

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. Dedicated sources of funds, the key characteristic of housing trust funds, advance the way this country supports 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 communities' most critical affordable housing needs. With more than 770 housing trust funds in cities, counties, and states, those 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—some more than one.

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 or 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 or departments and may not find this an easy condition to accept. Although there are alternatives, such as a nonprofit or Community Development Financial Institution 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 can bring considerable expertise to the operation of the trust fund, along with keeping a connection to the community, is the creation of an appointed oversight or advisory 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 advisory, but it is preferable to delegate some authority to them, including at least advising, if not determining, which projects receive funding from the trust fund, overseeing policies, and evaluating and reporting on the 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. Definition 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.

In order to ensure that a trust fund succeeds, several decisions must be made about its implementation, including identifying 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 and make awards through these initiatives. 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 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 specifically serve the needs of the homeless population and define their activities accordingly.

Key Decisions to Make. Among the most important decisions to be made regarding implementation of the trust fund are defining the specific requirements proposals 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 those populations in particular. Without setting aside funds to serve very low (50% of AMI) and extremely low income households (30% of AMI), these most critical needs are unlikely to be met, given that it is easier to create a development proposal serving higher incomes. It is important to give serious consideration to set-asides and other programmatic issues that enable funding for those with the most critical housing 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 for people with disabilities, mixed income, green housing and energy-efficiency principles, transit-oriented housing, rural housing, and housing-related services requirements.

Revenue Sources. Identifying public revenue sources that can be committed to a housing trust fund is what makes creating these trust funds challenging. Different revenue sources are available to different types of 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 the inclusion of a linkage fee program as part of the zoning ordinance. These are impact fees placed on non-residential developers to offset the impact 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 (including AirBnB). Revenues from tax increment districts are an increasingly popular revenue source for housing trust funds.

The 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. 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. However, 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. Relying on elected officials to identify a potential revenue source to be dedicated is not typically a productive strategy, but suggesting alternatives for their consideration seems more acceptable. 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 fund and implement the proposed housing trust fund.

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 any caps imposed on tax or fee rates, any limitations on the uses to which the revenue may be applied, any commitments already imposed on the revenues collected, among other questions. New ideas are constantly being explored, so it pays to be creative in searching for potential public revenue sources. Although an increase in a tax or fee is the most common way to create a housing trust fund, it is also possible to

dedicate the growth in revenue from a tax or fee, or dedicate a portion of the existing revenue without imposing an increase.

As the search for revenue sources is undertaken, it is extremely important to identify a dollar goal for the amount of revenue sought each year for the housing trust fund. 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 to reach the goal.

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 actually dedicate public funds over time. Several trust funds have been created with one-time initial funding, which can be used to demonstrate the impact of the trust fund as ongoing dedicated public revenues are secured.

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 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. Close to 75% of the funds that exist in the United States are in states where enabling legislation has encouraged cities and/or counties to advance local housing trust funds. These include communities in Massachusetts responding to the Community Preservation Act, and localities in New Jersey complying with the Fair Housing Act. Washington and Pennsylvania have legislation enabling counties to use document recording fee revenues for local funds. Iowa's state housing trust fund providing matching funds locally has generated funds in 27 locations throughout the state. Twelve states have passed some kind of legislation to encourage local housing trust funds.

FORECAST FOR 2018

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 most states and many small cities, rural counties, and large metropolitan areas. What it takes is commitment on the part of advocates.

During 2017, housing and homeless advocates celebrated the following victories:

- California Governor Jerry Brown signed a series of landmark affordable housing bills that include a document filing fee on real estate transactions which will raise \$250 million a year for affordable housing for state housing trust funds, and a \$4 billion bond that will be referred to voters in November 2018 that includes a \$300 million matching fund for local housing trust funds.
- The South Dakota legislature increased the percentage of the disbursement from the Building South Dakota fund directed to the South Dakota Housing Opportunity Fund from 25% to 35%. Including the increase, the

Housing Opportunity Fund will receive an estimated \$3 million over the course of the next several years.

- Nashville, Tennessee, Mayor Barry added an additional \$5M to fund a one-time Spring Innovation Round. The Barnes Housing Trust Fund is fully operational, having invested more than \$14 million in affordable homes, which in turn leveraged more than \$50 million additional federal and private funding sources and financed the development of more than 500 homes and apartments.
- Louisville Metro Council passed a budget for FY17–18 that includes \$14.5 million for affordable housing, of which \$9.57 million will be allocated to the Louisville Affordable Housing Trust Fund (LAHTF) for unit development and administration. The budget allocation represents a significant win for Louisville housing advocates, who have been pushing Metro Council for nearly a decade to fulfill the \$10 million annual commitment it made in the ordinance establishing the LAHTF in 2009.
- The City Council in Detroit, Michigan, established the Detroit Affordable Housing Development and Preservation Fund as part of a new inclusionary zoning policy. The AHDPF directs 75% of funds to serve households at or below 30% AMI. The City Council capitalized the fund with \$2 million and will receive 20 percent of revenue derived from sales of city-owned commercial property, estimated at roughly \$500,000 annually.
- Voters in Ellensburg, Washington, approved a special 0.1 percent sales tax to fund affordable housing and mental health services, which will generate an estimated \$450,000 annually, with 75 %of funds committed to a new city housing trust fund.
- Voters in Lawrence, Kansas, approved a ballot initiative in November passed with 62 percent of the vote, extending a sun-setting sales tax and dedicating an estimated \$1.1 million in revenue annually to the Lawrence Housing Trust Fund for the next decade.

With more than 770 such funds created and implemented throughout the past 30 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, and demonstrated that decent affordable homes can be provided for everyone if communities commit the resources to do so. Creating a state or 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

Although 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 every community. 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 deserves a place to call home.

Housing trust fund campaigns have found numerous ways to boast about what housing programs can accomplish, pointing to thousands of remarkable and outstanding examples of good, well-managed, integrated affordable housing. There is no reason to be bashful about this. 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 public pressure applied by 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.

Housing trust funds don't just happen, and their abundance is a reflection of how strong affordable housing/homeless advocacy has become. Campaigns have been waged by faith-based organizations, coalitions of nonprofit developers, statewide housing advocacy groups, or a combination of these and many others. The experiences of those campaigns are as unique as they are uplifting and full of promise.

Although housing trust funds are numerous, securing adequate resources to build and maintain affordable homes can be a challenge. Fortunately, there are many creative and successful examples of effective campaign strategies, ranging from coalition building; to cultivating allies in sectors related to housing such as education, health, and economic development; to organizing people impacted by the lack of affordable homes. Of particular note, in California and Washington, the state housing

coalition are building statewide networks of organized residents and staff of affordable housing to create a powerful new force to advance housing justice.

To learn about California's Resident United Network, go to: <http://www.housingca.org/residents-united-network-run>

To learn more about Washington's Resident Action Project, go to: <http://housingactionfund.org/resident-action-project>

The power these strategies provide to advocating for the dedication of public funds to address critical housing needs is evident and speaks volumes about the potential for elevating the issue of funding affordable homes to the stature it deserves.

FOR MORE INFORMATION

Housing Trust Fund Project of the Center for Community Change,
www.housingtrustfundproject.org