

Testimony of Dan Leahy

My name is Dan Leahy. I live at 1415 6th Avenue SW in Olympia, Washington. I taught public policy and political economy at The Evergreen State College in the graduate and undergraduate curriculum beginning in 1984. I retired from Evergreen in 2008 and have remained active in my neighborhood.

I'm here to comment on the tax preference in relationship to their administration and performance in the City of Olympia.

I greatly appreciate JLARC's report on this preference and support many of their recommendations including the need for compliance by the involved cities with state law that mandates complete reporting to the Department of Commerce.

The City of Olympia, for example, is one of the five cities that has never filed a report with the Department of Commerce despite having granted four MFTE tax exemptions since 2007 when the law went into effect.

I do believe there is a need for some state entity to enforce this law. I have written to the State Auditor asking that the law be enforced and that the City of Olympia be ordered to file the Department of Commerce Annual Report for these four exemptions.

The JLARC report also noted the lack of city administered "internal controls" on their tax exempt program. This is certainly true of the City of Olympia. Although by ordinance and contractual agreement, each beneficiary of the tax exemption must file a "notarized declaration" of compliance by January 31st of each calendar year for the previous year, none of the four in the City of Olympia did so. This means they are out of substantial compliance with the law and their exemptions should be canceled, yet they are still in effect.

The JLARC report states that "the owners of the exempt multi-family housing properties are the direct beneficiaries of this preference." If that is the preference's primary purpose, it is doing well. Exempting \$4.4 billion worth of property between 2014 and 2018 and granting \$80 million in savings in 2018 to the owners of the exempted properties is certainly a substantial benefit, if a questionable public policy.

The City of Olympia has also contributed its share to these "direct beneficiaries." With its four exemptions for market rate housing, the City of Olympia exempted \$34,704.334 which meant a yearly benefit to the owners of \$425,473 or \$3,403,797 over eight years. Of course, if this benefit results in a tax shift, other tax payers make up the difference.

As JLARC mentions, there is some notion that this preference's purpose is to promote more "affordable housing." Affordable housing has not been a significant result of this preference when only 21% of the total number of units or 7,325 units are designated affordable.

The City of Olympia's four exempted downtown MFTEs are all market rate housing. I would argue the addition of these units has been to increase downtown rental costs thus driving existing affordable housing from the downtown core. Perhaps JLARC could be tasked with looking at the relations between new exempted market rate housing and its effect on existing rental prices in the same downtown core.

More importantly, JLARC's report tentatively suggests that many of these developments would have been built regardless of the tax exemption and argues for more data to examine this assertion.

This certainly seems to be the case with the City of Olympia. Olympia entered this program in 2000. Yet, despite its availability, no large downtown multi-family apartment complex was initiated until 2016 with the construction of the 7 story, 138 unit called the 123 4th Avenue building.

In addition, it appears that developers only apply for the tax exemption once their buildings are near completion. This hardly indicates the exemption acts as an incentive to build. More likely, it is just an effort to increase profitability above what the market might offer. There are four new requests for exemptions in Olympia. All of the requested exemptions are for buildings near completion.

In summary, please find ways to enforce reporting to the Department of Commerce, strengthen the cities' internal controls, use the preference to increase affordable housing, protect the existing affordable rents from the effects of market rate housing and stop shifting taxes solely to increase profitability of the development owners.

Thank you.

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