WASHINGTON STATE
HOUSING FINANCE COMMISSION

WORK SESSION MINUTES

September 24, 2015

The September 24, 2015 work session was called to order at 11:00 a.m. by Karen Miller. In attendance were Commissioners Steve Moss, Ken Larsen, Wendy Lawrence, Pam Tietz, Randy Robinson, Beth Baum and Regina Stark.

Lisa Vatske and Rich Zwicker gave a briefing on the Proposed 9% Competitive Housing Tax Credit Program Policy Changes for the 2016 Allocation Round.

Kim Herman gave his Executive Director's Report.

The work session was adjourned at 12:00 p.m.

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September 24, 2015

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 Steve Moss, Ken Larsen, Wendy Lawrence, Pam Tietz, Randy Robinson, Beth Baum and Regina Stark.

Approval of the Minutes

The minutes of the August 11, 2015 and August 27, 2015 Commission meetings were approved as amended.

Public Hearing: CRISTA Ministries, OID #15-111A

A public hearing was opened on OID No. 15-111A, CRISTA Ministries, at 1:01 p.m.

David Clifton, Assistant Director of the Multifamily Housing and Community Facilities Division, stated that this public hearing concerns the proposed issuance of a non-profit revenue bond in the approximate amount of $3,000,000 to finance the rehabilitation and renovation of a continuing care retirement facility located at 19303 Fremont Avenue N., Shoreline, Washington, 98133, and an independent/assisted living facility located at 1600 NW Crista Shores Lane, Silverdale, Washington, 98383, consisting of a total of 385 Independent Living units, 127 Assisted Living units and 152 Skilled Nursing units. The project is owned by CRISTA Ministries, a Washington 501(c)(3) nonprofit organization. Mr. Clifton introduced Doug Sutton, CFO for CRISTA Ministries.

Mr. Sutton stated that CRISTA generally serves middle income seniors who are looking for nursing or retirement housing with a mix of private, Medicare and

Medicaid pay. Residents either can pay a monthly rental rate or make an initial downpayment and pay lower monthly rents.

Mr. Sutton stated that they will be using these funds to make improvements to the units and the common areas on these campuses.

Liz Tidyman, a private citizen from Bellevue, had several questions regarding resident contract terms, reconfiguration of Medicaid reimbursements, use of bond proceeds and notice to residents about the financing.

Mr. Sutton stated that CRISTA Ministries is a continuing care facility where residents have the opportunity to graduate to higher levels of care as needed. He also stated that they are looking into improving CRISTA's rehabilitation facilities. Additionally, he stated that he is not aware whether CRISTA is part of a work group on reconfiguring Medicaid or whether residents were informed of today's public hearing.

The hearing was closed at 1:16 p.m.

Public Hearing: The Reserve at Lynnwood, OID #15-69A

A public hearing was opened at 1:16 p.m. for OID No. 15-69A, The Reserve at Lynnwood.

Bob Peterson, Multifamily Housing and Community Facilities Division Manager, stated that this public hearing concerns the proposed issuance of revenue bonds in an amount not to exceed $42,000,000 to provide a portion of the financing to acquire, construct and equip a 295–unit multifamily housing facility, and to pay a portion of the cost of issuing the bonds. The project is located at 19815 Scriber Lake Road, Lynnwood, Washington, 98036. The project will be owned by Reserve at Lynnwood Partners LLLP, a Washington limited liability limited partnership. Mr. Peterson introduced Mark Kantor, from Kantor Taylor, to speak regarding the project.

Mr. Kantor stated that the Reserve at Lynnwood will be close to a metro rapid ride bus stop. The housing facility will have a large lounge area, an indoor pool, a yoga room, beauty shop and a terrace with fire pits.

Mr. Kantor stated that the set-aside for this facility will be 100% at 60% area median income.

There were no comments from members of the public and the hearing was closed at 1:21 p.m.

Public Hearing: Allocation of LIHTC for 2015 Round

The Chair opened a public hearing on the last recommended allocation of 2015 Low Income Housing Tax Credits at 1:21 p.m.

Mr. Peterson stated that there will be one project in this public hearing today.

Palouse Trails Apartments

Mr. Peterson introduced Helen Stevenson, representing Commonwealth Agency & Whitewater Creek, Inc. She stated that Palouse Trail Apartments is a new apartment complex with 113 units —including many set aside for large families and persons with disabilities—on the South Hill of Spokane, near a new retail center and public transportation.

The Palouse Trails will be located on the South Hill of Spokane, a rapid growth area. The site is adjacent to the new Target retail center, which includes a variety of other retail and commercial outlets. The site is located between two projects currently under construction, Pine Rock and Summit Ridge. Public transportation is available on the Palouse Highway, the main street adjacent to the site.

There was no further public comment and the hearing was closed at 1:25 p.m.

Public Hearing: 9% Competitive Housing Tax Credit Program Policy Changes for the 2016 Allocation Round

The Chair opened a public hearing on the 9% Competitive Housing Tax Credit Program policy changes for the 2016 allocation round at 1:25 p.m.

Lisa Vatske, Director of the Multifamily Housing and Community Facilities Division and Rich Zwicker, Senior Policy Analyst gave a detailed PowerPoint presentation of the proposed changes in the work session earlier this morning. Ms. Vatske highlighted the major changes and additional considerations.

Total Development Cost (TDC) Limits

The current policy sets the TDC limits per unit by area. Projects that exceed the TDC limits must request a waiver.

The proposed modifications include adding two new total development cost ("TDC") Limit Areas to existing "Metro" and "Balance of State"; and updating the TDC limits based upon historical and industry data.

Efficiency of Scale Demonstration

The proposed modifications are to eliminate the language regarding creating a separate process to evaluate if policies were impacting density.

Requirements for Rehabilitation Projects

The current policy was set to ensure highest and best use of 9% tax credit; and to encourage rehabilitation projects to use the 4% program.

The proposed modification for this section was to eliminate the requirement to prepare two applications and adds a list of key elements that will need to be addressed at a pre-approval meeting.

Preservation and Recapitalization in Metro and Non-Metro Pools

The current policy was set so preservation and recapitalization projects in Metro and Non-Metro pools compete amongst themselves in a 25% set-aside.

The proposed modification is to have new construction and preservation projects compete together and convert the set-aside to a soft-cap.

NIMBY (Not in my Backyard) Policy

The current policy allows an allocation extension when extraordinary circumstances delay a project.

The proposed modification suggests renaming this policy the “Credit Extension Policy” and delegates approval authority to the division director for changes within a year and that meet the criteria in the policy.

Non-Profit Donation

The current policy awards points for a non-profit donation based upon a percentage of Total Project Costs, which can change throughout the development process.

The proposed modification is to create a set amount for the donation based upon Total Project Cost as follows:

- $0 - $12,500,000 (TPC) = $15,000 Donation
- $12,500,001 and above (TPC) = $25,000 Donation

Cost-Containment Points

Currently 3 points are awarded post-application based upon a project’s ranking against the median square footage for a project in its TDC area.

The proposed modifies the award to 1 point for a project based on the comparative pool numbers; awards 1 point for a project that is below its TDC limit at application.

Additional considerations that stakeholders brought up included Tribal Points, Energy Consumption Modeling and Pre-Approval Process Modification.

Paul Purcell, President of Beacon Development Group, stated [he is] “speaking on behalf of the Housing Development Consortium Tax credit affinity group of Seattle and King County which I chair. I would like to begin by thanking Lisa and the tax credit staff for their very hard work in adapting the tax credit program to remain responsive, flexible and effective in these ever changing times. They have worked tirelessly with stakeholders to identify both issues and solutions in an environment characterized by constantly shifting local, state and federal conditions. Overall, we believe the changes reflect an attempt to stretch the allocation of tax credits in a manner directly supporting the priorities of the Commission and the other public funding sources. The changes reflect the greater pressure on the tax credits as the central component of a system of public funding which requires integration and coordination to efficiently utilize such resources. We believe the changes recommended help the program and urge their adoption.

I would also like to speak to the issue of costs. The staff have made a good effort to incentivize cost containment in these policy recommendations. At the same time, it is critical to remember that, while the majority of users of the 9% tax credit program are nonprofit organizations, we do not operate in a non-profit world. We operate in the market place of multi-family construction and in a community with over 50 cranes in the air, 30 of them multi –family projects, that marketplace is very strained. On one project, we controlled the land with a purchase and sale agreement 2 years ago for $800,000. We were not included on the state list so we lost control of that parcel. It went on the market 2 months ago for $2,000,000. That is 2 and one half times increase in a two year period. On another project we recently put out for sub-bids, we did not get any response in 3 different trade categories because the subs were all too busy. We also operate in that marketplace with a basket of additional public benefits tied to our projects, further increasing our pricing. We are committed to work with you to stretch these resources as far as we can, but we want to do so cognizant of the 50 year commitment we are making to affordable housing in each project and to your commitment to continue to provide quality, durable and healthy housing for the families and individuals served by this resource."

There was no further public comment and the hearing was closed at 1:43 p.m.

Public Hearing: Resolution No. 15-114 - Bond Cap for MCC Program

The Chair opened a public hearing for the Mortgage Credit Certificate ("MCC") Program, at 1:43 p.m.

Lisa DeBrock, Director of the Homeownership Division, said this is Resolution 15-114 for the Mortgage Credit Certificate Program, which authorizes the Executive Director to implement the MCC program.

Ms. DeBrock stated the MCC program has been performing strongly for a few years now and the State still has excess volume cap and that is why she is asking for approval to continue offering this program.

Ms. DeBrock stated that the feasibility of the MCC Program and the degree to which it can provide housing assistance is totally dependent upon the extent to which homebuyers have federal tax liability which can be offset by the MCC tax credit. Typically, higher income homebuyers with few deductions or credits are generally best able to use the MCC tax credit as a form of housing assistance. A qualified homebuyer can then reduce their federal tax liability equal to a portion of the annual interest paid on their mortgage in the form of a special tax credit.

Ms. DeBrock stated that MCCs may be issued to provide federal tax credits at rates varying from 10 to 50 percent of the mortgage interest paid or incurred per year. IRS guidelines require a $2,000 cap if the credit rate exceeds 20%.

Ms. DeBrock mentioned that a qualified homebuyer using the MCC is able to claim up to 20% of annual mortgage interest paid as a federal income tax credit. The remaining mortgage interest (80%) continues to qualify as an itemized deduction.

Ms. DeBrock handed out a document showing how this works.

"On a $200,000 mortgage with a 6% interest rate the homebuyer will pay $12,000 in interest the first year. Twenty percent of this amount, or $2,400, can be used to directly reduce the homebuyer's federal income tax liability."

Ms. DeBrock stated that the MCC Program provides a dollar-for-dollar reduction of federal income taxes. Unused credit can be carried forward up to three years and the homebuyer can retain the federal tax credit for the life of the loan so long as the homebuyer continues to occupy the property as their principal residence. The amount of the credit decreases over the life of the loan as the interest is paid down. The Commission may reissue the MCC when the holder of the certificate refinances the original mortgage loan so long as certain guidelines are met.

Additionally she stated that the MCC can also be used in combination with the Home Advantage program. The borrower can use the Commission's Home Advantage first mortgage, receive downpayment and closing cost assistance as well as receive an MCC credit. In the past, MCCs could not be combined with the House Key program.

Ms. DeBrock stated that the Homeownership Division is proposing to use $240 million of volume cap which equates to $300 million worth of loans.

Christian Hayes, Senior Program Compliance Administrator presented the production numbers, trends and potential for the program.

There was no further public comment and the hearing was closed at 1:55 p.m.

Action Item: Resolution No. 15-120, for the Allocation of Credit for the 2015 Housing Tax Credit Program

Ms. Vatske said this was a resolution authorizing the Executive Director to make reservations and/or allocations of 2015 Housing Tax Credits to the Palouse Trails Apartments.

Mr. Moss moved to approve the request. Ms. Baum seconded the motion. The request was unanimously approved.

Action Item: approval of the 9% Competitive Housing Tax Credit Program Policies for the 2016 Allocation Round

Ms. Tietz moved approval of the proposed changes to the 9% 2015 Tax Credit Policies for the 2016 allocation round. Mr. Moss seconded the motion. The changes were unanimously approved.

Action Item: Resolution No. 15-93, Ruby Preservation Portfolio

Ms. Vatske said that this is a resolution approving the issuance of one or more series of tax–exempt revenue notes in the principal amount not to exceed $13,500,000 to provide a portion of the costs of acquiring and rehabilitating the following four multifamily housing facilities: Madrona Manor located at 890 S.W. Kimball Drive, Oak Harbor, WA 98277; Lexy Manor located at 300 N.E. 7th Avenue, Oak Harbor, WA 98277; Norris Place located at 486 S. Norris Street, Burlington, WA 98233; and Fairhaven Manor located at 115 Hulbush Lane, Burlington, WA 98233. The project will be owned by BOH Portfolio Preservation Associates, LLLP, a Washington limited liability limited partnership. The public hearing for this project was held on June 25, 2015. Ms. Vatske reminded the Commissioners that the Commission had made a $1,500,000 PIF loan to this project.

Mr. Moss moved to approve the resolution. Ms. Baum seconded the motion. The resolution was unanimously approved.

Action Item: Resolution No. 15-116, The Alliance Center

Ms. Vatske said that this is a resolution approving the issuance of a tax–exempt revenue bond in the amount of $1,989,000 to refinance a facility located at 515 West Harrison Street in Kent, Washington, owned by South County Area Human Services Alliance, a Washington 501(c)(3) nonprofit organization. The public hearing for this project was held on September 10, 2015.

Ms. Teitz moved to approve the resolution. Ms. Stark seconded the motion. The resolution was unanimously approved.

Action Item: Resolution No. 15-117, Edmonds Community College Student Housing

Ms. Vatske said that this is a resolution approving the issuance of a tax-exempt bond in the amount of $15,740,000 to refinance bonds previously issued by the Commission to finance the construction and equipping of a student housing facility located on the campus of Edmonds Community College located adjacent to the northwest corner of the intersection of 68th Avenue W and 200th Street SW in Lynnwood, WA 98036. The project is owned by ECCO Properties, a Washington 501(c)(3) nonprofit organization. The public hearing for this project was held on June 12, 2008.

Ms. Stark moved to approve the resolution. Mr. Moss seconded the motion. The resolution was unanimously approved.

Action Item: Resolution No. 15-118, CRISTA Ministries

Ms. Vatske said that this is a resolution approving the issuance of a revenue bond in an amount not to exceed $3,000,000 to finance the rehabilitation and renovation of a continuing care retirement facility located at 19303 Fremont Avenue N., Shoreline, Washington, 98133, and an independent/assisted living facility located at 1600 NW Crista Shores Lane, Silverdale, Washington, 98383, consisting of a total of 385 Independent Living units, 127 Assisted Living units and 152 Skilled Nursing units. The project is owned by CRISTA Ministries, a Washington 501(c)(3) nonprofit organization. The public hearing for this project was held earlier in this meeting.

In response to a question, Faith Pettis, the Commission's bond counsel, stated that the bonds previously issued for CRISTA were 501(c)(3) bonds and as such did not require federal set asides under the federal tax code. However, the Commission still has two regulatory agreements recorded against Crista Shores and the Cristwood properties. For Crista Shores, the set aside is 15% at 100% of AMI and 10% at 80% of AMI, or a total of 132 units. For Cristwood, the set aside is 10% at 100% of AMI and 10% at 80% of AMI, or a total of 32 units.

Ms. Stark moved to approve the resolution. Mr. Larsen seconded the motion. The resolution was unanimously approved.

Action Item: Resolution No. 15-121, Mountlake Senior Apartments

Ms. Vatske said that this is a resolution approving the issuance of a tax–exempt revenue note in an amount not to exceed $14,000,000 to provide a portion of the financing for the acquisition of land and new construction and equipping of a 96–unit senior housing facility, located at 5525 - 244th Street SW in Mountlake Terrace, WA, 98043, and to pay a portion of the costs of issuing the note. The project is owned by Mountlake Senior Living Associates Limited Partnership, a Washington limited partnership. The public hearing for this project was held on Sept. 3, 2015 and a second public hearing, to increase the bond amount, will be held on September 30, 2015.

Ms. Stark moved to approve the request. Ms. Lawrence seconded the motion. The resolution was approved, with one vote in opposition, by Mr. Moss.

Action Item: Waiver of the loan limit of the Capital Plus! Program

Ms. Vatske requested approval to waive the loan limit of the Capital Plus! Program to a one time maximum of $1.5 million and for the Executive Director to negotiate the terms for the purchase of a facility for special needs housing by the Yakama Nation, subject to WCRA's loan committee approval.

Mr. Moss moved to approve the request. Ms. Lawrence seconded the motion. The request was unanimously approved.

Action Item: Resolution No. 15-114 for the use of bond cap for the MCC Program

Ms. DeBrock requested the approval of Resolution No. 15-114, which authorizes the Executive Director to implement the MCC program.

Ms. Teitz moved to approve the resolution. Mr. Robinson seconded the motion. The resolution was unanimously approved.

Consent Agenda

The Consent Agenda was approved as mailed.

Public Comment

Liz Tidyman, a private citizen submitted eight requests to the Commission:

"1) Please change the standard language of public hearing notices so that the Commission begins to inform the public how to obtain information from the Commission about the project that is the subject of the public hearing.

2) Please change website and forms information about requesting public records to inform the public that there are some exceptions to the formal public records request form. I know there are exceptions because a public record of an email informed me that an applicant's attorney sent an email requesting a copy of my written comments made at a public hearing, and apparently the attorney was not advised to submit a public records request.

3) To change staff procedures to operate within boundaries created by conflicts of interest among three distinct parties to a bond issue. Commission policy manuals, and correspondence from an underwriter, state that the Commission, and a Borrower, are different parties in a bond funding transaction. I was dismayed to learn that staff did not have a writing from Skyline to provide in response to a public records request, and instead wrote an explanation of what Skyline intended. The unintended consequence of good intention here is creating the appearance of staff acting as agents of one of the distinct other interested parties - the borrower.

4) I think it would be fair and square to the public to update your policy documents to disclose that the "technical assistance" that the Commission provides to a Borrower may include conversations about persons expected at public hearings. I was a little surprised to read in your records that a staff member, some months ago, requested a conference call with other parties to a bond issue about the fact I would be at the public hearing. Is the Commission staff also available to interested members of the public before a public hearing for phone conversations about the Borrower or Underwriter? If so, the public notice does not say so.

5) I was also surprised to read in the record that staff extended an invitation for Borrowers to have lunch with Commissioners just before a public hearing without informing the Borrower that it is the practice of the Commission to dine in a place that would be open to anyone who wished to have lunch in the same space, in order to maintain transparency of Commission actions. I believe any such invitations could be better clarified.

6) I think there may be a conflict between the Commission's written policies on unrated bonds and the procedures followed with respect to the Heron's Key issue approved on June 25. The written policy says, "the Commission delegates to the Executive Director the discretion, to be exercised by reference to staff-developed guidelines, to assure that these essential principles with respect to unrated bonds are met on each transaction.” At the June 25 meeting, I recall staff reading a letter from a financial advisor, and I recall staff making a recommendation that the Commission approve the resolution, but I am not sure the public record contains any record that the Executive Director used his discretion to assure that the Commission's principles on unrated bonds were met. I respectfully suggest that $150 million is too big an issue on which to merely presume the Executive Director's discretionary determination. The finding from the Financial Advisor was dated the same day as the Commission's decision. If the Executive Director used his discretion that the Commission should vote on the very same day the Financial Advisor was delivering their findings, I believe that should be on the record.

7) I request that the Commission change staff procedures so that staff will never again discourage a borrower to be in attendance during the public meeting at which the Commission votes on the Borrower's Resolution. The record shows that the Heron's Key CEO was prepared to be at the June 25 meeting in case Commissioners had questions; and staff informed the Borrower that staff would answer Commissioners' questions. I simply object on principle to staff acting as gatekeepers for the information available to Commissioners.

8) I am asking you to change procedures so that the timing of public hearings, and interval between the public notice of a public hearing, and the public hearing, so the Commission may provide to interested members of the public the information that is needed to evaluate a project. The Heron's Key public hearing, for example, was held two months before the Commission had in hand the information it would use to evaluate the project. You are complying with the letter of IRS regulations requiring a public notice two weeks before a public hearing, but you are managing your process to prevent any comments from

interested members of the public from being fully informed by the information the Commission uses to evaluate a project. If I thought public hearings were humorous, I would call the Commission's process a farce, but I do not regard the management of public hearings as being humorous."

There was no further public comment.

Commissioners' Reports

Ms. Baum reported that the Audit Committee met on August 27, 2015. Amy Sutherland from Moss Adams, LLC, the Commission's independent auditors, gave a presentation on the Auditor's responsibilities, gave an overview of the audit process, the definitions of materiality and the Commission's upcoming audit will focus on the bond funds, operating funds and the program investment funds.

Ms. Miller and Ms. Lawrence attended the NCSHB meeting in Annapolis, MD. They found the conference to be very informative and educational besides having a few of the sessions being canceled due to the weather.

Adjournment

The meeting was adjourned at 2:26 p.m.

Signature

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