



STATE OF WASHINGTON
DEPARTMENT OF COMMERCE
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December 20, 2021

Mr. Brad Hendrickson, Secretary of the Senate
Legislative Building 312
PO Box 40600
Olympia, WA 98504-0600

Mr. Bernard Dean, Chief Clerk of the House of Representatives
Legislative Building 338B
PO Box 40600
Olympia, WA 98504-0600

RE: 2021 Housing Trust Fund Affordable Housing Cost Data Report (Due Dec. 1, 2021)

Dear Mr. Hendrickson and Mr. Dean:

The Department of Commerce (Commerce) submits this letter to satisfy the reporting requirements in Section 1029(4) of the [2019-21 capital budget](#) and restated in [Section 1067\(5\) of the 2021-23 capital budget](#):

“(b) Beginning December 1, 2019, and continuing annually, the department must provide the legislature with a report of its final cost data for each project under this section. Such cost data must, at a minimum, include total development cost per unit for each project completed within the past year, descriptive statistics such as average and median per-unit costs, regional cost variation, and other costs that the department deems necessary to improve cost controls and enhance understanding of development costs. The department must coordinate with the housing finance commission to identify relevant development costs data and ensure that the measures are consistent across relevant agencies.”

Commerce and the Washington State Housing Finance Commission (Commission) administer the two major programs that provide resources to develop and preserve affordable housing in Washington: Commerce’s State Housing Trust Fund (HTF) and the Commission’s Low Income Tax Credit (LIHTC) program. The two entities collaborate on policies and coordinate investments in affordable housing across the state. One-third of the Commission’s projects reporting this year are also funded by the HTF.

As of July 1, 44% of projects awarded HTF funding from the 2019-21 capital budget were under construction. Those development costs reports will become available once the properties finish construction and are placed in service (see table). HTF recipients must provide certified cost reports within 90 days of receiving a Certificate of Occupancy or Notice of Substantial

Completion. HTF policy allows recipients to provide this report in conjunction with their financial audit to reduce costs, which may delay data collection and analysis by HTF staff.

Contract status as of July 1, 2021:

Status	2019-21
Awarded or Directly Appropriated (not yet under contract)	55
Contract Executed/Under Construction	44
Housing Units Placed in Service	2
Number of Projects Funded by 2019-21 Capital Budget	101

The low number of reports makes it impractical to provide analysis or conclusions on cost containment at this time. However, the high number of projects expected to be completed in the coming year will yield more robust future reports under this proviso.

The COVID-19 pandemic adversely impacted supply chains, increasing material and labor costs. These cost increases result in funding gaps for projects awarded or directly appropriated but not under contract before 2021. Since the start of the 2021-23 biennium, 20 projects faced long-term delays or cancelations due to these cost increases. Commerce recovered awarded but unspent funding from a few projects that were unable to move forward. These recaptured resources were combined with prior and current biennium funding to address shortfalls for other projects with funding gaps and which can move forward to construction. Commerce worked with its third-party construction review consultant, project developers and fellow public funders to value-engineer projects and add additional investment as appropriate to bridge funding gaps. Aggregate total development costs increased by 17%, or \$61 million, between project application and groundbreaking. In collaboration with other public funders, Commerce increased HTF funding for competitively awarded projects by nearly \$20 million to make these projects viable. All of the cost increases were verified by third-party construction reviewers and competitive construction bids.

Please contact me by phone at (360) 485-2136 or email at nathan.lichti@commerce.wa.gov if you have questions regarding this report or need additional information.

Sincerely,

Nate Lichti
Managing Director
Housing Finance Unit
Community Services and Housing Division

Copy: JLARC