A Community Call to Action: Re-envisioning the Bond/4% Program

Washington State Housing Finance Commission

Management Innovation: Financial

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In 2021, the Washington State Housing Finance Commission constructed a new set of policies and scoring criteria that would shift the bond/4% program's focus toward more balance and equity. Through this process, the Commission succeeded in refocusing an essential affordable housing resource on community outcomes, not simply the numbers of units constructed. For the first time, the program deliberately brought in developers of color and community-based organizations—while at the same time meeting targets for geographic balance, public leverage, housing preservation and cost-effectiveness.

Background

In Washington state, we have long prided ourselves on using close to 100 percent of our federal bond cap set aside for housing. The 4% tax credit/bond program has been a constant source of housing production, creating thousands of affordable apartments each year. From the beginning of the program, the developers were almost exclusively for-profit entities with experience in tax-credit development and management, who tended to build in suburban areas around the King and Snohomish county population centers (where development was most profitable). The available bond cap amply met the demand.

But by 2018, the bond/tax credit program had become increasingly competitive and scarce with more applications coming in than available bond cap—sometimes exceeding available resources by four times. This was partly due to an increase in public funding from the state, counties and cities to smaller, nonprofit developers. With the additional funding, these developers' projects could now "pencil," as long as they could access larger capital sources like the bond/tax credit program.

By necessity, the Commission had developed more and more criteria for allocation as bond cap grew scarcer. However, the Commission's policy emphasis was still largely on production—weighting the competition toward those who could build the most units for the least amount of bond cap. But by the spring 2021 competition, the Commission had begun to receive criticism from all sides. Some pointed out the need to spread the resource more evenly across the state outside of the King County area, others that projects with other public-funding sources were being left behind and the public investments unused.

Most importantly, we were also called out by community members for failing to use our criteria to uplift underserved communities, empower BIPOC developers or address structural racism. While the Commission had begun to take some internal action on the latter, it was a concerned community call to action on racial equity at one of the Commission's board meetings that paved the way for rapid change.

The need to reconsider the values associated with the program was clear. New policy needed to not only open doors to developers and community organizations who previously had little to no access to the program, but also balance a long list of public priorities.

Policy Development

After the 2021 competition, we embarked on a major overhaul of our bond/tax credit competition and criteria. In creating this policy shift, the Commission sought to address a legacy of harm and ongoing discrimination within the WA housing industry, ensuring that big developers shared access to this resource with smaller community-based organizations and less experienced developers. We also had to address an unbalanced concentration of LIHTC properties in King and Snohomish counties; the need to preserve our state's aging affordable housing stock; and the need to leverage public investments.

Though we sought to make changes quickly, the Commission felt it was important to work with our stakeholders to determine new criteria—and not just familiar stakeholders already well versed in our program. We reached out to a large number of community organizations and groups through a survey, as well as requesting one-on-one meetings with many of them to present our new policy for review and input—and build trust and relationships for the future.

New Values in Action

While previously all projects were ranked by points on one list, with the highest-scoring receiving an allocation, achieving our new values required a more finely tuned system. We implemented two tiers of ranking: an updated point system prioritizing BIPOC developers and community involvement, as well as a set of different "buckets" or lists with allocation targets.

Added: Points for BIPOC Developers and Ownership
For the first time, the Commission awards points for projects involving developers who are Black, Indigenous, or People of Color in order to alleviate historic and systemic barriers. For-profit developers can now earn eight points if more than 50% of the ownership identifies as BIPOC; six points if a BIPOC entity receives more than 40% of the developer fee and has a significant role in decision-making for the development. Nonprofits can earn three points if their executive director is BIPOC and five more points if more than 50% of the board of directors are BIPOC.

Added: Points for "By and For the Community"
We also incentivized projects that are "by and for communities," especially those that could demonstrate meaningful partnerships with community-based organizations (CBOs) that help specific low-income groups most impacted by housing disparities. Thus, extra points were awarded to projects involving a local CBO that demonstrably represents one or more impacted communities (meaning both identity-based and geographic communities). More points are awarded for greater ownership or involvement of the CBO, with the most points for projects that will be owned long-term by a CBO. Projects also earn points (though fewer) if the CBO is a part owner or development entity; has the first right to purchase the property after 15 years; benefits financially from the partnership; or is involved with the project in one of several other ways. Additional points are earned if the project development (regardless of CBO involvement) meaningfully engages the community and incorporates their feedback/input.

Added: Targets for Balancing Three Priorities
In addition to overhauling the point system and adding new criteria, the Commission also needed to balance new housing vs. preservation, geographic distribution, and projects receiving public funding**.** We addressed this by setting targets for distributing our allocation across these three priorities and dividing all the projects into "buckets" or lists accordingly.

The Test: Reviewing Applications

The Commission's next challenge was executing the new policy. A new application had to be carefully developed; we also for the first time required a "letter of intent" so we could begin a dialogue with applicants as early as possible and assist with the process that was new to all developers alike.

Once again, the 2022 round was intensely oversubscribed, with twice as many applications as could be financed with available bond cap. Our new criteria would be put to the utmost test as we first reviewed for overall quality of application and confirmed self-assigned scores.

Most difficult was defining terms and parsing complexities, as we wrestled with the nuances of such terms as “community-based organization” and “community engagement.” Many hours of careful consideration and assessment were required of the Multifamily Housing staff in order to ensure consistent, equitable and defensible judgement calls.

Results: Equitable and Balanced

The results of the allocation clearly show that the new system was effective in creating more equitable distribution of the 4% tax credits. First, it succeeded in its intention to elevate projects by developers who are Black, indigenous or people of color (BIPOC). Three received the full 8 points available to truly BIPOC developers, with an additional four earning partial points for having a majority BIPOC board. Three more projects have partnerships between experienced developers and less experienced BIPOC organizations— building the latter’s capacity to develop housing in the future.

In addition, almost every allocated project includes a meaningful partnership with a community-based organization. Out of 10 projects on the main allocation list, four were developed *by* a CBO with another five bringing a partnership with a CBO. Half of the projects that were not funded this round did not have a CBO relationship, demonstrating that the point system generally worked in pushing developers to build relationships and accountability with the communities where they build housing.

Our strategy of dividing projects into three priority areas also succeeded. Four of the five projects that applied from outside King and Snohomish counties were funded, with the fifth at the top of the waiting list. Public funds were also prioritized, with the allocations leveraging $23 million from the WA State Housing Trust Fund and $37 million in local dollars. In addition, most allocated projects received cost efficiency points, showing both for-profit and nonprofit developers (the round was evenly split between the two) can meet multiple priorities without sacrificing cost efficiency.

Finally, a key result is the trust and relationships we are building with communities and organizations we previously had little to no contact with. We now see these groups as essential stakeholders and are working to incorporate their needs and input into the policies that drive our allocation of resources.

Conclusion: Lessons and Confidence for the Future

The Commission is proud of what we achieved through the realignment of our values with the distribution of resources. While the process is not finished – we are evaluating and debriefing the 2022 round with plans to continue improving the policy and expanding its ideas into the 9% program – we believe our achievement shows a path for other HFAs to accomplish similar goals.

By accepting our responsibility to build a more equitable affordable-housing industry, we found that what we *could* do was greater than what we couldn’t do—even when it meant plunging into deeply uncomfortable waters. These lessons will resonate throughout our organization, giving us confidence, new relationships and new skills to continue on our path toward greater equity in all our work.

Learn more here and review the 2022 list of allocations, project descriptions, and application materials.