CITY OF
TUMWATER

CITY COUNCIL WORK SESSION
MEETING AGENDA

Online via Zoom and In Person at
Tumwater City Hall, Council Chambers,
555 Israel Rd. SW, Tumwater, WA 98501

Tuesday, August 25, 2026
6:00 PM

1. Call to Order
2. Roll Call
3. Washington Cities Insurance Authority Training – Council Best Practices (City Attorney's Office)
4. Community Development 2026 Work Plan Status Update (Community Development Department)
5. Multi-Family Tax Exemption (MFTE) Program Evaluation – Preliminary Findings (Community Development Department)
6. Mayor/City Administrator's Report
7. Adjourn

Meeting Information
All committee members will be attending remotely. The public are welcome to attend in person, by telephone or online via Zoom.

Watch Online
https://us02web.zoom.us/j/84683257821?pwd=4jlqNYEWXMQeWISapyBLJqwAg41RTs.1

Listen by Telephone
Call (253) 215-8782, listen for the prompts and enter the Webinar ID 846 8325 7821 and Passcode 581860.

Public Comment
The public may submit comments by sending an email to council@ci.tumwater.wa.us, no later than 5:00 p.m. the day before the meeting. Comments are submitted directly to the Committee members and will not be read individually into the record of the meeting.

Post Meeting
Video of this meeting will be recorded and posted on our City Meeting page: https://tumwater-wa.municodemeetings.com.

Accommodations
The City of Tumwater takes pride in ensuring that people with disabilities are able to take part in, and benefit from, the range of public programs, services, and activities offered by the City. To request an accommodation or alternate format of communication, please contact the City's ADA Coordinator

directly, call (360) 754-4129 or email ADACoordinator@ci.tumwater.wa.us. For vision or hearing impaired services, please contact the Washington State Relay Services at 7-1-1 or 1-(800)-833-6384.

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TO: City Council

FROM: Karen Kirkpatrick, City Attorney

DATE: August 25, 2026

SUBJECT: Washington Cities Insurance Authority Training – Council Best Practices

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1) Recommended Action:

No action needed – this item is informational only.

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2) Background:

Ann Bennett, Executive Director of Washington Cities Insurance Authority (WCIA), will provide training on Council Best Practices. The following is a summary of what the training will cover:

- WCIA Orientation, Background & Purpose
- Liability Exposures for Council Members
- How Council Members Can Avoid Liability
- Executive Session Leaks and Impacts on Liability

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3) Policy Support:

Learning We learn from experience, embrace innovation, and seek new ways to enhance City services and strengthen our community.

Excellence With excellence, integrity, and efficiency, we deliver timely and responsive City services – empowering staff, stewarding public resources, and fostering civic trust.

Tumwater Excellence Refine and sustain a great organization

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4) Alternatives:

N/A

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5) Fiscal Notes:

N/A

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6) Attachments:

A – City of Tumwater Council Best Practices presentation slides

ATTACHMENT A

City of Tumwater
Council Best Practices

Presented by
Ann Bennett
Executive Director
Washington Cities Insurance Authority

1

Washington Cities Insurance Authority

- A municipal non-profit organization of Washington public entities joined to share risk
  - Over 165 members and $222 million in assets
- Advantages of WCIA Membership
  - Run by a board of directors composed entirely of members
  - Assist members in avoiding and reducing losses through risk management, training, and claim handling
  - Stability and transparency in rates
  - Coverage decisions made by the Executive Director with appealable rights to the Executive Committee

2

Washington Cities Insurance Authority

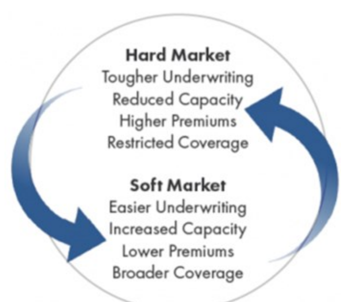
- Provides Self-Insurance Liability Coverage
  - Auto Liability, General Liability, Employment Practices, Errors & Omission
  - $20,000,000 per Occurrence
  - Look for coverage not exclusions
- Additional Insurance Coverage
  - Member Property, Auto & Boiler Machinery
  - Crime Fidelity purchased by members
  - Cyber and Pollution Premises Liability purchased for all members

WA cities Insurance Authority

3

Insurance Market Update

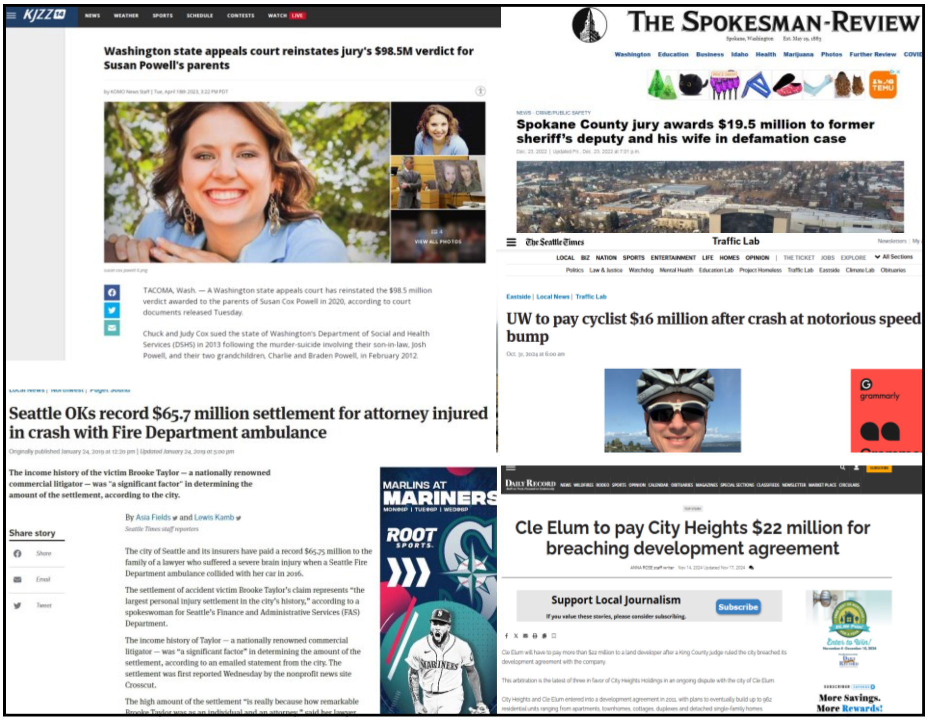
- Insurance is a cyclical industry prone to large pricing deviations from year to year
  - WCIA's overall reinsurance rate has increased 700% from 2015 – 2025
  - WCIA's 2026 renewal mixed results
    - Liability reinsurers requiring WCIA to increase our SIR from $4M to $5M while reducing their available capacity and charging more for less coverage = hard market
    - Property rate decreased while also increasing Members earthquake coverage; pay less for more = soft market
  - 2026 WCIA's overall liability rate increased by 3%



WA cities Insurance Authority

4

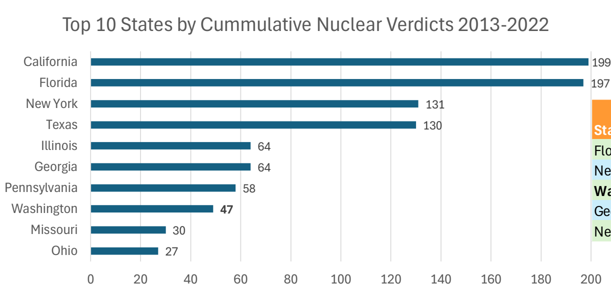
Item 3.



5

WCIA – Market Update (Liability)

- Proliferation of nuclear verdicts (National)
  - U.S. Chamber of Commerce Institute for Legal Reform
  - Rising trend nationwide
  - Washington #3 per capita and rising
  - Tort reforms – 3rd party funding, non-economic damages, phantom damages, sound science in courtroom



State	Per Capita Rank	Nuclear Verdicts per 100K Population
Florida	1	0.939
New York	2	0.664
Washington	**3**	**0.633**
Georgia	4	0.612
New Mexico	5	0.572

WA cities Insurance Authority

6

Avoiding Liability

Individuals can receive absolute immunity for legislative activities

- Adoption of budgets, ordinances, and resolutions

Only within context of council meeting as a whole and not acting as an individual

WA cities Insurance Authority

7

Avoiding Liability

Land Use

- Use of Hearing Examiners
  - Less issues with appearance of fairness doctrine
  - Eliminates many arbitrary and capricious decision allegations
- Do not insert yourself in the process
  - Westmark v. Burien, Mission Springs v. Spokane
- Development Agreements
  - Held to contractual law and remedies which may not be covered by WCIA
  - You thought you had an expiration date…

WA cities Insurance Authority

8

Avoiding Liability

Personnel

– Stay in legislative role
  - Set policies, budgets, municipal codes
    Do not to stray into Executive role
    – Management of employees, hiring/firing, discipline
– Harassment and Discrimination
  - Held to same standard as City employees
    – Can be sued individually
    – Know the law and your policies
  - Report to Executive
    – If you witness behavior or are made aware of problem by employee

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9

Avoiding Liability

Negligent Misrepresentation

– Do not make specific promises or assurances

– Refer specific questions to staff

– Do not take matters into your own hands

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10

Avoiding Liability

Defamation

- If the statement/opinion is regarding a legislative concern you have immunity
- Careful discussing or naming individuals
  - Are they a public official, staff or private individual?
  - Any untruth gives rise to liability

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11

Avoiding Liability

Public Works

- Do not "politically engineer"
  - Crosswalks, Signs, Speed Limits, Traffic Control Devices
    - Ask for staff input off the record
    - Have staff respond to public requests
  - Joint and Several Liability
- Avoid promises, assurances and inflammatory statements

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12

Avoiding Liability

Do not leak Executive Session information
- Resist the temptation to share
- Disclose conflicts prior to session and recuse yourself
- Claims and Litigation
  - Can jeopardize defense
  - Possible sanctions imposed

WA cities Insurance Authority

13

Avoiding Liability

Be mindful of written communications
- Email/Social Media
  - Always use City email address, not personal
    - Public record and discoverable in litigation
  - Is your social media account personal? For election activity? To discuss City business?
    - Do you allow comments and discussions?
      - » Possible Public Forum creation with First Amendment Protections

WA cities Insurance Authority

14


WA cities
Insurance Authority
www.wciapool.org
Washington Cities Insurance Authority
P.O. Box 88030
Tukwila, WA 98138
Phone: 206.575.6046
Fax: 206.575.7426

15

TO: City Council

FROM: Sharon Lumbantobing, Deputy Community Development Director

DATE: August 25, 2026

SUBJECT: Community Development 2026 Work Plan Status Update

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1) Recommended Action:

Information and discussion only.

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2) Background:

The City Council adopted the Community Development Department 2026 Work Plan in January 2026. This presentation provides a mid-year update of work completed, work currently underway, and projects that have been delayed.

Most major work plan initiatives remain on schedule and are progressing toward Planning Commission and City Council consideration at the end of 2026 and early 2027. Several complex projects require additional time to complete technical analysis, public engagement, interdepartmental coordination, and implementation planning to ensure well-informed policy recommendations, such as the Urban Forestry Code Updates and the Housing Code Update.

The Community Development Department continues to manage a significant workload with a small number of staff, balancing long-range planning initiatives, current planning responsibilities, legislative implementation, and four consultant-supported projects. Staff remain focused on delivering high-quality work products and advancing the remaining 2026 Work Plan projects for Council consideration through early 2027.

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3) Policy Support:

Goal LU-2: Ensure development occurs in an orderly, effective, and cost-efficient manner to best utilize available land and public services, conserve natural resources, protect and enhance critical areas and open space, address equity and climate change, and reduce sprawl.

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4) Alternatives:

❑ None.

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5) Fiscal Notes:

This is an internally funded work program task.

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6) Attachments:

A. Presentation

2026 Mid-Year Work Plan Update – Long Range Planning

Tumwater City Council - August 25, 2026

Sharon Lumbantobing, Deputy Community Development Director

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Comprehensive Plan Amendment Docket

Project	Status
Parks Recreation and Open Space Plan (Comprehensive Plan) & Park Impact Fee Update	• Anticipated Council Adoption: December 2027
Economic Development Plan (Comprehensive Plan)	• Anticipated City Council Adoption - December 1, 2026
Joint Plan Tumwater-Thurston County & UGA Swap	• Thurston County leading on this: Dates To Be Determined • UGA Swap application withdrawn by applicant
Urban Growth Area Study	• Working on RFP; study to be conducted in 2027

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Development Regulations Amendment Docket

Project	Status
2026 Development Regulation Periodic Update (Housing Code Update)	• Anticipated Council Adoption: January 19, 2027
Transportation Impact Fee update	• Anticipated Council Adoption: January 5, 2027
2026 Housekeeping Ordinance (Ord. No. O2026-002)	• City Council Adoption: April 15, 2026
Multi-Family Tax Exemption Code Update (date changes only):	• Anticipated Council Adoption: November 2, 2026
Thurston County Title 22: Tumwater Urban Growth Area Zoning	• Thurston County leading on this: Dates To Be Determined
Urban Forestry Management Plan Amendments (Landscaping, Tree Preservation and Street Tree Codes, and Street Tree Plan)	• Anticipated City Council Adoption - February 2027

CITY OF MWATER

Additional Development Regulations

Project	Status
Building Demolition Code Update	• City Council Adoption: July 21, 2026
Parking Lot Lighting Code Update	• City Council Adoption: August 18, 2026
Battery Energy Storage System Code	• Anticipated Council Adoption: Spring 2027

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Other Planning Projects

Project	Status
Annexation: 93rd Avenue SW & Case Road SW Annexation	• City Council Adoption: March 17, 2026
Annexation: Black Lake Belmore Annexation	• Boundary Review Board Review July 2026 • Anticipated Council Adoption: October 20, 2026
Brewery Redevelopment/Planned Action EIS and Ordinance	• Subject Matter Experts to the Executive Team. Historic knowledge base.
Comprehensive Plan Monitoring Scoping	• In progress. Integrated into Enterprise Permitting and Licensing Coordination (EPL) design and Key Performance Indicator development
Code Enforcement	• Monthly meetings
Current Planning	• .5 FTE
Food System Plan Implementation	• Deferred due to staff capacity and competing priorities. Revisit in 2027 Work Plan.
Habitat Conservation Plan (HCP)	• Draft HCP/Conservation Property Purchases
Hazard Mitigation Plan Implementation	• Deferred due to staff capacity and competing priorities

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Housing Projects

Project	Status
Regional Housing Council (RHC)	• Ongoing work to improve RHC administrative functions, Tech Team, Encampment Resolution Program, Black Homes Initiative
Housing Element Implementation – Affordable Housing Study	• GGC Work Session: October 21, 2026 • Council Work Session: February 9, 2027
Housing Element Implementation – Multi Family Tax Exemption Evaluation	• Council Work Session: August 25, 2026 • Council Work Session: January 12, 2027
Manufactured Home Parks Support	• Deferred due to staff capacity and competing priorities
Point in Time Count	• County led: Completed February 2026
Rental Housing and Registration Program	• Renting in Tumwater Guide for Landlords and Tenants updated in mid-August
Tumwater Housing Stakeholder workgroup	• Deferred due to staff capacity and competing priorities

Other Planning Projects

Project	Status
Permit System Transition (0.5 to Permitting)	Ongoing
Public Engagement	Ongoing social media campaigns for Urban Forestry and Housing
Public Inquiries and General City Council and Interdepartmental Support	Ongoing

Below The Line Projects

Project	Status
Citywide Design Guidelines Update	• Anticipated Council Adoption: January 5, 2027

CITY OF MWATER

Thank you!

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Talking Points

✓ Adopted: 2026 Housekeeping Code Update, Building Demolition Code Update, Parking Lot Lighting Code Update, and 93rd Avenue Annexation

✓ Most major projects remain on schedule and are progressing toward Council consideration.

✓ Several complex initiatives require additional time to ensure analysis, public engagement, and interdepartmental coordination.

✓ Staff continue to manage a significant workload while balancing long-range planning, current planning, and consultant-led projects.

✓ The department remains focused on delivering high-quality work products and bringing the remaining projects to Council through early 2027.

TO: City Council

FROM: Sharon Lumbantobing, Deputy Community Development Director

DATE: August 25, 2026

SUBJECT: Multi-Family Tax Exemption (MFTE) Program Evaluation – Preliminary Findings

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1) Recommended Action:

Information and discussion only.

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2) Background:

ECOnorthwest was hired to evaluate the effectiveness of Tumwater's Multi-Family Tax Exemption (MFTE) Program and recommend whether to continue the program, modify its design, and expand its geographic eligibility beyond the existing target areas.

ECOnorthwest is approximately halfway through its evaluation. Work completed to date includes reviewing MFTE participation and development activity, evaluating affordable housing and housing production outcomes, analyzing the program's influence on development feasibility, and developing financial models to assess the effectiveness of current incentives. At the August 25, 2026, city council meeting, ECOnorthwest will present its preliminary findings and identify key policy considerations for City Council.

Following this presentation, the remaining work will evaluate alternative program structure and target area boundaries, and develop final recommendations and proposed Municipal Code amendments. Final findings and recommendations will be presented to City Council on January 12, 2027.

Tumwater's current MFTE Program is scheduled to expire in December 2026. Staff is proposing to extend the program through December 2027 to avoid a lapse while City Council considers ECOnorthwest's final recommendations, provides policy direction, and considers any resulting program and Municipal Code amendments in 2027.

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3) Policy Support:

Goal H-1.5: Direct mixed use and high-density residential development along transit corridors and into urban centers to support employment and place-making opportunities.

Goal H-1.6: Consider innovative plans, codes, standards, and procedures to take advantage of the best private and public sector approaches to creating housing.

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4) Alternatives:

- [ ] None.

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5) Fiscal Notes:

This is an internally funded work program task.

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6) Attachments:

A. MFTE Program Evaluation Preliminary Findings Task 2 Memo
B. MFTE Program Evaluation Preliminary Findings Presentation

Attachment A

DATE:	August 17, 2026
TO:	Sharon Lumbantobing and Brad Medrud, City of Tumwater
FROM:	Erik Bagwell and Mackenzie Visser, ECOnorthwest
SUBJECT:	Tumwater MFTE Program Evaluation – Task 2 Memo

Introduction

The City of Tumwater retained ECOnorthwest to evaluate the effectiveness of its Multi-Family Tax Exemption (MFTE) program and to make recommendations regarding program continuation, program design, and geographic expansion. The City currently offers both an 8-year and a 12-year property tax exemption on the value of new multi-family housing improvements within two designated target areas (Brewery District and Capitol Blvd Corridor). Two other target areas (Littlerock Road subarea and Tumwater Town Center) only allow projects to receive the 12-year exemption, consistent with Chapter 3.30 of the Tumwater Municipal Code and Chapter 84.14 RCW. Under the 12-year exemption, participating projects must set aside units affordable to households earning between 80% and 115% of Area Median Income (AMI); the 8-year exemption carries no affordability set-aside.

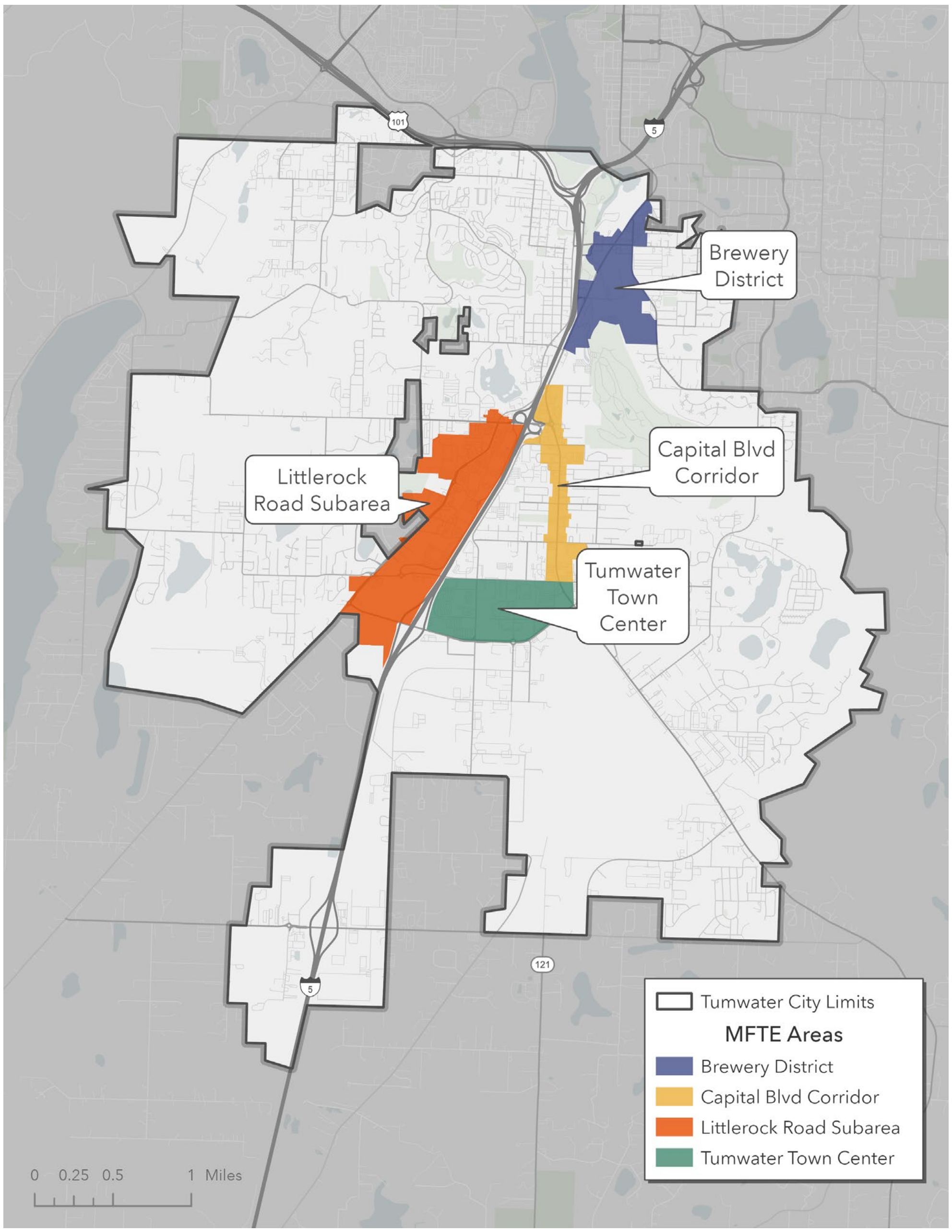
This memo summarizes ECOnorthwest's preliminary market and financial feasibility findings from Task 2 of the MFTE program evaluation. The central policy question is whether is whether the current 12-year MFTE structure — which pairs a longer exemption term with an affordability set-aside — is achieving genuine affordability in Tumwater, or whether it functions principally as a production incentive for market-rate housing. As discussed below, the answer depends heavily on how Tumwater's market rents compare to HUD-defined affordable rents at the AMI levels the program targets.

This memo presents ECOnorthwest's preliminary findings on (1) current market rents relative to HUD-defined affordability thresholds, (2) the residual land value (RLV) feasibility of representative housing prototypes under market-rate conditions, and (3) how the 8-year and 12-year MFTE programs, including potential recalibrations of the 12-year set-aside, affect that feasibility. It closes with preliminary recommendations, open policy questions, and next steps, including a brief update on the parallel affordable housing landscape scan being conducted alongside this analysis.

MFTE Geography

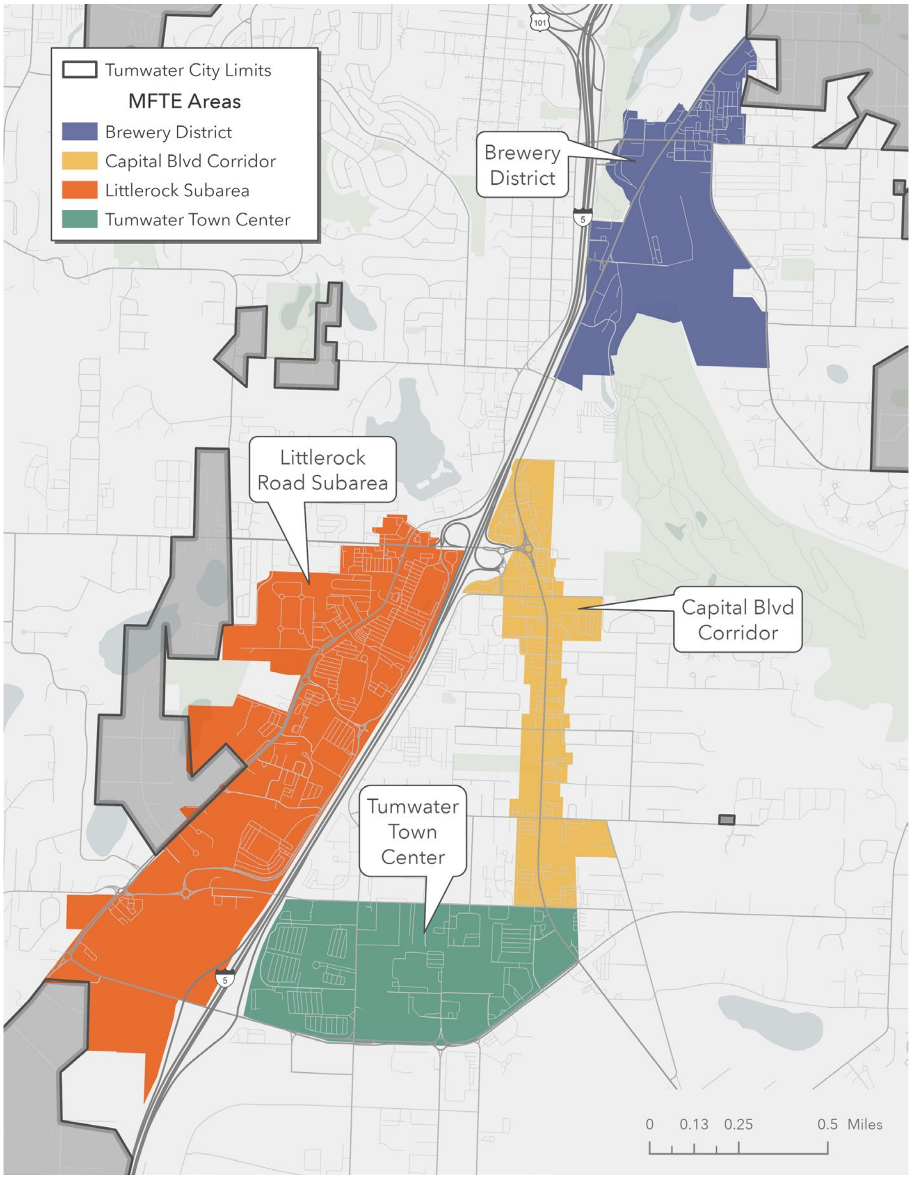
Tumwater's MFTE program is not citywide. Chapter 3.30 TMC designates four residential target areas within which a project must be located to qualify for either the 8-year or the 12-year exemption: the Brewery District, the Capital Blvd Corridor, the Littlerock Road Subarea, and the Tumwater Town Center (Exhibit 1). These target areas were selected because they sit within, or immediately adjacent to, Tumwater's established commercial and mixed-use corridors along the Capitol Boulevard (Blvd)/Interstate 5 spine and the historic brewery core — places the City has determined lack sufficient, desirable, and convenient housing relative to their existing commercial, transit, and infrastructure capacity. Exhibit 2 shows the same four target areas at a closer extent, illustrating how closely they track the City's commercial cores and the parcels immediately surrounding it.

Exhibit 1. Tumwater's MFTE Residential Target Areas (Citywide)



Source: City of Tumwater; Tumwater Municipal Code Chapter 3.30.

Exhibit 2. Tumwater's MFTE Residential Target Areas (Close Extent)



Source: City of Tumwater; Tumwater Municipal Code Chapter 3.30.

Why Areas Qualify for the 8-Year Exemption

Under TMC 3.30.040(A)(1), the **8-year exemption is available only in two of the four target areas: the Capital Blvd Corridor and the Brewery District.** The City limited the shorter-term exemption to these two areas based on the subarea planning processes for each district, both of which determined that more residential uses in these areas would support commercial/mixed use development. Because no affordability set-aside applies to the 8-year exemption, it functions purely as a production incentive: the City is using it to encourage multi-family development to locate in the districts it considers best positioned to absorb new density quickly, without asking developers to accept a rent restriction in exchange.

Why Areas Qualify for the 12-Year Exemption

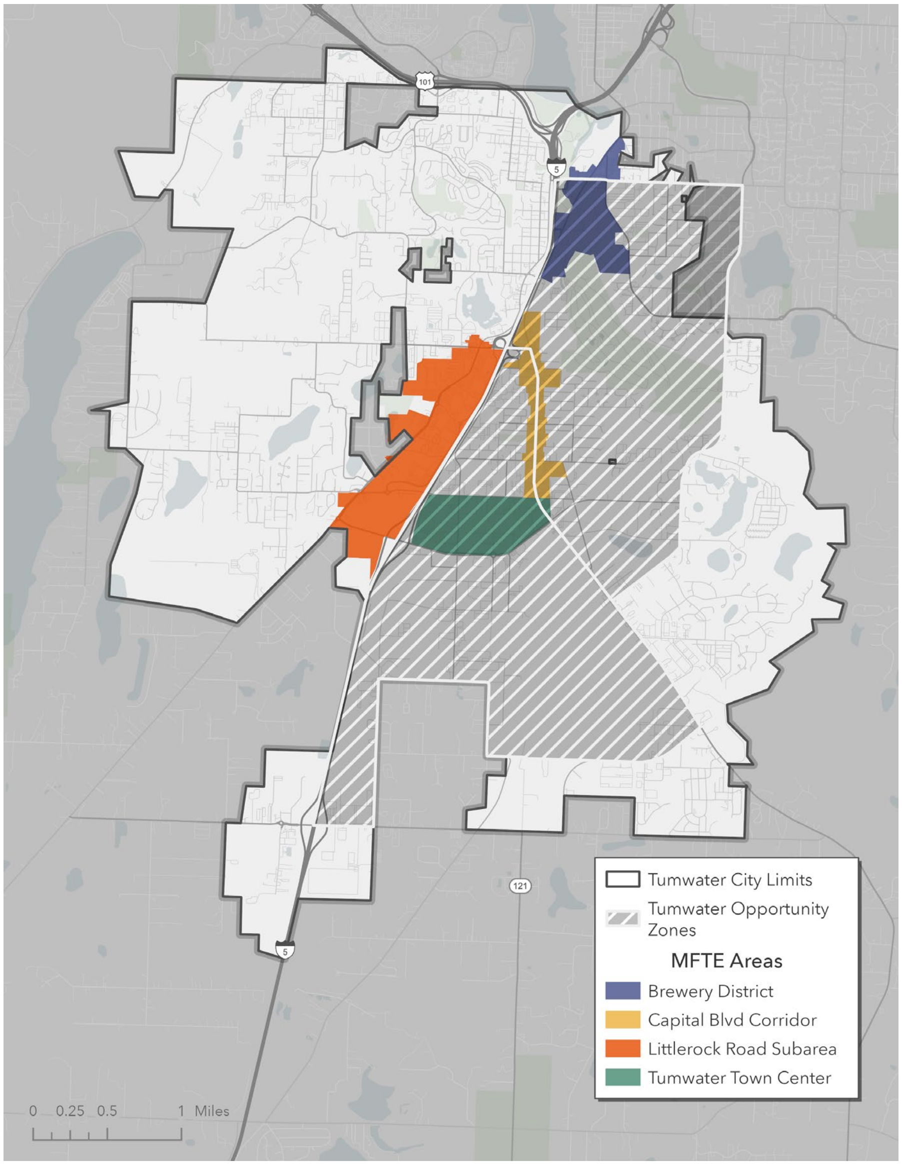
The **12-year exemption is available in all four target areas** — the Capital Blvd Corridor, the Brewery District, the Tumwater Town Center, and the Littlerock Road Subarea — but only if the applicant commits to renting or selling at least 20% of the units as affordable housing to moderate-income households (generally, 80% to 115% of AMI, or up to 150% of AMI in high-cost areas), per TMC 3.30.040(A)(2). The additional four years of exemption, relative to the 8-year term, is the City's trade for that affordability commitment. The 12-year exemption also has a broader geographic reach — extending into the Tumwater Town Center and the Littlerock Road Subarea, which the 8-year exemption does not reach. In fiscal year 2018-19, Tumwater's City Council committed to exploring multiple options to boost housing and affordable housing supply—including expanded housing types, smaller lot sizes, density/height incentives, and the 12-year MFTE expansion—recognizing no single approach would be enough.

As discussed later in this memo, whether that 20% set-aside is currently producing rents meaningfully below what Tumwater's market already charges — as opposed to functioning as a de facto extension of the 8-year exemption's production incentive — is a central question for this evaluation (see the Analysis section, below).

Tumwater's Opportunity Zones and MFTE Financial Feasibility

Part of Tumwater also sits inside a federal Opportunity Zone — a federal program that gives investors a tax break on their profits (capital gains taxes) if they put that money into a fund that develops property in the designated zone. As Exhibit 3 shows, this Opportunity Zone overlaps with most of the City's MFTE areas, including the Brewery District, Capital Blvd Corridor, and Tumwater Town Center. That means many of the same parcels are eligible for both incentives at once.

Exhibit 3. Tumwater's Opportunity Zones and MFTE Target Areas



Source: City of Tumwater; Washington State Department of Commerce.

MFTE and the Opportunity Zone program can help a project's finances in two different ways. MFTE lowers a project's ongoing costs by reducing its property tax bill. The Opportunity Zone program is a federal tax incentive that encourages investors to put capital gains earned elsewhere into projects located within designated Opportunity Zones. For example, an investor who realizes a $1 million gain from selling stock, real estate, or a business could invest that money in a qualifying development in Tumwater's Opportunity Zone. If the investor holds that Opportunity Zone investment for at least 10 years and it grows from $1 million to $1.5 million, the investor may generally exclude the additional $500,000 gain from federal capital gains tax.

The Opportunity Zone program doesn't reduce a project's costs at all. Instead, the tax benefit increases what the investor keeps after taxes. Because the investor is receiving some of the financial benefit through tax savings, the project itself does not have to generate quite as high a return to make the investment attractive. In effect, this enables an investor to accept a smaller return on a project than they otherwise would, which works in the same direction as an MFTE exemption: both make it easier for a project to pencil out.

In simple terms, MFTE improves the economics of the building by lowering property taxes; Opportunity Zone financing can improve the economics for the investor by lowering taxes on the investor's gain. The two incentives can potentially be used together when a project and its investors meet the requirements of both programs.

This could be most useful for the prototypes that don't quite pencil out even with an MFTE exemption alone, such as townhomes and the larger 3-story and 5-story buildings. Opportunity Zone financing could help close some of that remaining gap — but only for qualifying projects located in an Opportunity Zone and investors who have capital gains to reinvest and are willing to use the required Opportunity Zone investment structure.

It won't be available for every project or developer in Tumwater, but it could be a helpful complement to MFTE. One thing worth considering is that Tumwater's current Opportunity Zone designation runs only through the end of 2028. The federal government is redrawing zone boundaries statewide in 2026, with new maps taking effect January 1, 2027 — around the same time Tumwater's current MFTE application window is set to close (December 31, 2026). The City may want to confirm the parcels in Exhibit 3 are still inside a designated zone once the new map is finalized.

Multifamily Housing Development

MFTE Projects

Since the program's inception in 2017, six projects totaling 687 units have received conditional or final approval under the MFTE program, including 573 market-rate units and 114 affordable units. Three projects, with a total of 346 units, have received their Final Certificate; the remaining three, with a total of 341 units, hold Conditional Certificates only. All 114 affordable units approved to date come from the 12-year exemption because the 8-year tax exemption program does not have an affordability set-aside.

The six approved projects split evenly by exemption type, but not by scale. The three 8-year projects — 350 North Street SE Apartments (27 units, Brewery District), Craft District Apartments (95 units, Brewery District), and The Rookery (6 units, Capitol Blvd Corridor) — together account for 125 units, all market-rate. The three 12-year projects — Rockwell Place (114 units), Kingswood Apartments (181 units), and Yorkshire Apartments (240 units) — are all located in the Littlerock Road Subarea and together account for 562 units, including all 114 affordable units approved citywide (Exhibit 4).

Exhibit 4. Units by Target Area

TARGET AREAS	ALL UNITS	MARKET RATE UNITS	AFFORDABLE UNITS
Eight- and Twelve-Year Options			
Brewery District	119	119	0
Capitol Corridor	6	6	0
Twelve-Year Option Only with 20% Affordable			
Littlerock Subarea	562	448	114
Town Center	0	0	0
Total	687	573	114

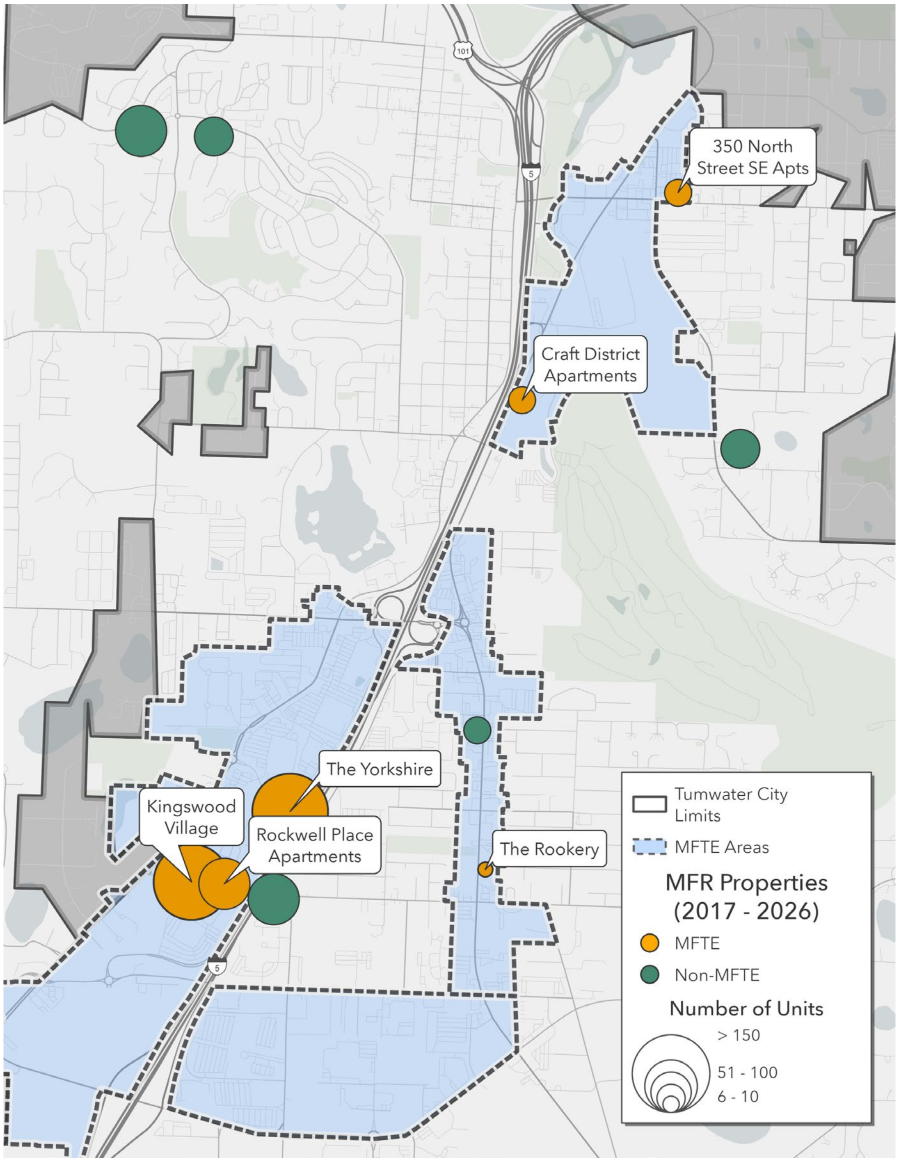
Source: City of Tumwater, data as of February 2026.

This pattern gives the Littlerock Road Subarea the clearest concentration of MFTE activity in the City: it accounts for 562 of the 687 approved units (82%), and for all 114 affordable units, even though it is only one of the four designated target areas. The Brewery District accounts for 119 units (17%), and the Capitol Blvd Corridor accounts for just 6 units (1%). The Town Center Area has not seen any approved MFTE projects to date. As the Exhibit 5 map shows, the MFTE-enrolled projects (orange) cluster tightly along two nodes of the Capitol Blvd Corridor: the Kingswood Village/Rockwell Place/Yorkshire cluster in the Littlerock Road Subarea, and the Craft District/350 North Street pairing near the Brewery District, with The Rookery as an isolated, small-scale outlier along the corridor further south.

Non-MFTE Projects

Non-MFTE multifamily development has been less numerous and, in most cases, smaller in scale than the MFTE-enrolled projects (Exhibit 5). The largest concentration of non-MFTE development since 2017 is in the northwest part of the City, well outside any of the four MFTE target areas, where some projects — including the two largest non-MFTE properties on the map, each exceeding 50 units — have been built with no exemption at all. All told, more MFTE multifamily units have been created since 2017 than non-MFTE multifamily units. This is an indication that since the adoption of MFTE in Tumwater, it has successfully spurred multifamily housing development in areas where it might not otherwise have occurred.

Exhibit 5. MFTE and Non-MFTE Projects by Unit Size



Source: CoStar and City of Tumwater, ECOnorthwest analysis 2026

Methodology

Prototypes

ECOnorthwest tested five prototypes reflective of recent and feasible multi-family construction types in Tumwater: townhomes (6 units), a smaller 3-story wood-frame building (27 units), a larger 3-story wood-frame building (114 units), a 5-story wood-frame building (190 units), and a 5-story building with tuck-under parking (171 units). Each prototype was modeled using current market-rate rents, typical operating expenses, and construction costs, consistent with the RLV methodology described below.

PROTOTYPE	COMPARABLE PROPERTIES
Townhomes	
3-Story Wood Frame (small lot)	

3-Story Wood Frame (large lot)	
5-Story Wood Frame (surface or tuck-under parking)	

Source: CoStar, 2026. Note: The 5-story wood frame is the Kingswood Village. The 3-story wood frame (larger scale) is Rockwell Place Apartments, 3-story wood frame (smaller scale) is the 350 North Apartments, and the Townhomes are the Forest Park Townhomes. All are located in Tumwater, Washington.

Analysis Approach

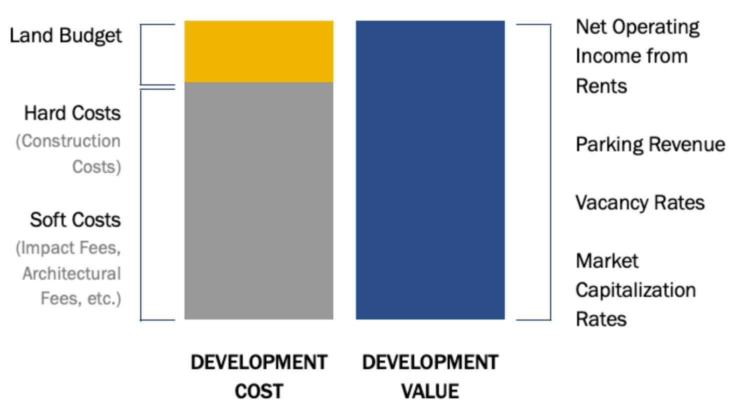
To estimate the financial feasibility of the prototypes across these parcels, ECOnorthwest employed a common method called a *residual land value (RLV) analysis*.

RLV estimates how much a developer could afford to pay for land after accounting for the expected value of the completed development and the costs of building it. The RLV is a useful metric for assessing the impacts of new policy requirements and accompanying development incentives because these policies principally affect land value, especially in the short run. An advantage of the RLV approach is that it does not rely on land prices as an input. Using RLV as an output allows us to identify the land budget for a development project and compare the land budget to actual land prices in the market today. The prototypes described above were analyzed using this RLV approach. For each of the prototypes, the RLV methodology compared the amount available to purchase land with and without tax exemptions. This approach provides a strong indicator of the relative likelihood of feasibility, rather than an absolute measure of return to a specific investor or developer. If the amount a project can afford to pay for land is comparable to or greater than market land prices, the project is more likely to be financially feasible.

HOW DOES THE RESIDUAL LAND VALUE METHOD WORK?

Exhibits 3 and 4 summarize the residual land value method by illustrating two example developments, one that is likely feasible and the other that is likely infeasible. In both scenarios, the right column (shown in blue) illustrates the total value that comes from the project (derived from rental revenue less any operating expenses and vacancy costs). The left column (shown primarily in grey) shows the total costs to build the project, both the hard construction costs and the soft costs such as design and fees.

Exhibit 1. Positive Land Budget

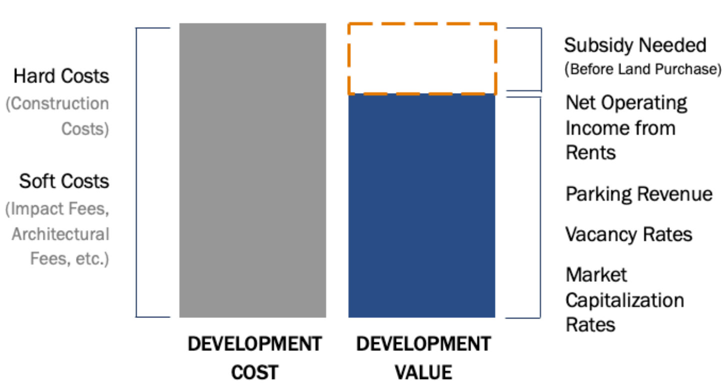


Source: ECOnorthwest

In this graphic, the development value (blue column) is greater than the cost (grey column), so there is budget to buy land (shown in yellow).

A positive land budget means that a proposed development project is likely to be feasible (contingent on the price for which the land is being offered).

Exhibit 2. Negative Land Budget



Source: ECOnorthwest

For a development that is not feasible, the development cost (grey column) exceeds the value (blue column), so a subsidy is needed to get the project to a positive land budget (shown in a dashed outline). A land budget below $0 means a proposed development project is not feasible, absent offsetting subsidies or incentives that can cover the difference.

Analysis

Market Rents Relative to AMI

One of the most consequential preliminary findings from this analysis is that current market rents in Tumwater fall below HUD-defined affordable rents at every unit size (Exhibit 5). This is because HUD's Area Median Income figure for Tumwater is drawn from the broader Olympia-Lacey-Tumwater region, which includes higher-income areas than Tumwater itself. As a result, the income — and therefore the rent — that HUD considers "affordable" at a given percentage of AMI is higher than what Tumwater's own market already charges. For example, 100% of AMI for a one-person household in Tumwater is roughly $85,000 per year; at a standard 30%-of-income rent burden, that translates to an affordable rent of $2,150 per month for a studio. The actual market rent for a new-construction studio in Tumwater, by comparison, is $1,550 per month — about 72% of AMI.

Exhibit 3. Market Rates Are Below 100% AMI

Source: CoStar; ECOnorthwest analysis. Rents shown for new construction built 2020 to 2026.

Expressed as a share of AMI, current Tumwater average market rents for new construction run from approximately 72% of AMI for studios up to 77% of AMI for 3-bedroom units (Exhibit 5). This means that across all unit types, the market has already been producing units with rents below the Tumwater's 12-year MFTE program's affordability set-aside is designed to target (80% to 115% of AMI).

This is a key finding because the 12-year MFTE's 80–115% AMI set-aside band sits above where Tumwater's market rents already land. This means that a project can satisfy the affordable unit set-aside requirement while charging rents at or near what it would charge anyway. In other words, the 12-year exemption's affordability requirement is not, under current market conditions, requiring meaningfully below-market rents — it is effectively subsidizing market-rate units.

Naturally Occurring Affordable Housing

Older buildings in Tumwater already provide a meaningful source of affordability without any public subsidy. Average asking rents rise steadily with a building's age of construction: rents in buildings built in the 2020s are roughly double the rents in Tumwater's oldest surviving multi-family stock (Exhibit 6). This pattern — sometimes called "naturally occurring affordable housing," or NOAH — reflects the fact that older buildings, which may have fewer amenities or need renovation, simply cannot command the rents that newer construction can. The City may want to consider how to preserve this stock as part of its broader affordable housing strategy, since it currently provides affordability at a scale the MFTE program alone does not.

Exhibit 4. Older Properties Are a Source of Affordable Housing

Source: CoStar; ECOnorthwest analysis. Tumwater data; rents are not adjusted for unit size or bedroom count.

Land Costs and Feasibility Under Market-Rate Development (No MFTE)

Without a tax exemption, most types of market-rate housing cannot generate enough value for developers to afford current land prices (Exhibit 7). Observed land costs for vacant and underutilized parcels in Tumwater run approximately between $8 and $14 per square foot; the median cost across all overall land transactions is considerably higher, ranging from roughly $40 to $59 per square foot depending on prototype. Only the smaller 3-story wood-frame prototype (27 units) comes reasonably close to clearing the lower end of that range under market-rate rents alone, while the townhomes and larger 3-story and 5-story prototypes fall well short.

Exhibit 5. Market-Rate Development Is Feasible If Developers Find Discounted Land

Source: ECOnorthwest analysis; CoStar.

It is worth noting that the highest density prototype tested (5-story with Tuck Under Parking; 171 units) is also the type least likely to be built by a typical Tumwater developer today: a project of that density is usually developed by larger, well capitalized developers. Most current development activity in Tumwater is occurring at a smaller scale (less than 50 units), built by local developers who are familiar with the market and this type of product. This may help explain why Tumwater has not seen the same pace or scale of multi-family development as neighboring Lacey. Factors such as available land and lower market rents make the returns less attractive to investors or make securing financing a challenge.

Effect of the 8-Year MFTE

The 8-year MFTE exemption — which carries no affordability set-aside — meaningfully expands the land budget across every prototype tested by removing property tax as an operating cost (Exhibit 8). This moves several prototypes much closer to, or above, observed vacant and underutilized land costs, though the largest prototypes still fall short of the median overall land cost in most cases. Because it carries no affordability requirement, the 8-year exemption is best understood as a pure production incentive: it makes more parcels financially viable for market-rate development without attempting to layer in deeper affordability.

Exhibit 6. The 8-Year Program Improves Feasibility

Source: ECOnorthwest analysis; CoStar.

Effect of the 12-Year MFTE (Current Program)

Comparing the 8-year and 12-year exemptions directly (Exhibit 9) shows that the current 12-year program has a similar — in most cases slightly larger — impact on the land budget than the 8-year exemption, despite requiring an affordability set-aside. This is a direct consequence of the AMI mismatch described above. The 12-year program requires some units to be affordable to households earning 80-115% AMI. However, the maximum rents allowed at these income levels are already close to or above current market rents in Tumwater. As a result, a developer may be able to meet the affordability requirement without reducing the rents. The developer then receives four additional years of property tax exemption compared with the 8-year program. A financially sophisticated developer and property manager would generally prefer the 12-year exemption over the 8-year exemption under these conditions — not because it delivers deeper affordability, but because it provides a larger tax benefit without requiring a comparable reduction in rents. Tumwater may currently be giving four more years of tax exemption without receiving much additional affordability in return but is helping to increase the supply of newly constructed housing.

Exhibit 7. The 12-Year Program Has a Similar Impact as the 8-Year

Source: ECOnorthwest analysis; CoStar.

Recalibrating the 12-Year MFTE

ECOnorthwest tested two illustrative recalibrations of the 12-year program's affordability requirement to explore this trade-off directly: requiring 20% of units at 80% AMI and requiring 20% of units at 70% AMI (Exhibit 10). The 80% AMI scenario is only modestly more binding than the current program in most prototypes — land budgets are nearly identical to the current 12-year program for the 3-story and 5-story wood-frame prototypes, because 80% AMI is still close to current market rents. The 70% AMI scenario is meaningfully more binding: land budgets fall noticeably across every prototype, and for townhomes, the required affordability set-aside would produce a negative land budget, meaning that prototype would not be feasible at all under that deeper affordability requirement.

Exhibit 8. Calibrating the 12-Year Depends on the Policy Goals of the City

Source: ECOnorthwest analysis; CoStar.

This analysis confirms that the City faces a genuine trade-off. Recalibrating the 12-year MFTE to require deeper affordability (e.g., 70% AMI) would reduce the land budget available to developers, particularly for smaller prototypes, while a shallower recalibration (e.g., 80% AMI) would preserve most of the program's current production benefit but would not, by itself, produce much deeper affordability than the market already provides.

Key Preliminary Findings

- **AMI mismatch:** HUD's Area Median Income for Tumwater is drawn from the broader Olympia-Lacey-Tumwater region, which includes higher-income areas. As a result, HUD-defined "affordable" rents (e.g., roughly $2,150/month for a studio at 100% AMI) exceed what Tumwater's market actually charges (roughly $1,550/month), with market rents running approximately 72% to 77% of AMI across unit types.
- **MFTE has helped increase multifamily housing production.** Since 2017, more multifamily housing units have been built with MFTE than those that are outside of the designated MFTE target areas.
- **The 12-year MFTE's 80–115% AMI band is effectively a market-rate subsidy:** because Tumwater market rents already sit around 75% of AMI, the current set-aside requirement locks in units at or near market rate. This provides little to no additional affordability benefit while still granting the full 12-year exemption — a dynamic that can be characterized as effectively a giveaway under current market conditions.

- **The 8-year MFTE is more efficient for pure production:** it removes property tax as an operating cost and meaningfully expands the land budget across every prototype tested, opening up more parcels to feasible development, without requiring (or relying on) an affordability set-aside that current market rents would not meaningfully bind.
- **The 12-year and 8-year programs currently have a similar impact on feasibility:** in most prototypes the 12-year program supports a land budget as large as or larger than the 8-year program, despite its affordability requirement — underscoring that the set-aside is not currently a binding constraint relative to market rents.
- **Recalibrating the 12-year program is possible but must be calibrated carefully:** a shallower set-aside (20% of units at 80% AMI) is only modestly more binding than the current program; a deeper set-aside (20% of units at 70% AMI) meaningfully reduces the land budget across every prototype and would make the townhome prototype infeasible outright.
- **Feasibility varies significantly by prototype:** only the smaller 3-story wood-frame building (27 units) comes close to viable land budgets under market-rate rents alone; townhomes and larger 3-story and 5-story prototypes cannot support land costs above roughly $6–$9 per square foot, well below observed land prices.
- **Naturally occurring affordable housing is a significant existing asset:** older buildings in Tumwater rent for substantially less than new construction — roughly half as much — and do so without any public subsidy, suggesting preservation strategies may complement MFTE-driven new production.
- **An institutional investor gap may help explain Tumwater's slower development pace relative to Lacey:** the largest prototype tested (171 units) generally requires institutional equity, and there is limited evidence of institutional investor interest in Tumwater specifically. This may be due to return expectations, land availability, and other jurisdictions benefiting more from JBLM housing demand.

Findings & Recommendations

Taken together, these preliminary findings point to a policy choice. The current MFTE structure cannot simultaneously maximize housing production and achieve deeper affordability, because the 12-year program's existing set-aside is not binding relative to today's market rents. The City must decide whether it wants to use the MFTE program primarily to incentivize housing production — in which case the 8-year exemption (or a recalibrated 12-year exemption with a shallow set-aside) is the more efficient tool — or whether it wants to use the 12-year program to achieve genuinely deeper affordability, in which case the set-aside would need to be recalibrated to a lower AMI threshold (such as 70% AMI) with a clear understanding that doing so will reduce the land budget available to developers and could reduce participation, particularly among smaller prototypes.

ECOnorthwest's preliminary recommendation is that the City treat production and deep affordability as two distinct problems requiring two distinct tools, rather than expecting the MFTE program alone to solve both:

- **To increase production:** the 8-year MFTE (or a 12-year exemption recalibrated to a shallow set-aside, such as 80% AMI) is the more efficient vehicle for expanding the number of parcels where multi-family development is financially feasible, since it does not impose a rent restriction that the market is not already meeting.
- **To achieve deeper affordability:** MFTE alone — even recalibrated to 70% AMI — is unlikely to be sufficient to produce units affordable to lower-income households (e.g., 60% AMI) at meaningful scale. The City should expect to pair MFTE with additional tools (e.g., direct subsidy or land contributions) if it wants to reach that depth of affordability, consistent with the parallel affordable housing landscape scan project to, then it should consider other tools beyond MFTE. These tools could include direct subsidies, such as City funding that helps pay a portion of a project's development costs, or land contributions, such as providing publicly owned land at no or reduced cost. These tools reduce the amount of money a project must recover through rents, making it possible to provide housing at lower rent levels than MFTE can generally achieve on its own.

ECOnorthwest will further quantify this trade-off in Task 3, which will model additional sensitivity scenarios at 80% and 60% AMI set asides to give the City a clearer picture of the feasibility consequences of different affordability depths before finalizing program recommendations.

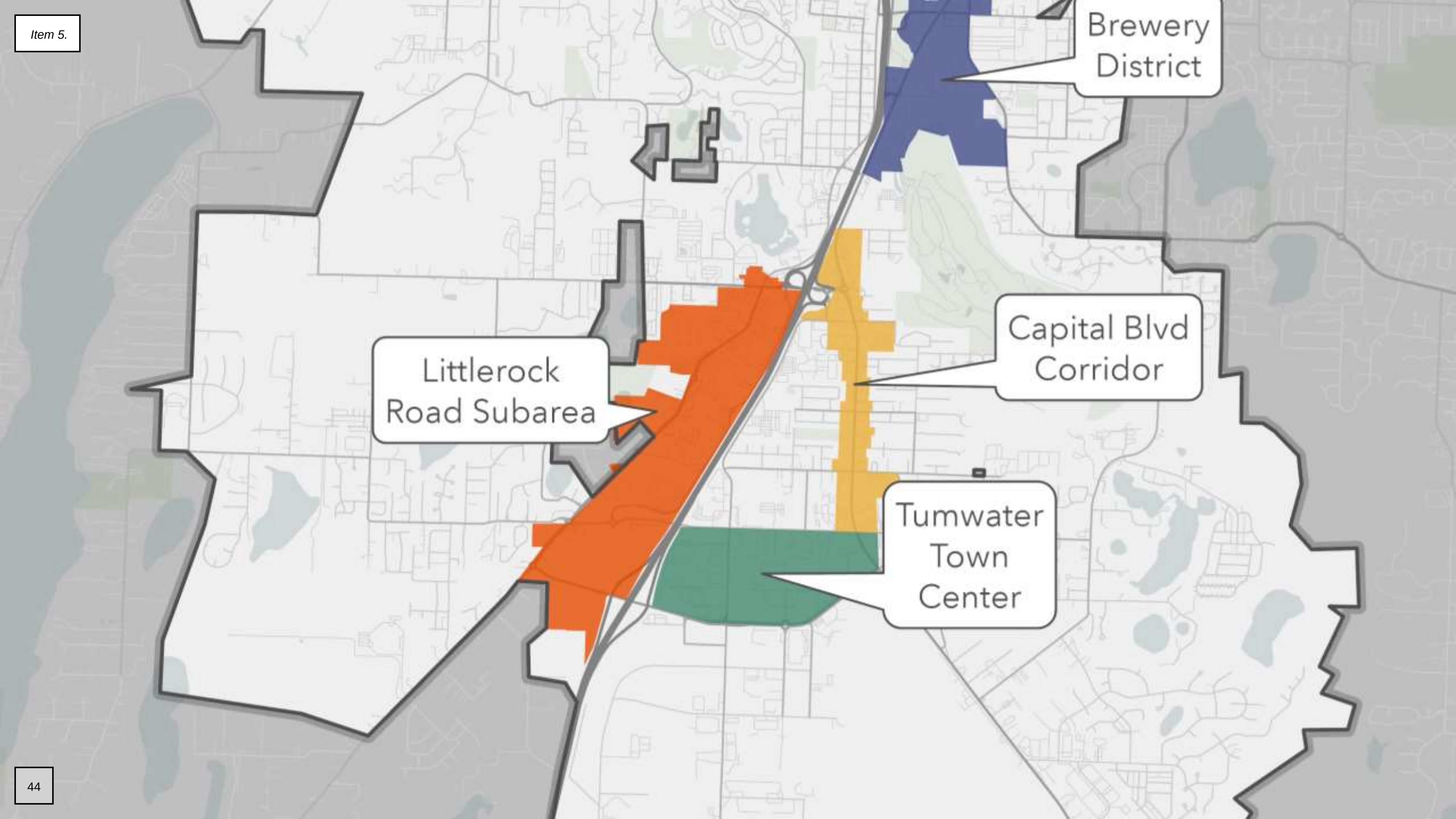
Attachment "B"

Tumwater MFTE Analysis

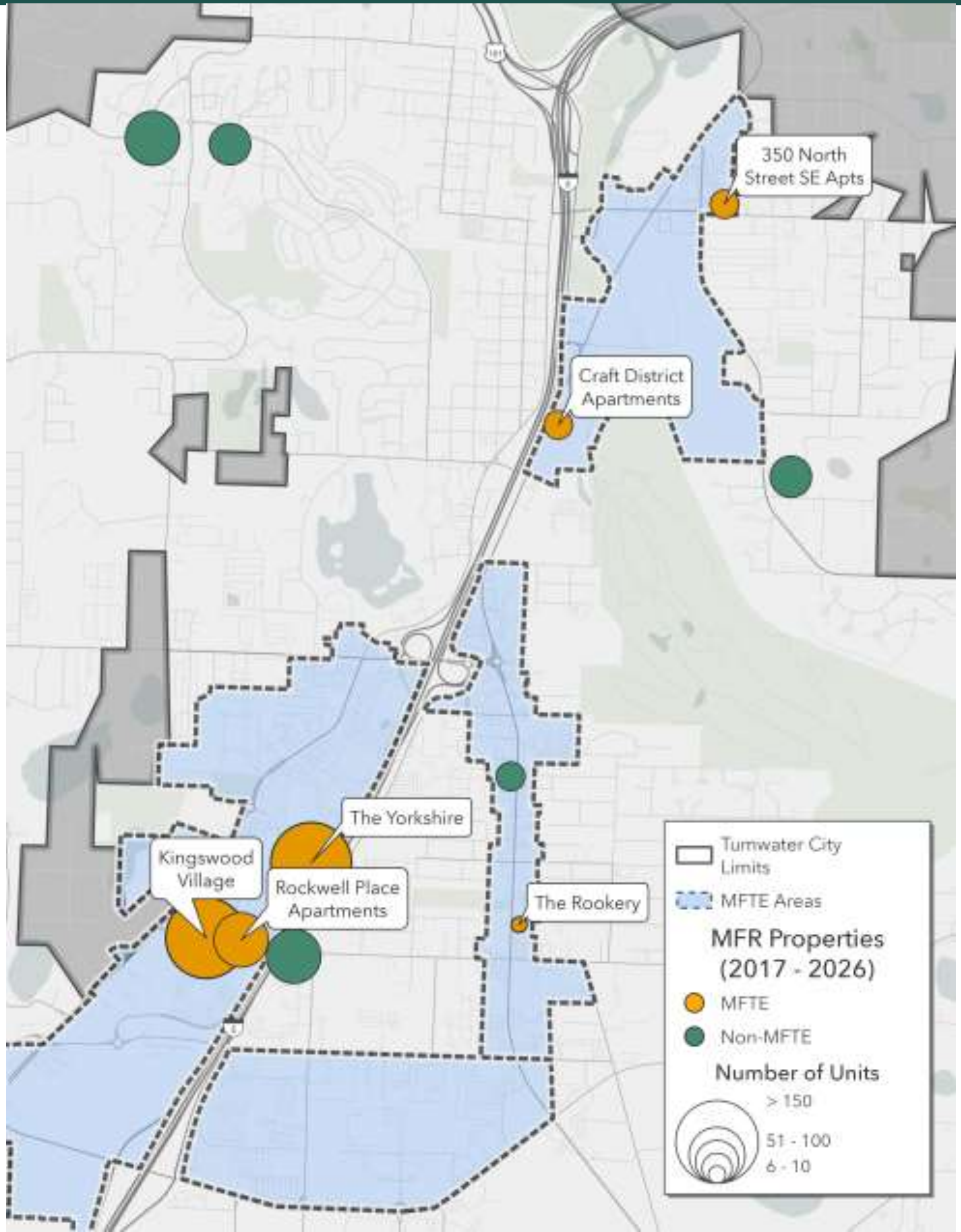
Preliminary Evaluation Findings

August 25, 2026

ECO northwest


Brewery District
Capital Blvd Corridor
Littlerock Road Subarea
Tumwater Town Center

Most Recent Multifamily Housing Development is in MFTE Areas



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MFTE unit production concentrated in Littlerock Subarea

TARGET AREAS	Total Projects	ALL UNITS	MARKET RATE UNITS	AFFORDABLE UNITS
Eight- and Twelve-Year Options				
Brewery District	2	119	119	0
Capitol Corridor	1	6	6	0
Twelve-Year Option Only with 20% Affordable				
Littlerock Subarea	3	562	448	114
Town Center	0	0	0	0
Total		687	573	114

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How Affordable Rents Are Set

- Thurston County AMI = $122,800 (four-person household)

Maximum annual household income by AMI tier and household size

AMI tier	1 person / Studio	2 person / 1-bed	3 person / 2-bed	4 person / 3-bed	5 person / 4-bed
100%	$86,000	$98,250	$110,550	$122,800	$132,650
80%	$68,800	$78,600	$88,450	$98,250	$106,150
60%	$51,600	$58,950	$66,350	$73,700	$79,600
50%	$43,000	$49,150	$55,300	$61,400	$66,350
30%	$25,800	$29,500	$33,200	$36,850	$39,800

Maximum monthly rent (30% of income ÷ 12)

AMI tier	1 person / Studio	2 person / 1-bed	3 person / 2-bed	4 person / 3-bed	5 person / 4-bed
100%	$2,150	$2,456	$2,764	$3,070	$3,316
80%	$1,720	$1,965	$2,211	$2,456	$2,654
60%	$1,290	$1,474	$1,659	$1,843	$1,990
50%	$1,075	$1,229	$1,383	$1,535	$1,659
30%	$645	$738	$830	$921	$995

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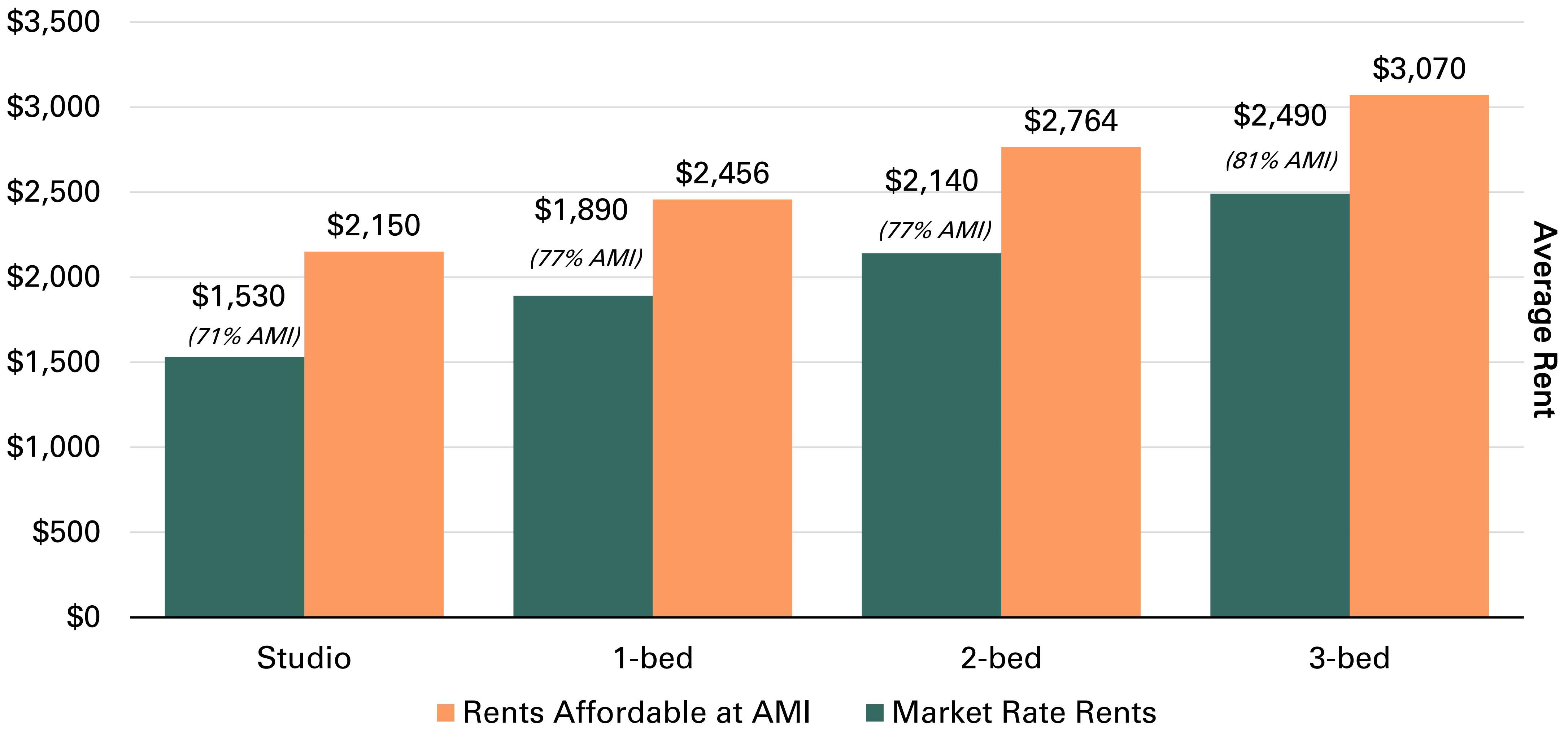
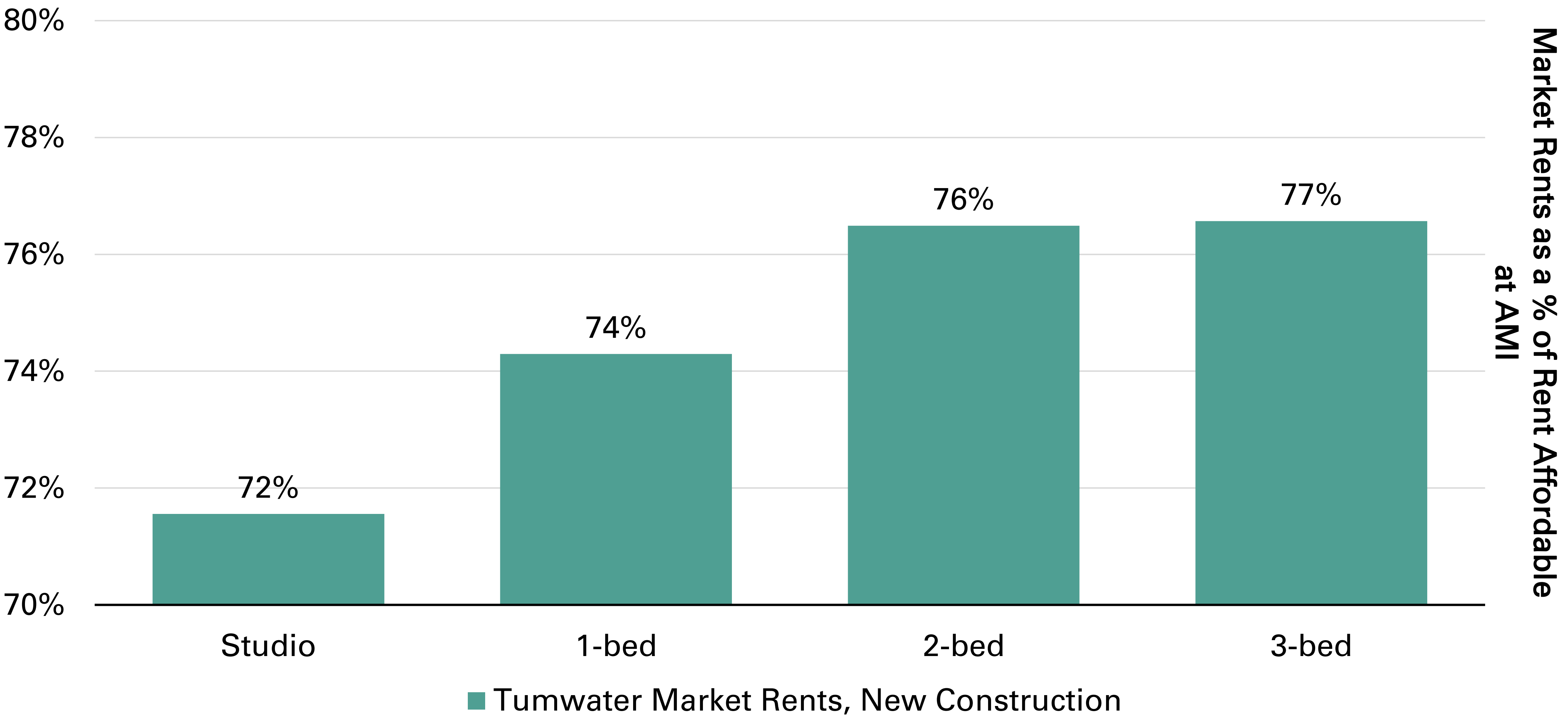
Market Rents* Are Below Those Affordable at 100% AMI



** Rents shown for new construction built from 2020 to 2026.*

Market Rents* Are Below 12-year MFTE AMI requirement



** Rents shown for new construction built from 2020 to 2026.*

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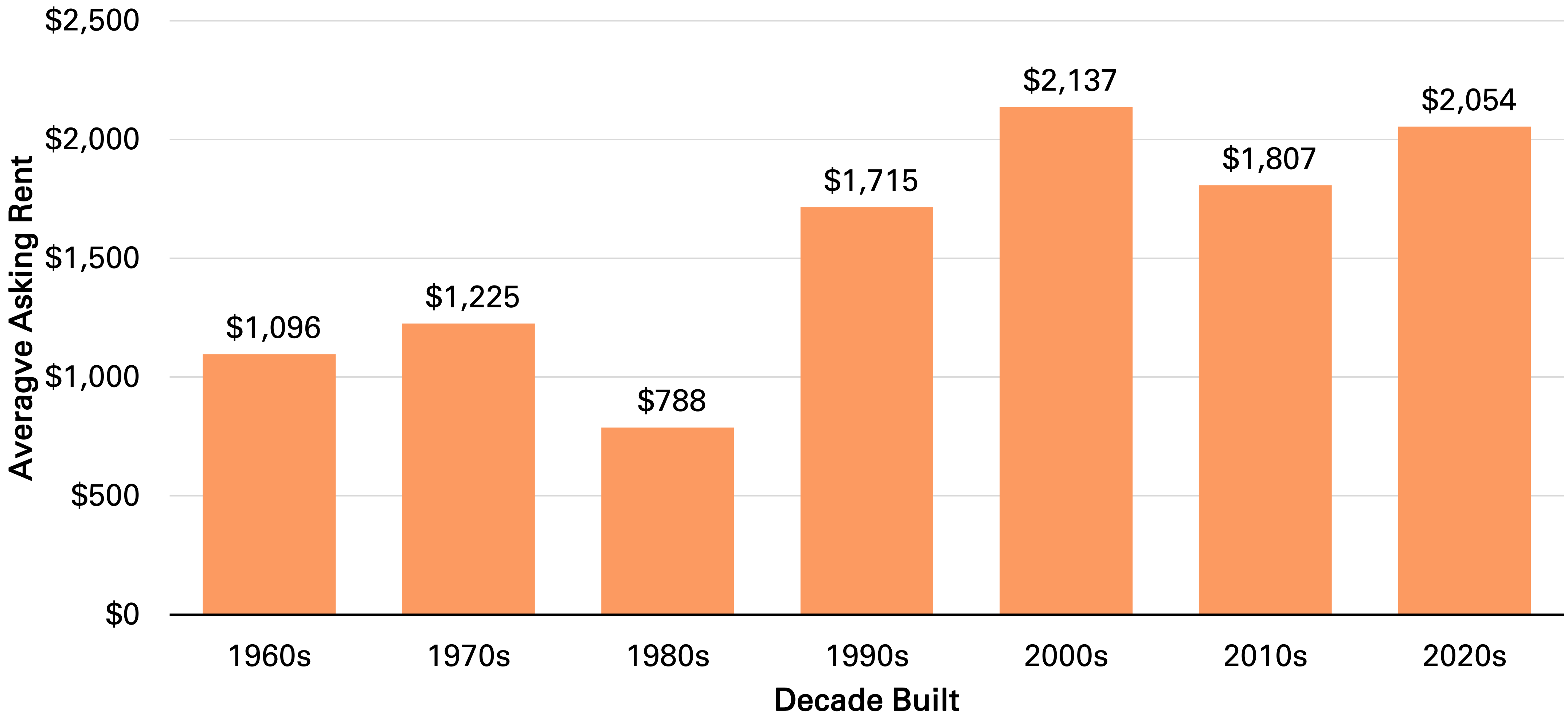
Older Properties Are a Source of Affordable Housing



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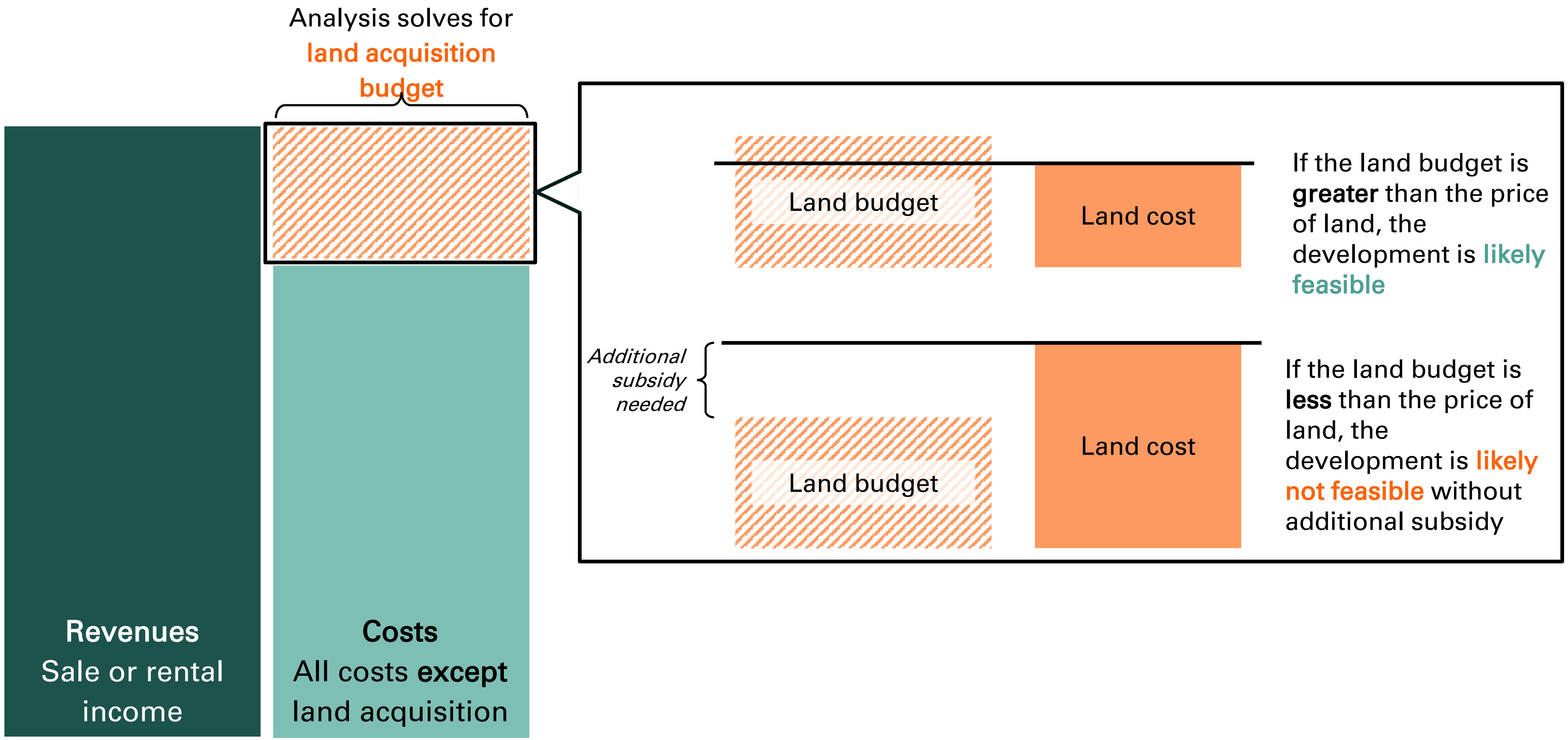
Our Pro Forma Analysis Approach



Multifamily Housing Prototypes Evaluated

Townhomes

3-Story Wood Frame ***(small lot)***

3-Story Wood Frame ***(large lot)***

5-Story Wood Frame ***(surface or tuck-under parking)***

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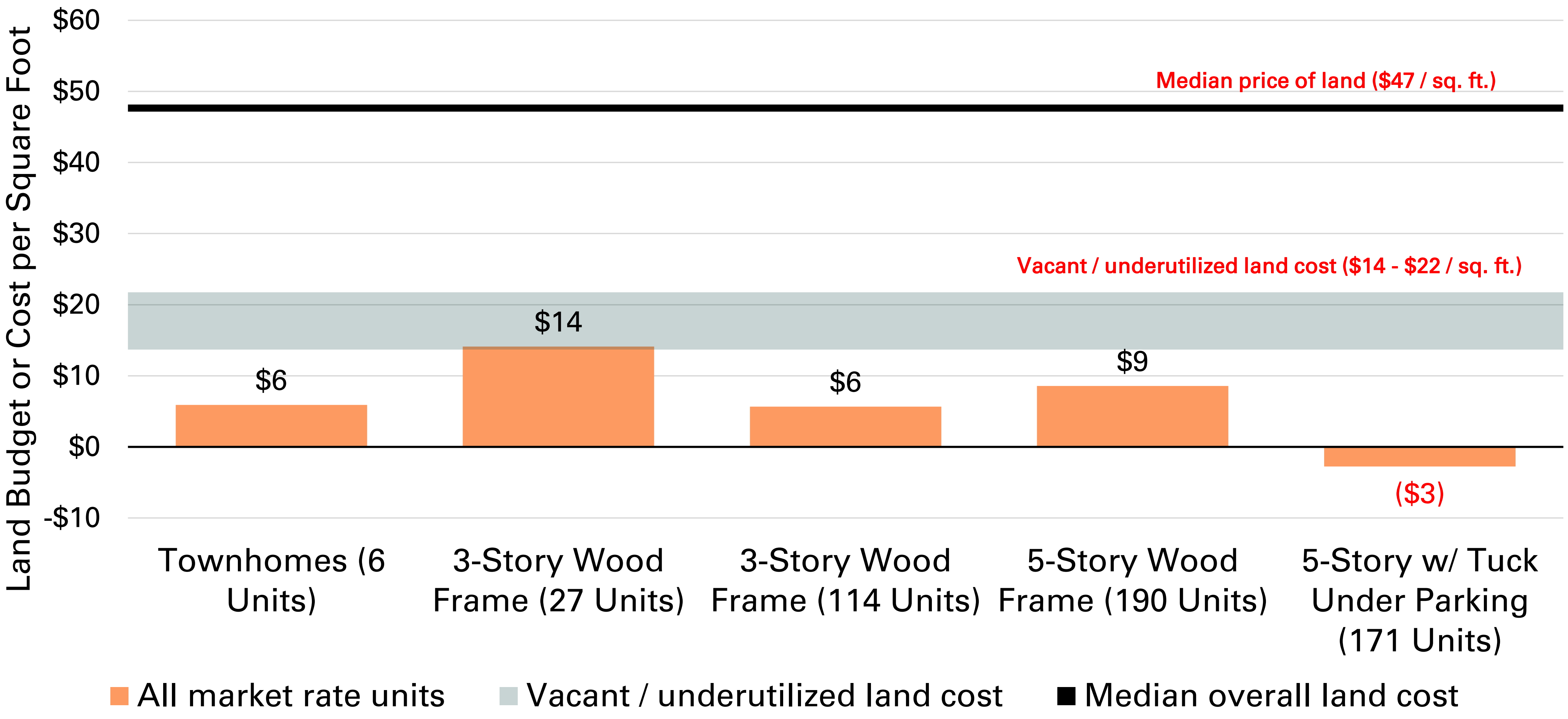
Most Market Rate Development is Likely Infeasible



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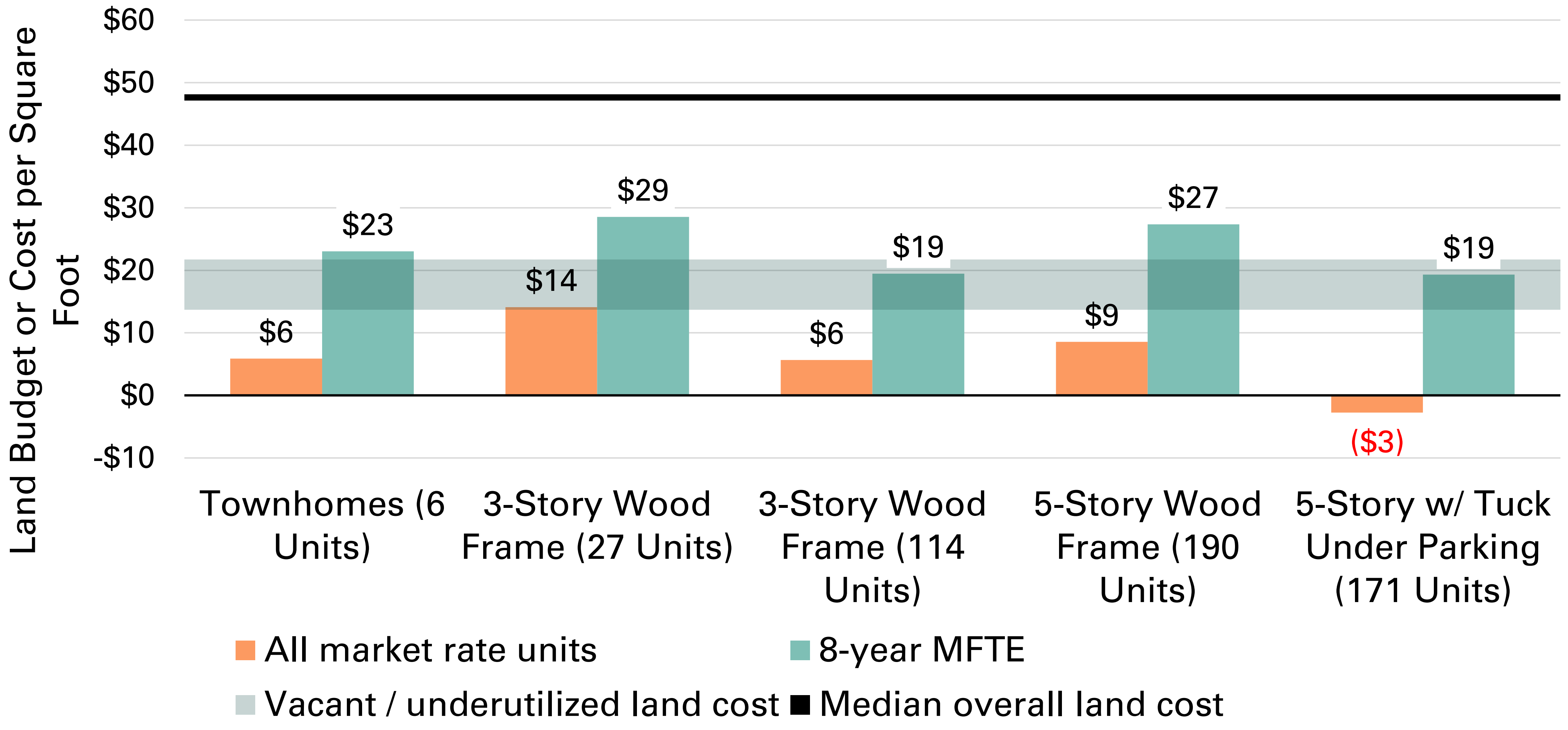
The 8-Year MFTE Improves Feasibility for All Prototypes



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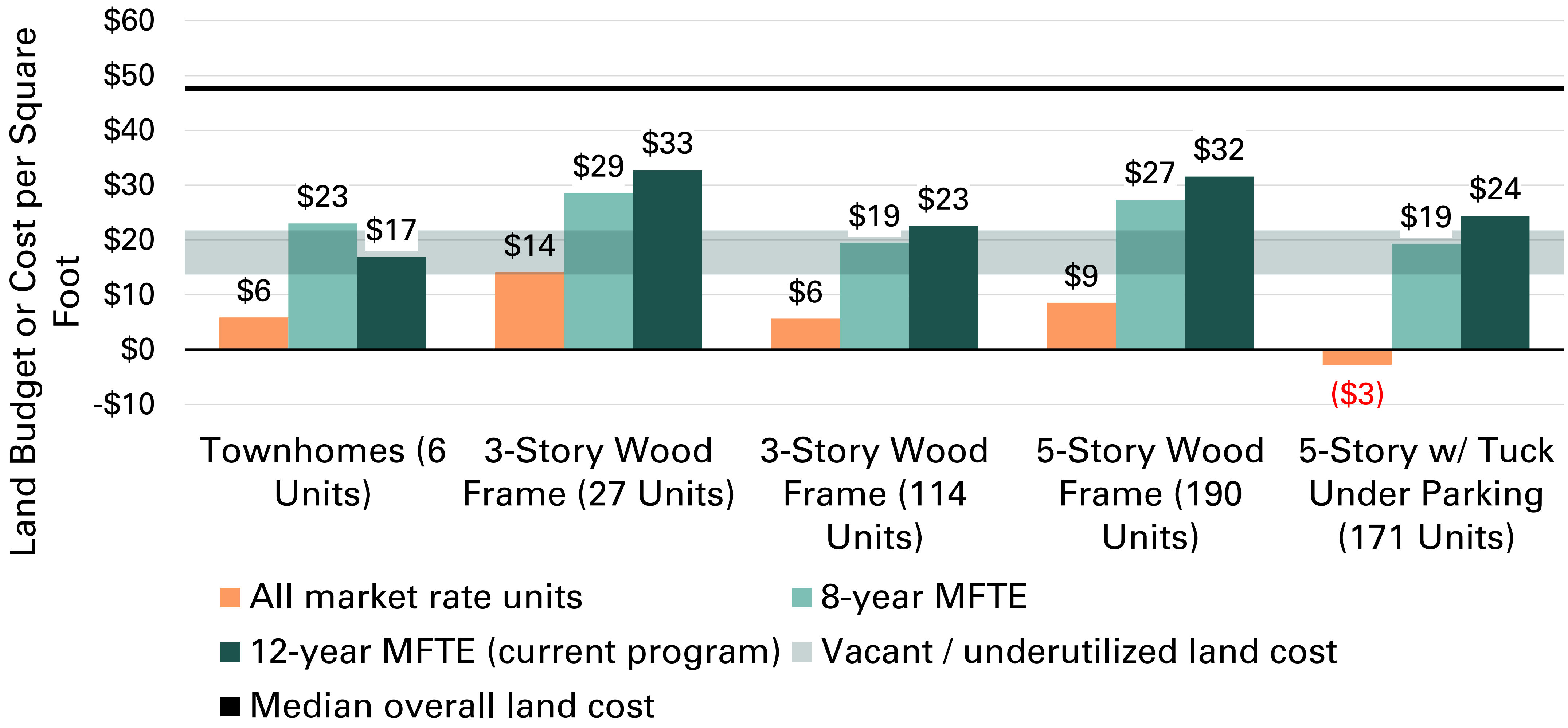
The 12-Year Program Has a Similar Impact



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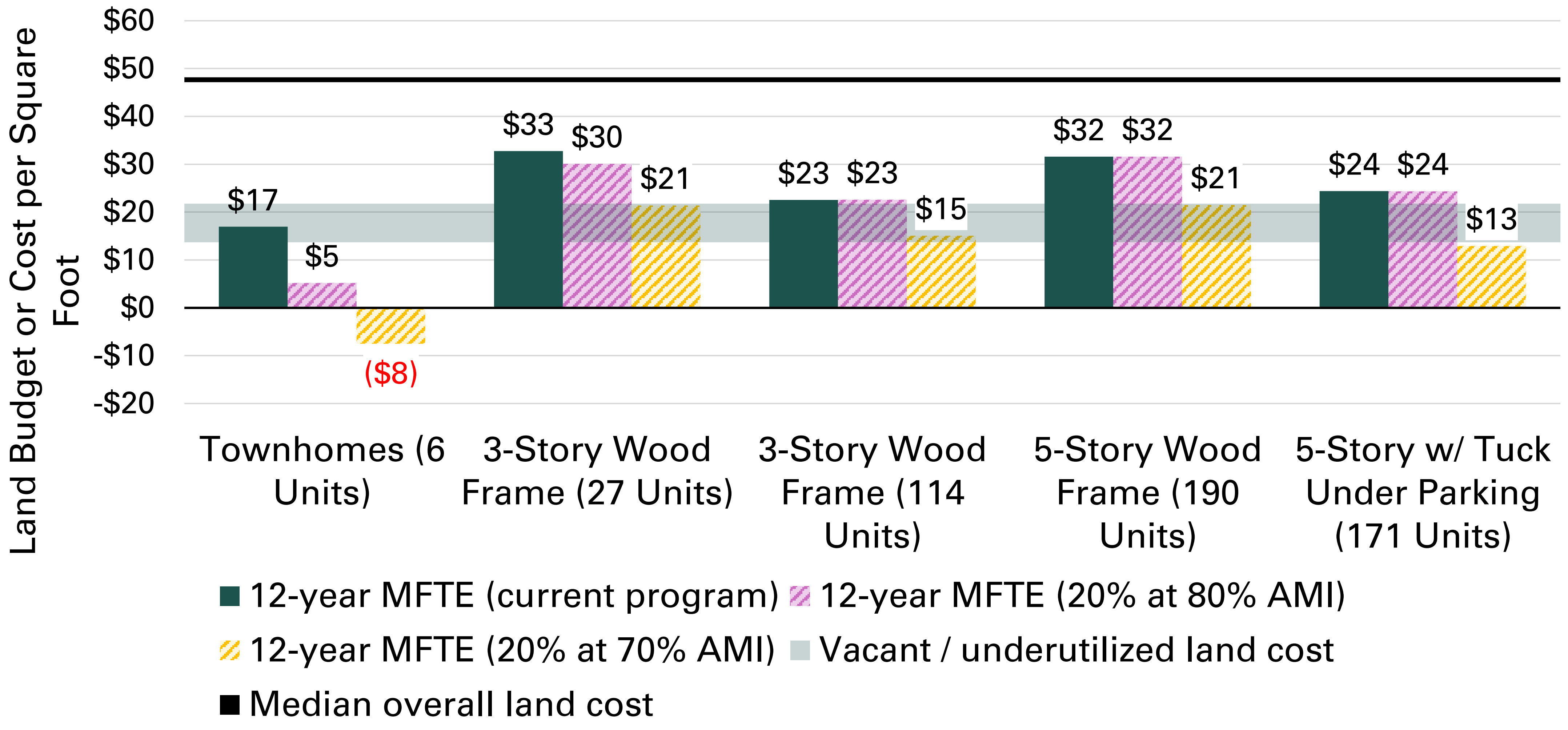
Calibration Needs to be Considered Carefully



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Key Takeaways

- The current program is influencing housing development outcomes within the designated MFTE areas
- Market rate rents are within the affordability requirement of the 12-year MFTE (80—115% AMI)
- Older properties are a source of naturally occurring affordable housing (preservation of these units is critical to maintaining affordability)
- Without MFTE most market rate multifamily projects are infeasible
- With MFTE most prototypes can afford vacant / underutilized land costs
- Requiring deeper affordability (e.g., 70% AMI) makes financial feasibility more challenging without additional public subsidies / fee waivers.

What are the City's priorities?

- Should MFTE focus on delivering as many deeply affordable units as possible or incentivize housing production?
- Should the geographic areas stay the same or be revised?
- Should the City place greater priority on preserving existing older housing or producing new affordable housing when providing affordable housing incentives?

Next Steps

- Task 3: Deeper analysis of MFTE Program Design and Target Areas, including a 20-year MFTE option.
- Task 4: final report including fiscal analysis and recommendations
- Next Council presentation on final report and proposed code language: January 12, 2027

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