



MEMORANDUM

TO: City Council

FROM: Eric Holmes, City Manager
Chad Eiken, Community and Economic Development Director

DATE: November 5, 2020

SUBJECT: Proposed Revision to the Multi-Family Tax Exemption Program – Income Restrictions

This memorandum summarizes the rationale for a proposal to revise the City's multi-family tax exemption (MFTE) program income restrictions. City staff developed the proposal after receiving feedback from City Council at the September 28, 2020 workshop on the MFTE program.

Summary

This revision to the MFTE program focuses on reducing the eligible household income levels based on Vancouver Median Household Income instead of the current six-county metropolitan statistical area median family income used by HUD. Vancouver's 2020 median household income calculated using HUD's methodology through the ACS is \$64,900 which is 29.5% lower than the \$92,100 Area Median Income established by HUD for Clark County using the Portland MSA median family income. City staff are recommending using Vancouver's median household income as the basis for establishing affordable rent limits. This would be accomplished by multiplying the maximum income and affordable rent levels obtained from the HUD area median income for Clark County (based on the Portland MSA median family income) by 70% (a reduction of 30%).

City staff will conduct an annual analysis of the HUD area median income for Clark County in relation to Vancouver's median household income and adjust the reduction factor accordingly. This annual review will ensure that affordable housing rents stay relevant to the City of Vancouver population.

It is important to note that City Council is authorized to adopt the more stringent affordability and income eligibility criteria under RCW 84.14.030(2): *"The multiple-unit housing must meet guidelines as adopted by the governing authority that may include height, density, public benefit features, number and size of proposed development, parking, income limits for occupancy, limits on rents or sale prices, and other adopted requirements indicated necessary by the city or county."*

Revisions to Eligible Income Levels

Adjusting the MFTE eligible income levels based on the Vancouver median household income will provide a more appropriate basis for establishing affordable rents than those currently used in the MFTE program.

The current available exemption options include

- An 8-year exemption for market-rate projects offering public benefits negotiated through a development agreement process.
- An 8-year exemption for projects with 20% of units affordable to households earning up to 100% of area median income (AMI).
- A 10-year exemption for projects with 20% of units affordable to households earning up to 80% AMI.
- A 12-year exemption for projects with 20% of units affordable to households earning up to 60% AMI.

Adjusting the current income and rent limits using Vancouver median household income will result in rents under the 8, 10 and 12-year affordable housing options that are more aligned with actual incomes in Vancouver. The table below shows the difference between the current eligible incomes and housing costs calculated using the Portland MSA median family income and the proposed income limits and housing costs using the proposed reduction factor obtained using the Vancouver median household income.

Table 1 - Adjusted Area Median Income by Household Size

	Income Level	1-Person Household		2-Person Household		4-Person Household	
		Annual Income	Max. Affordable Housing Costs	Annual Income	Max. Affordable Housing Costs	Annual Income	Max. Affordable Housing Costs
100%	Current HUD MSA	\$64,500	\$1,613	\$73,700	\$1,843	\$92,100	\$2,303
x70%	Proposed COV	\$45,150	\$1,129	\$51,590	\$1,290	\$64,470	\$1,612
80%	Current HUD MSA	\$51,600	\$1,290	\$59,000	\$1,475	\$73,700	\$1,843
x70%-	Proposed COV	\$36,120	\$903	\$41,300	\$1,033	\$51,590	\$1,290
60%	Current HUD MSA	\$38,700	\$968	\$44,220	\$1,106	\$55,260	\$1,382
x70%	Proposed COV	\$27,090	\$677	\$30,954	\$774	\$38,682	\$967

Source: US Department of Housing and Urban Development effective 7/01/2020
Reduction methodology note here

Revisions to Maximum Affordable Housing Cost

The MFTE program requires that the maximum costs for rents and utilities are based on 30% of a household’s income. Table 2 below compares the current and proposed rent levels. The adjusted Vancouver maximum housing cost is shown in in column 3 below.

Table 2 - Comparison of Rents and Utilities Using Median Family Income vs. Median Household Income (Adjusted by 30% Reduction)

Unit Size (#BR)	Current Affordable Rent Using Portland MSA Median Family Income	Proposed Affordable Rent Using 70% Adjustment Factor	Reduction: Dollar Amount	Reduction: Percent
Studio	\$1,613	\$1,128	-\$485	-30%
1	\$1,728	\$1,209	-\$519	-30%
2	\$2,073	\$1,451	-\$622	-30%
3	\$2,384	\$1,668	-\$716	-30%
4	\$2,672	\$1,870	-\$802	-30%

*100% of Area Median Income

The data source for the 2020 estimate is the Census Bureau’s American 2017 Community Survey (ACS) 1-year estimate inflated to 2020 using the Consumer Price Index and the same methodology used by HUD.

MFTE Program Rents

As shown in Table 3 below, the proposed affordable rent level for a two-bedroom apartment using the adjusted income factor is \$1,451 or \$622 lower than the rent using the Portland MSA median family income.

The table provided below summarizes the proposed *rent levels* for each unit size under the three affordable housing options. Note that the MFTE affordable rent levels would be adjusted annually using the HUD methodology and the most recent ACS data on Vancouver median household income. To simplify the calculations for income monitoring the affordable rent levels for the 10 and 12 year exemptions would be set at 55% and 45% of the HUD area median income for Clark County instead of the 56% and 42% obtained by multiplying the original 80% and 60% times 70%.

Table 3 - Proposed Rent Levels (8-10-12 Year Exemption) Using Median Household Income.

	8 Year Exemption	10 Year Exemption	12 Year Exemption
Unit Size (#BR)	Affordable at 70% of Portland Median Family Income	Affordable at 55% of Portland Median Family Income	Affordable at 45% of Portland Median Family Income
Studio	\$1,128	\$886	\$725
1	\$1,209	\$950	\$777
2	\$1,451	\$1,140	\$933
3	\$1,668	\$1,311	\$1,072
4	\$1,870	\$1,469	\$1,202

The data source for the 2020 estimate is the Census Bureau’s American 2017 Community Survey (ACS) 1-year estimate inflated to 2020 using the Consumer Price Index and the same methodology used by HUD.

According to the Washington Center for Real Estate Research 2Q Apartment Report and Colliers 2Q 2020 Multi-Family Market Report and data from Apartment List on the median rent in Vancouver, the market rent for a two-bedroom apartment is between \$1,262 and \$1,678. Research indicates that the proposed maximum rents are in-line with what is currently being charged in Vancouver.

Development Stakeholder Outreach

City staff reached out to 25 housing developers who have participated in the Multi-Family Tax Exemption Program to obtain feedback on the proposed adjustment to Area Median Income to better reflect Vancouver Median Household Income, versus the inflated Median Family Income of the broader Portland region. Two listening sessions were held in September, and two additional listening sessions have been scheduled in November prior to the consent agenda date. So far, staff have received feedback from eleven developers.

While there is an acknowledgement among developers who participated that Vancouver rents and incomes are generally lower than in Portland, the feedback received to-date indicates overall concerns with the proposed reductions in the maximum affordable rents in affordable projects, which are seen as making it harder for developers to build quality affordable housing projects, even with the generous tax benefits over 8, 10 or 12 years.

Specific feedback:

- *Important to understand that the margin on affordable projects is “very thin.” Land prices are getting close to Portland prices, particularly in the downtown and Waterfront areas. Design, labor and material costs are the same as Portland, projects in Vancouver pay Washington state sales tax on improvements, and Vancouver apartments cannot command the same rents as in Portland.*
- *The tax incentive through the MFTE program is just about enough to cover the state sales tax on construction.*
- *Reducing the tax incentive by further limiting affordable rents by 30% will result in fewer developers opting to build under the affordable housing options or if they do, the projects will be of lower quality.*
- *New projects are more expensive, and therefore it is difficult to begin with to build “new” affordable housing.*
- *Need to understand the “ecosystem” of affordable housing, and how new housing supply – regardless of affordability – leads to overall increase in affordable units in the system.*
- *Decrease in rents from affordable units would need to be shifted to other units that are market rate.*

City Center Redevelopment Authority

The City Center Redevelopment Authority is responsible for advising City Council on the Multi-Family Tax Exemption Program per their bylaws. On September 21, 2020, the CCRA met to consider the proposed adjustment to income limits for affordable units under the program to better reflect Vancouver incomes. Several members reflected on the success of the program over the past twenty years, especially in bringing more residents to the downtown, and noted that the original intent of the state law was to incentivize housing in city centers, regardless of affordability. However, board members also acknowledged that the incomes in Vancouver

are much lower than the Portland-Vancouver-Hillsboro MSA, which results in units that are less affordable to Vancouver residents at 100%, 80% and 60% of Area Median Income. While the board indicated support for the changes, they intend to monitor how these changes affect the number of new affordable projects and advise caution when considering further adjustments that would reduce the value of the tax incentive.

Staff Recommendation

Staff recommends that Council approve the ordinance to adjust the income and rent limits for the City's multi-family tax exemption program by using the Vancouver median household income. The revised income restriction and rent limits would only impact the new projects going forward that utilize the MFTE affordable unit option (at 100%, 80% or 60% of Area Median Income).