



State of Washington

AFFORDABLE HOUSING ADVISORY BOARD

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Faith Pettis
Board Chair

Peter Orser
Residential Construction Industry

Shannon Affholter
Residential Construction Industry

Bryan Friend
Mortgage Lending Industry

Michael O'Rourke
Mortgage Lending Industry

Vijya Patel
Real Estate Sales Profession

Connie Devaney
Apartment Management & Operation
Industry

Joel Ing
For-Profit Housing Development

Kevin Grossman
For-Profit Rental Housing

Tory Laughlin Taylor
Non-Profit Housing Development

Paula Lonergan
Homeless Shelter Operations

Shaw Seaman
Special Needs Populations

Joe Ingram
Low Income Housing

Mike Adolfae
At-Large/General Public

Christina Pegg
Public Housing Authorities

Obie O'Brien
Counties, Eastern WA

Andree Harland
Counties, Western WA

Teresa Overhauser
Cities, Eastern WA

Lauren Walker
Cities, Western WA

David Stillman
Ex-Officio, Dept. of Social & Health
Services

Kim Herman
Ex-Officio, Housing Finance Commission

Diane Klontz
Ex-Officio, Dept. of Commerce

BOARD MEETING SUMMARY

Wednesday, December 2, 2015, 10:00am to 1:00pm
Pacific Tower – Seattle, WA

ATTENDANCE

Faith Pettis, Kevin Grossman, Chris Pegg, Joel Ing, Shannon Affholter, Peter Orser, Obie O'Brien, Tory Laughlin Taylor, Lauren Walker, Bryan Friend, Connie Devaney, Vijya Patel, Mike Adolfae, Paula Lonergan, Joseph Ingram, Michael O'Rourke, Christina Pegg, Theresa Slusher

COMMERCE STAFF

Diane Klontz, Cary Retlin, Corina Grigoras, Tedd Kelleher, Leslie Wolff, Meredith Randell.

GUESTS

Speaker of the House Frank Chopp
Lisa Vatske, Washington State Housing Finance Commission
Alison Butcher, Master Builder Association
Paul Purcell, Beacon Development Group
Rich Zwicker, Washington State Housing Finance Commission
Robin Koskey, City of Seattle Office of Housing

INTRODUCTIONS, APPROVAL OF AGENDA AND MINUTES

Faith Pettis

Faith welcomed our new board chair, M.A. Leonard.

M.A. Leonard is vice president and Pacific Northwest market leader for Enterprise Community Partners Inc. She leads the delivery of Enterprise's product solutions, innovations, and capital and policy efforts in the Pacific Northwest. M.A. joined Enterprise in 2010 with an extensive track record in affordable housing and community development. Most recently, she worked as an independent consultant providing strategic assistance to various community development organizations on their work with affordable housing development in Oregon and Washington. M.A. is a member of the Seattle Investment Fund's investment committee, board member of the Washington Community Reinvestment Association, and member of the State Housing Trust Fund's policy advisory team. From 2007 to 2015, M.A. served on the Washington State Housing Finance Commission, and in 2014, she was appointed by Seattle Mayor Ed Murray to serve on the city's Housing Affordability and Livability Advisory Committee (HALA). M.A. is excited for the opportunity to chair the Affordable Housing Advisory Board (AHAB), and is looking forward to working with the board the next two years.

APPROVAL OF MINUTES

Faith asked for the approval of the October 5, 2015, minutes. There were two motions to approve, and the meeting summary was approved by the board.

HONORABLE MENTION

Diane Klontz presented Faith Pettis with a plaque honoring her for her dedicated work during her term as chair of the AHAB Board.

REPORT FROM FAITH PETTIS – CHAIR

The 2016 legislative session is right around the corner, and Faith wanted to use this meeting to gear up for session. AHAB is a policy board and should weigh in with the legislature on issues of importance relating to housing. In order to do that, Faith has invited special guests to the meeting to talk about some items that may arise this session.

SEAKER CHOPP:

Speaker Chopp acknowledged the work of AHAB and Faith, and the continued partnership. He wanted to take this opportunity to talk about the work of the legislature and session, and how it corresponds to affordable housing. Part of what the legislature does is “pass things.” During the 2015 legislative session, there were rumors about a government shutdown. They argued up until the last minute, but they eventually made major advances, especially regarding housing. They passed legislation regarding transportation and housing development including authorizing a 50 million bond issue by King County for WorkFirst housing, 75 million dollars for the Housing Trust Fund, and 30 million dollars for mental health facilities, among other things. Now the legislature will be spending time working on implementation. For instance, mental health is a major problem and the Mental Health Task force is working on mental health beds and housing for people with mental health problems. There is a lot more public awareness in regards to this issue. The Seattle Times has had a series of articles recently on mental health and on homeless youth, bringing more awareness to these issues.

Homelessness is a major issue. We have numerous people dying on the street because of lack of housing. People have more medical coverage because of the Medicaid expansion, but still lack housing. This is not just a Western Washington issue, this is a statewide issue. There is need for farmworker housing and rural housing in Eastern Washington.

Property tax exemption: Speaker Chopp doesn’t know how it works, and would like AHAB’s feedback. Is it worthwhile? He wants AHAB to educate the legislators.

In response to a question regarding how the 2016 legislative session was shaping up and whether he sees an opportunity to accomplish things, Speaker Chopp’s reply was to look at the last legislative session. Most people thought the prior legislative session would be a stalemate situation, however, the legislators made major investments: we put \$160 million more into early learning, \$150 million more into elderly disabled, and \$140 million into mental health operating dollars. There were many success stories last legislative session.

Another question was raised regarding the effect of the declaration of emergency around homelessness in Seattle, and what effect it might have in the legislature? Speaker Chopp said that in the letter, the Seattle Mayor echoed many of the things Speaker Chopp just talked about: Seattle is asking for more money for the Housing Trust Fund, more funding for homeless youth, etc.

There is a concern from rural housing authorities that a bulk of the funds would be used in the Puget Sound area rather than in the rural areas. Speaker Chopp said that the legislature does not want that to happen. The last few years they have been focused on “one Washington” and they have put a lot of investment into farmworker housing. Farmworker housing benefits the community and the agriculture industry. Legislators care very much about these issues, they just need specific proposals. Speaker Chopp recently met with a group about rural housing. They don’t want all the focus primarily on Seattle; they want to help the entire state of Washington. While on a tour of an agricultural plant, the CEO pulled Chopp aside and said what they really need is more farmworker housing. It is clear the need for low income housing is statewide, not only in the highly populated areas.

Faith Pettis asked if there are any issues Speaker Chopp would like the Board to dive into. He said that condominium development study (revising the condo law) is something he is very interested in.

ROBIN KOSKEY, CITY OF SEATTLE, OFFICE OF HOUSING:

Robin presented on the preservation property tax exemption

Robin is the legislative point person at Office of Housing in the City of Seattle. She used to work at Building Changes; she has been in this role for a few months. She has been working on the draft preservation property tax exemption bill. The bill is still in draft form, but she is hoping she can provide AHAB with information, along with guidance to the legislature.

The goals for the legislation are:

The proposal should work for the whole state.

Add a tool for affordable housing that works for everyone.

Improve housing quality for very low income residents.

- Landlords could raise rents to get more capital in their building and improve their building.
- Or they could use the tax exemption program to keep the rents low.

Prevent long-time residents from being displaced from neighborhoods that are gentrifying.

What the exemption entails:

This exemption is state legislation to adopt another affordable housing tool. It is targeted at existing buildings, not new construction. Although it is similar to the existing Multifamily Tax Exemption program (MFTE), it is not intended for new construction or substantial rehabilitation; it is intended for moderate rehabilitation projects and to induce landlords to keep residents in place.

The Office of Housing gave a lot of consideration to the broad spectrum of communities. They wanted to target very low-income renters, so they set the income threshold in the bill at 50% of area median income (AMI) And also included a provision that rents be below market rate. The draft legislation is flexible and includes a provision that permits higher income communities to elect to go up to 60% AMI.

The threshold in the bill is that at least 25% of the units in a building be affordable, at the affordability rate that the community sets. Again, the bill is flexible and allows a community to increase the number of affordable units above 25%.

The bill would exempt residential buildings and land from local property tax for 15 years. Commercial buildings and lands are excluded. Note that the PTE is different from the MFTE program in that MFTE only takes the residential improvements and the building and exempts them from taxes. The Office of Housing made the decision to go with the building and the land and exclude the state property tax, because of the current school funding situation in our state. The value of the exemption depends on the assessed value of the building. It is a significant exemption, but is not intended for a major rehabilitation project.

Housing quality standards apply.

The bill includes many local options, partly from the feedback received from local communities. For instance, in Seattle, there will be a focus on neighborhoods that are at high risk of displacement. There is also a plan to include a provision for communities to extend the exemption so long as the buildings meet the minimum water and energy efficiency standards. There is also a unit cap provision to control the cost of the program.

In the MFTE program a building owner can exit the program at any time. This program does not allow for an opt-out. If an owner leaves the program early, there would be a penalty of back taxes plus interest.

A question was asked about how would this be enacted? Does it have to be voted on?

Robin said she was hoping to get feedback on this very topic. Yes it has to be voted on; this is merely a state authorization to give cities authority to implement.

Obie brought up the fact that rural counties have no financial ability to give tax exemptions. They are using every last penny they have to sustain their operating costs, and losing income is not an option (unless there is a funding stream from somewhere else). Robin said this program is a “tax shift” and it will not be taking any money away from local communities. It shifts who is paying the tax to other property owners.

Question: When these properties come up for sale, would they would sell for less?

Robin said that at year 15 there would be no encumbrance remaining, i.e., the exemption is over.

However, if the owner sells prior to year 15, the new owner would still need to participate in the program, or pay the back taxes and fees.

Faith Pettis brought up that at the HALA meeting, they discussed that the MFTE only goes for 12 years, and that it needed to be extended because there is a mismatch with the term of financing available for these types of properties (often 15 to 18 years) and the length of the property tax exemption.

M.A. brought up that they might want to come up with a different title so that it is not confused with present tax exemption laws.

PETER ORSER, AHAB MEMBER:

Yesterday the Department of Licensing (DOL) approved a study of condominium laws in general that affect the supply of new affordable units. Units are being produced at a very slow rate. The study would look at the way condos are financed and construction defects, among other things. This has been looked at in the past, but now it is worth a reexamination.

The HALA report identified it as one of 65 recommendations to create higher density, affordability, a path to ownership.

The DOL does a number of different studies that benefits their stakeholders of 30,000 commercial and residential real estate agents across the state. The study is expected to take around 8 months to complete. But as Speaker Chopp pointed out, these things take some time to do well.

Faith said she is excited to see the approval from DOL, and she hopes Peter will keep AHAB abreast of the progress.

AHAB VIEWPOINT PRESENTATIONS: LENDING INDUSTRY AND APARTMENT OWNERS/MANAGERS

BRYAN FRIEND, AHAB MEMBER, MULTIFAMILY LENDING:

Bryan produced a spreadsheet that looks at the lending and underwriting a building. The report is attached.

Discussion from the spreadsheet:

- Cary Retlin asked whether the Section 8 is project based? Bryan said it is project based. They can't lend against portable vouchers because a tenant can pick up and move.
- A question was asked regarding multiple low income covenants. Bryan said that property owners have to comply with all of the regulations in multiple regulatory agreements.
- What is the quantifiable measure if the market rate developer builds a project? Bryan said approximately 15% to 20% higher.
- Almost all of these buildings are exempt from property taxes.

MICHAEL O'ROURKE, AHAB MEMBER, SINGLE-FAMILY LENDING:

Michael passed around a 2 page handout (attached). The first page is about regulation. He is a "single family home banker" with 250 bank branches across the state. The lending landscape has changed since the 2008 market crisis. General consumer lenders are now required to limit the amount people spend on their housing in their underwriting. They used to make decisions on the entire profile of a borrower (i.e. credit history, financial ability to save) but they are not allowed to do that anymore. The Consumer Finance Protection Bureau has given lenders roughly 700 pages of revised guidelines on how to calculate income so as not to put borrowers jeopardy. There is a 43% "Safe Harbor" and lenders who exceed the percentage are subject to suit for seven years. In 2014, it was difficult to get a small home loan, but now there is a new sliding scale from FHA for a short sale. One success story has been in the community land trust (CLT) arena. Washington Federal Bank has made 101 CLT loans in the past three years. We have succeeded by focusing on the CLTs that we can lend to.

CONNIE DEVANEY, AHAB MEMBER, APARTMENT MANAGERS:

Connie is the Executive Director of Kawabe Memorial House, which is an old, HUD 236 project which has been newly refinanced under HUDS 223(f) program. The Kawabe Memorial Housing is half subsidized with Project-based Section 8 vouchers, and half not unsubsidized. They finally have cash flow for the first time in the 40 year history of the property! Here at AHAB, she is representing the Affordable Housing Management Association (AMA). AMA is a professional organization of managers, owners, and professional service providers who are committed to maintaining excellence in affordable housing communities. AMA is a local chapter of a national organization which represents managers and owners of over one million units of assisted housing throughout the United States. AMA Washington works with state and federal congressional delegates to get support and preserve safe, clean, and affordable housing for low income elderly and the disabled communities. They provide ongoing training and conferences with the rural council. It seems every year, affordable housing faces funding shortfalls, so one priority for AMA is to secure adequate and stable funding of federal housing programs, and to secure additional more creative funding. They need to ensure the existing stock of affordable housing. They also need to attract qualified people to work and manage in the industry, by ensuring a livable wage and opportunities for advancement. They would like to see advancement in funding sources for proving services in affordable housing, but securing the funding in order to provide these services has been challenging. They are hoping that some of the models and research proving these services are successful will advance beyond just the senior housing.

KEVIN GROSSMAN, AHAB MEMBER, APARTMENT OWNERS:

Kevin discussed for-profit rental housing. Rents are up the past two or three years, but at the same time, income is a lot less than that. One issue is that people are concerned about the rents going through the roof, yet at the same time, the costs of running the building and repairs is going up as well. The King county region is the exception. Rents are up because there are more jobs, but the employment percentages

for state jobs this past year just has just now caught up to the percentages before the recession. Pierce County rents are less than what it costs to build at market rate so no one is building. Older buildings are another issue because often the land that they are on is worth more than the building itself. Keeping up with the demand of housing is challenging. With 40,000 new jobs being added to the King County area, adding only 8,000 new units falls short of the demand.

The importance of AHAB and these groups coming together to solve or come up with solutions is critical for the situation not worsening.

CHRIS PEGG:

PAT report- the next meeting is scheduled for December 16, 2015, but the agenda is not finalized yet. They are hoping Kim Justice, the Executive Director of the Office of Homeless Youth will be able to attend and be introduced. They are finalizing the 2016 meeting dates and locations. There will be an update on the homeless program and the legislative session from Tedd Kelleher. They will be talking about the Housing Trust Fund (HTF) awards that are being announced tomorrow and the 2016 application round for the HTF. Michelle Thomas will be there to talk about the Housing Alliance's legislative agenda. They'll be talking about the integration of affordable housing and health and human services. Bill Rumpf will be there to present on that topic. Dena Harris will talk about the NET ZERO pilot program and the energy sustainable development standards. She will be giving updates on both these programs for Commerce. Jason Davidson will talk about portfolio preservation and asset management.

NEEDS STUDY SURVEY:

Faith wanted to make sure things are in place for M.A. Leonard to take over. We need to start working now in order to get something produced for 2017.

Considerations:

- How useful was the study? Are the charts useful?
- Do we want to expand the study? More on farmworkers for instance?
- What about: Seniors? Disabled? Minority populations?
- Expense in broadening the study. What do we continue to exclude?
- AHAB needs to launch a second round of fundraising efforts: approach realtors, builders, Commerce, and the Gates Foundation.
- Encourage all AHAB members to look at the draft plan and where you can be helpful.

The first study cost \$130,000. The consultants had never done a study like ours. It was very custom, but is replicable, so next round should be less expensive.

Faith said she had a question from the Housing Alliance. The Alliance does a report every year, and they asked if they need to continue to produce their report yearly. Faith told them that AHAB's report is different and is not yet set to be an annual report.

Obie said he gave this report to the Association of Counties who were unaware of all the data and it was very helpful to reference for trends, gaps etc.. The input from the Association was to not change the study, they need to be able to reference the changes from year to year.

CLOSING REMARKS:

Faith wanted the board to know that there are several AHAB seats opening up this next year. The available seats are:

For-Profit Rental Housing Owner (Kevin Grossman) – Terming off in December
Consumer Current/Past of public housing (Joe Ingram) – Terming off in January
'At large' General Public (Mike Adolfae) – Terming off in January
Home Mortgage Lending Profession (Bryan Friend) – Terming off in January

Association of Washington Cities – Western (Lauren Walker) - Terming off in January

If you have ideas or recommendation for board members, please let Faith, M.A. or Cary know.

M.A. will finalize a 2016 meeting schedule at the next meeting.

MEETING ADJOURNED 1:00 p.m.

***Next Meeting: Special Meeting January 26, 2016
1:00 pm to 3:00 pm
Department of Commerce***