

# State and Local Housing Trust Funds

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**S**tate 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 more than 800 housing trust funds in cities, counties, and states, those funds have become core elements in housing policy throughout the United States. In 2020, state and local housing trust funds generated more than \$2.6 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 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**

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-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. 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 2021**

The impact of COVID-19 and the subsequent economic and eviction crises have laid bare what housing organizers and advocates have known for years: home is essential for people to thrive, and the foundation of a healthy community. So while

state and local governments will legitimately be facing budget shortfalls and potential cuts, the urgency to invest public revenue to make sure the most economically vulnerable have a home is greater than ever before. Today, there are at least 30 housing trust fund campaigns underway in cities, counties, and states across the country. Many are focused on creating new housing trust funds, while others are working to increase resources for existing housing trust funds.

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 organizing and 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.

The following are among the state and local housing trust fund victories celebrated by housing and homeless advocates in 2020 (in alphabetical order by state):

- In Florida, the Fort Myers City Council established a housing trust fund with an initial investment of \$1.5 million in general funds.
- In Kentucky, the Lexington City Council maintained full funding for the Affordable Housing Trust Fund after initially considering cutting 90% of the revenue.
- In Michigan, the City Council voted to move the ordinance establishing the Affordable Housing Development and Preservation Fund within the city charter, increasing the ability of the City Council to dedicated additional revenue to the AHDPF.
- In Michigan, 51% of voters in Kalamazoo County approved a housing millage that will provide \$6.2 million annually for 8 years to the Local Housing Assistance Fund. This was a renewal campaign from the 2015 “Vote YES for Kids” campaign in 2015. The renewal expanded the millage from .1 mil to .75 mil,

and will produce 6.2 million annually for 8 years (\$49.6 million in total)

- In Minnesota, the Crow Wing County board established a countywide housing trust fund, and committed \$500,000 annually from a property tax levy that will provide housing affordable to moderate, low income and very low income households.
- In North Carolina, 77% of voters in Charlotte, NC approved a \$50 million bond that will provide funding for the city housing trust fund for two years.
- In North Carolina, 72% of voters in Raleigh, NC approved \$80 million housing bond that will be used to acquire and secure land, funding for homeless service organizations, ‘gap financing’ for new development of rental housing, programs for first time homeowners, and owner-occupied rehabilitation.
- In Oregon, 58% of voters in the Portland Metro Region passed an income and business tax measure that will provide \$248 million annually for ten years to fund services and housing programs for people experiencing homelessness.
- In Washington state, the Seattle City Council passed the “JumpStart Seattle” tax will raise more than \$214 million annually for housing and homeless services. The payroll tax is on the city’s biggest businesses and highest earners, using a tiered system of taxation.

## 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/>.