A CATALYST FOR COMMUNITY:

THE WASHINGTON STATE HOUSING FINANCE COMMISSION'S FIRST 20 YEARS

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YEARS

1983 • 2003

The Washington State Housing Finance Commission is a publicly accountable, self-supporting team dedicated to increasing housing access and affordability and to expanding the availability of quality community facilities for the people of Washington.

TWO DECADES OF BUILDING COMMUNITY — AND A STORY WORTH TELLING

It is my pleasure to present this history of the Washington State Housing Finance Commission's first two decades. Why a history instead of our usual annual report? Because we believe the Commission's story is instructive and compelling in many ways.

It's a great political story. The creation of the Commission is a glimpse into how business gets done in Olympia, a textbook example of how varied and competing players can come together to hammer out a solution — in this case, a long-needed agency whose benefits are, these 20 years later, measurable and well documented. It's the story, too, of a landmark state supreme court decision with repercussions Washington residents are still feeling as we seek innovative ways to spur economic growth.

Also, the Commission's history offers a portrait of a state agency like no other: one that operates more like a business than a bureaucracy, without a dime from the state's general fund. Instead, the Commission depends on the private market for its survival. So ours is a story of public-private partnerships forged long before that phrase was a cliché. It's about countless men and women in business, government, and community-based organizations combining their commitment to the public good with smarts, talent, and entrepreneurial spirit (two words not often associated with government) to create thousands of units of affordable housing, to pump billions into the state economy, and to enrich communities across every square mile of Washington.

It's also the story of an agency that began with a single, narrowly focused program and matured to administer a broad range of solutions serving people of ever-more-diverse means and backgrounds.

Above all, the Commission's history illustrates how one agency has helped answer a question that is even more crucial now than it was in 1983: How do we best build our communities and provide decent, affordable housing for every state resident?

The Commission will never be the whole answer. But we have made a clear and lasting contribution. In the process, we like to believe we've demonstrated the good that government is capable of doing.

This is work we are deeply proud of. It's a story we think is worth telling. I hope that after you've read this brief history, you will agree.

Karen Miller
Chair
Washington State Housing Finance Commission

OPPOSITE Commissioners past and present gathered in July 2003 to mark the Commission's 20th anniversary

ABOVE Governor John Spellman

THE CREATION OF THE WASHINGTON STATE HOUSING FINANCE COMMISSION

THE RIGHT IDEA AT THE RIGHT TIME

A few weeks before the 1983 legislative session, Washington Governor John Spellman stood before reporters and announced his intention to create a state housing finance commission — a new agency that would make below-market-rate home loans available to first-time homebuyers and help finance affordable multifamily developments. It was an act of surprising optimism. At least four attempts to create such an agency had failed since the early 1970s, and yet here was the governor declaring that the issue was at the top of his legislative agenda and expressing confidence that, this time, the measure would pass.

Assembled behind Spellman for the cameras was a group composed mainly of bankers, builders, real estate agents, and developers. Their presence lent weight to the governor's announcement, because they represented the very interests that had blocked past attempts to create a housing finance commission. This time, these groups would ensure the commission's creation and largely determine its shape. They'd help Spellman launch a new kind of state agency, one that was the very definition of "public-private partnership": a self-sustaining, entrepreneurial agency that would help create affordable housing for hundreds of thousands of people, finance millions of dollars in community-based capital projects, and pump billions into the state economy — all without spending a cent of public funding.

HARD TIMES

In the early 1980s, only the rich, the lucky, or the extraordinarily thrifty bought homes in Washington State. Like the rest of the nation, Washington was in the chokehold of a relentless recession, the worst economy since the Great Depression. Unemployment was high, commerce was sluggish, and revenue in the state coffers was dangerously low. With interest rates topping more than 20 percent, thousands of residents deferred their dream of buying a home, while others struggled to simply find decent housing of any kind.

The state's housing industry, as a result, was hit hard. Lenders weren't making loans. Real estate agents weren't selling houses. Layoffs were widespread among builders and workers in the state's signature timber industry. In a slow-motion one-two punch, the economy was hammering both those who needed housing and those who profited from it. Aside from the administration of the odd federal program, the State of Washington — to the longtime dismay of housing advocates — had no programs for addressing the crisis.

John Spellman had arrived at the governor's mansion in 1980 with housing high on his list of priorities. It had long been one of his pet issues. He had run unsuccessfully for mayor of Seattle in 1965 partly on the issue of open housing. As King County's first executive, he'd had to contend with housing issues in the wake of the "Boeing Bust" of the early 1970s. He'd also made appointments to the county housing authority and had worked closely with builders and developers on affordable housing. When Spellman won the governor's seat in 1980, he knew the state needed to address the affordable housing shortage. He also knew that an innovative solution — "one with relatively fast turnaround and pretty good results" — had been punted around Olympia for a decade.

EVERYWHERE BUT HERE

The first state housing finance agency was created in New York in 1960, when state officials conceived the notion of selling tax-exempt state bonds and using the proceeds to finance below-market-rate home loans for low-income residents. The program was a success, and, not long after, Congress allowed the issuance of federally authorized tax-exempt bonds for a variety of public purposes, including affordable housing. That triggered the creation of state housing finance agencies across the U.S. By 1975, 36 existed and were largely lauded for their ability to create housing quickly and nimbly. By 1983, the only state in the union without some version of a housing finance agency was Washington.

Not that the state hadn't tried. Housing activists and community development officials had advocated for the idea since the late 1960s. Bills intended to create a housing finance commission had been introduced in 1975 and 1977, but had been squashed in committee. Those measures would have given the commission the powers of a housing authority, including the ability to regulate the administration of loans, set mortgage interest rates, and set the fees that lenders could charge. They also would have allowed the commission to make loans directly to homebuyers and developers. Not surprisingly, bankers opposed the bills because they viewed them as creating, at best, a state bureaucracy that would interfere with business or, at worst, a tax-funded competitor. They also recognized that they were unlikely to reap much profit by lending to the low-income persons the commission would target.

Bills creating a housing finance commission had been introduced in 1975 and 1977, but had been squashed in committee.

In 1979, another bill attempted a compromise. That measure still sought to help "the low income, the elderly, and the handicapped," but, unlike its predecessors, would not have empowered the commission to make direct loans, set fees, or own, operate, or build housing. The commission would merely sell bonds, then pass the proceeds through banks, which would then lend at a lower rate to borrowers — the so-called "conduit theory."

Bankers still balked. They were no more charmed by the idea of a new state bureaucracy than they had been in years prior. And they still objected to the bill's stipulation barring loans to persons whose income was above 80 percent of the median.

Said Scott Gaspard of the Washington State Savings League at the time, "Banks are not in the business of financing low-cost housing." Seattle-First National Bank lobbyist Joe Brennan went so far as to assert that people of low income "do not need to own a home; multi-family housing will meet the needs of the low income."

Still, the bill passed the House after some concessions to business. Despite vigorous floor debate in which other critics claimed the compromise didn't offer enough aid to the poor, most members voted with Representative Joe Taller (later Spellman's budget director), who called the bill "a responsible start to addressing the problem."

In the Senate, though, the measure never made it out of committee. A.L. "Slim" Rasmussen, the legendary maverick Democrat, was philosophically opposed to government housing programs and had fought them as mayor of Tacoma. He burdened the bill with superfluous amendments and then refused to give it a hearing.

Two years later, Senator George Fleming — the former University of Washington football standout and Washington's first African American state senator — introduced a bill that would have given a housing finance commission the power to issue tax-exempt bonds only for the financing of multifamily rental housing. It fared no better than its forerunners: The bill passed the Senate by a wide margin, but was pocket-vetoed in the House by Representative Bruce Addison of West Seattle.

POOR AND INFIRM

Self-interest on the part of bankers wasn't the only obstacle to creating a housing finance commission in Washington. Any enabling legislation would also come under fire in the state supreme court, thanks to Washington's long-standing prohibition on public subsidies for private enterprise. The framers of the state's constitution, intent on avoiding boondoggles like the failures of government-subsidized railroads and canals that marked the 19th century, enshrined the ethic in Article 8, Section 7, which forbids lending the credit of the state "except for the necessary support of the poor and infirm." Hugh Spitzer, who helped draft the commission legislation and who has served as underwriter's counsel on many of the Commission's bond issues, asserts in a book he co-authored about the state constitution that the clause was inserted at the behest of Union Pacific to stymie competition from other railroads.

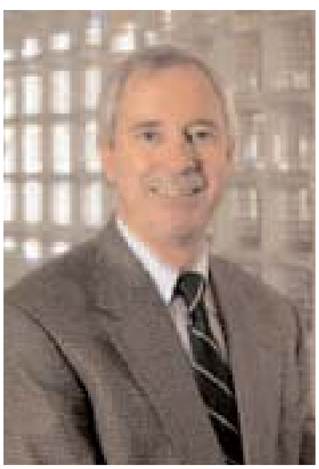
Whatever the founders' motives, their spirit was alive and well in the state's high court. Jay Reich, now the Commission's bond counsel, recalls the legal landscape:

JAY REICH

By the 1970s, that provision of the constitution was interpreted to almost a ridiculous extreme, so that even conduit financing, where no public funds were involved, was declared to be a prohibited lending of public credit because borrowers received the benefit of federal tax exemption. By the late '70s, even programs that we thought were very important and should not have been problematic from a constitutional point of view were in great doubt. So if we were going to provide tax-exempt financing to single-family homebuyers who were not poor and were not infirm… there was a real question whether this was an unconstitutional lending of credit.

"A PRIVATE ENTERPRISE DEAL"

By 1982, though, forming a housing finance commission seemed worth the constitutional risk. The volume of home mortgages in Washington had dropped 40 percent in five years. Building starts were down by 43,000 over the same period. Washington-based building-products giant Weyerhaeuser lost 54 percent of its profits between 1978 and 1982, while the slowdown contributed to four-year employment drops in the timber and construction industries of 30.6 and 42.5 percent. As a result, state revenues had also dropped precipitously.



ABOVE Hugh Spitzer, co-author of the Commission legislation and longtime underwriter's counsel

Spellman saw in this bleak picture an opportunity to re-cast a housing finance commission as a much-needed stimulus for the state's economy, as well as a means of addressing the housing crisis. According to one account, Spellman's resolve was sealed at a meeting of the National Governors Association, when Michigan Governor William Milliken went slack-jawed with disbelief after Spellman told him Washington had no housing finance agency. "With all the building-products industry in your state?", Milliken is reported to have said. "Why, that's like Michigan without the auto industry!" (Today, Spellman himself can't recall whether that story is apocryphal, but agrees that it's a good one.)

Mortgage bankers and other businesspeople, meanwhile, were eager for anything that could jump-start the moribund market. Bankers noted that they were doing decent business in states such as Idaho and Utah, which had housing finance agencies, but were missing out on the most lucrative market north of California and west of Minneapolis. Spellman and his staff knew that by creating legislation more palatable to business, they could win enough support in the legislature to finally make a housing finance commission a reality.

Getting business on board was the job of two staffers Spellman brought with him from the King County executive's office: Karen Rahm, whom Spellman soon appointed as director of the state's Planning and Community Affairs Agency (the precursor to today's Department of Community, Trade, and Economic Development), and Pat Dunn, who split his time between working for the planning agency and directly out of Spellman's office.

As Karen Rahm — now Karen Lane — remembers it, corralling the business community was relatively simple, given the economic climate. "We showed the bankers that this was their meal ticket," she says. "And builders and companies like Weyerhaeuser were all for it. At one meeting at Weyerhaeuser, [an executive] nearly jumped out of his seat to shake my hand, saying, 'It's about time!'"

At a reception for the opening of Spellman's Spokane office, Dunn and Spellman met Jim Kirschbaum, then president of the Washington Mortgage Bankers Association. Spellman suggested new, improved housing commission legislation; Kirschbaum said he liked the idea, provided he and his colleagues had a hand in writing it. As Kirschbaum remembers it, "They got smart and said, 'We don't want to fight these guys anymore.' They came to us and asked, 'What do we have to do to get you guys to support this?' The whole deal was billed as a stimulus to the economy, and was put through the legislature as a stimulus bill."

Acutely aware of the discord that had met prior efforts, Dunn and Lane worked hard to address the concerns of the measure's foes above all else.

Acutely aware of the discord that had met prior efforts, Dunn and Lane worked hard to address the concerns of the measure's foes above all else. "They didn't go to the bankers or to labor with a plan," says Spellman. "They went there asking what the problem was, and how can we solve it. That's how you solve problems."

Dunn and Lane's strategy was to first iron out as many of the sticking points as possible before the bill ever made it to the legislature, to show lawmakers there was a unified effort behind the bill and to keep differences from being slugged out in public.

Coincidentally, passage of an initiative authorizing the state to issue industrial revenue bonds had helped build trust among many of the same parties now working on the commission bill. Lane enlisted

ABOVE Karen Lane (left), Pat Dunn (middle), and former Governor John Spellman (right)

ABOVE Jay Reich (left) and Kim Herman (right)

Jay Reich, who had worked on the campaign for revenue bonds, to write the latest incarnation of the housing finance bill along with attorney Hugh Spitzer. Dunn and Lane then assembled a large committee made up of the bill's various stakeholders — with Kirschbaum as chair — and the bill-drafting began.

"Writing the bill was really a negotiation all the way through," remembers Kirschbaum. "Every rewrite, we'd say, 'No, we can't support that, or that, or that,' and then they'd fix it and come back with a new draft. The key was that the state couldn't have anything to do with it. It had to be a private enterprise deal."

To make business leaders comfortable, the bill couldn't be perceived as too closely aligned with the state's low-income housing activists, as its predecessors had been. Architects of the measure credit housing advocates — who trusted Spellman's moderate politics and good record on housing — for recognizing that bankers held the key to the commission and letting them take the lead.

Dunn and Lane assembled a large committee made up of the bill's various stakeholders and the bill-drafting began.

The resulting bill was similar to the 1979 bill, but differed in several key respects. Most obviously, it eliminated income requirements for homebuyers, making it a measure more likely to help moderate-income people. The new version also stressed even more than its predecessor that the commission would only be a "conduit" between bond sales and private lenders.

The bill drew on the experience of other states. Pat Dunn logged thousands of miles visiting other housing finance agencies, where he noted best practices for appointing commissioners, hiring staff, vetting ethics conflicts, and more. The result would be a commission that borrowed from other agencies, but resembled none. Most of the agencies Dunn visited were huge bureaucracies. He knew Washington would have to create a leaner, more nimble agency to appease the business community and the conservatives in the legislature.

Says Stuart Honse, who at the time was an investment banker and one of the commission's architects, "The Washington model took the best of every other agency that had been established… and adapted it to the Washington situation."

Lane and Dunn spent much of the fall of 1982 traveling the state and explaining the intricacies of the bill to chambers of commerce, affordable housing advocates, and other groups, "road-testing" the measure and their arguments for it, before the issue hit the legislature and the newspapers.

A PERFECT STORM

At about the same time that the legislation was being drafted, the Washington Supreme Court gave the green light to both Spellman's industrial bond initiative and a bond program for financing private religious hospitals — both of which were based on the "conduit theory." The rulings were the "first crack," Lane says, in the state's prohibition of such measures. Meanwhile, Congress was threatening to eliminate the federal tax-exempt bond program in the next budget year. And state lawmakers continued to hear painful stories from constituents who couldn't afford to buy homes. If Washington State was ever going to use tax-exempt bond authority to create housing, Lane remembers, it appeared to be now or never.

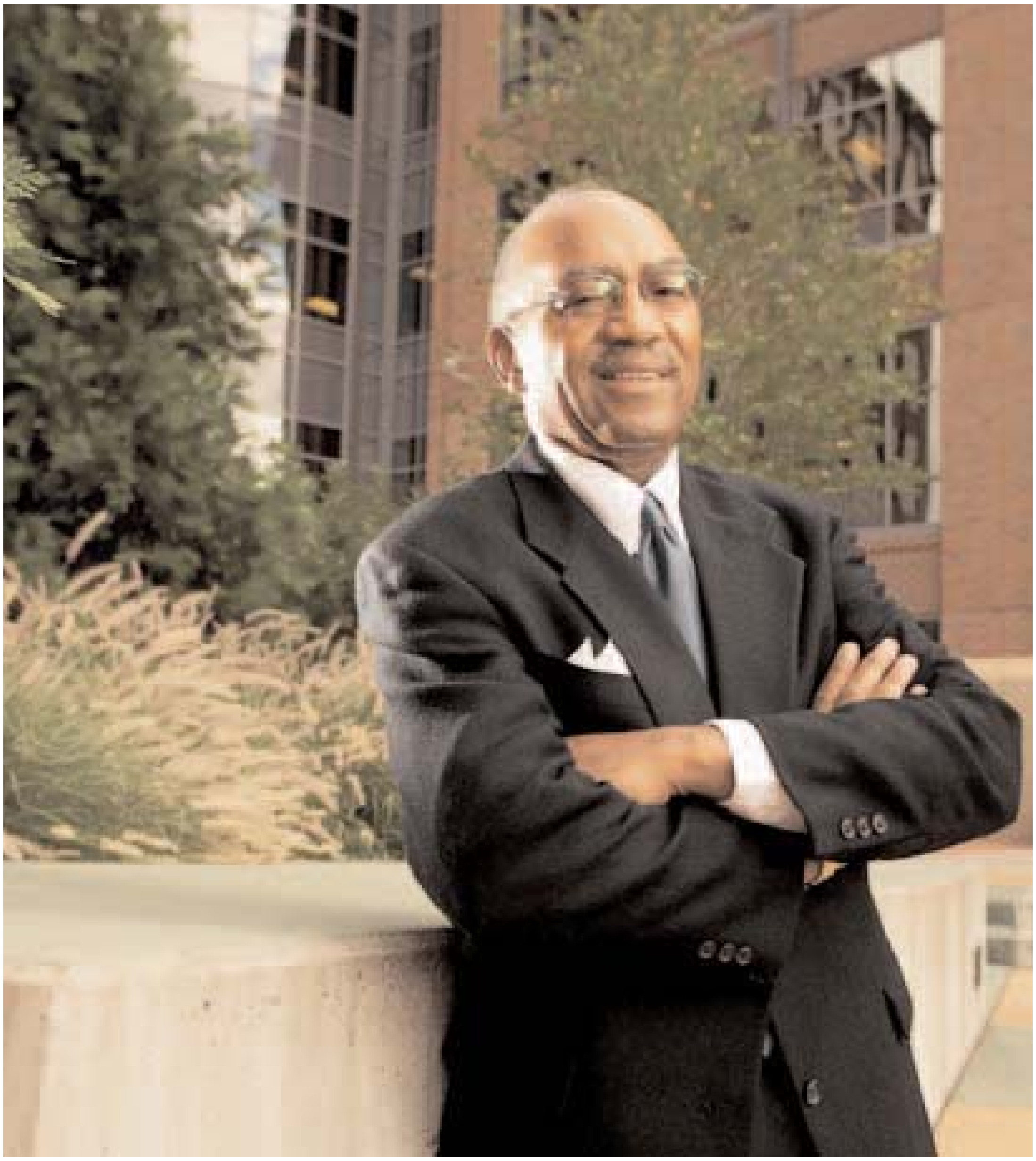
In the Senate, they had an ally in George Fleming, who had championed the 1981 commission bill.

KAREN LANE

> *"We had a "perfect storm" of opportunity: Opponents of the bill were either on board or neutralized. With the conduit idea, we had a constitutional theory that might get us past the supreme court. We had a clear sense of urgency from the community. And we were in danger of losing federal authorization. So we marched into the legislature. We had an idea. Now we were selling it.*

The commission bill was submitted as executive request legislation in both the House and Senate. In his press conference, Spellman called it "the best plan that can be devised" and warned that "time is of the essence." Dunn and Lane wasted no time in soliciting powerhouse sponsors.

In the Senate, they had an ally in George Fleming, who had championed the 1981 commission bill. Housing was an issue close to the Seattle Democrat's heart; more important, Fleming was chair of the majority caucus. The bill's co-sponsors comprised most of the rest of the Senate leadership and 24 other senators besides, assuring passage in the Democrat-controlled chamber.



ABOVE State Senator George Fleming

Ron Sims, then working for Fleming as staff director and who at the time of this writing is King County Executive, remembers that many Democrats were keen on addressing the housing issue with investments from the state pension fund. But when Jay Reich and Hugh Spitzer called Sims to sell him on the commission idea, he agreed that it made more sense practically and politically. He convinced Fleming of the same and watched the senator shepherd the bill with intense passion. “He ran a lot of bills,” Sims remembers, “but I never saw him more thoroughly committed than on this one.”

Sims suggests that while Fleming strongly believed the commission was a good solution to the state’s housing woes, his commitment came from a deeper place.

RON SIMS

> *George was already well regarded. But when you’re African American, there’s always a double standard. [With the commission], he was embarking on an approach that was brand new, and he wasn’t going to lose it… I think in many respects he knew that if this passed, here was another ceiling broken through. It wasn’t civil rights, it wasn’t human services, it wasn’t education, it was housing. He was very driven.*

In the House, the bill’s primary sponsor was freshman Brian Ebersole. He had been given the bill upon his swearing in because the high-profile legislation was expected to be a good way for the up-and-coming lawmaker to launch his career. (In fact, Ebersole would go on to become House Speaker and mayor of Tacoma.) To lend it the gravitas it required, the measure was co-sponsored by the majority caucus chair as well as the chair of the House state government committee.

Despite the introduction of dozens of technical amendments as well as other amendments submitted solely to sink the measures, the bills landed on the floors of their respective chambers in record time. The House bill passed over the protests of several members — including Bellevue Republican Dan McDonald, who warned ominously, “We don’t really understand what we’re unleashing here” — by a vote of 76–16.

In the Senate, debate was more spirited. Republican Kent Pullen, with Slim Rasmussen’s help, staged a mini-filibuster by introducing a

ABOVE Ron Sims, King County Executive and former staff director for State Senator George Fleming barrage of amendments intended to kill the bill. One would have titled the measure "The Socialized Housing Act of 1983." Rasmussen predicted that commission-financed housing would drive the cost of homes beyond the means of the average buyer and dismissed the bill as a "socialist, do-good impulse." The two senators and their allies painted a frightening picture of the havoc they expected the commission to wreak. They pointed to cities blighted by federal urban renewal projects, predicted that bidding on commission-financed projects would be corrupted by organized crime, and warned of multifamily developments built only to be bulldozed because no one would want to live in them. Senator Sam Guess of Spokane alluded to Atlanta after Sherman's march and England after the blitz.

Opponents pointed to cities blighted by urban renewal projects, predicted corruption by organized crime, and warned of developments built only to be bulldozed because no one would want to live in them.

"You can shake your head, Senator Fleming, you can smile broadly," Guess said at one point in the debate when Fleming evidently couldn't contain his disbelief, "but you're going to wake up one morning and you're going to find half of Seattle gone, and you're going to wonder what happened."

Despite the dire rhetoric, the bill's proponents carried the day, buoyed by Senator Fleming's no-nonsense rebuttals to each volley from opponents and his mastery of the legislation's complexities. Sims remembers that Fleming had all the right answers.

RON SIMS

> *He was amazing. My office was off the floor of the Senate, and we were just standing there going, "whoa." We had never seen him put on such a display of knowledge and skill and debate and passion. We knew he wanted that bill, and everybody in the Senate knew that day that George Fleming wanted that bill. It was a slam-dunk. I think people figured that if Fleming had mastered the topic so well, the bill must make sense.*

The Senate passed its version of the bill 35–14.

Karen Lane still marvels at how quickly the measures moved from introduction in January to passage in March. "We rammed it through," she laughs. Sims agrees. "The legislative process isn't designed to pass legislation, but to kill it," he says. "To move that fast on something is extraordinary."

After more than ten years of trying, it appeared Washington State was finally about to create a housing finance commission. But then came an unexpected roadblock: a wrestling match between the two chambers to determine which version of the bill would end up on Spellman's desk.

HIGHLY UNUSUAL

Ron Sims remembers it this way: One day, House staffers came to his office to announce that they wanted to run Ebersole's version of the bill as a means of building the new representative's stature. Senator Fleming, they assured him, would get credit. But Ebersole would be the marquee sponsor.

Asking a senior senator to stand aside so a brand-new representative could take credit for a major piece of legislation was highly unusual. In fact, says Sims, it was unheard of. Twenty years after the fact, you can still hear the ire in his voice as he recalls his interaction with House staff.

RON SIMS

> *They pleaded to us — "Ebersole needs a success, he's an up-and-comer." But Fleming was a senior senator!…We looked for other bills for Ebersole, but he wanted this one because he realized how potent it was going to be, how much housing it was going to build.*
>
> *After several days of going to the mat, of really intense politicking, I went over to the House and said, "Senator Fleming is a senior senator. Just out of sheer respect, he should move this bill." I reminded them that it was Fleming who gave the bill its strength, its vitality, its political oomph. "He's a senior senator, he's an African American, he's Senate leadership, and he will be respected" — that's what I told them. They knew that no other senior senator had ever been told that a freshman's bill was going to run rather than his. I think they realized the implications.*

Karen Lane believes the legislation finally passed because it was "the right idea at the right time…"

The House relented, and Fleming's version of the bill passed both chambers by wide margins.

Karen Lane believes the legislation finally passed because it was "the right idea at the right time" — a phrase used by many involved with the Commission's creation. "It was still possible then for a good idea to take the system by storm," she says, somewhat wistfully. "We hadn't achieved the level of gridlock that we now have."

THE KING-TV THEORY

While Sims believes Fleming's passion for the bill is ultimately what persuaded legislators to support it, and Lane credits its creation to the confluence of politics and economics, Bill Stafford, now president of the Trade Development Alliance of Greater Seattle, has another theory.

Back in 1983, Stafford was head of legislative affairs for the City of Seattle and a professor at the University of Washington's School of Public Administration. He suggested to Mary Ann Doyle, one of his graduate students, that she track the commission legislation for a research paper.

"Pretty soon, you've got Charlotte Raynor showing up with a camera, and those guys had to sit up and take notice," Stafford laughs. "They couldn't kill it."

"I just picked that bill out of a hat, and I liked it because it was interesting and complex and had a lot of competing interests involved," Stafford recalls. "I fully expected it to die like all the others had."

But Doyle was also a film editor at KING-TV, Seattle's NBC affiliate. She made it a point to attend any hearings on the commission bill and, before long, mentioned it to KING reporter Charlotte Raynor (who now happens to be married to CNN anchor Aaron Brown, then her colleague at KING).

"Pretty soon, you've got Charlotte Raynor showing up with a camera, and those guys had to sit up and take notice," Stafford laughs. "They couldn't kill it."

He suggests with a wink that if he'd never assigned the paper to Doyle, the legislation might have gone the way of its predecessors. "But somehow," he says, "the stars aligned, and we got a state housing finance commission."

BEAT THE CLOCK

Spellman signed the bill on the morning of May 11, 1983, and his staff threw a luncheon afterward for over two dozen people involved in bringing the new law to life. After more than a decade of legislative recalcitrance, they could finally celebrate the creation of an agency they expected would substantially increase affordable housing for the people of Washington.

Well, almost. Two hurdles remained: To take advantage of hundreds of millions of dollars in bond authority available for that budget year, the commission — still without a governing board, still without a director or staff, still pretty much an idea encapsulated in a fresh piece of legislation — would have to go about the complex business of issuing its first bonds by the end of 1983. And before investors would even consider purchasing bonds, the commission had to file a test case in the state supreme court to prove its own constitutionality — a process that could take far longer than the seven months remaining in the year. Fortunately, Lane and Dunn were prepared.

Marilyn Showalter — then counsel to Spellman and as of this writing the chair of the Washington Utilities and Transportation Commission — had warned them about a potential constitutional conflict. So even as Dunn and Lane were driving the enabling legislation across the finish line, they'd asked lawyers Jay Reich and Larry Carter to prepare a case that would be ready to file as soon as the commission became a reality. Reich and Carter responded with a strategy that Reich says, "wasn't new, but was a bit aggressive." The plan? To have state treasurer Robert O'Brien sue himself.

O'Brien, by mandate of the new law, held a seat on the Commission. Reich and Carter recommended making O'Brien the Commission's secretary. Next, they had the Commission pass a resolution requiring the secretary's signature on any bond resolution. Then they mocked up a resolution and "advised" O'Brien not to sign it. Finally, the Commission, which included O'Brien the Commissioner, sued O'Brien the treasurer. Since O'Brien was a constitutional officer, the case skipped the gauntlet of the lower courts and landed in the state's high court, where Reich and Carter argued for the case to be heard immediately, given the millions of dollars at stake. The plan worked. The case was filed mid-summer and got a hearing in September — record time for the famously slow wheels of justice.

Reich and Carter took turns arguing the case before the court. They reasoned that because the lower interest rates made available to homebuyers and developers through the commission would be derived from federal tax law rather than state funds, Washington's prohibition against the lending of the state's credit was not relevant. Reich remembers Carter invoking television to illustrate the law's lack of income restrictions.

"You mean to tell me," one justice asked, "that you don't have to be poor to buy a house under this program?"

"John Beresford Tipton could qualify for a house," Carter responded, referring to the mysterious benefactor from the 1950s TV show *The Millionaire*, "and it wouldn't be a constitutional issue."

On October 28, by a hairbreadth 5-4 ruling, the court found that the commission did not violate the constitution.

"I was appalled," laughs Reich. "It was an extreme example, but if we could get to yes on that example, then, obviously, everything worked."

Work it did. On October 28, by a hairbreadth 5–4 ruling, the court found that the commission was "consistent with the state's legitimate function and that the risk to the state's taxpayers and effectuation of the public purpose remains under public control," and so did not violate the constitution. The decision proved to be a watershed. It set a precedent that allowed the court, over the next few years, to reverse some of its earlier, restrictive interpretations of the "poor and infirm" clause, paving the way for such public-private partnerships as museums, various economic development incentives, and stadiums for the Seattle Seahawks and Seattle Mariners.

"The court basically said, 'We took a wrong turn, we're somewhat embarrassed by it, we didn't know what we were doing, and conduit financing is perfectly fine,'" explains Reich. "If we ran that case today, it would be nine–zip. In fact, we wouldn't have to run it, because the courts have decisively clarified the law."

The Commission, as finally conceived and described in the Senate record, is composed of the state treasurer; the director of the Washington Department of Community, Trade, and Economic Development; and "nine other members appointed by the governor with the Senate's approval, including: an elected local government official with experience in local housing programs; a representative of consumer housing interests; a representative from labor; a representative of low-income persons; and five members from the general public based upon geographic distribution and their expertise in housing, real estate, finance, energy efficiency, or construction."

Governor Spellman named Jim Kirschbaum, who'd been so instrumental in bringing his fellow bankers around to the idea of a commission, as the body's first chair. Serving with him were O'Brien, Lane, and Spellman's other appointees: consumer representative Reverend Marilyn Littlejohn; multifamily developer Carol Little; Battleground real estate agent Nanci Primley; developer Donald Wick; Washington Federal Savings & Loan's executive vice president, Charles Richmond; carpenters union representative Wayne Cubbage; Bellingham city council member Anne Rose; and Kim Herman, executive director of the Yakima Housing Authority and chair of the Washington Coalition for Rural Housing.

One of the Commission's first major acts was to hire Kim Herman as executive director… his hiring was considered a signal to low-income housing advocates that their interests would not be forgotten.

Since the Commission was prohibited from receiving state general funding, bankers provided the initial funds for its operation — one more example of the Commission's close alliance with the private sector.

Recalls Kirschbaum, "Stuart Honse was able to get all the other investment bankers to contribute the money, to front-load everything, so that they paid all the bills and then got it back on fees from bond issues."

One of the Commission's first major acts was to hire Kim Herman as executive director. Herman had given up his seat on the Commission shortly after being appointed so he could take a job as manager of the Portland Development Commission's homeownership programs. But Jim Kirschbaum considered him a natural choice to head the new agency. Herman had long pushed for the creation of a commission through his work in rural housing, and his hiring was considered a signal to low-income housing advocates that their interests would not be forgotten.

"I knew we had to have somebody good, so I went after Kim," says Kirschbaum. "He functioned well within the state bureaucracy, and he knew affordable housing. He was obviously dedicated to it, and that's what we wanted." As of this writing, Herman is still the Commission's executive director.

At about the same time, Jay Reich was hired as bond counsel for the Commission, and he still holds that post today in his capacity as a partner with Seattle law firm Preston, Gates, and Ellis.

On December 1, 1983, the Commission issued more than $193 million in mortgage revenue bonds.

On December 1, 1983 — with a month to spare before the Congressional deadline — the Washington State Housing finance Commission issued more than $193 million in mortgage revenue bonds. The following year, 3,040 first-time homebuyers from communities across Washington took advantage of 30-year loans financed by the Commission and made through bankers around the state at 11.18 percent. The Commission's work had finally begun.

RIGHT Jim Kirschbaum, first chair of the Commission

1983

- First Commission meeting, Olympia, July 6, 1983
- Commission confirms selection of bond counsel, financial advisor, and investment banking team, August 3, 1983
- State Treasurer Robert O'Brien refuses to sign first bond resolution, forcing "test case" before the state supreme court
- State supreme court rules five to four that the Commission is constitutional, October 28, 1983
- Commission issues first Homeownership bonds, $193.5 million, December 29, 1983

1984

- Commission "sets aside" $775,000 for CAPDA 14th Street Town Homes, the first nonprofit set-aside
- Commission appoints Kim Herman as executive director
- Commission approves first multi-family bond program — 1984 Private Placement with Washington Mortgage for $30 million
- Commission issues $104.4 million in Fannie Mae Series 1984A, largest Muni Mae bond issue sold, to finance thirty-four projects
- Commission issues $175 million at 11.18% for Homeownership loans

1985

- Commission issues $50.3 million for Fannie Mae 1985B to finance twelve projects
- Commission issues $28 million for Fannie Mae 1985C to finance six projects
- Commission issues $100 million for Fannie Mae 1985D to finance thirty projects
- Commission creates the FHA Insured Congregate Housing/Retirement Service Center program and issues $13.4 million to finance two elderly congregate housing projects
- Commission issues $41.6 million for Fannie Mae 1985E to finance twenty-two projects
- Commission's first audit completed by Deloitte & Touche

1995

- Homebuyer Education program approved by Fannie Mae, HUD, and Freddie Mac
- Commission creates the Homeownership Open Indenture to build asset base
- Commission initiates telephone lines for homeownership information
- Tax-Credit compliance workshops accredited for Real Estate Continuing Education Credit
- Commission co-sponsors management and compliance training with industry trade associations
- Homeownership division begins HouseKey Plus down payment assistance program
- Commission staff adopts new Vision and Values statements
- First Commission-wide computer system installed

1996

- Tax Credit and Lender Certification Training certified for Continuing Education credit. Legislature increases Commission's maximum bond authority to $2 billion
- State Investment Board purchases Homeownership taxable bonds in response to legislative mandate
- Commission completes development cost study for affordable housing projects
- Commission secures legislative authority to issue regulatory agreements as "binding covenants running with the land"
- First Government Accounting Office (GAO) audit of Tax-Credit program in the nation successfully completed by Commission
- Commission completes Needs Based Allocation Criteria Study for Tax-Credit program

- First Commission planning session, Port Ludlow
- Commission issues $305,600 for Adams Apartments — the first non-profit-owned multifamily project with $4,000 subsidy from Commission
- Mortgage Credit Certificate program begins with $40 million in 1984 bond authority, including $1.8 million set-aside for Klahanie inclusionary zoning housing project
- Commission approves participation in Seattle Bonus Credit program, first city partnership program
- Commission creates finance division

1986

- Commission is one of the first six agencies in the nation to implement the Low Income Housing Tax Credit program
- Commission divides program operations into single-family and multifamily divisions
- State legislature creates State Housing Trust Fund
- Commission staff makes first presentation to House Housing Committee in Olympia
- Lenders voluntarily set aside $4.1 million to purchase HUD repossessed homes; HUD pays origination fees and permits. Program used as national model by HUD

1987

- Commission approves Nonprofit Program guidelines
- Commission approves first Multifamily Policy Manual
- Commission begins 1988 Series Mortgage Credit Certificate program for $144 million with $8 million set aside for HUD's Joint Venture for Affordable Housing program
- Commission's first computer
- IRS begins review of Commission Multifamily Bond monitoring program, the first review in the nation
- Commission issues $1.7 million to finance the John Winthrop Apartments for Seattle Housing Resource Group
- Commission recognizes 10,000th Homebuyers, Gary and Michelle Bowen

1988

1997

- Pacific Place parking garage financed
- Commission's first taxable home-ownership bonds sold to Federal Home Loan Bank of Seattle to stretch bond cap
- Mortgage insurance partnerships in Homebuyer Education created
- Homebuyer Education schedule posted on HUD's Web page
- Homeownership Rural Housing program established
- The HomeChoice home purchase program for persons with disabilities is established with Fannie Mae
- Federal Home Loan Bank nonmember borrower status approved
- First comprehensive Information System completed

1998

- Commission provides Tax-Credit applications to clients on diskette for first time
- Commission-wide strategic planning process completed for 1997-2003
- Commission is first state housing finance agency in nation to achieve the designation of "Certified Credit Compliance Professional" for all professional compliance personnel
- National Council of State Housing Agencies gives the Commission a Significant Achievement award for communications, annual report, and newsletter
- Commission receives first SuperNOFA funding from HUD for homebuyer education and housing counseling
- E-mail and Internet access installed for every employee
- King County "Open Door" program implemented

1989

- Tax-credit allocation plan adopted to mesh with state housing needs and priorities established by "McIntyre Study"; plan reflects new emphasis on the important role of nonprofit housing developers and assigns priority to projects serving the lowest-income tenants for the longest time
- Commission completes its first dedicated reserve analysis and adopts a Reserve Policy
- Commission "sets aside" $1.8 million in MCC program for 28 unit Family Housing Opportunity program for Kitsap Consolidated Housing Authority

1990

- State legislature approves financing for facilities owned by nonprofit 501(c)(3) corporations and nursing homes
- Commission creates the Program Investment Fund (PIF) programs for special-needs and low-income populations
- Commission issues the first WRAP bonds for $1 million to refinance the Pacific Science Center's robotic whale
- Commission initiates "monthly rollout" program in cooperation with Security Pacific Bank to preserve bond cap
- Study of Tax Credit Program by DCD, recommends program stay with Commission
- (11b) refinancing completed; $1.4 million savings shared with DCD/HTF

1991

- Commission begins free Homebuyer Education seminars
- Commission issues $7.7 million for YMCA of Greater Seattle for five nonprofit facilities
- Commission issues $4.6 million to finance three housing projects and four nonprofit social service facilities for Pioneer Human Services of Seattle

1999

- Commission creates preservation program to participate in HUD Mark-to-Market program
- Low Income Housing Institute gives the Commission an Appreciation Award for preserving the Frye Hotel for Section 8 seniors, families, and individuals
- Tax-Credit division conducts a training seminar for Native American tribal groups from Washington, Idaho, and Oregon
- Commission develops the Community Reinvestment Act (CRA) Rural Taxable Single-Family Bond Program in cooperation with statewide banks
- Federal Home Loan Bank funding received for HouseKey Extra Program

2000

- Commission web site for client use
- New dialogue in the Tax-Credit division proves to be a solution provider; for the first time in ten years, not a single appeal is received from any applicant
- Commission submits a joint bid in cooperation with the Seattle Housing Authority to administer the Section 8 voucher program in the state
- Tacoma "Open Door" program established

1992

- Commission receives 7,500 phone calls following a radio advertisement for HouseKey, crashing the agency's telephone system
- Commission teams Housing Trust Fund and PIF to initiate a down payment assistance program for first-time buyers
- Commission recognized by the National Council of State Housing Agencies for its newsletter, "Homefront News"
- Commission recognizes Jim and Diane Erdmann as the 20,000th homeowners in the HouseKey program
- Commission initiates "MRB Express" Homeownership program with Fannie Mae

1993

- Commission receives Award of Merit from the National Council of State Housing Agencies for single-family and multifamily programs
- Governor Mike Lowry proclaims Affordable Housing Week
- Commission receives a Certificate of Special Recognition in honor of the agency's 10th anniversary from the Federal Housing Commissioner's Office
- Commission completes the first Streamlined Tax-Exempt Placement (STEP) deal
- Computers were installed on each employee's desk

1994

- Commission contracts with Washington Higher Education Facilities for operations
- Commission plans and hosts first statewide housing conference in Olympia
- Commission reduces the regulatory burden for over 100 projects by eliminating a number of outside monitoring agreements and executing a Memorandum of Understanding with HUD and the U.S. Department of Agriculture
- Commission completes its Vision 2000 strategic plan; creates the Tax Credit, Compliance, and Capital Projects divisions, along with the deputy director position
- Commission establishes Certificate and Degree Education contribution for staff

2001

- Commission's recognizes 30,000th homebuyers
- Commission invests $4.75 million in Impact Capital to assist in preservation of low-income housing
- Commission expands marketing efforts for its Nonprofit Facilities program
- Commission puts compliance manuals/forms and Tax-Credit application online for easier access
- Commission publishes Multifamily Affordable Housing Report on expiring Tax-Credit, Section 8, and Rural Development projects
- Commission signs first compliance Memorandums of Understanding with City of Seattle and OCD covering 150 projects
- Commission reaches $2 billion in outstanding loans to support programs

2002

- HomeChoice program recognized by Fannie Mae as "Number One" in the nation
- Tax-Credit program reaches $1 billion in allocations
- "Financing Nonprofit Facilities in Today's Economy" workshops held in Vancouver, Spokane, and Bellingham
- Commission purchases $400,000 in Linda Mae bonds to support Habitat for Humanity projects
- Compliance annual report form placed online for client use
- Brochures and telephone assistance made available in Spanish by Homeownership division

2003

- 10th Annual Statewide Housing Conference, *Housing Washington,* held in Spokane
- Commission creates Proud Partner Awards to recognize partners
- Commission hosts National Council of State Housing Agencies Annual Conference
- Commission develops business resumption plan in response to the 9/11 terrorist attack
- Commission reaches milestone of 105,000 units financed statewide
- Commission publishes "Opening Doors to a Better Life" media communications packet

OPPOSITE Javier Delgado-Rosas, the Commission's 30,000th homebuyer, at home with his wife Cristela Daniel and their children, Cristela and Javier

OPENING DOORS: COMMISSION PROGRAMS 1983 – 2003

HOMEOWNERSHIP PROGRAMS

A STAKE IN COMMUNITY

Asked how the Commission's homeownership programs have evolved in the two decades since the agency issued its first bonds, director Dee Taylor reels off impressive examples of how her division has worked to keep its focus and improve administrative procedures to keep pace with the program's growth. Then she pauses, smiles, and says, "You know, what we do is not about files or paperwork or technology. It's about people."

Since 1983, single-family home financing has been the Commission's flagship program. In both symbol and substance, homeownership sums up what the agency is about. The Commission's homeownership programs have grown broader in scope over the last 20 years, helping people of diverse circumstances achieve the American Dream. Here's a look at some of them.

THE MORTGAGE CREDIT CERTIFICATE PROGRAM

RELIEF AT TAX TIME

In 1986, the Commission implemented the Mortgage Credit Certificate Program, part of the 1984 federal tax reform act. It allowed first-time homebuyers to deduct 20 percent of their annual mortgage interest from their federal income taxes. The program was immediately over-subscribed, and, even with an increase in credit authority, demand surpassed what the Commission could supply. In its first year, the program included a $1.8 million set-aside for developer Environmental Works to build 28 townhomes in the East Sammamish Plateau's Klahanie housing project, which was financed in partnership with Continental Bank and King County.

After three years as the largest mortgage credit certificate program in the nation, the program came to an abrupt end in 1989 after the tax reform bill of 1986 severely limited the Commission's bond authority. In place of the program, the Commission chose to issue more tax-exempt bonds, which benefited more low-income borrowers.

HOUSEKEY

MORE HELP FOR FIRST-TIME BUYERS

In 1991, the Commission gave its original single-family program a boost by combining it with two federal programs to create the HouseKey program. In addition to the Commission's below-market-rate loans, the program now offers first-time homebuyers a five percent down payment and allows them to qualify for mortgages with higher loan ratios and less closing cash than under conventional loans.

Single mom Sara O'Neil of Spokane had few hopes of buying a home until she heard about HouseKey through a Commission-certified homebuyer education course. The program, along with a $5,000 grant from the Federal Home Loan Bank of Seattle that she got with the help of the Spokane Homeownership Resource Center, enabled her to buy a three-bedroom, two-bath house, which she shares with her son, Tyler. She describes the simple-but-important pleasures — like having a dog — that homeowners take for granted. "We can now make our own snowmen and our own leaf piles to jump in, all in the privacy of our own yard."

To date, HouseKey and other homeownership programs have served more than 37,000 first-time homebuyers across the state.

HOMEBUYER EDUCATION SEMINARS

SMARTER CONSUMERS

The same year HouseKey got its start, Commissioner Nanci Primley, a real estate agent from Battleground, suggested that the Commission require some form of homebuyer's education for its borrowers. She'd seen too many of her own clients purchase their first homes without a full grasp of the process or the reality of paying a mortgage and owning a house.

HOMEBUYER EDUCATION

Says Commission bond counsel Jay Reich, "It's often cultural. If your family owned a home, you have some idea what homeownership means. But if no one in your family has ever owned a home, the whole notion of long-term indebtedness and credit and equity can be a very foreign concept."

At the time, Fannie Mae had created the skeleton of a homebuyer's education course, going so far as to print textbooks and develop consumer guidelines. But the agency had no one to administer the program in Washington. The Commission agreed to take it on, and its Homebuyer Education Seminars were born.

"We said, 'Let's make this one of our programs and make it mandatory, so [buyers] know what they're getting into. If we educate them now, we won't get people losing their houses later,'" recalls Heyward Watson, then director of the Commission's single-family program and now the director of Fannie Mae's Washington Partnership office.

Once again, the Commission turned to the private sector for help: Lenders, real estate agents, and others in the housing industry agreed to conduct the seminars around the state in exchange for the business they might get from prospective homebuyers. To date, the six-hour seminars — presented statewide, often in languages other than English — have shown more than 90,000 persons how to locate and finance a home.

ABOVE Former Commissioner Nanci Primley, one of the creators of the homebuyer education program

One study shows that 46 percent of the people attending the seminars buy houses within six months. "You can show a direct relationship between taking our class and the increased likelihood that somebody will buy a house within the next year," says Kim Herman. Adds Watson, "Think of that ripple effect. I think those classes are helping the economy more than we know."

HOUSEKEY PLUS, HOUSEKEY RURAL, AND HOUSEKEY TEACHER

A HAND UP

For first-time homebuyers, scratching together a down payment and closing costs is often among the greatest barriers to ownership. The Commission's HouseKey Plus program provides down payment and closing cost assistance to buyers through a below-market-rate second mortgage. It was created in 1995 — the first major use of the Commission's Program Investment Fund. According to Herman, the program was one instance where Commissioners encouraged staff to think big:

KIM HERMAN

> *We went to the Commission and said we wanted to put $100,000 of our Program Investment Fund into down payment assistance. We were going to ask banks if they wanted to match our money. That way, we'd have a $200,000 program. Well, Skip Chilberg was chair of the Commission. And he said, "This is a wonderful idea. We really need to do this. The problem I have is that you're thinking too small. Why only $200,000? Let's go for a million. Let's put up $500,000 of our money and quit penny-anteing this stuff!" And that's how the program got rolling.*

Seeded in cooperation with Bank of America and the state Housing Trust Fund, the program has to date provided more than $8 million to first-time homebuyers and has served as a model for a national program administered by Fannie Mae.

HouseKey "kept our payments low enough that we could afford a home," says Ken Penner of Yakima. "I'm not sure we could have purchased a house without it."

"The real godsend is the help buyers can get with a down payment," notes Jean Spencer of Wells Fargo Bank in Yakima, who helped Penner and his family secure their loan. "A lot of agricultural workers in town struggle to buy houses. Some have to count their children's incomes just to be considered. HouseKey helps more people get into their first home, and that's good for Yakima."

In 2000, the Commission created HouseKey Rural in cooperation with the state Department of Community, Trade, and Economic Development. Part of the Commission's rural housing initiative, the program provides down payment and closing cost assistance to rural residents who earn less than 80 percent of the median income in their area. HouseKey Teacher, a similar program for educators, was created a year earlier. It provides flexible qualifying features, low down payment requirements, and a low interest rate.

HOMECHOICE

THE PROGRAM THAT ALMOST WASN'T

Pasco's Loan Van Nguyen was born in Vietnam and contracted polio at age two. Ten years ago, he emigrated to the U.S. with his wife and children. He learned English, studied computer science, and landed a job as an accounting assistant. Living in crowded apartments and public housing, he found it hard to imagine owning a home until he learned about the Commission's HomeChoice program, which enabled him to move his family into a brand-new home with a view.

"This is wonderful," he says. "I am independent… I support the family and fulfill the mortgage responsibilities."

Since 1997, HomeChoice has provided assistance to more than 331 homebuyers statewide. It's a Fannie Mae program that makes down payment assistance available to buyers with either a disability or a dependent family member with a disability. When Kim Herman first heard about HomeChoice, he feared it was too labor-intensive for his small staff and that few people would take advantage of the little-known program. But a homeownership division staffer named Brigette Helsten convinced him otherwise.

KIM HERMAN

Brigette thought it was a great program. She gave me a big pitch about how important it was, how she had a vision of how it could work. So I said, "You seem to have a different take on it. Run with it, and we'll see where it goes." So Brigette goes out and starts working with community groups all over the state that work with the handicapped. And, lo and behold, six months later, we introduce the HomeChoice program. We commit $100,000 of our reserves. And the thing just takes off.

Today, the Commission has financed 40 percent of all HomeChoice loans in the nation, serving twice as many people as all other states combined. Fannie Mae has given the program two major awards, and the National Council of State Housing Agencies has also recognized it. According to Heyward Watson, "The Commission has the best HomeChoice program in the nation because they are willing to put their money where their mouth is."

"And if it was up to me," Kim Herman laughs, "it never would have happened at all. But Brigette had a different vision of it and made it happen."

CREATIVE FINANCING AND OTHER INNOVATIONS

Since the mid-1980s, federal caps on the Commission's bond authority — the total value of tax-exempt bonds that the Commission is allowed by law to issue — have frequently prevented the Commission from meeting demand for financing. Given the tumult of politics, the threat of reduced bond authority perpetually looms, underscoring the thin margin on which the Commission operates. Without its bond authority, the Commission could not administer many of its programs. "Every time the Fed sneezes," quips Jay Reich, "we catch a cold."

Throughout its history, the Commission has found innovative ways to do more within the limits of its Congressional authority. Such was the case in 1991, when the Commission initiated "monthly rollouts" of maturing single-family bonds in order to preserve more than $248 million in bond authority. Seafirst Bank agreed to sell the bonds. Another solution has been to "blend" tax-exempt bonds with taxable bonds. And in 2000, the Commission was part of a successful national

ABOVE Former single-family director Heyward Watson advocacy effort that increased caps on both private-activity bonds, which fund Commission housing programs, as well as the low-income housing tax-credit program.

Innovations in the single-family programs have been technical in nature as well. In 2000, the agency that once tallied numbers on a blackboard brought its loan administration in-house and online, cutting application-processing time from six weeks to two, and enabling loan officers, underwriters, and loan administrators to collect data, process loans, and check the status of loans 24 hours a day.

"That's what keeps us going and gives us the momentum to do the work we do," Taylor says with a smile. "We're changing people's lives. We really are."

But as division director Dee Taylor is quick to point out, how the Commission does its work is secondary to whom it serves. She remembers meeting the mother of a developmentally disabled man who bought a home using the HomeChoice program.

"You have no idea what a relief it is," the mother told Taylor, "to know that my son has shelter."

"That's what keeps us going and gives us the momentum to do the work we do," Taylor says with a smile. "We're changing people's lives. We really are."

MULTIFAMILY PROGRAMS

MEETING NEED

MULTIFAMILY HOUSING

Financing affordable multifamily housing was also part of the Commission's original charge. The multifamily program was a roaring success from the beginning, and the results can be found in communities across the state. What's more, the program generated revenue that enabled the Commission to build solid financial reserves and its Program Investment Fund, which supports special programs for residents of low and moderate income.

BOOM YEARS

In the early 1980s, demand in the state for affordable multifamily housing far outstripped supply. Bankers and builders were eager to capitalize on the opportunity, but stratospheric interest rates in excess of 20 percent and the poor economy discouraged development of new projects.

The Commission made its first foray into multifamily financing in 1984, working with Washington Mortgage to finance $40 million in projects located mainly in Seattle and Spokane. The following year, Fannie Mae — which also sensed a lucrative opportunity in a multifamily market that was backlogged nationwide — created its "Muni Mae" program, which enticed investors with credit-enhanced, tax-exempt bonds.

The Muni Mae program put the Commission on the map, too, says Jim Kirschbaum, who then chaired the agency. "People said, 'These guys are innovators. They're willing to take risks,' not only in the state, but nationally."

"Our investment bankers brought this program to us and said, 'You guys ought to get into this program. It's huge,'" Kim Herman remembers. "And we said, 'We're only in our second year of existence. What do we know about this stuff?'"

But with the help of a visit to Fannie Mae's Washington, D.C., headquarters by Governor John Spellman, the Commission convinced the agency that Washington was a ripe market for the Muni Mae program and that the Commission was ready to administer it. In a matter of months, the Commission became the program's biggest lender, ultimately issuing a staggering $351 million in bonds in just two years — still a high-water mark for the Commission. In return, Washingtonians got 110 new multifamily housing projects, with 12,000 units built in Vancouver, Spokane, and the Tri-Cities, as well as up and down the I-5 corridor. "Big projects," says Herman. "A hundred, a hundred-fifty units at a time, which was of a scale you just didn't see then." So much new housing was built in SeaTac and Federal Way that those cities voted to incorporate in order to get a better handle on development.

The Muni Mae program put the Commission on the map, too, says Jim Kirschbaum, who then chaired the agency. "People said, 'These guys are innovators. They're willing to take risks,' not only in the state, but nationally." Kirschbaum notes that the program was the start of a prosperous relationship with Fannie Mae that remains strong today.

OPPOSITE Mariner's Glen, Port Orchard, a 1985 multifamily project

It was also a turning point for another reason, Kim Herman recalls.

KIM HERMAN

> *I remember [investment banker] Stuart Honse sitting around Jay Reich's office saying, "We're gonna build some pretty big fees for the Commission into these programs, and if everything goes well, in eight to ten years you guys might be able to take some big money out of these deals and plow it back into your programs." Well, that's exactly what we did. Ten years later, we took $2 million and started our reserves, and it worked. It worked because the bond issues had gone very well and the economy of the state was hot. And now we've got $18 million in our general reserves and $32 million in our Program Investment Fund, neither of which would ever have been built up if we hadn't entered into that Fannie Mae program and had good people like Stuart doing the right thing in the early years. It was huge for a two-year-old agency to issue $351 million in bonds, and we never would have done it if Fannie Mae hadn't stood behind them.*
>
> *And there's a certain amount of luck involved: We had twenty years of economic growth in the state that coincided with the first twenty years of our history. We did a lot of things right, but take that twenty-year run of economic growth away from us and the Commission might have a totally different look today. We were in the right place at the right time with the right tools.*

ABOVE Longtime Commission employee R. Mardelle (Mardi) Roberts

Longtime Commission employee Mardi Roberts recalls that the Commission was also "in the right place at the right time" to be randomly selected as the first state agency to have its bond program audited by the IRS. "I shared my office for three months with the IRS agent — that's why I dye my hair," she quips. The Commission passed the audit with high marks. Former multifamily manager Sala Sweet points out that, since the federal auditors w unfamiliar with housing finance, "we taught as much as we learned" — just one occasion when the Commission has helped develop federal policies.

BROADENING SCOPE

Despite the multifamily program's wild success, the headiness of those early days didn't last. In 1986, as part of a sweeping budget-reduction measure, Congress reduced the Commission's bond authority, cut tax breaks for developers, and made bond issues more complex. Consequently, the Commission has since funded fewer multifamily projects, although its contribution to multifamily housing has been steady and significant, funding six to 12 projects a year through bond issues as high as $53 million.

Today, in addition to funding new construction, the Commission also finances the rehabilitation of affordable housing and the development of nonprofit social service facilities.

As the furious pace of the first two years abated, the Commission built projects that served more diverse populations. In 1986, it launched its first program for housing the elderly, financing two projects under the FHA-insured Congregate Housing/Retirement Service Center Program. The same year, the Commission worked with the City of Seattle and various lenders to finance the Adams Apartments for the Seattle Housing Resources Group — the first Commission-financed project that would be owned by a nonprofit organization.

Three years later, the multifamily program became part of the Commission's capital projects division. Today, in addition to funding new construction, the Commission also finances the rehabilitation of affordable housing and the development of nonprofit social service facilities.

Since 1984, the Commission has issued more than $1.58 billion in multifamily housing bonds to finance almost 22,500 multifamily housing units statewide.

A MODEL FOR THE NATION

Interestingly, the same Congressional tax reform that cut the Commission's bond authority for multifamily projects also created a new financing tool that would prove equally successful: the Low-Income Housing Tax Credit Program.

TAX CREDITS

Under the program, the Commission allocates dollar-for-dollar reductions in tax liability to developers building or rehabilitating affordable multifamily housing, provided they agree to provide low-income housing for 40 years. Developers use the program to finance their projects by selling credits to investors, who in turn use the credits to lower their taxes. Nationwide, this complex program has helped produce more than 800,000 units of low-income housing — more than two-thirds of all the affordable housing in the country. And Washington's program, as administered by the Commission, is one of the most successful, marking a total of $1 billion in allocations as of 2002 and financing 16,587 affordable housing units in the course of its history.

Back in 1985, though, when the program was still only an idea being debated in Congressional hearing rooms, many dismissed the plan outright; only a small number of people had a sense of its potential. And one of them just happened to work at the Commission.

FORESIGHT

Sala Sweet, the manager of the Commission's multifamily program, had gotten word of the tax-credit proposal and thought it fit perfectly with the Commission's mission. Drafting a manual that outlined how the Commission could administer such a program, she determined the Commission could have it up and running within 90 days of Congressional approval. There was only one obstacle: Some thought the program should be the bailiwick of the state Planning and Community Affairs Agency (PCAA) rather than of the fledgling Commission.

When Congress finally approved the program, Sweet and Kim Herman approached Chuck Clarke, then director of the PCAA, and shared their vision for the program. After receiving word that his staff — busy getting the Washington Housing Trust Fund off the ground — would need two years to get the tax-credit program up and running, Clarke agreed to let the Commission administer the program.

Governor Booth Gardner blessed the agreement with an executive order, and, as promised, Sweet had the program operating within 90 days.

"The program really is a function of the financial market, and so it really did make sense for us to have it," she says now. "It's an investment tool, the same as bonds are." She continues:

SALA SWEET

> *We were one of the first states in the country to take the program and run with it. I spent a fair amount of time during the first three or four years going to a lot of national meetings to talk about the program. I was even on a legislative task force of the Congress to look at some of the aspects of the program and make some recommendations.*

The Commission's compliance procedures for the program — originally developed for multifamily projects — also served as a national model. "Even the IRS couldn't answer some of the questions we were getting," says longtime staff member Mardi Roberts. Later, in the early 1990s, the National Council of State Housing Agencies adopted best practices for tax-credit programs, and Paul fitzgerald, who by then managed the Commission's program, was deeply involved in that work.

The early days of the program, says Sweet, were "pretty freewheeling," without much in the way of guidelines or regulations, allowing for easier and more innovative allocation of credits. Eventually, though, the inevitable red tape appeared.

"Some developers, mostly on the East Coast, really didn't use the program responsibly," Sweet explains. "So Congress overreacted by making up five times as many laws as they needed to prevent this one thing from happening."

"WORKING BETWEEN TWO WORLDS": SALA SWEET

Sala Sweet is typical of Commission staff: smart and talented, with a passionate commitment to the Commission's work. She joined the Commission in 1985, as the agency was finding its footing. By the time she left in 1998, the Commission had grown into a more sophisticated, far-reaching organization. In the intervening years, Sala started or ran every one of the Commission's major programs.

After leaving the Commission, Sala spent two years in Ghana as a Peace Corps volunteer. Today, she is a property manager with Seattle-based Plymouth Housing Group, which provides affordable, permanent housing and support services to formerly homeless Seattle residents. In recalling her work at the Commission, Sala provides a snapshot of the agency's challenges, successes, and evolution.

I came to the Commission to work on the single-family program and put together the compliance program, and to do whatever else needed to be done. When I first arrived, there were only two other employees: Kim Herman and Barbara Wooten, Kim's secretary. [The state] didn't give us any money to start the program with. We didn't even have an accountant. I can remember when Kim and I would go back in this room with this huge blackboard and try to figure out what the heck was going on with these complex bond issues — where the money flows were going, and then whether or not we had enough money to pay our bills. We got an accounting person pretty quickly.

ABOVE Sala Sweet in front of Seattle's Oregon Apartments, financed in part with tax credits

I came from a state housing agency in Minnesota, and I was very surprised at how much the Commission was run with the involvement of lenders. But I also saw that it couldn't have started without them. Having them on the board throughout my time there was extremely valuable, because they kept us in touch with the real world. We were, in fact, a business. So we had to generate money. And we had to be aware of what was happening in the lending and housing markets. I enjoyed going to the Commission meetings because I always learned from them.

I did single-family programs for a couple of years. And then I got into the tax-credit program. And then the multifamily bond program. And then I started inventing things, like the elderly program and the nonprofit program. It's a lot easier to do a program at the very beginning, before anybody makes up ten thousand rules about what you can't do.

There weren't any federal income guidelines when we started the elderly program, and a lot of those projects were built for people with higher incomes than the other housing we'd built. So we put a lot of effort into getting them to set aside units for low-income people. And that was a real change for the owners of those projects, because many of them were church-based and weren't used to answering to the government. I did one bond issue where an investment banker for the borrower said he couldn't agree to a set-aside without having it approved by the Pope. And I said, "Well, here's my phone number — have him give me a call." They decided they didn't need to go quite that far.

I think people often imagine state employees as bureaucrats who come in at eight o'clock and leave at four fifty-five and just sit at their desks all day. It was never like that at the Commission. It was very intense sometimes, especially when we were doing a lot of bond issues at the same time. You just had to work however many hours were necessary to get it done. There would be deadlines, and all of us, including the investment bankers, the attorneys, and everyone, would practically be working around the clock.

Working at the Commission is a strange position to be in, in a lot of ways. You're kind of between two worlds, and for that reason it's sometimes hard for people to understand what you do. You're trying to make programs attractive to investors but also advantageous to the people who are going to use them. You have to expect that you're not going to be loved by anyone, because in order to put together compromises that make something work financially but that also support social goals, you have to do something that's going to make each side unhappy. But you also get to do something that's going to make them happy. And I think that the Commission has made a lot of effort to listen to and incorporate input from all the people they serve.

When I look back, I'm most proud of the times when we could help small organizations or communities that wouldn't have had housing or a certain facility in any other way. I like being able to drive through Belltown and a lot of other areas and say, "There's a project that helped turn this neighborhood around, because we invested in those neighborhoods before other people did."

I'm also proud of the political power that housing advocates have now. When I first came to the Commission, housing didn't have a big place in the state's agenda. Now it does. The Commission certainly isn't alone in accomplishing that, because there are lots of nonprofits that are very innovative, and the Department of Community, Trade and Economic Development certainly has had its role to play, too. But I think the Commission, especially early on, played a role in making housing a priority.

And, of course, we've created an enormous amount of housing for people in this state. It's just unbelievable.

In subsequent years, the Commission heard increasing complaints from developers frustrated by the paperwork and process tied to tax-credit allocation. In response, the Commission has worked with its government, nonprofit, and for-profit partners to streamline the process and make it more customer-friendly. Busse Nutley, who chaired the Commission from 1995 to 2000, recalls "explosive" allocation meetings each August. "Commissioners used to find a reason to avoid those meetings," she jokes, "but now they go off without a hitch."

In 2003, the Commission will complete a four-year campaign to make policies governing the program more flexible. Among the results of that effort are tax credits targeted at projects for specific populations, including rural residents and farmworkers. Other changes include more flexible rules for developments that will house formerly homeless people and a revised application schedule that will give developers more time to meet federal deadlines.

Paul Purcell of the Beacon Development Group says plainly, "This couldn't have happened without the tax-credit program."

Changing to meet the needs of the market only makes sense for the Commission, says Valeri Pate, who manages the tax-credit program today: "The point is to get the housing out there."

Growing pains and bureaucratic headaches aside, the tax-credit program has been extraordinarily successful at financing affordable housing for the state's low-income residents and remains an example for the rest of the country. "I myself detested the federal bureaucracy around that program," says Sala Sweet, the woman who brought it to Washington. "But then I remember that it has also created hundreds of projects."

One of those is Seattle's Dorothy Day House, which provides permanent single-room occupancy housing to formerly homeless women. Located downtown, in a neighborhood where once-plentiful affordable housing has been replaced by high-end condominiums, the building is near bus lines and social services. Paul Purcell of the Beacon Development Group, which oversaw the project, says plainly, "This couldn't have happened without the tax-credit program."

"This is one of the few jobs where you really get to see that you made a difference," says Valeri Pate. "I can be driving through almost any city in the state and say, 'I know that project — that's a tax-credit project.' And that's pretty cool."

ABOVE Annabella E. Yambao at home at the Dorothy Day House, a project financed in part with tax credits

THE NONPROFIT FACILITIES PROGRAM

A NEW WAY TO BUILD COMMUNITY

Perhaps the most dramatic evolution in the Commission's work came in 1990, when the legislature gave the agency authority to issue tax-exempt bonds for financing capital facilities owned by 501(c)(3) nonprofit organizations. The legislature also charged the Commission with financing nursing homes, an expansion of the elderly housing initiative begun under the multifamily program.

NONPROFIT FACILITIES

The Commission had financed nonprofit-owned housing projects since 1986 through multifamily bond issues, tax credits, and links to other state and national programs. But for the first time, the Commission was expressly authorized to issue tax-exempt bonds to finance projects for nonprofit arts and social service organizations. While the move was a departure from the vision that legislators might have had for the Commission in 1983, the Commission was the obvious agency for doing such work in the state.

"As I understand it," Busse Nutley remembers, "[the legislature] said, 'The Commission is already doing this. Why do we want to go to the expense of setting up a whole other authority?'"

According to Kim Herman,

KIM HERMAN

> *There was legislation introduced to allow nonprofit financing by every city and town across the state. State Treasurer Dan Grimm got worried that, with all that uncontrolled activity going on, some of it was going to be badly administered. He said, "Let's think about putting this under an organization that has some representation from state government. And since I sit on the Housing Finance Commission, I think that would be a great place for it to go."*

It was a vote of confidence for an agency that was only seven years old. Sala Sweet was put in charge of the program, and she acknowledges the help she got from the private sector: "I appreciate the people we worked with at the time, because they helped us whether they were involved or not."

"We've overcome tremendous odds," says Tia Peycheff, who oversees the division today. "We started as a housing agency, so we had to extend our contact base and our outreach into areas we'd never dealt with before. We had to work to get costs down so small projects could use the program. We had to learn a whole new kind of financing."

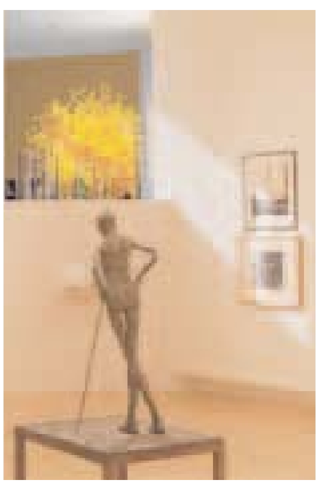
ALL THE THINGS THAT MAKE A COMMUNITY

The nonprofit financing program's first project was a robotic whale, developed by the Pacific Science Center, that would become part of a traveling exhibit and was funded through a $1 million refinancing with Security Pacific Bank of Washington. Since then the Commission has financed a colorful range of projects — "all the things that make a community what it is," according to Claire Petersky, senior finance manager for the division. Projects include the Tacoma Art Museum, daycare centers, YMCA and YWCA facilities, private schools, student housing, a PAWS pet shelter, athletic facilities, theaters, adult daycare shelters, research facilities, and exhibit space for the Puyallup Fair — which featured "the only bond issue that ever had pigs printed on the offering statement," laughs Sala Sweet.

...the Commission has financed a colorful range of projects — "all the things that make a community what it is"...

"We see the nonprofit program as integrating the Commission into the whole community," says David Clifton, the division's manager. "We're not just building housing. We're building neighborhoods."

Lynnwood's Little Red School House annually provides special education and therapy to about 500 children age three and under. "The Commission was critical" to its development says executive director Barbara George. "By having the Commission fund our mortgage, it allowed us to get a lower rate and sustain our services — to make use of funds instead of paying them out in interest. The money we would spend on interest can be put into programming, and once the mortgage is paid off, we can put money back into services."



ABOVE The Tacoma Art Museum's new building was financed with bonds issued through the Commission's nonprofit facilities program

SPECIAL PROGRAMS FOR SMALLER NONPROFITS

Recognizing that many nonprofits didn't need — and couldn't afford — huge amounts of financing, the Commission created two special programs for small- to medium-sized projects. The Washington Refinancing Assistance Partnership, or WRAP, enables nonprofits to refinance taxable loans for capital projects using tax-exempt bonds. Bond issues are limited to $2 million, and the program requires less paperwork, minimizing costs. Similarly, the Streamlined Tax-Exempt Placement program, or STEP, cuts costs and allows borrowers to finance projects at a flat rate.

"We go out and listen to clients. We've modified our programs time and time again in response to their needs."

Says Jay Reich, "There was no marketplace out there for small nonprofits to borrow because they couldn't handle the transaction costs of big public deals. So we just tried to cut through the excess — the underwriters, the official statements, and a lot of fees — so we could do this really simply and cheaply."

"We do small deals and we lose money," says Kim Herman. "And we make it up by doing a larger deal where we make money."

While such innovations have been the hallmark of the Commission's work for 20 years, Kim Herman considers them the kind of basic customer service necessary for the Commission to stay in business. "We go out and listen to clients. We've modified our programs time and time again in response to their needs," he says.

"GARAGEGATE"

Since the nonprofit facilities program began, it has not been uncommon for a legislator or Commissioner to occasionally raise an eyebrow at a project that might challenge his or her personal definition of a facility that serves the public good. But the most notorious project ever financed by the Commission lies beneath the pavement at Sixth and Pine in downtown Seattle: the Pacific Place garage.

In 1997, the Commission worked with the City of Seattle to issue $47 million in bonds for a 1,200-space, nonprofit-owned parking garage serving an upscale shopping center intended to revitalize a blighted section of downtown. While the project clearly met IRS regulations that define what nonprofit projects the Commission may finance, it was part of a complicated city development scheme that eventually raised questions of unconstitutionality and improper corporate subsidy. The Commission, as then-chair Busse Nutley said in a Seattle newspaper at the time, "became enmeshed in controversy not of our making."

Lawmakers and media scrutinized the Commission's nonprofit program. State Representative Tim Sheldon of Potlatch charged in the *Seattle Times*, "The goals and visions of the Commission have obviously changed since 1983, but that doesn't justify what sure looks like corporate welfare." Bond counsel Jay Reich even came under fire for conflict of interest, although a subsequent review proved those allegations were unfounded. Addressing the flap cost the Commission time and resources equivalent to one full-time, mid-level staff person.

"We got into it very innocently. It looked straightforward on the surface, and then we walked into a brick wall," Busse Nutley says of the project now. "Hindsight being twenty/twenty, we might have asked a few questions that didn't occur to us at the time."

In the end, the Commission created a better policy for financing parking garages in commercial developments that requires further public involvement by the local jurisdiction before the Commission will get involved. Today, both Nutley and Sala Sweet note that no state monies were used in funding the Pacific Place facility, and that the nonprofit owners sold the facility to the City and paid off their debt two years early. "The bottom line is that it's one heck of a garage, and they paid us back," says Nutley. "It ended well."

A GROWING SUCCESS

Since 1990, the nonprofit program has provided more than $313.5 million in financing for 86 nonprofit facilities around the state. The program eventually became part of the Commission's Capital Projects division, which also administers the multifamily bond program and bond issues for nonprofit housing facilities.

In 2002, the Commission initiated a series of workshops to help nonprofit organizations plan capital projects and make the most of financing in a difficult economy. Commission staff advise organizations on how to develop financing plans, show them where to look for grants, and generally lend them expertise so organizations can focus on their missions while maximizing the value of scarce dollars.

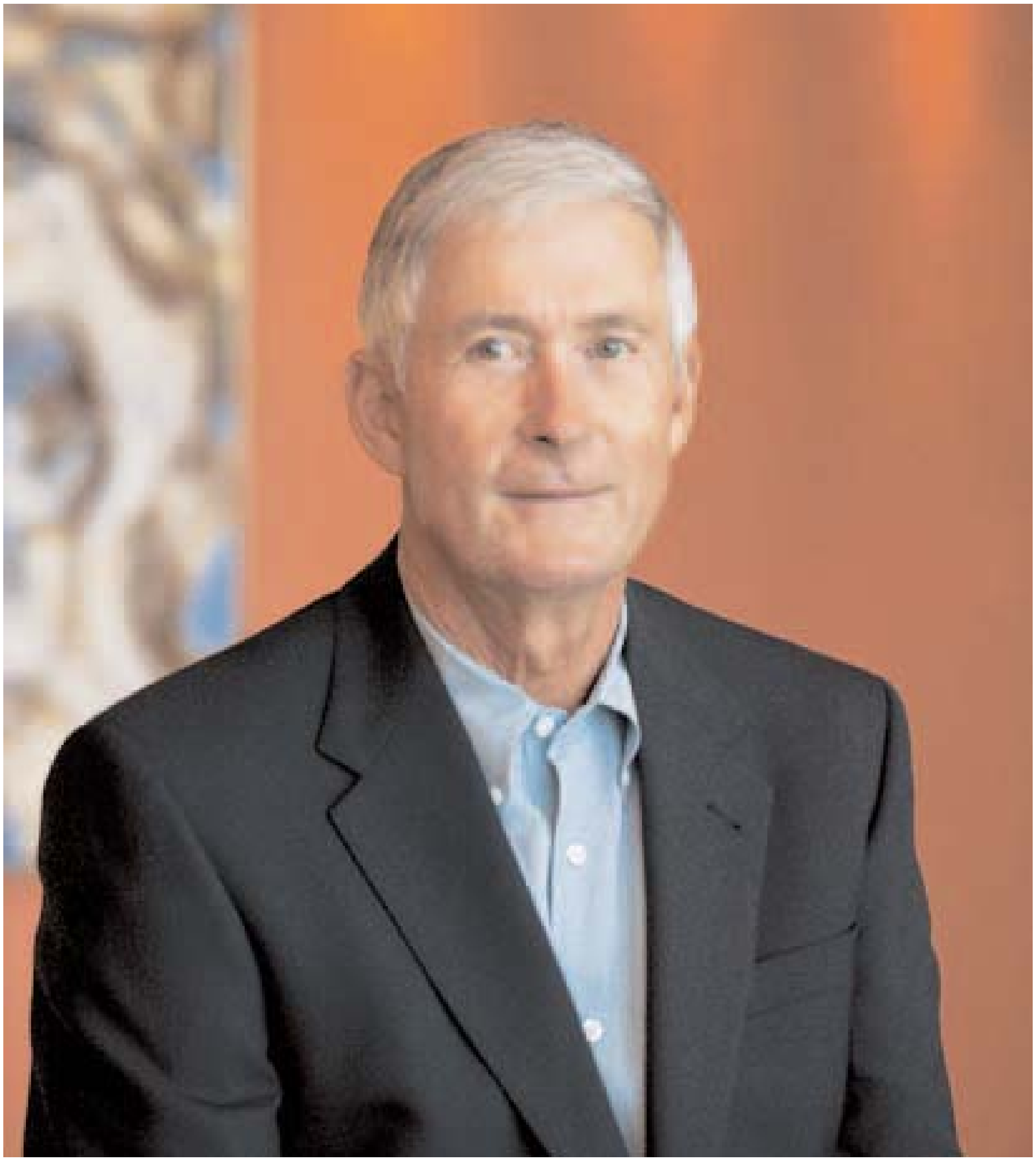
A PLACE TO AGE WITH GRACE

At about the same time the legislature charged the Commission with the funding of nursing homes, the agency completed $6 million in financing for CRISTA Senior Ministries, signaling an increasing commitment to elderly populations. It took a quantum leap with its next major project. Emerald Heights, a retirement community in Redmond founded by members of Eastside Presbyterian Church, was one of the first in the area to offer a "continuum of care" that included independent living, assisted living, and nursing care. Then-chair David Ballaine remembers that although the concept of continuing care was unfamiliar to Commissioners, an early hearing on the project assuaged any skepticism:

DAVID BALLAINE

> *They brought a couple of busloads of retired people to testify. I remember one couple, both of them retired University of Washington professors, who testified that they didn't want to be a burden on their children or on the community. And they believed so totally in this project that they were anxious to sell their home in North Seattle to buy into it. And that's what convinced me. We authorized the project, and it was a $53 million bond issue, one of the largest ever at the time.*

The project was a success by all measures. So impressed was Ballaine that he later encouraged his own mother to move from her home in Sequim to Emerald Heights, where she resided the remainder of her life.



ABOVE David Ballaine,
Commission chair,
1988 – 1993

Division manager David Clifton cites Lynden Christian Health Care Center, a nursing home that Commission financing helped transform from a "hodgepodge" of buildings to a modern, comprehensive facility, as a project that illustrates the agency's impact. "This work is having a good influence all over Washington," he says.

To date, the Commission has funded approximately 15,000 units/beds for Washington's increasing number of elders.

Says David Steele, president of St. Andrews Retirement Community in Port Angeles, "We like working with the Commission. I found them easy to work with… We also encouraged them to change their rate structure for projects that help Medicaid recipients, and they were very responsive to our suggestions. They lightened our load and reduced our fees."

To date, the Commission has funded approximately 15,000 units/beds for Washington's increasing number of elders.

COMPLIANCE AND PRESERVATION

KEEPING AFFORDABLE HOUSING AFFORDABLE

The Commission's tax-credit and tax-exempt bond programs are governed by strict federal regulation of resident income, building conditions, and more. So in 1994, the agency created the Compliance and Preservation Division to help project owners who receive Commission financing meet a sometimes dizzying array of requirements. Compliance staff monitor some 600 multifamily projects to ensure they meet regulations. They visit about a third of those sites each year, and all properties receive a thorough desk review. (Keeping track of project names can be the most daunting part of the task, jokes senior compliance officer Mardi Roberts: "I can't tell you how many Cedar-Somethings or Pine-Somethings we have.")

Over the last eight years, experience has shown that it's more effective for the Commission to be a technical consultant to housing providers and managers rather than an enforcement agency. The division conducts more than 20 workshops a year for project owners and managers, so that they have a clear understanding of federal requirements and how to avoid violations. "We're teaching them how to fish instead of giving them a fish," says division director Mark Flynn. "As we've done more workshops, we've seen the intensity of violations decrease dramatically."

OPPOSITE CRISTA Shores Retirement Community, Silverdale

PRESERVATION

It wasn't always that way. Mardi Roberts, who has worked at the Commission since 1985, remembers one on-site visit where a car had been driven through the wall of a unit and fleas from the carpet swarmed her legs. But today such occurrences are rare.

"A little knowledge goes a long way," says Flynn, "especially once they know we're not out to play gotcha. Training is the most fundamental thing we do, and it's where we spend our money."

Perhaps the division's biggest innovation was inviting the City of Seattle, the U.S. Department of Agriculture's Rural Housing Service, the state Department of Community, Trade, and Economic Development, and other agencies to streamline monitoring and documentation. Since projects often receive financing from multiple funders, owners can be overwhelmed with paperwork and inspections. The Commission has led the charge to boil multiple report forms down to one used by all agencies, as well as to divide file reviews and on-site visits to reduce duplication of labor among agencies and hassle for project owners.

Flynn also notes that, like the rest of the Commission, his division has increasingly leveraged technology to make information and paperwork accessible online and to make workshops more engaging. "Teaching the tax code can be a pretty dry subject," says Mardi Roberts, who has led project owners in games of mock "Jeopardy" to drill them in federal regulations, "but we get really good reviews." The division recently opened an office in Spokane, and its Web site received a national award in 2002.

Preserving affordable housing stock is the other half of the division's job. As agreements under federal programs like Section 8 and the tax-credit program expire, the Commission finds ways to make it financially feasible for owners to continue serving low-income residents. Under the Mark-to-Market Preservation Program, inflated rents are brought down to local market rates; in exchange, owners get their loans restructured and improvements are made to their buildings. As a result, residents — many of them elderly or disabled — get to stay where they are.

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Such was the case for senior citizens living in Davenport's Cottonwood Springs apartments and earning 15 percent or less of the area's median income. "The good thing is that the people who live here will still be able to live here," said owner Betty Medley. "That's why we built the place."

THE PROGRAM INVESTMENT FUND

REACHING THE UNDERSERVED

The Commission's legislative charter defines its role fairly conservatively. Yet in the course of its history, the Commission has increasingly found ways to work creatively within the parameters of its authority in order to do more for people of low and moderate income. As Kim Herman puts it:

KIM HERMAN

> *Over the years, as our resources have grown, we have moved closer to the middle in terms of supporting social services. We started conservatively but have moved to the middle, and that's where we've stayed. We're part of the community, and we have a social conscience. We need to use our resources where we can to create more programs that benefit low-income people. We're not the Department of Social and Health Services. We're not the Housing Trust Fund. But we can play a role.*

Over the last 20 years, the Commission's programs have expanded and diversified to reach more vulnerable populations. Many of those programs have been created through the Program Investment Fund, or PIF.

SHARING THE WEALTH

With the fees earned on the Commission's programs — particularly the Muni Mae multifamily projects — the Commission had, by 1989, begun to build substantial reserves. Though the agency had historically been conservative in choosing projects to finance, some Commissioners urged the body to use its new wealth to extend its reach to state residents of lower income. That meant investing in programs that risked just breaking even or even losing money. Commissioner D.E. "Skip" Chilberg, the Spokane County treasurer who would go on to chair the Commission from 1993 to 1995, led the push:

SKIP CHILBERG

> *The whole idea of taking on risk was a huge step for the Commission… but there were a whole lot of families out there that weren't being served. We recognized that in terms of our public purpose, we were supposed to be serving those families that the conventional market was not able to serve well. We talked a lot about the stratification of the housing market, and we recognized as a body that we were just skimming the top. It was a conscious effort to dip a bit lower into that strata.*

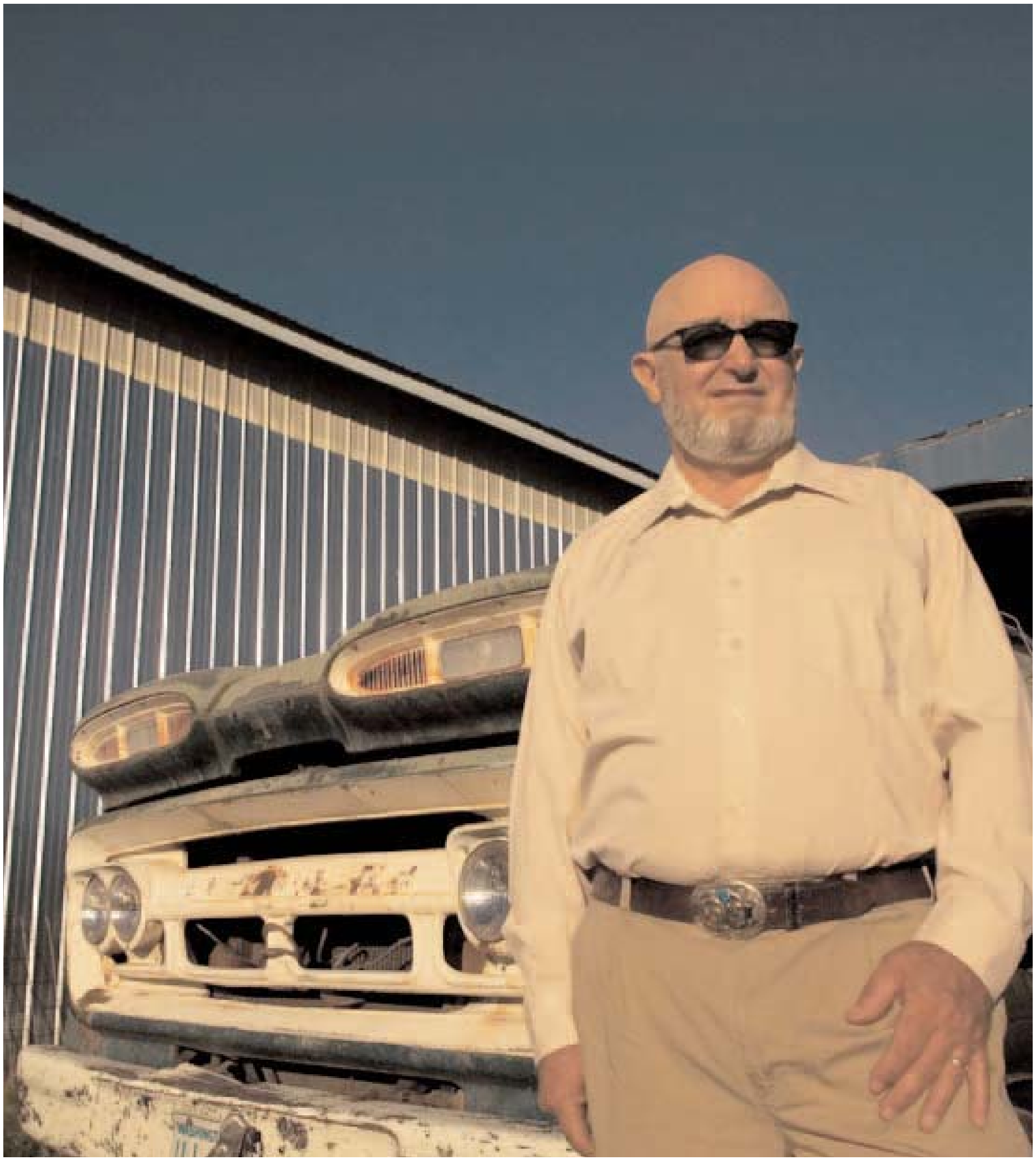
To meet that goal, Kim Herman developed the Program Investment Fund. Knowing it would be a tough sell to some of the more risk-averse Commissioners, he enlisted the support of Chuck Clarke, who served on the Commission in his role as director of the state Planning and Community Affairs Agency.

"I knew they would listen to Chuck. He was a member of the Governor's cabinet, and they respected him," says Herman. He recounts the meeting:

KIM HERMAN

> *I make my pitch, and all the Commissioners are kind of bobbing and weaving, and I'm answering questions and everything kind of gets quiet. And Chuck raises his hand and the chair calls on him, and Chuck says, "We really need this fund. The Commission needs to do this. We've got to show that we're publicly accountable, that we're going to take some social action to really try to reach lower-income people. We can do it conservatively, but we've got to do this. It's the right thing to do."*

The Commission approved the PIF unanimously.



ABOVE D.E. “Skip” Chilberg,
Commission chair, 1993 – 1995

"Some people thought we were the greatest Socialists to come along since the Communist party."

In the 14 years since its creation, the PIF has funded the HomeChoice program, HouseKey Plus, HouseKey Rural, HouseKey Teacher, and other initiatives.

"Some people thought we were the greatest Socialists to come along since the Communist party," jokes Chilberg, who considers the PIF the Commission work he's most proud of, "but [the PIF] allowed us to do some of the public interest work we should have been doing."

AN AGENCY MATURES

GROWING UP FAST

Thanks in part to the success of the Muni Mae multifamily projects of the mid-1980s, the Commission grew rapidly. While keeping staffing to a minimum (even today, the Commission employs just 65 people), it was suddenly dealing with multiple partners, large sums of money, and the fast-paced world of investment banking. Those at the Commission's helm knew it was crucial to make a priority of what Jay Reich calls "self-conscious institution-building."

"We established a corporate culture early on," says David Ballaine. "We recognized a very real potential for missteps in an area dealing with billions of dollars… I saw it as my goal to help Kim bring some stability and some structure and build a durable organization."

Throughout its history, the Commission has cultivated a clear professional sensibility with regard to ethics, planning, staff development, and more. It's one more example of how the agency behaves more like a business than a stereotypical bureaucracy.

DOING THE RIGHT THING

Given the amount of capital the Commission oversees, the need for clear ethical guidelines is obvious, and the Commission early on established rules governing everything from bond issues to when a staff person may dine with an investment banker. Jay Reich describes the need:

JAY REICH

> *When you have private people on the board who are in the banking industry and the mortgage lending industry, and you come out with these millions of dollars worth of programs, and there's lots of money floating around, you have to be pure. And we couldn't wait for twenty years for Enron to unwind. You had to be up front and decide what could be problematic and draw some pretty tough lines. And we have consistently had a culture, I think, of the highest ethical standards. And we did that within like six months of our creation. And it's kept us out of trouble.*

"We all felt we had an incredible vehicle that we should treat with respect and integrity," agrees David Ballaine. "We didn't want to spoil the golden goose."

PLANNING, PROCESS, AND PASSION

Amidst the Commission's rapid growth, orchestrating internal processes to match external realities has often been a challenge for Commissioners and staff. David Ballaine sums up his main focus while chairing the Commission as "process, policy, and staff — and how to do those things without becoming a bureaucracy." From management training to technology implementation to streamlined administrative processes, the Commission's internal history is one of an agency constantly striving to be more efficient and effective in its work.

ABOVE Busse Nutley,
Commission chair,
1995 – 1999

Busse Nutley oversaw the first several years of a strategic planning and reorganization process that would last through 2003. She describes the process as "almost a catharsis" that marked a new, more mature agency:

BUSSE NUTLEY

It took a growing and expanding entity and gave it a sense of purpose, direction, and resources. It was a moment people talk about, because it was happening when all these issues and growth and change were really swirling around. It was really a make-or-break kind of time. And it came together beautifully. It was a really positive process.

In 1995, the Commission's staff articulated its vision and values and had them printed on an oversized sheet of paper. Every staff member signed the document, which now hangs in the lobby of the Commission's offices in downtown Seattle. It's as good an indicator as any that the Commission hews closely to a clear and deeply held sense of itself and its mission, the culmination of two decades of work and evolution, of trial, error, and refinement.

"That was a very conscious effort to say, 'What do we want to be about? What do we stand for?'" Kim Herman says. "And if you've come to work at this agency, what do you stand for? Because if these values aren't yours, then maybe you ought to look for a place with the vision and the values you share. Not that ours are 'right' or 'wrong' — they're just different."

PUBLIC-PRIVATE PARTNERSHIPS

As part of the strategic planning process, Kim Herman adopted a motto: "Tomorrow's successes are in the partnerships we make today." It helped him remember that the Commission needs partners to succeed.

From the first gathering around a table to hammer out the legislation that created it, the Commission has been a product of government, nonprofit, and business interests working together. Today, virtually every project the Commission finances represents a collaboration of various entities: bankers, underwriters, community-based organizations, and others.

As a self-sustaining agency committed to remaining lean and agile, the Commission depends on its partnerships to meet its objectives and, indeed, has sometimes relied on them to stay in business. Partnerships have proven an especially valuable bulwark against the current of politics, as the Commission's bond authority has ebbed and flowed over time. And occasionally, especially in the Commission's early days, before it had built up sufficient reserves, the flexibility and creativity of the Commission's partners have kept programs available to the people of Washington State.

"No one agency can do this work alone," points out Karen Miller, who has chaired the Commission since 1999. "In today's economy, you need to have more sources of funding than what the Commission can offer."

David Ballaine considers the Commission a pioneer in public-private cooperation:

DAVID BALLAINE

> *We were one of the earliest, when the term "public-private" was just beginning to gain some substance and people really didn't know what it meant. It made sense: Government resources are limited. Private resources are limited. But when you bring them together, you have the best opportunity of marshaling the strengths of both sides. People don't want government to do everything. And it's not appropriate for the private marketplace to do everything… Handled correctly, with passion and energy, these partnerships can be very successful.*

Many of the Commission's partnerships are long-standing, including its relationships with Fannie Mae, the state Department of Community, Trade, and Economic Development, the U.S. Department of Housing and Urban Development, and various private mortgage lenders. In a fitting turnabout, after years of benefiting from partnerships, the Commission is now able to "return the favor" by partnering with nonprofit organizations to offer them low-cost financing and general expertise.

ELEVEN VOTES

Commission staff members are familiar with one of Kim Herman's favorite maxims: "There are eleven votes on the Commission, and you and I don't get one."

"There are eleven votes on the Commission, and you and I don't get one."

From the beginning, the Commission has indeed been an independent-minded body, open to the recommendations and assistance it gets from Herman and his talented team, but ultimately possessing a perspective and agenda all its own. Former single-family program director Heyward Watson likens the relationship between the Commission and staff to that of a pilot and co-pilot.

Over two decades, the Commission has represented an increasingly diverse group of interests. What began as a panel steeped in the financial and housing industries has evolved to include more representation from government and community-based organizations.

Following is a list of Commissioners from 1983 to the present.

- Wayne Cubbage 1983
  Executive Secretary, Washington State Council of Carpenters
- Patrick W. Dunn 1983 – 1985
  Washington Planning and Community Affairs Agency
- Kim Herman 1983 – 1984
  Yakima Housing Authority
- Jim Kirschbaum* 1983 – 1987
  Washington Mortgage Bankers Association
- Carol C. Little 1983 – 1985
  President, Seattle Pacific Development
- Rev. Marilyn Littlejohn 1983 – 1984 *Community Methodist Church, Ridgefield*
- Robert S. O'Brien**
  1983 – 1989
  Washington State Treasurer
- Nanci Primley-Stenshoel
  1983 – 1992
  Realtor, Battleground, WA
- Donald R. Wick 1983 – 1985
  Housing Developer, The Wick Companies
- Karen Rahm** 1983
  Director, Washington Planning and Community Affairs Agency
- Charles Richmond 1983 – 1988
  Executive Vice President, Washington Federal Savings & Loan, Seattle
- Anne Rose 1983 – 1992
  Bellingham City Council
- Betty Sherman 1984 – 1985
  Richland City Council
- David A. Ballaine* 1985 – 1993
  Executive Vice President and Manager, Commercial Mortgage Division, Continental, Inc., Seattle
- Rev. Leo C. Brown, Jr.
  1985 – 1995
  Executive Director, Progress House Association, Tacoma
- Ester B. Huey 1985
  Deputy Director, Yakima Valley OIC
- Del Long 1985 – 1987
  Carpenters Union Local 1849, Pasco
- Richard Thompson**
  1985 – 1987
  Director, Department of Community Development
- Harlan Douglass 1986 – 1994
  Builder, Spokane
- Chuck Clarke** 1987 – 1992
  Director, Washington Department of Planning and Community Affairs
- John Steffens 1987 – 1993
  Carpenters Union Local 1597, Bremerton
- D.E. "Skip" Chilberg*
  1988 – 1995
  Spokane County Treasurer
- Larrry Kowbel 1988 – 1996
  Regional Vice President, Colonial Mortgage Company, Seattle
- Daniel Grimm**
  1989 – 1996
  Washington State Treasurer
- Mark McLaughlin 1989 – 1996, 1992 – 1993; *Designee for Washington State Treasurer Daniel Grimm*
- Michael Piper 1990 – 1993
  Designee for Director of the Washington Department of Community Development
- Kevin Hughes 1991 – 1997
  Director of Public Affairs, Pacific Science Center, Seattle
- Donna Dilger 1992 – 2000
  Representative At Large
- Barbara Gooding**
  1992 – 1993
  Director, Department of Community Development
- Josephine V. Tamayo Murray
  1992 – 2002
  Executive Director, Catholic Community Services of King County

- Gene Cinque Liddell** 1993 – 1994
  Director, Department of Community Development
- Ron Forest 1993 – 2003
  United Brotherhood of Carpenters and Joiners of America Local Union No. 131
- Busse Nutley* 1993 – 1999
  Former Commissioner and State Legislator, Clark County
- Enid Buchanan 1994 – 1997
  Designee for Mike Fitzgerald, Director, Washington Department of Community, Trade, and Economic Development
- Mike Fitzgerald** 1994 – 1997
  Director, Washington Department of Community, Trade, and Economic Development
- Lee Lannoye 1994 – 2002
  Executive Vice President, Corporate Administration/Credit, Washington Mutual, Seattle
- Rev. James T. Watson 1995 – 1996
  Representative of Low-income Housing Persons
- Natalie Ybarra 1995 – 1996
  Granger City Council
- Bob McVicars 1996 – present
  CEO, McVicars and Associates, Spokane
- Jeffrey Nitta 1996 – present
  Vice President and Treasurer, Weyerhaeuser Real Estate Company
- Tim Douglas** 1997 – 1999
  Director, Washington Department of Community, Trade, and Economic Development
- Tim Kerr 1997 – 1999
  Designee for Washington State Treasurer Michael J. Murphy
- Karen Miller* 1997 – present
  Snohomish County Council
- Michael J. Murphy** 1997 – present
  Washington State Treasurer
- Clark Crouch 1999 – 2001
  Richland City Council
- Kathy Kreiter** 1999
  Director, Washington Department of Community, Trade, and Economic Development
- Allan Martin 1999 – present
  Designee for Washington State Treasurer Michael J. Murphy
- Martha Choe** 2000 – present
  Director, Washington Department of Community, Trade, and Economic Development
- Ray Price 2000 – 2003
  Designee for Department of Community Trade and Economic Development
- Harry Pryde 2000 – present
  President and CEO, Pryde Corporation
- Isabel Bedolla Roos 2000 – present
  Realtor, Sunnyside
- Tim Otani 2002 – present
  Vice President, Community Relations, Washington Mutual, Seattle
- Michael Reichert 2002 – present
  President and CEO, Catholic Community Services and Archdiocesan Housing Authority, Seattle
- Dennis Kloida 2003 – present
  Director, Southwest Washington Pipe Trade Training Center, Lacey, Washington
- Richard McIver 2003 – present
  Seattle City Council

* denotes Commissioner who served as chair
** denotes membership as function of state office

YEAR AT A GLANCE

In the year ending June 30, 2003, the Washington State Housing Finance Commission:

ISSUED:

- $100.4 million in bonds through the Multifamily Housing Program to finance 10 projects, providing or preserving 1,442 rental housing units.
- $40.9 million in bonds through the Nonprofit Housing Program to finance four projects, providing or preserving 445 housing units.
- $25.2 million in bonds through the Nonprofit Facilities Program to finance eight projects owned by nonprofit organizations.

PROVIDED:

- More than $68 million in below-market rate loans to 672 low- and moderate-income households as part of the House Key program, including two House Key Teacher loans totaling $232,324.
- Nearly $1.2 million in the form of second mortgages to 361 low- and moderate-income first-time home-buyers to assist with down payment and closing costs as part of the House Key Plus program.
- First and second mortgage financing of 58 Home-Choice loans for people with disabilities. Forty-one percent of the loans were made to borrowers earning 50 percent of area median income or less.
- Eight House Key Extra down payment assistance loans totaling $37,542.
- Three House Key Rural down payment assistance loans totaling $7,618.
- Training to 354 lenders, real estate professionals and representatives of nonprofit organizations to teach our Homebuyer Education Training and House Key Training curricula. Those professionals taught 13,402 prospective homebuyers in 948 seminars held throughout the state.

ALLOCATED:

- $12.5 million of federal tax credits to 34 competitive projects located in 16 counties across the state. The projects will produce 1,611 units of affordable housing for low-income households.
- $9.8 million in tax credits to 20 bond-financed projects, producing 2,571 affordable housing units.

MONITORED:

- More than 31,000 tax credit-financed units in 488 properties and posted a list of all properties monitored, including contact information, on the Commission web site.
- 14,000+ tax-exempt bond-financed units in 132 active projects.
- The Commission's $4.75 million investment in Impact Capital, a nonprofit community development financial institution making loans to help with the development and preservation of low-income apartment communities

CONDUCTED:

- 230 on-site visits and inspections, representing over 33 percent of the total number of projects monitored regularly by the Commission. Coordinated with the Office of Community Development, the City of Seattle, the U.S. Department of Agriculture's Rural Development Office and partners for on-site inspections of projects with common financing.
- Twenty compliance monitoring training classes for owners, property managers and on-site managers.

ALSO IN 2003, THE COMMISSION:

Purchased for the first time a land trust loan. We helped the homebuyer finance the loan for the purchase of the home itself but the Kulshan Community Land Trust holds title to the land and leases it long-term to the homebuyer. This arrangement dramatically increases the affordability of the home for the homebuyer.

Used for the first time federal Section 8 vouchers to help a low-income family finance the purchase of a home. Traditionally the Section 8 program subsidizes rent. Now a version of the program subsidizes mortgage payments instead, allowing the homeowner to build equity in the home. This subsidy may last up to 15 years, at which time the homeowner must assume full payment of the mortgage. (Time limits do not apply to elderly or disabled individuals.) The Commission closed three Section 8 voucher loans in FY2003 and the purchases took place soon thereafter.

Launched a page on the Commission web site that helps potential homebuyers find a loan officer in their community who is passionate about helping first-time homebuyers and trained to offer the Commission's financing programs.

Initiated Capital Plus!, a $3 million pilot program conducted in cooperation with Washington Community Reinvestment Association to bring below-market financing to 501(c)(3) organizations. Capital Plus! provides financing of up to $500,000 for the purchase or capital lease of facilities and/or equipment for organizations that serve or provide community services primarily to lower income persons, persons with special needs, or organizations that serve a unique or special purpose in the community.

Financed 32 vans and a telephone system for Hopelink Transportation to provide transportation to King County seniors and residents with disabilities or medical needs.

Completed researching and writing of the Report on Multifamily Preservation Activities (for preserving properties under the Tax Credit, Section 8 and Rural Development Housing programs) and posted it on the web site.

Completed an intensive survey and focus group process to evaluate preservation needs called Cooperatively Developing a Multifamily Preservation Program.

Completed the Tax Credit Building Risk Report, which assesses the risk of conversion to market rate housing on early tax credit projects, and posted it on the web site.

Issued 18 Proud Partner awards, honoring the Commissioner's partners for their successful participation in our programs

Co-sponsored the Housing Washington 2002 conference with the Washington State Department of Community, Trade and Economic Development, drawing national speakers and a record 700 people interested in affordable housing issues.

Issued six Friends of Housing awards at the Housing Washington 2002 conference, honoring individual and organizational partners across the state who work hard to provide affordable housing to those with low to moderate incomes, or special needs.