Growth of Tax-Credit Financed Homeless Housing in Washington State Geographies

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In 2019, the State of Washington Homeless Housing Crisis Response System established the objective of annually housing 5,300 households to reduce unsheltered homelessness by 12% by 2024 (Washington Dept. Commerce, 2019). In 2022, 12,909 people actively experienced unsheltered homelessness in Washington, an increase of 16% since 2020 (Washington Dept. Commerce, 2022a). Between 1989 and 2022, Washington State programs invested $1.96 billion into contracts that developed 55,617 units of low-income housing. Of these developed units, 12,791 were set aside for households experiencing homelessness (Washington Dept. Commerce, 2022b). This demographic briefing will explore the development of these set-aside units in low-income housing projects, herein referred to as Homeless Set-Aside Units (HSUs).

Nueva Vista II, located in Kennewick, Washington, opened in 2018 and was financed by both the Housing Trust Fund and 9% LITHC. 14 of out 28 units are HSUs (Building Tri-Cities, 2019).

HSUs are units of low-income housing for households with at least one adult who has Homeless Status, the measurement of eligibility to qualify for tenancy in HSUs in Washington State (WSHFC, 2009). Unlike Permanent Supportive Housing (PSH), which is exclusively designed for formerly homeless households who need high levels of support, HSUs may be a part of housing projects that serve people with diverse backgrounds and incomes from 30% to 60% of the Area Median Income. Most PSH projects are entirely comprised of HSUs, but not all HSUs are in PSH. The U.S. Office of the Assistant Secretary for Planning and Education (2012) praised HSUs as an alternative, and more affordable to develop, housing option for homeless people who do not require PSH. However, Washington State has not created enough HSUs to meet demand.

The Housing Trust Fund and the 9% Low-Income Housing Tax Credit Program (LIHTC) are the main sources of funding for homeless set-aside units (HSUs) in Washington State (JLARC, 2019). The Housing Trust Fund is administered by the Washington State Department of Commerce. The Housing Trust Fund is managed by the state Department of Commerce, while the 9% LIHTC is supervised by the state Housing Finance Commission (WSHFC). The 9% LIHTC differs from the Housing Trust Fund in that it involves for-profit investors and developers who buy and sell tax credits to finance low-income housing projects (Colburn, 2022; Keightley, 2023). The 9% LIHTC is the largest affordable housing subsidy in the U.S. (Colburn, 2022). Every year, the WSHFC sets the allocation policies for the 9% LIHTC program, giving priority to projects that serve homeless households (WAC, 2009). Applicants who want to get more points for their proposals must follow these policies. However, the 9% LIHTC program is very competitive, and only 12 out of 23 projects were approved in the last application cycle (Vatske, 2022). This briefing will focus on the 9% LIHTC program, its potential to reduce homelessness in Washington State by developing more HSUs, and geographic disparities reflected in the development of 9% LIHTC HSUs financed by WSHFC prior to 2023.

Rural renters heavily rely on LIHTC programs for affordable housing. According to a report by Freddie Mac (2020), 25.7% of multifamily renter households in all rural areas reside in LIHTC units while 12.6% of multifamily renter households nationally live in LIHTC units. Moving beyond housing affordability, the 2022 HUD Annual Homelessness Assessment Report to Congress (Sousa, et al., 2022) sheds light on Washington’s need for HSUs in rural geographies. According to the report, Washington's largely rural Continuum of Care programs serve 5,854 people experiencing homelessness. Notably, Washington ranks third nationally in the number of homeless persons served by largely rural Continuum of Care programs.

No formal research compares the geographic availability of 9% LIHTC HSUs in Washington or the factors that may affect the investment and development of HSUs based on geography. This briefing will examine the availability and growth of HSUs in different regions of Washington State. The first section of this briefing will define the key terms and variables used in measuring the growth of 9% LIHTC financed HSUs in Washington State. The second section contains original data elements that measure HSU growth by comparing housing data from the Affordable Housing Data Portal for the State of Washington (WSHFC, 2023c) with household data from American Community Survey 1-Year Supplemental Estimates (U.S. Census Bureau, 2017-2022). The third section will document the magnitude of HSU growth between cities in WSHFC's 9% LIHTC designated Metro and Non- Metro County pools from 2014-2017 and 2017-2022. The fourth section will discuss how various factors may impact the development of HSUs and discuss the limitations of the data used in documenting the magnitude of HSU growth. The final section will suggest a policy recommendation to reduce the regional disparities in HSU availability and growth across Washington, specifically in West Non-Metro counties.

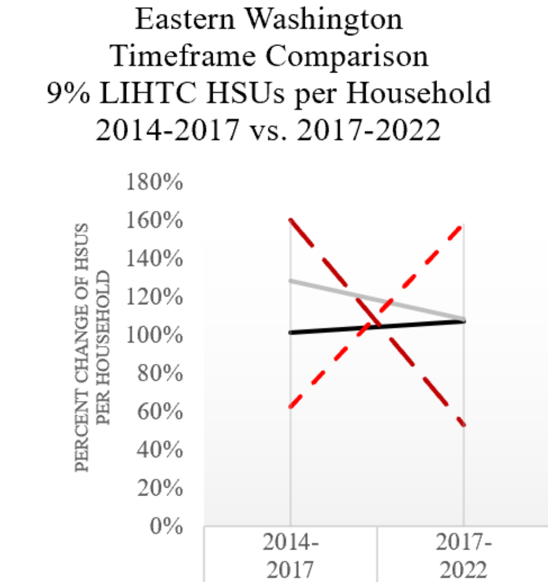
Definitions and Operationalizations of Important Concepts

Instead of total population, this briefing uses households as a comparison variable because HSUs are not only for single adults. This briefing samples the housing data, specifically the number of HSUs per city, from the Web Based Annual Reporting System (WBARS) dataset in the Affordable Housing Data Portal (WSHFC, 2023c). This briefing uses Microsoft Excel to sort out the LIHTC projects financed by WSHFC that did not have at least one HSU.

This briefing sorts the WBARS data by cities in Metro and Non-Metro counties, as defined by the 2014-2022 WSHFC's 9% LIHTC Policies. WSHFC classifies counties outside of King County into Metro and Non-Metro County credit pools based on criteria such as population size, density, urbanized area residency, access to local housing funds, development capacity, and housing needs (WSHFC, 2023a). This briefing excludes cities that were not covered in the 2014 American Community Survey, and cities that did not have both one HSU project with a First Credit Year of 2017 or earlier and one with a First Credit Year of 2018 or later. The term First Credit Year means the year when WSHFC approved the project for LIHTC. This briefing documents the HSU growth for Non-Metro Counties in these cities: Bremerton, Kennewick, Olympia, Pullman, Walla Walla, Wenatchee, and Yakima. For Metro Counties, this briefing considers these cities: Bellingham, Everett, Spokane, Tacoma, and Vancouver.

This briefing categorizes the HSU projects in these cities into three groups: First Credit Years of 2014 or earlier, 2015-2017, and 2018-2022. This briefing divides the number of HSUs in each timeframe by the number of households in 2014, 2017, and 2022, respectively. This briefing aggregates the percentage change of HSUs per household in each timeframe for all cities in Metro vs. Non-Metro and Eastern vs. Western counties. This briefing also compiles supplemental data from WBARS to document the percentage of HSUs per total project units within the studied buildings, comparing new development of HSUs before and after 2017. This briefing uses the definition of Eastern Washington as all Washington counties east of the Cascade mountains (U.S. Attorney's Office for the Eastern District of Washington, 2015). This briefing defines the remaining 19 counties in Washington as Western Washington.

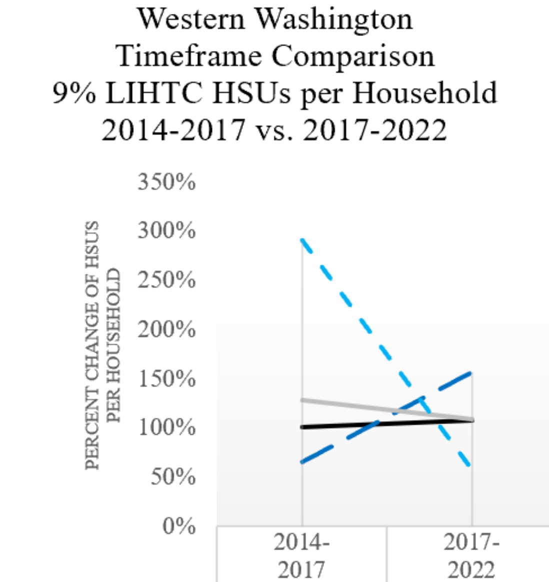
Graphs Comparing Timeframes of HSUs per Household Growth



	2014-2017	2017-2022
All Metro	101%	107%
East Metro	160%	53%
All Non-Metro	128%	108%
East Non-Metro	62%	158%

TIMEFRAME COMPARISON

Figure 1. Eastern WA Timeframe Comparison of Homeless Set-Aside Unit Growth. Retrieved from WBARS Data (WSHFC) and American Community Survey (U.S. Census Bureau).



	2014-2017	2017-2022
All Metro	101%	107%
West Metro	65%	156%
All Non-Metro	128%	108%
West Non-Metro	290%	57%

TIMEFRAME COMPARISON

Figure 2. Eastern WA Timeframe Comparison of Homeless Set-Aside Unit Growth. Retrieved from WBARS Data (WSHFC) and American Community Survey (U.S. Census Bureau).

Documentation of the Scope and Magnitude

Non-Metro Eastern Washington and Metro Western Washington Counties had a historically significant growth in HSUs per household from 2017 to 2022. *Figure 1* illustrates that East Non-Metro counties experienced an increase in the percentage change of HSUs per households from 2014-2017 (62%) to 2017-2022 (158%), while overall Non-Metro counties saw a decline in the percentage change of HSUs per households from 2014-2017 (160%) to 2017-2022 (53%). In *Figure 2*, West Metro counties exhibited a larger increase in the percentage change of HSUs per households from 2014-2017 (65%) to 2017-2022 (156%), compared to a smaller increase in the percentage change of HSUs per households in all Metro counties from 2014-2017 (101%) to 2017-2022 (107%). The 2017-2022 growth of HSUs has outpaced the household growth in cities within Non-Metro Eastern Washington and Metro Western Washington Counties. All areas had increases in the HSU percentages per project between 2017-2022 per supplemental analysis of WBARS data. Generally, Non-Metro 2017-2022 growth of HSU percentages per project in new developments (34%) was lower than Metro (63%).

Discussion and Limitations of Data

One possible reason for the increased HSU growth in Non-Metro projects is the new policy that WSHFC introduced in 2017 for 9% LIHTC project applications (WSHFC, 2017). This policy gave an incentive for Non-Metro HSU development by requiring only 50% HSUs per project for 35 points, while Metro and King County projects needed 75% HSUs for the same points. Since 2017, Non-Metro counties consistently receive more favorable point allotments for required HSU percentages per WSHFC's Policies (WSHFC, 2017-2022). This change allowed a more lenient threshold for HSU point allocation in Non-Metro projects. While the 2017 WSHFC policy shift could clarify the growth of Non-Metro HSUs in Eastern Washington during the specified period, it falls short in explaining the observed differences in HSU growth between Non-Metro projects in Eastern and Western Washington shown in *Figure 1* and *Figure 2*.

A possible reason for the higher HSU growth in Non-Metro East projects is the lower development costs in that region. Developers of 9% LIHTC projects in Non-Metro West cities must pay more for land and construction than those in Non-Metro East cities, according to the State Legislature's Joint Legislative Audit and Review Committee (2018). TDCs are the sum of all costs associated with developing a housing project, including land and construction. WSHFC's affordable housing cost data report to the State Legislature (2021) also highlights the disproportionate cost per residential square foot for new construction of LIHTC projects between 2020-2021 in Non-Metro West counties ($460/sq. ft.) compared to in Non-Metro East counties ($210/sq. ft.), Metro East counties ($262/sq. ft.), and Metro West counties ($295/sq. ft.). The disproportionately lower TDCs for Non-Metro East projects, coupled with the 2017 WSHFC 9% LIHTC policy change, could explain the observed differences in *Figure 1* and *Figure 2*.

Several limitations arise in the underlying data used to create the graphs comparing timeframes of HSUs per Household Growth. The WBARS data only provides the First Credit Year for each project, typically recorded at least one year before the project's actual placement in service. City data was excluded due to limitations in the American Community Survey data. Projects in Ellensburg, Omak, and Neah Bay had HSUs before and after 2017 but they were excluded from this data as they were not included in the 2014 American Community Survey.

The limited details available in the WBARS data prevent a comprehensive investigation of the impact of WSHFC's allocation criteria on the development of HSUs in the East and West regions of Washington. Allocation criteria unavailable in WBARS includes cost efficiencies of projects, nonprofit status of the owning organization, and several other point allocation factors. Although WBARS data enables identification of Qualified Census Tracts (QCTs) that benefit from a 130% increase in maximum LIHTCs allocated by WSHFC, this does not seem to influence the briefing's findings. No evidence suggests that QCT placement played a role in the observed geographic disparities in HSU growth as no projects developed between 2017-2022 in Non-Metro areas of Eastern and Western Washington fell within QCTs (HUD, 2022; WSHFC, 2023c). The limitations impacting the discussion of this data could be resolved by submitting a Request for Public Record Form to WSHFC for detailed project information.

Policy Implications

Regionally determined TDC limits within Washington's 9% LIHTC program could potentially lead to a more equitable approach to 9% LIHTC projects across diverse geographies, and thereby improve geographic disparities of 9% LIHTC HSU development. However, the higher estimated TDCs for cities in Western Non-Metro counties are not reflected in WSHFC's 9% LIHTC TDC limits. Therefore, the 2023-2024 TDC limit for a 9% LIHTC studio unit for all

Non-Metro counties is $324,790 (WSHFC, 2023a), which may not be sufficient to cover the actual costs of development in some areas. Moreover, a 2022 study conducted by Master of Public Administration students at the University of Washington Evans School interviewed developers and key stakeholders in the LIHTC application process (Adams et al., 2022). The study questioned the applicability of WSHFC's Metro and Non-Metro pools, particularly in evaluating TDC limits east of the Cascades and in western Non-Metro areas of the I-5 corridor.

The Evans School study recommends changing Non-Metro and Metro geographic pools. Regional TDC re-evaluation may be more feasible than pool revision, given the bureaucratic challenges of altering the LIHTC application process. One dissenting voice in the regional analysis of Washington's LIHTC program is Roger Valdez, Director of the Center for Housing Economics, who argued in an editorial that WSHFC's process favors "wealthy and politically powerful, Democratic Puget Sound, not in more rural and Republican [counties]," (Valdez, 2021). Lisa Vatske, WSHFC's Division Director of Multifamily Housing and Community Facilities, endorsed regional TDC limit adjustments in her 9% LIHTC Program Overview presentation (2022). WSHFC did not implement these adjustments in 2023 but took steps to reassess 9% LIHTC TDC limits this year. They adopted recommendations from the Evans School study, such as holding stakeholder meetings in March 2023 to inform changes for the 2024-2025 LIHTC cycle. A key development for this briefing is the equalization of Metro and Non-Metro HSU requirement thresholds in the next application cycle (WSHFC, 2023b). WSHFC also plans to review TDCs annually, aligning them with their Racial Equity Strategic Plan, and propose an updated TDC limit schedule in early 2024 (WSHFC, 2023d). WSHFC shows a commitment to continuous improvement, incorporating insights from the Evans School study, and aiming for a more responsive and equitable 9% LIHTC allocation process in future cycles through strategic efforts to evaluate TDC limits. However, the disparity in HSU growth between Non-Metro projects in Eastern and Western Washington persists due to WSHFC's long development cycle and project planning time. All 55 of the Non-Metro HSUs funded from the 2022-2023 9% LIHTC application cycle are in Eastern Washington (WSHFC, 2023d).

Conclusion

Analyzing data from 2014 to 2022, this briefing identifies disparities in 9% LIHTC HSU growth between Eastern and Western regions of Washington State, attributing them to the higher TDCs in Western Non-Metro areas. The briefing discusses the limitations of the data used to create original graphs documenting the percentage change of HSUs per households from 2014-2017. The data is limited due to the exclusion of several cities and an inaccurate reflection of projects' placements in service. Limited details available in the Washington Housing Portal prevent a comprehensive investigation of the impact of WSHFC's 9% LIHTC allocation criteria on HSU development. The policy implications section suggests regional considerations for re-evaluating TDC limits and highlights ongoing efforts by WSHFC to address concerns around current geographic inequities of TDCs. WSHFC's 9% LIHTC policies vary by geographic pool and may not reflect the actual needs and costs of developing homeless housing. This briefing calls upon stakeholders who are involved in the 9% LIHTC program to address the barriers that developers face in prioritizing 9% LIHTC HSU projects in Western Non-Metro geographies.

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