

# Department of Commerce

## Multifamily Property Tax Exemption Guidance and Study

Project Workplan (4 February 2021)

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### Overview

The 2021-2023 State Operating Budget (Section 111, Page 69) provides a funding proviso for Commerce to conduct a study and report to the legislature on implementation of the MFTE program. [RCW 84.14.100](#) requires Commerce to develop guidance for local governments, and to develop and implement an auditing system.

The overall goals of the project are to:

- measure and understand impacts of the MFTE program on housing production
- provide guidance on program design and implementation
- make recommendations to increase the public benefit of the program

#### Client Contact:

Mary Reinbold, Department of Commerce ([mary.reinbold@commerce.wa.gov](mailto:mary.reinbold@commerce.wa.gov))

#### Project Team Contacts:

Andrew Bjorn, BERK Consulting, Inc. ([andrew@berkconsulting.com](mailto:andrew@berkconsulting.com))

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### Project Timeline and Budget

**Contract period:** January 3, 2022–June 30, 2023

**Total budget:** \$347,260

Note that under the State budget proviso used to support this project, at least \$200,000 of the total \$350,000 budget must be expended by June 30, 2022.

## Project Deliverables/Scope of Work

1. Develop a **workplan** and **engagement strategy** that incorporate the scope of work and objectives as described here. Commerce has a list of engaged local government representatives who work with the MFTE program that are eager to participate in the process, but other voices may be appropriate.
2. Develop an **MFTE Administration Workbook** based on the life cycle of an MFTE program which highlights best practices and provides sample forms, worksheets, and tools for consistent statewide implementation. The intended audience for the workbook is MFTE administrators. The final product should be searchable by topic, shareable on Commerce's website, and editable. Main headings should include, but are not limited to:
  - **General considerations:** how much staff time does an MFTE program require, what is the cost to local government, what is the obligation to plan for housing affordability, what is the role of the state in supporting communities as they develop and/or implement MFTE programs, how to address rounding issues for the required 20% of affordable housing units, what types of housing are covered by the program, and what are the technical assistance needs of small jurisdictions.
  - **Program development:** what information do local planners, officials, and the public need to understand the program and make informed decisions, best practices for establishing residential targeted areas, best practices for choosing an MFTE program and understanding their impacts, how to conduct local real estate market analysis to inform the program, how to conduct a displacement analysis, best practices to establish affordable rent levels, and interactions with other programs with a detailed discussion of how instruments such as inclusionary zoning and transfers of development rights can be included to improve the success of MFTE. This will include a high-level financial tool to determine the overall costs and benefits from an MFTE program.
  - **Contracting with developers:** what forms, templates, processes, and practices are needed to help new jurisdictions operate an MFTE program, what do developers look at when considering this program, and what contract provisions (e.g., affirmative marketing, displaced residents, cost-burden considerations, etc.) should be in place for leasing affordable units.
  - **Monitoring:** what are best practices for a jurisdiction to monitor the developments that are using the MFTE exemption, best approaches to meet reporting requirements what data points are most meaningful to collect, what forms should be used, and what adjustments should be made based upon the results of monitoring reports to make the program more effective at the local level. This shall include sample forms for monitoring.
  - **Closing a tax exemption:** best practices for the closure of a program when the certificate of tax exemption expires, what is the cost of protecting low-income and cost-burdened tenants from displacement, what resources are available for relocation assistance, what other affordable housing programs may be used to reduce or prevent displacement, and how does a community renew the tax exemption.

As part of the development of this product, we will also provide a simple Excel tool that can be used by cities to support an assessment of MFTE program parameters. This spreadsheet will present simple, straightforward calculations from a sample real estate pro forma to demonstrate the likely impacts and implications of certain MFTE program characteristics to assist in decision-making.

An appendix to this document will include model code, sample forms and documents, and other supporting information to supplement the materials in the Workbook, and an online version of the document will be made available. Material will be reviewed with the stakeholder group for review prior to the development of the full workbook.

3. Develop a **legislative report** that reviews whether cities have practices in the following areas:
  - **Evaluating the financial feasibility and total costs of proposed developments under the exemption.** Evaluating development pro formas for forecasting future financial returns of properties applying for a multifamily housing property tax exemption. This evaluation should provide a duplicable process for analyzing the benefits of the tax exemption to property owners compared to the benefit to the public. This should include a template that jurisdictions could use to estimate costs and benefits of MFTE at the project level upon receipt of an MFTE application.
  - **Monitoring rent, occupancy, and demographics of tenants of exempt housing.** How are cities tracking this data? Would other data better demonstrate compliance with the purpose of the MFTE program? Are units truly affordable to moderate and low-income households, i.e. are tenants in these units cost-burdened? How does this data demonstrate the program's efficacy in encouraging the development of multi-family housing, specifically affordable housing? The study should review occupancy rates of units receiving the tax exemption and whether or not these units comply with the program requirements.
  - **Identifying direct or indirect displacement risks, and changes in income and rent distributions associated with new housing development, and plans and approaches.** These risks should be analyzed with a lens of providing an understanding of the impacts on local housing markets and present risk of displacement when planning for new housing and new housing development.
  - **Identifying practices that encourage permanent affordable rental opportunities.** The report should include an analysis of rental rates after the expiration of the tax exemption. Have some units maintained affordability for low or moderate income households? What mechanisms were used by the municipality or developer to maintain affordability? Are there lessons from jurisdictions considering the new permanently affordable provision? Best practices for
  - **Monitoring whether the exemption assists cities in meeting goals under the Growth Management Act.** Specifically, does the MFTE program actually result in additional housing units being built? Does the MFTE program actually result in affordable housing units that would not otherwise have been built? The completion of this evaluation shall include a process by which Commerce can duplicate the analysis at each reporting year. This may include recommendations for changes in data collection from MFTE administrators and programs.
  - **Comparing with other sources of tax revenue.** Determining other state and local tax revenue generated by new housing developments and how it compares to the MFTE program to evaluate how housing development impacts local budgets and its relative cost to local governments. This estimate and comparison should be used to provide recommendations on the MFTE program including but not limited to changes in the RCW to strengthen and clarify the statute.

- **Case studies** focused on a range of six cities and provide analysis which addresses the four criteria below and examines how the MFTE program has worked for cities of various sizes and locations:
  - Comparing the rent in income-restricted units to market rate units in the same development and to the surrounding area;
  - Comparing the anticipated impact on rents and project budgets, and on public benefit under eight-year, 12-year, and 20-year property tax exemption scenarios;
  - Looking at permanent affordable rentals; and
  - Evaluating changes in income distribution, rent distribution, commute/location, and displacement risks in areas with exempt housing.

These case studies will be used to provide examples throughout the text and, will be provided as a standalone appendix of the legislative report.

4. A **report** to the Department of Commerce providing recommendations for improvement in reporting including:
  - What are the state assessors' practices and how can they be more consistent so that the public can see the value of the tax exemption?
  - How can assessor practices be modified to avoid the tax shift where project value is added to the tax rolls during construction, and then is shifted to all other property owners as the tax exemption initiates the year after construction is completed?
  - How does the foregone revenue and shifted property taxes change over the life of the exemption? What will this look like with another 12 years of exemption on a particular property?

Recommendations may include methodologies, definitions, guidance on policy and process, examples of adopted policies, model ordinances, checklists, or other tools that can be used by Commerce and/or local governments.

5. A **report** to the Department of Commerce providing recommendations for an auditing program including:
  - At what stage should the auditing fees be collected from taxpayers?
  - Recommend fee amount? How to build in cost increases?
  - How to collect the fee?

Recommendations may include methodologies, definitions, guidance on policy and process, examples of adopted policies, model ordinances, checklists, or other tools that can be used by Commerce and/or local governments.

6. At least two **webinars** to train local government planners on this work. Commerce will provide the training platform, such as Zoom webinar. These should include one for local officials as they consider adopting a new program or modifying an existing program and one for jurisdictions about how to maintain records to monitor affordability and facilitate auditing.

## Team

Our project team consists of the following staff:

Name	Role	Task Leads
<b>Andrew Bjorn</b> <a href="mailto:andrew@berkconsulting.com">andrew@berkconsulting.com</a>	Project Manager	<ul style="list-style-type: none"><li>Overall project management / contact with client</li><li>Assessment of program elements (co-lead)</li><li>Oversight of deliverables / writing</li></ul>
<b>Katherine Goetz</b> <a href="mailto:katherine@berkconsulting.com">katherine@berkconsulting.com</a>	Deputy Project Manager, Planning and Financial Analyst	<ul style="list-style-type: none"><li>Assessment of program elements (co-lead)</li><li>Assessment of financial elements</li><li>Review of displacement risks / GMA alignment</li><li>Case study lead</li></ul>
<b>Kizz Prusia</b> <a href="mailto:kizz@berkconsulting.com">kizz@berkconsulting.com</a>	Engagement Lead/Planning Analyst	<ul style="list-style-type: none"><li>Engagement strategy implementation</li><li>Management of targeted interviews</li><li>Case study support</li></ul>
<b>Jay Shih</b> <a href="mailto:jay@berkconsulting.com">jay@berkconsulting.com</a>	Financial Analyst	<ul style="list-style-type: none"><li>Data compilation on MFTE programs</li><li>Assessment of financial elements</li><li>Development of summary materials</li></ul>
<b>Lisa Johnson</b> <a href="mailto:lisaj@berkconsulting.com">lisaj@berkconsulting.com</a>	Reviewer	<ul style="list-style-type: none"><li>“Red team” review of project materials</li></ul>
<b>Jamie Madden</b> <a href="mailto:jamie.madden@77stoop.org">jamie.madden@77stoop.org</a>	Affordable Housing Specialist	<ul style="list-style-type: none"><li>Engagement support with affordable housing providers</li><li>Development of financial modeling examples</li><li>Thought partner / resource</li></ul>
<b>Kevin Ramsey</b> <a href="mailto:kevinr@berkconsulting.com">kevinr@berkconsulting.com</a>	Principal-in-Charge	<ul style="list-style-type: none"><li>Guidance / counsel as required</li></ul>

## Project Meetings

Regular **project meetings** for this project will occur biweekly on Thursdays from 10–11 am between the project managers for Commerce and BERK. This will include a standing agenda to examine progress towards deliverables, and discussion any needs for information or guidance on the project. Other staff may be included as needed for reporting on task progress.

Regular internal BERK meetings will include **monthly workshops** held on the first Friday of each month, 1:00–2:30 PM. These meetings are intended for discussions/sharing of findings, potential challenges, and monthly planning. The Commerce PM may be invited for information sharing based on the topics to be discussed.

## Advisory Committee

An Advisory Committee has been developed by Commerce to provide ongoing advice and feedback for the project and deliverables. This committee currently includes representation from city government, supporting housing agencies, property owners, developers, county tax assessors, and the State Department of Revenue. (Additional members may be engaged; see the Engagement Strategy for more details.)

Current Advisory Committee members include the following:

City/Organization	Name	Position
ARCH Bellevue	<b>Mike Stanger</b>	Senior Planner
Bainbridge Island	<b>Jennifer Sutton</b>	Senior Planner
Bellingham	<b>Chris Koch</b>	Planner II
Clark County	<b>Jill Blair</b>	Commercial Appraiser
Ellensburg	<b>Kirsten Sackett</b>	Community Development Director
Ellensburg	<b>Jamey Ayling</b>	Planning Manager
Ferndale	<b>Michael Cerbone</b>	
Kenmore	<b>Bryan Hampson</b>	Development Services Director
Kent	<b>Haley Bonsteel</b>	Long Range Planning Manager
King County	<b>John Wilson</b>	County Assessor
Lacey	<b>Grant Beck</b>	Planning & Development Services Manager
Lake Union Partners	<b>Cait Carew</b>	Principal
Lakewood	<b>Dave Bugher</b>	Assistant City Manager
Lynnwood	<b>Karl Almgren</b>	City Center Program Manager
Moses Lake	<b>Cari Cortez</b>	Housing and Grants Coordinator
North Bend	<b>Rebecca Deming</b>	Community Development Director
Olympia	<b>Darian Lightfoot</b>	CDBG Program Manager
Seattle	<b>Jennifer LaBrecque</b>	Manager, Planning and Programs
Spokane	<b>Teri Stripes</b>	Planning and Economic Development
Tacoma	<b>Debbie Bingham</b>	Project Manager
Vancouver	<b>Samantha Whitley</b>	Housing Programs Manager
Walla Walla	<b>Preston Frederickson</b>	Development Services Director
The Wolff Company	<b>McKenzie Darr</b>	
Department of Commerce	<b>Anne Fritzel</b>	GMS Housing Programs Manager
Department of Revenue	<b>Ras Roberts</b>	Exemptions and Deferrals Manager
Department of Revenue	<b>Amber Cervantes</b>	Exemptions Specialist
Department of Revenue	<b>Linda Smith</b>	Exemptions Program Supervisor

This list may be subject to change if additional members are recruited for this project.

The Committee will have regular meetings on the third Tuesday of each month, with the potential for additional meetings if deemed necessary for the review of deliverables.

These meetings will be as follows:

- **Meeting 1: Introduction (February).** The Committee will be introduced to the project team, and the engagement approach and plan will be discussed.
- **Meeting 2: Initial results from city interviews (March).** Findings will be presented regarding the results of the interviews conducted to date. This will focus on the findings from the initial interviews, which will be targeted specifically at cities. Additional information will be presented from other research to support the findings developed as part of the interviews.
- **Meeting 3: Additional interview results and pro forma model (April).** Findings will be presented from the remaining interviews, with a focus on the non-city participants engaged. This will include a discussion of information and data used to support these findings as well. This meeting will also be used for the review of a preliminary version of the pro forma financial tools to be incorporated into the Workbook and utilized for assessments in the legislative report.
- **Meeting 4: Draft MFTE Workbook presentation (May).** The committee will receive a draft version of the MFTE close to the meeting date, and this meeting will be used to present the major findings and outline the best practices identified in the Workbook. Committee members will have the opportunity to submit additional comments by email to the Commerce PM.
- **Meeting 5: MFTE Workbook discussion 1 (early June).** Based on the initial presentation, the committee will discuss the Workbook and necessary changes.
- **Meeting 6: MFTE Workbook discussion 2 (late June).** This session will include a final review of proposed changes to the MFTE Workbook and describe the next steps in the process.
- **Meeting 7: Case studies (September).** At this meeting, the work to date in developing the case studies will be reviewed, with a presentation of an overall narrative and major points to be included in the legislative report.
- **Meeting 8: Additional reports (October).** We will review preliminary findings for the other deliverables of the project, including the legislative report.
- **Meeting 9: Draft Legislative Report presentation (November).** This meeting will include a presentation and subsequent discussion about the legislative report.

Notes about the coordination of these meetings:

- Coordination and moderation of these meetings will be at the discretion of the Commerce PM. The consultant team will participate in meetings but will not be responsible for chairing the meetings or providing administrative support (e.g., meeting minutes, IT support, etc.).
- Communication with the committee will preferably be through the Commerce PM. If the consultant team needs to coordinate with the committee as a whole, the Commerce PM will be cc'ed on all correspondence.

- All Committee meetings will be held remotely over Zoom or another video teleconferencing service. These meetings will be recorded specifically for transcripts only, with the consent of the participants required in advance.
- Agendas and all necessary elements for review will be submitted to the Committee at least one week in advance, and preferably up to two weeks in advance. These materials must be reviewed by the Commerce PM prior to distribution.
- Note that the Advisory Committee has not been convened to provide approval for the project deliverables, only to provide advice and guidance. Final approval for all work products will be with Commerce and client project manager.
- Given the potential volume of the comments to be submitted, any submissions of feedback after committee meetings should be submitted to the Commerce PM to be compiled and sent to the BERK project team with any necessary notes about feedback/input from the Committee.



## Preliminary Schedule

A general schedule for the deliverables and meetings with the Advisory Committee will be as follows:

Date	Deliverable
January 28, 2022	Draft/Final Project Workplan Draft/Final Engagement Plan
February 15, 2022	<b>Advisory Committee Meeting #1</b> (Introduction / discussion of engagement)
March 15, 2022	<b>Advisory Committee Meeting #2</b> (Initial results: city interviews)
April 19, 2022	<b>Advisory Committee Meeting #3</b> (Initial results: additional interviews / pro forma financial model)
May 17, 2022	<b>Advisory Committee Meeting #4</b> (Draft MFTE Workbook presentation)
May 31, 2022	Draft MFTE Workbook
June 7, 2022	<b>Advisory Committee Meeting #5</b> (MFTE Workbook discussion 1)
June 17, 2022	Final MFTE Workbook
June 21, 2022	<b>Advisory Committee Meeting #6</b> (MFTE Workbook discussion 1)
September 20, 2022	<b>Advisory Committee Meeting #7</b> (Case studies)
September 30, 2022	Training Webinar 1 Draft Report: Auditing
October 18, 2022	<b>Advisory Committee Meeting #8</b> (Case studies / additional reports)
November 15, 2022	<b>Advisory Committee Meeting #9</b> (Draft Legislative Report)
November 30, 2022	Draft Legislative Report
December 31, 2022	Draft Report: Reporting Program
March 31, 2023	Final Legislative Report
April 30, 2023	Final Report: Reporting Program
June 17, 2023	Training Webinar 2
June 30, 2023	Final Report: Auditing

## Protocols

- **Email communications.** Important exchanges with outside contacts should include [Mary Reinbold, Anne Fritzel, Andrew Bjorn, and Katherine Goetz](#) on the cc line, especially if the email is being sent externally to a new contact. This may not be necessary for interview scheduling or other minor emails. Emails from BERK staff to Commerce should also have Andrew and Katherine on the cc line as appropriate (as well as Mary/Anne in cases where other staff is being engaged).
- **Programs.** All project deliverables will be provided as Microsoft Office files. While one-off graphics could potentially be developed using other software (e.g., Illustrator, Photoshop, etc.), the team will use Excel, Word, and PowerPoint for **all** main deliverables.
- **Document templates and accessibility.** All project deliverables will be presented using current Department of Commerce templates and styles, and correspond to current guides for the Department. We will be following document accessibility standards as part of the development of this material, and working to ensure that this material can easily accommodate reformatting by Commerce staff. Keep in mind the following for document development:
  - Commerce “plain talk” standards will be very important given the audience.
  - Always use styles in the development of a document, especially with respect to headings, bullets, and body text.
  - Add explanatory alternate text to all tables and graphics included in the document.
  - Ensure that any tables developed are simple (e.g., headers, no merged cells), and avoid using tables for other types of formatting.
  - Provide consistent and ongoing siting of data and sources throughout all documents.
  - Use the Accessibility Checker in Word often to determine if there are any issues.
- **Client file sharing.** A Teams subfolder (“[@@ Client Share](#)”) is intended for exchanging/sharing files between BERK and the Department of Commerce. Where possible, this should be used for emails attachments, with links to this directory as appropriate (especially for large files and work products). Subdirectories in this share may be used for file exchanges with interviewees and the Advisory Committee.
- **Transcripts.** With consent, all interviews and major meetings should be recorded to get transcripts. Transcript files will be placed on the server for reference, and may be sent to the participants as a record of the event.
- **Document review process.** Product deliverables are intended to be completed within **two review cycles**. As part of the workplan, draft deliverables will be provided as noted. These deliverables are intended for a content review, where issues may be raised with the substantive elements of the material. After the review is coordinated, including review by the Advisory Committee, the project team will discuss necessary changes with the Commerce PM and coordinate revisions on that basis. The subsequent final draft may be reviewed to confirm that the referenced changes have been made as appropriate and the document is sufficiently proofed, but no additional substantive changes will be made after that final draft is provided.