2014 Entry Form
(Complete one for each entry.)

Fill out the entry name ***exactly*** as you want it listed in the program.

Entry Name 9% Low-Income Housing Tax Credit Policy Initiative

HFA Washington State Housing Finance Commission

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Qualified Entries must be received by **Tuesday, July 1, 2014**.

For more information about Qualified Entries, click here to access the 2014 Entry Rules.

Use this header on the upper right corner of each page.

HFA Washington State Housing Finance Commission

Entry Name 9% LIHTC Policy Initiative

Communications	Homeownership	Rental Housing	Special Needs Housing
☐ Annual Report ☐ Promotional Materials and Newsletters ☐ Creative Media	☐ Empowering New Buyers ☐ Home Improvement and Rehabilitation ☐ Encouraging New Production	☐ Multifamily Management ☒ Preservation and Rehabilitation ☐ Encouraging New Production	☐ Combating Homelessness ☐ Housing for Persons with Special Needs
Legislative Advocacy	**Management Innovation**	**Special Achievement**	**Are you providing visual aids?**
☐ State Advocacy ☐ Federal Advocacy	☐ Financial ☐ Human Resources ☐ Operations ☐ Technology	☐ Special Achievement	☐ YES ☒ NO

Washington State Housing Finance Commission
9% Low-Income Housing Tax Credit Policy Initiative

Defining the Problem:

The Washington State Housing Finance Commission's 2013 9% Low Income Housing Tax Credit (LIHTC) round experienced a number of preservation and rehabilitation projects that outcompeted new production projects in the round. This led to very little production of new units of affordable housing—in contrast to the Commission's goal of creating new units throughout the state. The results from this round were an unintended consequence of past LIHTC policies. Clearly, a new approach was needed.

Creating the Solution:

The affordable housing industry is facing two diametrically opposed housing challenges: how to create new units of affordable housing while also preserving and rehabilitating units previously developed using LIHTC or other government housing subsidies. How do these two housing issues coexist within the current limited resources available? Is there a best practice that would provide the balance needed to grow the inventory of affordable housing statewide?

The Commission sets its policies annually to reach the goals it has publicly stated while also keeping an eye on what other public housing funding partners prioritize in their respective communities. It has long been the Commission's practice to reach out to its stakeholders for thoughts and opinions on how to tackle housing challenges. Many, if not all, of our funding partners have specific goals regarding the creation of new affordable units—while many of our development partners have existing portfolios of projects that will be exiting current LIHTC partnerships and are in need of recapitalization. All developers want to know the LIHTC expectations so they can plan how to manage their current portfolios as well as the much-needed expansion of affordable housing.

The Commission began the process of reviewing its 2014 LIHTC policies by inviting all our stakeholders—developers, public funders and investors—to discuss the issue. We held five public meetings statewide with more than 75 participants who openly discussed the effects of the proposed new policies on their pipelines and expressed possible solutions on how to reach our shared goals.

This process had two key results:

- The launch of a comprehensive study of the physical condition of the state's affordable housing portfolio, in order to identify properties with a high likelihood of needing public funding for capital needs repairs in the next five years. The study, whose methodology will be replicable, is jointly funded by the Housing Finance Commission and the state Department of Commerce.
- A new set of Commission policies for 9% credit allocation that for the first time sought to balance new production with preservation and rehabilitation.

Preservation and Rehabilitation: New Policy Guidance

In 2014, for the first time, the Commission set aside 25% of available credit in two of our three geographic pools to fund Preservation and Recapitalization (P&R) projects. These were defined as existing, use-restricted housing that consists of the rehabilitation of 80% or more of the housing units.

In doing so, the Commission was seeking to reduce competition between new production and preservation. The Commission also had a secondary goal: to preserve the 9% credit for new production and for those preservation projects with the most significant needs and serving the lowest income. Projects with less significant needs and higher incomes should use the 4% tax credit/tax-exempt bond program if at all possible, since bond resources are far greater than the tax credit.

Therefore, the Commission created several new requirements for preservation and rehabilitation:

1. **Older than 20 years:** The project must have placed in service at least 20 years ago;
2. **Good standing:** The project sponsor must be in good standing with all Commission programs and policies;
3. **Not feasible as a 4% Tax Credit/Bond Project:** All preservation and rehabilitation applicants must now submit two financing plans that show the project as either a 9% project and as a 4% Tax Credit/Bond project. The plans must demonstrate the quantitative and qualitative trade-offs between the two scenarios.
4. **Not previously financed as a 4% Tax Credit/Bond Project:** A project originally financed with 4% tax credits and tax-exempt bonds is not eligible for recapitalization in the 9% program unless it receives preapproval from the MHCF Director in advance of submitting the application.
5. **Capital Needs Assessment (CNA):** All Rehabilitation projects must submit a professional, independent, third party CNA with their application. It must identify deferred maintenance; physical needs; the age, useful life and remaining useful life of key components; building material deficiencies and material building code violations that affect the property use; structural or mechanical integrity, and future physical and financial needs.
6. **Minimum Rehabilitation Threshold:** Projects are expected 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 the CNA.

First Success

The first opportunity to see how the new program policy works was upon receipt of our 2014 LITHC round applications. Only one project applied as a preservation and rehabilitation.

This project was unsuccessful because it was unable to demonstrate the public benefit of financing through the 9% program—it was in fact feasible as a 4% Tax Credit/Bond project (#3 above). We consider this a true test of the new policy and a signal to other sponsors that should frame expectations for future competitions, and will hopefully encourage greater use of the 4% Tax Credit/Bond program.

Conclusion

The challenge of preservation, though not new, is becoming a looming concern to the affordable housing industry. Finding a balance takes an innovative approach and requires stakeholder buy-in at the "40,000 foot" level. We believe our new policy sets a strong foundation for Washington state's ability to allocate this scarce resource to meet our housing goals for the future.