

# State and Local Housing Trust Funds

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State and local housing trust funds are created when ongoing, dedicated sources of public funds are committed by ordinance or legislation to support the production and preservation of homes for lower income households. This single key characteristic of housing trust funds advances the way this country funds affordable housing by guaranteeing that revenues are available each year to support critical affordable housing needs.

## HISTORY AND PURPOSE

Since the 1980s, state and local housing trust funds have employed the model of committing public funds to address our communities' most critical affordable housing needs. With nearly 700 housing trust funds in cities, counties, and states, these funds have become important elements in an overall housing policy, and are well-known for their flexibility, sustainability, and success in addressing critical housing needs. Forty-seven states have created state housing trust funds.

## ISSUE SUMMARY

Because state and local housing trust funds are distinct funds created through the dedication of public revenues, they are essentially public funds, and this shapes how they operate. There are three key elements to any state and local housing trust fund:

1. **Administration.** Most housing trust funds are administered by a public or quasi-public agency. Housing advocates are not always comfortable with the performance of local agencies and may not find this an easy condition to accept. While there are alternatives, such as a community foundation administering the fund, there are very few examples of such models. In the long run, it is desirable for elected officials to accept ownership and responsibility for addressing critical housing needs and designate the housing trust fund as one way in which they intend to do this.
2. **Board.** One administrative characteristic of housing trust funds that usually improves upon this arrangement is the creation of an appointed oversight board. Most housing trust funds have such boards. They are typically broadly representative of the housing community, including banks, realtors, developers, nonprofit development organizations, housing advocates, labor, service providers, and low income residents. These boards can be merely advisory, but it is preferable to delegate some decision-making authority to them, including determining which projects receive funding from the trust fund, overseeing policies, and evaluating and reporting on performance of the fund.
3. **Programs.** The basic programmatic issues for housing trust funds should be defined in the ordinance or legislation that establishes the fund. This ensures that the key operating components of the trust fund are not subject to the whims of changing administrations. Staff and board members will need to develop an application cycle, program requirements, and administrative rules.

State and local housing trust funds are created locally to address the most critical housing needs that exist. In order to ensure that the trust fund succeeds, several decisions must be made about what gets funded through it. This includes determining eligible applicants, eligible activities, and requirements that must be met to receive funding. Most housing trust funds provide loans and grants through a competitive application process, although some establish distinct programs. Grants are important to ensure that housing can be provided to meet the needs of those with the lowest incomes. Eligible applicants typically include nonprofit developers, for-profit developers, government entities, Native American tribes, and public housing agencies. Eligible activities are usually quite broadly defined, including new construction, rehabilitation, acquisition, emergency repairs, accessibility, first time homeownership, operating and maintenance costs, and many others. Rental assistance is provided by some housing trust funds. There are a few state and local housing trust funds that serve only the needs of the homeless population and define their activities accordingly.

**Key decisions to make.** Among the most important decisions to be made regarding programs are what requirements projects must meet to be eligible for funding. Chief among these is the income level of those

who benefit from the housing provided. Most housing trust funds serve populations earning no more than 80% of the area median income (AMI), but many serve lower income households either entirely or in part by setting aside a portion of the funds to serve these populations in particular. Without setting aside funds to serve very low and extremely low income households, these most critical needs continue to be ignored. It is important to give serious consideration to set-asides and other programmatic issues that enable funding for those with the most critical needs.

Another key concern is the long-term affordability requirements that must be met. Many state and local housing trust funds require that the units supported through the trust fund remain affordable to the targeted population for a defined amount of time, or in perpetuity. Housing advocates may identify other requirements to incorporate, including accessibility, mixed-income, green housing principles, transit-oriented housing, rural housing, and housing-related services requirements.

**Revenue sources.** Identifying public revenue sources that can be committed to a local housing trust fund is what makes creating these trust funds difficult. Different revenue sources are available to different jurisdictions, because each controls specific taxes and fees. Research must be done to identify appropriate funding sources. The most common revenue source for a city housing trust fund is introducing a linkage program as part of the zoning ordinance. These are impact fees placed on non-residential developers to offset the strain the development's employees may have on the housing supply. Along with linkage fees, many jurisdictions also use inclusionary zoning in-lieu fees. Other cities have committed various fees, such as condominium conversion fees or demolition fees, along with taxes, including property taxes, real estate excise taxes, and hotel and motel taxes.

The best and most common revenue source for a county housing trust fund is a document recording fee, a fee paid upon filing various types of official documents with a state or local government. This is one of the few revenue sources that most counties can commit. Other sources used by counties include sales taxes, developer fees, real estate transfer taxes, and real estate excise taxes.

State housing trust funds are most commonly funded by real estate transfer taxes, but states have committed nearly two dozen different revenue sources to housing trust funds. Other options include interest from state-held funds (such as unclaimed property funds and budget stabilization funds), interest from real estate escrow or mortgage escrow accounts, and document recording fees.

Often, housing advocates study alternative revenue sources themselves and propose the best options. These are not difficult studies, but it takes time and some diligence to obtain the necessary information. Some housing trust funds were created through specially designated task forces with responsibility for doing the background research and making recommendations on how best to create the proposed housing trust fund. Regardless, it is important for advocates to advance their own proposals for a housing trust fund with a specific revenue source recommendation, instead of leaving this critical element up to elected officials to determine.

**Necessary research.** Each state is unique in its treatment of taxes and fees. Research into what the state constitution and statutes permit with regard to dedicating public revenues to a specific purpose must be conducted. Research should determine what, if any, limitations are placed on specific revenue options, including caps on the rate of a tax or fee applied, and the uses to which the revenue may be applied, among other questions. New ideas are constantly being explored, so it pays to be creative in searching for potential public revenue sources.

As the search for revenue sources is undertaken, it is extremely important that a goal identifying the amount of revenue needed each year for the housing trust fund be established. This can be based on actual need, a realistic assessment of what can be secured, or an evaluation of the capacity to use new funds. This goal will

be the measure by which each potential revenue source will be judged as sufficient. A combination of revenue sources may be necessary.

It is critical to keep the focus on dedicated sources of public funding that will provide an ongoing stream of revenue for the housing trust fund. Other alternatives will be proposed, such as a one-time appropriation, bond revenues, or private sources, but advocates must keep their sights on establishing an ordinance or legislation that will change the future of affordable housing.

**Reporting.** Once a housing trust fund is established and becomes operational, it is critically important and beneficial for the administering agency, the oversight board, and/or housing and homeless advocates to report annually on the accomplishments of the fund. This helps ensure sustained, if not increased, funding, and improves the understanding and support for effective affordable housing programs. These reports typically not only show how the trust fund made advances in specific affordable housing or homeless objectives, but also highlight the impact these expenditures have in creating jobs, adding to the tax base, and extended economic benefits. Many such reports have included stories sharing the impact that having a safe affordable home has on individual families.

**Relationship between state and local housing trust funds.** One of the most innovative recent advances in the state and local housing trust fund field is state legislation that enables local jurisdictions to create housing trust funds. There are several models in place. States can enact legislation that opens a door for local housing trust funds by: providing matching funds to encourage and support local housing trust fund efforts; enabling cities or counties to utilize a specific revenue source for local housing trust funds; sharing a new public revenue source with local jurisdictions; or, establishing a process whereby local jurisdictions can decide to commit specific funds to a local housing trust fund.

## FORECAST FOR 2014

During 2013, housing and homeless advocates succeeded in securing more than \$50 million in additional new revenues for local and state housing trust funds, creating several new housing trust funds. Advocates also sustained or added more than \$400 million to existing housing trust funds. This is in addition to the millions of dollars that go into existing housing trust funds each year because they are dedicated. Advocates are deservedly proud of these victories at a time that still makes revenue a challenging issue.

With nearly 700 such funds created and implemented over the past thirty years, housing trust funds are well established as a vital part of the affordable housing field. Cities, counties, and states have developed models that work, supported innovative approaches to all aspects of addressing affordable housing and homelessness needs, and demonstrated that decent, affordable homes can be provided for everyone if communities are willing to commit the resources to do so. This commitment expands local economies, reveals new partnerships, and builds local capacity to engage in public policy initiatives. Creating a state and local housing trust fund is a proactive step that housing advocates can take to make systemic change in the housing world.

## TIPS FOR LOCAL SUCCESS

While it is relatively easy for the public at large, and elected officials in particular, to nod toward the need to provide more affordable homes, committing precious resources to make it happen requires an active campaign. Advocates face the challenge of making affordable housing enough of a priority that elected officials can make the right decision. Housing trust fund campaigns have made important contributions in reframing affordable housing as a policy priority that is integral to the success of our communities. Not only is there an obvious connection between jobs and housing, but building housing also fuels the economy in a number of direct and indirect ways. Housing has a direct relationship to education, health, the environment, and neighborhood quality. Personal stories and connections to real family experiences have given the issue a face that is far more powerful than statistics reflect. Campaigns have created effective communication strategies based on the value frame that everyone should have a place to call home.

Housing trust fund campaigns have found numerous ways to boast about what housing programs can accomplish. There is no reason to be bashful about this. There are thousands of remarkable and outstanding examples of good, well-managed, integrated affordable housing. Housing advocates have an obligation to educate the public and elected officials about the new face of affordable housing. Rarely have housing trust funds been created without the pressure applied by such a campaign. Housing advocates have succeeded in making the point that providing decent, safe, affordable homes is no longer an arbitrary decision to which we can simply choose to devote resources or not. Rather, it is an ongoing, essential part of every community – no less important than streets, sewers, health centers, police or fire protection, schools, and other basic components of a viable community.

One of the most exciting aspects of housing trust funds are how they demonstrate that housing advocates can engage in progressive campaigns to make a change in the way this country supports affordable housing. Campaigns have been waged by local faith-based organizations, city-wide coalitions of nonprofit developers, state-wide housing advocacy groups, and many others. Coalitions engaging the full spectrum of the housing industry have been built. Their stories are as unique as they are uplifting and full of promise.

Today, there are easily 30 housing trust fund campaigns underway in cities, counties, and states across the country. Some are focused on creating new housing trust funds; many are working to increase resources for existing housing trust funds. The housing trust fund model can be adapted in many ways to make it possible to dedicate public funding toward addressing critical housing needs. Trust funds have been created in many states, small cities, rural counties, and large metropolitan areas.

One exciting and very promising advance in the housing trust fund movement is the embrace of the public voice in advancing housing trust funds. For example, the recent success of ballot campaigns in Bellingham, Washington and San Francisco (along with the passage of bonds in Rhode Island, Austin, Texas, and elsewhere) suggests that public support for affordable housing is a viable avenue. There is more encouraging evidence in Seattle, where the Housing Levy has been approved by voters four times over now. In addition, in Massachusetts, local voter-approved trust funds are part of the Community Preservation Act (CPA) program that allows adopting jurisdictions to raise funds to create a local dedicated fund to support affordable housing and other community uses; 44% of the Commonwealth's cities and towns – 155 communities – have passed a CPA program.

Whether a housing trust fund requires a public vote or not, as affordable housing and homeless advocates it might well be prudent to be very strategic about integrating an expression of public support in campaigns – through organizing initiatives, listening sessions, storytelling, social media networks, public events, postcard campaigns, among many other examples – to let elected officials hear that their constituents will speak up for the need for all people to have secure affordable homes.

## **FOR MORE INFORMATION**

Housing Trust Fund Project of the Center for Community Change, 661-245-0318, [www.housingtrustfundproject.org](http://www.housingtrustfundproject.org)