

Regional Housing Council – Permanent Supportive Housing Workgroup

Strategic Framework

Goal: Develop a strategy framework to fund 150-200 units of Permanent Supportive Housing (PSH) by 2024. Thurston County’s 5-Year Homeless Crisis Response Plan (2019-2024) (HCRP) identifies a lack of PSH as a critical bottleneck to operating a more efficient and effective homeless crisis response system. The approximately 179 PSH units in the County are occupied and experience low rates of turn-over. As a result, very few of those staying in shelters can move into permanent, stable housing solutions.

The HCRP set a goal of creating 300 units of PSH during the 5-year period. Approximately 248 PSH units are under development or have been identified for development. This strategic framework seeks to stretch the HCRP goal to support the development of 150-200 new units beyond the 248 units in progress.

Funding: The workgroup has identified the following funding sources that are available to Regional Housing Council (RHC) jurisdictions to support the development and operations of PSH housing units.

Program	Estimated Amount	Possible Use of Funds	Timeframe
American Rescue Plan Act	\$8-20 million	Acquisition, Construction/Rehab	Spend by December 2024
SHB 1406	≈\$800-900,000/annually	Acquisition, Construction/Rehab, Operating for new PSH units	Annual revenue until 2040
HOME ARPA	\$3 million	Acquisition, Construction/Rehab	Spend by 2030
HB 1277	\$4 million (initial estimate)	Operations, project-based vouchers, rapid rehousing, rent assistance	Annual revenue, expect to begin receiving in early 2022

Other possible sources of funding to support PSH projects include:

- **Local Incentives.** Each jurisdiction has or is developing a list of specific incentives that it can offer to incentivize and support the creation of affordable housing units. These incentives may include reduced or waived impact fees, connection fees, tax exemptions, or density bonuses, as examples.
- **Community Development Block Grant.** Can support acquisition, rehabilitation and off-site infrastructure improvements related to new affordable housing construction projects. Olympia and Thurston County could also pursue a 108 Loan against future CDBG awards to support housing efforts.
- **State Rapid Capital Acquisition Funds.** Funds are awarded on a competitive basis. Time frames and application requirements make this funding source difficult for Thurston County to access under this strategic framework. City of Olympia plans to apply related to the Quince Street (former Quality Inn) property acquisition.

- **County Home Fund.** This fund is subject to a vote of the Thurston County Board of County Commissioners. If a fund is approved, it is estimated to generate approximately \$4.5 million annually. In order for this PSH strategic framework to be fully implemented and to support the creation of additional affordable housing units, a County Home Fund, or roughly equivalent new funding source will likely be necessary.

Statements of Expectations

In developing this strategic framework, the PSH Workgroup operated with the following expectations:

- RHC funds are not sufficient to fully fund new construction activities and these projects will require additional funding, such as State Housing Trust Fund (HTF), Low Income Housing Tax Credits (LIHTC), or other private or public financing.
- To maximize the likelihood of a project receiving HTF and/or LIHTC funding, the RHC should support only one new construction project application with local resources in each HTF/LIHTC funding round, which are typically issued annually.
- RHC Jurisdictions should not serve as the developer and/or operator of PSH projects supported under this strategy. RHC Jurisdictions will provide funding to developers/operators to implement desired projects.
- Operating costs for PSH projects should be largely funded through rent collections; however, the RHC jurisdictions have a vested interest in the success of projects and may need to provide some funding to fill operating gaps, particularly during project lease-up.

Target Population:

The PSH Workgroup has not identified specific target populations for PHS projects. Rather, the workgroup recommends allowing the developer/operator to propose the target population it intends to serve. However, the workgroup does recommend that the RHC support projects that target a range of different populations most in need of permanent supportive housing.

Recommended Project Categories

The PSH Workgroup recommends that the RHC pursue projects under three broad categories to allow for matching available resources to the best project use, while also considering issues of timing of the use and availability of funds.

1. Hotel or Apartment Acquisition

The RHC should pursue acquisition and rehabilitation of an existing hotel or apartment complex for use as PSH. The City of Lacey and Thurston County are currently making inquiries regarding the acquisition of a hotel located in the Lacey area. The workgroup recommends that Lacey and the County pursue and acquire a hotel. The City of Tumwater and the Housing Authority of Thurston County are also pursuing the possible acquisition of a hotel on Port of Olympia Property.

Funding: Recommend the use of ARPA funding to cover 100% of the acquisition costs of the hotel. If the timing works, recommend applying for Rapid Capital Acquisition funding for a portion of the costs. Depending on the use of the property and renovation needs, costs of renovating a hotel may be partially covered by ARPA or County Home funds, but may require additional leveraged funding, such as Housing Trust Fund and/or Low Income Housing Tax

Credits. If supplemental operating funds are needed, 1277 funds can be used to support operations.

Developer/operator. Recommend issuing a Request for Qualifications to identify a developer and operator.

Considerations: Acquisition of a property allows for the use of ARPA funds within the timeframes for when the funds must be spent. Furthermore, purchasing existing properties dramatically reduces up-front costs (acquisition is cheaper than new construction) although long-term maintenance needs will be higher. The workgroup recommends consideration of two possible approaches regarding the use of a hotel, depending on the feasibility of the physical space, proposed approach of the developer/operator and the will of RHC members. The workgroup generally expressed a preference for Approach #1 but recognizes the value in Approach #2 of getting people living in unsheltered situations into shelter more quickly.

Approach #1: Immediate renovation to create PSH units. This approach creates the greatest number of PSH unit, which is the ultimate objective of the RHC. Conversion to housing also ensures the most operating cost flexibility since there are generally more operating funds for housing than shelter. The risk with this approach is that substantial renovations will be needed which likely would require a developer to identify additional sources of funding. In addition, the property would not be utilized while the substantial renovations take place, resulting in the property being un-occupied for potentially several years. The workgroup recognizes that the RHC would need to assume some risk in acquiring a property before a developer/operator is identified, and recommend conducting an RFQ process while the purchase and sale agreement is being finalized to gauge developer/operator interest in the project to reduce risk.

Approach #2: Operate a portion of the property as a non-congregate shelter and a portion of the property as PSH. Renovations would be needed to operate a portion of the property as non-congregate shelter, but these renovations could happen more quickly and at lower cost allowing a portion of the property to be used more readily after acquisition. This approach would require the building to be structured so that non-congregate shelter could operate while renovation of the PSH units are occurring. Ongoing operating costs would be required to support the shelter. The risks or challenges with this approach are that prioritizing a temporary solution may delay the ultimate goal of creating more housing opportunities. In addition, if and when shelter space is converted to PSH in the future, it may put the shelter guests at risk of exiting the temporary shelter to homelessness if new housing resources are not available at the time that they need to exit.

2. New Construction

The RHC should pursue and support two to three new construction projects for PSH units in 2022, 2023 and 2024. With the passage of a County Home fund or other new funding source, this strategy could extend past 2024. The workgroup is aware of several potential PSH new construction projects that may be worthy of RHC support. The preferred size of PSH projects is 40-70 units of housing. Larger projects could include rental units for low income households who may not have supportive

staffing needs. If a jurisdiction owns land that is available for PSH projects, it could be supported by the RHC through this strategy.

Funding: Recommend using the HOME ARPA, 1406 and County Home Fund. In addition, local jurisdiction incentives may be available. In order to provide sufficient local funding to fully implement this strategy a County Home Fund may be necessary. It is also recommended that the RHC examine bonding a portion of the 1406 revenue. Although the RHC will not be able to fully fund any one new construction project, in order to make projects as competitive as possible when seeking HTF/LIHTC funds and to manage the rising costs of construction, the workgroup recommends making a substantial commitment of resources to each project in order to out compete peers seeking HTF/LIHTC funds. The specific funding level may vary by project but can expected to be in the \$3-6 million range. If supplemental operating funds are needed, 1277, 1406 or if approved, County Home funds can be used to support operations.

Siting: Sites will primarily be identified by jurisdictions that have property available, or by developers/operators when proposing a project. In addition, the use of real estate broker, recommended under the next strategy, could also support the identification of properties suitable for multifamily development of 40-70 units. Potential properties should be reviewed by Siting Team.

Developer/operator. Recommend issuing a Request for Qualifications in late 2021/early 2022 to identify potential projects and interested developers/operators. Based on input from the Affordable Housing Team, it is recommended to identify a list of potential operators early in the process who also have connections to developers and who can help identify potential properties and projects. The recommendation is to operate an initial RFQ process that results a list of interested providers and a list of possible projects that could be funded over the next three years. If a jurisdiction has land to offer a developer, that information could be included in the RFP/RFQ as well as information on jurisdiction incentives.

Considerations: The workgroup recognizes that new construction projects 1) are expensive; 2) require a long time before becoming operational; and 3) may not always come to fruition. Therefore, it is necessary to identify multiple potential projects that are in various stages of planning. Because of the longer timeframe for new construction projects, ARPA funds are a less viable funding source, unless the funding is provided to an existing project that has immediate needs to close a funding gap.

3. Purchase Existing Units/Master Lease

A less traditional option that the PSH workgroup recommends that the RHC explore is to either “purchase” or master lease units in existing or under construction private sector multi-family housing properties. The intent would be to secure these units as permanent PSH units that would be supported by an operator who collects an affordable rent for tenants to cover supportive services activities. This is an approach that could be implemented more quickly than bringing new construction units online. Further outreach and discussions with private sector multifamily property owners would be needed to explore the feasibility of this option.

Funding: For near-term opportunities, and if ARPA funds are available following the acquisition of a hotel, recommend the use of ARPA funding for this purpose. For future opportunities, a County Home fund or other funding source would be necessary to cover acquisition and development costs.

Owner/operator. Recommend contracting with a local real estate broker to identify a property owner who is willing to “sell” existing units and to identify an operator who can provide services to tenants.

Considerations: Further exploration of this idea is needed with potential property owners to gauge interest in the concept and to consider how to structure any investment. It is expected that the RHC would prefer to make a one-time upfront investment to secure interest in a unit for perpetuity or a minimum of 20 years. Unlike new construction, in which a property of 40-70 units is ideal, this approach could result in a smaller number of units in each property. The workgroup recommends remaining flexible and open to different size and structured projects, based on options identified by the real estate broker. Although this may be seen as not adding “new” units of housing to our community, it does seek to add more units of affordable housing units, and in particular to add new PSH units.

Implementation/Next Steps

Key next steps for the RHC to take to move forward with implementing this strategic framework:

- 1) City of Lacey and Thurston County continue pursuit of acquisition of a hotel.
 - a. RHC provide recommendation on whether to pursue immediate conversion to all PSH units, or to utilize a portion of the property for non-congregate shelter.
- 2) RHC directs each jurisdiction to identify city owned or for sale property suitable for 60 units or more of multifamily housing construction
- 3) RHC Technical Team draft a Request for Qualifications (or similar) to seek interest regarding:
 - a. Developers/operators to rehabilitate and operate a hotel as PSH or as shelter/PSH.
 - b. New construction PSH projects and developer/operators interested in pursuing these projects.
- 4) Identify additional funding (either through a County Home Fund or other means) for Thurston County to hire an affordable housing expert to oversee and implement strategy.
- 5) Each jurisdiction identifies and the RHC makes available a list of incentives by jurisdiction to help developers rehabilitate, construct and/or operate PSH units
- 6) RHC Technical Team draft a scope of work for a real estate broker.
- 7) Follow Thurston County procurement policies and procedures to issue RFQ and to procure a real estate broker.
- 8) Select developer/operator for hotel.
- 9) Identify 2-3 new construction projects and developer/operator to pursue and support for the 2022-2024 timeframe
- 10) Identify/select real estate broker
- 11) Work with real estate broker to explore purchase of existing units