The October 24, 2013 work session was called to order at 11:00 a.m. by Karen Miller. In attendance were Commissioners M.A. Leonard, Gabe Spencer, Randy Robinson, and Mario Villaneuva.

Lisa DeBrock introduced Rich Zwicker, City of Renton Councilmember to discuss foreclosure counseling and the other programs with the AG’s office.

Kim Herman gave his Executive Director’s report.

The work session was adjourned at 12:05 p.m.
WASHINGTON STATE
HOUSING FINANCE COMMISSION
MINUTES

October 24, 2013

The Commission meeting was called to order by Chair Karen Miller at 1:00 p.m. in the Board Room of the Washington State Housing Finance Commission at 1000 Second Avenue, Seattle, Washington. Those Commissioners present were M.A. Leonard, Gabe Spencer, Randy Robinson, Designee Janet Masella, and Mario Villaneuva.

Approval of the Minutes

The minutes of the September 26, 2013 meeting were approved as mailed.

Employee Recognition

Executive Director Kim Herman stated that there are several types of Employee Recognition Awards: Length of Service, Special Award and Employee of the Quarter were to be given this month.

Five Year Service Award
Dan Schilling
Lanakay Lipp
Kris Sporar

HUD Award for physical inspection pilot initiative
Marji Johnson

Employee of the Quarter – Ashley James
“Our Employee of the Quarter did not wait until taking her new position to begin shining at the Commission. From the moment she began her interview for the position she stood out. She has proven repeatedly that she can handle challenges as they come even if they are headed in her directions three or four at a time. And, she does so with
professionalism while saying “no problem:”, throws in a “happy to do it” attitude and that winning smile.

She joined the Commission as one division combined two positions. This meant she trained in two different chairs doing two jobs at first. That didn’t faze her. She has successfully combined the responsibilities of these two positions seamlessly without missing a beat.

She continues to be positive at all times, completes all tasks, is a problem solver, and communicates well. She implements new ideas readily and has improved systems with her own ideas, too. She has made herself a hub of communications for her division and readily shared important information with others on a timely basis.

We are thrilled to recognize the accomplishments of our Employee of the Quarter, Ashley James, for she is truly a positive asset to the Commission and a pleasure to have on our team.

Thank you, Ashley, for being perfect.

A public hearing was opened on OID No. 13-103A, ACRS Community Service Center, at 1:09 p.m.

David Clifton, Assistant Director of the Multifamily Housing and Community Facilities Division, said that the hearing is for the proposed issuance of a nonprofit revenue bond to refinance existing debt for a 60,000 square foot office building, community space and related facilities located at 3639 Martin Luther King Jr. Way S. in Seattle, Washington, owned by Asian Counseling and Referral Service, a Washington 501(c)(3) nonprofit organization. The estimated bond amount is not expected to exceed $3,500,000. Mr. Clifton introduced Diane Narasaki, Executive Director of ACRS (Asian Counseling & Referral Service).
Ms. Narasaki stated that ACRS is a nationally recognized nonprofit organization offering a broad array of human services and behavioral health programs to Asian Pacific Americans in King County. ACRS is the largest multiservice organization serving all the different Asian Pacific American communities - immigrants, refugees and American born in the Pacific Northwest. ACRS has over 200 employees and 700 volunteers that help more than 27,000 people a year who speak over 40 languages and just moved in to a permanent location in 2008. ACRS services include aging and adult services, chemical dependency treatment, citizenship services, mental health services, problem gambling treatment, domestic violence batterers treatment, employment and training services, information and referral services just to name a few.

There were no more comments from members of the public and the hearing was closed at 1:16 p.m.

A public hearing was opened on OID No. 12-98A, Park 16, at 1:17 p.m.

Bob Peterson, Manager of the Multifamily Housing and Community Facilities Division, stated that the hearing is for the proposed issuance of multifamily housing revenue bonds to provide a portion of the financing for the acquisition of land and new construction of 293 units of multifamily housing located at 35703 16th Avenue South in Federal Way, WA, owned by Park 16, LLC, a Washington limited liability company. The estimated bond amount is not expected to exceed $32,750,000.

Mr. Peterson stated staff received 8 comment letters on this project, which are all in the Commissioners’ board packets. He summarized the nature of each letter as follows:

The first letter is a standard letter that the Commission issues when they issue bonds in a jurisdiction notifying that location of a proposed project. The next 5 letters can be construed as comments from people that are not supportive of the project and the last two letters are from people that are supportive of the project.
Mr. Peterson stated that staff has conducted its Minimum Threshold Review and concluded that Park 16 as proposed is consistent with the Local Consolidated Plan, WAC 262-01-0130(2)(e) and with the Commission’s policies.

Mr. Peterson introduced Jack Hunden, managing member of Park 16 LLC to testify about the project. Mr. Hunden stated this project is similar in set-asides and structure to other projects he has brought to the Commission for financing. He stated this project has been the subject of some controversy in Federal Way. Park 16 is one of three projects planned for development in Federal Way that will be 100% affordable for moderate to low-income individuals and families. Mr. Hunden said he met with the Mayor of Federal Way who said that the City of Federal Way did not need more affordable housing but instead needed more market rate housing and/or condominiums. Mr. Hunden stated the current rents in Federal Way could not support the development of market rate apartments.

Mr. Hunden stated he reviewed Federal Way’s Consolidated Plan and believes Park 16 is consistent with it. An excerpt from the Consolidated Plan Strategy states:

“2B- Expand affordable rental housing
Encourage development of affordable multifamily housing near parks, transportation and employment.
Focus resources on households most in need ( <50% of median income)”

Mr. Hunden stated that Park 16 will provide 293 affordable units which are close to Hylebos State Park and the property’s own 5 acre preserved area, excellent transportsations services and a host of services and other jobs in the immediate area. He also pointed out that Park 16 would create approximately one hundred temporary jobs during construction and $500,000 per year of permanent salaries in Federal Way. He said he expects 50% of the Park 16 tenants will be at 50% of median income or lower, but Park 16 will also serve many higher income households.

Mr. Hunden included some job postings from the City of Federal Way’s website. He stated that all the postings for the Parking and Recreational Department
would qualify to be residents, along with the Code Compliance Officer, provided they are married with at least one child. Mr. Hunden included a handout of the State teacher’s salary schedule to demonstrate that a single, childless starting teacher would also qualify. A teacher with a PhD and 9 years of service would qualify if married and had two children. He stated he included this information to demonstrate that average working households will benefit from this housing.

Mr. Hunden said Park 16 offers an indoor pool and spa, mini theatre, 24 hour fitness center, indoor basketball court, business/computer center, lounge, game room and the latest in high-tech connectedness, energy efficiency and a smoke free environment. Park 16’s development complies fully with the City’s design standards and his company’s own development standards.

Mr. Hunden mentioned that there has been only one family affordable property built in Federal Way in the last 30 years. Federal Way residents, families in particular, do not have access to new well-located quality multifamily housing with first class amenities.

Martin J. Durkan Jr., a consultant representing the City of Federal Way, testified that the City of Federal Way is concerned about the high concentration of affordable housing in one area, not just with this project but with more projects in the future. He stated this type of housing puts a severe strain on social services and law enforcement. He asked the Commissioners to consider what type of burden a concentration of these types of housing would put on an area.

Commissioner Leonard asked Mr. Durkan what kind of social services would be strained. Mr. Durkan stated that he could not put identify a specific service but he could address the issue further if needed.

Commissioner Spencer asked Mr. Hunden what the occupancy rate in Federal Way is for affordable housing. Mr. Hunden stated that it is approximately 95%.

Keith Tyler, a Federal Way resident, testified in response to the comment letters submitted by the Mayor and councilmembers of the City of Federal Way. He
stated that the information does not line up with information from the 2010 Census, County documents and other documents that he has researched. Mr. Tyler stated that there is an 18% increase in families and individuals that are at 50-80% of area median income in Federal Way. He also stated that the City’s proportion of the County’s population on supplemental security income (SSI) is 25%, 50% for individuals receiving some sort of cash assistance and 64% for individuals receiving food stamps or Supplemental Nutrition Assistance Program (SNAP). In conclusion, Mr. Tyler stated that due to the natural increase in population over the next 20 years there will be a need for this project especially in the Federal way area.

There were no more comments from members of the public and the hearing was closed at 1:46 p.m.

A public hearing on proposed changes to the 9% Competitive Housing Tax Credit Program policies for the 2014 allocation round was opened at 1:46 p.m.

Steve Walker, Director of the Multifamily Housing and Community Facilities Division, and Leslie Brinson Price, Senior Development Analyst, gave a PowerPoint presentation of the proposed changes. They stated that the changes focus on the rehabilitation/preservation and the cost containment policies.

Ms. Price stated that based upon stakeholder input and feedback received, staff have modified its approach for addressing the capital needs of existing affordable housing stock and rehabilitation projects in general. These recommendations contain much of the content from the original proposals with further refinement. Staff focused on refining the Minimum Threshold Requirements for all Rehabilitation projects; establishing Preservation and Recapitalization set-asides in the Metro and Non-Metro Credit pools; and on further refining the Allocation Criteria that apply to Rehabilitation projects. Staff is no longer proposing priority “Tiers” within the Preservation and Rehabilitation Set-Asides. Projects will compete based on the number of Allocation Criteria points they select. Ms. Price also went over the new minimum threshold requirements for rehabilitation projects. She stated that projects must have placed in service at
least 20 years before the year of Application. Placed-in-service is defined as the
date of the original Certificates of Occupancy or the date the last substantial
rehabilitation was completed. Also, the Project Sponsor must be in good standing
with all Commission programs and policies. Projects that are feasible as a 4%
Tax Credit/Bond deal will not be funded with the 9% credit. A project originally
financed with 4% tax credits and tax-exempt bonds are not eligible for
recapitalization in the 9% program unless it receives preapproval from the
MHCF Director in advance of submitting the Application. Additionally, a project
applying to the 9% Program is expected to use the recapitalization opportunity to
extend the life of the project by at least 20 years, a minimum of $40,000 in hard
construction costs per unit must be included in the development budget and
supported by a third party Capital Needs Assessment.

Ms... Price also went over the minimum thresholds for all related party
rehabilitation projects. She stated that the following are required of any related
party transaction:

- **History of Strong Asset Management:** The Project Sponsor must be able
to demonstrate strong asset management performance on the project.

- **History of Project Reserves:** The Sponsor must be able to track and
account for contributions to and draws upon the project’s reserves.
Operating and Replacement Reserve balances are expected to be
transferred into the new project. Failure to adequately account for
accruing operating and replacement reserves may result in a required
equity contribution by the Project Sponsor.

- **Value of Asset:** Applicants must submit an Appraisal to substantiate the
value of the land and building acquisition shown in the project
budget. It is expected that any equity or appreciation in value
realized over time by the Project Sponsor will remain in the project
as a contribution (e.g. as seller financing).

- **Limits on Developer Fee:** The allowable Developer Fee will be
restricted on Related Party Transactions. Developer fee will not be
generated on the acquisition cost of the land and the building as
represented in the budget & appraisal. The Developer Fee will be
calculated using the Total Project Cost less acquisition costs, capitalized reserves, intermediary costs, and donation.

Regarding preservation and recapitalization set-asides the Metro and Non-Metro Credit Pools will each be divided into two parts – Preservation and Recapitalization Set-Aside and New Production. Projects that consist of units already in the Affordable Housing Portfolio and that meet the definition of Rehabilitation and the corresponding Minimum Threshold requirements will compete among themselves in the P&R Set-Aside within their respective geographic credit pool. New Production projects will compete among themselves within the New Production portion of their geographic pool. 25% of the credit available to the Metro Credit Pool will be set-aside to fund Preservation and Recapitalization projects as outlined below. 25% of the credit available to the Non Metro Credit Pool will be set-aside to fund Preservation and Recapitalization projects as outlined below.

Staff has proposed separating Rental Assistance from the Federal Leverage criterion. The Federal Leverage criterion will remain the same for capital funds. The Rental Assistance priority will be combined with the existing At Risk Rental Assistance criterion. Project-Based Rental Assistance (PBRA) points will be awarded to projects that meet the following threshold for federal project-based rental assistance:

<table>
<thead>
<tr>
<th>Number of Units with PBRA</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-49</td>
<td>2 points</td>
</tr>
<tr>
<td>50-79</td>
<td>3 Points</td>
</tr>
<tr>
<td>80 or more</td>
<td>4 Points</td>
</tr>
</tbody>
</table>

The rental assistance may be an existing or a new contract. Federal rental assistance may be administered by HUD, USDA Rural Development or by the local Public Housing Authority. The rental assistance must be committed at the time of application. Projects that use project-based rental assistance to establish eligibility for the Local Funding Commitment points are not eligible for points under this policy. The Applicant must agree to renew such subsidy for as long as the rental assistance is available.
In the event that rental assistance is eliminated, rents charged to the residents may not exceed 30% of their gross income at that time. The Applicant may request that the Commission waive or modify this requirement if the rental income is insufficient to support the economic viability of the project.

Regarding properties at risk of market conversion, the new allocation criterion prioritizes projects that are at imminent risk of loss to the State’s affordable housing portfolio due to the potential conversion of use-restricted units to market rate units. Projects must have an expiring use restriction and the units must be at risk of loss under one of two scenarios:

- Scenario 1: The current ownership is selling the property and the units will no longer be use restricted
- Scenario 2: The Project has significant and immediate capital needs and the Project Sponsor is faced with letting the use restriction lapse as a way to increase cash flow to fund capital expenditures

Eligible Projects will be awarded points based on the number of units at Risk of market conversion. Projects with 79 units or less will be awarded 4 points. Projects with 80 units or more will be awarded 6 points.

Staff has updated the development cost database with project costs from 2012 and 2013 applications and final cost certs received between January 2011 and June 2013. This update adds roughly 140 projects to the data considered in the development of the total development cost (TDC) limits in 2011. Staff has also examined construction cost trends since the limits were in place.

Ms. Price stated that with further input from stakeholders it has shown that the cost of construction in Snohomish County and Pierce counties is not dissimilar from the costs in King County. Staff recommends that the King County limits be renamed the King-Pierce-Snohomish County Limits and that these limits apply to all projects located in King, Pierce and Snohomish Counties as well as to those projects that qualify for Supportive Housing for the Homeless points.
After confirmation by the Commission’s staff based on researching the construction market, staff proposed the following increases to the King-Pierce-Snohomish County Limits:

**King-Pierce-Snohomish County Limits**

<table>
<thead>
<tr>
<th></th>
<th>Studio</th>
<th>One Bedroom</th>
<th>Two Bedroom</th>
<th>Three Bedroom</th>
<th>Four+ Bedroom</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2012-13 Limits</strong></td>
<td>$195,000</td>
<td>$220,000</td>
<td>$260,000</td>
<td>$315,000</td>
<td>$347,000</td>
</tr>
<tr>
<td><strong>2014 Limits</strong></td>
<td>$204,750</td>
<td>$231,000</td>
<td>$273,000</td>
<td>$315,000</td>
<td>$347,000</td>
</tr>
<tr>
<td>% Increase**</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Projects located in Clark, Whatcom and Spokane counties that fit the definition of an “Urban Project” type will be subject to the King-Pierce-Snohomish County TDC Limits and the King-Pierce-Snohomish Cost Containment ranking. Urban Projects are defined as those that have two or more of the following: More than 4 stories, an elevator, required structured parking and/or located on an urban infill site. Projects located in Clark, Spokane or Whatcom Counties that do not meet the above Urban Project Type qualifications and are not Supportive Housing are subject to the Balance of State Limits.

Ms. Price stated that in the 2011 dataset used to determine the 2012-2013 TDC Limits, the average unit costs in Non-Metro counties were roughly 4-13% below the limits established. Using the 2013 dataset, the Non-Metro Counties’ average unit costs have increased roughly 11% and are now between 2% below to 7% over the limits. Not having the same level of details for increases in the rural construction market staff used the national statistics to show that the cost of construction has increased roughly 4-5% since 2011.

Projects subject to the Balance of State limits that are made up of primarily one bedroom units have been at a disadvantage under our TDC Limit policy and many have had to apply for waivers of the Limits.
<table>
<thead>
<tr>
<th></th>
<th>Studio Bedroo</th>
<th>One Bedroo</th>
<th>Two Bedroo</th>
<th>Three Bedroo</th>
<th>Four+ Bedroo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13 Limits</td>
<td>$135,000</td>
<td>$152,000</td>
<td>$184,000</td>
<td>$239,000</td>
<td>$263,000</td>
</tr>
<tr>
<td>2014 Limits</td>
<td>$148,500</td>
<td>$167,200</td>
<td>$189,520</td>
<td>$246,170</td>
<td>$270,890</td>
</tr>
<tr>
<td>% Increase*</td>
<td>10%</td>
<td>10%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Projects competing in the same allocation round that are located in Clark, Spokane, Whatcom and Non-Metro Counties and subject to the Balance of State Limits will be grouped together to determine the median Balance of State Cost/SF for the round. Those projects will then be ranked against that median.

Cost Incentive Point Scale:

- A Project whose Cost/SF is more than 15.0% above the applicable median Cost/SF will receive 0 points.
- A Project whose Cost/SF is 15.0% above to 5.0% below the applicable median will receive 2 points.
- A Project whose Cost/SF is more than 5.0% below the applicable median will receive 3 points.

Ms. Price noted that the range above the median has been expanded from 5 to 15% to be more inclusive and to address the concerns that Cost/SF is an imprecise metric. Staff’s intention was to narrow the range of overall costs, not to drive costs to an unsustainably low level.

Mr. Walker mentioned if at the time of Final Cost Certification, a project has failed to maintain its Cost/SF in the range for which it was awarded points, an equal number of points will be deducted from the Project Sponsor’s next complete, Fully Funded 9% tax credit application that satisfies all applicable Minimum Threshold criteria.
Ms. Price stated staff analysis shows that our 10% Credit per Project Limit artificially constrains the scale of projects in King County to approximately 75 units per project. There is substantial anecdotal evidence that sites in King County are not being developed to their full capacity because of this limit or that projects are being unnecessarily developed in phases. Staff has proposed a policy that allows for a competitive demonstration of the efficiencies that may be gained by developing at scale greater than 75 units per project. Projects funded through this demonstration will remain subject the 15% Credit per Sponsor limit; so in effect, the maximum credit per project under this policy is 15% of the Available Annual Authority. Projects also remain subject to the Credit per Low-Income Unit policy. This maximum credit per project limit will begin with the 2015 allocation round.

Under the 2013 policy changes, the King County Credit Pool was created as a “hard” set-aside of credit, meaning that projects receiving an allocation of credit had to fit within the credit available. If the last project in exceeded the credit available even by a small amount, that project would not be funded. This is a different treatment than the Metro and Non-Metro Credit Pools receive. Those pools are considered “soft” set-asides of credit, where if 50% of the last project’s credit request is available, the entire project is funded through a forward commitment of credit from the next allocation year.

Staff is recommending that the King County Credit Pool operate with the same “soft” cap set-aside as the Metro and Non-Metro Credit Pools and that forward commitments be made available to fund the last highest ranked project in King County.

Ms. Price mentioned staff have seen the benefit of being able to evaluate proposals in advance of an Allocation round as part of our preapproval process for certain Allocation Criteria and Project Limits. In 2001, changes to Section 42 of the Code required Eventual Tenant Ownership to be a consideration in all tax credit allocation plans. However, staff has infrequent and limited experience with proposals of Eventual Tenant Ownership, and each circumstance presented has been unique. In order to maintain the integrity of this policy and the
consistency of its application, staff has proposed that points awarded under the Eventual Tenant Ownership criterion be subject to preapproval.]

Ms. Leonard moved approval of the proposed changes to the 9% 2014 Tax Credit Policies with an amendment that the cost containment changes would apply to the 4% 2014 Tax Credit program policies. Mr. Spencer seconded the motion. The changes were unanimously approved.

Mr. Walker said that this is a resolution approving the issuance of bonds by the Commission in a principal amount not to exceed $17,340,000 to provide a portion of the financing for the acquisition and rehabilitation of 200-units of multifamily housing located in both Everett and Lynnwood, WA. The projects will be owned by Family Tree & Lincoln Way LLLP, a Washington limited liability limited partnership. The public hearing for this project was held September 26, 2013. Ms. Leonard moved to approve the request. Mr. Villaneuva seconded the motion. The request was unanimously approved.

Ms. Leonard stated she spoke at the Emerald City Commons grand opening on October 20, 2013.

Mr. Spencer, Mr. Weatherford and Mr. Robinson attended the New Commissioner orientation on October 14, 2013 with several new staff members.

The Consent Agenda was approved as mailed.

The meeting was adjourned at 2:49 p.m.