



## Washington State 2016 Housing Trust Fund Allocation Plan

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Revised: September 28, 2016

### Overview

The National Housing Trust Fund (HTF) is a new federal affordable housing production program that will complement existing federal, state, and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low- and very low-income households, including homeless families and individuals, as well as special-needs populations. The HTF was established under Title I of the Housing and Economic Recovery Act of 2008, Section 1131 (Public Law 110-289). On December 4, 2009, the U.S. Department of Housing and Urban Development (HUD) published a proposed rule (FR-5246-P-01) for public comment on the formula to be used to allocate HTF funds. The proposed HTF program rule (FR-5246-P-02) was published on October 29, 2010, for public comment on the regulations that will govern the HTF. On January 30, 2015, HUD published an interim rule (FR-5246-I-03 and at 24 CFR Parts 91 and 93), which provides the guidelines for states to implement the HTF.

The State of Washington has selected its Washington State Department of Commerce (the State) as the State Designated Entity (SDE) to administer the HTF program. Funding for the HTF comes from an assessment on loans made by Freddie Mac and Fannie Mae. Total national funding for the first year (2016) of HTF is \$173,591,160. The State of Washington was allocated to receive \$3,243,721.

### Program Requirements

HUD plans to issue a final rule for the HTF after states have had experience administering the program and are able to offer comments regarding the initial implementation. The first year of the program is crucial in demonstrating states' ability to effectively use this new funding source. HUD issued their initial HTF program guidance in the spring of 2016.

The interim HTF regulations are modeled on the HOME Program, but there are several key differences. Most importantly, HTF has lower income targeting, lower rent requirements, and a longer minimum affordability period. For years when total HTF funding exceeds \$1 billion, at least 75% of states' allocations must benefit extremely low income households (ELI <30% AMI) or households with incomes below federal poverty level (whichever is greater), and the remaining 25% must benefit very low income households (VLI <50% AMI). For years when total funding is less than \$1 billion, 100% of states' allocations must benefit ELI households. The rents for HTF designated units in an assisted project are capped at 30% of 30% AMI or 30% of poverty level, whichever is greater, for units occupied by ELI households, and 30% of 50% AMI for VLI households. The minimum required HTF affordability period is 30 years for units in all assisted projects, compared with 5-20 years for HOME.

### Use of Funds

In the 2016 funding cycle, the State plans to use the HTF allocation to address its urgent need for affordable housing through new construction of rental housing. The State plans to award the funds

through a competitive application process, simultaneously with its well established State Housing Trust Fund, as well as the HOME program. The State's Housing Trust Fund has a 30-year proven track record of successfully addressing the housing needs in Washington state with investments of almost \$1 billion to develop approximately 47,000 affordable housing units/beds to date. This is further evidenced by HUD's "HOME Program Performance SNAPSHOTS" most recent ranking of number one for Washington amongst all state participating jurisdictions in the U.S.

It is important to note that the 2016 funding cycle proposed approach for awarding the HTF funds is due to the very large and urgent demand for new affordable housing in our state. Washington is experiencing a homelessness and affordable housing crisis. Several of our local governments have declared a state of emergency. In March 2016, the State received requests for \$165 million to fund the development of over 5,300 affordable housing units across the state.

For future funding cycles (2017 and beyond), the State plans to engage a statewide group of affordable housing stakeholders in a series of discussions to assess the feasibility of the HTF funds being used for the other eligible uses, such as rehabilitation, operating subsidy, and homeownership program funding.

Successful applicants will be offered grants or low-interest (0-3%) loans. Specific terms will be based on the project type, population served, and the financial underwriting and structure of the project. In conformance with the HTF regulations, the State will use 10 percent of the State's HTF allocation for administration.

#### **HTF Funding Priorities-§ 91.320(k)(5)(i)**

The State is responsible for distributing HTF funds throughout the State according to its housing priority needs. In addition to revising the **AP- 30 Method of Distribution** screen in IDIS, the State must respond to the following questions.

1. Will the State distribute HTF funds through grants to subgrantees? If yes, describe the method for distributing HTF funds through grants to subgrantees and how the State will make those funds available to units of general local governments. If no, state N/A.

**RESPONSE:** N/A

2. Will the State distribute HTF funds by selecting applications submitted by eligible recipients? If yes, describe the eligibility requirements for applicants as defined in §93.2- definition of recipient. If no, state N/A.

**RESPONSE:** Only eligible HTF applicants can apply for HTF resources within the HTF application cycles. Eligible applicants will include entities that at a minimum meet the following criteria (based on 24 CFR § 93.2):

1. Make acceptable assurances to the State that they will comply with the requirements of the HTF program during the entire period that begins upon selection of the recipient to receive HTF funds, and ending upon the conclusion of all HTF-funded activities (30 years at the minimum);
2. Demonstrate the ability and financial capacity to undertake, comply, and manage the eligible activity;

3. Demonstrate their familiarity with the requirements of other Federal, State, or local housing programs that may be used in conjunction with HTF funds to ensure compliance with all applicable requirements and regulations of such programs; and
4. Have demonstrated experience and capacity to conduct an eligible HTF activity as evidenced by their ability to own, construct, or rehabilitate, and manage and operate an affordable multifamily rental housing development.

The State does not intend to award funds to for-profit entities in the 2016 funding cycle. Eligible applicants for the 2016 funding cycle include non-profit community- or neighborhood-based organizations, public housing authorities, and municipalities.

3. Will the State distribute HTF funds by selecting application submitted by eligible recipients? If yes, describe all the criteria that will be used to select applications and the relative importance of these criteria. At a minimum, as required in §91.320(k)(5)(i), the selection criteria must include:
  - Priority based upon geographic diversity
  - Applicant's ability to obligate HTF funds
  - Applicant's ability to undertake eligible activities in a timely manner
  - For rental housing, the extent to which the project has Federal, State or local project-based rental assistance so rents are affordable to extremely low-income families
  - For rental housing, the duration of the units' affordability period
  - The merits of the application in meeting the State's priority housing needs (please describe)
  - The extent to which application makes use of non-federal funding sources
  - Other (please describe). Please attach response if you need additional space.

**RESPONSE:**

For 2016, the State will use a competitive process evaluating how and to what extent applicants meet the criteria below. These criteria will be weighted equally (on a high, medium, low scale) with those projects that demonstrate an ability to achieve the highest number of "high" ratings within these priorities being recommend for funding. In addition, and as noted below, some criteria will act as thresholds, i.e., the applicant will need to meet certain requirement in order to be considered for HTF funding.

1. Geographic diversity. Projects will be prioritized such that funding can be distributed statewide. In 2016, given the small total HTF award, it may not be possible to spread the funds to several projects, but in combination with the State Housing Trust Fund, the State will prioritize statewide distribution among all affordable housing project awards.
2. Applicant's ability to obligate HTF funds and undertake eligible activities in a timely manner (Readiness & Capacity). The applicant will need to demonstrate the ability to meet the following conditions, which will act as thresholds (pass/fail):

- a. All necessary capital financing will be committed by September 30, 2017, such that funds will be obligated and expended in a timely manner;
  - b. The applicant has site control at the time of the application, so that projects don't experience unnecessary delays to secure a site after the award is made;
  - c. The applicant has recent and relevant prior experience in affordable housing development, or if not, it has to partner with a development consultant experienced in affordable housing development;
  - d. The applicant has capacity to develop the project, manage and operate the project long-term, and deliver appropriate services, as applicable (or identify formal partnerships with experienced entities capable of developing and operating the project and/or delivering adequate services);
  - e. If the project includes services, the applicant has the ability to secure all necessary service commitments;
3. The extent to which the project has Federal, State, or local project-based rental assistance so that rents are affordable to extremely low-income families. Applications will be evaluated and ranked (high/medium/low) based on whether any of the units in the project will have Federal, State, or local project-based rental assistance or an equivalent rental subsidy or rent revenue stabilizing source (e.g., capitalized operating reserves) to ensure tenants are not rent burdened. The underlying contract and/or commitment that deliver the rental subsidy to the project will also be evaluated for length of commitment and the reasonableness/expectation of continuity.
  4. The duration of the units' affordability period. Successful applicants will be subject to a minimum 30-year affordability period. Extended affordability periods of 40 to 50 years are likely to be required due to layered state assistance on the projects. This criterion will act as a threshold, i.e., the applicants must commit to the minimum affordability period of 30-year (or 40 to 50 if state funds are awarded).
  5. The merits of the application in meeting the priority housing needs of the State (such as housing that is accessible to transit or employment centers, housing that includes green building and sustainable development features, or housing that serves special needs populations):
    - Population served. A high ranking will be given to projects that provide housing for persons and families with the lowest incomes (ELI). Projects may serve multiple population income levels, however, National HTF funds will only be used to fund ELI units. In addition, when possible, the State will prioritize special needs populations over "general low income" populations, per our State's current priorities, such as individuals, families, and youth affected by homelessness, people with disabilities, veterans, people with mental illnesses, and farmworkers.
    - Need. A high ranking will be given to projects that demonstrate the greatest need in their community. Applicants are asked to provide evidence of local support from their communities and/or municipalities, such as being included in the local comprehensive plans, obtaining letters of support, and/or obtaining local funding.

- Opportunity rich communities. A high ranking will be given to projects that provide access to opportunities that improve people’s life outcomes, such as access to employment, transportation, youth employment, and partnerships with school districts (for projects with children).
  - Homeless and special needs services. A high ranking will be given to applications demonstrating that their service plans are financially feasible, sustainable, and aligned with State and Federal recognized best practices (i.e., are consistent with State and Federal requirements, are evidence-based, and follow statewide established models).
  - Green building standards. The State is requiring all of its affordable housing projects to comply with its Evergreen Sustainable Development Standards. This is a state-developed program in collaboration with multiple stakeholders, local public funders, and the State’s Energy Office. This criterion will act as a threshold.
6. The extent to which the application makes use of non-federal funding sources (Leverage). Projects will be ranked (high/medium/low) on their leverage of other non-federal funding sources, such as applicant contribution, local public funding, other state funding, and private investment.

**Recipient Application Requirements- § 91.320(k)(5)(ii)**

1. Will the State require that all recipient applications contain a description of the eligible activities to be conducted with HTF funds as required in § 93.200- Eligible activities?

**RESPONSE:** Yes. Please see details above.

2. Will the State require that each eligible recipient certify that housing assisted with HTF funds will comply with HTF requirements?

**RESPONSE:** Yes, the state will require each eligible recipient to certify that housing assisted with HTF funds comply with the HTF requirements.

**OTHER REQUIREMENTS**

**Maximum Per-unit Development Subsidy Amount- § 91.320(k)(5) and § 93.300(a)**

The State must establish its own maximum limitations on the total amount of HTF funds that can be invested per-unit for development of non-luxury housing. The limits must be reasonable, based on actual costs, and adjusted for the number of bedrooms and geographic location of the project. The State may choose to develop its own limits or adopt limits used in other federal programs such as HOME or Low-Income Housing Tax Credit and must submit them with its HTF allocation plan. The State must submit a description of how the HTF maximum per-unit development subsidy amounts were established or a description of how existing limits developed for another program and being adopted for HTF meet the HTF requirements.

Indicate below what maximum per-unit development subsidy limits the State will use for its FY 2016 HTF program.

**RESPONSE:** The State is committed to implementing policies that increase the cost-effectiveness of affordable housing investments while achieving the State’s HTF’s primary goal to provide safe, decent, and affordable housing to low-income and special-needs populations. The State plans to implement a two-step evaluation process to determine the maximum per-unit subsidy limits, and will use the method that results in the lowest cost per unit subsidy.

Method 1:

As a base threshold, the State will implement the HUD HOME subsidy limits as listed below:

0 bedrooms .....	\$58,378 x 270% =	\$157,620
1 bedroom .....	\$66,923 x 270% =	\$180,692
2 bedrooms .....	\$81,377 x 270% =	\$219,717
3 bedrooms.....	\$105,276 x 270% =	\$284,245
4+ bedrooms .....	\$115,560 x 270%=	\$312,012

Method 2:

The HOME limits do not necessarily account for geographical variance. To account for geographical reasonableness, the State plans to implement a secondary test. We will compare projects of a similar type, activity, size, and geographic location to determine cost reasonableness.

This methodology was developed for the State HTF at the request of the Washington Legislature. In 2012, the State HTF statute was amended by Substitute House Bill 2640 (SHB 2640) to require that the State consider cost when evaluating projects for funding from the State HTF. It directed the State, with advice and input from the Governor-appointed Affordable Housing Advisory Board, to report recommendations for awarding funds in a cost-effective manner, including an implementation plan and timeline. Working with a subcommittee of the Affordable Housing Advisory Board, the State conducted discussions with the affordable housing community, analyzed data, and surveyed other state agencies.

The resulting report identified measures that the State implemented, as well as measures that have already been taken in the past, to ensure that the State HTF investment in affordable housing are both efficient and effective. The detailed report, titled “Increasing the Cost-Effectiveness of Housing Trust Fund Investments,” can be viewed at: <http://classic.commerce.wa.gov/Documents/2012-Housing-Trust-Fund-Cost-Effectiveness-Report.pdf>.

- Type: Multi-family rental
- Size #1: Small (1-25 units), Medium (26-100 units), Large (more than 100 units)
- Size #2: Cost Per Square Foot
- Bedroom Size: 0, 1, 2, 3, 4+
- Location: King/Pierce/Snohomish Counties; Other Metro; Non-Metro (rural)

Project costs are considered “reasonable” if the per-unit, per bedroom, and per square foot cost is at or below 110 percent of the average per unit cost of comparable projects within the same funding round. If there are insufficient projects of similar type, activity, size, and location within a funding round to provide for a reasonable comparison, data from up to three prior State application

rounds will be used. (Average per-unit costs cannot be published in advance, since they can only be determined after all applications have been received.)

Using this two tiered approach will help the State ensure that: (1) the HTF subsidy does not exceed the actual HTF eligible development cost per unit; (2) the costs are reasonable and in line with similar projects within a geographic region; (3) the awarded projects do not provide excessive profit to the applicant/developer; and (4) HTF funding does not exceed the amount necessary for the project to be successful for the required affordability period (i.e., a project may leverage other funding sources, besides HTF, in order to be financially viable through the affordability period).

A project being considered for a HTF allocation could leverage additional funds (state, local, etc.), which would be awarded through a process related to the specific funding source. Each project will be reviewed and analyzed in accordance with standard underwriting criteria, including a subsidy layering review. The State has extensive experience in this area, including its layering review associated with all HOME and State HTF funded projects. In totality, the process should limit the subsidy specific to the HTF to a reasonable and necessary amount while also ensuring the project's economic viability.

**Rehabilitation Standards - § 91.320(k)(5)(iv) and § 93.301(b)**

If the State intends to use its HTF funds for housing being rehabilitated, it must establish rehabilitation standards that all HTF-assisted housing undergoing rehabilitation must meet at the time of project completion in accordance with § 93.301(b).

**RESPONSE:** The State does not intend to use HTF for housing rehabilitation in 2016. However, as mentioned above, the State plans to conduct stakeholder discussions to determine if rehabilitation should be an allowable activity in future years.

**Resale and/or Recapture Provisions- § 91.320(k)(5)(v) and § 93.304(f)**

If the State intends to use HTF funds to assist first-time homebuyers, it must set forth the guidelines for resale or recapture and obtain HUD specific, written approval, as required in §93.304(f).

**RESPONSE:** The State will not use HTF funds to assist first-time homebuyers in 2016. However, as mentioned above, the State plans to conduct stakeholder discussions to determine if homeownership funding should be an allowable activity in future years.

**HTF Affordable Homeownership Limits- § 91.320(k)(5)(vi) and § 93.305**

HTF funds may only be invested for the provision of modest housing for homeownership. This means the housing has a purchase price for the type of single family housing that does not exceed 95 percent of the median purchase price for the area for newly constructed or standard housing.

**RESPONSE:** The State does not intend to use HTF funds for homeownership housing in 2016. Please see answer above.

**State Limited Beneficiaries or Preferences- § 91.320(k)(5)(vii)**

The State may limit the beneficiaries or give preferences to a particular segment of the extremely low-income population only if described in the action plan. Any limitation or preference must not violate non-discrimination requirements at § 93.350 and the State must not limit or give

preferences to students. The State may also allow rental housing owners to limit tenants or give a preference in accordance with § 93.303(d)(3), only if such limitation or preference is described in the action plan.

**RESPONSE:** The State will not limit beneficiaries to any specific segments of the extremely low-income population (ELI). While we will not limit it, we will give preference (as described above) to populations that the State considers as being its housing priority needs, such as individuals, families, and youth affected by homelessness, people with disabilities, veterans, people with mental illnesses, and farmworkers

Furthermore, any preference must not violate the nondiscrimination requirements in the HTF interim rule at 24 CFR 93.350, and the applicant must have affirmative marketing procedures and requirements that apply in the context of the limited/preferred tenant eligibility for the project. Preferences and/or limitations may not be given to students.

**Refinancing of Existing Debt- § 91.320(k)(5)(viii) and § 93.201(b)**

If the State will use HTF funds for refinancing of existing debt, it must establish refinancing guidelines and include them in its consolidated plan. The State’s refinancing guidelines must describe the conditions under which it will refinance existing debt.

**RESPONSE:** The State will not permit the refinancing of existing debt.

**VII. GRANTEE CERTIFICATIONS**

Consistency with plan- The jurisdiction must submit a certification that the housing activities to be undertaken with CDBG, HOME, ESG, and HOPWA funds are consistent with the strategic plan.

**RESPONSE:** HTF has been included in the Certification; please see attached.

**VIII. REQUIRED FORMS**

In addition to submitting an HTF allocation plan, the State must submit and/or complete the following standard forms for its HTF program.

**RESPONSE:** Please see attached Standard Form – 424 and 1199 A.