SKHHP Executive Board
July 19, 2024, 1:00 – 3:00 PM
Virtual Meeting

Video conference:
https://us06web.zoom.us/j/99857398028?pwd=eXFiMmJpQm1abDZmMmRQbHNOYS8ydz09
OR by phone: 253-205-0468

Meeting ID: 998 5739 8028 **Password:** 085570

I.		**CALL TO ORDER**	1:00
	a.	ROLL CALL	
	b.	INTRODUCTIONS OF STAFF WORK GROUP MEMBERS AND ADVISORY BOARD REPRESENTATIVE	
II.		**PUBLIC COMMENT**	1:08
III.		**APPROVAL OF JUNE 14, 2024 MINUTES** **Motion is to approve the June 14, 2024 SKHHP Executive Board meeting minutes.**	1:10
IV.		**AGENDA MODIFICATIONS**	1:11
V.		**BOARD BRIEFING**	1:12
	a.	**PRACTICAL SOLUTIONS TO STOP THE CYCLE OF HOMELESSNESS** Presenter: SKHHP Advisory Board Purpose: The SKHHP Advisory Board will leverage its expertise to offer practical solutions to break the cycle of homelessness. Background: Action Item 13 in the 2024 SKHHP Work Plan encourages coordination with the Advisory Board to provide education and engagement opportunities for elected officials and community members. As part of the 2025 Work Plan development, the Executive Board provided topics they wished to learn more about, including homelessness. The SKHHP Advisory Board selected to utilize their expertise to offer practical solutions to the cycle of homelessness related to affordable housing. **For review and discussion, no action is proposed**.	

VI.	**BOARD BUSINESS**		1:45
a.	**DEVELOPING A SHARED PHILOSOPHY ON HOMELESSNESS IN SOUTH KING COUNTY** Presenter: Nancy Backus, SKHHP Executive Board Chair Purpose**:** A conversation initiated by the Chair of the SKHHP Executive Board to discuss how the issue of homelessness aligns with SKHHP's work and how SKHHP chooses to interact with the King County Regional Homelessness Authority (KCRHA) Background**:** While research shows that a lack of affordable housing is the primary driver of homelessness, the topic includes broad themes beyond housing development. There is a desire to discuss SKHHP's role in homelessness in these wider areas and how to support the work currently being done by partners. **For review and discussion, no action is proposed**.		
b.	**GENERAL UPDATES** Presenter: Jeff Tate, Interim SKHHP Executive Support Purpose**:** General Updates Background**:** An opportunity to receive updates and discuss items from the June Executive Board meeting. **For review and discussion, no action is proposed**.		2:15
VII.	**UPDATES/ANNOUNCEMENTS**		2:25
VIII.	**ADJOURN**		2:30

SKHHP Executive Meeting
June 14, 2024

MINUTES

I. CALL TO ORDER

Dana Ralph called the meeting to order at 1:07 PM.

ROLL CALL/ESTABLISHMENT OF QUORUM

Executive Board members present: Dana Ralph, City of Kent; Brian Davis, City of Federal Way; Xochitl Maykovich, King County; Victoria Schroff, City of Maple Valley; Carmen Rivera, City of Renton; James Lovell, City of SeaTac; Thomas McLeod, City of Tukwila; Colleen Brandt-Schluter, City of Burien; Kristina Soltys, City of Covington.

Others present: Jeff Tate, SKHHP Interim Executive Support; Dorsol Plants, SKHHP Program Coordinator; Kent Hay, SKHHP Advisory Board; Angie Mathias, City of Renton; Nicholas Matz, City of Normandy Park; Nicole Nordholm, City of Des Moines; McCaela Daffern, King County; Brian Lloyd, Beacon Development.

II. PUBLIC COMMENT

No public comment was provided.

III. APPROVAL OF MAY 17, 2024 MINUTES

Kristina Soltys moved to approve the May 17, 2024 minutes as presented, seconded by Thomas McLeod. Motion passed (8-0)

Carmen Rivera joined the meeting at 1:13 PM.

IV. AGENDA MODIFICATIONS

No modifications to the agenda were made.

V. BOARD BRIEFING

a. HOW AFFORDABLE HOUSING GETS FINANCED

Brian Lloyd provided a brief introduction and overview of the purpose of his presentation. Beacon Development is an affordable housing consulting firm that supports nonprofit organizations in developing housing. Beacon Development has supported almost $2 billion of projects and touched many housing types.

The affordable housing development process is the same as conventional development but with some key differences. A nonprofit must determine that they are the correct organization to serve a target population and have the correct partnerships to support its work. The timeline for affordable housing development can range from three to five years, and one of the critical issues is how long it takes to assemble the funding. Once you have the funding, you can charge forward with design, entitlements, and construction. The funding assembly is vastly unpredictable.

Dana Ralph asked what the catalyst would be to encourage affordable housing development in an area that does not have as many service partners available, noting the inequitable distribution of affordable housing and the need to have it distributed across the county. She added that the City of Kent has more King County Housing Authority units than any other city in the county. Brian Lloyd said there is a need to see equitable distribution of housing, but that lack of funding is one of the primary challenges to seeing affordable housing in other parts of the county.

Carmen Rivera asked if Beacon Development considered the impact of redlining and other socioeconomic conditions when siting affordable housing. Brian Lloyd responded that many of their partners consider racial equity when determining whom their projects should serve in an area.

Brian Lloyd continued that once it's been determined that you are the correct organization with the right partners for an affordable housing project, that is when you dive into the conventional stuff. This can include surveys, title reports, design studies, and building an initial proforma. This would look at the project's likely costs, such as site acquisition and construction, and the likely funding sources, including tax credits, local subsidies, and the rent paid by future residents. If you have an excellent project for $50 million but can only find $40 million in funding, the project is going nowhere.

Once there is a project where the costs and potential funding sources balance out, you begin applying to those funding sources. This is unpredictable, and you will go to as many potential funding sources as possible, such as city, county, state, and financial agencies. Generally, these are yearly applications; if your project is not awarded, you return the following year. It isn't uncommon for a project to need to apply two or three times before receiving an award. This could mean a project takes just three years to get through the funding process.

Market rate developers don't need to do the funding assembly, so they don't need to wait to move into the next step. Nonprofits and For-profit organizations building affordable housing will wait until funding is secured before moving forward, as surveys, title reports, and design studies require funding. It can take between $1-2 million to get entitlements. So, unless you're certain that you have the funding lined up, you likely won't spend any money.

Jeff Tate asked if there was a higher holding cost since it could take years to get funding. Brian Lloyd said that there was, and the hope is to find a patient seller who is willing to wait for a nonprofit to secure funding. There is also an option to work with some lenders who will defer interest costs until a project is closed. Most of the time, organizations can't buy property and hold it, so there must be some advantageous holding arrangement.

Brian Lloyd continued that the design and permit stage takes substantial funding and a significant amount of time, depending on the jurisdiction. The City of Seattle can take roughly 18 months to complete the permitting process. Once the design and permit stage are complete, you can close on the funding sources you've obtained. This can feel intense for the nonprofit as every funder has their legal documents and counsel. These documents include the affordability terms, which can be unique to each funder and must be finalized. Once this is completed, a project can be moved into construction.

The construction stage is often where a lot of the risk lies, and roughly 65-70% of the total cost of the project will be associated with construction. Having a strong construction partner or general contractor who knows the product type and affordable housing is essential. Beacon

Development tries to avoid low-bid construction contracts, which often link you with contractors more interested in the bottom line than the mission of the nonprofit.

After construction comes lease-up and management, which is highly challenging, especially in the current market; with inflationary pressures, utilities, insurance, and staffing costs going through the roof, the estimated operations costs were made three to four years ago and no longer reflect the current market. Rising costs has strained newly completed projects in adjusting operating budgets without additional financial resources. Providing adequate support for serving the population can also be an extra challenge. Nonprofits must strike a balance between the population they're trying to serve and the funding sources they need to fully staff and support the program, which can be challenging in this environment.

Digging further into where the funding comes from, local, state, and federal funding is essential. Funding is a two-sided coin, with a capital side focusing on construction and development and an operating side concentrating on operations, maintenance, and services. Depending on the population served, operating subsidies may be required for the project's success. Developers will first start with local funders as funders at the state or national level will want projects with local funds supporting them. Despite the critical need for state funding, Brian Lloyd showed how the amount available in the Housing Trust Fund has varied dramatically over the last decade. The federal government's role in housing has also significantly reduced in the past twenty years. The largest federal funding source is through the Internal Revenue Service (IRS), which oversees the Low-Income Housing Tax Credit (LIHTC).

LIHTC is a ten-year credit and is very competitive. There are two types of LIHTC programs: the 9%, a deeper subsidy aimed to support extremely low-income households or special needs populations. The other program is a 4% which is a swallower subsidy and is limited by the bond cap authority in each state. LIHTC is a market-driven program with many factors that need to be considered.

As an example, a $1 million per year credit would result in being able to sell $10 million in tax credits on the market. A project and the allocation are put forward for investors to consider, and the investor returns offering a set amount per dollar for the tax credits available. For example, for every $1 tax credit, the market will give $0.95. So, the investor, generally a bank, buys that tax credit over a 10-year period, which brings forward equity usable today by the developer. The investor is then paid back over the ten years through the tax benefit.

Many things impact the price an investor will pay per tax credit. The example of $0.95 is ideal and would be a fantastic figure to receive, and a few years ago, some markets saw tax credits being sold for $1.10/credit. Currently, the market price in our region is in the mid-80s and the example project would receive only $8.5 million in equity compared to the $9.5 million at $0.95/credit. This means the project is short $1 million, so the funding would have to come from a local public funder such as SKHHP.

Several things can impact the price per credit, including the project's location, the organization's stability, the service model, and the partnership. Each of these components has been impacted in the last few years, and there is a perception of risk on the side of the investors. Another factor is the high interest rates we are experiencing nationally, which provide investors with many options when considering where to place their money to receive the greatest return on investment. Tax reform and depreciation rules also have an impact on pricing.

There is a fundamental question the discussion has led to: Why do affordable housing projects need subsidies when compared to market-rate housing projects? On the capital side, when considering a conventional market-rate deal for $20 million, about 70% or $14 million of the project will be financed by bank debt, supported by the market-rate rents. The remaining 30%, or $6 million, will be owner equity, which is motivated by the fact that any profit generated by the property goes toward paying the owner's debt. Additionally, the equity will almost always be paid off when the property is eventually sold. A $20 million affordable housing project will have virtually no bank debt since the rents are set and locked to maintain affordability. There is also no owner equity because it's restricted real estate; a regulatory agreement governs the property, and there would be no return on investment. The LIHTC program is essential as it enables investment into the project. Even with LIHTC, there will still be a funding gap where city, county, or state funding is critical. This is referred to as the "Capital Stack," most projects will have at least three to four sources, but some may have as many as twelve or fourteen different sources.

On the operating side, getting a conventional deal to pencil is relatively straightforward: Market Rents – Operating Expenses – Debt Payments = Cash Flow. Affordable housing projects can be more complex and vary across different housing types. Considering an example of a program serving 50-60% AMI households, the amount collected through rent is restricted and less than a conventional deal. The operating expenses are also likely higher since the population might have specific needs, insurance premiums may be higher, or there is increased tenant turnover. The cash flow is likely to be less than a conventional deal, but the hope is that the project has positive cash flow—a lender requiring some debt coverage that allows for a margin of error. For a project serving 0-30% AMI households, the rent collected will be even lower, and operating expenses will be much higher. The project will require some ongoing subsidy, such as Section 8, to break even. A developer must calculate the operating costs beforehand; otherwise, a project may have one or two years of operation before it quickly deteriorates. Most nonprofits work hard to plan and prepare, but things like the pandemic can occur, creating unexpected challenges. This is why long-term partnerships are essential to ensure success.

Dana Ralph added that she felt this is where some of the concerns expressed by the community arise, a project that started great but, for whatever reason, fell into disrepair. Brian Lloyd added that the adage is true," If it sounds too good to be true, it probably is," when considering projects, it is best to avoid projects that, like a low-bid contractor, sound good but won't provide a long-term, quality product.

Brian Lloyd reviewed a pro forma example for a 9% LIHTC affordable housing project with 75 units.

Jeff Tate asked if having funds connected to Qualified Census Tracts (QCT) encourages a concentration of low-income projects in one area. Brian Lloyd confirmed that it does, and some communities are concerned about it. There can be policy decisions in the future which change that. Jeff Tate added that there are more QCTs in South King County than in the rest. Brian Lloyd said that Difficult Development Areas (DDA) do factor in high-cost areas, but he is unsure if there is equitable distribution compared to QCTs, and that would be a policy question for the Washington State Finance Commission.

HUD defines a QCT as a census tract in which 50% or more of households are income-eligible if the total population in the tract does not exceed 20% of the total population in the respective area.

HUD defines a DDA as an area designated by the Secretary of HUD with high construction, land, or utility costs relative to the Area Median Gross Income (AMGI).

As a public funder, SKHHP wants projects to take on as much debt as they can reasonably support. A debt coverage ratio is one way for a funder to ensure a project's success, and Brian Lloyd suggests using a ratio of 1.25 in the current market. Over the life of a project, the operating expenses will continue to increase, but the revenue will continue to go down. Eventually, the revenue will be less than the operating expenses, and the hope is for a project to hit this point at the 15-year mark. At 15 years, the tax credit compliance period has ended, and the investor leaves the project, which is now entirely the sponsor's concern. The likely assumption is that there will be refinancing, which could include syndicating or selling new tax credits. A project having cash flow till at least its fifteenth year of operation is critical.

Victoria Schroff asked if projects can have trouble at the 15-year mark since there is a lot of upheaval and transition. Brian Lloyd said it depends on the sponsor's financial strength and sophistication. Some projects are fine past the 15-year mark, and others struggle well before that.

Kristina Soltys asked if there were challenges with re-syndication given the lower rate of exchange for credits and if projects had other options. Brian Lloyd confirmed that re-syndication was the only real option. Kristina Soltys asked if it was more complex to get tax credits than five years ago. Brian Lloyd confirmed that it is more complicated.

Thomas McLeod asked what had changed to make the process more difficult. Brian Lloyd responded that the process is more competitive, and while the amount of money has stayed the same, the costs of projects and the need have increased.

Kristina Soltys asked if there was any hope for the pot to change since local jurisdictions are receiving directives to encourage housing production without additional resources. Brian Lloyd said that it depends and that there is an increase in awareness of a housing crisis. The LIHTC program at the federal level is a bipartisan issue, and there is legislation to improve the program, which has much support. Even with this support, the legislation will need more time. HB 1590 is an example of how the state has recently made efforts to increase affordable housing funding.

Dana Ralph added that while there is support for affordable housing, there is no support for market-rate housing when the market has no incentive to produce housing at those levels. This is a challenge for South King County cities, which have a directive from the state to enable the production of not only affordable housing but housing for all income bands. There are no tools to balance housing for the whole community.

James Lovell asked what strategies smaller cities like South King County can use to support affordable housing beyond just policy changes. Brian Lloyd responded that there are four buckets: policy, costs that can be forgiven, funding that can be committed, and strong partnerships. On the policy side, it's about not creating unnecessary challenges or delays in city code or permitting, which prevent housing production such as frontage, landscaping, or parking requirements. On forgiving costs, jurisdictions can find ways to right-size the cost of affordable housing, such as waiving impact fees. Pooling funding through SKHHP exemplifies how jurisdictions can support the third bucket, committing funding. Lastly, strong partnerships can be built by deciding what type of housing the community needs and developing relationships with developers who do that work to find locations and support construction. A city that says it wants a specific type of housing should be prepared to work on creating it in its community if it genuinely supports affordable housing.

Jeff Tate stated that over the last few years, the state has taken funding sources away from cities, enabling them to establish impact fees to make up for the lost revenue. While the math for the developer makes sense, it can be challenging to waive fees for smaller cities. A solution would be to support the state reimbursing fees waived by the jurisdiction. Brian Davis added that the impact fees aren't waived in the sense that they go away, and the city is paying them in place of the developer.

Victoria Schroff stated that the City of Maple Valley is looking into ways to support low-income housing, but there are not many supportive services in the area. She asked if there are ways to start partnerships so that the services come into an area alongside the new housing. Brian Lloyd said it would be best to start small and identify the city's needs and the partnerships that fit that need in the surrounding area to begin building relationships.

VI. BOARD BUSINESS

a. GENERAL UPDATES

Jeff Tate shared some updates about SKHHP's work. The Staff Work Group met on June 5 and helped prepare the agenda and speakers for the Executive Board meetings. On June 6, the Advisory Board held its monthly meeting and additional meetings to prepare for a presentation to the Executive Board in July.

Brian Davis asked what the presentation would cover. Jeff Tate said that it would be about how housing and homelessness work together.

VII. UPDATES/ANNOUNCEMENTS

Dana Ralph informed the Executive Board that the July meeting would discuss how homelessness fits into SKHHP's work.

Dorsol Plants provided a brief update that SKHHP Executive Manager Claire Goodwin and her son are both doing well.

VIII. ADJOURN

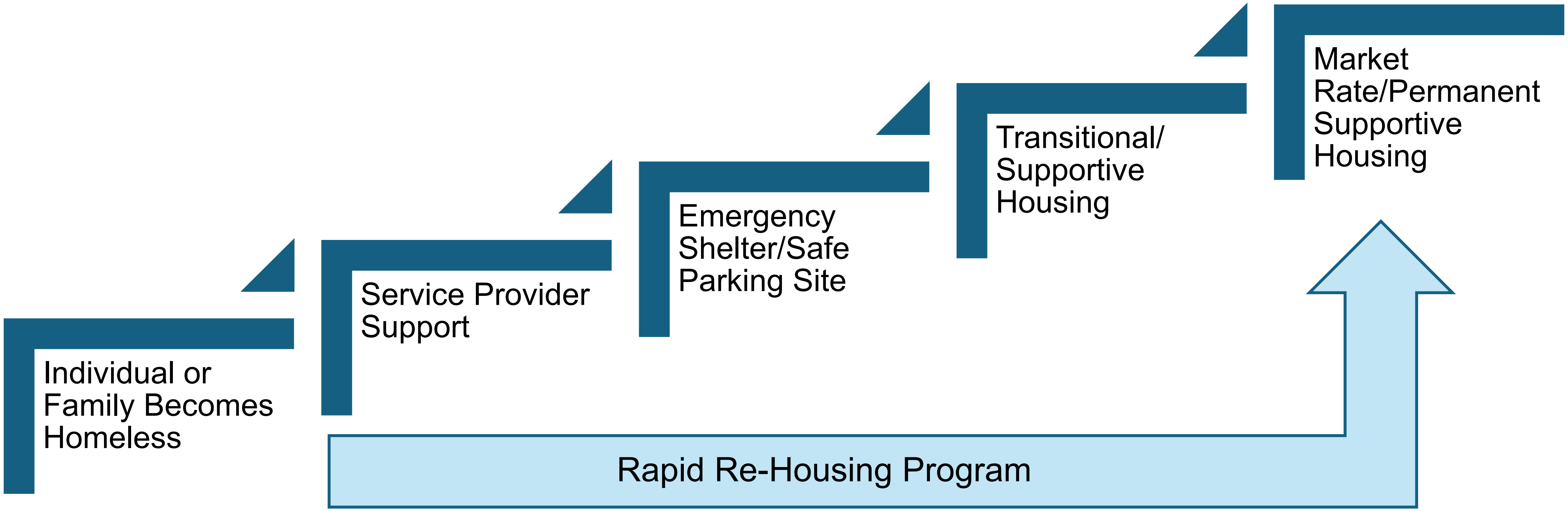
Dana Ralph adjourned the meeting at 2:30 PM.

PRACTICAL SOLUTIONS TO STOP THE CYCLE OF HOMELESSNESS

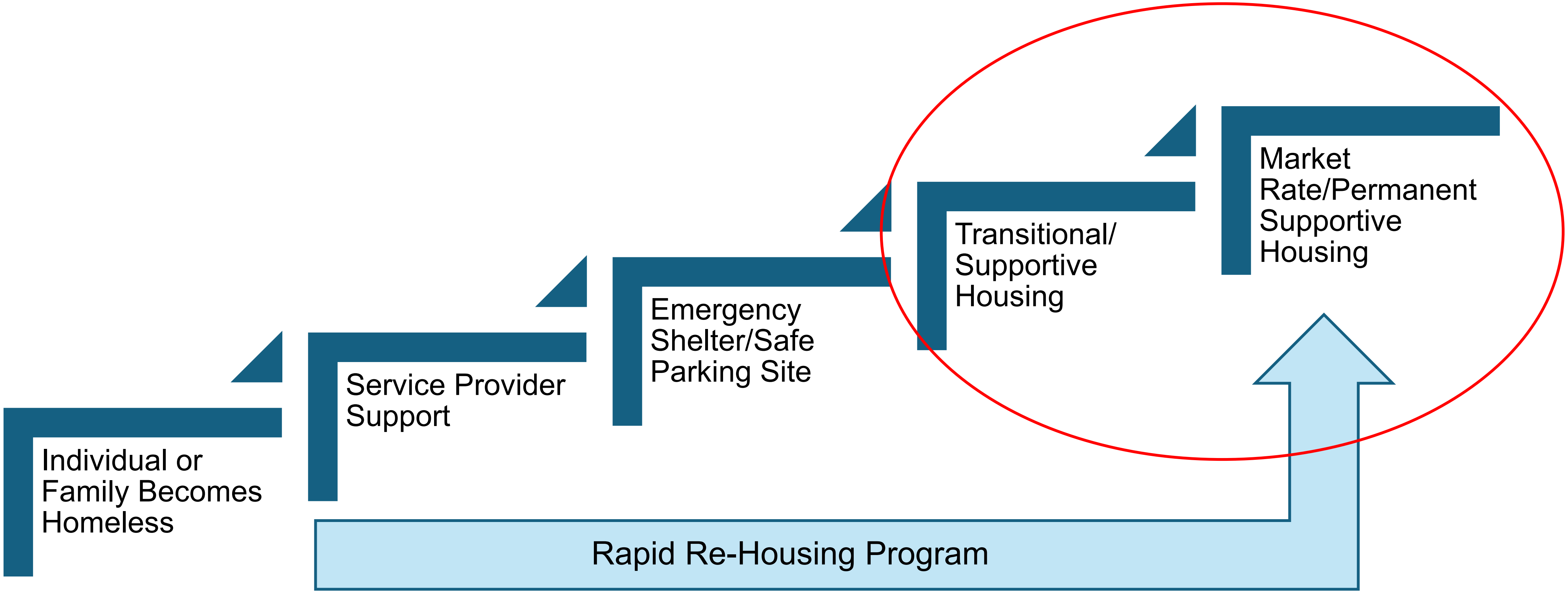
SKHHP Executive Board
July 19, 2024

Menka Soni, Ashley Kenny, Olga Lindbom, Hamdi Abdulle, Kent Hay, Maria Arns, Kathleen Hosfeld, & Rumi Takahashi

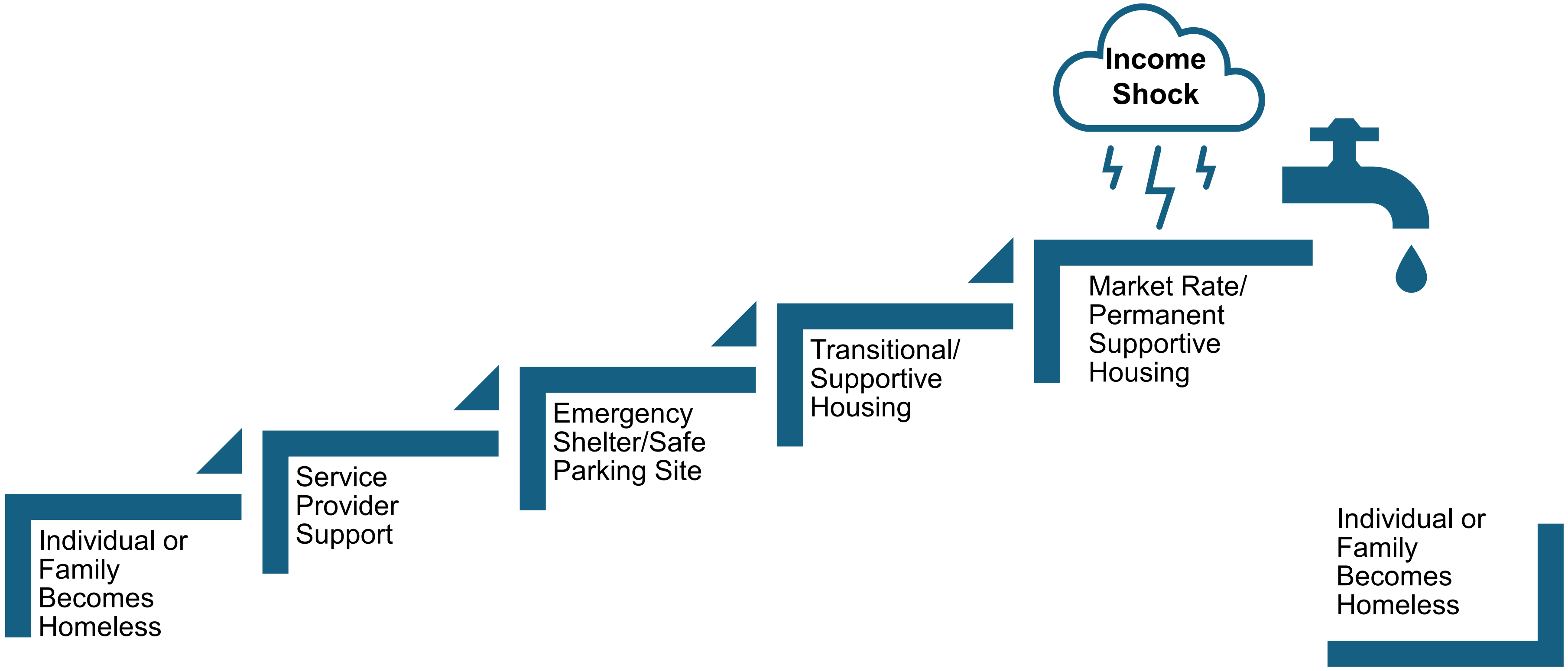
Steps Out of Homelessness - Ideal



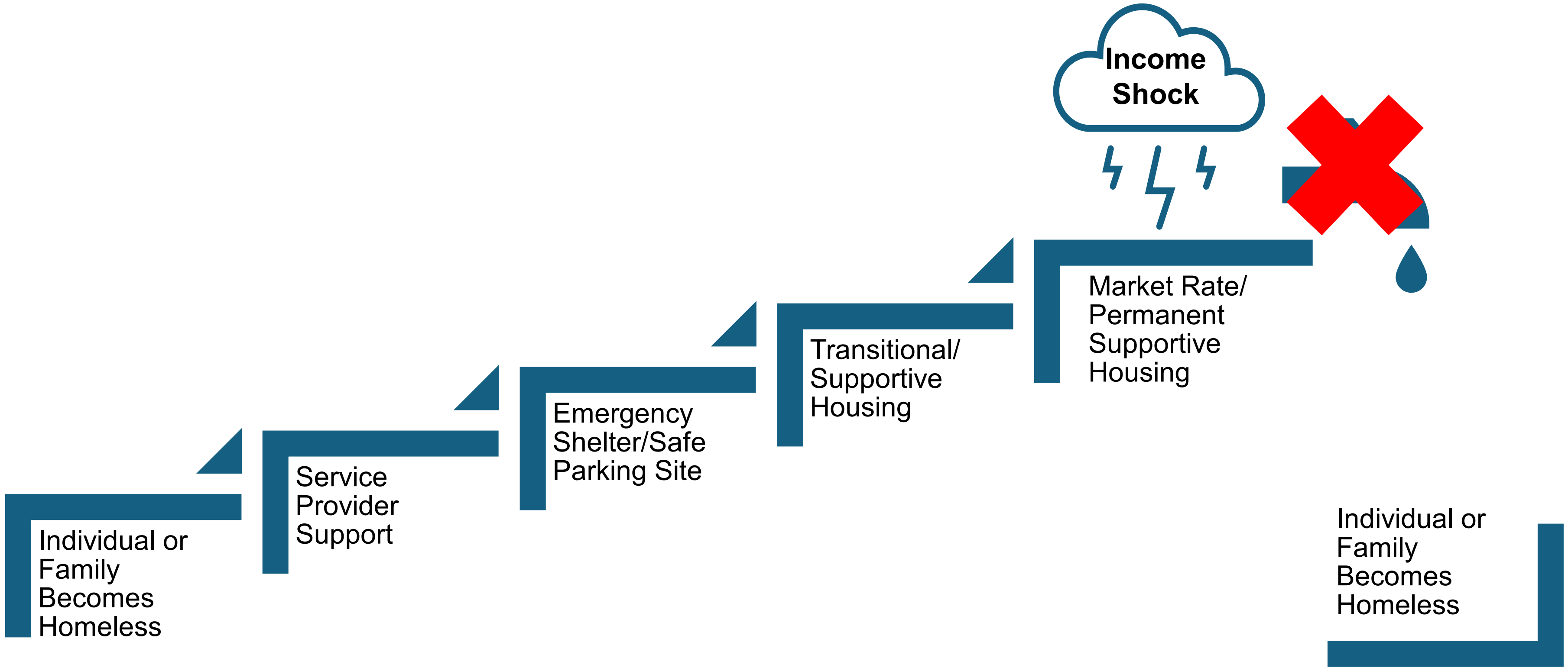
The First 'H' in SKHHP



Steps Out of Homelessness - Reality



Breaking the Cycle



Rent/Financial Assistance

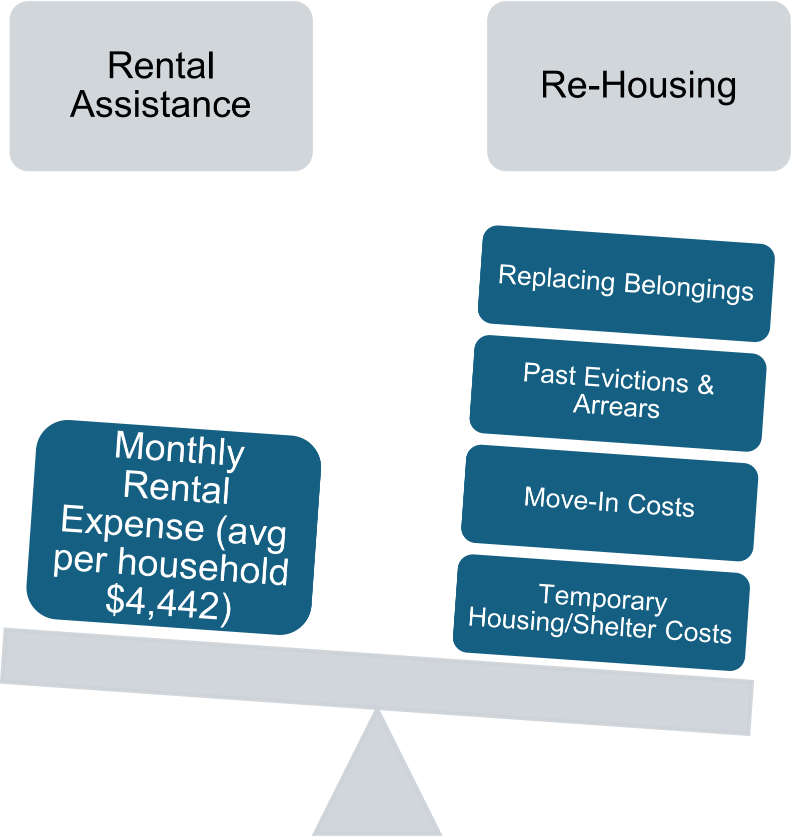
Homelessness Risk Factors

To truly impact homelessness in South King County, we must address the problem holistically and take steps to prevent homelessness before it begins.

- Based on our organizations’ experience, a majority of households exit homelessness into tax credit (60% AMI) or market-rate housing
  - Shortage of units/vouchers for 0-50% AMI
  - Rents have increased 20% year-over-year since 2022
- One income shock followed by one month of missed rent can set a household on the path to eviction
- Prior experience of homelessness is a key indicator that, if faced with eviction, a household will return to homelessness
- Homelessness is expensive for everyone
  - Keeping individuals housed through RA prevents both immediate and lasting effects of homelessness that affect our entire community

Rent Assistance vs. Homeless Services

Rental assistance has greater impact on the individual and community than homeless services alone.



A 2019-2020 study by Destination Home in Santa Clara County showed a decrease in homelessness within the group that received rental assistance

- Among those that received assistance, 0.9% became homeless within 6 months, compared with 4.1% of those who did not receive assistance
- Effect was higher for households with prior experience of homelessness and for households without children

Average rent assistance per household was $4442 in FY ‘19-’20

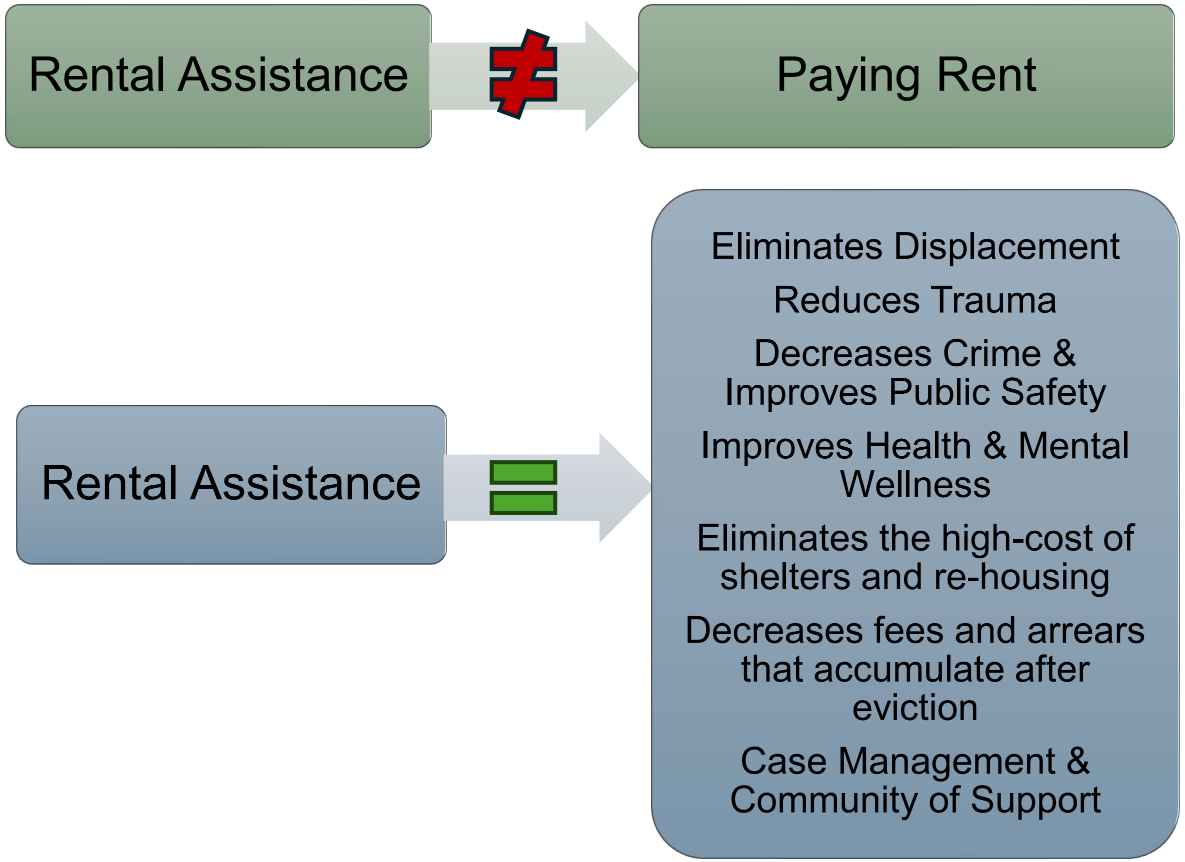
Study found cost savings with rental assistance vs. homelessness. After subtracting costs, benefits were found to be:

- $1898 direct benefits to recipients (per individual, after program cost subtracted)
- $2605 in benefits to non-recipients (housing & homeless services; landlords; healthcare & criminal justice systems; and other public services)

Why Empower the Service Provider?

Holistic Support = Holistic Impact

- Often funding comes with tight parameters
  - Ex: household has to be on the verge of eviction w/ court summons
  - Ex: household has to have arrears of only $3000
- This leaves many households in a vulnerable position for way too long
  - Trauma builds if households have to wait until eviction looms
  - Income shocks can last longer than two months, leaving larger rental arrears
- Service providers should have flexibility in how they serve their target population with rental assistance
  - Recurring need for rental assistance is still the most efficient way to impact the cost and impacts of homelessness on communities



Comprehensive Case Management

Case management and robust support systems are essential in disrupting the cycles of chronic homelessness, ensuring individuals receive timely assistance to prevent situations from deteriorating and exacerbating financial burdens.

- Clients receiving more intensive case management show even greater connection to programs along with no increase in eviction filings.
- Case management eliminates the duplication of services and ensures that individuals are connected to the correct resources.
- Case management addresses both direct and indirect barriers that impede clients' long-term success, including health, education, environment, food access, and workforce development. Addressing these areas is crucial for breaking the cycles of financial hardship.

Homeless Stability Payee Services (HSPS)

Description of the Problem/Need it Addresses: Homelessness often exacerbates financial instability due to challenges in managing funds effectively. HSPS addresses this need by providing a structured approach to financial management.

Key Objectives:

- Enhance financial stability for individuals experiencing homelessness.
- Facilitate access to stable housing through effective budgeting and financial planning.
- Foster independence and self-sufficiency.

Homeless Stability Payee Services (HSPS)

Purpose of the Program: HSPS aims to provide financial stability and support to individuals experiencing homelessness or at risk of homelessness by managing their funds through payee services.

Target Audience: Individuals experiencing homelessness or at risk of homelessness, social service agencies, government organizations, and payee service providers.

Overview of Features:

- Financial management through payee services
- Budgeting assistance
- Coordination with social service agencies
- Goal-setting support for stability and housing attainment

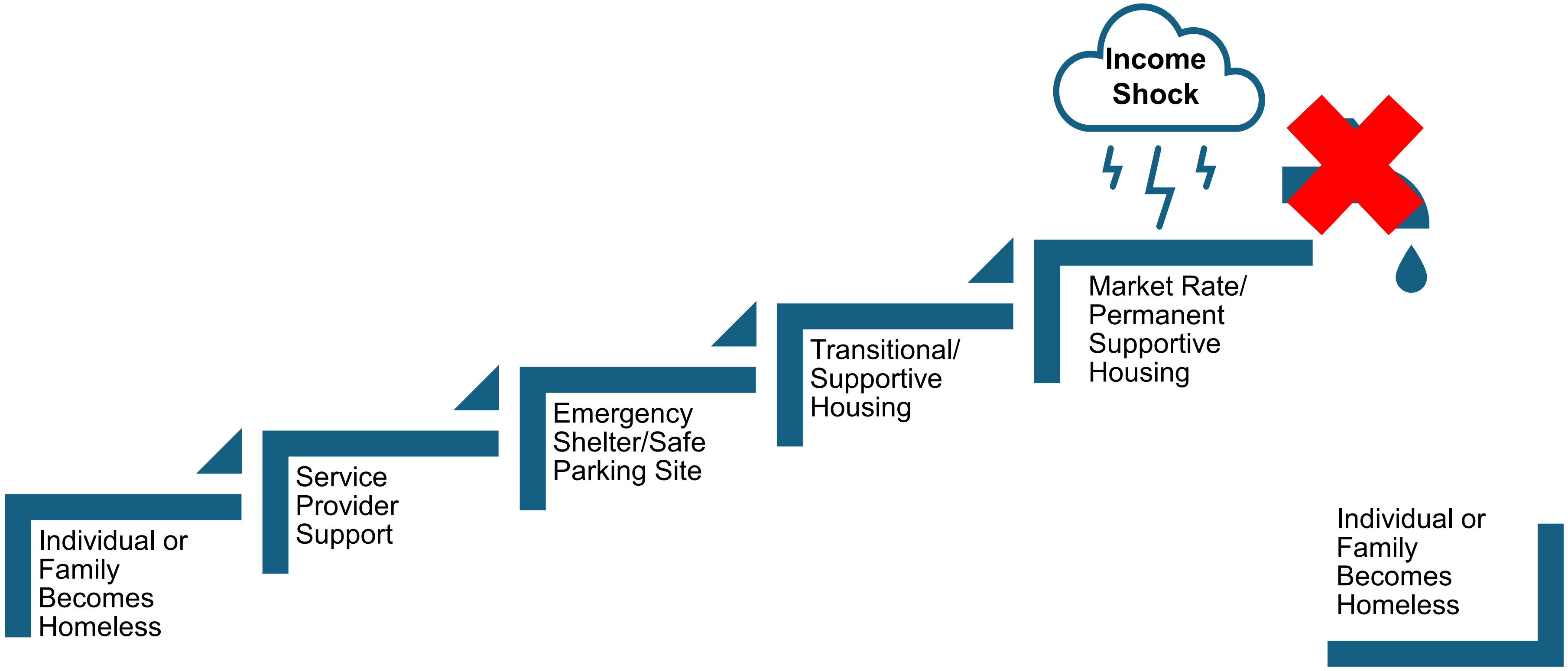
Homeownership as Homelessness Prevention

Homeownership as Homelessness Prevention

- **Stability** – Affordable homeownership gives households a permanent place to live where they cannot be evicted.
- **Affordable Housing Payment** – Subsidized homeownership is frequently lower than market-rate renting. Fixed-rate mortgages provide predictable housing costs, unlike rent, which can increase.
- **Government Support** – Subsidized home prices, down payment assistance, subsidized mortgage interest rates make homeownership affordable reducing the likelihood of homelessness.
- **Wealth Building** – Households who own homes build equity over time, which can be a financial safety net during times of economic hardship. Affordable homeownership community in King County has resources to help homeowners weather times of financial distress.

No one is immune to housing insecurity

Breaking the Cycle



Questions

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