

# State and Local Housing Trust Funds

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**S**tate and local housing trust funds advance the way the US supports affordable housing by guaranteeing that revenues are available each year to provide housing to the most economically vulnerable community members. Established by legislation, ordinance, or popular vote, housing trust funds direct public revenue to meet specifically identified local housing needs. Cities, counties, and states have developed proven models that support innovative approaches to all aspects of addressing affordable housing and homelessness. The impact of housing trust funds demonstrate that state and local government can provide decent affordable homes for everyone if communities are willing to commit the resources to do so. Establishing a state or local housing trust fund is a proactive step that housing organizers and advocates can take to make systemic change in their community.

## 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 820 housing trust funds in cities, counties, and states, those funds have become core elements in housing policy throughout the US. In 2021, state and local housing trust funds generated nearly \$3 billion for affordable homes. The popularity and proliferation of housing trust funds is due to their flexibility, sustainability, and success in addressing critical housing needs. Housing trust funds are distinct funds that ideally receive ongoing, dedicated sources of public funding to support the preservation and production of affordable housing and increase access decent affordable homes. Housing trust funds systemically shift affordable housing funding from annual budget allocations to the commitment of dedicated public revenue. While

housing trust funds can also be a repository for private donations, they are not public/private partnerships, nor are they endowed funds operating from interest and other earnings.

Forty-seven states, the District of Columbia, and the territories of Guam and Puerto Rico and have created sixty housing trust funds. Eight states, Connecticut, Illinois, Massachusetts, Nebraska, Nevada, New Jersey, Oregon, and Washington, have created more than one state housing trust fund, reflecting a recognized value in committing public revenues to accomplish precise objectives, such as addressing homelessness or providing rental assistance. City housing trust funds number 605 and include 122 city housing trust funds in 36 states, bolstered by another 186 jurisdictions participating in Massachusetts' "Community Preservation Act," and 296 communities certified in New Jersey by the Council on Affordable Housing. County housing trust funds number 157 and include 69 county housing trust funds in 17 states, with one county creating two housing trust funds. Additionally, the state of Pennsylvania has 49 county housing trust funds and the state of Washington has 39 county housing trust funds created under state enabling legislation.

## ISSUE SUMMARY

There are three key elements to any state or local housing trust fund:

1. Administration and oversight: 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. A best practice administrative characteristic of housing trust funds 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. An oversight board provides considerable expertise to the operation of the trust fund, and maintains a connection and avenue for accountability to the community.

2. **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.
3. **Funding:** What defines a housing trust fund is securing a dedicated revenue source. This means that the source of funding is committed by law to generate funds for the housing trust fund. Thus, by resolution, ordinance or legislation, a certain percentage or amount of public funds are automatically deposited in the housing trust fund each year. Securing a dedicated revenue source for a housing trust fund is a significant advance over the way low-income housing has historically been funded. With a dedicated revenue source, advocates no longer have to argue for scarce resources with city council members, county commissioners, or state legislators during the annual budget process.

They will no longer have to compete with other worthy causes in a budget process that is generally neither fair nor generous towards low-income housing. The dedicated revenue source guarantees a regular, but possibly fluctuating, source of funds.

### **Key Decisions to Make**

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. 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. 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. Some housing trust funds provide rental assistance. There are a few state and local housing trust funds that specifically serve the needs of people experiencing homelessness and define their activities accordingly.

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-income (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 and less expensive 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 decision are requirements for long-term affordability. Many state and local housing trust funds require that the homes and apartments 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 for a housing trust fund is always a significant challenge. Different revenue sources are available to different types of jurisdictions, because each jurisdiction 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 a developer impact fee, sometimes implemented in conjunction with a zoning ordinance. These impact fees are most often placed on non-residential developers to offset the impact that the development's employees may have on the housing supply. Along with linkage fees, many jurisdictions also use inclusionary zoning *in-lieu* fees. The second most common revenue source for city housing trust funds is a voter approved property tax. 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, followed by document recording fees. However, states have committed nearly two dozen different revenue sources to housing trust funds. Other options include revenue from state-held funds (such as unclaimed property funds), interest from real estate escrow or mortgage escrow accounts, and general obligation bonds.

Often, housing advocates study alternative revenue sources themselves and propose the best options. These are not difficult studies, but do take time and some diligence to obtain the necessary information. Relying on elected officials to identify a potential revenue source is not typically a productive strategy. Suggesting alternatives for their consideration is a strategy with a much greater track-record of success. 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.

Each state is unique in its treatment of taxes and fees. Research into what the state constitution and statutes permit regarding 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, and any commitments already imposed on the revenues collected, among other questions. 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.

It is extremely important to identify a dollar goal for 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 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 to build support for on-going dedicated public revenues.

### **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 extending economic benefits. Many such reports have included stories sharing the impact of a safe affordable home on individual families.

### **Relationship Between State and Local Housing Trust Funds**

One of the most innovative advances in the housing trust fund field is state legislation that enables local jurisdictions to create housing trust funds. Several models allow states to 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 US 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. Fourteen states have passed legislation to encourage local housing trust funds.

## **FORECAST FOR 2022**

2022 will provide two significant opportunities for organizers and advocates to advance local and state housing trust funds: The allocation of Coronavirus State and Local Fiscal Recovery Funds (“Fiscal Recovery Funds”) included in the “American Rescue Plan Act” (ARPA) and the historic allocation of \$15 billion to the national Housing Trust Fund included in the pending Build Back Better legislation. The opportunity with the ARPA Fiscal Recovery Funds is clear: there is a lot of unanticipated money on the table for state and local governments and resources at their disposal to make substantial investments in affordable housing, including through housing trust funds. ARPA included \$350 billion for states, counties, cities, and tribal governments to respond to the COVID-19 public health emergency, to address its economic fall out, and to make communities more resilient for future health emergencies. In 2021, state governments committed at least \$3.12 billion ARPA Fiscal Recovery Funds to affordable housing, and city and county governments committed at least \$511 million. Of the \$511 million, local governments allocated more than \$70 million to city and county housing trust funds. The opportunity

in 2022 is with state and local governments that have yet to commit the full Fiscal Recovery Funds. Local governments receive funds in two tranches, with 50% provided in May 2021 and the remaining delivered approximately one year later. While some local governments have already committed both tranches, many have not yet decided on the funding that they will receive this spring.

If the Build Back Better legislation passes with the current \$15 billion allocation to the national Housing Trust Fund, the opportunity for advocates, organizers, developers, and government staff to demonstrate what is possible when we commit resources to make housing affordable to the most economically vulnerable. Established in 2008, the national Housing Trust Fund (HTF) is the first new housing resource since 1974 targeted to the building, rehabilitating, preserving, and operating rental housing for extremely low-income people. In 2016 the first \$174 million in HTF dollars were allocated to states, and more has been allocated in each subsequent year. For 2021, the allocation was \$689.7 million. With an investment of \$15 billion over the next decade, the allocations to states will more than double. This unprecedented infusion of resources will position states to deliver housing for the people who need it most: families and individuals with the least income and economic means. Coupled with state and local housing trust fund dollars, the HTF could have a transformational impact on how we innovate and advance housing solutions. Additionally, this sustained investment provides an opportunity to debunk the false myth that developing housing for people with the lowest incomes is not economically feasible. In the richest nation in the world, anything is possible if we commit the resources to make it happen.

## WINS IN 2021

The following are among the state and local housing trust fund victories celebrated by housing and homeless advocates in 2021 (in alphabetical order by state):

- Winter Haven, Florida established a new

affordable housing trust fund, allocating \$1.5 million from ARPA Fiscal Recovery Funds and then committing \$250,000 annually in general fund revenue beginning in 2022.

- Savannah, Georgia allocated \$7 million in ARPA Fiscal Recovery Funds to the Affordable Housing Fund.
- Kansas City, Missouri allocated \$12.5 million in ARPA Fiscal Recovery Funds to a new housing trust fund that is under development.
- St. Louis, Missouri allocated \$20 million in ARPA Fiscal Recovery Funds to the Affordable Housing Trust Fund.
- Cincinnati, Ohio allocated \$6.4 million in ARPA Fiscal Recovery Funds to the Affordable Housing Trust Fund.
- Manchester, New Hampshire allocated \$3 million in ARPA Fiscal Recovery Funds to the Affordable Housing Trust Fund.
- Nashua, New Hampshire established the new Housing Expendable Trust Fund, with an initial commitment of \$30,000 in general fund and at least \$10,000 annually moving forward.
- Knoxville, Tennessee established the Affordable Housing Trust Fund, committing \$5 million annually from the general fund for ten years.
- Albemarle County, Virginia established a new housing trust fund.
- Richmond, Virginia dedicated \$10 million annually to the Affordable Housing Trust Fund, which included an allocation of \$10 million in ARPA Fiscal Recovery Funds in 2021 and in 2022. The long term dedicated funding source is from revenue recaptured when tax abatement periods end, which is estimated to generate \$10 million annually by 2025.

## 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 several 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 that is no less important than streets, sewers, health centers, police and fire protection, schools, and other basic components of a viable community.

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.

## FOR MORE INFORMATION

Housing Trust Fund Project of Community Change, <https://housingtrustfundproject.org/>.

