Planning Commission Agenda

Wednesday, June 7, 2023 at 7:00 PM
City Hall Council Chambers
700 Highway 2, Leavenworth, WA

Meeting hosted at City Hall with option to join via zoom by:
(1) connecting via the Zoom app: Meeting ID: 916 5926 4393Passcode: 40805
(2) using the web link: https://zoom.us/j/91659264393?pwd=L1JEa0NGemcrK0hPVFY5aGVuQ2Jqdz09 (3) calling: 1-253-215-8782. Alternative call-in phone numbers: https://us02web.zoom.us/u/kOFTNV2hD

The Planning Commission is responsible for long range planning and legislative policy recommendations to the City Council. Recommendations are based on thorough understanding of options and public comment/discussion. Every year, the City Council directs the Planning Commission work through the establishment of the Docket.

Meeting Etiquette:

1. Have one discussion at a time and limit distractions.
2. Seek to understand before being understood.
3. Be respectful of each other; by assuming good intentions and acknowledging it is ok to disagree.
4. Focus on constructive problem solving.

Agenda

1. **Call Meeting to Order, 7:00 pm**
2. **Roll Call:** *Planning Commission Chair: Steven Booher (position #1 – expiration 2026) Planning Commission Commissioners: Kenny Renner-Singer (#2 - 2023), Brian Praye (#3 City Resident –2024), Drew Foulk (#4 - 2025), Angie Harrison (#5 - 2025), Colin Forsyth (#6 - 2022) and Alison Miller (#7 - 2026)*
3. **Appointment of Chair**
4. **Review and approval of Minutes –** (sent separately)
    a. Sample Motion: *I move to approve the Planning Commission minutes from May 3, 2023.*
5. **Open of Joint Meeting with Council**
6. **Bed & Breakfast Density Options**

At the May meeting several options for limiting B&Bs were discussed. Options which focused on the change of regulations rather than a hard cap on the number or location of B&Bs seemed to be preferred. These changes to regulations included:

a. Limit the number of bedrooms – from 3 to 1
b. Limit use of ADUs as B&Bs
c. Expire B&Bs with a change of ownership
d. Limit number of days rented per year

Caps on the density included:

e. Limit the number of B&Bs per block
f. Create a buffer around existing and prohibit new B&Bs within the buffer
g. Cap the number or percent of B&Bs citywide

7. **Multifamily Tax Exemption (see April packet materials)**
8. **Open Discussion Items, at the Chair's discretion**
9. **Future Meeting Considerations** – Cottage Housing, Inclusionary Zoning, Parking and Residential Condominiums or Unit Lot Subdivisions
10. **Adjournment**

All Planning Commission meetings are open to the public limit the number per block

Con - first come first serve, limits the neighbor's options
Pro - defined # (less) B&Bs per block; know your neighbor; not living in a commercial "zone"

Create a buffer around existing

Cap the number or % citywide

Con- limits options
Pro - small % overall has less impact citywide but may not help some neighborhoods; less arbitrary; grows with number of housing units

Limit number of bedrooms

primary 2; adu 1; overall two room

limit to owner occupied unit (not in ADU)

keep in ADU as it provides for resident secondary income

No limit on density - rather change the regulations

Expire B&B with change of ownership

Retro-active to existing

Pro's of B&Bs
Owner Occupied/managed
Maintained
Supports a local resident (worker/senior) living in Leavenworth
Share with family & friends

Why Density Review?
Address neighbor concerns about # of visitors
- assuming a negative impact; cars, people, noise, unknown neighbors

Loss of units for housing

Concerns with Density
Who got there first - unfair

Limit number of days per year rented

Define B&Bs to include breakfast

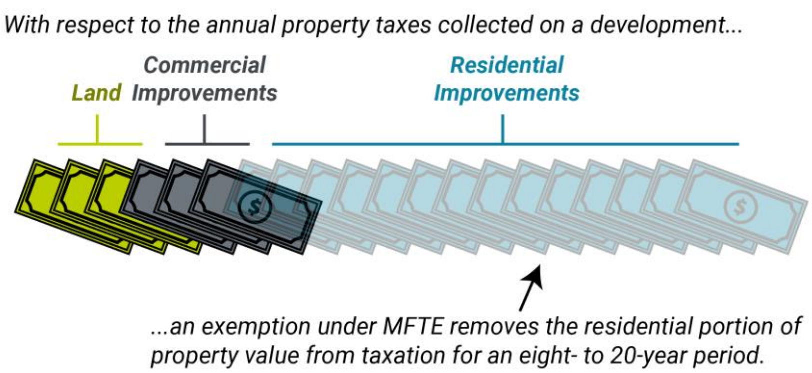
GROWTH MANAGEMENT SERVICES

SHORT GUIDE FOR COUNCILS AND STAKEHOLDERS

What is MFTE?

MFTE (Multifamily Housing Tax Exemption) programs are property tax waiver programs enacted by cities and counties to support local housing goals. Under [Chapter 84.14 RCW](), local governments can give exemptions for new construction, conversion, and rehabilitation of multifamily residential improvements with at least four units.

Under these exemptions, a property owner does not have to pay property taxes on the **residential improvements** for a given number of years. The property owner still pays tax on the land and on non-residential improvements like the commercial portion of a mixed-use building.



Advantages

- Cities and counties can give **financial incentives** to meet housing goals without the need for direct funding. This can support affordable housing but can also incentivize market-rate housing in a way that complies with state constitutional requirements.
- Requirements in state law can be **flexible** and let cities and counties **tailor programs to meet policies**. Some programs consider on-site improvements, building requirements, or mandates for services.
- MFTEs are **commonly used** by developers across Washington, who are often familiar with how they operate and how to use them with projects.

Who Uses MFTE?

As of 2022, 55 communities in Washington have active MFTE programs, and 19 communities issued final certificates in 2021.

The exemptions issued in 2021 resulted in:

- 67 new rental properties and 97 owner-occupied housing units
- 7,759 new housing units, including 1,058 rent-restricted units for low-income households

Recently, conditional certificates have also been issued for the 20-year MFTE for permanently affordable housing as well.

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Washington State Department of Commerce

We strengthen communities

Types of MFTE

MFTE programs are usually divided according to the length of the program:

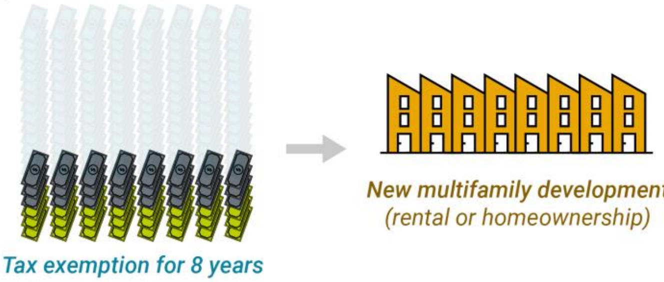
For an **8-year** MFTE program, there are no requirements for affordable housing, although some cities provide their own requirements. Many communities use this to promote **market-rate housing construction** in neighborhoods where new housing investment is needed.

A **12-year** MFTE program must set aside at least 20% of housing units for **low-** and **moderate-income** households. Under the statute, household income is based on Area Median Income (AMI), with households with incomes at 80% of AMI or less considered “low income”, and households at 115% of AMI or lower “moderate income”. This MFTE is used for providing **affordable rental housing options**, including choices in market-rate private housing projects.

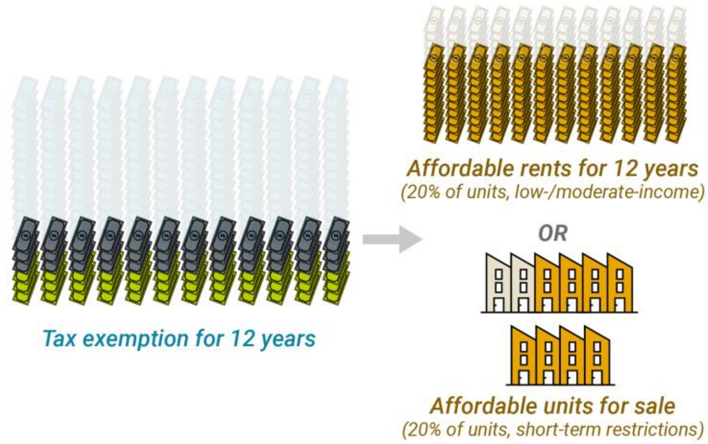
A **20-year** MFTE program requires that 25% of units be sold as permanent affordable housing for households at 80% AMI or below, with a nonprofit or government agency sponsoring the sale and restrictions in place for resale to ensure long-term affordability. This is a new option implemented in 2021 and is intended to be used to encourage **affordable housing homeownership**. There is an option for permanent affordable rentals (20% of units for 99 years at 80% AMI or less) but a deadline for passing this program restricts new programs.

Note that communities can also choose to impose higher affordability requirements and include other requirements for MFTE projects as well.

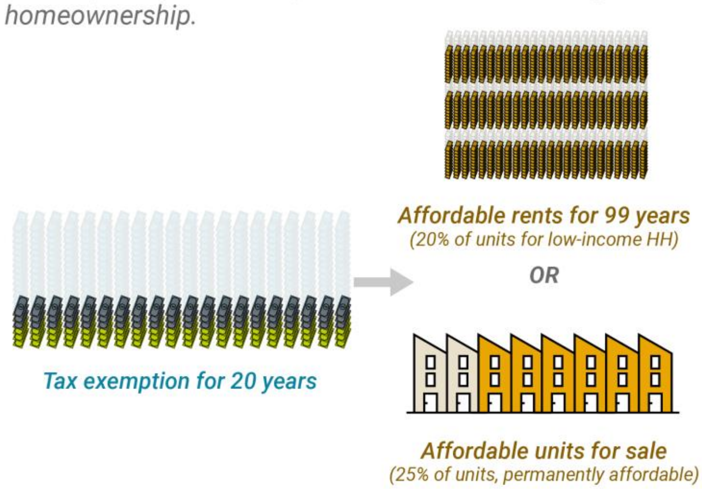
For an 8-year MFTE... tax exemptions are provided as a general incentive for new residential investment.



For a 12-year MFTE... tax exemptions are provided in exchange for at least 20% of units being set aside as affordable for 12 years (rentals or units for sale).



For a 20-year MFTE... tax exemptions are provided in exchange for permanently affordable rental housing / homeownership.



Considerations

- MFTEs can result in either a **loss of tax revenue** to the community, or a **tax shift** where other property owners will pay more in taxes.
- MFTE programs **require staff time** to conduct regular monitoring, oversight, and reporting.
- Regular updates can be necessary to make sure the program provides a **sufficient incentive to maximize public benefits**.

GROWTH MANAGEMENT SERVICES

SHORT GUIDE FOR COUNCILS AND STAKEHOLDERS

What is Tax Shift?

MFTE (Multifamily Housing Tax Exemption) programs can be an effective way of incentivizing market-rate and affordable housing options. To understand how it works stakeholders often ask, "Where does the money come from to pay for the exemption?"

This question can be hard to answer because of how property taxes work in Washington State. When making decisions about an MFTE program, it is important to consider possible tax and revenue impacts.

Generally, these impacts can be distributed in two ways:

- **Foregone tax revenues** that are not collected, which reduce total revenues for a city and other taxing districts (e.g., the port, county, school district, state, etc.).
- A **shift of tax obligations** to all other payers of property taxes in these districts, where there is an increase in taxes collected to offset the losses from the exemption.

How these costs are distributed depends on two things:

- **Levy limits** provided under RCW 84.55.010 mean that property tax levies are restricted to no more than a 1% increase in revenue from the assessed value from the previous year. This restricts how much cities and other districts can raise property taxes on these properties to make up this difference and can mean that deferred taxes will be foregone revenue for these jurisdictions.
- However, **projects that receive MFTEs could still increase that total levy**. Under WAC 458-12-342, county assessors must assess building value during construction and add it to these levy limits, which may not be removed from the total levy amount before the final certificate for exemption is received and the exemption begins.

The amount of tax shift versus deferred revenue depends in part on the practices of the county assessor. However, there are currently no requirements for assessors to consider MFTE in these levy limits. If cities do not consider these effects, an MFTE can shift most or even all of the exempted tax obligations to other properties.

What is MFTE?

MFTE (Multifamily Housing Tax Exemption) programs are property tax waiver programs enacted by cities and counties to support local housing goals.

Under Chapter 84.14 RCW, local governments can give exemptions for new construction, conversion, and rehabilitation of multifamily residential improvements with at least four units.

These exemptions can be provided for different lengths. The eight-year exemption does not require affordable housing, but the 12- and 20-year options have additional requirements to provide on-site affordable units.

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Tax Shift Considerations

If an MFTE is supported through tax shifts, there are some important policy considerations:

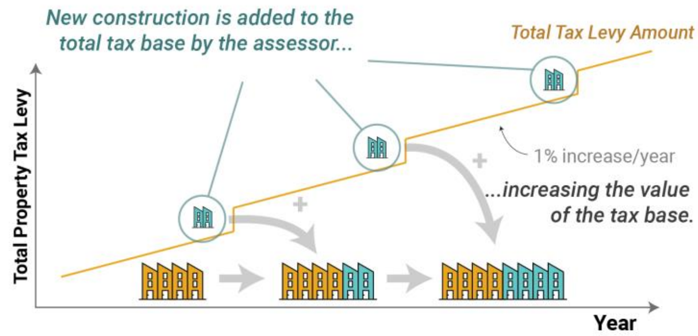
- **Communities may be less likely to support incentives** for market-rate development that use property tax increases, especially for high-end projects that do not seem to provide public benefits.
- **Shifted tax obligations are not usually calculated**, meaning that the full impacts of this program may not be transparent, especially to affected property owners.
- Depending on the popularity of the program, the total increases in property taxes could be **equivalent in magnitude to affordable housing levies** that would require voter approval and have tighter requirements (RCW 84.55.150).

Foregone Revenue Considerations

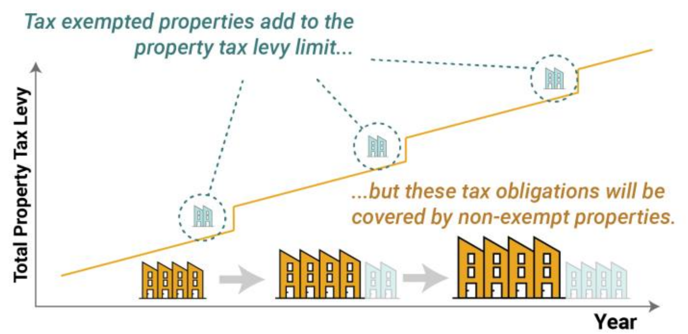
On the other hand, if a city foregoes tax revenue to support MFTEs, there may be other policy concerns:

- **Communities will have reduced long-term tax revenues** from the MFTE program, especially if they will be foregoing most or all of the exempted tax revenue. This can have a significant fiscal impact on local budgets.
- **Other taxing districts may be impacted** by tax exemptions but are not in a position under the statute to object to a community's MFTE program. This can have some significant effects on special districts that cannot make up for this lost revenue in other ways.
- **The total budget impacts may be more unpredictable**, especially without limitations on the number of exemptions issued by the community. However, placing limits on the number and value of exemptions could affect the ability of the MFTE program to meet housing goals.

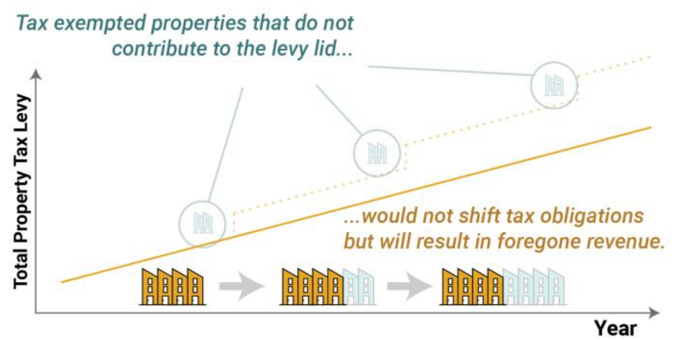
Under typical situations, total property tax levies will increase by 1% over the previous year (plus new development):



If new construction value is added to the levy limit but exempted from property taxes through the MFTE, property tax obligations will be shifted to the rest of the tax base:



However, if exempted value is taken out of the levy limit in some way, the tax levy amount will decrease. This will reduce tax revenue, but note that this is not usually done by assessors in practice.



Overview Multifamily Tax Exemption Program

The Multi-family Housing Tax Exemption Program is a proven method of increasing multi-family housing (four or more units), either through new construction or rehabilitation of vacant or underutilized buildings. It has been successful in other larger communities which prompted the State legislature to expand the program to all communities in 2021. The MFTE program:

- Incentivizing the development of multiple-unit housing including creating additional affordable housing;
- Encouraging urban development and density;
- Increasing market rate workforce housing;
- Developing permanently affordable housing opportunities;
- Promoting economic investment and recovery; and
- Creating family-wage jobs[1]

To be eligible, projects must be in located in a designated area[2] (yet to be defined), be multi-family or mixed-use, be new construction or rehabilitation and meet all city regulations. The property owner must enter into a contractual agreement with the City regarding the terms and conditions of the project approval. This approval process includes action by the City Council. To remain in the program the project must be completed in an agreed timeframe and the property owner must submit an annual report and certification of compliance to the City and Assessor's Office.

How does the MFTE Program fit with the city vision?

The intent of considering this program is to support the Leavenworth Comprehensive Plan (vision) for housing, specifically:

> *Housing Goal 1: Encourage the availability of affordable housing for all economic segments of the population.*
>
> *Housing Policy 1.2: Promote affordable housing, particularly for low- and moderate-income residents by exploring all available options.*

What are the Pros/Cons of MFTE Program?

The advantage of this program is that it can be customized to fit the community needs, including duration of tax exemption, location of development, housing income level served, improved infrastructure, and other public benefits. This program provides a gain in the number and type of workforce housing available in Leavenworth.

The shortcoming of this program is a temporary loss in tax revenue for the city and some districts (not school or bonds). Chelan County Assessor Deanna Walter provided an example for a 20-million-dollar multi-family development in Leavenworth[3].

- City loss of $235,455.28 over 12 years (appx $19,600 per year)
  - If the minimum required affordable units is 4 it equates to just under $5,000 per unit per year
- Fire #3 loss of $177,566.63 over 12 years (more if they did a LID lift)

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[1] RCW 84.14.005(2)

[2] There are minimum density requirements of fifteen dwelling units per acre for the designated area.

[3] This is an estimate based on several assumptions, including current taxes and years of exemption.

- Hospital loss of 39,492.15 over 12 years (more if they did a LID lift)
- Property owners (businesses and residents in the city limits) would split approximately $200,000 annually based on assessed value. In other words, the higher the assessed value the high share of the $200,000. So, this portion of the taxes is expected to impact the businesses more than residents but may provide more employee housing.

What are a few considerations?

- Is the city looking for rental multi-family housing? Ownership housing? Mixed Use?
    - Affordable Housing up to 80% AMI?
    - Affordable Housing up to 115% AMI?
        - Note, exempted taxes must balance with revenue losses from income-restricted housing and other requirements. For most projects, the exemption can provide a significant subsidy, but deeper levels of affordability for very low (>50% AMI) cannot be supported by this incentive alone. (MF Housing Property Tax Exemption Workbook)
- How long should the units be Affordable Housing?
    - 12-year exemption limits affordable to exemption timeline
    - 20-year exemption requires permanent affordable housing (99-years)
- What percent of the overall units would you like to see affordable? Note, the developer still needs to find the project feasible. A large part of the feasible questions is number of market-rate units to Affordable Housing units.
    - 12-year exemption has a minimum of 20%. Or higher?
    - 20-year exemption has a minimum of 25%. Or higher?
- Should there be an option for a 12-year extension to the 12-year exemption?
- Does the city want to consider requiring other public benefits?
    - Donations to parks, civil buildings, public art, open space, etc. The costs for a public benefit need to be balanced by the value of the exemption. Additionally, if the benefit results in ongoing operations and maintenance costs those should be evaluated. (MF Housing Property Tax Exemption Workbook)
- Where would be a good location for this program?
    - Requires a minimum density of 15 units per acre – any commercial or industrial zoning district.
    - Leavenworth Meadows (between Chumstick and Titus) development has stated an interest in using this program, if adopted.