



MEMORANDUM

TO: City Council

FROM: Eric Holmes, City Manager

DATE: September 13, 2021

SUBJECT: Update on Multi-Family Tax Exemption Program Comprehensive Review

Last March Council approved a set of changes to the City's Multi-Family Tax Exemption Program, VMC 5.22, in the first of two planned phases of amendments to the program. Changes under the first phase addressed several identified priority issues such as: 1) changing the terminology from "affordable" to "income based" throughout the ordinance; tightening up some of the public benefit requirements to include a minimum value; and responding to a request from a private developer to adjust the downtown MFTE boundary to include an adjacent two-acre site

Due to temporary resource constraints associated with staff changes, the second phase was delayed during the summer but is now underway. This next phase will involve a more comprehensive analysis of the effectiveness of the program and how it can be adjusted to further affordable housing and economic development goals, including expansion of the program to other centers and corridors.

Recent changes in the rental market have underscored a need to revisit the goals and intended outcomes of the MFTE program. As such, the first step in the second phase of MFTE work will involve a series of staff-led discussions with Council to revisit and update the goals and desired outcomes of the MFTE program, which will inform the second phase work of consultants who will be evaluating the more technical elements of the program.

A Request for Proposals (RFP) has been issued for the second phase analysis in order to solicit proposals from consulting firms that have expertise in evaluating such programs.

The scope of the consultant's work in the RFP is described as follows:

1. Analysis of the overall effectiveness and deficiencies of Vancouver's current MFTE program in stimulating residential development including income-based housing in identified centers and corridors, as well as an explanation of the value the tax exemption adds to the viability of construction projects considering the cost of land and construction and achievable rents in the current market; and
2. Analysis and recommendations regarding the use of the 8-year market rate incentive, including effectiveness in achieving desired housing production outcomes, ensuring adequacy of required public benefit(s) (e.g. type and value of) in exchange for the market rate exemption, the viability

of establishing a fee-lieu of income-based housing, and defining “tipping point(s)” in market conditions when the incentive may no longer be needed; and

3. Provide information on the expectations of the Vancouver market including the expected rate of return and other data that would be helpful in developing incentives.
4. Analysis and recommendations regarding possible changes to the 8, 10 and 12-year income-based options in order to increase participation under the program as well as calibrate the income-based options to be more viable for Vancouver-based incomes, which recently were shown to be approximately 30% lower than HUD area median income (and which the current program is based on); and
5. Analysis and recommendations regarding possible expansion of geographic boundaries of the program to include centers along the Mill Plain Corridor such as the Evergreen and Grand District and the Heights District; the Vancouver Innovation Center site at 34th Street and 192nd Avenue; the Fruit Valley Subarea; broadening the existing Fourth Plain Corridor MFTE area; and other potential areas where multi-family housing (market-rate and income-based) is desired but where the market conditions alone have not yielded such housing (maps will be made available to the contracted agency, and
6. Analysis and recommendations regarding tailoring the program parameters and incentives to meet identified policy goals in existing and proposed MFTE geographic areas to achieve identified policy goals, such as:
 - Increase use of the income-based options in areas where market conditions have not resulted in significant income-based housing;
 - Tailor incentive to increase more bedrooms per apartment unit;
 - Tailor incentive to increase home ownership opportunities;
 - Tailor incentive to advance other city goals including climate action and social and racial equity; and
 - Identifying practices that encourage permanent affordable rental opportunities; and
 - Provide recommendations on non-displacement strategies that can be tailored to areas of the City prime for development

Because of the delay in developing and releasing the RFP, it is likely that the second phase of work will extend into early 2022, and staff will be scheduling a series of workshops with the Council to focus on specific aspects of the comprehensive review. The next scheduled workshop is October 18, at which staff will discuss the new tax increment financing legislation passed by the state and how it can be used in conjunction with the MFTE program to advance city policies.

Lastly, we are in the process of hiring of an Economic Development Director (a newly created position). The new director, in addition to overseeing the new Economic Health and Housing Department, will serve as the project manager for the second phase of updates to the MFTE program.

Staff will be available on September 20 to answer any questions.