exemption are allowed per Chapter 84.14 RCW; and

WHEREAS, on June 7, 2018, the public was notified by a legal advertisement in the Kitsap Sun of the opportunity to make comment and participate in the public hearing by the City Council; and

WHEREAS, on June 20, 2018, the City Council conducted a public hearing and considered all testimony; NOW, THEREFORE;

THE CITY COUNCIL OF THE CITY OF BREMERTON, WASHINGTON, DOES
HEREBY ORDAIN AS FOLLOWS:

SECTION 1. Recitals. The recitals set forth above are hereby adopted and incorporated as set forth herein in full.

SECTION 2. BMC 3.78.010 Amended. Section 3.78.010 of the Bremerton Municipal Code entitled "Purpose" is hereby amended to read as follows:

3.78.010 PURPOSE

As provided for in Chapter 84.14 RCW, the purpose of this chapter is to provide limited exemptions from ad valorem property taxation for multifamily housing in designated residential targeted areas to:

(a) Encourage increased affordable residential opportunities, including affordable housing units, within areas of the City designated by the City Council as residential targeted areas; and/or

(b) Stimulate new construction or rehabilitation of existing vacant and underutilized buildings for multifamily housing in designated residential targeted areas to increase and improve housing opportunities, including affordable housing; and

- (c) Assist in directing future population growth to designated residential targeted areas, thereby reducing development pressure on single-family residential neighborhoods; and
- (d) Achieve development densities which are more conducive to transit use in designated residential targeted areas.

SECTION 3. BMC 3.78.020 Amended. Section 3.78.020 of the Bremerton Municipal Code entitled "Definitions" is hereby amended to read as follows:

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3.78.020 DEFINITIONS.

When used in this chapter, the following terms shall have the following meanings, unless the context indicates otherwise:

- (a) "Affordable housing" means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone, do not exceed thirty (30) percent 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 low- or moderate-income households.
- (b) "Building codes" means the City and state building and fire codes as set forth in Chapters 17.04, 18.02 and 18.03 BMC.
- (c) "City" means the City of Bremerton.
- (d) "Department" means the City Department of Community Development.
- (e) "Director" means the Director of the Department of Community Development, or designee.
- (f) "High-cost area" means a county where the third quarter median house price for the previous year as reported by the Washington Center for Real Estate Research at Washington State University is equal to or greater than one hundred thirty (130) percent of the statewide median house price published during the same time period.
- (g) "Household" means a single person, family, or unrelated persons living together.
- (h) "Low-income household" means:

1) For applications filed on or after July 22, 2007 up through and including _____, 2018, a single person, family, or unrelated persons living together whose adjusted income is at or below eighty (80) percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States Department of Housing and Urban Development. , For cities located in high-cost areas, "low-income household" means a household that has an income at or below one hundred (100) percent of the median family income, adjusted for family size, for the county where the project is located.

2) For applications on or after _____, 2018 low-income household means a single person, family, or unrelated persons living together whose adjusted income is at or below sixty (60) percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States Department of Housing and Urban Development.

(i) "Moderate-income household" means a single person, family, or unrelated persons living together whose adjusted income is more than eighty (80) percent but is at or below one hundred fifteen (115) percent of the median family income adjusted for family size, for the county where the project is located, as reported by the United States Department of Housing and Urban Development. For cities located in high-cost areas, "moderate-income household" means a household that has an income that is more than one hundred (100) percent, but at or below one hundred fifty (150) percent, of the median family income adjusted for family size, for the county where the project is located.

(j) "Multifamily housing" means a building having ten (10) or more dwelling units not designed or used as transient accommodations and not including hotels and motels. Multifamily units may result from new construction or rehabilitated or conversion of vacant, underutilized, or substandard buildings to multifamily housing.

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(k) "Multifamily property tax exemption" means an exemption from ad valorem property taxation for multifamily housing.

(l) "Owner" means the property owner of record.

(m) "Permanent residential occupancy" means multiunit housing that provides either rental or owner occupancy on a nontransient basis. This includes owner-occupied or rental accommodation that is leased for a period of at least one (1) month. This excludes hotels and motels that predominantly offer rental accommodation on a daily or weekly basis.

(n) "Rehabilitation improvements" means modifications to existing structures that are vacant for twelve (12) months or longer that are made to achieve a condition of substantial compliance with existing building, fire, and zoning codes, or modification to existing occupied structures which increase the number of multifamily housing units.

(o) "Residential targeted area," also "residential target area," means the geographic area located within the areas set forth in Figures 3.78(a) through 3.78(g).

(p) "Substantial compliance" means compliance with all local building, fire and zoning code requirements, which are typically required for rehabilitation as opposed to new construction.

SECTION 4. BMC 3.78.040 Amended. Section 3.78.040 of the Bremerton

Municipal Code entitled "Terms of the Tax Exemption" is hereby amended to read as follows:

3.78.040 TERMS OF THE TAX EXEMPTION.

(a) Duration of Exemption. The value of new housing construction, conversion, and rehabilitation improvements qualifying under this chapter is exempt from ad valorem property taxation, as follows:

(1) For properties for which applications for certificates of tax exemption eligibility are submitted under this chapter before July 22, 2007, the value is exempt for ten (10) successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate; and

(2) For properties for which applications for certificates of tax exemption eligibility are submitted under this chapter on or after July 22, 2007 up through and including _____, 2018, the value is exempt:

(i) For eight (8) successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate; or

(ii) For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this subsection 3.78.040(a)(21)(ii). For the property to qualify for the twelve (12) year exemption under this subsection, the applicant must commit to renting or selling at least twenty (20) percent of the multifamily housing units as affordable housing units to low and moderate-income households, and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the local government under this chapter. In the case of projects intended exclusively for owner occupancy, the minimum requirement of this subsection (a)(2)(ii) may be satisfied solely through housing affordable to moderate-income households.

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(2) For properties for which applications for certificates of tax exemption eligibility are submitted under this chapter on or after _____, 2018, the value is exempt if it meets the following requirements:

(i) For twelve (12) successive years beginning January 1st of the year immediately following the calendar year of issuance of the certificate, if the property otherwise qualifies for the exemption under this chapter and meets the conditions in this subsection 3.78.040(a)(2)(i). For the property to qualify for the twelve (12) year exemption under this subsection, the applicant must commit to renting or selling at least twenty (20) percent of the multifamily housing units as affordable housing units to low income households, and the property must satisfy that commitment and any additional affordability and income eligibility conditions adopted by the local government under this chapter, and

(ii) Low-income household units shall be dispersed throughout the development and be apportioned among all unit types (ie. studio, single bedroom, double bedroom etc.) based on the number of each unit type to the extent feasible.

(b) Limits on Exemption. The exemption does not apply:

(1) To the value of land or to the value of nonhousing-related improvements

not qualifying under this chapter.

(2) In the case of rehabilitation of existing buildings, to the value of improvements constructed prior to submission of the completed application required under this chapter.

(3) To increases in assessed valuation made by the Kitsap County Assessor on non-qualifying portions of building or other improvements and value of land nor to increases made by lawful order of a County board of equalization, the Department of Revenue, or Kitsap County, to a class of property throughout the County or specific area of the County to achieve the uniformity of assessment or appraisal required by law.

(c) Conclusion of Exemption. At the conclusion of the exemption period, the new or rehabilitated housing cost shall be considered as new construction for the purposes of Chapter 84.55 RCW.

SECTION 5. BMC 3.78.050 Amended. Section 3.78.050 of the Bremerton Municipal Code entitled "Project Eligibility" is hereby amended to read as follows:

3.78.050 PROJECT ELIGIBILITY.

A proposed multifamily housing project must meet the following requirements for consideration for a property tax exemption:

(a) Location. The project must be located within a residential targeted area as defined in BMC 3.78.020 and as set forth in Figures 3.78(a) through 3.78(g).

(b) Tenant Displacement Prohibited. The project must not displace existing residential tenants of structures that are proposed for redevelopment. If the property proposed to be rehabilitated is not vacant, an applicant shall provide each existing tenant housing of comparable size, quality, and price and a reasonable opportunity to relocate. Notification to displaced households and assistance for displaced low-income households shall be provided as follows:

(1) General Notification. The applicant shall provide each displaced household at least 12-month's moving notice, unless mutually agreed otherwise by household and applicant.

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(2) Relocation Assistance. Low Income Households shall be provided the following:

(i) Assistance in securing housing of comparable size, quality, and price which meets the Housing and Urban Development's Uniform Physical Condition Standards or a similar standard acceptable to the City, and

(ii) First and last month expenses at the new housing location as defined above, and moving and relocating expenses as defined by the Department of Transportation Fixed Residential Moving Costs Schedule.

(c) Noncompliance with Building Codes. Existing dwelling units proposed for rehabilitation must fail to comply with one or more standards of the applicable State or City building codes.

(d) Size of Project. The new, converted, or rehabilitated multiple-unit housing must provide for a minimum of fifty (50) percent of the space for permanent residential occupancy. The project, whether new, converted, or rehabilitated multiple-unit housing, must include at least ten (10) units of multifamily housing within a residential structure or as part of an urban development. In the case of existing multifamily housing that is occupied or which has not been vacant for twelve (12) months or more, the multifamily housing project must also provide for a minimum of four (4) additional multifamily units for a total project of at least ten (10) units including the four (4) additional units. Existing multifamily housing that has been vacant for twelve (12) months or more does not have to provide additional units.

(e) Proposed Completion Date. New construction of multifamily housing and rehabilitation improvements must be completed within three (3) years from the date of approval of the application.

(f) Compliance with Guidelines and Standards. The project must be designed to comply with the City's Comprehensive Plan, building, housing, and zoning codes, and any other applicable regulations. The project must also comply with any other standards and guidelines adopted by the City Council for the residential targeted area.

SECTION 6. BMC 3.78.070 Amended. Section 3.78.070 of the Bremerton

Municipal Code entitled "Issuance of Final Certificate" is hereby amended to read as follows:

3.78.070 APPLICATION FOR CONDITIONAL CERTIFICATE.

The Director may certify as eligible an application which is determined to comply with the requirements of this chapter. A decision to approve or deny an application shall be made within ninety (90) calendar days of receipt of a complete application.

(a) Application. The Director may approve the application if he/she finds that:

(1) A minimum of ten (10) new units are being constructed or in the case of occupied rehabilitation or conversion within twelve (12) months of occupancy, a minimum of four (4) additional multifamily units for a total project of at least ten (10) units including the four (4) additional multifamily units are being developed.

(2) The proposed project is or will be, at the time of completion, in conformance with all applicable local plans and regulations.

(3) The owner has complied with all standards and guidelines adopted by the City under this chapter.

(4) The site is located in the residential targeted area.

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(5) If applicable, theThe proposed multiunit housing project meets the affordable housing requirements as described in BMC 3.78.040.

(b) Approval of Application. If an application is approved, the applicant shall enter into a contract with the City, regarding the terms and conditions of implementation of the project, and the Director shall issue a conditional certificate of acceptance of tax exemption. The conditional certificate shall expire three (3) years from the date of approval unless an extension is granted as provided in this chapter.

(c) Denial of Application. If an 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) calendar days of the denial.

(d) Appeal. Per RCW 84.14.070, an applicant may appeal a denial to the City Council

within thirty (30) calendar days of receipt of the denial by filing a complete appeal application and fee with the Director. The appeal before the City Council will be based on the record made before the Director. The Director's decision will be upheld unless the applicant can show that there is no substantial evidence on the record to support the Director's decision. The City Council's decision on appeal will be final.

SECTION 7. BMC 3.78.110 Amended. Section 3.78.110 of the Bremerton

Municipal Code entitled "Annual compliance Review" is hereby amended to read as follows:

3.78.110 ANNUAL COMPLIANCE REVIEW.

(a) Within thirty (30) calendar days after the first anniversary of the date of filing the final certificate of tax exemption and each year for the tax exemption period, the property owner shall be required to file a notarized declaration with the Director indicating the following:

- (1) A statement of occupancy and vacancy of the multifamily units during the previous twelve (12) months;
- (2) A certification by the owner that the property has not changed use and, if applicable, that the property has been in compliance with the affordable housing requirements as described in RCW84.14.020 since the date of the certificate approved by the City;
- (3) A description of changes or improvements constructed after issuance of the certificate of tax exemption; and
- (4) Any information needed by the City to file its report pursuant to subsection (b) of this section and any additional information requested by the City in regards to the units receiving a tax exemption.

(b) The City shall report annually by December 31st of each year, beginning in 2007, to the Department of Community, Trade, and Economic DevelopmentCommerce. The report must include the following information:

- (1) The number of tax exemption certificates granted;
- (2) The total number and type of units produced or to be produced;
- (3) The number and type of units produced or to be produced meeting affordable housing requirements;
- (4) The actual development cost of each unit produced;

(5) The total monthly rent or total sale amount of each unit produced;

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(6) The income of each renter household at the time of initial occupancy and the income of each initial purchaser of owner-occupied units at the time of purchase for each of the units receiving a tax exemption and a summary of these figures for the City; and

(7) The value of the tax exemption for each project receiving a tax exemption and the total value of tax exemptions granted.

(c) City staff may also conduct on-site verification of the declaration. Failure to submit the annual declaration shall result in a review of the exemption per RCW 84.14.110.

SECTION 8. Severability. If any one or more sections, subsections, or sentences of this ordinance are held to be unconstitutional or invalid, such decision shall not affect the validity of the remaining portion of this ordinance and the same shall remain in full force and effect.

SECTION 9. Effective Date. This ordinance shall take effect and be in force ten

(10) days from and after its passage, approval and publication as provided by law.

PASSED by the City Council the _____ day of _____, 2018.

ERIC YOUNGER, Council President

Approved this _____ day of _____, 2018.

GREG WHEELER, Mayor

ATTEST: APPROVED AS TO FORM:

City Clerk ROGER A. LUBOVICH, City Attorney

PUBLISHED the _____ day of _____, 2018.

EFFECTIVE the _____ day of _____, 2018.

ORDINANCE NO. _____

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