The Washington Works Housing Program

Defining the Problem:

Due to the economic recession that began in 2008, nonprofit housing providers found it increasingly difficult to finance affordable housing. Nonprofits had a difficult time finding tax credit investors, especially in rural parts of the state. The State's Housing Trust Fund, which had previously been funded at $200 million, had no funds available and no foreseeable budget outlay, and other local soft money to build affordable housing was scarce. At the same time, the State was faced with a budget crunch and had few capital dollars to invest.

Even in the poor economic times, Washington's historic net in-migration and natural population increase was putting pressure on the need for affordable workforce housing. The construction industry also needed to create jobs and maintain its skill base. Faced with these problems, the State Legislature and the Washington State Housing Finance Commission worked collaboratively to create a program that would encourage nonprofit housing providers to build workforce housing. The program needed to provide long term (75 years) affordability, be financially self sustaining, and cash flow well enough to service private debt. Thus, the Washington Works Housing Program (Washington Works) was created.

Creating the Program:

Together, a coalition of state legislators, stakeholders, and Commission employees wrote Engrossed Substitute House Bill 2753, authorizing the creation of a program to enhance the capacity of nonprofit organizations and public agencies to build and own workforce housing for low- and moderate- income residents. One of the bill's goals was also to stimulate building in the nearly stagnant industry and to create jobs. It was also meant to give the nonprofit housing community different options on how to finance their communities.

A provision in the state's capital budget funded the new program with $25 million to provide equity for projects that use the Commission's bond programs in conjunction with the Washington Works funding.

Even though the Washington Works program was passed out of both legislative houses in March of 2010, it wasn't funded until the middle of May 2010, and the funding was only guaranteed until June 2011. In this short period of time, Commission staff was able to develop policies and procedures which tackled many new questions, including the 75-year regulatory agreement and provisions to ratchet-down rents as debt was paid off.

The program was intended to encourage nonprofits to make more use of the various sources of private sector financing, using tax-exempt bonds with or without the 4% LIHTCs. The Washington Works funds, as intended by the legislature, were to leverage private funds, get projects quickly in the ground, and ensure nonprofit or public agency ownership. "Boost the Economy Now" could have well been the program's motto.

The properties were meant to provide work force housing during the term of the initial bond indebtedness, and permanent low-income housing thereafter. Income restrictions were set out in the legislation for the initial indebtedness period. The properties have two set-aside options: 20% of the units at 50% of AMI and 31% at 80%, or 40% of the units at 60% of AMI and 11% at 80%. Market rate units are allowable. These income restrictions allow the projects to service the higher private debt that will be in place until the end of the initial bond term. The ratcheting-down of rents to meet lower incomes will then come into force.

The Washington Works legislation defines a continuing role for the Commission after the bonds are paid off. It is expected that once the initial debt is retired, the rents will be lowered over time to provide affordable housing for low and very low income residents, for the remaining useful life of the facility, while maintaining adequate reserves to operate the community sustainably. It will be the Commission's task to review the cash flows and set rents appropriately.

Success of the Program:

In the 13-month period since legislation created Washington Works, the Commission has allocated $24,868,901 to provide a portion of the financing for 460 units in 10 affordable housing projects across Washington State:

- The new construction of seven projects totaling 346 units. These projects were geographically disbursed across the state. Creating jobs and stimulating the economy in seven cities within six different counties.
- The acquisition and rehabilitation of three projects totaling 114 units. Because job creation was a priority of Washington Works, the acq/rehab projects had to meet rehab requirements of the private activity bond program.
- The nonprofit community answered the call to be innovative. Of the ten projects that were funded:
    - Five were bond/4% tax credit properties,
    - Three were 501(c)(3) bond properties, and
    - Two were governmental bond issues.
- Three of these properties brought much needed workforce housing units to rural portions of our state.
- The program leveraged over $50 million of other funds, of which more than half came from banks utilizing the Commission's tax exempt loan programs.

To date, eight of the properties have closed on all sources of funds and are in varying stages of construction. Two additional properties are nearing completion of their financing and anticipate breaking ground by the end of Summer 2011.

Why the Washington Works Housing Program Should be Considered for an Award:

In 2010 the Legislature in HB 2753 created the Washington Works Housing Program and appropriated up to $25 million to the Washington State Housing Finance Commission in order to implement the program. The funds were intended to provide equity dollars to be used in connection with bond debt issued by the Commission.

One of the program's intents was to encourage nonprofits to make more use of the various sources of private sector financing, such as the tax-exempt bonds and the 4% tax credits. We accomplished this goal by matching every dollar of Washington Works funds with private debt at a time when credit and private investment were nearly nonexistent.

The Commission received a new, innovative program intended to change the way nonprofit housing providers financed the development of affordable housing units. The Commission took that challenge and ran with it. Within three months of the creation of the program, the Commission had accomplished much. First, a term sheet was created outlining the goals and priorities of Washington Works. That term sheet was then disseminated to our nonprofit housing developers across the state, and we held multiple meetings with our stakeholders soliciting comments to our proposed term sheet. After reviewing stakeholder comments and incorporating some great ideas, Commission staff brought the Washington Works program before their board for approval of the program. On July 1, 2010, we posted the application to the website and emailed it to our nonprofit housing providers, officially opening our first round.

Because one of the intents of the program was to stimulate jobs, the first round was a lightning round where all sources of funding had to close by December 2010. Within months of the legislature funding this program, we had $4.75 million of Washington Works at work creating jobs and housing in two communities.

The success of this program is multi-faceted. It began with visionary legislators who knew that in order to build housing during the recession, a new model of financing was needed. Not only did they have the vision, during one of the toughest budget cycles in the State's history they backed it up with $25 million of capital funds. The nuts and bolts of this new program were rapidly agreed upon during discussions with national affordable housing experts, nonprofit stakeholders and Commission staff. Policy and procedure guides and an application were finalized within three months.

In the year since the idea was put into law, the Washington Works Housing Program has created 460 nonprofit owned units, ensuring affordability for 75 years, as well as putting over $75 million construction dollars to work, stimulating the economy across the state. Properties were purchased and rehabilitated by nonprofit organizations, new housing was built that had previously not been able to find investors, and communities now had the jobs and workforce housing they needed.