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## 2016 Affordable Housing Update

***Affordable housing accomplishments and recommendations to improve access to housing at all income levels in Washington state per RCW 43.185B.040.***<sup>1</sup>

### ***Affordable Housing Advisory Board Actions***

**Housing affordability has become a significant challenge for individuals and families in most counties in the state.** The 2015 *Housing Needs Assessment* found that nearly one million households are paying more than 30 percent of their income toward housing costs.<sup>2</sup> In calendar year 2016, home prices statewide increased 11 percent to a median of \$316,200, and rents climbed over 7 percent to an average \$1,708.<sup>3</sup> The Affordable Housing Advisory Board (AHAB) focused on specific policies and programs to address these challenges, including the creation of a Legislative Policy Committee. This committee is specifically working on issues related to affordability to inform the AHAB's 2017 agenda – the committee's most extensive ever.

**Homelessness is increasing in Washington state, and the increases correlate to rising rents.**<sup>4</sup> In response, AHAB had the first joint meeting with the State Advisory Council on Homelessness and the Interagency Council on Homelessness to identify joint areas of concern. AHAB also published joint funding recommendations for the Governor's budget, which are included in the 2017 Policy Priorities section on pages five and six.

AHAB met five times in 2016 and is on track to exceed that number in 2017. AHAB welcomed new members that grew board diversity ethnically, racially, and geographically.

### ***Progress Toward Meeting Board Goals***

#### **Goal 1: Preserve Existing Affordable Housing**

##### **1. Incentivize and Fund Rehabilitation to Preserve Existing Affordable Housing Stock**

- ✓ In fiscal year 2016, the Washington State Housing Finance Commission issued \$545 million in multifamily tax-exempt bonds and \$521 million in multifamily housing credits, a portion of which allowed for the preservation of affordable-housing properties.
- ✓ The Washington State Department of Commerce (Commerce) requested new Housing Trust Fund appropriations for both creating new units and preserving existing units (in the aging

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<sup>1</sup> Washington State Legislature, *RCW 43.185B.040*, <http://app.leg.wa.gov/rcw/default.aspx?cite=43.185B.040>

<sup>2</sup> Mullin & Lonergan Associates, "Housing Needs Assessment," (2015), <http://www.commerce.wa.gov/wp-content/uploads/2016/10/AHAB-Housing-Needs-Assessment.pdf>

<sup>3</sup> Zillow, *Washington Home Prices & Values*, <http://www.zillow.com/wa/home-values/>

<sup>4</sup> Washington State Department of Commerce, "Homelessness in Washington State," (2016), <http://www.commerce.wa.gov/wp-content/uploads/2015/08/Commerce-Homelessness-in-Washington-2016.pdf>

Housing Trust Fund portfolio), which were included in the Governor's 2017-2019 capital budget.

- ✓ Commerce requested \$28 million from the Legislature for weatherization of existing housing stock for the 2017-2019 Biennium.<sup>5</sup>

## **2. Ensure the Ongoing Monitoring and Oversight of Existing Affordable Housing Stock**

- ✓ Commerce's Housing Trust Fund program monitored the performance of approximately 44,000 units of affordable housing in calendar year 2016. Monitoring staff made on-site visits to 187 projects statewide.
- ✓ The Housing Trust Fund preserved 1,716 units of affordable housing in calendar year 2016 through loan workouts and restructures, accommodating project refinances, and amending its current contracts to meet the current needs of the Housing Trust Fund portfolio.
- ✓ Through the Operations and Maintenance Program, Commerce assisted 1,398 affordable units in the Housing Trust Fund portfolio in calendar year 2016 that are occupied by extremely low-income people (30 percent of the area median income).
- ✓ The Housing Finance Commission monitored the performance of more than 78,000 units in 950 affordable housing projects during fiscal year 2016.
- ✓ The Housing Finance Commission developed best practices to preserve and upgrade existing affordable housing in its portfolio. This includes reorganizing its asset management and compliance programs to emphasize early discussions with low-income housing tax credit projects approaching year 15 of their regulatory period to begin planning any changes in the project structure that may be necessary between years 15 and 20, when most projects require some reinvestment for replacement of aging materials and systems.
- ✓ The Housing Finance Commission created and funded a Critical Project Preservation Program to support the preservation of existing affordable housing projects that are at risk of loss or conversion.
- ✓ Continuing in fiscal year 2016, the Housing Finance Commission used the Washington State Affordable Housing Portfolio Study,<sup>6</sup> to work with municipal jurisdictions statewide to increase awareness of the need for affordable housing in their communities.

## **Goal 2: Increase the Supply and Decrease the Cost of Affordable Housing**

### **1. Support Preservation and Expansion of Existing Affordable Housing Resources**

- ✓ In the 2015-17 Biennium, the Legislature appropriated \$85.5 million for the Housing Trust Fund. This included \$16 million for specific projects, \$1.9 million for the Ultra-High Energy Efficient Affordable Housing Demonstration Program, and the remaining \$67.6 million for competitive awards. Although the \$85.5 million was far below the goal of \$300 million set by AHAB before the 2008 recession, it was an increase from the \$65 million appropriated during the previous biennium.
- ✓ During calendar years 2015 and 2016, the Housing Trust Fund awarded \$67.6 million through competitive application processes to 20 affordable housing projects, which will produce almost 2,500 units of affordable housing serving low-income and special-needs populations.
- ✓ In calendar year 2016, Commerce received its first National Housing Trust Fund award of approximately \$3.3 million from U.S. Department of Housing and Urban Development. The purpose of this new program is to build and preserve affordable housing for extremely low-

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<sup>5</sup> Washington State Office of Financial Management, "2017-19 Budget & Policy Highlights," (2016), <http://www.ofm.wa.gov/budget17/highlights/13Capital.pdf>

<sup>6</sup> Housing Development Center, "Washington State Affordable Housing Portfolio Study," (2015), <http://www.commerce.wa.gov/wp-content/uploads/2016/12/hfu-portfolio-need-study-2015.pdf>

income people (30 percent of the area median income). In December 2016, Commerce allocated new National Housing Trust Fund and federal HOME funds awards in coordination with the state's Housing Trust Fund program to new affordable housing projects.

## **2. Increase Availability of Affordable Housing Development Finance Tools and Implement Cost-Efficiency Measures**

- ✓ Commerce continued implementation of nine recommendations to emphasize cost-effectiveness in response to House Bill 2640,<sup>7</sup> including implementation of cost-containment limits. Additionally, Commerce is engaging stakeholders and the Policy Advisory Team (a subcommittee of AHAB that provides advice to the Housing Trust Fund) to look for new strategies to cost-engineer building designs and align cost-saving strategies across the state by various project sizes and types.
- ✓ In addition to upfront cost-containment strategies, Commerce considers the whole life cycle of a building as an opportunity to achieve efficiencies and increase the opportunities for long-term sustainable housing. Commerce released version 3.0 of its Evergreen Sustainable Development Standard<sup>8</sup> in January 2016.
- ✓ Commerce awarded three projects Ultra-High Energy Efficient Affordable Housing Demonstration Program funds appropriated by the Legislature in the 2015-2017 capital budget. These demonstration projects will be designed to achieve net-zero energy costs after the housing units are fully occupied.
- ✓ The Housing Finance Commission continued to refine its cost-containment policy in the most recent round of the Housing Credit Program and provided additional competitive points to encourage more savings. However, construction costs continued to rise in calendar year 2016, especially in urban areas, making cost-containment challenging.<sup>9</sup>

## **Goal 3: Decrease Homelessness**

### **1. Implement Adult Homeless System Policy Changes**

- ✓ In 2017, Commerce prioritized the housing of unsheltered people using document recording fees. Commerce created a benchmark that at least 35 percent of people assisted with recording fees must have been unsheltered in the last two years. This includes housing survivors of domestic violence.
- ✓ Increased funding flexibility within state-funded Consolidated Homeless Grants allows for payments of expenses that directly help a homeless household obtain or maintain housing. These expenses include transportation costs to move to permanent housing, expenses to increase income, such as work uniforms, and purchase of items necessary to address an emergency need.
- ✓ Consolidated Homeless Grant funding eligibility was expanded to include permanent supportive housing for sheltered and unsheltered homeless households with individuals with disabilities.
- ✓ The Office of Homeless Youth Prevention and Protection completed its strategic plan<sup>10</sup> for

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<sup>7</sup> Washington State Legislature, *HB 2640 – Emphasizing cost-effectiveness in the housing trust fund*, (2012), <http://apps.leg.wa.gov/billinfo/summary.aspx?bill=2640&year=2011>

<sup>8</sup> Washington State Department of Commerce, *Evergreen Sustainable Development Standard*, <http://www.commerce.wa.gov/building-infrastructure/housing/housing-trust-fund/housing-trust-fund-evergreen-sustainable-development>

<sup>9</sup> Rider, Levitt, Bucknall, "USA Report: Quarterly Construction Cost Report, Fourth Quarter," (2016), <http://assets.rlb.com/production/2017/01/18010115/Q4-QCR-2016.pdf>

<sup>10</sup> Washington State Department of Commerce, "Office of Homeless Youth Prevention and Protection Programs 2016 Report," (2016), <http://www.commerce.wa.gov/wp-content/uploads/2015/11/hau-ohy-report-2016-update.pdf>

preventing and ending youth homelessness. The plan includes recommendations for funding, policy, and practice solutions across five priority areas. The report provides the prioritization and direction needed for taking immediate action as well as comprehensive strategies needed to inform efforts over the long-term.

## **2. Propose More Adult Homeless System Policy Changes**

- ✓ Commerce increased the grant performance benchmark for homeless service providers from assisting at least 35 percent of unsheltered people, to grantees working toward functional zero<sup>11</sup> for at least two sub-populations, or a 5 percent incremental increase each year in the number of unsheltered homeless served. The two options account for variations among counties in the populations served. This change aligns state Consolidated Homeless Grants with federal Emergency Solutions Grants. The end goal is that counties have robust crisis-response systems and can maintain functional zero.
- ✓ Commerce increased rapid access to housing assistance for persons experiencing homelessness, and removed existing barriers to assistance.
- ✓ Commerce aligned housing program requirements with typical residential leases to reduce administrative barriers.
- ✓ Commerce increased the Homeless Management Information System data quality threshold.

## **3. Incentivize Best Practices in Commerce Contracts to Homeless Service Providers**

- ✓ Commerce published County Report Cards<sup>12</sup> that include performance outcomes included in 2017 state funding contracts. Commerce provides technical assistance in best practices to make system reforms to grantees not able to achieve required outcomes in order to meet compliance with performance measure benchmarks. Alternate providers are identified when current providers cannot meet benchmarks after technical assistance is provided. The report cards increase transparency, and serve as a resource for local providers to advocate for resources in their communities.
- ✓ Commerce implemented a supplemental point-in-time count<sup>13</sup> of homeless persons that was completed in 2016 and spans January 2014 through January 2016. It will continue at twice-annual intervals. Through a data sharing agreement with the Department of Social and Health Services (DSHS) Research Data Analysis Division (RDA), administrative data from five different data sources were matched to provide a broader understanding of homeless populations.
- ✓ Commerce launched a new Homeless Management Information System (HMIS) software system from BitFocus, Inc. It is used by all but four counties (Clark, Pierce, Snohomish, and Spokane).
- ✓ Commerce worked with the DSHS, Building Changes and the Bill & Melinda Gates Foundation to lead two cohorts of counties through an intensive *100 Day Challenge to End Family Homelessness*, a technical assistance effort aimed at reducing unsheltered family homelessness and implement lasting system changes. Six counties participated in the

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<sup>11</sup> Functional zero means a community's capacity to place homeless households in housing is equal or greater to the number of homeless households in that community.

<sup>12</sup> Washington State Department of Commerce, *Final County Report Cards, August 2016*, (2016), <https://public.tableau.com/profile/mary3342#!/>

<sup>9</sup> Washington State Department of Social and Health Services Research and Data Analysis Division, "Snapshot of Homelessness in Washington State for January 2016," (2016), <http://www.commerce.wa.gov/wp-content/uploads/2015/11/hau-hmis-snapshot-homelessness-1-2016.pdf>

challenges, and best practices were shared in a consultant report<sup>14</sup> and in the annual training forum for all Commerce homeless grant recipients. The results of this initiative will also be shared at the state *Conference on Ending Homelessness* in May 2017.

#### **4. Fund Homeless Services**

- ✓ In calendar year 2016, the Housing Trust Fund awarded \$31.5 million to 20 affordable housing projects with total development cost of \$280 million, to create 1,257 new units of safe, decent, and affordable housing throughout our state. Of these units, at least 500 will be dedicated to populations who struggle with homelessness or are currently homeless, including people with chronic mental illness, homeless families with children, veterans, and homeless youth. The Housing Trust Fund coordinates the review of applications for homeless projects with Commerce's Housing Assistance Unit to align the Housing Trust Fund investments with recognized state and federal homeless assistance services best practices. Through this coordinated effort, capital and service dollars can be more effectively delivered to serve these populations that are in critical need of housing opportunities.
- ✓ In calendar year 2016, the Housing Finance Commission issued \$545 million in multifamily tax-exempt bonds and \$521 million in multifamily Low-Income Housing Tax Credits resulting in the creation or preservation of 6,788 units of housing, including 272 units dedicated to formerly homeless residents. Many of these were accompanied by intensive supportive services to help these individuals transition back to independent living in the community.
- ✓ DSHS trained community service office staff to identify homeless families and make Temporary Assistance for Needy Families funds available to them for emergency housing assistance, while simultaneously linking families to local housing services.

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<sup>14</sup> Aspire Consulting LLC, "Summary and Insights About Washington's 100 Day Challenge to End Family Homelessness," (2016), <https://app.box.com/s/nxpvhltkl24gh80vi0254w5gswu9aqu>

## 2017 Policy Priorities

### **Provide Guidance on New Federal Policies**

AHAB anticipates significant changes in federal housing policies and priorities with the incoming federal administration that may impact state and local policies. AHAB will proactively engage with stakeholders to support development and implementation of Washington state's responses.

### **Support \$200 Million for the Housing Trust Fund**

AHAB supports a \$200 million appropriation to the Housing Trust Fund for the 2017-19 Biennium. Housing affordability and homelessness are critical issues in Washington, and the Housing Trust Fund leverages local and private investment to create housing that will remain affordable for the long term. Shovel-ready applications from nonprofit affordable housing developers continue to exceed available resources. In calendar year 2016, the Housing Trust Fund received funding requests totaling \$165 million, and awarded a total of \$31.5 million (including approximately \$6 million in federal funds), signaling an ongoing gap between need and resources for affordable housing.

### **Fund Local Homeless Services**

Document recording fees, some of which expire in 2019,<sup>15</sup> fund most homeless services in Washington. AHAB supports elimination of those sunsets, an increase in the fee in order to keep up with growing demand, and removal of administrative requirements that divert money from rent assistance.

### **Budget for the Medicaid Demonstration Project**

The Washington State Health Care Authority negotiated details of Washington state's Section 1115 Medicaid Waiver, which will allow the state to test new and innovative approaches to providing health coverage and care.<sup>16</sup> Budget authority for that effort will help link medical and other long-term supports to permanent supportive housing projects in Washington, which will help relieve stress on local homeless shelters.

### **Provide Local Authority for Real Estate Excise Tax**

AHAB recommends granting local communities the authority to implement new real estate excise taxes for affordable housing needs. This would implement a 0.25 percent increase in real estate transfers – similar to the tax that currently funds infrastructure needs.<sup>17</sup>

### **End Source of Income Discrimination**

AHAB unanimously supports efforts to protect participants in government assistance programs by banning "source of income" discrimination. Ending source of income discrimination would bring the state in alignment with some Washington municipalities, and 12 other states that already prohibit excluding tenants because of income sources, such as Housing Choice Vouchers (Section 8), Social Security benefits, or Veterans Affairs Supportive Housing program vouchers.

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<sup>15</sup> Washington State Legislature, *RCW 36.22.179(1)*, (2014), <http://apps.leg.wa.gov/rcw/default.aspx?cite=36.22.179>

<sup>16</sup> Washington State Health Care Authority, *Medicaid transformation*, <http://www.hca.wa.gov/about-hca/healthier-washington/medicaid-transformation>

<sup>17</sup> Washington State Legislature, *Chapter 39.102 RCW*, (2006), <http://app.leg.wa.gov/rcw/default.aspx?cite=39.102&full=true>

### **Preserve the Emergency Housing Safety Net**

Incomes have not kept pace with housing expenses<sup>18</sup> and those who qualify for rent assistance have experienced cuts in financial supports (like the elimination of General Assistance and Disability Lifeline). Programs like Housing and Essential Needs, and Aged, Blind and Disabled provide rent or financial support for extremely low-income adults who are temporarily or permanently unable to work.

### **Remove Barriers for Housing Development**

Condominiums are a housing option that currently face barriers to development in Washington.<sup>19</sup> AHAB supports efforts to removing barriers to condominium development to grow more home-ownership options for households in Washington.

### **Add a Preservation Tax Exemption**

AHAB supports the city of Seattle's effort to create local options for a 15-year tax exemption for property owners in the private market who agree to set aside 25 percent of their buildings for low-income tenants (below 50-60 percent of area median income).<sup>20</sup> This legislation would help maintain affordability for lower income residents and prevent displacement of longtime community members.

### **Preserve the Housing Trust Fund Portfolio**

Now that the state Housing Trust Fund is 30 years old, funds are needed to ensure that those units stay in the affordable housing portfolio. AHAB supports the \$10 million appropriation in the Governor's proposed capital budget for the 2017-19 Biennium.

### **Invest in the Washington Youth and Families Fund**

The Washington Youth and Families Fund is a public-private partnership that leverages public and private funds to support homeless families and children. AHAB supports the Building Changes request for a \$6 million investment, which would come from the following funding sources: the Housing Trust Fund Repayment Account, State General Fund, and homeless document recording fees.

### **Increase State Flexibility to Support Low Income Housing Tax Credits**

AHAB recommends increasing the state Housing Trust Fund's flexibility to support the Housing Tax Credit projects that may be affected by market instability and potential federal tax reforms. These tax credits are a critical tool in public affordable housing development and recent market changes have already impacted pending projects.

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<sup>18</sup> Washington State Department of Commerce, *Affordable Housing Needs Study – 2015*, <http://www.commerce.wa.gov/housing-needs-assessment/>

<sup>19</sup> Seattle Housing Affordability and Livability Agenda Advisory Committee, "Seattle Housing Affordability and Livability Agenda," (2015), [http://murray.seattle.gov/wp-content/uploads/2015/07/HALA\\_Report\\_2015.pdf](http://murray.seattle.gov/wp-content/uploads/2015/07/HALA_Report_2015.pdf)

<sup>20</sup> City of Seattle, "FACT SHEET: Preservation Property Tax Exemption," (2016), <http://murray.seattle.gov/wp-content/uploads/2016/01/PTE-One-Page.pdf>

## About the Affordable Housing Advisory Board

The Affordable Housing Advisory Board advises The Department of Commerce on housing-related issues by recommending solutions that promote access to affordable housing and identifying regulatory barriers to affordability.<sup>21</sup> The Governor appoints members who represent a variety of housing interests. Ex-officio members represent the Washington State Housing Finance Commission,<sup>22</sup> Department of Social and Health Services,<sup>23</sup> and Commerce.<sup>24</sup>

### 2016 Membership

**M.A. Leonard**, Chair, Enterprise Community Partners Inc.

**Joel Ing**, Vice Chair, Edge Developers

**Chris Pegg**, Policy Advisory Team Chair, Housing Opportunities of Southwest Washington

**The Honorable Claude DaCorsi**, Legislative Chair, Auburn City Council

**Shannon Affholter**, Master Builders of King and Snohomish Counties

**Derrick Belgarde**, Chief Seattle Club

**Connie Devaney**, Kawabe Memorial House

**Vijya Patel**, Madison Avenue Realty

**Andree Harland**, Pacific County

**Tory Laughlin Taylor**, Forterra

**Paula Lonergan**, Tacoma Rescue Mission

**The Honorable Obie O'Brien**, Kittitas County Council

**Michael O'Rourke**, Washington Federal

**Peter Orser**, Runstad Center for Real Estate Studies, University of Washington

**Shaw Seaman**, DSHS Division of Developmental Disabilities

**Paul Trautman**, City of Spokane

**Tom Hoban**, Coast Management

**Michone Preston**, Habitat for Humanity Washington

**Chuck Weinstock**, JPMorgan Chase

**Kim Herman**, Ex-Officio, Washington State Housing Finance Commission

**Diane Klontz**, Ex-Officio, Washington State Department of Commerce

**David Stillman**, Ex-Officio, Washington State Department of Social and Health Services

### For more information:

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Department of Commerce

<sup>21</sup> Washington State Legislature, *RCW 43.185B.030*, <http://apps.leg.wa.gov/rcw/default.aspx?cite=43.185B.030>

<sup>22</sup> Washington State Housing Finance Commission, <http://www.wshfc.org/index.htm>

<sup>23</sup> Washington State Department of Social and Health Services, <http://www.dshs.wa.gov/>

<sup>24</sup> Washington State Department of Commerce, <http://www.commerce.wa.gov/>