

ABCs of affordable housing finance

June 21, 2023

Faith Pettis
Jon Jurich
Pacifica Law Group LLP

1

Agenda

Affordable Housing Basics

- Terms of Art
- Operation
- Ownership

How Affordable Housing Projects are Financed

- Parties
- Funding

How Cities Can Participate

- Supply
- Support
- Subsidy

2

Affordable Housing Basics

Terms of Art:

- “Area Median Income” or “AMI”: the annual median income for a household of a given size in an area, usually using HUD calculations.

3

Affordable Housing Basics

County	2023 HUD Calculations 60% of Area Median Income (4 person household)
Adams	\$50,100
Chelan	\$50,580
Clark	\$67,680
King/Snohomish	\$82,200
Spokane	\$53,400
Walla Walla	\$51,180
Yakima	\$50,100

4

Affordable Housing Basics

County	Available Job Postings Earning Less than 60% AMI
Adams	Real Estate Excise Tax Deputy (\$40,740)
Chelan	Courthouse Facilities Worker II (\$39,704)
Clark	Risk Management Program Assistant – HR (\$63,482)
King/Snohomish	KC 911 Communications Specialist (\$76,274)
Spokane	Administrative Support Specialist III (\$52,128)
Walla Walla	Entry Level Corrections Officer (\$48,588*)
Yakima	Sheriff's Office Financial Specialist (\$49,379)

5

Affordable Housing Basics

Terms of Art:

- “Low Income”: *not* a universal definition.
 - Federal: typically no more than 60% AMI
 - State: can be as much as 80% AMI, or may be more flexible

6

Affordable Housing Basics

Terms of Art:

- “Extremely Low Income” or “Very Low Income”:
 - Typically no more than 30% or 50% AMI, respectively
- “Moderate Income”:
 - Generally between 80% and 120% AMI
- “Cost Burdened”:
 - Paying more than 30% of income on rent

7

Affordable Housing Basics

County	Available Job Postings Earning Less than 120% AMI
Adams	Community Public Health Director (\$73,719)
Chelan	Lateral Field Deputy (\$92,304)
Clark	Chief Appraiser (\$124,128)
King/Snohomish	Snohomish Econ Development Mgr (\$154,074)
Spokane	Park Planning, Development & RE Mgr (\$101,044)
Walla Walla	Chief Civil Deputy Sheriff (\$102,360*)
Yakima	Attorney II (\$94,770)

8

Affordable Housing Basics

Operating Affordable Housing

- “Income Restricted”: Resident households may not earn more than a set income at move-in
 - *Income can go up over time; no rent limits*
- “Rent Restricted”: Landlords may charge no more than a set amount for rent
 - *Typically tied to the unit, not the resident household’s actual income*

9

Affordable Housing Basics

Ownership of Affordable Housing

- Housing Authorities or PDAs
- Nonprofit Corporations
- LLCs, LPs and LLLPs
 - *A single member/partner entity or a combination of a tax credit investor and one or more for- and non-profit development sponsors*

10

Affordable Housing Basics

Housing Authority / PDA /
501(c)(3)

11

Affordable Housing Basics

Developer
(Housing Authority/PDA,
For/Nonprofit)

**Tax Credit Equity
Investor**

LLC / LP / LLLP
Project Owner-
Operator

12

Funding Sources

Federal

- Tax-Exempt Bonds
- Low Income Housing Tax Credits *and*
- National Housing Trust Fund
- HUD and Rural Development Loan Programs
- Section 8 Operating Subsidies



13

Funding Sources - Federal

Tax-Exempt Bonds

- Governmental Bonds
- 501(c)(3) Bonds
- Multifamily Revenue Bonds aka “Volume Cap Bonds”

14

Funding Sources - Federal

- “Volume Cap Bonds”
Federal limit by state: \$120 per capita (2023)
How it is allocated – RCW 39.86.120, WAC 365-135

15

Bond Volume Cap

BOND USE CATEGORY	2010 and THEREAFTER
Housing	42.0%
Small Issue	25.0%
Exempt Facility	20.0%
Student Loans	5.0%
Public Utility	0.0%
Remainder and Redevelopment	8.0%

16

Funding Sources - Federal

Low Income Housing Tax Credits

- Two types – 4% and 9%
 - 9% credits are limited to an annual cap
 - 4% credits require “volume cap” bonds and are limited through the volume cap
- Allocated by the Housing Finance Commission
- Require owner to impose both income and rent restrictions for 30-40 years

17

Funding Sources - Federal

National Housing Trust Fund

- Administered by the Washington Department of Commerce

HUD and Rural Development Loan Programs HUD and Rural Development Loan Programs

Section 8 Operating Subsidies

- Pay a portion of tenant's rent above 1/3 of tenant's income up to a rate established by the local housing authority

18

Funding Sources

State and Locally Controlled

- State Housing Trust Fund (Commerce)
- Sales and Use Taxes (RCW 82.14.530 and .540)
- Housing Levies
- Lodging Taxes
- Real Estate Excise Tax
- Local Multifamily Tax Exemption
- Other – surplus property (RCW 39.33.015)



19

Funding Sources

Private

- Microsoft
- Amazon
- Evergreen Impact Housing Fund



20

Putting it Together

Developer



21

Putting it Together

Bond
Issuer

Lender

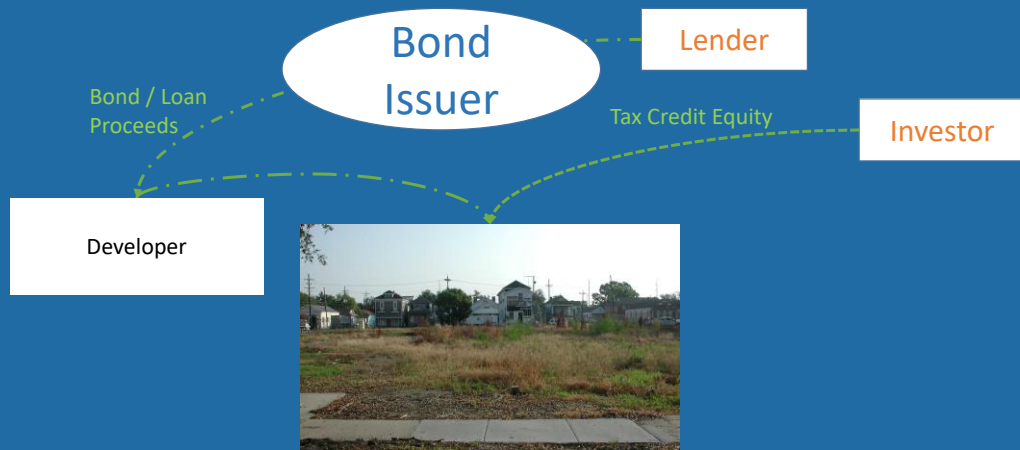
Investor

Developer



22

Putting it Together



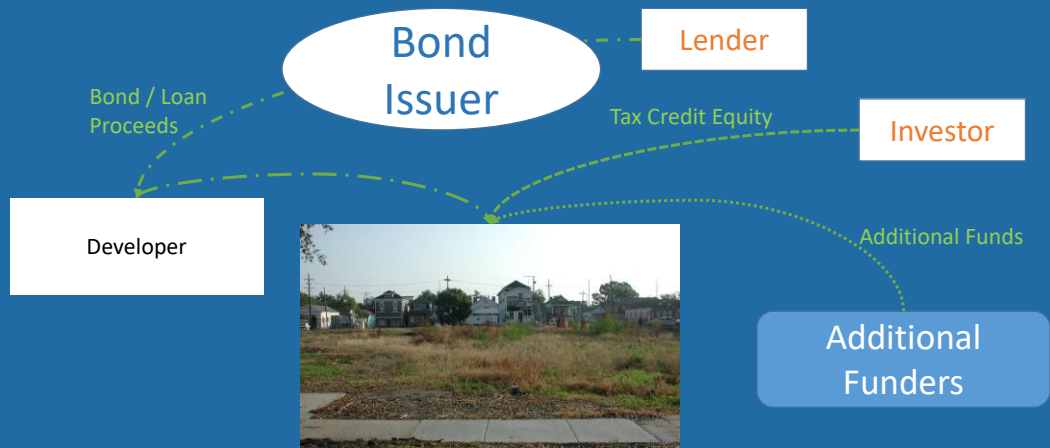
23

Putting it Together



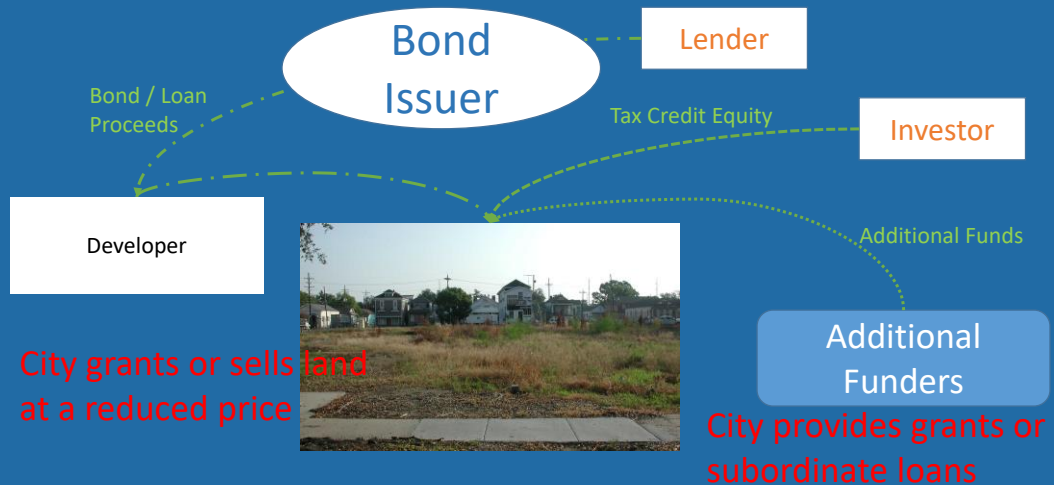
24

How a City Can Participate



25

How a City Can Participate



26

How a City Can Participate

Grant land or sell at a reduced cost

Make loans or grants to finance the cost of building projects

Reduce regulatory burdens

- Streamline design review
- Eliminate barriers to zoning

27

What Happens When Cities Participate



Funding Source	Amount
Construction Loan	\$3,000,000
Permanent Loan	\$4,000,000
Equity Investment	<u>\$5,000,000</u>
Total	\$12,000,000

28

What Happens When Cities Participate

Funding Source	Amount
Construction Loan	\$3,000,000
City Subordinate Loan	\$1,000,000
Permanent Loan	\$3,000,000
Equity Investment	<u>\$5,000,000</u>
Total	\$12,000,000

29

What Happens When Cities Participate

Permanent Loan Amount	\$4,000,000	\$3,000,000
Interest Rate	6.01%	6.01%
Debt Service / Month	\$22,835	\$17,126
1.25 x DSCR	\$28,543	\$21,407
Total Units	20	20
Rent per Unit	\$1,427	\$1,070

\$357 / unit / month in savings translates into \$85,680 each year that residents can use towards discretionary spending or save towards the purchase of a home

30

What Happens When Cities Participate

And that is just from ONE public funding source.

Adding additional funders from the State, other local governments or private funders can further offset permanent loans, allowing for more affordable rents and more projects

31

What Happens When Cities Participate

County	2023 HUD Calculations 60% AMI (4 person household)	Cost-Burdened Limit
Adams	\$50,100	\$1,253
Chelan	50,580	1,265
Clark	67,680	1,692
King/Snohomish	82,200	2,055
Spokane	53,400	1,335
Walla Walla	51,180	1,280
Yakima	50,100	1,253

32

What Happens When Cities Participate

County	2023 HUD Calculations 60% AMI (4 person household)	Cost-Burdened Limit
Adams	\$50,100	\$1,253
Chelan	50,580	1,265
Clark	In these five counties, the public investment in the hypothetical project makes the units affordable	1,692
King/Snohomish		2,055
Spokane	53,400	1,335
Walla Walla	51,180	1,280
Yakima	50,100	1,253

33

How to Think About Affordable Housing

Three Interrelated Areas

Supply – new homes

Stability – protections

Subsidy – funding and supports

34

How to Think About Affordable Housing

SUPPLY

(1) Zoning Reform

HB 1110 – Middle Housing

HB 1337 – ADU

(2) Permitting Streamlining

HB 5412 – SEPA

HB 1293 – Local Design Review

SB 5290 – Permit Timeline Reduction

35

How to Think About Affordable Housing

STABILITY

(1) Homeownership

HB 1474 – Covenant HO Program

HB 1771 – Mobile Home Relocation

(2) Rental

HB 1074 and 5197 – Tenant Protections

36

How to Think About Affordable Housing

SUBSIDY

(1) Funding for Construction and Land

HB 1628 (NTIB) – New REET

HB 1149 (NTIB) – Governor's Referendum

HB 1695 – Surplus Property Clarification

(2) Tax Exemptions and Fee Waivers

SB 5045 – ADU Property Tax Exemption

HB 1326 – Waive Utility Connection Fees

37

Questions?

38