

State and Local Housing Trust Funds

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State and local 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. 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 models that work, supported innovative approaches to all aspects of addressing affordable housing and homelessness, and demonstrated that state and local government can provide decent affordable homes for everyone if communities are willing to 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.

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 nearly 800 housing trust funds in cities, counties, and states, those funds have become core elements in housing policy throughout the United States. In 2018, state and local housing trust funds generated more than \$1.5 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. Forty-seven states and the District of Columbia have created fifty-eight 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.

ISSUE SUMMARY

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.

Key Decisions to Make

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. 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- (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 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.

As you research and advocate for revenue sources, 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 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. Fourteen states have passed legislation to encourage local housing trust funds.

FORECAST FOR 2019

Today, there are at least 30 housing trust fund campaigns underway in cities, counties, and states across the country. Some are focused on creating new housing trust funds and 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. The most common denominator is the commitment on the part of advocates. Housing trust funds are the result of strong affordable housing/homeless advocacy. Campaigns have been waged by faith-based organizations, coalitions of nonprofit developers, statewide housing advocacy groups, and combinations of these and many others. The experiences of the campaigns are as unique as they are uplifting and full of promise.

During 2018, housing and homeless advocates celebrated the following victories:

- Louisville Metro Council committed \$10 million to the Louisville Affordable Housing Trust Fund for the second consecutive year.
- Hawaii allocated \$210 million into the state’s Rental Housing Trust Fund, which will provide loans or grants to developers for the construction of 1,600 affordable rental apartments and homes for families making 80 percent or less than the AMI.
- Baltimore, Maryland established a city transfer and recordation taxes on non-owner-occupied building sales of more than \$1 million, which would generate \$13 million annually. The mayor committed to adding \$7 million in general obligation debt, dedicating in total \$20 million annually to the Baltimore Housing Trust Fund.
- Massachusetts approved a \$1.8 billion housing bond bill that provides \$400 million for the state’s Affordable Housing Trust Fund (AHTF).
- St. Louis, Missouri committed \$5.5 million to the Affordable Housing Trust Fund (AHTF), fully funding the AHTF for the first time since 2011.
- New Jersey passed a state budget that for the first time in nearly a decade that restores \$15 million to the New Jersey Affordable Housing Trust Fund.
- Sixty-eight percent of voters in Charlotte, North Carolina approved a \$223 million bond package that included \$50 million for the Charlotte Housing Trust Fund, the fourth consecutive two-year cycle in which voters have said yes to the HTF.
- Philadelphia, Pennsylvania committed \$70 million over the next five years to the Philadelphia Housing Trust Fund, more than doubling the annual revenue dedicated to the PHTF.
- Chattanooga, Tennessee passed a budget that included \$1 million to establish and capitalize a housing trust fund.
- Nashville, Tennessee allocated \$10 million from the general fund to the Barnes Housing Trust Fund for the third consecutive year.
- Oregon legislature tripled the amount of the document recording fee that goes to the Oregon Housing Fund from \$20 to \$60 per

document recorded, which will generate \$45 million annually.

- Alexandria, Virginia committed an increase to a 5% meals tax to the Affordable Housing Trust Fund, generating \$4.75 million annually.
- Washington State passed a capital budget that includes \$106.7 million for the Housing Trust Fund (HTF) and increased the county homelessness document recording fee by \$22 and removed the sunset clause. Half of the document recording fee, which generates \$26 million annually, runs through county level homeless trust funds and half is split between the state and counties to address homelessness.
- Sixty-six percent of voters in Bellingham, Washington said YES to the extension and expansion of a property tax levy that will produce \$40 million for the Bellingham Home Fund over the next decade.
- Sixty-two percent of voters in Olympia, Washington supported a special sales tax authorized in 2016 by the state legislature to address affordable housing, homelessness and mental illness. While authorizing the sales tax, voters established the Olympia Home Fund to receive and distribute sales tax revenues.
- Fifty five percent of voters in San Juan County, Washington approved a measure enacting a Real Estate Excise Tax (REET) for affordable housing that is projected to generate \$15.2 million over a 12-year period. The measure also establishes an Affordable Housing Fund to develop, produce, and/or preserve affordable housing in San Juan County.

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 www.housingtrustfundproject.org.