CITY OF Vancouver WASHINGTON

Multi-Family Housing Tax Exemption

Program Manual

July 3, 2023

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PROGRAM SUMMARY

The Multi-Family Housing Tax Exemption (MFTE) Program allows for an 8 or 12-year tax exemption for the approved value of newly constructed or rehabilitated residential units. This exemption is authorized under Washington State Law (RCW 84.14) and the Vancouver Municipal Code (VMC 3.22).

The purpose of the MFTE program is to encourage private multi-family housing development and rehabilitation to accommodate population growth, provide housing close to employment, shopping, entertainment, and transit, and increase affordable housing options. Only projects located within designated Residential Target Areas (defined in Appendix A) are eligible to apply for the MFTE program.

The MFTE program offers tax exemptions for two types of housing developments:

Income-Based Housing

Income-Based Housing is defined as housing with a minimum of 20% of its units affordable to households earning 80% or less of median family income (MFI). Housing is considered affordable when monthly housing costs (including basic utilities and any recurring fees required as a condition of tenancy) do not exceed 30% of a household's monthly income. Income and rent limits are updated annually and available in Appendix B.

Qualifying Income-Based Housing developments are eligible for a 12-year tax exemption and must maintain the affordability throughout the 12 years. After the initial 12-year period, there is an additional five years when property rent increases are restricted to prevent tenant displacement. In each of the five years following the expiration of the Income-Based multifamily tax exemption, annual increase in the income-based unit rents shall not exceed the unit rent in the previous year adjusted by 5% plus the C.P.I.U. factor, as defined in VMC 3.08.100. Annual reporting and compliance will be required during this 5-year follow-on period.

At the end of the initial 12-year exemption period, Income-Based projects may request an MFTE renewal, and receive ongoing tax exemption in exchange for maintaining the units affordable for an additional 12 years, for a total of 24 years.

Market-Rate Housing

Market-Rate Housing does not have income or affordability requirements, but instead may be subject to a fee in lieu, a density requirement, or both. Market-Rate Housing developments are eligible to receive an 8-year tax exemption provided they pay the fee in lieu or meet the density requirements, or both, depending on the Residential Target Area. Ownership projects are eligible for MFTE in all Target Areas with no fee in lieu, but must meet certain value and density requirements. Requirements for each of the Residential Target Areas for Market-Rate Housing projects are listed under “Specific Market-Rate Housing Requirements” in this manual.

PROGRAM REQUIREMENTS

Both Income-Based and Market-Rate projects must meet certain requirements to be eligible for a tax exemption:

- The property must be located within a Residential Target Area (see map included at Appendix A).
- The project must have an assessor's property tax identification number to receive preliminary approval.
- The project must be used for multi-family rental housing or home ownership.
- The project must add, convert, or rehabilitate a minimum of four or more dwelling units designed for permanent residential occupancy. (This excludes hotels, motels, or other short-term rental options that offer accommodation on a daily or weekly basis.)
- The project must be new construction, rehabilitation, or conversion of vacant, underutilized, or substandard buildings.
- The development must provide a minimum of 50% of its floor area for permanent residential occupancy.
- Housing projects must not displace any existing residential tenants from the property proposed for development. Buildings must be vacant for at least one year unless a relocation plan is approved by the City.
- Projects that involve rehabilitation must provide evidence that the structure fails to comply with one or more building code standards on or after July 23, 1995. A written confirmation from the City Building Official is required.
- Projects must be designed to meet the City's Climate Action/green building requirements.
- Projects will require an agreement with the City describing the proposed exemption type and the conditions required.
- The project must be completed with an issued temporary or final building occupancy permit within three years from the date City Council approves the conditional certificate of tax exemption.
- Following the final certificate approval, projects will be monitored annually for ongoing compliance with program requirements.

APPLICATION PROCESS

The MFTE application is available online through the City's website (www.cityofvancouver.us/mfte), and submitted electronically through Zoomgrants.

A complete MFTE application shall include:

- A description of the project, including the type of project and exemption requested;
- Description of units, number of bedrooms/bathrooms and projected rent or sales price;
- A statement acknowledging the potential tax liability when the MFTE period ends;
- A detailed project budget, financing plan and operating projections; and
- For rehabilitation projects, an affidavit that existing units have been unoccupied for at least 12 months or approved relocation plan, and verification of noncompliance with code.

In ZoomGrants, applicants are asked to complete an Application Summary, Project Application Questionnaire, a Funding Sources and Uses form, and upload the following documents:

- Preliminary Site Plan
- Preliminary Floor Plans
- Elevations/Renderings
- Construction Budget
- Copy of Financing Agreement/Terms (if available)
- Operating Pro-Forma
- Application Fee Receipt

Application Fees

The MFTE Program requires payment of the following fees at the time of application:

- Base application fee - $5,000
- Per unit fee - $75 per unit

MFTE payments can be:

- mailed to PO Box 8995, Vancouver WA 98668-8995; or
- deposited in the drop box behind City Hall in the parking area; or
- made over the phone by calling customer service at 360 487-8454

Please reference budget code "001 CC0139 369920 RC0278" when submitting application fees.

Applications will be reviewed for completeness upon submission and application fee payment. The approval process typically takes approximately 90 days from submittal to council approval. Tax exemption application times do not include land use, engineering or building permit processing timelines. Please coordinate with the Development Review team on other project timelines.

After staff have reviewed the application and find that the project meets MFTE requirements, an agreement will be drafted for approval by City Council. Upon approval of the agreement, a conditional certificate is recorded with the County Auditor and issued to the property owner.

PROGRAM TIMELINE

Application Submittal

- Staff confirm receipt of application and application fees.
- Staff review application within **7 days**, follow-up with applicant on any questions or needed information.

Staff Review

- Staff calculate tax exemption.
- Staff prepare draft MFTE agreement
- City Council meeting scheduled within **90 days** of complete application receipt.

City Council Approval

- After City Council approval, MFTE Contract and Conditional Certificate issued.
- Upon Council approval, applicant has **3 years** to obtain occupancy permit.

Project Completion

- Within **30 days** of occupancy, owner submits documentation to city for issuance of Final MFTE Certificate.
- Staff will submit final certificate of tax exemption to County Auditor within **10 days**.
- Tax exemption begins on January 1 after final certificate submitted to auditor.

Ongoing compliance

- Market-Rate projects submit annual reports to City for **8 years**.
- Income-Based projects submit annual reports to City for **12 years** during tax exemption.
- Income-Based projects report for an additional **5 years** on rent charged (not to exceed 5% + CPIU factor increase per year) for total reporting of **17 years**.

PROJECT COMPLETION – FINAL CERTIFICATE

Beginning on the date of City Council approval of the MFTE agreement, the property owner has three years to obtain an occupancy permit.

Within 30 days of occupancy, the owner shall submit the information listed below to obtain the Final Certificate of Tax Exemption:

- Copy of occupancy permit;
- A statement of expenditures made with respect to each multi-family housing unit;
- A statement of the total expenditures made with respect to the entire property;
- A description of the completed work and a statement that the rehabilitation or new construction qualifies the property for a limited exemption;
- If applicable, a statement that the project meets the Income-Based Housing requirements as described in RCW 84.14.020 and VMC 3.22; and
- A statement that the work was completed within the required three-year period (Unless an extension was granted pursuant to VMC 3.22.040 H).

Once a Final Certificate of Tax Exemption is issued it is recorded with the County Auditor and forwarded, along with the above documentation, to the County Assessor's Office within 10 days, for implementation of the exemption through the property tax code. The tax exemption begins January 1st of the year immediately following the clanedar year in which the Final Certificate of Tax Exemption is issued.

Conditional Certificate Extension

If the project does not receive an occupancy permit within three years from the City Council approval date, an extension up to 24 months may be granted if the applicant can meet the conditions of VMC 3.22.040 H. The applicant must submit a written request, prior to the expiration of the initial certificate, stating the grounds for the extension accompanied by a $1,000 processing fee. Market-Rate Housing projects receiving an extension must pay the required fee-in-lieu in effect at the time extension is granted.

Duration of Exemption

The 8 or 12-year tax exemption begins January 1st of the year immediately following the calendar year in which the Final Certificate of Tax Exemption is issued. At the end of the exemption period, monthly rents on income-restricted units within Income-Based projects may not increase more than 5% + CPIU factor per year for the first five years after the end of the exemption period.

Income-Based projects may request renewal of the MFTE benefit at the end of the initial 12-year exemption period. An additional 12-year tax exemption period may be approved in exchange for maintaining the affordability of units for an additional 12 years, for a total of 24 years.

ANNUAL COMPLIANCE REVIEW AND REPORTING

All MFTE projects are required to provide annual monitoring reports for the duration of the exemption period; 8 years for Market-Rate projects and 12 years for Income-Based projects. Income-Based projects are required to report for an additional five years after the end of exemption period. Reports must be submitted using the City-provided Excel worksheet and include a notarized statement of compliance. Reports are submitted to the City of Vancouver Economic Prosperity and Housing Department MFTE Program.

Required reporting information:

- Address and name of project
- Total number of units
- For each unit:
    - Unit number
    - Number of bedrooms
    - Rental or owner-occupied
    - Indicate designated income-restricted unit (if required for tax exemption)
    - Monthly rent payment
    - Utilities included in the rent
    - Utilities paid by tenant
    - Household size and gross income (if required for tax exemption)
    - Sales price for owner-occupied units (if applicable)
- A description of any improvements or changes to the property completed after issuance of the Final Certificate of Tax Exemption

Compliance Monitoring Fee

A $500 fee for compliance monitoring is required annually with the monitoring report.

Income-Based projects are only subject to the monitoring fee during the exemption period. There is no monitoring fee for the subsequent five-year period to ensure that rental amounts are not increased more than 5% + CPIU factor each year.

Change of Ownership

To ensure program communication and compliance, property owners must provide notice to the City of Vancouver prior to any transfer of ownership or change in property management.

Annual Reporting

Project reporting is required by the City of Vancouver not just for compliance review, but to analyze the program's impact and communicate program outcomes to the community.

Staff must report detailed information on new MFTE developments annually to the Washington State Department of Commerce.

Staff also provide an annual MFTE report to the City Center Redevelopment Authority and City Council. Reporting provided includes analysis of program results compared to anticipated activity as well as an evaluation of progress made toward achieving density and affordability priorities.

SPECIFIC INCOME-BASED HOUSING REQUIREMENTS

Income-Based projects are eligible in every Residential Target Area and must meet the following:

Income and Rent Limits

Income-Based housing projects with a 12-year tax exemption must meet tenant income and rent limit requirements for 20% of the units. The MFTE period for Income-Based projects may be renewed one time only for an additional 12 years. Throughout the exemption period, units must meet all of the following:

- The household occupying the unit must have a gross income less than or equal to 80% of the median family income (MFI) based on household size for Vancouver. The regional MFI is updated annually by the U.S. Department of Housing and Urban Development.
- The household cannot pay more than the established limit for rent and utilities, based on unit size. (See Appendix B.)
- Rents for these units may not be higher than comparable market rate units in the property.

The property owner must maintain tenant information throughout the tax exemption period. These final must be available for review upon request by City of Vancouver staff. This includes:

- Income documentation such as employment verification, pay stubs for the previous 90 days, or most recent tax return; and
- Written methodology for determining annual income for non-salaried tenants.
- A lease with all occupants listed for each unit.

The household income of tenants in designated Income-Based Housing units must be reviewed with the initial lease, upon lease renewal, and if there is any rent increase to ensure eligibility. Total household income from all sources must be below 80% MFI to meet tax exemption requirements.

- If a tenant is over the maximum income upon review, the next available comparable unit must be leased to an income-eligible tenant.
- If an adult occupant (18 or older) is added to the household, the additional member(s) must be income certified.
- Tenants must disclose all income sources and adequate documentation must exist on file to support the income amounts disclosed.

Tenant-Paid Utilities

If tenants pay utilities, the maximum rent charged will require an adjustment for a utility allowance. Utility allowances are updated annually by the Vancouver Housing Authority and can be found on their website: vhausa.org/landlords/housing-choice-voucher-utility-allowances. The property owner may propose a project-specific utility allowance based on actual usage after the property has been operating for 12 months.

Unit Mix

Throughout the exemption period, the property must maintain 20% of its units as income-based units under the requirements of RCW 84.14 and VMC 3.22. Income-based units must be comparable in terms of size, features, and number of bedrooms to the remaining units in the project. Income-restricted units may float throughout the property; however, in order to maintain exemption status, the property must have 20% of the units leased as rent and income-restricted at all times.

SPECIFIC INCOME-BASED HOUSING REQUIREMENTS (Continued)

Advertising Units

The property owner must include information about the availability of designated income-based units when advertising the property. Please note that the City of Vancouver will provide a list of all Multi-Family Tax Exemption properties on its website, including the number of income-restricted units and contact information for the property owner/management company.

Information for Tenants

The City has prepared an information sheet for prospective/current tenants in tax exemption properties with designated Income-Based Housing units. See www.cityofvancouver.us/mfte.

Renewal of Exemption

At the end of the initial 12-year tax exemption, property owners may request a one-time renewal. If approved, a second 12-year tax exemption period will begin. Property owners or managers must request renewal at least four months prior to their initial MFTE expiration date (by September 1). Staff will review project compliance and if property is in good standing with the program, make a recommendation for City Council to consider a 12-year renewal. There is a $1,000 fee to process a renewal request.

Expiration of Exemption

Property owners and managers of MFTE developments must plan for the expiration of the exemption. The exemption program expires on December 31 of the 12th year.

Property Managers must:

- Provide notice to the tenants regarding the end of the program.
- Honor the rent as stated in the signed and effective lease for tenants of designated units; in no case may the expiration date of a MFTE exemption supersede terms of an effective lease.
- Provide notice of an increase of rent pursuant VMC 8.46.

At the expiration of the tax exemption period, a five-year rent restriction will apply to the MFTE units to reduce potential displacement of tenants. In each of the five years following the expiration of the multifamily tax exemption, annual increase in the income-based unit rents shall not exceed the unit rent in the previous year adjusted by 5% plus the C.P.I.U. factor, as defined in VMC 3.08.100. Annual reporting and compliance will be required during this 5-year follow-on period.

SPECIFIC MARKET RATE HOUSING REQUIREMENTS

Fees in lieu and density requirements for Market-Rate Housing projects vary based on the Residential Target Area in which the project is located. The eligible Residential Target Areas are listed below, along with the corresponding fee in lieu or density requirements. The eligible properties within each Residential Target Area are identified on the map in Appendix A.

	OPTION TYPE		
TARGET AREA	**Fee in Lieu**	**Density* + Fee in Lieu**	**Ownership**
Downtown Waterfront	50%	275 units/acre + 25% fee	No Fee in Lieu; minimum 12 units, subject to maximum eligible sales price
Vancouver City Center	50%	225 units/acre + 25% fee	
East Vancouver	50%	200 units/acre + 25% fee	
Uptown	25%	160 units/acre	
Evergreen / Grand	25%	160 units/acre	No Fee in Lieu; minimum 4 units, subject to maximum eligible sales price
Fourth Plain	25%	90 units/acre	
Mill Plain Corridor	25%	90 units/acre	
HWY 99 Corridor	25%	90 units/acre	
The Heights	Not Available	Not Available	

*To facilitate larger sized multiamily units, 3-bedroom units shall be counted as 1.5 units and 4-bedroom units counted as 2 units.

Fee in Lieu

To calculate the fee in lieu, financial information provided by the applicant is reviewed by the City Finance team to determine the projected tax liability to the project and the value of the benefit of the MFTE exemption. The fee is either 25 or 50% of the net present value of the property tax exemption over eight years, the life of the exemption, based on the requirements within each Residential Target Area.

Fee in lieu payments are paid to the City of Vancouver and are intended to support the development of affordable housing throughout Vancouver, regardless of the location of the project that made payment. Such funds will be invested at the sole discretion of the City. The timing of the payment will determined upon approval of the MFTE agreement and will reflect the particular circumstances of each development.

Ownership Units

Ownership minimum densities are not based on zoning allowances. To be eligible for MFTE, ownership units must initially sell for less than or equal to two times the HUD HOME Homeownership Value Limit for newly constructed housing in Clark County, which is updated annually. More information and the methodology used for calculating this limit is available at: www.hudexchange.info/resource/2312/home-maximum-purchase-price-after-rehab-value/

NON-COMPLIANCE

Cancellation of Tax Exemption

If it is determined that the property owner is not complying with the terms of the MFTE agreement, the tax exemption will be canceled. This cancellation may occur in conjunction with the annual review or at any other time when non-compliance has been determined. Payment of exempted taxes may be required for the period in which the project was in non-compliance with program requirements
If the owner intends to convert the multi-family housing to another use, or otherwise discontinues compliance, the owner must notify the City and the Clark County Assessor at least 60 days prior to the change in use.

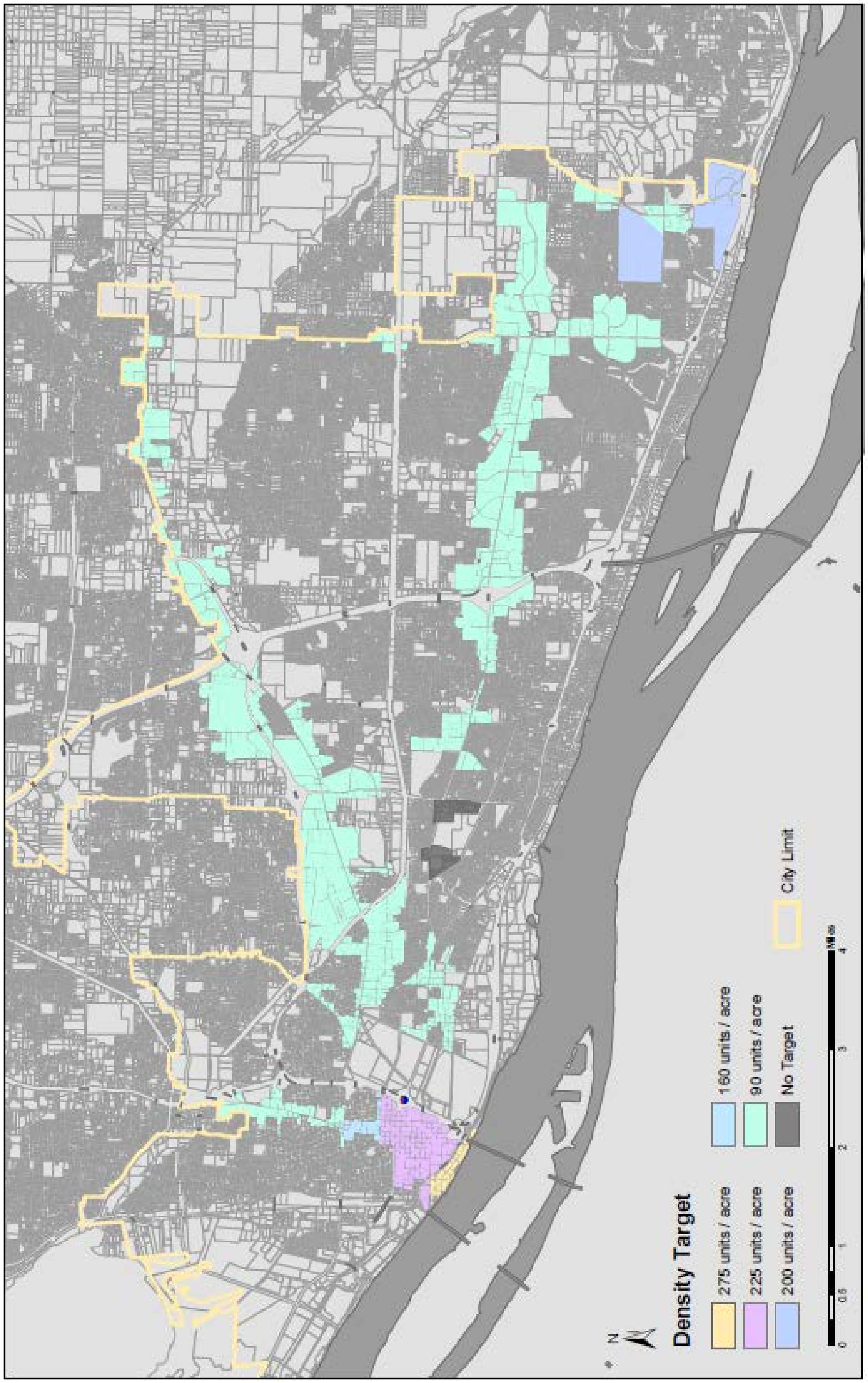
If a tax exemption is canceled due to a change in use or non-compliance, the Clark County Assessor may impose an additional tax on the property, together with interest and penalty, and a priority lien may be placed on the land, pursuant to RCW 84.14.

Notice and Appeal of Cancellation

Upon determining that a tax exemption is to be canceled, the City shall notify the property owner by certified mail. The property owner may appeal the determination by filing a notice of appeal with the City Clerk within 30 days, specifying the factual and legal basis for the appeal. There is a fee of $2,000 to process the appeal. Legal staff will prepare information and City Council will conduct a hearing where all affected parties may be heard and all competent evidence received. City Council will affirm, modify, or repeal the decision to cancel the exemption based on the evidence received. An aggrieved party may appeal the City Council's decision to Clark County Superior Court.

APPENDIX A: RESIDENTIAL TARGET AREAS

(online webmap will be available to view parcels)



APPENDIX B: INCOME AND RENT LIMITS FOR INCOME-BASED HOUSING UNITS

Income and rent limits are updated annually based on HUD Median Family Income (MFI) figures for the Vancouver-Portland area.

- **Income calculation:** For each designated Income-Based Housing unit, calculate the gross annual houseold income using documentation provided by the tenant. Include income for all adults in the unit (18 and older). Incomes must be recalculated annually.

INCOME LIMITS

Income	1-person	2-person	3-person	4-person	5-person	6-person
80% MFI	$63,150	$72,200	$81,200	$90,200	$97,450	$104,650

Effective May 15, 2023. Source: www.hudexchange.info/resource/5334/cdbg-income-limits/

RENT LIMITS

Rent	Studio	1-BR	2-BR	3-BR	4-BR
Affordable to 80% MFI	$1,579	$1,692	$2,030	$2,346	$2,616

Effective May 15, 2023. Source: https://www.wshfc.org/Managers/Map.aspx

Rent Limit Calculations

Each Income-Based MFTE project has an agreement with the City of Vancouver which establishes the number of Income-Based Housing units.

- The rent limit methodology is consistent with that used by the Washington State Housing Finance Commission and other jurisdictions around the state.
- The rent limits assumes the household size is one person for a studio and an average of 1.5 people per bedroom for all other units.

E.g. The rent for a 3-bedroom unit is equal to 30% of the 80% income for a 4.5-person houseohld (3 bedrooms x 1.5 people/bedroom = 4.5 people).

All rents include tenant paid utilities. If tenants pay utilities, the maximum rent charged will require an adjustment for a utility allowance. Utility allowances are updated annually by the Vancouver Housing Authority and can be found on their website: vhausa.org/landlords/housing-choice-voucher-utility-allowances. The property owner may propose a project-specific utility allowance based on actual usage after the property has been operating for 12 months.

APPENDIX C: PROGRAM DEFINITIONS

“HOUSEHOLD” means a single person, family, or unrelated persons living together.

“INCOME-BASED HOUSING” means residential housing that is rented by a person or household whose monthly housing costs, including utilities other than telephone and any mandatory recurring fees required as a condition of tenancy for the unit, do not exceed 30% of the household’s monthly income. For the purposes of homeownership, the income limits are listed in VMC 3.22.040(D)(8), Options under the Program.

“MARKET-RATE EXEMPTION” option means an eight-year property tax exemption with no income or rent requirements, subject to the public benefit requirements as outlined in VMC 3.22.040(D)(8)(a).

“MEDIAN FAMILY INCOME” means the median income calculated annually by the United States Department of Housing and Urban Development for the Portland-Vancouver-Hillsboro metropolitan statistical area. Family median income is adjusted based on household size.

“MULTI-FAMILY HOUSING” means building(s) having four or more dwelling units designed for permanent residential occupancy resulting from new construction or rehabilitation or conversion of vacant, underutilized, or substandard buildings.

“PERMANENT RESIDENTIAL OCCUPANCY” means multi-family housing that provides either rental or owner occupancy for a period of at least one month. This excludes hotels and motels that predominately offer rental accommodation on a daily or weekly basis.

“REHABILITATION” means modifications to existing structures that are vacant for 12 months or longer, or modification to existing occupied structures which convert nonresidential space to residential space and/or increase the number of multi-family housing units.

“RESIDENTIAL TARGET AREA” means an area within an urban center that has been designated by the City Council as lacking sufficient, available, desirable, and convenient residential housing to meet the needs of the public.

Program Manual Revision History

Date	Change Summary
6-22-2022	Updated HUD Income Limits
5-15-2023	Updated HUD Income Limits
7-3-2023	Updated to reflect substantial changes to VMC (Ordinance M-4416)