



Department of Commerce

Policy Advisory Team MEETING SUMMARY

June 15, 2016
Seattle, WA

Agenda Item	Key Recommendations, Decisions, Discussion
Welcome and Introductions	<ul style="list-style-type: none">• Ann Malone was introduced as the newest member of the PAT. Ann will be representing the private investors group.• Chris Pegg started the meeting with a reminder that only Policy Advisory Team Members (PAT) may vote. She noted ground rules for discussion and asked the PAT members to consider statewide implications and representing their groups and constituencies rather than their individual organizations, as they make decisions that come before the PAT.
Commerce Updates	<ul style="list-style-type: none">• Diane Klontz addressed the PAT with a call to action to work with Commerce to help strengthen services across the state, specifically around the Housing Trust Fund’s sustainability and transparency, as well as serving homeless populations; she echoed the need for accountable and transparent processes for the HTF. Diane reminded PAT members and attendees that this meeting is not intended as a decision-making meeting, but a time for a healthy discussion and for the HTF to gather important feedback to make informed, competent decisions. When decisions are made, Commerce wants to be able to be very clear about why the decisions were made and give supporting information. With this year’s competitive process, Commerce’s Executive Leadership Team has asked the Housing Finance Unit for more transparency and objectiveness in how funding decisions will be made. This year, the HTF faces a \$150M gap and they want to support all jurisdictions in having good, strong applications. The HTF has \$25M, with a \$3M cap on each project. Diane encouraged the group to really read the evaluation proposal, come to the table with alternative options, and look for ways for the group to get to “yes.” Diane reminded the group that this will not be the only opportunity for feedback.• Diane shared with the group that this year is the 30-year celebration for the HTF and Washington State Low-Income Housing Tax credit program. The HTF has provided forty-six thousand units, statewide. She reminded the group that there is much to celebrate in all the work that has been done in the community and its incredible impact.• Legislative Updates: Diane shared that Commerce is in discussions about policy, capital, and operating asks, and what to move forward this next legislative session, but nothing has been finalized at this time. Commerce will support the Governor’s budget.• Corina Grigoras noted that she sent out an interim update to the “PAT and the interested parties” distribution list

	<p>(maintained by HTF staff) on April 27, which included legislative and budget updates. HTF received several earmarks in the Supplemental Capital Budget proviso. While the HTF did receive \$8 million new capital funds, the earmarks add up to almost \$13 million, so the HTF competitive pool has been lowered by \$4.25 million and the Ultra High Efficiency Demonstration Program competitive funds were lowered by \$600,000.</p> <ul style="list-style-type: none"> • HUD has announced the National Housing Trust Fund awards; Commerce will be awarded \$3.2 million. Commerce plans to award these funds in the Stage 2 application round. The HOME award is split between Tenant Based Rental Assistance (TBRA) and Capital Based Projects; out of that, the HTF will have \$2.3 million to use along with the HTF application pool. This will raise the 2016 competitive pool to about \$25 million: \$20M state funds and \$5M federal funds. Corina told the group that Commerce may want to use National Housing Trust Funds more creatively in the future, but this time around we want to award the funds quickly and alleviate the large gap between available funding and HTF demand.
<p>2016 Housing Trust Fund Application Round</p>	<ul style="list-style-type: none"> • Corina shared that the Stage 2 Invitation List was split into two main lists: projects that are encouraged to apply and projects that are welcome to apply. The “encouraged to apply” list includes projects that plan to serve populations required by the legislature. “Welcome to apply” projects are those serving general low-income populations, which did not necessarily meet the legislative targets, or are serving targets already met last year. The two lists are intended to give applicants a sense of where they stand among their peers and how they can improve their applications. Stage 1 had very limited criteria. • Corina explained that the HTF is expecting an extremely competitive Stage 2 this year. Last year, the HTF was able to fund all the projects that were ready and fully funded; this year there is not enough funding for all the “good” projects. For this reason, the HTF looked into drafting a more objective and transparent set of evaluation criteria. With \$165 million in Stage 1 requests and approximately \$20-25 million available (including HOME and National Trust Fund), Commerce staff was compelled to provide candid feedback to the Stage 1 applicants regarding their initial review and is proposing a more transparent evaluation criteria for Stage 2. • Stage 2 Evaluation Criteria: the criteria in the proposed evaluation tool were cross-vetted with past application round procedures and aligned with legislative requirements. Corina noted that this is not a perfect process and it will likely be an ongoing process that will need continuous adjustment. Corina gave an overview presentation of the proposed evaluation criteria and mentioned that several thresholds will be reviewed, such as the HTF cost per unit to meet the min. required number of units, legislative categories, geographical distribution, Ultra High Efficiency, and federal requirements for the federal funds. Corina pointed out that by using a more transparent method, projects will have the opportunity to self-evaluate and understand if their applications are more or less competitive. Corina presented HTF’s past years processes to the group and illustrated how different methods were used in the past. These included numerical scoring in recent years, but it was perhaps less transparent. Corina stated that the criteria listed in the proposed tool have always been considered during the funding rounds, as it’s based on HTF’s statutory requirements.

Publicly released numerical scores is the only new consideration. Corina proposed that HTF begin using the criteria for 2016 Stage 2 round, due to the targeted needs identified in the Capital Budget, high competitiveness nature of the funding round, and a desire to increase transparency and objectivity.

- Marty Miller expressed concern that the 30% AMI preference had unintended consequences, particularly in rural areas where people have very low incomes. Marty shared a handout identifying this concern.
- Mark Smith expressed concern about Corina’s comments that this type of criteria had been used in the past because this was the first time the group was seeing it. He strongly encouraged Commerce to put the brakes on it and follow a process of outreach more similar to that of the Housing Finance Commission’s in terms of collecting comments on policymaking.
- Diane Klontz clarified that this is a Draft and the HTF was here to ask for feedback. PAT members expressed the need for more discussion and feedback and that this could not happen in the short timeline proposed. Some did agree that while transparency would be welcome, they still felt uncomfortable with the short timeline.
- Chris Pegg proposed a smaller subcommittee to work on the evaluation tool and also expressed concern about changes being made during this funding cycle and being made this quickly. Diane Klontz asked the group to consider how a subcommittee should be formed.
- Corina Grigoras reiterated that the HTF is not implementing this now, but that we do want to hear feedback and especially alternative options if PAT is opposed to this proposal. At this time, HTF does not have a tool that is very different than the one proposed—the only exception is the numerical scores.
- Sharon Lee requested that legislative bucket criteria be considered a threshold. One of the participants noted that one of the great tools we have moving forward is communication among funders, specifically the coordination between state funding source and community/local jurisdictions. Can we retain that as we move forward?
- Philippa Nye expressed concern about flexibility and stated that the one-size fits all tool seems geared toward “bigger is better” and was worried about the impact this may have on rural areas. Chris Pegg suggested that the timing on this issue be extended and a subcommittee be formed with Commerce to discuss the proposed tool and timing of implementation.
- Paul Purcell supported the idea of taking more time to develop a more thorough process and supported looking at populations, but felt that he didn’t understand the points awarded to specific populations. He questioned how the HTF will be able to evaluate the available service dollars and proper support services. He also questioned how a project serving five populations will be handled. He also expressed unease with the perceived rigidity of a points scoring system. He does not believe that there is time within this funding round to have a thorough stakeholder driven process completed.
- One of the participants recommended that the proposed evaluation tool be tested on past projects to get a better feel for the impact. Corina spoke to the point that sometimes priorities are conflicting (e.g., between RCW and

Capital Budget) and reiterated the difficulty aligning them, which is why a weighted scoring system could be beneficial.

- Chris Pegg recommended the formation of a special subcommittee. Joel Ing motioned to form a subcommittee with Department of Commerce and statewide input to provide feedback on an evaluation tool for the next year, with the request that no decision is made concerning using the proposed scoring tool for the 2016 funding round. Susan Duren seconded the motion.
- Corina asked the group to consider how decisions will then be made for this year. Joel asked if there was a specific mandate compelling this change to the decision making process in this quick timeframe. Diane assured the group that she hears that there is a need for more time to flesh out this new process, and pointed out, however, that for this round there must be some objective mechanism in place to move from application to award.
- Nathan Peppin expressed that he hears the challenge of the newness of this for the group. He explained the current process for evaluating applications and cross-referenced this with the proposed changes. He explained that the main change is that applications will receive a numbered score, versus a rating of “high”, “medium”, or “low,” like in the recent past. He noted that these evaluative criteria are a meaningful way to communicate why projects were chosen for everyone across the board. HTF hopes that a self-evaluation tool could also mitigate costs that applicants may spend on environmental assessments, appraisals, geo-techs, earnest money, and more.
- Chris Pegg stated that she is advocating for more time and more opportunity for input from constituents around the state and other funders, as well. She reiterated that given the layered funding process, the timing on this proposal is highly ambitious and concerning. Paul Purcell asked how many appeals there have been and stated that folks have had confidence in the decision making process in the past. He added that the need to quantify funding decisions is understandably a difficult process, but that confidence is needed in that process and the timing is concerning. He echoed Chris Pegg’s request of more time.
- Diane Klontz shared that she hears the need for more time, but that she also agrees in the need for a solid process and a way to evaluate and rank projects this year and get them funded. She also shared that in last year’s funding round there were several complaints and debriefs, and there were 18 debriefs for Stage 1 with applicants who requested an explanation for why they were not on the “high” list.
- PAT discussed their motion again and proposed that a subcommittee be formed to determine a process for the future rounds and that no decision be made on the current draft proposal for scoring criteria for this round. One of the participants asked that the motion be amended to include that this subcommittee not make decisions without comprehensive input from statewide stakeholders and that possible unintended consequences are thoroughly considered. It was asked which criteria would be used this year and Chris Pegg stated that the subcommittee can help make some “basic” criteria this year, as long as they are not looking at the current draft tool. Diane summarized the motion she was hearing: that the PAT was advising that no decision be made on the proposed scoring tool and

that the HTF support a thoroughly vetted scoring process by engaging a subcommittee, which may include non-PAT members, for the next year. The second piece that Diane clarified is the need for feedback on the current round, which includes participation from the folks around the table at this PAT meeting, and for valuable feedback for the 2016 applications.

- It was asked how the ranking has worked in the past. Dena Harris, who has been reviewing applications and underwriting for the HTF for the past 7 years, stated that the set of criteria in the proposed draft is very similar to what the HTF has been using to evaluate projects in the past and that they can continue their past evaluation process for Stage 2. She noted that just as Corina and Nathan had previously mentioned, the main change is that legislative criteria have now been weighted by a numerical system, instead of the high/medium/low scoring. She added that HTF already has its priorities reflected in the proposed tool, which are written in RCW and Capital Budget. Dena stated that she hears that the group does not want Stage 2 to be scored, so this year they could use the former ranking system of “high/medium/ low,” but the set of criteria is still the same.
- There was group discussion about the difference being the lack of funding this year and a much higher level of competitiveness than usual, which will only fund 7-8 projects out of 95 applications. Lisa Vatske stated that oversubscription has always been an issue and that the ebb and flow nature of funding should not be a reason to push this process forward too quickly.
- Chris Pegg stated that she will be selective in who joins the subcommittee, but there will be an opportunity for people to comment.
- It was added that there is a difference between policy and procedure. One person summarized that what he is hearing is that there is a desire on the part of Commerce to ask that this procedural matter of application evaluation be presented before the PAT. This gives PAT the opportunity to help shift this to a matter of policy, and codify it in policy, so that it becomes more transparent. This would give a higher level of confidence and sustained trust in how these projects are being funded. He encouraged the group to approach this by first finding out what Commerce has been doing, then distilling it into policy options that may make sense given the amplified nature of legislative priorities. He hopes it will help others think about this and avoid getting too mired in the weeds.
- Paul Fortino (from Southport Financial Services) stated that he feels it is the job of the PAT to give Commerce the framework and tools to make black and white decisions. He pointed out that having a clear mechanism for making these decisions is beneficial because without a clear process, we are leaving it open for interpretation and the legislature will continue to make the decisions for us with the current subjective system. Chris responded that it is simply the timing of this that many are opposing, but there is willingness to look at it and work on it. Paul pushed forward to say that there is still a need to make decisions for how the process will work in 2016. Chris clarified that she hears the group saying that they are comfortable with this year’s process working the same as it has in the past.
- The opportunity was provided for members on the phone.

	<ul style="list-style-type: none"> • There was a vote and the motion was approved with no abstains or nays. The final motion is: Chris Pegg will select a subcommittee to work with Commerce to create an evaluation tool for the next funding round, and PAT is advising Commerce not to use the proposed scoring tool in this year’s Stage 2.
<p>Underwriting & Loan Terms Discussion</p>	<ul style="list-style-type: none"> • Corina presented slides about Underwriting and Loan Terms. She explained that what HTF is trying to do is meet our priorities and legislative requirements, which have been in the HTF enabling statute for 30 years, as well as meet the capital budget criteria that change every two years and sometimes every year. The question is how do we make the fund sustainable and ensure that both our affordability period and state investment stay protected? Corina clarified that this is not to burden projects, but whenever possible, HTF will look to make loans rather than grants, per the HTF’s legislative intent (see RCW 43.185.010). Changes are not anticipated for this funding round, but HTF would like to take time to have a discussion about setting policies and a framework for how we loan and grant the state’s funds. The HTF team is planning to draft criteria for the HTF loans and grants. Corina pointed out that HTF underwrites not only the cash-flow of a project but its real estate value as well. We are also looking at the subordination of the state deed and covenants and our loan repayments. HTF staff is currently asking a lot of questions and taking more time to review all the legal documents we receive from contractors, other funders, and their attorneys. Corina noted that the examples we provided in the PowerPoint slides have been collected from recent subordination agreements, including examples of language not seen before. The subordination agreements HTF receives from contractors, other funders, and their attorneys have been becoming more and more complex over the last few years. As a result, Commerce needs more time to review and understand them. • Commerce also needs to focus and plan for risk management. Governor Inslee recently issued an Executive Order in which he is mandating all state agencies to assess and manage their risk. • Mark Kantor asked for clarification about subordination of state covenants and Corina explained that they have gotten longer and more complex over the last few years and Commerce does not have in house legal services. They became more time consuming as we need our AAG to review these agreements before we sign them. Mark suggested that we draft a set of “bone documents” and asked about basic loan terms. Nathan Peppin from HTF stated that, yes, they can draft a set of these documents and push them out for negotiation, just like everyone else. He noted that we have a prevailing wage issue to deal with and otherwise anticipate small changes with loan terms. • Susan Duren requested that HTF be mindful of private lenders who are partners and are involved in leveraging of HTF dollars and to be aware that some of the contemplated changes may affect private lending and at what level lending can continue to take place. • Another participant suggested that implementing these changes and communicating them needs to be done very thoughtfully. • Paul Purcell shared that the intent of the Trust Fund was not to support new capital awards. In terms of sustainability,

	<p>the intent was a general source of funds, not loan repayments to create a sustainable source of new capital. Repayments were to go to fund administration and some level of rehab on existing projects.</p> <p>Note: See RCW 43.185.010 “The legislature declares that it is in the public interest to establish a continuously renewable resource known as the housing trust fund and housing assistance program to assist low and very low-income citizens in meeting their basic housing needs, and that the needs of very low-income citizens should be given priority and that whenever feasible, assistance should be in the form of loans.”</p> <ul style="list-style-type: none"> • Jason Davidson asked if it would be useful if HTF had a loan terms or product sheet, which can be used for the outgoing awards. The group concurred. • Mark Kantor made comments about looking at the waterfall and criteria/terms around payments. He encouraged HTF to look at models with cash-flow payments. • Lisa Vatske asked that there be a matter of priority and further discussion about regulatory agreements and that the covenant/regulatory agreement with the most stringent requirements was historically in first position. • Mark Kantor suggested a day of education involving lenders, attorneys, investors to help them gain an understanding of this puzzle. He volunteered his time toward this effort.
Portfolio Preservation & Asset Management	<ul style="list-style-type: none"> • Jason Davidson presented slides on portfolio and preservation management. He discussed the age and scale of the HTF portfolio. He gave an overview of how his team manages workouts, restructures, re-syndications, and refinance work. • Portfolio preservation continues to be a focus for our efforts. • The HTF Asset Management is working with other funders on issues and transitions are crucial. Jason discussed the cooperative efforts and MOUs between Commerce and the other public funders, which include coordinating monitoring visits to ease the regulatory burden and inconvenience on our contractors. • The HTF Asset Management team is also working to clarify compliance guidance for our stakeholders, in areas like rent and income limits, utility allowances, and how they work, etc. A set of draft policies has been sent by email to the PAT and the interested parties prior to this meeting. Jason asked the group if there were any comments or concerns. None were brought forward.
Ultra-High Energy Efficiency Demonstration Program Requirements	<ul style="list-style-type: none"> • Chuck Murray (Sr. Energy Policy Specialist in the Commerce’s Energy Division) and Dena Harris (HTF staff) gave a presentation on the Ultra-High Energy Efficiency Demonstration Program Requirements. These will be the requirements that projects receiving UHEE funds in 2016 will need to meet. • Applications for UHEE will be evaluated by a team of HTF staff, Commerce Energy Division staff, and third-party consultants at Washington State Energy Extension Program. • A public comments period will open up shortly for all stakeholders to provide comments and feedback on the UHEE

	requirements.
<p>WLIHA's Legislative Agenda</p>	<ul style="list-style-type: none"> • Michelle Thomas gave an update on Washington Low Income Housing Alliance's (WLIHA) legislative agenda setting process and priorities for the 2017 legislative session. • WLIHA has a public policy committee comprised of members that work toward priority recommendations to present to the Housing Alliance Board of Directors, who then vote on them. Policy Committee Meetings are coming up in July and the Board will vote in September. If you would like to weigh in on the urgent needs of your area, WLIHA encourages you to complete their survey, which will be sent out via email or you can contact Michelle Thomas. More on state legislative advocacy can be found here: http://wliha.org/advocacy/state • WLIHA plans to set their ask for the Housing Trust Fund much earlier than usual due to anticipated difficulties in the upcoming budget year and the McCleary decision. • "1115 Medicaid Waiver" advocacy work is in play, as well and plans to provide training across the state for providers. • Document recording fees advocacy is crucial this year. WLIHA has been working with stakeholders and forming partnerships with cities and counties not to only stop the sunset, but increase fees in order to help with funding homeless services. • WLIHA is hosting a webinar on this and other current issues on June 16 at noon.
<p>Medicaid Waiver & Homeless Programs Updates</p>	<ul style="list-style-type: none"> • Tedd Kelleher, Senior Managing Director for the Housing Assistance Unit (HAU) at Commerce, shared that Commerce is still processing its legislative stance, but it's very important to get connected to the Medicaid Waiver issue. This is a high-stakes process, with only five years to prove it out, or it disappears. To make it work, we must have engagement from the project and organization level. • Document recording fees are crucial, primarily to counties and the non-profit housing system in our state. • Tedd shared that a very controversial Commerce requirement that 35% of people served have a history of living unsheltered was put into effect on January 1, 2016. It was not popular, but it was the right thing to do for our homeless in Washington. • HAU is working on their Coordinated Entry System, which will be numerically scored and published. HAU will also be publishing project level data that has never before been shared. Tedd reflected that when we work in the legislative arena, there has been a level of distrust. Tedd supports a goal of government transparency in order to be at a level above reproach, despite strong feedback against it. He stated that he has been through three audits in the past 18 months and noted that documentation and transparency is essential to credibility. HAU is pushing to be hyper-transparent and clear in what they are doing to encourage positive perception and to be proud of the great work that Washington State is doing in the homelessness and housing arena. • Tedd gave a quick update on The Office of Homeless Youth. Six-seven programs were fully migrated from DSHS to

	Commerce. Next steps will be coming up with recommendations by December.
Housing Assessment Study	<ul style="list-style-type: none"> • Cary Retlin from Commerce is charged with staffing the Affordable Housing Advisory Board (AHAB) and came to talk about the upcoming updates to the Affordable Housing Needs Study. Cary shared a handout and asked the group to learn more about the study and give their feedback. To learn more about the study, go to: http://www.commerce.wa.gov/housingneeds • Next steps will include conversations with stakeholders and finding funding sources for this work. The previous study was funded by a partnership of ten organizations around the state, both public and private. • There will be a joint meeting between AHAB, the State Advisory Council on Homelessness, and the Interagency Council on Homelessness to talk about strategies to reduce homelessness. The meeting is on July 21st at 9am at the SeaTac Hilton.
Housing Trust Fund Handbook	<ul style="list-style-type: none"> • Corina Grigoras noted that the Housing Trust Fund Handbook is now a standalone, downloadable document. This document now includes all of the policy changes that PAT worked on last year with Janet Masella. The document has also been edited to ensure that it is written in a consistent, plain-talk voice for readability. No other policy changes have been made. Both the current web-based format and this PDF document will stay posted on the HTF website for a couple of months to ensure nothing had been inadvertently changed.
Closing Remarks & Next Meeting	<ul style="list-style-type: none"> • The next PAT meeting will be held on October 4, 2016, from 10 am- 1 pm, in Tacoma, in conjunction with the Housing Washington Conference.