

HOUSE BILL REPORT

HB 1401

As Reported by House Committee On:

Housing
Capital Budget

Title: An act relating to land acquisition for affordable housing development.

Brief Description: Regarding the acquisition of land for affordable housing.

Sponsors: Representatives Pettigrew, Springer, Dunn, McCune, Miloscia, Chase and Santos.

Brief History:

Committee Activity:

Housing: 1/22/07, 1/31/07 [DPS];

Capital Budget: 2/22/07, 3/2/07 [DP2S(w/o sub HOUS)].

Brief Summary of Second Substitute Bill

- Creates the Affordable Housing Land Acquisition Program in the Department of Community, Trade and Economic Development. Low interest loans will be provided to eligible organizations to purchase land on which to develop affordable housing.

HOUSE COMMITTEE ON HOUSING

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Miloscia, Chair; Springer, Vice Chair; Dunn, Ranking Minority Member; Kelley, McCune and Ormsby.

Minority Report: Do not pass. Signed by 1 member: Representative Schindler.

Staff: Robyn Dupuis (786-7166).

Background:

The Department of Community, Trade and Economic Development (DCTED) provides financial assistance to housing projects for low-income persons through its Housing Trust Fund Loan and Grant Program. Eligible activities for Housing Trust Fund assistance include

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new construction and rehabilitation, rent subsidies, housing related social services, shelters, acquisition of low income housing units, and down payment assistance.

There exists a formal process by which eligible organizations may apply for funding. Application periods of at least 90 days duration are announced as often as the DCTED deems appropriate (currently twice a year) and applications are accepted and evaluated only during those periods of time. The review process evaluates the merits of a proposal based on need, readiness, capacity of the organization, and the proposed project impact. The review process takes approximately 12 weeks.

Some low-income housing developers have found it difficult to purchase and hold land for future affordable housing development given the fast-paced real estate market and the short time periods they are allowed to gather financing and close the deal. Many traditional sources of funding and financing for low-income housing developments, including the Housing Trust Fund, have strict application and review periods which are not always conducive to purchasing land in a timely manner within the private market. Furthermore, although short-term "bridge loans" are available, recipient organizations find themselves with tight deadlines to secure permanent financing for fear of losing the property in question.

Summary of Substitute Bill:

The Affordable Housing Land Acquisition Program is created within the DCTED for the purpose of implementing and managing a revolving loan fund for land acquisition for affordable housing and associated facility development. Loan interest rates may not exceed 1 percent. Housing must be maintained as affordable for 30 years.

In addition to a proposed affordable housing development plan required as part of the loan application process, loan recipients must present a more detailed development plan within five years of loan receipt and must place housing into service within eight years of loan receipt.

The DCTED will contract with the Washington State Housing Finance Commission (HFC) to implement and manage the program. The revolving loan fund will reside with the HFC and all receipts from loan payments and penalties will be remitted to this fund.

Penalty for Non-Compliance

If a housing development does not comply with the requirements of the program, a penalty is imposed which consists of the principal of the loan plus compounded interest calculated at the current market rate at the time the loan was made. The market rate will be determined by the HFC and shall be noted in the loan documents.

Program Reporting

The HFC will report annually on the results of the program to the DCTED and the Legislature using performance measurement data.

Accounts Created and Funding

There is a null and void clause.

Applicable Terms:

- **Affordable Housing** is housing for rental or homeownership housing for low-income families (80 percent of the median family income). For rental housing, payment of monthly housing costs cannot exceed over 30 percent of the household's income (RCW 43.185A.010).
- **Eligible Organizations** include local governments, housing authorities, non-profit community or neighborhood-based organizations, federally recognized Indian tribes and regional or statewide nonprofit housing assistance organizations.

Substitute Bill Compared to Original Bill:

Authorizes the Washington State Housing Finance Commission to establish and administer a revolving loan fund for land acquisition. Loan repayments and penalties will be deposited into this fund instead of into an account within the DCTED.

A \$5 million appropriation for the program is removed and a null and void clause is added to the bill.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested January 29, 2007.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed. However, the bill is null and void if not funded in the budget.

Staff Summary of Public Testimony:

(In support of original bill) Non-profit developers find it difficult to access land in the private market. They must move quickly to access available land opportunities, however, the short-term financing opportunities that exist charge interest rates often above 4 percent which makes land banking for future developments cost prohibitive. Furthermore, most short-term financing opportunities require development to commence within three years of loan receipt, a time constraint that often conflicts with other development commitments. This property acquisition loan program fills an important need in that it provides inexpensive financing for a longer period of time so that an organization can take advantage of an opportunity to purchase and hold land for affordable housing. This is a complimentary tool to the Housing Trust Fund. The Washington State Housing Finance Commission intends to add other financial resources to the fund and is willing to blend this program into other existing programs in order to cover administrative costs.

(In support with concerns on original bill) This is a good program, however General Fund money would be better spent to help Washington residents in greatest need through rental assistance and other programs. The bill could be improved if the Washington State Housing Finance Commission had authority and responsibility for management of the fund instead of the Department of Commerce, Trade and Economic Development.

(Opposed) None.

Persons Testifying: (In support) Representative Pettigrew, prime sponsor; Kim Herman, Washington State Housing Finance Commission; and Maureen Howard, Habitat for Humanity of Washington State.

(In support with concerns on original bill) Randall Lewis, Association of Washington Cities and the City of Tacoma; and Gregory Provenzano, Columbia Legal Services.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Housing. Signed by 22 members: Representatives Fromhold, Chair; Ormsby, Vice Chair; Schual-Berke, Vice Chair; McDonald, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Blake, Chase, Dunshee, Eickmeyer, Flannigan, Goodman, Hankins, Hasegawa, Kelley, McCune, Orcutt, Pearson, Pedersen, Sells, Skinner, Strow and Upthegrove.

Staff: Nona Snell (786-7153).

Summary of Recommendation of Committee On Capital Budget Compared to Recommendation of Committee On Housing:

The substitute bill includes a preference for loans to eligible applicants that operate home ownership programs in which low-income households participate in the construction of their homes. Forty percent of the loans must be to eligible applicants that operate home ownership programs for low-income households in which the households participate in the construction of their homes. Sixty percent of loans must be to other eligible organizations. If the entire 40 percent for applicants operating self-help home ownership programs cannot be lent to these types of applicants, the remainder shall be lent to other eligible organizations.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed. However, the bill is null and void unless funded in the budget.

Staff Summary of Public Testimony:

(In support) The bill creates a land pool for new home construction for affordable housing. Rents in Snohomish, King, and Pierce counties will increase by 22 percent between 2006 and 2009. In the current real estate market, it is difficult for nonprofit organizations to compete for land. A seller will choose a developer that can close on property quickly over a non-profit that needs more time to obtain financing. The bill will allow non-profits to tie up land at a low cost.

The timeline and benchmarks in the bill are realistic and appropriate. The Washington State Housing Finance Commission can leverage funds to increase the size of the program, and administration costs can be absorbed.

General funds should be used for the program as long as they are not carved out of existing programs.

(Opposed) None.

Persons Testifying: Velma Veloria, Homesight; and Steve Walker, Washington State Housing Finance Commission.

Persons Signed In To Testify But Not Testifying: None.